

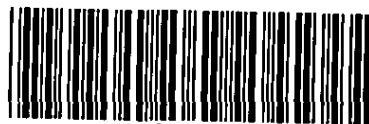
HIGHSTONE GROUP LIMITED

Report and Financial Statements

31 March 2007

DSC, Chartered Accountants

MONDAY



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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P Sykes
C J Dalzell
R W Dawson

SECRETARY

R W Dawson

REGISTERED OFFICE

Beech Villa
1 Esplanade
Harrogate
North Yorkshire
HG2 0LN

BANKERS

National Westminster Bank plc
3 Cambridge Crescent
Harrogate
HG1 1PE

SOLICITORS

Addleshaw Goddard
Sovereign House
Sovereign Street
Leeds
LS1 1HQ

AUDITORS

DSC
Chartered Accountants and Registered Auditors
4 Princes Square
Harrogate
HG1 1LX

TAX ADVISERS

Deloitte & Touche LLP
1 City Square
Leeds
LS1 2AL

DIRECTORS' REPORT

The directors present their report on the affairs of the company, together with the audited financial statements for the year ended 31 March 2007

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the group during the year was property investment and Highstone Group Limited is the ultimate holding company. The group disposed of a number of property investments and a subsidiary company during the year. Although the group traded profitably, the tax charges arising from those disposals resulted in a post-tax loss for the year. The directors expect the company to return to profit in future years.

Information relating to the coming year is shown in note 22 of the financial statements. The effect of this will be that the group's turnover will fall, although it will remain profitable.

RESULTS AND DIVIDENDS

The group's loss for the year after tax amounted to £9,595,000 (2006 profit £5,800,000). The directors do not recommend payment of a dividend (2006 £nil).

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 W Dawson
C J Dalzell

Mr P Sykes is the sole shareholder of the company as described in note 21. There are no other interests that are required to be disclosed under Section 234 of the Companies Act 1985.

POLITICAL AND CHARITABLE EXPENDITURE

General charitable contributions to the value of £2,030,072 were made by the company during the year.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in note 22 of the financial statements.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

A resolution for the reappointment of DSC 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 July 2007

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 and the group as at the end of the financial year and of the profit or loss of the group 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 SHAREHOLDERS OF HIGHSTONE GROUP LIMITED

We have audited the financial statements of Highstone Group Limited for the year ended 31 March 2007, which comprise the profit and loss accounts, the balance sheets the consolidated cash flow statement and the related notes 1 to 22. 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 period 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 International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the company and the group as at 31 March 2007 and of the profit of the company and the loss of the group for the year then ended and
- have been properly prepared in accordance with the Companies Act 1985.

DSC

DSC

Chartered Accountants and Registered Auditors

17 July 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|--|------|---------------|---------------|
| TURNOVER | 2 | 7,156 | 14,428 |
| Cost of sales | | (2,386) | (4,853) |
| Gross profit | | 4,770 | 9,575 |
| Operating expenses | 3 | (3,887) | (1 326) |
| OPERATING PROFIT | | 883 | 8 249 |
| Profit on sale of property investments | | 26,594 | - |
| Profit on sale of investments | 17 | 1,615 | - |
| PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND INVESTMENT INCOME | | 29,092 | 8,249 |
| Interest receivable | 5 | 8,364 | 47 |
| Interest payable | 5 | (83) | (104) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 6 | 37,373 | 8,192 |
| Tax on profit on ordinary activities | 7 | (46,968) | (2,392) |
| RETAINED (LOSS) / PROFIT FOR THE FINANCIAL YEAR | 14 | (9,595) | 5,800 |

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|------|---------------|---------------|
| (Loss) / profit for the financial year | 14 | (9,595) | 5,800 |
| Unrealised surplus on revaluations of fixed assets | | - | 103,076 |
| Total gains and losses recognised since last annual report | | (9,595) | 108,876 |

The accompanying notes are an integral part of this statement of total recognised gains and losses

COMPANY PROFIT AND LOSS ACCOUNT
Year ended 31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|--|------|----------------|---------------|
| Operating expenses | 3 | (2,195) | (195) |
| OPERATING LOSS | | (2,195) | (195) |
| Profit on sale of investments | 17 | 1,615 | - |
| Dividends received | | 1,557 | - |
| Interest receivable | 5 | 8,280 | 25 |
| Interest payable | 5 | (33) | (104) |
| PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | 6 | 9,224 | (274) |
| Tax on profit / (loss) on ordinary activities | 7 | (1,938) | 95 |
| PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED PROFIT / (LOSS) FOR THE YEAR | 14 | 7,286 | (179) |

The above results arise from continuing operations

There are no recognised gains or losses other than the losses for the years

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

CONSOLIDATED BALANCE SHEET
31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|--|------|----------------|-----------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | 11,448 | 297,884 |
| Assets in the course of construction | | 10 | - |
| | | <u>11,458</u> | <u>297,884</u> |
| CURRENT ASSETS | | | |
| Debtors | 10 | 2,018 | 1,886 |
| Cash at bank and in hand | | 255,076 | 3 |
| | | <u>257,094</u> | <u>1,889</u> |
| CREDITORS amounts falling due within one year | 11 | (25,444) | (44,783) |
| NET CURRENT ASSETS / (LIABILITIES) | | <u>231,650</u> | <u>(42,894)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>243,108</u> | <u>254,990</u> |
| PROVISIONS FOR LIABILITIES AND CHARGES | 12 | (126) | (1,986) |
| NET ASSETS | | <u>242,982</u> | <u>253,004</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 13 | 20 | 20 |
| Merger reserve | 14 | 84 | 84 |
| Revaluation reserve | 14 | 2,047 | 145,495 |
| Profit and loss account | 14 | 240,831 | 107,405 |
| EQUITY SHAREHOLDERS' FUNDS | 15 | <u>242,982</u> | <u>253,004</u> |

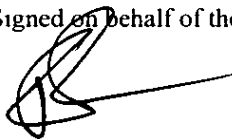
The accompanying notes are an integral part of this balance sheet

COMPANY BALANCE SHEET
31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|--|------|---------------|---------------|
| FIXED ASSETS | | | |
| Investments | 9 | 22,991 | 31,855 |
| CURRENT ASSETS | | | |
| Debtors | 10 | 28,662 | 98,954 |
| Cash at bank | | 255,076 | 2 |
| | | 283,738 | 98,956 |
| CREDITORS amounts falling due within one year | 11 | (271,338) | (102,706) |
| NET CURRENT ASSETS/(LIABILITIES) | | 12,400 | (3,750) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 35,391 | 28,105 |
| NET ASSETS | | 35,391 | 28,105 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 13 | 20 | 20 |
| Profit and loss account | 14 | 35,371 | 28,085 |
| EQUITY SHAREHOLDERS' FUNDS | | 35,391 | 28,105 |

These financial statements were approved by the Board of Directors on 17 July 2007

Signed on behalf of the Board of Directors



R W Dawson
Director

The accompanying notes are an integral part of this balance sheet

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|-------|---------------|---------------|
| Net cash (outflow)/inflow from operating activities | 16 | (1,561) | 7,334 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 8,364 | 47 |
| Interest paid | | (83) | (104) |
| Net cash inflow/(outflow) from returns on investments and servicing of finance | | 8,281 | (57) |
| Taxation | | (25,634) | (2,548) |
| Capital expenditure and financial investment | | | |
| Payments to acquire tangible fixed assets | | (2,986) | (5,636) |
| Proceeds from sale of tangible fixed assets | | 306,476 | 8,114 |
| Net cash inflow from capital expenditure and financial investment | | 303,490 | 2,478 |
| Disposals | 17 | 10,479 | - |
| Net cash inflow before financing | | 295,055 | 7,207 |
| Financing | | | |
| Repayment of borrowings | | (38,950) | (5,460) |
| Net cash outflow from financing | | (38,950) | (5,460) |
| Increase in cash in the year | 18,19 | 256,105 | 1,747 |

NOTES TO THE FINANCIAL STATEMENTS**Year ended 31 March 2007****1 ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding period.

Basis of accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with the applicable United Kingdom accounting standards.

Basis of consolidation

The group financial statements consolidate the financial statements of Highstone Group Limited and all its subsidiary undertakings drawn up to 31 March 2007.

Since it is not required by the Companies Act 1985 to produce group accounts because Highstone Group Limited meets the definition of a small and medium size group, the company is not entitled to the exemption in Section 230, accordingly a profit and loss account for the company is also presented.

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.

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

Tangible fixed assets

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

| | |
|---|--------------|
| Office equipment, fixtures and fittings | 4 – 10 years |
|---|--------------|

| | |
|----------------|---------|
| Motor vehicles | 4 years |
|----------------|---------|

Land and buildings not held as investment properties are not depreciated. It is the company's practice to maintain the properties in a continual state of sound repair and to extend and make improvements thereto from time to time. Having regard to this, including their long useful life and high residual value, it is the opinion of the directors that depreciation of any such property as required by the Companies Act 1985 and standard accounting practice would not be material.

Investments

Fixed asset investments are shown at cost less any provision for impairment.

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 recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax is measured on a non-discounted basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

1 ACCOUNTING POLICIES (continued)

Turnover

Turnover represents amounts receivable from rentals and service charges in the normal course of business, net of any VAT

2 SEGMENT INFORMATION

Contributions to turnover, derived from the group's principal activity, by geographical area were

| | Group | | Company | |
|----------------|-------|--------|---------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| United Kingdom | 7,156 | 14,428 | - | - |

3. OPERATING EXPENSES

| | Group | | Company | |
|-------------------------|-------|-------|---------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| Administrative expenses | 3,887 | 1,326 | 2,195 | 195 |

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' remuneration - Group

| | 2007 | 2006 |
|---|-------|-------|
| | £'000 | £'000 |
| The remuneration of the directors was as follows: | | |
| Emoluments | 914 | 391 |

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director

| | 2007 | 2006 |
|------------|-------|-------|
| | £'000 | £'000 |
| Emoluments | 536 | 278 |

Staff costs

Group

The average monthly number of employees (including executive directors) was

| | 2007 | 2006 |
|-------------------------------|--------|--------|
| | Number | Number |
| Management and administration | 15 | 3 |

| | 2007 | 2006 |
|--|-------|-------|
| | £'000 | £'000 |
| Their aggregate remuneration comprised | | |
| Wages and salaries | 2,281 | 383 |
| Social security costs | 285 | 51 |
| | 2,566 | 434 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Company

The average monthly number of employees (including executive directors) was

| | 2007 Number | 2006 Number |
|-------------------------------|----------------|----------------|
| Management and administration | <u>3</u> | <u>3</u> |

Their costs were borne by other group companies

5 INTEREST RECEIVABLE AND PAYABLE

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Bank interest payable | (83) | (104) | (33) | (104) |
| Interest receivable and similar income | <u>8,364</u> | <u>47</u> | <u>8,280</u> | <u>25</u> |
| | <u>8,281</u> | <u>(57)</u> | <u>8,247</u> | <u>(79)</u> |

Interest receivable and similar income

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Bank interest | 8,360 | 17 | 8,280 | 17 |
| Interest on corporation tax payments on account | <u>4</u> | <u>30</u> | <u>-</u> | <u>8</u> |
| | <u>8,364</u> | <u>47</u> | <u>8,280</u> | <u>25</u> |

6. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

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

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Depreciation | 324 | 353 | - | - |
| Loss on disposal of fixed assets | 6 | 79 | - | - |
| Auditors' remuneration for audit services | <u>18</u> | <u>23</u> | <u>1</u> | <u>1</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

7 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

| | Group | | Company | |
|--|----------------|--------------|--------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| The tax charge / (credit) comprises | | | | |
| Current tax | | | | |
| UK corporation tax | 48,562 | 2,281 | 1,916 | - |
| Group relief | - | - | - | (82) |
| Adjustments in respect of prior years | | | | |
| Corporation tax | 24 | (140) | 22 | - |
| Group relief | - | - | - | (13) |
| Total current tax | <u>48,586</u> | <u>2,141</u> | <u>1,938</u> | <u>(95)</u> |
| Deferred tax | | | | |
| Origination and reversal of timing differences | (1,618) | 357 | - | - |
| Adjustments in respect of prior years | - | (106) | - | - |
| Total deferred tax | <u>(1,618)</u> | <u>251</u> | <u>-</u> | <u>-</u> |
| Total tax on profit/(loss) on ordinary activities | <u>46,968</u> | <u>2,392</u> | <u>1,938</u> | <u>(95)</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

| | Group | | Company | |
|--|---------------|--------------|--------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| Profit / (loss) on ordinary activities before tax | <u>37,373</u> | <u>8,192</u> | <u>9,224</u> | <u>(274)</u> |
| Tax on profit on ordinary activities at UK corporation tax rate of 30% | 11,212 | 2,458 | 2,760 | (82) |
| Effects of | | | | |
| Income not taxable for tax purposes | (467) | - | (467) | - |
| Expenses not deductible for tax purposes | 13 | 90 | - | - |
| Capital allowances in excess of depreciation | 1,618 | (357) | - | - |
| Difference from accounting profit on property disposal | 35,369 | - | (377) | - |
| Difference from accounting profit on investment disposal | 815 | - | - | - |
| Taxable gain on disposal of property | - | 98 | - | - |
| Rate differences | - | (9) | - | - |
| Roundings | 2 | 2 | - | - |
| Prior period adjustment – corporation tax | 131 | (141) | 22 | (13) |
| Prior period adjustment – group relief | (107) | - | - | - |
| Current tax charge / (credit) for the year | <u>48,586</u> | <u>2,141</u> | <u>1,938</u> | <u>(95)</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

8 TANGIBLE FIXED ASSETS

| Group | Land and buildings | | Freehold £'000 | Office equipment, fixtures and fittings £'000 | Motor Vehicles £'000 | Total £'000 |
|--------------------------|-----------------------|--------------------|-------------------|---|----------------------------|----------------|
| | Investment properties | | | | | |
| | Freehold £'000 | Leasehold £'000 | | | | |
| Cost or valuation | | | | | | |
| At 1 April 2006 | 286,862 | 6,750 | 1,500 | 3,231 | 53 | 298,396 |
| Additions | 2,847 | - | - | 129 | - | 2,976 |
| Disposals | (282,276) | (6,750) | - | (117) | (53) | (289,196) |
| At 31 March 2007 | 7,433 | - | 1,500 | 3,243 | - | 12,176 |
| Depreciation | | | | | | |
| At 1 April 2006 | - | - | - | 499 | 13 | 512 |
| Charge | - | - | - | 324 | - | 324 |
| Disposals | - | - | - | (95) | (13) | (108) |
| At 31 March 2007 | - | - | - | 728 | - | 728 |
| Net book value | | | | | | |
| At 31 March 2007 | 7,433 | - | 1,500 | 2,515 | - | 11,448 |
| At 31 March 2006 | 286,862 | 6,750 | 1,500 | 2,732 | 40 | 297,884 |

Investment properties were valued, on an open market existing use basis, at 31 March 2007, by C J Dalzell who is a director of the company and a member of the Royal Institute of Chartered Surveyors. The directors consider the current open market values of the properties to be not materially different from the amounts disclosed.

If the freehold and leasehold investment properties had not been revalued they would have been stated at a cost of £6,886,000 (2006: £149,617,000).

9. FIXED ASSET INVESTMENTS

Subsidiary undertakings

| | 2007 £'000 | 2006 £'000 |
|--------------------------------|---------------|---------------|
| Cost and net book value | | |
| At 1 April 2006 | 31,855 | 31,855 |
| Disposals (see note 17) | (8,864) | - |
| At 31 March 2007 | 22,991 | 31,855 |

All subsidiary undertakings are wholly owned and their principal activities are property investment. Several of the companies disposed of their investment properties during the year and will not continue as going concerns. Further information is disclosed in note 21 to the accounts.

| | Country of registration |
|--|----------------------------|
| Highstone Estates (Harrogate) Limited | England |
| Highstone Estates Limited | England |
| Highstone Estates (Leeds) Limited | England |
| Highstone Estates (Manchester) Limited | England |
| Highstone Estates (Vicar Lane) Limited | England |
| Highstone Estates (Kidderminster) Limited | England |
| Highstone Estates (York) Limited | England |
| Highstone Estates (Central Park South) Limited | England |
| Highstone Estates (Park Place) Limited | England |
| Highstone Estates (City Square) Limited | England |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

10. DEBTORS

| | Group | | Company | |
|-------------------------------------|--------------|--------------|----------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade debtors | 125 | 1,240 | - | - |
| Other debtors | 1 302 | - | - | - |
| Amounts due from group undertakings | - | - | 5,265 | 96,960 |
| Corporation tax | - | - | 23,072 | 1,994 |
| VAT debtor | 62 | - | - | - |
| Service charges recoverable | 3 | 239 | - | - |
| Prepayments and accrued income | 526 | 407 | 325 | - |
| | <u>2,018</u> | <u>1,886</u> | <u>28,662</u> | <u>98,954</u> |

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|------------------------------------|---------------|---------------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| Bank overdraft (secured) | 90 | 1,122 | 77 | 1,083 |
| Amounts owed to group undertakings | - | - | 270,878 | 62,545 |
| Corporation tax payable | 23,574 | 289 | - | - |
| Other taxation and social security | - | 352 | - | - |
| Other creditors | 516 | 92 | - | - |
| Unsecured loan | 379 | 39,329 | 352 | 39,068 |
| Accruals and deferred income | 885 | 3 599 | 31 | 10 |
| | <u>25,444</u> | <u>44,783</u> | <u>271,338</u> | <u>102,706</u> |

12. PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation

| | Group | Company |
|----------------------|--------------|----------------|
| | £'000 | £'000 |
| At 1 April 2006 | 1,986 | - |
| Reversed in the year | (1,860) | - |
| At 31 March 2007 | <u>126</u> | <u>-</u> |

The group deferred tax is provided as follows

| | 2007 | 2006 |
|--------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Accelerated capital allowances | <u>126</u> | <u>1,986</u> |
| | <u>126</u> | <u>1,986</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

13. CALLED UP SHARE CAPITAL

| | 2007 £'000 | 2006 £'000 |
|---|---------------|---------------|
| Authorised | | |
| 20,000 Ordinary shares of £1 each | 20 | 20 |
| Called up, allotted and fully paid | | |
| 20,000 Ordinary shares of £1 each | 20 | 20 |

14. RESERVES

| Group | Revaluation reserve £'000 | Merger reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---------------------------------------|---------------------------------|----------------------------|-------------------------------------|----------------|
| At 1 April 2006 | 145,495 | 84 | 107,405 | 252,984 |
| Transfer revaluation on disposal | (143,112) | - | 143,112 | - |
| Remove reserves on sale of investment | (336) | - | (91) | (427) |
| Retained loss for the year | - | - | (9,595) | (9,595) |
| At 31 March 2007 | 2,047 | 84 | 240,831 | 242,962 |

| Company | Profit and loss account £'000 |
|------------------------------|-------------------------------------|
| At 1 April 2006 | 28,085 |
| Retained profit for the year | 7,286 |
| At 31 March 2007 | 35,371 |

15. RECONCILIATION OF MOVEMENTS IN GROUP EQUITY SHAREHOLDERS FUNDS

| | 2007 £'000 | 2006 £'000 |
|---|---------------|---------------|
| (Loss) / profit for the financial year | (9,595) | 5,800 |
| Surplus on revaluations of investment properties | - | 103,076 |
| Removal of reserves on disposal of investment | (427) | - |
| Net (reduction in)/addition to group equity shareholders' funds | (10,022) | 108,876 |
| Opening group equity shareholders' funds | 253,004 | 144,128 |
| Closing group equity shareholders' funds | 242,982 | 253,004 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

16 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2007 £'000 | 2006 £'000 |
|---|----------------|---------------|
| Operating profit | 883 | 8,249 |
| Depreciation | 324 | 353 |
| Loss on sale of tangible fixed assets | 6 | 79 |
| (Increase)/decrease in debtors | (132) | 1,092 |
| Decrease in creditors | (2,642) | (2,439) |
| Net cash (outflow)/inflow from operating activities | <u>(1,561)</u> | <u>7,334</u> |

17. DISPOSALS

During the year the holding company sold one of its subsidiaries, Highstone Estates (Central Park North) Ltd for £10 479 million in cash. The cost of the investment was £8 864 million giving a profit on disposal of the investment of £1 615 million.

18. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | 2007 £'000 | 2006 £'000 |
|-----------------------------------|-----------------|-----------------|
| Increase in cash in the year | 256,105 | 1 747 |
| Cash inflow from decrease in debt | <u>38,950</u> | <u>5,460</u> |
| Movement in net debt in the year | 295,055 | 7,207 |
| Net debt at beginning of year | <u>(40,448)</u> | <u>(47,655)</u> |
| Net debt at end of year | <u>254,607</u> | <u>(40,448)</u> |

19. ANALYSIS OF CHANGES IN NET DEBT

| | At 31 March 2006 £'000 | Cash flows £'000 | At 31 March 2007 £'000 |
|--------------------------|------------------------------|---------------------|------------------------------|
| Cash at bank and in hand | 3 | 255,073 | 255,076 |
| Bank overdraft | (1,122) | 1,032 | (90) |
| Unsecured loan | <u>(39,329)</u> | <u>38,950</u> | <u>(379)</u> |
| | <u>(40,448)</u> | <u>295 055</u> | <u>254,607</u> |

20. RELATED PARTY TRANSACTIONS

Included within creditors falling due within one year is a non interest bearing loan of £379,000 (2006 £39,329,000) owed to Mr P Sykes, a director of the company. This loan is repayable on demand.

The company has taken advantage of the exemptions granted in Financial Reporting Standard No. 8 not to disclose certain related party transactions with other group companies. There are no other related party transactions requiring disclosure.

21. ULTIMATE CONTROLLING PARTY

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

22. GOING CONCERN

During the year, eight properties within the group were sold. These properties had a combined valuation of £279.8 million and were sold for a combined value of £306.4 million. As a result, the following subsidiaries within the group will not be continuing as a going concern:

Highstone Estates Limited
Highstone Estates (Leeds) Limited
Highstone Estates (Manchester) Limited
Highstone Estates (Vicar Lane) Limited
Highstone Estates (Kidderminster) Limited
Highstone Estates (York) Limited
Highstone Estates (Central Park South) Limited

In addition, Highstone Estates (Park Place) Limited ceased to be a going concern during the year.

The group also disposed of Highstone Estates (Central Park North) Limited during the year.

The group, however, will continue as a going concern.