

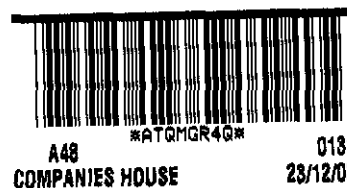
Deloitte.

HIGHSTONE ESTATES LIMITED

Report and Financial Statements

31 March 2003

Deloitte & Touche LLP
Leeds



CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7

OFFICERS AND PROFESSIONAL ADVISERS**DIRECTORS**

P Sykes
C J Dalzell
R W Dawson

SECRETARY

R W Dawson

REGISTERED OFFICE

Beech Lodge
2 Esplanade
Harrogate
North Yorkshire
HG2 0LN

BANKERS

National Westminster Bank plc
3 Cambridge Crescent
Harrogate
HG1 1PJ

SOLICITORS

Addleshaw Goddard
Sovereign House
Sovereign Street
Leeds
LS1 1HQ

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Leeds

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company is property development and investment. The company remained profitable throughout the year and the directors expect this to continue in the coming year.

On 28 August 2002 the Ordinary share capital of the company was purchased from Highstone Estates (Harrogate) Limited (formerly Paul Sykes Group Limited) by Highstone Group Limited for cash consideration.

DIVIDENDS

The profit for the year, after tax, amounted to £203,151 (2002: £95,524). The directors do not recommend payment of a dividend for the year ended 31 March 2003 (2002: £nil).

FUTURE PROSPECTS

The directors expect the company to remain profitable in the year to 31 March 2004.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year, and up to the date of this report, were as follows:

P Sykes
 R.A. Sykes (resigned 4 December 2002)
 C.J. Dalzell
 R.W. Dawson

None of the directors in office at the year end held any beneficial interests in the shares of the company at 31 March 2003 or 31 March 2002. The interests of the directors in the share capital of Highstone Group Limited, the company's ultimate parent company, are disclosed in the directors' report of that company.

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a Limited Liability Partnership incorporated under the Limited Liability Partnership Act. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provision of Section 26(5) of the Companies Act 1989. A resolution to reappoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
 and signed on behalf of the Board



R. W. Dawson
 Secretary

17 December 2003

STATEMENT OF 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 as at the end of the financial year and of the profit or loss of the company 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;
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HIGHSTONE ESTATES LIMITED

We have audited the financial statements of Highstone Estates Limited for the year ended 31 March 2003, which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. 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

As described in the statement of 'directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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.

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 as at 31 March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

17 December 2003

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2003

		Year ended 31 March 2003 £	18 months ended 31 March 2002 £
	Note		
TURNOVER		12,868,356	1,281,523
Cost of sales		(12,176,024)	(726,924)
GROSS PROFIT		692,332	554,599
Operating expenses	2	(490,821)	(402,687)
OPERATING PROFIT		201,511	151,912
Interest receivable and similar income		1,649	14,805
Interest payable and similar charges		(9)	(87,193)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	203,151	79,524
Tax on profit on ordinary activities	5	(58,186)	16,000
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED FOR THE YEAR	11	144,965	95,524

There are no recognised gains or losses other than the profit for the year. All the results derive from continuing activities and there were no acquisitions in the year.

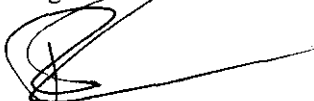
The accompanying notes are an integral part of this profit and loss account.

BALANCE SHEET 31 March 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible assets	6	<u>71,632</u>	<u>831,863</u>
CURRENT ASSETS			
Stock	7	319,598	8,147,323
Debtors	8	11,505,950	156,103
Cash at bank and in hand		<u>1,118</u>	<u>502</u>
		11,826,666	8,303,928
CREDITORS: amounts falling due within one year	9	<u>(11,656,809)</u>	<u>(9,039,267)</u>
NET CURRENT ASSETS / (LIABILITIES)		169,857	(735,339)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>241,489</u>	<u>96,524</u>
NET ASSETS		<u>241,489</u>	<u>96,524</u>
CAPITAL AND RESERVES			
Called up share capital	10	1,000	1,000
Profit and loss account	11	<u>240,489</u>	<u>95,524</u>
EQUITY SHAREHOLDERS' FUNDS	12	<u>241,489</u>	<u>96,524</u>

These financial statements were approved by the Board of Directors on 17 December 2003.

Signed on behalf of the Board of Directors



R.W. Dawson
Director

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



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2003

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding period with the exception of the policy for deferred tax. During the year FRS 19 "Deferred Tax" came into force, however there was no material impact on the financial statements.

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards.

The company has taken advantage of the exemption from the requirement of FRS 1 to present a cash flow statement because it is a wholly owned subsidiary of Highstone Group Limited, which prepares consolidated financial statements which are publicly available.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life as follows:

Motor vehicles and plant and equipment	4 years
--	---------

Costs incurred in bringing assets to a state where they are ready to be used are capitalised as part of the costs of the asset.

Investment properties

Investment properties are revalued annually. Any surplus or deficit on individual properties is transferred to the revaluation reserve, unless a deficit is expected to be permanent. Permanent deficits in excess of any previously recognised surplus on the same property (or the reversal of such a deficit) are charged (or credited) to the profit and loss account.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, because these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view and that is necessary to adopt SSAP 19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot be reasonably quantified, because depreciation is only one of the many factors reflected in the annual valuation and the amount which would otherwise have been shown cannot be separately identified or quantified.

On the disposal of a revalued fixed asset, any related balance remaining in the revaluation reserve will be transferred to the profit and loss account as a movement on reserves.

Taxation

Current tax, being UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to disposed of these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2003

1. ACCOUNTING POLICIES (continued)

Work in progress

Work in progress comprises properties and land held for development and resale. Work in progress is stated at the lower of cost and net realisable value. Cost includes professional and development fees incurred in bringing the properties and land to their present condition. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Turnover

Turnover represents amounts receivable from the normal course of business, net of any VAT.

Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term.

2. OPERATING EXPENSES

	Year ended 31 March 2003 £	18 months ended 31 March 2002 £
Administrative expenses	490,821	402,687

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Staff costs

The average monthly number of persons (including directors) employed by the company during the year was:

	2003 Number	2002 Number
Management and administration	4	4

Their aggregate remuneration comprised:

	2003 £	2002 £
Wages and salaries	406,032	221,600
Social security costs	42,468	28,798
	448,500	250,398

Directors' remuneration

	2003 £	2002 £
Total directors remuneration comprised:		
Emoluments	390,864	192,445

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2003

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting):

	Year ended 31 March 2003 £	18 months ended 31 March 2002 £
Depreciation	29,397	34,207
Loss on disposal of fixed assets	7,679	673
Profit on sale of investment properties	(125,000)	(35,000)
Operating lease rentals – motor vehicles	7,908	12,560
Auditors' remuneration for audit services	2,500	4,000
Auditors' remuneration for non-audit services	1,500	1,150
	<u>29,397</u>	<u>34,207</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 March 2003 £	18 months ended 31 March 2002 £
Current tax		
UK corporation tax	42,186	(16,000)
Adjustments in respect of prior years	16,000	-
Total current tax	<u>58,186</u>	<u>(16,000)</u>
Total deferred tax	<u>-</u>	<u>-</u>
Total tax on profit on ordinary activities	<u>58,186</u>	<u>(16,000)</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 March 2003 £	18 months ended 31 March 2002 £
Profit on ordinary activities before tax	<u>203,151</u>	<u>79,524</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30%	60,945	23,857
Effects of:		
Expenses not deductible for tax purposes	3,515	2,000
Profit on disposal of investments	(5,400)	-
Accounting profit in excess of depreciation	-	(8,000)
Unprovided deferred tax movement	(18,000)	(33,000)
Roundings	1,126	(857)
Adjustment to tax charge in respect of previous periods	16,000	-
Current tax charge for year	<u>58,186</u>	<u>(16,000)</u>



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2003

6. TANGIBLE FIXED ASSETS

	Investment properties £	Plant and equipment £	Motor vehicles £	Total £
Cost				
At 1 April 2002	750,000	66,245	49,825	866,070
Additions	-	-	51,345	51,345
Disposals	(750,000)	-	(49,825)	(799,825)
At 31 March 2003	<u>-</u>	<u>66,245</u>	<u>51,345</u>	<u>117,590</u>
Depreciation				
At 1 April 2002		16,561	17,646	34,207
Charge for Year	-	16,561	12,836	29,397
Disposals	-	-	(17,646)	(17,646)
At 31 March 2003	<u>-</u>	<u>33,122</u>	<u>12,836</u>	<u>45,958</u>
Net book value				
31 March 2003	<u>-</u>	<u>33,123</u>	<u>38,509</u>	<u>71,632</u>
31 March 2002	<u>750,000</u>	<u>49,684</u>	<u>32,179</u>	<u>831,863</u>

The directors have revalued the properties at the year end date and consider the current open market value of the properties above to be not materially different from the amount disclosed.

7. STOCK

	2003 £	2002 £
Work in progress – land/properties under development	<u>319,598</u>	<u>8,147,323</u>

8. DEBTORS

	2003 £	2002 £
Trade debtors	8,728,000	-
Corporation tax repayable	-	16,000
VAT reclaimable	4,909	114,103
Other debtors	2,773,041	26,000
	<u>11,505,950</u>	<u>156,103</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Bank overdraft	-	181,074
Amounts owed to parent company	10,720,762	8,854,693
Corporation tax	20,470	-
Accruals and deferred income	915,577	3,500
	<u>11,656,809</u>	<u>9,039,267</u>



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2003

10. CALLED UP SHARE CAPITAL

	2003 £	2002 £
Authorised 1,000 Ordinary shares of £1 each	1,000	1,000
Called up, allotted and fully paid 1,000 Ordinary shares of £1 each	1,000	1,000

11. RESERVES

	Profit and loss account £
At 1 April 2002	95,524
Retained profit for the year	144,965
At 31 March 2003	240,489

12. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2003 £	2002 £
Profit for the financial period	144,965	95,524
Issue of share capital	-	1,000
Net addition to equity shareholders' funds	144,965	96,524
Equity shareholders' funds, beginning of year	96,524	-
Equity shareholders' funds, end of year	241,489	96,524

13. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases in respect of motor vehicles are as follows:

	2003 £	2002 £
<i>Expiry date</i>		
Within one year	-	7,933
Between two and five years	-	3,305
	-	11,238

**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 March 2003****14. RELATED PARTY TRANSACTIONS**

The following transactions have taken place in the year with companies of which R.A. Sykes was also a director and shareholder. All transactions were performed on an arms length basis.

An investment property was sold to Highfield Conference and Training Centre Limited on 31 January 2003, at £875,000, realising a profit of £125,000. This was the open market value of the property as valued by the directors at the time of sale. No debtor is outstanding at the year end.

A short-term loan was made to City Wall Corporation Limited. Interest is being charged at 5% and the loan is repayable on demand. The outstanding balance (including accrued interest) at 31 March 2003 was £2,773,041. The loan is secured by way of a Legal Mortgage and First Charge over land owned by City Wall Corporation Limited.

15. ULTIMATE PARENT COMPANY

At the beginning of the year, the entire share capital of the company was owned by Paul Sykes Group Limited, a company incorporated in England and Wales.

On 28 August 2002, Paul Sykes Group Limited sold its entire shareholding to Highstone Group Limited for a consideration of £1,000, this being the nominal value of the shareholding and also the approximate value of the company's net assets at that date.

At the balance sheet date the directors regarded Highstone Group Limited, a company incorporated in England and Wales, as the ultimate parent company and the ultimate controlling party.

As a subsidiary undertaking of Highstone Group Limited, the company has taken advantage of the exemption in FRS 8 "Related party disclosures" from disclosing transactions with other members of the group headed by that company.

16. ULTIMATE CONTROLLING PARTY

Mr P Sykes is a director and is the sole shareholder of Highstone Group Limited. The directors regard Mr P Sykes as the ultimate controlling party of the company.