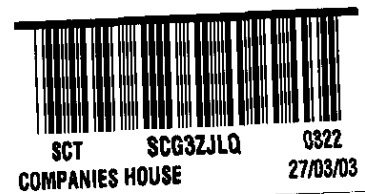


**HORIZON PROPERTY COMPANY
(SCARBOROUGH) LIMITED**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st DECEMBER, 2002



REPORT OF THE DIRECTORSDirectors

J. L. Burnley
K. C. McCabe
I. D. Kerr
R. Fleming

The Directors have pleasure in submitting their report and audited financial statements of the Company for the year ended 31 December, 2002.

Activity and Review of Business

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

The Company made a loss after taxation in the year of £49,751 (Period to 31 December, 2001 loss £64,030), which was transferred to reserves. The Directors do not recommend the payment of a dividend. (Period to 31st December, 2001 - £nil).

Directors and their interests

The Directors at the date of this report are stated above.

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

No director had a beneficial interest in the shares of any undertaking within the HBOS Group during the year, other than as set out below, and on page 2.

The interests of the directors in the shares of the ultimate holding company during the year to 31 December 2002 were as follows: -

	<u>At 31 December, 2001</u>	<u>At 31 December, 2002</u>
	<u>Ordinary Shares of 25p each</u>	<u>Ordinary Shares of 25p each</u>
I. D. Kerr	5,966	14,864
R. Fleming	5,286	7,346

Long term Incentive Plan

Options to subscribe for ordinary shares of HBOS plc were exercised by Directors during the year to 31 December 2002, as follows: -

	<u>#Options</u> <u>held as at</u>	<u>#Options</u> <u>granted</u>	<u>#Options</u> <u>exercised</u>	<u>#Options</u> <u>held as at</u>
	<u>1 Jan</u> <u>2002</u>			<u>31 Dec</u> <u>2002</u>
I.D. Kerr	38,014	18,750	-	56,764
R. Fleming	14,280	4,125	-	18,405

Ordinary shares of 25p each

Directors and their interests (Continued)

Sharesave Plan

Options to subscribe for ordinary shares of HBOS plc under sharesave plans during the year to 31 December 2002 were as follows: -

	<u>#Options held as at 1 Jan 2002</u>	<u>#Options granted</u>	<u>#Options exercised</u>	<u>#Options held as at 31 Dec 2002</u>
I. D. Kerr	4,115	-	-	4,115
R. Fleming	2,362	-	-	2,362

Ordinary shares of 25p each

Short-term Incentive Plan

Certain Directors have a conditional entitlement to shares arising from the annual incentive. Where the annual incentive for 2000/2001 was taken in shares and these shares are retained in trust for 3 years, the following shares will also be transferred to the directors: -

	<u>#Shares held as at 1 Jan 2002</u>	<u>#Shares granted</u>	<u>#Shares exercised</u>	<u>#Shares held as at 31 Dec 2002</u>
I. D. Kerr	1,944	4,449	-	6,393
R. Fleming	1,191	2,030	-	3,221

Ordinary shares of 25p each

HBOS plc Inland Revenue Approved Share Option Plan

Options in ordinary shares of HBOS plc, held under HBOS Inland Revenue Approved Share Option Plan as at 31 December, 2002 were as follows: -

	<u>#Options held as at 1 Jan 2002</u>	<u>#Options granted</u>	<u>#Options exercised</u>	<u>#Options held as at 31 Dec 2002</u>
R. Fleming		2,635	-	2,635

Ordinary shares of 25p each

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,



L.J.W. Black,
Secretary.

Registered Office

The Mound,
EDINBURGH,
EH1 1YZ

DATE: 14 February, 2003

PROFIT & LOSS ACCOUNTFor the period ended 31st December, 2002

	<u>Notes</u>	<u>Year to</u> <u>31 December</u> <u>2002</u> <u>£</u>	<u>10 months to</u> <u>31 December</u> <u>2001</u> <u>£</u>
Operating expenses		(71,183)	(82,433)
Operating loss		<u>(71,183)</u>	<u>(82,433)</u>
Interest receivable from group undertakings		3,543	43,649
Interest receivable/(payable) to group undertakings		110,523	(51,946)
Interest payable on overdraft		(113,956)	-
Loss on ordinary activities before taxation	2	<u>(71,073)</u>	<u>(90,730)</u>
Taxation	3	21,322	26,700
Loss on ordinary activities after taxation		<u>(49,751)</u>	<u>(64,030)</u>
Profit and loss account 1 January, 2002		57,830	121,860
Profit and loss account 31 December, 2002		<u><u>8,079</u></u>	<u><u>57,830</u></u>

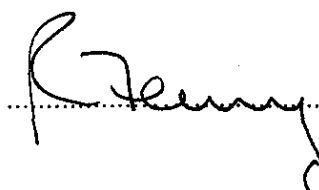
All gains and losses arising during the year have been recognised in the profit and loss account and derive from continuing operations of the Company, wholly within the United Kingdom.

BALANCE SHEETAs at 31st December, 2002

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
		<u>£</u>	<u>£</u>
<u>Fixed Assets</u>			
Investments in subsidiaries	4	93,729	93,729
<u>Current Assets</u>			
Amount due from immediate parent undertaking		-	13,071
Amounts due from subsidiary undertaking		7,232,911	6,881,546
Corporation tax recoverable		21,322	25,893
Other debtors		27,417	-
		<u>7,281,650</u>	<u>6,920,510</u>
<u>Creditors: amounts falling due within one year</u>			
Amounts due to immediate parent undertaking		(7,141,373)	(6,755,659)
Other creditors		(25,927)	(750)
		<u>(7,167,300)</u>	<u>(6,756,409)</u>
<u>Net Current Assets</u>		<u>114,350</u>	<u>164,101</u>
<u>Total Assets less Current Liabilities</u>		<u>208,079</u>	<u>257,830</u>
<u>Share Capital and Reserves</u>			
Called up share capital	5	200,000	200,000
Profit and loss account		8,079	57,830
<u>Equity Shareholders' Funds</u>	6	<u>208,079</u>	<u>257,830</u>

Approved by the board on 14 February, 2003 and signed on its behalf by:

.....Director

.....Director

The notes on pages 7 to 10 form part of these financial statements.

CASH FLOW STATEMENTFor the year ended 31st December, 2002

		<u>Year to</u> <u>31 December</u> <u>2002</u> <u>£</u>	<u>10 months to</u> <u>31 December</u> <u>2001</u> <u>£</u>
	<u>Notes</u>		
Net cash (outflow)/inflow from operating activities	7	(424,788)	7,440,657
Servicing of finance	8	110	(8,297)
Corporation tax recovered/(paid)		25,893	(109,023)
Dividends paid		-	(2,600,000)
(Decrease)/increase in cash	9	<u>(398,785)</u>	<u>4,723,337</u>

The notes on pages 7 to 10 form part of these financial statements.

NOTES TO THE ACCOUNTS1. Accounting policies1.1 Accounting convention

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

1.2 Taxation

In the current year the company implemented FRS19 "Deferred Tax". This had no impact in the current year. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed out by the balance sheet date, except as otherwise required by FRS19.

1.3 Investments

Investments are held at cost less diminution for impairment.

2. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	<u>Year to</u> <u>31 December 2002</u>	<u>10 months to</u> <u>31 December 2001</u>
	<u>£</u>	<u>£</u>
Auditors' remuneration	<u>750</u>	<u>750</u>

The Company has no employees and the Directors received any emoluments from the Company as follows:

	<u>Year to</u> <u>31 December 2002</u>	<u>10 months to</u> <u>31 December 2001</u>
	<u>£</u>	<u>£</u>
Total emoluments	<u>20,000</u>	<u>20,000</u>

3. TaxationTax on Loss on Ordinary Activities

	<u>Year to</u> <u>31 December 2002</u>	<u>10 months to</u> <u>December 2001</u>	<u>31</u>
	<u>£</u>	<u>£</u>	
<u>Current Tax:</u>			
Corporation tax credit for the period at a rate of 30% (2001 30%)	(21,322)	(25,893)	
Corporation tax credit in respect of prior periods	-	(807)	
	<u>(21,322)</u>	<u>(26,700)</u>	

NOTES TO THE ACCOUNTS (Continued)3. Taxation (Continued)Factors Affecting the Current Tax Credit for the Year

The tax credit for the year is the same as the standard rate of corporation tax in the UK of 30%.

The differences for the period to 31 December 2001 are explained below:

	<u>Year to</u> <u>31 December 2002</u>	<u>10 Months to</u> <u>31 December 2001</u>
	<u>£</u>	<u>£</u>
Loss on ordinary activities before taxation	<u>(71,073)</u>	<u>(90,730)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK	<u>(21,322)</u>	<u>(27,219)</u>
<u>Effects of:</u>		
Expenses not deductible for corporation tax purposes	-	1,326
Adjustments to tax in respect of prior periods	-	(807)
Current corporation tax credit for the period	<u>(21,322)</u>	<u>(26,700)</u>

4. Investments

	<u>Subsidiary</u> <u>Undertakings</u>
	<u>£</u>
At 31st December, 2001 and 2002	<u>93,729</u>

The Company's interests at 31st December, 2002 in the ordinary shares of its subsidiaries, all of which are unlisted and registered in Scotland were: -

<u>Name</u>	<u>%Held</u>	<u>Business</u>
St Vincent Street Developments Limited	100	Property Investment and Development
Horizon (Edinburgh) Limited	100	Property Investment and Development
New Tollcross Limited	100	Property Development

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.

NOTES TO THE ACCOUNTS (Continued)5. Equity share capital

	<u>2002</u>	<u>2001</u>
<u>Authorised</u>	<u>£</u>	<u>£</u>
1,000,000 Ordinary Shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
 <u>Allotted, called up and fully paid</u>		
200,000 Ordinary Shares of £1 each	<u>200,000</u>	<u>200,000</u>

6. Reconciliation of equity shareholders' funds

	<u>2002</u>	<u>2001</u>
	<u>£</u>	<u>£</u>
Equity shareholders' funds at 1 January, 2002	257,830	321,860
Loss attributable to equity shareholders'	(49,751)	(64,030)
Equity shareholders' funds at 31 December, 2002	<u>208,079</u>	<u>257,830</u>

7. Reconciliation of operating loss to net cash flow from operating activities

	<u>Year to</u> <u>31 December 2002</u>	<u>10 months to</u> <u>31 December 2001</u>
	<u>£</u>	<u>£</u>
Operating loss	(71,183)	(82,433)
(Increase)/decrease in debtors	(378,782)	7,523,091
Increase/(decrease) in creditors	25,177	(1)
Net cash (outflow)/inflow from operating activities	<u>(424,788)</u>	<u>7,440,657</u>

8. Servicing of finance

	<u>Year to</u> <u>31 December 2002</u>	<u>10 months to</u> <u>31 December 2001</u>
	<u>£</u>	<u>£</u>
Interest paid	(3,433)	(51,946)
Interest received	3,543	43,649
	<u>110</u>	<u>(8,297)</u>

NOTES TO THE ACCOUNTS (Continued)9. Analysis of net debt

	<u>Due from immediate parent undertaking</u>	<u>Due to immediate parent undertaking</u>	<u>Total</u>
	<u>£</u>	<u>£</u>	<u>£</u>
At 1st January, 2002	13,071	(6,755,659)	(6,742,588)
Cashflow	(13,071)	(385,714)	(398,785)
At 31st December, 2002	<u>-</u>	<u>(7,141,373)</u>	<u>(7,141,373)</u>

10. Related party transactions

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

Horizon Property Company (Scarborough) Limited, as a wholly owned subsidiary undertaking of The Governor and Company of the Bank of Scotland incorporated by Act of the Scottish Parliament in 1695, has prepared its financial statements in accordance with an exemption contained in FRS 8, "Related Party Disclosures". Under this exemption the company has not disclosed details of transactions with other group companies or investees of the group qualifying as related parties, as the consolidated financial statements in which Horizon Property Company (Scarborough) Limited is included are publicly available.

£23,500 (Period to 31st December 2001 - £20,000) to Kamcorp Limited in respect of K.C. McCabe & J.L. Burnley (£nil was outstanding at the period end)

11. Parent undertakings

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company Law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the 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
HORIZON PROPERTY COMPANY (SCARBOROUGH) LIMITED

We have audited the accounts on pages 4 to 10.

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 are responsible for preparing the Annual Report and Accounts. As described on page 11, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the 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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 of the state of affairs of the Company as at 31 December, 2002 and of the loss of the Company for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
EDINBURGH

14 February 2003