

**Company Registration No: 04422287**

**PRIMEMODERN LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 December 2006**



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

# **PRIMEMODERN LIMITED**

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**PRIMEMODERN LIMITED**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**

**T V Castledine  
S B Eighteen  
N S Moy  
S J Hersom**

**SECRETARY:**

**M Castro**

**REGISTERED OFFICE:**

**135 Bishopsgate  
London  
EC2M 3UR**

**AUDITORS:**

**Deloitte & Touche LLP  
London**

**Registered in England and Wales.**

## **PRIMEMODERN LIMITED**

### **DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2006

### **ACTIVITIES AND BUSINESS REVIEW**

#### **Activity**

The principal activity of the Company is investment in property owning companies

The Company is a member 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 website 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 £16,000,000 was paid on 30 June 2006. No further dividends were proposed (2005 £13,500,000)

The Company's financial performance is presented in the Income Statement on Page 8. At the end of the year, the financial position showed total assets of £59,071,731 (2005 £13,026,668) and equity of £10,964,650 (2005 £6,724,981)

### **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 2006 to date the following changes have taken place

|                  | <b>Appointed</b> | <b>Resigned</b>  |
|------------------|------------------|------------------|
| <b>Directors</b> |                  |                  |
| T J D Boag       |                  | 30 November 2006 |
| J G Robson       |                  | 11 June 2007     |
| S J Hersom       | 20 June 2007     |                  |
| <b>Secretary</b> |                  |                  |
| A S Graham       |                  | 1 September 2006 |
| M Castro         | 1 September 2006 |                  |

## **PRIMEMODERN LIMITED**

### **DIRECTORS' RESPONSIBILITIES**

The directors are required by the Companies Act 1985 to prepare directors report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards. 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, 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 statement complies with the requirements of 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.

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

Each of the directors of the Company holding office at the date of approval of this report confirm that

- (1) so far as each of the directors are aware, there is no relevant audit information of which the Company's Auditors are unaware, and
- (2) so far as each of the directors are aware they have taken all the steps that they ought to have taken to make themselves 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 S 234ZA of the Companies Act 1985

### **ELECTIVE RESOLUTIONS**

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

**PRIMEMODERN 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. Gosted'.

Director

Date 25/06/07

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRIMEMODERN LIMITED**

We have audited the financial statements of Primemodern Limited for the year ended 31 December 2006 which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in equity, 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 (IFRSs) 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 other information contained in the director's 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## PRIMEMODERN LIMITED

### 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 2006 and its profit for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union,
- 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's

As explained in Note 2, 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 the IFRSs, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended

*Deloitte + Touche LLP*

**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
London, United Kingdom

Date *29 June 2007*



**PRIMEMODERN LIMITED**

**INCOME STATEMENT**

**For the year ended 31 December 2006**

|   | Notes | 2006<br>£         | 2005<br>£         |
|---|-------|-------------------|-------------------|
| <b>Continuing operations</b>                |       |                   |                   |
| Property rental income                      | 3     | 233,000           | 152,248           |
| Gain from sale of investments               |       | 31,764,064        | 14,090,142        |
| Fees and commissions receivable             |       | -                 | 1,082,477         |
| Investment revenue                          | 6     | 466,705           | 5,456,559         |
| <b>Operating profit</b>                     |       | <u>32,463,769</u> | <u>20,781,426</u> |
| Other gains and losses                      | 7     | 150,000           | 12,500            |
| Interest receivable and similar income      |       | 382,964           | -                 |
| Interest payable and similar charges        | 8     | (3,745,869)       | (2,101,275)       |
| Administrative expenses                     | 4     | (131,451)         | (32,454)          |
| <b>Profit before tax</b>                    |       | <u>29,119,413</u> | <u>18,660,197</u> |
| Income tax expense                          | 9     | (8,879,744)       | (5,828,617)       |
| <b>Profit for the year</b>                  |       | <u>20,239,669</u> | <u>12,831,580</u> |
| Profit attributable to ordinary shareholder |       | <u>20,239,669</u> | <u>12,831,580</u> |

Notes on pages 12 - 19 are an integral part of these financial statements

**PRIMEMODERN LIMITED**

**BALANCE SHEET**

As at 31 December 2006

|                                      | Notes | 2006<br>£         | 2005<br>£         |
|--------------------------------------|-------|-------------------|-------------------|
| <b>ASSETS</b>                        |       |                   |                   |
| <b>Non-current assets</b>            |       |                   |                   |
| Investment property                  | 11    | -                 | 4,690,000         |
| Investment in subsidiaries           | 12    | 398,986           | 120,440           |
| Investment in joint venture          | 13    | 12,111,794        | 4,032,054         |
| Other investments                    | 14    | 500,403           | 500,000           |
| Deferred tax asset                   | 15    | -                 | 145,304           |
| Derivative financial instruments     | 16    | 162,500           | 12,500            |
|                                      |       | <u>13,173,683</u> | <u>9,500,298</u>  |
| <b>Current assets</b>                |       |                   |                   |
| Cash and cash equivalents            |       | 45,898,048        | 3,526,370         |
|                                      |       | <u>45,898,048</u> | <u>3,526,370</u>  |
| <b>Total assets</b>                  |       | <u>59,071,731</u> | <u>13,026,668</u> |
| <b>LIABILITIES</b>                   |       |                   |                   |
| <b>Current liabilities</b>           |       |                   |                   |
| Trade and other payables             | 17    | 31,358,829        | 327,766           |
| Loan from intermediate parent entity | 18    | 8,013,832         | -                 |
| Current tax liabilities              |       | 8,734,420         | 5,973,921         |
| <b>Total liabilities</b>             |       | <u>48,107,081</u> | <u>6,301,687</u>  |
| <b>NET ASSETS</b>                    |       | <u>10,964,650</u> | <u>6,724,981</u>  |
| <b>EQUITY</b>                        |       |                   |                   |
| Share capital                        | 19    | 1                 | 1                 |
| Retained earnings                    |       | 10,964,649        | 6,724,980         |
| <b>Total equity</b>                  |       | <u>10,964,650</u> | <u>6,724,981</u>  |

Notes on pages 12 - 19 are an integral part of these financial statements

These financial statements were approved by the Board of Directors and authorised for issue on 25 June 2007

Signed on behalf of the Board of Directors



Director

**PRIMEMODERN LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**For the year ended 31 December 2006**

|   | <b>Share Capital</b> | <b>Retained Earnings</b> | <b>Total</b> |
|---|----------------------|--------------------------|--------------|
|   | <b>£</b>             | <b>£</b>                 | <b>£</b>     |
| <b>Balance at 1 January 2005</b>                        | 1                    | 7,393,400                | 7,393,401    |
| Profit for the year                                     | -                    | 12,831,580               | 12,831,580   |
| <b>Total recognised income and expense for the year</b> | 1                    | 20,224,980               | 20,224,981   |
| Dividends   | -                    | (13,500,000)             | (13,500,000) |
| <b>Balance at 1 January 2006</b>                        | 1                    | 6,724,980                | 6,724,981    |
| Profit for the year                                     | -                    | 20,239,669               | 20,239,669   |
| <b>Total recognised income and expense for the year</b> | -                    | 20,239,669               | 20,239,669   |
| Dividends   | -                    | (16,000,000)             | (16,000,000) |
| <b>Balance at 31 December 2006</b>                      | 1                    | 10,964,649               | 10,964,650   |

**CASH FLOW STATEMENT**

For the year ended 31 December 2006

|  | 2006<br>£          | 2005<br>£           |
|--|--------------------|---------------------|
| <b>Operating activities</b>                                    |                    |                     |
| Operating profit from continuing operations                    | 32,463,769         | 20,781,426          |
| Adjustments for  |                    |                     |
| Investment revenue   | (466,705)          | (5,456,559)         |
| Gain from sale of investments                                  | (31,764,064)       | (14,090,142)        |
| <b>Operating cash flows before movement in working capital</b> | <u>233,000</u>     | <u>1,234,725</u>    |
| Decrease in receivables  | -                  | 1,902               |
| Increase/(decrease) in payables                                | 31,031,063         | (1,955,110)         |
| <b>Cash generated by/(used in) operations</b>                  | <u>31,264,063</u>  | <u>(718,483)</u>    |
| Income taxes paid  | (5,973,941)        | (1,293,568)         |
| Interest paid  | (3,745,869)        | (2,513,773)         |
| Administrative expenses  | (131,451)          | (32,454)            |
| <b>Net cash from/(used in) operating activities</b>            | <u>21,412,802</u>  | <u>(4,558,278)</u>  |
| <b>Investing activities</b>                                    |                    |                     |
| Dividends received from investments                            | 466,705            | 5,456,559           |
| Proceeds from disposal / (acquisition) of investment property  | 6,930,631          | (4,690,000)         |
| Proceeds from disposal of investments                          | 208,184,186        | 61,855,585          |
| Acquisition of available for sale investment                   | (403)              | (500,000)           |
| Acquisition of subsidiary                                      | (178,939,299)      | (120,440)           |
| Acquisition of joint venture                                   | (8,079,740)        | (4,032,054)         |
| Interest receivable  | 382,964            | -                   |
| <b>Net cash from/(used in) investing activities</b>            | <u>28,945,044</u>  | <u>57,969,650</u>   |
| <b>Financing activities</b>                                    |                    |                     |
| Repayments of borrowings                                       | -                  | (78,537,638)        |
| Loan from intermediate parent entity                           | 8,013,832          | -                   |
| Dividends paid   | (16,000,000)       | (13,500,000)        |
| <b>Net cash used in financing activities</b>                   | <u>(7,986,168)</u> | <u>(92,037,638)</u> |
| <b>Net increase/(decrease) in cash and cash equivalents</b>    | <u>42,371,678</u>  | <u>(38,626,266)</u> |
| Cash and cash equivalents at the beginning of the year         | 3,526,370          | 42,152,636          |
| <b>Cash and cash equivalents at the end of the year</b>        | <u>45,898,048</u>  | <u>3,526,370</u>    |

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

### 1 GENERAL

Primemodern 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.

At the date of authorisation of these financial statements, the following Standard and Interpretation which has 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 this Standard and Interpretation in future periods will have no material impact on the financial statements of the Company except for additional disclosures on capital and financial instruments when the relevant standard comes into effect for periods commencing on or after 1 January 2007.

### 2 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Company's financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

#### Investment property

Investment Property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

#### Investment in subsidiaries

The Company's interests in subsidiary undertakings are stated at cost less provision for any impairment in accordance with IAS 36.

#### Consolidated accounts

The financial statements contain information about Primemodern 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.

#### Investment in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The financial statements contain information about Primemodern 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 jointly controlled undertaking 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.

The Company reports its interests in jointly controlled entities at cost less any impairment loss recognised to reflect irrecoverable amounts.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

**2 ACCOUNTING POLICIES (continued)**

**Other investments**

Other investments represent investment in unit trust and are measured at fair value at reporting date. Any gains and losses arising from changes in fair value are included in income statement as they arise.

Fair values for financial assets not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial assets.

**Derivative financial instruments**

Derivative financial instruments are recognised initially, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivatives components using appropriate pricing or valuation models.

The derivative instrument represents a put option exercisable after 12 months at an agreed price. As there is no external observable market from which to fair value the option, the value of the option has been determined by apportioning the agreed price over the maximum life of the option.

**Cash and cash equivalents**

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

**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.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Rental income, excluding charges for services such as insurance and maintenance, is recognised on a straight-line basis over the lease term even if the payments are not made on that basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Investment revenue is credited to the income statement when it is paid.

**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.

**PRIMEMODERN LIMITED**

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2006**

| <b>3 REVENUE</b> | <b>2006</b>    | <b>2005</b>    |
|------------------|----------------|----------------|
|                  | <b>£</b>       | <b>£</b>       |
| Rental income    | 233,000        | 152,248        |
|                  | <u>233,000</u> | <u>152,248</u> |

| <b>4 ADMINISTRATIVE EXPENSES</b> | <b>2006</b>    | <b>2005</b>   |
|----------------------------------|----------------|---------------|
|                                  | <b>£</b>       | <b>£</b>      |
| Legal and professional fees      | 131,451        | 20,389        |
| Management fees                  | -              | 12,000        |
| Others operating expenses        | -              | 65            |
|                                  | <u>131,451</u> | <u>32,454</u> |

**5 OPERATING PROFIT**

The auditors' remuneration of £5,000 is borne by the intermediate parent company, The Royal Bank of Scotland plc for both current and prior years

The directors received no emoluments from the Company during the current year (2005 £nil)

The Company has no employees (2005 none)

| <b>6 INVESTMENT REVENUE</b>       | <b>2006</b>    | <b>2005</b>      |
|-----------------------------------|----------------|------------------|
|                                   | <b>£</b>       | <b>£</b>         |
| Dividends from equity investments | 466,705        | 5,456,559        |
|                                   | <u>466,705</u> | <u>5,456,559</u> |

| <b>7 OTHER GAINS AND LOSSES</b>                        | <b>2006</b>    | <b>2005</b>   |
|--|----------------|---------------|
|  | <b>£</b>       | <b>£</b>      |
| Fair value increase of derivative financial instrument | 150,000        | 12,500        |
|  | <u>150,000</u> | <u>12,500</u> |

| <b>8 INTEREST PAYABLE AND SIMILAR CHARGES</b>                                | <b>2006</b>      | <b>2005</b>      |
|--|------------------|------------------|
|  | <b>£</b>         | <b>£</b>         |
| Interest payable relates to transactions with the intermediate parent entity | <u>3,745,869</u> | <u>2,101,275</u> |

**PRIMEMODERN LIMITED**

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2006**

**9. INCOME TAX EXPENSE**

|   | 2006<br>£               | 2005<br>£               |
|---|-------------------------|-------------------------|
| <b>Current taxation</b>                     |                         |                         |
| Income tax charge for the year              | 8,742,466               | 5,739,612               |
| Adjustments in respect of prior periods     | (8,026)                 | 234,309                 |
| Current tax charge for the year             | <u>8,734,440</u>        | <u>5,973,921</u>        |
| <b>Deferred taxation</b>                    |                         |                         |
| Credit for the year                         | (6,642)                 | (145,304)               |
| Under provision in respect of prior periods | 151,946                 | -                       |
|   | <u>145,304</u>          | <u>(145,304)</u>        |
| Income tax expense                          | <u><u>8,879,744</u></u> | <u><u>5,828,617</u></u> |

The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 30% (2005 30%) as follows

|   | 2006<br>£               | 2005<br>£               |
|---|-------------------------|-------------------------|
| Expected tax charges                    | 8,735,824               | 5,598,059               |
| Non-deductible items                    | -                       | -                       |
| Non-taxable items                       | -                       | (3,751)                 |
| Adjustments in respect of prior periods | 143,920                 | 234,309                 |
| Actual tax expense/(credit)             | <u><u>8,879,744</u></u> | <u><u>5,828,617</u></u> |

**10 DIVIDEND PAID**

On 30 June 2006, an interim dividend of £16,000,000 per share (total of £16,000,000) was paid to the sole shareholder (2005 £13,500,000)

**11 INVESTMENT PROPERTY**

|                            | 2006<br>£       | 2005<br>£               |
|----------------------------|-----------------|-------------------------|
| <b>Freehold properties</b> |                 |                         |
| At 1 January               | 4,690,000       | -                       |
| Additions                  | -               | 4,690,000               |
| Disposals                  | (4,690,000)     | -                       |
| At 31 December             | <u><u>-</u></u> | <u><u>4,690,000</u></u> |



**PRIMEMODERN LIMITED**

**NOTES TO THE ACCOUNTS**

For the year ended 31 December 2006

**12 INVESTMENT IN SUBSIDIARIES**

|                | 2006<br>£      | 2005<br>£      |
|----------------|----------------|----------------|
| At 1 January   | 120,440        | -              |
| Additions      | 178,939,299    | 120,440        |
| Disposals      | (178,660,753)  |                |
| At 31 December | <u>398,986</u> | <u>120,440</u> |

Details of the investment in which the Company holds more than 20% equity and controls the entity are as follows

| Name of company                | Nature of business  | Country of incorporation | Total equity 2006 | Total equity 2005 |
|--------------------------------|---------------------|--------------------------|-------------------|-------------------|
| Eagle Wandle Limited           | Property investment | Great Britain            | 100%              | 100%              |
| Eagle Croydon Centre A Limited | Property investment | Great Britain            | 100%              | 100%              |
| Eagle Croydon Centre W Limited | Property investment | Great Britain            | 100%              | 100%              |
| Rose Barn Securities SAS       | Property investment | France                   | 100%              | 0%                |

The Company is the sole guarantor for £1, of Libra No 1 Limited, a company limited by guarantee

During the year the Company purchased and sold a 65% holding in SUN Midco Limited. The purchase cost was £178,660,753

**13 INVESTMENT IN JOINT VENTURE**

|                | 2006<br>£         | 2005<br>£        |
|----------------|-------------------|------------------|
| At 1 January   | 4,032,054         | -                |
| Additions      | 8,079,740         | 4,032,054        |
| At 31 December | <u>12,111,794</u> | <u>4,032,054</u> |

Details of the investment in which the Company holds more than 20% equity and shares control of the entity are as follows

| Name of company            | Nature of business  | Country of incorporation | Total equity 2006 | Total equity 2005 |
|----------------------------|---------------------|--------------------------|-------------------|-------------------|
| Protego Industrial Limited | Property investment | Great Britain            | 83%               | 83%               |

Protego Industrial Limited is classified as a Joint Venture as the Company has joint control of the entity

**14 OTHER INVESTMENTS**

|                               | 2006<br>£      | 2005<br>£      |
|-------------------------------|----------------|----------------|
| Available for sale investment | 500,403        | 500,000        |
|                               | <u>500,403</u> | <u>500,000</u> |

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

## 15 DEFERRED TAX

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

|                        | Industrial<br>Building<br>£ | Unit Trust<br>Income<br>£ | Total<br>£ |
|------------------------|-----------------------------|---------------------------|------------|
| At 1 January 2005      | -                           | -                         | -          |
| Charge to income       | (6,642)                     | 151,946                   | 145,304    |
| At 1 January 2006      | (6,642)                     | 151,946                   | 145,304    |
| Charge to income       | 6,642                       | (151,946)                 | (145,304)  |
| Disposal of asset      | -                           | -                         | -          |
| As at 31 December 2006 | -                           | -                         | -          |

The following is the analysis of the deferred tax balances for financial reporting purposes

|                          | 2006<br>£ | 2005<br>£ |
|--------------------------|-----------|-----------|
| Deferred tax liabilities | -         | (6,642)   |
| Deferred tax assets      | -         | 151,946   |
| Net deferred tax assets  | -         | 145,304   |

**PRIMEMODERN LIMITED**

**NOTES TO THE ACCOUNTS**

For the year ended 31 December 2006

| <b>16 DERIVATIVE FINANCIAL INSTRUMENTS</b> | <b>2006</b>    | <b>2005</b>   |
|--|----------------|---------------|
|  | <b>£</b>       | <b>£</b>      |
| Embedded derivative asset                  | 162,500        | 12,500        |
|  | <u>162,500</u> | <u>12,500</u> |

The directors consider that the carrying amount of the embedded derivative approximates its fair value

On December 2005, the Company acquired an embedded derivative which was attached to an equity investment in Allied London Jersey Property Unit Trust (ALJPUT). The embedded derivative is an unconditional put back of the units to ALJPUT with an exercisable period of 12 to 24 months. It is an instrument used to exit the equity investment with an exit price of £700,000.

Changes in the fair value of the embedded derivative amounting to £150,000 have been charged to income for the year (2005: £12,500).

| <b>17 TRADE AND OTHER PAYABLES</b> | <b>2006</b>       | <b>2005</b>    |
|------------------------------------|-------------------|----------------|
|                                    | <b>£</b>          | <b>£</b>       |
| VAT                                | (21,605)          | 17,151         |
| Accruals and deferred income       | 1,380,434         | 310,615        |
| Other payables                     | 30,000,000        | -              |
|                                    | <u>31,358,829</u> | <u>327,766</u> |

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

| <b>18 LOAN FROM INTERMEDIATE PARENT ENTITY</b> | <b>2006</b>      | <b>2005</b> |
|--|------------------|-------------|
|  | <b>£</b>         | <b>£</b>    |
| Loan from intermediate parent entity           | <u>8,013,832</u> | <u>-</u>    |

The loan from the Company's intermediate parent is a floating rate loan which amounted to £8,013,832 on 31 December 2006 (2005: £nil). The effective interest rate on the floating rate loan at 31 December 2006 is 5.261%. This floating rate fluctuates with LIBOR. The fair value of the loan from parent entity approximates its carrying amount in the balance sheet.

| <b>19 SHARE CAPITAL</b>               | <b>2006</b>  | <b>2005</b>  |
|---------------------------------------|--------------|--------------|
|                                       | <b>£</b>     | <b>£</b>     |
| <b>Authorised</b>                     |              |              |
| 1000 ordinary shares of £1 each       | 1,000        | 1,000        |
|                                       | <u>1,000</u> | <u>1,000</u> |
| <b>Called up, allotted and unpaid</b> |              |              |
| 1 ordinary share of £1                |              |              |
| At the beginning of the year          | 1            | 1            |
| Issued in the year                    | -            | -            |
| At the end of the year                | <u>1</u>     | <u>1</u>     |

# PRIMEMODERN LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

### 20 RELATED PARTY TRANSACTIONS

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

|  | Opening<br>Balance  | Receipts/<br>(Payments) | Income/<br>(Expenses) | Closing<br>Balance |
|--|---------------------|-------------------------|-----------------------|--------------------|
|  | £                   | £                       | £                     | £                  |
| <b>2006</b>  |                     |                         |                       |                    |
| <b>Accounts with</b>                                 |                     |                         |                       |                    |
| Banking members of the group                         | 3,526,370           | 42,371,678              | -                     | 45,898,048         |
| Loan from intermediate parent                        | -                   | (8,013,832)             | -                     | (8,013,832)        |
| <b>Income statement transactions during the year</b> |                     |                         |                       |                    |
| Interest paid on loan                                | -                   | (3,745,869)             | (3,745,869)           | -                  |
| <b>Total</b>   | <b>3,526,370</b>    | <b>30,611,977</b>       | <b>(3,745,869)</b>    | <b>37,884,216</b>  |
| <b>2005</b>  |                     |                         |                       |                    |
| <b>Accounts with</b>                                 |                     |                         |                       |                    |
| Banking members of the group                         | 42,152,635          | (38,626,265)            | -                     | 3,526,370          |
| Loan from intermediate parent                        | (78,950,137)        | 78,950,137              | -                     | -                  |
| <b>Income statement transactions during the year</b> |                     |                         |                       |                    |
| Interest paid on loan                                | -                   | (2,101,275)             | (2,101,275)           | -                  |
| Management fees                                      | -                   | (12,000)                | (12,000)              | -                  |
| <b>Total</b>   | <b>(36,797,502)</b> | <b>38,210,597</b>       | <b>(2,113,275)</b>    | <b>3,526,370</b>   |

### 21 PARENT COMPANIES

The Company's immediate parent company is RBS Specialised Property Investments Limited

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. 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 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