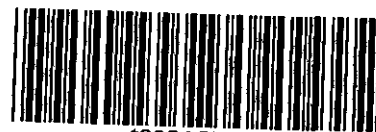


Registered Number: SC174620

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

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**HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

CONTENTS

	Page
Directors and Company Information	2
Directors' Report	3 5
Statement of Directors' Responsibilities	6
Independent Auditors' Report	7 8
Income Statement	9
Balance Sheet	10
Cashflow statement	11
Notes to the Financial Statements	12 17

**HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
DIRECTORS AND COMPANY INFORMATION**

DIRECTORS

A Allen (appointed 6 June 2006)
D Fisher (appointed 6 June 2006)
J S Lloyd (resigned 6 June 2006)
D J Walkden (resigned 6 June 2006)
J L Burnley
K C McCabe

SECRETARY

L J W Black

REGISTERED OFFICE

The Mound
EDINBURGH
EH1 1YZ

AUDITORS

KPMG Audit plc
1 The Embankment
Neville Street
LEEDS
LS1 4DW

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2006

PRINCIPAL ACTIVITY

The principal activity of the company is that of an investment holding company

BUSINESS REVIEW

No change is expected in the activities of the company, however during the year its subsidiary St Vincent Street Developments Limited was disposed of. During the previous year a balance due from St Vincent Street Developments Limited was fully provided and written off at the time of the disposal.

RESULTS AND DIVIDEND

The result for the year is shown in the income statement on page 9. The directors do not recommend the payment of a dividend (2005 £nil).

DIRECTORS AND DIRECTORS' INTERESTS

The directors at the date of this report are as listed on page 2.

Directors' beneficial interest in the ordinary shares of HBOS plc during the year were as follows:

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

During the year, no director had any beneficial interest in the share capital of the company or of any 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.

	At 31 December 2005 or date of appointment if later HBOS plc shares	At 31 December 2006 HBOS plc shares
A Allen	2,192	2,508
D Fisher	58,929	58,443

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.

	Grant effective from	Shares at 31 December 2006
A Allen	March 2006	1,850
D Fisher	March 2004	4,120
	April 2005	5,366
	March 2006	4,960

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
DIRECTORS' REPORT (Cont'd)

DIRECTORS AND DIRECTORS' INTERESTS (Cont'd)

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 2006

	Grant effective from	At 31 December 2005 or date of appointment if later	Granted (G) or lapsed (L) in year	Added as a result of performance	Dividend reinvestment shares	Released in year	At 31 December 2006
D Fisher	January 2003	17,291		16,578	2,683	36,552	
	January 2004	18,596					18,596
	January 2005	18,253					18,253
	January 2006		16,385(G)				16,385

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 2003 grant ended on 31 December 2005 and, in the light of the performance outcome, grants were released at 183% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 15.5% of the original conditional grant were also released to participants in accordance with the rules of the plan.

DIRECTORS AND DIRECTORS' INTERESTS (Cont'd)

Sharesave Plan

Share options granted under these plans are set out below

	At 31 December 2005	Granted (G), lapsed (L) or exercised (E) in year	At 31 December 2006
D Fisher	3,936		3,936

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

**HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
DIRECTORS' REPORT (Cont'd)**

GOING CONCERN

The Directors are satisfied that Horizon Property Company (Scarborough) Limited have adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts

AUDIT INFORMATION

The Directors who held office at the date of approval of this Director's Report confirm that, so far as they each are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken to establish that the Company's auditors are aware of that relevant audit information

AUDITORS AND ANNUAL GENERAL MEETING

Pursuant to a resolution passed by the members, the company has elected to dispense with the holding of Annual General Meetings, of laying financial statements and reports before the company in General Meeting, and with the obligation to reappoint auditors annually

By Order of The Board



L J W BLACK
SECRETARY

The Mound
EDINBURGH
EH1 1YZ

Date 11/10/2001

**HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS'
REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' 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 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Director's Report.

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED

We have audited the financial statements of The Horizon property Company (Scarborough) Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement 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 6.

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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgments 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.

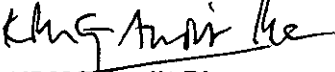
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED (Cont'd)**

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 2006 and of the result for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 The Embankment
Neville Street
LEEDS LS1 4DW

Date 10 October 2007

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £000	2005 £000
Revenue			
Cost of sales			
		<hr/>	<hr/>
GROSS PROFIT	2		
Other operating income	3		159
Other operating expenses	4		(82)
		<hr/>	<hr/>
OPERATING PROFIT / (LOSS)	5,6		77
Finance Income		<hr/>	<hr/>
PROFIT / (LOSS) BEFORE TAX			77
Income tax expense	7		(23)
		<hr/>	<hr/>
PROFIT / (LOSS) FOR THE YEAR	10		54
		<hr/>	<hr/>

All of the above profit/(loss) for the year is attributable to equity holders

A statement of the movement on reserves is shown in note 10 to the financial statements on page 16

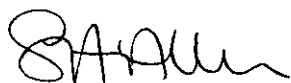
The company had no recognised gains or losses in the current or preceding financial year, other than the income and expenses shown above, accordingly no statement of recognised income and expenses is recognised

The notes on pages 12 to 17 form part of these financial statements

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 £000	2005 £000
ASSETS			
Investment in subsidiaries	8	94	94
TOTAL NON CURRENT ASSETS		94	94
CURRENT ASSETS			
Cash and cash equivalents		4,160	4,184
Income tax recoverable		86	86
Trade and other receivables	9	13	13
TOTAL CURRENT ASSETS		4,259	4,283
TOTAL ASSETS		4,353	4,377
EQUITY			
Issued capital	10	200	200
Reserves	10	4,143	4,143
TOTAL EQUITY	10	4,343	4,343
LIABILITIES			
Income tax payable			
Trade and other payables	11	10	34
TOTAL CURRENT LIABILITIES		10	34
TOTAL EQUITY AND LIABILITIES		4,353	4,377

These financial statements were approved by the Board of Directors on 18 Oct 07 and were signed on its behalf by



A ALLEN
DIRECTOR

The notes on pages 12 to 17 form part of these financial statements

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Year Ended 31 December 2006 £000	Year Ended 31 December 2005 £000
Note		
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit before taxation		77
Adjustments for		
Decrease in trade receivables		5,829
(Decrease) / increase in trade payables	(24)	(70)
Net interest income/expense		(119)
Cash generated from operations	(24)	5,717
Interest Paid		
Income tax		(115)
NET CASH FROM OPERATING ACTIVITIES	(24)	5,602
Cash flows from investing activities		
Interest received		159
Dividend received		
NET CASH FROM INVESTING ACTIVITIES		159
Cash flows from financing activities		
Interest on overdraft		(42)
NET CASH FROM FINANCING ACTIVITIES		(42)
Net increase/(decrease) in cash and cash equivalents	(24)	5,719
Cash and cash equivalents at 1 January	4,184	(1,535)
Cash and cash equivalents at 31 December	4,160	4,184

The notes on pages 12 to 17 form part of these financial statements

**HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1 SIGNIFICANT ACCOUNTING POLICIES

1.1 STATEMENT OF COMPLIANCE

The 2006 statutory financial statements set out on pages 9 to 11 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS')

The standards adopted by the Group and Company are those endorsed by the European Union and effective at the date the consolidated IFRS financial statements are approved by the Board

The accounts also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004

1.2 BASIS OF PREPARATION

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis and on a going concern basis.

The preparation of financial statements in conformity with IFRS 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.

1.3 ADOPTED IFRS NOT YET APPLIED

IFRS 7 'Financial instruments: Disclosure' and the 'Capital disclosure amendment' to IAS 1 'Presentation of financial statements' which are applicable for periods commencing on or after 1 January 2007 have not been applied. The application of these standards in 2006 would not have affected the balance sheets, income statement or cash flow statements as they are only concerned with disclosure.

**HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (Cont'd)**

1.4 INVESTMENTS

Investments are held at cost less diminution for impairment

1 5 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.

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

1.6 TRADE AND OTHER RECEIVABLES

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

1 7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. 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.

1.8 IMPAIRMENT

The carrying amounts of the Company's 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.

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (Cont'd)

2 GROSS PROFIT

The company had no revenue or cost of sales in the current year (2005 £nil)

3 OTHER OPERATING INCOME

Other operating income of £nil (2005 £159,000) represents interest receivable from subsidiary undertakings.

4 OTHER OPERATING EXPENSES

	2006	2005
	£000	£000
Impairment loss on trade receivables		
Interest payable on bank overdraft		39
Other expenses		43
		<u>82</u>

5. AUDITORS REMUNERATION

In 2006 the auditor's remuneration was borne by the Bank of Scotland

6. DIRECTORS' EMOLUMENTS

Included in other operating expenses are emoluments paid to the directors received during the year as follows

	2006	2005
	£000	£000
Total emoluments		43
		<u>43</u>

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (Cont'd)

7. INCOME TAX EXPENSE

Recognised in the income statement

2006	2005
£000	£000

Current tax expense

Current year

23

Total income tax expense in income statement

23

Reconciliation of effective tax rate

2006	2005
£000	£000

Profit / (Loss) on ordinary activities before taxation

77

Income tax using the corporation tax rate of 30% (2005 30%)

23

Non deductible expenses

23

8 INVESTMENTS

2006	2005
£000	£000

Investment in subsidiary undertakings

94

94

The company's interest at 31 December 2006 in ordinary shares of its subsidiaries, all of which are unlisted and registered in Scotland were

<u>Name of company</u>	<u>% Held</u>	<u>Business</u>
Horizon (Edinburgh) Limited	100	Property Investment And Development
New Tollcross Limited	100	Property Development

During the period the company disposed of its holding in St Vincent Street Developments Limited for proceeds of £1, which was equal to it's carrying value in the company's accounts, hence resulting in neither a profit nor a loss on disposal

The company is exempt, under the terms of Section 228 Companies Act 1985, from the requirement to prepare group accounts as it is itself a subsidiary of the HBOS plc group which prepares consolidated accounts

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (Cont'd)

9. TRADE AND OTHER RECEIVABLES

	2006 £000	2005 £000
Amounts due from subsidiary undertakings	3	3
Other recoverables	10	10
	<hr/> 13 <hr/>	<hr/> 13 <hr/>

10. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

	Share Capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2005	200	4,089	4,289
Total recognised income and expense		54	54
	<hr/> 200 <hr/>	<hr/> 4,143 <hr/>	<hr/> 4,343 <hr/>
Balance at 31 December 2005	200	4,143	4,343
Balance at 1 January 2006	200	4,143	4,343
Total recognised income and expense			
	<hr/> 200 <hr/>	<hr/> 4,143 <hr/>	<hr/> 4,343 <hr/>
Balance at 31 December 2006	200	4,143	4,343

Share capital

The share capital issued as at 31 December 2005 and 31 December 2006 relates to 200,000 ordinary shares each with a par value of £1

At 31 December 2006, the authorised share capital comprised 1,000,000 ordinary shares (2004 1,000,000) each with a par value of £1

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (Cont'd)

11. TRADE AND OTHER PAYABLES

	2006 £000	2005 £000
Accruals and deferred income	<u>10</u>	<u>34</u>
	<u>10</u>	<u>34</u>

12 RELATED PARTIES

Horizon Property Company (Scarborough) Limited is owned by The Governor and Company of the Bank of Scotland incorporated by the Act of Scottish Parliament in 1695 and Scarborough Property Investments Company Limited, which hold 87.5% and 12.5% respectively of the issued share capital. In the year ended 31 December 2006, The Governor and Company of the Bank of Scotland incorporated by the Act of Scottish Parliament in 1695 provided both management and banking services to the company.

During the year, in addition to those transactions disclosed separately in the accounts, the company had the following transactions with related parties:

Included within operating costs is £NIL (2005: £13,000) to Kamcorp Limited in respect of K C McCabe & J L Burnley, and £NIL (2005: £30,000) management fee payable to Halifax plc. The closing accrual of £10,000 in respect of this is included within payables (2005: £30,000).

All other amounts due or payable to related parties are disclosed in the relevant notes.

13 ULTIMATE PARENT UNDERTAKING

HBOS plc is the ultimate parent undertaking of Horizon Property Company (Scarborough) Limited and heads the largest group into which the accounts of the Company are consolidated. The Governor and Company of the Bank of Scotland incorporated by the Act of Scottish Parliament in 1695 heads the smallest group into which the accounts of the Company are consolidated. The accounts of The Governor and Company of the Bank of Scotland incorporated by the Act of Scottish Parliament in 1695 may be obtained from its Head Office at The Mound, Edinburgh, EH1 1YZ.