

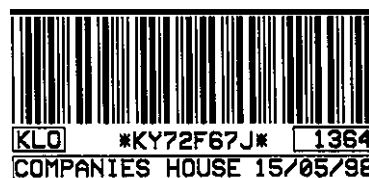
Registered No: 3302753

ARTHUR
ANDERSEN

ORCHARDBROOK LIMITED

REPORT AND ACCOUNTS

FOR THE PERIOD ENDED 30 SEPTEMBER 1997



ORCHARDBROOK LIMITED

DIRECTORS' REPORT

The directors present their first report on the affairs of the Company together with the accounts and auditors' report for the six months ended 30 September 1997.

Principal activities

The principal activities of Orchardbrook Limited include the acquisition and sale of a mortgage loan portfolio and an agreement to purchase asset backed loan notes.

Business review

Orchardbrook Limited was incorporated on 15 January 1997. The Company commenced business on 26 March 1997. On this date the Company purchased a portfolio of loans from The Housing Corporation and Housing for Wales, Tai Cymru. This portfolio was sold to Finance for Residential Social Housing PLC on the same date.

Results and dividends

Profit before taxation was £101,858. Profit attributable to shareholders after taxation was £70,282. No dividends were declared.

Directors' details, interests and responsibilities

The directors of Orchardbrook Limited 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.

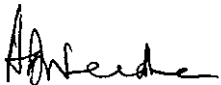
ORCHARDBROOK LIMITED

DIRECTORS' REPORT (Cont'd)

Employees

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

Signed on behalf of the Board:



BD Needham
Director

200 Aldersgate Street
London
EC1A4JJ

7 May 1998

ARTHUR ANDERSEN

To the Shareholders of Orchardbrook Limited

London

We have audited the accounts on pages 4 to 9 which have been prepared under the historical cost convention and the accounting policies set out 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.

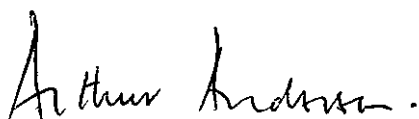
Basis of opinion

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 1997 and of its profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and
Registered Auditors
7 May 1998

1 Surrey Street
London
WC2R 2PS

ORCHARDBROOK LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 30 SEPTEMBER 1997

	Note	£'000
Investment income	3	29,967
Interest expense	4	(928)
Other expenses	5	<u>(28,937)</u>
Profit on ordinary activities before taxation	6	102
Tax on profit on ordinary activities	7	<u>(32)</u>
Retained profit for the period		<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

BALANCE SHEET

AS AT 30 SEPTEMBER 1997

	Note	£'000
Current assets		
Investments	8	9,717
Debtors	9	5,861
Cash at bank		<u>69</u>
		15,647
Creditors: amounts falling due within 1 year	10	<u>(15,577)</u>
Net assets		<u>70</u>
Capital and reserves		
Called up share capital	11	-
Profit and loss account		<u>70</u>
Total capital employed		<u>70</u>

The accompanying notes are an integral part of this balance sheet

Signed on behalf of the Board:



B D Needham,
Director
7 May 1998

ORCHARDBROOK LIMITED

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30 SEPTEMBER 1997

	Note	£'000
Net cash outflow from operating activities	13	(18,817)
Capital expenditure and financial investment		
Purchase of loan portfolio		(1,172,670)
Sale of loan portfolio		1,201,273
Purchase of loan notes		<u>(9,717)</u>
		<u>18,886</u>
Increase in cash		<u>69</u>

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

ORCHARDBROOK LIMITED

NOTES TO THE ACCOUNTS

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, are 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, Tai Cymru 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

Profit on sale of investment portfolio
Interest income on loan notes
Other interest income

Period to
30/9/97
£'000

28,603
316
1,048
29,967

4. Interest expense

Interest on broking fees

928

5. Other expenses

Administration fees
Broking fees
Other fees

250
28,600
87
28,937

ORCHARDBROOK LIMITED

NOTES TO THE ACCOUNTS (Cont'd)

		Period to 30/9/97 £'000
6. Profit on ordinary activities before taxation		
The profit on ordinary activities before taxation is stated after charging:		
Auditors fees		<u>10</u>
7. Taxation		
The tax charge for the period comprises:		
UK Corporation tax charge at 31%		<u>32</u>
8. Investments		As at 30/9/97 £'000
Loan notes		<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%.		
9. Debtors falling due within one year		As at 30/9/97 £'000
Prepayments and accrued income		661
Other debtors		<u>5,200</u>
		<u>5,861</u>
10. Creditors falling due within one year		
Accruals and deferred income		15,545
Corporation tax		<u>32</u>
		<u>15,577</u>
11. Share capital		
Ordinary Shares of £1 each	No.	£
Authorised	<u>100</u>	<u>100</u>
Allotted called up and fully paid	<u>1</u>	<u>1</u>

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

ORCHARDBROOK LIMITED

NOTES TO THE ACCOUNTS (Cont'd)

12. Reconciliation of operating profit to net cash inflow from operating activities

	Period to 30/9/97 £'000
Operating profit before tax	102
Profit on sale of investment portfolio	(28,603)
Increase in debtors	(5,861)
Increase in creditors	<u>15,545</u>
Net cash outflow from operating activities	<u>(18,817)</u>

13. Analysis and reconciliation of net debt

	Cash flows £'000	At 30/09/97 £'000
Cash at bank	<u>69</u>	<u>69</u>
		Period to 30/09/97 £'000
Increase in funds in the period		69
Net funds at beginning of period		-
Movement in net funds		<u>69</u>
Net funds at 30 September 1997		<u>69</u>

14. Related party transactions

National Westminster Bank Plc performs administrative, advisory and broking services for Orchardbrook Limited. During the period Orchardbrook Limited incurred £28.6 million of broking fees in respect of services provided by National Westminster Bank Plc. As at 30 September 1997 £15.5 million was due to National Westminster Bank Plc in respect of these services.