L.G.S. Investments PLC

Directors' report and financial statements

For the year ended 30 June 2004

Registered number 2879716

L.G.S. Investments PLC

Directors' report and financial statements

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L.G.S. Investments PLC

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2004.

Principal activities

The company is an investment company whose only activity is to hold local authority loan instruments, acquired on 22 May 1995 and to service bonds which were issued on the same day to finance the purchase. The local authority loan instruments have been pledged to Bankers Trustee Company Limited as security for the bonds.

Results and dividends

The company made a loss before taxation of £8,640 (*2003: Profit £68,790)* during the period and the directors do not recommend the payment of a dividend.

Directors and directors' interest

The following directors held office during the period:

SPV Management Limited
Mr R Baker

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

SPV Management
Director

Tower 42, International Financial Centre,
25 Old Broad Street, London, EC2N 1HQ
2005

L.G.S. Investments PLC

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining 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 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

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of L.G.S. Investments PLC

We have audited the financial statements on pages 4 to 10.

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 are responsible for preparing the director's report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the director's 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 is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Boards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2004 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit PLC

KPMG Audit plc
Chartered Accountants
Registered Auditors

31 January 2005

L.G.S. Investments PLC

Profit and loss account
for the year ended 30 June 2004

	Note	**Year to 30.06.04 £**	Year to 30.06.03 £
Income from fixed asset investments	*4*	**6,438,223**	6,436,159
Interest payable and similar charges on bonds in issue	*5*	**(6,412,739)**	(6,410,677)
		25,484	25,482
Administrative expenses		**(34,585)**	(22,505)
Operating (loss)/profit		**(9,101)**	2,977
Other interest receivable and similar income		**461**	65,813
(Loss)/Profit on ordinary activities before taxation	*2*	**(8,640)**	68,790
Tax credit/(charge) on profit on ordinary activities	*6*	**2,592**	(20,355)
Retained (loss)/profit for the period		**(6,048)**	48,435
Retained profit brought forward		**76,234**	27,799
Retained profit carried forward		**70,186**	76,234

Reconciliation of movements in shareholders' funds
for the year ended 30 June 2004.

	Year to 30.06.04 £	Year to 30.06.03 £
(Loss)/Profit for the financial period	**(6,048)**	48,435
Opening shareholders' funds	**88,734**	40,299
Closing shareholders' funds	**82,686**	88,734

There were no gains or losses during the current or preceding year other than those passing through the profit and loss account. All of the turnover and results for the year arise from continuing operations for both the current and preceding year. A note on historical cost gains and losses has not been included as part of the financial statements as the results as disclosed in the profit and loss account are prepared to an unmodified cost basis.

L.G.S. Investments PLC

Balance sheet
at 30 June 2004

	Note		**30.06.04**		30.06.03
		£	**£**	£	£
Fixed assets					
Investments	*7*		**72,111,519**		72,086,346
Current assets					
Debtors	*8*	**713,092**		2,052,500	
Cash at bank and in hand		**77,379**		36,940	
		790,471		2,089,440	
Creditors: amounts falling due within one year	*9*	**(707,177)**		(2,000,164)	
Net current assets			**83,294**		89,276
Total assets less current liabilities			**72,194,813**		72,175,622
Creditors: amounts falling due after more than one year	*10*		**(72,112,127)**		(72,086,888)
Net assets			**82,686**		88,734
Capital and reserves					
Called up share capital	*12*		**12,500**		12,500
Profit and loss account			**70,186**		76,234
Equity shareholders' funds			**82,686**		88,734

These financial statements were approved by the board of directors on 20 JANUARY 2005 and were signed on its behalf by:

SPV Management Limited
Director

L.G.S. Investments PLC

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. The company has adopted FRS 19 'Deferred Tax' in these financial statements. The comparative figures have been restated accordingly in respect of FRS 19.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard No 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Under Financial Reporting Standard No 8, Related Part Disclosures, the company has taken advantage of the partial exemption not to disclose transactions with group companies.

Investments

Investments are recorded at cost, plus or minus accrued premium or discount on acquisition which is amortised to generate a constant yield to maturity.

Debt securities issued

Debt securities are recorded at cost, plus or minus accrued premium or discount on issue which is amortised to generate a constant yield to maturity.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment o certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

2 (Loss)/Profit on ordinary activities before taxation

	Year to 30.06.04 £	Year to 30.06.03 £
(Loss)/Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration		
Audit	**11,530**	6,639
Other services	**1,762**	1,762

3 Remuneration of directors

None of the directors received remuneration for their services to the company. Amounts were paid to SPV Management Limited, a director of the company, of £10,647 (2003: £10,625) during the year for professional services provided on normal commercial terms by the company.

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Notes *(continued)*

4 **Income from fixed asset investments**

	Year to 30.06.04 £	Year to 30.06.03 £
Income from fixed asset investments		
Unlisted	**6,413,050**	6,413,050
Amortised discount	**25,173**	23,109
	6,438,223	6,436,159

5 **Interest payable and similar charges on bonds in issue**

	Year to 30.06.04 £	Year to 30.06.03 £
Interest paid on bonds in issue	**6,387,500**	6,387,500
Amortised discount	**25,239**	23,177
	6,412,739	6,410,677

6 **Taxation**

Analysis of charge in the period	**Year to 30.06.04 £**	Year to 30.06.03 £
UK Corporation tax		
Current tax on income for the period	-	20,355
Total current tax	-	20,355
Deferred tax (note 11)	**(2,592)**	-
Tax on (loss)/profit on ordinary activities	**(2,592)**	20,355

Factors affecting the tax charge for the period is lower (2003: higher) than the standard rate of corporation tax in the UK (30%, 2003: 30%). The differences are explained below.

Current tax reconciliation	**2004**	2003
(Loss)/profit on ordinary activities before taxation	**(8,640)**	68,790
Current tax (credit)/charge at 30%	**(2,592)**	20,637
Short term timing differences	**2,592**	(282)
Current tax charge	-	20,355

Notes *(continued)*

7 **Fixed assets investments**

	£
Cost	
At beginning and end of the period	**71,948,800**
Provisions	
At the beginning of the period	137,546
Amortised discount for the period	25,173
At the end of the period	**162,719**
Net Book Value	
As at 30 June 2004	**72,111,519**
As at 30 June 2003	**72,086,346**

The fixed asset investments comprises unlisted debt securities. The local authority loan instruments purchased have been pledged to Bankers Trustee Company Limited as security for bonds issued.

8 **Debtors**

	30.06.04	30.06.03
	£	£
Other debtors	**5,758**	1,347,763
Deferred tax asset (note 11)	**2,592**	-
Prepayments and accrued income	**704,742**	704,737
	713,092	2,052,500

All debtors except for the deferred tax asset were due within one year.

9 **Creditors: amounts falling due within one year**

	30.06.04	30.06.03
	£	£
Taxation	-	20,355
Other creditors	-	1,278,683
Accruals and deferred income	**707,177**	701,126
	707,177	2,000,164

Notes *(continued)*

10 **Creditors: amounts falling due after more than one year**

	30.06.04	30.06.03
	£	£
Bonds in issue at cost	**71,948,800**	71,948,800
Amortised discount	**163,327**	138,088
	72,112,127	72,086,888

	30.06.04	30.06.03
	£	£
Amount repayable, other than by instalments, after more than five years	**72,112,127**	72,086,888

The bonds, which are redeemable by 22 May 2020, have a nominal value of £73,000,000 and bear interest at 8.75% per annum.

11 **Deferred tax asset**

	30.06.04
	£
At beginning of year	-
Credit for the year to the profit and loss account	**2,592**
At end of year	**2,592**

The components of the deferred tax asset are analysed as follows:

	30.06.04
Tax losses carried forward	**2,592**

12 **Called up share capital**

	30.06.04	30.06.03
	£	£
Authorised		
Ordinary shares of £1 each	**50,000**	50,000
Allotted, called up and paid as to 25p per share		
50,000 Ordinary shares of £1 each	**12,500**	12,500

13 Ultimate parent undertaking

L.G.S. Investments PLC is a wholly owned subsidiary undertaking, whose ultimate parent undertaking is L.G.S. Investment (Holdings) Limited. L.G.S. Investments (Holdings) Limited is registered in England and Wales and prepares group accounts which can be obtained from Tower 42 Level 11, 25 Old Broad Street, London, EC2N 1HQ.

The entire share capital of L.G.S. Investments (Holdings) Limited is held by SPV Management Limited under the terms of a trust declare ultimately for charitable purposes.

The ultimate controlling party is SPV Management Limited, as trustee.

L.G.S. Investments PLC

Analysis of administrative expenses

for the year ended 30 June 2004

	Year to 30.06.04 £	Year to 30.06.03 £
Registrar's fee	**2,477**	2,363
Audit fee	**11,530**	6,639
Professional Taxation fees	**1,762**	1,762
SPV Management Ltd's fee	**10,647**	10,625
RETCO Trust fee	**8,169**	1,116
	34,585	22,505

The above information does not form part of the audited statutory accounts and is included solely for the information of management.