

Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

Business review

The principal activity of the company is property investment. There has been no significant change in the nature of the company's business activity, nor is any envisaged in the immediate future.

Financial statements and dividend

The result for the year ended 31 December 2001 is set out in the attached financial statements.

The directors do not recommend the payment of a dividend (2000: £nil).

Properties

A professional valuation of the company's investment properties was carried out at 31 December 2001 by the company's valuers, Cardales. The resultant figures have been included in the financial statements under review and the surplus of £2,940,000 (2000: Deficit - £50,000) above previous book value has been transferred to the revaluation reserve.

Directors and directors' interests


The directors who held office during the year, and who are still in office, are:

Mr BSE Freshwater
Mr D Davis

The Articles of Association of the Company do not require the directors to retire by rotation.

Neither director has a service contract or receives any emoluments from the company.

Day-to-day management of the company's properties is carried out by Highdorn Co. Limited. Mr BSE Freshwater is a director of Highdorn Co. Limited and has a non-beneficial interest in its share capital.

The whole of the issued share capital of the company is owned by Metropolitan Properties Company Limited. Mr BSE Freshwater and Mr D Davis are also directors of Metropolitan Properties Company Limited and Mr BSE Freshwater's interest therein is set out in the directors' report of that company. 

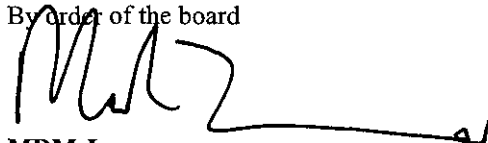
Apart from the aforementioned, at 31 December 2001, neither of the directors had any other interest in the share capital of the company, the company's parent undertaking or any subsidiary of the company's parent undertaking.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of Cohen, Arnold & Co. as joint auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Our joint auditors KPMG have indicated to the directors that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly, a resolution is to be proposed at the annual general meeting for the appointment of KPMG LLP as joint auditors of the company.

By order of the board



MRM Jenner
Secretary

Freshwater House
158/162 Shaftesbury Avenue
London WC2H 8HR

12 June 2002

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 group and of the profit or loss of the company and of the group 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 group will continue in business.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and which 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 group and to prevent and detect fraud and other irregularities.

Report of the joint independent auditors Cohen, Arnold & Co. and KPMG, to the members of Metropolitan Properties (City) Limited

We have audited the financial statements on pages 4 to 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, 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 director's 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 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.



Cohen, Arnold & Co
Chartered Accountants
Registered Auditors
London

12 June 2002



KPMG
Chartered Accountants
Registered Auditors
London

12 June 2002

Profit and loss account
for the year ended 31 December 2001

| | <i>Note</i> | 2001 | 2000 |
|--|-------------|------------------|------------------|
| | | £ | £ |
| Rents and service charges receivable | | 4,009,241 | 4,021,683 |
| Property outgoings | | (103,507) | (172,431) |
| | | <hr/> | <hr/> |
| | | 3,905,734 | 3,849,252 |
| Other income | | - | 100,000 |
| Administrative expenses | | (500) | (500) |
| | | <hr/> | <hr/> |
| Operating profit | | 3,905,234 | 3,948,752 |
| Interest payable | 2 | (3,200,000) | (3,752,000) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | 3 | 705,234 | 196,752 |
| Taxation | 4 | (220,000) | (62,000) |
| | | <hr/> | <hr/> |
| Retained profit for the financial year | 9 | 485,234 | 134,752 |
| | | <hr/> | <hr/> |

There is no difference between the results as stated and the results on a historic cost basis in either the current or previous year.

All of the company's activities are continuing.

Statement of total recognised gains and losses
for the year ended 31 December 2001

| | 2001 £ | 2000 £ |
|--|------------------|---------------|
| Retained profit for the financial year | 485,234 | 134,752 |
| Unrealised surplus/(deficit) on revaluation of investment properties | 2,940,000 | (50,000) |
| | <hr/> | <hr/> |
| Total recognised gains for the year | 3,425,234 | 84,752 |
| | <hr/> | <hr/> |

Balance sheet
at 31 December 2001

| | Note | 2001 | 2000 |
|---|------|--------------|--------------|
| | | £ | £ |
| Fixed assets | | | |
| Tangible assets | 5 | 52,740,000 | 49,800,000 |
| Current assets | | | |
| Debtors | 6 | 982,550 | 233,473 |
| Creditors: amounts falling due within one year | 7 | (54,578,415) | (54,314,572) |
| Net current liabilities | | (53,595,865) | (54,081,099) |
| Net liabilities | | (855,865) | (4,281,099) |
| Capital and reserves | | | |
| Called up share capital | 8 | 1,000 | 1,000 |
| Revaluation reserve | 9 | (110,000) | (3,050,000) |
| Profit and loss account | 9 | (746,865) | (1,232,099) |
| Equity shareholders' deficit | 10 | (855,865) | (4,281,099) |

These financial statements were approved by the board of directors on 12 June 2002 and were signed on its behalf by:


BSE Freshwater
 Director

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 under the historical cost convention, as adjusted by the policy of accounting for investment properties referred to below, and in accordance with applicable Accounting Standards.

The directors have received an assurance that the immediate parent undertaking, Metropolitan Properties Company Limited, will continue to provide such resources as are required by the company. On the basis of this assurance the financial statements have been prepared on a going concern basis.

Taxation

Current

Provision is made for consideration payable to or receivable from other group undertakings for the surrender of losses under group relief provisions.

Deferred

Deferred taxation is provided, using the liability method, in respect of all material timing differences only to the extent that it is probable that, in the opinion of the directors, an actual liability will crystallise.

Investment properties

Investment properties are included in the balance sheet at professional valuation at 31 December 2001, on the basis stated in note 5 to the financial statements.

In accordance with Statement of Standard Accounting Practice No. 19:

- i investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve, with the exception of permanent diminution value which are written off through the profit and loss account; and
- ii 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 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 financial statements 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 otherwise have been shown cannot be separately identified or quantified.

Cash flow statement

The company is exempt from the requirement to prepare a cash flow statement (in accordance with Financial Reporting Standard No. 1 (revised 1996)) on the grounds that it is a wholly owned subsidiary undertaking of an intermediate holding company registered in England and Wales which prepares consolidated financial statements that include a consolidated cash flow statement.

Notes (continued)

1 Accounting policies (continued)

Related party transactions

The company has taken advantage of the exemption in FRS8 Related Party Disclosures in order to dispense with the requirement to disclose transactions with other Metropolitan Properties Company Limited group companies.

2 Interest payable

| | 2001 £ | 2000 £ |
|-------------------------------|-----------|-----------|
| Group finance charges payable | 3,200,000 | 3,752,000 |

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

| | 2001 £ | 2000 £ |
|---|-----------|-----------|
| Auditors' remuneration for audit services | 500 | 500 |

The directors of the company did not receive any emoluments from the company during the year or in the previous year.

Apart from the directors, there were no employees of the company during the year or in the previous year.

4 Taxation

| | 2001 £ | 2000 £ |
|--|-----------|-----------|
| Consideration payable for group relief | 220,000 | 62,000 |

No provision has been made for any liability that may arise in respect of deferred taxation relating to surpluses on revaluation of investment properties as in the opinion of the directors these properties are held for long-term investment purposes and consequently any liability will be recognised when disposal takes place.

The potential deferred taxation liability at 31 December 2001, based upon original group base value for which no provision has been made, is estimated at £1.6 million (2000: £0.9 million).

Notes (continued)

5 Tangible fixed assets

| | |
|--|-------------------|
| <i>Investment properties:</i> | £ |
| <i>Land and buildings (freehold properties):</i> | |
| At 1 January 2001 | 49,800,000 |
| Surplus on revaluation (note 9) | 2,940,000 |
| | <hr/> |
| At 31 December 2001 - At valuation | 52,740,000 |
| | <hr/> |

A professional valuation of the company's investment properties was carried out at 31 December 2001 by the company's valuers, Cardales. The valuation figures are based on open market value assessed in accordance with the RICS Statement of Asset Valuation Practice and Guidance Notes.

The relevant amounts determined under the historical cost convention of land and buildings based upon group transfer value included in the financial statements at valuation are as follows:

| | |
|---|-------------------|
| <i>Cost:</i> | £ |
| At 31 December 2001 and 31 December 2000 | 52,850,000 |
| | <hr/> |

6 Debtors

| | 2001 £ | 2000 £ |
|---|----------------|----------------|
| Rents and service charges due and accrued | 981,250 | 120,222 |
| Consideration receivable for group relief | - | 112,000 |
| Other debtors and prepayments | 1,300 | 1,251 |
| | <hr/> | <hr/> |
| | 982,550 | 233,473 |
| | <hr/> | <hr/> |

7 Creditors: amounts falling due within one year

| | 2001 £ | 2000 £ |
|---|-------------------|-------------------|
| Rents charged and paid in advance | 925,151 | 916,837 |
| Amount due to immediate parent undertaking | 52,970,651 | 49,781,646 |
| Amount due to fellow subsidiary undertaking | 399,909 | 3,553,426 |
| Consideration payable for group relief (note 4) | 282,000 | 62,000 |
| Other creditors and accruals | 704 | 663 |
| | <hr/> | <hr/> |
| | 54,578,415 | 54,314,572 |
| | <hr/> | <hr/> |

Notes (continued)

8 Called up share capital

| | 2001 £ | 2000 £ |
|---|-----------|-----------|
| <i>Authorised, allotted, called up and fully paid</i> | | |
| 1,000 ordinary shares of £1 each | 1,000 | 1,000 |

9 Reserves

| | Profit and loss account £ | Revaluation reserve £ | Total £ |
|--|---------------------------------|-----------------------------|-------------|
| At 1 January 2001 | (1,232,099) | (3,050,000) | (4,282,099) |
| Profit for the year after taxation | 485,234 | - | 485,234 |
| Surplus on revaluation of tangible fixed assets (note 5) | - | 2,940,000 | 2,940,000 |
| At 31 December 2001 | (746,865) | (110,000) | (856,865) |

10 Reconciliation of movements in shareholders' deficit

| | 2001 £ | 2000 £ |
|--|-------------|-------------|
| Retained profit for the financial year | 485,234 | 134,752 |
| Unrealised surplus/(deficit) on revaluation of investment properties | 2,940,000 | (50,000) |
| Net decrease in shareholders' deficit | 3,425,234 | 84,752 |
| Opening shareholders' deficit | (4,281,099) | (4,365,851) |
| Closing shareholders' deficit | (855,865) | (4,281,099) |

11 Charges on assets and guarantees

The company has charged its freehold investment properties with a book value at 31 December 2001 of £52,740,000 (2000: £49,800,000) as part security for loan facilities granted to Metropolitan Properties (Commercial) Limited, a subsidiary of an intermediate parent undertaking and also executed a floating charge over all the assets and undertaking of the company. At 31 December 2001, the aggregate indebtedness amounted to £34,525,000 (2000: £34,825,000).

Notes *(continued)*

12 Directors' interest in contracts

Day-to-day management of the company's properties is carried out by Highdorn Co. Limited, one of the Freshwater Group of Companies, with which this company is closely connected. Mr BSE Freshwater is a director of Highdorn Co. Limited and has a non-beneficial interest in the share capital of that company.

During the year £74,198 (2000: £91,764), including VAT, was payable to Highdorn Co. Limited for the full range of management and administrative services which were charged for at normal commercial rates.

13 Ultimate parent undertaking

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up is Centremanor Limited, a company registered in England and Wales.

The parent undertaking of the smallest group of undertakings for which group financial statements are drawn up is Metropolitan Properties Company Limited, a company registered in England and Wales.

Copies of these financial statements can be obtained from the following address:

Freshwater House, 158/162 Shaftesbury Avenue, London WC2H 8HR.

The ultimate parent undertaking is Linnet Limited, a company incorporated in the Isle of Man and controlled by trusts.