

PRS 5 & 6 Sub Loan Holdings Limited (formerly Rainbowgreen Limited)

Report and Financial Statements

28 February 2005



PRS 5 & 6 Sub Loan Holdings Limited
(formerly Rainbowgreen Limited)

Registered No: 5046409

Directors

R G Baker
J P J Fairrie
M McDermott
M Filer
Wilmington Trust SP Services (London) Limited

Secretary

Wilmington Trust SP Services (London) Limited
Tower 42 (Level 11)
25 Old Broad Street
London EC2N 1HQ

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

c/o Wilmington Trust SP Services (London) Limited
Tower 42 (Level 11)
25 Old Broad Street
London EC2N 1HQ

Statement of directors' responsibilities in respect of the financial statements

The directors present their report and the consolidated financial statements for the period from incorporation on 17 February 2004 to 28 February 2005. The Company's name changed from Rainbowgreen Limited to PRS 5 & 6 Sub Loan Holdings Limited on 5 March 2004.

Activities

The company acts as a holding company and currently holds shares in PRS 5 & 6 Sub Loan Limited and PRS 5 & 6 Sub Loan Option Limited. The principal activity of the Group is the investment in residual cash flows from residential mortgage companies.

Going concern

The directors believe that the Group is a going concern and accordingly have prepared the financial statements on this basis.

Directors and their interests

The directors who held office during the period, and appointed on 4 March 2004, were as follows:

R G Baker
SPV Management Limited
J P J Fairrie
M McDermott
S J Over

D J Pudge and M R Layton were appointed on 17 February 2004 and resigned on 4 March 2004.

S J Over resigned on 27 May 2005 when M Filer was appointed.

SPV Management Limited changed its name to Wilmington Trust SP Services (London) Limited on 19 December 2005.

Clifford Chance Secretaries Limited were appointed as secretary on 17 February 2004 and resigned on 4 March 2004. Wilmington Trust SP Services (London) Limited were appointed as secretary on 4 March 2004.

Wilmington Trust SP Services (London) Limited shareholdings

Wilmington Trust SP Services (London) Limited holds one fully paid up share of £1, on a discretionary trust basis, in each of Preferred Funding Limited, Preferred Funding One Limited, Preferred Funding Two Limited, Preferred Funding Four Limited, Preferred Residential Securities 1 PLC, Preferred Residential Securities 2 PLC, Preferred Residential Securities 3 PLC, Preferred Residential Securities 4 PLC, Preferred Residential Securities 5 PLC, Preferred Residential Securities 6 PLC, Preferred Residential Securities 7 PLC, Preferred Residential Securities 8 PLC, Preferred Residential Securities 05-1 PLC, PRS 8 Parent Ltd and PRS 5 & 6 Sub Loan Holdings Limited at 30 November 2004 and 31 December 2003 (or at date of appointment). Wilmington Trust SP Services (London) Limited also holds, on a discretionary trust basis, two fully paid up shares of £1 in Preferred Mortgages Collections Limited and 12,501 fully paid up shares of £1 in each of PRS 1 Limited, PRS 6 Parent Ltd and PRS 7 Parent Ltd at 30 November 2004 and 31 December 2003 (or at date of appointment).

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

Statement of directors' responsibilities in respect of the financial statements

Policy and practice on payment of creditors

The Group does not follow any stated code on payment practice. It is the Group's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with the suppliers at the outset. It is the policy of the Group to abide by the agreed terms of payment. There are no creditor days of suppliers' invoices outstanding at the period-end.

Financial instruments

The financial instruments held by the Group comprise mortgages, borrowings, cash and various other items (such as trade debtors, trade creditors etc) that arise directly from its operations.

The Group also enters into derivative transactions where necessary (principally interest rate and currency swaps) to manage its exposure to interest rate and foreign currency risk.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Group minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible the Group considers the use of derivative financial instruments to mitigate any residual interest rate risk.

Liquidity risk

The Group's policy is to manage liquidity risk by matching the timing of the cash receipts from its assets with those of the cash payments due on the loan notes.

Auditors

Ernst & Young LLP were appointed as auditors on 5 March 2004. A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



for **Wilmington Trust SP Services (London) Limited**
Director

Date 7 February 2006

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group 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; and
- 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of PRS 5 & 6 Sub Loan Holdings Limited
(formerly Rainbowgreen Limited)

We have audited the group's financial statements for the period ended 28 February 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 15. These financial statements have been prepared on the basis of 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 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 group'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 of the Group as at 28 February 2005 and of the result of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP.

Ernst & Young LLP
Registered Auditor
London

Date 7 Feb 2006

Consolidated profit and loss account

for the period ended 28 February 2005

	Notes	Period ended 28 February 2005 £
Interest receivable and similar income	2	572,872
Interest payable and similar charges	3	(515,656)
Net interest receivable		<u>57,216</u>
Operating expenses		(14,318)
Profit on ordinary activities before taxation	4	<u>42,898</u>
Tax on profit on ordinary activities	5	(8,151)
Profit on ordinary activities after taxation	10	<u><u>34,747</u></u>

The profit for the period was derived from continuing operations.

There were no recognised gains or losses other than the profit for the period, accordingly no statement of recognised gains and losses is given.

The notes on pages 10 to 15 form part of these financial statements.


Consolidated balance sheet

at 28 February 2005

	Notes	28 February 2005 £
Current assets		
Debtors:		
Amounts falling due within one year	7	1,147,361
Cash at bank and in hand		100,978
		<u>1,248,339</u>
Creditors: amounts falling due within one year	8	<u>(1,213,591)</u>
Net current assets		<u>34,748</u>
Net assets		<u>34,748</u>
Capital and reserves		
Called up share capital	9	1
Profit and loss account	10	34,747
		<u>34,748</u>
Shareholders' funds	11	<u>34,748</u>

The notes on pages 10 to 15 form part of these financial statements.

These financial statements were approved by the board of directors and were signed on its behalf by:


for **Wilmington Trust SP Services (London) Limited**
Director
Date 7 February 2006

Company balance sheet

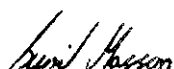
at 28 February 2005

		28 February 2005 £
	Notes	
Fixed assets		
Investments	6	2
Creditors: amounts falling due within one year		(1)
		<u>1</u>
Capital and reserves		
Called up share capital	9	<u>1</u>
Total equity shareholders' funds	11	<u>1</u>

The notes on pages 10 to 15 form part of these financial statements.

These financial statements were approved by the board

Signed on behalf of the board



for **Wilmington Trust SP Services (London) Limited**
Director

Date 7 February 2006

Consolidated cash flow statement

for the period ended 28 February 2005

		<i>Period ended 28 February 2005</i>
	<i>Notes</i>	<i>£</i>
Cash inflow from operating activities	12	616,633
Returns on investment and servicing of finance		(515,656)
Taxation		—
Capital expenditure and financial investment		—
Cash inflow before use of liquid cash resources and financing		100,977
Financing		
Subordinated loan		—
Mortgage backed securities		—
Share capital		1
		1
Increase in cash in the period		100,978

Reconciliation of movement in net cashflow to movement in net funds

		<i>Period ended 28 February 2005</i>
	<i>Notes</i>	<i>£</i>
Increase in cash in the period		100,978
Cash flow from increase in net debt and loan financing	13	—
Capitalised issue costs		—
Change in net debt resulting from cashflows		100,978
Opening net funds	13	—
Closing net funds		100,978

Notes to the financial statements

at 28 February 2005

1. Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries for the period ended 28 February 2005. All the subsidiaries are accounted for using acquisition accounting.

In accordance with section 230 (4) of the Companies Act 1985, PRS 5 & 6 Sub Loan Holdings Limited is exempt from the requirement to present its own profit and loss account. The amount of profit for the period dealt with in the financial statements of PRS 5 & 6 Sub Loan Holdings Limited is disclosed in note 10 to the financial statements.

Fixed asset investment

The Company's investment in subsidiary companies is stated at cost, less provision for diminution in value where the directors consider this necessary.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transaction or events that result in an obligation to pay more, or a right to pay less tax in the future, have occurred at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Interest

Receipts and payments of interest are accounted for on an accruals basis.

Related party transactions

Preferred Mortgages Limited retains an interest in the cashflows and profits of PRS 5 & 6 Sub Loan Limited, a wholly owned subsidiary of PRS 5 & 6 Sub Loan Holdings Limited. Accordingly Preferred Mortgages Limited, whilst having no direct investment in the Group, is treated as a related party.

Turnover

The Group's trade and turnover are wholly within the UK and within a single market sector. Consequently, no segmental analysis has been prepared.

Notes to the financial statements

at 28 February 2005

2. Interest receivable and similar income

*Period ended
28 February
2005
£*

Note interest income

572,872

572,872

3. Interest payable and similar charges

*Period ended
28 February
2005
£*

Note interest

515,656

4. Profit on ordinary activities before taxation

This is stated after charging:

*Period ended
28 February
2005
£*

Auditors' remuneration - audit services (charge for group)

3,751

5. Tax on profit on ordinary activities

(a) Analysis of tax charge in the period

*Period ended
28 February
2005
£*

UK Corporation tax:

Current period tax charge

8,151

Total current tax (note 5(b))

8,151

Notes to the financial statements

at 28 February 2005

5. Tax on profit on ordinary activities (continued)

(b) Factors affecting the tax charge in the period

The tax assessed on the profit/(loss) on ordinary activities for the period is lower than standard rate of corporation tax in the UK, currently 30%. The differences are explained below:

	<i>Period ended 28 February 2005 £</i>
Profit on ordinary activities before tax	42,898
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30%	12,869
Effects of: Small Companies Rate of corporation tax at 19%	(4,718)
Total current tax (note 5(a))	8,151

6. Investments

Company

	<i>Investment in subsidiaries 28 February 2005 £</i>
On incorporation	—
Additions	2
At 28 February 2005	2

At 28 February 2005 the company held 1 ordinary share of £1 in PRS 5 & 6 Sub Loan Limited. This holding represents the entire issued share capital of the company.

PRS 5 & 6 Sub Loan Limited acts as an investment company, holding with an interest on residual cash flows of companies holding mortgages financed by Mortgage Backed Floating Rate Notes. The subsidiary is registered and operates in the United Kingdom. The following information is presented in respect of its financial statements for the period ended 28 February 2005.

	<i>28 February 2005 £</i>
Profit for the period	34,747
Share Capital	1
Aggregate capital and reserves	34,748

Notes to the financial statements

at 28 February 2005

6. Investments (continued)

At 28 February 2005, the company also held one ordinary share of £1 in PRS 5 & 6 Sub Loan Option Limited.

This holding represents the entire issued share capital of that company. PRS 5 & 6 Sub Loan Option Limited has not traded since its incorporation on 17 February 2004.

7. Debtors: amounts falling due within one year

Group

	28 February 2005 £
Prepayments and accrued income	51,443
Other debtors	2
Amounts owed by group undertakings	1,095,916
	<u>1,147,361</u>

8. Creditors: amounts falling due within one year

Group

	28 February 2005 £
Corporation tax	8,151
Accruals and deferred income	19,392
Other creditors	1,095,917
Withholding tax	90,131
	<u>1,213,591</u>

9. Called up share capital

	28 February 2005 £
Authorised: 100 ordinary shares of £1 each	100
Called up and issued: 1 ordinary share of £1	<u>1</u>

Notes to the financial statements

at 28 February 2005

10. Profit and loss account

	<i>Group Period ended 28 February 2005 £</i>	<i>Company Period ended 28 February 2005 £</i>
Retained profit for the period	34,747	—
Retained profit carried forward	34,747	—

11. Reconciliation of movement in shareholder's funds

	<i>Group 28 February 2005 £</i>	<i>Company 28 February 2005 £</i>
Issue of ordinary share capital	—	—
Retained profit for the period	34,747	—
Net increase in shareholder's funds	34,747	—
Shareholder's funds at incorporation	1	1
Closing shareholder's funds	34,748	1

12. Reconciliation of operating profit to net cash inflow from operating activities

	<i>Period ended 28 February 2005 £</i>
Operating profit	34,747
Interest payable	515,656
Change in other debtors	(1,147,361)
Change in other creditors	1,213,591
Net cash inflow from operating activities	616,633

Notes to the financial statements

at 28 February 2005

13. Analysis of net funds

	<i>Opening balances</i>	<i>Cash flow</i>	<i>Other Non-cash Movements</i>	<i>28 February 2005</i>
	£	£	£	£
Cash in hand and at bank	–	100,978	–	100,978
Mortgage backed securities	–	–	–	–
Subordinated loan	–	–	–	–
Cash flow from increase in net debt and loan financing	–	–	–	–
Amortisation of capitalised issue costs	–	–	–	–
Total	–	100,978	–	100,978

14. Related party transactions

During the period, PRS 5 & 6 Sub Loan Ltd has been charged the following amounts of interest by Preferred Mortgages Limited and the amount outstanding at the end of the period was:

	<i>Amount charged period ended 28 February 2005</i>	<i>Amounts outstanding 28 February 2005</i>
	£	£
Loan interest	515,656	–

15. Parent company and ultimate controlling party

Wilmington Trust SP Services (London) Limited, a company registered in England and Wales, holds all of the issued shares in the Company on a discretionary trust basis. Its financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ. Under the terms of the discretionary trust, there is no ultimate controlling party.

PRS 5 & 6 Sub Loan Holdings Limited is a quasi-subsidiary of Preferred Holdings Limited, a company registered in England and Wales. Its financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

The largest group in which the results of the Company are consolidated is that headed by Lehman Brothers Holdings Inc., incorporated in the United States of America. The consolidated accounts of this group are available from 745 Seventh Avenue, New York, USA.