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**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003
FOR
LA MANZANILLA (UK) LIMITED**



LA MANZANILLA (UK) LIMITED

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FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003**

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LA MANZANILLA (UK) LIMITED

**COMPANY INFORMATION
FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003**

DIRECTORS:

N R Peele
D R Beamish
M R Lovett
D F Nordset
O E Sandoy

SECRETARY:

D R Beamish

REGISTERED OFFICE:

33 Cannon Street
London
EC4M 5TE

REGISTERED NUMBER:

04529068

AUDITORS:

MGI Midgley Snelling
6th Floor South
Brettenham House
Lancaster Place
London
WC2E 7EW

LA MANZANILLA (UK) LIMITED

**REPORT OF THE DIRECTORS
FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003**

The directors present their report with the financial statements of the company for the period 6 September 2002 to 31 October 2003.

INCORPORATION

The company was incorporated on 6 September 2002 and commenced trading on the same date.

PRINCIPAL ACTIVITY

The principal activity of the company in the period under review was that of establishing a holding company of overseas companies whom principal trading activity was that of residential property development.

On the 17th September 2002 the company agreed a purchase option to acquire the shares of two Spanish resident trading companies. The initial consideration paid for the purchase option equates to 1% of the overall purchase consideration for the entirety of the issued share capital of the two trading companies resident in Spain.

The company has exercised the option and is currently in the process of taking legal action to establish control over 100% of the share capital of these trading companies.

The company has focused on the development of the land owned by these companies in Spain into a golf course, golf club and residential properties.

The company currently has substantial cash balances which are interest earning. The cash balances are held in anticipation of completion of the purchase option where upon the company will use these funds to acquire 100% of the two trading companies in Spain.

DIRECTORS

The directors during the period under review were:

N R Peele	- appointed 6/9/02
D R Beamish	- appointed 6/9/02
M R Lovett	- appointed 6/9/02
D F Nordset	- appointed 6/9/02
O E Sandoy	- appointed 6/9/02

The beneficial interests of the directors holding office on 31 October 2003 in the issued share capital of the company were as follows:

	31.10.03	at date of appointment
Ordinary £1 shares		
N R Peele	15,000	-
D R Beamish	4,000	-
M R Lovett	5,000	-
D F Nordset	15,000	-
O E Sandoy	3,000	-

All the directors, being eligible, offer themselves for election at the forthcoming first Annual General Meeting.

LA MANZANILLA (UK) LIMITED

**REPORT OF THE DIRECTORS
FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003**

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 period. 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;
- 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.

AUDITORS

The auditors, MGI Midgley Snelling, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

ON BEHALF OF THE BOARD:


D R Beamish - Secretary

Date: 17 November 2004

**REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF
LA MANZANILLA (UK) LIMITED**

We have audited the financial statements of La Manzanilla (UK) Limited for the period ended 31 October 2003 on pages five to ten. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002), under the historical cost convention and 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 on page three the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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 Report of the Directors 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 Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit 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 October 2003 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



MGI Midgley Snelling
6th Floor South
Brettenham House
Lancaster Place
London
WC2E 7EW

Date: 17 November 2004..

LA MANZANILLA (UK) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003**

	Notes	£
TURNOVER	2	5,000
Administrative expenses		<u>6,860</u>
OPERATING LOSS	3	(1,860)
Interest receivable and similar income		<u>3,035</u>
		1,175
Interest payable and similar charges		<u>77</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,098
Tax on profit on ordinary activities	4	<u>-</u>
PROFIT FOR THE FINANCIAL PERIOD AFTER TAXATION		<u>1,098</u>
RETAINED PROFIT FOR THE PERIOD		<u><u>1,098</u></u>

The notes form part of these financial statements

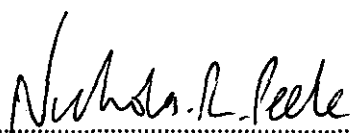
LA MANZANILLA (UK) LIMITED

**BALANCE SHEET
31 OCTOBER 2003**

	Notes	£
ASSETS		
Fixed Assets		
Intangible assets	5	<u>826,400</u>
Current Assets		
Debtors: amounts falling due within one year	6	24,050
Debtors: amounts falling due after more than one year	6	1,047,199
Cash at bank		<u>1,031,056</u>
		<u>2,102,305</u>
		<u>2,928,705</u>
LIABILITIES		
Capital and Reserves		
Called up share capital	7	44,000
Share premium	8	498,000
Profit and loss account	9	1,098
Shareholders' Funds		<u>543,098</u>
Other Liabilities		
Amounts falling due within one year	10	478,044
Amounts falling due after more than one year	11	1,907,563
		<u>2,385,607</u>
		<u>2,928,705</u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

ON BEHALF OF THE BOARD:


.....

N R Peele - Director

Approved by the Board on 17 November 2004...

The notes form part of these financial statements

LA MANZANILLA (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

Turnover

Turnover represents net invoiced sales of services, excluding value added tax.

Intangible Assets

The intangible asset represents an option to acquire shares and the direct legal costs associated with acquiring the option. The intangible asset is amortised over its useful economic life.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

2. TURNOVER

100% of turnover was attributable to markets outside the United Kingdom.

3. OPERATING LOSS

The operating loss is stated after charging/(crediting):

Auditors remuneration	£ 8,000
Foreign exchange differences	<u>(36,156)</u>
Directors' emoluments and other benefits etc	<u>-</u>

4. TAXATION

Analysis of the tax charge

No liability to UK corporation tax arose on ordinary activities for the period.

5. INTANGIBLE FIXED ASSETS

	Other intangible assets £
COST	
Additions	<u>826,400</u>
At 31 October 2003	<u>826,400</u>
NET BOOK VALUE	
At 31 October 2003	<u>826,400</u>

The intangible asset represents an option to acquire 100% of the share capital of two Spanish resident trading companies. The direct legal costs associated with the acquisition and exercise of the option have been included within the capitalised amount.

LA MANZANILLA (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003**

6. DEBTORS

	£
Amounts falling due within one year:	
Other debtors	1,500
VAT	<u>22,550</u>
	<u>24,050</u>
 Amounts falling due after more than one year:	
Other debtors	<u>1,047,199</u>
 Aggregate amounts	<u>1,071,249</u>

Other debtors of £1,047,199 represents the costs associated with acquiring planning permission for the land held by the two Spanish resident trading companies. These costs will be recharged to the respective companies when the company controls these two trading companies.

7. CALLED UP SHARE CAPITAL

Authorised:			
Number:	Class:	Nominal value:	£
52,500	Ordinary	£1	<u>52,500</u>
 Allotted, issued and fully paid:			
Number:	Class:	Nominal value:	£
44,000	Ordinary	£1	<u>44,000</u>

The share capital of 44,000 ordinary £1 shares was allotted during the period. 42,000 shares were allotted at nominal value and 2,000 shares were allotted at a premium of £249 per share.

8. RESERVES

	Profit and loss account £	Share premium £	Totals £
At 6 September 2002	-	498,000	498,000
Retained profit for the period	<u>1,098</u>	-	<u>1,098</u>
At 31 October 2003	<u>1,098</u>	<u>498,000</u>	<u>499,098</u>

LA MANZANILLA (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003**

9. CAPITAL COMMITMENTS

The company has exercised the option to acquire 100% of the shares of the two Spanish trading companies for Euro 22,610,075.

On completion of the exercise of the option the company has a commitment to sell approximately 2/3 of the land held by these two companies to Yeregui Desarrollo SL for Euro 53,000,000. In return for acquiring the land Yeregui Desarrollo SL will be commissioned to undertake or contract the work of developing the golf course, club house and infrastructure for the whole site.

10. OTHER LIABILITIES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£
Trade creditors	228,706
Accruals and deferred income	<u>249,338</u>
	<u>478,044</u>

11. OTHER LIABILITIES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	£
Other loans	<u>1,907,563</u>

12. SECURED DEBTS

The following secured debts are included within creditors:

	£
Other loans	<u>1,907,563</u>

The loans are secured by way of a fixed charge against the shares of La Manzanilla (UK) Limited.

The loans are interest free and are repayable on the date the golf course being developed in Spain is opened. A coupon of three times the value of the loan is payable on the same date or earlier by agreement.

LA MANZANILLA (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE PERIOD 6 SEPTEMBER 2002 TO 31 OCTOBER 2003**

13. RELATED PARTY DISCLOSURES

During the period O E Sandoy, a director, made an interest free loan to the company of £407,563.

The following directors charged consultancy including expenses to the company during the accounting period and the period prior to the company's incorporation as follows:-

N R Peele	£112,605
D F Nordset	£104,409
D R Beamish	£64,677

At the period end the following directors were owed amounts by the company:-

N R Peele	£28,573
D F Nordset	£14,589
D R Beamish	£6,895

During the period David Beamish Limited charged the company £12,143 including expenses for consultancy. David Beamish Limited is related to the company by virtue that D R Beamish is a director of both parties.

On 17 September 2002 La Manzanilla (UK) Limited took an assignment from N P Consultants Limited of the benefit of the option contract for a price of £142,337 (Euro 228,384.60) which is the same price as that originally paid for the option contract. N P Consultants Limited is a party related to La Manzanilla (UK) Limited by virtue of N R Peele owning 100% of the voting rights of N P Consultants Limited