HORIZON RESIDENTIAL DEVELOPMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

Company Number SC147997

Directors

J K Cruickshank
J C O'Neil

Secretary

L J Edwards

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 plc
Head Office
The Mound
EDINBURGH
EH1 1YZ

REPORT OF THE DIRECTORS

The Directors submit their report and audited accounts of the Company for the year ended 31 December 2007

Activity

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

Risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the HBOS plc Group ('the Group') Exposure to credit risk and interest rate risk arises in the normal course of the Company's business These risks are discussed below and supplementary qualitative and quantitative information is provided by note 14 to the financial statements

Credit risk

Credit exposures arise principally from cash and cash equivalent balances with another Group company

Interest rate risk

In relation to interest earning financial assets and interest bearing financial liabilities, the Company does not have any significant interest rate exposure as demonstrated by the net interest income sensitivity in note 13

Results and dividends

The profit after tax for the Company for the year to 31 December 2007 was £179,574 (2006 loss of £199,492) No dividends were paid during the year (2006 £nil)

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 Bank of Scotland plc 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

Company secretary

A I Macrae (resigned 31st August 2007)
L J Edwards (appointed 31st August 2007)

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

REPORT OF THE DIRECTORS (continued)

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,

L J Edwards
Secretary

22nd February 2008

Income statement

For the year ended 31 December 2007

	Note	2007 £	2006 £
Revenue	2	**8,317,652**	15,000
Cost of sales	3	**(7,468,267)**	(15,000)
Gross profit		**849,385**	
Operating expenses	4	**(133,074)**	(84,063)
Other expenses	5	**(1,000)**	(1,000)
Net other expenses		**(1,000)**	(1,000)
Operating profit/(loss) before financing costs		**715,311**	(85,063)
Financial income	6	**6,376**	962
Financial expense	6	**(465,152)**	(200,888)
Net financing costs		**(458,776)**	(199,926)
Profit/(loss) before tax		**256,535**	(284,989)
Income tax (expense)/credit	7	**(76,961)**	85,497
Profit/(loss) after tax for the year		**179,574**	(199,492)
Attributable to:			
Equity Shareholders		**179,574**	(199,492)
Profit/(loss) for the year		**179,574**	(199,492)

The notes on pages 9 to 17 form part of these accounts

Statement of recognised income and expense

For the year ended 31 December 2007

	Note	2007 £	2006 £
Profit/(loss) for the year		179,574	(199,492)
Total recognised income and expense for the year	10	179,574	(199,492)
Attributable to.			
Equity Shareholders		179,574	(199,492)
Profit/(loss) for the year		179,574	(199,492)

The notes on pages 9 to 17 form part of these accounts

Balance sheet

As at 31 December 2007

	Note	2007	2006
		£	£
Assets			
Inventories	11	**7,903,863**	5,538,211
Income tax receivable	8		85,497
Trade and other receivables	9	**84,944**	15,004
Cash and cash equivalents	12	**5,731**	125,307
Total current assets		**7,994,538**	5,764,019
Total assets		**7,994,538**	5,764,019
Equity			
Issued capital	10	**2**	2
Retained earnings	10	**(165,234)**	(344,808)
Total equity		**(165,232)**	(344,806)
Liabilities			
Amount due to fellow subsidiary undertaking		**7,146,364**	6,022,445
Corporation tax payable	8	**76,961**	
Trade and other payables	13	**936,445**	86,380
Total current liabilities		**8,159,770**	6,108,825
Total liabilities		**8,159,770**	6,108,825
Total equity and liabilities		**7,994,538**	5,764,019

The notes on pages 9 to 17 form part of these accounts

Approved by the Board at a meeting on 22nd February 2008 and signed on its behalf by

Director

Director

Statement of cash flows

For the year ended 31 December 2007

	Note	2007	2006
		£	£
Cash flows from operating activities			
Operating profit/(loss)		**715,311**	(85,063)
Increase in inventories		**(2,367,973)**	(3,907,907)
Increase in trade and other receivables		**(69,940)**	(3,653)
Increase in amounts due to fellow subsidiary undertaking		**666,785**	4,050,700
Increase/(decrease) in trade and other payables		**852,386**	(3,970)
Cash generated from operations		**(203,431)**	50,107
Interest paid			(3)
Income taxes received		**77,479**	74,241
Net cash from operating activities		**(125,952)**	124,345
Cash flows from investing activities			
Interest received		**6,376**	962
Net cash from investing activities		**6,376**	962
Cash flows from financing activities		-	
Net cash from financing activities			
Net increase in cash and cash equivalents		**(119,576)**	125,307
Cash and cash equivalents at 1 January		**125,307**	
Cash and cash equivalents at 31 December	12	**5,731**	125,307

The notes on pages 9 to 17 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 22nd February 2008

(a) Statement of compliance

The financial statements of Horizon Residential Developments Ltd comprise the Income Statement, Balance Sheet, Statement of Cash Flows and Statement of Recognised Income and Expense together with the related Notes to the Accounts The 2007 statutory financial statements set out on pages 5 to 17 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS')

As the Company does not utilise the 'carve out' in IAS 39 adopted by the European Union, the financial statements comply with International Financial Reporting Standards The standards adopted by the Company 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 in 2007

The following IFRS standards have been applied in 2007 IFRS 7 "Financial Instruments Disclosures" and the amendment to IAS 1 "Presentation of Financial Statements" on capital disclosure There is no material financial impact arising from the application of these standards and interpretations

(d) IFRS not yet applied

The following standard has not yet been adopted by the European Union, is not effective for the year ended 31 December 2007 and has not been applied in preparing the financial statements

IAS 1 'Presentation of Financial Statements' which is effective for periods commencing on or after 1 January 2009 The application of this revised standard in 2007 would not have had any financial impact on the financial statements It will impact the presentation and format of the primary statements and notes and these disclosures will be revised accordingly in the 2009 financial statements

(e) Inventories

Inventories are stated at lower of cost and net realisable value

(f) 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

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(g) Trade and other receivables

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

(h) 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

(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

(i) Trade and other payables

Trade and other payables are stated at cost

(j) Revenue

Revenue is recognised on conclusion of sale of houses or land

(k) Net financing costs

Net finance costs relate to interest income and interest payable on borrowings and are recognised in the income statement using the effective interest method The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently

Interest income and interest payable presented in the income statement include interest on financial assets or liabilities at amortised cost on an effective rate basis

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(l) 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, based on tax rates that are enacted or substantially enacted at the balance sheet date

2 Revenue

	2007	2006
	£	£
House sales	**8,317,652**	
Proceeds from sale of land		15,000
	8,317,652	15,000

3. Cost of sales

	2007	2006
	£	£
House and land sales	**6,604,022**	15,000
Management fee	**845,885**	
Other selling costs	**18,360**	
	7,468,267	15,000

4 Operating expenses

	2007	2006
	£	£
Property expenses	**133,074**	84,063

5. Other expenses

	2007	2006
	£	£
Audit fee	**1,000**	1,000

Notes to the financial statements (continued)

6. Net financing costs

	2007	2006
	£	£
Interest income from financial assets at amortised cost	**6,376**	962
Financial income	**6,376**	962
Interest expense from financial liabilities at amortised cost	**(465,152)**	(200,888)
Financial expense	**(465,152)**	(200,888)
Net financing costs	**(458,776)**	(199,926)

7 Income tax credit

Recognised in the income statement

	2007	2006
	£	£
Current tax (expense)/credit		
Current year (expense)/credit	**(76,961)**	85,497
Adjustments for prior years		45,695
	(76,961)	131,192
Deferred tax credit		
Movement in non allowable provisions		(45,695)
		(45,695)
Total income tax (expense)/credit in income statement	**(76,961)**	85,497

Reconciliation of effective tax rate

	2007	2006
	£	£
Profit/(loss) on ordinary activities before tax	**256,535**	(284,989)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**(76,961)**	85,497
Total income tax (expense)/credit in income statement	**(76,961)**	85,497

8. Current tax asset and liability

The current tax liability of £76,961 (2006 £85,497 asset) represents the amount of income taxes payable/receivable in respect of current period

9. Trade and other receivables

	2007	2006
	£	£
Trade and other receivables	**84,944**	15,004

Notes to the financial statements (continued)

10. Total equity

The distributable reserves of the Company are managed through the Group Capital and Funding Policy in order to maximise capital efficiency within the Group Dividends are paid from reserves available for distribution to the parent undertaking twice a year according to parameters set out at a Group level so as to avoid any build up of reserve balances within the Company

Reconciliation of movement in capital and reserves

Attributable to equity Shareholders of the parent

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2006	2	(145,316)	(145,314)
Total recognised income and expense		(199,492)	(199,492)
Balance at 31 December 2006	2	(344,808)	(344,806)
Balance at 1 January 2007	2	(344,808)	(344,806)
Total recognised income and expense		179,574	179,574
Balance at 31 December 2007	**2**	**(165,234)**	**(165,232)**

Share capital

	Ordinary shares 2007 £	2006 £
On issue at 1 January and at 31 December – fully paid	2	2

At 31 December 2007, the authorised share capital comprised 100 £1 ordinary shares (2006 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

	2007 £	2006 £
At 1 January	**5,538,211**	1,630,304
Additions	**8,969,675**	3,922,907
Disposals	**(6,604,023)**	(15,000)
At 31 December	**7,903,863**	5,538,211

12. Cash and cash equivalents

	2007 £	2006 £
Cash at bank	**5,731**	125,307
Cash and cash equivalents in the statement of cash flows	**5,731**	125,307

Notes to the financial statements (continued)

13. Trade and other payables

	2007 £	2006 £
Other trade payables	854,045	34,880
Deferred income	81,400	50,500
Non trade payables and accrued expenses	1,000	1,000
	936,445	86,380

14 Financial instruments

Credit risk

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due Credit exposures arise in the normal course of the Company's business, principally from cash and cash equivalent balances with another Group company

The table below sets out the maximum exposure to credit risk at the balance sheet date

	2007 £	2006 £
Cash and cash equivalents	5,731	125,307
	5,731	125,307

Cash and cash equivalents are carried at amortised cost, whereby any indication of impairment would result in an immediate write-down of the carrying value These instruments consist of bank balances placed within the Group and have an internal credit rating of better than satisfactory At the reporting date none of these balances were considered past due or impaired, neither were there any financial assets that would otherwise be past due or impaired had their terms not have been renegotiated

Market risk

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors At the reporting date the Company's only exposure to market risk arose from interest rate risk, as all transactions and balances were denominated in Sterling and no equity share investments were held

Interest rate risk

Interest rate risk exists where the Company's financial assets and liabilities have interest rates set under different bases, or which reset at different times

The Company's cash and cash equivalent balances generate variable interest income and arise from the reinvestment of surplus liquid funds The financial liabilities comprise variable rate borrowings provided by another Group company and they are used to finance the Company's inventories The principal internal control metric is the net interest income (NII) sensitivity which measures how much of the current projection for the next 12 months' NII would alter if different assumptions are made about the future levels of interest rates

Notes to the financial statements (continued)

14. Financial instruments (continued)

This table sets out the sensitivity of the Company's profit before tax over a 12 month period to an immediate up and down 25 basis points change to all interest rates as at the balance sheet date

	2007	2006
	£000	£000
Impact of +25 bps shift	**(18)**	(15)
Impact of – 25 bps shift	**18**	15

The measure, however, is simplified in that it assumes all interest rates, for all currencies and maturities, move at the same time and by the same amount Also, it does not recognise the impact of management actions that, in the event of an adverse rate movement, could reduce the impact on NII

Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost This risk can arise from mismatches in the timing of cash flows relating to assets, liabilities and off balance sheet instruments

The Company's short term liquidity requirements are supported by a facility with another Group company subject to internal limits Overall liquidity of the Group is managed centrally

All funding is provided by the Group and the table below sets out the cash flows payable by the Company in respect of financial liabilities, by remaining contractual undiscounted repayments of principal and interest at the balance sheet date

As at 31 December 2007

Maturity of contractual liabilities	Up to 1 month	1 3 months	3 12 months	Total
	£	£	£	£
Amounts due to fellow subsidiary undertakings	7,189,192			7,189,192
Trade and other payables		936,445		936,445
Total liabilities	7,189,192	936,445		8,125,637

As at 31 December 2006

Maturity of contractual liabilities	Up to 1 month	1 3 months	3 12 months	Total
	£	£	£	£
Amounts due to fellow subsidiary undertaking	6,054,748			6,054,748
Trade and other payables	84,665	1,000	715	86,380
Total liabilities	6,139,413	1,000	715	6,141,128

Notes to the financial statements (continued)

14. Financial instruments (continued)

Fair values

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

	Notes	Carrying amount 2007 £	Fair value 2007 £	Carrying amount 2006 £	Fair value 2006 £
Trade and other receivables	9	**84,944**	**84,944**	15,004	15,004
Cash and cash equivalents	12	**5,731**	**5,731**	125,307	125,307
Amount due to fellow subsidiary undertaking	16	**(7,146,364)**	**(7,146,364)**	(6,022,445)	(6,022,445)
Trade and other payables	13	**(936,445)**	**(936,445)**	(86,380)	(86,380)
		(7,992,134)	**(7,992,134)**	(5,968,514)	(5,968,514)
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

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 Property Investments 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

On 17 September 2007 in accordance with the provisions of the HBOS Group Reorganisation Act 2006 ('the Act'), the Governor and Company of the Bank of Scotland registered as a public limited company under the Companies Act and changed its name to Bank of Scotland plc On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of CAPITAL BANK plc, Halifax plc and HBOS Treasury Services plc transferred to Bank of Scotland plc

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

Notes to the financial statements (continued)

16. Related parties

The Company has a related party relationship with its intermediate parent company Bank of Scotland plc A number of banking transactions are entered into with Bank of Scotland plc 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 2007**	**Outstanding balance at 31 December 2007**	**Income/ expense included in income statement for the year ended 31 December 2007**	**Income/ expense included in income statement for the year ended 31 December 2006**	**Disclosure in financial statements**
		£	**£**	**£**	**£**	
Bank account	Bank of Scotland plc	125,307	5,731			Cash and cash equivalents
Intercompany payable	Horizon Resources Limited	6,022,445	7,146,364			Amount due to fellow subsidiary undertaking
Interest receivable	Bank of Scotland plc			6,376	954	Financial income
Interest payable	Horizon Resources Limited			465,152	200,888	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 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Cash Flows, 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 18

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 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and,
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit plc
Chartered Accountants
Registered Auditor
Edinburgh

22 February 2008