

1796133

Mountcashel plc



ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2000

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Directors and Advisers

Directors	<p>O J Vaughan (<i>Chairman</i>) A C Roberts (<i>Chief Executive</i>) A Graham (<i>Finance Director</i>) I Hislop A J W Irens A L Caplin* T F Vaughan* *<i>Non-Executive</i></p>
Secretary and registered office	<p>D Smith 223a Kensington High Street London W8 6SG</p>
Bankers	<p>National Westminster Bank Plc</p>
Solicitors	<p>Stringer Saul 17 Hanover Square London W1S 1HU</p>
Nominated advisers and brokers	<p>Peel Hunt plc 62 Threadneedle Street London EC2R 8HP</p>
Registrars and transfer agents	<p>Capita IRG plc Balfour House 390/398 High Road Ilford Essex IG1 1NG</p>
Auditors	<p>Moore Stephens Chartered Accountants St Paul's House Warwick Lane London EC4P 4BN</p>
Registered number	<p>1796133</p>

Chairman's Statement

Net assets at 31 December 2000, including net unrealised gains, were £18.78 million or 225 pence per share. Since Mountcashel became a public company in 1995, net assets have grown from £6.48 million, representing an annual compound return of 23.7 per cent.

We are reporting a significant downturn in net asset value in the year 2000, following an encouraging performance the previous year. This is principally due to the steep decline in value of our Redstone Telecom holding, which is trading at a 90 per cent. discount to its peak in February 2000. We were prevented from reducing our holding at the height of demand due to an enforced lock-in at the time. Nevertheless we have recovered our initial cost of investment in Redstone and continue to show a gain at today's prices. More importantly we believe that Redstone's business is in an optimal position to benefit from the increase in broadband usage across the UK over the next few years.

Our focus towards the end of 2000 and throughout the first few months of this year has been to return a sizeable amount of cash back into the portfolio. I am pleased to say that the Company's cash balances today are greater than £5 million. It is hoped that this strategy will allow us to take advantage of a market that is increasingly favouring the buyer of equity rather than the seller.

Concentric Network Corporation, Retail Decisions and Linx Printing Technologies were our most significant disposals during the year. The combined net proceeds from these three investments totalled £4.9 million, realising a profit of £3.7 million or 299 per cent. Action Leisure, ERA Group and Xenova, three holdings that had not performed as expected, were also sold.

New investments during the year included Eurogene (now named Ark Therapeutics) and Northgate Information Solutions Plc. Eurogene, a private biotechnology company backed by Merlin Ventures and Nomura, is performing well. Northgate Information Solutions, a leading technology systems integrator, is also performing profitably and in line with expectations.

We have taken the precaution of making provisions against a number of current holdings that were acquired throughout the year which have not performed to expectations. These are discussed in more detail in the Investment Review on the following pages.

We now have a focused portfolio of key investments, a strong cash position and a dedicated investment team. Our track record has shown that we have the ability to back businesses that are capable of producing exceptional returns over the long term, and I also believe that we have learnt the lessons arising from our failures.

It is important to highlight that our approach to investment carries a high degree of risk. We expect to commit funds to smaller companies, some of which are in the early stages of their development and therefore do not possess the positive cashflows and liquidity that are associated with many larger companies.

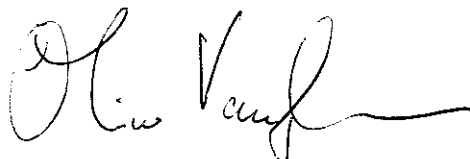
The Directors have been considering various means of rewarding and motivating key executives and are proposing the establishment of the Mountcashel Share Incentive Plan (the "Incentive Plan"), which will operate in conjunction with an Employees' Share Ownership Plan Trust ("ESOP"). A summary of the Incentive Plan is set out in the Appendix to these financial statements. The Incentive Plan is designed to provide performance criteria for executives with the aim of rewarding them while also aligning their interests with those of the shareholders.

The resolution dealing with this matter appears as item 10 in the Notice convening the Annual General Meeting, which will take place on 26 April 2001.

Finally, we propose to make a bonus issue to shareholders of one new share for every twelve held as at 26 April 2001. Following the one for ten bonus issue made in 2000, we believe this will further aid the liquidity of the Company's shares.

Oliver Vaughan
Chairman

28 March 2001



Investment Review

The financial year ended 31 December 2000 was a period of mixed fortune for Mountcashel. Whilst it is encouraging to report that we were able to realise a number of holdings at the height of the market, our timing did not extend to our two largest holdings, Redstone and Xaar. Our net asset position has therefore suffered since last reporting as stock market sentiment has turned against the telecoms and technology sectors.

Our first disposal was Concentric Network Corporation, a holding received in 1999 following the take-over of Internet Technology Group PLC in which we had a significant stake. The profit from the sale of our holding in Concentric equalled £1.91 million (456 per cent.).

Additional profits were realised following the sale of our holding in Retail Decisions, which produced a profit of £1.1 million on an investment of £272,185 (411 per cent.). We also disposed of our investment in Linx Printing Technologies PLC following a reappraisal of the business, resulting in a profit of £633,326 (118 per cent.).

Conditions in the early part of the year also provided us with an opportunity to dispose of a number of holdings that had disappointed over the long term. These included ERA PLC and Xenova Group PLC. Both these investments had been previously provided for in part. In the second half of the year we also disposed of our entire holding in Action Leisure for a total loss on investment of £427,066.

Finally we have made provisions of £1.87 million against holdings in which we invested in the early part of 2000. These include Unica, a private UK based communications service provider in which we invested £1 million and which has moved into administration after failing to raise further funding to support its business plan.

Our presence as a significant early stage investor in Redstone Telecom PLC prevented us from narrowing our holding in the company at the height of the market and in line with the rest of the sector the value of our holding has fallen. Contrary to the market's view of the sector our appraisal of the business remains positive. Redstone is now one of the prime movers in broadband delivery to small and medium sized companies across the country. The company has recently stated that it requires no further financing from the market in order to move into profitability, whilst bringing forward the delivery of its services to April this year. The average cost of our Redstone holding is equal to approximately 30p per share and we do not consider ourselves sellers of stock at the current market levels. As mentioned in the last annual review we have recovered our entire capital commitment to the company.

In April we invested £1 million in an unquoted biotechnology company called Eurogene Limited. The company combines world leading expertise in medicinal gene science with a number of clinical programmes concentrating on specialist areas of unmet clinical need. Mountcashel's investment was part of a £15 million financing led by Nomura and Merlin Ventures. Eurogene has subsequently changed its name to Ark Therapeutics Limited.

In March we began to acquire a position in Northgate Information Solutions PLC. Northgate provides expertise in design, build and implementation of front office systems for clients in both the public and private sectors and is headed by an exceptional management team.

Investment Review

(continued)

We took the decision in the early part of the current financial year to sell our holding in Xaar PLC, producing a profit of £2.59 million or 117 per cent. We initially invested in Xaar during the early stages of the company's development back in 1996. Having seen the business grow into a company that recently reported turnover in excess of £22 million and profits of £2.3 million, we believe now is an appropriate time to exit.

In conclusion we see the recent correction in the valuation of technology companies as a positive step, providing an altogether more sensible and credible market in which to operate over the long term. Mountcashel will continue to seek opportunities in both quoted and unquoted companies whilst applying the disciplines which have seen it through to a number of successful exits to date.

Christopher Roberts
Chief Executive

28 March 2001



Report of the Directors

The Directors present their report with the financial statements for the year ended 31 December 2000.

Principal activities

The Company is an investment company which specialises in investment in smaller quoted and unquoted companies. Significant changes in the Company's activities and indication of likely future developments are described in the Chairman's Statement on page 3 and in the Investment Review on pages 4 and 5.

The results of the Group are set out in the consolidated profit and loss account on page 10. The Directors do not recommend the payment of a dividend.

Directors

The Directors of the Company during the year and their beneficial interests in the issued share capital, were as follows:

	31 December 2000		1 January 2000 or at date of appointment	
	Ordinary Shares of 50p each	Options	Ordinary Shares of 50p each	Options
O.J. Vaughan	298,430	—	271,300	—
A.C. Roberts	—	291,000	—	210,000
A. Graham	11,000	225,000	10,000	150,000
A.L. Caplin	—	—	—	—
T.F. Vaughan	278,960	—	253,600	—
I. Hislop (appointed 5 July 2000)	—	100,000	—	—
A.J.W. Irens (appointed 14 August 2000)	—	100,000	—	—

Details of the options held by the Directors shown above are as follows:

- (1) A.C. Roberts holds an option to subscribe for 66,000 Ordinary Shares of 50p each in the Company exercisable at 54.55p per share at any time before 10 March 2009. He holds a further option to subscribe for 165,000 Ordinary Shares of 50p each exercisable at £1.1136 per share at any time prior to 12 August 2009. Following the one for ten bonus issue referred to below, these options were adjusted to be options exercisable in the manner described.
- (2) A. Graham holds an option to subscribe for 165,000 Ordinary Shares of 50p each exercisable at £1.1136 per share at any time prior to 12 August 2009. Following the one for ten bonus issue referred to below, this option was adjusted to be an option exercisable in the manner described.
- (3) A.C. Roberts and A. Graham were each granted an option to subscribe for 60,000 Ordinary Shares of 50p each in the Company exercisable at £2.60 per share at any time before 16 August 2010.
- (4) I. Hislop and A.J.W. Irens were each granted an option to subscribe for 100,000 Ordinary Shares of 50p each in the Company exercisable at £2.60 per share between 17 August 2003 and 16 August 2010.

The shareholdings of the Directors have not changed since 31 December 2000.

O. J. Vaughan, A. C. Roberts and A. Graham each have service contracts with the Company, which may be terminated by the Company after giving twelve months notice. No other Directors have a service contract.

Oliver Vaughan, Ian Hislop and Angus Irens will retire by rotation at the Annual General Meeting and, being eligible, each offer themselves for re-election.

Report of the Directors

(continued)

Substantial shareholdings

Save for the holdings of the Directors, the Company has as at 26 March 2001 not received any notification other than those set out below, which should be recorded in the register of substantial interests pursuant to Section 211 of the Companies Act 1985.

Shareholder	Ordinary Shares of 50p each	Percentage of class
Symphony Investment Holdings Limited	2,200,000	26.4
Thurloe Holdings Limited	1,122,000	13.5
Dresdner RCM Global Investors (UK) Limited	592,700	7.1
Euroclear Nominees Limited EOCO1 Account	347,500	4.2
Ivory & Sime ISIS Trust plc	250,000	3.0

Bonus issues

On 17 March 2000 the Company announced a bonus issue of one new share for every ten shares held, which was effected on 12 April 2000. A further one for twelve bonus issue will be proposed at the forthcoming Annual General Meeting.

Payment to suppliers

It is the Company's policy to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard terms and conditions to individually negotiated contracts) rather than to follow any code or standard payment practice and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The Company does not have any trade creditors, therefore the number of creditor days outstanding at the year end was Nil.

Fixed assets

During the year a freehold property was acquired by the Company (see Note 9). It is the intention of the Company to occupy the property when the refurbishment programme is complete.

Close company

The Directors believe that, at 31 December 2000, the Company was not a close company as defined by the Taxes Acts, and there has been no change since that date.

Auditors

A resolution will be placed before the Annual General Meeting to reappoint Moore Stephens as auditors for the forthcoming year.

Corporate Governance

As a company whose shares are traded on the Alternative Investment Market of the London Stock Exchange, Mountcashel Plc is not required to issue a statement of compliance with the Combined Code published in June 1998 by the Committee on Corporate Governance. Nevertheless, as the Board wishes to enhance the transparency of the Company's activities, we provide below, for information only, details of the corporate governance arrangements which the Company has in place. This information is not required to be audited.

Report of the Directors

(continued)

- The Company is headed by an effective Board which leads and controls the Company.
- There is a clear division of responsibilities in running the Board and running the Company's business.
- The Board includes a balance of executive and non-executive directors. Due to the size of the Company there is no formal procedure for the appointment of new directors.
- The Board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge their duties.
- Directors submit themselves for re-election every three years by rotation in accordance with the Articles of Association.
- The Board is available to discuss current events with its institutional and private shareholders and positively encourages attendance at the Annual General Meeting.
- The Board, through the Chairman's Statement and Investment Review, presents a clear and detailed account of the Company's position and prospects.
- The Board regularly reviews the system of internal controls and considers the effectiveness at safeguarding shareholders' investments and the Company's assets.
- In view of the current size of the Company and its Board, the establishment of an Audit Committee would be inappropriate.

Remuneration Committee

The Board currently acts as the Remuneration Committee, the details of the Directors' emoluments being set out in the accounts. However, there is no separate report of the Remuneration Committee. It is the Company's policy that the remuneration of Directors should be commensurate with services provided by them to the Company.

Going concern

As part of its regular assessment of the prospects for the Group, the Board reviews a detailed one year plan and further projections. As a result of such considerations the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities

English 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 Group and of the profit or loss of the Company and Group 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 and Group 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 Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Directors

(continued)

Special Business at the Annual General Meeting

At the Annual General Meeting to be held on 26 April 2001, three ordinary resolutions (resolution numbers 6, 9 and 10) and two special resolutions (resolution numbers 7 and 8) will be proposed.

Resolution 6 extends for a maximum period of 15 months the directors' authority to issue shares.

Resolution 7 will empower the Directors for a period of 15 months or until next year's Annual General Meeting, whichever is the earlier, to disapply the statutory pre-emption rights so as to empower the Directors to allot unissued shares in the capital of the Company or securities convertible into such shares by way of rights in respect of the whole of the authorised but unissued share capital of the Company; or on the exercise of options granted by the Company to Christopher Roberts, Adrian Graham, Ian Hislop or Angus Irens; or on the exercise of warrants under the warrant instrument dated 1 December 1995 or for cash (other than *pro rata* to existing shareholders) up to an aggregate nominal amount of £208,197 equivalent to approximately 5 per cent. of the Company's issued ordinary share capital.

Resolution 8 will empower the Company for a period of 15 months or until next year's Annual General Meeting, whichever is earlier, to make market purchases (as defined in Section 163 of the Companies Act 1985) of its own shares on such terms and in such manner as the Directors of the Company shall decide, but to be limited to a maximum of 832,788 ordinary shares of 50p each (representing 10 per cent. of the Company's issued ordinary share capital) and not permit payment of a price per ordinary share, exclusive of expenses, of less than 25p or more than 105 per cent. of the average price at which business was done in the ordinary shares of the Company in the ten business days preceding the purchase.

Resolution 9 will empower the Company to allot as fully paid, Ordinary Shares to each shareholder on the basis of one new share for every twelve shares held as at 26 April 2001. This will amount to the issue of a total of 693,990 Ordinary Shares at a value of £346,995, being capitalisation of part of the credit in the share premium account. The reason for this is to assist marketability of the Company's shares. Any fractional entitlement to Ordinary Shares will be ignored and fractional entitlements will be aggregated and sold in the market for the benefit of the Company.

Resolution 10 will adopt the Mountcashel Share Incentive Plan. Further details of the Plan are set out on page 24.

Although the Directors have no present intention of issuing further shares, they believe it is important, in the interests of shareholders, that they should be granted these powers which will give them the flexibility they need to finance business opportunities as they arise, including, if it is considered appropriate, by the issue of shares in the Company. Similarly, the Directors have no present intention of repurchasing the Company's own shares, but consider it important to have the ability to do so, should the opportunity arise and it is in the best interests of the Company. Accordingly, the Directors unanimously recommend you to vote in favour of the resolutions to be proposed at the Annual General Meeting.

By Order of the Board

David Smith
Secretary

28 March 2001



Consolidated Profit and Loss Account

for the year ended 31 December 2000

	Note	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Profit on sale of investments		4,104.4	2,519.0
Investment income	2	137.0	27.2
Release of provision for permanent diminution in value of fixed asset investments		25.8	297.0
Other income		68.1	2.0
Total income on operating activities		4,335.3	2,845.2
Provision for permanent diminution in value of fixed asset investments		(1,870.1)	—
Management expenses		(562.3)	(360.0)
Profit on ordinary activities before interest		1,902.9	2,485.2
Interest receivable and similar income	3	14.1	23.8
Interest payable and similar charges	3	(125.1)	(2.7)
Profit on ordinary activities before taxation	4	1,791.9	2,506.3
Taxation	6	—	—
Profit for the financial year	7	1,791.9	2,506.3
Profit per ordinary share - basic - pence	8	22.08	33.10
Profit per ordinary share - fully diluted - pence	8	19.80	32.33

Statement of accumulated gains/losses

Balance brought forward	320.5	(2,185.8)
Profit for the financial year	1,791.9	2,506.3
Balance carried forward	2,112.4	320.5

Statement of recognised gains and losses

Profit for the financial year	1,791.9	2,506.3
Unrealised net gain on fixed asset investments	9,379.0	36,613.3
Total recognised gains and losses relating to the year	11,170.9	39,119.6

Balance Sheets

as at 31 December 2000

		31 December 2000 £'000	Group 31 December 1999 £'000	Company 31 December 2000 £'000	31 December 1999 £'000
Note					
Fixed assets					
Tangible assets	9	2,259.6	17.8	2,259.6	17.8
Investments	10	7,894.5	6,616.0	10,408.1	9,129.6
		10,154.1	6,633.8	12,667.7	9,147.4
Current assets					
Debtors	11	30.4	31.4	30.4	31.4
Cash at bank and in hand		1,591.7	1,009.6	1,591.7	1,009.6
		1,622.1	1,041.0	1,622.1	1,041.0
Creditors: Amounts falling due within one year	12	(76.8)	(67.4)	(2,588.4)	(2,579.0)
Net current assets/(liabilities)		1,545.3	973.6	(966.3)	(1,538.0)
Creditors: Amounts falling due after one year	13	(2,300.0)	—	(2,300.0)	—
Net assets		9,399.4	7,607.4	9,401.4	7,609.4
Capital and reserves					
Called up share capital	14	4,163.9	3,785.4	4,163.9	3,785.4
Share premium	15	379.4	757.8	379.4	757.8
Other reserves	16	2,743.5	2,743.5	2,743.5	2,743.5
Profit and loss account		2,112.4	320.5	2,114.4	322.5
Equity shareholders' funds	17	9,399.2	7,607.2	9,401.2	7,609.2
Non-equity shareholders' funds	14	0.2	0.2	0.2	0.2
Total shareholders' funds		9,399.4	7,607.4	9,401.4	7,609.4
Net assets per ordinary share - pence	8	112.9	100.5		
Equity Shareholders' funds - as above		9,399.2	7,607.2		
Net unrealised gains on investments		9,379.0	36,613.3		
		18,778.2	44,220.5		
Net assets per ordinary share at 31 December 2000 (incorporating net unrealised gains)		£2.25	£5.84		

Approved and signed on behalf of the Board of Directors on 28 March 2001.

A. Graham
Director

A. Graham

Consolidated Cash Flow Statement

for the year ended 31 December 2000

	Note	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Net cash outflow from operating activities	21	(472.0)	(299.8)
Returns on investment and servicing of finance			
Interest received		14.1	23.8
Interest paid		(125.1)	(2.7)
Dividends on fixed asset investments		137.0	27.2
		26.0	48.3
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(2,253.6)	(0.6)
Purchase of fixed asset investments		(7,176.8)	(4,135.7)
Sale of fixed asset investments		8,158.5	5,004.5
		(1,271.9)	868.2
Cash (outflow)/inflow before management of liquid resources and financing		(1,717.9)	616.7
Management of liquid resources			
Decrease/(increase) in short term deposits		800.0	(450.0)
		800.0	(450.0)
Financing			
New secured loan		2,300.0	—
		2,300.0	—
Increase in cash in the year	23	1,382.1	166.7

Notes to the Financial Statements

year ended 31 December 2000

1. ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are drawn up under the historical cost convention, the Companies Act 1985, as amended, and in accordance with applicable UK accounting standards.

(b) Consolidation

The consolidated financial statements include all subsidiaries at the accounting reference date as stated in Note 10. New subsidiaries are brought into account on the basis of the fair value of the assets of the individual subsidiary.

(c) Investments

Investments are stated at cost or market value, if lower, where it is considered there has been a permanent diminution in value.

(d) Depreciation

Tangible fixed assets are being depreciated over their estimated useful lives at rates between 20 per cent. and 33 per cent.

(e) Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences on the incidence of income and expenditure for taxation purposes except to the extent that the Directors consider that a liability is unlikely to crystallise.

2. INVESTMENT INCOME

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Income from fixed asset investments	137.0	27.2

3. INTEREST AND SIMILAR ITEMS

Bank deposit interest receivable	13.6	10.5
Other interest receivable	0.5	13.3
Less: interest payable on bank loans and overdrafts	(125.1)	(2.7)
	(111.0)	21.1

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The results are stated after charging:

Auditors' remuneration - audit	6.7	5.2
Depreciation of tangible fixed assets	11.3	6.3

Notes to the Financial Statements

(continued)

5. STAFF COSTS, EMPLOYEES AND DIRECTORS' REMUNERATION

(i) Directors' remuneration is set out below:

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
A C Roberts:		
Basic salary	63.3	75.0
Bonus	—	50.0
Benefits in kind	—	1.2
	63.3	126.2
A Graham:		
Basic salary	20.4	—
Bonus	—	25.0
	20.4	25.0
I Hislop:		
Basic salary	25.0	—
A J W Irens:		
Basic salary	13.0	—
Bonus	10.0	—
Benefits in kind	0.6	—
	23.6	—
T F Vaughan:		
Benefits in kind	1.6	—

O J Vaughan waived his right to fees of £50,000 due for the period from 1 January to 31 December 2000 and save as disclosed above no other Director received remuneration during the year.

(ii) Staff costs (including directors' emoluments)

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Wages and salaries	233.6	191.4
Social security costs	49.0	21.2
	282.6	212.6

(iii) Number of employees

The average number of employees (excluding Directors) during the year was:

Investment and general administration	4	2
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6. TAXATION

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
UK corporation tax on profit for the year	—	—

No provision for tax on the profit for the year has been made, due to the availability of losses from earlier years.

Notes to the Financial Statements

(continued)

7. PROFIT FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £1,791,900 (31 December 1999: £2,506,300).

8. PROFIT AND NET ASSETS PER ORDINARY SHARE

Net assets per ordinary share are based on the consolidated equity shareholders' funds of £9,399,200 (31 December 1999: £7,607,200) and the number of ordinary shares in issue at the year end.

The calculation of the basic earnings per ordinary share is based on profit on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the year. The calculation of diluted earnings per ordinary share is based on the basic earnings per ordinary share adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out in the table below.

	Year ended 31 December 2000			Year ended 31 December 1999		
	Earnings £	Weighted average number of shares	Earnings per share (pence)	Earnings £	Weighted average number of shares	Earnings per share (pence)
Basic earnings per ordinary share	1,791,900	8,116,890	22.08	2,506,300	7,570,800	33.10
Dilutive effect of securities – options and warrants	—	933,103		—	182,408	
Diluted earnings per ordinary share	1,791,900	9,049,993	19.80	2,506,300	7,753,208	32.33

9. TANGIBLE ASSETS

(i) Group

	Freehold land and buildings £'000	Computer equipment £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
COST					
At 1 January 2000	—	20.1	18.2	7.7	46.0
Additions	2,239.4	—	11.6	2.4	2,253.4
Disposals	—	(1.1)	(5.0)	(0.3)	(6.4)
At 31 December 2000	2,239.4	19.0	24.8	9.8	2,293.0
DEPRECIATION					
At 1 January 2000	—	13.4	11.3	3.5	28.2
Charge for year	—	3.0	5.9	2.4	11.3
Disposals	—	(1.1)	(5.0)	—	(6.1)
At 31 December 2000	—	15.3	12.2	5.9	33.4
WRITTEN DOWN VALUE					
At 31 December 2000	2,239.4	3.7	12.6	3.9	2,259.6
At 31 December 1999	—	6.7	6.9	4.2	17.8

Notes to the Financial Statements

(continued)

9. TANGIBLE ASSETS (continued)

(ii) Company

	Freehold land and buildings £'000	Computer equipment £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
COST					
At 1 January 2000	—	11.6	13.1	7.7	32.4
Additions	2,239.4	—	11.6	2.4	2,253.4
Disposals	—	(1.1)	(5.0)	(0.3)	(6.4)
At 31 December 2000	2,239.4	10.5	19.7	9.8	2,279.4
DEPRECIATION					
At 1 January 2000	—	4.9	6.2	3.5	14.6
Charge for year	—	3.0	5.9	2.4	11.3
Disposals	—	(1.1)	(5.0)	—	(6.1)
At 31 December 2000	—	6.8	7.1	5.9	19.8
WRITTEN DOWN VALUE					
At 31 December 2000	2,239.4	3.7	12.6	3.9	2,259.6
At 31 December 1999	—	6.7	6.9	4.2	17.8

An office property, 27 Kelso Place, London W8, acquired during the year for the Company's own use, is currently undergoing refurbishment. As at the year end the Company had not yet occupied the property.

10. INVESTMENTS

(i) Group

	Listed £'000	Unlisted £'000	Total £'000
Other investments			
COST			
At 1 January 2000	5,707.5	1,198.6	6,906.1
Additions	2,662.5	4,514.3	7,176.8
Disposals	(2,731.9)	(1,586.4)	(4,318.3)
At 31 December 2000	5,638.1	4,126.5	9,764.6
PROVISIONS			
At 1 January 2000	290.1	—	290.1
Increase in provisions	—	1,870.1	1,870.1
Release of provision for permanent diminution in value	(25.8)	—	(25.8)
Released on disposal	(264.3)	—	(264.3)
At 31 December 2000	—	1,870.1	1,870.1
NET BOOK VALUE			
At 31 December 2000	5,638.1	2,256.4	7,894.5
At 31 December 1999	5,417.4	1,198.6	6,616.0
Aggregate market value	14,996.6	2,503.1	17,499.7

Notes to the Financial Statements

(continued)

10. INVESTMENTS (continued)

(ii) Company

	Shares in subsidiary undertakings £'000	Other investments Listed £'000	Unlisted £'000	Total £'000
COST				
At 1 January 2000	2,513.6	5,707.5	1,198.6	9,419.7
Additions	—	2,662.5	4,514.3	7,176.8
Disposals	—	(2,731.9)	(1,586.4)	(4,318.3)
At 31 December 2000	2,513.6	5,638.1	4,126.5	12,278.2
PROVISIONS				
At 1 January 2000	—	290.1	—	290.1
Increase in provisions	—	—	1,870.1	1,870.1
Release of provision for permanent diminution in value	—	(25.8)	—	(25.8)
Released on disposal	—	(264.3)	—	(264.3)
At 31 December 2000	—	—	1,870.1	1,870.1
NET BOOK VALUE				
At 31 December 2000	2,513.6	5,638.1	2,256.4	10,408.1
At 31 December 1999	2,513.6	5,417.4	1,198.6	9,129.6
Aggregate market value		14,996.6	2,503.1	17,499.7

Unlisted investments include shares in companies traded on the Alternative Investment Market at 31 December 2000, as well as shares not traded on a recognised stock market on that date.

Full details of the Key Investments are shown at the end of the notes to the financial statements on page 22.

(iii) Principal subsidiary undertakings are as follows:

	Business	Percentage owned	Incorporated in
Mountcashel Investments Ltd	Dormant	100	UK
Kronfield Investments Ltd	Dormant	100	Isle of Man

Shareholdings in the above subsidiaries are of ordinary equity shares.

11. DEBTORS

	Group 31 December 2000 £'000	31 December 1999 £'000	Company 31 December 2000 £'000	31 December 1999 £'000
Other debtors	26.9	26.9	26.9	26.9
Prepayments	3.5	4.5	3.5	4.5
	30.4	31.4	30.4	31.4

Notes to the Financial Statements

(continued)

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Amounts due to subsidiary undertakings	—	—	2,511.6	2,511.6
Other creditors	10.8	6.4	10.8	6.4
Other taxation and social security	26.9	34.0	26.9	34.0
Accruals and deferred income	39.1	27.0	39.1	27.0
	76.8	67.4	2,588.4	2,579.0

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Bank loans and overdrafts	2,300.0	—	2,300.0	—
Amount repayable, other than by instalments:				
between one and two years	132.7	—	132.7	—
between two and five years	530.8	—	530.8	—
in five years or more	1,636.5	—	1,636.5	—
	2,300.0	—	2,300.0	—

The bank loan is secured by a first legal mortgage over 27 Kelso Place, Kensington, London W8, and also by a memorandum of deposit over fully quoted stock exchange securities. The loan is to be repaid over a maximum term of 15 years and with a two year interest only period from the date of drawdown (10 April 2000). Interest, to be paid quarterly, is charged at 1.375 per cent. above National Westminster Bank PLC's base rate.

14. SHARE CAPITAL

Authorised at 1 January 2000 and 31 December 2000

	£'000
10,920,000 Ordinary Shares of 50p each	5,460.0
24,785 Special Shares of 1p each	0.2
	5,460.2
Allotted, called up and fully paid	£'000
7,570,800 Ordinary Shares of 50p each	3,785.4
19,525 Special Shares of 1p each	0.2
Balance at 1 January 2000	3,785.6
Bonus issue – 757,080 Ordinary Shares of 50p each	378.5
Balance at 31 December 2000	4,164.1

Of the £4,164,135 of issued share capital £195, representing the Special Shares of 1p each, relates to non equity interests.

All the Special Shares issued have already exercised their rights, and will be redeemed by the Company in due course. The Special Shares do not confer any rights to participate in any profits.

On a winding up, the surplus after any liabilities will be applied in the following priority:

Firstly the holders of Ordinary Shares are entitled to the repayment of the nominal value of their respective holdings of Ordinary Shares.

Notes to the Financial Statements

(continued)

Secondly the holders of Special Shares are entitled to the repayment of the nominal value of their respective holdings of Special Shares. Any further surplus belongs to the holders of the Ordinary Shares.

The holders of Ordinary Shares are entitled to receive notice of and to attend and vote at any general meeting of the Company. Every member present at such a meeting shall upon a show of hands have one vote. Upon a poll, holders of all shares shall have one vote for every share held. As all the rights conferred by the Special Shares have been exercised, the Special Shares do not confer any right to receive notice of, or attend or vote at any general meeting of the Company.

On 1 December 1995 the Company issued warrants. Following the share reorganisation of 8 May 1996 and the exercise of 100 warrants on 24 February 1998, these warrants conferred on their holders the right to subscribe for a total of 799,900 ordinary shares of 50p each at £1 per share between 1 April 1996 and 30 September 2002. Following the bonus issue of shares on 12 April 2000 these warrants now confer on their holders the right to subscribe for a total of 879,890 ordinary shares of 50p each at £0.9091 per share between 1 April 1996 and 30 September 2002.

On 17 March 2000 the Company announced a bonus issue of one new Ordinary Share for every ten Ordinary Shares held as at 12 April 2000.

The following share options are held by directors:

- (1) A C Roberts holds an option to subscribe for 66,000 Ordinary Shares in the Company exercisable at 54.55p per share at any time before 10 March 2009. He holds a further option to subscribe for 165,000 Ordinary Shares exercisable at £1.1136 per share at any time prior to 12 August 2009. The details of the options are shown following an adjustment to take account of the one for ten bonus issue referred to above. He was granted a further option to subscribe for 60,000 Ordinary Shares exercisable at £2.60 per share at any time before 16 August 2010.
- (2) A Graham holds an option to subscribe for 165,000 Ordinary Shares exercisable at £1.1136 per share at any time prior to 12 August 2009. The details of this option are shown following an adjustment to take account of the one for ten bonus issue referred to above. He was granted a further option to subscribe for 60,000 Ordinary Shares exercisable at £2.60 per share at any time before 16 August 2010.
- (3) I Hislop and A J W Irens were each granted an option to subscribe for 100,000 Ordinary Shares each in the Company exercisable at £2.60 per share between 17 August 2003 and 16 August 2010.

15. SHARE PREMIUM

£'000

Group and Company	
Balance at 1 January 2000	757.8
Bonus issue	(378.4)
Balance at 31 December 2000	379.4

16. OTHER RESERVES

	"Special" Reserve £'000	Capital Redemption Reserve £'000	Total £'000
Group and Company			
Balance at 1 January 2000 and 31 December 2000	2,743.4	0.1	2,743.5

In accordance with an undertaking given by the Company to the Court, on application for the reductions of share capital and share premium account, the sum of £2,743,400 was transferred from profit and loss and other reserves to a 'special' reserve. This reserve is non-distributable until such time as the Company has applied for and been granted by the Court, a release from the undertaking. The conditions for release of the undertaking require that all creditors, potential or actual, at 10 December 1996 have been fully satisfied. At 31 December 2000 no such application had been made.

Notes to the Financial Statements

(continued)

17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	31 December 2000 £'000	31 December 1999 £'000
Profit attributable to equity shareholders	1,791.9	2,506.3
Increase in share capital	378.5	—
Decrease in share premium	(378.4)	—
Net increase in equity shareholders' funds	1,792.0	2,506.3
Equity shareholders' funds at beginning of the year	7,607.2	5,100.9
Equity shareholders' funds at the end of the year	9,399.2	7,607.2

18. CAPITAL COMMITMENTS

At 31 December 2000 no material capital expenditure commitments were outstanding (31 December 1999: £nil).

19. CONTINGENT LIABILITIES

At 31 December 2000 the Group had no material contingent liabilities outstanding.

20. RELATED PARTY TRANSACTIONS

During the year Blackbrook Estate, of which Oliver Vaughan is proprietor, invoiced the Company £74,730 for the provision of office services. At 31 December 2000 £12,455 was outstanding and included in creditors.

21. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	31 December 2000 £'000	31 December 1999 £'000
Operating profit	1,902.9	2,485.2
Profit on sale of fixed asset investments	(4,104.4)	(2,519.0)
Income from fixed asset investments	(137.0)	(27.2)
Provisions against fixed asset investments	1,870.1	(297.0)
Release of provisions	(25.8)	—
Depreciation of tangible fixed assets	11.3	6.3
(Increase)/decrease in other debtors	(0.2)	50.5
Decrease/(increase) in prepayments	1.0	(0.6)
Decrease in other creditors	(1.2)	(20.5)
Increase in accruals and deferred income	11.3	22.5
Net cash outflow from operating activities	(472.0)	(299.8)

22. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Increase in cash in the year	1,382.1	166.7
(Decrease)/increase in short term deposits	(800.0)	450.0
Increase in bank loans	(2,300.0)	—
Movement in net funds in the year	(1,717.9)	616.7
Net funds at 31 December 1999	1,009.6	392.9
Closing net funds at 31 December 2000	(708.3)	1,009.6

Notes to the Financial Statements

(continued)

23. ANALYSIS OF NET DEBT

	At 1 January 2000 £'000	Cash flow £'000	At 31 December 2000 £'000
Cash			
Cash at bank and in hand	209.6	1,382.1	1,591.7
	209.6	1,382.1	1,591.7
Liquid resources			
Short term deposits	800.0	(800.0)	—
Debt			
Debt due after 1 year	—	(2,300.0)	(2,300.0)
Total	1,009.6	(1,717.9)	(708.3)

24. FINANCIAL INSTRUMENTS

The Company uses financial instruments comprising cash and short term deposits. It does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts.

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is enhanced by a current overdraft facility of £2,000,000.

Key Investments

at 31 December 2000

Company name	Number of shares/ warrants held	Class of ordinary shares/ warrants	Percentage of issued ordinary share capital/ warrants	Cost at 31.12.00 £'000	Market value at 31.12.00 £'000	Website address
Ark Therapeutics Limited†	1,000,000	0.02p	3.94	1,000	1,000	arktherapeutics.com
Northgate Information Solutions	1,720,000	10p	0.61	1,225	1,178	northgate-is.com
Redstone Telecom plc	5,340,000	5p	4.64	1,740	7,289	redstone.co.uk
Redstone Telecom plc – warrants	319,200*	5p	25.33	16	784	redstone.co.uk
Xaar plc	3,047,150	10p	5.31	2,215	4,769	xaar.co.uk

† Denotes unquoted investment

* The 319,200 warrants in Redstone Telecom plc entitle Mountcashel plc to subscribe for 684,045 ordinary shares of 5 pence at 47 pence per warrant.

Notes:

- 1 A "Key Investment" is defined as being any holding which accounts for 5 per cent., or more, by reference to cost or market value, of the total portfolio at the end of the period.
- 2 Unquoted investments are valued at cost, or net realisable value if, in the opinion of the Directors, this is below cost.
- 3 All of the investments noted above are in undertakings which are registered in England and Wales.

Report of the Auditors

TO THE MEMBERS OF MOUNTCASHEL PLC

We have audited the financial statements on pages 10 to 22, which have been prepared under the historical cost convention and the accounting policies set out on page 13.

Respective responsibilities of directors and auditors

As described on page 8, 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 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 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 and Group's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

MOORE STEPHENS
Chartered Accountants
Registered Auditors

St. Paul's House
Warwick Lane
London
EC4P 4BN

A handwritten signature in black ink, appearing to read 'Moore Stephens', is written over a large, stylized, handwritten letter 'M'.

28 March 2001