

MILESTONE PROPERTY LIMITED

REPORT AND ACCOUNTS

29TH FEBRUARY, 1996

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COMPANY NUMBER 140381



REPORT OF THE DIRECTORSDirectors

J. Barkley

R. M. MacKenzie

The Directors have pleasure in submitting their report and statement of accounts of the Company for the year ended 29th February, 1996.

Results and review of operations

The Company operates as a property company and no change is expected in that activity.

The Company made a profit after taxation for the year amounting to £10,088. The Directors do not recommend the payment of a dividend.

Directors and their interests

The Directors at the date of this report are stated above. Mr. MacKenzie was appointed a Director on 29 February 1996. In addition, Mr. G. G. Masterton and Miss P. A. Bradley served as Directors until their resignation on 29 February 1996. Mr Barkley served throughout the year. No Director had an interest in the shares of the Company, nor in the Preference stocks of The Governor and Company of the Bank of Scotland ("Bank of Scotland"), the Company's parent undertaking, nor in the shares of any other undertakings within the Bank of Scotland Group, at any time during the year.

Directors' beneficial interests in the ordinary stock units of Bank of Scotland were as follows:

	<u>At 28th February, 1995</u> <u>or at date of appointment</u> <u>Ordinary Stock Units of 25p each</u>	<u>At 29th February, 1996</u> <u>Ordinary Stock Units of 25p each</u>
J. Barkley	51,559	47,724
R. M. MacKenzie	5,160	5,160

Options to subscribe for Ordinary Stock of Bank of Scotland were granted to or exercised by Directors during the year to 29th February, 1996 as follows:-

Directors and their interests (continued)Executive Stock Options

	At 1 Mar 95	Granted	Exercised	At 29 Feb 96	Closing Weighted Average Exercise Price (p)	Date Options Exercisable
J. Barkley	74,000	21,500	-	95,500	177.8	1996 - 2005

No options lapsed during the year. Options were granted in October 1995 at a price of 259.83p per ordinary stock unit, being the average market price for the first three dealing days on which the ordinary stock was quoted ex dividend following announcement of the interim results and immediately prior to the date of grant. For earlier years, options were granted at the average market price for the three dealing days immediately prior to the date on which invitations to apply for options were issued.

Savings Related Stock Options

	At 1 Mar 95	Granted	Exercised	At 29 Feb 96	Weighted Average Exercise Price (p)	Market Price at Date of Exercise (p)	Closing Weighted Average Exercise Price (p)	Date Options Exercisable
J. Barkley	6,651	406	1,357	5,700	61.8	289.5	104.8	1996-2002
R. M. MacKenzie	3,229	1,798	-	5,027	-	-	155.0	1996-2000

No options lapsed during the year. Options were granted in November 1995 at a price of 207.864p per ordinary stock unit being 80% of the average market price for the first three dealing days on which the ordinary stock was quoted ex dividend following announcement of the interim results and immediately prior to the date of grant. For earlier years, options were granted at 80% of the market price on the fourth dealing day after the announcement of the interim results.

The market price of the ordinary stock at 29th February 1996 was 276.5p per ordinary stock unit and the range during the year was 196.5p to 312.0p per ordinary stock unit.

Auditors

In accordance with the provisions of Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Ernst and Young will continue in office as auditors.

By Order of the Board,

L.J.W. Black

L.J.W. Black,
Secretary.

Registered Office

The Mound,
EDINBURGH,
EH1 1YZ

1st April, 1996

PROFIT AND LOSS ACCOUNTFor the year ended 29th February 1996

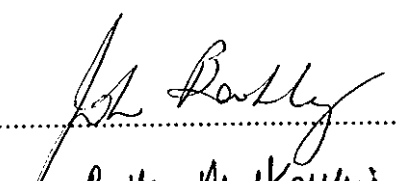
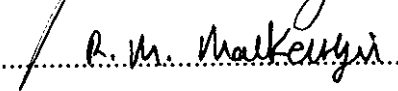
	<u>Notes</u>	<u>1996</u> <u>£</u>	<u>1995</u> <u>£</u>
Rental income		550,328	609,247
Operating expenses		(393)	(2,698)
		<u>549,935</u>	<u>606,549</u>
Interest receivable		1,287	6,206
Interest payable	3	(536,166)	(604,324)
		<u>15,056</u>	<u>8,431</u>
Profit on ordinary activities before taxation	2	15,056	8,431
Taxation	4	(4,968)	(2,782)
		<u>10,088</u>	<u>5,649</u>
Profit on ordinary activities after taxation		10,088	5,649
Retained profits brought forward		20,121	14,472
		<u>30,209</u>	<u>20,121</u>
Retained profits carried forward		30,209	20,121

All gains and losses arising during the year have been recognised in the profit and loss account and derive from continuing operations of the company.

The notes on pages 6 to 9 form part of these accounts.

BALANCE SHEETAs at 29th February, 1996

	<u>Notes</u>	<u>1996</u> £	<u>1995</u> £
<u>Fixed Assets</u>			
Freehold land and buildings	5	5,150,000	5,150,000
<u>Current Assets</u>			
Other debtors		92,125	107,713
Deferred taxation	6	36,701	41,669
		<u>128,826</u>	<u>149,382</u>
<u>Creditors: Amounts falling due within one year</u>			
Amount due to parent undertaking		(4,202,594)	(4,229,178)
Accruals and deferred income		(15,923)	(19,983)
		<u>(4,218,517)</u>	<u>(4,249,161)</u>
<u>Net Current Liabilities</u>		<u>(4,089,691)</u>	<u>(4,099,779)</u>
<u>Total Assets Less Current Liabilities</u>		<u>1,060,309</u>	<u>1,050,221</u>
<u>Creditors: Amounts falling due after more than one year</u>			
Loan stock	7	(1,030,000)	(1,030,000)
		<u>30,309</u>	<u>20,221</u>
<u>Capital and Reserves</u>			
Share capital	8	100	100
Profit and loss account		30,209	20,121
<u>Shareholders' Funds</u>	9	<u>30,309</u>	<u>20,221</u>

 Director
 Director

1st April, 1996

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The notes on pages 6 to 9 form part of these accounts.

STATEMENT OF CASH FLOWSFor the year ended 29th February 1996

	<u>Notes</u>	<u>1996</u> £	<u>1995</u> £
<u>Net cash inflow from operating activities</u>	10	563,919	442,734
<u>Returns on investments and servicing of finance</u>			
Interest received		1,287	6,206
Interest paid		(538,622)	(665,366)
		<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance		(537,335)	(659,160)
<u>Taxation</u>			
Corporation tax paid		-	(51,579)
<u>Investing Activities</u>			
Proceeds of sale of freehold land and buildings		-	1,250,000
		<hr/>	<hr/>
<u>Net cash inflow before financing</u>		26,584	981,995
<u>Financing</u>			
Repayment of Loan Stock		-	(250,000)
		<hr/>	<hr/>
<u>Net cash (outflow) from financing</u>		-	(250,000)
		<hr/>	<hr/>
Increase in cash and cash equivalents	11	26,584	731,995
		<hr/>	<hr/>

The notes on pages 6 to 9 form part of these accounts.

NOTES TO THE ACCOUNTS1. Accounting policies1.1 Basis of preparation

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with currently applicable accounting standards.

1.2 Rental income

Rental income from properties is accounted for on an accruals basis.

1.3 Fixed assets

Freehold land and buildings are maintained in a state of good repair and it is considered that residual values are such that depreciation is not significant. Consequently these assets are not depreciated. All necessary repairs and renewals required to maintain the fixed assets are charged to the profit and loss account.

1.4 Taxation

The charge for taxation takes into account the timing differences in the accounting and taxation treatment of certain items to the extent that they are expected to reverse in the future. Deferred taxation is provided on the liability method.

2. Profit on ordinary activities before taxation

Profit from ordinary activities is stated after charging the following:

	<u>1996</u>	<u>1995</u>
	<u>£</u>	<u>£</u>
Audit fee	2,318	2,698
	<u> </u>	<u> </u>

The Company has no employees and none of the Directors receives any emoluments from the Company.

3. Interest payable

	<u>1996</u>	<u>1995</u>
	<u>£</u>	<u>£</u>
Interest on bank loans and overdrafts	435,595	491,541
Interest on loan stock repayable in less than five years	100,571	112,783
	<u> </u>	<u> </u>
	536,166	604,324
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS (Continued)4. Taxation

The charge for taxation is based on the profit arising from ordinary activities and comprises:

	<u>1996</u>	<u>1995</u>
	<u>£</u>	<u>£</u>
Deferred taxation	4,968	2,782
	<u> </u>	<u> </u>

5. Fixed AssetsFreehold land and buildingsCost:

	<u>£</u>
At 1st March, 1995 and 29th February 1996	5,150,000
	<u> </u>

6. Deferred taxation

Deferred taxation, which is also the full potential deferred tax asset, arises from short term timing differences.

The movement in deferred taxation for the year is as follows:

	<u>1996</u>	<u>1995</u>
	<u>£</u>	<u>£</u>
At 1st March 1995	41,669	44,451
Profit and loss account	(4,968)	(2,782)
	<u> </u>	<u> </u>
At 29th February 1996	36,701	41,669
	<u> </u>	<u> </u>

7. Loan Stock

The loan stock which is secured over the freehold land and buildings, is repayable following the disposal of the properties and settlement of all bank facilities. Interest on the loan stock is charged at the same rate as on the bank facility provided by the parent undertaking.

NOTES TO THE ACCOUNTS (Continued)8. Share Capital

	<u>1996</u>	<u>1995</u>
	£	£
<u>Authorised</u>		
100 'A' ordinary shares of £1 each (non-equity)	100	100
900 'B' ordinary shares of £1 each (equity)	900	900
	<u>1,000</u>	<u>1,000</u>
 <u>Allotted and called up</u>		
10 'A' Ordinary shares of £1 each (non-equity)	10	10
90 'B' ordinary shares fo £1 each (equity)	90	90
	<u>100</u>	<u>100</u>

The 'A' shares carry 100% of the voting rights but carry no rights to dividend nor to any surplus capital on liquidation of the company. The 'B' shares carry no voting rights but carry full rights to dividends and to any surplus capital on liquidation of the company.

9. Shareholders' Funds

The movement in Shareholders' Funds during the year was as follows:

	<u>1996</u>	<u>1995</u>
	£	£
Shareholders' Funds at 1st March, 1995	20,221	14,572
Profit for the period	10,088	5,649
	<u>30,309</u>	<u>20,221</u>
 Being:		
Non-equity Shareholders' Funds	10	10
Equity Shareholders' Funds	30,299	20,211
	<u>30,309</u>	<u>20,221</u>

NOTES TO THE ACCOUNTS (Continued)10. Reconciliation of operating profit to net cash flow from operating activities

	<u>1996</u>	<u>1995</u>
	<u>£</u>	<u>£</u>
Operating profit	549,935	606,549
(Decrease) in accruals and deferred income	(1,604)	(56,102)
Decrease / (Increase) in other debtors	15,588	(107,713)
	<hr/>	<hr/>
Net cash inflow from operating activities	563,919	442,734
	<hr/>	<hr/>

11. Analysis of changes in cash and cash equivalents during the period

	<u>1996</u>	<u>1995</u>
	<u>£</u>	<u>£</u>
Amount due to parent undertaking:		
At 1st March 1995	(4,229,178)	(4,961,173)
Net cash inflow	26,584	731,995
	<hr/>	<hr/>
At 29th February, 1996	(4,202,594)	(4,229,178)
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12. Parent undertaking

The Company's parent undertaking is The Governor and Company of the Bank of Scotland incorporated by Act of the Scottish Parliament in 1695. The Company is included in the group accounts of Bank of Scotland and copies of its Annual Report and Accounts are available from its Head Office at The Mound, Edinburgh.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for the year. The Directors consider that in preparing the financial statements on pages 3 to 9 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF
MILESTONE PROPERTY LIMITED

We have audited the accounts on pages 3 to 9, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 10, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 29th February 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor
Edinburgh.

1 April, 1996