Company Registration No: SC044073

KUC PROPERTIES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2009

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

KUC PROPERTIES LIMITED

Company Registration No: SC044073

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KUC PROPERTIES LIMITED

Company Registration No: SC044073

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	**A Buchan** **J M Rowney** **S C Sanders** **B I M Turnbull**
SECRETARY:	**R E Fletcher**
REGISTERED OFFICE:	**24/25 St Andrew Square** **Edinburgh** **EH2 1AF**
AUDITORS:	**Deloitte LLP** **London**

Registered in Scotland.

KUC PROPERTIES LIMITED

Company Registration No: SC044073

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2009.

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the Company continues to be the assessment and execution of opportunities to acquire, develop and dispose of properties and investments.

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

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 web site at rbs.com.

Review of the year

The directors are satisfied with the Company's performance in the year. The Company will be guided by its immediate parent company in seeking further opportunities for growth. No dividend was paid during the year (2008: £6.0m).

The Company's financial performance is presented in the Statement of Comprehensive Income on page 7. At the end of the year, the financial position showed total assets of £115,966,624 (2008: £118,559,147) and equity of £10,042,394 (2008: £7,518,044).

Going concern

The Company's business activities and review are outlined above and the Company's financial position, cash flows and liquidity position are set out in the financial statements.

The directors, having made such enquiries as they considered appropriate, including regarding the continuing availability of sufficient resources from the Royal Bank of Scotland group, have prepared the financial statements on a going concern basis. They considered the interim statement issued by The Royal Bank of Scotland Group plc for the period ended 30 June 2010, approved on 5 August 2010, which was prepared on a going concern basis.

ACTIVITIES AND BUSINESS REVIEW (continued)

Other matters

The Company is funded by facilities from The Royal Bank of Scotland plc. It seeks to minimise its exposure to external financial risks. Further information on financial risk management policies and exposures is disclosed in Notes 3 and 27.

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year, are listed on page 1.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss for the financial year as concern members of the Company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to:

- select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Act 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.

KUC PROPERTIES LIMITED

Company Registration No: SC044073

DIRECTORS' REPORT (Continued)

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 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 418 of the Companies Act 2006.

AUDITORS

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

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

B T M Turnbull
Director

Date: 27 OCT 2010

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 2009 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KUC PROPERTIES LIMITED (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kari Hale

Kari Hale (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

Date: 27/10/10

KUC PROPERTIES LIMITED

Company Registration No: SC044073

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Note	2009 £	2008 £
Continuing operations			
Revenue	4	**4,157,019**	9,477,591
Cost of sales		**-**	(5,226,300)
Gross profit		**4,157,019**	4,251,291
Other operating income	5	**2,017,966**	247,605
Administrative expenses	6	**(1,842,377)**	(1,414,935)
Impairment losses	7	**(9,664,460)**	(14,241,509)
Impairment of development property	19	**(2,008,425)**	-
Change in fair value of investment property	14	**1,603,340**	-
Operating loss		**(5,736,937)**	(11,157,548)
Investment revenues	8	**-**	2,431,019
Finance income	9	**339,696**	3,398,938
Finance costs	10	**(2,330,458)**	(3,881,655)
Loss before tax		**(7,727,699)**	(9,209,246)
Tax	11	**2,133,398**	3,819,963
Loss for the year		**(5,594,301)**	(5,389,283)
Other comprehensive income for the year		**-**	-
Total comprehensive loss for the year attributable to the equity holders of the Company		**(5,594,301)**	(5,389,283)

The notes on pages 11 to 31 form a part of these financial statements.

KUC PROPERTIES LIMITED

Company Registration No: SC044073

BALANCE SHEET
at 31 December 2009

	Note	2009 £	2008 £ (Reclassified) (Note 31)	2007 £ (Reclassified) (Note 31)
Non-current assets				
Investment property	14	**51,432,001**	49,575,511	49,505,236
Investment in subsidiary undertakings	16	**152**	152	152
Investment in joint ventures	17	**2,964,812**	4,155,288	7,039,973
Loans and receivables	18	**13,893,223**	24,315,962	24,837,182
		68,290,188	78,046,913	81,382,543
Current assets				
Loans and receivables	18	**22,602,258**	15,861,250	17,590,381
Development property	19	**6,984,408**	8,900,958	13,188,915
Cash and cash equivalents	20	**13,108,126**	10,368,724	11,791,963
Trade and other receivables	21	**2,360,713**	2,455,460	2,613,477
Tax receivable		**2,620,931**	2,925,842	-
		47,676,436	40,512,234	45,184,736
Total assets		**115,966,624**	118,559,147	126,567,279
Non-current liabilities				
Amounts owed to group undertakings	22	**46,151,159**	33,400,000	33,670,247
Deferred tax liabilities	23	**593,068**	105,531	185,808
		46,744,227	33,505,531	33,856,055
Current liabilities				
Overdrafts	20	**2,340,701**	4,125,776	4,353,147
Amounts owed to group undertakings	22	**44,080,905**	59,347,734	54,312,600
Trade and other payables	24	**12,758,397**	14,062,062	13,466,619
Tax payable		**-**	-	1,671,531
		59,180,003	77,535,572	73,803,897
Total liabilities		**105,924,230**	111,041,103	107,659,952
Net assets		**10,042,394**	7,518,044	18,907,327
Equity				
Share capital	25	**200**	200	200
Reserves	26	**10,042,194**	7,517,844	18,907,127
Total equity attributable to the equity holders of the Company		**10,042,394**	7,518,044	18,907,327

The financial statements were approved by the board of directors and authorised for issue on 27 OCT 2010 and were signed on its behalf by:

Barbara M Turnbull

B I M Turnbull
Director

The notes on pages 11 to 31 form a part of these financial statements.

KUC PROPERTIES LIMITED

Company Registration No: SC044073

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Note	Share capital £	Retained earnings £	Total equity £
At 1 January 2008		200	18,907,127	18,907,327
Total comprehensive loss for the year		-	(5,389,283)	(5,389,283)
Dividends paid	13	-	(6,000,000)	(6,000,000)
At 31 December 2008		200	7,517,844	7,518,044
At 1 January 2009		200	7,517,844	7,518,044
Total comprehensive loss for the year		-	(5,594,301)	(5,594,301)
Capital contribution		-	8,118,651	8,118,651
At 31 December 2009		**200**	**10,042,194**	**10,042,394**

The capital contribution arose from an intercompany loan that was waived.

The notes on pages 11 to 31 form a part of these financial statements.

KUC PROPERTIES LIMITED

Company Registration No: SC044073

CASH FLOW STATEMENT
for the year ended 31 December 2009

	Note	2009 £	2008 £
Operating activities			
Loss before tax		**(7,727,699)**	(9,209,246)
Adjustments for:			
Loss on disposal of investments		**51**	-
Investment revenues	8	**-**	(2,431,019)
Impairment losses	7	**9,664,460**	14,241,509
Impairment of development property	19	**2,008,425**	-
Change in fair value of investment property	14	**(1,603,340)**	-
Finance income	9	**(339,696)**	(3,398,938)
Finance costs	10	**2,330,458**	3,881,655
Operating profit before changes in working capital		**4,332,659**	3,083,961
(Increase)/decrease in loans and receivables		**(4,091,960)**	(8,649,565)
Decrease/(increase) in trade and other receivables		**94,747**	(160,028)
(Increase)/decrease in development property		**(91,875)**	4,287,957
Decrease in amounts owed to group undertakings		**(3,195,065)**	4,764,887
(Decrease)/increase in trade and other payables		**(1,415,178)**	595,443
Net cash generated (used in)/from the operations		**(4,366,672)**	3,922,655
Tax received/(paid)		**2,925,846**	(857,687)
Net cash (used in)/from operating activities		**(1,440,826)**	3,064,968
Investing activities			
Proceeds from disposal of investments		**51,699**	230,826
Dividends received	8	**-**	2,431,019
Acquisition of investments	17	**(72,648)**	(687,734)
Acquisition of investment property	14	**(253,150)**	(70,275)
Net cash (used in)/from investing activities		**(274,099)**	1,903,836
Financing activities			
Capital contribution		**8,118,651**	-
Interest received		**352,005**	3,716,983
Interest paid		**(2,231,254)**	(3,881,655)
Dividends paid		**-**	(6,000,000)
Net cash from/(used in) financing activities		**6,239,402**	(6,164,672)
Net increase/(decrease) in cash and cash equivalents		**4,524,477**	(1,195,868)
Cash and cash equivalents at 1 January		**6,242,948**	7,438,816
Cash and cash equivalents at 31 December	20	**10,767,425**	6,242,948

The notes on pages 11 to 31 form a part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2009

1 General information

KUC Properties Limited is a company incorporated in Great Britain and registered in Scotland. The address of the registered office is on page 1. The nature of the Company's principal activities is set out in the Directors' Report. The financial statements are presented in accordance with the Companies Act 2006.

2 Adoption of new and revised Standards

In the current year the Company has adopted the revisions to IAS 1 *Presentation of Financial Statements* which introduced a single performance statement, the 'Statement of Comprehensive Income'. The adoption of this has not led to any changes in the Company's accounting policies, nor has it led to any items being restated or reclassified.

In the current year the Company has adopted the amendments to IAS 40 *Investment Property* which are part of the IASB's annual improvements project published in May 2008. The adoption of this has not led to any changes in the Company's accounting policies, nor has it led to any items being restated or reclassified.

In addition the following Standards issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee have become effective during the current year:

IAS 23	Borrowing Costs
IFRS 7 *(revised 2009)*	*Financial Instruments: Disclosures*
IFRS 8	*Operating Segments,*
IFRIC 13	*Customer Loyalty Programmes,*
IFRIC 14	*IAS 19 The Limit on a Defined Benefit Asset,*
IFRIC 15	*Agreements for the Construction of Real Estate,*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation.*

The adoption of these has not lead to any changes in the Company's accounting policies and has had no material impact on the financial statements.

2 Adoption of new and revised Standards (continued)

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:

IFRS 1 (*revised 2008*)	*First-time Adoption of International Financial Reporting Standards*
IFRS 3 (*revised 2008*)	*Business Combinations*
IFRS 5 (*revised 2008*)	*Non-current Assets Held for Sale and Discontinued Operations*
IFRS 9	*Financial Instruments - Classification and Measurement*
IAS 24 (*revised 2009*)	*Related Party Disclosures - Revised definition of related parties*
IAS 27 (*amended*)	*Consolidated and Separate Financial Statements*
IAS 28 (*amended*)	*Investments in Associates*
IAS 31 (*amended*)	*Interests in Joint Ventures*
IAS 32 (*amended*)	*Financial Instruments: Presentation*
IAS 39 (*amended*)	*Financial Instruments: Recognition and Measurement*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRIC 18	*Transfers of a Foreign Operation*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*

Annual Improvements to IFRSs (April 2009)
Annual Improvements to IFRSs (May 2010)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

3 Accounting policies

a. Accounting convention

The financial statements, which should be read in conjunction with the Directors' Report, are prepared on a going concern basis and 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.

The financial statements have been prepared upon the basis of historical cost except as noted in the following accounting policies and are presented in accordance with applicable United Kingdom law.

3 Accounting policies (continued)

b. 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. Sale of development properties are recognised when legal title has passed to the purchaser.

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 profit or loss 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 investment are recognised in profit or loss on the date of disposal.

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

c. Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer. Other contracts to lease assets are classified as operating leases.

Operating lease rentals are recognised on an accruals basis.

d. Investment properties

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 the Royal Institution of Chartered Surveyors 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 profit or loss in the year in which it arises.

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

e. Investment in subsidiary undertakings

A subsidiary is an undertaking in which the Company has a long-term interest and over which it exercises control.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

3 Accounting policies (continued)

f. 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 separate entity in which each venturer has an interest are referred to as jointly-controlled entities.

The Company's interests in joint ventures are stated at cost less any impairment.

g. Basis of consolidation

The Company is exempt from the requirement to prepare consolidated financial statements in accordance with s400 of the Companies Act 2006 as the Company is a wholly-owned subsidiary of KUC Holdings Limited and the Company's results are consolidated within the financial statements of The Royal Bank of Scotland plc. These financial statements therefore present information about the Company as an individual entity and not about the group.

h. Loans and receivables

Loans and 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 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.

i. 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.

j. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly-liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3 Accounting policies (continued)

k. Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

l. Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

m. Impairment of assets

The Company assesses at each balance sheet date whether its equity investments are impaired. A primary indicator of impairment of the equity investments is the inability of the joint ventures and subsidiaries to generate cash flow for repayment of the loans granted to them by the Company. The method by which the recoverable amount is ascertained is fair value less costs to sell.

The Company also assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. The Company assesses all of its financial assets on an individual basis through regular portfolio monitoring processes. Main loss events identified are usually an extension of loan maturities and/or a significant decrease in expected cash flows from real estate projects of the borrowers. The Company uses qualified external valuers and surveyors, as well as its own internal valuations, to determine the expected cash flows and the recoverability of the loans granted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3 Accounting policies (continued)

n. Amounts owed to group undertakings

Amounts owed to group undertakings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Finance costs incurred on borrowings from group undertakings are recognised in profit or loss on an effective interest rate basis.

o. Trade and other payables

Trade and other payables are initially measured at fair value and subsequently at amortised cost.

p. Other operating income

Income from government grants is recognised in profit or loss when it is receivable.

Other operating income is accounted for on an accruals basis.

q. Administrative expenses

Administrative expenses include provisions for bad and doubtful debts and other operating charges. Individually assessed provisions are made against advances for which recovery is considered to doubtful. A collectively assessed provision is made in respect of losses which, although not separately identified, are from experience known to be present in any portfolio of financial assets. Administrative expenses are accounted for on an accruals basis.

r. Investment revenues

Dividend income from investments in subsidiaries is recognised when the shareholders' rights to receive payments have been established.

s. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

- Valuation of investment property
- Valuation of development property
- Provisions for bad and doubtful debt

The Company's policy for provisions and the valuation of investment and development property is noted above.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

4 Revenue

	2009	2008
	£	£
Sale of development property	**542,797**	6,195,804
Rental income	**3,614,222**	3,281,787
	4,157,019	9,477,591

5 Other operating income

	2009	2008
	£	£
Grant income	**1,311,000**	-
Net gain on disposal of investments in joint ventures	**250,448**	-
Management fees receiveable	**179,216**	-
Insurance claim recovery	**-**	32,802
Other income	**277,302**	214,803
	2,017,966	247,605

6 Administrative expenses

	2009	2008
	£	£
Legal and professional fees	**230,033**	176,205
Rental payments	**271,139**	287,891
Property management fees	**425,904**	271,363
Clawback expenses	**254,895**	-
Management fees payable	**254,487**	-
Other administrative expenses	**405,919**	679,476
	1,842,377	1,414,935

The Company had no employees in the current year (2008: none).

Employee costs are incurred by the intermediate parent company, The Royal Bank of Scotland plc, and allocated together with other overheads by way of a management charge to the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

7 Impairment losses

	2009 £	2008 £
Impairment of investments in joint ventures (note 17)	**1,211,374**	3,341,593
Impairment of loans	**8,453,086**	10,899,104
Other operating expenses	**-**	812
	9,664,460	14,241,509

8 Investment revenues

	2009 £	2008 £
Dividends from equity investments	**-**	2,431,019

9 Finance income

	2009 £	2008 £
On loans and receivables:		
From group undertakings	**339,696**	3,398,938

10 Finance costs

	2009 £	2008 £
On loans and payables:		
To group undertakings	**2,330,458**	3,881,655

11 Tax credit on loss before tax

A) Analysis of credit for the year

	2009 £	2008 £
Current taxation:		
Income tax credit for the year	**(2,590,447)**	(3,738,488)
Over provision in respect of prior periods	**(30,488)**	(1,198)
Current tax credit for the year	**(2,620,935)**	(3,739,686)
Deferred taxation:		
Charge/(credit) for the year	**487,537**	(80,277)
Tax credit for the year	**(2,133,398)**	(3,819,963)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

B) Factors affecting the tax credit for the year

The actual tax credit differs from the expected tax credit computed by applying the standard rate of UK corporation tax of 28% (2008: 28.5%) as follows:

	2009	2008
	£	£
Expected tax credit	(2,163,756)	(2,624,383)
Non-deductible items	598,377	151,167
Non-taxable items	(534,287)	(1,346,975)
Tax rate change	-	1,426
Partnership tax recoverable	(3,244)	-
Adjustments in respect of prior periods	(30,488)	(1,198)
Actual tax credit	(2,133,398)	(3,819,963)

The applicable rate for the year has changed from 28.5% to 28% following a reduction in the rate of UK corporation tax from 30% to 28% on 1 April 2008.

12 Auditors' Remuneration

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are £5,000 (2008: £5,000). There was no charge in either the current or prior year's financial statements for auditors' remuneration as the fees were charged in the financial statements of the intermediate parent undertaking, The Royal Bank of Scotland plc.

13 Dividends

	2009	2008
	£	£
Final dividend paid £nil per ordinary share (2008: £30,000)	-	6,000,000

14 Investment Property

	2009	2008	2007
	£	£	£
At 1 January	49,575,511	49,505,236	48,981,293
Additions	253,150	70,275	2,575,130
Disposals	-	-	(3,362,187)
Change in fair value	1,603,340	-	-
Transfers from development property	-	-	1,311,000
At 31 December	51,432,001	49,575,511	49,505,236

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

15 Operating lease arrangements

At the balance sheet date, the Company had contracted with customers for the following future minimum lease payments under non-cancellable operating leases:

	Year in which receipt is expected			
	Within 1 year	Between 1 and 5 years	After 5 years	Total
	£	£	£	£
2009	**3,530,673**	**10,539,274**	**3,407,538**	**17,477,485**
2008	3,511,829	13,311,046	4,166,440	20,989,315

Nature of operating lease assets in the balance sheet:

	2009	2008
	£	£
Investment property	**51,432,001**	49,575,511

There were no contingent rentals recognised as income in the period (2008: none).

16 Investments in subsidiary undertakings

	2009	2008	2007
	£	£	£
Cost and carrying value :			
At 1 January and at 31 December	**152**	152	152

The subsidiaries of the Company, which have an accounting reference date of 31 December and are incorporated in Great Britain, are:

Name of Company	Country of registration	Nature of business	Interest in ordinary share capital 2009 %	2008 %
KUC Christchurch Limited	England & Wales	Property investment	**100**	100
Property Ventures (B&M) Limited	Scotland	Property investment	**100**	100
Ebury Estates Management Company Limited	England & Wales	Dormant	**100**	100
Welsh Industrial Partnership (GP) Limited	England & Wales	Dormant	**51**	51

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

17 Investments in Joint Ventures

	2009	2008	2007
	£	£	£
At 1 January 2009	**4,155,288**	7,039,973	6,095,392
Impairments	**(1,211,374)**	(3,341,593)	-
Additions	**72,648**	687,734	1,443,531
Disposals	**(51,750)**	(230,826)	(498,950)
At 31 December 2009	**2,964,812**	4,155,288	7,039,973

Details of the investments in which the Company holds more than 10% of the ordinary shares are as follows:

Name of Company	**Total equity 2009**	Total equity 2008
	%	%
Arran Mall Limited	**-**	50
Cala Campus Limited	**50**	50
Cart Corridor Joint Venture Company Limited	**50**	50
Chatham Place (Building 1) Limited	**50**	50
Chord (St Paul's Square) Limited	**50**	50
Dunsfold Park Limited	**-**	50
Fountain North Limited	**33**	33
Frontier Estates (Avebury) Limited	**50**	50
Frontier Estates (Bletcham) Limited	**-**	50
Frontier Estates (High Wycombe) Limited	**-**	50
Frontier Estates (Rooksley) Limited	**-**	50
Frontier Estates (West Watford) Limited	**-**	50
Higher Broughton (GP) Limited	**41**	41
Land Options (East) Limited	**50**	50
Land Options (West) Limited	**50**	50
Land Partners (Scotland) Limited	**50**	50
Masshouse Developments Limited	**50**	50
Macdonald Estates Falkirk Partnership Limited	**50**	50
Modus Alpha General Partner Limited	**-**	50
Omega Warrington Limited	**50**	50
Parkridge Homes (Copt Heath) Limited	**-**	50
ROK Development Solutions Limited	**50**	50
Telford Homes (Creekside) Limited	**50**	50
Telford Homes (Stratford) Limited	**50**	50
Temple Row (Birmingham) Limited	**50**	50
Wigford Limited	**50**	50

The joint ventures are involved in real estate developments, trading, investment and ancillary businesses

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

18 Loans and receivables

	2009	2008	2007
	£	£	£
		(Reclassified)	(Reclassified)
Non-current			
Amounts owed by joint ventures	**13,893,223**	24,315,962	24,837,182
Current			
Amounts owed by group undertakings	**9,679,395**	9,000,000	9,000,000
Amounts owed by joint ventures	**12,922,863**	6,861,250	8,590,381
	22,602,258	15,861,250	17,590,381
	36,495,481	40,177,212	42,427,563

The average effective interest rate over amounts owed by group undertakings approximates 1.6% (2008: 5.9%).

The average effective interest rate over amounts owed by joint ventures ranges from 0% to 5.25% (2008: 0% to 5.25%).

The fair value of loans and receivables is considered not to be materially different to the carrying amounts in the balance sheet.

19 Development property

	2009	2008	2007
	£	£	£
Carrying Value	**6,984,408**	8,900,958	13,188,915

During the year the carrying value of the development property was impaired by £2,008,425 (2008: nil). This is due to a fall in the net realisable value of development property.

20 Cash and cash equivalents

	2009	2008	2007
	£	£	£
		(Reclassified)	(Reclassified)
Cash and cash equivalents per balance sheet:			
Amounts held with group undertakings	**13,108,126**	10,368,724	11,791,963
Overdrafts per balance sheet:			
Amounts held with group undertakings	**(2,340,701)**	(4,125,776)	(4,353,147)
Cash and cash equivalents per cash flow statement	**10,767,425**	6,242,948	7,438,816

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

21 Trade and other receivables

	2009	2008	2007
	£	£	£
		(Reclassified)	(Reclassified)
Trade receivables	-	20,614	325,047
VAT	-	-	661,205
Other receivables	**2,360,713**	2,434,846	1,627,225
	2,360,713	2,455,460	2,613,477

The fair value of trade receivables is considered not to be materially different to the carrying amounts in the balance sheet.

22 Amounts owed to group undertakings

	2009	2008	2007
	£	£	£
		(Reclassified)	(Reclassified)
Non-current liabilities			
Amounts due in more than 5 years	**9,000,000**	9,000,000	33,670,247
Amounts due between 2 and 5 years	**37,151,159**	24,400,000	-
Amounts due between 1 and 2 years	-	-	-
	46,151,159	33,400,000	33,670,247
Current liabilities			
Amounts due within 1 year	**44,080,905**	59,347,734	54,312,600
	90,232,064	92,747,734	87,982,847

The fair value of amounts owed to group undertakings is considered not to be materially different to the carrying amounts in the balance sheet.

The Company's purchase of investment property is funded by three fixed rate loans and other variable rate loans. Two fixed rate loans of £22,400,000 and £2,000,000 are both repayable 30 April 2013, and a fixed rate loan of £9,000,000 is repayable 5 January 2020. Interest on the £22,400,000 loan was 6.20% during the year (2008: 5.95%-6.20%) and on the £2,000,000 loan interest was 8.78% (2008: 8.43%-8.79%). Interest on the fixed rate loan of £9,000,000 was 5.57% (2008: 5.57%).

The average effective interest rate over the remaining loans varies between LIBOR and LIBOR + 5% (2008: nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

23 Deferred taxation

Provision for deferred taxation has been made as follows:

	Deferred gains £
At 1 January 2008	185,808
Credit to statement of comprehensive income	(80,277)
At 31 December 2008	105,531
At 1 January 2009	105,531
Charge to statement of comprehensive income	487,537
At 31 December 2009	593,068

24 Trade and other payables

	2009 £	2008 £ (Reclassified)	2007 £ (Reclassified)
Current liabilities			
Trade payables	**10,794,797**	12,011,808	11,231,947
Accruals and deferred income	**1,496,725**	1,662,302	2,234,672
VAT	**466,875**	387,952	-
	12,758,397	14,062,062	13,466,619

The fair value of trade payables is considered not to be materially different to the carrying amounts in the balance sheet.

25 Share capital

	2009 £	2008 £	2007 £
Authorised:			
200 (2008: 200) ordinary shares of £1 each	**200**	200	200
Allotted, called up and fully paid:			
200 (2008: 200) ordinary shares of £1 each	**200**	200	200

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

26 Reserves

	Retained earnings £
At 1 January 2008	18,907,127
Total comprehensive loss for the year	(5,389,283)
Dividends	(6,000,000)
At 31 December 2008	7,517,844
At 1 January 2009	7,517,844
Total comprehensive loss for the year	(5,594,301)
Capital contribution	8,118,651
At 31 December 2009	**10,042,194**

The capital contribution arose from an intercompany loan that was waived.

27 Financial instruments and risk management

Capital risk management

The Company considers its capital to consist of equity attributable to the equity holders of the Company, comprising issued share capital and retained earnings as disclosed in notes 25 and 26. The Company is a member of the Royal Bank of Scotland group of companies which has regulatory disciplines over the use of its capital. The Company operates controls and policies put in place by the group to ensure that the Company can continue as a going concern and to ensure that the group complies with these regulatory disciplines.

Accounting Policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

27 Financial instruments and risk management (continued)

Categories of financial instruments

The carrying value of each category of financial instruments, as defined in IAS 39, is disclosed in the following table:

	2009	2008	2007
	£	£	£
		(Reclassified)	(Reclassified)
Financial assets:			
Loans and receivables	**49,603,607**	50,545,936	54,544,573
Non financial assets	**66,363,017**	68,013,211	72,022,706
	115,966,624	118,559,147	126,567,279
Financial liabilities:			
Amortised cost	**103,367,562**	108,885,318	103,567,941
Non financial liabilities	**2,556,668**	2,155,785	4,092,011
	105,924,230	111,041,103	107,659,952

Risk management

The Company uses a comprehensive framework for managing risks established by the Royal Bank of Scotland group of companies.

The risks associated with the Company's businesses are as follows:

Interest rate risk and sensitivity analysis

Structural interest rate risk arises where assets and liabilities have different repricing maturities.

The repricing maturity profile of the financial assets of the Company may be different to that of the associated borrowings and hence give potential exposure to interest rate risk.

The matching of the repricing maturity characteristics of the Company's assets and liabilities is achieved through hedges transacted within another group company. This results in the Company having exposure to interest rate risk, though this would be offset elsewhere within the group.

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year.

If interest rates had been 0.5% higher and all other variables were held constant, the Company's loss before tax for the year would have increased by £185,323 (2008: loss before tax for the year would have increased by £387,524). This is mainly due to the Company's exposure to interest rates on its variable rate borrowings. There would be no other material impact on equity.

Currency risk

The Company has no currency risk as all transactions and balances are denominated in Sterling.

KUC PROPERTIES LIMITED

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

27 Financial instruments and risk management (continued)

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.

Analysis of credit quality by credit rating:

The following tables provide an analysis of the credit quality of the Company's financial assets at the balance sheet date:

	Analysis of credit quality by quality grade				Less:	
	AQ1 to 3	AQ4	AQ5	Not rated	Impairment provision	Total
	£m	£m	£m	£m	£m	£m
2009						
Cash and cash equivalents	**13,108,126**	-	-	-	-	**13,108,126**
Loans and receivables	**9,679,395**	-	-	**47,810,352**	**(20,994,266)**	**36,495,481**
	22,787,521	-	-	**47,810,352**	**(20,994,266)**	**49,603,607**
2008						
Cash and cash equivalents	10,368,724	-	-	-	-	10,368,724
Loans and receivables	9,000,000	-	-	43,718,392	(12,541,180)	40,177,212
	19,368,724	-	-	43,718,392	(12,541,180)	50,545,936

The analysis of credit quality by quality grade represents the maximum exposure to credit risk excluding past due and non-accrual. Assets are graded according to the following:

Asset quality grade	probability of default (PD)
AQ1	<=0.2%
AQ2	>0.2% and <=0.6%
AQ3	>0.6% and <=1.5%
AQ4	>1.5% and <=5%
AQ5	>5%

The Company holds collateral in respect of certain amounts owed by joint ventures. Such collateral includes subordinated securities and charges over property.

Amounts owed by joint ventures of £4,072,070 (2008: £3,682,850) were past due at the balance sheet date. These amounts have not been called but instead the relevant loan facilities have been extended.

Amounts owed by joint ventures of £25,235,569 (2008: £21,902,850) were considered to be impaired at the balance sheet date and an impairment provision is held against them of £20,994,266 (2008: £12,541,180).

27 Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities. The Company manages liquidity risk through applying the established framework put in place within the group.

The maturity analysis of financial liabilities is disclosed in notes 22 and 24.

The Company has no significant liquidity risk as it has access to financing facilities and support provided by fellow group companies.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The Company manages this risk, in line with the RBS group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

28 Contingent liabilities

The Royal Bank of Scotland group has agreed to compensate UK members for any adjustments in respect of UK:UK Transfer Pricing that may arise under paragraph 1A of Schedule 28 AA, Income and Corporation Taxes Act 1988.

29 Post balance sheet events

There have been no significant events between the year end and the approval of these financial statements which would require a change to the disclosures in the accounts.

On 8 June 2010 the Company disposed of its investment in KUC Christchurch Limited generating a profit on disposal of £1,794,449.

30 Related parties

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of the Company.

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. Its immediate parent company is KUC Holdings Limited which is incorporated in Great Britain and registered in Scotland.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

30 Related parties (continued)

As at 31 December 2009, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

Related party transactions with UK Government bodies

During the year the Company paid Value Added Tax of £3,271 (period from 1 December 2008 to 31 December 2008: £31,176) to Her Majesty's Revenue & Customs (HMRC), a UK Government body and received Value Added Tax of £55,265 (period from 1 December 2008 to 31 December 2008: £nil) from HMRC. At the balance sheet date the amount of Value Added Tax owed to HMRC was £371,360 (2008: £387,952).

Related party transactions with group undertakings

The table below details balances and transactions with group undertakings.

	At 1 January 2009	Net (receipts) / payments	Net interest (payable) / receivable	Impairments	At 31 December 2009
	£	£	£	£	£
Banking members of the group:					
Other RBS Group undertakings	(77,775,015)	9,218,267	(2,188,752)		(70,745,500)
Other members of the group:					
Joint ventures	31,177,212	3,893,975	197,985	(8,453,086)	26,816,086
Other RBS Group undertakings	2,925,842	374,484	-	-	3,300,326
Total	(43,671,961)	13,486,726	(1,990,767)	(8,453,086)	(40,629,088)

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Other related party transactions

Expenses of £254,487 (2008: £nil) were paid by other members of the group and then recharged to the Company by way of management charges.

Expenses of £179,216 (2008: £nil) were incurred by the Company and then recharged to other members of the group by way of management charges.

No emoluments were paid to any director by the Company during the year (2008: £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2008: none).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

31 Prior period reclassification

In the current year the Company has reclassified balances to and from group undertakings in order to improve the clarity of presentation and to be consistent with other group companies. As a result balances in the prior years have been reclassified for comparability with the presentation in the current year.

There was no impact on profit for the year nor on total equity as a result of this reclassification.

The impact of the reclassification on the balance sheet as at 31 December 2008 and at 31 December 2007 and on the cash flow statement for the year ended 31 December 2008 is disclosed in the table below.

	As previously reported £	Impact of prior period reclassification £	Reported as reclassified £
Balance sheet as at 31 December 2008			
Loans and receivables - current	6,861,250	9,000,000	15,861,250
Cash and cash equivalents	-	10,368,724	10,368,724
Trade and other receivables	11,455,460	(9,000,000)	2,455,460
Overdrafts	-	(4,125,776)	(4,125,776)
Amounts owed to group undertakings - current	-	(59,347,734)	(59,347,734)
Trade and other payables	(67,166,848)	53,104,786	(14,062,062)
Impact on net assets		-	
Balance sheet as at 31 December 2007			
Loans and receivables - current	8,590,381	9,000,000	17,590,381
Cash and cash equivalents	-	11,791,963	11,791,963
Trade and other receivables	11,613,477	(9,000,000)	2,613,477
Overdrafts	-	(4,353,147)	(4,353,147)
Amounts owed to group undertakings - current	-	(54,312,600)	(54,312,600)
Trade and other payables	(60,340,403)	46,873,784	(13,466,619)
Impact on net assets		-	

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2009

31 Prior period reclassification (continued)

	As previously reported £	Impact of prior period reclassification £	Reported as reclassified £
Cash flow statement for the year ended 31 December 2008			
Impairment of investments	-	14,241,509	14,241,509
Decrease/(increase) in loans and receivables	1,980,102	(10,629,667)	(8,649,565)
Decrease/(increase) in trade and other receivables	7,469,524	(7,629,552)	(160,028)
Decrease in development property	-	4,287,957	4,287,957
Decrease in amounts owed to group undertakings	-	4,764,887	4,764,887
Increase in trade and other payables	6,826,445	(6,231,002)	595,443
Impact on net increase in cash and cash equivalents for the year		(1,195,868)	