MCD (Browning) Limited

Directors' report and financial statements

Registered number 4011608

For the year ended 28 February 2006

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 28 February 2006.

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. Unit sales are taking place with the expectation that all sales will be completed next year.

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 *(2005: £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 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

21 November 2006

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of MCD (Browning) Limited

We have audited the financial statements of MCD (Browning) Limited for the year ended 28 February 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 2.

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 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 consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 28 February 2006 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

~~[date]~~

21 November 2006

Profit and loss account
for the year ended 28 February 2006

	Note	2006 £	2005 £
Turnover	1	**1,152,491**	5,910,726
Cost of sales		**(614,721)**	(4,712,083)
Gross profit		**537,770**	1,198,643
Administrative expenses		**(9,549)**	(22,513)
Operating profit		**528,221**	1,176,130
Interest payable and similar charges	4	**(483,018)**	(1,034,880)
Profit on ordinary activities before taxation	2	**45,203**	141,250
Tax on profit on ordinary activities	5	**(13,561)**	(42,375)
Profit on ordinary activities after taxation and retained profit for the year	13	**31,642**	98,875

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 12.

Balance sheet
at 28 February 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Investments	6		1		1
Current assets					
Stocks	7	4,411,051		4,840,488	
Debtors	8	374,353		410,887	
		4,785,404		5,251,375	
Creditors: Amounts falling due within one year	9	(5,243,066)		(5,740,679)	
Net current liabilities			(457,662)		(489,304)
Net liabilities			(457,661)		(489,303)
Capital and reserves					
Called up share capital	11		2		2
Profit and loss account	12		(452,663)		(489,305)
Shareholders' funds	13		(457,661)		(489,303)

These financial statements were approved by the board of directors on 21 November 2006 and were signed on its behalf by:

JD Corstorphine
Director

TK Quigley
Director

TKQuigley

Cash flow statement
for the year ended 28 February 2006

	Note	2006 £	2005 £
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		**528,221**	1,176,130
Decrease in stocks		**429,437**	4,413,026
Decrease/(increase) in debtors		**22,973**	(86,372)
Decrease in creditors		**(207,331)**	(50,945)
Net cash inflow from operating activities		**773,300**	5,451,839
Cash flow statement			
Cash flow from operating activities		**773,300**	5,451,839
Returns on investments and servicing of finance			
Interest paid		**(343,136)**	(691,589)
Increase in cash in the period		**430,164**	4,760,250
Reconciliation of net cash flow to movement in net debt	*14*		
Increase in cash and movement in net debt in the period		**430,164**	4,760,250
Net debt at the start of the period		**(3,476,185)**	(8,236,435)
Net debt at the end of the period		**(3,046,021)**	(3,476,185)

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, except as noted below:

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 "Events after the balance sheet date";
- the presentation requirements of FRS 25 "Financial instruments presentation and disclosure"; and
- FRS 28 "Corresponding amounts".

FRS 21 and FRS 25 have had no material effect on the financial statements.

In addition, FRS 28 "Corresponding amounts" has had no material effect as it imposes the same requirements for comparatives hitherto required by the Companies Act 1985.

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 31 December 2007. 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 middle of 2007.

These financial statements make provision for a funding fee potentially due to the bank of some £1.8 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.

Group financial statements

The company is exempt by virtue of S248 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

In the company's balance sheet, investment in subsidiary undertakings are stated at cost less permanent diminution in value.

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.

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

	2006	2005
	£	£
Profit on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration:		
Audit	**6,000**	5,400
Non-audit	**2,700**	2,700

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	
	2006	2005
Administration	**5**	3

Notes *(continued)*

3 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	**25,841**	-
Social security costs	**1,972**	-
	27,813	-

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.

4 Interest payable and similar charges

	2006	2005
	£	£
Bank overdraft interest	**310,383**	673,918
On bank overdraft financing fees (see note 9)	**172,635**	360,962
	483,018	1,034,880

5 Tax on profit on ordinary activities

(i) Analysis of charge for the year

	2006		2005	
	£	**£**	£	£
UK corporation tax				
Adjustments in respect of prior years	-		-	
Total current tax		-		-
Deferred tax (see note 10)				
Origination and reversal of timing differences	**13,561**		42,375	
		13,561		42,375
Tax on profit on ordinary activities		**13,561**		42,375

Notes *(continued)*

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

(ii) Factors affecting the tax charge for the year

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

	2006	2005
	£	£
Profit on ordinary activities before tax	**45,203**	141,250
Profit on ordinary activities multiplied by the standard rate of corporation tax in UK of 30% *(2005: 30%)*	**13,561**	42,375
Utilisation of tax losses	**(13,561)**	(42,375)
Total current taxation (see above)	**-**	-

(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 £635,000 *(2005: £680,000)* available for offset against future trading profits.

6 Investments

	Shares in subsidiary undertakings
	£
Cost and net book value	
At beginning and end of year	1

Investments represent a 100% holding of the ordinary share capital of Browning Management Company Limited, a company incorporated in Great Britain. Browning Management Company Limited is a non-profit making company which services and manages the development on behalf of its owners. Browning Management Company Limited had capital and reserves of £73,607 at 28 February 2006 and a profit for the year of £Nil.

7 Stocks

	2006	2005
	£	£
Work in progress	**4,201,051**	4,615,488
Finished goods	**210,000**	225,000
	4,411,051	4,840,488

Notes *(continued)*

8 Debtors

	2006	2005
	£	£
Amounts due from group undertakings (see note 15)	**108,698**	108,698
Deferred tax asset (see note 10)	**190,357**	203,918
Other debtors	**75,298**	98,271
	374,353	410,887

9 Creditors: Amounts falling due within one year

	2006	2005
	£	£
Bank overdraft (secured)	**3,046,021**	3,476,185
Trade creditors	**150**	1,524
Amounts owed to group undertakings (see note 15)	**342,780**	271,820
Other creditors	**1,780,370**	1,604,735
Accruals and deferred income	**73,745**	386,415
	5,243,066	5,740,679

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%.

Other creditors includes a £1,760,870 *(2005: £1,588,235)* 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.

10 Deferred taxation

	£
At beginning of year	203,918
Charge to profit and loss for the year (see note 5)	(13,561)
At end of year (see note 8)	**190,357**

Notes *(continued)*

10 Deferred taxation *(continued)*

The elements of deferred taxation are as follows:

	2006	2005
	£	£
Tax losses	**190,357**	203,917

11 Share capital

	2006	2005
	£	£
Authorised:		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted and called up:		
2 ordinary shares of £1 each	**2**	2

12 Reserves

	Profit and loss account
	£
At beginning of year	(489,305)
Retained profit for year	31,642
At end of year	**(457,663)**

13 Reconciliation of movements in shareholders' funds

	2006	2005
	£	£
Profit for the financial year and net addition to shareholders' funds	**31,642**	98,875
Shareholders' funds at beginning of year	**(489,303)**	(588,178)
Shareholders' funds at end of year	**(457,661)**	(489,303)

14 Analysis of net debt

	At beginning of year	Cash flow	**At end of year**
	£	£	**£**
Overdrafts	(3,476,185)	430,164	**(3,046,021)**

Notes *(continued)*

15 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)	
	2006	2005	**2006**	2005
	£	£	**£**	£
Midland & City Developments Limited	**(199,413)**	(187,391)	**(342,780)**	(271,820)
MCD (Sheepcote) Limited	**-**	-	**108,698**	108,698
MCD (Fleet) LLP	**(15,589)**	(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 £Nil *(2005: £8,725)* in respect of project management services. At 28 February 2006, LMP Consultants Limited was owed £Nil by the company *(2005: £1,375)*.

16 Commitments

The company has no capital commitments contracted for which no provision had been made at the year end *(2005: £Nil)*.

17 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.