

The Swan Group of Companies Limited

**Director's report and consolidated
financial statements**

Registered number 3887866

For the year ended 28 February 2007



22

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Director's report

The director presents his annual report and the audited financial statements for the year ended 28 February 2007

Principal activities

The company's principal activity is that of a holding company. The principle purpose of the Group is the administration of mortgage books for other group companies and third parties.

Business review

The board of directors sets and monitors the performance of the company through the following key financial indicators:

Assets under management the Group achieved an increase of nearly £40 million in assets under management during the year to close the year with £74 million.

Pre-tax loss the loss of £1,238,000 reflected the payment of bonuses during the year and lower provision releases. The board are confident that the Group will return to profitability in the coming year.

The board were also pleased to see non-financial key performance indicators of successful compliance with FSA Regulation and the successful embedding of Treating Customers Fairly initiatives.

The principal risk and uncertainty facing the Group are changes in client companies' circumstances which may lead to the withdrawal of contracts for the administration of loan portfolios or the absence of any new contracts being entered into.

Results and dividends

The group results for the year are shown in the profit and loss account on page 5.

The group loss after tax and minority interests was £1,226,000 (2006 profit £581,000). The director does not recommend the payment of a dividend.

Directors

The director who held office during the year was as follows:

KD Allen

Statement of disclosures 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, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



KD Allen
Director

Warwick House
737 Warwick Road
Solihull
West Midlands
B91 3DG

4 September 2008

Statement of director's 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 group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent 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 parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities



KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of The Swan Group of Companies Limited

We have audited the group and parent company financial statements (the 'financial statements') of The Swan Group of Companies Limited for the year ended 28 February 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement 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 Directors' Report and 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 2.

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 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 group's and company's circumstances, consistently applied and adequately disclosed.

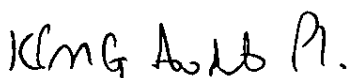
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 The Swan Group of Companies 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 group's and the parent company's affairs as at 28 February 2007 and of the group's 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
Chartered Accountants
Registered Auditor

4 September 2008

Consolidated profit and loss account
for the year ended 28 February 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover		592	221
Income from administration of mortgage portfolio			
Income from funding vehicle		436	919
Expenses of funding vehicle		(340)	(590)
		96	329
Gross profit		688	550
Administrative expenses	<i>4</i>	(1,836)	(1,798)
Other operating income		3	99
Bad debt provision		42	1,344
Provision for trade investment		(50)	-
Operating (loss)/profit	<i>2</i>	(1,153)	195
Interest receivable and similar income	<i>5</i>	6	-
Gain on deemed disposal		-	100
Share of operating (loss)/profit in associate		(91)	100
(Loss)/profit on ordinary activities before taxation		(1,238)	395
Taxation	<i>6</i>	17	11
Tax on associate		-	37
(Loss)/profit on ordinary activities after taxation		(1,221)	443
Minority interest		(5)	138
(Loss)/profit for the financial year	<i>14</i>	(1,226)	581

Continuing operations

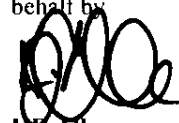
All the group's activities relate to continuing operations

The group has no recognised gains or losses other than the profits and losses above and therefore no separate statement of recognised gains and losses is presented

Consolidated balance sheet
at 28 February 2008

	Note	2007 £000	2006 £000
Fixed assets			
Tangible assets	8	63	63
Investment in associate	9	106	197
Investments	9	-	50
		<u>169</u>	<u>310</u>
Current assets			
Mortgages subject to non-recourse funding	19	3,079	4,200
Less Non-recourse funding		(2,963)	(4,200)
		<u>116</u>	<u>-</u>
Debtors	10	1,131	1,082
Cash at bank and in hand	11	251	1,764
		<u>1,498</u>	<u>2,846</u>
Creditors amounts falling due within one year	12	(89)	(357)
		<u></u>	<u></u>
Net current assets		<u>1,409</u>	<u>2,489</u>
Net assets		<u>1,578</u>	<u>2,799</u>
Equity shareholders' funds			
Called up share capital	13	-	-
Profit and loss account	14	1,461	2,687
		<u>1,461</u>	<u>2,687</u>
Shareholders' funds	15	1,461	2,687
Minority interests		117	112
		<u>1,578</u>	<u>2,799</u>

These financial statements were approved by the board of directors on 4 September 2008 and were signed on its behalf by



K.D. Allen
 Director

Company balance sheet
at 28 February 2007

	<i>Note</i>	2007 £000	2006 £000
Current assets			
Investments	8	-	50
		<hr/>	<hr/>
		-	50
Creditors			
Amounts falling due within one year	12	(60)	(60)
		<hr/>	<hr/>
Total assets less current liabilities		(60)	(10)
		<hr/>	<hr/>
Equity shareholders' funds			
Called up share capital	13	-	-
Profit and loss account	14	(60)	(10)
		<hr/>	<hr/>
Equity shareholders' deficit	15	(60)	(10)
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 4 September 2008 and were signed on its behalf by



KD Allen
Director

Cash flow statement
for the year ended 28 February 2007

	<i>Note</i>	2007 £000	2006 £000
Reconciliation of operating loss to net cash flow from operating activities			
Operating (loss)/profit		(1,153)	195
Depreciation charges		21	21
(Increase)/decrease in mortgage provisions		(52)	734
Net movement in other assets and liabilities		(322)	573
Provision for trade investments		50	-
Decrease in other provisions		(42)	-
		<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities		(1,498)	1,523
		<hr/>	<hr/>
Cash flow statement			
Cash flow from operating activities		(1,498)	1,523
Returns on investments and servicing of finance			
Interest paid		6	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(28)	(3)
Proceeds from sale of tangible fixed assets		7	-
		<hr/>	<hr/>
		(15)	(3)
		<hr/>	<hr/>
Cash inflow before management of liquid resources and financing		(1,513)	1,520
Acquisitions and disposals			
Sale of business		-	(129)
		<hr/>	<hr/>
(Decrease)/increase in cash in the period		(1,513)	1,391
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period		(1,513)	1,391
		<hr/>	<hr/>
Movement in net debt in the period		(1,513)	1,391
Net cash/(debt) at beginning of year	18	1,764	373
		<hr/>	<hr/>
Net cash at the end of year	18	251	1,764
		<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. The format of the accounts reflects the special nature of the company's business.

The Group's share of profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Negative goodwill arising on business combinations in respect of acquisitions is included within fixed assets and released to the profit and loss account over its estimated useful life.

Depreciation

Depreciation is provided to write off the cost of fixed assets on a reducing balance basis at the rate of 25% per annum.

Taxation

The charge for taxation is based on the profit or loss 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 taxation assets have been recognised only to the extent that management believe that the transfer of future economic benefits can be measured with some degree of certainty.

Deferred taxation assets or liabilities have not been discounted.

Turnover

Turnover consists of income from the administration of mortgage portfolios, lease rentals and interest receivable. Where collection of interest is in significant doubt, usually when the loan is subject to litigation or the mortgaged property is in possession, interest is credited to a suspense account. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

Provision for bad and doubtful debts

The requirement for provisions for losses on mortgage loans is monitored on an ongoing basis. Anticipated losses are provided for in full.

Pension costs

The Group operates a defined contribution pension scheme. The pension cost for the year was charged directly to the profit and loss account.

Operating leases

Rental costs under operating leases are charged to the profit and loss account in equal instalments over the period of the leases.

Advances subject to non-recourse finance

Loans fully secured on residential properties subject to non-recourse finance meeting the conditions specified in Financial Reporting Standard No 5 are included in the balance sheet using the linked presentation method. Such balances are stated at book value less provisions for impairment.

Notes (continued)

2 Loss on ordinary activities before taxation

	2007 £000	2006 £000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration		
Audit (Company £nil 2006 £nil)	22	20
Other services – taxation	7	7
Depreciation on tangible fixed assets	21	21
Hire of other assets – operating leases	67	67
	<u> </u>	<u> </u>

Audit fees for the company are borne by a subsidiary undertaking

3 Remuneration of directors

Directors' emoluments

	2007 £000	2006 £000
Aggregate emoluments and other benefits	533	243
Company pension contributions to money purchase scheme in respect of 1 director	7	-
	<u> </u>	<u> </u>
	540	243
	<u> </u>	<u> </u>

The above emoluments relate solely to the highest paid director and are paid by The NMB Group Limited

4 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year was 14 (2006 14)

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	1,148	994
Social security costs	151	99
Other pension costs	43	39
	<u> </u>	<u> </u>
	1,342	1,132
Other administrative expenses	494	666
	<u> </u>	<u> </u>
	1,836	1,798
	<u> </u>	<u> </u>

5 Interest receivable and similar income

	2007 £000	2006 £000
Bank interest	6	-
	<u> </u>	<u> </u>

Notes (continued)

6 Taxation

Analysis of charge in period

	2007 £000	2006 £000
<i>UK corporation tax</i>		
Current tax	17	11
<i>Deferred taxation (see note 10)</i>		
Share of associates deferred tax	-	37
	<u>17</u>	<u>48</u>

Factors affecting the tax charge for the current period

The current tax charge for the year is lower (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
(Loss)/profit on ordinary activities before tax	(1,238)	395
Current tax at 30% (2006 30%)	<u>371</u>	<u>(119)</u>
<i>Effects of</i>		
Short term timing differences	3	2
Expenses not deductible for tax purposes	2	7
Movement in unprovided deferred tax	366	-
Tax credit in respect of prior years	<u>17</u>	<u>-</u>
Current corporation tax credit / (charge)	<u>17</u>	<u>11</u>

As noted in note 10 a significant unprovided deferred tax asset exists, which may reduce the group's corporation tax liabilities going forward

7 Separate profit and loss account

The company's result for the financial year amounted to a loss of £50,000 relating to the writing down of trade investments (2006 £Nil). A separate profit and loss account has not been prepared for the company under the provisions of Section 230 of the Companies Act 1985

Notes (continued)

8 Tangible fixed assets - group

	Plant and machinery	Fixtures, fittings, tools and equipment	Total
	£000	£000	£000
Cost			
At beginning of year	24	152	176
Additions	26	1	27
Disposals	(24)	-	(24)
	<hr/>	<hr/>	<hr/>
At end of year	26	153	179
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	17	96	113
Charge for the year	7	14	21
On disposals	(18)	-	(18)
	<hr/>	<hr/>	<hr/>
At end of year	6	110	116
	<hr/>	<hr/>	<hr/>
Net book value			
At 28 February 2007	20	43	63
	<hr/>	<hr/>	<hr/>
At 28 February 2006	7	56	63
	<hr/>	<hr/>	<hr/>

9 Investments

	Interests in associated undertakings £000	Group Other investments (unlisted) £000	Group Total £000	Company Other investments (Unlisted) £000
Cost				
At beginning of year	197	50	247	50
Share of losses	(91)	-	(91)	-
Provision for trade investments	-	(50)	(50)	(50)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	106	-	106	-
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

9 Investments (continued)

Operating subsidiaries comprise the following, which are all registered in England and Wales. Their issued share capital consists wholly of ordinary shares, their financial year-end is 28 February and they have all been included in the consolidated financial statements.

Company		Holding	Principal activity
Swan Mortgages Acquisition Co Limited	1	100%	Intermediate holding company
The NMB Group Limited	2	100%	Intermediate holding company
Business Loans Limited	3	100%	Commercial Mortgages
The Consumer Loans Company Limited	3	100%	Residential Mortgages
The Equipment Finance Company Limited	3	100%	Equipment Leasing
Nightingale Finance Limited	3	100%	Residential Mortgages
Swan Portfolio Management Limited	3	67%	Residential Mortgages

(1) Owned by Swan Group of Companies Limited

(2) Owned by Swan Mortgage Acquisition Co Limited

(3) Owned by The NMB Group Limited

The company had the following interests in associated undertakings

New Life Mortgages Limited	37%	Residential Mortgages
New Life Mortgage Funding Limited	37%	Residential Mortgages

The Group's investment in New Life Mortgages Limited is owned by The NMB Group Limited and New Life Mortgages Funding Limited is a wholly owned subsidiary of New Life Mortgages Limited.

Until 22 June 2005, New Life Mortgages Limited was considered a subsidiary by virtue of the 46% shareholding in the company of The NMB Group Limited and the 9% shareholding in the company of Kevin Allen who is the owner of The Swan Group of Companies Limited. On 22 June 2005 a Building Society acquired 27.4% of the Convertible Ordinary Share Capital of New Life Mortgages Limited for £250,000. This results in the Group's ownership reducing to 37% of the overall equity in New Life Mortgages Limited.

10 Debtors

Group

	2007 £000	2006 £000
Other debtors	769	720
EBF loans to directors	350	350
Deferred tax (see below)	12	12
	<u>1,131</u>	<u>1,082</u>

The maximum aggregate loans to directors outstanding during the year was £350,000 (2006: £350,000).

Deferred tax

	£000	£000
Other timing differences	12	12

At 28 February 2008, an unprovided deferred tax asset (at 28%) of £3,864,000 (2007: £4,247,000) exists in respect of trading losses.

Notes (continued)

11 Cash at bank and in hand

Cash includes £110 000 (2006 £110 000) held by The NMB Group Limited Employee Benefit Trust

12 Creditors amounts falling due within one year

	2007 Group £000	Company £000	2006 Group £000	Company £000
Other taxation and social security	20	-	-	-
Accruals	10	10	10	10
Amounts owed to Group undertakings	-	50	-	50
Other creditors	20	-	308	-
Other provisions	39	-	39	-
	<u>89</u>	<u>60</u>	<u>357</u>	<u>60</u>

13 Called up share capital

Group

	2007 £	2006 £
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	2	2

14 Profit and loss account

	Group £000	Company £000
At beginning of year	2 687	(10)
Loss for the year	(1 226)	(50)
At end of year	<u>1,461</u>	<u>(60)</u>

15 Reconciliation of movements in equity shareholders' funds

	2007 Group £000	Company £000	2006 Group £000	Company £000
At beginning of year	2,687	(10)	2 106	(10)
Loss for the year	(1,226)	(50)	581	-
At end of year	<u>(1,461)</u>	<u>(60)</u>	<u>2,687</u>	<u>(10)</u>

Notes (continued)

16 Commitments

(a) At 28 February 2007, the group had commitments to make annual payments under operating leases which expire as follows

	Land and buildings	
	2007	2006
	£000	£000
Operating leases which expire		
Between two and five years	84	84
	<u>84</u>	<u>84</u>

(b) At 28 February 2007, the group had contracted capital commitments of £Nil (2006 £Nil)

17 Pension scheme

The group operates a defined contribution pension scheme. The pension charge for the period represents contributions payable by the group to the fund and amounted to £43,000 (2006 £39,000).

There were no outstanding or prepaid contributions at the end of the financial year.

18 Analysis of net cash

	At beginning of year £000	Cash flow £000	At end of year £000
Cash in hand and at bank	1,764	(1,513)	251
	<u>1,764</u>	<u>(1,513)</u>	<u>251</u>

19 Linked presentation

During a previous year, a portfolio of mortgages were sold by the company to a building society. The Group continues to receive the interest income from the loans and pays a proportion to the Building Society. The Group has an option to reacquire the mortgages loans under certain conditions at some point in the future.

The Group is not obliged to support any losses of its independent providers of finance, nor does it intend to do so. The providers of finance have agreed in writing that they will only seek repayment of the finance, as to both principal and interest, to the extent sufficient funds are generated by or attached to the mortgages they have financed and they will not seek recourse in any other form.