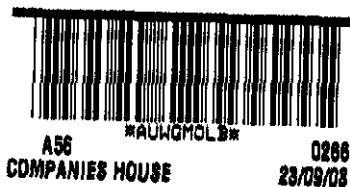


PREFERRED HOLDINGS LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2002

Company Number 4191096



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Preferred Holdings Limited

Officers and professional advisers

Directors

G J Folwell (Chairman)
D J Pitocco (Chief Executive)
O J Clarke
S E Khadhour
P E Hopes
J A Webster
G Patellis

Secretary

P E Hopes

Registered Office

Oakfield House
35 Perrymount Road
Haywards Heath
West Sussex
RH16 3BX

Bankers

Barclays Bank PLC
54 Lombard Street
London
EC3V 9EX

National Westminster Bank Plc
1 Princes Street
London
EC2R 8PB

Preferred Holdings Limited

Officers and professional advisers (continued)

Bankers (continued)

Girobank Plc
Bridle Road
Bootle
Merseyside
GIR 0AA

Auditors

Deloitte & Touche
Chartered Accountants
Birmingham

Preferred Holdings Limited

Report of the directors

The directors present their report and audited financial statements for the year to 31 December 2002.

Activities

The company acts as an investment holding company.

Future prospects

The directors are confident that the company is well placed to continue its activities.

Results

The results of the group for the period are shown in the consolidated profit and loss account on page 8. The directors do not recommend the payment of a dividend.

Directors and their interests

The present directors are shown on page 2 and all served throughout the year.

N M Elstub resigned as a director on 1 May 2002.

The beneficial interests of the directors, and of their families, in the shares of the company are set out below.

	At 31 December 2002 Ordinary shares of 10p each	At 31 December 2001 Ordinary shares of 10p each
D J Pitocco	9,334	9,334
P E Hopes	9,333	9,333
J A Webster	9,333	9,333
G Patellis	2,000	2,000
G J Folwell	2,000	-
	'A' Ordinary shares of 1p each	'A' Ordinary shares of 1p each
O J Clarke	919	919
N M Elstub	413	413
	'B' Ordinary shares of 1p each	'B' Ordinary shares of 1p each
D J Pitocco	642	642

Preferred Holdings Limited

Report of the directors (continued)

Financial instruments

The group's financial instruments during the year comprised Mortgage Backed Floating Rate Notes (the "Notes") and cash. The main purpose of these instruments was to raise finance for the group's business. The Notes are listed on either the London or Luxembourg Stock Exchange. The directors have decided *not to enter into any derivative transactions in the year, to manage the group's interest rate, liquidity or foreign currency risks.* The methods adopted by the group to manage such risks are summarised below.

Interest rate risk

All of the group's assets and liabilities are based on floating rates or fixed rates or are non interest bearing. The directors believe that the group does not face interest rate risks in respect of those assets and liabilities which are based on floating rates, as the interest rates on its floating rate mortgages are mitigated by those on the floating rate Notes. So far as the fixed rate loan stock is concerned, the directors are mindful of the potentially increased interest rate risk of holding fixed rate liabilities and are monitoring rates with a view to taking hedging action if and when that appears to be appropriate.

Liquidity risk

The directors manage liquidity risk through the use of the subordinated loan. There is deemed to be no further liquidity risk facing the group, as the maturity of the Notes is designed to match the overall maturity of the mortgages

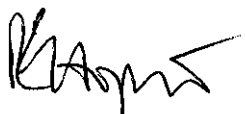
Foreign currency risk

The group has not entered into any foreign currency transactions in the year, and therefore does not face any exchange rate risks.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the directors



P E Hopes

Secretary

2 July 2003

Preferred Holdings Limited

Statement of directors' responsibilities

The directors are required by United Kingdom company law to prepare financial statements for each financial period 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 or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been used in the preparation of the financial statements. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors have responsibility 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 financial statements comply with the Companies Act 1985. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Preferred Holdings Limited

Independent auditors' report to the members of Preferred Holdings Limited

We have audited the financial statements of Preferred Holdings Limited for the period ended 31 December 2002 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company's balance sheet, the consolidated cash flow statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for the report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors' are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

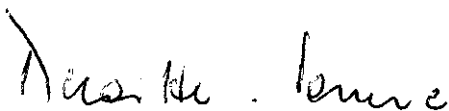
Basis of audit opinion

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 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 31 December 2002 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Birmingham

28 July 2003

Preferred Holdings Limited

Consolidated profit and loss account For the year to 31 December 2002

	Note	Year to 31 December 2002	Period from 30 March 2001 to 31 December 2001
		£000	£000
Interest receivable	2	36,164	15,621
Interest payable and similar charges	3	(22,142)	(10,170)
Shareholder loan note interest		(511)	(19)
Amortisation of guarantee costs		(433)	(457)
Net interest income		13,078	4,975
Profit on sale of mortgage assets	4	1,096	-
Other operating income	5	6,817	2,661
Operating expenses		(16,531)	(6,655)
Amortisation of goodwill		(424)	(213)
Operating profit and profit on ordinary activities before taxation	6	4,036	768
Taxation	8	73	(2)
Profit on ordinary activities after taxation		4,109	766
Equity minority interests		(7)	(3)
Profit for the financial period	20	4,102	763

All of the activities are continuing activities and there are no other gains or losses recognised in the current financial statements other than those stated in the profit and loss account.

Preferred Holdings Limited

Consolidated balance sheet as at 31 December 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Intangible assets	11		7,861		8,285
Tangible assets	12		2,367		555
Mortgage loans – unsecuritised balances	14		142,338		31,863
Mortgage loans – securitised balances	15	434,781		352,014	
Less: non-recourse borrowings	15	(433,120)		(338,002)	
			1,661		14,012
			154,227		54,715
Current assets					
Debtors	16		32,354		8,326
Cash at bank and in hand			21,000		2,741
Total current assets			53,354		11,067
Creditors: amounts falling due within one year	17		(183,225)		(39,668)
Net current liabilities			(129,871)		(28,601)
Total assets less current liabilities			24,356		26,114
Creditors: amounts falling due after more than one year	18		(18,981)		(24,870)
Equity minority interests			(23)		(16)
Net assets			5,352		1,228
Capital and reserves					
Called up share capital	19		5		5
Share premium	20		482		460
Profit and loss account	20		4,865		763
Equity shareholders' funds	21		5,352		1,228

These financial statements were approved by the Board of Directors on 2 July 2003.

Signed on behalf of the Board of Directors


D J Ptoeco
Director


Preferred Holdings Limited

Balance sheet as at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Investments	13	-	-
		-	-
Current assets			
Debtors	16	425	425
Cash		8	-
Total current assets		433	425
Creditors: amounts falling due within one year	17	(72)	(30)
Net current assets		361	395
Total assets less current liabilities		361	395
Creditors: amounts falling due after more than one year		-	-
Net assets		361	395
Capital and reserves			
Called up share capital	19	5	5
Share premium	20	482	460
Profit and loss account	20	(126)	(70)
Equity shareholders' funds	21	361	395

These financial statements were approved by the Board of Directors on 2 July 2003

Signed on behalf of the Board of Directors


 D J Pitocco
 Director

Preferred Holdings Limited

Consolidated cash flow statement for the year to 31 December 2002

	Note	2002 £000	Period from 30 March 2001 to 31 December 2001 £000
Net cash outflow from operating activities	23	(189,448)	(124,399)
Returns on investments and servicing of finance	24	(22,654)	(10,189)
Capital expenditure and financial investment	24	(1,812)	(303)
Acquisitions and disposals	24	-	(2,383)
Cash outflow before use of liquid resources and financing		(213,914)	(137,274)
Financing	24	231,861	139,907
Increase in cash in the period		17,947	2,633

Reconciliation of net cash flow to movement in net debt (note 24)

	2002 £000	Period from 30 March 2001 to 31 December 2001 £000
Increase in cash in the period	17,947	2,633
Cash inflow from increase in debt financing	(94,301)	(139,442)
Change in net debt arising from cash flows	(76,354)	(136,809)
Loans acquired with subsidiary	-	(258,262)
Other non-cash changes	-	(3,327)
Net debt at 31 December 2001	(398,398)	-
Net debt at 31 December 2002	(474,752)	(398,398)

Preferred Holdings Limited

Notes to the accounts

1. Accounting policies

(a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

(b) Basis of consolidation

The group accounts incorporate the accounts of the company and its subsidiaries. The companies make up their accounts to the same date.

Quasi-subidiaries are included within the consolidated financial statements on a line-by-line basis. The results of each quasi-subidiary and summarised balance sheets are shown in notes 14 and 15. The operating profit remaining in the quasi-subidiaries is due to the shareholders of the quasi-subidiaries and is shown as minority interests in these consolidated financial statements.

(c) Acquisitions

On the acquisition of a business, fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

(d) Goodwill

For acquisitions of a business, purchased goodwill is capitalised in the year in which it arises and is amortised over its estimated useful life up to a maximum of 20 years. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period. Capitalised goodwill is included in intangible fixed assets.

(e) Going concern

After making enquires, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

Preferred Holdings Limited

Notes to the accounts (continued)

1. Accounting policies (continued)

(f) Linked presentation

The group has sold by securitisation, certain mortgages to quasi-subsiidiaries on a non-recourse basis. In accordance with the requirements of Financial Reporting Standard No 5 "Reporting the Substance of Transactions", these amounts cannot be derecognised and have been disclosed on the face of the balance sheet with the non-recourse finance deducted from them, using the linked presentation basis. The group is not obliged to support any of the losses of the underlying mortgages nor does it intend to do so.

(g) Mortgage loans

Mortgage loans are stated at cost less a provision for bad or doubtful debts.

(h) Income recognition

Interest receivable and insurance commissions are accounted for on an accruals basis. Fees are credited to income when they have been charged to the mortgagor's account.

(i) Bad and doubtful debts

Repossessions

A specific provision is maintained for all repossessions (both sold and unsold) where there is a shortfall or a likely shortfall between the value received from the sale of the property and the amount owed by the borrower.

Current borrowers

A specific provision is made based on historical data on the likelihood of a property being repossessed given the current level of arrears and the recoverability of those arrears if the property were to be repossessed and subsequently sold.

(j) Depreciation of tangible fixed assets

The depreciation of tangible fixed assets is calculated to write off the cost of an asset on a straight line basis, at the following rates per annum:

Office furniture, fixtures and fittings	15%
Office equipment and computer software	25%

(k) Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Preferred Holdings Limited

Notes to the accounts (continued)

1. Accounting policies (continued)

(l) Operating lease rentals

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(m) Origination costs deferral

Third party introduction fees incurred in originating mortgages are written off over the period in which early redemption charges apply (currently 36 months from the date of completion) or the life of the mortgage loan, whichever is the shorter.

(n) Pension costs

The group pays contributions to defined contribution pension schemes that are either personal pension plans or group personal pension schemes. Such contributions are charged in the accounts as they accrue.

2. Interest receivable

	Period from 30 March 2001 to 31 December 2001	
	2002 £000	£000
Mortgage interest	35,198	15,131
Bank interest	966	490
	<u>36,164</u>	<u>15,621</u>

3. Interest payable and similar charges

	Period from 30 March 2001 to 31 December 2001	
	2002 £000	£000
Mortgage backed floating rate notes	16,055	6,359
Other interest	6,087	3,811
	<u>22,142</u>	<u>10,170</u>

Preferred Holdings Limited

Notes to the accounts (continued)

4. Profit on sale of mortgage assets

During the year Preferred Mortgages Limited sold mortgage assets of £24,873,000 recognising a profit of £1,096,000.

5. Other operating income

	Period from 30 March 2001 to 31 December 2001	
	2002 £000	2001 £000
Commissions and fee income	6,817	2,661

6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Period from 30 March 2001 to 31 December 2001	
	2002 £000	2001 £000
Auditors' remuneration:		
Audit services – group	25	25
– company	1	1
Non-audit services – group	9	4
Depreciation of tangible fixed assets	452	108
Amortisation of goodwill	424	213
Operating lease rentals in respect of:		
Land and buildings	328	114
Other	65	40

7. Loss of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the financial period amounted to £56,000.

Preferred Holdings Limited

Notes to the accounts (continued)

8. Taxation

(a) Tax charge for the period

	2002 £000	2001 £000
UK corporation tax at 30%	3	3
Adjustment in respect of prior periods	-	(1)
Total current tax for period (note 8b)	<u>3</u>	<u>2</u>
Deferred taxation		
Adjustment to deferred tax assets arising in earlier periods	(1,591)	(616)
Origination and reversal of timing differences	1,515	616
Total deferred tax	<u>(76)</u>	<u>-</u>
Total current tax	<u>(73)</u>	<u>2</u>

(b) Factors affecting tax charge for the period

	2002 £000	2001 £000
Profit before taxation	<u>4,036</u>	<u>736</u>
Expected tax charge at 30%	1,210	221
Expenditure not qualifying for tax relief	10	10
Capital allowances in (excess) of depreciation	(75)	(1)
Non deductible goodwill	127	65
Other timing differences	-	(496)
(Utilisation) / creation of tax losses	(1,269)	212
Other adjustments	-	(8)
Adjustment in respect of prior periods	-	(1)
Total current tax	<u>3</u>	<u>2</u>

Preferred Holdings Limited

Notes to the accounts (continued)

8. Taxation (continued)

(c) Deferred tax (part of note 16)

The deferred tax asset can be analysed as follows

	2002 £000	2001 £000
Capital allowances in (excess) of depreciation	(74)	-
Tax losses	150	-
	<u>76</u>	<u>-</u>
	<u>76</u>	<u>-</u>
	2002 £000	2001 £000
Balance at 1 January	-	-
Credit to profit and loss account	76	-
	<u>76</u>	<u>-</u>
	<u>76</u>	<u>-</u>

The deferred tax asset is recoverable against future profits of the same trade of the company. The directors consider it to be recoverable based on the performance of the business in the first half of 2003 and the forecasted business for the remainder of the period. In addition the group has an unrecognised deferred tax asset of £150,000 in respect of tax losses in a subsidiary, which is not budgeted to make taxable profits in the foreseeable future.

9. Directors' emoluments

Directors' emoluments are as follows:

	2002 £000	2001 £000
Salaries	737	509
Other	67	64
	<u>804</u>	<u>573</u>
	<u>804</u>	<u>573</u>
Remuneration of the Chairman	25	13
Remuneration of the highest paid director	333	175

None of the directors are members of a company pension scheme, but during the year, the company has made contributions to personal pensions plans for the directors totalling £12,941 (2001 - £7,248).

Preferred Holdings Limited

Notes to the accounts (continued)

10. Employees

The average number of employees, including directors, during the year was 143 (2001 – 86) and they were employed in the following areas of the business:

	2002 Number	2001 Number
Sales and marketing	18	17
Administration	125	69
	<u>143</u>	<u>86</u>

The costs incurred in respect of these employees were:

	2002 £000	2001 £000
Salaries	3,580	1,611
Pension costs	127	54
Social security costs	446	201
	<u>4,153</u>	<u>1,866</u>

Pension costs represent contributions made by the company to the personal pension plans or group personal pension schemes of certain employees.

11. Intangible fixed assets

	Goodwill £000
Cost	
At 1 January 2002 and 31 December 2002	8,498
	<u> </u>
Accumulated amortisation	
At 1 January 2002	213
Charge for period	424
	<u> </u>
At 31 December 2002	637
	<u> </u>
Net book value	
At 31 December 2002	7,861
	<u> </u>
At 31 December 2001	8,285
	<u> </u>

Preferred Holdings Limited

Notes to the accounts (continued)

12. Tangible fixed assets

The Group	Office equipment £000	Fixtures & furniture £000	Total £000
Cost			
At 1 January 2002	883	282	1,165
Additions	2,171	93	2,264
At 31 December 2002	<u>3,054</u>	<u>375</u>	<u>3,429</u>
Depreciation			
At 1 January 2002	480	130	610
Charge for the year	401	51	452
At 31 December 2002	<u>881</u>	<u>181</u>	<u>1,062</u>
Net book value			
At 31 December 2002	<u>2,173</u>	<u>194</u>	<u>2,367</u>
At 31 December 2001	<u>403</u>	<u>152</u>	<u>555</u>

The company has no tangible fixed assets.

13. Fixed asset investments

The company	Shares in subsidiary undertakings £
Cost	
At 1 January 2002 and 31 December 2002	<u>1</u>
Net book value	
At 31 December 2001 and 31 December 2002	<u>1</u>

Preferred Holdings Limited

Notes to the accounts (continued)

13. Fixed asset investments (continued)

Subsidiary undertakings	Country of registration and operation	Activity	Portion of ordinary shares held
Preferred Group Limited	England & Wales	Investment holding company	100%
Preferred Mortgages Limited*	England & Wales	Provision of loans secured on properties	100%
Yellow Brick Road Limited*	England & Wales	Dormant	100%
Preferred Home Loans Limited*	England & Wales	Dormant	100%

With the exception of the companies marked with an asterisk, all shareholdings are in the name of Preferred Holdings Limited. All subsidiaries have been included in the consolidation.

14. Mortgage loans - unsecuritised balances

	£000
Cost	
At 1 January 2002	32,288
Advances	366,905
Other debits and credits	7,241
Securitisations	(227,822)
Sales	(24,873)
Repayments	(7,203)
Redemptions	(3,747)
At 31 December 2002	<u>142,789</u>

Preferred Holdings Limited

Notes to the accounts (continued)

14. Mortgage loans - unsecuritised balances (continued)

	£000
Provision	
At 1 January 2002	425
Charge for the period	26
	<hr/>
At 31 December 2002	451
	<hr/>
Net book value	
At 31 December 2002	142,338
	<hr/>
At 31 December 2001	31,863
	<hr/>

Preferred Mortgages Limited transfers mortgage loans on an ongoing basis to Preferred Funding One Limited ("PF1") and Preferred Funding Two Limited ("PF2"), which are owned by a charitable trust. Preferred Mortgages Limited is not obliged to support any losses of these companies or their related company, Curzon Collections Limited, and does not intend to do so. The liabilities of PF1 and PF2 are only repayable out of funds generated by the mortgage loans, and there is no recourse to the group for any shortfall.

Claims on the cash generated by the mortgage loans are determined in accordance with a strict priority of payments. Preferred Mortgages Limited is entitled to residual income from the mortgage loans, the amount of which is dependent on their performance. The proceeds received by Preferred Mortgages Limited from the transfer of the mortgage loans, are non-returnable.

Preferred Holdings Limited

Notes to the accounts (continued)

14. Mortgage loans - unsecuritised balances (continued)

The summary financial statements of PF1 before consolidation adjustments as at 31 December 2002 are as follows.

Summarised profit and loss account for the year to 31 December 2002

	2002	period from 25 May 2001 to 31 December 2001
	£	£
Interest receivable	5,430,513	4,370,595
Interest payable and similar charges	(3,831,096)	(3,123,703)
Net interest income	1,599,417	1,246,892
Other operating income	107,628	114,342
Total income	1,707,045	1,361,234
Operating expenses	(1,706,671)	(1,356,463)
Operating profit	374	4,771

Operating expenses include the provision for deferred consideration payable to the group of £1,175,168 (2001 - £813,071).

Summarised balance sheet as at 31 December 2002

	2002	2001
	£	£
Fixed assets	120,407,093	31,855,214
Current assets	22,032,272	4,777,394
Creditors due within one year	(142,428,033)	(36,621,651)
Net current assets	11,332	10,957
Capital and reserves		
Called up share capital	2	2
Profit and loss account	11,330	10,955
Total equity shareholders' funds	11,332	10,957

Preferred Holdings Limited

Notes to the accounts (continued)

14. Mortgage loans - unsecuritised balances (continued)

The summary financial statements of PF2 before consolidation adjustments as at 31 December 2002 are as follows.

Summarised profit and loss account for the year to 31 December 2002

	2002 £	period from 25 May 2001 to 31 December 2001 £
Interest receivable	1,982,143	-
Interest payable and similar charges	(1,529,385)	-
Net interest income	452,758	-
Other operating income	34,122	-
Total income	486,880	-
Operating expenses	(486,756)	(5,842)
Operating profit/(loss)	124	(5,842)

Operating expenses include the provision for deferred consideration payable to the group of £365,398 (2001 - nil).

Summarised balance sheet as at 31 December 2002

	2002 £	2001 £
Fixed assets	21,824,146	-
Current assets	6,549,975	2
Creditors due within one year	(28,379,837)	(5,842)
Net assets	(5,716)	(5,840)
Capital and reserves		
Called up share capital	2	2
Profit and loss account	(5,718)	(5,842)
Total equity shareholders' deficit	(5,716)	(5,840)

The activity of transferring mortgages loans from Preferred Mortgages Limited to PF2 did not commence until January 2002.

Preferred Holdings Limited

Notes to the accounts (continued)

15. Mortgage loans - securitised balances

Preferred Mortgages Limited has securitised mortgage loans to Preferred Residential Securities 1 Plc ("PRS1"), Preferred Residential Securities 2 Plc ("PRS2"), Preferred Residential Securities 3 Plc ("PRS3"), Preferred Residential Securities 4 Plc ("PRS4") and Preferred Residential Securities 5 Plc ("PRS5"), which are each owned by a charitable trust.

As Preferred Mortgages Limited is not obliged to support any losses of PRS1, PRS2, PRS3, PRS4 and PRS5, and does not intend to do so, linked presentation has been adopted. Principal and interest on the floating rate notes issued by PRS1, PRS2, PRS3, PRS4 and PRS5 are only repayable out of funds generated by the mortgage loans, and there is no recourse to the group for any shortfall.

Claims on the cash generated by the mortgage loans are determined in accordance with a strict priority of payments. Preferred Mortgages Limited is entitled to deferred consideration from the mortgage loans, the amount of which is dependent on their performance. The proceeds received by Preferred Mortgages Limited from the securitisation of the mortgage loans, are non refundable.

Analysis of securitised debtors receivable

	2002 £000	2001 £000
Securitised debtors receivable	380,642	304,687
Cash received from debtors	54,139	47,327
	<u>434,781</u>	<u>352,014</u>

Analysis of non-recourse borrowings

	2002 £000	2001 £000
Capital value of borrowings	432,065	336,769
Interest payable on the borrowings	1,055	1,233
	<u>433,120</u>	<u>338,002</u>

Preferred Holdings Limited

Notes to the accounts (continued)

15. Mortgage loans - securitised balances (continued)

The summary financial statements of PRS1 before consolidation adjustments as at 31 December 2002 are as follows.

Summarised profit and loss account for the year to 31 December 2002

	2002	period from 25 May 2001 to 31 December 2001
	£	£
Interest receivable	889,388	901,871
Interest payable and similar charges	(516,771)	(497,191)
Net interest income	372,617	404,680
Other operating income	64,429	57,663
Total income	437,046	462,343
Operating expenses	(436,770)	(461,738)
Operating profit	276	605

Operating expenses include the provision for deferred consideration payable to the group of £288,292 (2001 - £408,455).

Summarised balance sheet as at 31 December 2002

	2002	2001
	£	£
Fixed assets	8,417,881	12,961,032
Current assets	1,551,176	2,635,833
Creditors due within one year	(3,883,566)	(7,027,063)
Net current liabilities	(2,332,390)	(4,391,230)
Total assets less current liabilities	6,085,491	8,569,802
Creditors due after more than one year	(6,031,607)	(8,516,188)
Net assets	53,884	53,614
Capital and reserves		
Called up share capital	50,000	50,000
Profit and loss account	3,884	3,614
Total equity shareholders' funds	53,884	53,614

Preferred Holdings Limited

Notes to the accounts (continued)

15. Mortgage loans - securitised balances (continued)

The summary financial statements of PRS2 before consolidation adjustments as at 31 December 2002 are as follows.

Summarised profit and loss account for the year to 31 December 2002

	2002 £	period from 25 May 2001 to 31 December 2001 £
Interest receivable	3,353,434	3,120,451
Interest payable and similar charges	(2,150,255)	(1,885,031)
Net interest income	1,203,179	1,235,420
Other operating income	229,417	188,819
Total income	1,432,596	1,424,239
Operating expenses	(1,431,624)	(1,423,375)
Operating profit	972	864

Operating expenses include the provision for deferred consideration payable to the group of £1,249,480 (2001 - £1,092,348).

Summarised balance sheet as at 31 December 2002

	2002 £	2001 £
Fixed assets	32,332,393	47,528,319
Current assets	2,298,294	4,195,848
Creditors due within one year	(34,575,999)	(16,934,536)
Net current liabilities	(32,277,705)	(12,738,688)
Total assets less current liabilities	54,688	34,789,631
Creditors due after more than one year	-	(34,735,891)
Net assets	54,688	53,740
Capital and reserves		
Called up share capital	50,000	50,000
Profit and loss account	4,688	3,740
Total equity shareholders' funds	54,688	53,740

Preferred Holdings Limited

Notes to the accounts (continued)

15. Mortgage loans - securitised balances (continued)

The summary financial statements of PRS3 before consolidation adjustments as at 31 December 2002 are as follows.

Summarised profit and loss account for the year to 31 December 2002

	2002 £	period from 25 May 2001 to 31 December 2001 £
Interest receivable	7,312,187	6,178,274
Interest payable and similar charges	(4,392,838)	(3,732,339)
Net interest income	2,919,349	2,445,935
Other operating income	479,704	319,721
Total income	3,399,053	2,765,656
Operating expenses	(3,396,651)	(2,763,848)
Operating profit	2,402	1,808

Operating expenses include the provision for deferred consideration payable to the group of £2,782,740 (2001 - £1,615,277).

Summarised balance sheet as at 31 December 2002

	2002 £	2001 £
Fixed assets	67,427,987	101,445,733
Current assets	6,551,227	10,550,423
Creditors due within one year	(19,929,529)	(34,227,208)
Net current liabilities	(13,378,302)	(23,676,785)
Total assets less current liabilities	54,049,685	77,768,948
Creditors due after more than one year	(53,994,985)	(77,716,098)
Net assets	54,700	52,850
Capital and reserves		
Called up share capital	50,000	50,000
Profit and loss account	4,700	2,850
Total equity shareholders' funds	54,700	52,850

Preferred Holdings Limited

Notes to the accounts (continued)

15. Mortgage loans - securitised balances (continued)

The summary financial statements of PRS4 before consolidation adjustments as at 31 December 2002 are as follows.

Summarised profit and loss account for the year to 31 December 2002

	2002 £	period from 25 May 2001 to 31 December 2001 £
Interest receivable	13,200,450	990,306
Interest payable and similar charges	(7,996,947)	(454,125)
Net interest income	5,203,503	536,181
Other operating income	681,108	33,866
Total income	5,884,611	570,047
Operating expenses	(5,881,194)	(569,693)
Operating profit	3,417	354

Operating expenses include the provision for deferred consideration payable to the group of £4,280,637 (2001 - £283,026).

Summarised balance sheet as at 31 December 2002

	2002 £	2001 £
Fixed assets	132,178,181	142,751,995
Current assets	6,049,550	31,667,141
Creditors due within one year	(35,650,404)	(40,514,747)
Net current liabilities	(29,600,854)	(8,847,606)
Total assets less current liabilities	102,577,327	133,904,389
Creditors due after more than one year	(102,523,898)	(133,854,035)
Net assets	53,429	50,354
Capital and reserves		
Called up share capital	50,000	50,000
Profit and loss account	3,429	354
Total equity shareholders' funds	53,429	50,354

Preferred Holdings Limited

Notes to the accounts (continued)

15. Mortgage loans - securitised balances (continued)

The first set of summary financial statements of PRS5 before consolidation adjustments as at 31 December 2002 are as follows.

Summarised profit and loss account for the year to 31 December 2002.

	period from 8 August 2002 to 31 December 2002 £
Interest receivable	3,987,415
Interest payable and similar charges	(2,772,604)
Net interest income	1,214,811
Other operating income	135,441
Total income	1,350,252
Operating expenses	(1,349,032)
Operating profit	1,220

Operating expenses include the provision for deferred consideration payable to the group of £654,968 (2001 - £nil).

Summarised balance sheet as at 31 December 2002

	2002 £
Fixed assets	194,366,471
Current assets	5,843,041
Creditors due within one year	(36,092,985)
Net current liabilities	(30,249,944)
Total assets less current liabilities	164,116,527
Creditors due after more than one year	(164,102,805)
Net assets	13,722
Capital and reserves	
Called up share capital	12,502
Profit and loss account	1,220
Total equity shareholders' funds	13,722

Preferred Holdings Limited

Notes to the accounts (continued)

16. Debtors

Amounts due within one year

	2002	2001
The group	£000	£000
Deferred origination costs	7,656	3,893
Deferred taxation	73	-
Other debtors	21,228	1,396
Prepayments and accrued income	3,397	3,037
	<u>32,354</u>	<u>8,326</u>

	2002	2001
The company	£000	£000
Amounts owed by related companies	425	425
	<u>425</u>	<u>425</u>

17. Creditors: amounts falling due within one year

	2002	2001
The group	£000	£000
Bank overdraft	420	108
Mortgage backed floating rate notes	179,740	38,159
Social security and other taxes	174	122
Other creditors	1,678	457
Finance lease	105	-
Corporation tax	1	1
Accruals and deferred income	1,107	821
	<u>183,225</u>	<u>39,668</u>

	2002	2001
The company	£000	£000
Amounts owed to related companies	70	29
Accruals and deferred income	2	1
	<u>72</u>	<u>30</u>

Preferred Holdings Limited

Notes to the accounts (continued)

18. Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Finance lease	166	7,300
Unsecured 'A' loan stock (see note 26)	14,965	13,920
Unsecured 'B' loan stock (see note 26)	3,850	3,650
	<u>18,981</u>	<u>24,870</u>

19. Called up share capital

	2002 £	2001 £
Authorised, allotted and called up:		
137,862 'A' Ordinary shares of 1p each	1,379	1,379
35,474 'B' Ordinary shares of 1p each	355	355
10,001 'C' Ordinary shares of 1p each	100	-
37,020 Ordinary shares of 10p each	3,702	3,702
	<u>5,536</u>	<u>5,436</u>
	2002 £	2001 £
Fully paid:		
132,873 'A' Ordinary shares of 1p each	1,329	1,312
29,211 'B' Ordinary shares of 1p each	292	338
5,001 'C' Ordinary shares of 1p each	50	-
32,000 Ordinary shares of 10p each	3,200	3,000
	<u>4,871</u>	<u>4,650</u>

2,000 Ordinary shares, allotted with £10 paid on each share, were issued on 22 March 2002.

832 'A' Ordinary shares, allotted with £1 paid on each share, were allotted on 10 July 2002, and a further 833 'A' Ordinary shares, allotted with £1 paid on each share, were allotted on 19 July 2002.

5,001 'B' Ordinary shares were converted into 5,001 'C' Ordinary shares on 1 July 2002.

210 'B' Ordinary shares, allotted with £1 paid on each share, were allotted on 4 July 2002, and a further 210 'B' Ordinary shares, allotted with £1 paid on each share, were allotted on 19 July 2002.

Preferred Holdings Limited

Notes to the accounts (continued)

19. Called up share capital (continued)

All the above classes of shares rank *pari passu* so far as voting rights and dividend distributions are concerned.

On a return of assets on liquidation or capital reduction or otherwise, the assets of the company remaining after the payment of its liabilities shall be applied as follows:

- (a) first, in paying to the holders of the 'A' Ordinary shares and 'B' Ordinary shares a sum equal to the amount credited as paid thereon together with a sum equal to any arrears or accruals of any declared but unpaid dividends on the 'A' Ordinary shares and 'B' Ordinary shares;
- (b) second, in paying to the holders of the Ordinary shares a sum equal to the amount credited as paid thereon together with a sum equal to any arrears or accruals of any declared but unpaid dividends thereon;
- (c) third, in paying to the holders of any Deferred Shares a sum equal to the amount credited as paid thereon;
- (d) the balance of such assets shall be distributed amongst the holders of the 'A' Ordinary shares, 'B' Ordinary shares and Ordinary shares (*pari passu* as if the same constituted one class of share).

20. Statement of movement on reserves

The group	Share premium account £000	Profit and loss account £000	Total £000
Balance at 1 January 2002	460	763	1,223
Premium on shares issued in the period	22	-	22
Retained profit for the period	-	4,102	4,102
Balance at 31 December 2002	<u>482</u>	<u>4,865</u>	<u>5,347</u>

Preferred Holdings Limited

Notes to the accounts (continued)

20. Statement of movement on reserves (continued)

The company	Share premium account £000	Profit and loss account £000	Total £000
Balance at 1 January 2002	460	(70)	390
Premium on shares issued in the period	22	-	22
Retained loss for the period	-	(56)	(56)
Balance at 31 December 2002	<u>482</u>	<u>(126)</u>	<u>356</u>

21. Reconciliation of movements in shareholders' funds

The group	2002 £000	Period from 30 March 2001 to 31 December 2001 £000
Profit for the financial period	4,029	763
Issue of shares	22	465
Net addition to shareholders' funds	4,051	1,228
Opening shareholders' funds	1,228	-
Closing shareholders' funds	<u>5,279</u>	<u>1,228</u>
The company	£000	£000
Loss for the financial period	(56)	(70)
Issue of shares	22	465
Net addition/(reduction) to shareholders' funds	(34)	395
Opening shareholders' funds	395	-
Closing shareholders' funds	<u>361</u>	<u>395</u>

Preferred Holdings Limited

Notes to the accounts (continued)

22. Operating lease commitments

The charge payable in the next year in respect of operating leases is as follows:

	2002 £000	2001 £000
Land and buildings		
Leases terminating between 1 and 2 years	-	195
Leases terminating between 2 and 5 years	290	-
	<hr/>	<hr/>
Other		
Leases terminating in less than 12 months	15	-
Leases terminating between 1 and 2 years	29	15
Leases terminating between 2 and 5 years	5	34
	<hr/>	<hr/>

23. Cash flow statement

	2002 £000	2001 £000
Reconciliation of operating profit to net cash outflow from operating activities		
Operating profit	4,036	768
Issue costs capitalised	(2,646)	(952)
Amortisation of guarantee costs	433	457
Depreciation of fixed assets	452	108
Amortisation of goodwill	424	213
(Increase) in securitised debtors receivable	(82,767)	(139,129)
(Increase)/decrease in unsecuritised mortgage loans	(110,501)	6,717
Increase in loss provision	26	98
(Increase)/decrease in debtors	(23,955)	194
Decrease/(increase) in creditors	2,396	(3,062)
Interest paid on loan facility	6,599	3,830
Interest paid on mortgage backed floating rate notes	16,055	6,359
Net cash outflow from operating activities	<hr/> (189,448) <hr/>	<hr/> (124,399) <hr/>

Preferred Holdings Limited

Notes to the accounts (continued)

24. Analysis of cash flows for headings netted in the cash flow statement

	2002 £000	2001 £000
Returns on investments and servicing of finance		
Interest paid on mortgage backed floating rate notes	(16,055)	(6,359)
Interest paid on loan facilities	(6,599)	(3,830)
	<u>(22,654)</u>	<u>(10,189)</u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(1,812)	(303)
	<u></u>	<u></u>
Acquisitions and disposals		
Purchase of subsidiary undertaking	-	(4,926)
Net cash acquired with subsidiary undertaking	-	2,543
	<u>-</u>	<u>(2,383)</u>
Financing		
Issue of ordinary shares	22	465
Issue of loan notes	992	14,243
Repayment of loan notes	-	(4,693)
Net movement in non-recourse finance	228,785	134,910
Issue of loan facility	8,500	6,200
Repayment of loan facilities	(6,438)	(11,218)
	<u>231,861</u>	<u>139,907</u>

Preferred Holdings Limited

Notes to the accounts (continued)

25. Analysis of net debt

	31 December 2001 £000	Cash flow £000	Other non- cash changes £000	31 December 2002 £000
Cash in hand and at bank	2,741	18,259	-	21,000
Bank overdraft	(108)	(312)	-	(420)
	<u>2,633</u>	<u>17,947</u>	<u>-</u>	<u>20,580</u>
Loan notes	(17,570)	(1,245)	-	(18,815)
Non-recourse finance	(338,002)	(95,118)	-	(433,120)
Other loan facilities	(45,459)	2,062	-	(43,397)
	<u>(398,398)</u>	<u>(76,354)</u>	<u>-</u>	<u>(474,752)</u>

26. Financial instruments

Risk management

The disclosures required by Financial Reporting Standard No 13 "Derivatives and Other Financial Instruments: Disclosures", in relation to the maturity of financial instruments used during the year to manage interest rate, liquidity and foreign currency risks, are included in the Report of the directors, under the heading of 'Financial Instruments'. The company has decided to exclude disclosure of short-term debtors and creditors, as permitted by FRS 13.

Preferred Holdings Limited

Notes to the accounts (continued)

26. Financial instruments (continued)

Interest rate risk

	Floating rate Not more than three months £000	Fixed rate £000	Fixed rate financial assets/liabilities Fixed rate £000	Weighted average interest rate %	Weighted average period for which the rate is fixed Years	Non interest bearing £000
As at 31 December 2002	£000	£000		%	Years	£000
Assets						
Mortgage loans - unsecuritised	142,338	-	-	-	-	-
Mortgage loans - securitised	434,781	-	-	-	-	-
Cash	-	-	-	-	-	21,000
	<u>577,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,000</u>
As at 31 December 2002	£000	£000		%	Years	£000
Liabilities						
Mortgage backed floating rate notes	325,291	-	-	-	-	-
Loan stock	-	18,815	5.0	1	-	-
Other facilities	4,040	-	-	-	-	-
	<u>329,331</u>	<u>18,815</u>	<u>5.0</u>	<u>-</u>	<u>-</u>	<u>-</u>

The interest rates on the mortgage loans, mortgage backed floating rate notes and other facilities are determined by reference to the London Interbank Offered Rate ("LIBOR"). There are no undrawn committed borrowing facilities.

Preferred Holdings Limited

Notes to the accounts (continued)

26. Financial instruments (continued)

Fair value of financial assets and liabilities

As all the group's assets and liabilities are based on floating rates or fixed rates or are non interest bearing at the period end, their fair value materially equates to their book value.

Maturity profile

	Floating Rate Notes £000	Loan stock £000	Other facilities £000	Total £000
As at 31 December 2002				
More than one but not more than two Years	82,459	-	3,835	86,294
More than two but not more than five Years	242,832	12,543	3,405	258,780
More than five years	-	6,272	-	6,272
	<u>325,291</u>	<u>18,815</u>	<u>7,240</u>	<u>351,346</u>

Mortgage backed floating rate notes falling due in more than five years are repayable in quarterly instalments depending on the redemption profile of the securitised mortgage portfolio. The interest rate payable on the Mortgage backed floating rate notes is at an annual rate of Note LIBOR plus a pre-determined margin which increases in future periods.

The group issued £14,173,162 of variable rate unsecured 'A' loan stock 2008 on 25 May 2001, £395,826 on 4 July 2002 and a further £395,826 on 19 July 2002. The 'A' stock ranks pari passu equally and rateably with all future unsecured obligations of the group except for those obligations as may be preferred by law. The 'A' stock is to be repaid at par in equal instalments on 30 June 2006, 30 June 2007 and 30 June 2008.

Interest is payable on the 'A' stock quarterly in arrears from 1 July 2002 until redemption. Payments fall due on 31 March, 30 June, 30 September and 31 December each year, with the first payment falling due on 31 December 2003. Interest is paid at 5% per annum from 1 July 2002 until 31 December 2003 and thereafter at 7.5% until redemption.

The group issued £3,650,272 of variable rate unsecured 'B' loan stock 2008 on 25 May 2001, £100,006 on 4 July 2002 and a further £100,006 on 19 July 2002. The obligations of the group in respect of the 'B' stock rank behind the obligations of the group to the 'A' stockholders on the terms and to the extent set out in a Deed of Subordination dated 25 May 2001 but otherwise and at all times the stock ranks pari passu equally and rateably with all future unsecured obligations of the group except for those obligations as may be preferred by law. The 'B' stock is to be repaid at par in equal instalments on 30 June 2006, 30 June 2007 and 30 June 2008.

Preferred Holdings Limited

Notes to the accounts (continued)

26. Financial instruments (continued)

Interest is payable on the 'B' stock quarterly in arrears from 1 July 2002 until redemption. Payments fall due on 31 March, 30 June, 30 September and 31 December each year, with the first payment falling due on 31 December 2003. Interest is paid at 5% per annum from 1 July 2002 until 31 December 2003 and thereafter at 7.5% until redemption.

27. Related party transactions

In accordance with Financial Reporting Standard No 8 "Related Party Transactions", transactions between the company, other group undertakings and investee related parties of the company have not been disclosed in these financial statements.

Amounts owed to the shareholders of Preferred Holdings Limited during the year are £511,417 (2001 - £94,000) and are included within Other creditors (note 17). All loan stock (note 18) is held by related parties of the shareholders, or the shareholders themselves.