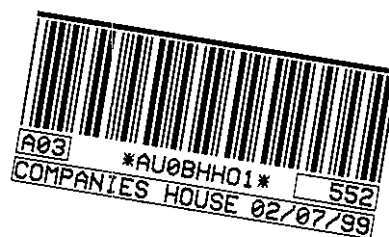


Caledonian Property Investments Limited

Directors' report and financial statements

31 March 1999

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
Auditor's report	5
Profit and loss account	6
Balance sheet	7
Statement of total recognised gains and losses	8
Notes	9 - 14

Caledonian Property Investments Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 1999.

Financial review

The results for the year are set out in the profit and loss account on page 6. A final dividend of £82,095 (1988 : £102,864) is recommended.

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 1999 as set out in note 7 to the financial statements. The Company received £192,000 after costs for the surrender of a lease.

Interests in subsidiary undertakings

The Company's interests in subsidiary undertakings were revalued at 31 March 1999 as set out in note 8 to the financial statements.

Directors and directors' interests

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

The Lord Rayne
CAJ Beckett
NGE Driver
W Millsom (alternate to NGE Driver)
AM Munro (resigned on 28 March 1999)
RFJ Spier (resigned on 31 July 1998)
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 interest of The Lord Rayne, Mr NGE Driver and Mr W Millsom 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 other directors in the shares of the Company's ultimate holding company and fellow subsidiary undertakings are set out on page 3; their interests at the beginning of the year are shown in brackets.

Caledonian Property Investments Limited

Directors' report (*continued*)

Year 2000

During the year the Company reviewed internal systems affecting its business, which involved updating computer systems and hardware.

In connection with the multi-occupied buildings where the Company has direct responsibility for management and maintenance of the plant and equipment therein, statements have been obtained from maintenance contractors responsible for such plant to the effect that the plant and equipment is millennium compliant or does not contain embedded chips or date sensitive parts that will be affected by the year change.

Where buildings are let to a single tenant on a FRI lease, the tenants are themselves directly responsible for compliance. However, letters have been sent to all of the tenants reminding them of their obligations.

The directors are satisfied that all reasonable steps have been taken to ensure the Year 2000 issue will not materially effect the Company's business.

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



M Waldron
Secretary

Carlton House
33 Robert Adam Street
London
W1M 5AH

10 June 1999

Caledonian Property Investments Limited

Notes to the directors' report

Directors' interests at 31 March 1999

London Merchant Securities plc

	27 18/41p Ordinary	27 18/41p Deferred Ordinary	SAYE 65.25p options
CAJ Beckett	34,722 (34,722)	17,595 (14,869)	14,942 (14,942)
G Wright	74,821 (74,821)	19,291 (19,291)	- (-)

In accordance with the terms of the London Merchant Securities Savings-Related Share Option Scheme 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 1 October 2001.

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;
- 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.

Auditor's report to the members of Caledonian Property Investments Limited

We have audited the financial statements on pages 6 to 14.

Respective responsibilities of directors and auditor

As described on page 4 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 affairs of the Company at 31 March 1999 and of its result 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

10 June 1999

Caledonian Property Investments Limited

Profit and loss account

for the year ended 31 March 1999

	<i>Note</i>	1999 £	1998 £
Net rental income from properties	2	3,195,327	3,189,904
Administrative expenses	3	(3,173)	(316)
Other income	4	250,460	21,968
Operating profit		3,442,614	3,211,556
Net finance costs	5	7,398	14,023
Profit on ordinary activities before taxation		3,450,012	3,225,579
Tax on profit on ordinary activities	6	(3,175,484)	(3,122,715)
Profit on ordinary activities after taxation		274,528	102,864
Transfer to capital reserve		(192,433)	-
		82,095	102,864
Dividends proposed		(82,095)	(102,864)
Retained for the financial year		-	-

All turnover and results are derived from continuing activities.

There were no recognised gains and losses other than the profit for the year.

Caledonian Property Investments Limited

Balance sheet

at 31 March 1999

	Note	1999 £	1998 £
Fixed assets			
Tangible assets	7	50,903,000	47,220,000
Investment in subsidiary undertakings	8	<u>50,000</u>	<u>50,000</u>
		50,953,000	47,270,000
Current assets			
Debtors	9	7,653,656	4,291,221
Cash at bank and in hand		61,471	9,727
		<u>7,715,127</u>	<u>4,300,948</u>
Creditors: amounts falling due within one year	10	<u>(27,282,154)</u>	<u>(23,935,724)</u>
Net current liabilities		(19,567,027)	(19,634,776)
Net assets		<u>31,385,973</u>	<u>27,635,224</u>
Capital and reserves			
Called up share capital	11	50,000	50,000
Revaluation reserve	12	29,082,685	25,524,369
Capital reserve	13	2,247,827	2,055,394
General reserve		5,461	5,461
Equity shareholders' funds	14	<u>31,385,973</u>	<u>27,635,224</u>

These financial statements were approved by the board of directors on 10th June 1999 and were signed on its behalf by:


NGE Driver
Director

Caledonian Property Investments Limited

Statement of total recognised gains and losses

for the year ended 31 March 1999

	1999 £	1998 £
Profit for the financial year	274,528	102,864
Unrealised surplus / (deficit) on revaluation of investment properties	3,558,316	(884,350)
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	<u>3,832,844</u>	<u>(781,486)</u>

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.

Interest and outgoings on development properties

All interest and outgoings incurred in respect of development properties are charged to 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 50 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.

Capital reserve

The Articles of Association provide that realised gains resulting from the sale of capital assets are not available for distribution. Accordingly any such gains or losses are taken to capital reserve.

Caledonian Property Investments Limited

Notes (continued)

2	Net rental income from properties	1999	1998
		£	£
	Gross rental income	3,252,612	3,252,133
	Property outgoings less amounts recovered from tenants	(60,228)	(53,196)
	Provision for bad and doubtful debts	2,943	(9,033)
		<hr/>	<hr/>
		3,195,327	3,189,904
		<hr/>	<hr/>
3	Administrative expenses		
	Audit fees are accounted for on a group basis. The Company does not have any employees and there were no directors' emoluments (1998: nil).		
4	Other income	1999	1998
		£	£
	Dividend receivable from subsidiary undertaking	11,336	11,762
	Lease renunciation	192,433	-
	Sundry income:		
	Insurance rebates	9,691	9,706
	Dilapidations	37,000	-
	Other	-	500
		<hr/>	<hr/>
		250,460	21,968
		<hr/>	<hr/>
5	Net finance costs	1999	1998
		£	£
	Interest receivable	7,486	14,023
	Interest payable - group undertakings	(88)	-
		<hr/>	<hr/>
		7,398	14,023
		<hr/>	<hr/>

Caledonian Property Investments Limited

Notes (continued)

6	Tax on profit on ordinary activities	1999 £	1998 £
	Corporation tax	2,250	2,172
	Adjustment relating to prior year	-	132
	Group relief payable	3,173,234	3,120,411
		<u>3,175,484</u>	<u>3,122,715</u>

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.

7	Tangible assets	Freehold investment properties £	Long leasehold investment properties £	Total £
	<i>Valuation</i>			
	At 31 March 1998	35,485,000	11,735,000	47,220,000
	Additions	123,988	696	124,684
	Revaluation surplus	3,044,012	514,304	3,558,316
		<u>38,653,000</u>	<u>12,250,000</u>	<u>50,903,000</u>
	<i>Historical cost of revalued assets</i>			
	At 31 March 1999	13,552,323	8,267,992	21,820,315
		<u>13,428,335</u>	<u>8,267,296</u>	<u>21,695,631</u>

The investment properties have been independently valued by Cluttons Daniel Smith, Chartered Surveyors, of London as at 31 March 1999 on the basis of "open market value" in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors.

Caledonian Property Investments Limited

Notes (continued)

8 Investments in subsidiary undertakings

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

<i>Name</i>	<i>Country of registration</i>	<i>Activity</i>
Caledonian Properties Limited	England	Property trading
St. James Construction Limited	England	Did not trade

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

9 Debtors	1999 £	1998 £
Due from tenants	16,343	48,261
Amounts owed by group undertakings:		
Fellow subsidiaries	7,392,455	4,109,627
Subsidiaries	199,811	120,407
Other debtors	3,683	12,796
Prepayments and accrued income	41,364	130
	<hr/>	<hr/>
	7,653,656	4,291,221
	<hr/>	<hr/>

10 Creditors: amounts falling due within one year

	1999 £	1998 £
Rents received in advance	416,694	387,252
Amounts owed to group undertakings:		
Fellow subsidiary undertakings	23,379,949	20,156,603
Group relief payable	3,173,234	3,120,411
Proposed dividends	82,095	102,864
Corporation tax	2,250	2,172
Other taxation and social security	111,970	136,236
Other creditors	115,962	30,186
	<hr/>	<hr/>
	27,282,154	23,935,724
	<hr/>	<hr/>

Caledonian Property Investments Limited

Notes (continued)

11 Called up share capital

	1999	1998
	£	£
<i>Authorised, allotted, called up and fully paid</i>		
50,000 Ordinary shares of £1 each	50,000	50,000

12 Revaluation reserve

	£
At 31 March 1998	25,524,369
Surplus arising on revaluation of investment properties	3,558,316
At 31 March 1999	29,082,685

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 £6,358,000 (1998 : £5,736,000).

13 Capital reserve

	£
At 31st March 1998	2,055,394
Lease renunciation	192,433
At 31st March 1999	2,247,827

Caledonian Property Investments Limited

Notes (continued)

14 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
Profit for the financial year	82,095	102,864
Dividends	(82,095)	(102,864)
Other recognised gains and losses relating to the year (net)	3,750,749	(884,350)
	<hr/>	<hr/>
Net movement in shareholders' funds	3,750,749	(884,350)
Opening shareholders' funds	27,635,224	28,519,574
	<hr/>	<hr/>
Closing shareholders' funds	31,385,973	27,635,224
	<hr/>	<hr/>

15 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 W1M 5AH.

16 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.