

FETTES DEVELOPMENTS LIMITED

REPORT AND ACCOUNTS

31 December 2001



Company Number 147997

REPORT OF THE DIRECTORSDirectors

J. K. Cruickshank

J.C. O'Neil

The Directors have pleasure in submitting their report and statement of accounts of the Company for the ten month period ended 31 December 2001.

Activity and Review of Business

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

The Company has changed its accounting reference date to 31 December from 28 February to align its year-end with that of its ultimate parent undertaking, HBOS plc. Pursuant to schemes of arrangement under section 425 of the Companies Act Bank of Scotland (the previous ultimate parent undertaking) and Halifax Group became subsidiaries of HBOS plc on 10 September 2001. The merged Group has a 31 December accounting reference date.

These accounts are accordingly for a 10 month period.

Results and Dividend

The loss for the period after taxation amounted to £163,130 (12 months to 28 February 2001 profit - £146,792). The Directors do not propose the payment of a dividend.

Directors and their interests

The Directors at the date of this report are stated above. Both Directors served throughout the period.

No Director had a beneficial interest in the shares of the Company during the period.

No Director had a beneficial interest in the shares of any undertaking within the Bank of Scotland Group up to 10 September 2001, or within HBOS plc Group, from that date, to the end of the period, other than as below.

Under the terms of the merger, on 10 September 2001 each Halifax Group share or Bank of Scotland ordinary stock unit was exchanged for one HBOS plc ordinary share.

| | <u>At 28 February 2001</u> | <u>At 31 December 2001</u> |
|-------------------|---|------------------------------------|
| | <u>Ordinary Stock Units of 25p each</u> | <u>Ordinary Shares of 25p each</u> |
| | <u>In Bank of Scotland</u> | <u>In HBOS plc</u> |
| J. K. Cruickshank | 18,969 | 19,768 |
| J. C. O'Neil | 6,574 | 6,651 |

REPORT OF THE DIRECTORS (Continued)

Options to subscribe for Ordinary stock units/ Ordinary shares of Bank of Scotland/HBOS plc were granted to or exercised by Directors during the period to 31 December 2001 as follows:

Executive Share Options held by Directors

| | <u>#Options held as at 1 March 2001</u> | <u>Options granted</u> | <u>Options exercised</u> | <u>*Options held as at 31 December 2001</u> |
|-------------------|---|----------------------------|------------------------------|---|
| J. K. Cruickshank | 11,000 | - | - | 11,000 |
| J. C. O'Neil | 2,000 | - | - | 2,000 |

Ordinary Stock units of 25p each in The Governor and Company of Bank of Scotland

* Ordinary Shares of 25p each in HBOS plc

HBOS plc policy is to make an annual grant of options over the ten year life of the Executive Share Option Scheme.

Savings Related Share Options held by Directors

| | <u>#Options held as at 1 March 2001</u> | <u>Options granted</u> | <u>Options exercised</u> | <u>*Options held as at 31 December 2001</u> |
|-------------------|---|----------------------------|------------------------------|---|
| J. K. Cruickshank | 5,032 | 562 | 898 | 4,696 |
| J. C. O'Neil | 5,167 | 222 | 528 | 4,861 |


Ordinary Stock units of 25p each in The Governor and Company of Bank of Scotland

* Ordinary Shares of 25p each in HBOS plc

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,
Secretary.

Registered Office
Level 2
New Ueberior House,
11 Earl Grey Street,
Edinburgh.
EH3 9BN

5 February 2002

PROFIT AND LOSS ACCOUNTFor the ten month period ended 31 December 2001

| | | <u>10 months to</u> <u>31 December</u> <u>2001</u> <u>£</u> | <u>12 months to</u> <u>28 February</u> <u>2001</u> <u>£</u> |
|--|--------------|--|--|
| | <u>Notes</u> | | |
| Turnover | | 254,611 | 2,475,205 |
| Cost of sales | | (539,520) | (2,270,198) |
| Gross (loss)/profit | | <u>(284,909)</u> | <u>205,007</u> |
| Interest receivable from ultimate parent undertaking | | 4,462 | 5,752 |
| Interest payable to ultimate parent undertaking | | (96) | (26) |
| Other Income | | 67,500 | - |
| Administrative expenses | | (20,000) | (1,030) |
| (Loss)/Profit on ordinary activities before taxation | 2 | <u>(233,043)</u> | <u>209,703</u> |
| Taxation | 3 | 69,913 | (62,911) |
| (Loss)/Profit on ordinary activities after taxation | | <u>(163,130)</u> | <u>146,792</u> |
| Profit and Loss account 1 March 2001 | | 184,501 | 37,709 |
| Profit and Loss account 31 December 2001 | | <u><u>21,371</u></u> | <u><u>184,501</u></u> |

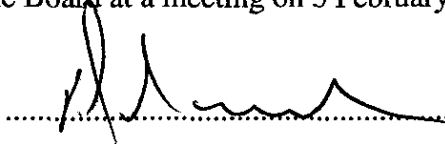
All gains and losses arising during the period have been recognised in the profit and loss account and derive from continuing operations of the Company.


The notes on pages 5 to 7 form part of these accounts.

BALANCE SHEETAs at 31 December 2001

| | <u>Notes</u> | <u>31 December</u> <u>2001</u> <u>£</u> | <u>28 February</u> <u>2001</u> <u>£</u> |
|---|--------------|---|---|
| <u>Current Assets</u> | | | |
| Stocks | 4 | 562,070 | 1,148,806 |
| Other debtors | | - | 667,100 |
| Group taxation relief receivable | | 69,990 | - |
| | | <u>632,060</u> | <u>1,815,906</u> |
| <u>Creditors: amounts falling due within one year</u> | 5 | <u>(610,687)</u> | <u>(1,631,403)</u> |
| <u>Total Assets less Current Liabilities</u> | | <u>21,373</u> | <u>184,503</u> |
| <u>Share Capital and Reserves</u> | | | |
| Share Capital | 6 | 2 | 2 |
| Profit and Loss account | | 21,371 | 184,501 |
| <u>Equity Shareholders' Funds</u> | 7 | <u>21,373</u> | <u>184,503</u> |

Approved by the Board at a meeting on 5 February 2002 and signed on its behalf by:

.....Director

.....Director

The notes on pages 5 to 7 form part of these accounts.

NOTES TO THE ACCOUNTS1. Accounting policies1.1 Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with currently applicable accounting standards.

1.2 Turnover

Turnover, which is stated net of VAT, represents amounts invoiced to third parties and is brought into account when sales have been contractually completed. Turnover is generated wholly within the United Kingdom.

1.3 Stock

Stock is stated at lower of cost and net realisable value. Cost includes the cost of land, direct construction costs and capitalised interest.

1.4 Interest

Interest is taken into account when charged or credited by the lender. Interest payable is capitalised to the extent that it is clearly attributable to properties under construction.

1.5 Cost of Sales

Cost of sales is calculated as the proportion of the square footage of units sold when compared to the total square footage available for sale as applied to the total estimated costs of completion (including costs to complete). Cost of sales includes an element of profit from the development contract attributable to the developer.

1.6 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. (Loss)/ Profit on ordinary activities before taxation

The (loss)/profit on ordinary activities before taxation is stated after charging:

| | <u>10 months to</u> <u>31 December</u> | <u>12 months to</u> <u>28 February</u> |
|------------|---|---|
| | <u>2001</u> | <u>2001</u> |
| | <u>£</u> | <u>£</u> |
| Audit fees | <u>1,000</u> | <u>1,000</u> |

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

NOTES TO THE ACCOUNTS (Continued)3. Taxation

The (credit)/charge for taxation is based on the (loss)/profit arising from ordinary activities and comprises:

| | <u>10 months to</u> <u>31 December</u> | <u>12 months to</u> <u>28 February</u> |
|---------------------------------|---|---|
| | <u>2001</u> <u>£</u> | <u>2001</u> <u>£</u> |
| Corporation tax (credit)/charge | <u>(69,913)</u> | <u>62,911</u> |

4. Stocks

| | <u>31 December</u> <u>2001</u> <u>£</u> | <u>28 February</u> <u>2001</u> <u>£</u> |
|-----------------------------------|---|---|
| Land | 474,826 | 492,412 |
| Work in progress and other stocks | 87,244 | 656,394 |
| | <u>562,070</u> | <u>1,148,806</u> |

Stocks include interest capitalised of £87,244 (28 February 2001 - £74,306).

5. Creditors: amounts falling due within one year

| | <u>31 December</u> <u>2001</u> <u>£</u> | <u>28 February</u> <u>2001</u> <u>£</u> |
|----------------------------------|---|---|
| Trade creditors | 205,151 | 711,158 |
| Amounts due to fellow subsidiary | 404,536 | 856,411 |
| Accruals | 1,000 | 1,000 |
| Corporation tax | - | 62,834 |
| | <u>610,687</u> | <u>1,631,403</u> |

NOTES TO THE ACCOUNTS (Continued)6. Share Capital

| | <u>31 December</u> <u>2001</u> £ | <u>28 February</u> <u>2001</u> £ |
|---|--|--|
| <u>Authorised</u> | | |
| 100 ordinary shares of £1 each | <u>100</u> | <u>100</u> |
| <u>Allotted, called up and fully paid</u> | | |
| 2 ordinary shares of £1 each | <u>2</u> | <u>2</u> |

7. Reconciliation of Equity Shareholders' Funds

| | <u>31 December</u> <u>2001</u> £ | <u>28 February</u> <u>2001</u> £ |
|---|--|--|
| (Loss)/Profit attributable to Equity Shareholders | (163,130) | 146,792 |
| Equity Shareholders' Funds at 1 March 2001 | 184,503 | 37,711 |
| Equity Shareholders' Funds at 31 December 2001 | <u>21,373</u> | <u>184,503</u> |

8. Cash flow statement

The Company has taken advantage of the exemption available under Financial Reporting Standard 1 not to prepare a cash flow statement as it is over 90% owned by the HBOS plc group.

9. Related party transactions

The Company has taken advantage of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with related parties that are part of the HBOS plc group.

10. Parent undertakings

The Company's parent undertaking is Horizon Capital 2000 Limited and its ultimate parent undertaking is HBOS plc. The Company is included in the consolidated accounts of HBOS plc and copies of its Annual Report and Accounts may be obtained from its Head Office at The Mound, Edinburgh, EH1 1YZ.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FETTES DEVELOPMENTS LIMITED

We have audited the accounts on pages 3 to 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 8, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if 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 transactions with the company is not disclosed.

Basis of audit 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 31 December 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

5 February 2002