MEADOWFIELD DEVELOPMENTS LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Company Number SC226585

Directors

J K Cruickshank
I Robertson

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

J K Cruickshank
I Robertson

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 ownership and development of land.

Results and Dividends

The loss after tax for the Company for the year to 31 December 2005 was £48,640 (2004: £44,973). 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.

Directors' beneficial interests 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 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:-

	At 31.12.04 or date of appointment if later HBOS plc shares	At 31.12.05 HBOS plc shares
J K Cruickshank	30,052	29,657
I Robertson	24,324	64,573

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.

	Grant effective from	Shares as at 31.12.05
J K Cruickshank	March 2003	1,678
	March 2004	1,583
	March 2005	1,233
I Robertson	March 2003	1,664
	March 2004	1,603
	March 2005	5,669

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.

	Grant effective from	At 31.12.04 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 31.12.05
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

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 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 Plan
HBOS 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.

	Options outstanding At 31.12.04 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.05
J K Cruickshank	12,519	-	12,519
I Robertson	63,500	6,500 (E)	57,000

Sharesave Plan

Share options granted under these plans are set out below.

	At 31.12.04	Granted (G) lapsed (L) or exercised (E) in year	At 31.12.05
J K Cruickshank	3,360	473 (E)	2,887
I Robertson	1,581	1,352 (G)	2,933

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

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
Secretary.

February 2006

Registered Office
Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Income statement

For the year ended 31 December 2005

	Note	**2005** £	**2004** £
Operating expenses	*2*	(12,895)	(26,578)
Other income	*3*	13,401	23,329
Other expenses	*4*	(1,325)	(1,000)
Net other income		12,076	22,329
Operating loss before financing costs		(819)	(4,249)
Financial income	*5*	2,119	1,456
Financial expense	*5*	(70,785)	(61,455)
Net financing costs		(68,666)	(59,999)
Loss before tax		(69,485)	(64,248)
Income tax receivable	*6*	20,845	19,275
Loss after tax for the year		(48,640)	(44,973)
Attributable to:			
Equity holders		(48,640)	(44,973)
Loss for the year		(48,640)	(44,973)

Statement of recognised income and expense

For the year ended 31 December 2005

	Note	2005 £	2004 £
Loss for the year		(48,640)	(44,973)
Total recognised income and expense for the year	*13*	(48,640)	(44,973)
Attributable to:			
Equity holders		(48,640)	(44,973)
Loss for the year		(48,640)	(44,973)

Balance sheet

As at 31 December 2005

	Note	2005 £	2004 £
Assets			
Investment in subsidiary undertaking	*8*	2	2
Deferred tax assets	*9*	31,927	31,927
Total non- current assets		31,929	31,929
Inventories	*10*	1,306,070	1,151,871
Income tax receivable	*7*	21,683	59,610
Trade and other receivables	*11*	9,279	12,691
Cash and cash equivalents	*12*	8,730	-
Total current assets		1,345,762	1,224,172
Total assets		1,377,691	1,256,101
Equity			
Issued capital		100	100
Retained earnings		(262,574)	(213,934)
Total equity	*13*	(262,474)	(213,834)
Liabilities			
Amount due to fellow subsidiary undertaking		1,575,868	1,445,084
Trade and other payables	*14*	64,297	24,851
Total current liabilities		1,640,165	1,469,935
Total liabilities		1,640,165	1,469,935
Total equity and liabilities		1,377,691	1,256,101

Approved by the board at a meeting on 17 February 2006 and signed on its behalf by:

.... Director

.... Director

Statement of cash flows

For the year ended 31 December 2005

	Note	2005 £	2004 £
Cash flows from operating activities			
Operating loss		(819)	(4,249)
(Increase) in inventories		(154,199)	(82,483)
Decrease/(increase) in trade and other receivables		3,412	(6,611)
Decrease in amounts due from fellow subsidiary undertaking		-	27,616
Increase/(decrease) in amounts due to fellow subsidiary undertaking		130,784	(41,260)
Increase in trade and other payables		39,446	23,459
Cash generated from operations		18,624	(83,528)
Interest paid		(70,785)	(61,455)
Income taxes received		58,772	-
Net cash from operating activities		6,611	(144,983)
Cash flows from investing activities			
Interest received		2,119	1,456
Net cash from investing activities		2,119	1,456
Cash flows from financing activities		-	-
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		8,730	(143,527)
Cash and cash equivalents at 1 January		-	143,527
Cash and cash equivalents at 31 December	*12*	8,730	-

Notes to the financial statements

1. Significant accounting policies

Meadowfield Developments Limited (the "Company") is a company domiciled in Scotland.

The financial statements were authorised for issue by the directors on 17 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 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 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.

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

(e) 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.

(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.

(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.

Notes to the financial statements (cont)

Significant accounting policies (cont)

(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. Operating expenses

	2005	2004
	£	£
Property expenses	12,895	26,578

3. Other income

	2005	2004
	£	£
Rental income	13,401	23,329

4. Other expenses

	2005	2004
	£	£
Audit fee	1,325	1,000

5. Net financing costs

	2005	2004
	£	£
Interest income	2,119	1,456
Financial income	2,119	1,456
Interest expense	(70,785)	(61,455)
Financial expenses	(68,666)	(59,999)
Net financing costs	(69,845)	(64,248)

Notes to the financial statements (cont)

6. Income tax credit

Recognised in the income statement

	2005	2004
	£	£
Current tax credit		
Current year	(20,845)	(838)
Total income tax credit in income statement	(20,845)	(838)
Deferred tax credit		
Movement in non-allowable provisions	-	(18,437)
	-	-
Total income tax credit in income statement	(20,845)	(19,275)

Reconciliation of effective tax rate

	2005	2004
Loss on ordinary activities before tax	(69,845)	(64,248)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK	(20,845)	(19,275)
Total income tax credit in income statement	(20,845)	(19,275)

7. Current tax assets and liabilities

The current tax asset of £21,683 (2004: £59,610) represents the amount of income taxes receivable in respect of current and prior periods.

8. Investment in subsidiary undertakings

	£
At 1 January 2005 and 31 December 2005	2

Details of the company's subsidiaries are as follows:

Name of subsidiary	Proportion of ownership	Principal business	Incorporated	Reporting date of Financial Statements
Meadowfield Investments Limited	100%	Investment property company	UK	31 December

Notes to the financial statements (cont)

9. Deferred tax assets and liabilities

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

	Assets 2005	Assets 2004
	£	£
Inventories	31,927	31,927
Total deferred tax asset	31,927	31,927

Movement in temporary differences in the year

	Balance at 1 Jan 2005	Recognised in income	Balance at 31 Dec 2005
	£	£	£
Inventories	31,927	-	31,927

	Balance at 1 Jan 2004	Recognised in income	Balance at 31 Dec 2004
	£	£	£
Inventories	13,490	18,437	31,927

10. Inventories

	2005	2004
	£	£
At 1 January	1,151,871	1,258,293
Additions	154,199	-
Reversal of previously capitalised interest	-	(106,422)
At 31 December	1,306,070	1,151,871

11. Trade and other receivables

	2005	2004
	£	£
Trade and other receivables	9,279	12,691

12. Cash and cash equivalents

	2005	2004
	£	£
Bank balances	8,730	-
Cash and cash equivalents in the statement of cash flows	8,730	-

Notes to the financial statements (cont)

13. 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	(168,961)	(168,861)
Total recognised income and expense	-	(44,973)	(44,973)
Balance at 31 December 2004	100	(213,934)	(213,834)
Balance at 1 January 2005	100	(213,934)	(213,834)
Total recognised income and expense	-	(48,640)	(48,640)
Balance at 31 December 2005	100	(262,574)	(262,474)

Share capital and share premium

	Ordinary shares	
	2005	2004
	£	£
On issue at 1 January and at 31 December	100	100

At 31 December 2005, the authorised share capital comprised 100 £1 ordinary shares (2004: 100).

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

14. Trade and other payables

	2005	2004
	£	£
Other trade payables	63,297	23,351
Non-trade payables and accrued expenses	1,000	1,500
	64,297	24,851

Notes to the financial statements (cont)

15. Financial instruments

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

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.

			2005					
	Notes	Effective Interest rate	Total £	6 months or less £	6-12 months £	1-2 years £	2-5 years £	More than 5 years £
Cash and cash equivalents	12	4.5%	8,730	8,730	-	-	-	-
			8,730	8,730	-	-	-	-

Fair values

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

	Carrying amount 2005 £	Fair value 2005 £
Trade and other receivables	9,279	9,279
Cash and cash equivalents	8,730	8,730
Amount due to fellow subsidiary undertaking	(1,575,868)	(1,575,868)
Trade and other payables	(64,297)	(64,297)
	(1,622,156)	(1,622,156)
Unrecognised (losses) / 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)

16. Operating Leases

The Company leases out various buildings on operating leases which are terminable by the Company within periods of less than one year. In 2004 the Company also leased farmland on an operating lease which had a period of less than one year. The rental income relates to rent due to the company under these operating leases.

17. Related parties

The Company's parent undertaking is Horizon Capital 2000 Limited. Its intermediate parent undertaking is 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 Company also has a related party relationship with its fellow subsidiary undertaking Horizon Resources Limited. This relationship has arisen due to the provision of funding to the Company.

Details of the related party transactions during the year are disclosed 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
		£	£	£	£	
Intercompany payable	Horizon Resources Limited	1,445,084	1,575,868			Amount due to fellow subsidiary undertaking
Interest receivable	The Governor and Company of Bank of Scotland			2,119	1,456	Financial income
Interest payable	Horizon Resources Limited			70,785	61,455	Financial expenses

Notes to the financial statements (cont)

18. 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 adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following tables.

Notes to the financial statements (cont)

Reconciliation of equity

£	*Note*	Previous GAAP	Effect of transition to IFRSs 1 January 2004	IFRSs	Previous GAAP	Effect of transition to IFRSs 31 December 2004	IFRS	Opening IFRS*	Effect of transition to IFRSs 1 January 2005	IFRS
Assets										
Investment in subsidiary undertakings	*8*	2		2	2		2	2		2
Deferred tax asset	*9*		13,490	13,490		31,927	31,927	31,927		31,927
Total non-current assets		2	13,490	13,492	2		31,929	31,929		31,929
Inventories		1,114,355	(44,967)	1,069,388	1,258,293	(106,422)	1,151,871	1,151,871		1,151,871
Income tax receivable	*7*	58,772		58,772	59,610		59,610	59,610		59,610
Trade and other receivables	*11*	6,080		6,080	12,691		12,691	12,691		12,691
Amount due from fellow subsidiary undertaking		27,616		27,616						
Cash and cash equivalents	*12*	143,527		143,527						
Total current assets		1,350,350	(44,967)	1,305,383	1,330,594	(106,422)	1,224,172	1,224,172		1,224,172
Total assets		1,350,352	(31,477)	1,318,875	1,330,596	(74,495)	1,256,101	1,256,101		1,256,101
Equity										
Issued capital		100		100	100		100	100		100
Retained earnings		(137,484)	(31,477)	(168,961)	(139,439)	(74,495)	(213,934)	(213,934)		(213,934)
Total equity attributable to equity holders of the parent	*13*	(137,384)	(31,477)	(168,861)	(139,339)	(74,495)	(213,834)	(213,834)		(213,834)

*Opening balances post December 2004 IFRS adjustments

Notes to the financial statements (cont)

Reconciliation of equity (cont)

£	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRS	Opening IFRS*	Effect of transition to IFRSs	IFRS
			1 January 2004			31 December 2004			1 January 2005	
Liabilities										
Amount due to fellow subsidiary undertaking		1,486,344		1,486,344	1,445,084		1,445,084	1,445,084		1,445,084
Trade and other payables	*14*	1,392		1,392	24,851		24,851	24,851		24,851
Total liabilities		1,487,736		1,487,736	1,469,935		1,469,935	1,469,935		1,469,935
Total equity and liabilities		1,350,352	(31,477)	1,318,875	1,330,596	(74,495)	1,256,101	1,256,101		1,256,101

* Opening balances post December 2004 IFRS adjustments

Notes to the financial statements (cont)

The effect of the above adjustments on retained earnings is as follows:

	1 January 2004	31 December 2004
	£	£
Inventories	44,967	106,422
Deferred taxation	(13,490)	(31,927)
Total adjustment to equity	31,477	74,495
Attributable to:		
Equity holders of the parent	31,477	74,495
	31,477	74,495

		1 January 2004	31 December 2004
	Previous GAAP	**Effect of transition to IFRSs**	**IFRSs**
	£	£	£
Operating expenses	(26,578)		(26,578)
Other income	23,329		23,329
Other expenses	(1,000)		(1,000)
Net other income	(22,329)		(22,329)
Operating loss before financing costs	(4,249)		(4,249)
Financial income	1,456		1,456
Financial expenses		(61,455)	(61,455)
Net financing costs	1,456	(61,455)	(59,999)
Loss before tax	(2,793)	(61,455)	(64,248)
Income tax expense	838	18,437	19,275
Loss after tax for the year	(1,955)	(43,018)	(44,973)
Attributable to:			
Equity holders of the parent	(1,955)	(43,018)	(44,973)
Loss for the year	(1,955)	(43,018)	(44,973)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in respect of Meadowfield Developments Limited report and the financial statements

The directors are responsible for preparing the Meadowfield Developments 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 MEADOWFIELD DEVELOPMENTS LIMITED

We have audited the financial statements of Meadowfield Developments 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 22.

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 MEADOWFIELD DEVELOPMENTS 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

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23 February 2006