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Company Registration No. 2849445

LINDEN HOMES SOUTH-EAST LIMITED

Report and Financial Statements

31 December 1998

Deloitte & Touche
Columbia Centre
Market Street
Bracknell
Berkshire
RG12 1PA



**REPORT AND FINANCIAL STATEMENTS 1998**

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REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P J Davies
L Jovic
P Hawkey
C Coates
S Amato
A Fawell
D Bray
R Cordy

SECRETARY

S Amato

REGISTERED OFFICE

6 London Street
Chertsey
Surrey
KT16 8AA

BANKERS

Bank of Scotland
38 St Andrew Square
Edinburgh
EH2 2YR

SOLICITORS

Pitmans
47 Castle Street
Reading
Berkshire
RG1 7SR

Gouldens
22 Tudor Street
London
EC4Y 0JJ

Rawlinson & Butter
Griffin House
135 High Street
Crawley
West Sussex RH10 1DQ

AUDITORS

Deloitte & Touche
Chartered Accountants
Columbia Centre
Market Street
Bracknell
Berkshire
RG12 1PA



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The company's principal activities are the building and selling of residential homes.

BUSINESS REVIEW

In 1998 the company sold 205 houses (1997-192). During the year the Chiltern region area of operations commenced trading and achieved 20 house sales, which accounted for the increase in activity from 1997.

FUTURE PROSPECTS

The company will secure its first completions from the Caterham Barracks development, which was acquired last year. This site will include the development of 350 houses and apartments on a site of 57 acres, to be developed on urban village principles. Our continued focus on brown-land sites such as Caterham Barracks, obsolete waterworks etc. demonstrates that the company is well placed to take advantage of the long term trends for housing and in part, less susceptible to delays in obtaining planning permission.

RESULTS AND DIVIDENDS

The results of the company are set out on page 6. The company made a profit on ordinary activities after taxation of £1,571,000 (1997 - £2,349,000)

The dividend recommended by the directors is £138,000 (1997 - £2,224,000).

DIRECTORS AND THEIR INTERESTS

The current directors are shown on page 1.

The directors who served during the year were as follows:

P J Davies
L Jovic
R W Breen (resigned 10 March 1999)
P J Hawkey
C Coates
D Bray (appointed 1 January 1998)
A Fawell (appointed 1 January 1998)
S Amato (appointed 6 April 1998)

S Amato was appointed, and L Jovic resigned as, company secretary on 6 April 1998.

R Cordy was appointed as director on 1 February 1999.

No director had any interest in the shares of the company at any time during the year.

The beneficial interests in the ordinary shares of the ultimate parent company, Linden PLC, were as follows:

	31 December 1998	31 December 1997
	No.	No.
R W Breen	70,166	70,166
P J Hawkey	8,166	70,166
C Coates	20,900	27,000
D Bray	2,000	2,000
A Fawell	10,407	10,407

In addition the details of share options held by the directors in the ultimate parent company were as follows:



DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS (continued)

	1 January 1998	Granted during year	31 December 1998	Exercise price	Date from which exercisable	Expiry date
	No.	No.	No.	£		
R W Breen	10,000	-	10,000	1.500	16-12-99	16-12-09
P J Hawkey	10,000	-	10,000	1.500	16-12-99	16-12-09
C Coates	10,000	-	10,000	0.350	31-12-97	24-01-01
C Coates	10,000	-	10,000	1.500	16-12-99	16-12-09
D Bray	10,000	-	10,000	1.780	19-04-00	19-04-10
A Fawell	10,000	-	10,000	1.500	16-12-99	16-12-09
S Amato	-	7,500	7,500	1.935	25-04-01	25-04-11

The interests of Messrs Davies and Jovic in the ultimate parent company, Linden PLC, are disclosed in the accounts for that company.

DONATIONS

During the year, the company made charitable donations of £2,809 (1997: Nil).

YEAR 2000

During 1998 Linden Homes South-East Limited has made an assessment of the effect of the year 2000 computer problem on its business and operations. The result of this assessment, it was concluded, was that this problem would have no material effect upon our business. Linden Homes South-East Limited has during 1997 and 1998 upgraded most of its computer systems in its operating locations. Those computers still requiring replacement will be replaced during the first half of 1999, ensuring all computers will be year 2000 compliant before the end of 1999. The costs of resolving the year 2000 issues have been estimated and are not significant.

POLICY ON PAYMENT OF CREDITORS

It is the company's normal practice to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions. At 31 December 1998 the number of days credit taken for purchases by the company was 40 days (1997: 30).

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

S Amato
Secretary

14 May 1999

**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 as at the end of the financial year and of the profit or loss of the company 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;
- 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 for the prevention and detection of fraud and other irregularities.



AUDITORS' REPORT TO THE MEMBERS OF LINDEN HOMES SOUTH-EAST LIMITED

We have audited the financial statements on pages 6 to 13 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 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 at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE

Chartered Accountants
and Registered Auditors

14 May 1999


PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

	Note	1998 £'000	1997 £'000
TURNOVER	1	38,513	35,222
Cost of sales		(32,444)	(29,285)
GROSS PROFIT		6,069	5,937
Other operating income		12	8
Administrative expenses		(2,407)	(1,444)
OPERATING PROFIT	2	3,674	4,501
Interest receivable and similar income		11	14
Interest payable and similar charges	3	(1,493)	(968)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,192	3,547
Tax on profit on ordinary activities	5	(621)	(1,198)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	12	1,571	2,349
Equity dividends paid and proposed	6	(138)	(2,224)
PROFITS RETAINED AND TRANSFERRED TO RESERVES	12	1,433	125

All activities derive from continuing operations.

There are no recognised gains or losses for the current and prior years other than as stated above.


**BALANCE SHEET
31 December 1998**

	Note	1998 £'000	1997 £'000
FIXED ASSETS			
Tangible assets	7	161	158
CURRENT ASSETS			
Stocks	8	36,552	21,423
Debtors	9	1,337	375
Cash at bank and in hand		94	2
		37,983	21,800
CREDITORS: amounts falling due within one year	10	(33,493)	(18,740)
NET CURRENT ASSETS		4,490	3,060
TOTAL ASSETS LESS CURRENT LIABILITIES		4,651	3,218
CAPITAL AND RESERVES			
Called up share capital	11	10	10
Profit and loss account	12	4,641	3,208
EQUITY SHAREHOLDERS' FUNDS	13	4,651	3,218

These financial statements were approved by the Board of Directors on 14 May 1999.

Signed on behalf of the Board of Directors

P J Davies

) Directors

L Jovic

**NOTES TO THE ACCOUNTS**
Year ended 31 December 1998**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover

Turnover relates to the sales of houses and is recognised on the financial completion of the sale of a house.

All turnover arises within the UK.

Tangible fixed assets

Depreciation is provided in equal instalments over the estimated useful lives of the assets and is calculated on the cost of the assets.

The following rates are used:

Office equipment, fixtures and fittings	20 - 25%
Plant and machinery	20 - 25%
Motor vehicles	20 - 25%

Stocks

Stocks of land, materials and work in progress are valued at the lower of invoiced cost and net realisable value. Work in progress comprises direct site costs including materials and labour.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Leases

Operating lease rentals are charged to the profit and loss account as incurred.

Pension costs

The company participates in a Group Personal Pension Plan. The pension cost charge represents contributions payable by the company to the Plan for the year.


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
2. OPERATING PROFIT

	1998 £'000	1997 £'000
Operating profit is after charging/(crediting) :		
Depreciation of tangible fixed assets	60	63
Profit on sale of tangible fixed assets	(1)	-
Rentals under operating leases	135	91
Auditors' remuneration		
- Audit fees	5	-
- Other services	22	-
Rent receivable	12	8
	<u>132</u>	<u>99</u>

Auditors' remuneration in 1997 was borne by the parent company, Linden plc.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £'000	1997 £'000
Group interest paid on intercompany balance	1,411	947
Bank loans, overdrafts and other loans	82	21
	<u>1,493</u>	<u>968</u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £'000	1997 £'000
Directors remuneration		
Directors emoluments (including benefits in kind)	384	172
Company contributions to money purchase schemes	15	7
	<u>399</u>	<u>179</u>

	No.	No.
Number of directors who are members of a money purchase scheme	6	3

	1998 £'000	1997 £'000
Emoluments of highest paid director	80	60

	3	2
Contributions to money purchase scheme of highest paid director		


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	No.	No.
Average number of persons employed (including directors)		
Administration and management	37	25
Construction	35	22
Sales and Marketing	20	20
	<u>92</u>	<u>67</u>
	1998	1997
	£'000	£'000
Employees costs during the year (including directors)		
Wages and salaries	2,343	1,554
Social security costs	231	153
Other pension costs	89	28
	<u>2,663</u>	<u>1,735</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998	1997
	£'000	£'000
United Kingdom corporation tax at 31% (1997 - 31%)	701	1,198
Adjustment to prior years' provisions	(80)	-
	<u>621</u>	<u>1,198</u>

There is no unprovided deferred tax.

6. DIVIDENDS

	1998	1997
	£'000	£'000
Interim paid - £nil per ordinary equity share (1997:£5,670)	-	567
Final proposed - £13.80 per ordinary equity share (1997:£16,570)	138	1,657
	<u>138</u>	<u>2,224</u>

Dividends on ordinary equity shares


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
7. TANGIBLE FIXED ASSETS

	Office equipment, fixtures and fittings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost at 1 January 1998	182	144	8	334
Additions	48	2	26	76
Disposals	(93)	(55)	(8)	(156)
Cost at 31 December 1998	137	91	26	254
Depreciation at 1 January 1998	90	81	5	176
Charge for the year	35	21	4	60
Disposals	(83)	(55)	(5)	(143)
Depreciation at 31 December 1998	42	47	4	93
Net Book Value at 31 December 1998	95	44	22	161
Net Book Value at 31 December 1997	92	63	3	158

8. STOCKS

	1998 £'000	1997 £'000
Land and work in progress	36,552	21,423

The replacement cost of land and work in progress is not materially different to the original cost.

9. DEBTORS

	1998 £'000	1997 £'000
Other debtors	1,337	375

All debtors are due within one year.


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
Bank overdraft	-	344
Trade creditors	3,571	1,525
Amounts owed to parent company	18,223	8,156
Current corporation tax	701	1,208
Other creditors	919	1,870
Accruals and deferred income	10,079	5,637
	<u>33,493</u>	<u>18,740</u>

Other creditors include:

	1998 £'000	1997 £'000
Taxation and social security	94	-
	<u>94</u>	<u>-</u>

The bank overdraft is secured by a floating charge over the assets of the company and a first legal charge over the land owned by the company.

11. CALLED UP SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>
Allotted and fully paid		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

12. STATEMENT OF MOVEMENT ON RESERVES

	Profit and loss account £'000
At 31 December 1997	3,208
Profit for year	1,571
Equity dividends proposed	<u>(138)</u>
At 31 December 1998	<u>4,641</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
13. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	1998 £'000	1997 £'000
Opening shareholders' funds	3,218	3,093
Profit for the year	1,571	2,349
Equity dividends paid and proposed	(138)	(2,224)
Closing shareholders' funds	<u>4,651</u>	<u>3,218</u>

14. COMMITMENTS UNDER OPERATING LEASES

At 31 December 1998 the company was committed to making the following payments during the next year in respect of operating leases:

	1998 £'000	1997 £'000
Leases which expire		
Within 1 year	169	9
Within 2 to 5 years	<u>144</u>	<u>150</u>

15. RELATED PARTY DISCLOSURES

In accordance with Financial Reporting Standard No. 8 "Related Party Disclosures", transactions with other group undertakings within, and investee related parties of Linden plc have not been disclosed in these financial statements.

During the year, the company purchased a car from Mr G Price (director of Linden PLC) at a cost of £26,000. The board of directors consider that this transaction was at an arms length price.

16. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling party is Linden PLC, a company incorporated in Great Britain which prepares group accounts. Copies of the group financial statements are available from 6 London Street, Chertsey, Surrey, KT16 8AA.