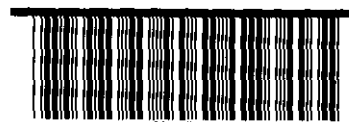


MCD (Browning) Limited

**Directors' report and financial
statements**

Registered number 4011608

For the year ended 28 February 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 28 February 2003.

Principal activity

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

Business review

The company continues the single project undertaking of constructing luxury apartments in Central Birmingham with an estimated value of £27.5 million. Completion is scheduled for December 2003.

Construction continued throughout the year, with unit sales being made off-plan. Since the year end, unit reservations have completed and further units have been made available. The directors remain confident that the success of the development will continue with sales continuing into 2004.

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 (2002: £Nil).

Directors and directors' interests

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

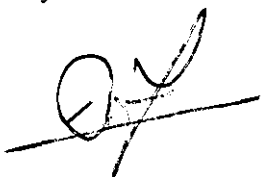
SG Byrne
JD Corstorphine
TK Quigley

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

Third Floor
Newwater House
Newhall Street
Birmingham
B3 3NY

11 November 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

11 November 2003

Profit and loss account
for the year ended 28 February 2003

	<i>Note</i>	2003 £	2002 £
Administrative expenses and operating loss		(4,400)	(4,650)
Interest payable and similar charges	4	(814,265)	(231,523)
Loss on ordinary activities before taxation	2	(818,665)	(236,173)
Tax on loss on ordinary activities	5	319,000	-
Loss on ordinary activities after taxation and retained loss for the financial year	12	(499,665)	(236,173)

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

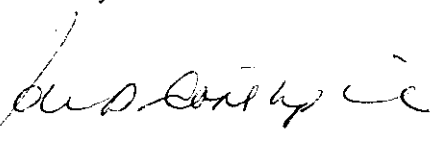
There were no recognised gains or losses in the current or preceding year other than those disclosed in the profit and loss account.

Movements in reserves are set out in note 12.

Balance sheet
at 28 February 2003

	Note	2003	2002
		£	£
Current assets			
Stocks	6	15,235,720	4,048,459
Debtors	7	374,800	51,192
		<u>15,610,520</u>	<u>4,099,651</u>
Creditors: Amounts falling due within one year	8	(16,353,345)	(2,196,962)
Current (liabilities)/assets		<u>(742,825)</u>	<u>1,902,689</u>
Creditors: Amounts falling due after more than one year	9	-	(2,145,849)
Net liabilities		<u>(742,825)</u>	<u>(243,160)</u>
Capital and reserves			
Called up share capital	11	2	2
Profit and loss account	12	(742,827)	(243,162)
Equity shareholders' funds	13	<u>(742,825)</u>	<u>(243,160)</u>

These financial statements were approved by the board of directors on 11 November 2003 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 financial statements do not include any adjustments that would result from a withdrawal of the overdraft facility resulting from a cessation of the guarantee.

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.

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 an actual basis and comprises land, property, materials and attributable overheads. Net realisable value is based on estimated selling prices less further costs anticipated to disposal.

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.

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.

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)

2 Loss on ordinary activities before taxation

	2003 £	2002 £
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration:		
Audit	2,800	2,700
Non-audit	1,600	1,500
	<u> </u>	<u> </u>

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	
	2003	2002
Administration	3	3
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons was £Nil (2002: £Nil).

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. Transactions with companies controlled by the individual directors are detailed in note 14 to the financial statements.

4 Interest payable and similar charges

	2003 £	2002 £
Bank interest	814,265	231,523
	<u> </u>	<u> </u>

Notes (continued)

5 Tax on loss on ordinary activities

(i) Analysis of credit for the year

	2003 £	2002 £
<i>UK corporation tax</i>		
Current tax on income for the year (group relief receivable – see below)	(141,000)	-
<i>Deferred tax</i>		
Origination and reversal of timing differences (see note 10)	(178,000)	-
	<u>(319,000)</u>	<u>-</u>
Tax credit on loss on ordinary activities		
	<u>(319,000)</u>	<u>-</u>

(ii) Factors affecting the tax credit for the year

The tax assessed in the year is higher (2002: *higher*) than the standard rate of corporation tax in the UK (30%) (2002: 30%). The differences are explained below:

	2003 £	2002 £
Loss on ordinary activities before tax	(818,665)	(236,173)
Loss on ordinary activities multiplied by the standard rate of corporation tax in UK of 30% (2002: 30%)	(245,600)	(70,852)
Unrelieved losses carried forward	104,600	70,852
	<u>(141,000)</u>	<u>-</u>
Total current taxation (see above)		
	<u>(141,000)</u>	<u>-</u>

(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 £593,000 (2002: £243,000) available for offset against future trading profits.

6 Stocks

	2003 £	2002 £
Work in progress	15,235,720	4,048,459
	<u>15,235,720</u>	<u>4,048,459</u>

Notes (continued)

7 Debtors

	2003 £	2002 £
Amounts due from group undertakings	137,417	-
Amounts due from connected companies	29,581	-
Deferred tax asset (see note 10)	178,000	-
Other debtors	29,802	51,192
	<u>374,800</u>	<u>51,192</u>

Other debtors includes an amount of £2 (2002: £2) in respect of unpaid share capital.

8 Creditors: Amounts falling due within one year

	2003 £	2002 £
Bank loan and overdraft	14,120,275	1,967,028
Trade creditors	743,442	59,002
Amounts owed to group undertakings	78,156	28,719
Accruals and deferred income	1,411,472	142,213
	<u>16,353,345</u>	<u>2,196,962</u>

The bank loan and overdraft is secured by a fixed and floating charges over the assets of the company. The creditor is repayable in full by January 2004 and interest is charged at a fixed rate of 10%.

9 Creditors: Amounts falling due after more than one year

	2003 £	2002 £
Bank loan (secured – see note 8)	-	2,145,849
	<u>-</u>	<u>2,145,849</u>

10 Deferred taxation

	£
At beginning of year	-
Credit to profit and loss for the year (see note 5)	178,000
	<u>178,000</u>
At end of year (see note 7)	<u>178,000</u>

Notes (continued)

10 Deferred taxation (continued)

The elements of provided and unprovided deferred taxation are as follows:

	2003		2002	
	Provided £	Unprovided £	Provided £	Unprovided £
Tax losses	178,000	-	-	73,000

11 Share capital

	2003 £	2002 £
<i>Authorised:</i>		
Equity: 1,000 ordinary shares of £1 each	1,000	1,000
<i>Allotted and issued:</i>		
Equity: 2 ordinary shares of £1 each	2	2

The issued share capital remains unpaid at the year end (see note 7).

12 Reserves

	Profit and loss account £
At beginning of year	(243,162)
Loss for year	(499,665)
At end of year	(742,827)

13 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Loss for the financial year and net decrease in shareholders' funds	(499,665)	(236,173)
Shareholders' funds at beginning of year	(243,160)	(6,987)
Shareholders' funds at end of year	(742,825)	(243,160)

Notes (continued)

14 Related party transactions

During the year, LMP Consultants Limited, a company in which SG Byrne has a 50% interest, made sales to the company amounting to £49,000 (2002: £94,000) in respect of project management services. These costs have been included in work in progress at 28 February 2003. At 28 February 2003, LMP Consultants Limited was owed £4,700 by the company (2002: £3,525).

During the year, Midland & City Developments Limited, the company's parent company, charged the company an amount of £143,000 in respect of the use of facilities (2002: £449,000). These costs have been included in work in progress at 28 February 2003. The balance owed to Midland & City Developments Limited at 28 February 2003 was £78,156 (2002: £22,541).

During the year, MCD (Sheepcote) Limited, a fellow subsidiary company, charged the company an amount of £3,083 in respect of recharges (2002: £6,178). Additionally, the company charged MCD (Sheepcote) Limited £141,000 in respect of tax losses available. The balance owed from MCD (Sheepcote) Limited at 28 February 2003 was £137,417 (2002: creditor of £6,178).

During the year, the company charged MCD (Fleet) LLP an amount of £29,581 in respect of recharges (2002: £Nil). The balance owed to the company at 28 February 2003 was £29,581 (2002: £Nil).

15 Commitments

The company has no capital commitments contracted for which no provision had been made at the year end (2002: £Nil).

16 Ultimate and immediate parent company

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

The financial statements of Midland & City Developments Limited are available to the public and can be obtained from Newwater House, Newhall Street, Birmingham, B3 3NY.