

**Ealing Investments Limited**

**Company Number 2778269**

**Annual Report and Financial Statements**

**For the year ended 31 December 2008**

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# **Ealing Investments Limited**

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## **Directors**

D. Forster  
D. W. Seabrook

## **Secretary and Registered Office**

J Cano  
Moorgate Hall, 155 Moorgate, London, EC2M 6UJ

## **Auditors**

KPMG Audit Plc, Canary Wharf, One, Canada Square, London, E14 5AG

# **Ealing Investments Limited**

## **Report of the directors for the year ended 31 December 2008**

The directors have pleasure in presenting their report together with the financial statements for the year ended 31 December 2008.

### **Principal activities**

In previous years the company has not had any business activities. On the 13 November 2007 a loan was purchased from the parent company HSH Nordbank AG for EUR 101,298,486 which represents the principal amount of the loan plus accrued interest. The company's principal activities are lending and investing in debt securities.

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

Activities and positions for the year ending 31 December 2008 are reflected in the income statement and balance sheet set out on page 7 and 8. The loan purchased by the company defaulted and the company called collateral from the borrower. The collateral received are debt securities.

The company has at 31 December 2008 negative equity due to the loss in the financial year. Impairments were made against the held securities to reduce them to their market value which produced a financial loss of the year.

The financial statement is prepared under the assumption of going concern. The directors do not anticipate any significant change in the company's activities for the foreseeable future.

### **Proposed dividend**

The directors have proposed a nil dividend in respect of the current financial year (2007 nil).

### **Directors**

The directors of the company during the year to 31 December 2008 were:

L. Marti-Sanchez

Resigned 28 February 2009

D. W. Seabrook

D. Forster

Appointed 01 March 2009

### **Statement of Directors' responsibilities**

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

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# **Ealing Investments Limited**

## **Report of the directors for the year ended 31 December 2008** **(Continued)**

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 International Financial Reporting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the period.

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

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

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which 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 for them to safeguard the assets of the Company and so prevent and detect fraud and other irregularities.

Under applicable law the directors' are also responsible for preparing a directors' report that complies with the law.

### **Disclosure of information for auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they 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 they ought to have taken as a director to make themselves aware of any relevant audit information and establish that the company's auditors are aware of that information.

# **Ealing Investments Limited**

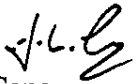
## **Report of the directors for the year ended 31 December 2008** *(continued)*

### **Auditors**

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By order of the Board

  
J Cano 5.8.09  
*Company Secretary*

Moorgate Hall  
155 Moorgate  
London  
EC2M 6UJ

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# **Ealing Investments Limited**

## **Independent auditors' report to the members of Ealing Investments Limited**

We have audited the financial statements of Ealing Investments Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of changes in equity 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 2.

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

# **Ealing Investments Limited**

## **Independent auditors' report to the members of Ealing Investments Limited (continued)**

evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2008 and of its loss 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*  
Canary Wharf  
1 Canada Square  
London, E14 5AG

*5 August 2009*

# **Ealing Investments Limited**

## **Income statement for the year ended 31 December 2008**

	Note	2008 EUR	2007 EUR
Interest income	2	4,501,265	2,563,505
Interest expense	3	(4,836,706)	(654,831)
Net interest income		<u>(335,441)</u>	<u>1,908,674</u>
Impairment loss on financial assets	4	(29,643,880)	(5,397,761)
Administrative expenses	5	(90,545)	(9,013)
Loss on ordinary activities before taxation		<u>(30,069,866)</u>	<u>(17,122)</u>
Taxation	6	-	-
Loss on ordinary activities after taxation		<u>(30,069,866)</u>	<u>(3,498,100)</u>

The notes on pages 10 to 17 form part of the financial statements.



# Ealing Investments Limited

## Balance sheet as at 31 December 2008

	Notes	2008 EUR	2007 EUR
<b>Assets</b>			
Cash at bank	7	2,579,594	4,922,043
Debt securities	8	47,845,232	85,639,714
Loans and advances to customers	9	222,520	752,426
<b>Total Assets</b>		<b>50,647,346</b>	<b>91,314,183</b>
<b>Liabilities</b>			
Bank loan	10	98,030,763	101,951,128
Other liabilities	11	42,790	35,790
<b>Total liabilities</b>		<b>98,073,553</b>	<b>101,986,918</b>
<b>Equity</b>			
Share capital	12	148,920	148,920
Retained Earnings		(33,456,669)	(3,386,803)
Revaluation Reserve	13	(14,118,458)	(7,434,852)
<b>Total Equity</b>		<b>(47,426,207)</b>	<b>(10,672,735)</b>
<b>Total liabilities and equity</b>		<b>50,647,346</b>	<b>91,314,183</b>

These financial statements were approved by the board of directors on the 16 July 2009 and were signed on its behalf by

  
 David Forster  
 Director

# Ealing Investments Limited

## Cash Flow Statement For the year ended 31<sup>st</sup> December 2008

	Notes	2008 EUR	2007 EUR
<b>Cash flow from operating activities</b>			
Interest received		5,973,413	634,581
Interest payments	9	(4,757,923)	0
Recoveries on Loans		529,906	0
Payments to suppliers		(23,978)	(4,192)
<b>Net cash flow from operating activities</b>		<u>1,721,418</u>	<u>630,389</u>
<b>Cash flow from financing activities</b>			
Repayment of Loans	10	(4,000,000)	0
Cash collateral received		<u>0</u>	<u>4,023,258</u>
<b>Net cashflow from financing activities</b>		<u>(4,000,000)</u>	<u>4,023,258</u>
<b>Net increase in cash and cash equivalents</b>		<b>(2,278,582)</b>	<b>4,653,647</b>
Effect of exchange rate changes		(63,867)	0
<b>Cash and cash equivalents at beginning of period</b>		<b>4,922,043</b>	<b>268,396</b>
<b>Cash and cash equivalents at end of period</b>		<u><b>2,579,594</b></u>	<u><b>4,922,043</b></u>

# Ealing Investments Limited

## Statement of changes in equity For the year ended 31 December 2008

	<u>Ordinary Share Capital</u>	<u>Revaluation Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
EUR				
Balance at 1 January 2008	148,920	(7,434,852)	(3,386,803)	(10,672,735)
Revaluation movement for the year	-	(6,683,606)		(6,683,606)
Retained loss for the year	-	-	(30,069,866)	(30,069,866)
Balance at 31 December 2008	148,920	(14,118,458)	(33,456,669)	(47,426,207)

## Statement of changes in equity For the year ended 31 December 2007

	<u>Ordinary Share Capital</u>	<u>Revaluation Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
EUR				
Balance at 1 January 2007	148,920	-	111,297	260,217
Revaluation movement for the year	-	(7,434,852)	-	(7,434,852)
Retained loss for the year	-	-	(3,498,100)	(3,498,100)
Balance at 31 December 2007	148,920	(7,434,852)	(3,386,803)	(10,672,735)

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# **Ealing Investments Limited**

## **Notes to the financial statements for the year ended 31 December 2008**

### **1. Accounting policies**

#### **Basis of Preparation**

These financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reason.

The company is dependent for its working capital on funds provided to it as part of the support of financial obligation, provided by HSH Nordbank AG the company's parent company. Refer to note 17.

The support of financial obligation expires more than 12 months from the date of approval of these financial statements. HSH Nordbank AG will continue to make available such funds as are needed by the Company in order for the Company to meet liabilities as they become due. The directors consider that this should enable the company to continue in operational existence for the foreseeable future.

#### **Accounting judgments and estimates**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's knowledge of the amount, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. If actual results differ from the estimates, the impact will be recorded in future periods.

The most significant assets where the Company make estimates are:

#### **Impairment loss of debt securities and loans and advances to customers**

In determining whether an impairment loss has been incurred, the company performs an objective review of whether there is an indication that one or more events occurred after its initial recognition, that have a negative impact on the estimated future cash flows. An assessment is performed of the expected future cash flows expected to be realised from the asset. If the expected future cash flows are insufficient to recover the current book value of the asset, an impairment is recognized.

#### **Allowances for impairments and impairment of financial instruments**

At every balance sheet date, a check is done to find out whether there are objective indicators for the impairment of a financial asset which is not measured at fair value through the income statement.

An impairment test is performed if, after initial recognition of a financial instrument, there are objective indications of an impairment which would have an impact on the anticipated future cash flows from the financial instrument.

# **Ealing Investments Limited**

## **Notes forming part of the financial statements for the year ended 31 December 2008 (*continued*)**

Criteria for impairment are essentially indications that, based on current information, interest payments cannot be made and an improvement in the financial situation cannot be demonstrated.

In the case of permanent impairment to a loans and receivable financial instrument, a direct writedown is recognized in the income statement.

### **Income taxes**

We calculate tax assets and liabilities by applying the currently valid tax rate at which a refund from, or a payment to, the tax authorities is anticipated.

Deferred tax assets and liabilities derive from timing differences between the value of an asset or liability as measured by IFRS standards and its assigned value in tax terms. Deferred taxes on tax loss carryforwards are stated as the amount likely to be used in future. Deferred taxes are calculated using the tax rates and rules that have been enacted at the time when the deferred tax assets are to be realized. Deferred taxes are recognized in the income statement if the balance sheet item itself is recognized in the income statement. If the balance sheet item itself is not taken through the income statement, then deferred taxes are also taken straight to equity in the revaluation surplus.

### **Segmental reporting**

The company has one business and geographical segment, therefore no further disclosure is required in the financial statements.

## **2. Interest income**

This is made up of coupons received in respect of bonds held, classified as Loans and Receivables, and accrued interest received from monies deposited with HSH Nordbank AG.

## **3. Interest expense**

Interest expense consists of payables and accrued interest to HSH Nordbank AG.

## **4. Impairment loss on financial assets**

The impairment has been calculated to write down the value of the securities to their market value.

# Ealing Investments Limited

## Notes forming part of the financial statements for the year ended 31 December 2008 *(continued)*

### 5. Administrative expenses

#### Remuneration of directors

The directors did not receive any emoluments during the year for their services to the company.  
(2007: nil)

#### Employee information

The Company had no employees during the year. (2007: nil)

#### Auditor's remuneration

Fees payable to the company's auditors for audit services amounted to EUR 15,000. (2007: EUR 13,000)

### 6. Taxation

	2008 EUR	2007 EUR
Income statement loss for the year	(30,027,984)	(3,498,100)
Revaluation reserve loss for the year	(6,683,606)	(7,434,852)
Taxable loss for the year	<u>(36,711,590)</u>	<u>(10,932,952)</u>
Income tax using company's domestic rate (28.5%)	(10,462,803)	(3,279,886)
Previous year adjustment (28.5%)		-
Tax loss surrendered (28.5%)	<u>10,462,803</u>	<u>3,279,886</u>
Tax charge for the period	<u>0</u>	<u>0</u>

# Ealing Investments Limited

## Notes to the financial statements (continued) for the year ended 31 December 2008

### 7. Cash at bank

	2008 EUR	2007 EUR
GBP Bank account	197,528	277,585
EUR Bank account	2,382,066	4,644,458
	<u>2,579,594</u>	<u>4,922,043</u>

### 8. Debt Securities

	2008 EUR	2007 EUR
Bond portfolio	46,081,756	83,734,049
Accrued coupons	<u>1,763,476</u>	<u>1,905,665</u>
	<u>47,845,232</u>	<u>85,639,714</u>

The IFRS classification of the bonds has changed from available for sale to loans and receivables on the 30 June 2008. This change was made due to amendments made to IAS 39 during 2008.

### 9. Loans and advances to customers

	2008 EUR	2007 EUR
ISTC loan purchased by the company	5,637,522	6,167,428
Provision against loan	<u>(5,415,002)</u>	<u>(5,415,002)</u>
	<u>222,520</u>	<u>752,426</u>

The company still has a claim against the original loan purchased from ISTC for €6,167,428. The provision made in 2007 was based on a 12.2% recovery rate. During 2008 €529,906 of this claim was paid to Ealing.

# Ealing Investments Limited

## Notes to the financial statements (continued) for the year ended 31 December 2008

### 10. Bank loan

	2008 EUR	2007 EUR
Principal owed to HSH Nordbank AG	96,000,000	100,000,000
Accrued interest	<u>2,030,763</u>	<u>1,951,128</u>
	<u>98,030,763</u>	<u>101,951,128</u>

A €4,000,000 repayment of the loan was made during 2008.

### 11. Other liabilities

	2008 EUR	2007 EUR
Professional & legal fees	11,390	11,390
Others	<u>31,400</u>	<u>24,400</u>
	<u>42,790</u>	<u>35,790</u>

### 12. Share Capital

	2008 EUR	2007 EUR
<b>Authorised</b>		
100,000 Ordinary shares of £1 each	148,920	148,920
<b>Allotted, called up and fully paid</b>		
100,000 Ordinary shares of £1 each	<u>148,920</u>	<u>148,920</u>

### 13. Revaluation Reserve

	2008 EUR	2007 EUR
Revaluation Reserve	(14,118,458)	(7,434,852)

The securities held by the company were originally classed as Available for Sale financial instruments until 30 June 2008. During this period the securities were valued at their market value with movements in valuations booked into the revaluation reserve. As at 30 June 2008 there was a revaluation reserve balance of Eur15, 443,263. On 1 July 2008, the classification of the securities was changed to Loans and Receivables. The revaluation reserve as at that date is being amortised into the Income statement over the remaining life of the securities.



# **Ealing Investments Limited**

## **14. Nature and extent of Financial Instrument Risk**

### **Risk Management**

The directors provide overall risk supervision of Ealing Investments Limited.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The company's liabilities consist of a 96 million Euro loan, and accrued interest thereon, granted by the parent company. The loan matures on 8 February 2010. The company has received support for financial obligations from HSH Nordbank AG which eliminates any liquidity risk – refer to note 17.

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

As at the 31 December 2008 the Company's credit exposure can be seen to be the value of the bond portfolio, along with the outstanding loan purchased by the company. The current carrying value of the bond portfolio is 46,081,756 Euros excluding accrual interest and the outstanding claim purchased is 5,637,522 Euros.

During 2007 Ealing took possession of collateral it was holding as collateral for the loan purchased by the company. The Collateral is a portfolio of 19 floating coupon bonds issued by Banking and Financial companies. The portfolio was initially valued at 91,168,900 Euros and at 31 December 2008, the carrying value was 46,081,756 Euros excluding accrued interest.

The loan purchased by the company has been provided for, as ISTC has entered into receivership, we have based our provision on an estimated recovery rate of 12.2%.

The bond portfolio has fallen in value by 37,652,292 Euros from 01 January 2008 to 31 December 2008. Due to this fall in the value the bonds were impaired and written down to the current market value of 46,081,756 at the end of 2008 excluding interest.

### **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

As the assets and liabilities are all denominated in Euros, there is no significant exchange rate risk. The bond coupons are calculated using variable European swap rate

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## **Ealing Investments Limited**

(EUSA10) and the loan to HSH-Nordbank AG is calculated using variable 6 Month Euribor. As the interest rates for the Bonds and loan can differ there is a level of market risk created due to the movement of the rates in the market. This interest risk is controlled by the resetting of the interest rate on the loan to HSH-Nordbank AG every six months to ensure that the coupon interest from the bonds is matching the loan interest as closely as possible.

### **15. Parent undertaking**

The ultimate parent undertaking is HSH Nordbank AG, a company incorporated in the Federal Republic of Germany.

Copies of the parent undertaking's consolidated financial statements may be obtained from:

HSH-Nordbank AG  
Gerhart-Hauptmann-Platz 50  
D-20095 Hamburg  
Germany

### **16. Related party transactions**

The company is a fully owned subsidiary of HSH Nordbank AG.

All facilities are provided at market rates, and during the year the company had interest receivable of 80,645 Euros (2007: 50,406 Euros) in respect of bank charges and interest. The company also had an outstanding loan of 96,000,000 Euros (2007: 100,000,000 Euros) with interest payable for the period of 4,836,706 Euros (2007: 654,381 Euros).

### **17. Support for financial obligation**

HSH Nordbank AG has provided financial support to the company stating that it will provide further contributions of capital or support in the form of loan guarantees or loan facilities in order to ensure the company is able to meet all obligations as they become due. This financial support expires on 1 October 2010.