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HOMeselect (UK) LTD
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003



HOMESELECT (UK) LTD

COMPANY INFORMATION

Directors

N M R Richards
M V Rijkse
M A Stewart

Secretary

M V Rijkse

Company number

2849992

Registered office

6th Floor, 14 Berkeley Street
London
W1J 8DX

Auditors

Kershen Fairfax
11 Kingsway
London WC2B 6XE

HOMESELECT (UK) LTD

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HOMeselect (UK) LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2003

The directors present their report and financial statements for the year ended 31 December 2003.

Principal activities and review of the business

Having disposed of its residential property interests in December 2002 the company remains active in the pursuit of further investment opportunities in the UK property sector.

Results and dividends

The results for the year are set out on page 3.

The directors do not recommend payment of a dividend.

Directors

The following directors have held office since 1 January 2003:

N M R Richards
M V Rijkse
M A Stewart

Directors' interests

There are no directors' interests requiring disclosure under the Companies Act 1985.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Kershen Fairfax be reappointed as auditors of the company will be put to the Annual General Meeting.

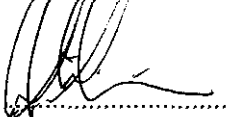
Directors' responsibilities

Company law requires the directors to prepare financial statements 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 financial statements, 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 financial statements;
- prepare the financial statements 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 financial statements 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. The directors confirm that these financial statements comply with the aforementioned requirements.

On behalf of the board



M V Rijkse

Director

29/03/2004

HOMeselect (UK) LTD

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HOMeselect (UK) LTD

We have audited the financial statements of Homeselect (UK) Ltd on pages 3 to 11 for the year ended 31 December 2003. These financial statements have been prepared under the historical cost convention and 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 auditor's 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 the directors and auditors

As described in the statement of directors' responsibilities on page 1 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you 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 and consider the implications for our report if we become aware of any apparent misstatements within it.

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Kershen Fairfax

Chartered Accountants
Registered Auditor

29/3/04

11 Kingsway
London WC2B 6XE

HOMeselect (UK) LTD

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £	2002 £
Turnover		-	3,196,146
Direct property costs	3	(30,319)	(1,861,799)
Gross (loss)/profit		(30,319)	1,334,347
Administrative expenses		(48,823)	(49,118)
Operating (loss)/profit		(79,142)	1,285,229
Gain on sale of properties		-	3,031,998
(Loss)/profit on ordinary activities before interest		(79,142)	4,317,227
Interest payable and similar charges	4	-	(2,390)
Interest receivable and similar income	5	354,860	726
Profit on ordinary activities before taxation		275,718	4,315,563
Tax on profit on ordinary activities	6	(85,960)	18,836
Profit on ordinary activities after taxation	10	189,758	4,334,399


There are no recognised gains and losses other than those passing through the profit and loss account.

HOMESELECT (UK) LTD

BALANCE SHEET AS AT 31 DECEMBER 2003

	Notes	2003 £	£	2002 £	£
Current assets					
Debtors	7	5,913,757		5,718,007	
Cash at bank and in hand		403,865		897,267	
		<u>6,317,622</u>		<u>6,615,274</u>	
Creditors: amounts falling due within one year	8	<u>(123,898)</u>		<u>(611,309)</u>	
Total assets less current liabilities		<u>6,193,724</u>		<u>6,003,965</u>	
Capital and reserves					
Called up share capital	9	2,500,002		2,500,002	
Share premium account	10	2,225,000		2,225,000	
Profit and loss account	10	<u>1,468,722</u>		<u>1,278,963</u>	
Shareholders' funds - equity interests	11	<u>6,193,724</u>		<u>6,003,965</u>	

The financial statements were approved by the Board on 21/03/2004


N M R Richards
Director


M V Rijkse
Director

HOMeselect (UK) LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	2003		2002	
	£	£	£	£
Net cash outflow from operating activities		(501,929)		(3,801,668)
Returns on investments and servicing of finance				
Interest received	8,526		-	
Interest paid	-		(2,390)	
	<u>8,526</u>		<u>(2,390)</u>	
Net cash inflow for returns on investments and servicing of finance		8,526		(2,390)
Taxation		-		(58,699)
Capital expenditure				
Payments to acquire tangible assets	-		(10,075)	
Receipts from sales of tangible assets	-		40,459,717	
	<u>-</u>		<u>40,449,642</u>	
Net cash (outflow)/inflow for capital expenditure		-		40,449,642
		<u>(493,403)</u>		<u>36,586,885</u>
Net cash (outflow)/inflow before management of liquid resources and financing		(493,403)		36,586,885
Repayment of long term bank loan	-		(47,619,877)	
Net cash outflow from financing		-		(47,619,877)
		<u>(493,403)</u>		<u>(11,032,992)</u>
Decrease/increase in cash in the year		<u>(493,403)</u>		<u>(11,032,992)</u>

HOMeselect (UK) LTD

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

1	Reconciliation of operating (loss)/profit to net cash outflow from operating activities	2003		2002	
		£		£	
	Operating (loss)/profit	(79,142)		4,317,227	
	Loss/(profit) on disposal of tangible assets	-		(3,031,314)	
	Decrease/(increase) in debtors	150,584		(4,934,510)	
	Decrease in creditors within one year	(573,371)		(153,071)	
	Net cash outflow from operating activities	(501,929)		(3,801,668)	
2	Analysis of net funds	1 January 2003	Cash flow	Other non-cash changes	31 December 2003
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	897,267	(493,403)	-	403,864
	Net funds	897,267	(493,403)	-	403,864
3	Reconciliation of net cash flow to movement in net funds	2003		2002	
		£		£	
	(Decrease)/increase in cash in the year	(493,403)		(11,032,992)	
	Cash (inflow)/outflow from (increase)/decrease in debt	-		47,619,877	
	Movement in net funds in the year	(493,403)		36,586,885	
	Opening net funds/(debt)	897,267		(35,689,618)	
	Closing net funds	403,864		897,267	

HOMeselect (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

1 Accounting policies

1.1 Accounting convention

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

1.2 Turnover

Turnover is the gross rental income receivable from letting residential properties, net of provision for and write off of bad debts. All turnover is derived in the United Kingdom.

1.3 Deferred taxation

Deferred taxation is provided in full on timing differences which represent a liability at the balance sheet date, at rates expected to apply when they crystallise, based upon current rates and law. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax liabilities are not discounted.

Operating (loss)/profit	2003 £	2002 £
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Operating (loss)/profit is stated after charging:

Auditors' remuneration	5,875	10,575
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3 Direct property expenses	2003 £	2002 £
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Repairs and maintenance	-	856,243
Insurance	(503)	96,975
Commission	-	56,950
Other property costs	30,822	851,631
	<u>30,319</u>	<u>1,861,799</u>

4 Interest payable	2003 £	2002 £
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Other interest	-	2,390
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5 Interest receivable	2003 £	2002 £
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Interest on amount due from parent company	346,334	726
Bank interest	8,526	-
	<u>354,860</u>	<u>726</u>

HOMeselect (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

6	Taxation	2003 £	2002 £
	Domestic current year tax		
	U.K. corporation tax	85,960	-
	Adjustment for prior years	-	(18,836)
	Current tax charge	<u>85,960</u>	<u>(18,836)</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>275,718</u>	<u>4,315,563</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2002: 30.00%)	<u>82,715</u>	<u>1,294,669</u>
	Effects of:		
	Non deductible expenses	3,245	-
	Other tax adjustments	-	(1,313,505)
		<u>3,245</u>	<u>(1,313,505)</u>
	Current tax charge	<u>85,960</u>	<u>(18,836)</u>

HOMeselect (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

7 Debtors	2003	2002
	£	£
Trade debtors	-	461,200
Amounts owed by parent	5,890,965	5,168,342
Other debtors	22,792	88,465
	<u>5,913,757</u>	<u>5,718,007</u>

Amounts falling due after more than one year and included in the debtors above are:

	2003	2002
	£	£
Amounts owed by parent	<u>5,890,965</u>	<u>5,168,342</u>

The amount owed by the immediate parent company (Homeselect Finance No.2 Ltd) relates to the provision of funds for the acquisition of the portfolio of properties previously owned by Homeselect (UK) Limited. Repayment of the loan is due on 31st December 2007 and interest accrues daily at 6.25% per annum. Interest is to be paid annually in arrears on the 31st December. The interest due on the 31st December, 2003 (£346,334) has not been paid and under the terms of the loan agreement will continue to accrue interest at 6.25% per annum. Homeselect (UK) Ltd may demand, on 30 days notice, repayment of up to the first £1,000,000.

8 Creditors: amounts falling due within one year	2003	2002
	£	£
Trade creditors	-	44,783
Corporation tax	85,960	-
Other taxes and social security costs	8,663	-
Other creditors	-	353,320
Accruals and deferred income	5,875	213,206
	<u>123,898</u>	<u>611,309</u>

HOMeselect (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

9	Share capital	2003 £	2002 £
	Authorised		
	5,000,004 ordinary shares of 50p each	2,500,002	2,500,002
	50,000 redeemable preference shares of £1 each	50,000	50,000
		<u>2,550,002</u>	<u>2,550,002</u>
	Allotted, called up and fully paid		
	5,000,004 ordinary shares of 50p each	<u>2,500,002</u>	<u>2,500,002</u>

10 Statement of movements on reserves

	Share premium account £	Profit and loss account £
Balance at 1 January 2003	2,225,000	1,278,964
Retained profit for the year	-	189,758
	<u>2,225,000</u>	<u>1,468,722</u>
Balance at 31 December 2003		

11 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit for the financial year	189,758	4,334,399
Opening shareholders' funds	<u>6,003,965</u>	<u>1,669,566</u>
Closing shareholders' funds	<u>6,193,724</u>	<u>6,003,965</u>

12 Contingent liabilities

Homeselect (UK) Ltd has guaranteed to Nationwide Building Society the repayment of all monies owed by Homeselect Finance (No.2) Ltd (£30,899,468 as at 31st December 2003 - £33,500,000 as at 31st December 2002). There is a charge over all its undertaking and assets in respect of this guarantee.

13 Directors' emoluments

	2003 £	2002 £
Emoluments for qualifying services	<u>30,000</u>	<u>25,931</u>

The company had no employees during the year other than the directors (2002 : none).

HOMESELECT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2003**

14 Control

The Company's immediate and ultimate parent companies are Homeselect Finance (No.2) Ltd, a company registered in Jersey, and Royal Bank of Canada Trustees Ltd, a company registered in Jersey, respectively.