

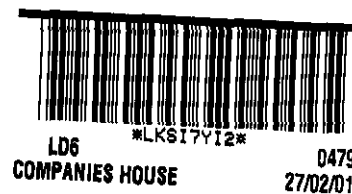
Company No. 552331

ORB ESTATES PLC

Report and Financial Statements

30 June 2000

**Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR**



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ORB ESTATES PLC

REPORT AND FINANCIAL STATEMENTS 2000

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

| | |
|------------------|-----------------|
| Samuel Nolan | (Chairman) |
| Charles Helvert | (Executive) |
| Roger Taylor | (Executive) |
| Cedric Brown | (Non-executive) |
| Peter Catto | (Non-executive) |
| Dennis Cottrell | (Non-executive) |
| Mitchell Higgins | (Non-executive) |

SECRETARY

Walgate Services Limited
25 North Row
London W1R 1DJ

PRINCIPAL BANKERS

Royal Bank of Scotland International Ltd
71 Bath Street
St Helier
Jersey JE4 8PJ

SOLICITORS

Fladgate Fielder
25 North Row
London W1R 1DJ

CORPORATE FINANCIAL ADVISERS

Corporate Synergy PLC
12 Nicholas Lane
London EC2N 7BN

REGISTERED OFFICE

Albermarle House
1 Albermarle Street
London W1S 4HA

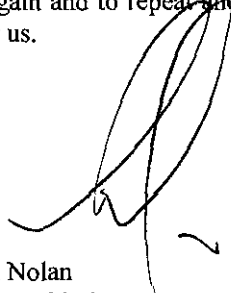

CHAIRMAN'S STATEMENT

It gives me great pleasure to report the enclosed set of accounts.

It has been a most satisfactory year, with the Group posting very substantial asset gains.

During the year we acquired Albemarle Property Investments plc, Poole Pottery Limited, and Gander Properties plc. During the second half of 2000, Orb Estates Plc was privatised and I was invited to become Chairman. The majority of credit for the success of the last year therefore lies with the former Chairman, Peter Catto, to whom I would like to extend thanks from the Board of Directors and the shareholders.

Following consolidation and rationalisation of the combined Group, we are now extremely well positioned to take advantage of new opportunities and to exploit the exciting development opportunities within our existing portfolio. Our intention is to continue to rationalise our portfolio, buying, managing and selling real estate in order to maximise capital gain and to repeat and improve upon the success we have enjoyed hitherto. It will no doubt be an exciting year for us.

Samuel Nolan
8 February 2001

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the Group for the year ended 30 June 2000.

PRINCIPAL ACTIVITY

The principal activity of the Group is investment, development and dealing in commercial and residential property. During the year the Group acquired a pottery manufacturing and retailing company, adding this to their principal activities.

RESULTS FOR THE YEAR

The results of Orb for the year ended 30 June 2000 shows a net turnover of £16.1 million (1999: £0.8 million), a loss before tax of £6.6 million (1999: £0.4 million), and an increase in equity shareholders funds from £5.9 million to £40.8 million. The loss in the year is after charging £2.7 million of loan issue costs associated with loans taken out to acquire investments made in the year. These loans have been refinanced in the year with the consequence that the arrangement fees have been charged to the profit and loss account. The near sixfold improvement in equity shareholders' funds arises due to the revaluation of investment and freehold group properties since acquisition and the conversion of convertible loan notes into equity share capital. The key factors giving rise to this expansion of the Group in the year are the acquisitions made. These are explained below.

ACQUISITIONS

During the year, the material investment acquisitions by Orb were Albemarle Property Investments Plc, Poole Pottery Limited and Gander Properties Plc. The Directors believe that the Company has changed significantly since making these acquisitions.

Albemarle Property Investments plc

In August 1999, Orb Estates plc acquired the entire share capital of Albemarle Property Investments Plc, a commercial property group at a total cost of £8.5 million including expenses financed by the issue of Orb shares. The integration of its management team has proceeded well, and the Company has reduced operating overhead and costs associated with the management of this company's property portfolio. A number of development opportunities have been identified within the property portfolio acquired and management are actively looking at opportunities to release this latent value. Albemarle's property portfolio at 30 June 2000 was valued at £60 million, and the portfolio is nearly fully occupied. The properties within this portfolio are part funded by a £35 million 2012 10.25% Listed Debenture Stock.

Poole Pottery Limited

Since completion of the acquisition in October 1999 the entire share capital of Poole Pottery Limited, a pottery manufacturer and retailer located on the heart of Poole's waterfront, the Company has obtained planning permission for a mixed use residential and factory outlet commercial scheme on the site of the former pottery on the Quayside, Poole. With the benefit of this planning permission the property has been valued at 30 June 2000 by the Company's valuers at £26.5 million, compared to a fair value at acquisition of £14.5 million. Since the year end, the existing Poole Pottery site is being relocated to new premises in Poole, and the planned construction will commence shortly.

Gander Properties Plc

During November 1999, the Company completed by way of a Scheme of Arrangement the acquisition of the entire share capital of Gander Properties plc, a residential property group, for a total consideration of £57.4 million financed primarily by a borrowing facility with the Royal Bank of Scotland International ("RBSI"). The Company has rationalised Gander's portfolio since acquisition by disposing of a number of properties with the cash proceeds being used to repay the bank indebtedness. Included within this acquired portfolio are Allen House and The Lexham which are managed properties providing short term rental income, and hence our classification in the accounts as group properties used in the nature of a trade. To facilitate the medium term management of this RBSI facility, the Board replaced this short-term acquisition finance with a similar fixed interest seven year mortgage from Morgan Stanley with the balance of the loan with RBSI being converted into an overdraft facility repayable on demand. This has significantly reduced the deficit of net current liabilities.

DIRECTORS' REPORT

ACQUISITIONS (continued)

As part consideration of the acquisitions of Gander Properties Plc by Orb, the company issued 545,125,308 convertible loan notes. The convertible loan notes each had a nominal value of 2p, were quoted on The London Stock Exchange and are convertible into Orb shares only if and to the extent that the aggregate of the gross proceeds of sales of properties owned by Gander Group at 30 June 1999, and the amount equal to the value of the unsold properties owned by the Gander Group as shown by an independent annual valuation exceeds £130 million measured each year until 30 June 2003. 396,454,675 of these convertible loans were acquired by Orb Securities Limited as part of its offer for the Company. On 17 January 2001, Orb Securities Limited agreed to waive for nil consideration any obligation in respect of those loan notes held at this date. These convertible loan notes were delisted on 4 September 2000.

In the interim accounts for the six months ended 31 December 1999, the sale of the entire Courtfield Gardens property was recognised as an unconditional sale agreement existed. The potential purchaser did not complete the transaction, and the Company did not pursue the purchasers to enforce the transaction as the directors were of the opinion that in this upward property market a piecemeal disposal of apartments at Courtfield Gardens would realise additional profits.

SPECIAL RESERVE

Following the issue of new share capital during the year the Company has transferred a sum of £2.381 million from special non-distributable reserve to the profit and loss account reserve in compliance with the Court Undertaking dated 17 January 1996.

RINGFENCED/NON RINGFENCED ASSETS

During the year, the Company reached agreement with one of the two remaining ringfenced lenders to the Group to realise the related secured assets. At 30 June 2000 only one ringfenced lender remains. The directors consider that the historic presentation of the ringfenced assets is no longer material within the context of the enlarged Group.

DELISTING FROM THE LONDON STOCK EXCHANGE

Orb Securities Limited (then Tabsie Ventures Limited) acquired a controlling interest in Orb Estates Plc on 30 June 2000 and made an offer to acquire for 60p each of the Ordinary shares of 50p each. Following acceptance of this offer by the shareholders, the shares of Orb Estates Plc were delisted from The London Stock Exchange on September 2000.

DIVIDENDS

The directors do not recommend the payment of a dividend (1999: £nil).

DIRECTORS

Details of the current membership of the Board are stated on page 1.

Changes to the Board during the year and to the date of signing these accounts were as follows:

| | |
|-----------------|---|
| Samuel Nolan | (appointed 29 September 2000) |
| Cedric Brown | (appointed 31 October 2000) |
| Dennis Cottrell | (appointed 31 October 2000) |
| Jacque Delacave | (resigned 31 October 2000) |
| Simon Johnson | (appointed 2 September 1999, resigned 31 December 1999) |
| Roger Taylor | (appointed 31 October 2000) |

DIRECTORS' REPORT**DIRECTORS' INTERESTS**

The interests (all beneficial) of the directors and their families in the ordinary share capital of the Company are set out below:

| | At 30 June 2000 Ordinary 50p share | At 30 June 1999 Ordinary 50p share |
|------------------|--|--|
| Peter Catto | - | 1,977,337 |
| Charles Helvert | - | - |
| Mitchell Higgins | - | 211,376 |
| Jacques Delacave | - | - |

None of the directors had any interests in the shares of any Group undertaking either at the beginning or the end of the current year.

PAYMENTS POLICY

In the absence of dispute, amounts due to trade and other suppliers are settled as soon as possible within the terms of payment. Trade creditors at 30 June 2000 represented 101 days (1999: 88 days) of annual purchases.

POST BALANCE SHEET EVENTS

On 6 February 2001, Orb Estates Plc exchanged an unconditional contract to dispose of Orb (Lexham) Limited for approximately £15.0 million including the repayment of inter-group indebtedness. This transaction is expected to complete on 6 March 2001.

TREASURY POLICY

The Group's financial instruments comprise bank borrowings, a listed debenture, cash and liquid resources and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group enters interest rate swaps to fix loan interest rates in the short term to generate the desired interest profile. The Group does not enter into foreign currency derivatives.

The main risks arising from the Group's financial instruments are interest rate and liquidity risks.

Interest rate risk

The Group finances certain of its operation using a 10.25% First Mortgage Debenture Stock which was acquired with Albemarle Property Investment Plc. This is redeemable in 2012, together with bank borrowings. The Group seeks to minimise its exposure to interest rate fluctuations by using fixed debt or interest rate swaps to stabilise the level of interest paid by the Group. At the year end, 82 per cent of the Group's borrowings were at fixed rates after taking account of interest rate swaps. The Group continues to suffer from a high rate of interest on its First Mortgage Debenture Stock compared to current market rates, reflecting decisions made by the prior management of an acquired subsidiary of the Group. The Group has a policy of monitoring the rate of interest paid on debt finance and assess market opportunities to lessen the Group's over exposure to interest rate risk.

Liquidity risk

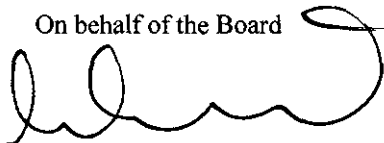
The Group's balance sheet shows a shortfall of current assets against current liabilities, and managing this liquidity risk is achieved by strong cash management.

DIRECTORS' REPORT

AUDITORS

Following privatisation of the Company, the Directors will be seeking the appointment of BDO Stoy Hayward as auditors at the next Annual General Meeting. Deloitte & Touche have indicated that they will not seek reappointment.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'Charles Helvert', written over a horizontal line.

Charles Helvert

Director

8 February 2001

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 the Group as at the end of the financial year and of the profit or loss of the 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; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the 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 the 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF ORB ESTATES PLC

We have audited the financial statements on pages 9 to 40 which have been prepared under the accounting policies set out on pages 13 to 15.

Respective responsibilities of directors and auditors

As described on page 7 the Company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. 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 United Kingdom 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 and the Group'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 affairs of the Company and the Group as at 30 June 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and
Registered Auditors

Hill House
1 Little New Street
London EC4A 3TR

8 February 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2000

| | Note | 2000 £'000 | 2000 £'000 | 1999 £'000 |
|--|------|---------------|---------------|---------------|
| TURNOVER | 1,2 | | | |
| Continuing operations | | 803 | | 805 |
| Acquisitions | | 15,352 | | - |
| TOTAL TURNOVER | | | 16,155 | 805 |
| Cost of sales and property outgoings | | | (7,252) | (94) |
| GROSS PROFIT | | | 8,903 | 711 |
| Administrative expenses | | | (6,960) | (562) |
| Exceptional item: | | | | |
| Provision against investments | | | - | (265) |
| OPERATING PROFIT/(LOSS) | | | | |
| Continuing operations | | (131) | | (116) |
| Acquisitions | | 2,074 | | - |
| GROUP OPERATING PROFIT/(LOSS) | 3 | | 1,943 | (116) |
| Profit on sale of investment properties | | | 1,382 | - |
| Profit on sale of investments | | | 237 | - |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION | | | 3,562 | (116) |
| Investment income | | | 165 | |
| Net interest payable and similar charges | 6 | | (10,372) | (257) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | | (6,645) | (373) |
| Taxation credit on loss on ordinary activities | 7 | | 17 | 3 |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | | (6,628) | (370) |
| Non equity minority interests | 24 | | (118) | - |
| LOSS FOR THE FINANCIAL YEAR | 23 | | (6,746) | (370) |

ORB ESTATES PLC

BALANCE SHEETS

At 30 June 2000

| | Note | Group | | Company | |
|--|------|-----------------|----------------|-----------------|----------------|
| | | 2000 £'000 | 1999 £'000 | 2000 £'000 | 1999 £'000 |
| FIXED ASSETS | | | | | |
| Intangible assets | 8 | 1,962 | - | - | - |
| Fixed asset properties | 9 | 139,680 | 6,760 | 20,135 | 4,030 |
| Other tangible assets | 10 | 1,099 | 4 | 546 | 4 |
| Investments | 11 | 1,500 | 555 | 12,273 | 3,770 |
| | | <u>144,241</u> | <u>7,319</u> | <u>32,954</u> | <u>7,804</u> |
| CURRENT ASSETS | | | | | |
| Stocks | 12 | 1,374 | - | - | - |
| Development properties | 13 | 22,421 | - | 8,085 | - |
| Debtors | 14 | 5,107 | 770 | 18,856 | 660 |
| Secured cash and cash deposits | 15 | 3,102 | 3,000 | - | 3,000 |
| Cash at bank and in hand | | 1,113 | 193 | - | 53 |
| | | <u>33,117</u> | <u>3,963</u> | <u>26,941</u> | <u>3,713</u> |
| CREDITORS: amounts falling due within one year | | | | | |
| Limited recourse loans | 16 | (44) | (203) | (44) | (53) |
| Other creditors | 16 | (33,673) | (1,399) | (24,111) | (3,738) |
| | | <u>(33,717)</u> | <u>(1,602)</u> | <u>(24,155)</u> | <u>(3,791)</u> |
| NET CURRENT (LIABILITIES)/ASSETS | | <u>(600)</u> | <u>2,361</u> | <u>2,786</u> | <u>(78)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>143,641</u> | <u>9,680</u> | <u>35,740</u> | <u>7,726</u> |
| CREDITORS: amounts falling due after more than one year | | | | | |
| | 17 | (101,969) | (3,775) | (2,587) | (1,900) |
| NET ASSETS | | <u>41,672</u> | <u>5,905</u> | <u>33,153</u> | <u>5,826</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 21 | 19,801 | 3,313 | 19,801 | 3,313 |
| Share premium account | 22 | 1,388 | - | 1,388 | - |
| Revaluation reserve | 23 | 24,291 | 313 | 5,400 | 320 |
| Special reserve | 23 | - | 2,381 | - | 2,284 |
| Limited recourse reserve | 23 | 2,308 | 2,873 | 2,544 | 2,439 |
| Profit and loss account | 23 | (6,982) | (2,975) | 4,020 | (2,530) |
| Equity shareholders' funds | | <u>40,806</u> | <u>5,905</u> | <u>33,153</u> | <u>5,826</u> |
| Minority interests (non-equity) | 24 | 866 | - | - | - |
| | | <u>41,672</u> | <u>5,905</u> | <u>33,153</u> | <u>5,826</u> |

These financial statements were approved by the Board of Directors on 8 February 2001 and were signed on behalf by

Samuel Nolan
Chairman

Charles Helvert
Director

OTHER PRIMARY STATEMENTS

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 June 2000

| | Note | 2000 £'000 | 1999 £'000 |
|--|-------------|-----------------------|-----------------------|
| Loss for the year | 23 | (6,746) | (370) |
| Unrealised surplus on revaluation of investments and investments properties | 23 | 23,978 | 326 |
| Currency translation differences on foreign currency net investments | 23 | (29) | (58) |
| (Decrease)/increase in limited recourse loan shortfall | 23 | (178) | 107 |
| Total recognised gains and losses since last annual report | | <u>17,025</u> | <u>5</u> |

MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS
Year ended 30 June 2000

| | 2000 £'000 | 1999 £'000 |
|--|-----------------------|-----------------------|
| Opening equity shareholders' funds | 5,905 | 5,900 |
| Total recognised gains and losses for the year | 17,025 | 5 |
| Issue of new shares | 16,488 | - |
| Share premium on issue of shares | 1,388 | - |
| Closing equity shareholders' funds | <u>40,806</u> | <u>5,905</u> |

CASH FLOW STATEMENT**Year ended 30 June 2000**

| | Note | 2000 £'000 | 1999 £'000 |
|--|-------------|-----------------------|-----------------------|
| Net (outflow)/inflow from operating activities | 26 | (2,011) | 1,997 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 112 | 86 |
| Interest paid | | (5,204) | (368) |
| Other investment income received | | 15 | - |
| Net cash outflow from returns on investments and servicing of finance | | (5,077) | (282) |
| Taxation | | | |
| UK tax (paid)/repaid | | (17) | 11 |
| Overseas tax paid | | (46) | - |
| | | (63) | 11 |
| Capital expenditure and financial investment | | | |
| Expenditure on investment properties | | - | (184) |
| Expenditure on investment in US Partnership | | (11) | (160) |
| Purchase of other fixed assets | | (6,889) | (5) |
| Purchase of listed investments | | - | (405) |
| Purchase of fixed asset investment | | (2,000) | - |
| Receipts on disposal of fixed asset investments | | 887 | - |
| Receipts on disposal of investment properties | | 51,026 | - |
| Receipts on disposal of other fixed assets | | 17 | - |
| Net cash inflow/(outflow) from capital expenditure and financial investment | | 43,030 | (754) |
| Acquisitions and disposals | | | |
| Purchase of subsidiary undertakings | | (66,418) | - |
| Net cash acquired with subsidiary undertakings | | 3,357 | - |
| | | (63,061) | - |
| Net cash (outflow)/inflow before use of liquid resources and financing | | (27,182) | 972 |
| Management of liquid resources | | | |
| Cash placed in secured bank accounts | 28 | (3,102) | - |
| Cash withdrawn from bank deposit | 28 | - | 2,252 |
| Decrease/(increase) in cash deposits | 28 | 3,000 | (3,000) |
| | | (102) | (748) |
| Financing | | | |
| Cash receipts in respect of convertible loan facility | 27 | 5,076 | - |
| Debt due within one year: | | | |
| Repayment of limited recourse loan | 27 | (337) | (277) |
| Net drawdown of bank loans | 28 | 18,069 | (476) |
| Debt due after more than one year: | | | |
| Net drawdown of bank loans | 28 | 6,051 | - |
| Repayment of unsecured loan note issued on acquisition of subsidiary undertaking | 27 | (655) | - |
| Net cash inflow/(outflow) from financing | | 28,204 | (753) |
| Increase/(decrease) in cash in the year | 28 | 920 | (529) |

ACCOUNTING POLICIES

Year ended 30 June 2000

The financial statements have been prepared under the historical cost convention modified by the revaluation of properties and in accordance with applicable accounting standards in the UK. The significant accounting policies adopted by the Group, which have been applied consistently, are as set out below.

Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiary undertakings. The results of acquisitions and disposals of subsidiary undertakings during the year are consolidated from or up to the date effective control passes. Investments in limited partnerships in the USA are consolidated such that the Group's share of pre-tax profits and losses and attributable taxation are included in the Group profit and loss account and the Group balance sheet reflects the Group's share of the underlying net assets. As permitted by Section 230 of the Companies Act 1985, the profit and loss account for the Company has not been presented in the financial statements.

Going concern

The financial statements have been prepared on the going concern basis which assumes the Company will continue in operational existence for the foreseeable future. As at the date of approval of these accounts, the Group has no breaches of its borrowing covenants, and based on the Group's cash flow projections, including planned disposals, and support of its ultimate parent undertaking, the directors have formed the opinion that the Group is a going concern.

Goodwill

When a subsidiary undertaking or associate is acquired, fair values are attributed to its identifiable assets and liabilities. Goodwill represents the difference between the fair value of the consideration paid and the fair value of its identifiable assets and liabilities.

In accordance with FRS 10, Goodwill and intangible assets, goodwill arising on acquisitions completed on or after 30 June 1998 is capitalised and amortised to the profit and loss account over its useful economic life. Goodwill arising on acquisitions completed prior to 30 June 1998 was taken to the profit and loss account reserve as incurred. The cumulative amount of any goodwill remains written off to reserves.

Freehold group properties

Properties currently occupied by subsidiary undertakings within or properties used in the nature of trade but held by Orb Estates Plc for their long term investment potential are accounted for as freehold group properties. These properties are revalued annually by independent professional valuers. The aggregate surplus or deficit is transferred to revaluation reserve except for permanent impairments in value below cost, which are written off to profit and loss account. These properties are depreciated annually, except when depreciation is determined to be immaterial.

Investment properties

Investment properties are revalued annually by independent professional valuers. The aggregate surplus or deficit is transferred to revaluation reserve except for permanent impairments in value below cost, which are written off to profit and loss account. No depreciation is provided in respect of investment properties. The requirement in the Companies Act 1985 that all properties should be depreciated conflicts with the generally accepted accounting principle set out in Statement of Standard Accounting Practice No. 19. In the opinion of the Directors, to depreciate investment properties would not give a true and fair view and accordingly investment properties are included in the financial statements at open market value. The effect of depreciation of value is already reflected annually in the valuation of properties, and the amount attributable to this factor cannot reasonably be separately identified or quantified. Where an interim valuation of properties is performed by external valuers, the year end valuation of the properties may be performed by a professionally qualified employee of the Orb Estates Plc group.

ACCOUNTING POLICIES

Year ended 30 June 2000

Other tangible fixed assets

The cost of other fixed assets is their purchase cost together with any incidental costs of acquisition. They are depreciated at rates ranging from 15 to 25% per annum, calculated to write off, on the straight line basis, the cost to their residual value over their estimated useful lives. Short Leasehold improvements are being depreciated over the remaining period of the lease.

Chattels are depreciated over their expected useful lives. In the event that depreciation is immaterial as determined by an impairment review no depreciation is charged to the profit and loss account.

Investments

Investments in subsidiary undertakings in the parent company balance sheet are stated at cost less provisions to reduce the carrying value to book value if underlying net assets, where that is less than cost and there has been an impairment in value. Investment in limited partnerships are stated at cost less provisions to reduce the carrying value to the Group's share of net assets at current valuation.

Other investments are stated at cost less provision for impairment.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

Development properties

Development properties are properties under development that are not presently intended to be retained in the Group's investment portfolio. Development properties are stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, professional fees, construction costs and capitalised interest, but excludes overheads. Sales of development properties are recognised on exchange of contracts or, if exchange is conditional, on the date all material conditions have been satisfied. During the construction period, profits are not recognised but provision is made for any foreseeable losses.

In the event that it is decided a development property will be retained as an investment, it is transferred to the Group's investment portfolio at the lower of cost and net realisable value at the date of transfer, and any loss dealt with in the profit and loss account.

Limited recourse loans

The Group undertook a financial reconstruction in December 1993 which involved as agreement with various banks (the "Master Banking Agreement" or "MBA") to limit the recourse of those banks to the realisation proceeds and rental receipts from the assets over which those banks have security. The excess, if any, of the loan amounts due under the open market value of the relevant security is referred to as the Shortfall. The amounts due under the MBA are stated within creditors at an amount which is equal to the open market value of the relevant security. The unrealised Shortfalls relating to these loans have been credited to the Limited Recourse Reserve. When all the security held by an individual bank has been disposed of, any Shortfall becomes crystallised. Crystallised Shortfalls are credited to profit and loss account reserve.

Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all material timing differences to the extent that it is probable that liabilities will arise in the foreseeable future.

Turnover

Turnover represents the sales of development properties, rental and service charge income, pottery manufacturing income and other retail income from the Poole Pottery site excluding value added tax. Sales of properties are reflected in the accounts if an unconditional contract is exchanged by the balance sheet date and the sale is completed before the date of approval of the accounts.

ACCOUNTING POLICIES

Year ended 30 June 2000

Operating leases

Rental costs under operating leases are charged to expenditure in equal annual amounts over the period of the leases.

Foreign exchange translation

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Trading results and assets and liabilities of overseas subsidiaries which are denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Unrealised exchange differences arising on the retranslation of opening net assets are taken directly to reserves. Where investments in overseas subsidiaries are financed by loans in matching currencies both are translated at rates of exchange ruling at the balance sheet date and the net exchange difference is taken directly to reserves.

Loan arrangement costs

Costs relating to the issue of bank loans and facilities are amortised over the estimated life of the loan, and charged to the profit and loss account as part of the interest expense. These bank loans are disclosed net of unamortised loan issue costs.

Financial instruments

Derivative instruments utilised by the Group are interest rate swaps. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Ringfenced profit and loss account

The profits or losses arising on the ringfenced assets and liabilities are eliminated on the face of the profit and loss account to reflect the fact that the ringfenced result for the year is not for the benefit of Orb Estates Plc shareholders but for the benefit of ringfenced lenders. Any provision against ringfenced profits or losses is taken direct to the Limited Recourse Reserve.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

1. SEGMENTAL INFORMATION

All turnover is derived in the United Kingdom.

An analysis by class of business is as follows:

| | Turnover | | (Loss)/profit before taxation | | Net assets | |
|--------------------------|---------------|---------------|----------------------------------|---------------|---------------|---------------|
| | 2000 £'000 | 1999 £'000 | 2000 £'000 | 1999 £'000 | 2000 £'000 | 1999 £'000 |
| Property investment | 5,053 | 805 | (6,433) | (373) | 28,520 | 5,905 |
| Short-term rental income | 2,903 | - | (308) | - | 724 | - |
| Property development | 3,742 | - | 1,013 | - | 320 | - |
| Pottery manufacturing | 1,527 | - | 31 | - | 12,820 | - |
| Retailing | 2,930 | - | (948) | - | (712) | - |
| | <u>16,155</u> | <u>805</u> | <u>(6,645)</u> | <u>(373)</u> | <u>41,672</u> | <u>5,905</u> |

The profit for the year within the accounts of the Company is £4,266,000 (1999: £1,306,000 loss).

2. ACQUISITIONS

During the financial year, the material acquisitions of the Orb Estates Group were Albemarle Property Investments Plc, Gander Properties Plc (now Gander Properties Limited), Poole Pottery Limited, and Bronwood Overseas Developments Limited.

Albemarle Property Investments Plc

In August 1999, Orb Estates Plc issued 13,933,927 of new ordinary shares of Orb Estate Plc to acquire the entire share capital of Albemarle Property Investments Plc, a commercial property investment group. The cost of the Group's overall investment was £8.5 million including expenses. No goodwill arose on acquisition.

Poole Pottery Limited

In October 1999, Orb Developments Limited, a direct subsidiary of Orb Estates Plc, acquired the entire share capital of Poole Pottery Limited, a pottery manufacturing business for consideration of £10.7 million in cash and £4.0 million as an unsecured convertible loan note. Goodwill of £2.0 million arose on acquisition which has been capitalised and is being amortised to profit and loss account.

Gander Properties Plc

In November 1999, Orb Acquisitions Limited, a direct subsidiary of Orb Estates Plc, acquired the entire share capital of Gander Properties Plc, a residential investment property company. The consideration for the acquisition was cash of £55.0 million, and convertible loan notes with a nominal value of £10.9 million. On acquisition, these convertible loan notes were fair valued at £2.4 million. No goodwill arose on acquisition.

Bronwood Overseas Developments Limited

In June 2000, Orb Estates Plc issued 2,241,145 ordinary shares of Orb Estates Plc and unsecured unsubordinated loan notes of £0.7 million redeemable in 2002 to acquire the entire share capital of Bronwood Overseas Developments Limited, a non-trading company. The cost of the Group's investment was £2.0 million. No goodwill arose on acquisition.

All acquisitions in the year have been accounted for using the acquisition method of accounting. The following amounts in the profit and loss account for the year relate to acquisitions: turnover £15,353,000, cost of sales £7,192,000 administrative expenses £6,086,000 and operating profit £2,074,000. Details of the fair value of assets and liabilities acquired, consideration for the acquisitions, and profit prior to acquisition are set out in note 30.

| | 2000 | 1999 |
|--|-------|-------|
| | £'000 | £'000 |
| Operating profit/(loss) has been stated after charging the following: | | |
| Amortisation of goodwill | 76 | - |
| Depreciation | 44 | 1 |
| Loss on disposal of tangible fixed assets | 40 | 14 |
| Auditors' remuneration: | | |
| Group and Company fees for audit work: | 90 | 36 |
| Other services | 343 | - |
| Operating lease rentals: land and buildings | 318 | 35 |
| : other | 83 | - |
| Fees paid to Lynch Talbot Limited on acquisition of Gander Properties Plc | 2,250 | - |

| | 2000 No. | 1999 No. |
|-------------------------------------|-------------|-------------|
| Full time executive directors | 2 | 1 |
| Administration and managerial staff | 36 | 2 |
| On site property managers | 1 | 2 |
| On site security guards | 4 | 4 |
| Factory staff | 74 | - |
| Other offsite staff | 23 | - |
| | <hr/> | <hr/> |
| | 140 | 9 |

| | £'000 | £'000 |
|----------------------------|--------------|------------|
| Wages and salaries | 2,116 | 274 |
| Payments on loss of office | 50 | - |
| Social security costs | 148 | 16 |
| Other pension costs | 77 | - |
| | <u>2,391</u> | <u>290</u> |

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

5. DIRECTORS' REMUNERATION

| | 2000 £'000 | 1999 £'000 |
|-------------------------------|---------------|---------------|
| Aggregate emoluments: | | |
| Salaries and consultancy fees | 293 | 165 |
| Payments on loss of office | 36 | - |
| Other benefits | 10 | 6 |
| Pension costs | 6 | - |
| | <u>345</u> | <u>171</u> |
| | 2000 £'000 | 1999 £'000 |
| Highest paid director | <u>133</u> | <u>68</u> |

There are no retirement benefits accruing to any directors at the current or preceding year end.

6. NET INTEREST PAYABLE AND SIMILAR CHARGES

| | 2000 £'000 | 1999 £'000 |
|---|-----------------|---------------|
| Interest on 10.25% First Mortgage Debenture Stock | (3,127) | - |
| Interest payable on bank and other loans | (4,635) | (590) |
| Loan arrangement costs amortised | (2,722) | - |
| Interest transferred to Limited Recourse Reserve | - | 247 |
| | <u>(10,484)</u> | <u>(343)</u> |
| Interest charged to profit and loss account | 112 | 86 |
| Interest receivable | <u>(10,372)</u> | <u>(257)</u> |

7. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

| | 2000 £'000 | 1999 £'000 |
|------------------------------|---------------|---------------|
| Corporation tax – prior year | 26 | (4) |
| US State taxation | (9) | 7 |
| | <u>17</u> | <u>3</u> |

There is no UK Corporation Tax for the year due to the availability of tax losses within the group.

NOTES TO THE ACCOUNTS**Year ended 30 June 2000****8. INTANGIBLE FIXED ASSETS**

| Group | £'000 |
|--|--------------|
| Goodwill in Poole Pottery Limited | |
| Cost | |
| At 1 July 1999 | - |
| Additions (see note 30c) | 2,038 |
| | <hr/> |
| At 30 June 2000 | 2,038 |
| | <hr/> |
| Amortisation | |
| At 1 July 1999 | - |
| Charge for the year | 76 |
| | <hr/> |
| At 30 June 2000 | 76 |
| | <hr/> |
| Net book value | |
| At 30 June 2000 | 1,962 |
| | <hr/> |
| At 30 June 1999 | - |
| | <hr/> |

The goodwill arising on the acquisition of Poole Pottery Limited is estimated by the directors to have a useful economic life of 20 years, given the profile of the company and its products. The directors regard 20 years as a reasonable maximum for the estimated useful economic life of goodwill since it is difficult to make projections exceeding this period. Goodwill is amortised on a straight line basis over the estimated useful economic life.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

9. FIXED ASSET PROPERTIES

| | Freehold group properties £'000 | Freehold investment properties £'000 | Long leasehold investment properties £'000 | Total £'000 |
|----------------------------|--|---|--|------------------------|
| (a) Group | | | | |
| Cost or valuation | | | | |
| At 1 July 1999 | - | 6,760 | - | 6,760 |
| Acquisitions (see note 30) | 28,518 | 121,817 | 1,993 | 152,328 |
| Additions | 6,258 | - | - | 6,258 |
| Disposals | - | (49,644) | - | (49,644) |
| Revaluation surplus | 12,824 | 10,777 | 377 | 23,978 |
| At 30 June 2000 | <u>47,600</u> | <u>89,710</u> | <u>2,370</u> | <u>139,680</u> |
| Historical cost | <u>34,776</u> | <u>78,821</u> | <u>1,993</u> | <u>115,590</u> |
| | | Freehold group properties | Freehold investment properties | Total £'000 |
| (b) Company | | | | |
| Cost or valuation | | | | |
| At 1 July 1999 | - | 4,030 | - | 4,030 |
| Additions | 11,025 | - | - | 11,025 |
| Revaluation surplus | 4,975 | 105 | - | 5,080 |
| At 30 June 2000 | <u>16,000</u> | <u>4,135</u> | <u>-</u> | <u>20,135</u> |
| | | 2000 £'000 | 1999 £'000 | |
| Historical cost | | <u>14,735</u> | <u>3,710</u> | |

The Group's commercial properties were valued as at 30 June 2000 by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors acting in the capacity of independent valuers. All such valuers are Chartered Surveyors, being members of the Royal Institute of Chartered Surveyors.

Properties occupied by Group companies and held for use in the nature of trade were valued at £22,000,000 and £25,600,000 at 30 June 2000 by DTZ Debenham Tie Leung, Chartered Surveyors and Knight Frank, Chartered Surveyors respectively.

The Group's commercial properties were valued at £58,795,000 by DTZ Debenham Tie Leung, Chartered Surveyors. In addition, a further commercial property not included in this external valuation was sold in July 2000 for £2,450,000, and has been valued at this amount in these accounts.

The Group's residential properties were valued at £26,235,000 and £4,600,000 by John Muldoon, ARICS, a member of Orb Estates Plc's senior management, and DTZ Debenham Tie Leung, Chartered Surveyors respectively.

All properties were valued on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

NOTES TO THE ACCOUNTS
Year ended 30 June 2000

10. OTHER TANGIBLE ASSETS

| | Fixtures, fittings and equipment £'000 | Leasehold improve- ments £'000 | Motor vehicles £'000 | Chattels £'000 | Total £'000 |
|----------------------------------|---|---|-------------------------------------|---------------------------|------------------------|
| (a) Group: | | | | | |
| At cost or valuation: | | | | | |
| At 1 July 1999 | 5 | - | - | - | 5 |
| Acquisitions (see note 30) | 208 | 5 | 27 | 325 | 565 |
| Additions | 383 | 248 | - | - | 631 |
| Disposals | (48) | (5) | (9) | - | (62) |
| At 30 June 2000 | 548 | 248 | 18 | 325 | 1,139 |
| Accumulated depreciation: | | | | | |
| At 1 July 1999 | 1 | - | - | - | 1 |
| Charge for the year | 38 | - | 6 | - | 44 |
| Disposals | (2) | - | (3) | - | (5) |
| At 30 June 2000 | 37 | - | 3 | - | 40 |
| Net book values: | | | | | |
| At 30 June 2000 | 511 | 248 | 15 | 325 | 1,099 |
| At 30 June 1999 | 4 | - | - | - | 4 |
| (b) Company: | | | | | |
| At cost or valuation: | | | | | |
| At 1 July 1999 | 5 | - | - | - | 5 |
| Additions | 298 | 248 | - | - | 546 |
| Disposals | (5) | - | - | - | (5) |
| At 30 June 2000 | 298 | 248 | - | - | 546 |
| Accumulated depreciation: | | | | | |
| At 1 July 1999 | 1 | - | - | - | 1 |
| Charge for the year | 1 | - | - | - | 1 |
| Disposals | (2) | - | - | - | (2) |
| At 30 June 2000 | - | - | - | - | - |
| Net book values: | | | | | |
| At 30 June 2000 | 298 | 248 | - | - | 546 |
| At 30 June 1999 | 4 | - | - | - | 4 |

Chattels comprise museum assets held at the Poole Pottery site.

NOTES TO THE ACCOUNTS
Year ended 30 June 2000

11. FIXED ASSET INVESTMENTS

| | Investments in USA Limited Partnerships £'000 | Listed investments £'000 | Other investments £'000 | Total £'000 |
|---|---|--------------------------------|-------------------------------|----------------|
| (a) Group | | | | |
| At cost or valuation: | | | | |
| At 1 July 1999 | - | 405 | 150 | 555 |
| Additions | 11 | 500 | 1,500 | 2,011 |
| Reclassification to subsidiary undertakings | - | (405) | - | (405) |
| Disposals | - | (500) | (150) | (650) |
| Provision against investments | (11) | - | - | (11) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2000 | - | - | 1,500 | 1,500 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

(i) Investments in USA limited partnerships are as follows:

| Name | Address of properties | Country of operation | Nature of property business | Nature of interest |
|-----------------------------|--|-------------------------|-----------------------------------|-----------------------|
| Route 301/CPI Associates | Brandywine Residential Development Land, Prince George's County, Maryland | USA | Development | 20% equity |
| Route 301/CPI Industrial | Brandywine Industrial Development Land, Prince George's County, Maryland | USA | Development | 9% equity |

The historical cost of the total investment in USA limited partnerships is £1,863,000 (1999: £1,852,000). In the opinion of the directors, there are significant uncertainties relating to the long term partnership strategy for submission of development plans and the associated funding requirements, and for the ability of the Company to realise value therefrom. Consequently, the carrying value of the investment in USA partnerships has been provided against in full in prior years.

- (ii) Other investments represent an investment in a Jersey registered limited partnership fund, for which Lynch Talbot Limited (see note 33(a)) acts as a General Partner.
- (iii) See note 33 on related party transactions for details of the listed investments disposed of during the year.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

11. FIXED ASSET INVESTMENTS (continued)

| | Listed Investments £'000 | Other Investments £'000 | Shares in subsidiary under- takings £'000 | Amounts due from subsidiary under- takings £'000 | Provision against investments £'000 | Total £'000 |
|--|--------------------------------|-------------------------------|---|---|--|----------------|
| (b) Company | | | | | | |
| At cost or valuation: | | | | | | |
| At 1 July 1999 | 405 | 150 | 4,519 | 16,903 | (18,207) | 3,770 |
| Additions | 500 | 1,500 | 10,201 | - | (2,339) | 9,862 |
| Reclassification to subsidiary undertakings | (405) | - | 405 | - | - | - |
| Reclassification to current assets | - | - | - | (16,903) | 15,640 | (1,263) |
| Disposals | (500) | (150) | - | - | - | (650) |
| Writeback of provision against investments | - | - | - | - | 554 | 554 |
| At 30 June 2000 | - | 1,500 | 15,125 | - | (4,352) | 12,273 |

The provision against investments at 30 June 2000 relates to the shares in subsidiary undertakings.

The following companies are the principal wholly owned subsidiary undertakings and are included in the consolidated results for the year ended 30 June 2000 and the consolidated financial position as at 30 June 2000. All interests are by way of ordinary shares.

| | Area of operation | Country of incorporation | Nature of business |
|--|----------------------|-----------------------------|--------------------|
| Immediate subsidiary undertakings | | | |
| Albemarle Property Investments Plc | UK | + | Investment |
| Aranmore Developments Limited | UK | + | Investment |
| Gander Properties Limited | UK | + | Investment |
| Nairn Property Development Limited | UK | + | Investment |
| Orb Acquisitions Limited | UK | + | Investment |
| Orb Developments Limited | UK | Channel Islands | Investment/Trading |
| Orb Property Management Limited | UK | + | Management |
| Orb (Lexham) Limited | UK | + | Investment/Trading |
| Wedderburn Developments Limited | UK | + | Trading |
| Other subsidiary undertakings | | | |
| Poole Pottery Limited | UK | + | Manufacturing |
| Chalfont Property Investment Limited | UK | + | Investment |
| Discfind Limited | UK | + | Investment |
| Kensington & Chelsea Limited | UK | + | Investment |
| Mitre Property Management Limited | UK | + | Management |
| Nairn Brandywine, Inc. | USA | USA | Investment |
| Nairn Great Valley, Inc. | USA | USA | Investment |
| Nairn U.S. Holdings, Inc. | USA | USA | Holding Company |
| Staplebrook Investments Limited | UK | + | Investment |

+ Incorporated in Great Britain

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

12. STOCKS

Stocks comprise amounts at Poole Pottery Limited as follows:

| | Group | | Company | |
|-------------------------------------|--------------|----------|----------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | £'000 | £'000 | £'000 | £'000 |
| Raw materials and consumables | 69 | - | - | - |
| Work in progress | 122 | - | - | - |
| Finished goods and goods for resale | 1,183 | - | - | - |
| | <u>1,374</u> | <u>-</u> | <u>-</u> | <u>-</u> |

13. DEVELOPMENT PROPERTIES – GROUP AND COMPANY

Capitalised interest included within trading properties amounted to £394,000 (1999: £nil).

14. DEBTORS

| | Group | | Company | |
|--|--------------|------------|---------------|------------|
| | 2000 | 1999 | 2000 | 1999 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade debtors | 3,880 | 287 | 77 | 73 |
| Amounts due from subsidiary undertakings | - | - | 18,463 | - |
| Other debtors | 820 | 420 | 290 | 506 |
| Prepayments and accrued income | 407 | 63 | 26 | 81 |
| | <u>5,107</u> | <u>770</u> | <u>18,856</u> | <u>660</u> |

No debtors are receivable after more than one year.

15. SECURED CASH AND CASH DEPOSITS

At 30 June 2000 £1,503,000 (1999: £nil) of secured cash was held in respect of the 10.25% First Mortgage Debenture Stock 2012, £1,547,000 (1999: £nil) was held in respect of the Morgan Stanley bank loan, and £52,000 (1999: £nil) of secured rent deposits was held on behalf of tenants. At 30 June 1999, £3,000,000 was deposited in relation to the Poole Pottery acquisition.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

(a) Limited Recourse Loans

The amounts included in creditors and reserves are as follows:

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2000 £'000 | 1999 £'000 | 2000 £'000 | 1999 £'000 |
| Creditors: amounts equal to security values | 44 | 203 | 44 | 53 |
| Reserves: Shortfall | 2,308 | 2,873 | 2,544 | 2,439 |
| Total limited recourse loans | 2,352 | 3,076 | 2,588 | 2,492 |

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2000 £'000 | 1999 £'000 | 2000 £'000 | 1999 £'000 |
| (b) Other creditors | | | | |
| Mortgages and other bank loans | 22,293 | 200 | 1,744 | 200 |
| Trade creditors | 2,069 | 155 | 534 | 148 |
| Amounts owed to subsidiary undertakings | - | - | 21,227 | 2,518 |
| Overseas tax | - | 46 | - | - |
| Corporation tax | 40 | 11 | 11 | 11 |
| Other taxation and social security | 626 | 45 | 2 | 22 |
| Other creditors | 745 | 403 | 42 | 401 |
| Accruals and deferred income | 7,764 | 491 | 503 | 390 |
| Dividends payable | 136 | 48 | 48 | 48 |
| | 33,673 | 1,399 | 24,111 | 3,738 |

Accruals and deferred income at 30 June 2000 includes deferred rents, interest payable and overhead accruals in respect of the enlarged group.

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

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2000 £'000 | 1999 £'000 | 2000 £'000 | 1999 £'000 |
| Mortgages and other bank loans repayable | 62,732 | 3,575 | - | 1,700 |
| £35 million 10.25% First Mortgage Debenture | | | | |
| Stock 2012 | 36,650 | - | - | - |
| Convertible loan notes 2003 of 2p each | 2,387 | - | 2,387 | - |
| 4% Loan Notes 2010 | 200 | 200 | 200 | 200 |
| | 101,969 | 3,775 | 2,587 | 1,900 |

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

18. BORROWINGS AND OTHER FINANCIAL LIABILITIES

| | Group | | Company | |
|--|----------------|--------------|--------------|--------------|
| | 2000 | 1999 | 2000 | 1999 |
| | £'000 | £'000 | £'000 | £'000 |
| Borrowings – unsecured | | | | |
| Convertible loan notes 2003 of 2p each | 2,387 | - | 2,387 | - |
| 4% loan notes 2010 | 200 | 200 | 200 | 200 |
| | <u>2,587</u> | <u>200</u> | <u>2,587</u> | <u>200</u> |
| Borrowings – secured on land and buildings | | | | |
| Mortgages and other bank loans | 85,025 | 3,775 | 1,744 | 1,900 |
| £35 million 10.25% First Mortgage Debenture Stock 2012 | 36,650 | - | - | - |
| | <u>124,262</u> | <u>3,975</u> | <u>4,331</u> | <u>2,100</u> |
| Total borrowings | | | | |

Mortgages and other bank loans are stated net of unamortised issue expenses totalling £2,116,000 (1999: £nil).

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments of the Group can be found in the Director's report.

All mortgage and other bank loans are secured on properties held by the Group.

£200,000 nominal of 4% Loan Notes 2010 are redeemable at par on 24 March 2010 or earlier in the event, inter alia, of a reverse take-over by the Company or the Company becoming a wholly owned subsidiary of another company. These notes were convertible up to March 1999. No conversion has occurred, and the directors are of the opinion that no payment will be made in respect of the £200,000 4% convertible loan notes.

The £35 million 10.25% First Mortgage Debenture Stock 2012 is secured against investment properties and cash held by a subsidiary company, Chalfont Property Investment Limited. At 30 June 2000, the open market value of investment properties secured against the debenture stock was £48,100,000, and cash on deposit amounted to £1,500,000 providing adequate cover of debenture stock covenants at this date.

The convertible loan notes 2003 of 2p each were issued on acquisition of Gander Properties Plc and had a total nominal value of £10.9 million. They are convertible into Orb Estates Plc shares to the extent that the aggregate of the gross proceeds of sale of properties owned by the acquired Gander Group, listed in FPD Savills' report included in the Listing Particulars dated 24 September 1999, and the amount of any unsold properties owned by the Gander Group, as shown by an independent annual valuation, exceeds £130 million. Conversion of shares will take place automatically within a period of 28 days following the publication of Orb Estates Plc's audited financial statements in each of the years 2001, 2002 and 2003 unless Orb Estates Plc elects to repay all or any of the Convertible Loan Notes in cash. On 17 January 2001, Orb Securities Limited, the immediate parent undertaking, agreed to waive for nil consideration any entitlement in respect of its 396,454,675 Convertible Loan Notes 2003 held at this date. The residue of the loan notes remains outstanding. The directors believe that the outstanding loan notes have no value and will be neither converted nor redeemed.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

18. BORROWINGS AND OTHER FINANCIAL LIABILITIES (continued)

Maturity profile

The maturity profile of the Group's financial liabilities at 30 June 2000 was as follows:

| | Bank loans £'000 | Mortgage Debenture stock £'000 | Loan notes £'000 | Limited recourse loan £'000 | 2000 Total £'000 | 1999 Total £'000 |
|---------------------------------|---------------------|---|---------------------|--------------------------------------|------------------------|------------------------|
| From 1 to 2 years | 5,984 | - | - | - | 5,984 | 200 |
| From 2 to 5 years | 19,540 | - | 2,387 | - | 21,927 | 3,375 |
| After 5 years | 38,690 | 36,650 | 200 | - | 75,540 | - |
| Less: loan issue costs | (1,482) | - | - | - | (1,482) | - |
| Due after more than one year | 62,732 | 36,650 | 2,587 | - | 101,969 | 3,575 |
| Due within one year | 22,927 | - | - | 44 | 22,971 | 200 |
| Less: loan issue costs | (634) | - | - | - | (634) | - |
| | <u>85,025</u> | <u>36,650</u> | <u>2,587</u> | <u>44</u> | <u>124,306</u> | <u>3,775</u> |

All balances falling due after 5 years are wholly repayable in that period. There are no balances repayable by instalment with amounts falling due after 5 years.

Interest rate risk and currency profile

The interest rate profile of the financial liabilities of the Group at 30 June 2000, after taking account of the effect of swaps, was as follows:

| | 2000 | | | 1999 | | |
|--|------------------|-------|---------|------------------|-------|-------|
| | Weighted average | | | Weighted average | | |
| | Interest rate | | | Interest rate | | |
| | % | Years | £'000 | % | Years | £'000 |
| Sterling | 8.7 | 7.4 | 103,579 | 7.5 | 4.1 | 2,100 |
| US dollars | 0.0 | 0.0 | 44 | 0.0 | 0.0 | 203 |
| Total fixed interest borrowings | 8.7 | 7.4 | 103,623 | 7.5 | 3.8 | 2,303 |
| Total floating interest borrowings - Sterling | 7.7 | 2.6 | 22,799 | 6.7 | 4.1 | 1,875 |

The US dollar loan is the security value on the Limited Recourse Loan held as part of the ringfenced balance sheet at 30 June 2000. Interest is no longer charged on these monies and they are repayable on demand.

Borrowing facilities

Undrawn committed borrowing facilities available to the Group were as follows:

| | 2000 £'000 | 1999 £'000 |
|-----------------------|---------------|---------------|
| Expiring 2 to 5 years | <u>24,000</u> | <u>-</u> |

These borrowing facilities have been made available for the development project on the Poole Pottery site.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

19. ANALYSIS OF FINANCIAL ASSETS

The Group held the following financial assets as at 30 June 2000.

| | 2000 £'000 | 1999 £'000 |
|--------------------------------|---------------|---------------|
| Cash deposits and cash in hand | 4,215 | 193 |
| Trade investments - listed | - | 405 |
| - unlisted | 1,500 | 150 |
| | <u>5,715</u> | <u>748</u> |

The cash deposits comprised term bank deposits placed on money markets for up to three months. Cash deposits and cash in hand are denominated in sterling, except for £6,000 (1999: £100,000) held in US dollars.

20. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A valuation was carried out at 30 June 2000 and 30 June 1999 to calculate the market value of the Group's debt instruments and other financial liabilities and assets on a replacement basis taking into account the prevailing interest rates for the respective periods of the appropriate debt instruments. The valuations are as follows:

| | 30 June 2000 | | 30 June 1999 | |
|---|------------------------|------------------------|------------------------|------------------------|
| | Book value £'000 | Fair value £'000 | Book value £'000 | Fair value £'000 |
| £35 million 10.25% First Mortgage Debenture Stock | (36,650) | (35,000) | - | - |
| Convertible loan notes 2003 of 2p each | (2,387) | (340) | - | - |
| £200,000 4% loan notes 2010 | (200) | (150) | (200) | (143) |
| Mortgages and other bank loans | (64,386) | (57,174) | (2,103) | (2,103) |
| Borrowings - fixed rate | (103,623) | (92,664) | (2,303) | (2,246) |
| Bank borrowings - floating | (22,799) | (30,799) | (1,875) | (1,875) |
| Unamortised loan issue costs | 2,116 | - | - | - |
| Total | (124,306) | (123,463) | (4,178) | (4,121) |
| Cash | 4,215 | 4,215 | 193 | 193 |
| Interest rate swaps | - | 9 | - | - |
| Trade investments - listed | - | - | 405 | 372 |
| - unlisted | 1,500 | 1,500 | 150 | 150 |
| | <u>(118,591)</u> | <u>(117,739)</u> | <u>(3,430)</u> | <u>(3,406)</u> |

The fair values of all items have been calculated by discounting the expected future cash flows at prevailing interest rates.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

21. CALLED UP SHARE CAPITAL

| | 2000 Number | 2000 £'000 | 1999 Number | 1999 £'000 |
|-------------------------------------|----------------|---------------|----------------|---------------|
| Authorised: | | | | |
| Ordinary shares of 50p each | 50,000,000 | 25,000 | 9,500,000 | 4,750 |
| Allotted, called up and fully paid: | | | | |
| Ordinary shares of 50p each | 39,601,181 | 19,801 | 6,626,429 | 3,313 |

Authorised share capital

On 4 August 1999, the shareholders approved an increase in the Company's authorised share capital from £4,750,000 to £25,000,000 in order to acquire the share capital of Albemarle. The total number of authorised ordinary shares from this date was 50,000,000.

Changes in the issued share capital in the year

On 11 August 1999, 13,933,927 ordinary shares were issued with a total value of £7,455,000 in order to acquire the entire share capital of Albermarle Property Investments plc.

On 26 January 2000, Lynch Talbot Limited exercised their option over £463,000 of their convertible loan facility resulting in 925,555 ordinary shares being issued at par. On the same date, Euro and UK Property L.P. exercised their option over £463,000 of their convertible loan notes at the option price of 60p per share resulting in the issue of 925,555 ordinary shares.

On 29 June 2000, 2,241,145 ordinary shares were issued with a total value of £1,345,000 to acquire the entire share capital of Bronwood Overseas Developments Ltd.

On 30 June 2000, Lynch Talbot Limited exercised their option over £4,553,000 of their convertible loan facility and 9,106,090 ordinary shares were issued at par. On the same date, Euro and UK Property L.P. exercised their option over £3,505,000 of their convertible loan notes at the option price of 60p per share resulting in the issue of 5,842,480 ordinary shares.

Other options over the Company's share capital

As part of the financial restructuring of the Group in December 1993, an option to acquire 250,000 ordinary 50p shares at a subscription price of 200p each was granted to a non-banking creditor of the Company as part consideration for the release of the Company from its obligations under a guarantee. The option is exercisable during certain limited periods in each year until 2 December 2003.

22. SHARE PREMIUM ACCOUNT

| | Total £'000 |
|--|----------------|
| As at 1 July 1999 | - |
| Premium on issue of shares in the year (note 21) | 1,388 |
| As at 30 June 2000 | 1,388 |

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

23. RESERVES

| | Group Total £'000 | Company Total £'000 |
|--|-------------------------|---------------------------|
| Revaluation reserve | | |
| As at 1 July 1999 | 313 | 320 |
| Revaluation surplus | 23,978 | 5,080 |
| | <hr/> | <hr/> |
| As at 30 June 2000 | 24,291 | 5,400 |
| | <hr/> | <hr/> |
| | £'000 | £'000 |
| Special reserve (see note below) | | |
| As at 1 July 1999 | 2,381 | 2,284 |
| Transfer to profit and loss account | (2,381) | (2,284) |
| | <hr/> | <hr/> |
| As at 30 June 2000 | - | - |
| | <hr/> | <hr/> |
| | £'000 | £'000 |
| Limited recourse reserve | | |
| As at 1 July 1999 | 2,873 | 2,439 |
| Decrease in limited recourse loan shortfall | (178) | 105 |
| Transfer to profit and loss account | (387) | - |
| | <hr/> | <hr/> |
| As at 30 June 2000 | 2,308 | 2,544 |
| | <hr/> | <hr/> |
| | £'000 | £'000 |
| Profit and loss account | | |
| As at 1 July 1999 | (2,975) | (2,530) |
| (Loss)/profit for the year | (6,746) | 4,266 |
| Transfer from limited recourse reserve | 387 | - |
| Foreign exchange translation movement | (29) | - |
| Transfer from special reserve (see note below) | 2,381 | 2,284 |
| | <hr/> | <hr/> |
| As at 30 June 2000 | (6,982) | 4,020 |
| | <hr/> | <hr/> |

The special reserve is not distributable and relates to pre 31 December 1995 reserves paid up from subsidiaries. On 17 January 1996 the Company obtained Court approval for a reduction of share capital and share premium in the amount of £18.4m. The Court approval for the reduction contained, inter alia, an undertaking by the Company to credit to a special non-distributable reserve "a sum equal to the amount of any distribution from any subsidiary of the Company out of profit earned prior to 31 December 1995 (save to the extent by which the Company is obliged to reduce its investment in the subsidiary concerned by an amount up to the amount of such distribution)". The total amount to be retained in the special reserve is reduced from time to time by the amount of any increase after 17 January 1996 in the paid up share capital and share premium account of the Company resulting from an issue of new shares for cash or other new consideration or upon a capitalisation of distributable reserves. The issue of 13,933,927 ordinary shares on 11 August 1999 year gave rise to a transfer from the special reserve to profit and loss account.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

24. MINORITY INTERESTS

The Group's non-equity minority interest represents the value attributed to the minority holdings of preference shares of 1p each in Chalfont Property Investments Limited ("Chalfont"), a subsidiary acquired with the purchase of Albemarle Property Investments Plc. These preference shares have a redemption premium of 59p payable in August 2012 and in accordance with FRS 4, Capital Instruments, Chalfont has accounted for this future redemption premium on an accruals basis over the period to redemption. The directors consider it unlikely that Chalfont will pay any redemption premium in 2012.

25. DEFERRED TAX

| | Group | | Company | |
|---|----------------|----------------|---------------|----------------|
| | 2000 £'000 | 1999 £'000 | 2000 £'000 | 1999 £'000 |
| The potential deferred tax is as follows: | | | | |
| Losses carried forward | (3,063) | (9,836) | (1,580) | (5,701) |
| Limited recourse reserve | 763 | - | 763 | - |
| Accelerated capital allowances | (37) | (44) | (32) | (44) |
| Potential capital gains on property disposals | 13,728 | 262 | 10,937 | 146 |
| Potential losses before indexation allowance on investment revaluations | (1,789) | (135) | (112) | (135) |
| Crystallised capital losses | (13,394) | - | (3,900) | - |
| Short term timing differences | (10) | - | - | - |
| | <u>(3,802)</u> | <u>(9,753)</u> | <u>6,076</u> | <u>(5,734)</u> |

No provision has been made for deferred tax in respect of potential capital gains as either no disposal is envisaged in the foreseeable future or any assessable gain arising will be relieved by losses brought forward.

26. RECONCILIATION OF OPERATING PROFIT/(LOSS) ON ORDINARY ACTIVITIES TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

| | 2000 £'000 | 1999 £'000 |
|---|----------------|---------------|
| Operating profit/(loss) | 1,943 | (116) |
| Limited recourse reserve movement | - | (933) |
| Depreciation charges | 44 | 1 |
| Amortisation charges | 76 | - |
| Loss on disposal of fixed assets | 40 | 14 |
| Provision against fixed asset investments | 11 | 1,192 |
| Increase in stocks | (22) | - |
| (Increase)/decrease in debtors | (2,650) | 1,266 |
| Increase in development property | (664) | - |
| (Decrease)/increase in creditors less than one year | (789) | 573 |
| Net cash (outflow)/inflow from operating activities | <u>(2,011)</u> | <u>1,997</u> |

NOTES TO THE ACCOUNTS
Year ended 30 June 2000

27. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | Group | | Company | |
|---|--------------|--------------|----------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| Increase/(decrease) in cash and bank balances in the year | | 920 | | (529) |
| Cash inflow from increases in liquid resources | 102 | | 748 | |
| Cash inflow on convertible loan facility | (5,076) | | - | |
| Net loans drawn down | (28,958) | | 476 | |
| Issue costs on loan finance | 4,838 | | - | |
| Decrease in limited recourse loans | 337 | | 277 | |
| Repayment of unsecured loan note stock | 655 | (28,102) | - | 1,501 |
| | | | | |
| Change in net debt from cashflow | | (27,182) | | 972 |
| | | | | |
| Loans acquired with subsidiary undertakings | | (91,158) | | - |
| Amortisation of issue costs | | (2,722) | | - |
| Fair value of loan notes on acquisition | | (3,042) | | - |
| Conversion to ordinary shares of convertible loan facility | | 5,076 | | - |
| Release of fair value adjustment of First Mortgage Debenture Stock over period to redemption date | | 100 | | - |
| Limited recourse reserve movement | | (180) | | 1,040 |
| Exchange difference | | 2 | | (114) |
| | | | | |
| Movement in net debt | | (119,106) | | 1,898 |
| | | | | |
| Net debt 1 July | | (985) | | (2,883) |
| | | | | |
| Net debt 30 June | | (120,091) | | (985) |

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

28. ANALYSIS OF CHANGES IN NET DEBT

| | At 1 July 1999 £'000 | Cashflows £'000 | Acquisitions excluding cash and overdrafts £'000 | Other Non-cash items £'000 | Exchange difference £'000 | At 30 June 2000 £'000 |
|--|----------------------------|--------------------|--|-------------------------------------|---------------------------------|--------------------------------|
| Cash and bank balances | | | | | | |
| Cash in hand and at bank | 193 | 920 | - | - | - | 1,113 |
| Secured cash | - | 3,102 | - | - | - | 3,102 |
| Cash deposits | 3,000 | (3,000) | - | - | - | - |
| | <u>3,193</u> | <u>1,022</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,215</u> |
| Debt due within one year | | | | | | |
| Limited recourse loans | (203) | 337 | - | (180) | 2 | (44) |
| Bank loans | (200) | (18,069) | (1,302) | (2,722) | - | (22,293) |
| | <u>(403)</u> | <u>(17,732)</u> | <u>(1,302)</u> | <u>(2,902)</u> | <u>2</u> | <u>(22,337)</u> |
| Debt due after more than one year | | | | | | |
| Bank loans | (3,575) | (6,051) | (53,106) | - | - | (62,732) |
| First Mortgage Debenture Stock | - | - | (36,750) | 100 | - | (36,650) |
| Other loans including loan notes | (200) | (4,421) | - | 2,034 | - | (2,587) |
| | <u>(3,775)</u> | <u>(10,472)</u> | <u>(89,856)</u> | <u>2,134</u> | <u>-</u> | <u>(101,969)</u> |
| Net debt | <u>(985)</u> | <u>(27,182)</u> | <u>(91,158)</u> | <u>(768)</u> | <u>2</u> | <u>(120,091)</u> |

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

29. MAJOR NON-CASH TRANSACTIONS

The major non-cash items are the conversion of the Lynch Talbot Limited financing facilities totalling £5,076,000 into ordinary shares of Orb Estates Plc, the fair value of Orb Estates Plc convertible loan notes issued on purchase of Gander Properties Plc totalling £2,387,000, the issuance of unsecured unsubordinated loan notes on the acquisition of Bronwood Investments totalling £655,000, the amortised loan issue costs of £2,722,000, the movement in the limited recourse reserve of £180,000, and the part release of £100,000 of the fair value adjustment of debenture stock over the period to the redemption date.

30. PURCHASE OF SUBSIDIARY UNDERTAKINGS

Details of acquisitions in the year, are set out in note 2. The fair values of the assets and liabilities of subsidiaries acquired, are as set out below.

| | Book amount £'000 | Fair value adjustment £'000 | Fair value to Group £'000 |
|--|-------------------------|-----------------------------------|---------------------------------|
| (a) Albemarle Property Investments Plc | | | |
| Net assets acquired | | | |
| Investment properties | 54,815 | (253) | 54,562 |
| Tangible fixed assets | 32 | - | 32 |
| Debtors | 492 | - | 492 |
| Cash at bank and in hand | 1,868 | - | 1,868 |
| Creditors | (2,646) | - | (2,646) |
| Bank loans due within one year | (102) | - | (102) |
| Bank loans due after one year | (8,233) | - | (8,233) |
| Mortgage Debenture Stock | (35,000) | (1,750) | (36,750) |
| Minority interest | (748) | - | (748) |
| | <u>10,478</u> | <u>(2,003)</u> | <u>8,475</u> |
| Albemarle Property Investments Plc | | | |
| Satisfied by: | | | |
| Cash | | | 615 |
| Shares allotted (see note 2) | | | 7,455 |
| Cost of existing investment transferred from fixed assets | | | <u>405</u> |
| | | | <u>8,475</u> |

NOTES TO THE ACCOUNTS
Year ended 30 June 2000

30. PURCHASE OF SUBSIDIARY UNDERTAKINGS (continued)

The consolidated profit and loss account and statement of recognised gains and losses of Albemarle Property Investments Plc is set out below:

| | 1 January 1999 to effective date £'000 | Year ended 31 December 1998 £'000 |
|---|---|--|
| Turnover | 3,375 | 6,341 |
| Operating profit | 1,741 | 3,611 |
| Exceptional items | (170) | (539) |
| Share of associate profit | - | 136 |
| Net interest payable | (3,250) | (6,326) |
| Loss before taxation | (1,679) | (3,118) |
| Taxation | - | (1) |
| Minority interest | (80) | (99) |
| Loss for the period/year | <u>(1,759)</u> | <u>(3,218)</u> |
| Statement of total recognised gains and losses | | |
| | £'000 | £'000 |
| Loss for the period/year | (1,759) | (3,121) |
| (Deficit)/surplus on revaluation of investment properties | (569) | 2,651 |
| Total recognised gains and losses | <u>(2,328)</u> | <u>(470)</u> |

Since acquisition, Albemarle Property Investments plc has contributed £5,265,000 to the group's net operating cash flows, paid £2,228,000 in respect of net returns on investment and servicing of finance, paid £32,000 in respect of taxation and generated £1,507,000 from investing activities.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

30. PURCHASE OF SUBSIDIARY UNDERTAKINGS (continued)

| (b) Gander Properties Limited (formerly Gander Properties Plc) | Book amount £'000 | Alignment of accounting policies £'000 | Fair value adjustment £'000 | Fair value to Group £'000 |
|---|-------------------------|--|-----------------------------------|---------------------------------|
| | | | | |
| Net assets acquired | | | | |
| Investment properties | 100,703 | (38,086) | 971 | 63,588 |
| Freehold group properties | - | 22,400 | 318 | 22,718 |
| Tangible fixed assets | 24 | - | - | 24 |
| Debtors | 353 | 5,660 | - | 6,013 |
| Development properties | - | 10,176 | 145 | 10,321 |
| Cash at bank and in hand | 1,423 | - | - | 1,423 |
| Bank loans due within one year | (1,200) | - | - | (1,200) |
| Bank loans after more than one year | (44,873) | - | - | (44,873) |
| Creditors | (469) | (171) | - | (640) |
| | <u>55,961</u> | <u>(21)</u> | <u>1,434</u> | <u>57,374</u> |
| Satisfied by: | | | | |
| Cash | | | | 54,987 |
| Fair value of convertible loan notes issue | | | | 2,387 |
| | | | | <u>57,374</u> |

The consolidated profit and loss account and statement of recognised gains and losses of Gander Properties Limited is set out below:

| | 1 July 1999 to effective date £'000 | 1 January 1998 to 30 June 1999 £'000 |
|-------------------------|---|--|
| Turnover | 2,802 | 1,600 |
| Operating (loss)/profit | (956) | 3,253 |
| Exceptional item | (137) | (1,637) |
| Net interest | (1,720) | (4,396) |
| Loss before taxation | (2,813) | (2,780) |
| Taxation | - | (10) |
| Loss for the period | <u>(2,813)</u> | <u>(2,790)</u> |

Statement of total recognised gains and losses

| | £'000 | £'000 |
|---|----------------|----------------|
| Loss for the period | (2,813) | (2,790) |
| Surplus/(deficit) on revaluation of investment properties | 1,796 | (1,459) |
| Total recognised gains and losses | <u>(1,017)</u> | <u>(4,249)</u> |

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

30. PURCHASE OF SUBSIDIARY UNDERTAKINGS (continued)

The convertible loan notes issued as deferred consideration on the acquisition of Gander Properties Plc had a face value of £10.7 million. On acquisition, these loan notes were deemed to have a fair value of £2.4 million.

Since acquisition, Gander Properties Limited (formerly Gander Properties Plc) utilised £1,180,000 of the group's net operating cash flows, received £18,000 in respect of net returns on investment and servicing of finance, paid £nil in respect of taxation and generated £43,910,000 from investing activities.

| | Book amount £'000 | Fair value adjustment £'000 | Fair value amount £'000 |
|--|-------------------------|-----------------------------------|-------------------------------|
| (c) Poole Pottery Limited | | | |
| Net assets acquired | | | |
| Freehold group properties | 2,698 | 3,102 | 5,800 |
| Tangible fixed assets | 776 | (267) | 509 |
| Goodwill | 70 | (70) | - |
| Debtors | 744 | (20) | 724 |
| Stocks | 1,352 | - | 1,352 |
| Development properties | - | 8,700 | 8,700 |
| Cash at bank and in hand | 65 | - | 65 |
| Creditors | (4,479) | (25) | (4,504) |
| | <u>1,226</u> | <u>11,420</u> | <u>12,646</u> |
| Goodwill | | | <u>2,038</u> |
| | | | <u>14,684</u> |
| Satisfied by: | | | |
| Cash | | | 10,684 |
| Fair value of convertible loan notes issue | | | <u>4,000</u> |
| | | | <u>14,684</u> |

The consolidated profit and loss account and statement of recognised gains and losses of Poole Pottery Limited is set out below:

| | 1 January 1999 to effective date £'000 | 1 January 1997 to 31 December 1998 £'000 |
|----------------------|--|--|
| Turnover | <u>2,383</u> | <u>5,214</u> |
| Operating profit | <u>588</u> | <u>139</u> |
| Exceptional item | (563) | 19 |
| Net interest | <u>(237)</u> | <u>(336)</u> |
| Loss before taxation | <u>(212)</u> | <u>(178)</u> |
| Taxation | - | (25) |
| Loss for the period | <u>(212)</u> | <u>(203)</u> |

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

30. PURCHASE OF SUBSIDIARY UNDERTAKINGS (continued)

There were no recognised gains and losses in the year other than those reflected in the profit and loss account.

Since Acquisition, Poole Pottery Limited has utilised £2,827,000 of the Group's net operating cash flows, paid £4,000 in respect of net returns on investment and servicing of finance, paid £nil in respect of taxation and utilised £83,000 for investing activities.

| | Fair value and book amount £'000 |
|--|---|
| (d) Bronwood Overseas Development Limited | |
| Net assets acquired | |
| Debtors | 2,000 |
| Satisfied by: | |
| Share capital | 1,345 |
| Fair values of unsecured unsubordinated loan notes | 655 |
| | <u>2,000</u> |

Bronwood Overseas Development Limited did not trade during the period and made no contribution to the cash flows of the Group since acquisition.

| | Book amount £'000 | Fair value adjustment £'000 | Fair value amount £'000 |
|--|-------------------------|-----------------------------------|-------------------------------|
| (e) Other subsidiaries acquired | | | |
| Net assets acquired | | | |
| Development properties | 313 | (30) | 283 |
| Debtors | - | 132 | 132 |
| Cash at bank and in hand | 1 | - | 1 |
| Creditors | (285) | - | (285) |
| | <u>29</u> | <u>102</u> | <u>131</u> |
| Satisfied by: | | | |
| Cash | | | <u>131</u> |

The other subsidiaries acquired were Wedderburn Developments Limited and Crenshaw Lambert Limited.

31. CONTINGENT LIABILITIES AND GUARANTEES

The Company has given certain financial guarantees to Reyall Business Consultants Limited in respect of the purchase of its dormant subsidiaries during the year.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

32. LEASING COMMITMENTS

| | Land and buildings | | Other | |
|--------------------------|--------------------|-------|-------|-------|
| | 2000 | 1999 | 2000 | 1999 |
| | £'000 | £'000 | £'000 | £'000 |
| Expiry within one year | 31 | - | 1 | - |
| Expiring over five years | 287 | 35 | 91 | - |

33. RELATED PARTY TRANSACTIONS

(a) Euro and UK Property L.P., General Equity L.P. and Lynch Talbot Limited

Euro & UK Property L.P. ("Euro"), a Jersey limited liability partnership and its general partner, Lynch Talbot Limited together with a number of other Jersey limited liability partnerships, of which Lynch Talbot Limited is also general partner, became a related party of Orb Estates Plc on 30 June 2000 on acquisition of what was in aggregate a majority shareholding in Orb Estates Plc. Other limited partnerships for which Lynch Talbot Limited acts as general partner include General Equity L.P. ("General Equity"). Details of material related party transactions between Orb Estates Plc, Euro, General Equity, or Lynch Talbot Limited in the period prior to the date of acquisition are as follows:

- (i) Orb Estates Plc completed the purchase of Poole Pottery Limited in November 1999 from Euro for a price of £14.7million payable as to £10.7million in cash and £4.0million in an unsecured convertible loan note with a coupon of 7.5 per cent repayable 15 months after completion. These convertible loans notes were all converted into ordinary share of Orb Estates Plc by 30 June 2000.
- (ii) Orb Estates Plc entered into an agreement with Lynch Talbot Limited dated 24 September 1999 to pay Lynch Talbot Limited a fee of £1.5million for arranging the bank funding and £0.75million for arranging the mezzanine finance for the acquisition of Gander Properties Plc.
- (iii) Orb Estates Plc and Lynch Talbot Limited entered into a facility agreement date 24 September 1999 pursuant to which Lynch Talbot Limited agreed to lend to Orb Estates up to £5 million. The facility was repayable within three years of drawdown at any time at Orb Estates Plc's option and was subject to interest at 8.25%. Lynch Talbot Limited was entitled to convert the outstanding balance into Orb Estates Plc ordinary shares at the lower of 60p per share and the closing middle market price of an ordinary share on 24 September 1999. On 30 June 2000, Lynch Talbot exercised that options to convert their facility into ordinary shares as detailed in note 21.
- (iv) Orb Estates Plc gave a guarantee dated 10 December 1998, as amended by an agreement dated 12 January 1999, in favour of Maxcar Finance Limited ("Maxcar Guarantee") limited to £0.4million in respect of sums due or payable to Maxcar Limited under a current account agreement dated 24 February 1998 between Maxcar Finance and Maxcar Limited ("Current Account Agreement") in relation to any shortfalls in the value of stocks held by Maxcar Limited. Orb Estates Plc had an indemnity dated 10 December 1998 from General Equity against any sums payable by Orb Estates Plc to Maxcar Finance under the terms of the Maxcar Guarantee subject to a maximum limit of £0.4million. Following the receivership in May 1999 of Maxcar Finance and Maxcar Limited, the Maxcar Guarantee was called by the receiver of Maxcar Finance in September 1999, and the directors of Orb Estates Plc subsequently called in the indemnity of £0.4million, which was paid. As a result, there was no net loss to the Company.

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

33. RELATED PARTY TRANSACTIONS (continued)

- (v) On 4 August 1999, Orb Estates Plc entered in an agreement with Euro on the aborted acquisition of two Gibraltar registered companies. Orb Estates plc agreed to act jointly with Euro as a Guarantor and included in administration expenses is an amount paid of £150,000 being the monies due under its joint obligations with Euro.
- (vi) On 29 June 2000, Orb Estates Plc entered into an agreement to become a Limited Partner of General Equity and contributed £1.5million to the partnership capital fund.
- (vii) Included in other debtors at 30 June 2000 is an amount of £24,000 due from Lynch Talbot Limited, which has been repaid after date.
- (viii) On 20 August 1999, Orb Estates Plc acquired 66,667 ordinary shares in Globalnetfinancial.com.Inc. for £500,000. In late 1999, these shares were transferred to Lynch Talbot Limited's control, and were sold prior to 30 June 2000 for proceeds of £520,000 remitted to Orb Estates Plc on 30 June 2000.

(b) Charles Helvert

- (i) On 29 June 2000, Orb Estates Plc acquired for £100 the entire share capital of Wedderburn Developments Limited ("Wedderburn"), a property trading company. Charles Helvert was a director of Wedderburn at the date of acquisition.
- (ii) Orb Estates Plc paid fees of £104,000 (1999: £18,000) to Osborne Associates in respect of management services. Charles Helvert is a partner of Osborne Associates.

34. POST BALANCE SHEET EVENTS

On 6 February 2001, Orb Estates Plc exchanged an unconditional contract to dispose of Orb (Lexham) Limited for approximately £15.0 million including the repayment of intergroup indebtedness. This transaction is expected to complete on 6 March 2001.

35. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

Following the acquisition on 30 June 2000 of Orb Estates Plc by Orb Securities Limited (formerly Tabsie Ventures Limited), the directors now regard Orb Securities Limited, a company registered in the British Virgin Islands, as the Company's ultimate parent company. Lynch Talbot Limited, a company registered in Jersey, holds the entire share capital of Orb Securities Limited, as general partner to a number of limited partnership funds. These funds are controlled by a number of high net worth individuals.

FIVE YEAR REVIEW

SUMMARY OF PROFIT AND LOSS ACCOUNT

For the years ended 30 June

| | 2000 £'000 | *1999 £'000 | *1998 £'000 | *1997 £'000 | *1996 £'000 |
|--|---------------|----------------|----------------|----------------|----------------|
| Turnover | 16,155 | 805 | 9,923 | 2,907 | 4,167 |
| Exceptional item - Financial reconstruction | - | - | - | (5) | 3,258 |
| (Loss)/profit before tax | (6,675) | (373) | 296 | 363 | (1,538) |
| (Loss)/profit after tax | (6,628) | (370) | 295 | 48 | (1,540) |

SUMMARY OF BALANCE SHEETS AS AT 30 JUNE

| | | | | | |
|--|-----------------|----------------|----------------|----------------|-----------------|
| Fixed assets | 144,241 | 7,319 | 7,390 | 7,854 | 17,414 |
| Current assets | | | | | |
| Stocks | 1,374 | - | - | - | - |
| Development properties | 22,421 | - | - | - | - |
| Trading properties | - | - | - | 6,750 | 6,864 |
| Debtors | 5,107 | 770 | 2,036 | 1,060 | 622 |
| Secured cash | 1,555 | - | - | - | - |
| Cash at bank and in hand | 2,660 | 3,193 | 2,974 | 1,773 | 1,467 |
| | <u>33,117</u> | <u>3,963</u> | <u>5,010</u> | <u>9,583</u> | <u>8,953</u> |
| Creditors: amounts falling due within one year | | | | | |
| Limited recourse loans | (44) | (203) | (1,406) | (7,006) | (6,474) |
| Convertible limited recourse loans | - | - | - | - | (1,701) |
| Other creditors | (33,673) | (1,399) | (1,144) | (2,218) | (2,401) |
| | <u>(33,717)</u> | <u>(1,602)</u> | <u>(2,550)</u> | <u>(9,224)</u> | <u>(10,576)</u> |
| Net current (liabilities)/assets | (600) | 2,361 | 2,460 | 359 | (1,623) |
| Total assets less current liabilities | 143,641 | 9,680 | 9,850 | 8,213 | 15,791 |
| Creditors: amounts falling due after more than one year | (101,969) | (3,775) | (3,950) | (2,989) | (12,650) |
| Net assets | <u>41,672</u> | <u>5,905</u> | <u>5,900</u> | <u>5,224</u> | <u>3,141</u> |
| Capital and reserves | | | | | |
| Called up share capital and share premium | 21,189 | 3,313 | 3,313 | 3,313 | 3,313 |
| Other reserves | 26,599 | 5,567 | 3,732 | 4,566 | 2,419 |
| Profit and loss account | (6,982) | (2,975) | (1,145) | (2,655) | (2,591) |
| Equity shareholders' funds | 40,806 | 5,905 | 5,900 | 5,224 | 3,141 |
| Minority interests (non-equity) | 866 | - | - | - | - |
| | <u>41,672</u> | <u>5,905</u> | <u>5,900</u> | <u>5,224</u> | <u>3,141</u> |

*These figures have been re-stated to reflect the change in accounting policy for joint arrangements.