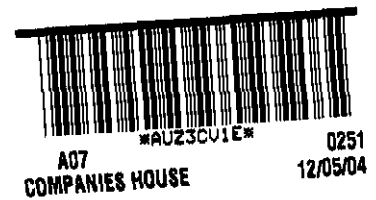


RentSmart Limited

Annual Report and Financial Statements

For the Year ended 31 December 2003

Company Number: 3689086



RENTSMART LIMITED
YEAR ENDED 31 DECEMBER 2003
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RENTSMART LIMITED
YEAR ENDED 31 DECEMBER 2003
REPORT OF THE DIRECTORS

The Directors hereby submit their Report and the accounts for the year ended 31 December 2003.

Principal Activities

The principal activities of the company are that of financial intermediary, arranging and subsequently managing finance for the renting of equipment to business.

Review of Business and future developments

On 5 May 2003 the Company commenced trading in the UK.

Both the level of business and the financial position at the end of the year were satisfactory. The company's policy is one of expansion and this is expected to be reflected in future results.

Results and Dividends

The profit and loss account is set out on page 4 and shows the loss for the year.

The loss for the year of £2,595,407 together with the preference share appropriations of £143,000 have been transferred to reserves.

Directors

The Directors of the company during the year to 31 December 2003 were:

N. Montarello	
S. Penglis (Chairman)	Appointed 29 January 2003
D. Griffiths	Appointed 29 January 2003, Resigned 31 December 2003
G. Parry	Appointed 29 January 2003
L. Town	Appointed 12 January 2004
S. Middleton	Appointed 29 January 2003, Resigned 17 December 2003
C. Wrigley	Appointed 29 January 2003, Resigned 17 December 2003

Directors and Directors' Interests in Shares

None of the directors who held office during the year had any interest in the shares of the company.

Auditors

Our auditor, KPMG Audit Plc, has expressed its willingness to continue in office and a resolution for their re-appointment will be proposed to the members of the Company.

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

REPORT OF THE DIRECTORS (continued)

Statement of directors' responsibilities

Company law requires directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts 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 accounts 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



Paul Gittins

Secretary

Bridge House
Queens Park Road
Handbridge
Chester
CH88 3AN

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RENTSMART LIMITED

We have audited the financial statements on pages 4 to 19.

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 2, 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 the Company's affairs as at 31 December 2003 and of its loss 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

7 May 2004

St James Square
Manchester
M2 6DS

RENTSMART LIMITED
YEAR ENDED 31 DECEMBER 2003
PROFIT AND LOSS ACCOUNT

	Notes	2003 £	2002 £
Continuing Operations			
Turnover	2	698,648	-
Cost of Sales		(600,459)	-
Gross Profit		98,189	-
Administrative expenses	3	(2,888,773)	-
Operating Loss		(2,790,584)	-
Bank interest receivable		23,361	-
Interest payable and similar charges	5	(9,694)	-
Loss on ordinary activities before taxation	6	(2,776,917)	-
Taxation	7	181,510	-
Loss on ordinary activities after taxation		(2,595,407)	-
Additional finance cost of non-equity shares		(143,000)	-
Loss transferred to reserves		(2,738,407)	-
Reversal of additional finance costs		143,000	-
Balance brought forward	18	-	-
Balance carried forward	18	(2,595,407)	-

The company has no recognised gains or losses other than those shown above, and therefore no separate Statement of Total Recognised Gains and Losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the years stated above, and their historical cost equivalents.

The notes on pages 8 to 19 form an integral part of these financial statements.

RENTSMART LIMITED
YEAR ENDED 31 DECEMBER 2003
BALANCE SHEET

	Notes	2003 £	2002 £
Fixed Assets			
Intangible assets	9	41,986	-
Tangible assets	10	<u>628,687</u>	<u>-</u>
		<u>670,673</u>	<u>-</u>
Current Assets			
Stock		2,283	-
Debtors	11	383,827	-
Cash at bank & in hand		<u>63,219</u>	<u>1</u>
		<u>449,329</u>	<u>1</u>
Creditors - payable within one year	12	<u>(665,701)</u>	<u>-</u>
Net Current (Liabilities)/Assets		<u>(216,372)</u>	<u>1</u>
Total Assets less Current Liabilities		<u>454,301</u>	<u>1</u>
Creditors - payable after one year	13	<u>(299,708)</u>	<u>-</u>
Net Assets		<u>154,593</u>	<u>1</u>
Capital and Reserves			
Called up Share capital	17	2,750,000	1
Profit and loss account	18	<u>(2,595,407)</u>	<u>-</u>
Shareholders funds:			
Equity		<u>(2,638,407)</u>	<u>1</u>
Non Equity		<u>2,793,000</u>	<u>-</u>
		<u>154,593</u>	<u>1</u>

The notes on pages 8 to 19 form an integral part of these financial statements.

The financial statements on pages 4 to 19 were approved by the board of directors by written resolution on 22 April 2004 and were signed on its behalf by:

.....
Director

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

CASH FLOW STATEMENT

	Notes	2003 £	2002 £
Net Cash outflow from Operating Activities	19	<u>(2,111,792)</u>	-
Returns on Investments and Servicing of Finance			
Interest Received		23,361	-
Interest Paid		(66)	-
Interest element of hire purchase repayments		(6,713)	-
Interest element of loan repayments		(2,915)	-
Additional Finance costs		(130,000)	-
Net Cash outflow from Returns on Investments and Servicing of Finance		<u>(116,333)</u>	-
Capital Expenditure and Financial Investment			
Payments to acquire intangible fixed assets		(53,261)	-
Payments to acquire tangible fixed assets		(789,880)	-
Net cash outflow for Capital Expenditure and Financial Investment		<u>(843,141)</u>	-
Net cash outflow before use of liquid resources and financing		<u>(3,071,266)</u>	-
Financing			
Issue of Ordinary share capital		99,999	-
Issue of Preference share capital		2,650,000	-
Issue of bank loan		150,000	-
New hire purchase contracts		405,546	-
Repayment of capital element of hire purchase contracts		(137,728)	-
Repayment of bank loan		(33,333)	-
Net cash inflow from Financing		<u>3,134,484</u>	-
Increase in Cash	19	<u>63,218</u>	-

RENTSMART LIMITED
YEAR ENDED 31 DECEMBER 2003
CASH FLOW STATEMENT (continued)

	2003 £	2002 £
Reconciliation of Net Cash Flow to Movement in Net Debt		
Increase in cash	63,218	-
Cash inflow from increase in loans	(150,000)	-
Cash inflow from increase in hire purchase contracts	(405,546)	-
Repayment of bank loan	33,333	-
Repayment of capital element of hire purchase contracts	137,728	-
Movement in Net Debt	<u>(321,267)</u>	<u>-</u>
Net Cash at 1 January	1	1
Net Debt at 31 December	19 <u><u>(321,266)</u></u>	<u><u>1</u></u>

The notes on the cash flow statement are given on page 18.

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with applicable Accounting Standards and S226 of, and schedule 4 to, the Companies Act 1985.

The joint venture parties have indicated their intention to continue to provide sufficient finance to the company to enable it to continue trading for at least one year from the date of approval of these accounts.

Income recognition

Commission receivable from funders is recognised at the time finance is settled, with an element deferred and recognised over the period of the lease arranged to reflect the ongoing costs incurred in managing the lease during the minimum period of hire.

Intangible fixed assets

Intangible assets acquired are capitalised at cost and are amortised on a straight line basis over their economic useful lives, up to a maximum of 20 years.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

Fixed assets are stated at cost less depreciation.

Depreciation is calculated so as to write down tangible fixed assets over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computers and office equipment	3 years on a straight line basis
Fixtures and Fittings	5 years on a straight line basis

Stocks

Stocks are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided on the full provision method on those timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not recognised on permanent timing differences.

Deferred tax assets are recognised only to the extent that they are considered recoverable.

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Pension costs

The company operates a stakeholder pension scheme. Contributions payable to this defined contribution scheme are charged to the Profit and Loss account as they fall due.

Leasing and hire purchase commitments

Assets held under hire purchase commitments are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest element of the rental obligations are charged to the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding

2. Turnover

Turnover, all of which arose from activities within the United Kingdom, represents finance charges earned from the arrangement and subsequent management of rental agreements and income from associated services.

The turnover and pre-tax result are attributable to one continuing activity, the arrangement and subsequent management of rental agreements and associated services.

3. Staff Costs

Administrative expenses include the following:

	2003 £	2002 £
Staff costs		
Wages & salaries	395,113	-
Social Security costs	189,913	-
Other Pension costs	2,501	-
	<u>587,527</u>	<u>-</u>

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

The average monthly number of persons (including directors) employed during the year was:

	2003 Number	2002 Number
By activity		
Management	9	1
Sales and operations	24	-
Administration	6	-
	<u>39</u>	<u>1</u>

4. Directors' Emoluments

None of the Directors received any emoluments for their services as Directors of the Company.

5. Interest payable and similar charges

	2003 £	2002 £
Bank loans and overdrafts	2,915	-
Finance charges payable under hire purchase contracts	6,713	-
Other interest payable	66	-
	<u>9,694</u>	<u>-</u>

6. Loss on ordinary activities before taxation

	2003 £	2002 £
Loss on ordinary activities before taxation is stated after charging:		
Exceptional costs (see below)	749,999	-
Depreciation charge for the period:		
Tangible assets – owned assets	83,140	-
Tangible assets – assets under hire purchase	78,053	-
Intangible assets	11,275	-
Operating lease rentals -Land and buildings	93,401	-
Auditors remuneration - Audit Services	7,500	-
- Other services	15,750	-

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

Within administrative expenses is an exceptional charge of £749,999. This represents a management fee charged by RentSmart Pty Limited in connection with the formation and establishment of the business within the UK prior to commencement of trade.

This charge from RentSmart Pty Limited was satisfied by the issue of 49,999 A ordinary £1 shares and 700,000 A preference £1 shares for a total subscription price of £749,999.

7. Tax on profit on ordinary activities

(a) Analysis of tax credit in the year

	2003 £	2002 £
Deferred taxation		
Origination of timing differences (note 16)	<u>(181,510)</u>	<u>-</u>

(b) Factors affecting tax credit for the year

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

	2003 £	2002 £
Loss on ordinary activities before tax	<u>(2,776,917)</u>	<u>-</u>
Loss on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30%	(833,075)	-
<i>Effects of:</i>		
Expenses not deductible for tax purposes	320,675	-
Excess of Capital allowances over depreciation	(149,380)	-
Tax losses surrendered as consortium relief	330,890	-
Tax losses carried forward	330,890	-
	<u>-</u>	<u>-</u>

(c) Factors that may affect future tax charges

The Company expects its effective tax rate in future years to be lower than the standard rate of corporation tax in the UK due to capital allowances exceeding depreciation and the availability of tax losses.

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Dividends

	2003 £	2002 £
Non Equity Dividends on B Preference Shares Paid	<u>130,000</u>	<u>-</u>

During the year a dividend of £130,000 was paid, however the company did not have sufficient reserves to make this payment & recovery is now being sought from the non-equity shareholder.

9. Intangible assets

	£
Licenses	
At 1 January 2003	-
Additions	<u>53,261</u>
Balance at 31 December 2003	<u>53,261</u>
Amortisation	
At 1 January 2003	-
Charge for the year	<u>11,275</u>
At 31 December 2003	<u>11,275</u>
Net Book Value	
At 31 December 2003	<u>41,986</u>
At 31 December 2002	<u>-</u>

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Tangible fixed assets

	Plant and Machinery £	Fixtures and Fittings £	Total £
Cost			
At 1 January 2003	-	-	-
Additions	610,590	179,290	789,880
At 31 December 2003	610,590	179,290	789,880
Depreciation			
At 1 January 2003	-	-	-
Charge for the year	134,331	26,862	161,193
At 31 December 2003	134,331	26,862	161,193
Net Book Value			
At 31 December 2003	476,259	154,428	628,687
At 31 December 2002	-	-	-

Assets acquired under hire purchase contract, capitalised and included within the amounts for plant and machinery and fixtures and fittings are:

	Plant and Machinery £	Fixtures and Fittings £	Total £
Cost			
At 1 January 2003	-	-	-
Additions	262,502	79,819	342,321
At 31 December 2003	262,502	79,819	342,321
Depreciation			
At 1 January 2003	-	-	-
Charge for the year	66,132	11,921	78,053
At 31 December 2003	66,132	11,921	78,053
Net Book Value			
At 31 December 2003	196,371	67,897	264,268
At 31 December 2002	-	-	-

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Debtors

	2003 £	2002 £
Trade debtors	4,373	-
Prepayments and other debtors	67,944	-
Deferred taxation (note 16)	181,510	-
Due from non-equity shareholder (note 8)	130,000	-
	<hr/>	<hr/>
	383,827	-

12. Creditors: amounts falling due within one year

	2003 £	2002 £
Current instalments due on bank loans (note 14)	50,000	-
Trade creditors	258,750	-
Amounts owed to joint ventures (all trading balances)	32,900	-
Obligations under hire purchase contracts	114,779	-
Other taxation & social security	19,892	-
VAT	8,290	-
Other creditors	30,001	-
Accruals and deferred income	151,089	-
	<hr/>	<hr/>
	665,701	-

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

	2003 £	2002 £
Bank loans (note 14)	66,667	-
Obligations under hire purchase contracts	153,039	-
Accruals and deferred income	80,002	-
	<hr/>	<hr/>
	299,708	-

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Bank loans

	2003 £	2002 £
Amounts falling due:		
Within one year	50,000	-
In more than one year but not more than two years	50,000	-
In more than two years but not more than five years	16,667	-
	<u>116,667</u>	<u>-</u>
Less:		
Included in creditors: amounts falling due within one year	50,000	-
	<u>66,667</u>	<u>-</u>

15. Obligations under leases and hire purchase contracts

	2003 £	2002 £
Amounts payable:		
Within one year	124,848	-
In two to five years	<u>166,464</u>	<u>-</u>
	291,312	-
Less: finance charges allocated to future periods	(23,494)	-
	<u>267,818</u>	<u>-</u>

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows:

	2003 £	2002 £
Land and buildings:		
Expiring after five years	<u>101,720</u>	<u>-</u>

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Deferred taxation

The full potential liability for deferred taxation, which is provided in full in the financial statements, is as below:

	2003 £	2002 £
Deferred tax asset at the beginning of the year	-	-
Deferred taxation credit for year	<u>(181,510)</u>	<u>-</u>
Deferred tax asset at the end of the year	<u>(181,510)</u>	<u>-</u>
Excess of capital allowances over depreciation	149,380	
Tax losses carried forward	<u>(330,890)</u>	
Deferred tax asset	<u>(181,510)</u>	

The deferred tax asset has been disclosed within Debtors, note 11.

17. Share Capital

	2003 £	2002 £
Authorised		
100 Ordinary Shares of £1 each	-	100
50,000 A Ordinary Shares of £1 each	50,000	-
50,000 B Ordinary Shares of £1 each	50,000	-
1,300,000 8% A Preference Shares of £1 each	1,300,000	-
2,600,000 8% B Preference Shares of £1 each	2,600,000	-
	<u>4,000,000</u>	<u>100</u>
Allotted, called up and fully paid		
Ordinary Shares of £1 each	-	1
50,000 A Ordinary Shares of £1 each	50,000	-
50,000 B Ordinary Shares of £1 each	50,000	-
700,000 A Preference Shares of £1 each	700,000	-
1,950,000 B Preference Shares of £1 each	1,950,000	-
	<u>2,750,000</u>	<u>1</u>

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

On 29 January 2003, the authorised share capital of the company was increased to £4,000,000 by the creation of 49,900 A Ordinary Shares, 50,000 B ordinary Shares, 1,300,000 A Preference Shares and 2,600,000 B Preference Shares, all of £1 each.

On 29 January 2003, 49,999 A ordinary Shares, 50,000 B Ordinary Shares, 700,000 A Preference Shares and 1,950,000 B Preference shares were allotted and issued at £1 each.

On 29 January 2003, the authorised and allotted ordinary shares were re-designated as A ordinary shares in the capital of the company.

The A Ordinary Shares and B Ordinary Shares are separate classes of shares but rank equally in all respects. The A Preference Shares and B Preference Shares are separate classes of shares but rank equally in all respects.

The 8% cumulative redeemable preference shares are convertible at the option of the company at any time. They are redeemable at the option of the shareholder at any time after 29 January 2013 at £1 per share.

The A preference shares carry a dividend of 8% per annum. Holders of the A preference shares shall not be entitled to receive a dividend on the A preference shares held until 29 January 2006, from which date the dividend payable shall be deemed to be cumulative.

The B preference shares carry a dividend of 8% per annum, payable half-yearly in arrears on 30 June and 31 December. The dividend rights are cumulative.

On a winding up of the company, the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, £1 per share plus any accrued dividend.

18. Reconciliation of movements in shareholders' funds

	Share Capital	Profit and loss account	Total
	£	£	£
At 1 January 2003	1	-	1
Issue of A Ordinary Shares	49,999	-	49,999
Issue of B Ordinary Shares	50,000	-	50,000
Issue of A Preference Shares	700,000	-	700,000
Issue of B Preference Shares	1,950,000	-	1,950,000
Loss for the financial year	-	(2,595,407)	(2,595,407)
At 31 December 2003	2,750,000	(2,595,407)	154,593

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Notes to the statement of Cash Flows

(a) Reconciliation of operating profit to net cash outflow from operating activities

	2003 £	2002 £
Operating loss	(2,790,584)	-
Depreciation	161,193	-
Amortisation of licenses	11,275	-
(Increase) in Debtors	(72,317)	-
(Increase) in Stock	(2,283)	-
Increase in Creditors	580,924	-
	<hr/>	<hr/>
Net Cash outflow from operating activities	<u>(2,111,792)</u>	<u>-</u>

(b) Analysis of net debt

	At 1 January 2003 £	Cash flow £	At 31 December 2003 £
Cash at bank and in hand	1	63,218	63,219
Loans	-	(116,667)	(116,667)
Hire purchase contracts	-	(267,818)	(267,818)
	<hr/>	<hr/>	<hr/>
	<u>1</u>	<u>(321,267)</u>	<u>(321,266)</u>

RENTSMART LIMITED

YEAR ENDED 31 DECEMBER 2003

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Related party transactions

During the year the company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and trading balances outstanding at the end of the year, are as follows:

	Services purchased from related parties £	Interest Payable to related parties £	Sales to related parties £	Amounts owed from related parties £	Amounts owed to related parties £
RentSmart Pty Limited	486,636	-	-	-	13,000
Uberior Investments plc	82,261	-	-	130,000	19,900
CBL 9 Limited	-	-	818,201	1,327	-
Capital Bank plc	-	41,238	-	111	-
Bank of Scotland	-	9,628	-	-	-

21. Ultimate Parent undertakings

RentSmart Limited is a joint venture with 50% of its issued share capital being held by RentSmart UK Limited, and 50% by Uberior Investments PLC, whose ultimate parent undertaking is HBOS Plc.