

**CHESHIRE MORTGAGE CORPORATION
LIMITED**

Report and Financial Statements

Year ended 30 June 2006



CHESHIRE MORTGAGE CORPORATION LIMITED

REPORT AND FINANCIAL STATEMENTS 2006

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CHESHIRE MORTGAGE CORPORATION LIMITED

REPORT AND FINANCIAL STATEMENTS 2006

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

H N Moser
G D Beckett
M R Goldberg
J M Shaoul (appointed 6 April 2006)
A J Grant (resigned 6 April 2006)
T Bailey (appointed 28 April 2006)
G Bailey (appointed 14 September 2006)

SECRETARY

M J Ridley (appointed 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
Chartered Accountants
Manchester

CHESHIRE MORTGAGE CORPORATION LIMITED

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 accounts on page 6, profit before tax has increased to £1.5m (2005: loss of £0.1m). 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 108% to £51.2m (2005: £24.6m). This is reflective of an increase in new business levels throughout the year. At the same time, shareholder's funds have increased by 126% to £1.9m (2005: £0.9m).

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 improved significantly to 1.71 (2005: 0.81).

Non-financial KPIs

The Directors monitor certain non-financial KPIs, relating to the environment, 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.

CHESHIRE MORTGAGE CORPORATION LIMITED

DIRECTORS' REPORT

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.

A J Grant	(resigned 6 April 2006)
J M Shaoul	(appointed 6 April 2006)
T Bailey	(appointed 28 April 2006)
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 S2342A 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

12 February 2007

CHESHIRE MORTGAGE CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 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 CHESHIRE MORTGAGE CORPORATION LIMITED

We have audited the financial statements of Cheshire 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 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

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

12 February 2007

CHESHIRE MORTGAGE CORPORATION LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 June 2006

	Note	2006 £	2005 £
TURNOVER			
Cost of sales	2	5,676,610 (828,944)	2,212,721 (433,316)
GROSS PROFIT		4,847,666	1,779,405
Administrative expenses		(1,083,541)	(1,058,652)
OPERATING PROFIT		3,764,125	720,753
Interest payable (net)	4	(2,217,728)	(852,051)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		1,546,397	(131,298)
Tax (charge)/credit on profit/(loss) on ordinary activities	6	(458,718)	34,188
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	11	1,087,679	(97,110)

All activity has arisen from continuing operations

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

CHESHIRE MORTGAGE CORPORATION LIMITED

BALANCE SHEET 30 June 2006

	Note	2006 £	2005 £
CURRENT ASSETS			
Debtors			
- due within one year	7	10,883,576	11,638,729
- due after one year	7	40,561,529	15,695,872
Cash at bank and in hand		-	9,790
		<u>51,445,105</u>	<u>27,344,391</u>
CREDITORS: Amounts falling due within one year	8	<u>(49,493,474)</u>	<u>(26,480,439)</u>
NET ASSETS		<u>1,951,631</u>	<u>863,952</u>
CAPITAL AND RESERVES			
Called up share capital	10	2	2
Profit and loss account	11	<u>1,951,629</u>	<u>863,950</u>
EQUITY SHAREHOLDER'S FUNDS	12	<u>1,951,631</u>	<u>863,952</u>

These financial statements were approved by the Board of Directors on 12/2/2007
Signed on behalf of the Board of Directors

G D Beckett
Director

M R Goldberg
Director

CHESHIRE MORTGAGE CORPORATION LIMITED

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.

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 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 the 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.

2. TURNOVER

Turnover is wholly-derived from within the UK and relates to the principal activity of the company.

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	90	143
Bank interest payable	(2,217,818)	(852,194)
	<u>(2,217,728)</u>	<u>(852,051)</u>

CHESHIRE MORTGAGE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

5. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

In the current and prior year the audit fee was borne by another group undertaking

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The tax charge/(credit) comprises

	2006 £	2005 £
Current tax		
UK corporation tax on profits of the periods	544,463	2,376
Adjustment in respect of previous periods	15,967	-
Total current tax	560,430	2,376
Deferred tax		
Origination and reversal of timing differences (see note 9)	(101,712)	(36,564)
Total tax on profit/(loss) on ordinary activities	458,718	(34,188)

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/(loss) before tax is as follows

	2006 £	2005 £
Profit/(loss) on ordinary activities before tax	1,546,397	(131,298)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2005 – 30%)	463,919	(39,389)
Effects of		
Movement in short term timing differences	80,544	-
Adjustments to tax charge in respect of previous periods	15,967	-
Group relief surrendered not paid for	-	(14,592)
Other timing differences	-	56,357
Current tax charge for year	560,430	2,376

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

7. DEBTORS

	2006 £	2005 £
Amounts falling due within one year		
Trade debtors	10,799,663	8,993,429
Amounts owed by fellow group undertakings	630	2,609,810
Other debtors	83,283	35,490
	10,883,576	11,638,729
Amounts falling due after more than one year		
Trade debtors	40,406,451	15,642,506
Deferred taxation (see note 9)	155,078	53,366
	40,561,529	15,695,872
	51,445,105	27,334,601

CHESHIRE MORTGAGE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £	2005 £
Bank overdraft	1,059,143	1,476,997
Amounts owed to group undertakings	47,794,763	24,995,121
Corporation tax	544,461	2,376
Accruals and deferred income	79,075	5,945
Other creditors	16,032	-
	<u>49,493,474</u>	<u>26,480,439</u>

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

9. DEFERRED TAXATION

	£
Balance at 1 July 2005	53,366
Credit to the profit and loss account	101,712
Balance at 30 June 2006	<u>155,078</u>

The deferred tax asset in the financial statements is as follows

	Provided 2006 £	Provided 2005 £
Other timing differences	<u>155,078</u>	<u>53,366</u>

The directors believe that future profitability will be sufficient to ensure that the deferred tax asset will be recovered

10. CALLED-UP SHARE CAPITAL

	2006 £	2005 £
Authorised 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Called-up, allotted and fully-paid 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

CHESHIRE MORTGAGE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

11. PROFIT AND LOSS ACCOUNT

	£
At 1 July 2005	863,950
Retained profit for the financial year	<u>1,087,679</u>
At 30 June 2006	<u><u>1,951,629</u></u>

12. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDER'S FUNDS

	2006 £	2005 £
Profit/(loss) for the financial year	1,087,679	(97,110)
Opening equity shareholder's funds	<u>863,952</u>	<u>961,062</u>
Closing equity shareholder's funds	<u><u>1,951,631</u></u>	<u><u>863,952</u></u>

13. 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)

14. 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 Ltd which has produced consolidated financial statements that are publicly available

15. RELATED PARTY TRANSACTIONS

As a subsidiary undertaking of Jerrold Holdings Ltd, 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 Ltd

16. ULTIMATE PARENT COMPANY

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

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