

Mortgage Next Limited

**Directors' report and financial
statements**

For the year ended 30 April 2008

Company registration number: 3175440

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Directors' report

The directors present their report and financial statements for the year ended 30 April 2008.

Principal activities

The principal activity of the company in the year under review was that of a mortgage intermediary.

Business review and future outlook

Following a strong start to the year, the well documented events in the US sub-prime mortgage sector led to the deterioration in global banking markets, which in turn, had a significant impact on the UK housing market. This resulted in the 'credit crunch'. Driven by the high level of favourable lending criteria arising from a market that had enjoyed sustained industry growth since the mid 1990s, it became increasingly evident that a realignment would be needed, affecting lending policy, risk pricing and asset valuations.

The 'credit crunch' conditions have continued to bring volatility to the industry with falling confidence impacting on lenders as well as consumers and, subsequently, on all businesses involved in the mortgage market. Falling house prices have been symptomatic of these conditions and only time will tell the extent of this 'correction'. In addition, given the fact that the UK economy is now in 'recession', it is likely that the housing market will continue to operate in this fragile state until well into 2009/2010 and Mortgage Next Limited will continue to take steps to change its proposition to reflect the new/emerging environment. However, early and very difficult decisions taken by the business to make a number of redundancies in November 2007, July 2008 and December 2008 have provided a far stronger foundation for stability and profitability in the foreseeable trading period.

A decrease in profitability was expected due to the demise of a key account, namely AXA, however, the decision made by the directors to invest in a larger sales resource to re-build market share has been vindicated with growth significantly increased by the first quarter of 2008. Although the scale of this investment will need to be closely monitored, given the trading climate, there is good evidence that underlying growth momentum is now being achieved.

Going forward, the business will continue to operate in a highly competitive market, influenced by significant economic and market factors. The Directors are confident that Mortgage Next Limited has a firm foundation for future success and a strong basis to exploit opportunities that arise in such a market. The strategy and direction of the business will continue to be reviewed on a regular basis, with detailed KPI reporting up to Board of Director level, in order to proactively mitigate any risk exposure and to exploit managed opportunities.

Principal risk and uncertainty

The principal risk to the business continues to be the underlying strength of the economy as a whole. Furthermore, whilst the company has access to a large number of lenders in order to mitigate the potential impact of the ongoing risk of individual lenders either withdrawing from the market or reducing the number of products available, it does recognise the potential impact on cash flows of a further significant reduction in the mortgage market as a whole.

Notwithstanding the above, management has prepared forecasts and subjected these to reasonable sensitivity analysis based on current information and this analysis demonstrates that with the continued support of its holding company, the company can maintain a positive cash balance for at least the next twelve months.

Proposed dividend

The directors do not recommend the payment of a dividend (2007: Nil).

Directors' report *(continued)*

Directors

The directors who held office during the year were as follows:

MP Maynard (resigned 6 October 2008)
J Tomlinson (resigned 1 February 2008)
AJ Machin
JC McClurg
CE Black
GE Harle (appointed 1 March 2008)

Charitable donations

The company made charitable donations of £280 in 2008 (2007: £150).


Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

KPMG LLP were reappointed auditors at the previous Annual General Meeting. KPMG LLP resigned as auditors on 10 July 2008 and the directors thereupon appointed KPMG Audit Plc to fill the vacancy arising. In accordance with Section 385 of the Companies Act 1985, a resolution concerning the re-appointment of KPMG Audit Plc will be proposed at the next Annual General Meeting.

By order of the Board:



GE Harle
4 March 2009

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

The directors are responsible for the maintenance and integrity of any corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation and other jurisdictions.

Independent auditors' report to the members of Mortgage Next Limited

We have audited the financial statements of Mortgage Next Limited for the year ended 30 April 2008 which comprise the profit and loss account, the balance sheet and the related notes. 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 3.

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 if, in our opinion, the directors' report is not 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 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 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.

Independent auditors' report to the members of Mortgage Next Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 April 2008 and of its loss 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.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
St James' Square
Manchester
United Kingdom
M2 6DS

4 March 2009

Profit and loss account
For the year ended 30 April 2008

	Note	2008 £	2007 £
Turnover	1	10,283,666	8,257,988
Cost of sales		(8,524,410)	(5,970,924)
Gross profit		<u>1,759,256</u>	<u>2,287,064</u>
Administrative expenses		(3,565,889)	(3,170,915)
		<u>(1,806,633)</u>	<u>(883,851)</u>
Other operating income		1,425,965	1,345,019
Operating (loss)/profit		<u>(380,668)</u>	<u>461,168</u>
Interest receivable and similar income	5	9,418	8,781
Interest payable and similar charges	6	(9,372)	(2,472)
(Loss)/profit on ordinary activities before taxation	2	<u>(380,622)</u>	<u>467,477</u>
Tax on (loss)/profit on ordinary activities	7	(46,601)	136,169
Retained (loss)/profit for the year	16	<u><u>(427,223)</u></u>	<u><u>603,646</u></u>

Continuing operations

None of the company's activities were acquired or discontinued during the current or previous year.

Statement of total recognised gains and losses for the year ended 30 April 2008

The company had no recognised gains or losses other than the (loss)/profit for the current or previous year.

The notes on page 8 to 17 form part of these financial statements.

Balance sheet
As at 30 April 2008

	Note	2008 £	2007 £
Fixed assets			
Tangible assets	8	178,620	150,944
Investments	9	10,000	10,000
		<u>188,620</u>	<u>160,944</u>
Current assets			
Debtors	10	4,068,218	4,264,577
Cash at bank and in hand		197,344	64,458
		<u>4,265,562</u>	<u>4,329,035</u>
Creditors			
Amounts falling due within one year	11	(1,676,706)	(1,281,664)
		<u>2,588,856</u>	<u>3,047,371</u>
Net current assets			
		<u>2,777,476</u>	<u>3,208,315</u>
Total assets less current liabilities			
		<u>2,777,476</u>	<u>3,208,315</u>
Creditors			
Amounts falling due after more than one year	12	-	(3,616)
		<u>2,777,476</u>	<u>3,204,699</u>
Net assets			
		<u>2,777,476</u>	<u>3,204,699</u>
Capital and reserves			
Called up share capital	15	50,000	50,000
Capital redemption reserve	16	1	1
Profit and loss account	16	2,727,475	3,154,698
		<u>2,777,476</u>	<u>3,204,699</u>
Total equity shareholders' funds	20	<u>2,777,476</u>	<u>3,204,699</u>

Approved by the Board of Directors on 4 March 2009 and signed on its behalf by:

GP Harle

4 March 2009

The notes on pages 8 to 17 form part of these financial statements.

Notes to the financial statements for the year ended 30 April 2008

1 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 preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on the going concern basis, notwithstanding a net loss of £0.4m in the year to 30 April 2008, which the directors believe to be appropriate for the following reasons. The company is dependent for its current and projected working capital on funds provided to it by Freedom Finance Holdings Limited, the company's intermediate parent. Freedom Finance Holdings Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. The directors consider that this should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Turnover

Turnover represents commission receivable on brokered business. Mortgage commission is earned and recognised at the point the loan provider approves secured lending. Commission earned on the broking of general and life insurance policies is also recognised at the point the insurance provider completes on the policy.

Other operating income

Other operating income represents re-charges to Mortgage Next Network Ltd. These largely consist of staff (note 3) and premises expenses which are re-charged on the basis of mortgage business undertaken by Mortgage Next Network Ltd.

Investments

Investments are included at cost less provision for impairment.

Fixed assets and depreciation

Depreciation of tangible fixed assets has been provided to write off the cost less estimated residual values of tangible fixed assets over their estimated useful lives as follows:

Property improvements	-	Over period of lease
Fixtures and fittings	-	25% reducing balance
Computer equipment (included in fixtures and fittings)	-	25% reducing balance

Taxation

The (credit)/charge for taxation is based on the (loss)/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, in respect to all 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 FRS 19.

Notes (continued)

Hire purchase and leasing commitments

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Pensions

The company operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the company. The amount charged to the profit and loss represents the contribution payable to the scheme in respect of the accounting period.

Cash flow statement

Under FRS 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements. A cash flow statement is prepared by the ultimate parent undertaking, which includes the company.

2 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):	2008	2007
	£	£
Depreciation and other amounts written off tangible fixed assets:		
Owned	43,779	35,008
Leased	2,120	2,826
Other operating leases	19,563	8,304
Auditors' remuneration - audit fee	11,600	15,483
	<u> </u>	<u> </u>

3 Directors remuneration

	2008	2007
	£	£
Directors' emoluments	484,992	254,696
Company contributions to money purchase pension schemes	57,363	57,910
	<u> </u>	<u> </u>

	2008	2007
	No.	No.
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	2
	<u> </u>	<u> </u>

	2008	2007
	£	£
The highest paid director received emoluments and benefits as follows:		
Aggregate emoluments	286,585	147,802
	<u> </u>	<u> </u>

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2008 No.	2007 No.
Directors	4	3
Administrative staff	65	64
	<u>69</u>	<u>67</u>

The aggregate payroll costs of these persons were as follows:

	2008 £	2007 £
Wages and salaries	2,465,420	2,131,363
Social security costs	253,062	223,795
Other pension costs (note 18)	86,183	90,195
	<u>2,804,665</u>	<u>2,445,353</u>

5 Interest receivable and similar income

	2008 £	2007 £
Bank interest	9,418	8,781

6 Interest payable and similar charges

	2008 £	2007 £
Interest on overdue tax	6,900	-
Leasing	2,472	2,472
	<u>9,372</u>	<u>2,472</u>

Notes (continued)

7 Taxation

Analysis of the tax (charge)/credit in the year:

	2008 £	£	2007 £	£
Current tax				
- current year	16,707		-	
- prior year	(50,786)		136,394	
	<hr/>		<hr/>	
Total current year tax (see below)		(34,079)		136,394
Deferred tax				
- origination and reversal of timing differences	(12,522)		(225)	
	<hr/>		<hr/>	
Total deferred tax		(12,522)		(225)
		<hr/>		<hr/>
Tax on (loss)/profit on ordinary activities		(46,601)		136,169
		<hr/>		<hr/>

Factors affecting the tax credit for the current year

The current tax charge for the year is higher (2007: tax charge – lower) than the standard rate of corporation tax in the UK (28%, 2007: 30%). The differences are explained below:

	2008 £	2007 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	(380,622)	467,477
	<hr/>	<hr/>
Current tax at 29.84% (2007:30%)	113,578	140,243
	<hr/>	<hr/>
<i>Effects of:</i>		
Permanent differences between items affecting tax and accounting profit	(6,292)	5,346
Capital allowances for period in excess of depreciation	1,175	(2,594)
Effect of group relief	(4,523)	(142,995)
Adjustments in respect of previous periods	(50,786)	136,394
Tax losses carried forward	(97,297)	-
Other timing differences	15,091	-
Impact of reduction in standard UK rate to 28%	(5,025)	-
	<hr/>	<hr/>
Total current tax (charge)/credit (see above)	(34,079)	136,394
	<hr/>	<hr/>

Notes (continued)

8 Tangible fixed assets

	Property improvements £	Fixtures and Fittings £	Total £
Cost			
At 1 May 2007	16,689	308,557	325,246
Additions	13,471	60,104	73,575
	<hr/>	<hr/>	<hr/>
At 30 April 2008	30,160	368,661	398,821
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 May 2007	13,488	160,814	174,302
Charge for year	3,279	42,620	45,899
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 30 April 2008	16,767	203,434	220,201
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 April 2008	13,393	165,227	178,620
	<hr/>	<hr/>	<hr/>
At 30 April 2007	3,201	147,743	150,944
	<hr/>	<hr/>	<hr/>

Included in the net book value of fixtures and fittings is £6,358 (2007: £8,478) in respect of assets held under finance lease. Depreciation for the year on these assets was £2,120 (2007: £2,826).

9 Fixed asset investments

	Unlisted investments Total £
Cost	
At 1 May 2007 and 30 April 2008	10,000
	<hr/>
Net book value	
At 1 May 2007 and 30 April 2008	10,000
	<hr/>

The company's investment at the balance sheet date in the ordinary share capital of a company includes the following:

	% Holding
Mortgage Next Network Ltd: 10,000 ordinary shares of £1 each	100

Nature of business: mortgage and general insurance intermediary.

Notes (continued)

10 Debtors

	2008 £	2007 £
Amounts falling due within one year:		
Trade debtors	378,851	464,871
Amounts owed by group undertakings (note 19)	1,500,000	1,538,691
Deferred tax asset (note 14)	-	12,522
Other debtors	30,774	79,589
Prepayments and accrued income	42,919	53,230
	<u>1,952,544</u>	<u>2,148,903</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings (note 19)	<u>2,115,674</u>	<u>2,115,674</u>
Aggregate amounts	<u>4,068,218</u>	<u>4,264,577</u>

11 Creditors: amounts falling due within one year

	2008 £	2007 £
Bank overdraft (note 13)	-	83,301
Finance leases (note 13)	3,615	4,820
Trade creditors	414,922	424,886
Amounts owed to group undertakings	1,146,445	558,828
Other taxation and social security	54,259	71,938
Other creditors	26,649	73,651
Accruals and deferred income	30,816	64,240
	<u>1,676,706</u>	<u>1,281,664</u>

Notes (continued)

12 Creditors: amounts falling due after more than one year

	2008	2007
	£	£
Obligations under finance leases (note 13)	-	3,616
	<u> </u>	<u> </u>

13 Bank overdraft and obligations under finance lease

An analysis of the maturity of the overdraft is given below:

	2008	2007
	£	£
Amounts falling due within one year or on demand:		
Bank overdraft	-	83,301
	<u> </u>	<u> </u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2008	2007
	£	£
Within one year	3,615	4,820
In the second to fifth years	-	3,616
	<u> </u>	<u> </u>
	3,615	8,436
	<u> </u>	<u> </u>

14 Deferred taxation

	£
At 1 May 2007	12,522
Charge to the period	
- origination and reversal of timing differences	(12,522)
	<u> </u>
At 30 April 2008	-
	<u> </u>

Deferred tax asset is provided as follows:

	2008	2007
	£	£
Accelerated capital allowances	-	(3,450)
Short term timing differences	-	15,972
	<u> </u>	<u> </u>
	-	12,522
	<u> </u>	<u> </u>

Notes (continued)

15 Called up share capital

	2008 £	2007 £
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
100 "A" ordinary shares at £1 each	100	100
	<hr/> 50,100	<hr/> 50,100
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	<hr/> 50,000	<hr/> 50,000

16 Reserves

	Capital redemption reserve £	Profit and loss account £
At 1 May 2007	1	3,154,698
Loss for the year	-	(427,223)
	<hr/> 1	<hr/> 2,727,475
At 30 April 2008	<hr/> 1	<hr/> 2,727,475

17 Contingent liabilities

The company is party to a composite guarantee and indemnity in favour of Freedom Finance Holdings Limited in respect of loan facilities granted to Freedom Network Holdings Limited.

18 Pension scheme

The company operates two defined contribution pension schemes. The assets are held separately from those of the company in independently administered funds. The pension cost charge for the period represents contributions payable by the company to the funds and amounted to £86,183 (2007: £90,195).

Contributions amounting to £2,664 (2007: £53,539) were payable to the scheme and are included in creditors.

Notes (continued)

19 Related party disclosures

The company received IT support and computer hardware from Digital Nerve Centre Limited of £23,641 (2007: £26,397). One of the directors of this company is a brother to Mrs J Tomlinson. Included within creditors, under the heading 'trade creditors' is an amount of £nil (2007: £7,250) owed to Digital Nerve Centre. These transactions were conducted on normal commercial terms.

The company received database design and support from River Solutions. One of the partners is husband to Mrs J Tomlinson. These services amounted to £42,769 (2007: £22,183) and were conducted on normal commercial terms.

Included within debtors under the heading 'amounts owed by group undertakings' is an amount of £2,115,674 (2007: £2,115,674) owed by Freedom Network Holdings Limited, a fellow group company. The debt is interest free and has no fixed repayment term.

Also included within debtors under the heading 'amounts owed by group undertakings' is an amount of £1,500,000 (2007: £1,538,691) owed by Mortgage Next Network Limited, a 100% subsidiary company. This debt comprises a combination of net funding advances, recharged expenses and management charges of £1,425,965 (2007: £1,345,019). This amount is subject to a subordinated loan agreement.

The loan is unsecured and repayments are scheduled as and when the company has sufficient capital to meet its Financial Services Authority capital resource requirements. Interest is charged at 2% above Lloyds TSB Bank plc base rate. Interest for the period to 30 April 2008 has been waived.

Included within creditors under the heading 'amounts owed to group undertakings' is an amount of £1,125 (2007: £23,828) owed to Freedom Finance plc. This represents recharged legal costs.

Within creditors under the heading 'amounts owed to group undertakings' is a loan of £535,000 from Freedom Network Holdings Limited, which is distinct from the debt noted above. The loan bears interest at 10%. Interest for the period to 30 April 2008 has been waived.

Also included within creditors under the heading 'amounts owed to group undertakings' is an amount of £610,320 (2007: nil) owed to Mortgage Next Network Limited. This represents 'current account' movements.

20 Reconciliation of movements in shareholders' funds

	2008 £	2007 £
(Loss)/profit for the financial year	(427,223)	603,646
Net (decrease)/increase in equity shareholders' funds	(427,223)	603,646
Opening equity shareholders' funds	3,204,699	2,601,053
Closing equity shareholders' funds	2,777,476	3,204,699

Notes *(continued)*

21 Ultimate parent undertaking

The company is a subsidiary undertaking of JZ international LLC which is the ultimate parent company incorporated and registered in the USA. The smallest group in which the results of the company are consolidated is that headed by Freedom Finance Holdings Limited. The largest group in which they are consolidated is that headed by JZI Finance 1 Limited. Both companies are incorporated and registered in England and Wales. No other group financial statements include the results of the company. The consolidated financial statements of these groups are available to the public and may be obtained from Companies House.

At 30 April 2008, the company's immediate parent undertaking was Freedom Network Holdings Limited. This company is exempt under section 228 of the Companies Act 1985 from the obligation to prepare group accounts.