

Company number: 1759546

THE MORTGAGE CORPORATION
ANNUAL REPORT
FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005



THE MORTGAGE CORPORATION

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THE MORTGAGE CORPORATION

COMPANY INFORMATION

Directors	R G Baker C F Holmes Wilmington Trust SP Services (London) Limited (formally SPV Management Limited)
Secretary	A J Warren
Company Number	1759546
Registered Office	St Catherine's Court Herbert Road Solihull West Midlands B91 3QE
Registered Auditor	Deloitte & Touche LLP Birmingham
Bankers	Barclays Bank Plc Financial Services and Structured Finance Team P O Box 544 54 Lombard Street London EC3P 3AH

THE MORTGAGE CORPORATION

REPORT OF THE DIRECTORS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

The directors present their report on the affairs of the company, together with the audited financial statements for the 15 month period ended 31 December 2005. The previous period is for 9 months ended 30 September 2004.

Principal activities and business review

The principal activity of the company was the administration mortgages for fellow subsidiary undertakings.

On 30th June 2003 the company delegated its servicing responsibilities to the Mortgage Trust group of companies ("MTL"). MTL are remunerated for this service under an administration agreement with TMC.

The profit and loss account is set out on page 5. The directors recommend a proposed dividend for the period of £883k (2004: £721k).

Elective Resolution

At the Annual General Meeting of the company held on 21 April 1998 Elective Resolutions were passed in respect of the financial year ending 31 December 1998 and subsequent years, pursuant to Section 379A of the Companies Act 1985 (the "Act"), that:

- a) in accordance with the provisions of the Act the company dispenses with the laying of accounts and reports before the company in General Meetings;
- b) in accordance with the provisions of Section 366A of the Act, the company dispenses with the holding of Annual General Meetings; and
- c) in accordance with the provisions of Section 386 of the Act the company dispenses with the obligation to appoint auditors annually.

Directors and their interests

The directors who served during the period and up to the date of this report were as follows:

R G Baker

C F Holmes

Wilmington Trust SP Services (London) Limited (formally SPV Management Limited)

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

K C Barrett resigned as an alternate director for C F Holmes on 30 March 2005. C P Kelly was appointed as an alternate Director to C F Holmes on 25 May 2005.

The company is a wholly owned subsidiary of Zophonus Limited, of which R G Baker, Wilmington Trust SP Services (London) Limited, C F Holmes and C P Kelly (as an alternate director for C F Holmes) are directors. According to the Register of Directors' Interests, no director had any interest in the share capital of the company or group.

In addition, none of the directors had at any time during the period any interests in the contracts of the company which are required to be disclosed under the terms of the Companies Act 1985, other than Wilmington Trust SP Services (London) Limited under the terms of a Corporate Services Agreement dated 6 June 2001. Wilmington Trust SP Services (London) Limited is contracted to receive fees of £6,667 per annum and received fees of £8,333 during the period (2004: period £5,000). R G Baker is a director of Wilmington Trust SP Services (London) Limited.

THE MORTGAGE CORPORATION

REPORT OF THE DIRECTORS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

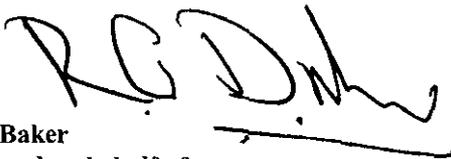
Statement of directors' responsibilities

UK 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 as at the end of the financial period and of the profit or loss 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 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 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.

By order of the Board



RG Baker
For and on behalf of
Wilmington Trust SP Services (London) Limited
Director
6 April 2006

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE MORTGAGE CORPORATION**

We have audited the financial statements of The Mortgage Corporation for the 15 month period ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. 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 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 period and consider the implications for our reports 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 2005 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
6 April 2006

THE MORTGAGE CORPORATION

PROFIT AND LOSS ACCOUNT

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

		15 months to 31 Dec 2005 £'000	9 months to 30 Sep 2004 £'000
Continuing operations	Notes		
Operating income	2	<u>760</u>	<u>506</u>
Turnover	3	760	506
Cost of funding	4	<u>(6)</u>	<u>(8)</u>
Gross Profit		754	498
Administrative expenses	5	(1,815)	(1,264)
Administrative credits	5	<u>1,416</u>	<u>1,072</u>
Operating profit		355	306
Interest receivable and similar income		<u>906</u>	<u>480</u>
Profit on ordinary activities before taxation	6	1,261	786
Tax on profit on ordinary activities	7	<u>(378)</u>	<u>(65)</u>
Profit on ordinary activities after taxation		883	721
Dividends	8	<u>(883)</u>	<u>(721)</u>
Retained profit for the financial period	12	<u>==</u>	<u>==</u>

All recognised gains or losses of the company are included in the above profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

THE MORTGAGE CORPORATION

BALANCE SHEET

AS AT 31 DECEMBER 2005

		As at 31 December 2005 £'000	As at 30 September 2004 £'000
ASSETS	Notes		
Current assets			
Debtors			
Amounts falling due after one year	9	1,360	5,211
Amounts falling due within one year	9	1,746	2,112
Current asset investments	10	-	20,817
Cash at bank and in hand		<u>15,301</u>	<u>11,376</u>
		<u>18,407</u>	<u>39,516</u>
Total assets		<u>18,407</u>	<u>39,516</u>
LIABILITIES AND CAPITAL			
Capital and reserves			
Called up share capital	11	12,164	12,164
Profit and loss account	12	<u>3,574</u>	<u>3,574</u>
Equity shareholders' funds	13	15,738	15,738
Provisions for liabilities and charges	14	383	429
Creditors: amounts falling due within one year	15	2,286	23,349
Total liabilities and capital		<u>18,407</u>	<u>39,516</u>

The financial statements on pages 5 to 13 were approved by the Board of Directors on 6 April 2006 and were signed on its behalf by:



RG Baker
For and on behalf of
Wilmington Trust SP Services (London) Limited
Director

THE MORTGAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

1. Principal accounting policies

These financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Format of financial statements

The company has complied with Financial Reporting Standard Number 5, "Reporting the Substance of Transactions" and, having met the conditions laid down in the Standard, has adopted "linked presentation" in respect of mortgage assets managed on behalf of other financial institutions.

The cost of funding heading within the profit and loss account has been adapted from that prescribed by Schedule 4 to the Companies Act 1985 in view of the nature of the business. Mortgage advances have been presented on the face of the balance sheet rather than included as part of current assets. In the opinion of the directors, this departure from the format of Schedule 4 of the Companies Act 1985 is required to give a true and fair view of the state of the company's affairs since to present mortgage advances as part of current assets would not fairly reflect the liquidity of these assets.

Turnover

Turnover is recognised on a receivable basis and represents interest, servicing fees, commissions and miscellaneous income.

Operating leases

Rentals are charged to the profit and loss account on a straight-line basis over the term of the leases. Where the group has vacated or has contracted to vacate space, a provision is established for the estimated net future liability of the space vacated.

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, without discounting, in respect of all material timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Investments

Investments in subsidiary companies are recorded at cost less provisions for impairment in value.

Cashflow statement

The company is ultimately a wholly owned subsidiary of SeaHorse Limited and the cashflows of the company are included in the consolidated group cashflow statement of SeaHorse Limited. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 ("FRS1") (Revised) from publishing a cashflow statement.

Related party disclosures

Under the provisions of Financial Reporting Standard No. 8 ("FRS8"), the company has taken advantage of the exemption provided (for subsidiary undertakings whose voting rights are more than 90% controlled within the group) from disclosing group related party transactions. The consolidated financial statements of SeaHorse Limited, in which these results are included, are publicly available.

THE MORTGAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

1. Principal accounting policies (Continued)

Mortgage advances

Mortgage advances comprised loans that were secured by way of mortgages over freehold and leasehold residential properties located in England, Wales and Scotland.

Mortgage advances included properties in possession and were stated after deducting a provision for loan losses. The provision was maintained at a level that was considered adequate by management to absorb losses inherent in the loan portfolio of the group. A judgement as to the adequacy of the provision was made at the period end and includes anticipated recoveries under mortgage indemnity guarantees and other insurance policies. Should the provision be judged inadequate either because of reductions due to write-offs or because of changes to the size and characteristics of the portfolio, the provision is increased and charged to administrative expenses in the current period.

Amortisation of premium on sale of assets

The premium arising from the sale of mortgage assets is amortised on a reducing balance basis over 5 years.

2. Operating income

	15 months to 31 Dec 2005 £'000	9 months to 30 Sep 2004 £'000
Servicing fees	135	104
Commission income and miscellaneous fees	<u>625</u>	<u>402</u>
	<u>760</u>	<u>506</u>

3. Turnover

Contributions to turnover and profit on ordinary activities before taxation was derived from the company's principal activity, which was carried out in England, Wales and Scotland.

4. Cost of funding

	15 months to 31 Dec 2005 £'000	9 months to 30 Sep 2004 £'000
Interest payable on bank loans and other loans	<u>6</u>	<u>8</u>

The interest expense relates to short-term borrowings.

5. Administrative expenses

	15 months to 31 Dec 2005 £'000	9 months to 30 Sep 2004 £'000
Administrative expenses	1,815	1,264
Administrative credit:		
Borrower and negligence recoveries	(942)	(1,072)
Release of provisions	<u>(474)</u>	<u>-</u>
Administrative credit	<u>(1,416)</u>	<u>(1,072)</u>
Total administrative expenses	<u>398</u>	<u>192</u>

THE MORTGAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

6. Profit on ordinary activities before taxation

	15 months to 31 Dec 2005 £'000	9 months to 30 Sep 2004 £'000
Profit on ordinary activities before taxation is stated after charging:		
Land and buildings – operating leases	-	930
Land and buildings – consideration for surrender of lease	-	200
Auditors' remuneration – audit	26	25
Corporate service fee – Wilmington Trust SP Services (London) Limited	<u>8</u>	<u>5</u>

No persons were employed directly by the company during the period. Directors' emoluments are borne by another group company.

7. Tax on profit on ordinary activities

	15 months to 31 Dec 2005 £'000	9 months to 30 Sep 2004 £'000
The tax charge is based on the profit for the period / year and comprises:		
Current years tax		
U K Corporation tax at 30% (2004: 30%)	547	528
Balancing payment made under transfer pricing regime	(300)	(300)
Adjustment in respect of prior years	<u>64</u>	<u>(170)</u>
	242	58
Deferred tax arising from origination and reversal of timing differences	<u>136</u>	<u>7</u>
	<u>378</u>	<u>65</u>

The current tax charge for the period is the lower than (2004: lower than) the standard rate of corporation tax in the UK (30% ,2004: 30%). The differences are explained below:

	15 months to 31 Dec 2005 £'000	9 months to 30 Sep 2004 £'000
Profit on ordinary activities before tax:	<u>1,261</u>	<u>786</u>
Profit on ordinary activities multiplied by standard rate tax of 30% (2004: 30%)	378	235
Effects of:		
Adjustment for under / (over) accrual from prior years	(5)	(170)
Accelerated capital allowances and other timing differences	<u>(131)</u>	<u>(7)</u>
Total current tax charge	<u>242</u>	<u>58</u>

THE MORTGAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

8. Dividends

	15 months to 31 Dec 2005 £'000	9 months to 30 Sep 2004 £'000
Ordinary dividends – proposed	<u>883</u>	<u>721</u>

9. Debtors

	31 Dec 2005 £'000	30 Sep 2004 £'000
Amounts falling due in more than one year:		
Amounts owed by group undertakings	1,315	5,042
Deferred tax	<u>45</u>	<u>169</u>
	<u>1,360</u>	<u>5,211</u>
Amounts falling due within one year:		
Amounts owed by group undertakings	1,506	797
Deferred tax	-	12
Other debtors	224	1,301
Prepayments and accrued income	<u>16</u>	<u>2</u>
	<u>1,746</u>	<u>2,112</u>
Total debtors	<u>3,106</u>	<u>7,323</u>

Amounts due from group undertakings due after more than one year are in respect of subordinated loans which are interest bearing at a rate of 1 month LIBOR plus 1%. The loans may be repaid in whole or in part provided the group undertakings have sufficient assets to meet their other obligations and liabilities.

THE MORTGAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

10. Current asset investments

Shares in subsidiary undertakings	31 Dec	30 Sep
	2005	2004
	£'000	£'000
Cost and net book values		
As at 30 September	<u>—</u>	<u>20,817</u>

The following are the subsidiary undertakings of the company:

Name of undertaking	Country of Incorporation	% of ordinary shares held	Principal activity
Cavendish Home Investments No.1 Limited	Great Britain	100%	Non-trading
Cavendish Home Investments No. 2 Limited	Great Britain	100%	Non-trading
Cavendish Home Investments No. 3 Limited	Great Britain	100%	Non-trading

The subsidiary companies were placed into Members' Voluntary Liquidation on 11 November 2003 as the companies were surplus to requirements. The companies were formally dissolved on 2 November 2004.

Summary details from the financial statements of the subsidiary companies in aggregate for the period are as follows:

	2005	2004
	£'000	£'000
Share capital and reserves as at 31 December / 30 September	<u>—</u>	<u>20,871</u>
Amounts owed by group undertakings due within one year	<u>—</u>	<u>20,871</u>

THE MORTGAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

11. Called up share capital

	31 Dec 2005 £'000	30 Sep 2004 £'000
Authorised		
170,000,000 Ordinary shares of £1 each	170,000	170,000
30,000,000 Preference shares of £1 each	<u>30,000</u>	<u>30,000</u>
	<u>200,000</u>	<u>200,000</u>
Allotted, called up and fully paid:		
12,164,000 Ordinary shares of £1 each	<u>12,164</u>	<u>12,164</u>

Whilst no preference shares have been allotted or called up, they are non-redeemable and would entitle holders to a fixed rate non-cumulative preferential dividend of 10% of the nominal value of the shares. Such dividends would be payable in priority to any dividend declared on the ordinary shares and would be payable on 30 June and 31 December. The preference shares would not entitle the holders to any further participation in the profits of the company.

In the event of a return of capital on liquidation or otherwise, the preference shares would rank in priority to the ordinary shares for the return of capital and any declared but unpaid dividends.

The preference shares would entitle the holder to receive notice and attend any general meeting and vote upon any resolution proposed at any such meeting. Each preference shareholder would have one vote on a show of hands and one vote for every £1 nominal preference share on a poll.

12. Profit and loss account

	31 Dec 2005 £'000	30 Sep 2004 £'000
As at 1 January / 1 October	3,574	3,574
Retained profit for the financial period	-	-
As at end of 31 December / 30 September	<u>3,574</u>	<u>3,574</u>

13. Reconciliation of movements in equity shareholders' funds

	31 Dec 2005 £'000	30 Sep 2004 £'000
Opening equity shareholders' funds	15,738	15,738
Profit on ordinary activities after taxation	883	721
Dividends	<u>(883)</u>	<u>(721)</u>
Closing equity shareholders' funds	<u>15,738</u>	<u>15,738</u>

THE MORTGAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2005

14. Provisions for liabilities and charges

	31 Dec 2005 £'000	30 Sep 2004 £'000
Provisions for mortgage related charges:		
As at 1 January / 1 October	159	129
Increase during the period	<u>224</u>	<u>30</u>
As at 31 December / 30 September	<u>383</u>	<u>159</u>
Lease costs:		
As at 1 January / 1 October	270	551
Released for the period	(257)	-
Utilised during the period	<u>(13)</u>	<u>(281)</u>
As at 31 December / 30 September	<u>-</u>	<u>270</u>
Total provisions as at 31 December / 30 September	<u><u>383</u></u>	<u><u>429</u></u>

Provisions for mortgages relate to liabilities arising on mortgage loans originated by TMC in prior periods.

Lease costs represent a provision for the estimated future payments on premises which were sublet by the company.

15. Creditors: amounts falling due within one year

	31 Dec 2005 £'000	30 Sep 2004 £'000
Bank overdraft	12	34
Amounts owed to group undertakings	-	21,002
Corporation tax	873	395
Dividends	883	721
Other creditors	71	91
Accruals and deferred income	<u>447</u>	<u>1,106</u>
	<u><u>2,286</u></u>	<u><u>23,349</u></u>

16. Ultimate parent undertaking

The immediate parent undertaking is Zophonus Limited. The smallest group into which the company is consolidated is that of Zophonus Limited, registered in the Cayman Islands. The largest group into which the company is consolidated is that of SeaHorse Limited, registered in the Cayman Islands.

The shares in SeaHorse Limited are held under a Declaration of Trust for charitable purposes, the charitable trust being registered in the Cayman Islands. The Group's ultimate controlling party is The Royal Bank of Scotland plc, which is incorporated in Great Britain and registered in Scotland.

Copies of the consolidated financial statements may be obtained from The Secretary, St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.