

UBERIOR FUND INVESTMENTS LIMITED

REPORT AND ACCOUNTS

FOR THE PERIOD FROM 26 AUGUST 2004 TO 31 DECEMBER 2005



Company Number SC272465

Directors

C Richards
S Morrison
I Purves
I Robertson
G Shankland
G McDonald

Secretary

A I Macrae

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
Head Office
The Mound
EDINBURGH
EH1 1YZ

REPORT OF THE DIRECTORS

Directors

I Purves
C Richards
S Morrison

I Robertson
G Shankland
G McDonald

The Directors submit their report and audited accounts of the Company for the period from 26 August 2004 to 31 December 2005.

Incorporation

The company was incorporated on 26 August 2004.

Activity and review of business

The Company operates as an investment holding company.

Results and Dividends

The loss after tax for the Company in the period from 26 August 2004 to 31 December 2005 was £781,764. The Directors do not recommend payment of a dividend.

REPORT OF THE DIRECTORS (continued)

Directors and their interests

The Directors at the date of this report are as stated on page 2.

Dates of appointment and resignation:

Director	Date of Appointment	Date of Resignation
Jordans (Scotland) Ltd	26 August 2004	8 September 2004
Oswalds of Edinburgh Ltd	26 August 2004	8 September 2004
P J Cummings	8 September 2004	31 October 2005
J Wilson	8 November 2004	31 January 2005
D Lyall	8 November 2004	8 February 2005
I Shanks	8 November 2004	8 February 2005
S Nimmo	8 November 2004	8 February 2005
G McDonald	8 November 2004	-
C Richards	7 February 2005	-
S Morrison	8 February 2005	-
I Purves	8 February 2005	-
I Robertson	8 February 2005	-
G Shankland	8 February 2005	-

Directors' beneficial interests in the ordinary shares of HBOS plc during the period were as follows:

(References to "HBOS plc shares" are to ordinary shares of 25p each in HBOS plc)

During the period no Director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than in HBOS plc, the ultimate holding company.

The beneficial interests of the Directors and their immediate families in HBOS plc shares are set out below:-

	<u>At 26.08.04</u> <u>or date of appointment if later</u> <u>HBOS plc shares</u>	<u>At 31.12.05</u> <u>HBOS plc shares</u>
C Richards	1,543	3,486
S Morrison	8,043	9,280
I Purves	5,426	9,394
I Robertson	52,902	64,573
G McDonald	10,615	11,698
G Shankland	9,109	18,368

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)Short-term Incentive Plan – HBOS scheme and former Halifax scheme

Certain Directors have conditional entitlements to shares arising from the annual incentive plan. Where the annual incentive for any year was taken in shares and these shares are retained in trust for three years, the following shares will also be transferred to the Directors.

	<u>Grant effective from</u>	<u>Shares as at</u> <u>31.12.05</u>
C Richards	March 2004	676
	March 2005	900
S Morrison	March 2003	1,485
	March 2004	1,355
	March 2005	1,386
I Purves	March 2003	1,419
	March 2004	1,294
	March 2005	1,386
I Robertson	March 2003	1,664
	March 2004	1,603
	March 2005	5,669
G McDonald	March 2003	973
	March 2004	1,724
	March 2005	1,530
G Shankland	March 2003	1,497
	March 2004	2,322
	March 2005	4,254

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)Long-term Incentive Plan – HBOS scheme and former Halifax scheme

Details of the shares which have been conditionally awarded to Directors under the plans are set out below. The conditions relating to the long-term incentive plan may be found in the HBOS plc Annual Report & Accounts 2005

	<u>Grant effective from</u>	<u>At 31.12.04 or date of appointment if later</u>	<u>Granted (G) or (L) in year</u>	<u>Added as a result of performance</u>	<u>Dividend reinvestment shares</u>	<u>Released in year</u>	<u>At 31.12.05</u>
C Richards	March 2004	6,508	-	-	-	-	6,508
	March 2005	-	6,150 (G)	-	-	-	6,150
I Robertson	August 2002	13,333	-	13,333	4,018	(30,684)	-
	March 2003	17,708	-	-	-	-	17,708
	March 2004	25,104	-	-	-	-	25,104
	March 2005	-	21,428 (G)	-	-	-	21,428
G Shankland	August 2002	5,208		5,208	1,568	(11,984)	-
	March 2003	6,640	-	-	-	-	6,640
	March 2004	6,973	-	-	-	-	6,973
	March 2005	-	6,944 (G)	-	-	-	6,944

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2002 grant ended on 31 December 2004 and, in the light of the performance outcome, grants were released at 200% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 30% of the original conditional grant were also released to participants in accordance with the rules of the plan.

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)Long-term Incentive PlanHBOS Scheme, former Bank of Scotland scheme and former Halifax Scheme

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions which have now been satisfied. Share options granted under other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below.

	<u>Options outstanding at 26.08.04 or date of appointment if later</u>	<u>Granted (G), lapsed (L) or exercised (E) in period</u>	<u>At 31.12.05</u>
C Richards	10,921	-	10,921
S Morrison	11,097	-	11,097
I Purves	10,641	-	10,641
I Robertson	63,500	6,500 (E)	57,000
G McDonald	8,624	3,000 (E)	5,624
G Shankland	18,937	-	18,937

Sharesave Plan

Share options granted under these plans are set out below.

	<u>As at 26.08.04 or date of appointment if later</u>	<u>Granted (G) lapsed (L) or exercised (E) in period</u>	<u>At 31.12.04</u>
C Richards	2,761	-	2,761
S Morrison	2,984	-	2,984
I Purves	2,653	344 (E)	2,309
I Robertson	1,581	1,352 (G)	2,933
G McDonald	3,022	465 (G)	3,487
G Shankland	5,259	1,637 (E)	3,622

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%.

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)

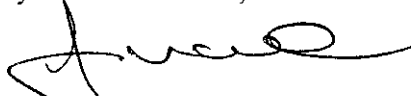
Company Secretary

A I Macrae.

Auditors

KPMG Audit Plc have signified their willingness to continue in office.

By Order of the Board,

A handwritten signature in black ink, appearing to read 'A I Macrae', written over a horizontal line.

A I Macrae
Secretary.

8th February 2006

Registered Office
Bank of Scotland,
Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Income Statement**For the period 26 August 2004 to 31 December 2005**

	Note	2005 £
Profit on sale of investments	2	<u>577,631</u> <u>577,631</u>
Administrative expenses	3	(1,370,288)
Other expenses	4	<u>(1,012)</u>
Net other expenses		<u>(1,012)</u>
Operating loss before financing costs		<u>(793,669)</u>
Financial expenses	5	<u>(323,137)</u>
Net financing costs		<u>(323,137)</u>
Loss before tax		<u>(1,116,806)</u>
Income tax credit	6	<u>335,042</u>
Loss after tax for the period		<u>(781,764)</u>
Attributable to:		
Equity holders		<u>(781,764)</u>
Loss for the period		<u>(781,764)</u>

The notes on pages 13 to 20 form part of these accounts

Statement of Recognised Income and Expense**For the period from 26 August 2004 to 31 December 2005**

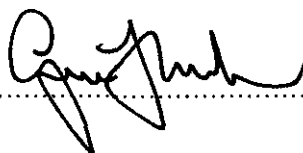
	<i>Note</i>	2005 £
Loss for the period		(781,764)
Total recognised income and expense for the period	<i>9</i>	<u>(781,764)</u>
Attributable to:		
Equity holders		<u>(781,764)</u>
Loss profit for the period		<u>(781,764)</u>

The notes on pages 13 to 20 form part of these accounts

Balance Sheet**As at 31 December 2005**

	<i>Note</i>	2005 £
Assets		
Investments	7	38,056,708
Investments in subsidiary undertakings		1,000
Total non-current assets		<u>38,057,708</u>
Cash and cash equivalents	8	377,548
Income tax receivables		335,042
Total current assets		<u>712,590</u>
Total assets		<u>38,770,298</u>
Equity		
Issued capital		1
Retained earnings		(781,764)
Total equity	9	<u>(781,763)</u>
Bank overdraft	8	927,042
Interest-bearing loans and borrowings	10	38,531,948
Trade and other payables	11	93,071
Total current liabilities		<u>39,552,061</u>
Total liabilities		<u>39,552,061</u>
Total equity and liabilities		<u>38,770,298</u>

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


Director 8th February 2006

The notes on pages 13 to 20 form part of these accounts

Statement of Cash Flows**For the period from 26 August 2004 to 31 December 2005**

	<i>Note</i>	2005 £
Cash flows from operating activities		
Operating loss		(793,669)
Increase in trade & other payables		1,000
Cash generated from operations		<u>(792,669)</u>
Interest paid		(231,066)
Net cash from operating activities		<u>(1,023,735)</u>
Cash flows from investing activities		
Investment in subsidiary undertaking		(1,000)
Acquisition of investments		(38,056,708)
Net cash from investing activities		<u>(38,057,708)</u>
Cash flows from financing activities		
Proceeds from the issue of share capital		1
Increase in amounts due to related undertaking		38,531,948
Net cash from financing activities		<u>38,531,949</u>
Decrease in cash and cash equivalents		(549,494)
Cash and cash equivalents at 31 December	8	<u>(549,494)</u>

The notes on pages 13 to 20 form part of these accounts

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

Uberior Fund Investments Limited (the "Company") is a company domiciled in Scotland.

The financial statements were authorised for issue by the directors on 8 February 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 period from incorporation on 26 August 2004 to 31 December 2005.

These are the Company's first financial statements and IFRS 1 has been applied.

(b) Basis of preparation

The financial statements are presented in Sterling. They are prepared on the historical cost basis except that financial instruments classified as available-for-sale are stated at their fair value.

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.

Notes to the financial statements (cont)**Significant accounting policies (cont)****(c) Foreign currency****Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the last day of the month following the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(d) Investments**Investments equity securities**

Equity shares are classified as available for sale. They are held on balance sheet at fair value with unrealised gains or losses being recognised directly through reserves except for impairment losses, which are recognised immediately through the income statement. Income from listed equity shares is credited to investment income on receipt of cash and from unlisted equity shares on the same basis.

(e) Trade and other receivables

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

(f) Cash and cash equivalents

Cash and cash equivalents comprises 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.

(g) Impairment

The carrying amounts of the Company's assets, and deferred tax assets, are reviewed at the 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 (cont)**Significant accounting policies (cont)**

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(h) Share capital**(i) Dividends**

Dividends are recognised as a liability in the period in which they are declared

(i) Trade and other payables

Trade and other payables are stated at cost.

(j) Expenses**(i) Net financing costs**

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

(k) Income tax

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.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Notes to the financial statements (cont)**2. Profit on sale of investments**

	2005 £
Available for sale investments:	
Investment gains	<u>577,631</u>

3. Administrative expenses

	2005 £
Management fees	<u>1,370,288</u>

4. Other expenses

	2005 £
Bank charges	12
Audit fees	<u>1,000</u>
	<u>1,012</u>

5. Net financing costs

	2005 £
Interest expense	<u>323,137</u>
Net financing costs	<u>323,137</u>

6. Income tax**Recognised in the income statement**

	2005 £
Current period	<u>335,042</u>
Total income tax credit in income statement	<u>335,042</u>

Reconciliation of effective tax rate

	2005 £
Loss before tax	<u>(1,116,806)</u>
Profit on ordinary activities multiplied by the standard Rate of corporation tax in the UK - 30%	<u>335,042</u>

Current tax assets and liabilities

The current tax asset of £335,042 represents the amount of income taxes receivable in respect of the current period.

Notes to the financial statements (cont)**7. Investments**

	Available for sale £	2005 Total £
Unlisted		
Equity securities	38,056,708	38,056,708
Total investments	<u>38,056,708</u>	<u>38,056,708</u>

The movement in investments can be summarised as follows:

	Available for sale £	Total £
Additions	38,056,708	38,056,708
As at 31 December 2005	<u>38,056,708</u>	<u>38,056,708</u>

8. Cash and cash equivalents

	2005 £
Cash at bank	377,548
Bank overdrafts	<u>(927,042)</u>
Cash and cash equivalents in the statement of cash flows	<u>(549,494)</u>

9. Capital and reserves**Reconciliation of movement in capital and reserves**

Attributable to equity holders of the parent	Share capital £	Retained Earnings £	Total equity £
Total recognised income and expense		(781,764)	(781,764)
Shares issued	1		1
Balance at 31 December 2005	<u>1</u>	<u>(781,764)</u>	<u>(781,763)</u>

Share capital and share premium

	Ordinary shares 2005 £
Issued for cash	1
On issue at 31 December	<u>1</u>

At 31 December 2005, the authorised share capital comprised 1 Ordinary Shares.

The holder of the Ordinary Share is entitled to receive dividends as declared from time to time and is entitled to vote at meetings of the Company.

Notes to the financial statements (cont)**10. Interest-bearing loans and borrowings**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see note 12.

	2005 £
Current liabilities	
Term loans	<u>38,531,948</u>

Terms and debt repayment schedule

The term loans and bank overdraft are unsecured and represent amounts due to the company's intermediate parent undertaking, The Governor and Company of the Bank of Scotland. The term loans fall due for repayment in May 2006.

11. Trade and other payables

	2005 £
Audit fees	1,000
Accrued interest	<u>92,071</u>
	<u>93,071</u>

12. Financial Instruments

Exposure to credit and interest rate risks arises in the normal course of the Company's business. Credit risk and interest rate risk is managed by the Company's ultimate parent company, HBOS plc. Details of the policies in place can be found in the HBOS plc Annual Report and Accounts.

Interest rate risk**Effective interest rates and repricing 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 reprice.

				2005				
	Note	Effective Interest rate	Total	6 months or less	6-12 months	1-2years	2-5years	More than 5 years
Interest bearing loans	10	2.58%	38,531,948	38,531,948				
Bank overdrafts	9	6.13%	927,042	927,042				
Cash at bank	8	2.4375%	377,548	377,548				

Foreign currency risk

The Company is exposed to foreign currency risk on investments and borrowings that are denominated in a currency other than the Sterling. The Company follows HBOS plc Group policy in ensuring that all foreign currency investments are matched with borrowings in the same currency. The currency, giving rise to this risk is Euros.

Notes to the financial statements (cont)**12. Financial Instruments (cont)****Fair values**

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

	<i>Note</i>	Carrying amount 2005 £	Fair value 2005 £
Equity securities available for sale		38,056,708	38,056,708
Cash and cash equivalents	8	377,548	377,548
Unsecured bank facilities	10	(38,531,948)	(38,531,948)
Bank overdraft	8	(927,042)	(927,042)
Trade and other payables		(93,071)	(93,071)
		<u>(1,117,805)</u>	<u>(1,117,805)</u>
Unrecognised (losses) / gains			<u>Nil</u>

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.

Securities

Fair value of equity securities available for sale is calculated in accordance with the guidelines set out by the British Venture Capital Association.

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.

13. Capital commitments

As at 31 December 2005, the company has committed £296 million as a limited partner in venture capital funds of which £257 million is undrawn.

Notes to the financial statements (cont)**15. Related parties**

The Company's parent undertaking is Uberior Investments Plc. Its intermediate parent undertaking being The Governor and Company of the Bank of Scotland, incorporated by Act of the Scottish Parliament in 1695. The Company's ultimate parent undertaking is HBOS plc. Copies of HBOS plc Annual Report and Accounts may be obtained from its Head Office at The Mound, Edinburgh EH1 1YZ.

The company has a related party relationship with its intermediate parent company the Governor and Company of the Bank of Scotland.

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.

The balances due to and from the Governor and Company of the Bank of Scotland are shown within the notes to the accounts. Details of the related party transactions during the period are disclosed in the table below.

Nature of transaction	Outstanding balance at 26 August 2005	Maximum outstanding balance during the period	Outstanding balance at 31 December 2005	Income/expense included in profit and loss account for the period ended 31 December 2005	Disclosure in financial statement
Bank overdraft	Nil	£927,042	£927,042		Cash and cash equivalents
Bank account	Nil	€2,250,000	€550,037		Cash and cash equivalents
Term loans	Nil	€56,135,885	€56,135,885		Interest bearing loans and borrowing
Interest receivable				Nil	Financial income
Interest payable				323,137	Financial expense

Statement of directors' responsibilities in respect of the Uberior Fund Investments Limited report and financial statements.

The directors are responsible for preparing the Uberior Fund Investments Limited report and financial statements for the period ended 31 December 2005 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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR FUND INVESTMENTS LIMITED

We have audited the financial statements of Uberior Fund Investments Ltd for the period from 26 August 2004 to 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 report and accounts 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 21.

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 report and accounts 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.

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 period 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

Chartered Accountants

Registered Auditor

February 2006

