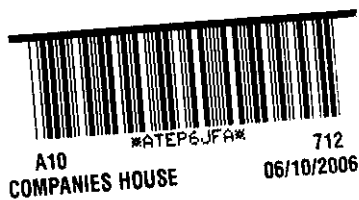


Metropolitan Properties (Investments) Limited

**Directors' report and financial
statements**

Registered number 3389544

31 December 2005



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 2005.

Principal activity

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

Financial statements and dividend

The result for the year ended 31 December 2005 is set out in the attached financial statements.

The directors do not recommend the payment of a dividend (2004: *£nil*).

Properties

A professional valuation of the company's investment properties was carried out at 31 December 2005 by the company's valuers, Cardales. The resultant figures have been included in the financial statements under review and the surplus of £1,945,000 (2004: £590,000) above previous book values has been transferred to 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 nor 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.

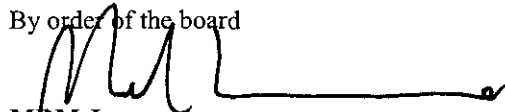
The whole of the issued share capital of the company is owned by Metropolitan Properties Company Limited. Mr BSE Freshwater and Mr D Davis are also directors of Metropolitan Properties Company Limited and Mr BSE Freshwater's interest therein is set out in the directors' report of that company.

Apart from the aforementioned, at 31 December 2005, the directors did not have 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 and KPMG LLP as joint auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



MRM Jenner
Secretary

Freshwater House
158/162 Shaftesbury Avenue
London WC2H 8HR

16 June 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

Report of the joint independent auditors, Cohen Arnold and KPMG LLP, to the members of Metropolitan Properties (Investments) Limited

We have audited the financial statements of Metropolitan Properties (Investments) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under 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 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 auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report 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 International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



Cohen Arnold
Chartered Accountants
Registered Auditor
London

16 June 2006



KPMG LLP
Chartered Accountants
Registered Auditor
London

16 June 2006

Profit and loss account
for the year ended 31 December 2005

	<i>Note</i>	2005 £	2004 £
Rents and charges receivable		2,527,694	2,213,388
Property outgoings		(1,100,064)	(1,104,334)
		<hr/>	<hr/>
Administrative expenses		1,427,630 (7,000)	1,109,054 (7,000)
		<hr/>	<hr/>
Operating profit		1,420,630	1,102,054
Interest receivable	2	5,497	5,300
Interest payable	3	(563,000)	(582,000)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	4	863,127	525,354
Tax on profit on ordinary activities	5	(263,000)	(157,000)
		<hr/>	<hr/>
Profit for the financial year	10	600,127	368,354
		<hr/>	<hr/>

All of the company's activities are continuing.

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

Statement of total recognised gains and losses
for the year ended 31 December 2005

	2005 £	2004 £
Profit for the financial year	600,127	368,354
Unrealised surplus on revaluation of investment properties	1,945,000	590,000
	<hr/>	<hr/>
Total recognised gains for the year	2,545,127	958,254
	<hr/>	<hr/>

Balance sheet
at 31 December 2005

	<i>Note</i>	2005	2004
		£	£
Fixed assets			
Tangible assets	6	22,420,000	20,475,000
Current assets			
Debtors	7	747,521	506,374
Cash at bank		131,902	128,865
		<u>879,423</u>	<u>635,239</u>
Creditors: amounts falling due within one year	8	<u>(10,262,859)</u>	<u>(10,618,802)</u>
Net current liabilities		<u>(9,383,436)</u>	<u>(9,983,563)</u>
Net assets		<u>13,036,564</u>	<u>10,491,437</u>
Capital and reserves			
Called up share capital	9	2	2
Revaluation reserve	10	9,539,781	7,594,781
Profit and loss account	10	3,496,781	2,896,654
Equity shareholders' funds	11	<u>13,036,564</u>	<u>10,491,437</u>

These financial statements were approved by the board of directors on 16 June 2006 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 financial statements have been prepared on the going concern basis, notwithstanding the company's net current liabilities, which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Metropolitan Properties Company Limited, the company's immediate parent undertaking. Metropolitan Properties Company Limited has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available.

This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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 tax is provided in accordance with Financial Reporting Standard No. 19 (FRS 19). Under FRS 19 full provision is made in respect of all timing differences that have originated but not reversed by the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in future, except that:

- i no provision is made in respect of unrealised property revaluation surpluses; and
- ii deferred tax assets are recognised to the extent that they are considered recoverable.

Deferred tax is measured on a non-discounted basis at the tax rates which apply at the balance sheet date.

Investment properties

Investment properties are included in the balance sheet at professional valuation at 31 December 2005, on the basis stated in note 6 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 diminutions in value which are written off through the profit and loss account; and

Notes (continued)

1 Accounting policies (continued)

Investment properties (continued)

- 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 immediate holding company registered in England and Wales which prepares consolidated financial statements that include a consolidated cash flow statement.

Related party transactions

The company has taken advantage of the exemption in FRS 8 Related Party Disclosures in order to dispense with the requirement to disclose transactions with other Metropolitan Properties Company Limited group companies.

2 Interest receivable

	2005 £	2004 £
External interest receivable	5,497	5,300

3 Interest payable

	2005 £	2004 £
Group finance charges payable	563,000	582,000

4 Profit on ordinary activities before taxation

	2005 £	2004 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration for audit services	7,000	7,000

Notes (continued)

5 Tax on profit on ordinary activities

<i>a) Analysis of charge for the year</i>	2005 £	2004 £
Consideration payable for group relief:		
Current year	263,000	157,000
	<hr/>	<hr/>
<i>b) Factors affecting the tax charge for the year</i>		
Profit on ordinary activities before taxation	863,127	525,354
	<hr/>	<hr/>
Profit on ordinary activities at the standard rate of 30% (2004: 30%)	258,938	157,606
Disallowed expenses	5,644	-
Sundry differences	(1,582)	(606)
	<hr/>	<hr/>
Current tax charge (see above)	263,000	157,000
	<hr/>	<hr/>

c) Factors affecting the tax charge for future years

The potential deferred taxation liability, at 31 December 2005, in respect of the surpluses on revaluation of investment properties, for which no provision has been made, is estimated at £1,964,000 (2004: £1,483,000).

6 Tangible fixed assets

	Freehold £	Leasehold £	Total £
<i>Investment properties</i>			
<i>Land and buildings</i>			
At 31 December 2004 - at valuation	18,560,000	1,915,000	20,475,000
Surplus on revaluation (note 10)	1,710,000	235,000	1,945,000
	<hr/>	<hr/>	<hr/>
At 31 December 2005 - at valuation	20,270,000	2,150,000	22,420,000
	<hr/>	<hr/>	<hr/>

A professional valuation of the company's investment properties was carried out at 31 December 2005 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 included in the financial statements at valuation are as follows:

	£
<i>Cost</i>	
At 31 December 2005 and 31 December 2004	12,880,219
	<hr/>

Notes (continued)

7 Debtors

	2005 £	2004 £
Rents and service charges due and accrued	681,051	466,153
Other debtors and prepayments	66,470	40,221
	<u>747,521</u>	<u>506,374</u>

8 Creditors: amounts falling due within one year

	2005 £	2004 £
Rents and service charges charged and paid in advance	562,540	531,066
Consideration payable for group relief (note 5)	420,000	280,000
Amounts due to immediate parent undertaking	8,262,864	8,807,402
Amount due to fellow subsidiary undertaking	563,000	582,000
Tenant deposits	131,902	128,865
Other creditors and accruals	322,553	289,469
	<u>10,262,859</u>	<u>10,618,802</u>

9 Called up share capital

	2005 £	2004 £
<i>Authorised</i>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called up and fully paid</i>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

Notes (continued)

10 Reserves

	£	£
Revaluation reserve:		
At 1 January 2005	7,594,781	
Surplus on revaluation of tangible fixed assets (note 6)	1,945,000	
	<hr/>	
At 31 December 2005		9,539,781
Profit and loss account:		
At 1 January 2005	2,896,654	
Profit for the year	600,127	
	<hr/>	
At 31 December 2005		3,496,781
Total reserves at 31 December 2005		<hr/> 13,036,562 <hr/>

11 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Profit for the financial year	600,127	368,354
Unrealised surplus on revaluation of investment properties	1,945,000	590,000
	<hr/>	<hr/>
Net addition to shareholders' funds	2,545,127	958,354
Opening shareholders' funds	10,491,437	9,533,083
	<hr/>	<hr/>
Closing shareholders' funds	13,036,564	10,491,437
	<hr/>	<hr/>

12 Contingent liabilities

The company has charged certain of its freehold and leasehold investment properties with an aggregate book value of £22,000,000 (2004: £20,140,000) as part security for loan facilities granted to Centremanor (E.S.) 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 2005 the aggregate indebtedness amounted to £30,425,000 (2004: £30,425,000).

Notes *(continued)*

13 Directors' interests 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 associated. 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 £69,136 (2004: £72,493), including VAT, was paid to Highdorn Co. Limited for the full range of management and administrative services which were charged for at normal commercial rates.

14 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.

Property revenue account
for the year ended 31 December 2005

	£	2005	£	£	2004	£
Rents and charges receivable			2,527,694			2,213,388
Property outgoings						
Ground rent	50,964				20,964	
General and water rates	63,147				81,593	
Insurances	130,172				111,546	
Repairs and maintenance	338,095				398,475	
Lighting and heating	132,466				123,519	
Porterage and cleaning	292,055				269,352	
Legal and professional charges	24,029				26,392	
Letting commission	12,741				23,796	
Management commission	56,395				48,697	
			(1,100,064)			(1,104,334)
Net property revenue			1,427,630			1,109,054

This schedule is provided for information purposes only and does not form part of the audited financial statements.