WEST CRAIGS LIMITED
(FORMERLY KNOWN AS MEADOWFIELD DEVELOPMENTS LIMITED)

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Company Number SC226585

Directors

J K Cruickshank
I Robertson
J C O'Neil

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
J C O'Neil

The Directors submit their report and audited accounts of the Company for the year ended 31 December 2006

Activity and review of business

The Company's principal activity is the ownership and development of land

Results and Dividends

The profit after tax for the Company for the year to 31 December 2006 was £1,524,428 (2005 loss of £48,640) A dividend of £880,000 was paid during the year (2005 £NIL)

Going Concern

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts

Directors and their interests

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

Dates of appointment and resignation were as follows

Director	Date of Appointment	Date of Resignation
J C O'Neil	7 July 2006	

The other Directors all served throughout the year

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 05 or date of appointment if later HBOS plc shares	At 31 12 06 HBOS plc shares
J K Cruickshank	29,657	33,780
I Robertson	64,573	84,658
J C O'Neil	14,153	15,545

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 06
J K Cruickshank	March 2004	1,583
	March 2005	1,233
	March 2006	1,060
I Robertson	March 2004	1,603
	March 2005	5,669
	March 2006	3,332
J C O'Neil	March 2004	715
	March 2005	655
	March 2006	563

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 12 05 or date of appointment if later	Granted (G) or lapsed (L) in year	Dividend reinvestment shares	Added as a result of performance (including on dividend reinvestment shares)	Released in year	At 31 12 06
I Robertson	January 2003	17,708		2,748	16,978	37,434	
	January 2004	25,104					25,104
	January 2005	21,428					21,428
	January 2006		20,481 (G)				20,481

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 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

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 05 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31 12 06
J K Cruickshank	12,519		12,519
I Robertson	57,000	7,000 (E)	50,000
J C O'Neil	2,793		2,793

Sharesave Plan

Share options granted under these plans are set out below

	At 31 12 05	Granted (G) lapsed (L) or exercised (E) in year	At 31 12 06
J K Cruickshank	2,887		2,887
I Robertson	2,933	1,581(E)	1,352
J C O'Neil	4,114	177 (G)	
		773 (E)	3,518

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)

Company Secretary

A I Macrae

Audit Information

The Directors who held office at the date of approval of this Directors' 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 he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

22nd February 2007

Registered Office
Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Income statement

For the year ended 31 December 2006

	Note	2006	2005
		£	£
Sale of crop		38,624	
Cost of sales		(47,774)	
Gross loss		(9,150)	
Profit on disposal of investments		1,552,986	
Operating expenses	2	(14,522)	(12,895)
Other income	3	28,610	13,401
Other expenses	4	(2,000)	(1,325)
Net other income		26,610	12,076
Operating profit/(loss) before financing costs		1,555,924	(819)
Financial income	5	1,539	2,119
Financial expense	5	(45,274)	(70,785)
Net financing costs		(43,735)	(68,666)
Profit/(Loss) before tax		1,512,189	(69,485)
Income tax credit	6	12,239	20,845
Profit/(Loss) after tax for the year		1,524,428	(48,640)
Attributable to:			
Equity holders		1,524,428	(48,640)
Profit/(Loss) for the year		1,524,428	(48,640)

The notes on pages 11 to 17 form part of these accounts

Statement of recognised income and expense

For the year ended 31 December 2006

	Note	2006 £	2005 £
Profit/(Loss) for the year		**1,524,428**	(48,640)
Total recognised income and expense for the year	13	**1,524,428**	(48,640)
Attributable to:			
Equity holders		**1,524,428**	(48,640)
Profit/(Loss) for the year		**1,524,428**	(48,640)

The notes on pages 11 to 17 form part of these accounts

Balance sheet

As at 31 December 2006

	Note	2006	2005
		£	£
Assets			
Investment in subsidiary undertaking	8		2
Deferred tax assets	9		31,927
Total non current assets			31,929
Inventories	10	1,573,661	1,306,070
Income tax receivable	7	12,239	21,683
Trade and other receivables	11	7,347	9,279
Cash and cash equivalents	12	71,614	8,730
Total current assets		1,664,861	1,345,762
Total assets		1,664,861	1,377,691
Equity			
Issued capital	13	100	100
Retained earnings	13	381,854	(262,574)
Total equity		381,954	(262,474)
Liabilities			
Amount due to fellow subsidiary undertaking		1,090,787	1,575,868
Trade and other payables	14	192,120	64,297
Total current liabilities		1,282,907	1,640,165
Total liabilities		1,282,907	1,640,165
Total equity and liabilities		1,664,861	1,377,691

The notes on pages 11 to 17 form part of these accounts

Approved by the board at a meeting on the 21st February 2007 and signed on its behalf by

Director

Director

Statement of cash flows

For the year ended 31 December 2006

	Note	2006 £	2005 £
Cash flows from operating activities			
Operating Profit/(loss)		**1,555,924**	(819)
(Increase) in inventories		**(267,591)**	(154,199)
Decrease in trade and other receivables		**1,932**	3,412
(Decrease)/increase in amounts due to fellow subsidiary undertaking		**(530,349)**	130,784
Increase in trade and other payables		**127,823**	39,446
Profit on sale		**(1,552,986)**	
Cash generated from operations		**(665,247)**	18,624
Interest paid		**(6)**	(70,785)
Income taxes received		**53,610**	58,772
Net cash from operating activities		**(611,643)**	6,611
Cash flows from investing activities			
Interest received		**1,539**	2,119
Sales of investment in subsidiary undertaking		**1,552,988**	
Net cash from investing activities		**1,554,527**	2,119
Cash flows from financing activities			
Dividends Paid		**(880,000)**	
Net cash from financing activities		**(880,000)**	
Net increase in cash and cash equivalents		**62,884**	8,730
Cash and cash equivalents at 1 January		**8,730**	
Cash and cash equivalents at 31 December	12	**71,614**	8,730

The notes on pages 11 to 17 form part of these accounts

Notes to the financial statements

1. Significant accounting policies

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

The financial statements were authorised for issue by the directors on 21st February 2007

(a) Statement of compliance

The 2006 statutory financial statements set out on pages 7 to 17 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS')

The standards adopted by the Company are those endorsed by the European Union and effective at the date the 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

(b) Basis of preparation

The financial statements have been prepared on a historical cost basis

(c) Adopted IFRS not yet applied

IFRS 7 "Financial Instruments Disclosures" 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 sheet or income statement as they are only concerned with disclosure

(d) Inventories

Inventories are stated at lower of cost and net realisable value

(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 are held for the purpose of meeting short term cash commitments rather than investing or other purposes Cash and cash equivalents consist of cash balances at banks that are freely available

(g) 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

Notes to the financial statements (continued)

Significant accounting policies (continued)

(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

(h) Trade and other payables

Trade and other payables are stated at cost

(i) 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

(j) Taxation

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates at the balance sheet date

Notes to the financial statements (continued)

2. Operating expenses

	2006	2005
	£	£
Property expenses	8,827	12,895
Other operating expenses	5,695	
Total operating expenses	14,522	12,895

3. Other income

	2006	2005
	£	£
Rental income	18,548	13,401
Other Income	10,062	
	28,610	13,401

4. Other expenses

	2006	2005
	£	£
Audit fee	2,000	1,325

5. Net financing costs

	2006	2005
	£	£
Interest income	1,539	2,119
Financial income	1,539	2,119
Interest expense	(45,274)	(70,785)
Financial expenses	(45,274)	(70,785)
Net financing costs	(43,735)	(68,666)

6. Income tax credit

Recognised in the income statement

	2006	2005
	£	£
Current tax credit		
Current year	(12,239)	(20,845)
Adjustment for prior years	(31,927)	
	(44,166)	(20,845)
Deferred tax expense		
Prior year adjustment	31,927	
Total income tax credit in income statement	(12,239)	(20,845)

Notes to the financial statements (continued)

6. Income tax credit (continued)

Reconciliation of effective tax rate

	2006	2005
	£	£
Profit/(loss) on ordinary activities before tax	1,512,189	(69,485)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	453,657	(20,845)
Utilisation of tax losses	(465,896)	
Total income tax (credit) in income statement	(12,239)	(20,845)

7. Current tax assets and liabilities

The current tax asset of £12,239 (2005 £21,683) represents the amount of income taxes payable in respect of the current period

8. Investment in subsidiary undertakings

	£
At 1 January 2006	2
Disposal in year	(2)
At 31 December 2006	

9. Deferred tax assets and liabilities

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

	Assets	
	2006	2005
	£	£
Inventories		31,927
Total deferred tax asset		31,927

Movement in temporary differences in the year

	Balance at 1 Jan 2006	Recognised in income	Balance at 31 Dec 2006
	£	£	£
Inventories	31,927	(31,927)	

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

Notes to the financial statements (continued)

10. Inventories

	2006	2005
	£	£
At 1 January	1,306,070	1,151,871
Additions	315,128	154,199
Sale of crops	(47,537)	
At 31 December	1,573,661	1,306,070

11. Trade and other receivables

	2006	2005
	£	£
Trade and other receivables	7,347	9,279

12. Cash and cash equivalents

	2006	2005
	£	£
Bank balances	71,614	8,730
Cash and cash equivalents in the statement of cash flows	71,614	8,730

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 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)
Balance at 1 January 2006	100	(262,574)	(262,474)
Total recognised income and expense		1,524,428	1,524,428
Dividend Paid		(880,000)	(880,000)
Balance at 31 December 2006	**100**	**381,854**	**381,954**

Share capital and share premium

	Ordinary shares	
	2006	2005
	£	£
On issue at 1 January and at 31 December	100	100

At 31 December 2006, the authorised share capital comprised 100 £1 ordinary shares (2005 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

Notes to the financial statements (continued)

14. Trade and other payables

	2006	2005
	£	£
Other trade payables	**190,620**	63,297
Non trade payables and accrued expenses	**1,500**	1,000
	192,120	64,297

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

	Note	**Effective Interest rate**	**2006 Total £**	**6 months or less £**	Effective Interest rate	2005 Total £	6 months or less
Cash and cash equivalents	12	4 64%	71,614	71,614	4 5%	8,730	8,730
			71,614	71,614		8,730	8,730

Fair values

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

	Note	**Carrying amount 2006 £**	**Fair value 2006 £**	**Carrying amount 2005 £**	**Fair value 2005 £**
Trade and other receivables	11	7,347	7,347	9,279	9,279
Cash and cash equivalents	12	71,614	71,614	8,730	8,730
Amount due to fellow subsidiary undertaking		(1,090,787)	(1,090,787)	(1,575,868)	(1,575,868)
Trade and other payables	14	(192,120)	(192,120)	(64,297)	(64,297)
		(1,203,946)	(1,203,946)	(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 (continued)

16. Operating Leases

The Company leases out various buildings which are terminable by the Company within periods of less than one year The rental income relates to rent due to the company under these operating leases

17. Parent Undertakings

HBOS plc is the ultimate parent undertaking of West Craigs Limited and heads the largest Group into which the accounts of the company are consolidated The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ

The Governor and Company of the Bank of Scotland heads the smallest group into which the accounts of the Company are consolidated The accounts of Bank of Scotland may be obtained from its head office at The Mound, Edinburgh EH1 1YZ

18. Related parties

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 2006	Outstanding balance at 31 December 2006	Income/ expense included in income statement for the year ended 31 December 2006	2005 Comparative	Disclosure in financial statements
		£	£	£	£	
Intercompany payable	Horizon Resources Limited	1,575,868	1,090,787			Amount due to fellow subsidiary undertaking
Interest receivable	The Governor and Company of Bank of Scotland			1,539	2,119	Financial income
Interest payable	Horizon Resources Limited			45,274	70,785	Financial expenses

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

The company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the company and the performance for that period, 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 company 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 Directors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WEST CRAIGS LIMITED

We have audited the financial statements of West Craigs Limited for the year ended 31 December 2006 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 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 18

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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

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 its profit 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh 27 February 2007