

**Company Registration No: 03715304**

**RBS HOTEL DEVELOPMENT COMPANY LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 December 2005**

**Group Secretariat  
The Royal Bank of Scotland Group plc  
3 Princess Way  
Redhill  
Surrey  
RH1 1NP**



# RBS HOTEL DEVELOPMENT COMPANY LIMITED

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**RBS HOTEL DEVELOPMENT COMPANY LIMITED**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**

**T J D Boag  
T V Castledine  
S B Eighteen  
N S Moy  
J G Robson**

**SECRETARY:**

**L M Blair**

**REGISTERED OFFICE:**

**135 Bishopsgate  
London  
EC2M 3UR**

**AUDITORS:**

**Deloitte & Touche LLP  
London**

**Registered in England and Wales.**

## **DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2005.

## **ACTIVITIES AND BUSINESS REVIEW**

The Company is in the business of providing asset finance by way of leasing and acting as project manager for RBS Group subsidiary companies.

The profit for the period was £1,083 (2004: profit of £1,645). The directors do not recommend payment of a dividend.

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

## **DIRECTORS AND SECRETARY**

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

From 1 January 2005 to date the following changes have taken place:

	<b>Appointed</b>	<b>Resigned</b>
<b>Directors</b>		
P Carpenter		16 February 2005
N S Moy	14 March 2005	
J G Robson	14 March 2005	
<b>Secretary</b>		
L M Blair	14 November 2005	
M L Thomas		18 November 2005

## **DIRECTORS' RESPONSIBILITIES**

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards. They are responsible for preparing accounts that present fairly the financial position, financial performance, and cash flows of the Company. In preparing those accounts, the directors are required to:

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

## **DIRECTORS' REPORT (continued)**

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Annual report and accounts complies with the Companies Act 1985. 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.

## **USE OF FINANCIAL INSTRUMENTS**

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

### ***Liquidity risk***

Liquidity management within the Company focuses on both overall balance sheet structure and control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations. It is undertaken within limits and other policy parameters set by The Royal Bank of Scotland Group plc Asset and Liability Management Committee (GALCO).

### ***Credit risk***

The Company is exposed to credit risk on its financial assets relating to amounts receivable from customers. Upon default these assets would be recovered from the ultimate parent entity. The maximum exposure to credit risk on these assets is represented by the carrying amount of each financial asset and liability in the balance sheet.

The Company does not use credit derivatives to hedge credit exposure. There has been no cumulative change in the fair value of loans and receivables attributable to changes in credit risk and there has been no change in the current period.

**DIRECTORS' REPORT (continued)**

**DIRECTORS' INTERESTS**

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

The following directors were beneficially interested in the ordinary shares of The Royal Bank of Scotland Group plc:

The opening balance of the ordinary shares of Mr T J D Boag have been restated to exclude shares disposed of in the previous year that had previously been disclosed in the statutory accounts.

	<b>As at 1 January 2005*</b>	<b>As at 31 December 2005</b>
T J D Boag	2,589	6,152
T V Castledine	107	362
S B Eighteen	188	188
N S Moy	338	338
J G Robson	166	876

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

	<b>As at 1 January 2005*</b>	<b>Granted during the period</b>		<b>Exercised during the period</b>		<b>As at 31 December 2005</b>
		<b>Options</b>	<b>Price (p)</b>	<b>Options</b>	<b>Price (p)</b>	
T J D Boag	20,407	9,586	1729	385	924	28,895
		2,027	1304	2,740	985	
T V Castledine	707	4,737	1729	-	-	5,444
S B Eighteen	11,253	6015	1729	-	-	17,268
N S Moy	9,661	-	-	-	-	9,661
J G Robson	12,313	-	-	710	1364	11,603

No director held an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the year to 31 December 2005.

Other than as disclosed, none of the directors in office at 31 December 2005 held an interest in the share or loan capital of the Company or any other group company.

\* or date of appointment, if later

**DIRECTORS' REPORT (continued)**

**POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

The Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc ('RBSG'), as outlined below.

In the year ending 31 December 2006, RBSG will adhere to the following payment policy in respect of all suppliers. RBSG is committed to maintaining a sound commercial relationship with its suppliers. Consequently, RBSG's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

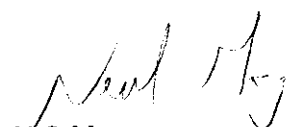
**ELECTIVE RESOLUTIONS**

The Company has elected to dispense with the requirement to hold annual general meetings, lay accounts before a general meeting and re-appointment of auditors annually.

**AUDITORS**

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

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



N S Moy  
Director

Date: 30 August 2006

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RBS HOTEL DEVELOPMENT COMPANY LIMITED**

We have audited the financial statements of RBS Hotel Development Company Limited for the year ended 31 December 2005 which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in equity and the related Notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the directors' report, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant framework and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RBS HOTEL DEVELOPMENT COMPANY LIMITED (continued)**

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended in accordance with International Financial Reporting Standards as adopted for use in the European Union and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
London

Date: *30 August 2006*

# RBS HOTEL DEVELOPMENT COMPANY LIMITED

## INCOME STATEMENT

for the year ended 31 December 2005

	Note	2005 £	2004 £
<b>Continuing Operations</b>			
Revenue	3	8,604	3,405
Administrative expenses	4	(9,910)	-
<b>OPERATING (LOSS)/PROFIT</b>	5	(1,306)	3,405
Interest received from related party		-	160
<b>PROFIT BEFORE TAX</b>		(1,306)	3,565
Income tax credit/(expense)	7	2,389	(1,920)
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO ORDINARY SHAREHOLDERS</b>		1,083	1,645

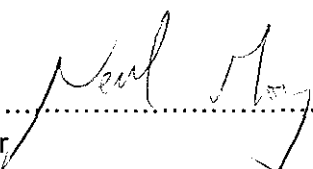
# RBS HOTEL DEVELOPMENT COMPANY LIMITED

## BALANCE SHEET at 31 December 2005

	Note	2005 £	2004 £
<b>ASSETS</b>			
<b>Non current Assets</b>			
Finance lease receivable	9	2,626	2,728
		<u>2,626</u>	<u>2,728</u>
<b>Current Assets</b>			
Finance lease receivable	9	102	85
Trade and other receivables	8	9,503	7,032
Deferred tax asset	10	2,108	2,812
Cash and cash equivalents		653,262	387,824
		<u>664,975</u>	<u>397,753</u>
<b>TOTAL ASSETS</b>		<u><u>667,601</u></u>	<u><u>400,481</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	659,023	392,986
<b>TOTAL LIABILITIES</b>		<u><u>659,023</u></u>	<u><u>392,986</u></u>
<b>Equity</b>			
Share capital	12	100	100
Retained earnings		8,478	7,395
<b>TOTAL EQUITY</b>		<u><u>8,578</u></u>	<u><u>7,495</u></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>667,601</u></u>	<u><u>400,481</u></u>

These financial statements were approved by the Board of Directors on  
Signed on behalf of the Board of Directors

Director



# RBS HOTEL DEVELOPMENT COMPANY LIMITED

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2005

	Share capital £	Retained earnings £	Total £
<b>Balance at 1 January 2004</b>	100	2,867	2,967
Implementation of IFRS (see note 16)	-	2,883	2,883
<b>Opening equity as restated</b>	<u>100</u>	<u>5,750</u>	<u>5,850</u>
Profit for the year	-	1,645	1,645
<b>Balance at 31 December 2004</b>	<u>100</u>	<u>7,395</u>	<u>7,495</u>
Profit for the year	-	1,083	1,083
<b>Balance at 31 December 2005</b>	<u>100</u>	<u>8,478</u>	<u>8,578</u>

# RBS HOTEL DEVELOPMENT COMPANY LIMITED

## CASH FLOW STATEMENT

for the year ended 31 December 2005

	2005 £	2004 £
<b>Operating activities</b>		
Operating profit for the year	(1,306)	3,405
<b>Operating cash flows before movement in working capital</b>	(1,306)	3,405
Increase in receivables	(1,397)	(4,868)
Increase in payables	268,754	387,472
<b>Cash generated by operations</b>	266,051	386,009
Income taxes (paid)/received	(698)	1,585
<b>Net cash flows from operating activities</b>	265,353	387,594
<b>Investing activities</b>		
Interest received from associates	-	160
Capital receipt from finance lease	85	70
<b>Net cash flows from investing activities</b>	85	230
<b>Financing activities</b>		
	-	-
<b>Net cash used in financing activities</b>	-	-
Net increase in cash and cash equivalents	265,438	387,824
Cash and cash equivalents at the beginning of the year	387,824	-
<b>Cash and cash equivalents at the end of the year</b>	653,262	387,824

**NOTES TO THE ACCOUNTS**

**for the year ended 31 December 2005**

**1. GENERAL**

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

**2. ACCOUNTING POLICIES**

The financial statements have, for the first time, been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements have been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS regulation. The date of transition to IFRS for the Group and the date of its opening IFRS balance sheet was 1 January 2004.

The particular accounting policies adopted are described below.

**Accounting convention**

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

**Net investment in finance leases**

Net investment in finance leases is included in receivables and represents total minimum lease payments less gross earnings allocated to future periods in advance.

**Income from finance leases**

Income from finance leases is credited to the reserves using the actuarial method to give a constant periodic rate of return on the net cast investment.

**Taxation**

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate. 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, except in relation to overseas earnings where remittance is controlled by the Group, and goodwill.

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

**Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statements, cash and cash equivalents comprise cash with banks on current and deposit accounts.

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2005

## 2. ACCOUNTING POLICIES (continued)

**Accounting Developments***International Financial Reporting Standards*

As at the date of authorisation of these financial statements, the following Standards which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 7 Financial Instruments: Disclosures; and
- the related amendment to IAS 1 on capital disclosures.

The directors anticipate that the adoption of these Standards in future periods will have no material impact on the financial statements except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

3. REVENUE	2005 £	2004 £
Rental income from finance leases	465	480
Write-back of bad debts recovered	8,139	2,925
	<u>8,604</u>	<u>3,405</u>

4. ADMINISTRATIVE EXPENSES	2005 £'000	2004 £'000
Management fees	9,910	-
	<u>9,910</u>	<u>-</u>

## 5. OPERATING PROFIT

Auditors' remuneration was borne by the ultimate parent company.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2005

6. DIRECTORS AND EMPLOYEES

The directors received no emoluments (2004: nil) directly from the Company during the period. None of the directors had any material interest in any contract of significance in relation to the business in the current or prior year.

The Company does not have any employees (2004: nil).

7. INCOME TAX EXPENSE

	2005 £	2004 £
<b>Current Taxation:</b>		
Income tax charge for the year	(1,095)	(99)
Under provision in respect of prior periods	(1,998)	829
Current tax (credit)/charge for the period	<u>(3,093)</u>	<u>730</u>
<b>Deferred Taxation:</b>		
Credit for the year	704	1,190
Deferred tax charge for the period	<u>704</u>	<u>1,190</u>
Taxation (credit)/expense for the year	<u>(2,389)</u>	<u>1,920</u>

The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 30% (2004: 30%) as follows:

	2005 £	2004 £
Expected tax charge	(391)	1,070
(Over)/under provision in respect of previous years	(1,998)	850
Tax (credit)/charge for the year	<u>(2,389)</u>	<u>1,920</u>

8. TRADE AND OTHER RECEIVABLES

	2005 £	2004 £
Amounts owed by group undertakings	8,429	7,032
Current tax asset	1,074	-
	<u>9,503</u>	<u>7,032</u>



## NOTES TO THE ACCOUNTS

for the year ended 31 December 2005

## 9. FINANCE LEASE RECEIVABLE

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	2005	2004
	£	£	£	£
Amounts receivable under finance leases:	5,500	6,050	2,728	2,813
Within one year:	550	550	102	85
In the second to fifth year inclusive	2,200	2,200	667	553
After five years	2,750	3,300	1,959	2,175
	<u>2,772</u>	<u>(3,237)</u>	<u>-</u>	<u>-</u>
Less: unearned finance income				
Present value of minimum lease payments receivable	<u>2,728</u>	<u>2,813</u>	<u>2,728</u>	<u>2,813</u>
Analysed as:				
Non-current finance lease receivable (recoverable after 12 months)			2,626	2,728
Current finance lease receivable (recoverable within 12 months)			102	85
			<u>2,728</u>	<u>2,813</u>

The Company entered into a finance lease arrangement for an industrial sized fridge. The term of the lease is 15 years and expires June 2015. The average effective interest rate of the finance lease is 20.555%. The fair value of the Company's finance lease receivables at 31 December 2005 is equivalent to carrying value.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2005

10. DEFERRED TAXATION

Provision for deferred taxation has been made as follows;

	Accelerated capital allowances £	Total £
At 1 January 2004 under UK GAAP	4,002	4,002
Implementation of IFRS	-	-
At 1 January 2004 restated	4,002	4,002
Credit to income statement	(1,190)	(1,190)
At 1 January 2005	2,812	2,812
Implementation of IFRS	-	-
Credit to income statement	(704)	(704)
At 31 December 2005	2,108	2,108

11. TRADE AND OTHER PAYABLES

	2005 £	2004 £
Amounts due to group undertakings	-	7,388
Current tax liability	-	2,717
VAT	96	193
Accruals and deferred income	658,927	382,688
	659,023	392,986

12. SHARE CAPITAL

	2005 £	2004 £
<b>Authorised:</b>		
100 ordinary shares of £1 each	100	100
<b>Allotted, called up and fully paid:</b>		
100 ordinary shares of £1 each		
At the beginning of the year	100	100
Issued in the year	-	-
At the end of the year	100	100

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2005

## 13. RELATED PARTY TRANSACTIONS

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

2005

	Opening Balance £	Receipts/ (payments) £	Income/ (expenses) £	Closing Balance £
<b>Accounts with</b>				
Banking members of the group:	387,824	-	-	653,262
Amounts owed by related party	7,032	-	-	8,429
Amounts owed to related party	(7,388)	-	-	-
Transactions during the year:				
Management fees	-	-	(9,910)	-
<b>Total</b>	<u>387,468</u>	<u>-</u>	<u>(9,910)</u>	<u>661,691</u>

2004

<b>Accounts with</b>				
Banking members of the group:	-	-	-	387,824
Amounts owed by related party	2,164	-	-	7,032
Amounts owed to related party	-	-	-	(7,388)
Transactions during the year:				
Interest received from related party	-	160	160	-
<b>Total</b>	<u>2,164</u>	<u>160</u>	<u>160</u>	<u>387,468</u>

**NOTES TO THE ACCOUNTS**

**for the year ended 31 December 2005**

**14. ULTIMATE PARENT COMPANY**

The Company's immediate parent company is National Westminster Bank Plc.

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

The smallest subgroup into which the Company is consolidated has as its parent company National Westminster Bank plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

**15. CONTINGENT LIABILITY**

The Company has a contingent liability in respect of a joint and several undertaking for VAT due by certain fellow subsidiary undertakings under a group registration. The directors believe that settlement is considered a highly remote possibility.

**16. EVENTS AFTER THE BALANCE SHEET DATE**

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

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2005

## 17. TRANSITION TO IFRS

## Reconciliation of equity at 1 January 2004 (date of transition to IFRSs)

	Note	Previous GAAP £	Effect of transition to IFRSs £	IFRSs £
Finance lease receivable		-	2,883	2,883
Issued capital		100	-	100
Retained earnings	1	2,867	2,883	5,750
Total equity		<u>2,967</u>	<u>2,883</u>	<u>5,850</u>

Notes to the reconciliation of equity at 1 January 2004:

1. As a result of the adoption of IAS 17 "Accounting for Leases", £2,883 was debited to finance lease receivables and credited to retained earnings.

## Reconciliation of profit for 2004

	Note	Previous GAAP £	Effect of transition to IFRSs £	IFRSs £
Rental income from finance leases		550	(70)	480
Other revenue		2,925	-	2,925
<b>OPERATING PROFIT</b>		<u>3,475</u>	<u>(70)</u>	<u>3,405</u>
Interest received from associates		160	-	160
<b>LOSS BEFORE TAX</b>		<u>3,635</u>	<u>(70)</u>	<u>3,565</u>
Income tax expense		(1,920)	-	(1,920)
<b>LOSS FOR THE YEAR AFTER TAX</b>		<u>1,715</u>	<u>(70)</u>	<u>1,645</u>

Notes to the reconciliation of loss for 2004:

1. Under IAS 17 "Accounting for leases" the £70 decrease in rental income from finance leases is recognised in the income statement. There were no other adjustments to the 31 December 2004 balance sheet or income statement.