Company Registration No. 2058813

LANCASHIRE MORTGAGE CORPORATION LIMITED

Report and Financial Statements

Year ended 30 June 2006

REPORT AND FINANCIAL STATEMENTS 2006

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LANCASHIRE MORTGAGE CORPORATION LIMITED

REPORT AND FINANCIAL STATEMENTS 2006

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

H N Moser	
G D Beckett	
M R Goldberg	
A J Grant	
G Bailey	(appointed 14 September 2006)

SECRETARY

M J Ridley	(appointed 5 April 2006)
G D Beckett	(resigned 5 April 2006)

REGISTERED OFFICE

Bracken House
Charles Street
Manchester
M1 7BD

PRINCIPAL BANKERS

Bank of Scotland Corporate Banking
9th Floor
No 1 Marsden Street
Manchester
M2 1HW

AUDITORS

Deloitte & Touche LLP
Manchester

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2006

ENHANCED BUSINESS REVIEW

The company's principal activity during the year under review continues to be that of financiers A number of key indicators (KPI's) on performance, position and liquidity are monitored in order to control the business and to plan for future growth

Profitability

As shown in the Company's profit and loss account on page 6, profit before tax has increased to £25 5m (2005 £18 6m) The increase is the result of significant growth in the underlying loan book as detailed below

No dividend was paid (2005 £Nil)

Position

As shown in the Company's balance sheet on page 7, loan book values (classified within trade debtors) have increased by 51 9% to £297 6m (2005 £195 9m) This is reflective of an increase in new business levels throughout the year At the same time, shareholder's funds have increased by 46 2% to £56 6m (2005 £38 7m)

Liquidity

The ability of the Company to service its debts is measured using an interest cover ratio, being profit before tax and interest divided by interest This has been maintained at 3 3 1 (2005 3 4 1)

Non-financial KPIs

The Directors monitor certain non-financial KPIs, which are detailed below In addition, the Directors monitor compliance with FSA and Consumer Credit Act regulation, and in particular the level of complaints received Complaints levels in the year have been minimal

Post balance sheet events

On 15 September 2006 Barclays Private Equity acquired 30% of the issued share capital of the parent company, Jerrold Holdings Limited

PRINCIPAL RISKS AND UNCERTAINTIES

Credit risk

The Company is exposed to changes in economic position of its customers, which may impact adversely on their ability to make loan repayments The level of risk in this respect is driven by both macro-economic factors, such as levels of consumer indebtedness, as well as by factors relating to specific customers, such as the failure of the business of a corporate customer Credit risk is managed at loan inception via stringent underwriting policies with regard to equity levels and affordability ratios, and throughout the life of the loan via monitoring by the Board of arrears levels

Interest rate risk

The Company is financed by another group company The Group is funded by variable rate facilities Interest rate risk is managed through the use of hedging instruments

Regulatory risk

The Company undertakes activities which are regulated by the Financial Services Authority and the Office of Fair Trading The Company has an established compliance function and uses third party specialist advisors to support its business operations

Exchange rate risk

All the Company's activities are in sterling and are not subject to exchange rate risk

DIRECTORS' REPORT (continued)

ENVIRONMENT

As the Company operates in the financial services sector, its actions do not have a significant environmental impact However the Company does recognise the importance of the environment and acts to minimise its impact on the environment wherever it can, including recycling and reducing energy consumption

DIRECTORS AND THEIR INTERESTS

The directors of the Company are set out on page 1 All directors served throughout the year except as noted below

G Bailey (appointed 14 September 2006)

Mr H N Moser is a director of Jerrold Holdings Ltd, the ultimate parent company, and his interests in the share capital of that Company are disclosed in its financial statements None of the other directors have interests in the share capital of the Company, or any other interests required to be disclosed under Schedule 7 of the Companies Act 1985 No director has, or had, any material interest in any contract or agreement entered into by the company during the year

AUDIT INFORMATION

In the case of each of the persons who are directors of the Company at the date when this report is approved

- as far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any audit information (as defined) and to establish that the Company's auditors are aware of that information

This statement is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board

M J Ridley
Secretary
26 April 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report including the financial statements with applicable law and regulations Under that law the directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP")

United Kingdom 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 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, 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 company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for establishing and maintaining the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LANCASHIRE MORTGAGE CORPORATION LIMITED

We have audited the financial statements of Lancashire Mortgage Corporation Limited for the year ended 30 June 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 17 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the directors report contained in the annual report, and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2006 and of the profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
27 APRIL 2007

PROFIT AND LOSS ACCOUNT
Year ended 30 June 2006

	Note	2006 £	2005 £
TURNOVER	2	44,506,514	32,364,704
Cost of sales		(882,475)	(523,650)
GROSS PROFIT		43,624,039	31,841,054
Administrative expenses		(7,133,458)	(5,685,070)
OPERATING PROFIT		36,490,581	26,155,984
Interest payable (net)	4	(10,999,720)	(7,582,428)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	25,490,861	18,573,556
Tax on profit on ordinary activities	6	(7,620,682)	(5,575,794)
RETAINED PROFIT FOR THE FINANCIAL YEAR	12	17,870,179	12,997,762

All activity has arisen from continuing operations

There were no recognised gains or losses in either year other than the profit for that year then ended and consequently no statement of total recognised gains and losses has been presented

BALANCE SHEET
30 June 2006

	Note	2006 £	2005 £
FIXED ASSETS			
Tangible assets	7	-	-
CURRENT ASSETS			
Debtors			
- due within one year	8	231,513,321	164,393,146
- due after one year	8	67,493,941	42,647,066
Cash at bank		200	-
		299,007,462	207,040,212
CREDITORS: Amounts falling due within one year	9	(242,423,613)	(168,326,542)
NET CURRENT ASSETS		56,583,849	38,713,670
NET ASSETS		56,583,849	38,713,670
CAPITAL AND RESERVES			
Called up share capital	11	2	2
Profit and loss account	12	56,583,847	38,713,668
EQUITY SHAREHOLDER'S FUNDS	13	56,583,849	38,713,670

These financial statements were approved by the Board of Directors on 26 APRIL 2007

Signed on behalf of the Board of Directors

G D Beckett

Director

M R Goldberg

Directors

A J Grant

Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2006

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards The particular accounting policies adopted are described below They have been applied consistently throughout the current and prior year

Accounting convention

The financial statements are prepared under the historical cost convention

Tangible fixed assets

Fixed assets are stated at cost, net of depreciation and any provision for impairment

Depreciation is provided evenly on the cost of tangible fixed assets, to write them down to their estimated residual value over their expected useful lives The principal annual rates used are as follows

Fixtures and fittings 15% on cost

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Turnover and Cost of Sales

Turnover consists of interest recoverable on loans and commissions income Interest income is recognised on an accruals basis Other finance related fees receivable are credited to income when the related service is performed

Cost of sales includes the direct costs of financing, including commissions payable

Bad and doubtful debts

Specific provisions are made when the directors consider that the creditworthiness of a customer has deteriorated so that the recoverability of the advance is in part or in whole doubtful General provisions are raised to cover losses that are judged to be present in loans and advances at the balance sheet date but which have not been specifically identified as such Provisions for bad and doubtful debts, along with bad debt write-offs, are charged to operating profit as part of administrative expenses

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2006

2 TURNOVER

	2006 £	2005 £
Loan interest and commissions	44,478,516	32,303,221
Other income	27,998	61,483
	44,506,514	32,364,704

3. STAFF COSTS

The company had no employees and paid no directors' emoluments during either year

4. INTEREST PAYABLE (NET)

	2006 £	2005 £
Bank interest receivable	(215)	(1,599)
Bank loans and overdrafts	10,999,935	7,584,027
	10,999,720	7,582,428

5. PROFIT ON ORDINARY ACTIVIITES BEFORE TAXATION

	2006 £	2005 £
Profit on ordinary activities before taxation is stated after charging		
Depreciation on owned assets	-	474

In both years the audit fee was borne by another group undertaking

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises

	2006 £	2005 £
Current tax		
UK corporation tax	7,943,052	5,802,622
Adjustment in respect of prior years		
- UK corporation tax	(21,970)	-
Total current tax	7,921,082	5,802,622
Deferred tax		
Origination and reversal of timing differences	(300,400)	(226,828)
Total deferred tax (see note 10)	(300,400)	(226,828)
Total tax on profit on ordinary activities	7,620,682	5,575,794

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2006

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2006 £	2005 £
Profit on ordinary activities before tax	25,490,861	18,573,556
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005 – 30%)	7,647,258	5,572,067
Effects of		
Expenses not deductible for tax purposes	3,291	3,727
Capital allowances (less than)/in excess of depreciation	(135)	(38)
Other timing differences	292,638	226,866
Adjustments to tax charge in respect of previous periods	(21,970)	-
Current tax charge for year	7,921,082	5,802,622

There is no unprovided deferred tax at the year end (2005 - £Nil)

7. TANGIBLE FIXED ASSETS

	Fixtures and fittings £
Cost	
At 1 July 2005 and 30 June 2006	9,322
Depreciation	
At 1 July 2005	9,322
Charge for the year	-
At 30 June 2006	9,322
Net book value	
At 30 June 2006	-
At 30 June 2005	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2006

8. DEBTORS

	2006 £	2005 £
Amounts falling due within one year		
Trade debtors	231,017,592	153,858,906
Prepayments	-	2,625
Other debtors	456,386	488,538
Amounts owed by fellow group undertakings	39,343	10,043,077
	231,513,321	164,393,146
Amounts falling due after more than one year		
Trade debtors	66,604,359	42,057,884
Deferred taxation (see note 10)	889,582	589,182
	67,493,941	42,647,066
	299,007,262	207,040,212

Included in trade debtors is £4,939,822 (2005 - £4,651,160) loaned to August Blake Developments Limited, £2,856,943 (2005 - £2,565,991) loaned to Edgeworth Developments Limited, £4,911,362 (2005 - £4,047,715) loaned to Sunnywood Estates Limited and £626,490 (2005 – Nil) loaned to Oakbray Developments Limited H N Moser is a director of each of these companies All loans are on a commercial basis and secured on the assets of that company

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £	2005 £
Bank loans and overdrafts	1,849,445	1,734,677
Amounts owed to fellow group undertakings	232,357,563	160,662,125
Amounts owed to related undertakings	17,845	25,339
Corporation tax	7,943,052	5,802,622
Accruals and deferred income	255,708	101,779
	242,423,613	168,326,542

Amounts owed to related undertakings are in respect of UK Mortgage Corporation Limited, a company in which H N Moser is a director and shareholder

The bank overdraft is secured by way of a cross-guarantee amongst all group companies

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2006

10. DEFERRED TAXATION

	£
Balance at 1 July 2005	589,182
Credit to profit and loss account	300,400
Balance at 30 June 2006	889,582

The amounts provided in the financial statements comprising full provision are as follows

	2006 £	2005 £
Depreciation in advance of capital allowances	674	539
Other timing differences	888,908	588,643
	889,582	589,182

The directors believe that future profits will be sufficient to ensure that the deferred taxation asset is recovered

11. CALLED UP SHARE CAPITAL

	2006 £	2005 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Called up, allotted and fully paid		
2 ordinary shares of £1 each	2	2

12. PROFIT AND LOSS ACCOUNT

	£
At 1 July 2005	38,713,668
Retained profit for the financial year	17,870,179
At 30 June 2006	56,583,847

13. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDER'S FUNDS

	2006 £	2005 £
Profit for the financial year	17,870,179	12,997,762
Opening equity shareholder's funds	38,713,670	25,715,908
Closing equity shareholder's funds	56,583,849	38,713,670

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2006

14. CONTINGENT LIABILITY

The Company's assets are subject to a fixed and floating charge in respect of £481 million of bank borrowings of the group (2005 - £313 million)

15. CASH FLOW STATEMENT

As permitted by FRS 1 (Revised 1996) "cash flow statements", the company has not produced a cash flow statement, as it is a wholly owned subsidiary undertaking of Jerrold Holdings Limited which has produced consolidated financial statements that are publicly available

16. RELATED PARTY TRANSACTIONS

As a subsidiary undertaking of Jerrold Holdings Limited, the company has taken advantage of the exemption in FRS 8, "Related party disclosures" not to disclose transactions with other members of the group headed by Jerrold Holdings Limited

17. ULTIMATE PARENT COMPANY

The Company is a wholly owned subsidiary undertaking of Jerrold Holdings Limited a company incorporated in Great Britain and registered in England and Wales

The largest and smallest group of which Lancashire Mortgage Corporation Limited is a member, and for which group financial statements are drawn up, is that headed by Jerrold Holdings Limited, whose principal place of business is at Bracken House, Charles Street, Manchester, M1 7BD