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The Baron Homes Corporation Limited

Report and Financial Statements

Year Ended

31 March 2006

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BDO Stoy Hayward
Chartered Accountants

The Baron Homes Corporation Limited

Annual report and financial statements for the year ended 31 March 2006

Contents

Page:

1	Report of the directors
3	Independent auditor's report
5	Profit and loss account
6	Statement of total recognised gains and losses
7	Balance sheet
8	Notes forming part of the financial statements

Directors

N Karimi
M Blencowe

Secretary and registered office

D Barling, 20 New Road, Brighton, East Sussex, BN1 1UF

Company number

2930345

Auditors

BDO Stoy Hayward LLP, Connaught House, Alexandra Terrace
Guildford, Surrey, GU1 3DA

The Baron Homes Corporation Limited

Report of the directors for the year ended 31 March 2006

The directors present their report together with the audited financial statements for the year ended 31 March 2006.

Results

The profit and loss account is set out on page 5 and shows the loss for the year.

Principal activities

The company's principal activity continues to be that of property investment including the acquisition of properties for development and sale.

There have been no events since the balance sheet date which materially affect the position of the company.

Charitable and political contributions

During the year the company made charitable contributions of £6,684 (2005: £836). There were no political contributions.

Directors

The directors of the company during the year and their interests in the ordinary share capital of the company were:

	Ordinary £1 shares	
	31 March 2006*	1 April 2005
N Karimi	1	1
M Blencowe	-	-
M J C Blencowe (resigned 31 March 2005)	-	-
<i>* or date of resignation (if earlier)</i>		

In addition, N Karimi owned 2 shares in the parent company, Chestnut Development Co Limited throughout the period. There are no rights to subscribe for shares in or debentures of the company or its parent.

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

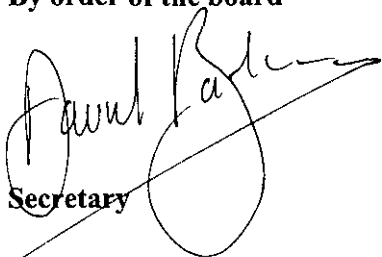
Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By order of the board



Secretary

D Barling

Date: 2 January 2007

Independent auditor's report

To the shareholders of The Baron Homes Corporation Limited

We have audited the financial statements of The Baron Homes Corporation Limited for the year ended 31 March 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

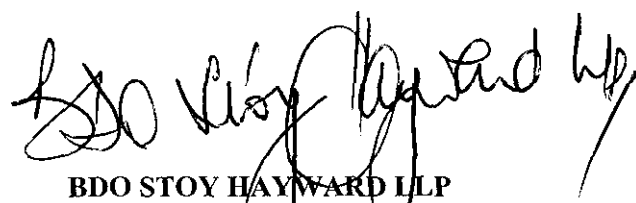
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 March 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



BDO STOY HAYWARD LLP
*Chartered Accountants
and Registered Auditors*
Guildford

7 January 2007

The Baron Homes Corporation Limited

Profit and loss account for the year ended 31 March 2006

	Note	2006 £	2005 £
Turnover	2	2,917,938	2,866,927
Cost of sales		870,035	1,072,165
Gross profit		2,047,903	1,794,762
Administrative expenses		695,710	324,531
		1,352,193	1,470,231
Other operating income		38,294	12,345
Operating profit	3	1,390,487	1,482,576
Other interest receivable	5	70,835	2,010
Interest payable	6	(1,503,491)	(1,240,220)
(Loss)/profit on ordinary activities before and after taxation for the financial year		(42,169)	244,366

All amounts relate to continuing activities.

The notes on pages 8 to 17 form part of these financial statements.

The Baron Homes Corporation Limited

Statement of total recognised gains and losses for the year ended 31 March 2006

	2006	2005
	£	£
(Loss)/profit for the financial year	(42,169)	244,366
Unrealised surplus on revaluation of properties	6,716,873	3,473,501
	<hr/>	<hr/>
Total recognised gains and losses for the financial year	6,674,704	3,717,867
	<hr/>	<hr/>

The notes on pages 8 to 17 form part of these financial statements.

The Baron Homes Corporation Limited

Balance sheet at 31 March 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible assets	8		61,446,383		39,115,918
Fixed asset investments	9		3,165,616		50,196
			<u>64,611,999</u>		<u>39,166,114</u>
Current assets					
Stocks		857,069		1,146,478	
Debtors	10	85,018		142,104	
Cash at bank and in hand		1,124,028		1,080,248	
		<u>2,066,115</u>		<u>2,368,830</u>	
Creditors: amounts falling due within one year	11	10,573,009		1,498,862	
		<u>10,573,009</u>		<u>1,498,862</u>	
Net current (liabilities)/assets			<u>(8,506,894)</u>		<u>869,968</u>
Total assets less current liabilities			<u>56,105,105</u>		<u>40,036,082</u>
Creditors: amounts falling due after more than one year	12		32,212,353		22,818,034
			<u>32,212,353</u>		<u>22,818,034</u>
			<u>23,892,752</u>		<u>17,218,048</u>
Capital and reserves					
Called up share capital	13		100		100
Revaluation reserve	14		23,633,117		16,916,244
Profit and loss account	14		259,535		301,704
			<u>23,892,752</u>		<u>17,218,048</u>
Shareholders' funds	15		<u>23,892,752</u>		<u>17,218,048</u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the board of directors and authorised for issue on 2 January 2007

Director



M Blencowe

The notes on pages 8 to 17 form part of these financial statements.

1 Accounting policies

The financial statements have been prepared under the historical cost convention.

The following principal accounting policies have been applied:

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that it is a 'small' company under the Companies Act 1985.

Turnover

Turnover represents gross rents receivable from the letting of properties and proceeds from the sale of properties held for development and resale.

Income from sales of properties are recognised once the sale has been completed.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for investment properties, freehold land and certain buildings, evenly over their expected useful lives. It is calculated at the following rates:

Motor vehicles	- 25% reducing balance
Fixtures, fittings and equipment	- 25% reducing balance

Capitalisation of interest

Interest incurred on borrowings financing the construction of tangible fixed assets is capitalised gross of tax relief.

Investment properties

In accordance with SSAP 19 investment properties are revalued annually to open market value and no depreciation is provided. The directors consider that this accounting policy results in the financial statements giving a true and fair view. The effect of this departure from the Companies Act 1985 has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where a deficit is deemed to represent a permanent diminution in value, in which case it is charged to the profit and loss account.

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises the original cost of acquisition plus subsequent development costs and direct overheads. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

1 Accounting policies (*continued*)

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

3 Operating profit

	2006 £	2005 £
This is arrived at after charging:		
Depreciation of tangible fixed assets	17,047	24,052
Audit services	8,500	8,250
	<hr/>	<hr/>

The Baron Homes Corporation Limited

Notes forming part of the financial statements for the year ended 31 March 2006 (Continued)

4 Directors' remuneration

	2006 £	2005 £
Aggregate emoluments, pension contributions and amounts receivable under long term incentive schemes	72,196	14,690

There was 1 director in the company's defined contribution pension scheme during the year (2005 - 1).

5 Other interest receivable

	2006 £	2005 £
Bank deposits	4,528	2,010
Exchange gains	66,307	-
	70,835	2,010

6 Interest payable

	2006 £	2005 £
Bank loans	1,375,294	1,105,972
Other loan interest	128,197	134,248
	1,503,491	1,240,220

7 Taxation on (loss)/profit on ordinary activities

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2006 £	2005 £
(Loss)/profit on ordinary activities before tax	(42,169)	244,366
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2005 - 19%)	(8,012)	46,430
Effect of:		
Expenses not deductible for tax purposes	6,249	19,463
Capital allowances for period in excess of depreciation	-	(4,041)
Utilisation of tax losses	-	(61,852)
Losses carried forward	10,313	-
Current tax charge for period	8,550	-

8 Tangible fixed assets

	Land and buildings £	Plant and machinery etc £	Total £
<i>Cost or valuation</i>			
At 1 April 2005	39,043,765	241,702	39,285,467
Additions	15,634,591	2,964	15,637,555
Disposals	-	(12,295)	(12,295)
Revaluations	6,716,873	-	6,716,873
	<hr/>	<hr/>	<hr/>
At 31 March 2006	61,395,229	232,371	61,627,600
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 April 2005	-	169,549	169,549
Provided for the year	-	17,047	17,047
Disposals	-	(5,379)	(5,379)
	<hr/>	<hr/>	<hr/>
At 31 March 2006	-	181,217	181,217
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2006	61,395,229	51,154	61,446,383
	<hr/>	<hr/>	<hr/>
At 31 March 2005	39,043,765	72,153	39,115,918
	<hr/>	<hr/>	<hr/>

Certain freehold and leasehold properties were professionally valued by Savills, a firm of chartered surveyors, on the basis of market value at 22 February 2006 and 10 March 2006. These valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards. The directors do not consider there to be a material difference between this valuation and the open market value of the properties at 31 March 2006.

The amount of the valuation of £61,395,229 (2005 - £40,293,765) has given rise to a surplus of £6,716,873 which has been credited to the revaluation reserve.

No provision has been made for any corporation tax which might become payable on chargeable gains under present legislation if the properties were to be sold. If the above properties were disposed of at market value it is estimated that there would be a liability to corporation tax of approximately £7,000,000 (2005 - £4,640,000).

The historical cost of investment properties is:

	2006 £	2005 £
Cost	36,955,510	22,127,129
	<hr/>	<hr/>

9 Fixed asset investments

	Loans to group undertakings £	Listed investments £	Total £
<i>Cost or valuation</i>			
At 1 April 2005	-	50,196	50,196
Additions	3,087,259	121,709	3,208,968
Disposals	-	(93,548)	(93,548)
	<hr/>	<hr/>	<hr/>
At 31 March 2006	3,087,259	78,357	3,165,616
	<hr/>	<hr/>	<hr/>
		2006 £	2005 £
Listed investments:			
Market value		111,114	36,427
		<hr/>	<hr/>

Subsidiary undertakings, associated undertakings and other investments

The principal undertakings in which the company's interest at the year end is 20% or more are as follows:

	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
<i>Subsidiary undertakings</i>			
Baron International Inc	USA	100%	Real estate investment

Unless otherwise stated, the following figures have been extracted from the financial statements for the year ended 31 March 2006:

	Aggregate share capital and reserves		Loss for the year	
	2006 £	2005 £	2006 £	2005 £
<i>Subsidiary undertakings</i>				
Baron International Inc	3,036,760	-	(36,351)	-
	<hr/>	<hr/>	<hr/>	<hr/>

The Baron Homes Corporation Limited

Notes forming part of the financial statements for the year ended 31 March 2006 (Continued)

10 Debtors

	2006	2005
	£	£
Trade debtors	47,894	142,104
Other debtors	37,124	-
	<u>85,018</u>	<u>142,104</u>

All amounts shown under debtors fall due for payment within one year.

11 Creditors: amounts falling due within one year

	2006	2005
	£	£
Bank loans and overdrafts (secured)	9,325,252	1,030,071
Trade creditors	176,273	51,867
Taxation and social security	83,777	48,737
Other creditors	987,707	368,187
	<u>10,573,009</u>	<u>1,498,862</u>

The company's loans are secured over properties included within fixed assets.

12 Creditors: amounts falling due after more than one year

	2006 £	2005 £
Bank loans	30,337,657	20,922,000
Other long term loan	-	24,424
Other creditors	1,874,696	1,871,610
	<u>32,212,353</u>	<u>22,818,034</u>

Maturity of total debt:

	Loans and overdrafts 2006 £	Loans and overdrafts 2005 £
In one year or less, or on demand	9,325,252	1,030,071
In more than one year but not more than two years	(37,781)	24,424
In more than two years but not more than five years	30,375,438	20,922,000
	<u>30,337,657</u>	<u>20,946,424</u>

The company's loans are secured over properties included within fixed assets. The company has complied with the Companies Act disclosure requirements, reflecting loans due for repayment in less than 12 months as short term creditors. This creates a working capital deficit on the balance sheet, however the directors consider these loans to be long term in nature and expect the loan facilities to be renewed in due course.

Interest is charged on these loans at bank base rate plus a margin varying between 1% and 2%.

13 Share capital

	2006 £	Authorised 2005 £	Allotted, called up and fully paid 2006 £	2005 £
100 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>	<u>100</u>	<u>100</u>

14 Reserves

	Revaluation reserve £	Profit and loss account £
At 1 April 2005	16,916,244	301,704
Revaluation surplus	6,716,873	-
Loss for the year	-	(42,169)
	<u>23,633,117</u>	<u>259,535</u>
At 31 March 2006	<u>23,633,117</u>	<u>259,535</u>

The revaluation reserve of the company includes £23,340,994 (2005 - £15,826,520) relating to the freehold investment properties. The remaining revaluation reserve relates to leasehold properties £1,098,725 (2005 - £1,089,724).

15 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
(Loss)/profit for the year	(42,169)	244,366
Other net recognised gains and losses relating to the year	6,716,873	3,473,501
	<u>6,674,704</u>	<u>3,717,867</u>
Net additions to shareholders' funds	6,674,704	3,717,867
Opening shareholders' funds	17,218,048	13,500,181
	<u>23,892,752</u>	<u>17,218,048</u>
Closing shareholders' funds	<u>23,892,752</u>	<u>17,218,048</u>

16 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the fund and amounted to £1,070 (2005 - £4,815). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

17 Related party disclosures

Controlling parties

The company is controlled by Chestnut Development Co Limited, which is controlled by N Karimi.

Related party transactions and balances

At 31 March 2006 the company was owed £37,124 (2005 - £(71,354)) by Baron Management Limited, a company in which N Karimi is also a director. During the year, rent of £25,000 (2005 - £NIL) and management fees of £20,000 (2005 - £NIL) was charged to Baron Management Limited.

At 31 March 2006 the company owed P Aghdashi, the mother of N Karimi, an amount of £NIL (2005 - £24,424).

The Karimi Family Trust, of which N Karimi (director) is a trustee, have provided a loan of £1,818,197 (2005 - £1,841,894) to the company. Interest has been accrued at 3% above base rate totalling £128,197 (2005 - £134,248) for the year. The outstanding interest is included in the loan balance above.

Loans and transactions concerning directors and officers of the company

	Loan from director
	£
2006	
N Karimi	56,499
	<hr/>
2005	
N Karimi	29,716
	<hr/>

18 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary of Chestnut Development Co Limited which is the ultimate parent company.