

KUC PROPERTIES LIMITED

Directors' Report and Financial Statements

31 December 2001



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KUC PROPERTIES LIMITED

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KUC PROPERTIES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Ian David Beattie
Rory Malcolm Cullinan
James McCubbin Rowney
Stuart Currie Sanders
Barbara Ida Mary Turnbull
John Donald Black Workman

SECRETARY

Shirley Margaret MacGillivray

REGISTERED OFFICE

42 St Andrew Square
Edinburgh
EH2 2YE
Scotland

AUDITORS

Deloitte & Touche

KUC PROPERTIES LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

ACTIVITIES AND BUSINESS REVIEW

The company's principal activity is to assess opportunities to acquire, develop and dispose of its properties.

The directors do not anticipate any material change in either the type or level of activities of the Company.

RESULTS AND DIVIDENDS

The retained profit for the year was £2,019,772 (2000: retained profit £1,606,032) and this was transferred to reserves.

The directors do not recommend payment of a dividend for the year (2000: £nil).

DIRECTORS

The names of the present directors are listed on page 1.

During the year the following changes have taken place:

	Appointed	Resigned
Mark Andrew Lambert	5 March 2001	15 November 2001
John Donald Black Workman	5 March 2001	-
Simon Jonathan Chrispin	-	10 April 2001
Rory Malcolm Cullinan	12 June 2001	-
Ian David Beattie	15 November 2001	-
James McCubbin Rowney	15 November 2001	-
Stuart Currie Sanders	15 November 2001	-
Barbara Ida Mary Turnbull	15 November 2001	-
Robert Henry Beattie	-	15 November 2001
Philip Andrew Carraro	-	15 November 2001
David Edmund Cartledge	-	15 November 2001
Derek Stephen Sach	-	15 November 2001
Ernest Michael Sheavills	-	15 November 2001
Grahame Taylor Whitehead	-	15 November 2001

SECRETARY

On 30 March 2001 Carolyn Smith resigned as Joint Secretary of the Company.

DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing the 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

KUC PROPERTIES LIMITED

DIRECTORS' REPORT(continued)

the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these financial statements comply with the aforementioned requirements.

DIRECTORS' INTERESTS

No director had an interest in the shares of the company.

The following directors were beneficially interested in the ordinary shares of The Royal Bank of Scotland Group plc, the company's ultimate holding company:

	As at 1 January 2001*	As at 31 December 2001
J M Rowney	2,847	2,847
S C Sanders	5,260	5,260
B I M Turnbull	1,840	1,840
J D B Workman	44,429	45,119

*or date of appointment, if later

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised during the period are:

	As at 1 January 2001*	Granted during the period		Exercised During the Period		As at 31 December 2001
		Options £	Price	Options	Price £	
R M Cullinan	-	26,193	17.18	-	-	26,193
J M Rowney	2,057	-	-	-	-	2,057
S C Sanders	1,355	-	-	-	-	1,355
B I M Turnbull	2,912	-	-	-	-	2,912
J D B Workman	118,490	11,700 150	17.18 15.63	-	-	130,340

*or date of appointment, if later

No director had an interest in any of the preference shares during the year to 31 December 2001.

The following directors were beneficially interested in the Additional Value Shares of The Royal Bank of Scotland Group plc:

	As at 1 January 2001*	As at 31 December 2001
J M Rowney	908	908
S C Sanders	3,836	3,836
B I M Turnbull	1,927	1,927
J D B Workman	38,539	38,539

*or date of appointment, if later

None of the directors in office at 31 December 2001 held any interests in the share or loan capital of the company or any other group company.

KUC PROPERTIES LIMITED

DIRECTORS' REPORT(continued)

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Shirley Margaret MacGillivray

Secretary

30 October 2002

KUC (PROPERTIES) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KUC PROPERTIES LIMITED

We have audited the financial statements of KUC Properties Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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 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 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and
Registered Auditors
London

31 October 2002

KUC PROPERTIES LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2001

	Note	Year ended 31 December 2001 £	15 months ended 31 December restated* 2000 £
Sale of property		16,645,000	1,851,883
Rental income		4,719,788	4,975,542
Other income		43,004	11,921
TURNOVER	1	21,407,792	6,839,346
Cost of sales		(14,832,569)	(1,683,288)
GROSS PROFIT		6,575,223	5,156,058
Administrative expenses		(1,211,289)	(728,370)
OPERATING PROFIT		5,363,934	4,427,688
Interest receivable and similar income		6,568	11,993
Interest payable and similar charges	3	(3,560,120)	(3,615,304)
Dividend received from group undertakings		545,000	1,034,000
Dividend received from participating interest		75,600	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	2,430,982	1,858,377
Tax on profit on ordinary activities	4	(411,210)	(252,345)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,019,772	1,606,032
Reserves brought forward		(1,936,025)	(3,542,057)
Reserves carried forward		83,747	(1,936,025)

* The balance sheet as at 31 December 2000 has been restated for a prior period reclassification (see note 2).

All items on the profit and loss account relate to continuing operations.

The company has no recognised gains and losses other than those disclosed in the profit and loss account. Therefore a separate statement of total recognised gains and losses has not been presented.

KUC PROPERTIES LIMITED

BALANCE SHEET 31 December 2001

	Note	2001 £	2000 Restated* £
FIXED ASSETS			
Investment in subsidiaries		107,874	107,874
Investments in joint ventures		5,719,686	3,047,160
	5	<u>5,827,560</u>	<u>3,155,034</u>
CURRENT ASSETS			
Development properties	6	62,248,906	43,984,859
Debtors	7	5,465,955	2,117,581
		<u>67,714,861</u>	<u>46,102,440</u>
CREDITORS: amounts falling due within one year	8	<u>(73,458,474)</u>	<u>(51,193,299)</u>
NET CURRENT LIABILITIES		<u>(5,743,613)</u>	<u>(5,090,859)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>83,947</u>	<u>(1,935,825)</u>
CAPITAL AND RESERVES			
Called up share capital	9	200	200
Profit and loss account		83,747	(1,936,025)
EQUITY SHAREHOLDERS' FUNDS/DEFICIT	10	<u>83,947</u>	<u>(1,935,825)</u>

* The balance sheet as at 31 December 2000 has been restated for a prior period reclassification (see notes 5 and 7).

These financial statements were approved by the Board of Directors on 30 October 2002.

Signed on behalf of the Board of Directors

Director

Barbara J M Turnbull

Director

Mr Ramey

NOTES TO THE ACCOUNTS**Year ended 31 December 2001****1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies is set out below.

Basis of accounting

The financial statements are prepared under the historical cost convention and in compliance with the Companies Act 1985.

Taxation

Provision is made for taxation at the current rates on taxable profits.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

Investments

Investments held as fixed assets are stated at cost less provisions for any impairment, which has been deemed permanent.

Development assets

Development properties are stated at the lower of cost and net realisable value. Cost comprises the purchase cost of land and building development.

Turnover

Turnover represents the proceeds from the sale of development properties, together with rents receivable, exclusive of value added tax. All turnover arises in the United Kingdom.

Cash flow statement

The cash flows of the company are included in the consolidated group cash flow statement of The Royal Bank of Scotland Group plc, the company's ultimate parent company. Consequently the company is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement.

Consolidation

The company is exempt from preparing consolidated accounts under section 228 of the Company's Act 1985.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging the following:

	Year ended 31 December 2001 £	15 months ended 31 December 2000 £
Auditors' remuneration	<u>3,000</u>	<u>3,107</u>

The directors received no emoluments from the company during the current year or prior period.

The company has no employees (2000: nil).

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

Prior period reclassification

The reclassification is of dividends received from group undertakings which was shown as other income in the 2000 accounts but has been reclassified to dividends received from group undertakings in the 2001 accounts. The reclassification is due to misclassification in the prior period accounts.

	Other income £	Dividends received from group undertakings £
2000 balance as previously reported	1,045,921	-
Reclassification during the year ended 31 December 2000	(1,034,000)	1,034,000
2000 restated	<u>11,921</u>	<u>1,034,000</u>

3. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2001 £	15 months ended 31 December 2000 £
Interest payable to parent undertaking	<u>3,560,120</u>	<u>3,615,304</u>

All interest payable and receivable arises on balances with the ultimate parent undertaking.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2001 £	15 months ended 31 December 2000 £
(Under)/over provision in prior period	(56,175)	5,654
Group relief at 30%	<u>467,385</u>	<u>246,691</u>
	<u>411,210</u>	<u>252,345</u>

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2001

5. INVESTMENTS IN JOINT VENTURES/SUBSIDIARIES

	2001 £	2000 £
Balance at beginning of year	3,155,034	1,107,874
Additions at cost	2,672,526	300,000
Prior period reclassification	-	1,747,160
Balance at end of year	<u>5,827,560</u>	<u>3,155,034</u>

Prior period reclassification

The reclassification is of a loan to Land Options (West) Limited which was shown as a debtor in the 2000 accounts but has been reclassified to investment in joint venture in the 2001 accounts. The reclassification is due to this loan being used to meet the capital requirements of Land Options (West) Limited, there being no repayments of this loan and there is no expectation of early repayment.

Investment in joint venture/subsidiary	£
2000 balance as previously reported	1,407,874
Reclassification during the year ended 31 December 2000	1,747,160
2000 restated	<u>3,155,034</u>

Investment in subsidiaries

The company owns 100% of the ordinary share capital of the following subsidiary companies. The company is exempt from preparing consolidated accounts under section 228 of the Company's Act 1985.

Subsidiary company	Principal activity	Country of incorporation
KUC Christchurch Ltd	Property investment	Great Britain
Hill of Rubislaw (Seafield) Ltd	Property investment	Great Britain
Hill of Rubislaw (Rubislaw) Ltd	Property investment	Great Britain
Hill of Rubislaw (Marathon) Ltd	Property investment	Great Britain

Investment in joint ventures

Name of joint venture	Proportion of issued shares
Land Options (East) Limited	50%
Land Options (West) Limited	50%
Developments Options (Hamilton) Limited	50%
Buchanan Business Park Limited	50%
Frontier Estates Limited	50%
Chase Midland Limited	50%
Parkridge Homes Limited	50%
Wigford House Limited	50%

Land Options (East) Limited is a land trading company while Land Options (West) Limited trades in options to acquire land.

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NOTES TO THE ACCOUNTS Year ended 31 December 2001

6. DEVELOPMENT PROPERTIES

	2001 £	2000 £
Balance at beginning of year	43,984,859	37,611,669
Additions at cost	32,076,578	8,037,613
Disposals	(13,812,531)	(1,664,423)
Balance at end of year	<u>62,248,906</u>	<u>43,984,859</u>

7. DEBTORS

	2001 £	2000 £
Amount owed by group undertaking	545,000	1,034,000
Trade debtors	1,725,111	771,530
Other debtors	2,298,360	312,051
VAT	897,484	-
	<u>5,465,955</u>	<u>2,117,581</u>

Prior period reclassification

The reclassification is of a loan to Land Options (West) Limited which was shown as a debtor in the 2000 accounts but has been reclassified to investment in joint venture in the 2001 accounts. The reclassification is due to this loan being used to meet the capital requirements of Land Options (West) Limited, there being no repayments of this loan and there is no expectation of early repayment.

	£
Debtors	
2000 balance as previously reported	3,864,741
Reclassification during the year ended 31 December 2000	<u>(1,747,160)</u>
2000 restated	<u>2,117,581</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Amounts due to group undertaking	70,584,871	49,394,399
Trade creditors	1,070,329	544,633
Other creditors	58,541	-
VAT	-	146,848
Accruals	<u>1,744,733</u>	<u>1,107,419</u>
	<u>73,458,474</u>	<u>51,193,299</u>

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2001

9. CALLED UP SHARE CAPITAL

	2001 £	2000 £
Authorised:		
200 ordinary shares of £1 each	200	200
Called up, allotted and fully paid:		
200 ordinary shares of £1 each	200	200

10. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF RECONCILIATION OF SHAREHOLDERS' FUNDS

	Issued share capital £	Profit and loss account £	2001 Total £	2000 Total £
At beginning of the year/period	200	(1,936,025)	(1,935,825)	(3,541,857)
Profit attributable to members of the company	-	2,019,772	2,019,772	1,606,032
At the end of the year/period	200	83,747	83,947	(1,935,825)

11. IMMEDIATE PARENT COMPANY

The Company's immediate parent company is KUC Holdings Limited which is incorporated in Great Britain and registered in Scotland.

12. ULTIMATE PARENT COMPANY

The Company's ultimate parent company is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Financial Statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.

The smallest subgroup into which the Company is consolidated has as its parent company The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.

The Company is exempt from the requirement of Financial Reporting Standard 8 'Related Party Disclosures' to disclose transactions and balances with other subsidiaries or investees of the group as its results are included in the Consolidated Financial Statements of The Royal Bank of Scotland Group plc.