

HIGHCLARE LIMITED

DIRECTORS' REPORT

31 August 1998

The Directors present their report and the audited financial statements of the Company for the year ended 31 August 1998.

Principal activities

The principal activity of the Company is property ownership and management.

Review of business

The Company's level of income and loss before taxation is in line with the Directors' expectations. The Directors consider the state of affairs of the Company to be satisfactory.

Results and dividends

The loss for the year after taxation amounted to £28,883 as shown on page 5. The Directors recommend that no dividend be paid and the loss of £28,883 be transferred to reserves.

Directors

The Directors of the Company at 31 August 1998 were as follows:

J.A. Barrett
B. Pattni
Highclare School

Highclare School owns the entire share capital of Highclare Investments Limited, which in turn owns the entire share capital of the Company.

J.A. Barrett and B. Pattni are also directors of the ultimate parent undertaking, a company limited by guarantee.

Year 2000 compliance

Many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. The operation of the company depends not only on its own computer systems, but also to some degree on those of suppliers and customers. This could expose the company to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

The company is well advanced in the phase of assessing the risks resulting from the date change to the year 2000. Once this phase is completed the likely impact on activities can be assessed and action plans developed to deal with the key risks.

HIGHCLARE LIMITED

DIRECTORS' REPORT

31 August 1998
(continued)

Auditors

Kidsons Impey have agreed to offer themselves for re-appointment as auditors of the Company.

Approved by the Board
and signed on its behalf by



B. Pattni

Secretary

Registered office

241 Birmingham Road
Wylde Green
Sutton Coldfield
West Midlands
B72 1EA

13 January 1999

HIGHCLARE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

31 August 1998

We are required under company law 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 profit or loss of the Company for that year.

In preparing these financial statements we are required to:

- select suitable accounting policies and apply them consistently
- make reasonable and prudent judgements and estimates
- state whether applicable accounting standards have been followed, and give details of any departures
- prepare the financial statements on a going concern basis unless in our view the company will be unable to continue in business.

We are also responsible for:

- keeping proper accounting records
- safeguarding the company's assets
- taking reasonable steps for the prevention and detection of fraud.

Approved by the Board
and signed on its behalf by



B Pattni

Secretary

13 January 1999

HIGHCLARE LIMITED

AUDITORS' REPORT

Auditors' report to the shareholders of Highclare Limited

We have audited the financial statements on pages 5 to 10 which have been prepared under the accounting policies set out on page 7.

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.

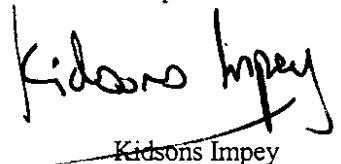
Basis of opinion

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 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 the Company's affairs at 31 August 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Kidsons Impey

Registered Auditors

Chartered Accountants

Birmingham

13 January 1999

HIGHCLARE LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 August 1998

	Note	1998 £	1997 £
Rental income	2	136,000	136,000
Administrative expenses		(164,883)	(164,797)
		<u> </u>	<u> </u>
Retained loss for the year	11	(28,883)	(28,797)
		<u> </u>	<u> </u>

There are no recognised gains or losses other than the loss for the year of £28,883 (1997 loss £28,797).

HIGHCLARE LIMITED

BALANCE SHEET

at 31 August 1998

	Note	1998		1997	
		£	£	£	£
Fixed assets					
Tangible assets	6		1,363,054		1,382,595
Current assets					
Debtors	7	183,070		74,600	
Cash at bank		<u>123</u>		<u>65</u>	
		183,193		74,665	
Creditors: amounts falling due within one year	8	<u>(733,666)</u>		<u>(615,796)</u>	
Net current liabilities			<u>(550,473)</u>		<u>(541,131)</u>
Total net assets			<u>812,581</u>		<u>841,464</u>
Capital and reserves					
Called up share capital	10	900,000		900,000	
Profit and loss account	11	<u>(87,419)</u>		<u>(58,536)</u>	
Total shareholders' funds			<u>812,581</u>		<u>841,464</u>

The financial statements on pages 5 to 10 were approved by the Board of Directors on 13 January 1999 and are signed on its behalf by

J.A. Barrett

J.A. Barrett)
Directors

B. Pattni

B. Pattni

HIGHCLARE LIMITED
NOTES ON FINANCIAL STATEMENTS

31 August 1998

1 Principal accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Company has taken advantage of the exemption from preparing a cashflow statement conferred by Financial Reporting Standard No 1 on the grounds that it is entitled to the exemptions available in Sections 246 and 247 of the Companies Act 1985 for small companies.

Depreciation

Depreciation is calculated to write off the cost of all tangible fixed assets, over their estimated useful lives at the following principal rates:

Improvements to leasehold property	2% straight line
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Leases

Rentals paid under operating leases are charged to income as incurred.

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

2 Rental income

The Company's rental income and result are derived from continuing operations. No operations have been acquired during the current or previous year.

3 Operating loss

	1998	1997
Operating loss is stated after charging:	£	£
Auditors' remuneration	760	930
Property rent	131,000	131,000
Depreciation of tangible fixed assets	29,001	28,811
	<u> </u>	<u> </u>

HIGHCLARE LIMITED

NOTES ON FINANCIAL STATEMENTS

31 August 1998
(continued)

4 Directors and employees

No Directors' emoluments or staff costs were incurred during the year.

5 Taxation

No corporation tax liability arises on the result for the year. Any tax losses will be carried forward to future periods.

6 Tangible fixed assets

Improvements to leasehold property £

Cost

1 September 1997

1,440,546

Additions

9,460

31 August 1998

1,450,006

Depreciation

1 September 1997

57,951

Charge for year

29,001

31 August 1998

86,952

Net book value

31 August 1998

1,363,054

31 August 1997

1,382,595

There were no contracted capital commitments at 31 August 1998.

7 Debtors

1998
£

1997
£

Due within one year

Amounts owed by group undertakings

174,526

66,056

Prepayments and accrued income

8,544

8,544

183,070

74,600

HIGHCLARE LIMITED

NOTES ON FINANCIAL STATEMENTS

31 August 1998

(continued)

8	Creditors: amounts falling due within one year	1998	1997
		£	£
	Trade creditors	14,490	26,713
	Amounts owed to group undertakings	704,150	573,150
	Other taxation and social security	4,964	6,082
	Accruals and deferred income	<u>10,062</u>	<u>9,851</u>
		733,666	615,796
		<u> </u>	<u> </u>

Any bank overdraft of the Company is secured by a fixed and floating charge over all assets of the Company and certain assets of other group undertakings.

9	Reconciliation of shareholders' funds	£	£
	Opening shareholders' funds	841,464	870,261
	Loss for the financial year	<u>(28,883)</u>	<u>(28,797)</u>
	Closing shareholders' funds	812,581	841,464
		<u> </u>	<u> </u>

10	Called up share capital (equity)		
	Authorised		
	900,000 ordinary shares of £1 each	900,000	900,000
		<u> </u>	<u> </u>
	Allotted, called up and fully paid		
	900,000 ordinary shares of £1 each	900,000	900,000
		<u> </u>	<u> </u>

11	Profit and loss account	£
	1 September 1997	(58,536)
	Retained loss for the year	<u>(28,883)</u>
	31 August 1998	<u>(87,419)</u>

HIGHCLARE LIMITED

NOTES ON FINANCIAL STATEMENTS

31 August 1998

(continued)

12 Guarantees and other financial commitments

Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 August 1999:

	1998 Land and buildings £	1997 Land and buildings £
Contracts expiring after five years	131,000	131,000

The Company has guaranteed the bank borrowings of other group undertakings which totalled £1,476,635 at the year end (1997 £1,599,643).

13 Parent undertaking

The Company's parent undertaking is Highclare Investments Limited, incorporated in England.

14 Ultimate parent undertaking

The Company's ultimate parent undertaking is Highclare School, a company limited by guarantee and incorporated in England.

15 Related party transactions

The company has taken advantage of the exemptions contained within Financial Reporting Standard No. 8 not to disclose intra-group transactions on the basis that it is a 100% owned subsidiary and all transactions with other group companies are eliminated in the consolidated financial statements.

HIGHCLARE LIMITED

TRADING ACCOUNT

for the year ended 31 August 1998

	1998		1997	
	£	£	£	£
Rental income		136,000		136,000
Administrative expenses				
Management charge	3,750		3,750	
Rent	131,000		131,000	
Professional fees	970		1,070	
Sundry office expenses	30		36	
Bank charges	132		130	
Depreciation of buildings	<u>29,001</u>	(164,883)	<u>28,811</u>	(164,797)
		<hr/>		<hr/>
Operating loss		(28,883)		(28,797)
		<hr/>		<hr/>