

# ARTHUR ANDERSEN

Registered number 3302753

## ORCHARDBROOK LIMITED

### Directors' report and financial statements

For the year ended 30 September 1998



*Orchardbrook Limited*  
*Directors' report and financial statements*  
*30 September 1998*

## **Directors' report**

The directors present their report on the affairs of Orchardbrook Limited ("the Company") together with the accounts and auditors' report for the year ended 30 September 1998.

### **Principal activities**

The principal activities of the Company include the purchase and sale of a mortgage loan portfolio and the investment in asset backed loan notes.

### **Business review**

During the year the Company maintained its investment in asset backed notes. The directors expect the level of activity to remain at the same level in the forthcoming financial year.

### **Results and dividends**

The loss for the year before taxation is shown on page 4 to the financial statements.

No dividends were declared or paid by the Company during the year and the directors do not propose a final dividend.

### **Directors' details, interests and responsibilities**

The directors of the Company who served during the year were Mr Bryan Needham, Mr David Finney and Mr Peter Hills, none of whom have any interest in the Company.

The directors are required by the Companies Act 1985 to prepare, for each financial period, accounts which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit for that financial 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; and
- prepare the accounts 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 which enable them to ensure that the accounts 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.

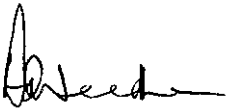
*Orchardbrook Limited*  
*Directors' report and financial statements*  
*30 September 1998*

**Directors' report** *(continued)*

**Employees**

The Company has no employees. Clifford Chance perform the company secretarial function. National Westminster Bank Plc performs administrative and advisory services for the Company.

On behalf of the board



**B Needham**  
*Director*

200 Aldersgate Street  
London EC1A 4JJ

18 January 1999

# ARTHUR ANDERSEN

*Orchardbrook Limited*  
*Directors' report and financial statements*  
*30 September 1998*

## AUDITORS' REPORT

London

To the Shareholders of Orchardbrook Limited.

We have audited the accounts on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set on page 7.

### Respective responsibilities of directors and auditors

As described on page 1 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 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 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, have been 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 Company's state of affairs as at 30 September 1998 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen  
Chartered Accountants and  
Registered Auditors

1 Surrey Street  
London  
WC2R 2PS

18 January 1999

**Orchardbrook Limited**  
**Directors' report and financial statements**  
**30 September 1998**

**Profit and loss account**

*for the year ended 30 September 1998 and  
the 6-month period ended 30 September 1997*

	<i>Note</i>	1998 £'000	1997 £'000
Investment income	3	645	29,967
Interest expense	4	(728)	(928)
Other expenses	5	(13)	(28,937)
<b>(Loss)/profit on ordinary activities before taxation</b>	6	<u>(96)</u>	<u>102</u>
Tax on (loss)/profit on ordinary activities	7	29	(32)
<b>Retained (loss)/profit for the year/period</b>	12	<u><u>(67)</u></u>	<u><u>70</u></u>

The accompanying notes are an integral part of this profit and loss account.

The results above arose wholly from continuing operations.

The Company had no recognised gains or losses other than those included in the profit and loss account above.

*Orchardbrook Limited*  
*Directors' report and financial statements*  
*30 September 1998*


**Balance sheet**

*at 30 September 1998 and 30 September 1997*

	<i>Note</i>	1998 £'000	1997 £'000
<b>Current assets</b>			
Loan notes	8	9,717	9,717
Debtors	9	339	5,861
Cash at bank		7	69
		<hr/> 10,063	<hr/> 15,647
<b>Creditors: amounts falling due within</b>			
One year	10	<b>(10,060)</b>	<b>(15,577)</b>
		<hr/>	<hr/>
<b>Net assets</b>		<b>3</b>	<b>70</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Called up share capital	11	-	-
Profit and loss account	12	3	70
		<hr/>	<hr/>
<b>Total capital employed</b>		<b>3</b>	<b>70</b>
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of this balance sheet.

Signed on behalf of the Board:



B D Needham,  
 Director  
 18 January 1999

**Orchardbrook Limited**  
**Directors' report and financial statements**  
**30 September 1998**

**Cash flow statement**

*for the year to 30 September 1998 and the 6-month  
period ended 30 September 1997*

		1998		1997	
	<i>Note</i>	£'000	£'000	£'000	£'000
<b>Net cash outflow from operating activities</b>	<i>13</i>		(37)		(18,817)
<b>Taxation</b>					
UK corporation tax			(25)		-
<b>Capital expenditure and financial investment</b>					
Purchase of loan portfolio		-		(1,172,670)	
Sale of loan portfolio		-		1,201,273	
Purchase of loan notes		-		(9,717)	
					18,886
<b>(Decrease)/increase in cash</b>	<i>14</i>		(62)		69

The accompanying notes are an integral part of this cash flow statement.

**Orchardbrook Limited**  
**Directors' report and financial statements**  
**30 September 1998**

**Notes**

*(Forming part of the financial statements)*

**1 Accounting policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

**a) Basis of accounting**

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention.

**b) Investment income**

Investment income is accounted for on an accrual basis. Investment income includes the profit on sale of a portfolio of loans acquired from The Housing Corporation and Housing for Wales and interest receivable on the Series 3 loan notes acquired from Finance for Residential Social Housing PLC.

**c) Taxation**

Corporation tax is provided on taxable profits at the current rate.

**d) Investments**

Investments held are shown at cost. The directors consider there has been no permanent diminution in value, as they believe the cost of the notes will be realised in full.

**2 Directors and employees**

None of the directors received any emoluments for their services to the Company during the year. None of the directors had any material interest in any contract of significance in relation to the business of the Company. The Company does not have any employees.

**3 Investment income**

	Year ended 1998 £'000	Six month period ended 1997 £'000
Profit on sale of investment portfolio	-	28,603
Interest income on loan notes	644	316
Other interest income	1	1,048
	<hr/> 645 <hr/>	<hr/> 29,967 <hr/>

**4 Interest expense**

Interest on broking fee	728	928
	<hr/>	<hr/>

**Orchardbrook Limited**  
**Directors' report and financial statements**  
**30 September 1998**

**Notes (continued)**

**5 Other expenses**

	Year ended 1998 £'000	Six month period ended 1997 £'000
Administration fees	-	250
Broking fees	-	28,600
Other fees	13	87
	<u>13</u>	<u>28,937</u>

**6 (Loss)/profit on ordinary activities before taxation**

The (loss)/profit on ordinary activities before taxation is stated after charging:

Auditors fees	5	10
	<u>5</u>	<u>10</u>

**7 Tax on (loss)/profit on ordinary activities**

The tax charge/(credit) for the period comprises:

UK corporation tax at 23% (1997 – 31%)	(22)	32
Adjustments in respect of prior years	(7)	-
	<u>(29)</u>	<u>32</u>

**8 Loan notes**

Loan notes	9,717	9,717
	<u>9,717</u>	<u>9,717</u>

Investment consists of Series 3 loan notes issued by Finance for Residential Social Housing Limited, a company incorporated in England and Wales. Series 3 notes were issued at par and pay interest at 6.5%.

**Orchardbrook Limited**  
**Directors' report and financial statements**  
**30 September 1998**

**Notes (continued)**

**9 Debtors**

	Year ended 1998 £'000	Six month period ended 1997 £'000
Prepayments and accrued interest	317	661
Other debtors	-	5,200
Corporation tax	22	-
	<u>339</u>	<u>5,861</u>

**10 Creditors: amounts falling due within one year**

Accruals and deferred income	10,060	15,545
Corporation tax	-	32
	<u>10,060</u>	<u>15,577</u>

**11 Share capital**

<i>Authorised</i>	£	£
100 Ordinary shares of £1 each	100	100
	<u>          </u>	<u>          </u>
<i>Allotted, called up and fully paid</i>		
1 Ordinary share of £1	1	1
	<u>          </u>	<u>          </u>

The ordinary share was issued on 15 January 1997 and is held by Royal Exchange Trust Company Limited.

**12 Profit and loss account**

	£'000
At 30 September 1997	70
Retained loss for the year	(67)
	<u>          </u>
At 30 September 1998	3
	<u>          </u>

**Orchardbrook Limited**  
**Directors' report and financial statements**  
**30 September 1998**

**Notes (continued)**

**13 Reconciliation of operating profit to net cash outflow from operating activities**

	Year ended 1998 £'000	Six month Period ended 1997 £'000
Operating (loss)/profit	(96)	102
Profit on sale of investment portfolio	-	(28,603)
Decrease/(Increase) in debtors	5,544	(5,861)
Increase/(Decrease) in creditors	(5,485)	15,545
	<hr/>	<hr/>
Net cash outflow from operating activities	(37)	(18,817)
	<hr/> <hr/>	<hr/> <hr/>

**14 Analysis and reconciliation of net debt**

	As at 30/09/97 £'000	Cash flows £'000	As at 30/09/98 £'000
Cash at bank	69	(62)	7
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		1998 £'000	1997 £'000
(Decrease)/increase in funds during the year		(62)	69
Net funds at beginning of period		69	-
		<hr/>	<hr/>
Movement in net funds		7	69
		<hr/>	<hr/>
Net funds at 30 September		7	69
		<hr/> <hr/>	<hr/> <hr/>

**15 Related party transaction**

National Westminster Bank Plc performs administrative and advisory services for Orchardbrook Limited.

During the period ended 30 September 1997 Orchardbrook Limited incurred £28.6 million of broking fees in respect of services provided by National Westminster Bank Plc. As at 30 September 1998 £10.1 million including accrued interest of £317,000 was due to National Westminster Bank Plc in respect of these services.