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Arlaform Limited

Financial statements

For the year ended 31 December 2004

Grant Thornton 



Company No. 4204327

Company information

Company registration number	4204327
Registered office	E3 The Premier Centre Abbey Park Romsey Hants SO51 9AQ
Directors	R Tang S Hussain
Secretary	R Tang
Bankers	Barclays Bank plc 50 Pall Mall London SW1A 1QA
Auditors	Grant Thornton UK LLP Chartered Accountants Registered Auditors 8 West Walk Leicester LE1 7NH

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Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 December 2004.

Principal activities and business review

The company's principal activity is the provision of management services to its subsidiary company, Stapleford Park Limited, a hotel operator.

Results and dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

Directors

The directors who served the company during the year were as follows:

A F Parker
R Tang
S Hussain
J Dare

The interests of the directors, all of whom are also directors of the company, are disclosed in the holding company's financial statements.

S Hussain was appointed as a director on 30 January 2004.

J Dare was appointed as a director on 1 May 2004 and retired as a director on 12 October 2004.

A F Parker retired as a director on 20 April 2004.

Directors' responsibilities

United Kingdom 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 at the end of the year and of the profit or loss for the year then ended. 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
- prepare the financial statements 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

S Hussain

Director

28 October 2005

A handwritten signature in black ink, appearing to read 'S Hussain', is written over the printed name and extends slightly to the right.

Report of the independent auditors to the members of Arlaform Limited

We have audited the financial statements of Arlaform Limited for the year ended 31 December 2004 which comprise the principal accounting policies, profit and loss account, balance sheet and notes 1 to 19. These financial statements have been prepared under 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 auditors' 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

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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 report of the directors 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 company is not disclosed.

We read other information contained in the report of the directors and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 company's circumstances, consistently applied and adequately disclosed.

Report of the independent auditors to the members of Arlaform Limited (continued)

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.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the Accounting Policies section of these financial statements, and specifically regarding the basis of accounting of the financial statements. The disclosures make it clear that the company's ability to continue to trade is dependent upon the continued support of its bankers and its investors, and that required borrowing facilities of £12,000,000 have not been formally agreed beyond 31 December 2005. The disclosures also note that the directors, on the basis of assumed continuing financial support and their plans to enable the company to become a profitable trading operation, have determined that there is no requirement to impair or provide against the carrying values of investments and debtors. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LEICESTER

Grant Thornton UK LLP

28 October 2005

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention.

The directors have adopted the going concern basis in the preparation of these financial statements. Stapleford Park Limited, the company's trading subsidiary, has incurred losses for the year of £1,608,002. As a result of this and previous years' losses, this company's ability to continue to trade and meet its liabilities is dependent upon the continued support of the group's bankers and investors.

At 31 December 2004, the company had bank borrowings of £12 million, supported by a £5 million stand-by letter of credit in favour of Barclays Bank plc provided by the group's investors. The bank borrowings are renewable annually and are repayable on demand. The normal renewal date is 31 October in each year, but the existing facilities have been temporarily extended to 31 December 2005. Detailed discussions with Barclays Bank plc in respect of the renewal of these facilities to 31 October 2006 have only recently commenced. Indications are that the facility will be renewed at £7 million, with £5 million stand-by investor facilities used to provide the additional facilities required.

In addition to the bank borrowings referred to above, this company's ability to continue as a going concern is dependent upon the ongoing support of the group's ultimate shareholders and investors.

The group has continued to receive financial support from these investors in the period to the date of approval of these financial statements, totalling approximately £850,000. The directors have received written confirmation from those investors and shareholders that:

- it is not their present intention to seek recovery of any amounts due to them until at least 30 November 2006
- if required, it would be their intention to utilise the existing £5 million stand-by letter of credit to provide additional financing for the company.

The directors have formulated plans which they anticipate will ultimately enable Stapleford Park Limited to become a profitable trading operation.

Taking account of all of the above, the directors have concluded that it is appropriate to prepare the accounts on a going concern basis.

In the light of the above, the directors have considered the carrying value of the company's direct or indirect investment in Stapleford Park Limited, and the recoverability of amounts due from other companies within the group headed by Arlacross Limited. They have concluded that, in the medium-term, the relevant carrying values will realise at least their carrying values, and accordingly no provisions for impairment or irrecoverability have been made in these financial statements.

Principal accounting policies

Consolidation

The company was, at the end of the year, a subsidiary of another company incorporated in the EU and in accordance with section 228 of the Companies Act 1985, is not required to produce, and has not published, consolidated accounts.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is small.

Turnover

Turnover is the total amount receivable by the company for management services provided, excluding VAT.

Investments

Investments are included at cost. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Profit and loss account

	Note	2004 £	2003 £
Turnover	1	30,000	120,000
Other operating charges	2	75,818	102,846
Operating (loss)/profit	3	(45,818)	17,154
Interest receivable	6	736,716	1,100,000
Interest payable and similar charges	7	(736,714)	(1,113,360)
(Loss)/profit on ordinary activities before taxation		(45,816)	3,794
Tax on (loss)/profit on ordinary activities	8	-	-
(Loss)/retained profit for the financial year	17	(45,816)	3,794

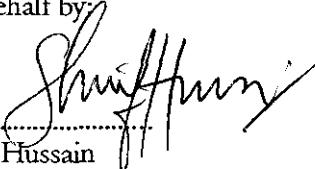
All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

Balance sheet

	Note	2004 £	2003 £
Fixed assets			
Investments	9	6,056,578	6,056,578
Current assets			
Debtors	10	15,403,529	12,038,585
Cash at bank		9,242	13,031
		<u>15,412,771</u>	<u>12,051,616</u>
Creditors: amounts falling due within one year	11	13,237,552	3,936,259
Net current assets		<u>2,175,219</u>	<u>8,115,357</u>
Total assets less current liabilities		<u>8,231,797</u>	<u>14,171,935</u>
Creditors: amounts falling due after more than one year	12	7,656,513	13,550,835
		<u>575,284</u>	<u>621,100</u>
Capital and reserves			
Called-up equity share capital	16	1,125	1,125
Share premium account		578,875	578,875
Profit and loss account	17	(4,716)	41,100
Shareholders' funds	18	<u>575,284</u>	<u>621,100</u>

These financial statements were approved by the directors on 28 October 2005 and are signed on their behalf by:


S Hussain

Notes to the financial statements

1 Turnover

The turnover and loss before tax are attributable to the one principal activity of the company.
An analysis of turnover is given below:

	2004	2003
	£	£
United Kingdom	<u>30,000</u>	<u>120,000</u>

2 Other operating income and charges

	2004	2003
	£	£
Administrative expenses	<u>75,818</u>	<u>102,846</u>

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2004	2003
	£	£
Auditors' remuneration:		
Audit fees	<u>750</u>	<u>650</u>

4 Directors and employees

The average number of staff employed by the company during the financial year amounted to:

	2004	2003
	No	No
Number of administrative staff	<u>3</u>	<u>3</u>

The aggregate payroll costs of the above were:

	2004	2003
	£	£
Wages and salaries	59,500	92,313
Social security costs	-	9,790
	<u>59,500</u>	<u>102,103</u>

5 Directors

Remuneration in respect of directors was as follows:

	2004	2003
	£	£
Emoluments receivable	-	60,000
Compensation for loss of directorship	59,500	-
	<u>59,500</u>	<u>60,000</u>

6 Interest receivable

	2004	2003
	£	£
Interest from group undertakings	<u>736,716</u>	<u>1,100,000</u>

7 Interest payable and similar charges

	2004	2003
	£	£
Interest payable on bank borrowing	720,306	755,309
Other similar charges payable	16,408	358,051
	<u>736,714</u>	<u>1,113,360</u>

Included within other similar charges payable is £16,408 (2003: £315,000) of interest payable to group undertakings.

8 Taxation on ordinary activities

Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2003 - 30%).

	2004	2003
	£	£
(Loss)/profit on ordinary activities before taxation	<u>(45,816)</u>	<u>3,794</u>
(Loss)/profit on ordinary activities multiplied by rate of tax	(13,745)	1,138
Group relief received	-	(1,138)
Unrelieved tax losses carried forward	13,745	-
Total current tax	<u>-</u>	<u>-</u>

9 Investments

	Shares in group undertakings £
Cost	
At 1 January 2004 and 31 December 2004	<u>6,056,578</u>
Net book value	
At 31 December 2004	<u>6,056,578</u>
At 31 December 2003	<u>6,056,578</u>

At 31 December 2004 the company held 100% of the allotted share capital of Stapleford Park Limited, a company which runs a hotel and golf course. At 31 December 2004 the capital and reserves of the company amounted to £589,630 and the company made a loss for the year of £1,608,002.

10 Debtors

	2004 £	2003 £
Amounts owed by group undertakings	15,402,458	12,038,570
VAT recoverable	84	-
Other debtors	15	15
Prepayments and accrued income	972	-
	<u>15,403,529</u>	<u>12,038,585</u>

The debtors above include the following amounts falling due after more than one year:

	2004 £	2003 £
Amounts owed by group undertakings	<u>14,562,399</u>	<u>11,198,511</u>

11 Creditors: amounts falling due within one year

	2004 £	2003 £
Shareholder loan	300,000	300,000
Bank loans and overdrafts	12,000,000	2,676,000
Amounts owed to group undertakings	838,860	822,452
Accruals and deferred income	98,692	137,807
	<u>13,237,552</u>	<u>3,936,259</u>

The shareholder loan is unsecured and is interest free.

Bank loan

The bank loan is secured by a fixed and floating charge over the company's assets. The maturity date is 31 December 2005. Interest is payable at 1.25% above base.

12 Creditors: amounts falling due after more than one year

	2004 £	2003 £
Bank loans and overdrafts	–	8,474,000
Amounts owed to group undertakings	4,497,835	4,497,835
Shareholder loan	2,579,678	–
'B' Convertible loan stock	579,000	579,000
	<u>7,656,513</u>	<u>13,550,835</u>

Convertible loan stock

The B loan stock is convertible into A and B ordinary shares of the company. Conversion is at the rate of 1 ordinary share for £4,632 of loan stock.

The loan stock carries an interest rate of 6% per annum.

13 Creditors - capital instruments

Creditors include finance capital which is due for repayment as follows:

	2004 £	2003 £
Amounts repayable:		
In one year or less or on demand	12,300,000	2,976,000
In more than one year but not more than two years	–	2,676,000
In more than two years but not more than five years	–	5,798,000
	<u>12,300,000</u>	<u>11,450,000</u>

14 Contingent liabilities

The company is party to a composite accounting system with its bankers, whereby there is full set-off between the company and its subsidiary, Stapleford Park Limited, of all bank balances and guarantees of bank borrowing.

15 Related party transactions

The company made payments of £16,408 (2003: £315,000) to Arlacross Limited to cover interest costs and received £736,716 (2003: £1,100,000) from Stapleford Park Limited to cover interest costs, together with a management charge receipt of £30,000 (2003: £120,000).

Balances due to Arlacross Limited are shown in Notes 11 and 12, and balances due from Stapleford Park Limited are shown in Note 10.

16 Share capital

Authorised share capital:

	2004	2003
	£	£
1,000 Ordinary shares of £1 each	1,000	1,000
1,250 'A' Ordinary shares of £0.10 each	125	125
125 'B' Ordinary shares of £1 each	125	125
	<u>1,250</u>	<u>1,250</u>

Allotted, called up and fully paid:

	2004		2003	
	No	£	No	£
Ordinary shares of £1 each	1,000	1,000	1,000	1,000
'A' Ordinary shares of £0.10 each	1,250	125	1,250	125
	<u>2,250</u>	<u>1,125</u>	<u>2,250</u>	<u>1,125</u>

17 Profit and loss account

	2004	2003
	£	£
Balance brought forward	41,100	37,306
(Accumulated loss)/retained profit for the financial year	<u>(45,816)</u>	<u>3,794</u>
Balance carried forward	<u>(4,716)</u>	<u>41,100</u>

18 Reconciliation of movements in shareholders' funds

	2004	2003
	£	£
(Loss)/Profit for the financial year	(45,816)	3,794
New equity share capital subscribed	-	125
Premium on new share capital subscribed	-	578,875
Net (reduction)/addition to shareholders' equity funds	<u>(45,816)</u>	<u>582,794</u>
Opening shareholders' equity funds	621,100	38,306
Closing shareholders' equity funds	<u>575,284</u>	<u>621,100</u>

19 Ultimate parent company

The ultimate parent undertaking of this company is its parent company, Arlacross Limited.

Arlacross Limited is the company's controlling related party under the definitions set out in FRS 8 by virtue of its shareholding in the company. The ultimate controlling related party of the company under the definitions set out in FRS 8 at 31 December 2004 is Innoview Limited.