

HORIZON RESIDENTIAL DEVELOPMENTS LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Company Number SC147997



Directors

J K Cruickshank
J C O'Neil

Secretary

A I Macrae

Registered Office

Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
EDINBURGH
EH1 2EG

Bankers

Bank of Scotland
Head Office
The Mound
EDINBURGH
EH1 1YZ

REPORT OF THE DIRECTORS

Directors

J K Cruickshank
J C O'Neil

The Directors submit their report and audited accounts of the Company for the year ended 31 December 2006

Activity and review of business

The Company's principal activity is the ownership and development of land for residential housing

Results and Dividends

The loss after tax for the Company for the year to 31 December 2006 was £199,492 (2005 loss of £64,671) No dividends were paid during the year

Going Concern

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts

The Company has received a letter of comfort from The Governor and Company of Bank of Scotland that confirms that it will provide sufficient funds or other financial support or adequate resources to enable the Company to continue in business for the next year

Directors and their interests

The Directors at the date of this report are as stated on page 2

The Directors served throughout the year

Directors' beneficial interests in the ordinary shares of HBOS plc during the year were as follows

(References to "HBOS plc shares" are to ordinary shares of 25p each in HBOS plc)

During the year no Director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than in HBOS plc, the ultimate holding company

The beneficial interests of the Directors and their immediate families in HBOS plc shares are set out below

	<u>At 31 12 05</u> <u>or date of appointment if later</u> <u>HBOS plc shares</u>	<u>At 31 12 06</u> <u>HBOS plc shares</u>
J K Cruickshank	29,657	33,780
J C O'Neil	14,153	15,545

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)Short term Incentive Plan – HBOS scheme and former Halifax scheme

Certain Directors have conditional entitlements to shares arising from the annual incentive plan. Where the annual incentive for any year was taken in shares and these shares are retained in trust for three years, the following shares will also be transferred to the Directors

	<u>Grant effective from</u>	<u>Shares as at 31 12 06</u>
J K Cruickshank	March 2004	1,583
	March 2005	1,233
	March 2006	1,060
J C O'Neil	March 2004	715
	March 2005	655
	March 2006	563

Long term Incentive PlanHBOS Scheme, former Bank of Scotland scheme and former Halifax Scheme

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre conditions which have now been satisfied. Share options granted under other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below

	<u>Options outstanding at 31 12 05 or date of appointment</u>	<u>Granted (G), lapsed (L) or exercised (E) in year</u>	<u>At 31 12 06</u>
J K Cruickshank	12,519		12,519
J C O'Neil	2,793		2,793

Sharesave Plan

Share options granted under these plans are set out below

	<u>At 31 12 05</u>	<u>Granted (G) lapsed (L) or exercised (E) in year</u>	<u>At 31 12 06</u>
J K Cruickshank	2,887		2,887
J C O'Neil	4,114	177 (G)	3,518
		773 (E)	

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%

REPORT OF THE DIRECTORS (continued)

Company Secretary

A I Macrae

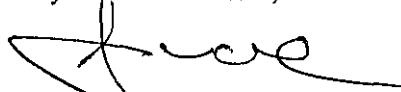
Audit Information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they each are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with s 386 of the Companies Act 1985 (as amended), the Company has elected to dispense with the obligation to appoint auditors annually. Accordingly, KPMG Audit Plc will continue in office as auditors

By Order of the Board,

A I Macrae
Secretary22nd February

2007

Registered Office

Level 1
Citymark
150 Fountambridge
EDINBURGH
EH3 9PE

Income statement**For the year ended 31 December 2006**

	Note	2006 £	2005 £
Revenue	2	15,000	50,000
Cost of sales		<u>(15,000)</u>	<u>(6,152)</u>
Gross profit			<u>43,848</u>
Operating expenses	3	(84,063)	(83,158)
Other expenses	4	<u>(1,000)</u>	<u>(1,000)</u>
Net other expenses		<u>(1,000)</u>	<u>(1,000)</u>
Operating loss before financing costs		(85,063)	(40,310)
Financial income	5	962	319
Financial expense	5	<u>(200,888)</u>	<u>(55,162)</u>
Net financing costs		<u>(199,926)</u>	<u>(54,843)</u>
Loss before tax		<u>(284,989)</u>	<u>(95,153)</u>
Income tax credit	6	<u>85,497</u>	<u>30,482</u>
Loss after tax for the year		<u>(199,492)</u>	<u>(64,671)</u>
Attributable to:			
Equity holders		<u>(199,492)</u>	<u>(64,671)</u>
Loss for the year		<u>(199,492)</u>	<u>(64,671)</u>

The notes on pages 10 to 16 form part of these accounts

Statement of recognised income and expense**For the year ended 31 December 2006**

	Note	2006 £	2005 £
Loss for the year		(199,492)	(64,671)
Total recognised income and expense for the year	10	<u>(199,492)</u>	<u>(64,671)</u>
Attributable to:			
Equity holders		<u>(199,492)</u>	<u>(64,671)</u>
Loss for the year		<u>(199,492)</u>	<u>(64,671)</u>

The notes on pages 10 to 16 form part of these accounts

Balance sheet**As at 31 December 2006**

	Note	2006 £	2005 £
Assets			
Deferred tax	8		45,695
Total non current assets			45,695
Inventories	11	5,538,211	1,630,304
Income tax receivable	7	85,497	28,546
Trade and other receivables	9	15,004	11,351
Cash and cash equivalents	12	125,307	
Total current assets		5,764,019	1,670,201
Total assets		5,764,019	1,715,896
Equity			
Issued capital	10	2	2
Retained earnings	10	(344,808)	(145,316)
Total equity		(344,806)	(145,314)
Liabilities			
Amount due to fellow subsidiary undertaking		6,022,445	1,770,860
Trade and other payables	13	86,380	90,350
Total current liabilities		6,108,825	1,861,210
Total liabilities		6,108,825	1,861,210
Total equity and liabilities		5,764,019	1,715,896

The notes on pages 10 to 16 form part of these accounts

Approved by the board at a meeting on 21st February 2007 and signed on its behalf by


Director



Director

Statement of cash flows

For the year ended 31 December 2006

	Note	2006 £	2005 £
Cash flows from operating activities			
Operating loss		(85,063)	(40,310)
Increase in inventories		(3,907,907)	(1,102,877)
Increase in trade and other receivables		(3,653)	(11,105)
Increase in amounts due to fellow subsidiary undertaking		4,050,700	1,325,299
Decrease in trade and other payables		(3,970)	(115,800)
Cash generated from operations		<u>50,107</u>	<u>55,207</u>
Interest paid		(3)	(55,162)
Income taxes received		<u>74,241</u>	<u>(364)</u>
Net cash from operating activities		<u>124,345</u>	<u>(319)</u>
Cash flows from investing activities			
Interest received		<u>962</u>	<u>319</u>
Net cash from investing activities		<u>962</u>	<u>319</u>
Cash flows from financing activities			
Net cash from financing activities			
Net increase in cash and cash equivalents		125,307	
Cash and cash equivalents at 1 January			
Cash and cash equivalents at 31 December	12	<u>125,307</u>	

The notes on pages 10 to 16 form part of these accounts

Notes to the financial statements**1. Significant accounting policies**

Horizon Residential Developments Limited (the "Company") is a company domiciled in Scotland

The financial statements were authorised for issue by the directors on 21st February 2007

(a) Statement of compliance

The 2006 statutory financial statements set out on pages 6 to 16 have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union

The standards adopted are those endorsed by the European Union and effective at the date the IFRS financial statements are approved by the Board

The accounts also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004

(b) Basis of preparation

The financial statements have been prepared on a historical cost basis

(c) Adopted IFRS Not Yet applied

IFRS 7 "Financial Instruments Disclosures" and the "Capital disclosure amendment" to IAS 1 "Presentation of Financial Statements" which are applicable for periods commencing on or after 1 January 2007 have not been applied. The application of these standards in 2006 would not have affected the balance sheet or income statement as they are only concerned with disclosure

(d) Inventories

Inventories are stated at lower of cost and net realisable value

(e) Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short term cash commitments rather than investing or other purposes. Cash and cash equivalents consist of cash balances at banks that are freely available

(f) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses

(g) Impairment

The carrying amounts of the Company's assets, and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement

Notes to the financial statements (continued)**1. Significant accounting policies (continued)****(g) Impairment (continued)****(i) Calculation of recoverable amount**

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Trade and other payables

Trade and other payables are stated at cost.

(h) Expenses**Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method.

Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

(i) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates at the balance sheet date.

Notes to the financial statements (continued)**2. Revenue**

	2006 £	2005 £
Proceeds from sale of land	<u>15,000</u>	<u>50,000</u>

3. Operating expenses

	2006 £	2005 £
Property expenses	<u>84,063</u>	<u>83,158</u>

4. Other expenses

	2006 £	2005 £
Audit fee	<u>1,000</u>	<u>1,000</u>

5. Net financing costs

	2006 £	2005 £
Interest income	<u>962</u>	<u>319</u>
Financial income	<u>962</u>	<u>319</u>
Interest expense	<u>(200,888)</u>	<u>(55,162)</u>
Financial expenses	<u>(200,888)</u>	<u>(55,162)</u>
Net financing costs	<u>(199,926)</u>	<u>(54,843)</u>

Notes to the financial statements (continued)**6. Income tax credit****Recognised in the income statement**

	2006	2005
	£	£
Current tax credit		
Current year credit	(85,497)	(28,546)
Adjustments for prior years	<u>(45,695)</u>	<u>(1,936)</u>
Total income tax credit in income statement	(131,192)	(30,482)

Deferred tax credit

Movement in non allowable provisions	45,695	
Total income tax credit in income statement	<u>(85,497)</u>	<u>(30,482)</u>

Reconciliation of effective tax rate

	2006	2005
	£	£
Loss on ordinary activities before tax	<u>(284,989)</u>	<u>(95,153)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(85,497)	(28,546)
Adjustments in respect of previous periods	<u></u>	<u>(1,936)</u>
Total income tax credit in income statement	<u>(85,497)</u>	<u>(30,482)</u>

7. Current tax assets and liabilities

The current tax asset of £85,497 (2005 £28,546) represents the amount of income taxes receivable in respect of current period

8. Deferred tax assets and liabilities**Recognised deferred tax assets and liabilities**

Deferred tax assets are attributable to the following

	Assets	
	2006	2005
	£	£
Inventories		45,695
Total deferred tax asset		<u>45,695</u>

Movement in temporary differences in the year

	Balance at 1 Jan 2006	Recognised in income	Balance at 31 Dec 2006
	£	£	£
Inventories	45,695	(45,965)	

	Balance at 1 Jan 2005	Recognised in income	Balance at 31 Dec 2005
	£	£	£
Inventories	45,695		45,695

Notes to the financial statements (continued)**9. Trade and other receivables**

	2006 £	2005 £
Trade and other receivables	<u>15,004</u>	<u>11,351</u>

10. Capital and reserves**Reconciliation of movement in capital and reserves****Attributable to equity holders of the parent**

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2005	2	(80,645)	(80,643)
Total recognised income and expense		(64,671)	(64,671)
Balance at 31 December 2005	<u>2</u>	<u>(145,316)</u>	<u>(145,314)</u>
Balance at 1 January 2006	2	(145,316)	(145,314)
Total recognised income and expense		(199,492)	(199,492)
Balance at 31 December 2006	<u>2</u>	<u>(344,808)</u>	<u>(344,806)</u>

Share capital

	Ordinary shares	
	2006 £	2005 £
On issue at 1 January and at 31 December	<u>2</u>	<u>2</u>

At 31 December 2006, the authorised share capital comprised 100 £1 ordinary shares (2005 100)

The holder of the Ordinary Shares is entitled to receive dividends as declared from time to time and is entitled to vote at meetings of the Company

11. Inventories

	2006 £	2005 £
At 1 January	1,630,304	527,427
Additions	3,922,907	1,142,861
Disposals	(15,000)	
Transfer of land		(39,984)
At 31 December	<u>5,538,211</u>	<u>1,630,304</u>

Notes to the financial statements (cont)**12. Cash and cash equivalents**

	2006	2005
	£	£
Cash at bank	125,307	
Cash and cash equivalents in the statement of cash flows	125,307	

13. Trade and other payables

	2006	2005
	£	£
Other trade payables	34,880	89,350
Deferred income	50,500	
Non trade payables and accrued expenses	1,000	1,000
	86,380	90,350

14. Financial instruments

Exposure to credit and interest rate risk arises in the normal course of the Company's business. Credit risk and interest rate risk are managed by the Company's ultimate parent company, HBOS plc. Details of the policies in place can be found in HBOS plc Annual Report and Accounts.

Effective interest rates and maturity analysis

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature.

	Note	2006 Effective interest rate	Total £	6 months or less £	2005 Effective interest rate	Total £	6 months or less £
Cash at Bank	12	2.73%	125,307	125,307			
			125,307	125,307			

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Notes	Carrying amount 2006 £	Fair value 2006 £	Carrying amount 2005 £	Fair value 2005 £
Trade and other receivables	9	15,004	15,004	11,351	11,351
Cash and cash equivalents	12	125,307	125,307		
Amount due to fellow subsidiary undertaking	16	(6,022,445)	(6,022,445)	(1,770,860)	(1,770,860)
Trade and other payables	13	(86,380)	(86,380)	(90,350)	(90,350)
		(5,968,514)	(5,968,514)	(1,849,859)	(1,849,859)
Unrecognised gains					

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Notes to the financial statements (continued)**14. Financial instruments (continued)****Trade and other receivables/payables**

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

15. Parent Undertakings

HBOS plc is the ultimate parent undertaking of Horizon Residential Developments Limited and heads the largest Group into which the accounts of the company are consolidated. The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

The Governor and Company of the Bank of Scotland heads the smallest group into which the accounts of the Company are consolidated. The accounts of Bank of Scotland may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

16. Related parties

The company has a related party relationship with its intermediate parent company The Governor and Company of the Bank of Scotland. A number of banking transactions are entered into with The Governor and Company of the Bank of Scotland in the normal course of business including loans and deposits.

The Company also has a related party relationship with its fellow subsidiary undertaking Horizon Resources Limited. This relationship has arisen due to the provision of funding to the Company.

Details of the related party transactions during the year are disclosed in the table below.

Nature of transaction	Related Party	Outstanding balance at 1 January 2006	Outstanding balance at 31 December 2006	Income/expense included in income statement for the year ended 31 December 2006	2005 Comparative	Disclosure in financial statements
		£	£	£	£	
Bank account	The Governor and Company of Bank of Scotland		125,307			Cash and cash equivalents
Intercompany payable	Horizon Resources Limited	1,770,860	6,022,445			Amount due to fellow subsidiary undertaking
Interest receivable	The Governor and Company of Bank of Scotland			954	319	Financial income
Interest payable	Horizon Resources Limited			200,888	55,162	Financial expenses

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare company financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with IFRSs as adopted by the EU.

The company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the company and the performance for that period, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HORIZON RESIDENTIAL DEVELOPMENTS LIMITED

We have audited the financial statements of Horizon Residential Developments Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. 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 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 17.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and,
- the information given in the Directors' Report is consistent with the financial statements.

John A. Mc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

27 February 2007