MCD (Browning) Limited

Directors' report and financial statements

Registered number 4011608

For the year ended 28 February 2005

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 28 February 2005.

Principal activity

The principal activity of the company is trading as property developers, undertaking large scale, mixed use property development.

Business review

The work in progress continued to be that of a single project undertaking of constructing luxury apartments in Central Birmingham with an estimated sales value of £27.5 million. Completion of the construction took place during the year.

The directors are satisfied with the progress made during the year selling the luxury apartments. The remaining apartments should all be sold during the following year bringing the overall project to a successful conclusion.

Results and dividends

The result for the year is shown on page 4 of the financial statements.

The directors do not recommend the payment of a dividend *(2004: £Nil)*.

Directors and directors' interests

The directors who held office during the year were as follows:

SG Byrne
JD Corstorphine
TK Quigley

The directors do not have any beneficial interest in the shares of the company. Their interests in the shares of the parent company, Midland & City Developments Limited, are disclosed in that company's financial statements.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company of is to be proposed at the forthcoming annual general meeting.

By order of the board

DP Fair
Secretary

35 St Paul's Square
Birmingham
B3 1QX

12 December 2005

Statement of directors' responsibilities

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 and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

Report of the independent auditors to the members of MCD (Browning) Limited

We have audited the financial statements on pages 4 to 11.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 of the state of the company's affairs as at 28 February 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

12 December 2005

Profit and loss account
for the year ended 28 February 2005

	Note	**2005** **£**	2004 £
Turnover	*1*	**5,910,726**	14,120,998
Cost of sales		**(4,712,083)**	(11,515,081)
Gross profit		**1,198,643**	2,605,917
Administrative expenses		**(22,513)**	(4,700)
Operating profit		**1,176,130**	2,601,217
Interest payable and similar charges	*4*	**(1,034,880)**	(2,379,649)
Profit on ordinary activities before taxation	*2*	**141,250**	221,568
Tax on profit on ordinary activities	*5*	**(42,375)**	(66,921)
Profit on ordinary activities after taxation and retained profit for the year	*12*	**98,875**	154,647

In both the current and preceding year, all turnover and operating results arose from continuing operations.

There were no recognised gains or losses in the current or preceding year other than those disclosed in the profit and loss account.

Movements in reserves are set out in note 11.

Balance sheet
at 28 February 2005

	Note	2005		2004	
		£	£	£	£
Current assets					
Stocks	*6*	**4,840,488**		9,253,514	
Debtors	*7*	**410,887**		366,890	
		5,251,375		9,620,404	
Creditors: Amounts falling due within one year	*8*	**(5,740,678)**		(10,208,582)	
Net current liabilities			**(489,303)**		(588,178)
Capital and reserves					
Called up share capital	*10*		**2**		2
Profit and loss account	*11*		**(489,305)**		(588,180)
Equity shareholders' funds	*12*		**(489,303)**		(588,178)

These financial statements were approved by the board of directors on 12 December 2005 and were signed on its behalf by:

JD Corstorphine
Director

TK Quigley
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons:

The company has received an undertaking from its parent that it will continue to provide financial and other support to enable the company to settle all current and future debts as they fall due for at least twelve months from the date of approval of these financial statements. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The bank facility does not expire until 30 June 2006. It is anticipated that sufficient work in progress will have been sold and the borrowings repaid in advance of this date. Budgets show that all work in progress will be sold before the end of 2006.

These financial statements make provision for a funding fee potentially due to the bank of some £1.6 million. This fee will not be paid until funds allow.

The financial statements do not include any adjustments that would result from a discontinuance of parent company support or a withdrawal of the bank facility.

Cash flow statement

The company qualifies as a small company under Section 247 of the Companies Act 1985. As a consequence, it is exempt from the requirement to publish a cash flow statement.

Turnover

Turnover represents the proceeds from the sale of units during the year net of sale incentives. Turnover is recognised on unconditional exchange of contracts on units that are substantially complete. All turnover arises on sales to customers within the United Kingdom and in the opinion of the directors, constitutes one class of business.

Stocks

Stocks comprise development work in progress and properties held for resale. Stocks are stated at the lower of cost and net realisable value. Cost is determined on the stage of completion of the development and comprises land, property, materials and attributable overheads. Net realisable value is based on estimated selling prices less further costs anticipated to disposal.

Capital instruments

Under Financial Reporting Standard 4, issue costs arising on loans are being charged to the profit and loss account as a finance charge over the period of the loan.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

2 Profit on ordinary activities before taxation

	2005	2004
	£	£
Profit on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration:		
Audit	**5,400**	3,000
Non-audit	**2,700**	1,700

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2005	2004
Administration	**3**	6

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	-	57,964
Social security costs	-	5,991
	-	63,955

These employees do not have contracts of service with the company as they have contracts of service with the parent undertaking. These costs are recharged by the parent undertaking as the actual service has been provided by the subsidiary undertaking.

The directors received no remuneration in respect of qualifying services from the company in the current or prior years. The directors are paid by the ultimate parent undertaking.

Notes *(continued)*

4 Interest payable and similar charges

	2005 £	2004 £
Bank overdraft interest	**673,918**	1,152,376
On bank overdraft financing fees (see note 8)	**360,962**	1,227,273
	1,034,880	2,379,649

5 Tax on profit on ordinary activities

(i) Analysis of charge for the year

	2005 £	2005 £	2004 £	2004 £
UK corporation tax				
Adjustments in respect of prior years	-		135,214	
Total current tax		-		135,214
Deferred tax (see note 9)				
Origination and reversal of timing differences	**42,375**		66,470	
Adjustments in respect of prior years	-		(134,763)	
		42,375		(68,293)
Tax on profit on ordinary activities		**42,375**		66,921

(ii) Factors affecting the tax charge for the year

The tax assessed in the year is lower *(2004: higher)* than the standard rate of corporation tax in the UK (30%) *(2004: 30%)*. The differences are explained below:

	2005 £	2004 £
Profit on ordinary activities before tax	**141,250**	221,568
Profit on ordinary activities multiplied by the standard rate of corporation tax in UK of 30% *(2004: 30%)*	**42,375**	66,470
Utilisation of tax losses	**(42,375)**	(66,470)
Adjustment in respect of prior years – group relief	-	135,214
Total current taxation (see above)	-	135,214

Notes *(continued)*

5 Tax on profit on ordinary activities *(continued)*

(iii) Factors that may affect future tax charges

Subject to the agreement of HM Inspector of Taxes, the company has corporation tax losses of approximately £680,000 *(2004: £821,000)* available for offset against future trading profits.

6 Stocks

	2005	2004
	£	£
Work in progress	**4,615,488**	9,253,514
Finished goods	**225,000**	-
	4,840,488	9,253,514

7 Debtors

	2005	2004
	£	£
Amounts due from group undertakings (see note 13)	**108,698**	-
Deferred tax asset (see note 9)	**203,918**	246,293
Other debtors	**98,271**	120,597
	410,887	366,890

Other debtors includes an amount of £Nil *(2004: £2)* in respect of unpaid share capital.

8 Creditors: Amounts falling due within one year

	2005	2004
	£	£
Bank overdraft (secured)	**3,476,185**	8,236,435
Trade creditors	**1,524**	26,312
Amounts owed to group undertakings (see note 13)	**271,820**	197,759
Other creditors	**1,604,735**	1,315,794
Accruals and deferred income	**386,414**	432,282
	5,740,678	10,208,582

The bank overdraft is secured by a fixed and floating charge over the assets of the company and interest is charged at a fixed rate of 10%.

Notes *(continued)*

8 Creditors: Amounts falling due within one year *(continued)*

Other creditors includes a £1,588,235 *(2004: £1,227,273)* funding fee which is payable by the company to the bank providing certain profit targets on the development project are exceeded for which finance was provided. As the contract is now far enough advanced for the directors to make an assessment that the targets will be exceeded, then the liability for this payment has been recognised in the financial statements. In accordance with Financial Reporting Standard 4, the funding fee is being treated as a finance expense included in interest payable, see note 4. The fee is being recognised in the profit and loss account at a constant rate on the carrying amount of the loan over the period from the date that the fee payment conditions were satisfied to the date of ultimate repayment.

9 Deferred taxation

	£
At beginning of year	246,293
Charge to profit and loss for the year (see note 5)	(42,375)
At end of year (see note 7)	**203,918**

The elements of deferred taxation are as follows:

	2005	2004
	£	£
Tax losses		246,293

10 Share capital

	2005	2004
	£	£
Authorised:		
Equity: 1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted and called up:		
Equity: 2 ordinary shares of £1 each	**2**	2

11 Reserves

	Profit and loss account
	£
At beginning of year	(588,180)
Retained profit for year	98,875
At end of year	**(489,305)**

Notes *(continued)*

12 Reconciliation of movements in shareholders' funds

	2005	2004
	£	£
Profit for the financial year and net addition to shareholders' funds	**98,875**	154,647
Shareholders' funds at beginning of year	**(588,178)**	(742,825)
Shareholders' funds at end of year	**(489,303)**	(588,178)

13 Related party transactions

(a) Transactions and balances

During the year, the following are considered to be related parties of the company:

Midland & City Developments Limited	-	the company's parent company
MCD (Sheepcote) Limited	-	a fellow subsidiary
MCD (Fleet Street) Limited	-	a connected company
MCD (Fleet) LLP	-	a connected company

The following transactions and debtor/(creditor) balances arose during the year and existed at year end respectively:

	Transactions to/(from)		Debtor/(creditor)	
	2005	2004	2005	2004
	£	£	£	£
Midland & City Developments Limited	**(187,391)**	(415,034)	**(271,820)**	(171,243)
MCD (Sheepcote) Limited	-	(151,780)	**108,698**	(26,516)
MCD (Fleet) LLP	**(7,370)**	-	-	-

(b) Transactions with directors

During the year, LMP Consultants Limited, a company in which SG Byrne has a 50% interest, made sales to the company amounting to £8,725 *(2004: £48,752)* in respect of project management services. At 28 February 2005, LMP Consultants Limited was owed £1,375 by the company *(2004: £7,149)*.

14 Commitments

The company has no capital commitments contracted for which no provision had been made at the year end *(2004: £Nil)*.

15 Ultimate parent company and controlling party

The ultimate parent company and controlling party is Midland & City Developments Limited.

The financial statements of Midland & City Developments Limited are available to the public and can be obtained from 35 St Paul's Square, Birmingham, B3 1QX.