

Caledonian Property Investments Limited

Directors' report and financial statements

31 March 2003

Registered in England and Wales number 669923



Caledonian Property Investments Limited

Directors' report and financial statements

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Caledonian Property Investments Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

Financial review

The results for the year are set out in the profit and loss account on page 6. A final dividend of £32,918 is recommended (2002: Nil).

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 2003 as set out in note 7 to the financial statements.

Interests in subsidiary undertakings

The Company's interests in subsidiary undertakings were revalued at 31 March 2003 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:

NGE Driver
S Dykes
NTJ Groves
W Millsom (alternate to NGE Driver)
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 Mr NGE Driver and 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 are shown in brackets.

Caledonian Property Investments Limited

Directors' report (*continued*)

Directors' interests at 31 March 2003

London Merchant Securities plc

	27 18/41p Ordinary	27 18/41p Deferred Ordinary	Executive 178.5p options	Executive 114.5p options	SAYE 40.5p options	SAYE 65.25p options	SAYE 104.5p options
S Dykes	4,317 (-)	5,638 (5,638)	32,496 (32,496)	55,681 (-)	- (-)	- (-)	- (-)
NTJ Groves	3,695 (2,555)	24,734 (24,734)	33,337 (33,337)	82,972 (-)	24,074 (24,074)	8,965 (8,965)	12,308 (12,308)
W Millsom	382,127 (382,127)	309,288 (274,121)	- (-)	- (-)	- (-)	- (-)	- (-)
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
- iii) 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.

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

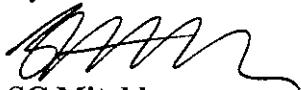
- i) Options were granted in 1996 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities plc at 40.5p per share. These options were exercised on 30 September 2003;
- ii) options were granted in 1998 to subscribe for 27 18/41p Deferred Ordinary shares in London Merchant Securities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

Directors' report (*continued*)

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

Carlton House
33 Robert Adam Street
London
W1U 3HR

22nd January 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.

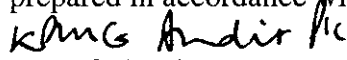
Basis of audit opinion

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 2003 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

22 January 2004

Caledonian Property Investments Limited

Profit and loss account

for the year ended 31 March 2003

	Note	2003 £	2002 £
Net rental income from properties	2	3,895,585	3,765,739
Administrative expenses	3	(56,693)	(1,243)
Other income	4	2,300	24,235
Profit on disposal of investment properties		1,141,043	-
Operating profit		4,982,235	3,788,731
Net finance income	5	17,707	504
Profit on ordinary activities before taxation		4,999,942	3,789,235
Tax on profit on ordinary activities	6	(3,825,982)	(3,747,996)
Profit on ordinary activities after taxation		1,173,960	41,239
Dividends proposed		(32,918)	-
Profit for the financial year	15	1,141,042	41,239

All turnover and results are derived from continuing activities.

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

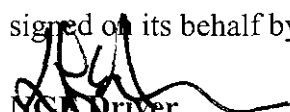
Caledonian Property Investments Limited

Balance sheet

at 31 March 2003

	Note	2003	2002
		£	£
Fixed assets			
Fixed assets - Investment properties	7	58,105,034	55,093,766
Other assets		52,291	-
Investment in subsidiary undertakings	8	50,000	50,000
		<u>58,207,325</u>	<u>55,143,766</u>
Current assets			
Debtors	9	16,040,259	15,128,004
Cash at bank and in hand		7,442	37,442
		<u>16,047,701</u>	<u>15,165,446</u>
Creditors: amounts falling due within one year	10	(35,335,896)	(35,505,626)
Net current liabilities		<u>(19,288,195)</u>	<u>(20,340,180)</u>
Total assets less current liabilities		<u>38,919,130</u>	<u>34,803,586</u>
Creditors: amounts falling due after more than one year			
Provision for liabilities and charges	11	(400,441)	(400,441)
Net assets		<u><u>38,518,689</u></u>	<u><u>34,403,145</u></u>
Capital and reserves			
Called up share capital	12	50,000	50,000
Revaluation reserve	13	35,423,507	32,449,005
Capital reserve	14	-	2,253,288
Profit and loss account	15	3,045,182	(349,148)
Equity shareholders' funds	16	<u><u>38,518,689</u></u>	<u><u>34,403,145</u></u>

These financial statements were approved by the board of directors on 22/1/2004 and were signed on its behalf by:


 NCB Driver
 Director

Caledonian Property Investments Limited

Statement of total recognised gains and losses

for the year ended 31 March 2003

	2003	2002
	£	£
Profit for the financial year	1,173,960	41,239
Unrealised surplus on revaluation of investment properties	2,974,502	3,040,810
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	4,148,462	3,082,049
	<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.

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 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.

Capital reserve

The capital reserves have historically arisen from the sale of properties and other investments. Following a change to the Company's Articles approved at the Annual General Meeting in July 2002, the capital reserves are now fully distributable. Accordingly, the capital reserve has been reclassified. The reclassification is considered appropriate and is consistent with the Company's Articles of Association.

Caledonian Property Investments Limited

Notes (continued)

2	Net rental income from properties	2003	2002
		£	£
	Gross rental income	4,096,472	3,854,942
	Property outgoings less amounts recovered from tenants	(200,887)	(89,203)
		<hr/>	<hr/>
		3,895,585	3,765,739
		<hr/>	<hr/>
3	Administrative expenses		
	Audit fees for the year ended 31 March 2003 are accounted for on a group basis (2002: £nil).		
	The Company does not have any employees and there were no directors' emoluments (2002: £nil).		
4	Other income	2003	2002
		£	£
	Dividend receivable from subsidiary undertaking	-	11,149
	Sundry income:		
	Insurance commission	-	11,911
	Other	2,300	1,175
		<hr/>	<hr/>
		2,300	24,235
		<hr/>	<hr/>
5	Net finance income	2003	2002
		£	£
	Interest receivable	17,707	504
		<hr/>	<hr/>
		17,707	504
		<hr/>	<hr/>

Caledonian Property Investments Limited

Notes (continued)

6 Tax on profit on ordinary activities

	2003 £	2002 £
Analysis of charge for year		
Group relief payable: Current year	3,825,982	3,736,067
Corporation tax: Current year	-	1,875
	<hr/>	<hr/>
Total current tax	3,825,982	3,737,942
	<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.

	2003 £	2002 £
Deferred tax		
Origination and reversal of capital allowances and other timing differences	-	10,054
	<hr/>	<hr/>
	<hr/>	<hr/>
Tax on profit on ordinary activities	3,825,982	3,747,996
	<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:

	2003 £	2002 £
Profit on ordinary activities before taxation	4,999,943	3,789,235
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard UK rate of corporation tax at 30%	1,499,983	1,136,770
Amounts paid for group relief in excess of 30% of the taxable profit	2,678,187	2,615,247
Tax saved by small companies relief at 10%	-	(938)
Capital allowances	-	(10,054)
Loss on sale of fixed investment property	(344,700)	-
Intercompany dividends receivable	(9,875)	(3,524)
Other items	2,387	441
	<hr/>	<hr/>
Current tax charge for the year	3,825,982	3,737,942
	<hr/>	<hr/>

Caledonian Property Investments Limited

Notes (continued)

7 Tangible assets	Freehold investment properties £	Long leasehold investment properties £	Total £
<i>Valuation</i>			
At 31 March 2002	42,128,000	13,000,000	55,128,000
Additions	939,274	(6,000)	933,274
Revaluation surplus	2,410,726	706,000	3,116,726
Disposals	(876,000)	-	(876,000)
	<hr/>	<hr/>	<hr/>
Open market value	44,602,000	13,700,000	58,302,000
Amount included in prepayments under UITF 28	(196,966)	-	(196,966)
	<hr/>	<hr/>	<hr/>
At 31 March 2003	44,405,034	13,700,000	58,105,034
	<hr/>	<hr/>	<hr/>
<i>Historical cost of revalued assets</i>			
At 31 March 2003	14,255,897	8,279,092	22,534,989
	<hr/>	<hr/>	<hr/>
At 31 March 2002	13,644,713	8,285,092	21,929,805
	<hr/>	<hr/>	<hr/>

The investment properties have been independently valued by Cluttons, Chartered Surveyors, of London as at 31 March 2003 on the basis of "Open Market Value" in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Caledonian Property Investments Limited

Notes (continued)

7 Tangible assets (continued)

Office
machinery ,
fixtures
and fittings
£

Cost

At 31 March 2002

-

Additions

57,373

Disposals

(3,103)

At 31 March 2003

54,270

Depreciation

At 31 March 2002

-

Charge for year

5,082

Disposals

(3,103)

At 31 March 2003

1,979

Net book value

At 31 March 2003

52,291

At 31 March 2002

-

8 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)

9 Debtors	2003 £	2002 £
Due from tenants	351,818	5,244
Amounts owed by group undertakings:		
Fellow subsidiaries	15,335,863	14,792,648
Subsidiaries	136,612	273,308
Other debtors	19,000	22,411
Prepayments and accrued income	196,966	34,391
Income tax	-	2

	16,040,259	15,128,004

10 Creditors: amounts falling due within one year

	2003 £	2002 £
Bank loans and overdrafts	12,092	5,606
Rents received in advance	478,172	392,348
Amounts owed to group undertakings:		
Fellow subsidiary undertakings	30,569,313	30,569,315
Group relief payable	3,825,982	3,736,067
Proposed dividends	32,918	-
Corporation tax	-	1,875
Other taxation and social security	167,677	162,788
Accruals	249,142	637,027
Other creditors	600	600

	35,335,896	35,505,626

Caledonian Property Investments Limited

Notes (continued)

11 Deferred taxation

	2003	2002
	£	£
<i>Provision</i>		
At 31 March 2002	400,441	390,387
Provision during the year	-	10,054
	<hr/>	<hr/>
	400,441	400,441
	<hr/>	<hr/>

12 Called up share capital

	2003	2002
	£	£
<i>Authorised, allotted, called up and fully paid</i>		
50,000 Ordinary shares of £1 each	50,000	50,000
	<hr/>	<hr/>

13 Revaluation reserve

	£
At 31 March 2002	32,449,005
Surplus arising on revaluation of investment properties	3,116,727
UITF 28 adjustment	(142,225)
	<hr/>
At 31 March 2003	35,423,507
	<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 £7,841,000 (2002: £7,061,000).

Caledonian Property Investments Limited

Notes (continued)

14 Capital reserve	£
At 31st March 2002	2,253,288
Profit on disposal of investment properties	-
Reclassification (see note below)	(2,253,288)
	<hr/>
At 31 March 2003	-
	<hr/> <hr/>

The capital reserves have historically arisen from the sale of properties and other investments. Following a change to the Company's Articles the capital reserves are now fully distributable. Accordingly, the capital reserve has been reclassified. The reclassification is considered appropriate and is consistent with the Company's Articles of Association.

15 Profit and loss account

	2003 £	2002 £
Retained loss brought forward	(349,148)	(390,387)
Reclassification (see note 14)	2,253,288	-
Retained profit for the financial year	1,141,042	41,239
	<hr/>	<hr/>
Retained profit/(loss) carried forward	3,045,182	(349,148)
	<hr/> <hr/>	<hr/> <hr/>

16 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit for the financial year	1,173,960	41,239
Dividends	(32,918)	-
	<hr/>	<hr/>
Net addition to shareholders' funds	1,141,042	41,239
Other recognised gains and losses relating to the year (net)	2,974,502	3,040,810
	<hr/>	<hr/>
Net movement in shareholders' funds	4,115,544	3,082,049
Opening shareholders' funds	34,403,145	31,321,096
	<hr/>	<hr/>
Closing shareholders' funds	38,518,689	34,403,145
	<hr/> <hr/>	<hr/> <hr/>

Caledonian Property Investments Limited

Notes (continued)

17 Capital Commitments

	2003 £	2002 £
Authorised but not contracted	17,684,000	14,000,000

18 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.

19 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.

20 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.