

Vere Street Investments Limited

Report and accounts for the year ended 30th September, 1998

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Vere Street Investments Limited

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Directors' report

The directors submit herewith their annual report and the audited accounts for the year ended 30th September, 1998.

Business of the company

The company is a wholly owned subsidiary of Warner Estate Holdings PLC, a company incorporated in Great Britain. The company's principal activity is property investment in the United Kingdom.

Income from properties is satisfactory. Two properties were sold during the year.

Land and buildings

Additions to land and buildings during the year totalled £451,000.

Land and buildings with book values of £1,825,000 were disposed of during the year. The net deficit over cost was £234,000.

An independent valuation of the company's investment properties at the date of the balance sheet has been made which amounts to £20,220,000 and the Directors have incorporated this in the accounts as shown in Note 9. The resultant surplus of £689,000 has been transferred to revaluation reserve.

Results for the year

The profit after taxation for the year amounted to £683,000 which is added to £531,000 brought forward making £1,214,000 available for distribution. The directors recommend a final dividend of £500,000 per share costing £1,000,000 leaving the balance to be carried forward.

Directors

The members of the board during the year were:

P.C.T. Warner (Chairman)
D.J. Veaser (resigned 30 April, 1998)
A.N. Batty
V.B. Vaghela
J.H. Moore (resigned 17 September, 1998)
J.S. Neill (appointed 14 January, 1998)
P.W. Collins (appointed 1 May, 1998)

Mr P.W. Collins and Mr J.S. Neill retire and offer themselves for re-election.

The interests in the ultimate holding company in respect of Mr P.C.T. Warner, and Mr A.N. Batty are shown in that company's accounts and those of Mr V.B. Vaghela is as follows:-

	Shares held		Options		WEHLTIP(a)	
	At 30th	At 30th	At 30th	At 30th	At 30th	At 30th
	September, 1998	September, 1997	September, 1998	September, 1997	September, 1998	September, 1997
V.B. Vaghela	21,100	14,300	45,220	84,320	3,501	-

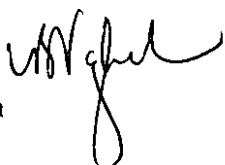
(a) Interest in shares held in trust as part of the Warner Estate Holdings Long Term Incentive Plan, details of which are set out in the accounts of the ultimate holding company.

Auditors

The auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July, 1998 following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to re-appoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

By order of the board

V.B. Vaghela
Secretary
39/49 Wigmore Street
London
W1H 9LE
8 January, 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 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;
- 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.

**REPORT OF THE AUDITORS
TO THE MEMBERS OF VERE STREET INVESTMENTS LIMITED**

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We have audited the financial statements on pages 4 to 13 which have been prepared under the historic cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2 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.

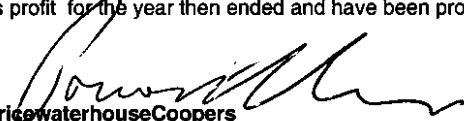
BASIS OF OPINION

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 30th September, 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

London
8 January, 1999.

**Profit and loss account
for the year ended 30th September, 1998**

	Notes	1998 £'000	1997 £'000
Turnover	2	1,993	1,978
Operating profit	2	1,701	1,685
Investment income and other interest receivable	3	766	812
Deficit on sale of fixed assets		(261)	-
		2,206	2,497
Interest payable and similar charges	4	(1,192)	(994)
Profit on ordinary activities before taxation		1,014	1,503
Tax on profit on ordinary activities	7	(331)	(382)
Profit on ordinary activities after taxation		683	1,121
Dividend	8	(1,000)	(1,200)
Retained loss for the year	15	(317)	(79)
Statement of total recognised gains and losses			
Profit for the year after taxation		683	1,121
Unrealised net surplus on revaluation of assets	15	689	88
Total gains recognised since last annual report		1,372	1,209
Note of historical cost profits and losses			
Profit on ordinary activities before taxation		1,014	1,503
Realisation of investment property losses of previous years	15	(27)	-
Historical cost profit on ordinary activities before taxation		987	1,503
Historical cost deficit for the year retained after taxation and dividends		(344)	(79)

All of the company's operations are classed as continuing.

Balance sheet**as at 30th September, 1998**

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets:			
Land and buildings	9	20,220	21,755
Current assets			
Investments	10	534	-
Debtors	11	7,937	8,234
Cash at bank and in hand		226	157
		8,697	8,391
Current liabilities			
Creditors: amounts falling due within one year	12	(6,847)	(7,668)
		1,850	723
Net current assets			
		22,070	22,478
Total assets less current liabilities			
Creditors: amounts falling due after one year	12	(21,656)	(22,432)
Provision for liabilities and charges			
Deferred taxation	13	(31)	(35)
		383	11
Capital and reserves			
Called-up share capital	14	-	-
Revaluation reserve	15	196	(520)
Other capital reserve	15	(288)	-
Profit and loss account	15	475	531
Equity shareholders' funds		383	11

The accounts on pages 4 to 13 were approved by the Board of Directors on 8 January, 1999 and were signed on its behalf by:-

P.C.T. Warner

P.W. Collins

Directors



**Notes to the accounts
for the year ended 30th September, 1998****1. Accounting policies****Basis of accounting**

The accounts have been prepared on the historical cost basis of accounting modified to include the revaluation of certain assets and in accordance with applicable accounting standards in the United Kingdom. Following these standards requires a departure from the requirements of the Companies Act 1985 relating to depreciation of certain land and buildings as explained in the paragraph on depreciation below. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Land and buildings

Investment properties are stated at their open market valuation at the balance sheet date. The aggregate surplus or temporary deficit arising on revaluation is transferred to the revaluation reserve and to the extent that it has not already been previously accounted for against the revaluation reserve any permanent deficit, to the profit and loss account.

Depreciation

In accordance with Statement of Standard Accounting Practice No.19, no depreciation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the Directors believe that this policy of not providing depreciation is necessary in order for the accounts to give 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

Provision is made by the liability method to take account of any timing differences which may exist between the treatment of items for accounts purposes and their treatment for corporation tax purposes to the extent that it is probable that a liability or asset will materialise.

Cash flow statement

A cash flow statement, as required by Financial Reporting Standard No.1 (Revised), has not been prepared as the company is a wholly owned subsidiary of a company incorporated in Great Britain, and the consolidated accounts of the group include a cash flow statement in the form prescribed by the standard.

Realised capital surpluses and deficits

Realised surpluses and deficits of a capital nature are transferred to other capital reserve.

Finance costs

Costs of raising long term loan during the period are charged to profit and loss account over the life of the loan. Such costs have been included within the carrying value of the loan.

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2. Operating profit

	1998 £'000	1997 £'000
Rents receivable	1,993	1,978
Less: Property outgoings	(271)	(286)
	<u>1,722</u>	<u>1,692</u>
Deduct: Administrative expenses	(21)	(7)
	<u>1,701</u>	<u>1,685</u>

3. Interest receivable

	1998 £'000	1997 £'000
Income from current asset investments	3	-
Other interest receivable	2	1
Income from loan to subsidiary undertaking	761	811
	<u>766</u>	<u>812</u>

4. Interest payable and similar charges

	1998 £'000	1997 £'000
On mortgage repayable wholly or partly in more than 5 years	1,174	975
Charges in respect of cost of raising finance	18	19
	<u>1,192</u>	<u>994</u>

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5. Administrative expenses

	1998 £'000	1997 £'000
Administrative expenses include the following charges:		
Auditors' remuneration:		
Audit services	3	3
Non-audit services	2	1
	<hr/>	<hr/>

6. Directors' emoluments

No emoluments were payable to directors.(1997 :nil)

7. Tax on profit on ordinary activities

	1998 £'000	1997 £'000
UK Corporation tax:		
Current at 31% (1997 : 32%)	365	432
Deferred	(4)	(7)
	<hr/>	<hr/>
	361	425
Over provision relating to prior years	(30)	(43)
	<hr/>	<hr/>
	331	382
	<hr/>	<hr/>

8. Dividends

	1998 £'000	1997 £'000
On equity shares:		
Proposed £500,000 (1997: £600,000) per share	1,000	1,200

9. Land and buildings	Freehold £'000	Leasehold with over 50 years unexpired £'000	Total £'000
At valuation			
30th September, 1997	9,555	12,200	21,755
Additions	-	451	451
Transfer to group company	(850)		(850)
Disposals	(1,825)	-	(1,825)
	6,880	12,651	19,531
Surplus on revaluation	500	189	689
30th September, 1998	7,380	12,840	20,220

Land and buildings owned by the Group were valued at the above figure on an open market basis in accordance with the recommended guidelines of the Royal Institution of Chartered Surveyors as at 30th September, 1998. The residential properties were valued by an officer of the company who is an Associate of the Incorporated Society of Valuers and Auctioneers and the commercial properties by Healey & Baker.

	1998 £'000	1997 £'000
On a historical cost basis land and buildings would have been included at	20,024	22,275

Disposals during the year generated net sale proceeds of £1,564,000 (1997 : £Nil)

10. Current asset investments

This represents money deposited as security against the company's mortgage debenture loans.

11. Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Trade debtors	297	281
Amounts owed by fellow subsidiary undertakings	266	609
Other debtors	8	9
Prepayments and accrued income	64	33
	<hr/> 635	<hr/> 932
Amounts falling due after one year:		
Amounts owed by group undertaking	7,302	7,302
	<hr/> 7,937	<hr/> 8,234

12. Creditors

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Trade creditors	37	38
Mortgage loan	867	867
Amounts owed to fellow subsidiary undertakings	3,305	4,265
Dividends payable	1,000	1,200
Corporation tax	895	558
Other taxation and social security	77	114
Other creditors	7	9
Accruals and deferred income	659	617
	<hr/> 6,847	<hr/> 7,668

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12. Creditors (continued)

1998
£'000

1997
£'000

Amounts falling due after more than one year:

Amounts owed to group undertaking	10,150	10,150
Mortgage loan redeemable in quarterly instalments of £125,000 (Interest rate 9.15%)	7,203	7,690
Mortgage loan redeemable in quarterly instalments of £73,529 (Interest rate 9.06%)	4,303	4,592
Mortgage secured on properties owned by the company	21,656	22,432

Both mortgage loans are secured by a fixed charge on properties owned by the company and on a floating charge over the assets of the company.

The amount owed to the group undertaking is repayable otherwise than by instalments in more than five years there being no fixed term of repayment and it not being the intention of the group undertaking to require repayment of the loan in the foreseeable future. No interest has been charged in respect of the loan.

The aggregate amounts of borrowings are repayable as follows:

	1998		1997	
	Amount owed to group undertakings £'000	Mortgage debenture loan £'000	Amount owed to group undertakings £'000	Mortgage debenture loan £'000
Within one year or on demand	3,305	867	4,265	867
Within one and two years	-	794	-	794
Within two and five years	-	2,382	-	2,382
Over five years	10,150	8,465	10,150	9,259
	13,455	12,508	14,415	13,302
Future finance costs	-	(135)	-	(153)
	13,455	12,373	14,415	13,149

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	1998 £'000	1997 £'000
13. Deferred taxation		
Deferred taxation arises as noted below:		
Short term timing differences	31	35

No provision has been made in respect of tax on chargeable gains which would arise if the commercial properties included in the balance sheet as fixed assets were realised at the value therein stated.

A Statement of Standard Accounting Practice requires that the potential amount of deferred taxation which would arise if the investment properties were to be sold at the value at which they are included in the Balance Sheet be disclosed. To comply with the Accounting Standards, a possible liability has been calculated amounting to £61,000 (1997 : £Nil).

The above possible liability would be adjusted by reference to tax on such indexation allowances as may be appropriate at the time of sale .

14. Called-up share capital	1998 £	1997 £
Authorised:		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called-up and fully paid:		
2 ordinary shares of £1 each	2	2

15. Reserves

	Revaluation reserve £'000	Other capital reserve £'000	Profit and loss account £'000
At 30th September, 1997	(520)	-	531
Realised valuation deficit on properties sold	27	(27)	-
Net surplus arising on revaluation of properties	689	-	-
Transfer to profit and loss account	-	(261)	261
Surplus for year	-	-	(317)
At 30th September, 1998	196	(288)	475

16. Reconciliation of movement in shareholders' funds

	1998 £'000	1997 £'000
Profit for the year after taxation	683	1,121
Dividends	(1,000)	(1,200)
Other recognised gains and losses relating to the year	689	88
Net increase in shareholders' funds	<u>372</u>	<u>9</u>
Opening shareholders' funds	11	2
Closing shareholders' funds	<u>383</u>	<u>11</u>

17. Contingent liabilities

There are cross guarantees between the company and fellow subsidiary undertakings securing bank overdrafts. These companies' bank overdrafts at 30 September, 1998 amounted to £38,812,000 (1997: £Nil).

18. Ultimate parent undertaking

The ultimate parent undertaking is Warner Estate Holdings PLC, which is registered in England and Wales. Copies of the group accounts may be obtained from Warner Estate Holdings PLC, 39/49 Wigmore Street, London, W1H 9LE.

19. Related party transactions

The company has taken advantage of the exemption available under FRS No. 8, Related Party Disclosures, for disclosing transactions with parent company.