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AVENELL PROPERTY PLC

(FORMERLY AVENELL PROPERTY LIMITED, FORMERLY PONDLAND LIMITED)

Report and Accounts

31 December 2000



Avenell Property plc

(formerly Avenell Property Limited, formerly Pondland Limited)

Registered No. 03817411

DIRECTORS

L D C Corporate Director No 1 Limited

L D C Corporate Director No 2 Limited

R Joseph

SECRETARY

Clifford Chance Secretaries Limited

AUDITORS

Ernst & Young

Becket House

1 Lambeth Palace Road

London SE1 7EU

REGISTERED OFFICE

200 Aldersgate Street

London EC1A 4HD

DIRECTORS' REPORT

The directors present their first report and accounts for the period from 30 July 1999 to 31 December 2000.

RESULTS AND DIVIDENDS

The results for the period are shown in the profit and loss account on page 5.

The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company has issued £28,853,000 of Secured Bonds. The proceeds of the issue were used to acquire an interest in the freeholds of various properties purchased from J Sainsbury plc.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period were as follows:

L D C Corporate Director No 1 Limited	(appointed 13 October 1999)
L D C Corporate Director No 2 Limited	(appointed 13 October 1999)
R Joseph	(appointed 4 February 2000)
M E Richards	(appointed on incorporation, resigned 13 October 1999)
P J Charlton	(appointed on incorporation, resigned 13 October 1999)

The directors had no interests in the shares of the company.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Interest rate risk and liquidity risk

The company has borrowed through the issue of a fixed rate Secured Bond in accordance with its policy to maintain all of its borrowings at fixed rates of interest.

The interest income, the redemption of capital on the 2023 Secured Bond and the Zero Coupon Bonds (to be issued at discount to Avenell Leasing Limited over the term of the Secured Bond), are dependent on the realisation of at least £170 million from the sale of Avenell Property Plc's interest in the freeholds. A downturn in property prices may mean this amount is not realised. Avenell Property Plc has the benefit of a financial guarantee from a third party of part of this amount.

By order of the board

For and on behalf of
CLIFFORD CHANCE SECRETARIES LTD

Secretary

[Signature]
Authorized Signatory

18 JUN 2001

Avenell Property plc

(formerly Avenell Property Limited, formerly Pondland Limited)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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 to 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.

REPORT OF THE AUDITORS

to the shareholders of Avenell Property Plc

We have audited the accounts on pages 5 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of accounts 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 accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

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, consistently applied and adequately disclosed.

We planned 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. However, the evidence available to us was limited because the directors of the company have declined, for the reasons set out in note 5 to the accounts, to give us access to the related assumptions and judgements on which they have relied in order to conclude that the company has no exposure to United Kingdom corporation tax.

There were no other satisfactory audit procedures that we could adopt to confirm that the company's liability to United Kingdom corporation tax was properly recorded.

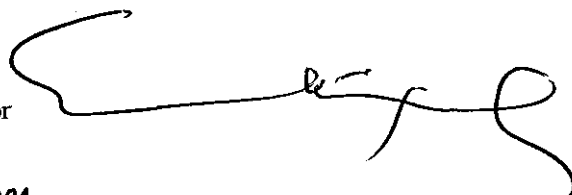
In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Qualified opinion arising from limitation in audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the liability to United Kingdom corporation tax, in our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to the recording of the company's liability to United Kingdom corporation tax we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Ernst & Young
Registered Auditor
London



18 JUN 2001

Avenell Property plc
(formerly Avenell Property Limited, formerly Pondland Limited)

PROFIT AND LOSS ACCOUNT
for the period from 30 July 1999 to 31 December 2000

		<i>Period to</i> <i>31 December</i> <i>2000</i> <i>£000</i>
	<i>Notes</i>	
Operating expenses		(12)
OPERATING LOSS		<u>(12)</u>
Interest receivable		405
Interest payable	3	(1,649)
		<u></u>
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER		
TAXATION BEING RETAINED LOSS FOR THE PERIOD		<u><u>(1,256)</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no gains or losses in the period except for the loss dealt with in the profit and loss account.

Avenell Property plc
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BALANCE SHEET
at 31 December 2000

	Notes	2000 £000
FIXED ASSETS		
Investments	4	27,905
CURRENT ASSETS		
Cash		13
Debtors	6	37
		<u>50</u>
CREDITORS: amounts falling due within one year	7	(1,615)
		<u>(1,565)</u>
NET CURRENT LIABILITIES		
		<u>26,340</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		
CREDITORS: amounts falling due in more than one year	8	(27,546)
		<u>(1,206)</u>
		<u><u></u></u>
CAPITAL AND RESERVES		
Called up share capital	9	50
Profit and loss account	10	(1,256)
		<u>(1,206)</u>
EQUITY SHAREHOLDERS' FUNDS		<u><u>(1,206)</u></u>



Representing LDC Corporate Director No. 1 Limited
Director

18 JUN 2001

Avenell Property plc
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STATEMENT OF CASH FLOWS
for the period from 30 July 1999 to 31 December 2000

	<i>Notes</i>	<i>Period to 31 December 2000 £000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	11	–
RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
Interest receivable		–
FINANCIAL INVESTMENT		
Payment to acquire an interest in freeholds		(27,500)
NET CASH OUTFLOW BEFORE FINANCING		(27,500)
Issue of £28,853,000 of 7.0907913% Secured Bonds due 2023		28,853
Bond issue costs		(1,353)
Issue of share capital		13
INCREASE IN CASH		13
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		
Increase in cash		13
Issue of £28,853,000 of 7.0907913% Secured Bonds due 2023		(28,853)
Issue costs		1,353
Change in net debt resulting from cash flow		(27,487)
Other movements		(46)
MOVEMENT IN NET DEBT		(27,533)
At incorporation		–
AT 31 DECEMBER 2000	11	(27,533)

Avenell Property plc

(formerly Avenell Property Limited, formerly Pondland Limited)

NOTES TO THE ACCOUNTS

at 31 December 2000

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention, as modified by the treatment of fixed asset investments disclosed below, and are in accordance with applicable accounting standards.

Going concern

As at 31 December 2000 the company has a surplus of liabilities. The financial statements have, however, been prepared on a going concern basis as the directors have prepared recent forecasts and believe that the proceeds from the sale of the company's interest in freeholds in 2023 will be sufficient to meet the accrued liabilities of the company which crystallise at that date.

Fixed asset investments

Investments held as fixed assets are initially recorded at cost. The appreciation in value of the company's interest in freeholds underlying the value of the loan, to the extent that the realisation of such appreciation is reasonably certain, will be accreted at a constant periodic rate over the term to maturity of that investment. This income is disclosed as interest receivable in the profit and loss account.

Provision is made against the carrying value of the assets to the extent that there has been a diminution in value.

2. LOSS ON ORDINARY ACTIVITIES

Loss on ordinary activities is stated after charging:

	<i>Period to 31 December 2000 £000</i>
Auditors' remuneration	12

In addition, included in the issue costs incurred on the Secured Bonds is an amount of £35,000 paid to the auditors.

3. INTEREST PAYABLE

	<i>Period to 31 December 2000 £000</i>
Bond interest	1,603
Issue expenses amortised	46
	<u>1,649</u>

Avenell Property plc

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NOTES TO THE ACCOUNTS

at 31 December 2000

4. FIXED ASSET INVESTMENTS

Loans

	£000
At incorporation	—
Additions in period at cost	27,500
Accretion in value in period	405
At 31 December 2000	<u>27,905</u>

5. TAXATION

In relation to the potential liability to United Kingdom income or corporation tax, the directors have taken advice from the company's tax advisers, Clifford Chance Limited Liability Partnership, and, on the basis of that advice, are satisfied as to the absence, under current law and practice, of any exposure of the company to such United Kingdom tax.

To avoid additional expense and delay in the issue of these accounts, this advice has not been provided to the company's auditors, Ernst & Young, who have not been retained to advise on taxation matters.

6. DEBTORS

	31 December 2000 £000
Called up share capital unpaid	<u>37</u>

7. CREDITORS: amounts falling due within one year

	31 December 2000 £000
Accruals	<u>1,615</u>

8. CREDITORS: amounts falling due after more than one year

	31 December 2000 £000
£28,853,000 of 7.0907913% Secured Bonds due 2023	<u>27,546</u>

The Secured Bonds were issued at par in the period. The Secured Bonds are secured by a fixed and floating charge over the company's property, assets and undertakings.

The bonds are held in their entirety by Highbury Finance B.V.

Avenell Property plc

(formerly Avenell Property Limited, formerly Pondland Limited)

NOTES TO THE ACCOUNTS

at 31 December 2000

9. SHARE CAPITAL

	<i>31 December</i>
	<i>2000</i>
	£
<i>Authorised:</i>	
Ordinary shares of £1 each	50,000
	<hr/>
	<i>31 December</i>
	<i>2000</i>
	£
<i>Allotted and called up:</i>	
2 ordinary shares of £1 each – fully paid up	2
49,998 ordinary shares of £1 each – paid up to £0.25	49,998
	<hr/>
	50,000
	<hr/>

Upon incorporation on 30 July 1999, as Pondland Limited, a private limited company under the Companies Act 1985, the company had an authorised share capital of £100 divided into ordinary shares of £1 each, of which 1 ordinary share was issued fully paid.

Pursuant to a written resolution passed on 13 October 1999 the company changed its name to Avenell Property Limited.

Pursuant to a special resolution passed on 9 March 2000 the company's authorised share capital was increased to £50,000 by the creation of 49,900 ordinary shares of £1 each. Subsequently a further 49,998 ordinary shares were issued paid up at £0.25 each and 1 ordinary share was issued fully paid.

Pursuant to a special resolution passed on 9 March 2000 the company re-registered as Avenell Property Plc.

10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total share- holders' funds £000</i>
At incorporation	–	–	–
Share capital issued	50	–	50
Loss for the period	–	(1,256)	(1,256)
	<hr/>	<hr/>	<hr/>
At 31 December 2000	50	(1,256)	(1,206)
	<hr/>	<hr/>	<hr/>

Avenell Property plc

(formerly Avenell Property Limited, formerly Pondland Limited)

NOTES TO THE ACCOUNTS

at 31 December 2000

11. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating loss to net cash inflow from operating activities:

	£000
Operating loss	(12)
Increase in creditors	12
	<u> </u>
	<u> </u>

(b) Analysis of changes in net debt:

	<i>At incorporation</i>	<i>Cash flow</i>	<i>Non-cash movements</i>	<i>At 31 December 2000</i>
	£000	£000	£000	£000
Secured Bonds 2023	–	(27,500)	(46)	(27,546)
Cash	–	13	–	13
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	–	(27,487)	(46)	(27,533)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

12. FINANCIAL COMMITMENTS

Avenell Property Plc has entered into an agreement with Avenell Leasing Limited to issue a series of Zero Coupon Bonds issued at discount over the period to 2023. The Zero Coupon Bonds will be issued to fund Avenell Property Plc's ongoing interest liabilities.

Avenell Leasing Limited is a company which has entered into a joint financing arrangement with Avenell Property Plc, Highbury Finance BV and J Sainsbury plc.

13. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The company has raised finance through the issue of Secured Bonds. Interest bearing borrowings are at fixed rates of interest.

The company operates a long-term business and its policy is to finance it with long-term financing.

The disclosures below exclude short-term debtors and creditors.

Interest rate risk profile of financial liabilities

	<i>Fixed rate</i>	<i>Weighted average interest rate</i>	<i>Weighted average period for which rate is fixed</i>
	£000	%	yrs
At 31 December 2000			
Sterling	28,853	7.097913	23
	<u> </u>	<u> </u>	<u> </u>

Avenell Property plc

(formerly Avenell Property Limited, formerly Pondland Limited)

NOTES TO THE ACCOUNTS

at 31 December 2000

13. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial assets

	<i>Floating rate £000</i>
At 31 December 2000	
Sterling	27,905

The floating rate financial assets comprise a loan, the underlying value of which is the interest in freeholds. The company is entitled to a priority payment from the proceeds of the sale of the freeholds up to £170 million. In addition should the sale proceeds of the freeholds be higher than £170 million the company has a right to share in the excess according to a sliding scale. A downturn in property values may mean that the £170 million is not realised. However, the company has the benefit of a financial guarantee from a third party for part of this amount.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the company's financial assets and financial liabilities as at 31 December 2000.

	<i>Book value at 31 December 2000 £000</i>	<i>Fair value at 31 December 2000 £000</i>
Secured Bonds 2023	27,546	28,869
Loan	27,905	35,206

The fair value of the Secured Bonds 2023 and loan have been determined by discounted cash flows.

Maturity of the company's financial liabilities

	<i>£000</i>
In less than one year	—
Between one and two years	—
Between two and five years	—
In more than five years	28,853
	28,853
Unamortised issue costs	(1,307)
	(27,546)

The Secured Bonds 2023 are due to be repaid in full in March 2023. This redemption will be funded by the sale of the company's interest in the freeholds.

Avenell Property plc

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NOTES TO THE ACCOUNTS

at 31 December 2000

14. ULTIMATE PARENT UNDERTAKING

The company's immediate and ultimate parent undertaking is Avenell Holdings Limited.

In the directors' opinion, the company's controlling party is Law Debenture Intermediary Corporation PLC.