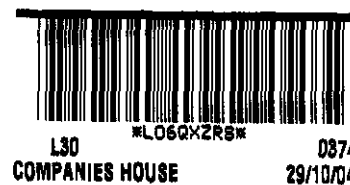


HILSTONE CORPORATION LIMITED
CONSOLIDATED ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended
31 DECEMBER 2003



HILSTONE CORPORATION LIMITED

CONTENTS

	Page
Company Information	2
Report of the Directors	3
Independent Auditors' Report	5
Consolidated Profit and Loss Account	6
Consolidated Balance Sheet	7
Company Balance Sheet	8
Consolidated Cash Flow Statement	9
Notes to the Financial Statements	10-22

HILSTONE CORPORATION LIMITED

COMPANY INFORMATION

DIRECTORS

A M Brookes
M C T Bokenham

SECRETARY

C M Denee

REGISTERED OFFICE

Suite 3
6th Floor Berkeley Square House
Berkeley Square
London
W1J 6BR

COMPANY NUMBER

2906739 (England)

AUDITORS

HLB AV Audit plc
66 Wigmore Street
London
W1U 2HQ

HILSTONE CORPORATION LIMITED

REPORT OF THE DIRECTORS

The Directors present their Report and Financial Statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the Company is to own and manage the Group.

The activities of the Group are that of property trading and development.

The Directors are satisfied with the results for the year and will continue to pursue further acquisition and development opportunities.

RESULTS AND DIVIDENDS

The consolidated profit and loss account for the year ended 31 December 2003 is set out on page 6.

The Directors do not recommend the payment of a dividend (2002: interim £6.67).

FIXED ASSETS

The significant changes in fixed assets during the year are explained in notes 9 to 11 to the financial statements.

DIRECTORS

The following Directors have held office since 1 January 2003.

A M Brookes
M C T Bokenham

DIRECTORS' INTERESTS

The Directors' beneficial interests in the shares of the Company are as stated below:-

	31 December 2003 Ordinary Shares Of £1 each	1 January 2003 Ordinary Shares Of £1 each
A M Brookes	45,000	45,000
M C T Bokenham	45,000	45,000
	<hr/>	<hr/>

DONATIONS

During the year the Group made charitable donations of £602 (2002: £1,558).

HILSTONE CORPORATION LIMITED

REPORT OF THE DIRECTORS

AUDITORS

In accordance with section 385 of the Companies Act 1985, a resolution proposing that HLB AV Audit plc be re-appointed as auditors of the company will be put to the Annual General Meeting.

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 Group and of the profit or loss of the Group for that year. 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;
- * prepare the Financial Statements 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 enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

A M BROOKES
Director

28 October 2004

HILSTONE CORPORATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HILSTONE CORPORATION LIMITED

We have audited the financial statements of Hilstone Corporation Limited on pages 6 to 22 for the year ended 31 December 2003. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 4 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 1985. 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 with the group is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

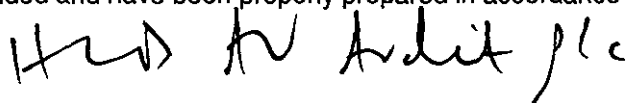
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 group'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 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



HLB AV Audit plc

28 October 2004

Registered Auditor

66 Wigmore Street
London
W1U 2HQ

HILSTONE CORPORATION LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended

31 DECEMBER 2003

		2003		2002	
	Note	£	£	£	£
Turnover of the Group including Share of Joint Ventures	2				
- Continuing		12,761,306		6,288,578	
- Discontinued		-		1,109,888	
		<hr/>		<hr/>	
Share of Joint Ventures			12,761,306 (3,427,936)		7,398,466 (4,853,394)
			<hr/>		<hr/>
Group Turnover			9,333,370		2,545,072
			<hr/>		<hr/>
Cost of Sales	2		(5,414,850)		(1,320,185)
			<hr/>		<hr/>
Gross Profit	2		3,918,520		1,224,887
Administrative Expenses			(2,491,660)		(937,452)
			<hr/>		<hr/>
Group Operating Profit	2/3				
- Continuing		1,426,860		(414,546)	
- Discontinued		-		701,981	
		<hr/>		<hr/>	
			1,426,860		287,435
Share of Operating Results in Joint Ventures			1,395,635		1,446,740
			<hr/>		<hr/>
Total Operating Profit	3		2,822,495		1,734,175
Loss on Disposal of Subsidiary			-		(648,686)
Interest Payable	4		(1,114,290)		(1,789,007)
			<hr/>		<hr/>
			1,708,205		(703,518)
			<hr/>		<hr/>
Interest Receivable	5		224,622		210,370
			<hr/>		<hr/>
Profit/(Loss) on Ordinary Activities before Taxation			1,932,827		(493,148)
Taxation	6		(670,011)		(69,812)
			<hr/>		<hr/>
Profit/(Loss) on Ordinary Activities after Taxation			1,262,816		(562,960)
Dividends	7		-		(600,000)
			<hr/>		<hr/>
Retained Profit/(Loss) for the Year	16		1,262,816		(1,162,960)
			<hr/>		<hr/>

There are no recognised gains and losses other than those passing through the profit and loss account.

HILSTONE CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible	9	25,992	30,579
Investment in Joint Ventures:	11		
Share of Gross Assets		18,563,692	19,624,932
Share of Gross Liabilities		(18,032,698)	(19,350,994)
		<u>530,994</u>	<u>273,938</u>
		556,986	304,517
CURRENT ASSETS			
Debtors: Due Within One Year	12	724,579	1,333,006
Debtors: Due After One Year	12	3,750,000	3,750,000
Cash at Bank		1,444,952	965,472
		<u>5,919,531</u>	<u>6,048,478</u>
CREDITORS - Amounts			
Falling Due Within One Year	13	(2,580,054)	(3,719,348)
		<u></u>	<u></u>
NET CURRENT ASSETS		3,339,477	2,329,130
TOTAL ASSETS LESS		<u></u>	<u></u>
CURRENT LIABILITIES		3,896,463	2,633,647
		<u></u>	<u></u>
CAPITAL AND RESERVES			
Called Up Share Capital	14	90,000	90,000
Profit and Loss Account	15	3,806,463	2,543,647
		<u></u>	<u></u>
Equity Shareholders' Funds	16	3,896,463	2,633,647
		<u></u>	<u></u>

These Financial Statements were approved by the Board of Directors on 28 October 2004.

A M BROOKES
Director

HILSTONE CORPORATION LIMITED
COMPANY BALANCE SHEET AT 31 DECEMBER 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible Assets	9	25,992	30,579
Investments	10	50,050	50,050
		<u>76,042</u>	<u>80,629</u>
CURRENT ASSETS			
Debtors Due Within One Year	12	236,496	221,832
Debtors Due After One Year	12	3,750,000	3,750,000
Cash at Bank and in Hand		1,320,555	896,693
		<u>5,307,051</u>	<u>4,868,525</u>
CREDITORS - Amounts			
Falling Due Within One Year	13	(3,037,715)	(2,779,282)
		<u>2,269,336</u>	<u>2,089,243</u>
NET CURRENT ASSETS			
		<u>2,345,378</u>	<u>2,169,872</u>
TOTAL ASSETS LESS			
CURRENT LIABILITIES			
		<u>2,345,378</u>	<u>2,169,872</u>
CAPITAL AND RESERVES			
Called Up Share Capital	14	90,000	90,000
Profit and Loss Account	15	2,255,378	2,079,872
		<u>2,345,378</u>	<u>2,169,872</u>
Equity Shareholders' Funds	16	2,345,378	2,169,872

These Financial Statements were approved by the Board of Directors on 28 October 2004.

A M BROOKES
 Director

HILSTONE CORPORATION LIMITED

CONSOLIDATED CASH FLOW STATEMENT

for the year ended

31 DECEMBER 2003

	Note	£	2003 £	£	2002 £	£
Net cash inflow from operating activities	18(a)			805,480		509,200
Returns on investments and servicing of finance:						
Interest received			208,025		182,420	
Interest paid			(62,624)		(495,215)	
Net cash inflow/(outflow) from returns on investments and servicing of finance				145,401		(312,795)
Taxation:						
Corporation tax paid				(480,000)		(3,300)
Capital Expenditure:						
Payments to acquire tangible fixed assets			-		(7,500)	
Net cash outflow from capital expenditure				-		(7,500)
Acquisitions and Disposals						
Sale of Subsidiary Undertaking			-		100,000	
Net Cash Disposed with Subsidiary Undertaking			-		(350,810)	
Net cash outflow from acquisitions and disposals				-		(250,810)
Equity Dividends Paid				-		(600,000)
Increase/(decrease) in Cash	18(b),(c)			470,881		(665,205)

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

1 ACCOUNTING POLICIES

The principal accounting policies of the Company and Group are set out below.

a) Accounting Convention

The Financial Statements have been prepared under the Historical Cost Convention and in accordance with applicable Accounting Standards.

b) Basis of Consolidation

The consolidated financial statements comprise the results of the Company and its subsidiaries, made up to 31 December 2003, together with the Group's share of net profits and losses and reserves of joint ventures. The results of subsidiaries disposed of during the year are included up to the effective date of disposal. Profits and losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Hilstone Corporation Limited has not presented its own Profit and Loss Account as permitted by Section 230(3) of the Companies Act 1985. The profit/(loss) for the year dealt with in the Profit and Loss Account of the Company amounted to £175,506 (2002: £(560,644)).

c) Stock

Development and trading properties are included at the lower of cost and net realisable value. The cost includes directly attributable costs including improvements expenses. Purchase and sale of properties is recognised in the financial statements on legal completion of the transaction.

d) Depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life as follows:

Fixtures, Fittings and Equipment	15% reducing balance
----------------------------------	----------------------

e) Investments

Fixed asset investments are shown at cost less provision for impairment.

f) Turnover

Turnover, which is stated net of VAT, is derived from sale proceeds of trading and development properties, together with net rental income, recharges and fees receivable from operations in the United Kingdom.

g) Leasing

Rentals on operating leases are charged to the profit and loss account on a straight line basis over the lease term. Assets held under hire purchase agreements are recorded in the balance sheet as an asset and an obligation to pay future rentals. Depreciation is charged over the assets' useful lives and finance charges accrue at a constant rate over the lease term.

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

h) Goodwill

Goodwill arising from the acquisition of subsidiary undertakings, representing the difference between the purchase consideration and fair value of net assets acquired, has been capitalised in accordance with the requirements of FRS10 and is being amortised over the expected useful life of 20 years in each case.

i) Deferred Tax

The accounting policy in respect of deferred tax reflects the requirements of FRS19 – Deferred Tax. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

j) Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS17.

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

2 TURNOVER AND COST OF SALES

The group operates entirely within one geographical market, the United Kingdom. The turnover and cost of sales is analysed below.

TURNOVER

	2003 £	2002 £
Rental Income		
Group	-	831,726
Joint Venture	1,981,287	2,310,094
Sale of Trading Properties		
Joint Venture	1,015,000	1,952,500
Other Income		
Group	9,333,370	1,713,346
Joint Venture	431,649	590,800
	<u>12,761,306</u>	<u>7,398,466</u>
COST OF SALES		
	2003 £	2002 £
Other Costs	5,414,850	1,320,185

All operations are continuing operations for the year ended 31 December 2003.

The split of continuing and discontinued operations for the year ended 31 December 2002 is analysed below:

	Continuing £	Discontinued £	Total £
Turnover of the Group including Share of Joint Ventures	6,288,578	1,109,888	7,398,466
Share of Joint Ventures	(4,853,394)	-	(4,853,394)
Group Turnover	<u>1,435,184</u>	<u>1,109,888</u>	<u>2,545,072</u>
Cost of Sales	(1,320,185)	-	(1,320,185)
Gross Profit	<u>114,999</u>	<u>1,109,888</u>	<u>1,224,887</u>
Administrative Expenses	(529,545)	(407,907)	(937,452)
Group Operating (Loss)/Profit	<u>(414,546)</u>	<u>701,981</u>	<u>287,435</u>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

3 OPERATING PROFIT

The operating profit is stated after charging:-

	2003 £	2002 £
Auditors' Remuneration - Company £15,000 (2002: £15,000)	48,100	40,000
Depreciation	4,587	5,396
Operating Lease Rentals - Other	97,092	89,635
Amortisation	-	31,473
	<hr/>	<hr/>

4 INTEREST PAYABLE

	2003 £	2002 £
Group: Bank Loans and Overdrafts	160	494,968
Group: On Overdue Tax	62,464	247
Joint Venture – Bank Loans and Overdrafts	951,666	1,193,792
Joint Venture – Other Loans	100,000	100,000
	<hr/>	<hr/>
	1,114,290	1,789,007
	<hr/>	<hr/>

5 INTEREST RECEIVABLE

	2003 £	2002 £
Group: Bank	57,751	24,788
Group: Other	150,274	157,632
Joint Venture - Bank	16,597	27,950
	<hr/>	<hr/>
	224,622	210,370
	<hr/>	<hr/>

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2003 £	2002 £
Tax Charge for the Year		
UK Corporation Tax on Group	566,500	-
UK Corporation Tax on Joint Venture	103,511	69,812
	<hr/>	<hr/>
	670,011	69,812
	<hr/>	<hr/>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES (Continued)

	2003 £	2002 £
Factors affecting Tax Charge for the Year		
Profit/(Loss) on Ordinary Activities before Taxation	1,932,827	(493,148)
Less: Share of Profit of Joint Ventures	(360,566)	(180,898)
	<hr/>	<hr/>
Group Profit/(Loss) on Ordinary Activities before Taxation	1,572,261	(674,046)
Tax on Group Profit/(Loss) on Ordinary Activities at UK Corporation Tax rate of 30% (2002: 30%)	471,678	(202,214)
Effects of:		
Disallowable Expenses	14,343	189,903
Capital Allowances	(1,236)	(1,648)
Tax Losses Utilised	(73,623)	(20,062)
Adjustment to Previous Periods	480,000	-
Other Tax Adjustments	(313,662)	34,021
Marginal Relief	(11,000)	-
	<hr/>	<hr/>
Group Current Tax Charge	566,500	-
	<hr/>	<hr/>

The group has estimated losses of £Nil (2002: £135,000) available for carry forward against future trading profits. The deferred tax asset of £Nil (2002: £40,500) arising from losses has not been recognised as the directors are uncertain as to when it will crystallise.

7 DIVIDENDS TO EQUITY SHAREHOLDERS

	2003 £	2002 £
Interim Dividend Paid £Nil (2002: £6.67 per share)	-	600,000
	<hr/>	<hr/>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

8 DIRECTORS AND EMPLOYEES INFORMATION

	2003 £	2002 £
Directors' Emoluments		
Aggregate Emoluments	2,048,100	48,000
	<hr/>	<hr/>
Employees' Information (Including Directors)		
	2003 £	2002 £
Staff Costs:		
Wages and Salaries	2,083,453	97,578
Social Security Costs	8,635	9,144
	<hr/>	<hr/>
	2,092,088	106,722
	<hr/>	<hr/>
Numbers of Employees (Including Directors):		
	2003	2002
The average monthly number of employees during the year was:	2	2
	<hr/>	<hr/>

9 TANGIBLE FIXED ASSETS

	Fixtures, Fittings and Equipment £
Group and Company	
Cost	
At 1 January 2003 and at 31 December 2003	62,641
	<hr/>
Depreciation	
At 1 January 2003	32,062
Charge for the Year	4,587
	<hr/>
At 31 December 2003	36,649
	<hr/>
Net Book Value	
At 31 December 2003	25,992
	<hr/>
At 31 December 2002	30,579
	<hr/>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

10 INVESTMENTS

Company

Shares in
Group
Undertakings

Participating
Interests

Total

£

Cost at 1 January 2003 and at 31 December 2003

50,000

50

50,050

Subsidiaries

Shares Held
%

Hilstone Midtown Plc

100

Hilstone Harmsworth Plc**

100*

Hilstone Northcliffe Limited**

100*

Joint Ventures

Shares Held
%

Hilstone Asset Management Limited

50

Hilstone (Aldershot) Limited**

50*

Hilstone (Clacton) Limited

50*

Hilstone (Colchester) Limited

50*

Hilstone (Harrow) Limited

50*

Hilstone (Liverpool) Limited

50*

Hilstone (Luton) Limited

50*

Hilstone (Sheffield) Limited

50*

Hilstone (Swindon) Limited**

50*

Hilstone (Wood Green) Limited

50*

Hilstone (Merit House) Limited

50*

Hilstone (19/21 Grove Street Wilmslow) Limited

50*

Hilstone (30/32 Grove Street Wilmslow) Limited

50*

Hilstone (35/37 Grove Street and

Grove Arcade) Limited

50*

All the above named companies are registered in England and Wales and are property companies, apart from Hilstone Northcliffe Limited and Hilstone Harmsworth Plc which are non-trading companies.

All equity held is ordinary share capital.

The * above indicates investments held by undertakings of Hilstone Corporation Limited.

** Hilstone Harmsworth Plc, Hilstone Northcliffe Limited, Hilstone (Aldershot) Limited and Hilstone (Swindon) Limited were struck off after the year end.

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

11 INVESTMENT IN JOINT VENTURES

	Group 2002 £
At 1 January 2003	273,938
Share of Profit for the Year	257,056
	<hr/>
At 31 December 2003	530,994
	<hr/>

Hilstone Asset Management Limited

Hilstone Asset Management Limited is a property company in which Hilstone Corporation Limited holds 50% of the share capital. The information herein and the group's share of the joint venture results is based on audited accounts made up to 31 December 2003. The address of its principal place of business is Suite 3, 6th Floor Berkeley Square House, Berkeley Square, London, W1J 6BR.

Hilstone Corporation Limited hold £250,000 4% loan stock in Hilstone Asset Management Limited.

The summarised aggregate financial statements of Hilstone Asset Management Limited are as follows:

Profit and Loss Account	2003 £	2002 £
Turnover	3,427,936	4,853,394
	<hr/>	<hr/>
Operating Profit	1,395,636	1,446,740
Net Interest Payable	(1,035,069)	(1,265,842)
Taxation	(103,511)	(69,812)
	<hr/>	<hr/>
Retained Profit for the Year	257,056	111,086
	<hr/>	<hr/>
 Balance Sheet		
Current Assets	18,563,692	19,624,932
Liabilities Falling Due Within One Year	(1,007,090)	(1,412,425)
Liabilities Falling Due After One Year	(17,025,608)	(17,938,569)
	<hr/>	<hr/>
	530,994	273,938
	<hr/>	<hr/>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

12 DEBTORS

Amounts Falling Due Within One Year	Group		Company	
	2003 £	2002 £	2003 £	2002 £
Trade Debtors	-	945,522	-	-
Amounts owed by Joint Ventures	2,550,000	2,550,000	2,550,000	2,550,000
Other Debtors	1,904,309	1,563,616	1,416,226	1,397,964
Prepayments and Accrued Income	20,270	23,868	20,270	23,868
	<u>4,474,579</u>	<u>5,083,006</u>	<u>3,986,496</u>	<u>3,971,832</u>

Amounts Falling Due After One Year

Group and Company

Included in Amounts owed by Joint Ventures is £2,500,000 (2002: £2,500,000) which represents 4% loan stock issued by Hilstone Asset Management Limited redeemable November 2009 or after October 2004 at the option of Hilstone Asset Management Limited.

Included in other debtors is £1,250,000 (2002: £1,250,000) which represents 4% loan stock issued by Hilstone Portfolio Management Limited redeemable January 2011 or after January 2006 at the option of Hilstone Portfolio Management Limited.

13 CREDITORS

Amounts Falling Due Within One Year	Group		Company	
	2003 £	2002 £	2003 £	2002 £
Bank Loans and Overdrafts	8,599	-	8,599	-
Trade Creditors	244,706	17,500	10,500	17,500
Amounts Owed to Group Undertakings	-	-	1,901,989	20,055
Amounts Owed to Joint Ventures	-	100,000	-	-
Corporation Tax	86,500	-	19,000	-
Other Taxes and Social Security Costs	3,250	31,981	3,250	26,517
Other Creditors	1,753,377	3,548,917	1,003,377	2,699,260
Accruals and Deferred Income	483,622	20,950	91,000	15,950
	<u>2,580,054</u>	<u>3,719,348</u>	<u>3,037,715</u>	<u>2,779,282</u>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

14 SHARE CAPITAL

	2003 £	2002 £
Authorised		
250,000 Ordinary Shares of £1 each	250,000	250,000
Issued, Called Up and Fully Paid		
90,000 Ordinary Shares of £1 each	90,000	90,000

15 STATEMENT OF MOVEMENT ON RESERVES

	Group Profit and Loss Account £	Company Profit and Loss Account £
Balance at 1 January 2003	2,543,647	2,079,872
Retained Profit for the Year	1,262,816	175,506
Balance at 31 December 2003	3,806,463	2,255,378

16 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Group	2003 £	2002 £
Profit/(Loss) for the Financial Year	1,262,816	(562,960)
Dividends	-	(600,000)
Net Addition/(Reduction) to Shareholders' Funds	1,262,816	(1,162,960)
Opening Shareholders' Funds	2,633,647	3,796,607
Closing Shareholders' Funds	3,896,463	2,633,647
Company	2003 £	2002 £
Profit/(Loss) for the Financial Year	175,506	(560,644)
Dividends	-	(600,000)
Net Addition/(Reduction) to Shareholders' Funds	175,506	(1,160,644)
Opening Shareholders' Funds	2,169,872	3,330,516
Closing Shareholders' Funds	2,345,378	2,169,872

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

17 OPERATING LEASE COMMITMENTS

Group

At 31 December 2003 the Group was committed to making the following payments during the next year in respect of operating leases:

	2003 Land and Buildings £	2002 £
Leases which expire:		
Between Two and Five Years	89,375	89,375

Company

At 31 December 2003 the Company was committed to making the following payments during the next year in respect of operating leases:

	2003 Land and Buildings £	2002 £
Between Two and Five Years	89,375	89,375

18 NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

	2003 £	2002 £
Operating profit	1,426,860	287,435
Depreciation Charges	4,587	36,870
Increase in stock	-	(1,029,820)
Decrease/(increase) in debtors	608,427	(1,161,892)
(Decrease)/increase in creditors	(1,234,394)	2,376,607
Net cash inflow from operating activities	805,480	509,200

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

18 NOTES TO THE CASH FLOW STATEMENT (Continued)

b) Reconciliation of Net Cash Flow to Movement in Net Debt/Funds

	2003 £	2002 £
Increase/(Decrease) in cash in the year	470,881	(665,205)
Reduction in Net Debt on Disposal of Subsidiary	-	9,814,069
	<hr/>	<hr/>
Movement in Net Funds in the Year	470,881	9,148,864
Opening Net Funds/(Debt)	965,472	(8,183,392)
	<hr/>	<hr/>
Closing Net Funds	1,436,353	965,472
	<hr/>	<hr/>

c) Analysis of Net Funds

	At 1 January 2003 £	Cash Flow £	At 31 December 2003 £
Cash in Hand and at Bank	965,472	479,480	1,444,952
Debt Due Within One Year	-	(8,599)	(8,599)
	<hr/>	<hr/>	<hr/>
	965,472	470,881	1,436,353
	<hr/>	<hr/>	<hr/>

19 PENSION COSTS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administrated fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £Nil (2002: £Nil).

20 CONTROL

The Company is jointly controlled by Mr A M Brookes and Mr M C T Bokenham, both being directors and shareholders.

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2003

21 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 that transactions between Group companies do not need to be disclosed.

Related party transactions with Directors and other companies are as follows:

During the year, consultancy and accounting services were received from Amberley Enterprises Limited, a company in which Mr A M Brookes is a director and majority shareholder. The cost of these services amounted to £132,000 (2002: £24,000). No amounts remain unpaid at the year end (2002: £ Nil).

Also consultancy fees of £100,000 (2002: £ Nil) were paid to Mr M C T Bokenham. No amounts remain unpaid at the year end (2002: £ Nil).

Management and administrative fees totalling £ Nil (2002: £42,500) were charged to Collier and Madge Plc, a company in which Mr A M Brookes is a director and shareholder. No amounts remain unpaid at the year end (2002: £ Nil).

Interest totalling £100,000 (2002: £100,000) was received on the 4% loan stock Hilstone Corporation Limited holds in Hilstone Asset Management Limited. Also in the year, a management fee of £100,000 (2002: £50,000) was charged to Hilstone Asset Management Limited.

Interest totalling £50,000 (2002: £50,000) was received on the 4% loan stock Hilstone Corporation Limited holds in Hilstone Portfolio Management Limited, a company in which Mr A M Brookes and Mr M C T Bokenham are directors and shareholders. Also in the year, a management fee of £50,000 (2002: £50,000) was charged to Hilstone Estates Limited, a subsidiary of Hilstone Portfolio Management Limited.

At the year end the directors had the following current account balances, disclosed within other creditors:

Mr A M Brookes	£1,116	2002: £41,716
Mr M C T Bokenham	£428	2002: £57,544