

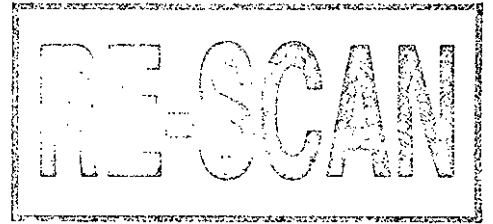
**Deloitte &
Touche**

Deloitte Touche
Tohmatsu



Company Registration No.3446291

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PALL MALL HOLDINGS LIMITED
(formerly Hamsard One Thousand and Sixty-Five Limited)

Report and Financial Statements
For the period from incorporation on
2 October 1997 to 8 November 1997

Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR

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**REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCORPORATION ON
2 OCTOBER 1997 TO 8 NOVEMBER 1997****CONTENTS****Page**

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**REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCORPORATION ON
2 OCTOBER 1997 TO 8 NOVEMBER 1997**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Woods	(appointed 7 November 1997)
G Ridge	(appointed 7 November 1997)
N Pipping	(appointed 7 November 1997)
S Kemmery	(appointed 7 November 1997)
J Macnamara	(appointed 7 November 1997)
R Robson	(appointed 7 November 1997)
Hammond Suddards Directors Limited	(appointed 2 October, resigned 7 November 1997)
Hammond Suddards Secretaries Limited	(appointed 2 October, resigned 7 November 1997)

SECRETARY

J Macnamara	(appointed 7 November 1997)
Hammond Suddards Secretaries Limited	(appointed 2 October, resigned 7 November 1997)

REGISTERED OFFICE

141 Acre Lane, London SW2 5UA

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London
EC4A 3TR

**DIRECTORS' REPORT**

The directors present their annual report and the group audited financial statements for the period from incorporation on 2 October 1997 to 8 November 1997.

ACTIVITIES

The group's principal activity is the provision of cleaning, chamber-maiding and security services.

REVIEW OF OPERATIONS

The company was incorporated and commenced trading on 2 October 1997 and acquired Pall Mall Support Services Limited, which had commenced trading on 6 June 1997, on 7 November 1997. This acquisition was made one day prior to the period end, and as a consequence of this, the entire trading results of Pall Mall Support Services Limited have been treated as arising pre-acquisition in these accounts. On the same date, the company changed its name from Hamsard One Thousand and Sixty-Five Limited to Pall Mall Holdings Limited. The group made a loss before interest during the period of £26,000. After charging taxation and interest paid and accrued, the loss for the period ended 8 November 1997 was £24,000.

DIVIDENDS

The directors do not recommend the payment of a dividend.

FUTURE PROSPECTS

The directors do not anticipate any significant change in the group's activities during the forthcoming year.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown on page 1.

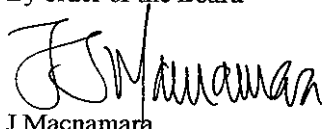
The following directors have interests, as defined by the Companies Act 1985, in the shares of the company. None of the directors have interests in the shares of any other group company.

	Ordinary Shares	"A" Preference Shares	Deferred Shares
D Woods	10,000	89,892	10,845
G Ridge	2,500	19,756	2,711
N Pipping	2,500	19,756	2,711
S Kemmery	2,500	19,756	2,711
J Macnamara	4,000	31,609	4,328
R Robson	-	-	-

AUDITORS

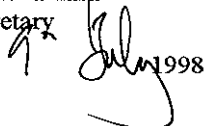
Deloitte & Touche were appointed auditors on 7 November 1997. A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



J Macnamara

Secretary


July 1998



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Hill House
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AUDITORS' REPORT TO THE MEMBERS OF
PALL MALL HOLDINGS LIMITED
(formerly Hamsard One Thousand and Sixty-Five Limited)

We have audited the financial statements on pages 5 to 17 which have been prepared under the accounting policies set out on page 10.

Respective responsibilities of directors and auditors

As described on page 3 the company's 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 and 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 8 November 1997 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


Deloitte & Touche

Chartered Accountants and
Registered Auditors

9 July 1998



CONSOLIDATED PROFIT AND LOSS ACCOUNT

Period from incorporation on 2 October 1997 to 8 November 1997

	Note	1997 £'000
TURNOVER		-
Cost of sales		-
GROSS PROFIT		-
Administrative expenses		(26)
OPERATING LOSS AND LOSS BEFORE INTEREST AND TAX	4	(26)
Interest receivable and similar income		2
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION AND LOSS FOR THE PERIOD		(24)

A statement of total recognised gains and losses is not included in these accounts as there are no recognised gains or losses other than the loss for the period, shown in the profit and loss account above.

Turnover and the profit for the period derive from continuing operations.



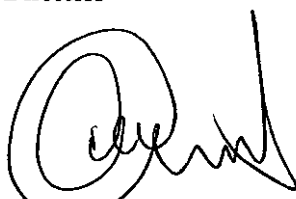
CONSOLIDATED BALANCE SHEET
8 November 1997

	Note	1997 £'000
FIXED ASSETS		
Tangible assets	7	1,009
CURRENT ASSETS		
Stocks	9	28
Debtors	10	8,135
Cash at bank and in hand		2,311
		<u>10,474</u>
CREDITORS: amounts falling due within one year	11	<u>(6,574)</u>
NET CURRENT ASSETS		<u>3,900</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,909
CREDITORS: amounts falling due after more than one year	12	<u>(7,094)</u>
		<u>(2,185)</u>
CAPITAL AND RESERVES		
Called up share capital	13	3
Share premium capital	14	170
Goodwill reserve	14	(2,334)
Profit and loss account	14	(24)
SHAREHOLDERS' DEFICIT		<u>(2,185)</u>
Equity		<u>(2,344)</u>
Non-equity		<u>159</u>
		<u>(2,185)</u>

These financial statements are approved by the Board of Directors on 9th July 1998

Signed on behalf of the Board of Directors


J Macnamara
Director


D Woods
Director





COMPANY BALANCE SHEET
8 November 1997

	Note	1997 £'000
FIXED ASSETS		
Investments	8	2,213
CURRENT ASSETS		
Debtors	10	3,240
Cash at bank and in hand		2,217
		5,457
CREDITORS: amounts falling due within one year	11	(427)
NET CURRENT ASSETS		5,030
TOTAL ASSETS LESS CURRENT LIABILITIES		7,243
CREDITORS: amounts falling due in more than one year	12	(7,094)
		149
CAPITAL AND RESERVES		
Called up share capital	13	3
Share premium account	14	170
Profit and loss account	14	(24)
TOTAL SHAREHOLDERS' FUNDS		149
Equity		(10)
Non-equity		159
		149

These financial statements were approved by the Board of Directors on
Signed on behalf of the Board of Directors.

9th July 1998.


J Macnamara
Director


D Woods
Director

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**
Period from incorporation on 2 October 1997 to 8 November 1997

	Group 1997 £'000
Opening shareholders' funds	-
Loss for the period	(24)
New share capital subscribed	173
Goodwill	(2,334)
	<hr/>
Closing shareholders' funds	(2,185)
	<hr/>



CONSOLIDATED CASH FLOW STATEMENT

Period from incorporation on 2 October 1997 to 8 November 1997

	Note	£'000	1997 £'000
Cash outflow from operating activities	17		(4,003)
Returns on investments and servicing of finance	18		2
Taxation			-
Capital expenditure and financial investment			-
Acquisitions and disposals	18		(1,167)
Cash outflow before use of liquid resources and financing			(5,168)
Financing			
New loans raised		7,375	
New shares issued		256	
Issue costs paid relating to shares and loans		(152)	
			7,479
Increase in cash in the period			2,311

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	£'000	1997 £'000
Increase in cash in period			2,311
Cash inflow from increase in debt		(7,375)	
Issue costs paid relating to raising debt		138	
			(7,237)
Changes in net debt resulting from cash flows			(4,926)
Issue costs accrued relating to raising debt			143
Movement in net debt in the period and balance at 8 November 1997	19		(4,783)

**NOTES TO THE ACCOUNTS****Period from incorporation on 2 October 1997 to 8 November 1997****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover

Turnover represents amounts charged to customers for goods and services, stated net of value added tax.

Tangible fixed assets

Depreciation is provided on the cost of tangible fixed assets on a straight line basis over their estimated useful lives as follows:

Land and buildings

Freehold and long leasehold buildings	1% per annum
Short leasehold property	Over the period of the lease

Plant and equipment

Plant & machinery	20% - 33% per annum
Fixtures and fittings and office equipment	20% - 33% per annum
Motor vehicles	25% per annum

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Work in progress balances represent accrued income for the period on specific contracts where costs have been incurred.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Pensions

The group operates a group personal pension scheme details of which are given in note 16. The annual pension cost charge represents the contributions payable by the group to the fund.

Leases

Rental costs under operating leases are charged to the profit and loss account in accordance with the terms of the leases over the period of the leases.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiaries for the financial period ended 8 November 1997.

Goodwill

Goodwill arising on acquisition representing the difference between consideration paid and accrued and the fair value of net assets acquired is written off to reserves in the year of acquisition.

**NOTES TO THE ACCOUNTS****Period from incorporation on 2 October 1997 to 8 November 1997****2. INFORMATION REGARDING DIRECTORS**

No directors received any emoluments for qualifying services either from the company or from its subsidiary in the period under review. Five directors currently receive contributions from the company's subsidiary into the group personal pension plan, but no such contributions were made in the period under review.

3. STAFF COSTS

The average number of people employed by the group, including directors was:

	1997 No.
Administration	68
Other	4,966
	<u>5,034</u>

No costs are shown in the group accounts in relation to these employees as they are all employed by the company's trading subsidiary, which was acquired on 7 November 1997, one day prior to the period end.

4. OPERATING LOSS BEFORE TAXATION

	1997 £'000
Operating loss before taxation is after charging:	
Depreciation	-
Auditors' remuneration - audit	2
- non-audit services	8
	<u>8</u>

In addition, the auditors have received £179,000 for non-audit services in relation to the acquisition of Pall Mall Support Services Limited. These costs have been allocated to the share premium account, loan balances raised and the cost of fixed asset investments in accordance with their nature. Auditors' remuneration for the group audit amounts to £26,000 in total.

5. TAXATION

There is no charge for corporation tax for the current period as both the company and the group have made a loss.

6. COMPANY PROFIT AND LOSS ACCOUNT

No company profit and loss account has been prepared in these accounts as the company is entitled to an exemption under s.230 of the Companies Act. The company's loss for the period was £24,000.



NOTES TO THE ACCOUNTS

Period from incorporation on 2 October 1997 to 8 November 1997

7. TANGIBLE FIXED ASSETS

THE GROUP

	Short Leasehold property £'000	Long Leasehold property £'000	Plant and equipment £'000	Total £'000
Cost:				
Additions	7	105	897	1,009
At 8 November 1997	7	105	897	1,009
Depreciation:				
Charge for the period	-	-	-	-
At 8 November 1997	-	-	-	-
Net book value:				
At 8 November 1997	7	105	897	1,009

The Company has no fixed assets

8. INVESTMENTS HELD AS FIXED ASSETS

The Company

	1997 £'000
Shares in group undertakings	2,213

This balance represents investments in the following group undertakings

Subsidiary Undertakings	Class of Share	% held	Principal Activity
Pall Mall Support Services Ltd.	Ordinary	100%	Cleaning, chambermaiding and security

Pall Mall Support Services Limited is incorporated in the United Kingdom and operates solely within that country.

On 7 November 1997 the company acquired 100% of the issued share capital of Pall Mall Support Services Limited. The acquisition was accounted for using acquisition accounting.

A summarised profit and loss account for Pall Mall Support Services Limited from the beginning of its financial period, 6 June 1997, to the effective date of acquisition is as follows:

	£'000
Turnover	14,767
Operating loss	(534)
Exceptional costs of a fundamental restructuring	(516)
Loss before interest and tax	(1,050)
Interest paid and similar charges	(71)
Loss after tax and loss for the period	(1,121)

The Group has no fixed asset investments.



NOTES TO THE ACCOUNTS

Period from incorporation on 2 October 1997 to 8 November 1997

9. STOCKS

	Group 1997 £'000
Raw materials and consumables	28

The Company has no stocks or work in progress at the period end.

10. DEBTORS

	Group 1997 £'000	Company 1997 £'000
Trade debtors	7,021	-
Amounts due from group undertaking	-	2,988
Other debtors	309	252
Prepayments and accrued income	805	-
	<u>8,135</u>	<u>3,240</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1997 £'000	Company 1997 £'000
Trade creditors	1,497	427
Other creditors including taxation and social security	2,373	-
Accruals and deferred income	2,704	-
	<u>6,574</u>	<u>427</u>

12. CREDITORS: FALLING DUE AFTER MORE THAN ONE YEAR

The Company and the Group	Bank loans £'000	Loan notes £'000	Total £'000
Loans falling due:			
Within one-two years	287	-	287
Within two-five years	1,339	-	1,339
After five years	1,961	3,507	5,468
	<u>3,587</u>	<u>3,507</u>	<u>7,094</u>

The bank loan is repayable by instalments between 31 March 1999 and 30 September 2004. The rate of interest is set at a floating rate of 2% above LIBOR on Tranche A of £3,000,000 and at a rate of 3.5% on Tranche B of £750,000. The loan is secured by a fixed and floating charge over the assets of the group.

Loan notes are repayable by instalments between 30 September 2003 and 30 September 2007. The rate of interest on the notes is set at 10% per annum. The notes are secured by a subordinated debenture giving a fixed and floating charge over the assets of the group.



NOTES TO THE ACCOUNTS

Period from incorporation on 2 October 1997 to 8 November 1997

13. CALLED UP SHARE CAPITAL

The Company and the Group

	1997 No.	1997 £
Authorised share capital:		
Preferred ordinary shares of 1 penny	78,500	785
Ordinary shares of 1 penny	24,017	240
Deferred shares of 1 penny	23,316	233
"A" Preference shares of 1 penny	180,769	1,808
"B" Preference shares of 1 penny	137,618	1,376
	<u>444,220</u>	<u>4,442</u>

At 7 November 1997, the following shares were called up, allotted and fully paid:

	Number of shares No.	Nominal Value £	Consideration received £	Share premium £
Preferred ordinary shares of 1 penny	54,165	542	54,165	53,623
Ordinary shares of 1 penny	21,500	215	21,500	21,285
Deferred shares of 1 penny	23,316	233	233	-
"A" Preference shares of 1 penny	180,769	1,808	180,769	178,961
		<u>2,798</u>	<u>256,667</u>	<u>253,869</u>

The company's share capital has the following special rights and restrictions:

The shares have dividend rights in the following order of priority:

1. Preferred Ordinary shares.

Preferred ordinary shares have a fixed cumulative preferential dividend of 8% paid six monthly on 1 April and 30 September.

2. "B" Preference Shares.

Preference shares have a fixed cumulative preferential dividend of 8% accrued and paid on sale or listing of the company.

3. Preferred Ordinary shares additional dividend.

Preferred Ordinary shares have the right to an additional cumulative preferential dividend of an amount calculated in respect of the financial year of the company as follows:

Year to 30 September	Percentage of net profit
1999	5%
2000	15%
2001 onwards	20%

4. Ordinary shares

No dividend can be paid on the Ordinary shares without the prior written consent of the holders of a majority of the Preferred Ordinary shares.



NOTES TO THE ACCOUNTS

Period from incorporation on 2 October 1997 to 8 November 1997

13. CALLED UP SHARE CAPITAL (continued)

5. "A" Preference shares

"A" Preference shares do not have any right to any dividend.

The order of priority in the event of a winding up of the company is:

1. "B" preference shares
2. "A" preference shares
3. Accruals of "B" fixed preference dividends
4. Preferred Ordinary shares
5. Any unpaid arrears of the fixed preferred ordinary dividend and any interest due on them.

The company has the right to redeem the "A" preference shares at any time on one month's notice. Unless redeemed previously, the company will redeem all of the Preference shares on sale or listing of the company. Immediately prior to a listing, the equity share capital of the company will be restructured so that the Ordinary shares and Preferred Ordinary shares will be redesignated as one class of ordinary shares carrying none of the special rights or restrictions attaching to the Ordinary or Preferred Ordinary shares.

Deferred shares have no rights to receive dividends or to participate in any distribution upon winding up. The shares are convertible into ordinary shares upon the fulfilment of certain conditions.

14. RESERVES

Group	Share Premium £'000	Goodwill Reserve £'000	Profit and Loss Account £'000
Loss for the period	-	-	(24)
Premium on shares issued (note 13)	254	-	-
Issue costs	(84)	-	-
Goodwill arising on acquisition of group undertakings (note 20)	-	(2,334)	-
Balance at 8 November 1997	<u>170</u>	<u>(2,334)</u>	<u>(24)</u>

Company	Share Premium £'000	Profit and Loss Account £'000
Loss for the year	-	(24)
Premium on shares issued (note 13)	254	-
Issue costs	(84)	-
Balance at 8 November 1997	<u>170</u>	<u>(24)</u>



NOTES TO THE ACCOUNTS

Period from incorporation on 2 October 1997 to 8 November 1997

15. FINANCIAL COMMITMENTS

	1997 £'000
Capital commitments	
Contracted for but not provided	30

Operating commitments

At 8 November 1997 the group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £'000	Other £'000
Group		
Operating leases which expire:		
Within one year	7	43
In two to five years	52	327
Over five years	28	-

16. PENSION SCHEME

The group contributes to a group personal pension plan for certain employees, the costs of which are expensed as they are incurred.

17. RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997 £'000
Operating loss	(26)
Decrease in creditors relating to operating activities	(3,977)
Net cash outflow from operating activities	(4,003)

18. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	£'000	1997 £'000
Returns on investments and servicing of finance		
Interest received	2	
		2
Acquisitions and disposals		
Acquisition of a subsidiary	1,261	
Net cash acquired with subsidiary	(94)	
		1,167



NOTES TO THE ACCOUNTS

Period from incorporation on 2 October 1997 to 8 November 1997

19. ANALYSIS OF CHANGES IN NET DEBT

	At 2 October 1997 £'000	Cash flows £'000	Other non-cash movements £'000	At 8 November 1997 £'000
Cash in hand and at bank	-	2,311	-	2,311
Debt due after more than one year	-	(7,237)	143	(7,094)
	-	(4,926)	143	(4,783)

20. PURCHASE OF SUBSIDIARY UNDERTAKING

	£'000
Net assets acquired	
Tangible fixed assets	1,009
Stocks	28
Debtors	7,882
Cash	94
Creditors	(9,134)
	(121)
Goodwill	2,334
Consideration	2,213
Satisfied by:	£'000
Forgiveness of debt	1,000
Cash paid	1,261
Accrued consideration adjustment	(252)
Accrued fees relating to the investment	204
	2,213

The subsidiary undertaking acquired during the period has not contributed any cashflow to the company during that period as it was acquired on the day before the period end. The group cash outflow relates to a number of the subsidiary undertakings creditors being settled on its behalf by the Company, directly after acquisition.