

**Company Registration No: 04216794**

**RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 December 2007**

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

**WEDNESDAY**



## **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

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**RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

**C S Bates  
T V Castledine  
S B Eighteen  
N S Moy  
S T Pattinson**

**SECRETARY:**

**M Castro**

**REGISTERED OFFICE:**

**135 Bishopsgate  
London  
EC2M 3UR**

**AUDITORS:**

**Deloitte & Touche LLP  
London**

**Registered in England and Wales.**

## **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

### **DIRECTORS' REPORT**

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

#### **Activities and Business Review**

##### **Activity**

The principal activity of the Company is general business of investments

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

##### **Review of the year**

The directors are satisfied with the development of the Company's activities during the year. The Company will be guided by its ultimate parent company in seeking further opportunities for growth. A dividend of £13,000,000 was paid on 30 June 2007. No further dividends were proposed (2006 £15,000,000)

The Company's financial performance is presented in the Income Statement on Page 7. At the end of the year, the financial position showed total assets of £61,632,861 (2006 32,338,379) and equity of £9,787,412 (2006 £8,915,677)

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

### **DIRECTORS AND SECRETARY**

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

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

	<b>Appointed</b>	<b>Resigned</b>
<b>Directors</b>		
P Carpenter		15 February 2007
J G Robson		11 June 2007
C S Bates	1 April 2008	
S T Pattinson	1 April 2008	

## **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

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

#### **DIRECTORS' RESPONSIBILITIES**

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Acts 1985 and 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

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

- a) so far as he 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 aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

#### **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.

RBSG is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is 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.

## **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

### **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

A handwritten signature in black ink, appearing to read 'T. Castledine', with a stylized, cursive flourish at the end.

T V Castledine  
Director  
Date 08 July 2008

## **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

### **Independent auditors' report to the members of RBS Specialised Property Investments Limited**

We have audited the financial statements of RBS Specialised Property Investments Limited ('the company') for the year ended 31 December 2007 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement, the accounting policies and the related Notes 1 to 22. 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 directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

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 for the above year and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the directors' report.

#### **Basis of audit opinion**

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

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

## **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

### **Independent auditors' report to the members of RBS Specialised Property Investments Limited (continued)**

#### **Opinion**

In our opinion

- the financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union of the state of the company's affairs as at 31 December 2007 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

#### **Separate opinion in relation to IFRS**

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

*Deloitte + Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
London, United Kingdom  
Date *8 July 2008*



# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 £	2006 £
<b>Continuing operations</b>			
Profit on sale of investments	5	349,101	1,377,416
Administrative expenses		(117,253)	-
<b>Operating profit</b>		<u>231,848</u>	<u>1,377,416</u>
Interest receivable and similar income		95,065	23,953
Investment revenue	7	12,500,000	16,000,000
Interest payable and similar charges	8	(1,148,715)	(459,959)
(Losses) / Gains on foreign exchange		(1,897,087)	82,070
<b>Profit before tax</b>		<u>9,781,111</u>	<u>17,023,479</u>
Income tax credit / (expense)	9	<u>1,124,632</u>	<u>(292,887)</u>
<b>Profit for the year</b>	6	<u><u>10,905,743</u></u>	<u><u>16,730,592</u></u>

Notes 1 - 22 form an integral part of these financial statements

# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## BALANCE SHEET

As at 31 December 2007

	Notes	2007 £	2006 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	11	730,778	730,778
Investment in joint venture	12	-	6,582,908
Available for sale investments	13	49,193,634	20,616,146
		<u>49,924,412</u>	<u>27,929,832</u>
<b>Current assets</b>			
Current tax asset		1,027,262	-
Loan receivable	14	1,983,954	1,227,985
Trade and other receivables	15	445,115	-
Cash and cash equivalents		7,814,757	3,180,562
		<u>11,271,088</u>	<u>4,408,547</u>
<b>Total assets</b>		<u>61,195,500</u>	<u>32,338,379</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Current tax liability		-	292,867
Short term borrowings	16	722,355	-
		<u>722,355</u>	<u>292,867</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	17	1,030,981	-
Loan from parent company	18	49,969,652	23,129,835
		<u>51,000,633</u>	<u>23,129,835</u>
<b>Total liabilities</b>		<u>51,722,988</u>	<u>23,422,702</u>
<b>NET ASSETS</b>		<u>9,472,512</u>	<u>8,915,677</u>
<b>EQUITY</b>			
Share capital	19	7,199,641	7,199,641
Revaluation reserve		2,651,092	-
Retained earnings		(378,221)	1,716,036
<b>Total equity</b>		<u>9,472,512</u>	<u>8,915,677</u>

Notes 1 - 22 form an integral part of these financial statements

These financial statements were approved by the Board of Directors and authorised for issue on 08 July 2008

Signed on behalf of the Board of Directors



Director

# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share Capital £	Revaluation Reserve £	Retained Earnings £	Total £
<b>Balance at 1 January 2006</b>	7,199,641	-	(14,556)	7,185,085
Profit for the year	-	-	16,730,592	16,730,592
Dividends	-	-	(15,000,000)	(15,000,000)
<b>Balance at 1 January 2007</b>	-	-	1,730,592	1,730,592
Profit for the year	-	-	10,905,743	10,905,743
Increase in fair value of Available for sale investments	-	3,682,073	-	3,682,073
Deferred tax liability arising on revaluation of available for sale investments	-	(1,030,981)	-	(1,030,981)
Dividends (note 10)	-	-	(13,000,000)	(13,000,000)
<b>Balance at 31 December 2007</b>	-	2,651,092	(363,665)	2,287,427

# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 £	2006 £
<b>Operating activities</b>		
Operating profit from continuing operations	231,848	1,377,416
Adjustments for		
Profit on sale of investments	(349,101)	(1,377,416)
<b>Operating cash flows before movement in working capital</b>	<b>(117,253)</b>	<b>-</b>
Increase in receivables	(445,115)	-
Increase / (Decrease) in payables	722,355	(958,133)
<b>Cash generated by / (used in) operations</b>	<b>159,987</b>	<b>(958,133)</b>
Interest received	95,065	23,953
Income taxes paid	(195,497)	(747,376)
Interest paid	(1,025,308)	(459,959)
<b>Net cash used in operating activities</b>	<b>(965,753)</b>	<b>(2,141,515)</b>
<b>Investing activities</b>		
Dividends received from subsidiary	12,500,000	16,000,000
Proceeds on disposal of joint venture	5,946,945	-
Proceeds on disposal of subsidiary	-	9,977,488
Acquisition of investments	(23,458,606)	(20,616,146)
Acquisition of subsidiary	-	(1,167,641)
Acquisition of joint venture	(2,736,755)	(6,582,908)
Loan receivable advanced	(755,969)	(1,227,985)
<b>Cash flows used in investing activities</b>	<b>(8,504,385)</b>	<b>(3,617,192)</b>
<b>Financing activities</b>		
Dividends paid	(13,000,000)	(15,000,000)
Increase in borrowings	26,716,410	23,061,046
<b>Net cash from financing activities</b>	<b>13,716,410</b>	<b>8,061,046</b>
Net increase in cash and cash equivalents	4,246,272	2,302,339
Cash and cash equivalents at the beginning of the year	3,180,562	796,154
Effect of foreign exchange rate changes	387,923	82,070
<b>Cash and cash equivalents at the end of the year</b>	<b>7,814,757</b>	<b>3,180,562</b>

# **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

## **NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2007**

### **1. GENERAL**

RBS Specialised Property Investments Limited is a company incorporated in United Kingdom under the Companies Act 1985. The address of the registered office is on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report.

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

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

#### **Accounting estimates and uncertainties to be included in accounting policies**

In the application of the accounting policies which are described in note 2 to these financial statements, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision or future periods if the revision affects both current and future periods.

Significant estimates and assumptions are made in respect of

- 1) Valuation of Available for sale investments (note 2 and 11)
- 2) Current and deferred tax (note 2 and 17)

#### **Adoption of new accounting standards not yet effective**

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

Amendments to IAS 23 (revised) Borrowing Costs

IFRS 8 Operating Segments

IFRIC11 IFRS 2 - Group and Treasury Share transactions

IFRIC 12 Service concessions arrangements

IFRIC 13 Customer Loyalty Programmes

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

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

## **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

### **NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2007**

#### **2. ACCOUNTING POLICIES**

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies adopted, applied consistently from prior years, are set out below.

##### **Consolidated accounts**

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

##### **Investments in Joint Ventures**

The company's interests in joint venture undertakings are stated at cost less provision for any impairment.

##### **Available for sale investment securities**

Financial assets that are not classified as held-to-maturity, held-for-trading, designated as at fair value through profit or loss, or loans and receivables are classified as available-for-sale. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as available-for-sale financial assets. Impairment losses are recognised in profit or loss. Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in profit or loss.

Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

##### **Subsidiary undertakings**

The company's interests in subsidiary undertakings are stated at cost less provision for impairment, if any.

##### **Foreign currencies**

The financial statements are presented in sterling which is the functional currency of the company.

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into sterling at foreign exchange rates ruling at the dates the values were determined and exchange differences on such items are recognised in equity.

##### **Investment Revenue**

Dividend income from investments are recognised when the shareholders' right to receive payment has been established.

##### **Interest receivable and interest payable**

Interest income on financial assets and interest expense on financial liabilities are recognised using the effective interest rate method.

## **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

### **NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2007**

#### **2. ACCOUNTING POLICIES (continued)**

##### **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.

##### **Trade and other receivables**

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

##### **Trade and other payables**

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

##### **Taxation**

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

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

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

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

#### **3. CAPITAL MANAGEMENT**

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

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and
- to provide adequate return to shareholders by monitoring the risk level of its activities,

## RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

### NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

#### 3 CAPITAL MANAGEMENT (Continued)

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

	2007	2006
	£	£
Total Assets	61,195,500	32,338,379
Less Total Liabilities	(51,722,988)	(23,422,702)
Less Fair value adjustments from which distributions are not permitted	(2,651,092)	-
Adjusted Net Equity	<u>6,821,420</u>	<u>8,915,677</u>

During the year the Company declared dividends of £13,000,000 (2006 £15,000,000). The movement in the Adjusted Net Equity is as a result of the declared dividend and the profit made on investing activities.

#### 4 FINANCIAL INSTRUMENTS AND PRINCIPAL RISKS AND UNCERTAINTIES

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

##### 4.1 Financial Risk

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

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

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



# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

### 4 FINANCIAL INSTRUMENTS AND PRINCIPAL RISKS AND UNCERTAINTIES (continued)

#### Market risk

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

#### Interest Rate Risk

The Company is exposed to interest rate risk as a result of the assets and liabilities contained within the Company's balance sheet. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures this risk.

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

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

#### At 31 December

<u>Maturity date or contractual repricing date</u>	Total - all within one year <b>2007</b> £	Total - all within one year <b>2006</b> £
<b>Exposed to cash flow interest rate risk</b>		
Loans from parent company (note 18)	49,969,652	23,129,835
Loan receivable (note 14)	(1,983,954)	(1,227,985)
Net interest bearing liabilities	<u>47,985,698</u>	<u>21,901,850</u>
<u>Interest rate</u>	Within one year % Interest rate range	Within one year % Interest rate range
Loans from parent company	4.77% - 4.91%	3.55% - 5.23%
Loan receivable	5%	5%

#### Currency risk

The Company's policy is normally to match foreign currency receivables with borrowings in the same currency. Any open position would be as a result of fair value adjustments to the financial assets. This exposure would not be hedged as it is not structural in nature.

#### Market Risk - Sensitivity analysis

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

# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

### 4 FINANCIAL INSTRUMENTS AND PRINCIPAL RISKS AND UNCERTAINTIES (continued)

#### *Interest rate risk - Sensitivity analysis*

If interest rates for the current year had been 50 basis points lower and this movement applied to the assets and liabilities as at the balance sheet date, the pre-tax profit for the year ended 31 December 2007 would have been £239,929 higher (2006 £109,509 higher) This would have mainly resulted from lower interest income on variable rate assets and lower financing costs in respect of its Loans

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

#### *Currency risk - Sensitivity analysis*

If the Pound Sterling had been 5% weaker against its currency positions at balance sheet date, the pre-tax profit for the year ended 31 December 2007 would have been £2,534,601 lower (2006 £1,095,428) This would have resulted in higher foreign exchange loss on loans The fair value reserve account, pre deferred tax would have higher by £1,802,355 (2006 £742,181) This would have resulted in higher fair value gain due to foreign exchange movement on available for sale equity investments

The inverse is equally true for the current year if the Pound Sterling had been 5% stronger against its currency positions

#### *Price risk - Sensitivity analysis*

The Company has a quoted security A 5% decrease in the year end quoted price would decrease the fair value reserve by £37,887 and the investment value by £52,621

The inverse is equally true for the current year if the quoted security traded 5% stronger

#### **Credit Risk**

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

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

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

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

At 31 December	Not rated 2007 £	Not rated 2006 £
Cash at bank and in hand	7,814,757	3,180,562
Loan receivable (note 14)	1,983,954	1,227,985
Trade and other receivables (note 15)	445,115	-
<b>Total assets bearing credit risk</b>	<b>10,243,826</b>	<b>4,408,547</b>

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

# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

### 4 FINANCIAL INSTRUMENTS AND PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company does not hold collateral over these balances.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The credit risk on group undertakings is limited because the undertakings are solvent, under common control and the directors are confident of them continuing as going concerns. The credit on group undertakings is not past due.

The Company has a concentration of credit risk, with exposure to one counterparty in its Loan receivable. The investment forms part of a greater investment by the Company's parent and the counterparty has been assessed for its credit worthiness.

#### Liquidity Risk

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

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

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

	2007			
	Less than 3 months	3 months - 1 year	1 - 5 years	Over 5 years
Trade and other payables	722,355	-	-	-
Loan from parent company	49,969,652	-	-	-
	<u>50,692,007</u>	<u>-</u>	<u>-</u>	<u>-</u>

	2006			
	Less than 3 months	3 months - 1 year	1 - 5 years	Over 5 years
Loan from parent company	<u>23,129,835</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 5. PROFIT ON SALE OF INVESTMENTS

	2007 £	2006 £
Profit on sale of investments	<u>349,101</u>	<u>1,377,416</u>

Profit on sale of investments is the net amount of the proceeds from the sale less the fair value of the investment.

### 6. PROFIT FOR THE YEAR

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

The directors received no emoluments from the company during the current year (2006: £nil).

The company has no employees (2006: none).

# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

### 7 INVESTMENT REVENUE

	2007 £	2006 £
Dividend from subsidiary	<u>12,500,000</u>	<u>16,000,000</u>

During the year ended 31 December 2007 a total dividend of £12,500,000 (2006 £16,000,000) was received from Primemodern Limited, a 100% owned subsidiary of the Company

### 8 INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £	2006 £
Interest on Loan from Parent Company	1,148,715	444,781
Unwinding of discount on deferred consideration	-	15,178
	<u>1,148,715</u>	<u>459,959</u>

### 9 INCOME TAX (CREDIT) / EXPENSE

	2007 £	2006 £
<b>Current taxation</b>		
Income tax (credit) / expense for the year	(1,124,632)	292,887
Income tax (credit) / expense	<u>(1,124,632)</u>	<u>292,887</u>

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

	2007 £	2006 £
UK Corporation tax rate at 30%	2,934,333	5,107,044
Non-deductible items	1,563	4,553
Non-taxable items	(3,750,000)	(5,213,225)
(Non) / Chargeable gains	(104,730)	394,515
Adjustments in respect of prior periods	(205,798)	-
Actual tax (credit) / charge	<u>(1,124,632)</u>	<u>292,887</u>

### 10 DIVIDENDS PAID

On 30 June 2007, an interim dividend of 428 pence (rounded) per share totalling £13,000,000 (2006 495 pence (rounded) per share totalling £15,000,000) was paid to shareholders. No final dividend was declared or paid.

The interim dividend was paid when the Company had sufficient retained earnings and liquidity to meet its payment demands in terms of the Companies Act of 1985. Profit predictions at the time of the dividend payment did not indicate a future retained loss carried forward position.

# **RBS SPECIALISED PROPERTY INVESTMENTS LIMITED**

## **NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2007**

### **11. INVESTMENT IN SUBSIDIARIES**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
At 1 January	730,778	8,163,210
Additions during financial year	-	1,167,641
Disposals during financial year	-	(8,600,073)
At 31 December	<u>730,778</u>	<u>730,778</u>

Details of the company's subsidiaries at 31 December 2007 are as follows

<b>Name of subsidiary</b>	<b>Country of incorporation</b>	<b>Percentage shareholding</b>	<b>Principal activity</b>
Primemodern Limited	Great Britain	100%	Investment holding company
Immobiliere Merlin Transactions SAS	France	90%	Property Investment company

### **12 INVESTMENT IN JOINT VENTURE**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
At 1 January	6,582,908	-
Additions	2,736,755	6,582,908
Disposals	(9,319,663)	-
At 31 December	<u>-</u>	<u>6,582,908</u>

During the year the Company sold its 43 17% stake in Drago Real Estate Partners Limited down to 17 24% and relinquished its joint control. At 31 December 2007 the investment in Drago Real Estate Partners Limited was classified as Available for sale investment.

### **13 AVAILABLE FOR SALE INVESTMENTS**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
<b>Available for sale equity investments</b>		
At 1 January	20,616,146	-
Additions	25,329,840	20,616,146
Disposals	(434,425)	-
Fair value adjustments	1,397,063	-
Foreign exchange adjustments	2,285,010	-
At 31 December	<u>49,924,412</u>	<u>20,616,146</u>

The investments above at 31 December 2007 are all denominated in Euro's and have been translated at the ruling spot rate at year end. £48,871,997 is the fair value of the unlisted equity securities, based on the performance and financial position of the entities in which the equities are held. £1,052,415 is the fair value of the listed equity security traded on the Euronext, based on the quoted market value.

# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

### 14. LOAN RECEIVABLE

	2007 £	2006 £
At 1 January	1,227,985	-
Additions	608,560	1,227,985
Foreign exchange translation	147,409	-
At 31 December	<u>1,983,954</u>	<u>1,227,985</u>

The loan is denominated in Euro's and earns interest at 5% p a The interest is received quarterly It is anticipated that the loan will be repaid within the 2008 financial year

The fair value of the loan receivable approximate to its carrying amount in the balance sheet

### 15. TRADE AND OTHER RECEIVABLES

	2007 £	2006 £
Trade receivable	434,425	-
Interest receivable	10,690	-
	<u>445,115</u>	<u>-</u>

The trade receivable is denominated in Euros £434,425 (2006 £nil) is the year end translated value The Euro denominated receivable is to be settled within 12 months

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

### 16. SHORT TERM BORROWINGS

	2007 £	2006 £
Loan from subsidiary	<u>722,355</u>	<u>-</u>

The loan from the subsidiary is denominated in Euros £722,355 (2006 £nil) is the year end translated value The Euro denominated loan is interest free and is to be settled within 12 months The fair value of all payables approximate to their carrying amount in the balance sheet

### 17. DEFERRED TAX

The following are the deferred tax liabilities recognised by the Company, and the movements thereon during the current reporting period

	Available for sale investment £	Total £
At 1 January 2007	-	-
Fair value uplift of Available for sale investment taken to reserves	1,030,981	1,030,981
As at 31 December 2007	<u>1,030,981</u>	<u>1,030,981</u>

# RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

### 18 LOAN FROM PARENT COMPANY

2007  
£

2006  
£

Loan from parent entity	49,969,652	23,129,835
-------------------------	------------	------------

At 31 December 2007 the loans from the Company's parent have been issued in Euros (2006 Euros and Pound Sterling) £49,969,652 (2006 £21,908,555) is the year end translated value of the Euro loan and £nil (2006 £1,221,280) is the Pound Sterling loan. The Euro denominated loans are 3 month rolling loans and the interest rate is fixed on the BBA Euribor at the date issued or rolled over. The effective interest rate of the Euro loans at 31 December 2007 varied between 4.77% to 4.91%. The fair value of the loans from parent entity approximates it's carrying amount in the balance sheet.

### 19 SHARE CAPITAL

2007  
£

2006  
£

#### Authorised

5,000,000 preference shares of €1 each	3,530,024	3,530,024
4,000,000 ordinary shares of £1 each	4,000,000	4,000,000
	<u>7,530,024</u>	<u>7,530,024</u>

#### Issued and fully paid

1,035,000 preference shares of €1 each	730,777	730,777
2,000,000 preference shares of €4.8814	6,468,863	6,468,863
1 ordinary share of £1	1	1
At the end of the year	<u>7,199,641</u>	<u>7,199,641</u>

On 15 May 2002 the company issued 1 ordinary share of £1 at par. Nature of the consideration was cash.

On 12 November 2003 the company issued 1,035,000 zero-coupon redeemable preference shares of €1. These have been translated at the 31st December 2003 year end foreign exchange rate of €1.4163/£1. Nature of the consideration was cash.

On 30 July 2004 the company issued 2,000,000 zero coupon redeemable preference shares with a nominal value of €1 at a premium value of €4.8814. These have been translated at the 31st July 2004 foreign exchange rate of €1.5092/£1. Nature of the consideration was cash.

The 5,000,000 preference shares of €1 each entitle the holder to receive distributions on a pro rata basis in respect of their shareholding percentage. There is no set redemption date on these preference shares. The preference shares also entitle the holder to one vote per share.

## RBS SPECIALISED PROPERTY INVESTMENTS LIMITED

### NOTES TO THE ACCOUNTS

For the year ended 31 December 2007

#### 20 RELATED PARTY TRANSACTIONS

Related parties comprise group companies, companies with common directorships and directors of the company. All related party transactions were inter-company transactions with other Company's within The Royal Bank of Scotland Group plc. Details of transactions with related parties during the year are as follows:

	Opening Balance	(Receipts)/ Payments	(Income)/ Expenses	Closing Balance
	£	£	£	£
<b>2007</b>				
<b>Accounts with</b>				
Banking members of the group	3,180,562	4,634,195	-	7,814,757
Loan from parent	(23,129,835)	(26,839,817)	-	(49,969,652)
	<u>(19,949,273)</u>	<u>(22,205,622)</u>	<u>-</u>	<u>(42,154,895)</u>
Income statement transactions during the year				
Interest on loan from parent			<u>1,148,715</u>	
<b>2006</b>				
<b>Accounts with</b>				
Banking members of the group	796,153	2,384,409	-	3,180,562
Loan from parent	(68,789)	(23,061,046)	-	(23,129,835)
	<u>727,364</u>	<u>(20,676,637)</u>	<u>-</u>	<u>(19,949,273)</u>
Income statement transactions during the year				
Interest on loan from parent			<u>444,781</u>	

#### 21. PARENT COMPANIES

The Company's immediate parent company is The Royal Bank of Scotland plc.

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

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

#### 22. 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.