STEWART MILNE (WEST) LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Company Number SC192726

Directors

J K Cruickshank
G F W Allison
G C Loudon
J C O'Neil

Secretary

A I Macrae

Registered Office

Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PF

Auditors

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

Bankers

Bank of Scotland
Head Office
The Mound
EDINBURGH
EH1 1YZ

REPORT OF THE DIRECTORS

Directors

J K Cruickshank
G F W Allison
G C Loudon
J C O'Neil

The Directors submit their report and audited accounts of the Company for the year ended 31 December 2005

Activity and review of business

The Company's principal activity is the acquisition of land for development

Results and Dividends

The loss after tax for the Company for the year to 31 December 2005 was £198,490 (2004 £185,451) No dividends were paid during the year

Directors and their interests

The Directors at the date of this report are as stated on page 1

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

Company Secretary

A I Macrae

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 23 October 2006
Secretary

Registered Office
Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Income statement

For the year ended 31 December 2005

	Note	2005 £	2004 £
Administration expenses	2	(16,367)	(10,845)
Other income	3	6,000	6,000
Other expenses	4	(1,000)	(1,000)
Net other income		5,000	5,000
Operating loss before financing costs		(11,367)	(5,845)
Financial income	5	17,926	16,053
Financial expense	5	(290,116)	(275,133)
Net financing costs		(272,190)	(259,080)
Loss before tax		(283,557)	(264,925)
Income tax credit	6	85,067	79,474
Loss after tax for the year		(198,490)	(185,451)
Attributable to:			
Equity holders		(198,490)	(185,451)
Loss for the year		(198,490)	(185,451)

Statement of recognised income and expense

For the year ended 31 December 2005

	Note	2005 £	2004 £
Loss for the year		(198,490)	(185,451)
Total recognised income and expense for the year	*11*	(198,490)	(185,451)
Attributable to.			
Equity holders		(198,490)	(185,451)
Loss for the year		(198,490)	(185,451)

Balance sheet

As at 31 December 2005

	Note	**2005**	**2004**
		£	**£**
Assets			
Deferred tax assets	8	110,863	72,948
Total non current assets		110,863	72,948
Inventories		4,897,861	4,897,861
Cash and cash equivalents	9	398,134	372,785
Trade and other receivables	10	108	175
Income tax receivable	7	133,072	98,308
Total current assets		5,429,175	5,369,129
Total assets		5,540,038	5,442,077
Equity			
Issued capital	11	100	100
Retained earnings	11	(766,292)	(567,802)
Total equity		(766,192)	(567,702)
Liabilities			
Loans and borrowings	12	5,740,114	5,733,647
Trade and other payables	13	566,116	276,132
Total current liabilities		6,306,230	6,009,779
Total liabilities		6,306,230	6,009,779
Total equity and liabilities		5,540,038	5,442,077

Approved by the board at a meeting on 23 OCTOBER 2006 and signed on its behalf by

Director

Director

Statement of cash flows

For the year ended 31 December 2005

		2005	2004
		£	£
Cash flows from operating activities			
Operating loss		(11,367)	(5,845)
Decrease/(increase) in trade and other receivables		67	(175)
Increase in trade and other payables		289,984	273,708
Cash generated from operations		278,684	267,688
Interest paid		(290,116)	(275,133)
Income taxes received/(paid)		12,388	(12,477)
Net cash from operating activities		956	(19,922)
Cash flows from investing activities			
Interest received		17,926	16,053
Net cash from investing activities		17,926	16,053
Cash flows from financing activities			
Increase in borrowings		6,467	
Net cash from financing activities		6,467	
Net increase in cash and cash equivalents		25,349	(3,869)
Cash and cash equivalents at 1 January		372,785	376,654
Cash and cash equivalents at 31 December	9	398,134	372,785

Notes to the financial statements

1. Significant accounting policies

Stewart Milne (West) Limited (the "Company") is a company domiciled in Scotland

The financial statements were authorised for issue by the directors on 2006

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as endorsed by the EU and effective (or available for early adoption) at 31 December 2005

The accounting policies set out below have been applied in respect of the financial year ended 31 December 2005 IAS 32 and IAS 39 only became effective from 1 January 2005 Accordingly, the 2004 comparatives do not reflect the provisions of these standards, which have been prepared in accordance with the applicable UK accounting standards in force for that period Where the implementation of these standards resulted in a change in accounting policy from 1 January 2005, the policy applied in respect of the 2004 comparative information has been set out at the end of this section (under the heading "*2004 accounting policies*") – the related 2005 policy has been annotated with an asterisk in the heading to indicate the change in policy Where there is no asterisk, the policy has been applied consistently to both periods presented in the accounts

These are the Company's first financial statements in which IFRS 1 has been applied

(b) Basis of preparation

The financial statements are presented in Sterling They are prepared on the historical cost basis

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and 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 the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

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 affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2005 for the purposes of the transition to IFRSs

(c) Inventories

Inventories are stated at lower of cost and net realisable value

Notes to the financial statements (cont)

Significant accounting policies (cont)

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

(e) Trade and other receivables

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

(f) 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

(g) Trade and other payables

Trade and other payables are stated at cost

Notes to the financial statements (cont)

Significant accounting policies (cont)

(h) Expenses

(i) Net financing costs

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

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

(i) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax, if any 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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is recognised, without discounting, in respect of all temporary timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, based on the corporation tax rate expected when the timing differences reverse

Deferred tax assets and liabilities are recognised separately in the balance sheet A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised

Notes to the financial statements (cont)

2. Administration expenses

	2005	2004
	£	£
Management fees	10,000	10,000
Other	6,367	845
	16,367	10,845

3. Other income

	2005	2004
	£	£
Rental income	6,000	6,000

4. Other expenses

	2005	2004
	£	£
Audit fees	1,000	1,000

5 Net financing costs

	2005	2004
	£	£
Interest income	17,926	16,053
Financial income	17,926	16,053
Interest expense	(290,116)	(275,133)
Financial expenses	(290,116)	(275,133)
Net financing costs	(272,190)	(259,080)

Notes to the financial statements (cont)

6. Income tax

Recognised in the income statement

	2005	2004
	£	£
Current tax credit		
Current year	(47,091)	(43,852)
Adjustment in respect of prior periods	(61)	
	(47,152)	(43,852)
Deferred tax credit		
Deferred tax credit recognised on losses carried forward	(37,976)	(35,626)
Adjustment in respect of previous periods	61	4
	(37,915)	(35,622)
Total income tax credit in income statement	(85,067)	(79,474)

Reconciliation of effective tax rate

	2005	2004
	£	£
Loss before tax	(283,557)	(264,925)
Income tax using the corporation tax rate	(85,067)	(79,478)
Adjustments in respect of previous periods	-	4
Total income tax credit in income statement	(85,067)	(79,474)

7. Current tax assets and liabilities

The current tax asset of £133,072 (2004 £98,308) represents the amount of income taxes receivable in respect of current and prior periods

8 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
	£	£	£	£	£	£
Tax losses	110,863	72,948	-	-	110,863	72,948
Total	110,863	72,948			110,863	72,948

The deferred tax asset in respect of trade losses carried forward has been recognised, as it is probable that suitable taxable profits will arise in the future from the sale of land

Notes to the financial statements (cont)

8. Deferred tax assets and liabilities (cont)

Movement in temporary differences in the year

	Balance at 1 Jan 2005	Recognised in income	Balance at 31 Dec 2005
	£	£	£
Tax losses	72,948	37,915	110,863
	72,948	37,915	110,863

	Balance at 1 Jan 2004	Recognised in income	Balance at 31 Dec 2004
	£	£	£
Tax losses carried forward	37,326	35,622	72,948
	37,326	35,622	72,948

9. Cash and cash equivalents

	2005	2004
	£	£
Bank balances	398,134	372,785
Cash and cash equivalents in the statement of cash flows	398,134	372,785

10. Trade and other receivables

	2005	2004
	£	£
Other	108	175

11. Capital and reserves

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

	Share capital	Retained earnings	Total equity
	£	£	£
Balance at 1 January 2004	100	(382,351)	(382,251)
Total recognised income and expense		(185,451)	(185,451)
Balance at 31 December 2004	100	(567,802)	(567,702)
Balance at 1 January 2005	100	(567,802)	(567,702)
Total recognised income and expense		(198,490)	(198,490)
Balance at 31 December 2005	100	(766,292)	(766,192)

Notes to the financial statements (cont)

11. Capital and reserves (cont)

Share capital and share premium

	Ordinary shares 2005 £	2004 £
50 "A" Ordinary shares of £1 each on issue at 1 January and 31 December	50	50
50 "B" Ordinary shares of £1 each on issue at 1 January and 31 December	50	50
	100	100

At 31 December 2005, the authorised share capital comprised 5,800,000 "A" Ordinary shares of £1 each (2004 5,800,000) and 1,000,000 "B" Ordinary shares of £1 each (2004 1,000,000)

The holders of the "A" Ordinary Shares and "B" Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Company

12. Loans and borrowings

This note provides information about the contractual terms of the Company's loans and borrowings

	Note	2005 £	2004 £
Current liabilities			
Unsecured redeemable "A" loan stock	*15*	5,250,000	5,250,000
Unsecured redeemable "B" loan stock	*15*	250,000	250,000
Unsecured redeemable "C" loan stock	*15*	182,566	182,566
Unsecured redeemable "D" loan stock	*15*	57,548	51,081
		5,740,114	5,733,647

Terms and debt repayment schedule
The unsecured redeemable "A" and "B" loan stock attract an annual fee payable at a rate of 1% over Bank base rate The other tranches do not attract interest or fees

The unsecured redeemable loan stock is repayable from land sales

13. Trade and other payables

	2005 £	2004 £
Loan stock fee payable	565,116	275,000
Accrued expenses	1,000	1,132
	566,116	276,132

Notes to the financial statements (cont)

14. Financial instruments

Exposure to credit and interest rate risk arises in the normal course of the Company's business Credit risk and interest rate risks are monitored by the Company's Management

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

	Notes	Effective Interest rate	Total £	6 months or less £
Bank balances	9	4 5%	398,134	398,134
			398,134	398,134

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

	Note	Carrying amount 2005 £	Fair value 2005 £
Bank balances	*9*	398,134	398,134
Trade and other receivables	*10*	108	108
Loans and borrowings	*12*	(5,740,114)	(5,740,114)
Trade and other payables	*13*	(566,116)	(276,132)
		(5,907,988)	(5,907,988)
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

Notes to the financial statements (cont)

15. Related parties

The Company has been given loan facilities by Horizon Capital 2000 Limited (the holder of the "A" Ordinary shares) and Stewart Milne Homes (Southern) Limited (the holder of the "B" Ordinary shares)

The Company also has related party relationships with Horizon Resources Limited and The Governor and Company of Bank of Scotland, a subsidiary undertaking and the immediate parent undertaking of Horizon Capital 2000 Limited

A number of banking transactions are entered into with the Governor and Company of the Bank of Scotland in the normal course of business including loans and deposits

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 2005**	**Outstanding balance at 31 December 2005**	**Income/ expense included in income statement for the year ended 31 December 2005**	**2004 Comparative**	**Disclosure in financial statements**
		£	**£**	**£**	**£**	
Bank account	The Governor and Company of Bank of Scotland	372,785	398,134			Cash and cash equivalents
Unsecured redeemable 'A" loan stock	Horizon Capital 2000 Limited	5,250,000	5,250,000			Loans and borrowings
Unsecured redeemable ' C" loan stock	Horizon Capital 2000 Limited	182,566	182,566			Loans and borrowings
Unsecured redeemable "B" loan stock	Stewart Milne Homes (Southern) Limted	250,000	250,000			Loans and borrowings
Unsecured redeemable "D" loan stock	Stewart Milne Homes (Southern) Limted	51,081	57,548			Loans and borrowings
Annual loan stock fee	Horizon Capital 2000 Limited	275,000	565,116			Trade and other payables
Annual loan stock fee	Horizon Capital 2000 Limited			290,116	275,000	Financial expenses
Interest receivable	The Governor and Company of Bank of Scotland			17,926	16,053	Financial income
Management fee	Horizon Resources Limited			10,000	10,000	Administration expenses

Notes to the financial statements (cont)

16. Operating Leases

The Company leases land on operating leases and the rental income relates to rent due to the Company under these operating leases

17 Explanation of transition to IFRSs

As stated in note 1(a), these are the Company's first financial statements prepared in accordance with IFRSs

The accounting policies applied in preparing the financial statements are set out in Note 1

In preparing its opening IFRS balance sheet, the Company has not had to adjust amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in respect of the Stewart Milne (West) Limited report and the financial statements

The directors are responsible for preparing the Stewart Milne (West) Limited report and the financial statements in accordance with applicable law and regulations

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

The financial statements are required by law to present fairly the financial position and performance of the company, 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 these financial statements, 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 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STEWART MILNE (WEST) LIMITED

We have audited the financial statements of Stewart Milne (West) Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 other transactions is not disclosed

We read other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

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 judgements 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STEWART MILNE (GLASGOW) LIMITED (continued)

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 2005 and of its loss for the year then ended, and

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

26 October 2006