

**Cairnsmore Two Limited**

Directors' report and financial statements

Registered number 04103972

31 March 2006

MONDAY



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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2006

### Business activities

During the financial year, the company did not trade

In the prior period the legal structure of the group of which the company is a member was revised which resulted in the group's investment property portfolio being transferred from the existing group entities. Following the transfer of these investment properties, the existing group entities, including Cairnsmore Two Limited, ceased trading. As the directors do not intend to acquire a replacement trade they have not prepared the financial statements on a going concern basis. The effect of this is explained in note 1 to the financial statements.

### Results and dividends

The result for the year is shown in the profit and loss account on page 5. The company did not pay an interim dividend during the year (2005 £289,475). The company did not declare a dividend in specie in the year (2005 £1,342,867).

### Financial instruments

The company's policy is to minimise the use of complex financial instruments.

### Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Directors and directors' interests

The directors of the company are as follows:

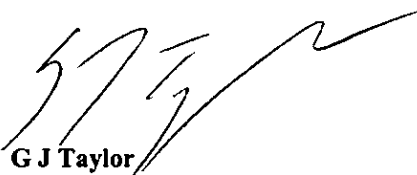
GJ Taylor  
LE Ludgate  
KA Jones

None of the directors held any notifiable interests in the shares of the company, its ultimate parent company or any of its fellow subsidiaries at the beginning or end of the financial year.

### Auditors

A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

  
G J Taylor  
Secretary

4<sup>th</sup> April 2007

## **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 and applicable law (UK Generally Accepted Accounting Practice).

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. As explained in note 1 to the financial statements, the directors do not believe the going concern basis to be appropriate for the preparation of the financial statements of the company and therefore the financial statements of the company have not been prepared on a going concern basis.

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.



## KPMG LLP

191 West George Street  
Glasgow  
G2 2LJ  
United Kingdom

### **Independent auditors' report to the members of Cairnsmore Two Limited**

We have audited the financial statements of Cairnsmore Two Limited for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Note of Historical Cost Profits and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes and which have not been prepared on the going concern basis for the reasons set out in note 1 to the financial statements. 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**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

## **Independent auditors' report to the members of Cairnsmore Two Limited** *(continued)*

### **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 March 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*KPMG LLP*  
**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

*5 April 2007*

**Profit and loss account**  
*for year ended 31 March 2006*

	<i>Note</i>	<b>Discontinued operations</b> <b>Year to</b> <b>31 March</b> <b>2006</b> <b>£</b>	<b>15 months</b> <b>to 31 March</b> <b>2005</b> <b>£</b>
<b>Turnover</b>	<i>1</i>	-	193,440
Cost of sales		-	5,708
		<hr/>	<hr/>
<b>Gross profit</b>		-	199,148
Administrative expenses		2,250	(1,000)
		<hr/>	<hr/>
<b>Operating profit</b>		2,250	198,148
Gain on sale of investment property		-	500,000
		<hr/>	<hr/>
<b>Profit on ordinary activities before interest</b>		2,250	698,148
Interest receivable	<i>3</i>	2,019	49,450
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	<i>2</i>	4,269	747,598
Taxation	<i>4</i>	(1,281)	(70,382)
		<hr/>	<hr/>
<b>Profit on ordinary activities after taxation and for the financial year/period</b>	<i>9</i>	2,988	677,216
		<hr/>	<hr/>


A statement of movement on reserves is included in note 9

There were no recognised gains or losses in the year/period other than the above profit for the financial year/period

**Balance sheet**  
*at 31 March 2006*

	<i>Note</i>	2006 £	2005 £
<b>Current assets</b>			
Debtors	6	-	131
<b>Creditors</b> amounts falling due within one year	7	(6,297)	(9,416)
<b>Net liabilities</b>		(6,297)	(9,285)
<b>Capital and reserves</b>			
Called up share capital	8	1	1
Profit and loss account	9	(6,298)	(9,286)
<b>Equity shareholders' deficit</b>		(6,297)	(9,285)

These financial statements were approved by the board of directors on 4<sup>th</sup> April 2007 and were signed on its behalf by

  
**G J Taylor**  
*Director*



**Note of historical cost profits and losses**  
*for the year ended 31 March 2006*

	Year ended 31 March 2006 £	15 month period ended 31 March 2005 £
Reported profit on ordinary activities before taxation	4,269	747,598
Realisation of property revaluation gains of previous years	-	842,867
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	4,269	1,590,465
	<hr/>	<hr/>
Historical cost for the year/period after taxation and dividends	2,988	(112,259)
	<hr/> <hr/>	<hr/> <hr/>

**Reconciliation of movement in equity shareholders' (deficit)/funds**  
*for the year ended 31 March 2006*

	Year ended 31 March 2006 £	15 month period ended 31 March 2005 £
Profit for financial year/period	2,988	677,216
Dividends    Interim dividend	-	(289,475)
Dividend in specie	-	(1,342,867)
	<hr/>	<hr/>
Net increase/(reduction) in shareholders' funds	2,988	(955,126)
Equity shareholders' funds brought forward	(9,285)	945,841
	<hr/>	<hr/>
Equity shareholders' deficit carried forward	(6,297)	(9,285)
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## 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 to include the revaluation of investment properties

In the prior period, the legal structure of the group of which the company is a member was revised which resulted in the group's investment property portfolio being transferred from the existing group entities. Following the transfer of these investment properties, the existing group entities, including Cairnsmore Two Limited, ceased trading. As the directors do not intend to acquire a replacement trade, they have not prepared the financial statements on a going concern basis. No adjustments were necessary to the amounts at which the remaining net liabilities are included in these financial statements.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that the company is a small company.

#### *Investment properties*

Investment properties are defined as properties held for their investment potential. These properties are held in the balance sheet at their open market value at the balance sheet date on the basis of a directors' valuation.

In accordance with SSAP 19, (i) investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve, and (ii) no depreciation or amortisation is provided in respect of investment properties. This 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 or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot separately be identified or quantified.

#### *Taxation*

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as required by FRS 19.

#### *Turnover*

Turnover represents property rental income. Rental income is accounted for on an accruals basis.

### 2 Profit on ordinary activities before taxation

In both the current and prior periods the company's audit fee was borne by a fellow subsidiary undertaking.

The directors received no remuneration in respect of their services to the company.

## Notes (continued)

### 3 Interest receivable

	Year ended 31 March 2006 £	15 month period ended 31 March 2005 £
On loan notes from group companies	2,019	49,450

### 4 Taxation

	Year ended 31 March 2006 £	15 month period ended 31 March 2005 £
Corporation tax		
- current year at 30%	1,281	-
- group relief payable at 30%	-	70,382
Total current tax charge	1,281	70,382

The current tax charge is equal to (2005 lower than) the standard rate in the UK (30%) The difference is explained below

	2006 £	2005 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	4,269	747,598
Current tax at 30%	1,281	224,279
<i>Effects of</i>		
Balancing adjustments on disposal of investment properties	-	(3,897)
Non taxable gain on disposal of investment properties	-	(150,000)
Current tax charge	1,281	70,382

## Notes (continued)

### 5 Dividends

	Year ended 31 March 2006 £	15 month period ended 31 March 2005 £
Interim dividend of £289,475 per ordinary share	-	289,475
Dividend in specie of loan notes in accordance with s 276 of the Companies Act 1985 of £1,342,867 per ordinary share	-	1,342,867
	<u>          </u>	<u>          </u>
	-	1,632,342
	<u>          </u>	<u>          </u>

### 6 Debtors

	2006 £	2005 £
Other debtors	-	131
	<u>          </u>	<u>          </u>
	-	131
	<u>          </u>	<u>          </u>

### 7 Creditors' amounts falling due within one year

	2006 £	2005 £
Amounts due to group undertaking	5,016	7,166
Accruals and deferred income	-	2,250
Corporation tax	1,281	-
	<u>          </u>	<u>          </u>
	6,297	9,416
	<u>          </u>	<u>          </u>

### 8 Called up share capital

	Number	£
<i>Authorised</i>		
At beginning and end of year		
1,000 ordinary shares of £1 each	1,000	1,000
	<u>          </u>	<u>          </u>
<i>Allotted, called up and fully paid</i>		
At beginning and end of year	1	1
	<u>          </u>	<u>          </u>

## Notes (continued)

### 9 Reserves

	Profit and loss reserve £
At beginning of year	(9,286)
Profit for the year	2,988
	<hr/>
At end of year	<b>(6,298)</b>
	<hr/>

### 10 Contingent liabilities

In the prior period, loans due to the LNC Investments Limited group's bankers were secured by way of a fixed and floating charge over all of the assets of the company. The amount outstanding in this respect at 31 March 2006 is £Nil (2005 £123,314,278)

### 11 Related party transactions

Separate disclosure relating to transactions and balances with companies in the LNC Property Group Limited group in terms of Financial Reporting Standard No 8 are not made since the company has taken advantage of the exemption in paragraph 3c of the standard. Accounts of the smallest group into which the company is consolidated can be obtained by writing to 5<sup>th</sup> Floor, 135 Buchanan Street, Glasgow, G1 2JA

### 12 Ultimate parent undertaking

The company's immediate parent undertaking is Cairnsmore Investments Limited which is incorporated in Great Britain and registered in Scotland

The smallest group into which the company is consolidated is that headed by LNC Property Group Limited, a company incorporated in Great Britain and registered in Scotland

The company's ultimate parent undertaking is LNC Investments Limited, a company registered in the Isle of Man