

2906739

HILSTONE CORPORATION LIMITED
CONSOLIDATED ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended
31 DECEMBER 2004

HLB **AV**audit



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
P A Burroughs

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 2SB

HILSTONE CORPORATION LIMITED

REPORT OF THE DIRECTORS

The Directors present their Report and Financial Statements for the year ended 31 December 2004.

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 2004 is set out on page 6.

The Directors do not recommend the payment of a dividend.

FIXED ASSETS

The significant changes in fixed assets during the year are explained in notes 8 to 10 to the financial statements.

DIRECTORS

The following Directors have held office since 1 January 2004.

A M Brookes

M C T Bokenham

P A Burroughs (Appointed 6 August 2004)

DIRECTORS' INTERESTS

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

	31 December 2004 Ordinary Shares Of £1 each	1 January 2004 Ordinary Shares Of £1 each
A M Brookes	45,000	45,000
M C T Bokenham	45,000	45,000
P A Burroughs	-	-
	<hr/>	<hr/>

DONATIONS

During the year the Group made charitable donations of £700 (2003: £602).

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

19 October 2005

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 2004. 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 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

HLB AV Audit plc

HLB AV Audit plc

Registered Auditor

20 October 2005

66 Wigmore Street
London
W1U 2SB

HILSTONE CORPORATION LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended
31 DECEMBER 2004

		2004		2003	
	Note	£	£	£	£
Turnover of the Group including Share of Joint Ventures	2				
- Continuing		3,370,160		9,333,370	
- Discontinued		21,033,762		3,427,936	
			24,403,922		12,761,306
Share of Joint Ventures			(21,033,762)		(3,427,936)
Group Turnover			3,370,160		9,333,370
Cost of Sales	2		(315,000)		(5,414,850)
Gross Profit	2		3,055,160		3,918,520
Administrative Expenses			(3,041,339)		(2,491,660)
Group Operating Profit/(Loss)	2/3				
- Continuing		47,127		(9,009)	
- Discontinued		(33,306)		1,435,869	
			13,821		1,426,860
Share of Operating Results in Joint Ventures			1,101,723		1,395,635
Total Operating Profit	3		1,115,544		2,822,495
Interest Payable	4		(1,826,677)		(1,114,290)
			(711,133)		1,708,205
Interest Receivable	5		822,574		224,622
Profit on Ordinary Activities before Taxation			111,441		1,932,827
Taxation	6		(249,016)		(670,011)
(Loss)/Profit on Ordinary Activities after Taxation			(137,575)		1,262,816
Retained (Loss)/Profit for the Year	16		(137,575)		1,262,816

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 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Tangible	8	14,289	25,992
Investment in Joint Ventures:	10		
Share of Gross Assets		-	18,563,692
Share of Gross Liabilities		-	(18,032,698)
		<u>14,289</u>	<u>556,986</u>
CURRENT ASSETS			
Debtors: Due Within One Year	11	1,514,234	724,579
Debtors: Due After One Year	11	3,750,000	3,750,000
Cash at Bank		3,943,861	1,444,952
		<u>9,208,095</u>	<u>5,919,531</u>
CREDITORS - Amounts			
Falling Due Within One Year	12	(2,947,307)	(2,580,054)
		<u></u>	<u></u>
NET CURRENT ASSETS		<u>6,260,788</u>	<u>3,339,477</u>
TOTAL ASSETS LESS			
CURRENT LIABILITIES		<u>6,275,077</u>	<u>3,896,463</u>
CREDITORS - Amounts			
Falling Due After One Year	13	(2,500,000)	-
PROVISIONS FOR LIABILITIES			
AND CHARGES	14	(16,189)	-
		<u>3,758,888</u>	<u>3,896,463</u>
CAPITAL AND RESERVES			
Called Up Share Capital	15	90,000	90,000
Profit and Loss Account	16	3,668,888	3,806,463
		<u></u>	<u></u>
Equity Shareholders' Funds	17	<u>3,758,888</u>	<u>3,896,463</u>

These Financial Statements were approved by the Board of Directors on 19 October 2005.

A M BROOKES
Director

HILSTONE CORPORATION LIMITED

COMPANY BALANCE SHEET AT 31 DECEMBER 2004

	Note	£	2004	£	£	2003	£
FIXED ASSETS							
Tangible Assets	8			14,289			25,992
Investments	9			50,050			50,050
				<u>64,339</u>			<u>76,042</u>
CURRENT ASSETS							
Debtors Due Within One Year	11	1,477,753			236,496		
Debtors Due After One Year	11	3,750,000			3,750,000		
Cash at Bank and in Hand		3,909,218			1,320,555		
		<u>9,136,971</u>			<u>5,307,051</u>		
CREDITORS - Amounts							
Falling Due Within One Year	12	(3,908,297)			(3,037,715)		
		<u></u>			<u></u>		
NET CURRENT ASSETS				5,228,674			2,269,336
TOTAL ASSETS LESS				<u>5,293,013</u>			<u>2,345,378</u>
CURRENT LIABILITIES							
CREDITORS - Amounts							
Falling Due After One Year	13			(2,500,000)			-
				<u>2,793,013</u>			<u>2,345,378</u>
CAPITAL AND RESERVES							
Called Up Share Capital	15			90,000			90,000
Profit and Loss Account	16			2,703,013			2,255,378
				<u>2,793,013</u>			<u>2,345,378</u>
Equity Shareholders' Funds	17			<u>2,793,013</u>			<u>2,345,378</u>

These Financial Statements were approved by the Board of Directors on 19 October 2005.

A M BROOKES
Director

HILSTONE CORPORATION LIMITED

CONSOLIDATED CASH FLOW STATEMENT

for the year ended
31 DECEMBER 2004

		2004	2003
	Note	£	£
Net cash inflow from operating activities	19(a)	126,999	805,480
Returns on investments and servicing of finance:			
Interest received		111,729	208,025
Interest paid		(90,043)	(62,624)
Net cash inflow/(outflow) from returns on investments and servicing of finance		21,686	145,401
Taxation:			
Corporation tax paid		(126,378)	(480,000)
Capital expenditure:			
Payments to acquire tangible fixed assets		(14,799)	-
Net cash outflow from capital expenditure		(14,799)	-
Cash inflow before management of liquid resources and financing		7,508	470,881
Financing			
New long term debt		2,500,000	-
Increase in Cash	19(b),(c)	2,507,508	470,881

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

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 2004, 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 for the year dealt with in the Profit and Loss Account of the Company amounted to £447,635 (2003: £175,506).

c) 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
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d) Investments

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

e) 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.

f) 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 2004

g) 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.

h) 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 2004

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

	2004 £	2003 £
Rental Income		
Group	-	-
Joint Venture	999,241	1,981,287
Sale of Trading Properties		
Joint Venture	19,736,563	1,015,000
Other Income		
Group	3,370,160	9,333,370
Joint Venture	297,958	431,649
	<u>24,403,922</u>	<u>12,761,306</u>

COST OF SALES

	2004 £	2003 £
Other Costs	315,000	5,414,850
	<u>315,000</u>	<u>5,414,850</u>

The split of continuing and discontinued operations for the year ended 31 December 2004 is analysed below:

	Continuing £	Discontinued £	Total £
Turnover of the Group including Share of Joint Ventures	3,370,160	21,033,762	24,403,922
Share of Joint Ventures	-	(21,033,762)	(21,033,762)
Group Turnover	<u>3,370,160</u>	<u>-</u>	<u>3,370,160</u>
Cost of Sales	(315,000)	-	(315,000)
Gross Profit	<u>3,055,160</u>	<u>-</u>	<u>3,055,160</u>
Administrative Expenses	(3,008,033)	(33,306)	(3,041,339)
Group Operating (Loss)/Profit	<u>47,127</u>	<u>(33,306)</u>	<u>13,821</u>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

3 OPERATING PROFIT

The operating profit is stated after charging:-

	2004 £	2003 £
Auditors' Remuneration - Company £18,000 (2003: £15,000)	39,150	48,100
Depreciation	2,521	4,587
Operating Lease Rentals - Other	98,577	97,092
	<u>139,248</u>	<u>149,779</u>

4 INTEREST PAYABLE

	2004 £	2003 £
Group: Bank Loans and Overdrafts	360	160
Group: Other	89,683	62,464
Joint Venture – Bank Loans and Overdrafts	72,323	951,666
Joint Venture – Other	1,664,311	100,000
	<u>1,826,677</u>	<u>1,114,290</u>

5 INTEREST RECEIVABLE

	2004 £	2003 £
Group: Bank	111,729	57,751
Group: Other	623,117	150,274
Joint Venture - Bank	87,728	16,597
	<u>822,574</u>	<u>224,622</u>

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2004 £	2003 £
Tax Charge for the Year		
UK Corporation Tax on Group	249,016	566,500
UK Corporation Tax on Joint Venture	-	103,511
	<u>249,016</u>	<u>670,011</u>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES (Continued)

	2004 £	2003 £
Factors affecting Tax Charge for the Year		
Profit/(Loss) on Ordinary Activities before Taxation	111,441	1,932,827
Add/(Less): Share of Loss/(Profit) of Joint Ventures	547,183	(360,566)
	<hr/>	<hr/>
Group Profit/(Loss) on Ordinary Activities before Taxation	658,624	1,572,261
Tax on Group Profit/(Loss) on Ordinary Activities at UK Corporation Tax rate of 30% (2003: 30%)	197,587	471,678
Effects of:		
Disallowable Expenses	17,049	14,343
Capital Allowances	(2,703)	(1,236)
Tax Losses Utilised	(9,562)	(73,623)
Adjustment to Previous Periods	39,878	480,000
Other Tax Adjustments	6,767	(313,662)
Marginal Relief	-	(11,000)
	<hr/>	<hr/>
Group Current Tax Charge	249,016	566,500
	<hr/>	<hr/>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

7 DIRECTORS AND EMPLOYEES INFORMATION

	2004 £	2003 £
Directors' Emoluments		
Aggregate Emoluments	2,548,000	2,048,100

The Company has granted an option to the directors over certain forward contracts. The exercise of these options at low cost to the directors is part of their remuneration for the year.

Employees' Information (Including Directors)

	2004 £	2003 £
Staff Costs:		
Wages and Salaries	2,590,662	2,083,453
Social Security Costs	8,446	8,635
	<u>2,599,108</u>	<u>2,092,088</u>

Numbers of Employees (Including Directors):

	2004	2003
The average monthly number of employees during the year was:	2	2

8 TANGIBLE FIXED ASSETS

	Fixtures, Fittings and Equipment £
Group and Company	
Cost	
At 1 January 2004	62,641
Additions	14,799
Disposals	(23,981)
	<u>53,459</u>
At 31 December 2004	
Depreciation	
At 1 January 2004	36,649
Charge for the Year	2,521
	<u>39,170</u>
At 31 December 2004	
Net Book Value	
At 31 December 2004	14,289
	<u>25,992</u>
At 31 December 2003	

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

9 INVESTMENTS

Company

Shares in
Group
Undertakings

Participating
Interests

Total

£

Cost at 1 January 2004 and at 31 December 2004

50,000

50

50,050

Subsidiaries

Shares Held
%

Hilstone Midtown Limited

100

Joint Ventures

Shares Held
%

Hilstone Asset Management 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 (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.

All equity held is ordinary share capital.

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

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

10 INVESTMENT IN JOINT VENTURES

	Group 2002 £
At 1 January 2004	530,994
Share of Profit for the Year	(547,183)
	<hr/>
At 31 December 2004	(16,189)
	<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 2004. The address of its principal place of business is Suite 3, 6th Floor Berkeley Square House, Berkeley Square, London, W1J 6BR.

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

Profit and Loss Account	2004 £	2003 £
Turnover	21,033,762	3,427,936
	<hr/>	<hr/>
Operating Profit	1,101,723	1,395,636
Net Interest Payable	(1,648,906)	(1,035,069)
Taxation	-	(103,511)
	<hr/>	<hr/>
Retained (Loss)/Profit for the Year	(547,183)	257,056
	<hr/>	<hr/>
Balance Sheet		
Current Assets	2,164,703	18,563,692
Liabilities Falling Due Within One Year	(2,180,892)	(1,007,090)
Liabilities Falling Due After One Year	-	(17,025,608)
	<hr/>	<hr/>
	(16,189)	530,994
	<hr/>	<hr/>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

11 DEBTORS

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Amounts owed by Joint Ventures	457,080	2,550,000	457,080	2,550,000
Other Debtors	4,784,603	1,904,309	4,748,122	1,416,226
Prepayments and Accrued Income	22,551	20,270	22,551	20,270
	<u>5,264,234</u>	<u>4,474,579</u>	<u>5,227,753</u>	<u>3,986,496</u>

Amounts Falling Due After One Year

Group and Company

Included in Amounts owed by Joint Ventures is £ Nil (2003: £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 £Nil (2003: £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.

Included in other debtors is £3,750,000 (2003: £ Nil) which represents 4% loan stock issued by Hilstone Land Limited redeemable August 2009 or earlier at the option of Hilstone Land Limited.

12 CREDITORS

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Amounts Falling Due Within One Year				
Bank Loans and Overdrafts	-	8,599	-	8,599
Trade Creditors	10,500	244,706	10,500	10,500
Amounts Owed to Group Undertakings	-	-	961,990	1,901,989
Corporation Tax	209,138	86,500	209,138	19,000
Other Taxes and Social Security Costs	529,691	3,250	529,691	3,250
Other Creditors	2,013,487	1,753,377	2,013,487	1,003,377
Accruals and Deferred Income	184,491	483,622	183,491	91,000
	<u>2,947,307</u>	<u>2,580,054</u>	<u>3,908,297</u>	<u>3,037,715</u>

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

13 CREDITORS

	Group		Company	
	2004	2003	2004	2003
Amounts Falling Due After One Year	£	£	£	£
Other Loans	2,500,000	-	2,500,000	-

14 PROVISIONS FOR LIABILITIES AND CHARGES

The provision represents the Group's share of the deficiency in net assets with the joint venture (see note 10).

15 SHARE CAPITAL

	2004	2003
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

16 STATEMENT OF MOVEMENT ON RESERVES

	Group Profit and Loss Account £	Company Profit and Loss Account £
Balance at 1 January 2004	3,806,463	2,255,378
Retained (Loss)/Profit or the Year	(137,575)	447,635
Balance at 31 December 2004	3,668,888	2,703,013

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

17 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Group

	2004 £	2003 £
(Loss)/Profit for the Financial Year and Net (Reduction)/Addition to Shareholders' Funds	(137,575)	1,262,816
Opening Shareholders' Funds	3,896,463	2,633,647
Closing Shareholders' Funds	3,758,888	3,896,463

Company

	2004 £	2003 £
Profit for the Financial Year and Net Addition to Shareholders' Funds	447,635	175,506
Opening Shareholders' Funds	2,345,378	2,169,872
Closing Shareholders' Funds	2,793,013	2,345,378

18 OPERATING LEASE COMMITMENTS

Group and Company

At 31 December 2004 the Group was committed to making the following payments during the next year in respect of operating leases:

	2004 Land and Buildings £	2003 £
Leases which expire:		
Between Two and Five Years	89,375	89,375

19 NOTES TO THE CASH FLOW STATEMENT

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

	2004 £	2003 £
Operating profit	13,821	1,426,860
Depreciation charges	2,521	4,587
(Increase)/Decrease in debtors	(235,951)	608,427
Increase/(Decrease) in creditors	322,627	(1,234,394)
Loss on disposal of fixed assets	23,981	-
Net cash inflow from operating activities	126,999	805,480

HILSTONE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended

31 DECEMBER 2004

19 NOTES TO THE CASH FLOW STATEMENT (Continued)

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

	2004 £	2003 £
Increase in cash in the year and Movement in Net Funds in the Year	7,508	470,881
Opening Net Funds	1,436,353	965,472
Closing Net Funds	<u>1,443,861</u>	<u>1,436,353</u>

c) Analysis of Net Funds

	At 1 January 2004 £	Cash Flow £	At 31 December 2004 £
Cash in Hand and at Bank	1,444,952	2,498,909	3,943,861
Debt Due Within One Year	(8,599)	8,599	-
	<u>1,436,353</u>	<u>2,507,508</u>	<u>3,943,861</u>
Debt Due After One Year	-	(2,500,000)	(2,500,000)
	<u>1,436,353</u>	<u>7,508</u>	<u>1,443,861</u>

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 2004

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 £219,000 (2003: £132,000), £120,000 remained unpaid at the year end (2003: £ Nil).

Consultancy fees of £120,000 (2003: £100,000) were paid to Mr M C T Bokenham, £120,000 remained unpaid at the year end (2003: £ Nil).

Interest and management fees totalling £2,263,482 (2003: £200,000) were received by Hilstone Corporation Limited from Hilstone Asset Management Limited.

Interest and management fees totalling £1,422,295 (2003: £100,000) was received by Hilstone Corporation Limited from Hilstone Portfolio Management Limited, a company in which Mr A M Brookes and Mr M C T Bokenham are directors and shareholders.

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

Mr A M Brookes	£23,450	2003: £1,116
Mr M C T Bokenham	£8,204	2003: £428

Development fees of £90,000 (2003: £90,000) were received by Hilstone Corporation Limited from Hilstone (Birmingham) Limited, a company in which Mr A M Brookes and Mr M C T Bokenham are directors and shareholders.

Project co-ordination fees of £141,667 (2003: £ Nil) were received by Hilstone Corporation Limited from Hilstone Land Limited, a company in which Mr A M Brookes and Mr M C T Bokenham are directors and shareholders.

A loan totalling £1,000,000 was granted by Hilstone Estates Limited a company in which Mr A M Brookes and Mr M C T Bokenham are directors and shareholders. No interest has been charged on this loan and there are no set terms of repayment. At the year end £1,000,000 remained outstanding.