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COMMERCIAL UNION PROPERTIES (U.K.) LIMITED

REPORT AND ACCOUNTS

Directors' Interests

None of the directors has an interest in the shares of the Company, its subsidiaries or its fellow subsidiaries.

Those interests of the directors and of their families in the shares of the ultimate holding company, Commercial Union Assurance Company plc, that require to be disclosed under schedule 7 paragraph 2 of the Companies Act 1985 are set out below:

Beneficially owned ordinary shares of 25p each, fully paid
31 December 1986 1 January 1986

A.F. Bowness	971	747
I.D.Mathieson	1,597	1,281

An option to subscribe for 535 ordinary shares of 25p in the share capital of the ultimate holding company, Commercial Union Assurance Company plc. was granted to Mr. A.F. Bowness on 27 August 1986 and on the same date Mr. I. D. Mathieson was granted an option on 2678 shares. Both these agreements were made under the Commercial Union Assurance Company plc savings related share option scheme.

Reappointment of Auditors

It will be proposed at the Annual General Meeting that the retiring Auditors, Coopers & Lybrand, be reappointed as Auditors to the Company to hold office for the period prescribed by section 384(1) of the Companies Act 1985 and that the directors be authorised to fix the amount of their remuneration.

3 March 1987
St. Helen's,
1 Undershaft,
London EC3P 3DQ.

By Order of the Board
P. G. GRAM
Secretary

COMMERCIAL UNION PROPERTIES (U.K.) LIMITEDPROFIT AND LOSS ACCOUNTFOR THE YEAR ENDED 31 DECEMBER 1986

	1986 £	1985 £
Turnover (notes 1a & 2)	1,886,236	2,101,822
Cost of sales (note 2)	(106,732)	(457,928)
Movement in provision for diminution in value of properties held as trading assets (notes 1c & 2)	(1,686,519)	399,789
Gross profit	92,985	2,043,683
Administrative expenses	(186,487)	(246,089)
Interest receivable (note 3)	-	6,743
Interest payable and similar charges (note 4)	-	(898,833)
	(186,487)	(1,138,179)
(Loss)/profit on ordinary activities before taxation	(93,502)	905,504
Tax credit/(charge) on loss (1985 - profit) on ordinary activities (notes 1e & 7)	79,112	(403,000)
(Loss)/profit on ordinary activities after taxation	(14,390)	502,504
Extraordinary profit before taxation (note 3)	109,456	491,525
Tax on extraordinary profit	(32,500)	(147,000)
Extraordinary profit after taxation	76,956	344,525
Profit (1985 - profit) for the financial year	62,566	847,029
Transfer to capital reserve (notes 1b & 14)	(76,956)	(344,525)
	(14,390)	502,504
Accumulated losses brought forward	(69,265)	(571,769)
Accumulated losses carried forward	(83,655)	(69,265)

The notes and signatures on pages 6 to 10 are an integral part of these accounts.

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BALANCE SHEET

AT 31 DECEMBER 1986

	1986 £	1985 £
FIXED ASSETS		
Tangible assets		
Land and buildings (notes 1b & 9)	1,487,000	1,558,000
CURRENT ASSETS		
Stocks		
Property held as trading assets (note 1c)	27,874,010	28,248,322
Debtors		
Trade debtors	627,865	498,453
U.K. income tax recoverable (note 1e)	2,500	-
Amounts owed by group companies (note 10a)	27,985,748	24,550,914
	28,616,113	25,049,367
	430,681	515,628
	56,920,804	53,813,317
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
Trade creditors	664,949	1,114,330
Amounts owed to group companies (note 10a)	51,430,144	47,390,664
UK Corporation Tax payable	-	550,000
Accruals and deferred income: rental income received in advance	430,177	425,455
	(52,525,270)	(49,480,449)
NET CURRENT ASSETS	4,395,534	4,332,868
TOTAL ASSETS LESS CURRENT LIABILITIES	5,882,534	5,890,868
CAPITAL AND RESERVES		
Called up share capital (note 12)	500,000	500,000
Share premium account	52,865	52,865
Revaluation reserve (notes 1b and 13)	1,064,481	1,135,381
Other reserves: Capital reserve (notes 1b and 14)	4,348,843	4,271,887
Profit and loss account	(83,655)	(69,265)
	5,882,534	5,890,868

The notes and signatures on pages 6 to 10 are an integral part of these accounts.

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SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1986

SOURCE OF FUNDS	£ 1986	£ 1985
(Loss)/profit on ordinary activities before taxation	(93,502)	905,504
Item not involving the movement of funds:		
Adjustment to trading property valuation	1,686,519	(399,789)
Taxation received	-	714
Proceeds from sale of fixed assets	114,556	17,099,896
<u>Total funds generated</u>	<u>1,707,573</u>	<u>17,606,325</u>

APPLICATION OF FUNDS

Net additions to fixed assets	5,000	1,037,725
Tax paid	505,888	-
	<u>510,888</u>	<u>1,037,725</u>

INCREASE/(DECREASE) IN WORKING CAPITAL:

Stocks : properties held as trading assets	1,312,207	5,970,069
Trade debtors	129,412	179,612
Amounts owed by group companies	3,434,834	7,006,442
Trade creditors	449,381	1,551,099
Amounts owed to group companies	(4,039,480)	1,587,445
Accruals and deferred income	(4,722)	(9,963)
	<u>1,281,632</u>	<u>16,284,704</u>
(Decrease)/increase in cash and bank balances	(84,947)	283,896
<u>Total funds applied</u>	<u>1,707,573</u>	<u>17,606,325</u>

The notes and signatures on pages 6 to 10 are an integral part of these accounts.

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NOTES ON THE ACCOUNTS - 31 DECEMBER 1986

1. Accounting Policies

(a) Turnover

Turnover comprises the sales proceeds of properties held as trading assets, and the rental income attributable to properties held for investment.

(b) Land and Buildings

Land and Buildings, comprising properties held for investment, are valued annually at open market value (see note 9), and unrealised gains are credited to the revaluation reserve. No depreciation charge has been made on land and buildings held for investment, but there would have been no effect on the capital and reserves if it had been, as the value disclosed in the accounts for land and buildings would not be altered.

Realised profits, after taxation, on the sale of properties held for investment, are credited to capital reserve. Such profits are calculated by reference to the original cost of the property, and any unrealised gains on previous years' valuations included in the opening revaluation reserve are reversed.

(c) Properties held as trading assets

Properties held as trading assets are included at the lower of cost or net realisable value based on a valuation carried out annually by a chartered surveyor employed by the group. Unrealised losses arising from annual valuations are charged to the profit and loss account in the year in which they arise, and are adjusted annually by charging/crediting the profit and loss account to reflect the latest valuation.

(d) Shares in group companies

Shares in group companies are shown at the lower of cost or directors' valuation based on net asset value. Any resulting diminution in value or reversal thereof is charged/credited to profit and loss account.

(e) Taxation

The taxation charge/credit in the profit and loss account and the income tax recoverable in the balance sheet are based on the taxable profits for the year. Provision is made for deferred taxation where it is expected that a liability will crystallise. No amount is provided where a liability or relief is not expected to arise and where timing differences are of a continuing nature.

(f) Accounting Convention

These accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

NOTES ON THE ACCOUNTS - 31 DECEMBER 1986 (continued)

2. Turnover

The contributions of the various activities of the company to turnover and gross profit are set out below:

	<u>1986</u>			<u>1985</u>		
	Sales of Trading properties	Rents	Total	Sales of Trading properties	Rents	Total
	£	£	£	£	£	£
Turnover	-	1,886,236	1,886,236	-	2,101,822	2,101,822
Cost of sales	4,406	(111,138)	(106,732)	(307,266)	(150,662)	(457,928)
Movement in provision for diminution of properties held as trading assets	(1,686,519)	-	(1,686,519)	399,789	-	399,789
Gross profit/(loss)	<u>(1,682,113)</u>	<u>1,775,098</u>	<u>92,985</u>	<u>92,523</u>	<u>1,951,160</u>	<u>2,043,683</u>

3. Interest receivable

This comprises interest relating to the sale of properties to non-related companies.

4. Interest payable and similar charges

Interest payable and similar charges comprises interest payable to the ultimate holding company on loans to finance property development.

5. Directors' Emoluments

All directors are employed by Commercial Union Assurance Company plc and are remunerated by that company in respect of their services to the group as a whole. Their emoluments are charged in the group accounts and they received no emoluments from this Company. Commercial Union Assurance Company plc makes a charge to the Company in respect of management and other services, which charge is included in the accounts.

6. Auditors' Remuneration

Auditors' remuneration is charged in the accounts of the ultimate holding company.

NOTES ON THE ACCOUNTS - 31 DECEMBER 1986 (continued)

7. Tax on profit/loss on ordinary activities

The taxation credit of £79,112 (1985 charge of £403,000) shown in the profit and loss account is made up as follows:

	1986 £	1985 £
United Kingdom corporation tax based on the income for the year at 36.25% (1985 41.25%)	(35,000)	403,000
Prior years' items	(44,112)	-
	<u>(79,112)</u>	<u>403,000</u>

8. Extraordinary profit

The extraordinary profit included in the profit and loss account in 1986 of £109,456 (1985 - £491,525) less taxation thereon of £32,500 (1985 - £147,000) arises from the net surplus on disposal of investment properties.

9. Land and buildings

Land and buildings comprise properties held for investment.

The movements in properties held for investment during the year were:

	<u>Freeholds</u> £	<u>Leasehold less than 50 years unexpired</u> £	<u>Leasehold over 50 years unexpired</u> £	<u>Total</u> £
Professional valuation at 1 January 1986	625,000	13,000	920,000	1,558,000
Additions at cost during the year			5,000	5,000
Disposals during the year	-		(114,556)	(114,556)
	<u>625,000</u>	<u>13,000</u>	<u>810,444</u>	<u>1,448,444</u>
Unrealised gains arising from valuation of properties at 31 December 1986	(25,000)	(1,000)	64,556	38,556
	<u>600,000</u>	<u>12,000</u>	<u>875,000</u>	<u>1,487,000</u>
Cost at 31 December 1986	<u>110,000</u>	<u>35,553</u>	<u>276,966</u>	<u>422,519</u>

The valuation of properties carried out as at 31 December 1986 was undertaken by qualified members of staff reporting to the Managing Director of Commercial Union Properties Limited who is a Fellow of the Royal Institution of Chartered Surveyors.

NOTES ON THE ACCOUNTS - 31 DECEMBER 1986 (continued)

10. Group companies

(a) Amounts owed by/to group companies.

These amounts include £3,338,375 (1985 £3,223,043) owed by and £333,399 (1985 £358,636) owed to the company's subsidiaries.

(b) Subsidiary companies

The Company had the following wholly owned property investment and trading subsidiaries at 31 December 1986, both of which are incorporated in England.

Arthur Hill Limited - 100 ordinary £1 shares
Commercial Union Properties (Developments) Limited - 100 ordinary £1 shares

In the opinion of the directors the value of the Company's investments in its subsidiaries is below cost consequently the cost of £200 was written off in the profit and loss account in 1982 as amounts written off investments.

(c) Group accounts have not been submitted as the Company is a wholly-owned subsidiary of Commercial Union Properties Limited.

11. Deferred taxation

The potential amount of deferred taxation not expected to become a liability in the foreseeable future for which provision has not been made is £310,000 (1985 £330,000) and results principally from the revaluation of investment properties.

12. Called up share capital

	Ordinary shares of 10p each	
	1986	1985
	£	£
Authorised : 6,000,000 shares	600,000	600,000
Allotted, called up and fully paid : 5,000,000 shares	500,000	500,000

13. Revaluation Reserve

This comprises the investment property revaluation reserve.
The movements in the revaluation reserve during the year were as follows:

	£
Balance 1 January 1986	1,135,381
Unrealised gains on previous year's valuation of investment property disposed of during the year	(109,456)
Unrealised gains arising from valuation of investment properties at 31 December 1986	38,556
Balance at 31 December 1986	1,064,481

NOTES ON THE ACCOUNTS - 31 DECEMBER 1986 (continued)

14. Other reserves : Capital reserve

The movements in the capital reserve during the year were as follows:-

	£
Balance 1 January 1986	4,271,887
Transfer from profit and loss account	76,956
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Balance 31 December 1986	4,348,843
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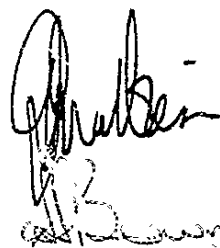
15. Future Capital Expenditure

The Company has in hand developments of properties that will require further expenditure estimated to amount to £763,000 (1985 - £2,822,000) of which £434,000 (1985 - £2,316,000) are the subject of signed contracts. No provision has been made in the accounts in respect of this future expenditure.

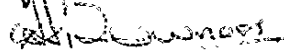
16. Ultimate Holding Company

The ultimate holding company is Commercial Union Assurance Company plc (Incorporated in England).

Approved by the Board
on 3 March 1987



Director



Director



Secretary

London

REPORT OF THE AUDITORS TO THE
MEMBERS OF COMMERCIAL UNION PROPERTIES (UK) LIMITED

We have audited the accounts on pages 3 to 10 in accordance with approved Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of the Company's affairs at 31 December 1986 and of its results and source and application of funds for the year then ended and comply with the Companies Act 1985.

London, 3 March 1987

Chartered Accountants