

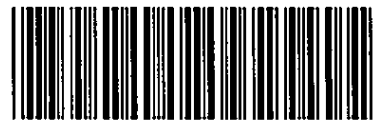
Company Registration No. 4599607

**MASSHOUSE DEVELOPMENTS
LIMITED**

Report and Financial Statements

31 December 2007

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MASSHOUSE DEVELOPMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

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MASSHOUSE DEVELOPMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

Officers and professional advisers

Directors

J E Kendrick	(resigned 18 March 2009)
N S Payne	
J M Rowney	(resigned 1 July 2008)
S C Sanders	
F P Reil	(resigned 13 April 2009)
S P Robinson	
S E Reynolds	(appointed 3 September 2007, resigned 30 October 2007)
A R Stewart	(appointed 14 July 2008)

Secretary

S P Garnett	(resigned 2 October 2008)
S P Robinson	(appointed 4 November 2008)

Registered Office

Mynshulls House
14 Cateaton Street
Manchester
M3 1SQ

Bankers

Royal Bank of Scotland
1 Dale Street
Liverpool
L2 2PP

Solicitors

Eversheds
115 Colmore Row
Birmingham
B3 3AL

Auditors

Deloitte LLP
Chartered Accountants and Registered Auditors
Manchester
United Kingdom

MASSHOUSE DEVELOPMENTS LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

Activities

The company is involved in the developments of two sites in Birmingham with a planning consent for circa 1,100,000 square ft of mixed use development. The development will comprise a mixture of residential accommodation, grade A office accommodation, a hotel, a Magistrates Court and car parking.

Review of developments

At the year-end date, the company was under the joint control of David McLean Nikal Limited and KUC Properties Limited. David McLean Nikal Limited was under the joint control of David McLean (Holdings) Limited and Nikal Limited.

During the year the company made good progress in selling the remaining apartments developed in its first residential block. At the end of the year only 2 apartments of 173 remained unsold, and sales on these remaining 2 units were concluded during the year ended 31 December 2008.

Work commenced on the second residential phase of 167 apartments due for completion in early 2009. As a consequence of the downturn in the economic climate and difficulties in the credit markets David McLean Contractors Limited, which was appointed to construct the second residential block, and David McLean (Holdings) Limited, which was a joint venture partner in the development, both went into administration in October 2008.

The share capital of David McLean (Holdings) Limited has subsequently been acquired by the Nikal Group, leaving it with a 50% shareholding alongside KUC Properties Limited. A new contractor has been identified for the completion of the outstanding residential block and work is expected to commence on the completion during Summer 2009, with completion early 2010.

Following the resolution of the issues created by the demise of the David McLean Group the company is also focused on managing the current market risks and has taken advantage of the opportunity to review the scheme designs and layouts before appointing a new contractor and to ensure that it meets the current market requirements.

The funding requirement for delivery of the completed second residential block has been renegotiated with its Bankers and revised terms have been received which will enable the building to be completed.

Whilst the current economic climate remains uncertain the directors believe there is sufficient equity currently invested in the scheme and being made available that will ensure that the second phase of the development will be concluded successfully and allow further investments in future phases of the scheme to be delivered.

As a result of the decline in property values in the current economic climate, the company has made provisions for elements of its stock balance predominantly relating to its second residential block based on an estimate of the net realisable value of that site at the balance sheet date. The value of these provisions for stock totalled £1,943,000.

Following completion of the second residential block it is anticipated that HM Court Services will commence development of the new Magistrates Court during the course of 2010.

Principal risk and uncertainties

Development Costs

As referred to in the Review of developments, following the demise of David McLean Group the directors, together with the professional teams, have reviewed the potential costs to complete the second residential block. In addition to working with the professional teams, a new contractor has been sought and indications from both professional teams and the initial discussions with the contractor indicate that the costs to complete the project as used within the financial projections by the directors are achievable.

MASSHOUSE DEVELOPMENTS LIMITED

DIRECTORS' REPORT

Liquidity

Following the demise of David McLean as the contractor, a new contract for the completion of the building is currently being negotiated and a new banking facility has in principle been agreed which will provide sufficient funding to enable the development to be concluded successfully. A considerable amount of loan finance has already been introduced by the joint venture parties, and this together with proposed new loans and a revised banking facility will give sufficient cash flow to enable the scheme to be completed.

Economic Factors affecting the property industry

Given the current economic conditions and unprecedented times in the capital markets there has been a dramatic impact on property values and affordability of residential accommodation in city centres. The shortage of mortgage availability and levels at which mortgages are now being offered is having an impact on affordability and prices. Whilst the directors are not in a position to influence the economic factors we have considered a number of initiatives including shared equity and rental/investment models as an alternative exit strategy for the development and are confident that in each of the scenarios projected satisfactory exits should be achievable.

Dividends

The directors do not recommend the payment of a dividend (2006 - same).

Future prospects

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

Going concern

The company's business activities and the factors likely to affect its future development, performance and position are set out above in the business review and in the financial statements following, together with the financial position of the company, its cash flows, liquidity position and borrowing facilities

As referred to above in the business review the company has now resolved the issues presented by the demise of its contractor, David McLean Contractors Limited, and its 25% shareholder, David McLean (Holdings) Limited.

During this period the company has taken the opportunity to review its forecasts in light of the uncertainty presented by the current market conditions and enter into negotiations with its bankers over revised loan terms to secure a new facility to enable completion of the current scheme successfully.

New terms have been received from its bankers and are currently being negotiated and there are no indications that this will not be concluded successfully.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors and their interests

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

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

MASSHOUSE DEVELOPMENTS LIMITED

DIRECTORS' REPORT

Auditors

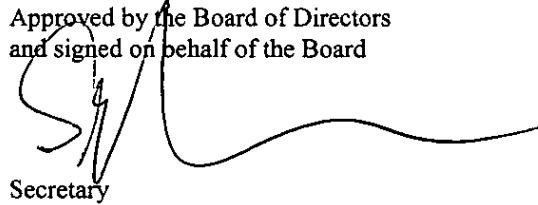
In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. Accordingly a resolution to re-appoint Deloitte LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

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

A handwritten signature in black ink, appearing to be 'S. J.', written over the text 'Approved by the Board of Directors and signed on behalf of the Board'.

Secretary

26 May 2009

MASSHOUSE DEVELOPMENTS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for 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 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net debt and the related notes 1 to 20. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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. 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 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 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to small companies; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Manchester
United Kingdom

26 May 2009

MASSHOUSE DEVELOPMENTS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2007

	Note	2007 £	2006 £
Turnover	1	11,028,120	18,842,891
Cost of sales (including exceptional items of £4,643,000 in respect of the year ended 31 December 2007 (2006 - £nil) (see note 2))		(13,621,095)	(15,451,449)
Gross (loss)/profit		(2,592,975)	3,391,442
Administrative expenses		(233,301)	(514,166)
Operating (loss)/profit		(2,826,276)	2,877,276
Interest receivable and similar income	4	139,846	28,788
Interest payable and similar charges	5	(26,279)	-
(Loss)/profit on ordinary activities before taxation	2	(2,712,709)	2,906,064
Tax on (loss)/profit on ordinary activities	6	850,057	(873,372)
(Loss)/profit for the financial year	16	(1,862,652)	2,032,692

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.

MASSHOUSE DEVELOPMENTS LIMITED

BALANCE SHEET 31 December 2007

	Note	£	2007 £	£	2006 £
Fixed assets					
Tangible assets	7		5,447		12,858
Investments	8		5		4
			<u>5,452</u>		<u>12,862</u>
Current assets					
Stocks	9	11,863,012		16,937,714	
Debtors	10	1,313,470		389,113	
Cash		437,078		763,498	
		<u>16,313,560</u>		<u>18,090,325</u>	
Creditors: amounts falling due within one year	11	<u>(1,755,254)</u>		<u>(3,351,318)</u>	
Net current assets			<u>11,858,306</u>		<u>14,739,007</u>
Total assets less current liabilities			<u>11,863,758</u>		<u>14,751,869</u>
Creditors: amounts falling due after more than one year	12		(8,948,410)		(12,673,869)
Provisions for liabilities and charges	13		<u>(2,700,000)</u>		<u>-</u>
Net assets			<u>215,348</u>		<u>2,078,000</u>
Capital and reserves					
Called up share capital	15		4		4
Profit and loss account			<u>215,344</u>		<u>2,077,996</u>
Equity shareholders' funds	16		<u>215,348</u>		<u>2,078,000</u>

These financial statements were approved by the Board of Directors on 26 May 2009

Signed on behalf of the Board of Directors

Director *Anne Skewton*
AS

MASSHOUSE DEVELOPMENTS LIMITED

CASH FLOW STATEMENT Year ended 31 December 2007

	Note	2007 £	2006 £
Net cash inflow from operating activities	17	4,630,675	5,959,815
Returns on investments and servicing of finance	17	113,567	28,788
Taxation		(1,208,270)	(19,897)
Capital expenditure and financial investment	17	-	(2,238)
Acquisitions and disposals	17	(1)	-
Cash inflow before financing		3,535,971	5,966,468
Financing	17	(3,862,391)	(5,583,653)
(Decrease)/increase in cash in the year		(326,420)	382,815

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT Year ended 31 December 2007

	Year ended 31 December 2007 £	Year ended 31 December 2006 £
(Decrease)/increase in cash in the year	(326,420)	382,815
Cash flow from movement in debt financing	3,862,391	5,583,653
Reduction in net debt resulting from cash flows	3,535,971	5,966,468
Net debt at 1 January	(12,047,303)	(18,013,771)
Net debt at 31 December	(8,511,332)	(12,047,303)

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted in both the current and prior year are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of preparation

The financial statements have been prepared on a going concern basis, as described in the directors' report.

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. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Fixtures and fittings	3-4 years
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Investments

Fixed asset investments are shown as cost less any provision for impairment.

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.

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

Turnover

Turnover represents the total invoice value, excluding value added tax, of sales made during the year from the sale of apartments, the temporary car park and advertising hoardings. The current year turnover also includes the granting of a non-refundable deposit relating to the extension of an option. Turnover for both 2007 and 2006 was wholly derived in the UK from the Company's principal activities.

Turnover from the sale of apartments is recognised on legal completion of the sale. Reservation fees are recognised when the contract is legally complete or if the non-refundable reservation fee is paid and the purchaser then decides not to exchange contracts.

Turnover from the temporary car park and advertising hoardings are recognised on a receivable basis.

Option extension revenue of £250,000 (2006: £nil) was recognised during the year. The option is in favour of The First Secretary and permits the taking of an underlease and sub-development agreement of part of the development area in Birmingham. The extension fee was non-refundable.

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

2. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit on ordinary activity before taxation is stated after charging:

	2007 £	2006 £
Depreciation	7,411	7,663
Exceptional items charged to operating profit:		
Provisions for impairment of stock	1,943,000	-
Provisions for liabilities (see note 13)	2,700,000	-
	<u>4,643,000</u>	<u>-</u>
Auditors' remuneration:		
Fees payable to the company's auditors for the audit of the company's annual accounts	9,000	9,000
Fees payable to the company's auditors for other services:		
Tax services	<u>3,000</u>	<u>3,000</u>

As a result of the decline in property values in the current economic climate, the company has made provisions for elements of its stock balance predominantly relating to its second residential block based on an estimate of the net realisable value of that site at the balance sheet date. The value of these provisions for stock totalled £1,943,000.

At 31 December 2007, the Company held a provision of £2,700,000 (2006 - £nil) in respect of payments anticipated to be made to settle the Company's obligations under the terms of a development agreement. Settlement of this obligation occurred during 2008.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received any remuneration during the year from the company (2006: same). The company does not employ any staff (2006: same).

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £	2006 £
Bank interest	137,580	21,459
Other	2,266	7,329
	<u>139,846</u>	<u>28,788</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £	2006 £
Bank interest	3,639	-
Other	22,640	-
	<u>26,279</u>	<u>-</u>

Included within cost of sales is £251,378 (2006: £455,417) of previously capitalised finance costs.

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2007

6. TAXATION

	2007 £	2006 £
Analysis of tax charge		
Current tax		
UK Corporation tax	818,151	(873,787)
Adjustment in respect of prior years	1,546	(600)
	<u>819,697</u>	<u>(874,387)</u>
Deferred tax		
Timing differences	(11,329)	1,015
Adjustment in respect of prior years	41,689	-
	<u>30,360</u>	<u>1,015</u>
Total deferred tax		
	<u>850,057</u>	<u>(873,372)</u>

Factors affecting the current tax charge for the year

The tax assessed for the year is lower (2005: lower) than that resulting from applying the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2007 £	2006 £
(Loss)/profit on ordinary activities before tax	(2,712,709)	2,906,064
Tax at 30% (2006: 30%) thereon	<u>813,813</u>	<u>(871,819)</u>
Effects of:		
Expenses not deductible for tax purposes	(4,823)	(953)
Difference between capital allowances and depreciation	9,161	(1,015)
Prior year adjustments	1,546	(600)
	<u>819,697</u>	<u>(874,387)</u>
Current tax charge for the year		

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

7. TANGIBLE FIXED ASSETS

	Fixtures and fittings £
Cost	
At 1 January 2007 and 31 December 2007	28,538
Depreciation	
At 1 January 2007	15,680
Charge for the year	7,411
At 31 December 2007	23,091
Net book value	
At 31 December 2007	5,447
At 31 December 2006	12,858

8. INVESTMENTS

	Subsidiary undertakings £
Cost and net book value	4
At 1 January 2007	4
Additions	1
At 31 December 2007	5

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

	Country of incorporation	Principal activity	Holding	Profit/(loss) after taxation for the year	Aggregate share capital and reserves
Subsidiary undertakings:					
Masshouse Block HI Limited	UK	Dormant	100%	-	1
Masshouse Block M Limited	UK	Dormant	100%	-	1
Masshouse Management Limited	UK	Dormant	100%	-	1
Masshouse Residential Block HI Limited	UK	Ground rents	100%	-	1
Masshouse Residential Block M Limited	UK	Dormant	100%	-	1

All of the holdings above represent ordinary shares held.

Consolidated financial statements have not been prepared as both the results and the net assets of all of the company's subsidiaries are not material in the overall context of Masshouse Developments Limited.

On 19 June 2007, the Company acquired the entire share capital of Masshouse Residential Block M Limited for consideration comprising of £1.

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2007

9. STOCKS

	2007 £	2006 £
Construction in progress	11,863,012	16,937,714
Included in construction in progress		
Cumulative interest charges capitalised	65,098	316,476

10. DEBTORS

	2007 £	2006 £
Amounts falling due within one year		
Amounts owed by Joint Venture Partners (see note 18)	4	4
Amounts owed by associated undertakings (see note 18)	-	49,229
Trade debtors	69,100	69,546
Prepayment and accrued income	-	89,774
Other debtors	58,104	180,560
Corporation tax	1,155,910	-
Deferred tax (see note 14)	30,352	-
	1,313,470	389,113

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £	2006 £
Bank loans (see note 17)	-	136,932
Amounts owed to Joint Venture Partners (see note 18)	29,375	146,875
Amounts owed to associated undertakings (see note 18)	1,178,156	916,035
Amounts owed to subsidiary undertakings (see note 18)	16,970	4
Trade creditors	271,352	371,931
Accruals and deferred income	259,401	907,476
UK Corporation tax	-	872,057
Deferred tax (see note 14)	-	8
	1,755,254	3,351,318

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £	2006 £
Bank loans (see note 17)	774,541	-
Loan stock repayable in more than 5 years (see note 17)	8,173,869	12,673,869
	<u>8,948,410</u>	<u>12,673,869</u>

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 December 2010, 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 is held by David Mclean Nikal Limited and KUC Properties Limited as shown below;

	2007 £	2006 £
David Mclean Nikal Limited	3,530,778	5,780,778
KUC Properties Limited	4,643,091	6,893,091
	<u>8,173,869</u>	<u>12,673,869</u>

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

13. PROVISIONS FOR LIABILITIES

	2007 £	2006 £
Opening balance	-	-
Charge to the profit and loss account (see note 2)	2,700,000	-
Closing balance	<u>2,700,000</u>	<u>-</u>

At 31 December 2007, the Company held a provision of £2.7 million (2006 - £nil) in respect of payments anticipated to be made to Birmingham City Council to settle the Company's obligations under the terms of a development agreement. Settlement of this obligation occurred during 2008.

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

14. DEFERRED TAXATION

	2007 £	2006 £
Opening balance	8	1,023
Credit to the profit and loss account (see note 6)	(30,360)	(1,015)
Closing balance	<u>(30,352)</u>	<u>8</u>
Analysis of deferred tax balance:		
Capital allowances in excess of depreciation	(30,352)	8
	<u>(30,352)</u>	<u>8</u>

There is no unprovided deferred taxation (2006: same).

15. CALLED UP SHARE CAPITAL

	2007 £	2006 £
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 shareholders of neither class of share can vote for the removal of a director without prior consultation with the other class. The holders of each type of share can each 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*.

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007 £	2006 £
(Loss)/profit for the financial year	(1,862,652)	2,032,692
Net (reduction in)/addition to shareholders' funds	(1,862,652)	2,032,692
Opening shareholders' funds	<u>2,078,000</u>	<u>45,308</u>
Closing shareholders' funds	<u>215,348</u>	<u>2,078,000</u>

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

17. NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2007 £	2006 £
Operating (loss)/profit	(2,826,276)	2,877,276
Depreciation	7,411	7,663
Movement in stock	5,074,702	2,811,683
Decrease/(increase) in debtors	261,905	(140,953)
(Decrease)/increase in creditors	(587,067)	404,146
Increase in provisions	2,700,000	-
Net cash inflow from operating activities	<u>4,630,675</u>	<u>5,959,815</u>

RETURN ON INVESTMENTS AND SERVICING OF FINANCE

	2007 £	2006 £
Interest received	139,846	28,788
Interest paid	(26,279)	-
Net cash inflow	<u>113,567</u>	<u>28,788</u>

CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2007 £	2006 £
Purchase of tangible fixed assets	-	(2,238)

ACQUISITION AND DISPOSALS

	2007 £	2006 £
Purchase of subsidiary undertaking	(1)	-

FINANCING

	2007 £	2006 £
Increase/(decrease) in bank loans	637,609	(7,083,653)
(Decrease)/increase in loan notes	(4,500,000)	1,500,000
Net cash outflow	<u>(3,862,391)</u>	<u>(5,583,653)</u>

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

17. NOTES TO THE CASH FLOW STATEMENTS (continued)

ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2007 £	Cash flows £	At 31 December 2007 £
Cash at bank and in hand	763,498	(326,420)	437,078
Debt due within one year	(136,932)	136,932	-
Debt due after more than one year	(12,673,869)	3,725,459	(8,948,410)
	<u>(12,047,303)</u>	<u>3,535,971</u>	<u>(8,511,332)</u>

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

18. RELATED PARTY DISCLOSURES

As at 31 December 2007, the company was a joint venture between David McLean Nikal Limited and KUC Properties Limited. The following balances are included in debtors:

	2007 £	2006 £
David McLean Nikal Limited	2	2
KUC Properties Limited	2	2
David McLean Developments Limited (associated undertaking of David McLean Nikal Limited)	-	49,229

Included in creditors are the following balances:

	2007 £	2006 £
David McLean Nikal Limited	29,375	146,875
David McLean Contractors Limited (associated undertaking of David McLean Nikal Limited)	1,000,841	811,026
David McLean Homes Limited (associated undertaking of David McLean Nikal Limited)	177,315	105,009
Masshouse Block M Limited (subsidiary)	1	1
Masshouse Block M Limited (subsidiary)	1	1
Masshouse Management Limited (subsidiary)	1	1
Masshouse Residential Block M Limited (subsidiary)	1	-
Masshouse Residential Block H1 Limited (subsidiary)	16,966	1
The Royal Bank of Scotland plc	774,541	136,932
David McLean Nikal Limited (loan notes)	3,530,778	5,780,778
KUC Properties Limited (loan notes)	4,643,091	6,893,091

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

	2007 £	2006 £
Management fees (with David McLean Nikal Limited)	300,000	300,000
Work in progress costs - (with David McLean Contractors Limited)	3,410,270	10,630,663
- (with David McLean Homes Limited, an associated undertaking of David McLean Nikal Limited)	77,509	105,009
Net interest (with The Royal Bank of Scotland plc)	133,942	686,332
Loan stock - (with KUC Properties Limited)	(2,250,000)	750,000
- (with David McLean Nikal Limited)	(2,250,000)	750,000
Arrangement fee/bank charges (with the Royal Bank of Scotland plc)	89,000	-

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2007

19. CONTROLLING PARTIES

As at 31 December 2007, the company was under the joint control of David McLean Nikal Limited, which is incorporated in Great Britain and registered in England, and KUC Properties Limited which is incorporated in Great Britain and registered in Scotland.

David McLean Nikal Limited was under the joint control of David McLean (Holdings) Limited and Nikal Limited.

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

KUC Properties Limited's ultimate holding company is The Royal Bank of Scotland Group plc. Both companies are incorporated in Great Britain and registered in Scotland.

As at 31 December 2007, The Royal Bank of Scotland Group plc heads the largest group in which KUC Properties Ltd is consolidated and The Royal Bank of Scotland plc heads the smallest group in which KUC Properties Ltd is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

20. EVENTS AFTER THE BALANCE SHEET DATE

As discussed in note 18, the company is under the joint control of David McLean Nikal Limited and KUC Properties Limited. As at 31 December 2007 David McLean Nikal Limited was under the joint control of David McLean (Holdings) Limited and Nikal Limited.

Since 31 December 2007, Nikal Limited has acquired the entire share capital of David McLean Nikal Limited.