

HORIZON CAPITAL LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010



Company Number SC145063

Directors

A Cumming

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 Director submits his report and audited accounts of the Company for the year ended 31 December 2010.

Activity and review of business

The Company operated as an investment holding company. The Company sold its remaining investment in Silverbank Development Company Ltd during 2009. There are no plans to make any further investments.

During 2009 the Company discovered a series of transactions through a currency bank account in the name of the Company. This account and these transactions had not previously been included in the statutory accounts of the Company. The impact of these changes is described further in Note 13 to the accounts. An investigation is currently ongoing but to date has found deficiencies in the accounting records in respect of these transactions and documentation to support all transactions is not as yet available.

Risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the Lloyds Banking Group ('the group'). These risks are discussed below. 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 12 to the financial statements.

Credit risk

Credit exposures arise principally from trade and other receivables due from associated undertakings.

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 12.

Results and dividends

The profit for the year after tax for the Company to 31 December 2010 was £25,150 (2009: loss £102,443). No dividends were paid in the year (2009: £nil).

Going concern

As set out in the 'Principles underlying Going Concern Assumption' of the Basis of Preparation section of the Notes to the Accounts, the Directors are satisfied that the Group 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.

Policy and practice on payment of suppliers

The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref. URN 04/606.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the Company owed no amounts to trade creditors as at 31 December 2010, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2009: nil).

Directors and their interests

The Director at the date of this report is stated on page 2.

REPORT OF THE DIRECTORS (continued)

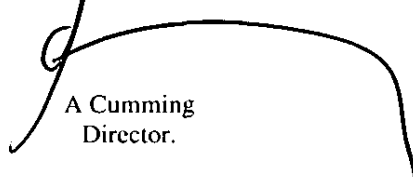
Company secretary

L J Edwards

Audit information

The Director who held office at the date of approval of this Directors' Report confirms that, with reference to Note 13, he has taken all the steps that he ought to have taken as a Director to make himself as fully aware as possible of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board,



A Cumming
Director.

4th October 2011

Income Statement**For the year ended 31 December 2010**

	Note	2010 £	2009 £
Administrative expenses	3	(200)	(3,552)
Other income	2	-	48
Other expenses	4	(12,600)	(26,650)
Net other income		(12,800)	(26,602)
Operating (loss) /profit before financing costs		(12,800)	(30,154)
Impairment loss		(29,387)	-
Financial income	5	1,065	133,797
Financial expenses	5	-	(53,078)
Foreign currency gain / (loss)	5	76,130	(191,398)
Net financing costs		77,195	(110,679)
Profit/(loss) before tax		35,008	(140,833)
Income tax	6	(9,858)	38,390
Profit/(loss) for the year		25,150	(102,443)
Attributable to:			
Equity shareholders		25,150	(102,443)
Profit/(loss) for the year		25,150	(102,443)

The notes on pages 10 to 20 form part of these accounts.

Statement of Comprehensive Income**For the year ended 31 December 2010**

	Note	2010 £	2009 £
Profit for the year		<u>25,150</u>	<u>(102,443)</u>
Total comprehensive income for the year		<u>25,150</u>	<u>(102,443)</u>

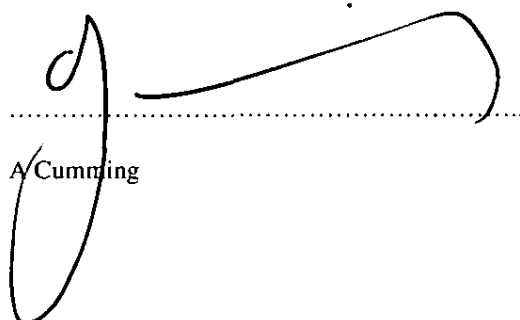
The notes on pages 10 to 20 form part of these accounts.

Balance Sheet**As at 31 December 2010**

	Note	2010 £	2009 £
Trade and other receivables	8	1,288,005	1,370,014
Cash and cash equivalents	9	709,240	598,423
Total current assets		1,997,245	1,968,437
Total assets		1,997,245	1,968,437
Equity			
Issued capital	10	100	100
Retained earnings		1,359,897	1,334,747
Total equity		1,359,997	1,334,847
Liabilities			
Current tax payable	7	615,648	605,790
Trade and other payables	11	21,600	27,800
Total current liabilities		637,248	633,590
Total liabilities		637,248	633,590
Total equity and liabilities		1,997,245	1,968,437

The notes on pages 10 to 20 form part of these accounts.

Approved by the Board by written resolution and signed on its behalf by:



A. Cumming

Director

4th October 2011

Statement of Changes in Equity

For the year ended 31 December 2010

	Share Capital £	Retained Earnings £	Total Equity £
Balance at 1 January 2009	100	1,437,190	1,437,290
Loss for the year			
Loss after taxation	-	(102,443)	(102,443)
Total comprehensive income	-	(102,443)	(102,443)
Balance at 1 January 2010	100	1,334,747	1,334,847
Loss for the year			
Profit after taxation	-	25,150	25,150
Total comprehensive income	-	25,150	25,150
Balance at 31 December 2010	100	1,359,897	1,359,997

The notes on pages 10 to 20 form part of these accounts.

Statement of Cash Flows**For the year ended 31 December 2010**

	Note	2010	2009
		£	£
Cash flows from operating activities			
Operating (loss)/profit		(12,800)	(30,154)
Decrease in trade and other receivables		111,503	15,553,112
Increase / (decrease) in trade and other payables		(6,200)	26,650
Cash generated from operations		92,503	15,549,608
Interest paid		-	(91,466)
Income taxes refunded		-	12,485
Net cash from operating activities		-	15,470,627
Cash flows from investing activities			
Sale of investments		-	500,002
Interest received		1,065	133,800
Net cash from investing activities		1,065	633,802
Cash flows from financing activities			
Dividends paid		-	-
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		93,568	16,104,429
Effect of exchange rate fluctuations on cash held		17,249	(43,416)
Cash and cash equivalents at 1 January		598,423	(15,462,590)
Cash and cash equivalents at 31 December	9	709,240	598,423

The notes on pages 10 to 20 form part of these accounts.

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

Horizon Capital Limited (the "Company") is a company domiciled in the UK.

The financial statements were authorised for issue by the Director on 4th October 2011.

(a) Going concern

The Company is reliant on funding provided by Bank of Scotland plc. Notwithstanding the improvement in market liquidity during 2010, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position. The Directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

(b) Statement of compliance

The financial statements of Horizon Capital Limited comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Statement of Cash Flows together with the related Notes to the financial statements.

The 2010 statutory financial statements set out on pages 5 to 20 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. Consequently, the financial statements comply with International Financial Reporting Standards.

(c) Basis of preparation

The financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair values: investments property.

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

- (i) IFRS 3 'Business Combinations'. This revised standard applies prospectively to business combinations from 1 January 2010. The revised standard continues to require the use of the acquisition method of accounting for business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, some contingent payments are subsequently remeasured at fair value through income, goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the non-controlling interest, and all transaction costs are expensed (other than those in relation to the issuance of debt instruments or share capital).
- (ii) IAS 27 'Consolidated and Separate Financial Statements'. Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control; any remaining interest in an investee is remeasured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.
- (iii) IFRIC 17 'Distributions of Non-cash Assets to Owners'. Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative).
- (iv) Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items'. Clarifies how the principles underlying hedge accounting should be applied in particular situations.
- (v) 'Improvements to IFRSs' (issued April 2009). Sets out minor amendments to IFRS standards as part of the annual improvements process.

Notes to the financial statements (continued)**1. Significant accounting policies (continued)****(d) IFRS not yet applied**

The following pronouncements will be relevant to the Company but were not effective at 31 December 2009 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the Company. The initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements.

- (i) IFRS 9 'Financial Instruments: Classification and Measurement'. Replaces those parts of IAS 39 'Financial Instruments: Recognition and Measurement' relating to the classification, measurement and derecognition of financial assets and liabilities. It requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity investment categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.
- (ii) IFRS 9 is the initial stage of the project to replace IAS 39. Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39. The effective date of the standard is annual periods beginning on or after 1 January 2013.
- (iii) Amendment to IAS 32 'Financial Instruments: Presentation – Classification of Rights Issues'. Requires rights issues denominated in a currency other than the functional currency of the issuer to be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is effective for annual periods beginning on or after 1 February 2010.
- (iv) IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'. Clarifies that when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor, a gain or loss is recognised in the income statement representing the difference between the carrying value of the financial liability and the fair value of the equity instruments issued; the fair value of the financial liability is used to measure the gain or loss where the fair value of the equity instruments cannot be reliably measured. The interpretation is effective for annual periods beginning on or after 1 July 2010 and is consistent with Lloyds Banking Group's existing accounting policy.
- (v) 'Improvements to IFRSs' (issued May 2010). Sets out minor amendments to IFRS standards as part of the annual improvements process. The effective dates vary on a standard by standard basis but none are effective any earlier than annual periods beginning on or after 1 July 2010.
- (vi) Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement'. Applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements and permits such an entity to treat the benefit of such an early payment as an asset. The amendment is effective for annual periods beginning on or after 1 January 2011.
- (vii) Amendments to IAS 24 'Related Party Disclosures'. Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities. The revised standard is effective for annual periods beginning on or after 1 January 2011.
- (viii) Amendments to IFRS 7 'Financial Instruments: Disclosures – Disclosures-Transfers of Financial Assets'. Requires additional disclosures in respect of risk exposures arising from transferred financial assets.

Notes to the financial statements (continued)**1. Significant accounting policies (continued)****(e) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

During 2009 a foreign currency bank account in the name of Horizon Capital Ltd which had been used to manage a series of transactions on behalf of the company with external parties was discovered. Due to limited records of these transactions, estimates and judgements have been made particularly surrounding categorisation of these transactions and recoverability of assets recognised from those transactions. Further detail on the value and impact of these transactions is given in Note 13. In particular, there is uncertainty over the recoverability of the balance included under 'Trade and other receivables'. The Company is preparing legal action to obtain repayment of this amount. The outcome of such legal action is by nature uncertain but at present the Company believes the amount should be fully recoverable. The recoverability will be monitored as the case preparation progresses. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

(f) Investments

Jointly controlled entities are entities over which the Company has joint control under a contractual arrangement with other parties.

The attributable share of results of jointly controlled entities, generally based on audited accounts, are included in the consolidated financial statements of the Company's ultimate parent undertaking, Lloyds Banking Group plc, using the equity method of accounting. The share of any losses is restricted to a level that reflects an obligation to fund such losses. Accordingly, the Company records such investments at historic cost.

(g) Trade and other receivables

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

(h) 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.

(i) Trade and other payables

Trade and other payables are stated at cost.

(j) 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)****(j) 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.

(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.

(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.

(m) Foreign currency

The financial statements are presented in sterling, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the financial statements (continued)

2. Other income

	2010	2009
	£	£
Other income	-	48
	<u>-</u>	<u>48</u>

3. Administrative expenses

	2010	2009
	£	£
Other administrative expenses	200	3,552
	<u>200</u>	<u>3,552</u>

4. Other expenses

	2010	2009
	£	£
Audit fees	12,600	26,650
	<u>12,600</u>	<u>26,650</u>

The emoluments of the Directors are paid by a fellow group undertaking on behalf of the ultimate parent, Lloyds Banking Group, which makes no recharge to the Company. The Directors are also directors of a number of other subsidiaries of Lloyds Banking Group and are also substantially engaged in the managing of their respective business areas within Wholesale Division of Lloyds Banking Group. Given this, it is not possible to make an accurate apportionment of Directors emoluments in respect of the services to each of the subsidiaries. Accordingly, these financial statements include no emoluments in respect of the Directors.

The total emoluments of the Directors are included in the financial statements of the ultimate parent company, Lloyds Banking Group.

5. Net financing costs

	2010	2009
	£	£
Interest income	1,065	133,797
Financial income	<u>1,065</u>	<u>133,797</u>
Interest expense	-	(53,078)
Foreign currency gain/(loss)	76,130	(191,398)
Financial expenses	<u>76,130</u>	<u>(244,476)</u>
Net financing income/(costs)	<u>77,195</u>	<u>(110,679)</u>

Notes to the financial statements (continued)**6. Taxation****Recognised in the income statement**

	2010	2009
	£	£
Current tax		
Current year (credit) / charge	9,852	(38,452)
Adjustment for prior years	-	62
Total income tax charge in income statement	<u>9,852</u>	<u>(38,390)</u>

Reconciliation of effective tax rate

	2010	2009
	£	£
Profit/(loss) on ordinary activities before tax	<u>35,008</u>	<u>(140,833)</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK – 28% (2009: 28%)	9,802	(39,433)
Expenses not deductible for income tax purposes	56	275
Indexed gains	-	706
Adjustment for prior years	-	62
Total income tax charge in income statement	<u>9,858</u>	<u>(38,390)</u>

7. Current tax assets and liabilities

The current tax liability of £615,648 (2009: £605,790) represents the amount of income taxes payable in respect of current and prior periods.

8. Trade and other receivables

	2010	2009
	£	£
Other trade receivables and prepayments	100	100
Loans and advances	1,287,905	1,369,914
	<u>1,288,005</u>	<u>1,370,014</u>

9. Cash and cash equivalents

	2010	2009
	£	£
Cash at bank	709,240	598,423
Cash and cash equivalents in the statement of cash flows	<u>709,240</u>	<u>598,423</u>

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.

Share capital

	Ordinary shares	
	2010	2009
In issue at 1 January and 31 December	100	100

At 31 December 2010, the authorised share capital comprised 1,000 £1 ordinary shares (2009: 1,000). The shares are not fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

11. Trade and other payables

	2010	2009
	£	£
Trade payables and accrued expenses	21,600	27,800
	21,600	27,800

12. 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 trade and other receivables due from associate undertakings.

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

	2010	2009
	£	£
Loans and advances	1,287,905	1,369,914
	1,287,905	1,369,914

Loans and advances and amounts due from associated undertakings are carried at amortised cost, whereby any indication of impairment would result in an immediate write-down of the carrying value. At the reporting date the internal credit rating was satisfactory for these balances and 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 main exposure to market risk arose from interest rate risk, as all transactions and balances were denominated in Sterling and equity share investments were held at cost.

Notes to the financial statements (continued)

12. Financial instruments (continued)

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 lending to associated undertakings generates variable interest income. 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.

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.

	2010 £000	2009 £000
Impact of +25 bps shift	-	-
Impact of - 25 bps shift	-	-

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.

The Company's approach to liquidity risk management is set out in the Director's Report. 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 2010

Maturity of contractual liabilities	Up to 1 mth	1-3 mths	3-12 mths	Total
	£	£	£	£
Trade and other payables	-	-	21,600	21,600
Total liabilities	-	-	21,600	21,600

As at 31 December 2009

Maturity of contractual liabilities	Up to 1 mth	1-3 mths	3-12 mths	Total
	£	£	£	£
Trade and other payables	-	-	27,800	27,800
Total liabilities	-	-	27,800	27,800

Notes to the financial statements (continued)**12. Financial instruments (continued)****Fair values**

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

	Note	Carrying amount 2010 £	Fair value 2010 £	Carrying amount 2009 £	Fair value 2009 £
Trade and other receivables	8	1,288,005	1,288,005	1,370,014	1,370,014
Trade and other payables	11	(21,600)	(21,600)	(27,800)	(27,800)
		<u>1,266,405</u>	<u>1,266,405</u>	<u>1,342,214</u>	<u>1,342,214</u>
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.

Trades 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.

13. Estimates and judgements – uncertainty regarding a series of previously unrecorded transactions

During 2009 a foreign currency bank account in the name of Horizon Capital Ltd which had been used to manage a series of transactions on behalf of the company with external parties was discovered. Prior to 31 December 2008, this account and these transactions had not previously been included in the statutory accounts of the Company. Investigations indicate that this account has existed since 1999 and was used to make a series of currency loans and other transactions which have affected the company's results in the period between 1999 and present. A legal investigation is still ongoing in respect to the circumstances surrounding these transactions. The investigation has initially determined that the account and transactions were financed by a loan, also not previously recorded and subsequently discharged out of profits of the transactions.

The investigation has found deficiencies in the accounting records in respect to these transactions and documentation to support all transactions is not as yet available. These include issues regarding completeness, accuracy and recoverability of trade and other receivables together with the completeness and accuracy of the liabilities recognised and the associated accuracy of the amounts recognised for financial income and financial expense.

As a consequence there may, in the future, be additional adjustments to the company's financial statements in respect to these transactions. The quantum of these adjustments is uncertain at this time but may be material.

As at 31 December 2010, given the information set out above and the ongoing investigation there is ongoing uncertainty over the following balance sheet accounts:

Trade and other receivables	£1,288,005
Cash and cash equivalents	£709,240
Retained earnings	£1,359,953
Current tax payable	£615,592
Trade and other payables	£21,600

The company's best estimate of the impact of including the transactions was included in the accounts to 31 December 2008 for the first time in accordance with the IAS 8 guidance regarding errors. This included retrospective restatement of the accounts for 2007.

Notes to the financial statements (continued)**13. Estimates and judgements – uncertainty regarding a series of previously unrecorded transactions (continued)**

The effect of the transaction of the foreign currency bank account and related loans in the 2009 financial statements is shown below:

	£
Increase in financial income	347
Increase in financial expense	191,398
Decrease in income tax	53,494
Decrease in profit	137,557
Decrease in trade and other receivables	147,985
Decrease in cash and cash equivalents	43,066
Increase in tax receivable	53,494
Decrease in retained earnings as at 31 December 2010	137,557

No adjustments were made, as a prior year adjustment in the year ended 31 December 2010, to the judgements and estimates recorded for the 31 December 2009 financial year.

The company's best estimate of the impact of including the transactions of the foreign currency bank account and related loans in the accounts to 31 December 2010 is as follows:

	£
Increase in impairment	29,387
Increase in financial income	82
Decrease in financial expense	76,130
Increase in income tax	13,111
Increase in profit	33,714
Decrease in trade and other receivables	82,009
Increase in cash and cash equivalents	128,834
Increase in tax payable	13,111
Increase in retained earnings as at 31 December 2010	33,714

14. Parent Undertakings

As at 31 December 2010 the Company's immediate parent company was Bank of Scotland plc. The company regarded by the director as the ultimate parent undertaking and controlling party is Lloyds Banking Group plc (formerly Lloyds TSB Group plc) which is incorporated in Scotland. Lloyds Banking Group plc will produce consolidated accounts for the year ended 31 December 2010. Copies of the annual report and accounts of Lloyds Banking Group plc for the year ended 31 December 2010 may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN

Notes to the financial statements (continued)**15. Related party transactions**

The Company has a related party relationship with its 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 had a related party relationship with its joint venture undertaking Silverbank Development Company Limited and each of its subsidiaries, Dunlop Street Properties Limited, Glasgow Business Park Limited and Hamilton Business Park Limited. These relationships have arisen due to the provision of funding to these companies.

The balance due to and from related parties are shown in the note to the accounts.

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 2010	Outstanding balance at 31 December 2010	Income/expense included in profit and loss account for the year ended 31 December 2010	2009 Comparative	Disclosure in financial statements
		£	£	£	£	
Bank account	Bank of Scotland Plc	598,423	709,240			Cash and cash equivalents
Loans and advances	John Barkley	1,235,949	1,287,905			Trade and other receivables
Interest payable	Bank of Scotland Plc			-	53,078	Financial expense
Interest receivable	Silverbank Development Company Limited			-	6,387	Financial income
Interest receivable	Dunlop Street Properties Limited			-	21,458	Financial income
Interest receivable	Glasgow Business Park Limited			-	104,957	Financial income
Interest receivable	Bank of Scotland Plc			1,065	649	Financial income

16. Subsequent event

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28 per cent to 27 per cent with effect from 1 April 2011.

In his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax to 26 per cent with effect from 1 April 2011. This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011.

The proposed further reductions in the rate of corporation tax by 1 per cent per annum to 23 per cent from 1 April 2014 are expected to be enacted separately each year. The effect of these further changes upon the Company's deferred tax balances cannot be reliably quantified at this stage.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The director is responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law he has elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the director must not approve the financial statements unless they are satisfied that they 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 these financial statements, the director is 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 director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. He has general responsibility for taking such steps as are reasonably open to him to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORIZON CAPITAL LIMITED

We were engaged to audit the financial statements of Horizon Capital Limited for the year ended 31 December 2010 set out on pages 5 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. Because of the matters described in the basis for disclaimer of opinion on financial statements paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Basis for disclaimer of opinion on financial statements

The audit evidence available to us was limited because there is no original documentation available for a series of transactions that have been or may have been effected by or on behalf of the company. The financial statements have been prepared with the inclusion of estimates for these transactions, as more fully explained in note 13. Without source documentation we were unable to devise any procedures to address the completeness of the transactions, their existence or the accuracy of the amounts presented in these financial statements. As a result of this we were unable to obtain sufficient, appropriate audit evidence concerning most line items in the income statement and balance sheet, being those items specified in note 13 in particular impairment loss, financial income, financial expense and trade and other receivables.

We modified our audit opinion on the financial statements for the years ended 31 December 2008 and 31 December 2009 with regard to this same issue.

Disclaimer of opinion on financial statements

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on Financial Statements paragraph we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the financial statements.

Opinion on other matter prescribed by the Companies Act 2006

Notwithstanding our disclaimer of an opinion on the view given by the financial statements, in our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORIZON CAPITAL LIMITED (continued)**Matters on which we are required to report by exception**

In respect solely of the limitations of our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

Mike Peck

5 October 2011

Mike Peck (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants