

Caledonian Property Investments Limited

Directors' report and financial statements

31 March 2004

Registered in England and Wales number 669923



Caledonian Property Investments Limited

Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Directors' report	1 - 3
Directors' responsibilities statement	4
Independent auditor's report	5
Profit and loss account	6
Balance sheet	7
Statement of total recognised gains and losses	8
Notes	9 - 17

Caledonian Property Investments Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

Financial review

The results for the year are set out in the profit and loss account on page 6. A final dividend of £3,160,451 is recommended (2003: £32,918).

Principal activities

The Company is a property investment company. The directors foresee no material change in the nature of the Company's activities.

Properties

The Company's properties were revalued at 31 March 2004 as set out in note 6 to the financial statements.

Interests in subsidiary undertakings

The Company's interests in subsidiary undertakings were revalued at 31 March 2004 as set out in note 7 to the financial statements.

Directors and directors' interests

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

N G E Driver (resigned 11 March 2004)
S Dykes
N R Friedlos (appointed 11 March 2004)
N T J Groves
W Millsom (alternate to R A Rayne)
M A Pexton (appointed 11 March 2004)
The Hon RA Rayne
G Wright

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

The interests of The Hon RA Rayne in the shares of the Company's ultimate holding company and fellow subsidiary undertakings are set out in the financial statements of London Merchant Securities plc, the ultimate holding company.

The interests of the remaining directors in the shares of the Company's ultimate holding company and fellow subsidiary undertakings are set out below; their interests at the beginning of the year or at date of appointment are shown in brackets.

Caledonian Property Investments Limited

Directors' report (*continued*)

Directors' interests at 31 March 2004

London Merchant Securities plc

	27 18/41p Ordinary	27 18/41p Deferred Ordinary	Executive 178.5p options	Executive 114.5p options	Executive 96.0p options	Executive 135.0p options	SAYE 40.5p options	SAYE 65.25p options	SAYE 104.5p options	SAYE 130.0p options
S Dykes	8,011 (3,659)	3,308 (5,638)	32,496 (32,496)	55,681 (55,681)		12,029 (-)	- (-)	- (-)	16,148 (16,148)	- (-)
N R Friedlos	3,840 (3,694)	10,000 (10,000)	- (-)	- (-)	229,175 (229,175)	207,401 (207,401)	- (-)	- (-)	- (-)	7,096 (7,096)
NTJ Groves	8,011 (3,695)	48,808 (24,734)	33,337 (33,337)	82,972 (82,972)	- (-)	84,444 (-)	- (24,074)	8,965 (8,965)	12,308 (12,308)	3,871 (-)
W Millsom	382,127 (382,127)	354,017 (309,288)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
M A Pexton	57,930 (57,786)	- (-)	- (-)	131,003 (131,003)	- (-)	166,666 (166,666)	- (-)	- (-)	- (-)	7,096 (7,096)
G Wright	74,821 (74,821)	19,291 (19,291)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)

In accordance with the terms of the London Merchant Securities Executive Share Option Scheme

- i) Options were granted in 2000 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 178.5p per share. The expiry date of these options is 27 July 2010; and
- ii) options were granted in 2002 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 114.5p per share. The expiry date of these options is 4 September 2012; and
- iii) options were granted in 2003 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 96.0p per share. The expiry date of these options is 31 March 2013; and
- iv) options were granted in 2003 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 135.0p per share. The expiry date of these options is 28 August 2013.

In accordance with the terms of the London Merchant Securities Savings-Related Share Option Scheme:

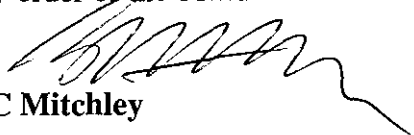
- i) Options were granted in 1996 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 40.5p per share. These options were exercised on 30 September 2003; and
- ii) options were granted in 1998 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 65.25p per share. The expiry date of these options is 30 September 2005; and
- iii) options were granted in 2001 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 104.5p per share. The expiry date of these options is 28 February 2009; and

- iv) options were granted in 2003 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 130.0p per share. The expiry date of these options is 31 July 2011.

Auditor

In accordance with S.385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



SC Mitchley
Secretary

16/07/2004

Carlton House
33 Robert Adam Street
London
W1U 3HR

2004

Caledonian Property Investments Limited

Directors' responsibilities statement

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 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Caledonian Property Investments Limited

We have audited the financial statements on pages 6 to 17.

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 auditor's 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 auditor

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit 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 at 31 March 2004 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

KPMG Audit Plc

2004

16/07/2004

Caledonian Property Investments Limited

Profit and loss account

for the year ended 31 March 2004

	Note	2004 £	2003 £
Net rental income from properties	2	3,896,220	3,895,585
Administrative expenses	3	(78,028)	(56,693)
Other income		18,727	2,300
Profit on disposal of investment properties		6,700	1,141,043
Operating profit		3,843,619	4,982,235
Interest receivable	4	2,810	17,707
Profit on ordinary activities before taxation		3,846,429	4,999,942
Tax on profit on ordinary activities	5	(3,809,235)	(3,825,982)
Profit on ordinary activities after taxation		37,194	1,173,960
Dividends proposed		(3,160,451)	(32,918)
(Loss)/profit for the financial year	13	(3,123,257)	1,141,042

All turnover and results are derived from continuing activities.


Caledonian Property Investments Limited

Balance sheet

at 31 March 2004

	Note	2004	2003
		£	£
Fixed assets			
Fixed assets - Investment properties	6	79,831,738	58,105,034
Other assets		45,284	52,291
Investment in subsidiary undertakings	7	50,000	50,000
		79,927,022	58,207,325
Current assets			
Debtors	8	8,768,900	16,040,259
Cash at bank and in hand		7,359	7,442
		8,776,259	16,047,701
Creditors: amounts falling due within one year	9	(39,203,358)	(35,335,896)
Net current liabilities		(30,427,099)	(19,288,195)
Total assets less current liabilities		49,499,923	38,919,130
Provision for liabilities and charges	10	(421,864)	(400,441)
Net assets		49,078,059	38,518,689
Capital and reserves			
Called up share capital	11	50,000	50,000
Revaluation reserve	12	49,028,059	35,423,507
Profit and loss account	13	-	3,045,182
Equity shareholders' funds	14	49,078,059	38,518,689

These financial statements were approved by the board of directors on 16/07/2004 and were signed on its behalf by:



N R Friedlos

Director

Caledonian Property Investments Limited

Statement of total recognised gains and losses

for the year ended 31 March 2004

	2004 £	2003 £
Profit for the financial year	37,194	1,173,960
Unrealised surplus on revaluation of investment properties	13,630,924	2,974,502
UITF 28 adjustment	51,703	-
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	13,719,821	4,148,462
	<hr/>	<hr/>

Note of historical profits and losses

for the year ended 31 March 2004

	2004 £	2003 £
Profit on ordinary activities before taxation	3,846,429	4,999,942
Realisation of property revaluation surpluses of previous years	78,075	-
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	3,924,504	4,999,942
	<hr/>	<hr/>
Historical cost (loss)/profit retained after taxation and dividends	(3,123,257)	1,141,042
	<hr/>	<hr/>

Caledonian Property Investments Limited

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified for the revaluation of investment property and the investment in the subsidiary undertaking.

Turnover

Turnover represents amounts invoiced to outside customers excluding VAT.

Interest and outgoings on development properties

All interest and outgoings incurred in respect of development properties are charged to the profit and loss account as incurred.

Investment properties

In accordance with SSAP 19 (revised) investment properties are revalued annually at open market values determined in accordance with the Guidance Notes on the valuation of assets, issued by the Royal Institution of Chartered Surveyors. Revaluation surpluses and deficits which are not permanent are included in the revaluation reserve, permanent deficits being taken through the profit and loss account.

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 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 and amortisation is only one of the many factors reflected in the annual valuation and the amount which might have otherwise been shown cannot be separately identified or quantified.

Repairs and renewals

No provision is made for future repairs and renewals of fixed assets, all such items being written off as incurred.

Depreciation

Fixed assets are depreciated at a rate calculated to reduce the book value to the estimated residual value at the end of their useful lives. The rates used are as follows:

Plant and machinery	-	20% per annum on cost
---------------------	---	-----------------------

Caledonian Property Investments Limited

Notes (continued)

2	Net rental income from properties	2004 £	2003 £
	Gross rental income	3,983,074	4,096,472
	Property outgoings less amounts recovered from tenants	(86,854)	(200,887)
		<u>3,896,220</u>	<u>3,895,585</u>

3 Administrative expenses

Audit fees for the year ended 31 March 2004 are accounted for on a group basis (2003: *£nil*).

The Company does not have any employees and there were no directors' emoluments (2003: *£nil*).

Administrative expenses include £11,813 (2003: £5,082) of depreciation expense.

4	Interest receivable	2004 £	2003 £
	Interest receivable	2,810	17,707
		<u>2,810</u>	<u>17,707</u>

Caledonian Property Investments Limited

Notes (continued)

5 Tax on profit on ordinary activities

	2004	2003
	£	£
Analysis of charge for year		
Group relief payable: current year	3,797,512	3,825,982
Corporation tax: prior year adjustment	(9,700)	-
	<hr/>	<hr/>
Total current tax	3,787,812	3,825,982
	<hr/>	<hr/>

The charge to corporation tax for the year has been relieved in part by the surrender of losses from other group companies for which payment will be made.

	2004	2003
	£	£
Deferred tax		
<i>Origination and reversal of capital allowances and other timing differences:</i>		
Prior year	9,700	-
Current year	11,723	-
	<hr/>	<hr/>
Total deferred tax	21,423	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	3,809,235	3,825,982
	<hr/>	<hr/>

Factors affecting the tax charge for the year

The tax assessed for the year is higher than that at the standard rate of corporation tax for the year. The differences are explained below:

	2004	2003
	£	£
Profit on ordinary activities before taxation	3,846,429	4,999,943
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard UK rate of corporation tax at 30%	1,153,929	1,499,983
Amounts paid for group relief in excess of 30% of the taxable profit	-	-
	2,658,258	2,678,187
Adjustments in respect of prior year	(9,700)	-
Capital allowances in year in excess of depreciation	(11,723)	-
Gain on disposal of investment property	(2,010)	(344,700)
Items disallowable for tax	3,852	-
Intercompany dividends receivable	-	(9,875)
Other items	(4,794)	2,387
	<hr/>	<hr/>
Current tax charge for the year	3,787,812	3,825,982
	<hr/>	<hr/>

Caledonian Property Investments Limited

Notes (continued)

6 Tangible assets	Freehold investment properties £	Long leasehold investment properties £	Total £
Net book amount at 31 March 2003	44,405,034	13,700,000	58,105,034
Amount included in prepayments under UITF 28	196,966	-	196,966
Open market value at 31 March 2003	44,602,000	13,700,000	58,302,000
Reclassification	13,700,000	(13,700,000)	-
Additions	8,194,076	-	8,194,076
Revaluation surplus	13,630,924	-	13,630,924
Disposals	(150,000)	-	(150,000)
At 31 March 2004 - valuation	79,977,000	-	79,977,000
Amount included in prepayments under UITF 28	(145,262)	-	(145,262)
Net book value at 31 March 2004	79,831,738	-	79,831,738
<i>Historical cost of revalued assets</i>			
At 31 March 2004	31,296,606	-	31,296,606
At 31 March 2003	14,965,643	8,286,887	23,252,530

The investment properties have been independently valued by Cluttons, Chartered Surveyors, of London as at 31 March 2004 on the basis of "Open Market Value" in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The reclassification between long leasehold properties and freehold properties was necessary due to a incorrect historical belief that the Triangle Centre was held leasehold from Merchant Nominees. Clarification has been sought during the year from our solicitors who have confirmed that it is in fact held freehold.

Caledonian Property Investments Limited

Notes (continued)

6 Tangible assets (continued)

Office
machinery ,
fixtures
and fittings
£

Cost

At 31 March 2003

54,270

Additions

4,806

At 31 March 2004

59,076

Depreciation

At 31 March 2003

1,979

Charge for year

11,813

At 31 March 2004

13,792

Net book value

At 31 March 2004

45,284

At 31 March 2003

52,291

7 Investments in subsidiary undertakings

Details of the Company's interest in its wholly-owned subsidiary undertakings are as follows:

Name

Country of registration

Caledonian Properties Limited

England

Group accounts are not submitted because the Company is itself a wholly-owned subsidiary of a company incorporated in Great Britain.

Caledonian Property Investments Limited

Notes (continued)

8 Debtors	2004	2003
	£	£
Due from tenants	9,632	351,818
Amounts owed by group undertakings:		
Fellow subsidiaries	8,050,331	15,335,863
Subsidiaries	105,538	136,612
Other debtors	86,329	19,000
Prepayments and accrued income	517,070	196,966
	<hr/>	<hr/>
	8,768,900	16,040,259
	<hr/>	<hr/>
9 Creditors: amounts falling due within one year	2004	2003
	£	£
Bank loans and overdrafts	-	12,092
Rents received in advance	484,311	478,172
Amounts owed to group undertakings:		
Fellow subsidiary undertakings	30,569,313	30,569,313
Group relief payable	3,797,512	3,825,982
Proposed dividends	3,160,451	32,918
Other taxation and social security	-	167,677
Accruals	1,191,171	249,142
Other creditors	600	600
	<hr/>	<hr/>
	39,203,358	35,335,896
	<hr/>	<hr/>

Caledonian Property Investments Limited

Notes (continued)

10 Deferred taxation

	2004	2003
	£	£
<i>Provision</i>		
At 31 March 2003	400,441	400,441
Prior year adjustment	9,700	-
Provision during the year	11,723	-
	<hr/>	<hr/>
At 31 March 2004	421,864	400,441
	<hr/>	<hr/>

11 Called up share capital

	2004	2003
	£	£
<i>Authorised, allotted, called up and fully paid</i>		
50,000 Ordinary shares of £1 each	50,000	50,000
	<hr/>	<hr/>

12 Revaluation reserve

	£
At 31 March 2003	35,423,507
Surplus arising on revaluation of investment properties	13,630,924
Transfer to profit and loss reserve of realised reserve on disposal	(78,075)
UITF 28 adjustment	51,703
	<hr/>
At 31 March 2004	49,028,059
	<hr/>

No provision has been made for any taxes which might become payable in the event of future sales or deemed disposals of these properties at their book values. In the opinion of the directors any such contingent liability would be £11,792,000 (2003: £7,841,000).

Caledonian Property Investments Limited

Notes (continued)

13 Profit and loss account

	2004 £	2003 £
Retained profit/(loss) brought forward	3,045,182	(349,148)
Reclassification of capital reserve	-	2,253,288
Transfer from revaluation reserve of realised reserve on disposal	78,075	-
Retained (loss)/profit for the financial year after dividends	(3,123,257)	1,141,042
	<hr/>	<hr/>
Retained result carried forward	-	3,045,182
	<hr/>	<hr/>

14 Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Profit for the financial year	37,194	1,173,960
Dividends	(3,160,451)	(32,918)
	<hr/>	<hr/>
Net addition to shareholders' funds	(3,123,257)	1,141,042
Other recognised gains and losses relating to the year (net)	13,682,627	2,974,502
	<hr/>	<hr/>
Net movement in shareholders' funds	10,559,370	4,115,544
Opening shareholders' funds	38,518,689	34,403,145
	<hr/>	<hr/>
Closing shareholders' funds	49,078,059	38,518,689
	<hr/>	<hr/>

15 Capital commitments

	2004 £	2003 £
Authorised but not contracted	3,472,737	17,684,000
	<hr/>	<hr/>

Caledonian Property Investments Limited

Notes (continued)

16 Charges

There is a floating charge over the Company's assets to secure a £175,000,000 bond of the ultimate parent company, London Merchant Securities plc.

17 Ultimate parent company

The Company is a member of the London Merchant Securities Group and the Company's ultimate parent company is London Merchant Securities plc, which is registered in England and Wales. Copies of the accounts of the above company may be obtained at the following address: Carlton House, 33 Robert Adam Street, London W1U 3HR.

18 Cash flow statement

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking.

19 Related party transactions

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by London Merchant Securities plc on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in the consolidated financial statements.

20 Going Concern basis

The Company's parent company, London Merchant Securities plc, has undertaken to make available to the Company sufficient funds to enable it to continue trading.