

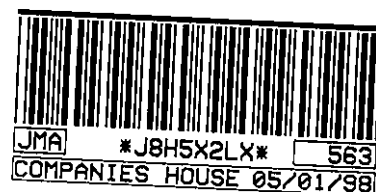
ARTHUR ANDERSEN

Privileged Estates Limited

Accounts 30 June 1997

together with directors' and auditors' reports

Registered number: 3107289



DIRECTORS

H.N. Moser

C.J. Punshon

SECRETARY

M.B. Richards

REGISTERED OFFICE

Bracken House

Charles Street

Manchester

M1 7BD

AUDITORS

Arthur Andersen

Bank House

9 Charlotte Street

Manchester

M1 4EU

Directors' report

For the year ended 30 June 1997

The directors present their annual report of the company's affairs, together with the auditors' report and accounts for the year ended 30 June 1997.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year 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 period. 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 company 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 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.

Principal activity

The principal activity of the company is that of a property holding company.

Business review and future developments

The directors consider the performance of the company to be satisfactory.

Results and dividend

The company's results for the period are set out in detail on page 5. The directors do not recommend the payment of a dividend.

Directors

The present directors of the company, who all served throughout the year are set out on page 1.

H.N. Moser is a director of the company's ultimate parent company, Blemain Group plc and as such, his interest in the share capital of that company is disclosed in its directors' report.

None of the other directors have an interest in the share capital of the company. No director has, or had any material interest in any contract or agreement entered into by the company during the period.

Directors' report (continued)

Auditors

Robson Rhodes resigned as the company's auditors during the year. Arthur Andersen were appointed as the company's auditors during the year.

The board will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,



M.B. Richards
Secretary

10 December 1997

Auditors' report

Manchester

To the Shareholders of Privileged Estates Limited:

We have audited the accounts on pages 5 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 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 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 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 company's state of affairs at 30 June 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

10 December 1997

Profit and loss account

For the year ended 30 June 1997

	Notes	1997 £	1996 £ (Note 1a)
Turnover	2	13,741	-
Operating expenses		-	-
Operating profit		<u>13,741</u>	<u>-</u>
Gain on sale of investment property		2,848	-
Interest payable	4	(12,588)	-
Profit on ordinary activities before taxation		<u>4,001</u>	<u>-</u>
Tax on profit on ordinary activities	5	(268)	-
Profit for the financial year	10	<u>3,733</u>	<u>-</u>

All activity has arisen from the company's principal activity. The company has no recognised gains or losses other than profit for the financial year.

The movement in reserves is given in note 10.

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

Balance sheet

30 June 1997

	Notes	1997 £	1996 £ (Note 1a)
Fixed assets			
Investment properties under construction	6	155,710	186,256
Current assets			
Cash at bank and in hand		100	100
Creditors: Amounts falling due within one year	7	(151,977)	(186,256)
Net current liabilities		(151,877)	(186,156)
Net assets		3,833	100
Capital and reserves			
Called-up share capital	8	100	100
Profit and loss account	10	3,733	-
Equity shareholders' funds		3,833	100

Signed on behalf of the Board

H.N. Moser

 Director

C.J. Punshon

 Director

10 December 1997

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

Notes to accounts

30 June 1997

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current year and the preceding period, is set out below.

a) Basis of accounting

The accounts are prepared in accordance with applicable accounting standards under the historical cost convention, except that grants received in respect of investment properties under construction have been deducted from the cost of such assets (see note 1b below).

The accounts for the year ended 30 June 1996 were reported on without qualification by a firm of Chartered Accountants other than Arthur Andersen.

b) Investment properties under construction

Investment properties where construction and development work has not been completed are stated at cost less grants received. Grants received in respect of investment properties under construction have been deducted from the cost of such assets. This is not in accordance with Schedule 4 to the Companies Act, which requires assets to be shown at their purchase price or production cost and hence grants and contributions would be shown as deferred income. This departure from the requirements of the Act is, in the opinion of the Directors, necessary to give a true and fair view as no provision is or will be made for depreciation and any grants and contributions relating to such assets would not be taken the profit and loss account. The effect of this departure is that the net book value of fixed assets is £164,949 lower than it would otherwise have been.

Additions to investment properties under development comprise construction costs excluding attributable interest incurred in bringing a project to its present state of completion.

c) Turnover

Turnover, which is derived wholly within the U.K., consists of rental income.

d) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the period is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous periods when it is recovered against corporation tax liabilities.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. However, the amount of all deferred tax, including that which will probably not reverse, is shown in note 5.

Notes to accounts (continued)

2 Turnover

	1997 £	1996 £
Rental income	<u>13,741</u>	<u>-</u>

3 Staff costs

The company had no employees and paid no directors' emoluments during the year or prior period.

4 Interest payable

	1997 £	1996 £
Interest on bank overdraft	<u>12,588</u>	<u>-</u>

5 Tax on profit on ordinary activities

	1997 £	1996 £
Corporation tax at 23¼% (1996 - 24%)	<u>268</u>	<u>-</u>

There is no unprovided deferred tax at the year end (1996 - £Nil).

6 Investment properties

	1997 £	1996 £
Beginning of year	186,256	-
Additions	58,295	283,816
Grants received	(67,389)	(97,560)
Disposals	(21,452)	-
End of year	<u>155,710</u>	<u>186,256</u>

7 Creditors: Amounts falling due within one year

	1997 £	1996 £
Amounts owed to fellow group undertaking	134,853	168,825
Corporation tax	268	-
Other creditor	16,856	17,431
	<u>151,977</u>	<u>186,256</u>

Notes to accounts (continued)

8 Share capital

	1997 £	1996 £
<i>Authorised, allotted, called-up and fully paid</i>		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

9 Reconciliation of movements in equity shareholders' funds

	1997 £	1996 £
Profit for the financial year	3,733	-
Share issue	-	100
Net additions to shareholders' funds	<u>3,733</u>	<u>100</u>
Opening shareholders' funds	100	-
Closing shareholders' funds	<u>3,833</u>	<u>100</u>

10 Profit and loss account

	1997 £
Beginning of year	-
Profit for the financial year	<u>3,733</u>
End of year	<u>3,733</u>

11 Capital commitments

Capital expenditure commitments which are contracted for but not provided for and represent refurbishment work on investment properties were £20,215 at 30 June 1997 (1996 - £67,778). Grants in respect of this work, and work already paid for, totalling £18,306 (1996 - £85,695) are receivable by the company.

12 Contingent liabilities

The company's assets are subject to a fixed and floating charge in respect of the £20 million bank loan held in the parent company.

13 Cash flow statement

As permitted by Financial Reporting Standard No. 1 (Revised), the company has not produced a cash flow statement, as it is a wholly owned subsidiary undertaking of Blemain Group plc which has produced a group cash flow statement in its accounts.

Notes to accounts (continued)

14 Ultimate parent company

The company is a wholly owned subsidiary undertaking of Blemain Group plc, a company incorporated in Great Britain and registered in England and Wales.

The largest and smallest group of which Privileged Estates Limited is a member and for which group accounts are drawn up is that headed by Blemain Group plc, whose principal place of business is at Bracken House, Charles Street, Manchester, M1 7BD.