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REGISTRAR

2791820

PROWTING FLEXIBLE GROWTH PLC

**DIRECTORS' REPORT AND FINANCIAL
STATEMENTS**

for the year ended 28 February 1995



Company number 2791820



PROWTING FLEXIBLE GROWTH PLC

COMPANY PROFILE

DIRECTORS

GJH Burdett (Chairman)
R Templeman
RA Lo

SECRETARY

Miss AA Gulhane

REGISTERED OFFICE

17 Gay Street
Bath BA1 2PH

AUDITORS

Touche Ross & Co
Queen Anne House
69-71 Queen Square
Bristol BS1 4JP

BANKERS

Midland Bank plc
45 Milsom Street
Bath BA1 1DU

SOLICITORS

Howard Kennedy
23 Harcourt House
19 Cavendish Square
London W1A 2AW

PROWTING FLEXIBLE GROWTH PLC

DIRECTORS' REPORT for the year ended 28 February 1995

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 28 February 1995.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is to act as a property investment company.

The company has purchased residential property from the subsidiaries of Prowting PLC which it is renting under the Assured Tenancy rules contained within the Housing Act 1988 and the Business Expansion Scheme.

The company has entered into the following agreements, details of which were set out in the Memorandums to the Issue dated 10 March and 19 March 1993:

- with Prowting PLC and the National Westminster Bank plc, the Deed of Undertaking;
- with Prowting PLC and the directors, a Deed of Covenant;
- with Prowting Homes Limited and Johnson Fry Property Limited, the Property Management and Delegation Agreements; and
- with Johnson Fry Property Limited, the Administrative Services Agreement.

The company continued to develop satisfactorily during the year and at the end of the year the company was in a good position to continue this development.

PROWTING FLEXIBLE GROWTH PLC

DIRECTORS' REPORT for the year ended 28 February 1995

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £155,012 (19 February 1993 to 28 February 1994: £104,132). The directors do not propose the payment of a dividend and recommend that £155,012 is transferred to reserves.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 5 to the financial statements.

DIRECTORS

The directors during the year were as follows:

GJH Burdett (Chairman)
R Templeman
RA Lo

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 28 February 1995 had the following beneficial interests in the shares of the company at the beginning and end of the financial year:

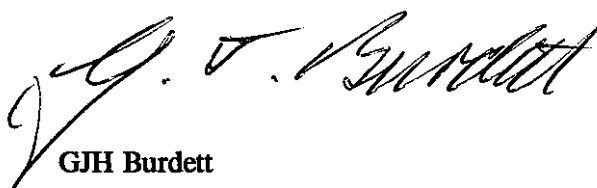
	50p Ordinary shares fully paid	
	1995	1994
GJH Burdett	-	-
R Templeman	10,000	10,000
RA Lo	1	1

R Templeman is a director of Prowting PLC which beneficially owns the fully paid up 'A' ordinary share of 50p in the share capital of the company.

AUDITORS

The Bristol Partnership of BDO Binder Hamlyn merged their practice with Touche Ross & Co on 5 October 1994 and now carry on business under the name of Touche Ross & Co. The directors consented to the appointment of the Bristol Partnership of BDO Binder Hamlyn as auditors of the company being treated as extending to Touche Ross & Co. A resolution to re-appoint Touche Ross & Co as auditors will be proposed at the Annual General Meeting.

This report was approved by the Board on 24 June 1995.


GJH Burdett



Chartered Accountants

Touche Ross & Co.
Queen Anne House
69-71 Queen Square
Bristol BS1 4JP

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International + 44 117 921 1622
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AUDITORS' REPORT to the members of Prowting Flexible Growth PLC

We have audited the financial statements on pages 4 to 13 which have been prepared on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 1, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 28 February 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and
Registered Auditors

27 June 1995



PROWTING FLEXIBLE GROWTH PLC

**PROFIT AND LOSS ACCOUNT
AND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 28 February 1995**

	Notes	Continuing operations 1995	1994
		£	£
PROFIT AND LOSS ACCOUNT			
Rental income		334,087	96,467
Property expenses		(100,738)	(34,345)
Gross profit		233,349	62,122
Administrative expenses	2	(41,859)	(39,039)
Operating profit		191,490	23,083
Bank interest receivable		7,183	113,836
Profit on ordinary activities before taxation		198,673	136,919
Tax on profit on ordinary activities	4	(43,661)	(32,787)
Retained profit for the year		155,012	104,132
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit for the financial year		155,012	104,132
Unrealised (deficit)/surplus on revaluation of properties (net of deferred taxation)		(43,070)	5,073
Total recognised gains		111,942	109,205

PROWTING FLEXIBLE GROWTH PLC

BALANCE SHEET
as at 28 February 1995

	Notes	1995	1994
		£	£
FIXED ASSETS			
Tangible assets	5	4,340,240	4,377,162
CURRENT ASSETS			
Debtors	6	3,478	22,944
Cash at bank and in hand		278,827	122,199
		282,305	145,143
CREDITORS: amounts falling due within one year	7	(49,196)	(53,601)
Net current assets		233,109	91,542
Total assets less current liabilities		4,573,349	4,468,704
PROVISIONS FOR LIABILITIES AND CHARGES	8	-	(7,297)
Net assets		4,573,349	4,461,407
CAPITAL AND RESERVES			
Called up share capital	10	2,315,002	2,315,002
Share premium account		2,037,200	2,037,200
Revaluation reserve	11	(37,997)	5,073
Profit and loss account	12	259,144	104,132
Total equity shareholders' funds		4,573,349	4,461,407

The financial statements on pages 4 to 13 were approved by the Board on 24 June 1995.



GJH Burdett



PROWTING FLEXIBLE GROWTH PLC

CASH FLOW STATEMENT
for the year ended 28 February 1995

	Notes	1995	1994
		£	£
Net cash inflow from operating activities	13	216,177	8,911
Returns on investments and servicing of finance			
Interest received		7,183	113,836
Net cash inflow from returns on investments and servicing of finance		7,183	113,836
Taxation			
UK Corporation tax paid		(27,988)	-
Investing activities			
Purchase of tangible fixed assets		(38,744)	(4,352,750)
Net cash outflow from investing activities		(38,744)	(4,352,750)
Net cash outflow before financing		156,628	(4,230,003)
Financing			
Issue of ordinary share capital		-	4,630,002
Expenses paid in connection with share issue		-	(277,800)
Net cash inflow from financing		-	4,352,202
Increase in cash and cash equivalents	14	156,628	122,199

PROWTING FLEXIBLE GROWTH PLC

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention, as modified to include the revaluation of investment properties, and in accordance with applicable accounting standards.

Tangible fixed assets and depreciation

Tangible fixed assets (with the exception of investment properties) are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful life as follows:

Fixtures and fittings - 5 years

Investment properties

Investment properties are revalued annually to recognise a proportion of the gain which will accrue at the end of five years under the Deed of Undertaking referred to in Note 5(3). The aggregate surplus or deficit is transferred to the revaluation reserve. No depreciation is provided as the Deed of Undertaking fixes the residual value of the properties at an amount greater than cost.

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income, expenditure and property revaluations for taxation and accounting purposes, except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

Rental income

Rental income comprises gross rents receivable.

2 ADMINISTRATIVE EXPENSES

Under the terms of the Supervisory Management Agreement between Johnson Fry Property Limited and the company, Johnson Fry Property Limited are responsible, out of the management fee charged, for all the administrative costs of the company, including the following costs:

	1995 £	1994 £
Auditors' remuneration		
- audit services	1,763	1,763
- other services including taxation	881	881
Directors' emoluments (Note 3)	2,911	2,395

PROWTING FLEXIBLE GROWTH PLC

NOTES TO THE FINANCIAL STATEMENTS

3 DIRECTORS

(1) Emoluments

	1995	1994
	£	£
The emoluments of directors of the company were:		
Fees	2,911	2,395

(2) Bandings

Fees and other emoluments disclosed above include amounts paid to:

The chairman (who is the highest-paid director)	2,911	2,395
Other directors' emoluments were in the following range:	Number	Number
£0 - £5,000	2	3

4 TAXATION

UK current year taxation	£	£
UK Corporation Tax at 25 % (1994: 25 %)	48,460	27,988
Deferred taxation	(4,799)	4,799
Tax on profit on ordinary activities	43,661	32,787

PROWTING FLEXIBLE GROWTH PLC

NOTES TO THE FINANCIAL STATEMENTS

5 TANGIBLE FIXED ASSETS

(1) Summary

	Investment properties £	Fixtures and fittings £	Total £
Cost or valuation			
1 March 1994	4,331,088	48,028	4,379,116
Additions at cost	-	19,949	19,949
Revaluation	(45,568)	-	(45,568)
28 February 1995	4,285,520	67,977	4,353,497
Depreciation			
1 March 1994	-	1,954	1,954
Charge for the year	-	11,303	11,303
28 February 1995	-	13,257	13,257
Net book value			
28 February 1995	4,285,520	54,720	4,340,240
28 February 1994	4,331,088	46,074	4,377,162

The historical cost of the company's properties was £4,323,517 (1994: £4,323,517).

(2) Analysis of investment properties

	1995 £	1994 £
Net book value		
Freehold	3,037,400	3,069,607
Long leasehold	1,248,120	1,261,481
	4,285,520	4,331,088

PROWTING FLEXIBLE GROWTH PLC

NOTES TO THE FINANCIAL STATEMENTS

5 TANGIBLE FIXED ASSETS *continued*

(3) Asset revaluations

Under the terms of the Deed of Undertaking made to the company, Prowting PLC has agreed that should there be insufficient company funds to meet the required return to shareholders of 106.4p per ordinary share, Prowting PLC will make up any shortfall by way of a non-recourse, non-interest bearing loan to the company. This undertaking is guaranteed by National Westminster Bank plc (to a limit of £5,320,000).

The formula for calculating the funds required is designed to ensure that, after allowing for both accumulated profits (or losses) in the company and any capital gains tax liability on the sale of properties, the company will have sufficient cash to permit a distribution of at least 106.4p per share to its shareholders on a voluntary liquidation.

The directors are confident that the activities of the company fully meet those specified in the Deed of Undertaking and therefore they have decided that this return to the shareholders can be deemed to accumulate on the net funds invested evenly over the five year period on a compound basis. They have revalued the company's properties accordingly.

The directors confirm that Prowting PLC and National Westminster Bank plc have signed the Deed of Undertaking mentioned above and are able to do so under their constitutions. The directors know of no reason why Prowting PLC or National Westminster Bank plc should not be able to meet the terms of the Deed of Undertaking if called upon to do so.

6 DEBTORS	1995	1994
	£	£
Rents receivable	-	19,194
Management fees prepaid to Johnson Fry Property Limited	3,478	3,513
Other debtors	-	237
	3,478	22,944

7 CREDITORS: amounts falling due within one year

Trade creditors	-	5,883
Corporation tax	48,460	27,988
Accruals and deferred income	736	19,730
	49,196	53,601



PROWTING FLEXIBLE GROWTH PLC

NOTES TO THE FINANCIAL STATEMENTS

8 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax	£
1 March 1994	7,297
Transfer to revaluation reserve	(2,498)
Transfer to profit and loss account	(4,799)
28 February 1995	-

9 DEFERRED TAX

	1995 £	1994 £
Full provision has been made for deferred tax as follows:		
Revaluation of investment properties	-	2,498
Short term timing differences	-	4,799
	-	7,297

10 CALLED UP SHARE CAPITAL

	Number	1995 £
(1) Authorised		
50p 'A' ordinary share	1	1
50p Ordinary shares	5,999,999	5,999,999
(2) Allotted and fully paid		
	1995 £	1994 £
50p 'A' ordinary share	1	1
50p Ordinary shares	2,315,001	2,315,001
28 February	2,315,002	2,315,002

PROWTING FLEXIBLE GROWTH PLC

NOTES TO THE FINANCIAL STATEMENTS

10 CALLED UP SHARE CAPITAL *continued*

(3) Rights attached to shares

In the event of the winding up of the company at any time after the fifth anniversary of the last issue of shares, the holders of the 4,630,002 ordinary shares and the holder of the 'A' ordinary share will be entitled to receive by way of distribution 106.4p per share held by them (in total £4,926,322.128 and £1.064 respectively). In the event and to the extent that there are funds available for distribution after a distribution of 106.4p per share to shareholders, the holder of the 'A' ordinary share shall be entitled to receive an amount equal to 106.4p multiplied by the number of ordinary shares less one. Any balance in excess of £9,852,644.256 shall be distributed equally among the shareholders: 50% to the holders of the ordinary shares and 50% to the holder of the 'A' ordinary share provided always that the holder of the 'A' ordinary share shall not be entitled to receive the greater part of the assets of the company on a winding up of the company or on the company declaring or making any capital or other distribution.

11 REVALUATION RESERVE

£

1 March 1994	5,073
Revaluation in the year	(45,568)
Transfer to deferred tax	2,498

28 February 1995	(37,997)
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12 PROFIT AND LOSS ACCOUNT

1 March 1994	104,132
Retained profit for the year	155,012

28 February 1995	259,144
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13 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

1995
£

1994
£

Operating profit	191,490	23,083
Depreciation	11,303	1,954
Decrease/(increase) in debtors	19,466	(22,944)
(Decrease)/increase in creditors	(6,082)	6,818
Net cash inflow from operating activities	216,177	8,911



PROWTING FLEXIBLE GROWTH PLC

NOTES TO THE FINANCIAL STATEMENTS

14 CASH AND CASH EQUIVALENTS

	1995	1994
	£	£
Balance of cash and cash equivalents		
Cash at bank and in hand	278,827	122,199
Change in the balance of cash and cash equivalents		
1 March	122,199	-
Net cash inflow for year	156,628	122,199
28 February	278,827	122,199

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Profit for the financial year	155,012	104,132
Other recognised gains and losses relating to the year	(43,070)	5,073
New share capital subscribed	-	4,352,202
Net addition to shareholders' funds	111,942	4,461,407
Opening shareholders' funds	4,461,407	-
Closing shareholders' funds	4,573,349	4,461,407