THE MORTGAGE CORPORATION

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

Company number: 1759546

THE MORTGAGE CORPORATION

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THE MORTGAGE CORPORATION

COMPANY INFORMATION

Directors	R G Baker SPV Management Limited C F Holmes
Secretary	G M Wellman
Company Number	1759546
Registered Office	Sir William Atkins House Ashley Avenue Epsom Surrey KT18 5AS
Registered Auditor	KPMG Audit Plc 1 Canada Square Canary Wharf London E14 5AG
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 YEAR ENDED 31 DECEMBER 2003

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

Principal activities and business review

The principal activities of the company during the year was servicing mortgages for fellow subsidiary undertakings.

The profit and loss account is set out on page 5. The directors recommend a proposed dividend, for the year, of £707k (2002: £925k).

During the year the company delegated its servicing responsibilities to the Mortgage Trust group of companies ("MTL"). This followed the sale of First Flexible No.1 plc, First Flexible No.2 plc and First Flexible No.3 plc, sister companies of the company, to Arianty Holdings Limited in June 2003 and the termination of the Joint Employment Contract with MTL.

The joint employment contracts for all employees between the company and MTL were terminated in June 2003 and all employees became solely employed by MTL. Following this, the day to day operations of the company were serviced by MTL.

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 year and up to the date of this report were as follows:

R G Baker
C F Holmes
SPV Management Limited

A J Ward and P R Rogers both resigned as alternate directors for C F Holmes and R G Baker on 20 June 2003.
K C Barrett is an alternate director for C F Holmes.

The company is a wholly owned subsidiary of Zophonus Limited, of which R G Baker, SPV Management Limited, C F Holmes and K C Barrett (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 year any interests in the contracts of the company which are required to be disclosed under the terms of the Companies Act 1985, other than SPV Management Limited under the terms of a Corporate Services Agreement dated 6 June 2001. SPV Management Limited is contracted to receive fees of £6,667 per annum and received fees of £6,667 during the year (2002: £6,667). R G Baker is a director of SPV Management Limited.

THE MORTGAGE CORPORATION

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2003

Statement of 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 as at the end of the financial year 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

For and on behalf of
SPV Management Limited
Director
22 March 2004

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE MORTGAGE CORPORATION

We have audited the financial statements on pages 5 to 15.

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 directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit 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 affairs of the company as at 31 December 2003 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 Canada Square
Canary Wharf
London E14 5AG
22 March 2004

THE MORTGAGE CORPORATION

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	£'000	2003 £'000	£'000	2002 £'000
Continuing operations					
Operating income	2		**821**		1,010
Income from mortgages subject to non-recourse funding:					
Income		**93**		219	
Expenses		**(90)**		(213)	
			3		6
Turnover	3		**824**		1,016
Cost of funding	4		**(8)**		(9)
Gross Profit			**816**		1,007
Administrative expenses	5		**(1,648)**		(2,503)
Administrative credits	5		**1,764**		2,321
Operating profit			**932**		825
Interest receivable and similar income			**425**		497
Profit on ordinary activities before taxation	6		**1,357**		1,322
Tax on profit on ordinary activities	8		**247**		(527)
Profit on ordinary activities after taxation			**1,604**		795
Dividends	9		**(707)**		(925)
Retained profit/(loss) for the financial year	14		**897**		(130)

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 2003

	Notes	2003 £'000	2002 £'000
ASSETS			
Mortgage advances			
Mortgage advances subject to non-recourse funding			
Mortgage advances	10	-	2,784
Less: non-recourse funding	10	-	(2,784)
		-	-
Current assets			
Debtors			
Amounts falling due after one year	11	**5,156**	5,034
Amounts falling due within one year	11	**1,571**	2,619
Current asset investments	12	**20,817**	20,550
Cash at bank and in hand		**12,269**	11,905
		39,813	40,108
Total assets		**39,813**	40,108
LIABILITIES AND CAPITAL			
Capital and reserves			
Called up share capital	13	**12,164**	12,164
Profit and loss account	14	**3,574**	2,677
Equity shareholders' funds	15	**15,738**	14,841
Provisions for liabilities and charges	16	**680**	1,222
Creditors: amounts falling due within one year	17	**23,395**	3,239
Creditors: amounts falling due after more than one year	18	**-**	20,806
Total liabilities and capital		**39,813**	40,108

The financial statements on pages 5 to 15 were approved by the Board of Directors on 22 March 2004 and were signed on its behalf by:

For and on behalf of
SPV Management Limited
Director

1. Principal accounting policies

These financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important 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 year 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.

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 year 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 year.

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

	2003 £'000	2002 £'000
Servicing fees	186	253
Commission income and miscellaneous fees	635	757
	821	1,010

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

	2003 £'000	2002 £'000
Interest payable on bank loans and other loans	8	9

The interest expense relates to short-term borrowings.

5. Administrative expenses

	2003 £'000	2002 £'000
Administrative expenses	1,648	2,503
Administrative credit:		
Borrower and negligence recoveries	(854)	(1,450)
Release of provisions	(910)	(871)
Administrative credit	(1,764)	(2,321)
Total administrative (credit)/expenses	(116)	182

6. Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated after charging:		
Land and buildings – operating leases	**1,561**	1,501
Auditors' remuneration – audit	**37**	31
Auditors' remuneration – other services	**-**	15
Corporate service fee – SPV Management Limited	**7**	7

7. Staff costs

	2003 £'000	2002 £'000
Employee costs during the year amounted to:		
Wages and salaries	**492**	974
Social security costs	**35**	83
	527	1,057

In June 2003 the joint employment contracts for all employees between the company and MTL were terminated and all employees became solely employed by MTL. The total average staff numbers for the period to June who had joint employment contracts amounted to 319 (2002: 375).

Directors' emoluments	2003 £'000	2002 £'000
Aggregate emoluments	**-**	2

8. Tax on profit on ordinary activities

	2003 £'000	2002 £'000
The tax charge is based on the profit for the year and comprises:		
U K Corporation tax at 30% (2002: 30%)	**(313)**	397
Deferred tax arising from origination and reversal of timing differences	**66**	130
	(247)	527

The current tax charge for the year is lower than (2002: lower than) the standard rate of corporation tax in the UK (30% ,2002: 30%). The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax:	**1,357**	1,322
Profit on ordinary activities multiplied by standard rate tax of 30% (2002: 30%)	**407**	397
Effects of:		
Release of over accrual from prior years	**(556)**	-
Non-taxable release of provisions	**(142)**	-
Expenses not deductible for tax purposes	**-**	4
Accelerated capital allowances and other timing differences	**(22)**	(4)
Total current tax charge	**(313)**	397

9. Dividends

	2003 £'000	2002 £'000
Ordinary dividends – proposed	**707**	925

10. Mortgage advances subject to non-recourse funding

	2003 £'000	2002 £'000
Mortgage advances	-	2,501
Investments	-	283
	-	2,784
Less: Non recourse funding	-	(2,784)
	-	-

On 7 August 1996 the company sold the cash flows equating to the future cash flows less 0.1% on a mortgage portfolio of £146.7million to MTL . On 13 November 2003 TMC sold all the equitable title of the portfolio to MTL (see note 20).

11. Debtors

	2003 £'000	2002 £'000
Amounts falling due in more than one year:		
Amounts owed by group undertakings	**5,042**	4,894
Deferred tax	**114**	117
Other debtors	-	23
	5,156	5,034
Amounts falling due within one year:		
Amounts owed by group undertakings	**620**	691
Deferred tax	**67**	130
Other debtors	**806**	1,577
Prepayments and accrued income	**78**	221
	1,571	2,619
Total debtors	**6,727**	7,653

Amounts due from group undertakings due after more than one year are in respect of subordinated loans which are currently non-interest bearing. 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 balance of £5,042k (2002: £4,894k) is after a provision of £383k (2002: £531k) for uncollectable amounts.

12. Current asset investments

Shares in subsidiary undertakings	**2003**	2002
	£'000	£'000
Cost		
As at 31 December	**20,817**	20,817
Provisions		
As at 31 December	-	(267)
Net book value		
At 31 December	**20,817**	20,550

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

	2003	2002
	£'000	£'000
Share capital and reserves at 1 January	**20,871**	20,871
Retained profit for the year	-	-
Share capital and reserves at 31 December	**20,871**	20,871
Cash at bank and in hand	-	65
Amounts owed by group undertakings due within one year	**20,871**	-
Amounts owed by group undertakings due after one year	-	20,806
	20,871	20,871

13. Called up share capital

	2003 £'000	2002 £'000
Authorised		
170,000,000 Ordinary shares of £1 each	**170,000**	170,000
30,000,000 Preference shares of £1 each	**30,000**	30,000
	200,000	200,000
Allotted, called up and fully paid:		
12,164,000 Ordinary shares of £1 each	**12,164**	12,164

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.

14. Profit and loss account

	2003 £'000	2002 £'000
At 1 January	**2,677**	2,807
Retained profit/(loss) for the financial year	**897**	(130)
At 31 December	**3,574**	2,677

15. Reconciliation of movements in equity shareholders' funds

	2003 £'000	2002 £'000
Opening equity shareholders' funds	**14,841**	14,971
Profit on ordinary activities after taxation	**1,604**	795
Dividends	**(707)**	(925)
Closing equity shareholders' funds	**15,738**	14,841

16. Provisions for liabilities and charges

	2003	2002
	£'000	£'000
Provisions for mortgage related charges:		
At 1 January	172	391
Released during the year	(43)	(219)
As at 31 December	129	172
Lease costs:		
At 1 January	1,050	1,575
Released for the year	(452)	(470)
Utilised during the year	(47)	(55)
At 31 December	551	1,050
Total provisions at 31 December	680	1,222

Provisions for mortgage related charges primarily consist of shortfalls on recoveries on the sale of repossessed properties, the properties being owned by fellow subsidiary undertakings.

Lease costs represent a provision for the estimated future payments on premises sublet by the company. The estimated future payments are net of income from sub-leasing the vacant space.

17. Creditors: amounts falling due within one year

	2003	2002
	£'000	£'000
Bank overdraft	670	143
Amounts owed to group undertakings	20,871	-
Corporation tax	469	837
Other taxes and social security	-	315
Dividends	707	925
Other creditors	123	119
Accruals and deferred income	555	900
	23,395	3,239

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

	2003	2002
	£'000	£'000
Amounts owed to group undertakings	-	20,806

19. Financial commitments

Lease commitments

The company had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings 2003 £'000	Land and Buildings 2002 £'000
Operating leases which expire:		
After 5 years	**1,561**	1,501

20. Related party transactions

The company has identified the following transactions which are required to be disclosed under the terms of Financial Reporting Standard 8, "Related Party Transactions" ("FRS8")

Transactions with MTL

i) During 1996 the company entered into an agreement with MTL under which MTL acquired cash flows equating to the cash flows less 0.1% of a mortgage portfolio. The book value of the remaining loans at 31 December 2003 was £379k (2002: £2.5million). The company administered the remaining mortgage assets on behalf of MTL up to 30 June 2003, from which time MTL assumed the administration itself. The company was due fees of £3k for the period to 30 June 2003 (2002: £6k). MTL also purchased for consideration of £1 an option to buy the equitable title of the portfolio. This option was exercisable within 21 years from 7 August 1996. On 13 November 2003 this £1 option was exercised. MTL has a floating charge over the company's assets as security for these mortgages and cash flows.

ii) During 1996 TMC entered into a mortgage sale agreement with MTL under which MTL purchased a mortgage portfolio. The book value of the remaining mortgages at 31 December 2003 was £334k (2002: £2.7 million). TMC administered the remaining mortgage assets on behalf of MTL up to 30 June 2003, from which time MTL assumed the administration itself. TMC was due fees of £3k for the period to 30 June 2003 (2002: £7k).

iii) MTL paid the lease costs and service charges of the properties it occupies with TMC. All employees had joint employment contracts with MTL and TMC up to 30 June 2003. During the year MTL recharged £369k (2002: £725k) of administrative expenses under an agreement with TMC which was amended by a shareholder and subscription agreement dated 30 August 2000. From 30th June 2003 MTL replaced the recharge of administrative expenses to TMC with an administration fee based on mortgage assets. £639k was charged in the year.

At 31 December 2003 £123k was owed to MTL (2002: £865k owed by MTL).

Transactions with First Active plc

i) As disclosed under note (i) regarding transactions with MTL, on 29 December 2000 MTL sold the rights to the cashflows on £16.2 million of this mortgage portfolio to FA. MTL continues to administer these mortgage assets on behalf of FA.

ii) As disclosed under note (ii) regarding transactions with MTL, on 29 December 2000 MTL sold mortgage advances of £17.2 million from this mortgage portfolio to FA. MTL continues to administer these mortgage assets on behalf of FA.

21. 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, and the directors regard the Cayman Trust as the ultimate parent undertaking.

Copies of the consolidated financial statements may be obtained from The Secretary, Sir William Atkins House, Ashley Avenue, Epsom, Surrey, KT18 5AS.