

HORIZON CAPITAL LIMITED

REPORT AND ACCOUNTS

31 DECEMBER 2001

Company Number 145063



REPORT OF THE DIRECTORSDirectors

J. Barkley
P. Cummings
H. C. McMillan
G. E. Mitchell

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

Activity

The company is an investment holding company. No change is expected in these activities.

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 profit for the period after taxation amounted to £5,830,833 (12 months to February 2001 - £77,442). The Directors do not recommend the payment of any dividend.

Directors and their interests

The Directors at the date of this report are stated above. All of the 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. Barkley	85,378	65,909
P. Cummings	19,458	25,745
H. C. McMillan	36,741	62,554
G. E. Mitchell	31,830	32,833

Directors and their interests (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:

<u>Executive Share Options held by Directors</u>			
	<u>#Options held as at</u>	<u>Options</u>	<u>*Options</u>
	<u>1 March</u>	<u>granted</u>	<u>held as at</u>
	<u>2001</u>		<u>31 December</u>
			<u>2001</u>
J. Barkley	53,000	-	53,000
P. Cummings	72,500	-	53,000
H. C. McMillan	83,800	-	60,800
G. E. Mitchell	220,000	-	220,000

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.

<u>Savings Related Share Options held by Directors</u>			
	<u>#Options held as at</u>	<u>Options</u>	<u>*Options</u>
	<u>1 March</u>	<u>granted</u>	<u>held as at</u>
	<u>2001</u>		<u>31 December</u>
			<u>2001</u>
J. Barkley	3,721	1,129	4,322
P. Cummings	3,190	-	3,190
H. C. McMillan	4,597	672	3,505


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 the provisions of Section 386 of the Companies Act 1985, 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

18 February 2002

2nd Floor
New Ueberior House,
11 Earl Grey Street,
Edinburgh.
EH3 9BN

PROFIT AND LOSS ACCOUNTFor the period ended 31 December 2001

		10 Months to 31 December	12 Months to 28 February
		<u>2001</u>	<u>2001</u>
	<u>Notes</u>	<u>£</u>	<u>£</u>
Other income		15,000	142,319
Interest receivable from associated undertakings		1,127,125	1,439,281
Interest receivable from subsidiary undertakings		-	61,005
Interest payable to parent undertaking		(652,866)	(1,221,388)
Operating expenses		(151,047)	(308,391)
Dividend income		5,600,000	-
Amounts written off investments		(59,340)	-
Recoveries of amounts written off		68,116	-
Profit on ordinary activities before taxation	2	5,946,988	112,826
Taxation	3	(116,155)	(35,384)
Profit on ordinary activities after taxation		5,830,833	77,442
Profit and Loss Account at 1 March 2001		77,442	-
Profit and Loss Account at 31 December 2001		<u>5,908,275</u>	<u>77,442</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 8 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>Fixed Assets</u>			
Investments	4	500,003	22,000,003
<u>Current Assets</u>			
Taxation recoverable		-	196,006
Amounts due from associated undertaking		14,249,315	12,382,334
Deferred taxation	5	648,000	-
Other debtors		396	177,270
		<u>14,897,711</u>	<u>12,755,610</u>
<u>Creditors: Amounts falling due within one year</u>			
Amounts due to parent undertaking		(5,955,663)	(31,493,449)
Taxation payable		(1,237,858)	-
Other creditors and accruals		(135,818)	(273,622)
		<u>(7,329,339)</u>	<u>(31,767,071)</u>
Net current assets /(liabilities)		<u>7,568,372</u>	<u>(19,011,461)</u>
Total assets less current liabilities		<u>8,068,375</u>	<u>2,988,542</u>
<u>Provisions for liabilities and charges</u>			
Deferred taxation	5	-	(751,000)
Other provisions	6	(2,160,000)	(2,160,000)
Net Assets		<u>5,908,375</u>	<u>77,542</u>
<u>Share Capital and Reserves</u>			
Share Capital	7	100	100
Profit and Loss account		5,908,275	77,442
Equity Shareholders' Funds	8	<u>5,908,375</u>	<u>77,542</u>

Approved by the Board at a meeting on 18 February 2002 and signed on its behalf by:

.....Director

.....Director

The notes on pages 5 to 8 form part of these accounts

NOTES TO THE ACCOUNTS1. Accounting policyAccounting Convention

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

Interest

Interest paid and received is taken into account on an accruals basis.

Investment Income

Income from investments, other than from associated undertakings, is included, together with any related tax credit, in the profit and loss account on a cash basis.

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.

Investments

Investments are stated at cost or, where it is estimated that the value of an investment has been permanently impaired, at estimated realisable value.

2. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging:

	<u>10 Months to</u> <u>31 December 2001</u>	<u>12 Months to</u> <u>28 February 2001</u>
	£	£
Audit fees	<u>2,000</u>	<u>2,000</u>

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

3. Taxation

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

	<u>10 Months to</u> <u>31 December</u> <u>2001</u>	<u>12 Months to</u> <u>28 February</u> <u>2001</u>
	£	£
Corporation Tax	1,515,155	35,384
Deferred Tax	(1,399,000)	-
	<u>116,155</u>	<u>35,384</u>

NOTES TO THE ACCOUNTS (continued)4. Investments

	<u>Unlisted Shares</u>	<u>Loans</u>	<u>Total</u>
	£	£	£
At 1 March 2001	500,003	21,500,000	22,000,003
Additions	59,340	-	59,340
Disposals	-	(21,500,000)	(21,500,000)
Amounts written off investments	(59,340)	-	(59,340)
At 31 December 2001	<u>500,003</u>	<u>-</u>	<u>500,003</u>

The Company's unlisted shares relate to the following:

<u>Registered in UK</u>	<u>Class of Shares</u>		<u>Proportion of Class Held %</u>	<u>Principal Area Of Operations</u>
Silverbank Development Company Limited	'A' Ordinary	Joint Venture	100	Scotland
Compart Plc	Deferred Ordinary	Associate	100	England
Clowance Holdings Ltd	'A' Ordinary	Joint Venture	100	Scotland

5. Deferred Taxation

Deferred taxation which is also the full potential deferred tax (asset)/liability arises from:

	<u>December 2001</u>	<u>February 2001</u>
	£	£
Due to timing differences	<u>(648,000)</u>	<u>751,000</u>

The deferred taxation movement for the year is as follows:

	£
At 1 March 2001	751,000
Profit and loss credit	(1,399,000)
At 31 December 2001	<u>(648,000)</u>

NOTES TO THE ACCOUNTS (continued)6. Provisions for liabilities and charges

	<u>December 2001</u>
	£
As at 1 March 2001 and at 31 December 2001	<u>2,160,000</u>

7. Share Capital

	<u>December 2001</u>	<u>February 2001</u>
	£	£
<u>Authorised</u>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<u>Allotted and called up</u>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

8. Reconciliation of Equity Shareholders' Funds

	<u>December 2001</u>	<u>February 2001</u>
	£	£
Profit attributable to Equity Shareholders	5,830,833	77,442
Equity Shareholders' Funds at 1 March 2001	77,542	100
Equity Shareholders' Funds at 31 December 2001	<u>5,908,375</u>	<u>77,542</u>

9. Contingent Liabilities

As at 31 December 2001 the Company had underwritten £9,908,575 (February 2001 - £7,623,059) of lending provided by its parent undertaking. To the extent not provided for, the Directors do not expect any liability to arise under these commitments.

10. 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.

11. 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.

NOTES TO THE ACCOUNTS (continued)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 with its ultimate parent undertaking being HBOS plc. The Company is included in the group accounts of HBOS plc and copies of its Annual Report and Accounts are available 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
HORIZON CAPITAL LIMITED

We have audited the accounts on pages 3 to 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 9, 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 profit 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
18 February 2002