

KINNOULL HOUSE LIMITED

**STATUTORY ACCOUNTS
FOR THE YEAR ENDED
30 NOVEMBER 2002**



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KINNOULL HOUSE LIMITED
REPORT OF THE DIRECTORS – YEAR ENDED 30 NOVEMBER 2002

1. The directors submit their report and the audited financial statements for the year ended 30 November 2002.

2. **REVIEW OF ACTIVITIES**

The Company carries on the business of developers of land and buildings and provides assets for use under PFI arrangements.

The Directors are confident that the Company will continue to develop successfully for the foreseeable future.

3. **RESULTS AND DIVIDEND**

The trading results for the period are as shown in the profit and loss account on page 4. An interim dividend of £150,000 was paid during the year. The directors do not recommend payment of a further dividend in respect of the current year. (2001: £144,000)

4. **DIRECTORS**

The directors of the Company who held office during the period and to date were:

R Christie
R S Fullerton
W J Mackintosh
J M Thornton

In accordance with the Company's Articles of Association, none of its directors are required to retire. None of the directors who held office at the beginning or end of the period had any interests in the shares of the Company.

5. **DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare the financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 November 2002 and that applicable accounting standards have been followed.

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 the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

KINNOULL HOUSE LIMITED
REPORT OF THE DIRECTORS – YEAR ENDED 30 NOVEMBER 2002

6. AUDITORS

Following the conversion of the Company's auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1st January 2003, PricewaterhouseCoopers resigned on 11th February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board



R S Fullerton
Director
22nd September 2003

Registered in Scotland - No.190800

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KINNOULL HOUSE LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and 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 issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

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 at 30 November 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh

23 September 2003

KINNOULL HOUSE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 30 NOVEMBER 2002

	Notes	Year ended 30.11.02 £	Year ended 30.11.01 £
Turnover	1(b)	2,982,196	2,992,476
Cost of sales		(756,252)	(810,460)
Gross profit		2,225,944	2,182,017
Administration expenses		(103,619)	(113,705)
Profit on ordinary activities before taxation & interest	3	2,122,325	2,068,312
Interest payable and similar charges	4	(1,333,964)	(1,366,419)
Interest receivable		62,955	61,397
Profit on ordinary activities before taxation & interest		851,317	763,290
Taxation	5	(304,010)	(284,075)
Profit on ordinary activities after taxation		547,307	479,215
Dividends	6	(150,000)	(144,000)
Retained profits for period		397,307	335,215
<u>Statement of retained earnings</u>			
Opening balance		434,259	-
Retained profits for the period		397,307	335,215
Balance at 30 November		<u>831,566</u>	<u>434,259</u>

All activities are continuing.

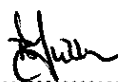
There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above and their historic cost equivalents.

The Company has no recognised gains and losses other than the profit above and therefore

KINNOULL HOUSE LIMITED

**BALANCE SHEET AS AT
YEAR ENDED 30 NOVEMBER 2002**

	Notes	30.11.02 £	30.11.01 £
<u>Tangible fixed assets</u>			
Land and Buildings	7	17,291,825	17,587,637
		17,291,825	17,587,637
<u>Current assets</u>			
Debtors due within one year	8	426,887	800,765
Cash at bank and in hand		2,258,960	1,520,218
		2,685,847	2,320,983
<u>Current liabilities</u>			
Creditors - amounts falling due within one year	9	1,085,287	1,216,031
Net current assets		1,600,560	1,104,952
Total assets less current liabilities		18,892,385	18,692,589
Creditors - amounts falling due after more than one year	10	17,282,012	17,770,941
Provision for liabilities and charges	11	644,807	353,389
Net assets		<u>965,566</u>	<u>568,259</u>
Capital & reserves			
Called-up share capital	12	134,000	134,000
Profit and loss account		831,566	434,259
Equity shareholders' funds	13	<u>965,566</u>	<u>568,259</u>



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Director

The Directors approved the financial statements on 22nd September 2003.
The notes on pages 6 to 11 form part of these financial statements.

KINNOULL HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS – YEAR ENDED 30 NOVEMBER 2002

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important group accounting policies, which have been consistently applied, is set out below.

(a) ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention.

The directors have adopted the provisions of FRS 19 'Deferred Tax' in these financial statements but this has not required any restatement of previously reported results.

(b) TURNOVER

Turnover represents the value of rental income and service charges receivable during the period, wholly within the UK, excluding Value Added Tax.

(c) TANGIBLE FIXED ASSETS

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. The cost of land and buildings includes interest paid and finance costs specifically incurred to finance assets in the course of construction.

Provision for depreciation is made so as to write off the cost, or valuation, of tangible fixed assets to their estimated residual value on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Buildings	25 years
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(d) DEFERRED TAXATION

The charge for taxation is based on the profit for the period and takes into account deferred taxation. Deferred taxation has been recognised as a liability or asset if transactions have incurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future.

An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

2. CASHFLOW

The Company is exempt from the requirement of Financial Reporting Standard No 1 (revised) to prepare a cashflow statement, as it is a small company by definition.

3. PROFIT ON ORDINARY ACTIVITIES

None of the directors received any remuneration as directors from the Company during the period. The Company has no directly employed personnel. The profit on ordinary activities includes auditors remuneration of £2,500 (2001: £2,250).

KINNOULL HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – YEAR ENDED 30 NOVEMBER 2002

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended <u>30.11.02</u> £	Year ended <u>30.11.01</u> £
Bank loans	1,094,507	1,125,618
Other loans	239,457	240,801
	<u>1,333,964</u>	<u>1,366,419</u>

5. TAXATION

	Year ended <u>30.11.02</u> £	Year ended <u>30.11.01</u> £
<u>Current tax:</u>		
Corporation tax at 20%	12,591	-
Deferred tax at 30%	295,013	284,075
Prior year adjustment	(3,594)	-
Total current tax	<u>304,010</u>	<u>284,075</u>

The difference between the current tax charge on ordinary activities for the period, reported in the profit and loss account, and the current year charge which would result from applying a relevant standard rate of tax to the profit on ordinary activities before tax, is explained as follows:

	Year ended <u>30.11.02</u> £	Year ended <u>30.11.01</u> £
Profit on ordinary activities before tax	851,317	763,290
Profit on ordinary activities multiplied by standard rate in the UK 30% (2001: 30%)	255,395	228,987
(a) Expenses not deductible for tax purposes	58,504	57,327
(b) Accelerated capital allowances	(176,498)	(247,020)
(c) Tax losses utilised in the period	(118,514)	(39,294)
(d) Adjustment in respect of tax rate change	(6,296)	-
Current tax charge for the year	<u>12,591</u>	<u>-</u>

KINNOULL HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – YEAR ENDED 30 NOVEMBER 2002

6. DIVIDENDS

	Year ended <u>30.11.02</u> £	Year ended <u>30.11.01</u> £
Dividends on ordinary shares:		
Interim	150,000	-
Final	-	144,000
	<u>150,000</u>	<u>144,000</u>

7. TANGIBLE FIXED ASSETS

<u>Cost</u>	<u>Land and Buildings</u> £
As at 30.11.01	17,946,318
Additions	7,337
As at 30.11.02	<u>17,953,655</u>
<u>Accumulated Depreciation</u>	
As at 30.11.01	(358,681)
Charge for the year	(303,149)
As at 30.11.02	<u>(661,830)</u>
<u>NBV</u>	
As at 30.11.01	17,587,637
As at 30.11.02	<u>17,291,825</u>

8. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>30.11.02</u> £	<u>30.11.01</u> £
Trade debtors	342,998	624,439
Other	83,889	176,326
	<u>426,887</u>	<u>800,765</u>

KINNOULL HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – YEAR ENDED 30 NOVEMBER 2002

9. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>30.11.02</u>	<u>30.11.01</u>
	£	£
Bank loans	474,143	443,446
Other loans	14,786	13,003
Trade creditors	103,576	57,224
VAT	72,097	67,827
Corporation tax	12,591	-
Accruals	408,094	634,531
	<u>1,085,287</u>	<u>1,216,031</u>

The prior year balances have been restated between categories as the directors believe that the allocation of interest costs is more appropriate.

10. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>Amounts falling due (£)</u>				
	1-2 years	2-5 years	Over 5 Years	30.11.02 Total	30.11.01 Total
Bank Loan	503,844	1,738,323	13,210,936	15,453,103	15,927,246
Other Loans	16,070	64,394	1,748,445	1,828,909	1,843,695
	<u>519,914</u>	<u>1,802,717</u>	<u>14,959,381</u>	<u>17,282,012</u>	<u>17,770,941</u>

Bank loans are repayable over a period of 20 years by way of semi-annual payments commencing 10 March 2001. The last payment is due on 10 September 2020. The bank loans are secured by way of a fixed and floating charge over the assets of the Company. Interest is charged on the bank loan at the rate of 6.735% per annum. Subordinated Debt is repayable over a period of 25 years by way of semi-annual payments commencing 10 March 2001. The last payment is due on 10 September 2025. Interest is charged on the subordinated debt at the rate of 12.94% per annum.

KINNOULL HOUSE LIMITED**NOTES TO THE FINANCIAL STATEMENTS – YEAR ENDED 30 NOVEMBER 2002****11. PROVISION FOR LIABILITIES AND CHARGES****Deferred Taxation**

Details of the provision made for deferred taxation which represents the full potential liability are set out below:

	<u>30.11.02</u> £	<u>30.11.01</u> £
Accelerated capital allowances	1,038,994	856,889
Other	(394,187)	(503,500)
	<u>644,807</u>	<u>353,389</u>

12. CALLED UP SHARE CAPITAL

	<u>30.11.02</u>		<u>30.11.01</u>	
	£ Authorised	£ Issued	£ Authorised	£ Issued
"A" Type shares of £1 each	250,000	67,000	250,000	67,000
"B" Type shares of £1 each	250,000	67,000	250,000	67,000
	<u>500,000</u>	<u>134,000</u>	<u>500,000</u>	<u>134,000</u>

"A" & "B" share have equal ranking and voting rights.

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>30.11.02</u> £	<u>30.11.01</u> £
Opening shareholders' funds	568,259	233,044
Profit for financial year	397,307	335,215
Closing shareholders' funds	<u>965,566</u>	<u>568,259</u>

KINNOULL HOUSE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – YEAR ENDED 30 NOVEMBER 2002

14 RELATED PARTY TRANSACTIONS

The Company's related parties, as defined by Financial Reporting Standard 8, and the extent of transactions with them are summarised below:

	Purchases from Related Parties in the period to 30.11.02	Amounts due to Related Parties as at 30.11.02
	£	£
AWG Construction Services Ltd <i>(formerly Morrison Construction Ltd)</i>	640,636	193,242
AWG Project Investments Ltd	36,208	-
Morrison Edison Investments Ltd	27,838	-
Royal Bank Project Investments Ltd	27,838	-
	<u>732,520</u>	<u>193,242</u>

The Company made no sales to related parties during the period and, at the period end, was due no sums from related parties.

As at the year end, Kinnoull House Ltd owed the Morrison Edison Investments Ltd and Royal Bank Project Investments Ltd subordinated debt of £921,847 each and during the year paid interest of £119,915 to each party.

15. ULTIMATE PARENT UNDERTAKING

In the opinion of the directors, there is no ultimate parent undertaking and controlling party.

The immediate parent companies are Morrison Edison Investments Limited, a company registered in Scotland, and Royal Bank Project Investments Limited a company registered in England.