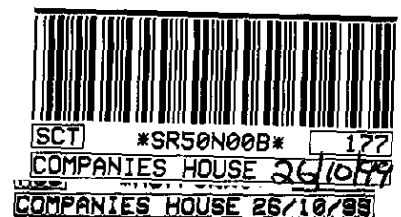


South Eastern Recovery Assured Homes Limited

Report and Accounts

31st December 1998

Registered number SC121345



South Eastern Recovery Assured Homes Limited

Report and accounts

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South Eastern Recovery Assured Homes Limited

Directors' Report

The directors present their report and the audited accounts for the year ended 31st December 1998.

Principal activities and business review

The Company's principal activities during the year were the investing and letting of residential property on assured and assured shorthold tenancy agreements.

The Company's developments are well established.

Future developments

Future developments are likely to be in the same fields.

Results and dividends

The results for the year are shown on page 4 of the accounts. The directors do not recommend the payment of a final ordinary dividend (*nine months ended 31st December 1997: £Nil*).

Significant changes in fixed assets

The developments are shown in the Company's balance sheet as tangible fixed assets and details of the movements are shown in note 7 on page 10 of the accounts. Details of the movements in the Company's freehold reversionary interests are shown as investments in note 8 on page 10 of the accounts.

Directors

The directors of the Company who served throughout the year were as follows:-

D C Annetts
A M Barker
A J Bruckland

Directors' interests

None of the directors had any beneficial interests in the ordinary share capital of the Company at 31st December 1998.

The interests of the directors in the shares of the Company's ultimate parent undertaking, Pemberstone PLC, are disclosed in the accounts of that company.

Year 2000 compliance

The Company's management systems are IT based. The IT facilities are provided to the Company by the Pemberstone PLC Group and are subject to a rolling programme of upgrading both with regard to hardware and software. Year 2000 compliance issues have been under review for over twenty-four months, implementing upgrades where necessary, and it is expected that all systems will be fully Year 2000 compliant well in advance of the end of 1999.

South Eastern Recovery Assured Homes Limited

Directors' Report *(continued)*

Statement of directors' responsibilities

Company law requires the directors to prepare accounts 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 accounts, 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 accounts;
- prepare the accounts on a 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 accounts 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.

Auditors

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

By order of the board

H Rogers

For and on behalf of
CIM Management Limited
Secretary

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

20th October 1999

South Eastern Recovery Assured Homes Limited

Auditors' Report to the members of South Eastern Recovery Assured Homes Limited

We have audited the accounts on pages 4 to 12.

Respective responsibilities of directors and auditors

As described on page 2, the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31st December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

2 Cornwall Street
Birmingham B3 2DL

20th October 1999

South Eastern Recovery Assured Homes Limited

Profit and Loss Account

for the year ended 31st December 1998 (1997:nine months ended 31st December 1997)

	Notes	Year ended 31st December 1998 £	Nine months ended 31st December 1997 £
Rental income	<i>1</i>	565,299	496,405
Administrative expenses		(415,583)	(355,516)
Operating profit		149,716	140,889
Amounts recovered on/(written off) investment properties		375,768	(53,897)
Profit on disposal of investment properties		683,425	71,274
Interest receivable		2,914	21,539
Interest payable and similar charges	<i>2</i>	(6)	(20,188)
Profit on ordinary activities before taxation	<i>3</i>	1,211,817	159,617
Tax on profit on ordinary activities	<i>6</i>	(23,749)	(62,409)
Profit on ordinary activities after taxation being retained profit for the period	<i>12</i>	1,188,068	97,208

There were no discontinued operations in the year.

South Eastern Recovery Assured Homes Limited

Statement of Total Recognised Gains and Losses

for the year ended 31st December 1998 (1997: nine months ended 31st December 1997)

	Year ended 31st December 1998 £	Nine months ended 31st December 1997 £
Profit for the financial period	1,188,068	97,208
Unrealised surplus/(deficit) on revaluation of investment properties	64,232	(67,103)
Unrealised deficit on temporary diminution in value of investment properties	(14,975)	(561,213)
Unrealised surplus on revaluation of investments	40,928	0
Total recognised gains and losses relating to the period	1,278,253	(531,108)

Note of Historical Cost Profits and Losses

for the year ended 31st December 1998 (1997: nine months ended 31st December 1997)

	Year ended 31st December 1998 £	Nine months ended 31st December 1997 £
Reported profit on ordinary activities before taxation	1,211,817	159,617
Realisation of property revaluation losses of previous periods	(551,450)	0
Historical cost profit on ordinary activities before taxation	660,367	159,617
Historical cost profit for the period retained after taxation and dividends	636,618	97,208

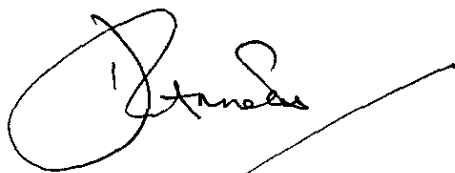
South Eastern Recovery Assured Homes Limited

Balance Sheet

as at 31st December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	7	3,173,624	6,751,150
Investments	8	40,928	0
		<u>3,214,552</u>	<u>6,751,150</u>
Current assets			
Debtors	9	3,851,928	9,686
Cash at bank and in hand		9,423	171,932
		<u>3,861,351</u>	<u>181,618</u>
Creditors: amounts falling due within one year	10	<u>(62,950)</u>	<u>(1,198,069)</u>
Net current assets/(liabilities)		<u>3,798,401</u>	<u>(1,016,451)</u>
Net assets		<u>7,012,953</u>	<u>5,734,699</u>
Capital and reserves			
Called up share capital	11	3,447,489	3,447,489
Share premium account	12	3,669,087	3,669,087
Revaluation reserve	12	(350,215)	(991,850)
Profit and loss account	12	246,592	(390,027)
Equity shareholders' funds		<u>7,012,953</u>	<u>5,734,699</u>

These accounts were approved by the board of directors on 20th October 1999 and were signed on its behalf by:-



D C Annetts
Director

South Eastern Recovery Assured Homes Limited

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st December 1998 (1997: nine months ended 31st December 1997)

	Year ended 31st December 1998 £	Nine months ended 31st December 1997 £
Profit for the financial period	1,188,068	97,208
Other recognised gains and losses relating to the period	90,186	(628,316)
Net addition to/(reduction in) shareholders' funds	1,278,254	(531,108)
Opening equity shareholders' funds	5,734,699	6,265,807
Closing equity shareholders' funds	7,012,953	5,734,699

South Eastern Recovery Assured Homes Limited

Notes

(forming part of the accounts)

1. **Principal accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's accounts.

Basis of preparation

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investment assets, and in accordance with applicable accounting standards.

A cash flow statement has not been prepared as permitted by paragraph 5(a) of Financial Reporting Standard No. 1. The Company has also taken advantage of the exemption permitted by paragraph 3(c) of Financial Reporting Standard No. 8, in respect of related party transactions.

Rental income

Rental income represents rents receivable from the letting of properties, under assured tenancy and assured shorthold tenancy agreements, together with ground rents receivable from reversionary interests. All properties are situated in the United Kingdom.

Investment properties

Investment properties are stated at open market valuation, at the Balance Sheet date, in accordance with Statement of Standard Accounting Practice No. 19 (Accounting for Investment Properties), which requires all investment properties to be included in the Balance Sheet at their open market value based on the actual circumstances and tenancies of the properties at the date of valuation.

In accordance with Statement of Standard Accounting Practice No. 19, no depreciation or amortisation is provided in respect of investment properties.

This treatment, as regards certain of the Company's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view.

Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Deferred taxation

Deferred taxation is provided in respect of material timing differences to the extent that it is probable that such differences will crystallise in the foreseeable future.

South Eastern Recovery Assured Homes Limited

Notes (continued)

2. Interest payable and similar charges

	Year ended 31st December 1998 £	Nine months ended 31st December 1997 £
On bank loans and overdraft	6	20,188

3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:-

	Year ended 31st December 1998 £	Nine months ended 31st December 1997 £
Auditors' remuneration for audit work	3,000	3,000
Management charge	300,000	75,000

The management charge is payable to CIM Residential Limited.

4. Directors' emoluments

There were no emoluments paid to any director in the year (nine months ended 31st December 1997: £Nil)

5. Employee information

Apart from the directors there were no employees directly employed by the Company during the year (nine months ended 31st December 1997: Nil).

6. Tax on profit on ordinary activities

	Year ended 31st December 1998 £	Nine months ended 31st December 1997 £
UK corporation tax charge based on the profit for the period at 31% (nine months ended 31st December 1997: 31.5%)	46,600	62,409
Adjustments for prior periods	(22,851)	0
	23,749	62,409

The tax charge is significantly less than the rate for the year due to the availability of capital losses and other reliefs.

South Eastern Recovery Assured Homes Limited

Notes (continued)

7. Tangible fixed assets

	Freehold investment properties £	Leasehold investment properties £	Total £
Valuation			
At 1st January 1998	4,089,499	2,661,650	6,751,149
Disposals	(2,152,650)	(1,849,900)	(4,002,550)
Revaluation of investment properties			
Diminution in value (net)	440,000	0	440,000
Temporary diminution in value	(14,975)	0	(14,975)
At 31st December 1998	2,361,874	811,750	3,173,624

The investment properties have been professionally valued as at 31st December 1998 by Chesterton plc, at their open market value, taking account of all tenancies, under the accounting policy as stated.

The historical cost of investment properties at 31st December 1998 was £3,628,405 (1997: £8,905,561).

8. Investments

	Freehold reversions £
Cost at 1st January 1998	0
Revaluation	40,928
Valuation at 31st December 1998	40,928

The freehold reversions have been professionally valued as at 31st December 1998 by Chesterton plc, at their open market value. The historical cost of the freehold reversionary interests at 31st December 1998 was £Nil (1997: £Nil).

South Eastern Recovery Assured Homes Limited

Notes (continued)

9. Debtors

	1998 £	1997 £
Trade debtors	1,139,013	9,686
Amounts owed by group undertakings	2,711,861	0
Prepayments and accrued income	1,054	0
	<u>3,851,928</u>	<u>9,686</u>

The amounts owed by group undertakings represent amounts due on current accounts which are repayable on demand and free of interest.

10. Creditors: amounts falling due within one year

	1998 £	1997 £
Bank overdraft	10,458	0
Trade creditors	62	20,173
Amounts owed to group undertakings	19,924	1,026,237
Corporation tax payable	20,356	64,122
Other creditors	2,541	64,785
Accruals and deferred income	9,609	22,752
	<u>62,950</u>	<u>1,198,069</u>

The amounts owed to group undertakings represent amounts due on current accounts which are repayable on demand and free of interest.

South Eastern Recovery Assured Homes Limited

Notes (continued)

11. Called up share capital

	1998 £	1997 £
<i>Authorised</i>		
15,000,000 ordinary shares of 50p each	7,500,000	7,500,000
<i>Allotted, called up and fully paid:</i>		
6,894,977 ordinary shares of 50p each	3,447,489	3,447,489

12. Share premium and reserves

	Share premium account £	Revaluation reserve £	Profit and loss account £
At 1st January 1998	3,669,087	(991,850)	(390,026)
Retained profit for year	0	0	1,188,068
Transfer of realised losses	0	551,450	(551,450)
Increase in value of investment properties	0	64,232	0
Temporary diminution in the value of investment properties	0	(14,975)	0
Increase in the value of investments	0	40,928	0
At 31st December 1998	3,699,087	(350,215)	246,592

13. Commitments

The Company had no capital or operating lease commitments at 31st December 1998 (1997: £Nil).

14. Ultimate parent undertaking

At the 31st December 1998, the directors regarded Pemberstone PLC, a company registered in England and Wales, as the ultimate parent undertaking. Pemberstone PLC prepares group accounts which include this Company's accounts. There are no other group accounts which include the accounts of this Company. Copies of the group accounts may be obtained from Rutherford House, Blackpole Road, Worcester, WR3 8YA.

Since the year end Pemberstone PLC has been acquired by Pemberstone Group Limited (formerly Arcrent Properties Limited), a company registered in England and Wales.