

DEVON CHALETS LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004



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DIRECTOR AND OFFICERS

DIRECTOR

W K Procter

SECRETARIES

A Wolfson

I Rapley

REGISTERED OFFICE

Euro House
131/133 Ballards Lane
London N3 1GR

AUDITORS

Baker Tilly
Chartered Accountants
The Clock House
140 London Road
Guildford
Surrey
GU1 1UW

DIRECTOR'S REPORT

The director submits his report and the financial statements for the year ended 31 December 2004.

Statement of directors' responsibilities

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 of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent; and
- c. 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity

The principal activity of the company during the year was that of property investment.

Review of the business

The director regrets to report that the company incurred a loss in the year. However, he considers the prospects for the future to be satisfactory and the financial position to be sound.

Investment properties

The investment properties were valued at £12,400,000 (2003: £10,600,000) by the director as at 31 December 2004. Details of the investment properties are set out in note 7.

As at 1 August 2004 Mercer Oliver Wyman Limited, actuarial and financial consultants, valued the investment properties on an actuarial basis at £12,400,000.

Dividends

The director does not recommend the payment of a dividend.

Director and his interests

The director who served during the year was as follows:

W K Procter

The director had no beneficial interest in the share capital of the company at the year end.

DIRECTOR'S REPORT (Continued)

Auditors

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors of the company, will be put to the members at the Annual General Meeting.

By order of the Board,

A handwritten signature in black ink, appearing to be 'W K Procter', written in a cursive style.

W K Procter
Director

12 June 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVON CHALET'S LIMITED

We have audited the financial statements on pages 5 to 12.

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 Annual Report and the financial statements in accordance with applicable law and United Kingdom 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 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. 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 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 December 2004 and of the result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BAKER TILLY

Registered Auditor
Chartered Accountants
The Clock House
140 London Road
Guildford
Surrey GU1 1UW

12 June 2006

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 £	2003 £
Turnover	2	145,084	135,539
Administrative expenses		(90,604)	(86,737)
Operating profit		<u>54,480</u>	<u>48,802</u>
Interest payable	3	(164,096)	(56,705)
Loss on ordinary activities before taxation	4	<u>(109,616)</u>	<u>(7,903)</u>
Tax on loss on ordinary activities	6	-	-
Loss for the financial year	13	<u>£ (109,616)</u>	<u>£ (7,903)</u>

The operating profit for the year arises from the company's continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2004

Loss for the financial year		(109,616)	(7,903)
Unrealised surplus on valuation of properties	7	1,800,000	1,800,000
Total recognised gains and losses for the year		<u>£ 1,690,384</u>	<u>£ 1,792,097</u>

BALANCE SHEET

AT 31 DECEMBER 2004

	Note	2004 £	2003 £
Fixed assets			
Tangible assets	7	12,400,000	10,600,856
Current assets			
Debtors	8	1,008,503	867,492
Cash at bank and in hand		200	200
		<u>1,008,703</u>	<u>867,692</u>
Creditors: amounts falling due within one year	9	(895,470)	(809,795)
Net current assets		<u>113,233</u>	<u>57,897</u>
Total assets less current liabilities		<u>12,513,233</u>	<u>10,658,753</u>
Creditors: amounts falling due after more than one year	10	(1,052,512)	(888,416)
Net assets		<u>£ 11,460,721</u>	<u>£ 9,770,337</u>
Capital and reserves			
Called up share capital	12	200	200
Revaluation reserve	13	11,611,335	9,811,335
Profit and loss account	13	(150,814)	(41,198)
Shareholders' funds	13	<u>£ 11,460,721</u>	<u>£ 9,770,337</u>

Approved by the Board on 12 June 2006 and signed on its behalf by:



W K Procter
Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

1. Accounting policies

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with applicable accounting standards.

Investment properties

In accordance with Statement of Standard Accounting Practice No 19:

- investment properties are re-valued annually to open market value on an actuarial basis and the aggregate surplus or deficit is transferred to a revaluation reserve; and
- no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

This treatment, as regards certain of the company's investment properties, 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 director considers 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 annual valuation and the amount, which might otherwise have been shown, cannot be separately identified or quantified.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets other than freehold land and investment properties at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Equipment	25% straight line
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Turnover

Turnover comprises rents, insurance commission, lease extensions and administration fees receivable from investment properties.

Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

No provision is made for any liability to tax that would arise in the event of a disposal of investment properties at their revalued amounts. However, an estimate of this liability is given in note 11.

Cash flow statement

The company is exempt from the requirement to prepare a cash flow statement, as more than 90% of the voting rights are controlled within the group and consolidated financial statements in which the company is included are publicly available

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

2. Turnover	2004 £	2003 £
Rent receivable	138,474	130,653
Other	6,610	4,886
	<u>£ 145,084</u>	<u>£ 135,539</u>

3. Interest payable and similar charges	2004 £	2003 £
United Kingdom holding company	64,726	56,705
Prior year finance charges	96,892	-
Amortisation of finance charges	2,478	-
	<u>£ 164,096</u>	<u>£ 56,705</u>

The prior year finance charges represent the write-off of the unamortised element of finance charges incurred in previous years, which were being amortised over the life of the loan to which they related, now being written off in full in view of the refinancing of that loan in the year.

4. Loss on ordinary activities before taxation	2004 £	2003 £
This is stated after charging:		
Depreciation and amounts written off		
tangible fixed assets:		
owned assets	856	2,356
Auditors' emoluments	6,000	8,425
	<u> </u>	<u> </u>

5. Employees and director

Other than the director who received no remuneration, no persons were employed during the year (2003: £Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2004

6. Taxation	2004 £	2003 £
Current tax:		
UK corporation tax on losses of the year	-	-
Total current tax	-	-
Deferred tax	-	-
Tax on loss on ordinary activities	-	-
Factors affecting tax charge for the year		
Loss on ordinary activities before tax	£ (109,616)	£ (7,903)
Loss on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 30% (2003: 30%).	(32,885)	(2,371)
Effects of:		
Tax losses generated	32,417	1,664
UK transfer pricing	1,031	-
Other tax adjustments	(563)	707
Current tax charge for the year	£ -	£ -

The company has losses of £185,186 (2003: £77,000) available for carry forward against future trading profits.

No provision for deferred taxation has been made for the tax losses due to the uncertainty of their recoverability.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2004

7. Tangible fixed assets

	Freehold investment properties	Equipment	Total
Cost/valuation			
At 1 January 2004	10,600,000	17,150	10,617,150
Revaluation surplus	1,800,000	-	1,800,000
At 31 December 2004	12,400,000	17,150	12,417,150
Depreciation			
At 1 January 2004	-	16,294	16,294
Charge in year	-	856	856
At 31 December 2004	-	17,150	17,150
Net book value			
At 31 December 2004	12,400,000	-	£ 12,400,000
At 31 December 2003	10,600,000	856	£ 10,600,856

The historical cost of the properties was £788,865 (2003: £788,865).

In accordance with Statement of Standard Accounting Practice Number 19 the investment properties were valued by the director at £12,400,000 (2003: £10,600,000).

The freehold investment properties represent a portfolio of ground rents.

8. Debtors	2004 £	2003 £
Trade debtors	27,601	32,106
Amounts owed by group undertakings	980,902	835,386
	£ 1,008,503	£ 867,492
9. Creditors: amounts falling due within one year	2004 £	2003 £
Amounts owed to group undertakings	861,138	776,157
Other taxes and social security	1,201	1,462
Accruals and deferred income	33,131	32,176
	£ 895,470	£ 809,795

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2004

10. Creditors: amounts falling due after more than one year	2004 £	2003 £
United Kingdom holding company	£ 1,052,512	£ 888,416

The amount owed to the company's United Kingdom holding company, Fairhold Holdings Limited has been funded by a third party loan to that holding company on which interest has been suffered at 2% over LIBOR. The interest on this third party loan has been recharged to the company as group interest.

The amount due, subject to note 14, is unsecured and has no specific repayment date. Despite the loan being repayable on demand it is not the intention for the loan to be repaid within one year and it has therefore been treated as due after more than one year.

11. Provisions for liabilities and charges

Deferred taxation

No provision for deferred taxation has been made in respect of the property held as an investment which is included in these financial statements at a valuation of £12,400,000 (2003: £10,600,000). It is estimated that if this property were to be sold at that valuation the tax liability would amount approximately to £3,440,000 (2003: £2,910,000).

12. Share Capital	2004 £	2003 £
Authorised 200 Ordinary Shares of £1 each	£ 200	£ 200
Allotted, issued and fully paid 200 Ordinary Shares of £1 each	£ 200	£ 200

13. Reserves and reconciliation of movements in shareholders' funds

	Revaluation reserve	Share capital £	Profit and loss account £	Total shareholders' funds £
At 1 January 2004	9,811,335	200	(41,198)	9,770,337
Loss for the financial year	-	-	(109,616)	(109,616)
Revaluation surplus	1,800,000	-	-	1,800,000
Balance at 31 December 2004	11,611,335	200	(150,814)	£ 11,460,721

14. Contingent liabilities

The company has given an unlimited guarantee in respect of some of the indebtedness of its United Kingdom holding company. The guarantee is supported by a debenture and a charge over the company's properties. At 31 December 2004 the total amount outstanding subject to this guarantee was £49,800,000.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31ST DECEMBER 2004**

15. Immediate and United Kingdom holding company

The company's immediate and United Kingdom holding company is Fairhold Holdings Limited, which is registered in England and Wales. This parent undertaking is the holding company of both the largest and smallest group for which group accounts are prepared and of which the company is a member. Copies of the financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

16. Ultimate holding company

The director regards the ultimate holding company to be Euro Investments Incorporated, a company incorporated in the British Virgin Islands.

17. Controlling party

The ultimate controlling party is the Tchenguiz Family Trust.

18. Related party transactions

The company has taken advantage of the exemption within Financial Reporting Standard 8 not to disclose intra-group related party transactions between subsidiary undertakings where more than 90% of the voting rights are controlled within the group.