M Winkworth & Co. (Holdings) Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2001

Company Registration No. 1189557

M Winkworth & Co. (Holdings) Limited
DIRECTORS AND OFFICERS

DIRECTORS

I Ho-Terry
S P Agace

SECRETARY

I Ho-Terry

COMPANY NUMBER

1189557 (England and Wales)

REGISTERED OFFICE

118 Kensington Church Street
London
W8 4BH

AUDITORS

Baker Tilly
Registered Auditors
2 Bloomsbury Street
London
WC1B 3ST

M Winkworth & Co. (Holdings) Limited
DIRECTORS' REPORT

The directors present their report and financial statements of M Winkworth & Co. (Holdings) Limited for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the company during the year was that of franchisors in the field of estate agency.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

In the year 2001 the company advanced, bringing to fruition the future plans that followed a period of consolidation. The company has finalised its change in accounting procedures and is now moving forward to embracing a whole new internally designed software linking franchisees to franchisor, and have structured the line of responsibilities and expanded the marketing team. We expect the year 2002 to be a year of great expansion though the results of the expansion will not affect turnover until 2003.

There has been increased investment in our infrastructure and on developing new franchisee locations in preparation for more rapid future expansion of our core business. We welcomed Tara Tan, a qualified lawyer, and Jacqueline Dewar, financial controller into senior management roles. The franchisees became members of the National Approved Letting Scheme and the Ombudsman Scheme.

EVENTS SINCE THE END OF THE YEAR

With effect from 1 January 2002, the business assets and liabilities of the company have been transferred to a subsidiary undertaking, Winkworth Franchising Limited.

RESULTS AND DIVIDENDS

The trading profit for the year after taxation was £120,644.

A dividend of £700 per share (2000: £700) per share was paid during the year.

DIRECTORS

The following directors have held office since 1 January 2001:-

I Ho-Terry
S P Agace

DIRECTORS' INTERESTS IN SHARES

Directors' interests in the shares of the company, including family interests, were as follows:

	ordinary shares of £1 each	
	31.12.01	1.1.01
I Ho-Terry	-	-
S P Agace (as nominee)	1	1

CHARITABLE CONTRIBUTIONS

During the year, the company made charitable donations of £6,000.

INTRODUCTION OF THE EURO

All relevant parts of the group will be able to handle euro transactions when required.

EVENTS SINCE THE YEAR END

With effect from 1 January 2002, the business, assets and liabilities of the company have been transferred to a subsidiary undertaking, Winkworth Franchising Limited.

AUDITORS

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

On behalf of the board

I Ho-Terry
Director

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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 period. 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;

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 to 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF M WINKWORTH & CO. (HOLDINGS) LIMITED

We have audited the financial statements on pages 6 to 18.

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 the other information 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 within 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 as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly

BAKER TILLY
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London
WC1B 3ST

30 OCTOBER 2002

M Winkworth & Co. (Holdings) Limited
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2001

	Notes	2001 £	2000 £
TURNOVER	1	15,459,297	13,881,526
Cost of sales		(13,631,979)	(12,417,959)
Gross profit		1,827,318	1,463,567
Other operating expenses	2	(1,624,567)	(1,413,553)
OPERATING PROFIT		202,751	50,014
Investment income	3	11,090	11,650
		213,841	61,664
Amounts written off investments		-	(16,500)
Interest payable	4	(6,517)	(5,872)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	207,324	39,292
Taxation	7	(86,680)	(25,493)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		120,644	13,799
Dividends	8	(70,000)	(70,000)
RETAINED PROFIT/(LOSS) FOR THE YEAR	17	50,644	(56,201)

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

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

M Winkworth & Co. (Holdings) Limited

BALANCE SHEET

31 December 2001

	Notes	2001 £	2000 £
FIXED ASSETS			
Intangible assets	9	287,826	316,609
Tangible assets	10	100,143	96,934
Investments	11	55,093	102
		443,062	413,645
CURRENT ASSETS			
Debtors	12	808,243	1,175,724
Investments	13	800	800
Cash at bank and in hand		110,636	53,205
		919,679	1,229,729
CREDITORS: Amounts falling due within one year	14	(910,914)	(1,284,317)
NET CURRENT ASSETS/(LIABILITIES)		8,765	(54,588)
TOTAL ASSETS LESS CURRENT LIABILITIES		451,827	359,057
PROVISIONS FOR LIABILITIES AND CHARGES	15	(132,126)	(90,000)
		319,701	269,057
CAPITAL AND RESERVES			
Called up share capital	16	100	100
Profit and loss account	17	319,601	268,957
SHAREHOLDERS' FUNDS	18	319,701	269,057

Approved by the board on ....30 OCTOBER 2002

S P Agace Director

M Winkworth & Co. (Holdings) Limited
CASH FLOW STATEMENT
for the year ended 31 December 2001

	Notes	2001 £	2000 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	19	212,883	91,300
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		11,090	11,650
Interest paid		(505)	-
Interest element of finance lease rentals		-	(1,273)
Net cash inflow for returns on investment and servicing of finance		10,585	10,377
TAXATION		(18,003)	(60,000)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible assets		(23,545)	(34,388)
Payments to acquire investments		(6,270)	-
Receipts from sales of tangible assets		502	10,499
Loan made		(48,721)	-
Net cash outflow for capital expenditure		(78,034)	(23,889)
EQUITY DIVIDENDS PAID		(70,000)	(70,000)
Net cash inflow / (outflow) before financing		57,431	(52,212)
Capital element of finance lease contracts		-	(15,975)
INCREASE / (DECREASE) IN CASH IN THE YEAR		57,431	(68,187)

BASIS OF ACCOUNTING
The financial statements have been prepared under the historical cost convention.

GOODWILL
Goodwill representing the excess of the purchase price compared with the fair value of assets acquired is capitalised and written off over 20 years as in the opinion of the directors this represents the period over which the goodwill is likely to be effective.

TANGIBLE FIXED ASSETS
Fixed assets are stated at historical cost less depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:-

Equipment	33.33 % reducing balance
Fixtures & fittings	15% reducing balance
Motor vehicles	25% reducing balance

INVESTMENTS
Fixed asset investments are stated at cost less provision for permanent diminution in value.
Current asset investments are stated at the lower of cost and net realisable value.

DEFERRED TAXATION
Provision is made for taxation deferred or accelerated by the effect of timing differences, to the extent that it is probable that a liability will crystallise, at the rate expected to be ruling at that date.

LEASED ASSETS AND OBLIGATIONS
Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are"operating leases" and annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

TURNOVER
Turnover in respect of property sales is shown at the gross fee to which the company and the franchisee together are entitled, whereas turnover in respect of rentals and other fees is shown at the net figure due to the company.

Debtors and creditors reflect the gross position for property sales.

PROVISIONS FOR LIABILITIES AND CHARGES
Where the company has entered upon litigation either as claimant or respondent provision is made, based upon legal advice, of the likely third party costs of handling such claims, and where appropriate, of settling any liability arising therefrom. Potential receipts from litigation are only recognised once received.

This is a change in accounting policy. In previous years all such costs have been provided for but categorised as accruals. There is no net financial effect on the financial statements.

1. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's turnover and profit before taxation were all derived from its principal activity wholly undertaken in the United Kingdom.

On the basis of all sources of income being included gross (being the total fee income which the company and franchisee are together entitled), turnover for the year ended 31 December 2001 would be £19,174,350 (2000: £17,930,112).

2. OTHER OPERATING EXPENSES

	2001	2000
	£	£
Administrative expenses	1,624,567	1,547,098
Other operating income	-	(133,545)
	1,624,567	1,413,553

3. INVESTMENT INCOME

	2001	2000
	£	£
Bank interest	11,090	11,650

4. INTEREST PAYABLE

	2001	2000
	£	£
Finance Charges	51	1,273
Finance lease interest	6,012	-
Other	454	4,599
	6,517	5,872

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001	2000
	£	£
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Amortisation of intangible assets	28,783	28,783
Depreciation of tangible assets:		
Charge for the year:		
owned assets	30,746	27,360
Loss on disposals	11,057	5,610
Auditors' remuneration	25,000	32,540
Exceptional litigation expenses	200,911	-

6. EMPLOYEES

The average monthly number of persons (including directors) employed by the company during the year was:	2001 No.	2000 No.
Office and management	18	20

	2001 £	2000 £
Staff costs for the above persons:		
Wages and salaries	922,206	774,612
Social security costs	93,532	75,147
Other pension costs	4,362	5,579
	1,020,100	855,338

DIRECTORS' REMUNERATION	2001 £	2000 £
Emoluments for qualifying services	384,265	200,000

Emoluments disclosed above include the following amounts paid to the highest paid director:

	2001 £	2000 £
Emoluments for qualifying services	315,848	200,000

7 TAXATION

	2001 £	2000 £
Based on the profit for the year:		
UK corporation tax	77,593	49,178
Under/(over) provided in earlier years	9,087	(23,685)
	86,680	25,493

8. DIVIDENDS

	2001 £	2000 £
Ordinary:		
Interim paid - £700.00 per share (2000 - £700.00 per share)	70,000	70,000

9. INTANGIBLE FIXED ASSETS

	Goodwill
	£
Cost	
1 January 2001 and 31 December 2001	575,656
Amortisation	
1 January 2001	259,047
Charge in the year	28,783
31 December 2001	287,830
Net book value	
31 December 2001	287,826
31 December 2000	316,609

10. TANGIBLE FIXED ASSETS

	Fixtures & fittings	*Motor vehicles*	*Total*
	£	£	£
Cost			
1 January 2001	197,193	28,000	225,193
Additions	23,545	-	23,545
Transfer from subsidiary	34,941	-	34,941
Disposals	(6,340)	(28,000)	(34,340)
31 December 2001	249,339	-	249,339
Depreciation			
1 January 2001	108,322	19,937	128,259
Transfer from subsidiary	12,972	-	12,972
Charge in the year	30,746	-	30,746
Disposals	(2,844)	(19,937)	(22,781)
31 December 2001	149,196	-	149,196
Net book value			
31 December 2001	100,143	-	100,143
31 December 2000	88,871	8,063	96,934

Included above are assets held under finance leases or hire purchase contracts as follows:

	Fixtures & fittings
	£
Net book value	
31 December 2001	21,969

11. FIXED ASSET INVESTMENTS

	Loan	*Shares in participating interests*	*Shares in group undertakings*	*Total*
	£	£	£	£
Cost				
1 January 2001	-	16,500	102	16,602
Additions	48,721	6,270	-	54,991
31 December 2001	48,721	22,770	102	71,593
Provisions for diminution in value				
1 January 2001 and 31 December 2001	-	16,500	-	16,500
Net book value				
31 December 2001	48,721	6,270	102	55,093
31 December 2000	-	-	102	102

In the opinion of the directors the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

The company holds more than 20% of the share capital of the following companies:

Company	*Country of incorporation*	*Shares held Class*	*%*	*Principal Activity*
Subsidiary undertakings				
Winkworth Assets Limited	England	Ordinary	100	Property management
Winkworth Franchising Limited	England	Ordinary	100	Dormant
Winkworth Financial Services Limited	England	Ordinary	100	Mortgage Agent
Winkworth Online Limited	England	Ordinary	100	Dormant

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves	*Loss for the year*
	£	£
Winkworth Assets Limited	(7,666)	(3,653)
Winkworth Franchising Limited	-	-
Winkworth Financial Services Limited	(180,966)	(28,857)
Winkworth Online Limited	-	-

The accounts present information about the company as an individual undertaking, and not about its group, as the company has taken advantage of the exemption provided by section 248 of the Companies Act 1985 not to prepare group accounts.

The loan was converted into equity after the year-end.

12 DEBTORS

	2001	2000
	£	£
Due within one year:		
Trade debtors	415,199	973,234
Amounts owed by group undertakings	22,324	7,644
Other debtors	173,561	27,299
Prepayments and accrued income	197,159	167,547
	808,243	1,175,724

13. CURRENT ASSET INVESTMENTS

	2001	2000
	£	£
Other unlisted investments	800	800

14. CREDITORS: Amounts falling due within one year

	2001	2000
	£	£
Obligations under finance lease and hire purchase contracts	27,981	-
Trade creditors	376,503	786,406
Amounts owed to group undertakings	5,000	4,961
Corporation tax	78,170	9,493
Other taxes and social security costs	79,234	96,187
Other creditors	-	70,598
Accruals and deferred income	344,026	316,672
	910,914	1,284,317

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Litigation
	£
Balance at 1 January 2001	90,000
Transfer from profit and loss account	42,126
Balance at 31 December 2001	132,126

The litigation provision relates to a dilapidations dispute and other matters.

16. SHARE CAPITAL

	2001	2000
	£	£
Authorised:		
100 ordinary shares of £ 1 each	100	100
Allotted, issued and fully paid:		
100 ordinary shares of £ 1 each	100	100

17. STATEMENT OF MOVEMENT ON RESERVES

	Profit and loss account
	£
1 January 2001	268,957
Retained profit for the year	50,644
31 December 2001	319,601

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001	2000
	£	£
Profit for the financial year	120,644	13,799
Dividends	(70,000)	(70,000)
Net addition to/(depletion in) shareholders' funds	50,644	(56,201)
Opening shareholders' funds	269,057	325,258
Closing shareholders' funds	319,701	269,057

19. CASH FLOWS

a. Reconciliation of operating profit to net cash inflow from operating activities

	2001 £	2000 £
Operating profit	202,751	50,014
Depreciation of tangible assets	30,746	27,360
Amortisation of intangible assets	28,783	28,783
Loss on disposal of tangible assets	11,057	5,610
Decrease in debtors	367,481	260,720
Decrease in creditors within one year	(470,061)	(281,187)
Increase in litigation provision	42,126	-
Net cash inflow from operating activities	212,883	91,300

b. Analysis of net funds

	1 January 2001 £	Cash flow £	Other non-cash changes £	31 December 2001 £
Net cash:				
Cash at bank and in hand	53,205	57,431	-	110,636
Debt:				
Finance leases	-	-	(27,981)	(27,981)
Net funds	53,205	57,431	(27,981)	82,655

c. Reconciliation of net cash flow to movement in net debt

	2001 £	2000 £
Increase/(decrease) in cash in the year	57,431	(68,187)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	-	15,975
Change in net debt resulting from cashflows	57,431	(52,212)
Finance leases transferred from subsidiary	(27,981)	-
Movement in net funds in the year	29,450	(52,212)
Opening net funds	53,205	105,417
Closing net funds	82,655	53,205

d. Major non-cash transactions

During the year fixed assets under finance leases of £27,981 were transferred to the company by a subsidiary.

20. PENSION COMMITMENTS

DEFINED CONTRIBUTION

	2001 £	2000 £
Contributions payable by the company for the year	4,362	5,579

21. CONTROL

In the opinion of the directors, the company's ultimate holding company and controller is Merchant Charter Limited, a company incorporated in the British Virgin Islands.

22 RELATED PARTY TRANSACTIONS

The company trades in the normal course of business with some of the franchisees, group and other companies where one or more of the directors is a related party or the directors exercise significant control.
Details of net commission income received and and year end balances are as follows:

	Net Income		Year end trading balances (DR)	
	2001	2000	2001	2000
	£	£	£	£
Aysa Associates	-	-	-	15,500
Motionview	22,677	(232,495)	-	-
Merchant Charter *	-	-	-	(4,961)
Floatport	(51,072)	(3,618)	112,115	(63,896)
Lettings and PCM	-	20,641	-	-
Winkworth Assets Limited *	(44,828)	(17,131)	8,121	7,644
Winkworth Financial Services Limited (formerly Winkworth Mortgages Limited) *	1,010	13,146	14,203	-
YL Management	167	-	-	-
Caxton Street Properties Limited	(71,221)	-	71,221	-
London Mortgage Services Limited	(65,119)	-	65,119	-

* Group Companies

Dernbell Limited (formerly London Mortgage Services Limited) acted as a nominee company for the company during the year.

23. SUBSEQUENT EVENTS

With effect from 1 January 2002, the business, assets and liabilities of the company have been transferred to a subsidiary undertaking, Winkworth Franchising Limited.

Subsequent to the year-end the company acquired 22.5% of the equity in Caxton Street Properties Limited.