

BELGRAVIA ACQUISITIONS LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 1997



BELGRAVIA ACQUISITIONS LIMITED

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 1997.

Principal activity

The group's principal activity is property investment.

Results and dividend

The results for the year are shown in the profit and loss account on page 3. The retained profit for the year of £3,895,802 has been transferred to reserves.

The directors do not recommend the payment of a dividend (1996 - nil).

Directors and directors' interests

The directors who held office during the year were as follows:

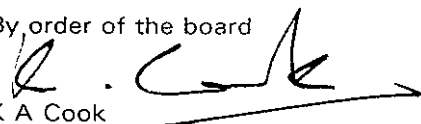
WJ Dunbar
WN Hugill
D Phillips
PM Williams

None of the directors had any interest in the share capital of the company during the year.

Auditors

A resolution proposing the re-appointment of KPMG Audit Plc as auditors of the company will be submitted to the Annual General Meeting.

By order of the board


K A Cook
Secretary
26 October 1998

67 Brook Street
London
W1Y 2NJ

BELGRAVIA ACQUISITIONS LIMITEDDIRECTORS' RESPONSIBILITIES

The directors are required by law to prepare financial statements, based on applicable accounting standards, which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss for the year.

The directors consider that, in preparing the financial statements, suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made.

The directors prepare the accounts on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and of the group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF BELGRAVIA ACQUISITIONS LIMITED

We have audited the financial statements on pages 3 to 12.

Respective responsibilities of directors and auditors

As described above, the 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 affairs of the company and the group as at 31 December 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

LONDON

27 October 1998

BELGRAVIA ACQUISITIONS LIMITEDCONSOLIDATED PROFIT AND LOSS ACCOUNTFor the year ended 31 December 1997

	Notes	1997 £	1996 £
Net rents payable	1	(461,473)	(220,061)
Administrative expenses	2	(334,625)	(372,733)
Operating loss		(796,098)	(592,794)
Profit on disposal of investment properties	3	7,257,542	3,330,943
Net finance costs	4	(1,794,171)	(2,217,220)
Profit on ordinary activities before taxation		4,667,273	520,929
Taxation	5	(771,471)	-
Profit for the year	13	3,895,802	520,929

The above results relate entirely to continuing operations.

There were no gains or losses during the year other than those disclosed above.

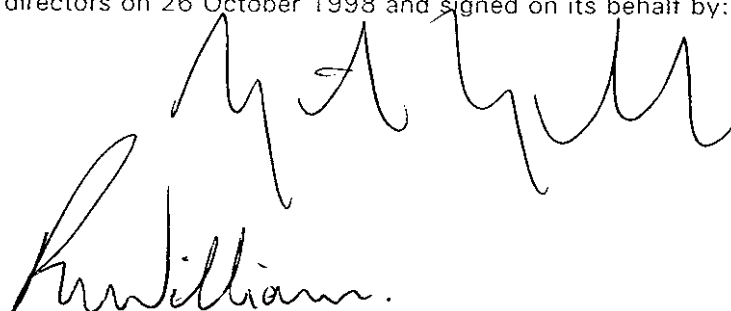
BELGRAVIA ACQUISITIONS LIMITEDCONSOLIDATED BALANCE SHEETAt 31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	6 (i)	26,921,302	41,546,022
Investments	6(ii)	3,042	3,042
		-----	-----
Current assets		26,924,344	41,549,064
Stock	7	10,018	10,213
Debtors	8	6,562,143	48,924
Cash at bank		3,616,366	973,146
		-----	-----
		10,188,527	1,032,283
Creditors – amounts falling due within one year	9	(24,033,576)	(29,543,006)
		-----	-----
Net current liabilities		(13,845,049)	(28,510,723)
		-----	-----
Total assets less current liabilities		13,079,295	13,038,341
		-----	-----
Creditors - amounts falling due after more than one year	10	(8,161,381)	(9,987,700)
Provision for liabilities and charges	11	(1,200,000)	(3,228,529)
		-----	-----
		3,717,914	(177,888)
		-----	-----
Capital and reserves			
Called up equity share capital	12	1,000	1,000
Profit and loss account	13	3,716,914	(178,888)
		-----	-----
		3,717,914	(177,888)
		-----	-----

Approved by the board of directors on 26 October 1998 and signed on its behalf by:

WN Hugill, Director

PM Williams, Director

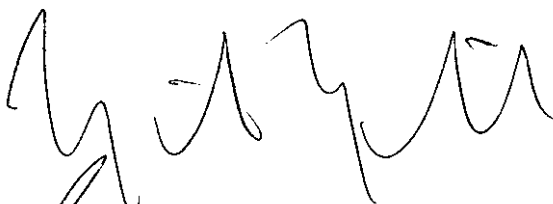


BELGRAVIA ACQUISITIONS LIMITEDCOMPANY BALANCE SHEETAt 31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Investments	6(ii)	43,594,648	43,594,648
Current assets			
Debtors	8	2,928	78
Cash at bank		3,532,339	-
		<u>3,535,267</u>	<u>78</u>
Creditors - amounts falling due within one year	9	<u>(46,882,524)</u>	<u>(39,685,531)</u>
Net current liabilities		<u>(43,347,257)</u>	<u>(39,685,453)</u>
Total assets less current liabilities		<u>247,391</u>	<u>3,909,195</u>
Creditors - amounts falling due after more than one year	10	<u>(8,055,800)</u>	<u>(9,900,200)</u>
		<u>(7,808,409)</u>	<u>(5,991,005)</u>
Capital and reserves			
Called up equity share capital	12	1,000	1,000
Profit and loss account	13	<u>(7,809,409)</u>	<u>(5,992,005)</u>
		<u>(7,808,409)</u>	<u>(5,991,005)</u>

Approved by the board of directors on 26 October 1998 and signed on its behalf by:

WN Hugill, Director



PM Williams, Director



BELGRAVIA ACQUISITIONS LIMITEDCONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 1997

	Notes	1997 £	1996 £
Net cash inflow from operating activities	15a	232,311	7,141,728
Returns on investments and servicing of finance			
Interest received	233,789	43,971	
Interest and finance costs paid	(1,885,680)	(2,396,865)	

Net cash outflow from returns on investments and servicing of finance		(1,651,891)	(2,352,894)
Taxation paid		(1,800,000)	-
Capital expenditure and financial investment			
Additions to investment properties	(6,960,192)	(6,187,323)	
Purchase of fixed assets	(9,765)	(28,001)	
Sale of investment properties	22,362,586	17,280,000	
Sale of fixed assets	-	19,570	

		15,392,629	11,084,246

Net cash inflow before financing		12,173,049	15,873,080
Financing			
New loans from shareholders	12,998,122	13,720,000	
Repayment of bank loans	(1,863,000)	(15,559,500)	
Repayment of loans from shareholders	(19,720,000)	(12,580,000)	

		-	
Net cash outflow from financing		(8,584,878)	(14,419,500)

Increase in cash during the year	15c	<u>3,588,171</u>	<u>1,453,580</u>

BELGRAVIA ACQUISITIONS LIMITEDACCOUNTING POLICIESBasis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary undertakings, all of which have been made up to 31 December 1997. As permitted by s230, Companies Act 1985, a separate profit and loss account is not presented for Belgravia Acquisitions Limited.

Properties

Properties held as investments are shown as fixed assets and are stated at cost in the year of acquisition and at valuation on the basis of open market value in subsequent years. If, in the opinion of the directors, a property has been subject to a material change in value as a result of a change in circumstances in the year of acquisition, then it is stated at valuation on the basis of open market value.

In accordance with Statement of Standard Accounting Practice No. 19 (as amended):

- (i) investment properties are revalued annually at open market value. All surpluses and deficits arising on valuation are taken directly to the revaluation reserve, except that any permanent diminution in the value of an investment property is taken to the profit and loss account for the year; and
- (ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

This treatment may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the property valuations and the amount which might otherwise have been shown cannot be separately identified or quantified.

Profit on sales of investment properties is recognised in the profit and loss account on completion of the sale and by reference to carrying value.

Depreciation

Depreciation is calculated to write off the cost of the other tangible fixed assets by equal instalments over their estimated economic lives as follows:

Computer	-	25 per cent
Fixtures and fittings	-	10 per cent
Motor vehicle	-	25 per cent

Stock

Stock of consumables and work in progress is stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

BELGRAVIA ACQUISITIONS LIMITEDNOTES TO THE ACCOUNTS

	1997 £	1996 £
1		
<u>NET RENTS PAYABLE</u>		
Gross rents receivable	134,490	638,884
Direct property outgoings	(595,963)	(858,945)
	<u>(461,473)</u>	<u>(220,061)</u>
2		
<u>ADMINISTRATIVE EXPENSES</u>		
Depreciation	19,633	17,510
Auditors' remuneration	8,000	11,500
Hire of plant and equipment	9,773	12,134
Other administrative expenses	297,219	331,589
	<u>334,625</u>	<u>372,733</u>
None of the directors received any remuneration from the company during the year.		
3		
<u>PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES</u>		
Sale proceeds	28,832,586	17,280,000
Cost of sales	(21,575,044)	(13,949,057)
	<u>7,257,542</u>	<u>3,330,943</u>
4		
<u>NET FINANCE COSTS</u>		
Interest payable:		
Bank loan	721,238	1,028,420
Loan notes from shareholders	1,278,122	1,142,260
	<u>1,999,360</u>	<u>2,170,680</u>
Finance costs of bank loan	28,600	90,511
	<u>2,027,960</u>	<u>2,261,191</u>
Interest receivable	(233,789)	(43,971)
	<u>1,794,171</u>	<u>2,217,220</u>
5		
<u>TAXATION</u>		
Corporation tax charge at 31.5% (1996 - 33%)	2,800,000	1,725,000
Release of provision for deferred taxation	(2,028,529)	(1,725,000)
	<u>771,471</u>	<u>-</u>

BELGRAVIA ACQUISITIONS LIMITED**NOTES TO THE ACCOUNTS (continued)****6 FIXED ASSETS****(i) Tangible fixed assets**

Group	Investment properties £	Fixtures, equipment and motor vehicle £	Total £
At 1 January 1997	41,431,556	114,466	41,546,022
Additions at cost	6,960,192	9,765	6,969,957
Depreciation charge for year	-	(19,633)	(19,633)
Disposals	(21,575,044)	-	(21,575,044)
At 31 December 1997	26,816,704	104,598	26,921,302
Being:			
Freehold buildings at valuation	9,620,997	-	9,620,997
Long leasehold buildings at valuation	17,195,707	-	17,195,707
Cost	-	143,323	143,323
Depreciation	-	(38,725)	(38,725)
Net book value:			
At 31 December 1997	26,816,704	104,598	26,921,302
At 31 December 1996	41,431,556	114,466	41,546,022

The investment properties were independently valued in November 1994 by Knight Frank, chartered surveyors, on the basis of 'open market value' as defined by the Guidance Notes prepared by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The valuation at 31 December 1997 was prepared by the directors on a similar basis.

Due to the nature of the properties, the directors do not believe it is practicable to analyse the value of freehold investment properties between land and buildings.

(ii) Fixed asset investment**Group**

There were no movements during the year in the fixed asset investments, which comprise listed investments held at cost.

Company	Listed investments £	Subsidiary undertaking £	Total £
Cost at 1 January 1997	3,042	43,591,606	43,594,648
Additions	-	-	-
Cost at 31 December 1997	3,042	43,591,606	43,594,648

The subsidiary undertaking is Belgravia Property Company Limited which is wholly owned and registered in England and Wales. Its principal activity is property investment.

BELGRAVIA ACQUISITIONS LIMITEDNOTES TO THE ACCOUNTS (continued)7 STOCK

	Group	
	1997 £	1996 £
Consumables and work in progress	10,018	10,213

8 DEBTORS

	Group		Company	
	1997 £	1996 £	1997 £	1996 £
Trade debtors	-	35,433	-	78
Sale proceeds of properties	6,470,000	-	-	-
Other debtors	68,751	4,905	96	-
Prepayments and accrued income	23,392	8,586	2,832	-
	6,562,143	48,924	2,928	78

9 CREDITORS - amounts falling due within one year

	Group		Company	
	1997 £	1996 £	1997 £	1996 £
Bank overdraft	-	944,951	-	944,951
Loan notes from shareholders	18,248,122	24,970,000	18,248,122	24,970,000
Amount owed to subsidiary undertaking	-	-	28,465,807	13,723,183
Trade creditors	1,864,399	960,695	-	-
Other creditors	76,740	144,329	-	-
Accruals and deferred income	1,119,315	798,031	168,595	47,397
Corporation tax	2,725,000	1,725,000	-	-
	24,033,576	29,543,006	46,882,524	39,685,531

10 CREDITORS - amounts falling due after more than one year

Secured bank loan	8,137,000	10,000,000	8,137,000	10,000,000
less: finance costs to be expensed in future periods	(81,200)	(99,800)	(81,200)	(99,800)
	8,055,800	9,900,200	8,055,800	9,900,200
Deferred income	105,581	87,500	-	-
	8,161,381	9,987,700	8,055,800	9,900,200

The bank loan is secured on the group's investment properties and interest is payable on the bank loan at a variable rate linked to LIBOR. The amounts repayable are as follows:

Due between one and two years	8,055,800	3,900,200	8,055,800	3,900,200
Due between two and five years	-	6,000,000	-	6,000,000
	8,055,800	9,900,200	8,055,800	9,900,200

BELGRAVIA ACQUISITIONS LIMITEDNOTES TO THE ACCOUNTS (continued)11 PROVISION FOR LIABILITIES AND CHARGES

	1997 £	1996 £
Deferred taxation:		
At beginning of year	3,228,529	4,953,529
Released to profit and loss account	(2,028,529)	(1,725,000)
At end of year	<u>1,200,000</u>	<u>3,228,529</u>

The deferred taxation is in respect of taxation which might become payable if the investment properties were sold at the net amount at which they are stated in the financial statements.

12 CALLED UP EQUITY SHARE CAPITAL

	Authorised £	Issued and fully paid £
'A' ordinary shares of £1 each	500	500
'B' ordinary shares of £1 each	500	500
	<u>1,000</u>	<u>1,000</u>

There were no changes during the year in either the authorised or the issued share capital.

13 PROFIT AND LOSS ACCOUNT

	Group £	Company £
At 1 January 1997	(178,888)	(5,992,005)
Retained profit/(loss) for the year	3,895,802	(1,817,404)
At 31 December 1997	<u>3,716,914</u>	<u>(7,809,409)</u>

14 SHAREHOLDERS' FUNDS

At 1 January 1997	(177,888)	(5,991,005)
Retained profit/(loss) for the year	3,895,802	(1,817,404)
At 31 December 1997	<u>3,717,914</u>	<u>(7,808,409)</u>

15 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of operating profit to net cash inflow from operating activities:

	1997 £	1996 £
Operating loss	(796,098)	(592,794)
Depreciation	19,633	17,510
Decrease/(increase) in stocks	195	(340)
(Increase)/decrease in debtors	(43,219)	8,115,859
Increase/(decrease) in creditors	1,051,800	(398,507)
Net cash inflow from operating activities	<u>232,311</u>	<u>7,141,728</u>

BELGRAVIA ACQUISITIONS LIMITEDNOTES TO THE ACCOUNTS (continued)15 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

b. Reconciliation of net cashflow to movement in net debt (note 16c):

	1997 £	1996 £
Increase in cash	3,588,171	1,453,580
Net repayment of loans	8,584,878	14,419,500
Change in net debt resulting from cashflows	12,173,049	15,873,080
Amortisation of finance costs	(18,600)	(76,510)
Change in net debt	12,154,449	15,796,570
Net debt at 1 January	(34,842,005)	(50,638,575)
Net debt at 31 December	(22,687,556)	(34,842,005)

c. Analysis of changes in net debt:

	1 January 1997 £	Cashflow £	Non-cash movements £	31 December 1997 £
Cash in hand and at bank	973,146	2,643,220	-	3,616,366
Overdrafts	(944,951)	944,951	-	-
	28,195	3,588,171	-	3,616,366
Bank loans	(9,900,200)	1,863,000	(18,600)	(8,055,800)
Shareholder loans	(24,970,000)	6,721,878	-	(18,248,122)
	(34,842,005)	12,173,049	(18,600)	(22,687,556)