

SC136418

**SOUTH EASTERN RECOVERY II PLC**

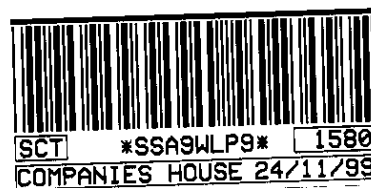
**ANNUAL REPORT AND**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 MARCH 1999**

8



# **SOUTH EASTERN RECOVERY II PLC**

**Annual report and financial statements for the year ended 31 March 1999**

## **Contents**

### **Page**

1	Company information
2 - 4	Report of the Directors
5	Report of the Auditors
6	Profit and loss account and Statement of Total Recognised Gains and Losses
7	Balance sheet
8	Cash flow statement
9-14	Notes forming part of the Financial Statements

Registered number: SC130778

The Directors submit their report together with the audited financial statements for the year ended 31 March 1999.

### **Results and Dividends**

The profit and loss account of the Company is set out on page 6 and shows the profit for the year. The Directors propose that no dividend be paid.

### **Principal activities, review of business and future developments**

The principal activity of the Company is the provision and letting of residential property. During the year the company invested £50 for a 50% share in SERAH Mayfair Limited, a newly formed company investing in property in London. The remaining 50% of the share capital is held by SERAH Properties Plc (formerly South Eastern Recovery III Plc). The Directors consider the results of the year to be satisfactory, and do not anticipate a change in the activities of the company.

### **Fixed assets**

Movements in fixed assets are set out in note 6 to the financial statements.

### **Statement of Directors' responsibilities in respect of the financial statements**

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 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;  
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.

**Directors Interests**

The Directors of the Company who have served during the year and their interests in the ordinary share capital of the Company are listed below:

	<b>Ordinary shares of 50p each</b>	
	<b>31 March 1999</b>	<b>31 March 1998</b>
K J Price	-	-
CM David (resigned 19.4.99)	-	-
P E Q Long	12,500	12,500
Lord T E Bridges	3,000	3,000
J H Glicher	-	-

**Payments to creditors**

The Company does not follow any specified code or standard on payment practice. However, it is the Company's policy to negotiate terms with its suppliers and to ensure that they are aware of the terms of payment when business is agreed. It is the Company's policy to abide by these terms. The average number of days taken to pay Trade creditors was 22 days (1998: 34 days)

**Substantial shareholders**

As at 31st March 1999, Pemberstone Plc held 396,702 ordinary shares of 50p each, representing 9.7% of the ordinary share capital of the company. No other person has notified an interest in the Company in accordance with sections 198 to 202 of the Companies Act 1985.

**Close Company Status**

The Company is not a close company as defined by the Income and Corporation Taxes Act 1988.

**Year 2000**

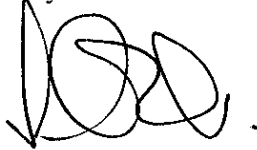
The period to the Year 2000 presents companies using any form of electronic system incorporating a calendar (from financial and operating software to security systems) with the opportunity to ensure that they are not vulnerable to a potentially significant problem if the systems fail to function when the last two digits of the year roll over to "00".

The Directors have reviewed the company's systems as a whole, and evaluated the need for an external review of these. However, in the Director's opinion this was not necessary, and the company is currently undertaking an internal review of all the systems presently in place, and expect that any modifications or additions required will be identified in ample time to ensure full implementation prior to the Millennium. As part of this review, the Directors will also be assessing any potential impact on the company from third party failures to respond to the Year 2000. While these are in no way under the Directors control, the Directors are attempting to ensure that the possibility of impact is understood, and that any impact on the company will therefore be minimised. As an ongoing measure, the Directors also regularly review and update the company's computer systems and have been ensuring for some time that all systems or modifications are "Year 2000 compliant". Wherever possible, standard software houses, who are committed to delivering in good time whatever Year 2000 modifications to their software are necessary, are utilised. The Directors are of the opinion that the costs associated with the Year 2000 issue are unlikely to be material.

**Auditors**

BDO Stoy Hayward have indicated their willingness to continue in office and the resolution to re-appoint them will be put to the members at the Annual General Meeting.

By order of the Board



J H Glicher  
Secretary

15/1/99 1999

We have audited the financial statements on pages 6 to 14 which have been prepared under the historical cost convention as modified by the revaluation of investment properties, and on the basis of the accounting policies set out on page 9.

**Respective responsibilities of directors and auditors**

As described on page 2, the Company's Directors are responsible for the preparation of the 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.

**Going Concern**

In forming our opinion we have considered the adequacy of the disclosures made in note 18 to the financial statements concerning the maturity of the Company's bank overdraft facility and the Company's investment in SERAH Mayfair Limited. In view of the significance of these items we consider that it should be brought to your attention but our opinion is not qualified in this respect.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*BDO Stoy Hayward*

BDO Stoy Hayward  
Chartered Accountants & Registered Auditors  
London

*13 November* 1999

**Profit and loss account  
for the year ended 31 March 1999**

	Notes	Year ended 31 March 1999 £	Year ended 31 March 1998 £
Turnover	1	254,038	262,693
Cost of sales		<u>(55,788)</u>	<u>(46,233)</u>
<b>Gross profit</b>		198,250	216,460
Administrative expenses		<u>(145,268)</u>	<u>(77,049)</u>
<b>Operating profit</b>	3	52,982	139,411
Gain on sale of property		-	43,028
Exceptional item: permanent increase in property value	6	138,236	424,358
<b>Profit on ordinary activities before interest</b>		<u>191,218</u>	<u>606,797</u>
Net interest payable	4	<u>(11,732)</u>	<u>(44,584)</u>
<b>Profit on ordinary activities before taxation</b>		179,486	562,213
Tax on profit on ordinary activities	5	<u>(6,058)</u>	<u>(13,707)</u>
<b>Profit on ordinary activities after taxation</b>		<u><u>£173,428</u></u>	<u><u>£548,505</u></u>
<b>Statement of total recognised gains and losses</b>			
Profit attributable to the shareholders of the Company		173,428	548,505
Unrealised gain on revaluation of assets		<u>83,637</u>	<u>76,154</u>
<b>Total recognised gains</b>		<u><u>£257,065</u></u>	<u><u>£624,659</u></u>

All of the activities undertaken by the Company during the year were continuing activities.

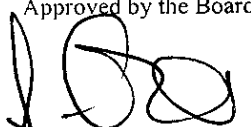
There is no difference between historic cost profit for the financial year and that recorded in the profit and loss account.

The notes on pages 9-14 form part of these financial statements.

**Balance sheet**  
as at 31 March 1999

	Notes	£	1999	£	1998	£
<b>Fixed assets</b>						
Tangible assets	6			3,148,900		2,927,027
Investment	7			785,612		-
<b>Current assets</b>						
Debtors	8		1,016,584		9,075	
Cash at bank and in hand			<u>34,511</u>		<u>636,734</u>	
			1,051,095		645,809	
<b>Creditors</b>						
Amounts falling due within one year	9		<u>(1,850,703)</u>		<u>(694,996)</u>	
<b>Net current liabilities</b>				<u>(799,608)</u>		<u>(49,187)</u>
<b>Net assets</b>				<u>£3,134,904</u>		<u>£2,877,840</u>
<b>Capital and reserves</b>						
Called up share capital	10			2,045,393		2,045,393
Share premium account	11			1,102,714		1,102,714
Revaluation reserve	12			159,791		76,154
Profit and loss account	13			<u>(172,994)</u>		<u>(346,422)</u>
<b>Equity shareholders' funds</b>	13			<u>£3,134,904</u>		<u>£2,877,839</u>

Approved by the Board on 12/0/99 1999



J Glicher  
Director

The notes on pages 9-14 form part of these financial statements.



**Cash flow statement  
for the year ended 31 March 1999**

	Notes	Year ended 31 March 1999 £	Year ended 31 March 1998 £
<b>Net cash inflow from operating activities</b>	14	563,193	138,929
<b>Returns on investments and servicing of finance</b>			
Net interest paid		(11,732)	(44,584)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(11,732)	(44,584)
<b>Taxation</b>			
U K Corporation Tax paid		(13,848)	(12,528)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		-	(140,027)
Sale of tangible fixed assets		-	953,441
Investment in SERAH Mayfair Limited		(1,785,612)	-
<b>Net cash (outflow)/inflow from investing activities</b>		(1,785,612)	813,414
<b>Net cash (outflow)/inflow before financing</b>		(1,247,999)	895,231
<b>Financing</b>			
Loans repaid		(600,000)	(450,000)
<b>(Decrease)/increase in cash in the year</b>		<u>(£1,847,999)</u>	<u>£445,231</u>

**Reconciliation of net cash flow to movement in net debt**

(Decrease)/increase in cash in the year	(1,847,999)	445,231
Financing: repayment of bank loans	600,000	450,000
	<u>(1,247,999)</u>	<u>895,231</u>
Net funds/(debt) at 1 April 1998	36,734	(858,497)
Net (debt)/funds at 31 March 1999	<u>(£1,211,265)</u>	<u>£36,734</u>

**Analysis of changes in net debt**

	1 April 1998	Cashflow	31 March 1999
Cash at bank and in hand at 1 April 1998	636,734	(602,223)	34,511
Bank loans and overdraft	(600,000)	(645,776)	(1,245,776)
Cash at bank and in hand at 31 March 1999	<u>£36,734</u>	<u>(£1,247,999)</u>	<u>(£1,211,265)</u>

The notes on pages 9-14 form part of these financial statements.

**Notes forming part of the financial statements  
for the year ended 31 March 1999**

**1 Accounting policies**

**Basis of preparation**

The financial statements are prepared under the historical cost convention modified by the revaluation of investment properties, in accordance with applicable accounting standards. The true and fair provisions of the Companies Act 1985 have been invoked as explained in Investment properties below.

**Associates**

An entity, (SERAH Mayfair Limited) in which the company has a participating interest and over whose operating and financial policies the company exercises a significant influence is treated as an associate. This is shown as a fixed asset investment at cost, less any provision for permanent diminution in value.

**Turnover**

Turnover represents the net amount derived from the continuing activity of the letting of residential property. Letting income is accounted for on an accruals basis and arises solely in the United Kingdom.

**Investment properties**

Investment properties are accounted for in accordance with Statement of Standard Accounting Practice No. 19 as follows:

The investment properties were revalued at 31 March 1999 by Allsop & Co, a firm of professional valuers, on an open market basis taking into account the existing tenancies of the properties. Any surpluses or deficits are transferred to a revaluation reserve. In the case of permanent diminution's in the value of individual properties, the diminution is taken to the profit and loss account.

*No depreciation is provided in respect of investment properties. Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the Directors believe that the policy of not providing depreciation is necessary in order for the accounts to show a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual*

*depreciation. Depreciation 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 using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Notes forming part of the financial statements  
for the year ended 31 March 1999

2 Employees' and Directors' remuneration and related party transactions

Directors' emoluments

	Year ended 31 March 1999 £	Year ended 31 March 1998 £
Fees	<u>£37,200</u>	<u>£30,700</u>

The only employees of the company are its Directors, all of whom work on a part time basis for the company.

The company also entered into the following arrangements in which the Directors had an interest:

Fees of £37,148 (1998: £2,720) were paid to Lawson-Price Limited, in which K J Price had an indirect interest, for professional and general office services.

Fees of £31,911 (1998: £31,335) excluding VAT have been paid to Sussex Management Limited, in which C M David has an interest, for property management services.

3 Operating profit

	Year ended 31 March 1999 £	Year ended 31 March 1998 £
This is stated after charging :		
Auditors' remuneration for audit services	4,000	4,300
Directors' fees	<u>37,200</u>	<u>30,700</u>

4 Net interest payable

	Year ended 31 March 1999 £	Year ended 31 March 1998 £
Loan interest receivable	(86,411)	-
Loan interest payable	8,814	
Bank interest received	(15,813)	(25,184)
Bank interest paid	<u>105,142</u>	<u>69,768</u>
	<u>£11,732</u>	<u>£44,584</u>

Notes forming part of the financial statements  
for the year ended 31 March 1999

5 Tax on profit on ordinary activities

	Year ended 31 March 1999 £	Year ended 31 March 1998 £
United Kingdom Corporation Tax	6,058	13,707
	<u>£6,058</u>	<u>£13,707</u>

The Corporation Tax for 1998 is calculated at 21% on taxable profits.

6 Tangible fixed assets

	Investment Properties £
<b>Valuation</b>	
At 1 April 1998	2,927,027
Revaluation in year	221,873
At 31 March 1999	<u>3,148,900</u>
<b>Depreciation</b>	
At 1 April 1998	-
Charge for the year	-
At 31 March 1999	<u>-</u>
<b>Net book value</b>	
At 31 March 1999	<u>£3,148,900</u>
At 1 April 1998	<u>£2,927,027</u>

The valuation as at 31 March 1999 was carried out by Allsop & Co, a firm of professional valuers, on an open market basis taking into account the existing tenancies of the properties.

If the properties were sold at their current valuation the potential tax liability before indexation would amount to £62,586. No provision for deferred tax has been made in these accounts as the Company has no intention to dispose of its investment properties.

The historical cost of investment properties included at valuation is as follows:

	£
At 1 April 1998	<u>3,171,209</u>
At 31 March 1999	<u>3,171,209</u>

The exceptional item credited to the profit and loss account of £138,236 (1998 £424,358) related to realised gains in the valuation of properties that were subject to a permanent diminution in value of £1,621,000 in the year ended 31 March 1996. These realised gains will continue to be credited to the profit and loss account until the cumulative valuation increases equal the permanent diminution previously charged to the profit and loss account. This release to the profit and loss account will be on a property by property basis.

Notes forming part of the financial statements  
for the year ended 31 March 1999

7 Fixed asset investment

On 29 May 1998 the Company invested £50 for a 50% share in SERAH Mayfair Limited, a newly formed company investing in property in London. The remaining 50% of the share capital is held by SERAH Properties Plc.

SERAH Mayfair Limited purchased a property for £3.2m, financed by equal loans from the two investors. It is the intention that the loans will be partly repaid when SERAH Mayfair Limited is able to secure its own funding, therefore £1,000,000 of the loan has been shown in Current assets. The cost of the investment to the Company is therefore made up as follows:

	Year ended 31 March 1999 £	Year ended 31 March 1998 £
At 1 April 1998	-	-
Share capital purchased	50	-
Loan to SERAH Mayfair Limited	1,699,151	-
Interest on loan to SERAH Mayfair Limited	86,411	-
	<u>£1,785,612</u>	<u>-</u>
At 31 March 1999	<u>£1,785,612</u>	<u>-</u>
Accounted for as :-		
Total investment	1,785,612	-
Less: Current asset investment (see note 8)	(1,000,000)	-
Fixed asset investment	<u>£785,612</u>	<u>-</u>

8 Debtors: amounts falling due within one year

	1999 £	1998 £
Current asset investment (see note 7)	1,000,000	-
VAT	7,466	3,172
Rents in arrears	5,726	-
Sundry debtors and prepayments	3,392	5,903
	<u>£1,016,584</u>	<u>£9,075</u>

9 Creditors: amounts falling due within one year

	1999 £	1998 £
Bank loan	-	600,000
Bank overdraft	1,245,776	-
Trade creditors	62,947	14,359
Other creditors	449,515	-
Corporation tax	6,110	13,898
Rental deposits	6,938	18,968
Rents in advance	22,192	21,255
Sundry creditors and accruals	57,225	26,516
	<u>£1,850,703</u>	<u>£694,996</u>

Included in other creditors is an advance of £440,701 from SERAH Properties Plc which to enable the company to make its 50% share of loans to SERAH Mayfair Limited. Interest is payable on this advance at the cost of funding the loans from the company's bankers.

The overdraft is secured by charges over the company's assets, and is at a variable rate of interest, interest is charged at current commercial rates.

The bank overdraft facility is due to be renewed in January 2000.

Notes forming part of the financial statements  
for the year ended 31 March 1999

## 10 Share capital

	1999 £	1998 £
Authorised:		
15,000,000 Ordinary Shares of 50p each	<u>£7,500,000</u>	<u>£7,500,000</u>
Allotted, issued and fully paid:		
4,090,787 Ordinary Shares of 50p each	<u>£2,045,393</u>	<u>£2,045,393</u>

## 11 Share premium account

	1999 £	1998 £
At beginning and end of year	<u>£1,102,714</u>	<u>£1,102,714</u>

## 12 Revaluation reserve

	1998 £	1997 £
At 1 April 1998	76,154	-
Surplus on revaluation (net of release to profit and loss account)	<u>83,637</u>	<u>76,154</u>
At 31 March 1999	<u>159,791</u>	<u>76,154</u>

## 13 Reconciliation of movements in shareholders' funds

	Share Capital £	Share Premium Account £	Revaluation Reserve £	Profit and Loss Account £	Total £
Shareholders' funds at 31 March 1997	2,045,393	1,102,714	-	(894,927)	2,253,180
Revaluation reserve	-	-	76,154	-	76,154
Profit for the year	-	-	-	548,505	548,505
Shareholders' funds at 31 March 1998	2,045,393	1,102,714	76,154	(346,422)	2,877,839
Revaluation reserve	-	-	83,637	-	83,637
Profit for the year	-	-	-	173,428	173,428
Shareholders' funds at 31 March 1999	<u>£2,045,393</u>	<u>£1,102,714</u>	<u>£159,791</u>	<u>(£172,994)</u>	<u>£3,134,904</u>

## 14 Reconciliation of operating profit to net cashflow from operating activities

	Year ended 31 March 1999 £	Year ended 31 March 1998 £
Operating profit	52,982	139,411
Increase in debtors (less current asset investment)	(7,509)	33,842
Increase in creditors	<u>517,720</u>	<u>(34,324)</u>
Net cash (outflow)/inflow from operating activities	<u>£563,193</u>	<u>£138,929</u>

## 15 Commitments and other obligations

The company has funded its Associate (see note 7) and will continue to support it and service the loans acquired on its behalf until the Associate is in a position to secure its own funding. The company had no other capital commitments at 31 March 1998 or 31 March 1999.

Notes forming part of the financial statements  
for the year ended 31 March 1999

## 16 Subsidiary companies

The company has subsidiary companies as follows:

Burley House Estates Limited  
Buckingham House Management Limited  
Crowfield House Management Limited  
Emberton House Management Limited  
Pinewood Court Properties Limited

These subsidiaries are 100% owned by South Eastern Recovery II Plc and are all non trading companies. In aggregate the subsidiaries are not material and are therefore not consolidated.

The subsidiaries are all registered in England.

## 17 Associate

As disclosed in note 7, the company has an associate, SERAH Mayfair Limited. If consolidated financial statements were prepared, the following information would be included:

<i>Share of:</i>	£
Turnover	5,904
Operating loss Before and after taxation	<u>(2,636)</u>
<i>Share of:</i>	
Fixed assets	1,834,824
Current assets	11,297
Liabilities due within one year	(1,061,852)
Liabilities due after more than one year	<u>(786,856)</u>
<i>Share of net liabilities</i>	<u><u>(2,587)</u></u>

## 18 Going concern

The company's current bank overdraft facilities fall to be renewed upon their expiry in January 2000. The Board anticipate renewing appropriate bank facilities on terms no less favourable than those currently in existence.

As disclosed in note 7, the company has an investment in SERAH Mayfair Limited. It is anticipated that half of this investment will be realised on the imminent completion of a joint venture arrangement with a third party.

After consideration of the above factors, the Board is of the opinion that South Eastern Recovery II Plc remains a going concern.