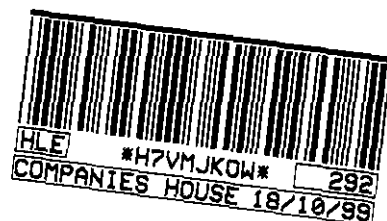


CAPITOL HOMES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1998

(Registered Number 2688127)



CAPITOL HOMES LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998

The directors present their report on the affairs of the company, together with the accounts and auditors' report for the year ended 31 December 1998.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the group is property development.

The directors expect the company's level of activity to increase during the coming year and are satisfied that the increased level of activity envisaged will eliminate the accumulated deficit and restore the company's asset base.

RESULTS AND DIVIDENDS

The company's results are as follows:

	<u>1998</u> £	<u>1997</u> £
Accumulated deficit, beginning of year	(284,713)	(300,927)
(Loss)/profit for the financial year	(104,064)	16,214
	<hr/>	<hr/>
Accumulated deficit, end of year	(388,777)	(284,713)
	<hr/>	<hr/>

The directors do not recommend the payment of a dividend (1997 - £Nil)

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are as follows:

RS Murray
M Croxen

None of the directors have any interests required to be disclosed under Section 234 of the Companies Act 1985.

The interests of the directors in the share capital of the ultimate parent undertaking, Sterling Capitol PLC, are disclosed in that company's accounts.

CAPITOL HOMES LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998 (continued)

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period 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 that year. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group 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 the group and to enable them to ensure that the accounts 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.

AUDITORS

Our auditors, Price Waterhouse merged with Coopers & Lybrand on 1 July 1998, following which Price Waterhouse resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to re-appoint PricewaterhouseCoopers as auditors and to authorise the directors to fix their remuneration will be put at the Annual General Meeting.

By order of the Board



M Croxen
Secretary

18 June 1999

PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne NE99 1PL
Telephone +44 (0) 191 232 8493
Facsimile +44 (0) 191 261 9490
Direct fax +44 (0) 191 261 9490

AUDITORS' REPORT TO THE MEMBERS OF CAPITOL HOMES LIMITED

We have audited the accounts on pages 4 to 9 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 2 of the financial statements. Our responsibilities as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

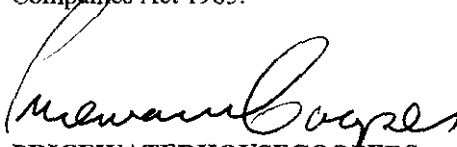
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PRICEWATERHOUSECOOPERS
Chartered Accountants
and Registered Auditors

18 June 1999

CAPITOL HOMES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u> £	<u>1997</u> £
TURNOVER	2	762,562	686,988
Cost of sales		<u>(865,744)</u>	<u>(583,476)</u>
GROSS PROFIT		(103,182)	103,512
Administrative expenses		<u>(1,337)</u>	<u>(15)</u>
OPERATING PROFIT		(104,519)	103,497
Interest receivable		455	2,563
Interest payable	3	<u>-</u>	<u>(87,607)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES			
BEFORE AND AFTER TAXATION	4	<u>(104,064)</u>	<u>18,453</u>
Tax on profit on ordinary activities	5	<u>-</u>	<u>(2,239)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(104,064)	16,214
Accumulated deficit, beginning of year		<u>(284,713)</u>	<u>(300,927)</u>
Accumulated deficit, end of year		<u>(388,777)</u>	<u>(284,713)</u>

Turnover and operating profit are derived from continuing operations.

There were no recognised gains or losses other than the profit for the financial year.

The accompanying notes are an integral part of this profit and loss account.

CAPITOL HOMES LIMITED**BALANCE SHEET AS AT 31 DECEMBER 1998**

		1998	1997
CURRENT ASSETS			
Stocks	6	636,293	1,060,749
Debtors	7	-	138
Cash at bank and in hand		<u>-</u>	<u>425</u>
		636,293	1,061,312
CREDITORS: Amounts falling due within one year			
	8	<u>(1,024,970)</u>	<u>(1,345,925)</u>
NET CURRENT LIABILITIES			
		<u>(388,677)</u>	<u>(284,613)</u>
CAPITAL AND RESERVES			
Called up share capital	9	100	100
Profit and loss account	11	<u>(388,777)</u>	<u>(284,713)</u>
EQUITY SHAREHOLDERS' FUNDS			
		<u>(388,677)</u>	<u>(284,613)</u>

Signed on behalf of the Board:

M Croxen

Director



18 June 1999

The accompanying notes are an integral part of this balance sheet.

CAPITOL HOMES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

1 ACCOUNTING POLICIES

A summary of the group's principal accounting policies, all of which have been applied consistently throughout the year is set out below:

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has not prepared a cash flow statement, as permitted by Financial Reporting Standard Number 1, because its parent company, Sterling Capitol PLC, has produced a consolidated cash flow statement including the cash flows of the company.

The company had net liabilities of £388,677 (1997: £284,613). However, the directors have prepared the accounts on the going concern basis because an undertaking has been received from the company's parent undertaking, Sterling Capitol PLC, to continue to provide financial support to the company to enable it to meet its debts as they fall due for the foreseeable future.

b) Taxation

Corporation tax payable is provided on taxable profits at the current rate. The benefit of taxable losses are surrendered to fellow group undertakings at no charge.

Deferred taxation is calculated on the liability method and is provided to the extent that the directors believe it is likely to become payable in the foreseeable future.

c) Stocks

Stocks are valued at the lower of cost and net realisable value.

Where the directors consider developments to be substantial with completion expected after more than one year and these developments have been financed from commencement by specific identifiable borrowings, the cost of these developments includes interest attributable to those borrowings up to the point of completion.

d) Turnover

Turnover represents the value of legally completed property sales net of related taxes.

2 SEGMENT INFORMATION

All of the company's turnover and operating profit before interest are derived from its principal activity in the United Kingdom.

CAPITOL HOMES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

3 INTEREST PAYABLE

Interest payable comprises:

	Year ended 31 December 1998 £	Year ended 31 December 1997 £
Interest payable to other group undertakings	-	87,428
Bank interest	455	179
	<hr/>	<hr/>
	455	87,607
	<hr/>	<hr/>

4 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit on ordinary activities before taxation is stated after charging:

	Year ended 31 December 1998 £	Year ended 31 December 1997 £
Staff costs	-	-
Auditors' remuneration	-	-
	<hr/>	<hr/>

Auditor's remuneration and staff costs were borne by the company's ultimate parent undertaking Sterling Capitol PLC.

The average monthly number of persons employed by the company was 1 (1997: 1). None of the directors received any emoluments for their services to the company.

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

Tax on profit on ordinary activities comprises UK corporation tax of £Nil (1997: £2,239).

In the directors' opinion no provision is required for deferred taxation.

CAPITOL HOMES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

6 STOCKS

The net book value of stocks comprises:

	1998 £	1997 £
Properties held for development	636,293	1,060,749
	<u> </u>	<u> </u>

7 DEBTORS

Amounts falling due within one year:

	1998 £	1997 £
Other debtors - VAT	-	138
	<u> </u>	<u> </u>
	-	138
	<u> </u>	<u> </u>

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Amounts owed to other group undertakings	1,004,970	1,343,686
Corporation tax	-	2,239
Accruals and deferred income	20,000	-
	<u> </u>	<u> </u>
	1,024,970	1,345,925
	<u> </u>	<u> </u>

9 CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised		
100 ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
100 ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>

CAPITOL HOMES LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (continued)

10 MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

The movement in equity shareholders' funds during the period may be summarised as follows:

	1998 £	1997 £
(Loss)/profit for the financial year	(104,064)	16,214
Net (reduction)/increase in equity shareholders' funds	(104,064)	16,214
Opening equity shareholders' funds	(284,713)	(300,827)
Closing equity shareholders' funds	(388,777)	(284,613)

11 RESERVES

The company's reserves comprises its profit and loss account which cannot be distributed.

12 GUARANTEES AND FINANCIAL COMMITMENTS

At 31 December 1998 the company had outstanding commitments under normal trading contracts amounting to £30,000 (1997: £174,000).

13 ULTIMATE PARENT COMPANY

The company's ultimate parent company is Sterling Capitol PLC, a company registered in England and Wales. Group accounts have been prepared by this company and are not normally available to the public.

Transactions with other companies within the Sterling Capitol Group are not disclosed as the Company has taken advantage of the exemption available under Financial Reporting Standard No. 8 "Related Party Disclosures".