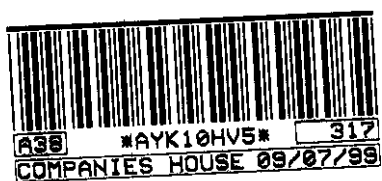


CHELSEFIELD PROPERTY INVESTMENTS LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 1998



CHELSEFIELD PROPERTY INVESTMENTS LIMITEDDIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 1998.

Principal activity

The company's principal activity is property investment. It is anticipated that this principal activity will continue for the foreseeable future.

Results and dividend

The results for the year are shown in the profit and loss account on page 3. The retained profit for the year of £5,950,041 has been transferred to reserves.

The directors do not recommend the payment of a dividend (1997 interim dividend - £8,500,000).

Year 2000

The company's ultimate holding company has initiated a project to assess the likely impact of the 'Year 2000' issue on the group's computerised systems. The work has involved logging all relevant systems, reviewing their sensitivity to the change of date and replacing or modifying software where this has been found necessary. All of the group's key financial systems are now either compliant or are upgradable using standard software revisions, all work being expected to be finished and tested by August 1999. The group has ensured for some time that replacement hardware is 'millennium compliant'.

Based on the above, the directors believe that, although no absolute assurance can be given, appropriate steps have been, and are being, taken to ensure that the company's activities will not be materially impacted by the Year 2000 issue. The costs associated with the project are not expected to be material.

Directors and directors' interests

The directors who held office during the year were as follows:

E Bernerd  
RE Butler  
WN Hugill  
D Phillips

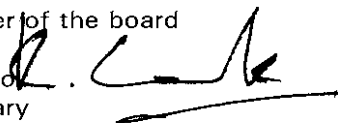
None of the directors had any interest in the share capital of the company during the year. Their interests in the share capital of the ultimate holding company, Chelsfield plc, are disclosed in the financial statements of that company.

Auditors

A resolution proposing the re-appointment of KPMG Audit Plc as auditors of the company will be submitted to the Annual General Meeting.

By order of the board

K A Cook  
Secretary  
2 July 1999



67 Brook Street  
London W1Y 2NJ

CHELSFIELD PROPERTY INVESTMENTS LIMITEDDIRECTORS' RESPONSIBILITIES

The directors are required by law to prepare financial statements, based on applicable accounting standards, 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 for the year.

The directors consider that, in preparing the financial statements, suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made.

The directors prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF CHELSFIELD PROPERTY INVESTMENTS LIMITED

We have audited the financial statements on pages 3 to 9.

**Respective responsibilities of directors and auditors**

As described above, the 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 affairs of the company as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
KPMG Audit Plc

Chartered Accountants  
Registered Auditor

LONDON

6 July 1999

CHELSEFIELD PROPERTY INVESTMENTS LIMITEDPROFIT AND LOSS ACCOUNTFor the year ended 31 December 1998

	Notes	1998 £	1997 £
Net rents receivable	1	8,843,231	10,021,117
Administrative expenses	2	(3,001,404)	(2,282,545)
Operating profit		5,841,827	7,738,572
Profit/(loss) on disposal of fixed asset investment properties	3	727,625	(445,485)
Profit on ordinary activities before net interest receivable		6,569,452	7,293,087
Net interest receivable	4	589	2,509
Profit on ordinary activities before taxation		6,570,041	7,295,596
Taxation	5	(620,000)	(47,897)
Profit for the year		5,950,041	7,247,699
Dividends on ordinary shares	6	-	(8,500,000)
Retained profit/(loss) for the year	12	5,950,041	(1,252,301)

The above results relate entirely to continuing operations.

Details of reserve movements are set out in notes 11 and 12 to these accounts.

CHELSFIELD PROPERTY INVESTMENTS LIMITEDBALANCE SHEETAt 31 December 1998

	Notes	1998 £	1997 £
<b>Fixed assets</b>			
Tangible assets	7	96,650,683	120,320,643
Investments	7	5,049,502	5,000,002
		<u>101,700,185</u>	<u>125,320,645</u>
<b>Current assets</b>			
Debtors	8	1,412,666	938,411
Cash at bank		-	60,599
		<u>1,412,666</u>	<u>999,010</u>
<b>Creditors - amounts falling due within one year</b>	9	<u>(62,323,350)</u>	<u>(92,995,474)</u>
<b>Net current liabilities</b>		<u>(60,910,684)</u>	<u>(91,996,464)</u>
<b>Net assets</b>		<u>40,789,501</u>	<u>33,324,181</u>
<b>Capital and reserves</b>			
Called up equity share capital	10	36,400,002	36,400,002
Revaluation reserve	11	(3,784,087)	(4,783,124)
Profit and loss account	12	8,173,586	1,707,303
<b>Equity shareholders' funds</b>		<u>40,789,501</u>	<u>33,324,181</u>

Approved by the board of directors on 2 July 1999 and signed on its behalf by:

WN Hugill, Director



CHELSFIELD PROPERTY INVESTMENTS LIMITEDSTATEMENT OF TOTAL RECOGNISED GAINS AND LOSSESFor the year ended 31 December 1998

	<b>1998</b> £	1997 £
Profit for the year	<b>5,950,041</b>	7,247,699
Unrealised surplus on revaluation of investment properties	<b>1,515,279</b>	4,965,248
Total recognised gains and losses	<b>7,465,320</b>	12,212,947

NOTE OF HISTORICAL COST PROFITS AND LOSSESFor the year ended 31 December 1998

Profit on ordinary activities before taxation	<b>6,570,041</b>	7,295,596
Realisation of property revaluation surplus/(deficit) of previous years	<b>516,242</b>	(2,146,742)
Historical cost profit on ordinary activities before taxation	<b>7,086,283</b>	5,148,854
Historical cost profit on ordinary activities after taxation	<b>6,466,283</b>	5,100,957

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDSFor the year ended 31 December 1998

Total recognised gains and losses, as above	<b>7,465,320</b>	12,212,947
Dividends on ordinary shares	-	(8,500,000)
	<b>7,465,320</b>	3,712,947
Opening shareholders' funds	<b>33,324,181</b>	29,611,234
Closing shareholders' funds	<b>40,789,501</b>	33,324,181

## CHELSEFIELD PROPERTY INVESTMENTS LIMITED

### ACCOUNTING POLICIES

#### Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under historical cost accounting rules, as modified for the revaluation of certain land and buildings.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to produce group accounts.

#### Properties

Properties held as investments are shown as fixed assets and are stated at cost in the year of acquisition and at valuation on the basis of open market value in subsequent years. If, in the opinion of the directors, a property has been subject to a material change in value as a result of a change in circumstances in the year of acquisition, then it is stated at valuation on the basis of open market value.

In accordance with Statement of Standard Accounting Practice No. 19 (as amended):

- (i) investment properties are revalued annually at open market value. All surpluses and deficits arising on valuation are taken directly to the revaluation reserve, except that any permanent diminution in the value of an investment property is taken to the profit and loss account for the year; and
- (ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

This treatment may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the property valuations and the amount which might otherwise have been shown cannot be separately identified or quantified.

Profit/(loss) on sales of investment properties is recognised in the profit and loss account on completion of the sale and by reference to carrying value.

#### Taxation

*The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.*

#### Cashflow statement

A consolidated cashflow is published in the group accounts of Chelsfield plc, the ultimate holding company. The company is exempt under Financial Reporting Standard No. 1 from publishing its own cashflow statement.

#### Related party transactions

The related party transactions note included in the consolidated financial statements of the ultimate parent undertaking complies with the conditions of Financial Reporting Standard No. 8 (FRS8) 'Related party transactions'. The company is therefore exempt under FRS8 from the requirement to prepare a separate note.

CHELSEFIELD PROPERTY INVESTMENTS LIMITEDNOTES TO THE ACCOUNTS

	1998 £	1997 £
<b>1</b>		
<b><u>NET RENTS RECEIVABLE</u></b>		
Gross rents receivable	12,197,744	13,607,384
Direct property outgoings	(3,354,513)	(3,586,267)
	<u>8,843,231</u>	<u>10,021,117</u>
<b>2</b>		
<b><u>ADMINISTRATIVE EXPENSES</u></b>		
Bank charges	1,997	1,891
Group management charge	2,968,831	2,277,544
Other administrative expenses	30,576	3,110
	<u>3,001,404</u>	<u>2,282,545</u>
None of the directors received any remuneration from the company during the year (1997 - £nil).		
The company has no employees.		
Audit fees are paid by Chelsfield Management Services Limited and accounted for on a group basis.		
<b>3</b>		
<b><u>PROFIT/(LOSS) ON DISPOSAL OF FIXED ASSET INVESTMENT PROPERTIES</u></b>		
Sale proceeds	26,162,000	6,775,000
Cost of property	(25,183,711)	(7,131,327)
Other sales costs	(250,664)	(89,158)
	<u>727,625</u>	<u>(445,485)</u>
<b>4</b>		
<b><u>NET INTEREST RECEIVABLE</u></b>		
Bank interest receivable	716	58
Other interest receivable	2,333	4,599
	<u>3,049</u>	<u>4,657</u>
Bank interest payable	(2,460)	(2,148)
	<u>589</u>	<u>2,509</u>
<b>5</b>		
<b><u>TAXATION</u></b>		
Group relief payable	620,000	47,897
<b>6</b>		
<b><u>DIVIDENDS ON ORDINARY SHARES</u></b>		
Dividends paid	-	8,500,000



## CHELSFIELD PROPERTY INVESTMENTS LIMITED

## NOTES TO THE ACCOUNTS (continued)

7 FIXED ASSETSInvestment  
properties  
£**Tangible Assets**

At 1 January 1998	120,320,643
Additions	(1,528)
Revaluation surplus	1,515,279
Disposals	(25,183,711)
At 31 December 1998	96,650,683

The freehold and long leasehold investment properties were independently valued at 31 December 1998 by St Quintin, Chartered Surveyors. The valuations were on the basis of 'open market value' as defined in the Guidance Notes prepared by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors.

The value of land and buildings comprises:

	1998 £	1997 £
Freehold buildings at valuation	39,405,683	63,705,643
Long leasehold buildings at valuation	57,245,000	56,615,000
	96,650,683	120,320,643

The cost of the buildings held at valuation was £100,434,770 (1997 - £125,103,767).

**Investments**

	Subsidiary undertaking £	Limited partnership £	Total investments £
At 1 January 1998	5,000,002	-	5,000,002
Additions	-	49,500	49,500
At 31 December 1998	5,000,002	49,500	5,049,502

The investment in subsidiary undertaking represents 100% of the issued share capital of London Fields Limited, a company registered in England and Wales.

The investment in limited partnership represents at 49.5% share of The St Catherine's House Limited Partnership.

Group accounts are not produced as the company is a wholly owned subsidiary of a UK company which produces group accounts. In the opinion of the directors, the value of the investment in the subsidiary is not less than the amount shown above.

8 DEBTORS

	1998 £	1997 £
Trade debtors	616,627	231,722
Amounts owed by subsidiary undertaking	189,018	189,018
Other debtors	292	-
Prepayments and accrued income	606,729	517,671
	1,412,666	938,411

**CHELSEFIELD PROPERTY INVESTMENTS LIMITED****NOTES TO THE ACCOUNTS (continued)****9 CREDITORS: amounts falling due within one year**

	1998 £	1997 £
Overdraft	224,248	301,516
Rents in advance	1,828,568	1,616,295
Trade creditors	146,340	233,959
Amounts owed to ultimate holding company	58,696,883	89,817,159
Group relief payable	667,897	47,897
Other creditors	377,041	409,052
Accruals and deferred income	382,373	569,596
	<u>62,323,350</u>	<u>92,995,474</u>

**10 CALLED UP EQUITY SHARE CAPITAL**

	Authorised £	Allotted, called up and fully paid £
Ordinary shares of £1 each	<u>37,000,000</u>	<u>36,400,002</u>

There were no changes during the year in either the authorised or allotted share capital.

**11 REVALUATION RESERVE**

	1998 £	1997 £
At 1 January	(4,783,124)	(11,895,114)
Net surplus on revaluation of investment properties	1,515,279	4,965,248
Net (surplus)/deficit realised on sale of investment properties	(516,242)	2,146,742
	<u>(3,784,087)</u>	<u>(4,783,124)</u>
At 31 December	<u>(3,784,087)</u>	<u>(4,783,124)</u>

**12 PROFIT AND LOSS ACCOUNT**

At 1 January	1,707,303	5,106,346
Retained profit/(loss) for the year	5,950,041	(1,252,301)
Net surplus/(deficit) realised on sale of investment properties	516,242	(2,146,742)
	<u>8,173,586</u>	<u>1,707,303</u>
At 31 December	<u>8,173,586</u>	<u>1,707,303</u>

**13 HOLDING COMPANIES**

The immediate holding and controlling company is Chelsfield (UK) plc and the ultimate holding and controlling company is Chelsfield plc, both of which are registered in England and Wales. The accounts of the ultimate holding company, which is both the largest and smallest group in which the results of the company are consolidated, are available from 67 Brook Street, London, W1Y 2NJ.