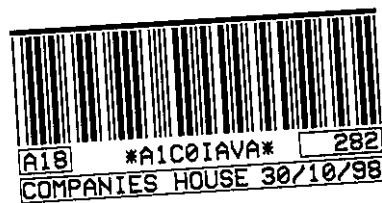


ABBAY NATIONAL HOMES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 1997

Registered Number : 2055102



ABBHEY NATIONAL HOMES LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 1997.

PRINCIPAL ACTIVITIES

The principal activity of the Company is unchanged from last year and is the development and sale of residential properties.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During the year, the Company acquired a development site at Barrow In Furness from its parent company. The site comprised a portfolio of properties and land for development. The completed units were sold during the year and the first phase of the development programme commenced at this site. This phase is scheduled for completion in 1998.

During the year the Company assigned certain equity participation mortgages; equity participation mortgages at one site were assigned to the other party to that joint venture scheme, which resulted in a rescheduling of debts due to the Company, and certain equity participation mortgages were assigned to Abbey National plc.

RESULTS AND DIVIDENDS

The company made a loss after tax for the year of £10,462 which has been transferred to reserves. Following finance from the parent company, the Company has adequate working capital for its needs. The directors do not recommend payment of a dividend.

DIRECTORS

The directors of the Company who served during the year were as follows:

J King (Chairman)
B A Brown
R W Fisher
G D Johnston
M A Pain
S A Zins

M A Pain resigned as a director of the Company on 1 March 1998.

G D Johnston and S A Zins resigned as directors of the Company on 1 April 1998.

ABBEY NATIONAL HOMES LIMITED
DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS

None of the directors had a beneficial interest in the shares of the Company at the year end. The directors' interests in the shares of the parent company, Abbey National plc, (other than those disclosed in that company's report and accounts) were as follows:-

	As at 1 January 1997 (or date of appointment if later)	Options granted during the year (or since appointment if later)	Options exercised during the year (or since appointment if later)	As at 31 December 1997
	10p Ord <u>Shares</u>	<u>Options</u>		10p Ord <u>Shares</u>
B A Brown	250	150	-	250
R W Fisher	11,257	72,140	7,223	11,607
G D Johnston	14,460	78,923	15,387	14,096
J King	18,378	114,515	291	20,957
M A Pain	4,343	28,867	15,135	5,581
S A Zins	1,643	12,995	18,144	7,845
				410
				23,294

Options granted to directors under the parent company's Sharesave Scheme are exercisable at prices between 149p and 668p per share within six months of the third, fifth or seventh anniversary of contract start date. Options granted under the Executive Share Option scheme and Employee Share Option Schemes are exercisable at prices between 254p and 722p per share after three years or five years and before ten years from the date of grant.

Shares awarded under the Abbey National Long Term Incentive Plan (the 'Plan') are held by the Abbey National Employee Trust (the 'Trust'). Whilst the Plan is currently restricted to members of the Abbey National plc Executive Committee, each of the directors of the Company is a potential beneficiary of the Trust and is therefore deemed to have an interest in the shares held by the Trust. At 31 December 1997, the Trust held 129,780 ordinary shares (1996-Nil).

CHANGES IN FIXED ASSETS

The movements in fixed assets during the year are set out in note 12 to the financial statements.

ABBEY NATIONAL HOMES LIMITED

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE PREPARATION OF ACCOUNTS

The directors of the Company are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the Company for that period.

The directors confirm that suitable accounting policies have been applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

AUDITORS

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually.

Coopers & Lybrand, the Company's auditors, therefore are deemed to be reappointed as the Company's auditors for each succeeding financial year, so long as such election remains in force.

By Order of The Board



For and on behalf of Abbey National Secretariat Services Limited.

26 October 1998

Registered Office:

Abbey House
Baker Street
London
NW1 6XL

ABBEY NATIONAL HOMES LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF ABBEY NATIONAL HOMES LIMITED

We have audited the financial statements on pages 6 to 16.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 4 the directors are responsible for the preparation of financial statements. 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 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 at 31 December 1997 and of its profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

COOPERS & LYBRAND

Chartered Accountants and Registered Auditors
London

28 October 1998

ABBEY NATIONAL HOMES LIMITED**PROFIT AND LOSS ACCOUNT****For the year ended 31 December 1997**

	Notes	1997	1996
		£	£
TURNOVER	2	581,995	3,891,045
Cost of Sales	3	<u>562,122</u>	<u>(217,465)</u>
GROSS PROFIT		1,144,117	3,673,580
Other operating expenses	4	(240,962)	(750,025)
Other operating income	7	<u>748</u>	<u>13,637</u>
OPERATING PROFIT		903,903	2,937,192
Interest receivable and similar income	8	26,310	33,062
Interest payable and similar charges	9	<u>(854,194)</u>	<u>(1,077,458)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	10	76,019	1,892,796
Tax payable on ordinary activities	11	<u>(86,481)</u>	<u>(606,604)</u>
RETAINED (LOSS)/PROFIT FOR THE YEAR	20	<u>(10,462)</u>	<u>1,286,192</u>

All activities of the company are regarded as continuing.

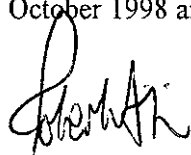
The Company has no recognised gains and losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

ABBAY NATIONAL HOMES LIMITED**BALANCE SHEET AT 31 DECEMBER 1997**

	Notes	1997	1996
		£	£
FIXED ASSETS			
Tangible Assets	12	1,024	-
Investments	13	<u>---</u>	<u>---</u>
		1,024	-
		<u>-----</u>	<u>-----</u>
CURRENT ASSETS			
Stocks	14	315,327	127,258
Debtors:			
Amounts falling due after one year	15	5,700,418	6,529,064
Amounts falling due within one year	15	5,233,353	11,927,740
Cash at bank and in hand		<u>85,205</u>	<u>323,189</u>
		<u>11,334,303</u>	<u>18,907,251</u>
CREDITORS			
Amounts falling due within one year	16	<u>(46,452,554)</u>	<u>(54,014,016)</u>
NET CURRENT LIABILITIES		<u>(35,118,251)</u>	<u>(35,106,765)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(35,117,227)</u>	<u>(35,106,765)</u>
PROVISION FOR LIABILITIES AND CHARGES	17	<u>(250,000)</u>	<u>(250,000)</u>
NET LIABILITIES		<u>(35,367,227)</u>	<u>(35,356,765)</u>
CAPITAL AND RESERVES			
Called up share capital	19	100	100
Profit and loss account	20	<u>(35,367,327)</u>	<u>(35,356,865)</u>
EQUITY SHAREHOLDERS' FUNDS	21	<u>(35,367,227)</u>	<u>(35,356,765)</u>

The financial statements on pages 6 to 16 were approved by the board of directors on 26 October 1998 and were signed on its behalf by:



Director

ABBEY NATIONAL HOMES LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1997

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The accounts are prepared under the historical cost convention in accordance with applicable Accounting Standards in the United Kingdom, and on the basis of the continuing financial support of the parent company. A summary of the more important accounting policies, which have been applied consistently, is set out below.

The Company is a wholly owned subsidiary of Abbey National plc and the cash flows of the Company are included in the consolidated group cash flow statement of Abbey National plc. Consequently, the Company is exempt under the terms of Financial Reporting Standard No.1 from publishing a cash flow statement.

Turnover

Turnover comprises amounts received or receivable on the legal completion of sales of housing units.

Stock and work in progress

Completed properties and properties purchased in part exchange are valued at the lower of cost and net realisable value. Cost comprises land purchase costs, construction and associated expenditure and interest payable thereon. Net realisable value comprises the estimated proceeds from the sale of the properties, less selling costs and future costs including interest. Costs are written off as sales are made.

Interest payable

Interest payable is included in stock and work in progress and written off as sales are made at a rate designed to eliminate interest over the life of the development.

Deferred taxation

Deferred taxation is provided, using the liability method in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise.

ABBAY NATIONAL HOMES LIMITED

NOTES TO THE ACCOUNTS (continued) **For the year ended 31 December 1997**

Depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Tangible fixed assets are depreciated by equal annual instalments over their estimated useful lives as follows:

Computer equipment	25%
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2. TURNOVER

Turnover consists entirely of sales made in the United Kingdom.

3. COST OF SALES

Included within cost of sales is a write-back of provisions on stock and work-in progress of £259,058 (1996: £58,204) and accruals for amounts due from joint venture parties relating to project losses of £526,598 (1996: £1,204,427).

4. OTHER OPERATING EXPENSES

	1997 £	1996 £
Marketing and selling expenses	77,704	660,075
Administration expenses payable to Abbey National plc	62,785	149,606
Share of profit generated under joint venture	-	(1,724)
Other expenses	<u>100,473</u>	<u>(57,932)</u>
	<u>240,962</u>	<u>750,025</u>

ABBEY NATIONAL HOMES LIMITED**NOTES TO THE ACCOUNTS** (continued)
For the year ended 31 December 1997**5. DIRECTORS' EMOLUMENTS**

	1997 £	1996 £
Directors' emoluments	<u>62,769</u>	<u>31,384</u>

Directors' emoluments are borne by the parent company, Abbey National plc, and are recharged to the Company. No apportionment was made for the emoluments of the non-executive directors, paid by the parent company.

6. EMPLOYEE INFORMATION

The Company has no employees. The management and administration of the Company's business is performed by Abbey National plc, for which a management fee is charged.

7. OTHER OPERATING INCOME

	1997 £	1996 £
Other income	<u>748</u>	<u>13,637</u>

8. INTEREST RECEIVABLE

	1997 £	1996 £
Interest receivable	<u>26,310</u>	<u>33,062</u>

Interest receivable comprises mainly interest on bank balances.

9. INTEREST PAYABLE

	1997 £	1996 £
On loans repayable within five years, not by instalments, to Abbey National plc	<u>854,194</u>	<u>1,077,458</u>

In addition, interest capitalised to stock and work in progress amounted to £40,314 (1996: £246,399). This is written off to cost of sales as properties are sold.

ABBEY NATIONAL HOMES LIMITED

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 1997

10. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £	1996 £
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit	18,000	23,000
Other services	—	2,115
	<u>18,000</u>	<u>25,115</u>
Depreciation	<u>517</u>	<u>9,040</u>

11. TAXATION

	1997 £	1996 £
CURRENT:-		
Group relief (payable)/receivable	67,195	121,574
Deferred tax (charge)/credit	<u>(153,143)</u>	<u>(729,192)</u>
	<u>(85,948)</u>	<u>(607,618)</u>
PRIOR:-		
Group relief (payable)/receivable	(533)	(11,360)
Deferred tax (charge)/credit	<u>(533)</u>	<u>12,374</u>
	<u>(86,481)</u>	<u>(606,604)</u>

The deferred tax charge in the period represents a reduction in the overall deferred tax asset arising on short term timing differences primarily due to reduction in the level of provisions disallowed for tax purposes.

ABBEE NATIONAL HOMES LIMITED**NOTES TO THE ACCOUNTS (continued)**
For the year ended 31 December 1997**12. TANGIBLE FIXED ASSETS**

	Computer Equipment £	Total £
COST		
As at 1 January 1997	-	-
Transfers in from Group Company	2,559	2,559
Disposals	-	-
As at 31 December 1997	2,559	2,559
DEPRECIATION		
As at 1 January 1997	-	-
Transfers in from Group Company	1,018	1,018
Charge for the year	517	517
As at 31 December 1997	1,535	1,535
NET BOOK VALUE		
As at 31 December 1997	1,024	1,024
As at 31 December 1996	-	-

13. INVESTMENTS

	1997 £	1996 £
As at 1 January	-	251
Write down of investments during the year	-	(251)
As at 31 December	-	-

14. STOCK

	1997 £	1996 £
Completed properties	109,560	295,327
Work in progress	296,778	-
Properties purchased in part-exchange and held for resale	-	182,000
	406,338	477,327
Provisions	(91,011)	(350,069)
As at 31 December	315,327	127,258

Included in the stock balance is capitalised interest of £2,685 (1996: £77,965).

ABBNEY NATIONAL HOMES LIMITED

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 1997

15. DEBTORS

	1997 £	1996 £
Amounts falling due after one year		
Equity participation mortgages (see note below)	3,195,094	6,389,310
Deferred tax (see note 18)	-	139,754
Amounts recoverable on contracts	2,465,688	-
Sundry debtors	<u>39,636</u>	<u>-</u>
As at 31 December	<u>5,700,418</u>	<u>6,529,064</u>
Amounts falling due within one year		
Trade debtors	100	60,147
Amounts recoverable on contracts	3,979,182	9,821,599
Group relief receivable	67,195	109,734
Equity participation mortgages (see below)	996,562	1,687,836
Deferred tax (see note 18)	180,420	193,810
Value added tax	3,244	18,438
Sundry debtors	2,750	31,265
Prepayments and accrued income	<u>3,900</u>	<u>4,911</u>
As at 31 December	<u>5,233,353</u>	<u>11,927,740</u>
Total Debtors	<u>10,933,771</u>	<u>18,456,804</u>

Equity participation mortgages are interest-free loans repayable within five years, (or on the final sale of the property in the case of sheltered accommodation). They are granted as sales incentives on certain properties. Mortgages on the non sheltered schemes are generally secured by way of a second charge on the property. On the sheltered schemes the loan is secured by a first charge on the property. Equity Participation Mortgages above are shown net of provisions of £450,200 (1996: £2,261,015). During the year, the Company assigned certain equity participation mortgages; some assignments were made to the other party to one of its joint venture schemes and some to Abbey National plc.

Amounts due to the company in respect of reimbursement of losses incurred on projects total £6,444,869 (1996: £9,821,599). This is net of provisions of £99,327 (1996: £650,000).

ABBNEY NATIONAL HOMES LIMITED**NOTES TO THE ACCOUNTS** (continued)**For the year ended 31 December 1997****16. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1997 £	1996 £
Trade creditors	340	17,750
Amount due to Abbey National plc	46,371,455	53,904,510
Accruals	80,759	91,756
As at 31 December	<u>46,452,554</u>	<u>54,014,016</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

	1997 £ General Provision	1997 £ Total
As at 1 January	250,000	250,000
Utilised	-	-
Profit and loss account	-	-
As at 31 December	<u>250,000</u>	<u>250,000</u>

18. DEFERRED TAXATION

The amount of deferred tax asset in the accounts is:	1997 £	1996 £
Excess of tax written down value of assets over book value	-	9,280
Short term timing differences	<u>180,420</u>	<u>324,283</u>
	<u>180,420</u>	<u>333,563</u>
As at 1 January	333,564	1,050,382
Movement in the year	<u>(153,144)</u>	<u>(716,818)</u>
As at 31 December	<u>180,420</u>	<u>333,564</u>

ABBEY NATIONAL HOMES LIMITED

NOTES TO THE ACCOUNTS (continued) **For the year ended 31 December 1997**

19. CALLED UP SHARE CAPITAL

	1997	1996
	£	£
Authorised :		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid :		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

20. PROFIT AND LOSS ACCOUNT

	1997
	£
As at 1 January	(35,356,865)
Retained Loss for the year	(10,462)
As at 31 December	<u>(35,367,327)</u>

21. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1997	1996
	£	£
Opening shareholders' funds as at 1 January	(35,356,765)	(36,642,957)
Retained Profit for the year	(10,462)	1,286,192
Closing shareholders' funds as at 31 December	<u>(35,367,227)</u>	<u>(35,356,765)</u>

The whole of shareholders' funds is attributable to equity interests.

22. CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

There are no outstanding capital commitments or contingent liabilities at 31 December 1997.

23. ULTIMATE PARENT COMPANY

The company is wholly owned by Abbey National plc which is registered in England. Copies of the consolidated financial statements of Abbey National plc can be obtained at Abbey House, Baker Street, London NWT 6XL.

24. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption given in FRS 8 not to disclose details of transactions with companies within the Group that have been eliminated on consolidation.

25. PARENTAL SUPPORT

The Company's liabilities exceed its assets and accordingly it is dependant upon the continuing support of its parent company. The Directors have obtained an undertaking from its ultimate holding company that such support will be provided for a period of at least 12 months from the date of approval of these accounts.