

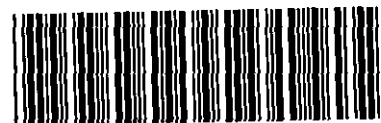
**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 OCTOBER 2006**

**COMPANY NUMBER: 2407853**

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**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

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# **TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

## **REPORT OF THE DIRECTORS**

The Directors hereby submit their Report and the accounts for the year ended 31 October 2006.

### **Principal Activity**

The principal activity of the Company is the provision of finance and associated services.

### **Review of the business and future developments**

The Company's profit for the financial year is £749,000 (2005: £749,000). No dividend was paid during the year (2005: £1,200,000).

The Company has conducted its activities throughout the year in a satisfactory manner. No significant change in the Company's activities is foreseen at the present time.

On the 26 January 2007 three lease agreements were sold with a total consideration of £42,128,000. Total net profit from the sale amounted to £1,880,000.

### **Financial Instruments**

The Company's policy relating to the management of financial risk and potential exposures are detailed in Note 17.

### **Going Concern**

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts.

The Company has received a letter of comfort from Capital Bank plc that confirms that it will provide sufficient funds or other financial support and adequate resources to enable the Company to continue in business for the next year.

### **Directors**

The Directors of the Company during the year to 31 October 2006 were: -

A.L. Webster  
E.J. Morrison  
D. Coxon  
J.G Turner

**Directors' beneficial interests in the ordinary shares of HBOS plc during the year were as follows:**

D. Coxon and J. G. Turner hold no interests in the share capital of HBOS plc.

During the year no Director had any beneficial interest in the share capital of the Company or of any Group undertaking other than in HBOS plc, the ultimate holding Company.

# TOWER HILL PROPERTY INVESTMENTS (10) LIMITED

**YEAR ENDED 31 OCTOBER 2006**

## REPORT OF THE DIRECTORS (continued)

The beneficial interests of the Directors and their immediate families in the HBOS plc shares are set out below:-

<b>Ordinary shares of 25p each</b>		
	As at 31 October 2005	As at 31 October 2006
A.L. Webster	138,181	134,463
E.J. Morrison	69,596	82,465

### Short-term Incentive Plan

Certain Directors have a conditional entitlement to shares arising from the annual incentive plan. Where the annual incentive for any year was taken in shares and these shares are retained in trust for 3 years, the following shares will also be transferred to the Directors.

Grant effective from:				
	March 2004	March 2005	March 2006	As at 31 October 2006
A.L. Webster	2,525	5,673	4,128	12,326
E.J. Morrison	3,340	6,524	4,487	14,351

### Long term incentive plan – HBOS Scheme

Details of the shares which have been conditionally awarded to the Directors under the plan are set out below. The conditions relating to the long term incentive plan may be found in the HBOS Plc Annual Report & Accounts 2005.

#### Conditional Awards - Ordinary shares of 25p each

Grant effective from	As at 31 October 2005	Awards granted/lapsed	Added as a result of performance	Dividend reinvestment shares	Released in year	As at 31 October 2006
<b>A.L. Webster</b>						
January 2003	17,708	-	16,978	2,748	(37,434)	-
January 2004	18,596	-	-	-	-	18,596
January 2005	15,873	-	-	-	-	15,873
January 2006	-	15,702	-	-	-	15,702
<b>E.J. Morrison</b>						
January 2003	16,171	-	15,505	2,510	(34,186)	-
January 2004	21,385	-	-	-	-	21,385
January 2005	18,253	-	-	-	-	18,253
January 2006	-	17,067	-	-	-	17,067

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2003 grant ended on 31 December 2005 and, in the light of the

# **TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

## **REPORT OF THE DIRECTORS (continued)**

performance outcome, grants were released at 183% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 15.5% of the original conditional grant were also released to participants in accordance with the rules of the plan.

### **Long term incentive plan - HBOS Scheme, former Bank of Scotland scheme**

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions, which have now been satisfied. Share options granted under other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below.

#### **Options outstanding – Ordinary shares of 25p each**

	As at 31 October 2005	Options Granted	Options exercised /lapsed	As at 31 October 2006
A.L. Webster	26,000	-	-	26,000
E.J. Morrison	32,444	-	-	32,444

### **Sharesave Plan**

Share options granted under these plans are set out below.

#### **Options – Ordinary shares of 25p each**

	As at 31 October 2005	Options Granted	Options exercised/ lapsed	As at 31 October 2006
A.L. Webster	4,508	993	(231)	5,270
E.J. Morrison	3,246	280	(471)	3,055

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%.

### **Auditor**

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the Company in general meeting and the appointment of auditors annually are currently in force. The auditor, KPMG Audit Plc, will therefore be deemed to have been reappointed at the end of the period of 28 days beginning with the day on which the copies of this report and accounts are sent to members unless a resolution is passed under section 393 of the Companies Act 1985 to the effect that their appointment be brought to an end.

# **TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

## **REPORT OF THE DIRECTORS (continued)**

### **Statement of directors' responsibilities in respect of the Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law to present fairly the financial position and performance of the company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements, the directors are required to:


- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report.

### **Audit Information**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they each are aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the Board  
  
P. Gittins  
Secretary

Charterhall House  
Charterhall Drive  
Chester  
Cheshire  
CH88 3AN

# **TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

We have audited the financial statements of Tower Hill Property Investments (10) Limited for the year ended 31 October 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 4.

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 whether the financial statements have been 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOWER HILL  
PROPERTY INVESTMENTS (10) LIMITED (continued)**

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 October 2006 and of its profit for the year then ended;
- 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.

*KPMG Audit Plc*

**KPMG Audit Plc  
Chartered Accountants  
Registered Auditor**

*13 March 2007*  
**St James Square  
Manchester  
M2 6DS**



**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**INCOME STATEMENT**

	<b>Notes</b>	<b>2006</b>	<b>2005</b>
		<b>£'000</b>	<b>£'000</b>
Finance lease income		<b>3,030</b>	3,393
Interest expense and similar charges	<b>2</b>	<b>(2,006)</b>	(2,126)
<b>Net income</b>		<u><b>1,024</b></u>	<u>1,267</u>
Administrative expenses		<b>(81)</b>	(135)
Operating income/(expense)		<b>29</b>	(137)
<b>Profit on ordinary activities before taxation</b>		<u><b>972</b></u>	<u>995</u>
Income tax expense	<b>6</b>	<b>(223)</b>	(246)
<b>Profit after tax for the financial year</b>		<u><b>749</b></u>	<u>749</u>
<b>Attributable to:</b>			
Equity shareholders		<b>674</b>	674
Minority interests		<b>75</b>	75
<b>Profit for the financial year</b>		<u><b>749</b></u>	<u>749</u>

The notes on pages 10 to 23 form part of the financial statements.

There are no recognised gains or losses other than those shown in the Income Statement.

# TOWER HILL PROPERTY INVESTMENTS (10) LIMITED

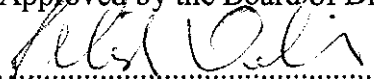
AS AT 31 OCTOBER 2006

## BALANCE SHEET

	Notes	2006 £'000	2005 £'000
<b>Assets</b>			
Cash and cash equivalents	11	20,556	19,006
Finance lease receivables	7	48,316	48,923
Other current assets		864	-
Current taxation debtor		637	-
<b>Total current assets</b>		<u>70,373</u>	<u>67,929</u>
<b>Total assets</b>		<u>70,373</u>	<u>67,929</u>
<b>Equity</b>			
Issued capital		1	1
Retained earnings		(269)	(1,018)
<b>Total equity</b>	12	<u>(268)</u>	<u>(1,017)</u>
<b>Liabilities</b>			
Amounts due to group undertakings	13	64,190	63,370
Deferred tax liabilities	8	5,239	4,252
<b>Total non-current liabilities</b>		<u>69,429</u>	<u>67,622</u>
Current taxation creditor		-	86
Other liabilities	9	1,212	1,238
<b>Total current liabilities</b>		<u>1,212</u>	<u>1,324</u>
<b>Total liabilities</b>		<u>70,641</u>	<u>68,946</u>
<b>Total equity and liabilities</b>		<u>70,373</u>	<u>67,929</u>

The notes on pages 10 to 23 form part of the financial statements.

Approved by the Board of Directors on 2<sup>nd</sup> March 2007 and signed on its behalf by



A.L. Webster  
Director

**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**STATEMENT OF CASH FLOWS**

	2006	2005
	£'000	£'000
<b>Cash flows from operating activities</b>		
Profit before taxation	972	995
Adjustments for:		
Loan interest	2,880	3,154
Movement in receivables	(257)	22,096
Movement in payables	(26)	(1,339)
Cash generated from operations	<u>3,569</u>	<u>24,906</u>
Income tax received/ (paid)	41	(2,497)
<b>Net cash from operating activities</b>	<u>3,610</u>	<u>22,409</u>
<b>Cash flows from financing activities</b>		
Repayment of borrowing	(3,791)	(25,965)
Dividends paid	12	(1,200)
<b>Net cash from financing activities</b>	<u>(3,791)</u>	<u>(27,165)</u>
<b>Net decrease in cash and cash equivalents</b>	(181)	(4,756)
<b>Cash and cash equivalents at 1 November</b>	<u>(5,824)</u>	<u>(1,068)</u>
<b>Cash and cash equivalents at 31 October</b>	<u>11</u>	<u>(5,824)</u>

The notes on pages 10 to 23 form part of the financial statements.

# **TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

## **NOTES TO THE ACCOUNTS**

### **1. Accounting Policies**

#### **General information**

Tower Hill Property Investments (10) Limited is a company domiciled in England.

The financial statements were authorised for issue by the directors on 2<sup>nd</sup> March 2007.

#### **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the EU.

The accounting policies set out below have been applied in respect of the financial year ended 31 October 2006. The company has adopted the following exemptions set out in IFRS1, 'First-time Adoption of International Financial Reporting Standards'. Using the exemptions within IFRS 1, IAS 32, IAS 39 and IFRS 4 only became effective from 1 January 2005. Where the implementation of these standards resulted in a change in accounting policy from 1 November 2005, the 2006 comparatives do not reflect the provisions of these standards.

IFRS 7 'Financial instruments: Disclosure' applicable for years commencing on or after 1 January 2007 has not been applied. The application of IFRS 7 in 2006 would not have affected the balance sheet or income statement as the standard is only concerned with disclosure.

These are the company's first IFRS financial statements and IFRS 1 has been applied.

#### **Basis of preparation**

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on the historical cost basis.

Non current assets are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 November 2004 for the purposes of transition to IFRS.

# **TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

## **NOTES TO THE ACCOUNTS (continued)**

### **1. Accounting Policies (continued)**

#### **Finance leases**

Assets leased to customers which transfer substantially all the risks and rewards of ownership to the customer are classified as finance leases. Together with instalment credit agreements, they are recorded at an amount equal to the net investment in the lease, less any impairment provisions, within finance lease receivables.

The net investment in finance leases and instalment credit agreements represents the sum of the minimum payments receivable and unguaranteed residual value (gross investment in lease) discounted at the interest rate implicit in the lease. The difference between the gross investment in the lease and the net investment in the lease is recorded as unearned finance lease income.

Leases for land and building are considered separately for classification purposes.

Income from finance leases and instalment credit agreements is credited to the profit and loss account using the net investment method to give a constant periodic rate of return. Initial direct costs incurred in arranging the lease are included in the initial measurement of the finance receivable and reduce income over the lease term.

#### **Impairment provisions**

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

Impairment is assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant.

Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after a principal payment is missed.

The recoverable amount of finance lease receivables carried at amortised cost is calculated as the present value of future cash flows, discounted at the original effective interest rate in the lease.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

# **TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

## **NOTES TO THE ACCOUNTS (continued)**

### **1. Accounting Policies (continued)**

#### **Impairment provisions (continued)**

If impaired the carrying value is adjusted and the difference charged to the income statement.

Collective assessment groups assets that share similar risk characteristics and applies a collective impairment methodology based on existing risk conditions or events that have a strong correlation with a tendency to default.

In circumstances where an asset has been collectively assessed for impairment and no objective evidence of impairment exists, then it may be subject to a collective assessment. In this situation impairment may be incurred but not yet reported.

The reversal of an impairment loss for an asset is recognised immediately in the income statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **2005 comparative accounting policy in respect of Provisions for bad and doubtful debts**

Specific provisions are calculated using either an individual assessment basis or a formulae driven approach. The formulae driven assessment is made using statistical techniques developed based on previous experience. These formulae take into account factors such as the length of time that payments from the customer are overdue, the value of any collateral held and the level of past and expected losses, in order to derive an appropriate provision.

A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified, but which are known from experience to be present in portfolios of loans and advances. The level of general provision is determined in light of past experience, current economic and other factors affecting the business environment and management's monitoring and control procedures, including the scope of specific provisioning procedures.

Specific and general provisions are deducted from loans and advances. Provision made during the year, less amounts released and recoveries of amounts written off in previous years are charged to the profit and loss account.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

# TOWER HILL PROPERTY INVESTMENTS (10) LIMITED

YEAR ENDED 31 OCTOBER 2006

## NOTES TO THE ACCOUNTS (continued)

### 1. Accounting Policies (continued)

#### Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates at the balance sheet date.

### 2. Interest expense and similar charges

	2006 £'000	2005 £'000
Loan interest	2,880	3,154
Intra group interest	(874)	(1,028)
	<u>2,006</u>	<u>2,126</u>

### 3. Staff numbers and costs

The company has no employees. It uses the services of its immediate parent undertaking for which a management charge, included in administrative expenses is made.

### 4. Directors' emoluments

None of the Directors received any emoluments for their services as Directors of the company.

### 5. Contingent rents

Rentals on deals with a contingent element are:

	2006 £'000	2005 £'000
Finance leases	<u>3,010</u>	<u>25,107</u>

**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**NOTES TO THE ACCOUNTS (continued)**

**6. Income tax expense**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>		
Current tax (credit)/charge for the period at a rate of 30% (2005: 30%)	<b>(764)</b>	24
Adjustments in respect of earlier years	<u>-</u>	<u>(18)</u>
	<b>(764)</b>	<b>6</b>
<b>Deferred tax (note 8)</b>		
Deferred tax charge for the period at a rate of 30% (2005: 30%)	<b>993</b>	240
Adjustments in respect of earlier years	<u>(6)</u>	<u>-</u>
	<b>987</b>	<b>240</b>
Total income tax expense in income statement	<u><b>223</b></u>	<u><b>246</b></u>

**Reconciliation of effective tax rate**

The tax assessed for the year is lower (2005: lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities before taxation	<u><b>972</b></u>	<u><b>995</b></u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	<b>292</b>	298
Effects of:		
Expenses not deductible for corporation tax purposes	<b>(63)</b>	(34)
Adjustments to tax in respect of previous periods	<u><b>(6)</b></u>	<u><b>(18)</b></u>
	<b>223</b>	<b>246</b>



# TOWER HILL PROPERTY INVESTMENTS (10) LIMITED

YEAR ENDED 31 OCTOBER 2006

## NOTES TO THE ACCOUNTS (continued)

### 7. Finance lease receivables

	2006 £'000	2005 £'000
Gross investment in finance leases, receivable:		
No later than one year	1,453	4,526
Later than 1 year and no later than 5 years	6,099	5,792
Later than 5 years	56,313	58,071
	<u>63,865</u>	<u>68,389</u>
Unearned future finance income on finance leases	(15,549)	(19,466)
Net investment in finance leases	<u>48,316</u>	<u>48,923</u>
Finance lease receivables	<u>48,316</u>	<u>48,923</u>

The net investment in finance leases may be analysed as follows:

	2006 £'000	2005 £'000
No later than one year	(108)	609
Later than 1 year and no later than 5 years	1,560	840
Later than 5 years	46,864	47,474
Net investment in finance leases	<u>48,316</u>	<u>48,923</u>

The cost of assets acquired during the year for the purpose of finance leasing was £nil (2005: £nil).

There are no unguaranteed residual values on these properties.

### 8. Deferred tax assets and liabilities

	2006 £'000	2005 £'000
Deferred tax liabilities	<u>5,239</u>	<u>4,252</u>

**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**NOTES TO THE ACCOUNTS (continued)**

**8. Deferred tax assets and liabilities (continued)**

The movement for the year in the company's net deferred tax position was as follows:

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
At 1 November 2005	<b>4,252</b>	4,012
Charge to income for the year (note 6)	<b>987</b>	240
Balance carried forward as at 31 October 2006	<u><b>5,239</b></u>	<u>4,252</u>

**Deferred tax liabilities**

	Capital allowances on assets leased to customers £'000	Total  £'000
At 1 November 2005	4,252	4,252
Charge to income for the year (note 6)	987	987
Balance carried forward as at 31 October 2006	<u>5,239</u>	<u>5,239</u>

**9. Other liabilities**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
VAT	127	124
Other creditors	<u><b>1,085</b></u>	<u>1,114</u>
	<u><b>1,212</b></u>	<u>1,238</u>

**10. Significant leasing arrangements**

**Finance Leases**

The company leases a portfolio of properties to private companies under finance leases for periods up to 25 years.

**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**NOTES TO THE ACCOUNTS (continued)**

**11. Cash and cash equivalents**

	2006 £'000	2005 £'000
Bank account	924	217
Amounts due from group undertakings	<u>19,632</u>	<u>18,789</u>
<b>Cash and cash equivalents on the balance sheet</b>	<b>20,556</b>	<b>19,006</b>
Bank overdraft	-	(236)
Call deposit	(26,249)	(24,183)
Amounts due to group undertakings	<u>(37,941)</u>	<u>(38,951)</u>
<b>Amounts due to group undertaking on the balance sheet</b>	<b>(64,190)</b>	<b>(63,370)</b>
Add loan funding	37,629	38,540
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>(6,005)</b>	<b>(5,824)</b>

**12. Capital and reserves**

**Reconciliation of movement in capital and reserves**

	Share Capital £ '000	Retained earnings £'000	Total £ '000	Minority Interest £ '000	Total £'000
Balance at 1 November 2004	1	(510)	(509)	(57)	(566)
Profit for the year	-	674	674	75	749
Dividend paid	-	(1,080)	(1,080)	(120)	(1,200)
Balance at 31 October 2005	<u>1</u>	<u>(916)</u>	<u>(915)</u>	<u>(102)</u>	<u>(1,017)</u>
Balance at 1 November 2005	1	(916)	(915)	(102)	(1,017)
Profit for the year	-	674	674	75	749
Balance at 31 October 2006	<u>1</u>	<u>(242)</u>	<u>(241)</u>	<u>(27)</u>	<u>(268)</u>

**Share Capital**

	2006 £	2005 £
<b>Authorised</b>		
5,000,000 ordinary shares of £1 each	<u>5,000,000</u>	<u>5,000,000</u>
<b>Allotted, called up and fully paid</b>		
1000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

# TOWER HILL PROPERTY INVESTMENTS (10) LIMITED

YEAR ENDED 31 OCTOBER 2006

## NOTES TO THE ACCOUNTS (continued)

### 13. Amounts due to group undertakings

	2006 £'000	2005 £'000
<b>Current liabilities</b>		
Amounts due to group undertakings	<u>64,190</u>	<u>63,370</u>

Of the above amounts, £26,561 is repayable on demand and £37,629 is repayable during 2007 in line with the HBOS Treasury loans terms as follows:

Date	Rate	Amount (£'000)
Repayable during 2007	4.86	37,629

### 14. Related parties

Key management personnel and members of their close families have not undertaken any transactions with Tower Hill Property Investments (10) Limited in the normal course of business.

The company had the following reportable transactions with related parties:

Income Statement	Transactions included within Description	Parent 2006 £'000	2005 £'000
Interest expense & similar charges	Loan interest	(2,880)	(3,154)
Interest expense & similar charges	Intra group interest	874	1,028
Administrative expenses	Management charge	(81)	(135)
<b>Balance Sheet</b>	<b>Outstanding balances included within Description</b>		
Current assets	Cash & cash Equivalents	20,556	19,006
Current liabilities	Amounts due to group undertakings	(64,190)	(63,370)

The Group's policy in relation to lending to related parties and other product offering is disclosed in the Group accounts of HBOS plc, the ultimate parent company undertaking of Tower Hill Property Investments (10) Limited.

SG Leasing (March) Limited owns 10% of the issued share capital of Tower Hill Property Investments (10) Limited. Excess margins of £35,710 (2005: £35,721) payable to SG Leasing (March) Limited in respect of agreements introduced to Tower Hill Property Investments (10) Limited have been charged to the profit and loss account during the year. At the year end a balance of £71,432 (2005: £123,540) is payable to SG Leasing (March) Limited in respect of excess margins.

# TOWER HILL PROPERTY INVESTMENTS (10) LIMITED

YEAR ENDED 31 OCTOBER 2006

## NOTES TO THE ACCOUNTS (continued)

### 15. Parent undertaking

HBOS plc is the ultimate parent undertaking of Tower Hill Property Investments (10) Limited and heads the largest group into which the accounts of the Company are consolidated. The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

The Governor and Company of the Bank of Scotland heads the smallest group into which the accounts of the Company are consolidated. The accounts of The Governor and Company of the Bank of Scotland may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

### 16. Post balance sheet events

On the 26 January 2007 three lease agreements were sold with a total consideration of £42,128,000. Total net profit from the sale amounted to £1,880,000.

### 17. Financial Instruments

Exposure to credit and interest rate risks arises in the normal course of the company's business.

#### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

#### Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows

	Note	Carrying amount £'000 2006	Fair value £'000 2006	Carrying amount £'000 2005	Fair value £'000 2005
Cash and cash equivalents	11	20,556	20,556	19,006	19,006
Finance lease receivables	7	48,316	48,316	48,923	48,923
Other current assets	-	864	864	-	-
Amounts due to group undertakings	13	(64,190)	(64,190)	(63,370)	(63,370)
Other liabilities	9	(1,085)	(1,085)	(1,114)	(1,114)
Total		<u>4,461</u>	<u>4,461</u>	<u>3,445</u>	<u>3,445</u>
Unrecognised gains/(losses)			<u>-</u>		<u>-</u>

# **TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

## **NOTES TO THE ACCOUNTS (continued)**

### **17. Financial Instruments (continued)**

#### **Interest rate risk**

In relation to income earning financial assets and interest bearing financial liabilities, the company does not have any significant interest rate risk exposure.

The company has variable rate agreements with customers.

Variable rate agreements are agreements where the amount charged to the customer varies over the term of the agreement.

For agreements which have variable interest rates, any rise or fall in the base rate is passed onto the customer at the date of change and are matched with the funding liability. Consequently the Company does not have any significant exposure to interest rate risk.

### **18. Explanation of transition to IFRS**

As stated in note 1, these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies applied in preparing the financial statements are set out in note 1.

In preparing its opening IFRS balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP has affected the Company's financial performance and cash flows is set out in the following tables and notes that accompany the table.

#### **Explanation of the major IFRS adjustments**

Finance lease assets have been impacted by the change in earnings recognition required by IAS 17 to an actuarial before tax basis from an actuarial after tax basis and by the different treatment of initial direct costs.

A cashflow statement was not included in the financial statements under previous UK GAAP.

**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**NOTES TO THE ACCOUNTS (continued)**

**18. Explanation of transition to IFRS (continued)**

**Reconciliation of equity**

	1 November 2004		31 October 2005		1 November 2005	
	Previous GAAP	Effect of Transition to IFRS	Previous GAAP	Effect of Transition to IFRS	IFRSs	Effect of Transition to IAS39
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	23,045	-	19,006	-	19,006	-
Finance lease receivables	73,946	(2,958)	51,628	(2,705)	48,923	-
Total current assets	96,991	(2,958)	70,634	(2,705)	67,929	-
Total assets	96,991	(2,958)	70,634	(2,705)	67,929	-
Equity						
Issued capital	1	-	1	-	1	-
Retained earnings	303	(870)	875	(1,893)	(1,018)	-
Total equity	304	(870)	876	(1,893)	(1,017)	-
Attributable						
Equity shareholders	273	(783)	788	(1,703)	(915)	-
Minority interest	31	(87)	88	(190)	(102)	-

**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**NOTES TO THE ACCOUNTS (continued)**

**18. Explanation of transition to IFRS (continued)**

**Reconciliation of equity (continued)**

	Previous	1 November 2004 Effect of	IFRSs	Previous	31 October 2005 Effect of	IFRSs	1 November 2005 Effect of	IFRSs
	GAAP	Transition to IFRS	£'000	GAAP	Transition to IFRS	£'000	Transition to IAS39	£'000
<b>Liabilities</b>								
Amounts due to group undertakings	85,435	-	85,435	63,370	-	63,370	-	63,370
Deferred tax liabilities	4,900	(888)	4,012	5,064	(812)	4,252	-	4,252
<b>Total non-current liabilities</b>	<b>90,335</b>	<b>(888)</b>	<b>89,447</b>	<b>68,434</b>	<b>(812)</b>	<b>67,622</b>	<b>-</b>	<b>67,622</b>
<b>Dividend</b>	<b>1,200</b>	<b>(1,200)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Corporation tax creditor	2,576	-	2,576	86	-	86	-	86
Other Liabilities	2,576	-	2,576	1,238	-	1,238	-	1,238
<b>Total current liabilities</b>	<b>6,352</b>	<b>(1,200)</b>	<b>5,152</b>	<b>1,324</b>	<b>-</b>	<b>1,324</b>	<b>-</b>	<b>1,324</b>
<b>Total liabilities</b>	<b>96,687</b>	<b>(2,088)</b>	<b>94,599</b>	<b>69,758</b>	<b>(812)</b>	<b>68,946</b>	<b>-</b>	<b>68,946</b>
<b>Total equity and liabilities</b>	<b>96,991</b>	<b>(2,958)</b>	<b>94,033</b>	<b>70,634</b>	<b>(2,705)</b>	<b>67,929</b>	<b>-</b>	<b>67,929</b>



**TOWER HILL PROPERTY INVESTMENTS (10) LIMITED**

**YEAR ENDED 31 OCTOBER 2006**

**NOTES TO THE ACCOUNTS (continued)**

**18. Explanation of transition to IFRS (continued)**

**Reconciliation of profit for 2005**

	<b>Previous GAAP £'000</b>	<b>Effect of Transition to IFRS £'000</b>	<b>IFRSs £'000</b>
Finance lease income	3,140	253	3,393
Interest expense and similar charges	(2,126)	-	(2,126)
<b>Net interest income</b>	<b>1,014</b>	<b>253</b>	<b>1,267</b>
Administrative expenses	(135)	-	(135)
Operating expense	(137)	-	(137)
<b>Profit on ordinary activities before taxation</b>	<b>742</b>	<b>253</b>	<b>995</b>
Income tax expense	(170)	(76)	(246)
<b>Profit after tax for the financial year</b>	<b>572</b>	<b>177</b>	<b>749</b>
<b>Attributable to:</b>			
Equity shareholders	515	159	674
Minority interests	57	18	75