

PREFERRED GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2002

Company Number 4192432



Preferred Group Limited

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Preferred Group Limited

Officers and professional advisers

Directors

D J Pitocco
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

Auditors

Deloitte & Touche
Chartered Accountants
Birmingham

Preferred Group 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. This activity commenced with the acquisition of Preferred Mortgages Limited on 25 May 2001.

Future prospects

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

Results

The result for the period is shown in the profit and loss account on page 7. The directors do not recommend the payment of a dividend (2001 - £nil).

Directors and their interests

Messrs D J Pitocco, P E Hopes, J A Webster and G Patellis served throughout the year.

The interests of the directors in the share capital of the company's ultimate parent company, Preferred Holdings Limited, at 31 December 2002 and 31 December 2001 are as follows:

D J Pitocco	9,334 Ordinary shares of 10p each 642 B ordinary shares of 1p each
P E Hopes	9,333 Ordinary shares of 10p each
J A Webster	9,333 Ordinary shares of 10p each
G Patellis	2,000 Ordinary shares of 10p each

During the year, none of the other directors who held office during the year, nor any of their families, held any beneficial interest in the shares of the company or of any group company.

None of the directors' families held any beneficial interest in the shares of the company or of any group company during the period.

Preferred Group Limited

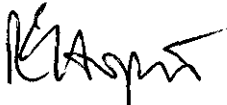
Report of the directors (continued)

Auditors

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

Deloitte & Touche have informed the directors that they are intending to transfer their business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be known as Deloitte & Touche LLP. It is the current intention of the directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

By order of the directors



P E Hopes

Secretary

2 July 2003

Preferred Group 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 Group Limited

Independent auditors' report to the members of Preferred Group Limited

We have audited the financial statements of Preferred Group Limited for the year to 31 December 2002, which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. 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 this 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.

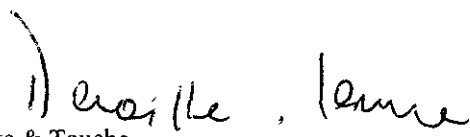
Basis of audit opinion

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 the company's affairs as at 31 December 2002 and of its loss 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 Group Limited

Profit and loss account

For the year to 31 December 2002

	Note	Year to 31 December 2002 £	Period from 2 April 2001 to 31 December 2001 £
Operating expenses		(577)	(583)
Loss on operating activities before interest	4	(577)	(583)
Interest income	2	-	6,070
Interest payable and similar charges	3	(511,417)	(19,463)
Loss on ordinary activities before taxation		(511,994)	(13,976)
Taxation	5	-	-
Loss on ordinary activities after taxation	13	(511,994)	(13,976)

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.

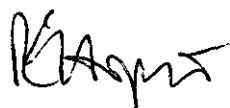
Preferred Group Limited

Balance sheet as at 31 December 2002

	Note	2002	2001
		£	£
Fixed assets			
Fixed asset investments	8	15,703,567	15,703,567
Current assets			
Debtors due within one year	9	3,483,471	2,103,322
Cash at bank and in hand		-	174,971
Total current assets		<u>3,483,471</u>	<u>2,278,293</u>
Creditors: amounts falling due within one year	10	<u>(897,909)</u>	<u>(425,416)</u>
Net current assets		<u>2,585,562</u>	<u>1,852,877</u>
Total assets less current liabilities		<u>18,289,129</u>	<u>17,556,444</u>
Creditors: amounts falling due after more than one year	11	<u>(18,815,098)</u>	<u>(17,570,419)</u>
		<u>(525,969)</u>	<u>(13,975)</u>
Capital and reserves			
Called up share capital	12	1	1
Profit and loss account	13	<u>(525,970)</u>	<u>(13,976)</u>
Total equity shareholders' deficit	14	<u>(525,969)</u>	<u>(13,975)</u>

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

Signed on behalf of the Board of Directors



P E Hopes
Director

Preferred Group 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) *Investments*

Investments in subsidiary undertakings are stated at cost less any provision for permanent diminution in value.

2. Interest receivable

	Year to 31 December 2002	Period from 2 April 2001 to 31 December 2001
	£	£
Bank interest	-	6,070
	<u> </u>	<u> </u>

3. Interest payable and similar charges

	Year to 31 December 2002	Period from 2 April 2001 to 31 December 2001
	£	£
Amortisation of arrangement fee	511,417	19,463
	<u> </u>	<u> </u>

4. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	Year to 31 December 2002	Period from 2 April 2001 to 31 December 2001
	£	£
Auditors' remuneration - audit fees	575	575
	<u> </u>	<u> </u>

Preferred Group Limited

Notes to the accounts (continued)

5. Taxation

The corporation tax charge for the period is £nil (2001 - £nil) because the company has made a tax loss for the period.

6. Directors and employees

None of the directors received any emoluments in respect of their services to the company during the period.

The company does not employ staff.

7. Related party transactions

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

All loan stock (note 11) is held by the shareholders of the parent company or related parties thereof. Since 1 July 2002, interest has been charged on the loan stock at a rate of 5% per annum (2001 - nil).

8. Investment in subsidiary

	2002 £
At 31 December 2002 and 31 December 2001	15,703,567

The company is exempt from preparing consolidated accounts under s228 Companies Act 1985 as its results are consolidated in the group accounts of Preferred Holdings Limited (note 15).

9. Debtors due within one year

	2002 £	2001 £
Other debtors	1	1
Amounts owed by related companies	3,483,470	2,103,321
	<u>3,483,471</u>	<u>2,103,322</u>

Preferred Group Limited

Notes to the accounts (continued)

10. Creditors: amounts falling due within one year

	2002 £	2001 £
Amounts owed to related companies	424,841	424,841
Accruals	473,068	575
	<u>897,909</u>	<u>425,416</u>

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

	2002 £	2001 £
Variable rate unsecured 'A' loan stock 2008		
more than two years but not more than five years	9,976,543	4,529,760
more than five years	4,988,271	9,390,387
Variable rate unsecured 'B' loan stock 2008		
more than two years but not more than five years	2,566,856	1,216,757
more than five years	1,283,428	2,433,515
	<u>18,815,098</u>	<u>17,570,419</u>

The company 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 company 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.

Preferred Group Limited

Notes to the accounts (continued)

11. Creditors: amounts falling due after more than one year (continued)

The company 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 company in respect of the 'B' stock rank behind the obligations of the company 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 company 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.

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.

12. Called up share capital

	2002	2001
	£	£
Authorised, allotted and called up:		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Fully paid:		
1 Ordinary share of £1	<u>1</u>	<u>1</u>

The initial share capital of the company of 1 ordinary share, allotted with £1 paid, was issued on 2 April 2001.

13. Profit and loss account

	£
Profit and loss account at 31 December 2001	(13,976)
Retained loss	<u>(511,994)</u>
Profit and loss account at 31 December 2002	<u>(525,970)</u>

Preferred Group Limited

Notes to the accounts (continued)

14. Reconciliation of movements in shareholders' deficit

	£
Loss for the financial period and net increase in shareholders' deficit	(511,994)
Opening shareholders' funds	(13,975)
Closing shareholders' deficit	<u>(525,969)</u>

15. Parent company and ultimate controlling party

The company's parent company and ultimate controlling party is Preferred Holdings Limited, a company registered in England and Wales. The financial statements of Preferred Holdings Limited are available to the public and may be obtained from The Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.