

Company Registration No. 4599607

**MASSHOUSE DEVELOPMENTS
LIMITED**

Report and Financial Statements

31 December 2005



MASSHOUSE DEVELOPMENTS LIMITED

Report and financial statements 2005

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MASSHOUSE DEVELOPMENTS LIMITED

Report and financial statements 2005

Officers and professional advisers

Directors

B I M Turnbull (resigned 12 December 2005)
A D Middleton (resigned 29 March 2005)
J E Kendrick
N S Payne
J M Rowney
S C Sanders
R A Elliott (resigned 12 December 2005)
F P Reil
S Robinson (appointed 29 March 2005)

Secretary

S P Garnett

Registered Office

Enterprise House
28 Parkway
Deeside Industrial Park
Deeside
Flintshire
CH5 2NS

Bankers

Royal Bank of Scotland
1 Dale Street
Liverpool
L2 2PP

Solicitors

Eversheds
115 Colmore Row
Birmingham
B3 3AL

Auditors

Deloitte & Touche LLP
Chartered Accountants
Liverpool

MASSHOUSE DEVELOPMENTS LIMITED

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Activities

The company is involved in the development of a site in Birmingham. Presently part of the site is being developed into an apartment block with the remainder being run as a temporary car park.

Review of developments

The company's profit for the year after taxation amounted to £84,064 (2004: loss £44,197).

Dividends

The directors do not recommend the payment of a dividend (2004 - £nil).

Future prospects

The directors are confident about the future prospects of the company.

Directors and their interests

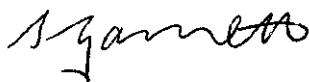
The directors who held office during the period and thereafter are shown on page 1.

None of the directors held any of the ordinary shares of the company.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Secretary

30 OCTOBER 2006

MASSHOUSE DEVELOPMENTS LIMITED

Statement of directors' responsibilities

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company 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; 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 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 are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MASSHOUSE DEVELOPMENTS LIMITED

We have audited the financial statements of Masshouse Developments Limited for the year ended 31 December 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes 1 to 16. 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 auditors' 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

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and are 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 other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements

Basis of audit opinion

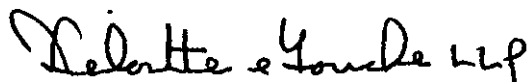
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



31 October 2006

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Liverpool

MASSHOUSE DEVELOPMENTS LIMITED

Profit and loss account Year ended 31 December 2005

	Note	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Turnover	1	1,835,010	543,514
Cost of sales		(1,384,018)	(125,133)
Gross profit		450,992	418,381
Administrative expenses		(277,210)	(446,339)
Operating profit/(loss)	2-3	173,782	(27,958)
Interest payable and similar charges	4	(55,246)	(35,181)
Bank interest receivable		3,060	-
Profit/(loss) on ordinary activities before taxation	2-3	121,596	(63,139)
Tax on (profit)/loss on ordinary activities	5	(37,532)	18,942
Retained profit/(loss) for the year	14	84,064	(44,197)
Retained (loss)/profit brought forward		(38,760)	5,437
Retained profit/(loss) carried forward		45,304	(38,760)

There are no recognised gains or losses for the current or preceding year other than as stated above. Accordingly, no separate statement of total recognised gains and losses has been prepared.

All the results derive from continuing operations.

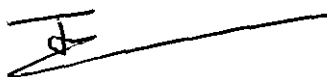
MASSHUSE DEVELOPMENTS LIMITED

Balance sheet Year ended 31 December 2005

	Note	£	2005 £	£	2004 £
Fixed assets					
Tangible assets	6		18,283		20,679
Investments	7		4		-
			<u>18,287</u>		<u>20,679</u>
Current assets					
Stocks	8	19,749,397		8,827,961	
Debtors	9	248,160		300,598	
Cash		380,683		-	
		20,378,240		9,128,559	
Creditors: amounts falling due within one year	10	(1,956,765)		(2,514,125)	
Net current assets			18,421,475		6,614,434
Total assets less current liabilities			18,439,762		6,635,113
Creditors: amounts falling due after more than one year	11		(18,394,454)		(6,673,869)
Net assets/(liabilities)			<u>45,308</u>		<u>(38,756)</u>
Capital and reserves					
Called up share capital	13		4		4
Profit and loss account			45,304		(38,760)
Equity shareholders' funds/(deficit)	14		<u>45,308</u>		<u>(38,756)</u>

These financial statements were approved by the Board of Directors on 30 October 2006

Signed on behalf of the Board of Directors



Director

MASSHOUSE DEVELOPMENTS LIMITED

Notes to the accounts

Year ended 31 December 2005

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention. Under FRS1 (revised 1996) the company is exempt from the requirement to prepare a cashflow statement on the grounds of its size.

Stocks

Stocks are stated at the lower of cost and net realisable value and includes those financial costs which are directly attributable to the construction of the assets classified as stock.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that resulting an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statement.

A net deferred tax is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Turnover

Turnover represents the total invoice value, excluding value added tax, of sales made during the year from the temporary car park, advertising hoardings and the granting of a non-refundable deposit. Revenue is recognised on a receivable basis. The grant option is in the favour of The First Secretary of State to take an underlease and sub-development agreement of part of the development area in Birmingham. The option fee is non-refundable.

2. Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activity before taxation is stated after charging:

	2005	2004
	£	£
Depreciation	6,844	1,173
Audit	6,000	5,000
Work in progress write-off (due to change in development plans)	1,298,999	125,000

The work in progress write-off in the current year relates to the granting of an option over part of the development area (see note 1). The holder of the grant is entitled to acquire this part of the development area, in the period ending 31 December 2007, and during this time the use of the land is restricted. The write-off therefore relates to the costs incurred on the plans for this part of the development area prior to the granting of the option. The company will generate a significant profit on disposal of the land if the option is exercised.

MASSHOUSE DEVELOPMENTS LIMITED

Notes to the accounts

Year ended 31 December 2005

3. Information regarding directors and employees

None of the directors received any remuneration during the period from the company (2004: same). The company does not employ any staff (2004: same).

4. Interest payable and similar charges

	2005 £	2004 £
Bank interest	55,246	34,681
Other interest and charges	-	500
	<u>55,246</u>	<u>35,181</u>
Finance costs capitalised in the year	84,103	-
Cumulative finance costs capitalised in stock	<u>84,103</u>	<u>-</u>

5. Taxation

Analysis of tax charge

Current tax

	2005 £	2004 £
UK Corporation tax	(19,897)	-
Adjustment in respect of prior years	-	2,330
	<u>(19,897)</u>	<u>2,330</u>

Deferred tax

Timing differences	(17,635)	16,612
Total deferred tax	<u>(17,635)</u>	<u>16,612</u>
Tax (charge)/credit for the period	<u>(37,532)</u>	<u>18,942</u>

Factors affecting the current tax charge for the period

The tax assessed for the year is lower (2004: lower) than that resulting from applying the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2005 £	2004 £
Profit/(loss) on ordinary activities before tax	121,596	(63,139)
Tax at 30% thereon	<u>(36,479)</u>	<u>18,942</u>
Effects of:		
Expenses not deductible for tax purposes	(650)	-
Capital allowances in excess of depreciation	(566)	1,287
Movement in short term timing differences	17,798	(17,899)
Trade loss carried back	-	(2,330)
Prior year adjustments	-	2,330
Current tax (charge)/credit for the period	<u>(19,897)</u>	<u>2,330</u>

MASSHOUSE DEVELOPMENTS LIMITED

Notes to the accounts

Year ended 31 December 2005

6. Tangible fixed assets

	Fixtures and fittings £
Cost	
At 1 January 2005	21,852
Additions	4,448
At 31 December 2005	26,300
Depreciation	
At 1 January 2005	1,173
Charge for the year	6,844
At 31 December 2005	8,017
Net book value	
At 31 December 2005	18,283
At 31 December 2004	20,679

7. Investments

	Subsidiary undertakings £
Cost	
At 1 January 2005	-
Additions	4
At 31 December 2005	4

The subsidiary undertakings at the end of the year and the nature of their business are:

	Country of incorporation	Principal activity	Holding
Subsidiary undertakings:			
Masshouse Block HI Limited	UK	Dormant	100%
Masshouse Block M Limited	UK	Dormant	100%
Masshouse Management Limited	UK	Dormant	100%
Masshouse Residential Block HI Limited	UK	Dormant	100%

MASSHUSE DEVELOPMENTS LIMITED

Notes to the accounts Year ended 31 December 2005

8. Stocks

	2005 £	2004 £
Construction in progress	19,749,397	8,827,961
Included in construction in progress		
Cumulative interest charges capitalised	84,103	-

9. Debtors

	2005 £	2004 £
Amounts falling due within one year		
Amounts owed by Joint Venture Partners	4	4
Amounts owed by associated undertakings (see note 14)	49,229	49,229
Trade debtors	62,860	132,722
Prepayment and accrued income	17,847	-
Other debtors	118,220	102,031
Deferred tax asset (see note 11)	-	16,612
	248,160	300,598

10. Creditors: amounts falling due within one year

	2005 £	2004 £
Bank loans and overdrafts (see note 14)	-	1,149,521
Amounts owed to associated undertakings (see note 14)	1,392,965	916,262
Trade creditors	383,465	362,546
Accruals and deferred income	161,745	85,796
Corporation tax	17,567	-
Deferred tax (see note 11)	1,023	-
	1,956,765	2,514,125

11. Creditors: amounts falling due after more than one year

	2005 £	2004 £
Bank loans (see note 14)	7,220,585	-
Loan stock repayable in more than 5 years (see note 14)	11,173,869	6,673,869
	18,394,454	6,673,869

The bank loan is on standard terms and conditions with the Royal Bank of Scotland plc (associated undertaking of KUC Properties Limited). The bank loan is due for repayment on the earlier of the date of completion of the project or on 31 July 2007, and is secured by a first legal charge over the property and its associated assets and a subordination deed by KUC Properties Limited and David McLean Nikal Limited subordinating in favour of the Bank repayment of monies owed to them.

The loan stock will be repayable in full on 31 December 2010 and are secured against the stocks and work in progress, held in the company. No interest is charged.

MASSHOUSE DEVELOPMENTS LIMITED

Notes to the accounts

Year ended 31 December 2005

12. Deferred taxation

	2005 £	2004 £
Opening balance	(16,612)	-
Charge/(credit) to the profit and loss account	17,635	(16,612)
Closing balance	<u>1,023</u>	<u>(16,612)</u>
Analysis of deferred tax balance:		
Capital allowances in excess of depreciation	1,023	1,287
Carried forward losses	-	(17,899)
	<u>1,023</u>	<u>(16,612)</u>

There is no un-provided deferred taxation balance (2004: same).

13. Called up share capital

	2005 £	2004 £
Authorised:		
500 A ordinary shares of £1 each	500	500
500 B ordinary shares of £1 each	500	500
	<u>1,000</u>	<u>1,000</u>
Called up, allotted and fully paid		
2 A ordinary shares of £1 each	2	2
2 B ordinary shares of £1 each	2	2
	<u>4</u>	<u>4</u>

Every member has one vote for every share of which it is the holder, except that neither class of share can vote for the removal of a director, without prior consultation with the other class. The members of each type of share can appoint up to four directors. The A ordinary shareholders are entitled to the first £2,000,000 of any dividends or distribution. The A and B shares in all other respects are identical and rank pari passu.

14. Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Result for the financial year	84,064	(44,197)
Net addition/(deduction) to shareholders' funds	84,064	(44,197)
Opening shareholders' (deficit)/funds	(38,756)	5,441
Closing shareholders' funds/(deficit)	<u>45,308</u>	<u>(38,756)</u>

MASSHOUSE DEVELOPMENTS LIMITED

Notes to the accounts

Year ended 31 December 2005

15. Related party disclosures

The company is a joint venture between David McLean Nikal Limited and KUC Properties Limited. As at 31 December 2005 the following balances are included in debtors:

	2005 £	2004 £
David McLean Nikal Limited	2	2
KUC Properties Limited	2	2
David McLean Developments Limited (associated undertaking of David McLean Nikal Limited)	49,229	49,229

Included in creditors are the following balances:

	2005 £	2004 £
David McLean Nikal Limited	205,625	345,601
David McLean Contractors Limited (associated undertaking of David McLean Nikal Limited)	1,187,336	555,973
Nikal Limited (associated undertaking of David McLean Nikal Limited)	-	14,688
Royal Bank of Scotland plc (associated undertaking of KUC Properties Limited)	7,220,585	1,149,521
David McLean Nikal Limited (loan notes)	5,030,778	2,780,778
KUC Properties Limited (loan notes)	6,143,091	3,893,091

During the year the following transactions took place on an arm's length basis:

	£
Management fees (with David McLean Nikal Limited)	300,000
Work in progress costs - (with David McLean Contractors Limited)	10,912,828
- (with David McLean Homes Limited; associated undertaking of David McLean Nikal Limited)	20,250
Net interest (with Royal Bank of Scotland plc)	137,128
Arrangement fee/bank charges (with Royal Bank of Scotland plc)	30,411
Marketing fees (Nikal Limited; associated undertaking of David McLean Nikal Limited)	18,828
Professional fees recharged (with Royal Bank of Scotland plc)	24,266
Loan stock - (with KUC Properties Limited)	2,250,000
- (with David McLean Nikal Limited)	2,250,000

16. Controlling parties

The company is under the joint control of David McLean Nikal Limited and KUC Properties Limited. At 31 December 2005, David McLean Nikal Limited owned 2 "A" shares and KUC Properties owned 2 "B" shares. As detailed in note 12 the shares rank equally in all respects.

David McLean Nikal Limited is under the joint control of David McLean (Holdings) Limited and Nikal Limited. The ultimate controlling party, and the parent of the largest group into which KUC Properties Limited is consolidated is The Royal Bank of Scotland Group plc, which is incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc.