

**Company Registered No. 04422287**

**PRIMEMODERN LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2011**

**TUESDAY**



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**03/07/2012**

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**COMPANIES HOUSE**

**Group Secretariat  
The Royal Bank of Scotland Group plc  
PO Box 1000  
Gogarburn  
Edinburgh  
EH12 1HQ**

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**PRIMEMODERN LIMITED**

**04422287**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011**

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**PRIMEMODERN LIMITED**

**04422287**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**  
A R Aitken  
A Davidson  
R Sivaraman  
S B Eighteen

**SECRETARY:** RBS Secretarial Services Limited

**REGISTERED OFFICE:** 135 Bishopsgate  
London  
EC2M 3UR

**AUDITOR:** Deloitte LLP  
Hill House  
1 Little New Street  
London  
EC4A 3TR

**Registered in England and Wales.**

**DIRECTORS' REPORT**

The directors of Primemodern Limited ("the Company") present their report and the audited financial statements for the year ended 31 December 2011

**ACTIVITIES AND BUSINESS REVIEW****Principal activity**

The principal activity of the Company continues to be investment in property owning companies

The Company is a subsidiary of The Royal Bank of Scotland Group plc ("the Group") 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 Group 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

**Business review**

The directors are satisfied with the Company's performance in the year. The Company will be guided by its ultimate parent company in seeking further opportunities for growth.

**Financial performance**

The Company's financial performance is presented in the Statement of Comprehensive Income on page 6. The profit before tax for the year was £203,421 (2010: loss before tax £1,917,123). The retained profit for the year was £165,654 (2010: retained loss of £1,402,727).

At the end of the year total assets were £4,803,272 (2010: £9,722,356). There was a decrease of 50% in value of assets mainly due to decrease in fair value of available-for-sale investments (note 9).

**Dividends**

The directors do not recommend the payment of a dividend (2010: £nil).

**Principal risks and uncertainties**

The Company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 12 and 13 to these financial statements.

**Going concern**

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They considered the accounts of The Royal Bank of Scotland Group plc for the year ended 31 December 2011, approved on 22 February 2012, which were prepared on a going concern basis.

**Directors and Secretary**

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

| <b>Director</b>                  | <b>Appointed</b> | <b>Resigned</b> |
|----------------------------------|------------------|-----------------|
| R J Lawrence                     | -                | 8 June 2012     |
| A Davidson                       | 8 June 2012      | -               |
| <b>Secretary</b>                 | <b>Appointed</b> | <b>Resigned</b> |
| R E Fletcher                     | -                | 27 April 2012   |
| RBS Secretarial Services Limited | 27 April 2012    | -               |

**DIRECTORS' REPORT (continued)****STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit for the financial year of the Company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, and
- make an assessment of the Company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 Act 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 AUDITOR**

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

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has 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 auditor is aware of that information

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

**AUDITOR**

Deloitte LLP have expressed their willingness to continue in office as auditor

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



A R Aitken  
Director

Date 29 JUNE 2012

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRIMEMODERN LIMITED**

We have audited the financial statements of Primemodern Limited ('the Company') for the year ended 31 December 2011 which comprises the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

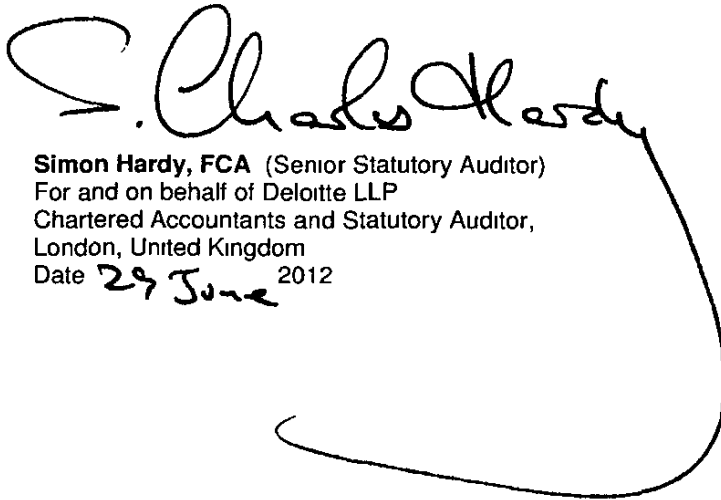
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRIMEMODERN LIMITED  
(continued)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

A large, stylized handwritten signature in black ink, which appears to read 'S. Charles Hardy'. The signature is written in a cursive, flowing style with a large loop at the end.

**Simon Hardy, FCA** (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor,  
London, United Kingdom  
Date 29 June 2012

**PRIMEMODERN LIMITED****04422287****STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2011**

|   |       | 2011               | 2010               |
|---|-------|--------------------|--------------------|
|   | Notes | £                  | £                  |
| <b>Continuing operations</b>  |       |                    |                    |
| Revenue   | 3     | 196,510            | 190,863            |
| Operating expenses  | 4     | (35,104)           | (56,921)           |
| <b>Operating profit before tax</b>                                  |       | <b>161,406</b>     | <b>133,942</b>     |
| Foreign exchange gain/(loss)  |       | 58,113             | (1,984,507)        |
| Other interest income   | 5     | 6,476              | 14,260             |
| Other interest expense  | 6     | (22,574)           | (80,818)           |
| <b>Non-operating income/(expenses)</b>                              |       | <b>42,015</b>      | <b>(2,051,065)</b> |
| <b>Profit/(loss) before tax</b>                                     |       | <b>203,421</b>     | <b>(1,917,123)</b> |
| Taxation (charge)/credit  | 7     | (37,767)           | 514,396            |
| <b>Profit/(loss) for the year</b>                                   |       | <b>165,654</b>     | <b>(1,402,727)</b> |
| <b>Other comprehensive income:</b>                                  |       |                    |                    |
| (Decrease)/increase in fair value of available-for-sale investments | 9     | (5,093,834)        | 195,620            |
| <b>Other comprehensive (loss)/income before tax</b>                 |       | <b>(5,093,834)</b> | <b>195,620</b>     |
| Taxation credit/(charge)  |       | 1,349,517          | (54,774)           |
| <b>Other comprehensive (loss)/income after tax</b>                  |       | <b>(3,744,317)</b> | <b>140,846</b>     |
| <b>Total comprehensive loss for the year</b>                        |       | <b>(3,578,663)</b> | <b>(1,261,881)</b> |

The accompanying notes form an integral part of these financial statements

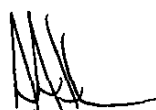


**PRIMEMODERN LIMITED****04422287****BALANCE SHEET****As at 31 December 2011**

|                                     | Notes | 2011<br>£          | 2010<br>£        |
|-------------------------------------|-------|--------------------|------------------|
| <b>Assets</b>                       |       |                    |                  |
| <b>Non-current assets</b>           |       |                    |                  |
| Investment in subsidiaries          | 8     | 24,531             | 24,531           |
| Available-for-sale investments      | 9     | 3,129,972          | 8,223,806        |
|                                     |       | <u>3,154,503</u>   | <u>8,248,337</u> |
| <b>Current assets</b>               |       |                    |                  |
| Cash at bank                        | 10    | 1,648,769          | 1,474,019        |
| <b>Total assets</b>                 |       | <u>4,803,272</u>   | <u>9,722,356</u> |
| <b>Liabilities</b>                  |       |                    |                  |
| <b>Current liabilities</b>          |       |                    |                  |
| Amounts due to Group undertakings   | 11    | 18,316             | -                |
| Current taxation                    |       | 289,081            | 1,600,831        |
|                                     |       | <u>307,397</u>     | <u>1,600,831</u> |
| <b>Non-current liabilities</b>      |       |                    |                  |
| Amounts due to Group undertakings   | 11    | 6,623,131          | 6,670,117        |
| <b>Total liabilities</b>            |       | <u>6,930,528</u>   | <u>8,270,948</u> |
| <b>Equity</b>                       |       |                    |                  |
| Share capital                       | 14    | 1                  | 1                |
| Available-for-sale reserve          |       | 453,320            | 4,197,638        |
| Retained earnings                   |       | (2,580,577)        | (2,746,231)      |
| <b>Total equity</b>                 |       | <u>(2,127,256)</u> | <u>1,451,408</u> |
| <b>Total liabilities and equity</b> |       | <u>4,803,272</u>   | <u>9,722,356</u> |

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 28 JUNE 2012 and signed on its behalf by



A R Aitken  
Director

**PRIMEMODERN LIMITED****04422287****STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2011**

|  | <b>Share<br/>capital<br/>£</b> | <b>Available-<br/>for-sale<br/>reserve<br/>£</b> | <b>Retained<br/>earnings<br/>£</b> | <b>Total<br/>£</b> |
|--|--------------------------------|--|------------------------------------|--------------------|
| At 1 January 2010                                | 1                              | 4,056,792  | (12,476,666)                       | (8,419,873)        |
| Loss for the year                                | -                              | -  | (1,402,727)                        | (1,402,727)        |
| Capital contribution                             | -                              | -  | 11,133,162                         | 11,133,162         |
| Increase in the fair value of AFS<br>investments | -                              | 195,620  | -                                  | 195,620            |
| Tax charge on items taken to equity              | -                              | (54,774)   | -                                  | (54,774)           |
| At 31 December 2010                              | 1                              | 4,197,638  | (2,746,231)                        | 1,451,408          |
| Profit for the year                              | -                              | -  | 165,654                            | 165,654            |
| Decrease in the fair value of AFS<br>investments | -                              | (5,093,834)                                      | -                                  | (5,093,834)        |
| Tax charge on items taken to<br>equity           | -                              | 1,349,517  | -                                  | 1,349,517          |
| At 31 December 2011                              | 1                              | 453,320  | (2,580,577)                        | (2,127,256)        |

Total comprehensive loss for the year of £3,578,663 (2010 £1,261,881) was wholly attributable to the owners of the Company

The accompanying notes form an integral part of these financial statements

**PRIMEMODERN LIMITED****04422287****CASH FLOW STATEMENT****For the year ended 31 December 2011**

|  | Notes | 2011<br>£        | 2010<br>£          |
|--|-------|------------------|--------------------|
| <b>Operating activities</b>                                  |       |                  |                    |
| Operating profit before tax                                  |       | 161,406          | 133,942            |
| Increase in trade and other receivables                      |       | -                | 450,000            |
| <b>Total movement in working capital</b>                     |       | -                | 450,000            |
| <b>Net cash flows from operating activities</b>              |       | <b>161,406</b>   | <b>583,942</b>     |
| <b>Cash flows from investing activities</b>                  |       |                  |                    |
| Interest receivable  |       | 6,476            | 14,260             |
| <b>Net cash flows from investing activities</b>              |       | <b>6,476</b>     | <b>14,260</b>      |
| <b>Cash flows from financing activities</b>                  |       |                  |                    |
| Decrease in loans from Group undertakings                    |       | (28,671)         | (8,740,699)        |
| Interest paid  |       | (22,574)         | (80,818)           |
| <b>Net cash flows used in financing activities</b>           |       | <b>(51,245)</b>  | <b>(8,821,517)</b> |
| <b>Net increase/ (decrease) in cash and cash equivalents</b> |       | <b>116,637</b>   | <b>(8,223,315)</b> |
| Effect of foreign exchange rate changes                      |       | 58,113           | (1,984,507)        |
| Cash and cash equivalents at 1 January                       |       | 1,474,019        | 11,681,841         |
| <b>Cash and cash equivalents at 31 December</b>              | 10    | <b>1,648,769</b> | <b>1,474,019</b>   |

The accompanying notes form an integral part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies****a) Presentation of financial statements**

The accounts, which should be read in conjunction with the Directors' Report, are prepared on a going concern basis and in accordance with IFRS issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS)

The accounts are prepared on the historical cost basis except that the available-for-sale financial assets are stated at their fair value

The Company's financial statements are presented in Sterling which is the functional currency of the Company

The Company is incorporated in the United Kingdom and registered in England and Wales. The Company's financial statements are presented in accordance with the Companies Act 2006

**Adoption of new and revised standards**

There are a number of changes to IFRS that were effective from 1 January 2011. They have had no material effect on the Company's financial statements for the year ended 31 December 2011

**b) Consolidated financial statements**

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 IAS 27 Consolidated and Separate Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the Company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland

**c) Foreign currencies**

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

**d) Revenue recognition**

Interest income on financial assets that are classified as loans and receivables or available-for-sale and interest expense on financial liabilities other than those at fair value through profit or loss are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows

Dividend income is recognised when the paying entity is obliged to make the payment

**NOTES TO THE FINANCIAL STATEMENTS (continued)****1. Accounting policies (continued)****e) Taxation**

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. 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 they will be recovered. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date

**f) Investment in Group undertakings**

The Company's interests in Group undertakings are stated at cost less provision for any impairment

**g) Financial assets**

On initial recognition, financial assets are classified into loans and receivables, designated as at fair value through profit or loss, or available-for-sale financial assets

**Loans and receivables**

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see accounting policy c) less any impairment losses

**Available-for-sale**

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. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Impairment losses and exchange differences resulting from retranslating the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in profit or loss together with interest calculated using the effective interest method (see accounting policy c). 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

**h) Impairment of financial assets**

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset

**i) Financial liabilities**

On initial recognition financial liabilities are classified into amortised cost

**Amortised cost**

All financial liabilities are measured at amortised cost using the effective interest method (see accounting policy c)

**NOTES TO THE FINANCIAL STATEMENTS (continued)****1. Accounting policies (continued)****j) Cash and cash equivalents**

In the Cash Flow Statement, cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value

**k) Accounting developments**

The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments Recognition and Measurement' in respect of financial assets. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost. A financial asset is classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Only assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value. Changes in the value of financial assets measured at fair value are generally taken to profit or loss.

In October 2010, IFRS 9 was updated to include the classification and measurement of liabilities. It is not markedly different from IAS 39 except for liabilities measured at fair value where the movement is due to changes in credit rating of the preparer; it is recognised not in profit or loss but in other comprehensive income.

The standard is effective for annual periods beginning on or after 1 January 2015; early application is permitted.

This standard makes major changes to the framework for the classification and measurement of financial assets; however, these will not have a significant effect on the Company's financial statements. The changes relating to the classification and measurement of liabilities carried at fair value will have a less significant effect on the Company. The Company is assessing these impacts, which are likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project.

The IASB issued an amendment to IAS 12 'Income Taxes' in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability. The amendment and consequential withdrawal of SIC 21 'Deferred Tax Recovery of Underlying Assets', effective for annual periods beginning on or after 1 January 2012, is not expected to have a material effect on the Company.

In May 2011, the IASB issued six new or revised standards:

IFRS 10 Consolidated Financial Statements which replaces SIC-12 Consolidation - Special Purpose Entities and the consolidation elements of the existing IAS 27 Consolidated and Separate Financial Statements. The new standard adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.

IAS 27 Separate Financial Statements which comprises those parts of the existing IAS 27 that dealt with separate financial statements.

IFRS 11 Joint Arrangements which supersedes IAS 31 Interests in Joint Ventures. IFRS 11 distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method.

IAS 28 Investments in Associates and Joint Ventures covers joint ventures as well as associates; both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****1 Accounting policies (continued)****k) Accounting developments (continued)**

IFRS 12 Disclosure of Interests in Other Entities covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27. Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities.

IFRS 13 Fair Value Measurement which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements.

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Company is reviewing the standards to determine their effect on the Company's financial reporting.

In June 2011, the IASB issued amendments to two standards.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income that require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification.

Amendments IAS 19 Employee Benefits - these require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach', interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate, and all past service costs to be recognised immediately when a scheme is curtailed or amended.

These amendments are effective for annual periods beginning on or after 1 July 2012 and 1 January 2013 respectively. Earlier application is permitted. The Company is reviewing the amendments to determine their effect on the Company's financial reporting.

**2 Critical accounting policies and key sources of estimation uncertainty**

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

**Fair value - financial instruments**

Financial instruments classified as available-for-sale are recognised in the financial statements at fair value. Unrealised gains and losses on available-for-sale financial assets are recognised directly in equity unless an impairment loss is recognised.

Financial instruments classified as designated as at fair value through profit or loss are recognised in the financial statements at fair value. Changes in fair value are recognised in profit or loss as they arise.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. Revenue

|   | 2011<br>£      | 2010<br>£      |
|---|----------------|----------------|
| Dividend received on equity investments | 196,510        | 167,105        |
| Other income                            | -              | 23,758         |
|   | <u>196,510</u> | <u>190,863</u> |

## 4. Operating expenses

|                             | 2011<br>£     | 2010<br>£     |
|-----------------------------|---------------|---------------|
| Legal and professional fees | -             | 23,345        |
| Management fees             | 35,104        | 33,576        |
|                             | <u>35,104</u> | <u>56,921</u> |

None of the directors received any emoluments from the Company for their services to the Company in the year ended 31 December 2011 (2010 £nil)

None of the directors had any material interest in any contract of significance in relation to the business of the Company in the year ended 31 December 2011 (2010 £nil)

The Company did not have any employees in the year ended 31 December 2011 (2010 nil)

The auditor's remuneration of £7,000 (2010 £5,000) for statutory audit work for the Company was borne by The Royal Bank of Scotland plc

## 5. Other interest income

|                                 | 2011<br>£    | 2010<br>£     |
|---------------------------------|--------------|---------------|
| Interest receivable on deposits | <u>6,476</u> | <u>14,260</u> |

## 6. Other interest expense

|                                      | 2011<br>£     | 2010<br>£     |
|--------------------------------------|---------------|---------------|
| Interest payable on loan from parent | <u>22,574</u> | <u>80,818</u> |

## 7. Taxation

|  | 2011<br>£     | 2010<br>£        |
|--|---------------|------------------|
| <b>Current taxation:</b>                           |               |                  |
| UK corporation tax credit for the year             | 53,893        | (536,794)        |
| (Over)/under provision in respect of prior periods | (16,126)      | 22,398           |
| Tax charge/(credit) for the year                   | <u>37,767</u> | <u>(514,396)</u> |

The Company is resident in the United Kingdom for tax purposes. The Company's corporation tax liability is determined in Sterling using the blended corporation tax rate in the United Kingdom of 26.5% for the period ended 31 December 2011 (2010 28%)



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 7. Taxation (continued)

The actual tax charge differs from the expected tax charge computed by applying the approximate blended rate of UK corporation tax of 26.5% (2010: 28%) as follows

|  | 2011<br>£      | 2010<br>£          |
|--|----------------|--------------------|
| <b>Profit/(loss) before tax:</b>               | <b>203,421</b> | <b>(1,917,123)</b> |
| Expected tax (credit)/charge                   | 53,893         | (536,794)          |
| Adjustments in respect of prior periods        | (16,126)       | 22,398             |
| <b>Actual tax (credit)/charge for the year</b> | <b>37,767</b>  | <b>(514,396)</b>   |

The changes to tax rates and capital allowances proposed in the Budget 23 March 2011 are not expected to have a material effect on the Company

## 8. Investment in Group undertakings

|  | 2011<br>£     | 2010<br>£     |
|--|---------------|---------------|
| <b>As at 1 January and 31 December</b> | <b>24,531</b> | <b>24,531</b> |

Details of investments in which the Company holds greater than 20% of share capital are as follows

| Name of company                 | Country of registration | Ordinary<br>Share holding | Nature of business  |
|---------------------------------|-------------------------|---------------------------|---------------------|
| Rose Barn Securities SAS        | France                  | 100%                      | Property investment |
| RBS Hotel Operator No 1 Limited | United Kingdom          | 100%                      | Property investment |

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

## 9. Available-for-sale investments

Movements during the year were as follows

|                                | 2011<br>£        | 2010<br>£        |
|--------------------------------|------------------|------------------|
| <b>At 1 January</b>            | <b>8,223,806</b> | <b>8,028,187</b> |
| Fair value adjustment          |                  |                  |
| - Decrease in fair value       | (5,007,956)      | (948,901)        |
| - Foreign exchange adjustments | (85,878)         | 1,144,521        |
| <b>At 31 December</b>          | <b>3,129,972</b> | <b>8,223,806</b> |

The balances above at 31 December 2011 and 31 December 2010 relate to an investment in 125,887,500 equity shares of China New Town Development, a company listed on Singapore Stock Exchange. The notional currency in which the investments are traded is Singapore Dollars. The fair value of these investments is based on a quoted market price. This investment was translated at spot exchange rate at year end.

## 10. Cash at bank

|                             | 2011<br>£        | 2010<br>£        |
|-----------------------------|------------------|------------------|
| <b>Cash at bank – Group</b> | <b>1,648,769</b> | <b>1,474,019</b> |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 11. Amounts due to Group undertakings

|                                       | 2011<br>£        | 2010<br>£        |
|---------------------------------------|------------------|------------------|
| Loan from intermediate parent company | 6,623,131        | 6,670,117        |
| Accruals – Management fees            | 18,316           | -                |
|                                       | <u>6,641,447</u> | <u>6,670,117</u> |

The loan from the Company's intermediate parent has been issued in Singapore Dollars. During the year ended 31 December 2010 the Company's intermediate parent company forgave an amount of the intercompany loan of £11,133,162. The balance of £6,623,131 (2010: £6,670,117) is the year end translated value of the Singapore Dollar loan. The loan is a 3 month rolling loan with a maturity date of 21 June 2012. The effective interest rate on the Singapore Dollar loan during the year ended 31 December 2011 varied between 0.29% and 0.70%. The carrying value of the loan as at year end approximates to its fair value.

## 12. Financial instruments

The following tables analyse the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 "Financial Instruments, Recognition and Measurement". Assets and liabilities outside the scope of IAS 39 are shown separately.

| 2011                              | Available-<br>for-sale<br>£ | Loans and<br>receivables<br>£ | At<br>amortised<br>cost<br>£ | Non<br>financial<br>assets/<br>liabilities<br>£ | Total<br>£       |
|-----------------------------------|-----------------------------|-------------------------------|------------------------------|---|------------------|
| <b>Assets</b>                     |                             |                               |                              |   |                  |
| Available-for-sale investments    | 3,129,972                   | -                             | -                            | -   | 3,129,972        |
| Cash at bank                      | -                           | 1,648,769                     | -                            | -   | 1,648,769        |
|                                   | <u>3,129,972</u>            | <u>1,648,769</u>              | <u>-</u>                     | <u>-</u>  | <u>4,778,742</u> |
| Investment in Group undertakings  |                             |                               |                              |   | 24,531           |
|                                   |                             |                               |                              |   | <u>4,803,272</u> |
| <b>Liabilities</b>                |                             |                               |                              |   |                  |
| Amounts due to Group undertakings | -                           | -                             | 6,641,447                    | -   | 6,641,447        |
| Current taxation                  | -                           | -                             | -                            | 289,081   | 289,081          |
|                                   | <u>-</u>                    | <u>-</u>                      | <u>6,641,447</u>             | <u>289,081</u>                                  | <u>6,930,528</u> |
| <b>Equity</b>                     |                             |                               |                              |   | (2,127,256)      |
|                                   |                             |                               |                              |   | <u>4,803,272</u> |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. Financial instruments (continued)

| 2010                              | Available-for-sale<br>£ | Loans and<br>receivables<br>£ | At amortised<br>cost<br>£ | Non financial<br>assets/<br>liabilities<br>£ | Total<br>£       |
|-----------------------------------|-------------------------|-------------------------------|---------------------------|--|------------------|
| <b>Assets</b>                     |                         |                               |                           |  |                  |
| Available-for-sale investments    | 8,223,806               | -                             | -                         | -  | 8,223,806        |
| Cash at bank                      | -                       | 1,474,019                     | -                         | -  | 1,474,019        |
|                                   | <u>8,223,806</u>        | <u>1,474,019</u>              | <u>-</u>                  | <u>-</u>                                     | <u>9,697,825</u> |
| Investment in Group undertakings  |                         |                               |                           |  | 24,531           |
|                                   |                         |                               |                           |  | <u>9,722,356</u> |
| <b>Liabilities</b>                |                         |                               |                           |  |                  |
| Amounts due to Group undertakings | -                       | -                             | 6,670,117                 | -  | 6,670,117        |
| Current taxation                  | -                       | -                             | -                         | 1,600,831                                    | 1,600,831        |
|                                   | <u>-</u>                | <u>-</u>                      | <u>6,670,117</u>          | <u>1,600,831</u>                             | <u>8,270,948</u> |
| <b>Equity</b>                     |                         |                               |                           |  | 1,451,408        |
|                                   |                         |                               |                           |  | <u>9,722,356</u> |

There are no material differences between the carrying value and the fair value of the financial instruments

**Valuation hierarchy**

Financial assets and liabilities have been classified above according to a valuation hierarchy that reflects the valuation techniques used to determine fair value

Level 1 valued by reference to unadjusted quoted process in active markets for identical assets and liabilities

Level 2 valued by reference to observable market data, other than quoted market prices

Level 3 valuation is based on inputs other than observable market data

The following tables show the financial instruments carried at fair value by hierarchy – level 1, level 2 and level 3

|                                | Level 1<br>£     | Level 2<br>£ | Level 3<br>£ |
|--------------------------------|------------------|--------------|--------------|
| <b>2011</b>                    |                  |              |              |
| <b>Assets</b>                  |                  |              |              |
| Available-for-sale investments | <u>3,129,972</u> | -            | -            |
|                                | Level 1<br>£     | Level 2<br>£ | Level 3<br>£ |
| <b>2010</b>                    |                  |              |              |
| <b>Assets</b>                  |                  |              |              |
| Available-for-sale investments | <u>8,223,806</u> | -            | -            |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. Risk management

The principal risks associated with the Company are as follows

**Interest rate risk**

Interest rate risk arises where assets and liabilities have different repricing maturities. The Company manages interest rate risk by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches.

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

|   | Interest - bearing |                | Non interest-bearing  |                | Total       |
|---|--------------------|----------------|-----------------------|----------------|-------------|
|   | Within one year    | After one year | Within one year       | After one year |             |
|   | £                  | £              | £                     | £              | £           |
| <b>2011</b>                                 |                    |                |                       |                |             |
| <b>Financial assets</b>                     |                    |                |                       |                |             |
| Cash at bank                                | 1,648,769          | -              | -                     | -              | 1,648,769   |
|   | 1,648,769          | -              | -                     | -              | 1,648,769   |
| <b>Financial liabilities</b>                |                    |                |                       |                |             |
| Amount due to Group undertaking – parent    | -                  | 6,641,447      | -                     | -              | 6,641,447   |
|   | -                  | 6,641,447      | -                     | -              | 6,641,447   |
| <b>Net financial assets/(liabilities)</b>   | 1,648,769          | (6,641,447)    | -                     | -              | (4,992,678) |
|   |                    |                |                       |                |             |
|   | Interest - bearing |                | Non interest-bearing  |                | Total       |
|   | Within one year    | After one year | Within one year       | After one year |             |
|   | £                  | £              | £                     | £              | £           |
| <b>2010</b>                                 |                    |                |                       |                |             |
| <b>Financial assets</b>                     |                    |                |                       |                |             |
| Cash at bank                                | 1,474,019          | -              | -                     | -              | 1,474,019   |
|   | 1,474,019          | -              | -                     | -              | 1,474,019   |
| <b>Financial liabilities</b>                |                    |                |                       |                |             |
| Amount due to Group undertaking – parent    | -                  | 6,670,117      | -                     | -              | 6,670,117   |
|   | -                  | 6,670,117      | -                     | -              | 6,670,117   |
| <b>Net financial assets/(liabilities)</b>   | 1,474,019          | (6,670,117)    | -                     | -              | (5,196,098) |
|   |                    |                |                       |                |             |
|   |                    |                | % interest rate range |                |             |
| Interest rate                               |                    |                | 2011                  | 2010           |             |
| Amounts due to Group undertakings (note 11) |                    |                | 0.22% - 0.57%         | 0.29% - 0.70%  |             |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. Risk management (continued)

**Currency risk**

The Company is exposed to currency risk due to its investment in available for sale financial assets and loan from the intermediate parent company in Singapore Dollars

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.

The Company has the following open unhedged currency positions

|   | 2011<br>£        | 2010<br>£        |
|---|------------------|------------------|
| Available for sale investments (see note 9)         | 3,129,972        | 8,223,806        |
| Loan from intermediate parent company (see note 11) | (6,641,447)      | (6,670,117)      |
|   | <u>3,511,475</u> | <u>1,553,689</u> |

**Credit risk**

The objective of credit risk management is to enable the Company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the Company.

The key principles of the group's Credit Risk Management Framework are set out below

- Approval of all credit exposure is granted prior to any advance or extension of credit
- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. This includes a review of, amongst other things, the purpose of credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return
- Credit risk authority is delegated by the Board and specifically granted in writing to all individuals involved in the granting of credit approval. In exercising credit authority, the individuals act independently of any related business revenue origination
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment

The Company's exposure to credit risk is not considered to be significant as the credit exposures are with Group companies (see Note 11). At 31 December 2011 there were no outstanding or impaired loans due to the Company (2010: £nil).

**Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. Management focuses on both overall balance sheet structure and the 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 Group Asset and Liability Management Committee (GALCO).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. Risk management (continued)

**Market risk**

Market risk is the potential for loss as a result of adverse changes in risk factors including interest rates, foreign currency and equity prices together with related parameters such as market volatilities

The Company is exposed to market risk due to assets and liabilities present in its balance sheet

*Market 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, price & currency rates reasonably possible in the Company's next financial reporting period

*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 2011 would have been £24,963 higher (2010 £25,980 higher) This would have mainly resulted from lower financing costs in respect of its loans and lower interest income in respect of cash balances held

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 2011 would have been £348,586 lower (2010 £351,059 lower) This would have resulted in lower foreign exchange gain on loans

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 and the investment value by £156,499 (2010 £411,190)

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

## 14. Share capital

|                                    | 2011<br>£ | 2010<br>£ |
|------------------------------------|-----------|-----------|
| Authorised                         |           |           |
| 1000 Ordinary Shares of £1         | 1,000     | 1,000     |
| Allotted, called up and fully paid |           |           |
| 1 Ordinary Shares of £1            | 1         | 1         |

The Company has one class of Ordinary Shares which carry no right to fixed income Holders of the Ordinary Shares have the right to receive notice of, to attend and to vote in respect of any resolution of the Company Each Ordinary Share carries an equal entitlement to receive dividends out of the funds of the Company that are legally available for distribution

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 15. Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings and loans from Group undertakings. The Company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the Company is governed by the Group's policy which is to maintain a strong capital base. It is not separately regulated. The Group has complied with the Financial Services Authority's (FSA) capital requirements throughout the year.

## 16. Related parties

## UK Government

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of the Company.

Transactions between the Company, and the UK Government and UK Government controlled bodies, consisted solely of corporation tax which is separately disclosed in note 7.

## Group undertakings

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, which is incorporated in Great Britain and registered in Scotland. The Company's immediate parent company is RBS Specialised Property Investments Limited which is incorporated in Great Britain and registered in England and Wales.

As at 31 December 2011, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

The Company was party to various transactions with The Royal Bank of Scotland plc. These transactions were entered into on an arms length basis unless stated otherwise.

Income statement impact for the year ended 31 December 2011 is set out in the table below.

|                                       | 2011<br>£     | 2010<br>£      |
|---------------------------------------|---------------|----------------|
| <b>The Royal Bank of Scotland Plc</b> |               |                |
| <b>Income</b>                         |               |                |
| Interest receivable on bank deposits  | 6,476         | 14,260         |
| <b>Expenses</b>                       |               |                |
| Interest payable                      | 22,574        | 80,818         |
| Management fees                       | 35,104        | 33,576         |
|                                       | <b>57,678</b> | <b>114,394</b> |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 16. Related parties (continued)

Balances with Group companies as at 31 December comprised

|                                       | 2011<br>£ | 2010<br>£ |
|---------------------------------------|-----------|-----------|
| <b>The Royal Bank of Scotland Plc</b> |           |           |
| <b>Assets</b>                         |           |           |
| Cash at bank                          | 1,648,769 | 1,474,019 |
| <b>Liabilities</b>                    |           |           |
| Amount due to Group undertaking       | 6,641,447 | 6,670,117 |

**Capital Support Deed**

The Company, together with other members of the Group, is party to a capital support deed (CSD). Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its Ordinary Shares. The amount of this obligation is limited to the Company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the Company's available resources) together with any amounts distributed to it by its subsidiaries pursuant to the CSD. The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

**Key management**

The Company is a subsidiary of The Royal Bank of Scotland Group plc whose policy is for companies to bear the costs of their full time staff. The time and costs of executives and other staff who are primarily employed by the Group are not specifically recharged. However, the Group recharges subsidiaries for management fees which include an allocation of certain staff and administrative support costs.

In the Company and the Group, key management comprise directors of the Company and members of the Group Executive Management Committee. The emoluments of the directors of the Company are met by the Group.

The directors of the Company do not receive remuneration for specific services provided to the Company.