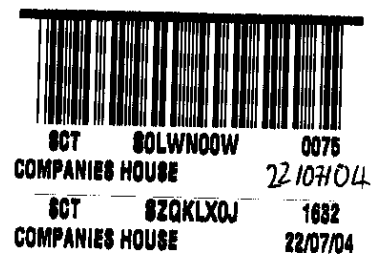


SC1846

**The Scottish Metropolitan
Property Company Limited**

Financial Statements

31 December 2003



BDO Stoy Hayward LLP
Chartered Accountants

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Report and financial statements for the period ended 31 December 2003

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Directors

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Directors

R J Debney
G J Felce
D R Lee

Secretary and registered office

M R Bewsey
Hobart House
80 Hanover Street
Edinburgh
EH2 1EC

Company number

SC1846

Auditors

BDO Stoy Hayward LLP
8 Baker Street
London
W1U 3LL

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Report of the directors for the period ended 31 December 2003

The directors have pleasure in presenting the audited financial statements of the group for the period ended 31 December 2003.

Principal activities

The principal activity of the group is property investment, supplemented by property trading and development. These activities are carried out wholly within the United Kingdom with an emphasis on Scotland and the North of England.

Results and dividends

The results are shown on the consolidated profit and loss account on page 4.

No dividends were paid during the year. The directors do not propose payment of a final dividend.

Review of business and future developments

The group increased the value of its property portfolio by £85.5 million over the year, while disposing of approximately £20 million of investment property and thereby producing a surplus to book value of £1 million. While disappointed with the loss recorded by the group for the year, the directors believe that the changes to the property portfolio which were achieved in 2003 will enhance the future income potential of the group.

In April 2004 an agreement was reached by the ultimate parent company, Brack Capital Real Estates BV, to sell its shareholdings in the group headed by Haslemere NV to General Electric Capital Corporation. This sale has not been completed at the date of signature of these financial statements, but is expected to be concluded following the fulfilment of certain conditions by the group in the near future.

Investment properties

As stated in note 9, freehold and leasehold properties in the property investment portfolio were valued as at 31 December 2003 at £184,000,000 (2002: £98,550,000).

Substantial shareholders

The company is a wholly owned subsidiary of Haslemere Estates Plc, a company incorporated in the United Kingdom.

Directors

The directors of the company during the year were as follows:

C J Bartram (resigned 31 December 2003)

R J Debney

A P Kearley (resigned 31 March 2003)

M P Lewis (resigned 31 March 2003)

G J Felce

D R Lee (appointed 31 March 2003)

Directors' interests

None of the directors had any interest in the shares or debentures of the company or of any group company as at 31 December 2003.

Material transactions with directors

None of the directors serving as at 31 December 2003 had a material interest at any time during the period in any contract of significance in relation to the business of the group.

Report of the directors for the period ended 31 December 2003

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 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; 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 are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Creditor payment policy and practice

It is the company's policy to agree the terms of payment with each of its suppliers at the commencement of the trading relationship and to abide by those terms. The number of average days purchases included within company trade creditors at 31 December 2003 is 52.

Going Concern

In respect of going concern, after reviewing the groups' budgets and medium term plans, the directors consider that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Auditors

On 31 December 2003, BDO Stoy Hayward, the company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

On behalf of the board



D R Lee
Director

Date: 2 June 2004

Report of the independent auditors

To the shareholders of The Scottish Metropolitan Property Company Limited

We have audited the financial statements of The Scottish Metropolitan Property Company Limited for the year ended 31 December 2003 on pages 4 to 20 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 and other members of the group 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

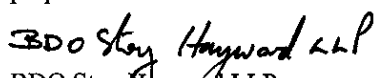
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 group'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 and the group as at 31 December 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


BDO Stoy Hayward LLP
Chartered Accountants
and Registered Auditors

London

Date: 2 June 2004

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Consolidated profit and loss account for the year ended 31 December 2003

		Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
	Notes		
Turnover		7,525	40,913
Outgoings		(1,625)	(17,092)
Net revenue from:			
Property investment		5,725	11,397
Property trading and development		175	12,424
Net revenue		5,900	23,821
Administrative expenses		(1,573)	(1,841)
Operating profit		4,327	21,980
Profit on disposal of fixed assets	2	83	6,284
Income from other investments		-	86
Profit on ordinary activities before interest and taxation		4,410	28,350
Interest receivable		987	1,129
Interest payable and similar charges	3	(9,545)	(9,223)
(Loss)/profit on ordinary activities before taxation	4	(4,148)	20,256
Taxation	6	2,737	(3,084)
(Loss)/profit for the financial period		(1,411)	17,172
Dividend	7	-	(98,000)
Retained loss for the financial year	20	(1,411)	(80,828)
Earnings per share			
- basic	8	(1.1p)	13.02p
- diluted	8	(1.1p)	13.02p

All amounts relate to continuing activities.

A statement on the movement of reserves can be found in notes 19 and 20.

The notes on pages 8 to 20 form part of these financial statements.

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Year ended 31 December 2003

Consolidated statement of total recognised gains and losses

		Year ended 31 December 2003 £'000	Group Year ended 31 December 2002 £'000
	Note		
(Loss)/profit for the financial period		(1,411)	17,172
Surplus arising on revaluation of investment properties	19	4,657	5,982
		<hr/>	<hr/>
Total recognised gains and losses since last annual report		3,246	23,154
		<hr/>	<hr/>

Note of consolidated historical cost profits and losses

Reported (loss)/profit on ordinary activities before taxation		(4,148)	20,256
Realisation of property revaluation surpluses of previous years	19	8,123	16,951
		<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation		3,975	37,207
		<hr/>	<hr/>
Historical cost profit/(loss) for the period after taxation and dividends		6,712	(63,877)
		<hr/>	<hr/>


The notes on pages 8 to 20 form part of these financial statements.

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Balance sheets as at 31 December 2003

		Group		Company	
		31 December	31 December	31 December	31 December
		2003	2002	2003	2002
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets					
Investment properties	9	183,745	98,225	30,393	97,225
Investments	10	8	-	100	100
		<u>183,753</u>	<u>98,225</u>	<u>30,493</u>	<u>97,325</u>
Current assets					
Trading stock	11	175	792	-	-
Debtors	12	87,521	56,459	136,153	56,375
Cash at bank and in hand		5,525	19,332	5,525	19,332
		<u>93,221</u>	<u>76,583</u>	<u>141,678</u>	<u>75,707</u>
Current liabilities					
Creditors due within one year	13	(8,994)	(9,478)	(7,788)	(9,529)
		<u>84,227</u>	<u>67,105</u>	<u>133,890</u>	<u>66,178</u>
Net current assets					
		<u>267,980</u>	<u>165,330</u>	<u>164,383</u>	<u>163,503</u>
Total assets less current liabilities					
		<u>267,980</u>	<u>165,330</u>	<u>164,383</u>	<u>163,503</u>
Creditors due after more than one year	14	(189,744)	(89,738)	(89,744)	(89,738)
Provision for liabilities and charges	16	(1,015)	(1,617)	(773)	(1,617)
		<u>77,221</u>	<u>73,975</u>	<u>73,866</u>	<u>72,148</u>
Capital and reserves					
Called up share capital	17	26,382	26,382	26,382	26,382
Share premium account	18	34,657	34,657	34,657	34,657
Revaluation reserve	19	11,476	1,077	8,802	1,333
		<u>72,515</u>	<u>62,116</u>	<u>69,841</u>	<u>62,372</u>
Profit and loss account	20	4,706	11,859	4,025	9,776
		<u>77,221</u>	<u>73,975</u>	<u>73,866</u>	<u>72,148</u>
Equity shareholders' funds	21				
		<u>77,221</u>	<u>73,975</u>	<u>73,866</u>	<u>72,148</u>

These financial statements were approved by the board on 2 June 2004.


D R Lee
Director

The notes on pages 8 to 20 form part of these financial statements.

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Consolidated cashflow statement for the year ended 31 December 2003

		Year ended 31 December 2003		Year ended 31 December 2002	
	Note	£'000	£'000	£'000	£'000
Net cash outflow from operating activities	22		(22,744)		(15,961)
Returns on investments and servicing of finance:					
- Interest received		987		1,129	
- Interest and similar charges paid		(9,539)		(9,274)	
- Dividends received		-		14	
Net cash outflow from returns on investments and servicing of finance			(8,552)		(8,131)
Taxation:					
- Corporation tax paid			(1,723)		(1,263)
Capital expenditure and financial investment					
- Purchase and redevelopment of property		(101,471)		(5,118)	
- Sales of property		20,690		147,919	
- Sales of investments		-		128	
- Purchase of investments		(8)		-	
Net cash (outflow)/inflow from capital expenditure and financial investment			(80,789)		142,929
Equity dividends paid			-		(98,000)
Net cash (outflow)/inflow before financing			(113,803)		19,574
Financing:					
- Repayment of loan capital		-		(1,528)	
- New loans		100,000		-	
Net cash inflow/(outflow) from financing			100,000		(1,528)
(Decrease)/increase in cash	24		(13,808)		18,046

The notes on pages 8 to 20 form part of these financial statements.

1 Accounting policies

Basis of accounting

The financial statements are prepared on the historical cost basis, modified to include the revaluation of certain properties, and in accordance with applicable accounting standards. The group financial statements include the audited financial statements of the company and all subsidiaries, on an acquisition basis.

Turnover

Turnover comprises gross rental income from investment properties and sales of trading properties. Rental income is normally recognised on invoicing, adjusted for certain rents invoiced in advance, the effect of lease incentives such as rent free periods, and accrued income receivable following rent reviews. Sales of trading properties are recognised on completion.

Lease incentives

Lease incentives are spread over the period of the lease in accordance with the provisions of UITF28.

Investment properties

Properties held for investment are revalued twice each year at open market value. The aggregate surpluses and temporary deficits arising on each year's valuation are taken directly to revaluation reserve. Permanent diminutions in value are taken to the profit and loss account.

Other properties

Properties held for, or that are in the course of, development or held for sale are included in the financial statements in stock at the lower of cost or valuation. Where such properties have previously formed part of the investment portfolio, cost represents the last valuation prior to redevelopment plus subsequent costs. Development properties are transferred to the investment portfolio upon completion. For this purpose a property is regarded as a development property until practical completion of the development.

Interest and outgoings on development properties

Interest and outgoings, less rental income, attributable to properties in the course of development are deemed to be part of the development cost and are capitalised. The calculation of interest is made by reference to specific borrowings where relevant and otherwise on the average annual rate on other borrowings. Interest is capitalised gross, the related tax benefit being included within taxation. In the event that income from a development property exceeds outgoings and interest during the development period this excess is credited to property revenue and not to development costs.

Amortisation and depreciation

Investment properties are revalued semi-annually in accordance with Statement of Standard Accounting Practice No 19. No depreciation is provided in respect of heritable and freehold properties and leasehold properties with over twenty years to run. These properties are not held for consumption but for investment. This constitutes a departure from the Companies Act 1985 requirement that fixed assets be depreciated over their economic lives. The directors consider that systematic annual depreciation would be inappropriate and that this policy is necessary to enable the financial statements to give a true and fair view. Depreciation or amortisation is only one of many factors reflected in the semi-annual revaluation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Trading properties

The properties held as stock by subsidiary trading undertakings are stated at the lower of cost to the group and net realisable value.

1 Accounting policies (Continued)

Work in progress

Work in progress is stated at the lower of cost and net realisable value.

Fixed asset investments

Investments in subsidiary undertakings are stated in the balance sheet at the lower of cost and estimated recoverable value.

Financial instruments

Debenture stocks acquired by the group on the acquisition of The Scottish Metropolitan Property Plc were revalued to their fair value at the date of acquisition. The difference between the fair value at the date of acquisition and the book value is amortised over the term of the debenture stocks. Short term debtors and creditors are not treated as financial assets and liabilities for disclosure purposes

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- Deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- The recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

International Financial Reporting Standards

The group is required under European legislation to adopt International Financial Reporting Standards ("IFRS") from 1 January 2005. There are a number of areas where the application of IFRS will have an impact on the group's financial statements, however these have not yet been quantified.

The adoption of IFRS will first apply to the group's financial statements for the year ended 31 December 2005.

2 Profit on disposal of fixed assets	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Investment properties – profit over book value	972	6,284
Investment properties – provision for loss on sale	(889)	-
	<u>83</u>	<u>6,284</u>
3 Interest payable and similar charges	2003 £'000	2002 £'000
On other loans	9,545	9,223

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Notes on the financial statements for the year ended 31 December 2003

4	(Loss)/profit on ordinary activities before tax is stated after charging:	2003 £'000	2002 £'000
	Auditors' remuneration - audit services (group)	28	28
	- audit services (company)	26	25
		<u> </u>	<u> </u>

5 Directors and employees

No director received any remuneration from the group for services provided in the year (2002: Nil). The remuneration of the group's directors is paid by a fellow subsidiary of the group's ultimate parent undertaking, however it is not possible to identify the amount of this remuneration which is attributable to the directors' services to each company in the group. The number of directors in a defined benefit pension scheme was 3 (2002 : 3).

The average number of persons employed directly by the company, all of whom were in management and administration, was 4 (2002: 5).

6	Tax on profit on ordinary activities	2003 £'000	2003 £'000	2002 £'000	2002 £'000
	<i>Current tax</i>				
	UK corporation tax on profits of the period	-		3,097	
	Adjustment in respect of prior periods	(2,135)		-	
		<u> </u>		<u> </u>	
	Origination and reversal of timing difference		(2,135) (602)		3,097 (13)
			<u> </u>		<u> </u>
	Tax on profit on ordinary activities		(2,737)		3,084
			<u> </u>		<u> </u>

The tax assessed is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2003 £'000	2002 £'000
(Loss)/profit on ordinary activities before tax	(4,148)	20,256
	<u> </u>	<u> </u>
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2002 – 30%)	(1,244)	6,077
Effects of:		
Utilisation of capital losses brought forward	(291)	(1,885)
Net capital/industrial buildings allowances for the period	261	430
Utilisation of trading losses/group relief	-	(1,500)
Group relief surrendered	795	-
Trading losses carried forward	213	-
Adjustment to tax charge in respect of prior periods	(2,135)	-
Sundry differences	266	(25)
	<u> </u>	<u> </u>
Current tax charge for period	(2,135)	3,097
	<u> </u>	<u> </u>

The adjustment to tax charge in respect of prior periods includes £2,065,000 in respect of the utilisation of Advance Corporation Tax which had previously been written off.

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Notes on the financial statements for the year ended 31 December 2003

7	Dividend on equity shares	2003 £'000	2002 £'000
	Interim dividend of Nil per share (2002: 2.3p)	-	3,000
	Interim dividend of Nil per share (2002: 7.6p)	-	10,000
	Interim dividend of Nil per share (2002: 7.6p)	-	10,000
	Interim dividend of Nil per share (2002: 37.9p)	-	50,000
	Interim dividend of Nil per share (2002: 19.0p)	-	25,000
		<hr/>	<hr/>
		-	98,000
		<hr/>	<hr/>

8 Earnings per share

Basic EPS

This is calculated by dividing earnings of £(1,411,000) (2002: £17,172,000) (the retained loss for the financial year attributable to shareholders) by the weighted average number of ordinary shares in issue during the period of 131,911,482 (2002: 131,911,482).

Diluted EPS

The company does not have any financial instruments or rights which would have a dilutive effect on the basic earning per share of the group.

9	Investment properties	Heritable & Freehold £'000	Long Leasehold £'000	Total £'000
	Group - Valuation			
	Professional valuation as at 31 December 2002	41,750	56,800	98,550
	Allocated to debtors in accordance with UITF 28	(124)	(201)	(325)
		<hr/>	<hr/>	<hr/>
	Book value as at 31 December 2002	41,626	56,599	98,225
	Additions	100,411	1,060	101,471
	Disposals	(12,056)	(7,663)	(19,719)
		<hr/>	<hr/>	<hr/>
		129,981	49,996	179,977
	Permanent diminution in value	-	(889)	(889)
	Surplus/(deficit) on revaluation	4,265	392	4,657
		<hr/>	<hr/>	<hr/>
	Book value as at 31 December 2003	134,246	49,499	183,745
		<hr/>	<hr/>	<hr/>
	Represented by:			
	Professional valuation as at 31 December 2003	134,250	49,750	184,000
	Allocated to debtors in accordance with UITF 28	(4)	(251)	(255)
		<hr/>	<hr/>	<hr/>
	Book value as at 31 December 2003	134,246	49,499	183,745
		<hr/>	<hr/>	<hr/>

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Notes on the financial statements for the year ended 31 December 2003

9	Investment properties	Heritable & Freehold £'000	Long Leasehold £'000	Total £'000
	Company - Valuation			
	Professional valuation as at 31 December 2002	40,750	56,800	97,550
	Allocated to debtors in accordance with UITF 28	(124)	(201)	(325)
		<hr/>	<hr/>	<hr/>
	Book value as at 31 December 2002	40,626	56,599	97,225
	Additions	376	994	1,370
	Disposals	(24,686)	(48,163)	(72,849)
		<hr/>	<hr/>	<hr/>
		16,316	9,430	25,746
	Surplus/(deficit) on revaluation	4,680	(33)	4,647
		<hr/>	<hr/>	<hr/>
	Book value as at 31 December 2003	20,996	9,397	30,393
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	Represented by:			
	Professional valuation as at 31 December 2003	21,000	9,450	30,450
	Allocated to debtors in accordance with UITF 28	(4)	(53)	(57)
		<hr/>	<hr/>	<hr/>
	Book value as at 31 December 2003	20,996	9,397	30,393
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Investment properties owned throughout the period were valued by Chartered Surveyors of Jones Lang Lasalle, 22 Hanover Square, London W1R 0JL. The valuation was carried out as at 31 December 2003 at open market value. The certificate is dated 13 January 2004.

The historical cost of investment properties is:

Group: £187.0 million (2002: £97.9 million)
Company: £21.6 million (2002: £97.0 million)

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Notes on the financial statements for the year ended 31 December 2003

10 Investments	Group		Company	
	31 December 2003 £'000	31 December 2002 £'000	31 December 2003 £'000	31 December 2002 £'000
Subsidiary undertakings - shares at cost	-	-	100	100
Listed investments	8	-	-	-
	<u>8</u>	<u>-</u>	<u>100</u>	<u>100</u>

The subsidiary undertakings, in which the company owns 100% of the ordinary share capital, are as follows:

Scottish Metropolitan Ltd	-	Property dealing company
Scottish Metropolitan Developments Ltd	-	Property dealing company
PHJW No 30 Ltd	-	Property investment company
PHJW No 31 Ltd	-	Property investment company
PHJW No 32 Ltd	-	Property investment company
PHJW No 33 Ltd	-	Property investment company
PHJW No 34 Ltd	-	Property investment company
Continental Shelf 274 Ltd	-	Property investment company
PM Shareholder Ltd	-	Dormant

All subsidiary undertakings operate in the United Kingdom.

£'000

Listed investments – acquisitions in year and as at 31 December 2003 8

11 Trading stocks of properties	31 December 2003 £'000	31 December 2002 £'000
	Group	Company
Trading stock	175	792

12 Debtors	Group		Company	
	31 December 2003 £'000	31 December 2002 £'000	31 December 2003 £'000	31 December 2002 £'000
Amounts falling due within one year:				
Trade debtors	346	1,263	219	1,179
Amounts owed by subsidiary companies	-	-	49,654	-
Amounts owed by group companies	85,530	54,369	85,530	54,369
Other debtors	1,390	502	693	502
Prepayments and accrued income	255	325	57	325
	<u>87,521</u>	<u>56,459</u>	<u>136,153</u>	<u>56,375</u>

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Notes on the financial statements for the year ended 31 December 2003

13	Creditors due within one year	Group		Company	
		31 December 2003 £'000	31 December 2002 £'000	31 December 2003 £'000	31 December 2002 £'000
	Rents in advance	2,778	860	231	860
	Trade creditors	1,391	1,259	961	949
	Amounts owed to group companies	1,321	802	3,083	794
	Amounts owed to subsidiary companies	-	-	-	2,705
	Corporation tax	-	3,056	-	720
	Other taxes and social security	12	-	12	-
	Other creditors	44	53	53	53
	Accruals and deferred income	3,448	3,448	3,448	3,448
		<u>8,994</u>	<u>9,478</u>	<u>7,788</u>	<u>9,529</u>
14	Creditors due after more than one year	Group		Company	
		31 December 2003 £'000	31 December 2002 £'000	31 December 2003 £'000	31 December 2002 £'000
	Loans repayable:				
	In more than two years				
	but not more than five years	100,000	-	-	-
	In more than five years (see note 15)	89,744	89,738	89,744	89,738
		<u>189,744</u>	<u>89,738</u>	<u>89,744</u>	<u>89,738</u>
15	Loans repayable in more than five years	Group and Company			
		31 December 2003 £'000	31 December 2002 £'000		
	Secured loans:				
	£60m 10.25% first mortgage debenture stock 2016	60,000	60,000		
	£30m 9.90% first mortgage debenture stock 2020	29,744	29,738		
		<u>89,744</u>	<u>89,738</u>		

The loans and debenture stocks detailed in this note and in note 14 above are secured by specific charges over certain properties.

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Notes on the financial statements for the year ended 31 December 2003

16	Provision for liabilities and charges	Group Deferred Tax £'000	Company Deferred Tax £'000
	At 1 January 2003	1,617	1,617
	Profit and loss account transfer	(602)	(844)
		<u> </u>	<u> </u>
	At 31 December 2003	1,015	773
		<u> </u>	<u> </u>

The total potential amount of deferred tax on timing differences and the amount for which provision at 30% (2002 : 30%) has been made is:-

	Group		Company	
	Provided 2003 £'000	Provided 2002 £'000	Provided 2003 £'000	Provided 2002 £'000
Accelerated capital allowances	1,091	1,716	790	1,716
Other timing differences	(76)	(99)	(17)	(99)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	1,015	1,617	773	1,617
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
17	Share capital	31 December 2003 Number	31 December 2002 Number	31 December 2003 £'000
				31 December 2002 £'000
	<i>Ordinary shares of 20p each</i>			
Authorised	175,000,000	175,000,000	35,000	35,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Allotted, called up and fully paid:	131,911,482	131,911,482	26,382	26,382
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Notes on the financial statements for the year ended 31 December 2003

18	Share premium account		Group and Company £'000
	As at 31 December 2002 and 31 December 2003		34,657
19	Revaluation reserve	Group £'000	Company £'000
	As at 1 January 2003	1,077	1,333
	Profit and loss reserve transfer on disposals	(8,123)	2,822
	Surplus for the year on investment properties (see note 9)	4,657	4,647
	Profit and loss reserve transfer on permanent diminution in value of investment properties	13,865	-
	As at 31 December 2003	11,476	8,802
20	Profit and loss account	Group £'000	Company £'000
	As at 1 January 2003	11,859	9,776
	Revaluation reserve transfer on disposals	8,123	(2,822)
	Revaluation reserve transfer on permanent diminution in value of investment properties	(13,865)	-
	Retained for the financial year	(1,411)	(2,929)
	As at 31 December 2003	4,706	4,025

The cumulative amount of positive goodwill written off in the group's profit and loss account reserve at 31 December 2003 is £70,000 (2002: £70,000).

As permitted by section 230 of the Companies Act 1985 the company has not presented its own profit and loss account. The loss on ordinary activities after taxation dealt with in the financial statements of The Scottish Metropolitan Property Company Limited was £2,929,000 (2002 : £18,221,000 - profit).

THE SCOTTISH METROPOLITAN PROPERTY COMPANY LIMITED

Notes on the financial statements for the year ended 31 December 2003

21	Reconciliation of movements in shareholders' funds	Group		Company	
		31 December 2003 £'000	31 December 2002 £'000	31 December 2003 £'000	31 December 2002 £'000
	(Loss)/profit for the period after taxation	(1,411)	17,172	(2,929)	18,221
	Dividends	-	(98,000)	-	(98,000)
		<u>(1,411)</u>	<u>(80,828)</u>	<u>(2,929)</u>	<u>(79,779)</u>
	Other net recognised gains and losses relating to the period	4,657	5,982	4,647	6,071
		<u>3,246</u>	<u>(74,846)</u>	<u>1,718</u>	<u>(73,708)</u>
	Net increase/(reduction) in shareholders' funds				
	Opening shareholders' funds	73,975	148,821	72,148	145,856
		<u>77,221</u>	<u>73,975</u>	<u>73,866</u>	<u>72,148</u>
	Closing shareholders' funds				
22	Reconciliation of operating profit to net cash inflow from operating activities			2003 £'000	2002 £'000
	Operating profit			4,327	21,980
	Decrease in stocks of trading properties			617	15,363
	Increase in debtors			(26,321)	(56,112)
	(Decrease)/increase in creditors			(1,367)	2,808
				<u>(22,744)</u>	<u>(15,961)</u>
	Net cash outflow from operating activities				
23	Reconciliation of net cashflow to movement in net debt				
	(Decrease)/increase in cash in the period			(13,808)	18,046
	Cash (inflow)/outflow from increase/(reduction) in debt			(100,000)	1,528
				<u>(113,808)</u>	<u>19,574</u>
	Movement in net debt resulting from cash flows				
	Non-cash movements			(6)	-
	Net debt at start of year			(70,405)	(89,979)
				<u>(184,219)</u>	<u>(70,405)</u>
	Net debt at end of year				

24	Analysis of changes in net debt	At 31 December 2002 £'000	Cashflow £'000	Non Cashflow £'000	At 31 December 2003 £'000
	Cash at bank and in hand	19,333	(13,808)	-	5,525
	Debt due within 1 year	-	-	-	-
	Debt due after 1 year	(89,738)	(100,000)	6	(189,744)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Total	(70,405)	(113,808)	6	(184,219)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

25 Contingent liabilities

The company has no contingent liability in respect of capital gains tax on future property disposals (2002: £nil).

The company is registered under a group registration for value added tax and was jointly liable for the amount payable of £1 million at 31 December 2003 (2002 : £3.9 million) by other group registered companies.

26 Financial instruments

The Group finances its operations by raising finance through equity, public and private debt issues and bank borrowings. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, investments and borrowings. Short term debtors and creditors, taxation and prepayments and accruals have been excluded. All assets and liabilities are denominated in Sterling.

Financial assets

The Group's financial assets and their maturity profile are:

	2003 £'000	2002 £'000
<i>Assets</i>		
Long term investments	8	-
Cash at bank and in hand	5,525	19,333
	<u> </u>	<u> </u>
	5,533	19,333
	<u> </u>	<u> </u>
<i>Maturing</i>		
One year or less, or on demand	5,533	19,333
	<u> </u>	<u> </u>

Interest on financial assets is at variable rates linked to LIBOR.

26 Financial instruments (*continued*)

Financial liabilities

The Group's financial liabilities and their maturity profile are:

	2003 £'000	2002 £'000
<i>Liabilities</i>		
Inter company loans	100,000	-
Debentures (notes 14 and 15)	89,744	89,738
	<u>189,744</u>	<u>89,738</u>
<i>Repayable in:</i>		
Short term loans		
In more than one year but not more than two years	-	-
In more than two years but not more than five years	100,000	-
In more than five years	89,744	89,738
	<u>189,744</u>	<u>89,738</u>
Weighted average period of fixed interest rate debentures	13.8 years	14.7 years
Weighted average interest rate of debentures	10.1%	10.1%

Fair values of financial assets and liabilities	Book value		Fair value	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Long term investments	8	-	8	54
Short term investments and cash	5,525	19,333	5,525	19,333
Debentures, mortgage loans and bank borrowings	(89,744)	(89,738)	(121,800)	(120,000)
Inter company loans	(100,000)	-	(100,000)	-

Fair value has been calculated by taking the market value, where available, and using a discounted cash flow approach for those borrowings that do not have a published market value.

It is the intention of the group to repay its debentures and mortgage loans at maturity. The difference between book value and fair value will not result in any change to the cash outflows of the group unless, at some stage in the future, any existing debentures or mortgage loans are repaid early.

Borrowing facilities

The group had no undrawn committed borrowing facilities.

27 Parent undertakings

The company is a wholly owned subsidiary of Haslemere Estates plc (the immediate parent undertaking), a company incorporated in the United Kingdom. Its consolidated financial statements are available from Companies House.

The intermediate parent company is Haslemere NV, incorporated in the Netherlands, which prepares consolidated accounts which are publicly available.

In the opinion of the directors, the ultimate parent undertaking is Brack Capital Real Estates BV, which is incorporated in the Netherlands.

28 Related party transactions

The consolidated financial statements of Haslemere NV, which owns in excess of 90% of the group, are publicly available. They include all related party transactions with group members. In accordance with the provisions of Financial Reporting Standard Number 8, transactions with related parties in this group have not been disclosed other than as required under the Companies Act 1985.

29 Capital commitments

At 31 December 2003 the company had not entered into any contracts for capital expenditure not provided for in these accounts.