

Company Registration No. 4599607

**MASSHOUSE DEVELOPMENTS
LIMITED**

Report and Financial Statements

For the year ended 31 December 2008

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MASSHOUSE DEVELOPMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

Contents	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	5
Independent auditors' report	6
Profit and loss account	7
Balance sheet	8
Cash flow statement	9
Reconciliation of net cash flow to movement in net debt	9
Notes to the financial statements	10

MASSHOUSE DEVELOPMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

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
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 2008

Activities

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

Review of developments

As shown in the profit and loss account, the company has made a loss for the year of £4,539,085 (2007 £1,862,652). This loss has arisen as a result of exceptional items within cost of sales of £4,176,000 (2007 £4,643,000) relating to provisions for elements of the company's stock balance predominantly relating to its second residential block and site costs for a further development, as discussed in note 2 to the financial statements. Sales for the year have been below the prior year as a result of the stage of the company's development portfolio during the current year.

The company is in a net liabilities position at the year end date, as a result of the losses discussed above. The balance sheet on page 8 shows that at the year end the company had cash of £1,069,636 (2007 £437,078) and stocks of £15,777,391 (2007 £11,863,012).

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.

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. The ultimate holding company of KUC Properties Limited is The Royal Bank of Scotland Group plc.

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

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. As a result, the UK Government and UK Government controlled bodies became related parties of the company.

Transactions between the company and the UK Government and UK Government controlled bodies, consisted solely of corporation tax and value added tax, which are separately disclosed in notes 6 and 10 respectively.

During the year, work continued on the construction of the company's second residential block until the downturn in the economic climate and difficulties in the credit markets forced David McLean Contractors Ltd, who were appointed to construct the second residential block, and David McLean (Holdings) Limited, a joint venture partner in the development, into administration.

Following the resolution of the issues created by the demise of the David McLean Group the company has 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 Directors have worked to secure a new debt facility from the company's bankers and also secured grant funding from the HCA (Homes & Communities Agency) as part of the HCA's Kickstart Housing Delivery programme. McLaren Construction Limited have been appointed as the new contractor to complete the second residential building and under this arrangement, work recommenced during March 2010.

With new funding, a new contractor in place and an increase in quality of the final building the Directors are optimistic that the second residential block will achieve its financial targets and enable further investment in future phases of the scheme.

MASSHOUSE DEVELOPMENTS LIMITED

DIRECTORS' REPORT

Principal risk and uncertainties

Development costs

The nature of the company's projects mean that the associated development costs are a significant area of management focus. Since the end of the year McLaren Construction Limited has entered into a contract to complete the second residential block and the necessary professional teams required to ensure the building is completed have been appointed. The associated costs have been included in all the financial forecasts prepared by the Directors.

Liquidity

Since the end of the year the company has secured the HCA funding and entered into a new bank facility agreement which will provide sufficient funding to enable the completion of the building.

Economic factors affecting the property industry

The current economic conditions and pressure in the financial markets continue to impact on the value and affordability of residential property in city centres.

Whilst the Directors are not in a position to influence the economic conditions, the support of the HCA has enabled the Directors to review the quality of the product and the company's pricing policy to ensure that it is consistent with current market conditions and will better position the company to complete and sell the apartments in line with the company's forecasts.

Dividends

The directors do not recommend the payment of a dividend (2007 - same)

Future prospects

The directors are confident about the future prospects of the company, as outlined above.

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.

The directors have reviewed their forecasts in light of the uncertainty presented by the current market conditions. These forecasts have been prepared for a period of at least 12 months from the date of this report. The directors have also considered the availability of funding through the existing cash reserves, bank loan facility and loan stock, alongside the resources required to meet the company's requirements under its ongoing operating activities.

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.

MASSHOUSE DEVELOPMENTS LIMITED

DIRECTORS' REPORT

Auditors

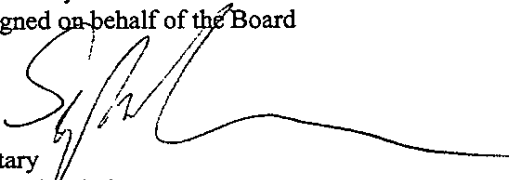
In the case of each of the persons who are directors of the company at the date when this report was approved

- 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

Deloitte LLP have expressed their willingness to continue in office as auditors. 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



Secretary

7 July 2010

S P ROBINSON

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 2008 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 21. 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 2008 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
9 July 2010

MASSHOUSE DEVELOPMENTS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2008

	Note	2008 £	2007 £
Turnover	1	1,682,073	11,028,120
Cost of sales (including exceptional items of £4,176,000 in respect of the year ended 31 December 2008 (2007 - £4,643,000) (see note 2))		(5,528,960)	(13,621,095)
Gross loss		(3,846,887)	(2,592,975)
Administrative expenses		(700,377)	(233,301)
Operating loss		(4,547,264)	(2,826,276)
Interest receivable and similar income	4	43,292	139,846
Interest payable and similar charges	5	(189)	(26,279)
Loss on ordinary activities before taxation	2	(4,504,161)	(2,712,709)
Tax on loss on ordinary activities	6	(34,924)	850,057
Loss for the financial year	16	(4,539,085)	(1,862,652)

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.

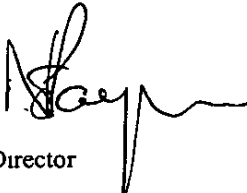
MASSHOUSE DEVELOPMENTS LIMITED

BALANCE SHEET 31 December 2008

	Note	£	2008 £	£	2007 £
Fixed assets					
Tangible assets	7		975		5,447
Investments	8		5		5
			<u>980</u>		<u>5,452</u>
Current assets					
Stocks	9	15,777,391		11,863,012	
Debtors	10	1,786,460		1,313,470	
Cash		1,069,636		437,078	
		<u>18,633,487</u>		<u>13,613,560</u>	
Creditors: amounts falling due within one year	11	(1,733,746)		(1,755,254)	
Net current assets			<u>16,899,741</u>		<u>11,858,306</u>
Total assets less current liabilities			<u>16,900,721</u>		<u>11,863,758</u>
Creditors: amounts falling due after more than one year	12		(21,224,458)		(8,948,410)
Provisions for liabilities and charges	13		-		(2,700,000)
Net (liabilities)/assets			<u>(4,323,737)</u>		<u>215,348</u>
Capital and reserves					
Called up share capital	15		4		4
Profit and loss account	16		(4,323,741)		215,344
Shareholders' (deficit)/funds	17		<u>(4,323,737)</u>		<u>215,348</u>

These financial statements for Masshouse Developments Limited (company registration number 4599607) were approved by the Board of Directors on 7 JULY 2010

Signed on behalf of the Board of Directors


Director
N S PAYNE

MASSHOUSE DEVELOPMENTS LIMITED

CASH FLOW STATEMENT Year ended 31 December 2008

	Note	2008 £	2007 £
Net cash (outflow)/inflow from operating activities	18	(11,068,284)	4,630,675
Returns on investments and servicing of finance	18	(342,965)	113,567
Taxation		(232,241)	(1,208,270)
Acquisitions and disposals	18	-	(1)
Cash inflow before financing		(11,643,490)	3,535,971
Financing	18	12,276,048	(3,862,391)
Increase/(decrease) in cash in the year		<u>632,558</u>	<u>(326,420)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT Year ended 31 December 2008

	2008 £	2007 £
Increase/(decrease) in cash in the year	632,558	(326,420)
Cash flow from movement in debt financing	<u>(12,276,048)</u>	<u>3,862,391</u>
Reduction in net debt resulting from cash flows	<u>(11,643,490)</u>	<u>3,535,971</u>
Net debt at 1 January	<u>(8,511,332)</u>	<u>(12,047,303)</u>
Net debt at 31 December	<u>(20,154,822)</u>	<u>(8,511,332)</u>

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2008

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 FINANCIAL STATEMENTS

Year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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 prior year turnover also includes the granting of a non-refundable deposit relating to the extension of an option. Turnover for both 2008 and 2007 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 £nil (2007: £250,000) 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.

Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Finance costs which are directly attributable to the construction of assets within stock are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2008

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activity before taxation is stated after charging

	2008 £	2007 £
Depreciation	4,472	7,411
Exceptional items charged to operating profit		
Provisions for impairment of stock	4,176,000	1,943,000
Provisions for liabilities (see note 13)	-	2,700,000
	<u>4,176,000</u>	<u>4,643,000</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 and site costs for a further development. Both of these provisions were based on estimates of the net realisable value of the sites at the balance sheet date. The value of these provisions for stock totalled £4,176,000 (2007 - £1,943,000).

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received any remuneration during the year from the company (2007 same). The company does not employ any staff (2007 same).

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2008 £	2007 £
Bank interest	43,292	137,580
Other	-	2,266
	<u>43,292</u>	<u>139,846</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £	2007 £
Bank interest	189	3,639
Other	-	22,640
	<u>189</u>	<u>26,279</u>

Included within cost of sales is £55,115 (2007 £251,378) of previously capitalised finance costs

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2008

6. TAXATION

	2008 £	2007 £
Analysis of tax charge		
Current tax		
UK corporation tax	14,998	818,151
Adjustment in respect of prior years	(19,572)	1,546
Total current tax	<u>(4,574)</u>	<u>819,697</u>
Deferred tax		
Timing differences	(30,352)	(11,329)
Adjustment in respect of prior years	-	41,689
Total deferred tax	<u>(30,352)</u>	<u>30,360</u>
Tax (charge)/credit for the year	<u>(34,926)</u>	<u>850,057</u>

Factors affecting the current tax charge/(credit) for the year

The tax assessed for the year is higher (2007 lower) than that resulting from applying the standard rate of corporation tax in the UK of 28% (2007 30%) The differences are explained below

	2008 £	2007 £
Loss on ordinary activities before tax	4,504,161	2,712,709
Tax credit at 28% (2007 30%) thereon	<u>1,261,165</u>	<u>813,813</u>
Effects of		
Expenses not deductible for tax purposes	(22,367)	(4,823)
Difference between capital allowances and depreciation	5,522	9,161
Effect of rate change	1,000	-
Creation of tax losses	(1,230,322)	-
Prior year adjustments	<u>(19,572)</u>	<u>1,546</u>
Current tax (charge)/credit for the year	<u>(4,574)</u>	<u>819,697</u>

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2008

7. TANGIBLE FIXED ASSETS

	Fixtures and fittings £
Cost	
At 1 January 2008 and 31 December 2008	28,538
Depreciation	
At 1 January 2008	23,091
Charge for the year	4,472
At 31 December 2008	27,563
Net book value	
At 31 December 2008	975
At 31 December 2007	5,447

8 INVESTMENTS

	Subsidiary undertakings £
Cost and net book value	
At 1 January and 31 December 2008	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	Dormant	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

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2008**

9. STOCKS

	2008 £	2007 £
Construction in progress	15,777,391	11,863,012
Included in construction in progress		
Cumulative interest charges capitalised	396,051	65,098

10 DEBTORS

	2008 £	2007 £
Amounts falling due within one year		
Amounts owed by Joint Venture Partners (see note 19)	4	4
Trade debtors	297,054	69,100
Prepayment and accrued income	6,321	-
Other debtors	99,504	58,104
Corporation tax	1,383,577	1,155,910
Deferred tax (see note 14)	-	30,352
	<u>1,786,460</u>	<u>1,313,470</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £	2007 £
Bank loans (see note 18)	-	-
Amounts owed to Joint Venture Partners (see note 19)	1,326	29,375
Amounts owed to associated undertakings (see note 19)	682,834	1,178,156
Amounts owed to subsidiary undertakings (see note 19)	16,970	16,970
Trade creditors	817,189	271,352
Accruals and deferred income	215,427	259,401
	<u>1,733,746</u>	<u>1,755,254</u>

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

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

	2008 £	2007 £
Bank loans (see note 18)	10,935,589	774,541
Loan stock (see note 18)	10,288,869	8,173,869
	<u>21,224,458</u>	<u>8,948,410</u>

The bank loan is on standard terms and conditions with The Royal Bank of Scotland plc (related party of KUC Properties Limited). As at the balance sheet date, the bank loan was 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 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. Since the balance sheet date, the directors have secured new terms for the loan such that repayment is due the earlier of the date of completion of the project or on 31 October 2011.

The loan stock is held by David Mclean Nikal Limited and KUC Properties Limited as shown below,

	2008 £	2007 £
David Mclean Nikal Limited	4,588,278	3,530,778
KUC Properties Limited	5,700,591	4,643,091
	<u>10,288,869</u>	<u>8,173,869</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

	2008 £	2007 £
Opening balance	2,700,000	-
Utilised in the year	(2,700,000)	-
Charge to the profit and loss account (see note 2)	-	2,700,000
Closing balance	<u>-</u>	<u>2,700,000</u>

At 31 December 2008, the company held a provision of £nil (2007 - £2.7 million) 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 FINANCIAL STATEMENTS

Year ended 31 December 2008

14. DEFERRED TAXATION

	2008	2007
	£	£
Opening balance	(30,352)	8
Credit/(charge) to the profit and loss account (see note 6)	30,352	(30,360)
Closing balance	-	(30,352)
Analysis of deferred tax balance		
Capital allowances in excess of depreciation	-	(30,352)
	-	(30,352)

In 2009, the company has an unrecognised deferred tax asset relating to losses and capital allowances in excess of depreciation. The amounts not recognised in respect of losses are £1,230,320 and capital allowances in excess of depreciation £24,830. No deferred tax asset has been recognised on the grounds of uncertainty of sufficient future taxable profits against which such an asset would reverse.

15. CALLED UP SHARE CAPITAL

	2008	2007
	£	£
Authorised:		
500 A ordinary shares of £1 each	500	500
500 B ordinary shares of £1 each	500	500
	1,000	1,000
Called up and allotted:		
2 A ordinary shares of £1 each	2	2
2 B ordinary shares of £1 each	2	2
	4	4

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. RESERVES

	Profit and loss account £
At beginning of year	215,344
Loss for the financial year	(4,539,085)
At end of year	(4,323,741)

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT)/FUNDS

	2008 £	2007 £
Loss for the financial year	(4,539,085)	(1,862,652)
Net reduction in shareholders' funds	(4,539,085)	(1,862,652)
Opening shareholders' funds	215,348	2,078,000
Closing shareholders' (deficit)/funds	<u>(4,323,737)</u>	<u>215,348</u>

18. NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	2008 £	2007 £
Operating loss	(4,547,262)	(2,826,276)
Depreciation	4,472	7,411
(Increase)/decrease in stock	(3,528,311)	5,074,702
(Increase)/decrease in debtors	(275,675)	261,905
Decrease in creditors	(21,508)	(587,067)
(Decrease)/increase in provisions	(2,700,000)	2,700,000
Net cash (outflow)/inflow from operating activities	<u>(11,068,284)</u>	<u>4,630,675</u>

RETURN ON INVESTMENTS AND SERVICING OF FINANCE

	2008 £	2007 £
Interest received	43,292	139,846
Interest paid	(189)	(26,279)
Interest paid on loans	(386,068)	-
Net cash (outflow)/inflow	<u>(342,965)</u>	<u>113,567</u>

ACQUISITION AND DISPOSALS

	2008 £	2007 £
Purchase of subsidiary undertaking	<u>-</u>	<u>(1)</u>

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2008**

18. NOTES TO THE CASH FLOW STATEMENTS (continued)

FINANCING

	2008	2007
	£	£
Increase in bank loans	10,161,048	637,609
Increase/(decrease) in loan notes	2,115,000	(4,500,000)
Net cash inflow/(outflow)	<u>12,276,048</u>	<u>(3,862,391)</u>

ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2008 £	Cash flows £	At 31 December 2008 £
Cash at bank and in hand	<u>437,078</u>	<u>632,558</u>	<u>1,069,636</u>
Debt due after more than one year	<u>(8,948,410)</u>	<u>(12,276,048)</u>	<u>(21,224,458)</u>
	<u>(8,511,332)</u>	<u>(11,643,490)</u>	<u>(20,154,822)</u>

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2008

19. RELATED PARTY DISCLOSURES

As at 31 December 2008, the company was a joint venture between David McLean Nikal Limited and KUC Properties Limited. The following balances are included in debtors

	2008 £	2007 £
David McLean Nikal Limited	2	2
KUC Properties Limited	2	2

Included in creditors are the following balances

	2008 £	2007 £
David McLean Nikal Limited	-	29,375
David McLean Contractors Limited (associated undertaking of David McLean Nikal Limited)	682,834	1,000,841
David McLean Homes Limited (associated undertaking of David McLean Nikal Limited)	-	177,315
Nikal Limited	1,326	-
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	1
Masshouse Residential Block H1 Limited (subsidiary)	16,966	16,966
The Royal Bank of Scotland plc	10,935,589	774,541
David McLean Nikal Limited (loan notes)	4,588,278	3,530,778
KUC Properties Limited (loan notes)	5,700,391	4,643,091

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

	2008 £	2007 £
Management fees (with David McLean Nikal Limited)	300,000	300,000
Work in progress costs - (with David McLean Contractors Limited)	8,266,673	3,410,270
- (with David McLean Homes Limited, an associated undertaking of David McLean Nikal Limited)	-	77,509
Net interest (with The Royal Bank of Scotland plc)	42,666	133,942
Loan stock - (with KUC Properties Limited)	(1,057,000)	(2,250,000)
- (with David McLean Nikal Limited)	(1,057,000)	(2,250,000)
Arrangement fee/bank charges (with the Royal Bank of Scotland plc)	-	89,000

Transactions undertaken by the company with the UK government in the normal course of business include the payment of taxes including UK corporation tax and value added tax, national insurance contributions, local authority rates, and regulatory fees and levies. Additional information has not been provided in relation to these transactions and the resulting balances on the basis of immateriality to the company and to the UK government.

MASSHOUSE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

20 CONTROLLING PARTIES

As at 31 December 2008, 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

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

As at 31 December 2008, 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

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

21. EVENTS AFTER THE BALANCE SHEET DATE

Since 31 December 2008, management has identified further declines in the property values that are expected to have an impact upon the company's stock balances. Management expects to make further provisions against its stocks based upon estimates of the net realisable values and costs to complete. At the date of this report, these provisions are estimated at £7,000,000