

Company Registration No: SC044073

KUC PROPERTIES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2007

'31 OCT 2008

**Group Secretariat
The Royal Bank of Scotland Group plc
Gogarburn
P.O. Box 1000
Edinburgh EH12 1HQ**

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KUC PROPERTIES LIMITED

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KUC PROPERTIES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS.

**Alison Buchan
James McCubbin Rowney
Stuart Currie Sanders
Barbara Ida Mary Turnbull**

SECRETARY.

Rachel Fletcher

REGISTERED OFFICE

**24/25 St Andrew Square
Edinburgh
EH2 1AF**

AUDITORS.

**Deloitte & Touche LLP
London**

Registered in Scotland.

KUC PROPERTIES LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2007

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the Company is to assess opportunities to acquire, develop and dispose of its properties and investments

The Company is a subsidiary of The Royal Bank of Scotland Group plc which provides the Company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's website at rbs.com

Review of the year

The directors are satisfied with the development of the Company's activities during the year. The Company will be guided by its ultimate parent company in seeking further opportunities for growth. During the year the Company declared and paid a dividend of £4,000,000 (2006 £3,000,000)

The Company's financial performance is presented in the Income Statement on Page 6. At the end of the year, the financial position showed total assets of £114,775,316 (2006 £116,086,549) and equity of £18,907,327 (2006 £19,860,376)

The Company is funded by facilities from The Royal Bank of Scotland plc. It seeks to minimise its exposure to external financial risks other than credit risk, further information is disclosed in Note 4

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1

From 1 January 2007 to date the following changes have taken place

	Appointed	Resigned
Directors		
James Alexander Stevens		01/05/2008
Secretary		
Mark Craig		14/08/2008
Rachel Fletcher	15/08/2008	

KUC PROPERTIES LIMITED

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Acts 1985 and 2006 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance, and cash flows of the Company. In preparing these 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, 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 directors' report and financial statements comply with the requirements of the Companies Acts 1985 and 2006. 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.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors at the date of approval of this report confirms that

- a) so far as he/she is aware there is no relevant audit information of which the Company's auditors are unaware, and
- b) the director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and shall be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985

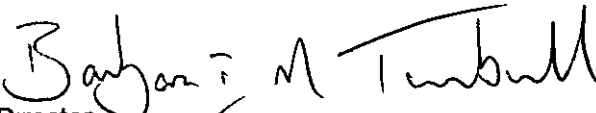
DIRECTORS' INDEMNITIES

In terms of section 236 of the Companies Act 2006, none of the directors have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors

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


Director
Date 31 October 2008

Independent auditors' report to the members of KUC Properties Limited

We have audited the financial statements of KUC Properties Limited ('the company') for the year ended 31 December 2007 which comprise the income statement, the balance sheet, statement of changes in equity, the cash flow statement and the related Notes 1 to 26. 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 auditors' 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 directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 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 other information contained in the directors' report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the directors' report.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, 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 2007 and of its profit for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union,
- 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

Separate opinion in relation to IFRS

As explained in Note 1, the company, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
Date 31 March 2008

KUC PROPERTIES LIMITED

INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007	2006
			Restated
		£	(note 24)
			£
Continuing operations			
Revenue	5	15,083,336	19,779,970
Cost of sales		(13,737,280)	(19,941,491)
Gross profit		1,346,056	(161,521)
Other operating income	6	5,606,487	5,055,122
Administrative expenses	7	(1,269,676)	(5,236,918)
Increase in fair value of investment property		118,000	2,328,000
Operating profit		5,800,867	1,984,683
Investment revenue	9	17,767	4,174,249
Interest receivable and similar income	10	1,757,981	1,276,901
Interest payable and similar charges	11	(4,024,781)	(4,388,118)
Profit before tax		3,551,834	3,047,715
Tax	12	(504,883)	623,618
Profit for the year		3,046,951	3,671,333

Notes 1 to 26 form an integral part of these financial statements

KUC PROPERTIES LIMITED

BALANCE SHEET

As at 31 December 2007

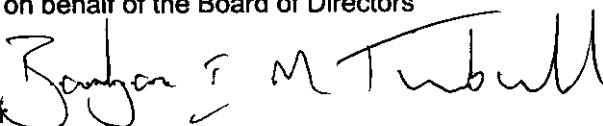
	Notes	2007	2006 Restated (note 24)
ASSETS			
Non-current assets		£	£
Investment property	14	49,505,236	48,981,293
Investment in subsidiary	15	152	152
Investment in joint venture	16	7,039,973	6,095,392
Loans to joint ventures		24,837,182	23,065,308
Current assets			
Development property	17	13,188,915	21,924,947
Loans to joint ventures		8,590,381	1,750,000
Trade and other receivables	18	11,613,477	13,859,734
Current tax asset			409,723
Total assets		<u>114,775,316</u>	<u>116,086,549</u>
LIABILITIES			
Current liabilities			
Trade and other payables	19	60,340,403	61,997,037
Current tax liabilities		1,671,531	
Non-current liabilities			
Loans from parent entity	20	33,670,247	33,655,122
Deferred tax liabilities	21	185,808	574,014
Total liabilities		<u>95,867,989</u>	<u>96,226,173</u>
NET ASSETS		<u>18,907,327</u>	<u>19,860,376</u>
EQUITY			
Share capital	22	200	200
Retained earnings		18,907,127	19,860,176
Total equity		<u>18,907,327</u>	<u>19,860,376</u>

Notes 1 to 26 form an integral part of these financial statements

These financial statements were approved by the Board of Directors and authorised for issue on

31 October 2008

Signed on behalf of the Board of Directors

Director 

KUC PROPERTIES LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2007

	Share Capital	Retained Earnings (restated) note 24	Total
	£	£	£
Balance at 1 January 2006	200	19,188,843	19,189,043
Profit for the year		3,671,333	3,671,333
Dividends		(3,000,000)	(3,000,000)
Balance at 1 January 2007	<u>200</u>	<u>19,860,176</u>	<u>19,860,376</u>
Profit for the year		3,046,951	3,046,951
Dividends		(4,000,000)	(4,000,000)
Balance at 31 December 2007	<u>200</u>	<u>18,907,127</u>	<u>18,907,327</u>

KUC PROPERTIES LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007	2006 Restated (note 24)
	£	£
Operating activities		
Operating profit from continuing operations	5,800,867	1,984,683
Adjustments for		
Gain on disposal of investment property	(685,713)	(1,621,057)
Increase in fair value of investment property	(118,000)	(2,328,000)
Operating cash flows before movement in working capital	4,997,154	(1,964,374)
Decrease/(increase) in receivables	10,905,623	4,306,720
Increase/(decrease) in payables	(1,656,634)	128,644
Cash generated by/(used in) operations	14,246,143	2,470,990
Income taxes received/(paid)	1,188,165	(2,819,797)
Net cash used in operating activities	15,434,308	(348,807)
Investing activities		
Dividends received from investments	17,767	4,174,249
Acquisition of investments	(4,018,661)	(10,958,699)
Net loans to joint ventures	(8,612,255)	(8,231,428)
Funding received for investment property		1,311,000
Fees on sales of assets		(1,495,745)
Repayment of loan to joint venture		2,429,259
Interest receivable	523,647	(1,415,132)
Proceeds on disposal of investments	4,664,850	21,562,546
Net cash from investing activities	(7,424,653)	7,376,050
Financing activities		
Loan drawn downs	15,125	
Repayments of borrowings		255,121
Dividends paid	(4,000,000)	(3,000,000)
Interest payable	(4,024,781)	(4,282,364)
Net cash used in financing activities	(8,009,656)	(7,027,243)
Net increase/(decrease) in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year		

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

1 GENERAL

KUC Properties Limited is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report.

The accounts are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the European Union (EU). The EU has not adopted the complete text of IAS 39 'Financial Instruments: Recognition and Measurement', it has relaxed some of the standard's hedging requirements. The Company has not taken advantage of this relaxation and has adopted IAS 39 as issued by the IASB.

Accounting estimates and assumptions

In the application of the accounting policies which are described in note 2 to these financial statements, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised as the revision affects only that period or in the period of revision or future periods if the revision affects both current and future periods.

Significant assumptions and estimates were made in respect of

- valuation of investment property (notes 2 and 16),
- valuation of development properties (notes 2 and 17) and
- current tax and deferred assets (note 2)

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

Adoption of new accounting standards

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective

Amendments to IAS 23 (revised) *Borrowing Costs*

IFRS 8 *Operating Segments*

IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*

IFRIC 12 *Service Concession Arrangements*

IFRIC 13 *Customer Loyalty Programmes*

IFRIC 14 *IAS 19 The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interactions*

IFRIC 15 *Agreement for construction of Real Estate*

IFRIC 16 *Hedge of Investment in Foreign Operations*

The directors' anticipate that the impact of above accounting standards would not be material to the financial statements

The Company has adopted IFRS 7 'Financial Instruments Disclosures' and related amendments to IAS 1 'Presentation of Financial Statements' for the accounting period beginning 1 January 2007. This has had no effect on the results, cash flows or financial position of the Company. However, there are changes to the notes to the accounts and comparative information is presented accordingly.

2 ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention, except for the valuation of certain financial instruments and investment properties which are stated at their fair value.

The financial statements contain information about KUC Properties Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its parent company, The Royal Bank of Scotland Group plc, a company registered in Scotland.

Investment property

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is stated at fair value at the balance sheet date. Fair value is based on market value as defined in RICS Appraisal and Valuation Standards, including consideration of capital expenditure and trading performance. Any gain or loss arising from a change in fair value is recognised in the income statement in the year in which it arises.

External valuation is carried out by professional valuers every 5 years. In the interim period the fair value of the investment property is assessed by directors based on trading performance.

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

Investment in subsidiaries

The Company's interests in subsidiary undertakings are stated at cost less provision for any impairment

Investment in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Company reports its interests in jointly controlled entities at cost less any impairment loss recognised to reflect irrecoverable amounts.

In previous years certain loans advanced to joint ventures were classified as investment and some of these loans were off market interest rate loans which were not recognised at fair value. In the current year, the loans are re classified as 'Loans to joint ventures' and have been fair valued and the prior year results restated accordingly (note 24).

Development properties

Development properties are stated at the lower of cost and net realisable value. Cost comprises direct cost of land and buildings, materials and where applicable direct labour and those overheads that have been incurred in bringing the development properties to their present location and condition. Cost is calculated at the actual amount paid or accrued. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing and selling.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable from rentals earned and development properties sold in the normal course of business, net of discounts, VAT and other sales related taxes.

Rental income, excluding charges for services such as insurance and maintenance, is recognised on a straight line basis over the lease term even if the payments are not made on that basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Rental income is credited to the income statement as it accrues unless there is significant doubt that it can be collected. Lease incentives granted are recognised as an integral part of the total rental income.

Gains and losses on realisation of investments are recognised in the income statement on the date of disposal.

Investment revenues are dividend income credited to the income statement when the shareholders' rights to receive payment have been established.

Interest receivable and interest payable

Interest income and interest expense are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset and financial liability to their net carrying amount.

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

3. CAPITAL MANAGEMENT

The Company is a member of The Royal Bank of Scotland Group plc which is subject to capital requirements imposed by the Financial Services Authority (FSA). A quarterly regulatory capital return is submitted to the FSA on a Royal Bank of Scotland plc and The Royal Bank of Scotland Group plc consolidated level.

The Group's objectives when managing capital are

to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and

to provide adequate return to shareholders by monitoring the risk level of its activities.

Capital is not managed for FSA purposes at the Company level but net equity levels are monitored and if required, support from The Royal Bank of Scotland plc, an intermediate holding company, is obtained. The adjusted net equity that is managed at 31 December 2007 and at 31 December 2006 were as follows:

	2007 £	2006 £ Restated (note 24)
Total assets	114,775,316	116,086,549
Less: Total liabilities	(95,867,989)	(96,226,173)
Less: Fair value adjustments from which distributions are not permitted	(3,842,704)	(3,842,704)
Adjusted net equity	<u>15,064,623</u>	<u>16,017,672</u>

4. FINANCIAL INSTRUMENTS AND PRINCIPAL RISKS AND UNCERTAINTIES

The Company has financial risk exposures. This section summarises these risks and the way the Company manages these.

4.1 Financial risk

The Company is a member of the Global Banking Markets Division of The Royal Bank of Scotland Group plc. As such, the Company benefits from services provided by specialist teams, risk management procedures and controls which are applied consistently across the Division. The disclosures below relate to the Global Banking Markets Division (GBM) as a whole.

The Division is exposed to financial risk through its financial assets and financial liabilities. This portfolio is managed in accordance with GBM's Investment Policy and Investment Guidelines. These are drawn up in compliance with the objectives and risk appetite parameters set by The Royal Bank of Scotland Group plc and are approved by the GBM Board. The Investment Policy is operated by the Equity Investment Committee and the Credit Committee, which is made up of Senior Executives within GBM. The Group Asset and Liability Management Committee (GALCO) also monitor investments.

The most important components of financial risk are market risk, credit risk and liquidity risk.

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

4.1.1 Market risk

Market risk encompasses any adverse movement in the value of financial instruments as a consequence of market movements such as interest rates, foreign exchange rates, equity prices and property valuations

Interest rate risk

The Company is exposed to interest rate risk through amounts owed to group undertakings

The Company manages interest rate risk by monitoring consistency in the interest rate profile of its assets and liabilities

The following tables indicate financial liabilities and assets that are exposed to interest rate risk together with the corresponding range of applicable interest rates

	Total 2007 £	Total 2006 £
Loans to joint ventures (receivable within 1 year)	8,590,381	1,750,000
Loans to joint ventures (receivable within 5 years or more)	24,772,497	23,065,308
Loans to parent entity (payable after 5 years)	9,000,000	9,000,000
Amounts owed to group undertaking (payable within 1 year)	(46,873,784)	(46,852,210)
Loans from parent entity (payable within 5 years)	(33,400,000)	(33,400,000)
	<u>(37,910,906)</u>	<u>(46,436,902)</u>

<u>Interest rate</u>	<u>% interest rate range</u>	
	2007	2006
Loans to joint ventures	0 5 50	0 5 50
Amounts owed to group undertaking	0 7 25	0 6 50
Loans to parent entity	5 54 6 29	4 58 5 12
Loans from parent entity	5 57 8 79	5 57 8 43

Currency risk

The Company does not maintain material open currency positions and is not exposed to currency risk

Market risk Sensitivity analysis

The sensitivity analysis below has been determined based on the Company's assets and liabilities present in the balance sheet as at the balance sheet date and by reference to a movement in market interest rates reasonably possible in the Company's next financial reporting period

If interest rates for the current year had been 50 basis points lower and this movement applied to the assets and liabilities as at the balance sheet date, the pre tax profit for the year ended 31 December 2007 would have been £189,555 higher (2006 £232,185 higher) This would have mainly resulted from lower financing costs in respect of its loans

The inverse is equally true for the current year if interest rates had been 50 basis points higher

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

4.1.2 Credit risk

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company. Credit risk arises principally from the Company's lending activities.

The Royal Bank of Scotland Group plc risk management division sets standards for maintaining and developing credit risk management throughout The Royal Bank of Scotland Group plc. This is achieved via a combination of governance structures, credit risk policies, control processes and infrastructure collectively known as the Group's Credit Risk Management Framework ("CRMF").

GBM sets out the prior approval process for credit exposures, such as Credit Committee review, and provides for appropriate analysis and reporting of these exposures at both the Division and The Royal Bank of Scotland Group plc level. Where appropriate, larger credit exposures are aggregated with other credit exposures, elsewhere in the Group for credit approval and monitoring purposes.

The following table analyses the credit exposure of the Company by type of asset.

	Not rated 2007 £	Not rated 2006 £
Loans to joint ventures	33,427,563	24,815,308
Trade and other receivables	11,613,477	13,859,734
Amounts owed by group undertakings	9,000,000	9,000,000
Total assets bearing credit risk	<u>54,041,040</u>	<u>47,675,042</u>

There are no financial assets which are past due or impaired at balance sheet date.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk.

Bank deposits are held with the banking members of the group; therefore, exposure is restricted to group companies.

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

4.1.3 Liquidity risk

Liquidity risk is the risk that obligations cannot be met as they fall due as a consequence of having a timing mismatch

Liquidity risk is mitigated by the routine monitoring of key management information

The table below details the expected maturity of the Company's material liabilities as at the balance sheet date. The table has been drawn up based on the undiscounted net cash outflows

2007	Up to 3 months	3 months 1 year	1 5 years	Over 5 years
	£	£	£	£
Trade and other payables		60,340,403		
Loans from parent entity				33,400,000
		<u>60,340,403</u>		<u>33,400,000</u>
2006	Up to 3 months	3 months 1 year	1 5 years	Over 5 years
	£	£	£	£
Trade and other payables		61,997,037		
Loans from parent entity				33,400,000
		<u>61,997,037</u>		<u>33,400,000</u>

5. REVENUE	2007 £	2006 £
Sale of development assets	11,682,640	16,534,046
Rental income	3,400,696	3,245,924
	<u>15,083,336</u>	<u>19,779,970</u>
6 OTHER OPERATING INCOME	2007 £	2006 £
Other revenue	1,440,587	24,558
Sale of investment properties	4,165,900	5,028,500
Insurance claim recovery		2,064
	<u>5,606,487</u>	<u>5,055,122</u>

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

7. ADMINISTRATIVE EXPENSES	2007	2006
	£	£
Legal and professional fees	526,233	881,227
Rental payments	230,213	103,256
Management fees	186,550	484,115
Others operating expenses	326,680	3,768,320
	<u>1,269,676</u>	<u>5,236,918</u>

8 OPERATING PROFIT

The auditors' remuneration £5,000 (2006 £5,000) is borne by an intermediate company, The Royal Bank of Scotland plc for both the current and prior years

The directors received no emoluments from the Company during the current year (2006 £nil)

The Company has no employees (2006 none)

9 INVESTMENT REVENUE	2007	2006
	£	£
Dividends from equity investments	<u>17,767</u>	<u>4,174,249</u>

10. INTEREST RECEIVABLE AND SIMILAR INCOME	2007	2006
	£	£
Interest received relates to bank deposits with the parent company and loans to joint ventures	<u>1,757,981</u>	<u>3,021,260</u>

11. INTEREST PAYABLE AND SIMILAR CHARGES	2007	2006
	£	£
Interest payable relates to transactions with the parent entity	<u>4,024,781</u>	<u>4,388,118</u>

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For the year ended 31 December 2007

12 TAXATION	2007 £	2006 £ Restated (note 24)
Current taxation		
Income tax (credit)/expense for the year	804,766	(412,816)
Adjustments in respect of prior periods	88,322	3,171
Current tax (credit)/expense for the year	<u>893,088</u>	<u>(409,645)</u>
Deferred taxation		
Charge for the year	(388,206)	309,335
	<u>(388,206)</u>	<u>309,335</u>
Income tax (credit)/expense	<u>504,882</u>	<u>(100,310)</u>

The actual tax (credit)/charge differs from the expected tax (credit)/charge computed by applying the standard UK corporation tax rate of 30% (2006 30%) as follows

	2007 £	2006 £
Expected tax charges	1,065,550	914,315
Non deductible items	25,719	111,010
Non taxable items	(661,438)	(1,652,113)
Reduction in deferred tax liability following change in UK corporation tax	(13,272)	
Adjustments in respect of prior periods	88,322	3,171
Actual tax (credit)/expense	<u>504,881</u>	<u>(623,617)</u>

13 DIVIDEND PAID	2007 £	2006 £
Final dividend for the year ended 31 December 2007 of £20,000 (2006 £15,000) per share	4,000,000	3,000,000
	<u>4,000,000</u>	<u>3,000,000</u>

KUC PROPERTIES LIMITED

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For the year ended 31 December 2007

14 INVESTMENT PROPERTY	2007 £	2006 £
At 1 January	48,981,293	49,964,391
Fair value adjustment	118,000	2,328,000
Additions	2,575,130	1,162,921
Fair value adjustment for properties being sold	(118,000)	(902,209)
Disposals	(3,362,187)	(3,571,810)
Transfers from development property	1,311,000	
At 31 December 2006	<u>49,505,236</u>	<u>48,981,293</u>

The investment properties have been valued as at December 2007 by the directors who confirm the value of the properties shown in the accounts approximates to the open market value of the properties

15. INVESTMENT IN SUBSIDIARIES	2007 £	2006 £
At 1 January	152	152
At 31 December	<u>152</u>	<u>152</u>

Details of the investment in which the Company holds more than 10% equity are as follows

Name of company	Nature of business	Country of incorporation	Class of share / holdings	Total equity 2007	Total equity 2006
KUC Chrstchurch Limited	Property investment	Great Britain	Ordinary	100%	100%
KUC Grantmaster (Bletchley) Limited	Property investment	Great Britain	Ordinary	100%	100%
Welsh Industrial Partnership (GP) Limited	Property trading	Great Britain	Ordinary	51%	51%

KUC PROPERTIES LIMITED

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For the year ended 31 December 2007

16 INVESTMENT IN JOINT VENTURES	2007 £	2006 £ Restated (note 24)
At 1 January 2007	6,095,392	22,513,719
Transfers to loans to joint ventures		(16,418,327)
Equity additions	1,443,531	
Equity disposals	(498,950)	
At 31 December 2007	<u>7,039,973</u>	<u>6,095,392</u>

Details of the investment in which the Company holds more than 10% equity are as follows

Name of joint venture	Total equity 2007	Total equity 2006
Arran Mall Limited	50%	50%
Buchanan Business Park Limited		50%
Cala Campus Limited	50%	50%
Cart Corridor Joint Venture Company Limited	50%	50%
Chatham Place (Building 1) Limited	50%	
Chord (St Paul's Square) Limited	50%	50%
Dunsfold Park Limited	50%	50%
First Alliance Properties (Kingston) Limited	50%	50%
Fountain North Limited	33%	33%
Frontier Estates (Avebury) Limited	50%	50%
Frontier Estates (Bletcham) Limited	50%	50%
Frontier Estates (High Wycombe) Limited	50%	50%
Frontier Estates (Kingston E) Limited	50%	50%
Frontier Estates (Rooksley) Limited	50%	50%
Frontier Estates (Walton) Limited	0%	50%
Frontier Estates (West Watford) Limited	50%	50%
Greenlaw Park Limited	50%	50%
Higher Broughton (GP) Limited	39%	39%
Kyle Centre Joint Venture Limited	50%	50%
Land Options (East) Limited	50%	50%
Land Options West Limited	50%	50%
Land Partners (Scotland) Limited	50%	
Masshouse Developments Limited	50%	50%
Macdonald Estates Falkirk Partnership Ltd	50%	0%
Modus Alpha General Partner Limited	50%	50%
Omega Warrington Limited	50%	50%
Parkridge Homes (Copt Heath) Limited	50%	50%
ROK Developments (Wilmslow) Ltd	50%	
Telford Homes (Creekside) Limited	50%	
Telford Homes (Stratford) Limited	50%	50%
Temple Row (Birmingham) Limited	50%	50%
Wigford Limited	50%	50%

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

16. INVESTMENT IN JOINT VENTURES (continued)

Ordinary Shares are held in above joint ventures

All above joint ventures are involved in Real Estate Developments, trading, investment and ancillary businesses

17 DEVELOPMENT PROPERTY	2007 £	2006 £
At 1 January 2007	21,924,947	26,100,894
Additions	2,208,054	9,795,778
Write down of impairments	(449,805)	
Transfers to investment property	(1,311,000)	
Disposals	(9,183,281)	(13,971,725)
At 31 December 2007	<u>13,188,915</u>	<u>21,924,947</u>

18 TRADE AND OTHER RECEIVABLES	2007 £	2006 £
Trade receivables	325,047	506,992
Other debtors	1,627,225	3,692,180
Amounts owed by group undertakings	9,000,000	9,000,000
VAT	661,205	660,562
	<u>11,613,477</u>	<u>13,859,734</u>

The fair value of all receivables approximate to their carrying amount in the balance sheet

19 TRADE AND OTHER PAYABLES	2007 £	2006 £
Accruals and deferred income	2,234,672	3,853,984
Amounts owed to group undertakings	46,873,784	46,852,210
Trade creditors	11,231,947	11,290,843
	<u>60,340,403</u>	<u>61,997,037</u>

The fair value of all payables approximate to their carrying amount in the balance sheet

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

20 LOANS FROM PARENT ENTITY

	2007 £	2006 £
Loans from parent entity	<u>33,670,247</u>	<u>33,655,122</u>
The borrowings are repayable as follows		
after five years	<u>33,400,000</u>	<u>33,400,000</u>
	<u>33,400,000</u>	<u>33,400,000</u>

The Company's purchase of investment property is funded by three loans. Two floating rate loans of £22,400,000 and £2,000,000 that are both repayable 31 April 2013, and a fixed rate loan of £9,000,000 which is repayable 5 January 2020. Interest on the fixed rate loan was 5.57% pa (2006 5.57%pa). Interest on the £22,400,000 loan varied between 5.95%-6.20% during the year (2006 5.81% 5.95%) and on the £2,000,000 loan interest varied between 8.43% 8.79% (2006 8.24% 8.43%). The fair value of the loan from the parent entity approximates to its carrying amount in the balance sheet.

21 DEFERRED TAX LIABILITY

Provision for deferred taxation has been made as follows

	Deferred Gains £	Total £
At 1 January 2006	264,679	264,679
Charge to income statement	309,335	309,335
At 1 January 2007	<u>574,014</u>	<u>574,014</u>
Charge to income statement	<u>(388,206)</u>	<u>(388,206)</u>
As at 31 December 2007	<u>185,808</u>	<u>185,808</u>

22 SHARE CAPITAL

	2007 £	2006 £
Authorised.		
200 ordinary shares of £1 each	<u>200</u>	<u>200</u>
Issued and fully paid		
200 ordinary shares of £1 each	<u>200</u>	<u>200</u>

KUC PROPERTIES LIMITED

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For the year ended 31 December 2007

23 RELATED PARTY TRANSACTIONS

Related parties comprise group companies, companies with common directorships and directors of the Company. Details of transactions with related parties during the year are as follows

	Opening Balance	Receipts/ (Payments)	Income/ (Expenses)	Closing Balance
	£	£	£	£
2007				
Loan from parent company	(33,655,122)	(15,125)		(33,670,247)
Loan to joint ventures	24,815,308	8,612,255		33,427,563
Amount owed to group undertakings	(46,852,210)	(21,574)		(46,873,784)
Amount owed by group undertakings	9,000,000			9,000,000
Total	<u>(46,692,024)</u>	<u>8,575,556</u>		<u>(38,116,468)</u>

Income statement
transactions during the
year

Interest received on bank deposits	<u>1,757,981</u>
Interest paid on loans	<u>(4,024,781)</u>

2006				
Loan from parent company	(33,400,000)	(255,122)		(33,655,122)
Loan to joint ventures		24,815,308		24,815,308
Amount owed to group undertakings	(56,732,551)	9,880,341		(46,852,210)
Amount owed by group undertakings	9,000,000			9,000,000
Total	<u>(81,132,551)</u>	<u>34,440,527</u>		<u>(46,692,024)</u>

Income statement
transactions during the
year

Interest received on bank deposits	<u>1,276,901</u>
Interest paid on loans	<u>(4,388,118)</u>

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

24. PRIOR YEARS' ADJUSTMENTS

Loans to joint ventures at 0% were not fair valued in the past. The 2006 figures have therefore been restated to reflect the loans to joint ventures at their present value.

Effect on the Profit and Loss Account	2006
<u>Interest receivable and similar income</u>	£
Balance as previously stated	426,448
Increase in interest income	850,453
Balance as restated	<u>1,276,901</u>
<u>Tax</u>	
Balance as previously stated	878,753
Increase in tax expense	(255,135)
Balance as restated	<u>623,618</u>
Effect on the Balance Sheet	
Non current assets	
<u>Investment in joint venture</u>	
Balance as previously stated	28,315,888
Deduct loans to joint ventures	(27,812,788)
Increase in equity resulting from loan fair value	5,592,292
Balance as restated	<u>6,095,392</u>
<u>Loans to joint ventures</u>	
Balance as previously stated	
Add loans to joint ventures	26,062,788
Deduct equity portion of loan resulting from fair value	(5,592,292)
Interest income accrued	2,594,812
Balance as restated	<u>23,065,308</u>
Current asset	
<u>Loans to joint ventures</u>	
Balance as previously stated	
Add loans to joint ventures	1,750,000
Balance as restated	<u>1,750,000</u>

KUC PROPERTIES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

24. PRIOR YEAR ADJUSTMENT (continued)

	2006
<u>Current tax asset/liability</u>	£
Balance as previously stated	1,188,166
Decrease in tax asset	(778,443)
Balance as restated	<u>409,723</u>
 <u>Retained earnings</u>	
Balance as previously stated 31 December 2005	17,967,792
Increase in 2005 P&L due to fair value of loans to joint ventures	1,221,051
Balance as restated 1 January 2006	<u>19,188,843</u>
Profit for the year	3,076,015
Dividends	(3,000,000)
Increase in 2006 P&L due to fair value of loans to joint ventures	595,318
Balance as restated	<u>19,860,176</u>

25. ULTIMATE PARENT COMPANY

The Company's immediate parent company is KUC Holdings Limited

The Company's ultimate holding company, ultimate controlling party and the parent of the largest group into which the Company is consolidated, is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ

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, Gogarburn, Edinburgh, EH12 1HQ

26. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between the year end and the date of approval of the accounts which would require a change or additional disclosure in the accounts

A £6 million interim dividend was declared 18 June 2008 and paid 30 June 2008