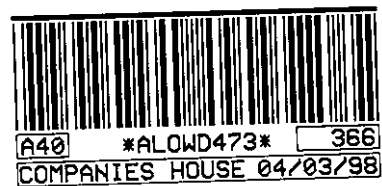


Birch Developments Limited

Directors' report and financial statements

30 September 1997

Registered number 01917322



Directors' report and financial statements

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Directors and advisors

Directors

PJ Gadsby
CJ Endors BSc
NE Hartley BSc ARICS

Secretary

JA Cox BA ACA

Registered office

Cedar House
35 Ashbourne Road
Derby
DE22 3FS

Auditors

KPMG
5 Stuart Street
Derby
DE1 2EQ

Bankers

Royal Bank of Scotland plc
13-19 Derby Road
Nottingham
NG1 5AA

Solicitors

Bakewells
64 Friargate
Derby
DE1 1DL

Edwards Geldard
St Michael's Court
St Michael's Lane
Derby
DE1 3HQ

Eversheds
1 Royal Standard Place
Nottingham
NG1 2FZ

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 1997.

Principal activities

The principal activity of the company is commercial property development.

Results and dividends

The results for the year are set out on page 5 to the financial statements. The directors recommend the payment of a dividend of £150,000 (1996: £100,000).

Directors' interests

None of the directors had any interests in the shares of the company at any time during the year.

The interests of the directors in the shares of the ultimate parent company are shown in that company's financial statements.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



JA Cox
Secretary

Cedar House
35 Ashbourne Road
Derby
DE22 3FS

23 February 1998

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.



5 Stuart Street
Derby
DE1 2EQ

Report of the auditors to the members of Birch Developments Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 30 September 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

23 February 1998

KPMG
Chartered Accountants
Registered Auditors

Profit and loss account

for the year ended 30 September 1997

	<i>Note</i>	1997 £000	1996 £000
Turnover	2	5,229	4,590
Cost of sales		(4,660)	(3,387)
Gross profit		569	1,203
Administrative expenses		(414)	(789)
Operating profit		155	414
Net interest receivable/(payable)	5	7	(49)
Profit on ordinary activities before taxation	6	162	365
Tax on profit on ordinary activities	7	(55)	(120)
Profit for the financial year		107	245
Dividends on equity shares		(150)	(100)
Retained (deficit)/profit for the year	16	(43)	145

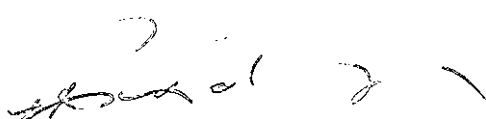
The company had no recognised gains or losses other than those disclosed above.

All results were derived from continuing activities.

Balance sheet
at 30 September 1997

	<i>Note</i>	1997	1996
		£000	£000
Fixed assets			
Tangible assets	8	32	3
Current assets			
Stocks	9	1,145	508
Debtors	10	236	969
Cash at bank and in hand		822	1,804
		<u>2,203</u>	<u>3,281</u>
Creditors: amounts falling due within one year	11	<u>(1,858)</u>	<u>(2,880)</u>
Net current assets		<u>345</u>	<u>401</u>
Total assets less current liabilities		<u>377</u>	<u>404</u>
Creditors: amounts falling due after more than one year	12	(14)	-
Provisions for liabilities and charges	14	(2)	-
Net assets		<u>361</u>	<u>404</u>
Capital and reserves			
Called up share capital	15	72	72
Profit and loss account	16	289	332
Equity shareholders' funds	17	<u>361</u>	<u>404</u>

These financial statements were approved by the board of directors on 23 February 1998 and were signed on its behalf by:



PJ Gadsby

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 have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Turnover

Turnover represents the invoiced value of sales and other services provided during the year, exclusive of value added tax.

Stocks

Stocks are stated at the lower of cost and net realisable value. In respect of finished goods and work in progress, cost represents the cost of purchase and an appropriate proportion of fixed and variable overheads. Net realisable value is the estimated selling price after allowing for the cost of realisation.

On long term contracts, turnover is recognised when certified and invoiced, and the attributable profit is calculated with respect to invoiced turnover when the outcome of the contract can be foreseen with reasonable certainty. Contract work in progress is stated after the deduction of any foreseeable losses and progress payments received and receivable.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	25%
Fixtures and fittings	25%

Leases and hire purchase

Assets acquired under finance leases and similar hire purchase contracts are capitalised and the outstanding future lease obligations are shown in creditors. Rental payments are apportioned between the finance element, which is charged to the profit and loss account and the capital element which reduces the outstanding lease obligations.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise. Net debit balances are recognised as assets only to the extent that they are expected to be recovered.

Pension costs

Contributions to the defined contribution pension scheme are charged to the profit and loss account in the year in which they are incurred.

Government grants

Grants received in respect of development projects are credited to work in progress in the period in which they are received and are taken into account when calculating the attributable profit or loss on the contracts to which they relate.

Cashflow statement

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cashflow statement on the grounds that it is a wholly owned subsidiary undertaking.

Related party transactions

Under Financial Reporting Standard 8 the company is exempt from the requirement to disclose transactions with group companies and investees of the group on the grounds that consolidated financial statements are prepared for the group and are publicly available.

2 Analysis of turnover and profit on ordinary activities before taxation

The turnover and profit before taxation are attributable to the principal activities of the company and arose entirely in the United Kingdom.

Notes (continued)

3 Directors and employees

The average number of persons (including directors) employed by the company during the year was:

	1997 Number	1996 Number
Management and administration	2	4
	<u>2</u>	<u>4</u>

The aggregate payroll costs were:

	1997 £000	1996 £000
Wages and salaries	66	377
Social security costs	6	9
Other pension costs	4	303
	<u>76</u>	<u>689</u>
	<u>76</u>	<u>689</u>

4 Directors' emoluments

	1997 £000	1996 £000
Emoluments for qualifying services	65	386
Company contributions to money purchase pension scheme	3	300
	<u>68</u>	<u>686</u>
	<u>68</u>	<u>686</u>

Retirement benefits are accruing to one director (1996: one) under a money purchase pension scheme.

5 Net interest receivable

	1997 £000	1996 £000
Bank interest receivable	43	22
Less: Interest payable on bank loans and other loans wholly repayable within five years	(36)	(71)
	<u>7</u>	<u>(49)</u>
Net interest receivable/(payable)	<u>7</u>	<u>(49)</u>

Notes (continued)

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	1997 £000	1996 £000
Depreciation of tangible fixed assets	5	5
Profit on sale of fixed assets	(5)	-
Auditors' remuneration - audit services	3	2
Rents receivable	(6)	(12)
	<u> </u>	<u> </u>

7 Taxation

	1997 £000	1996 £000
UK corporation tax at 32% (1996: 33%)	(47)	220
Deferred taxation	102	(100)
	<u> </u>	<u> </u>
	55	120
	<u> </u>	<u> </u>

Notes (continued)

8 Tangible fixed assets

	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost			
At beginning of year	1	19	20
Additions	6	26	32
Disposals	-	(19)	(19)
Group transfers	-	11	11
	<hr/>	<hr/>	<hr/>
At end of year	7	37	44
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	-	17	17
Charge for the year	1	4	5
Eliminated on disposals	-	(19)	(19)
Group transfers	-	9	9
	<hr/>	<hr/>	<hr/>
At end of year	1	11	12
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 September 1997	6	26	32
	<hr/>	<hr/>	<hr/>
At 30 September 1996	1	2	3
	<hr/>	<hr/>	<hr/>

Included in motor vehicles is £26,000 (1996: *£nil*) in respect of the net book value of assets acquired under hire purchase agreements, on which the depreciation charge for the year amounted to £1,000 (1996: *£nil*).

Notes (continued)

9 Stocks

	1997 £000	1996 £000
Long term contract balances:		
Net cost less foreseeable losses	1,120	483
Finished goods and goods for resale	25	25
	<u>1,145</u>	<u>508</u>

10 Debtors

	1997 £000	1996 £000
Trade debtors	186	868
Amounts owed by group undertakings	39	-
Prepayments and accrued income	11	1
Deferred tax	-	100
	<u>236</u>	<u>969</u>

11 Creditors: amounts falling due within one year

	1997 £000	1996 £000
Obligations under finance leases and hire purchase contracts	9	-
Trade creditors	974	45
Amounts owed to group undertakings	20	1,236
Proposed dividend	150	100
Corporation tax	-	220
Other taxes and social security	-	306
Other creditors	3	3
Accruals and deferred income	702	970
	<u>1,858</u>	<u>2,880</u>

Bank overdraft facilities are secured by fixed charges over certain development properties owned by the company.

Notes *(continued)*

12 Creditors: amounts falling due after more than one year

	1997 £000	1996 £000
Obligations under finance leases and hire purchase contracts	14	-
	<u>14</u>	<u>-</u>

13 Obligations under finance leases and hire purchase contracts

The hire purchase payments to which the company was committed at 30 September 1997 are due within the following periods from the balance sheet date.

	1997 £000	1996 £000
Within one year	10	-
Between two and five years	15	-
	<u>25</u>	<u>-</u>
Less interest allocated to future periods	(2)	-
	<u>23</u>	<u>-</u>

14 Provisions for liabilities and charges

	£000
<i>Deferred taxation</i>	
At 1 October 1996	(100)
Transferred from the profit and loss account	102
	<u>2</u>
At 30 September 1997	<u>2</u>

The maximum potential deferred tax liability/(asset) and the amount provided is as follows:

	1997 £000	1996 £000
Accelerated capital allowances	2	(1)
Short term timing differences	-	(99)
	<u>2</u>	<u>(100)</u>

Notes (continued)

15 Called up share capital

	1997 £000	1996 £000
<i>Authorised</i>		
10,000,000 ordinary shares of 10p each	1,000	1,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
725,160 ordinary shares of 10p each	72	72
	<hr/>	<hr/>

16 Reserves

	Profit and loss account £000
At beginning of year	332
Retained deficit for the year	(43)
	<hr/>
At end of year	289
	<hr/>

17 Reconciliation of movement in shareholders' funds

	1997 £000	1996 £000
Profit for the financial year	107	245
Less dividends proposed	(150)	(100)
	<hr/>	<hr/>
Net (reduction in)/addition to shareholders' funds	(43)	145
Opening shareholders' funds	404	259
	<hr/>	<hr/>
Closing shareholders' funds	361	404
	<hr/>	<hr/>

Notes *(continued)*

18 Pension commitments

The company is a member of the group's defined contribution pension scheme for certain directors and employees. The scheme funds are administered by an insurance company and are independent of the group's finances. The contributions to the scheme are charged against profits in the year in which they are made. The charge for the period was £4,000 (1996: £3,000). Pension costs accrued at the year end were £nil (1996: £nil).

Additional contributions to a separate pension scheme on behalf of a director were £nil (1996: £300,000). The year end accrual was £nil (1996: £300,000).

19 Contingent liabilities

An unlimited cross guarantee is in place for all group companies in respect of any bank loans and overdrafts of the group. At 30 September 1997 total bank loans and overdrafts relating to other group companies amounted to £9,257,000 (1996: £7,138,000). This does not, however, take into account credit bank balances of other group companies of £9,315,000 (1996: £4,996,000).

20 Ultimate parent company

The ultimate parent company and controlling party is Birch plc, a company incorporated in the United Kingdom and registered in England and Wales. Copies of that company's accounts can be obtained from the registered office at Cedar House, 35 Ashbourne Road, Derby DE22 3FS.