

700793/30.

ZOPHONUS LIMITED
GROUP ANNUAL REPORT
FOR THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2004

United Kingdom Overseas Company Number: FC019688

Cayman Islands Company Number: 66878



ZOPHONUS LIMITED

CONTENTS

	Pages
Statement of directors' responsibilities	1
Independent auditors' report	2
Consolidated profit and loss account	3
Balance sheets	4
Notes to the financial statements	5 to 16

ZOPHONUS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

UK 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 and group as at the end of the financial year and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the provisions of the Companies Act 1985 applicable to overseas companies. They have 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.

By order of the Board



R Baker
Director

30 January 2006

ZOPHONUS LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ZOPHONUS LIMITED

We have audited the financial statements of Zophonus Limited for the 9 month period ended 30 September 2004 which comprise the profit and loss account, the balance sheets and the related notes 1 to 24. 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report is made solely to the company's members, as a body, in accordance with section 236 of the Companies Act 1985 as originally enacted. 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

As described in the statement of directors' responsibilities, the company's directors' are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 provisions of the Companies Act 1985 applicable to overseas companies. We also report 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 transactions with the company and group are not disclosed.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 and group's affairs as at 30 September 2004 and of its profit for the period then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to overseas companies.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham
30 January 2006

ZOPHONUS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

		9 months to 30 Sep 2004 £'000	9 months to 30 Sep 2004 £'000	Year to 31Dec 2003 £'000	Year to 31Dec 2003 £'000
	Notes				
Continuing operations					
Operating income	2		7,669		12,417
Income from mortgages subject to non-recourse funding:					
Income		-		93	
Expenses		-		(90)	
			-		3
Turnover	3		<u>7,669</u>		<u>12,420</u>
Cost of funding	4		<u>(4,920)</u>		<u>(7,697)</u>
Gross Profit			<u>2,749</u>		<u>4,723</u>
Administrative expenses	5		(1,331)		(1,721)
Administrative credit	5		<u>1,399</u>		<u>1,456</u>
Operating profit			<u>2,817</u>		<u>4,458</u>
Interest receivable and similar income			863		1,156
Interest payable	6		<u>(2,963)</u>		<u>(4,298)</u>
Profit on ordinary activities before taxation	7		<u>718</u>		<u>1,316</u>
Tax on profit on ordinary activities			<u>(718)</u>		<u>(872)</u>
Retained profit for the financial period / year	16		<u>-</u>		<u>444</u>

All recognised gains or losses of the company are included in the above profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

ZOPHONUS LIMITED

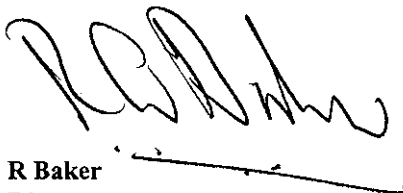
BALANCE SHEETS

AS AT 30 SEPTEMBER 2004

		Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
	Notes				
ASSETS					
Fixed assets					
Investments	11	<u>-</u>	<u>-</u>	<u>14,488</u>	<u>14,488</u>
		<u>-</u>	<u>-</u>	<u>14,488</u>	<u>14,488</u>
Mortgage advances					
Mortgage advances securitised	12	<u>123,608</u>	<u>153,179</u>	<u>-</u>	<u>-</u>
Current assets					
Debtors:					
Amounts falling due after one year	13	173	114	-	-
Amounts falling due within one year	13	1,364	1,062	2,824	4,141
Cash at bank and in hand	14	<u>26,745</u>	<u>28,918</u>	<u>5,907</u>	<u>5,173</u>
		<u>28,282</u>	<u>30,094</u>	<u>8,731</u>	<u>9,314</u>
Total assets		<u>151,890</u>	<u>183,273</u>	<u>23,219</u>	<u>23,802</u>
LIABILITIES AND CAPITAL					
Capital and reserves					
Called up share capital	15	-	-	-	-
Profit and loss account	16	<u>1,312</u>	<u>1,312</u>	<u>2,270</u>	<u>-</u>
Equity shareholders' funds	17	<u>1,312</u>	<u>1,312</u>	<u>2,270</u>	<u>-</u>
Provisions for liabilities and charges					
	18	429	680	-	-
Creditors: amounts falling due within one year	19	<u>7,576</u>	<u>8,269</u>	<u>3,100</u>	<u>5,953</u>
Creditors: amounts falling due after more than one year	20	<u>142,573</u>	<u>173,012</u>	<u>17,849</u>	<u>17,849</u>
Total liabilities and capital		<u>151,890</u>	<u>183,273</u>	<u>23,219</u>	<u>23,802</u>

The group has taken advantage of the modifications and exemptions from disclosure that are set out in the Overseas Companies (Accounts) (Modifications and Exemptions) Order 1990.

The financial statements on pages 4 to 17 were approved by the Board of Directors on 30 January 2006 and were signed on its behalf by:


R Baker
Director

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

1. Principal 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 accounting

The financial statements are prepared in accordance with the historical cost convention.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and all of its subsidiaries for the period ended 30 September 2004.

Format of financial statements

The group has complied with Financial Reporting Standard Number 5, "Reporting the Substance of Transactions" and, having met the conditions laid down in the Standard, has adopted "linked presentation" in respect of certain mortgage assets managed on behalf of other financial institutions.

The cost of funding heading within the profit and loss account has been adapted from that prescribed by Schedule 4 of the Companies Act 1985 in view of the nature of the business. Mortgage advances have been presented separately on the face of the balance sheet rather than included as part of current assets. In the opinion of the directors, this departure from the format of Schedule 4 of the Companies Act 1985 is required to give a true and fair view of the state of the group's affairs since to present mortgage advances as part of current assets would not fairly reflect the liquidity of these assets.

Turnover

Turnover is recognised on a receivable basis and represents interest, servicing fees, commissions and miscellaneous income.

Operating leases

Rentals are charged to the profit and loss account on a straight-line basis over the term of the leases. Where the group has vacated or has contracted to vacate space, a provision is established for the estimated net future liability of the space vacated.

Taxation

The charge for taxation is based on the 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, without discounting, in respect of all material 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 FRS19.

Mortgage advances

Mortgage advances comprised loans that were secured by way of mortgages over freehold and leasehold residential properties located in England, Wales and Scotland.

Mortgage advances include properties in possession and were stated after deducting a provision for loan losses. The provision was maintained at a level that is considered adequate by management to absorb losses inherent in the loan portfolio of the group. A judgement as to the adequacy of the provision was made at the year end and included anticipated recoveries under mortgage indemnity guarantees and other insurance policies. Should the provision be judged inadequate either because of reductions due to write-offs or because of changes to the size and characteristics of the portfolio, the provision is increased and charged to administrative expenses in the current period.

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

1. Principal accounting policies (Continued)

Investments

Investments in subsidiary undertakings are recorded at cost less provisions for impairment in value.

Cashflow statement

The group is wholly owned by SeaHorse Limited and the cashflows of the group are included in the consolidated group cashflow statement of SeaHorse Limited. Consequently the group is exempt under the terms of Financial Reporting Standard No. 1 ("FRS1") (Revised) from publishing a cashflow statement.

Related party disclosures

Under the provisions of Financial Reporting Standard No. 8 ("FRS8"), the company has taken advantage of the exemption provided (for subsidiary undertakings whose voting rights are more than 90% controlled within the group) from disclosing group related party transactions. The consolidated financial statements of SeaHorse Limited, in which these results are included, are publicly available.

Floating rate notes

The floating rate notes ("FRN") outstanding principal balance declines over time as the proceeds from redemptions on mortgage advances are used to repay noteholders, along with accrued interest, on each interest payment date. Costs relating to the issue of the FRN's are deducted from the principal balance on the notes. These costs are charged to the profit and loss account in line with the expected redemptions of the underlying FRN's. Costs are fully amortised by the earliest date at which the option to redeem the floating rate notes may be exercised.

Goodwill

Goodwill arising prior to the introduction of Financial Reporting Standard No.10 ("FRS10") remains written off in the year of acquisition against reserves. Cumulative goodwill which remains written off against reserves amounts to £65k (2003: £65k).

2. Operating income

	9 months to 30 Sep 2004 £'000	Year to 31 Dec 2003 £'000
Interest receivable on Mortgages	7,267	11,782
Commission income and miscellaneous fees	402	635
	<u>7,669</u>	<u>12,417</u>

3. Turnover

Contributions to turnover and profit on ordinary activities before taxation were derived from the group's principal activity, which it carried out in England, Wales and Scotland.

4. Cost of funding

	Group 2004 £'000	Group 2003 £'000
Interest payable on floating rate notes	4,855	7,461
Interest payable on bank loans and other loans	8	8
Other funding costs	34	63
Issue costs charged to the profit and loss account	23	165
	<u>4,920</u>	<u>7,697</u>

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

5. Administrative expenses

	Group 2004 £'000	Group 2003 £'000
Administrative expenses	1,331	1,721
Administrative credit:		
Borrower and negligence recoveries	(1,072)	(854)
Release of provisions	<u>(327)</u>	<u>(602)</u>
Administrative credit	<u>(1,399)</u>	<u>(1,456)</u>
Total administrative (credits) / expenses	<u>68</u>	<u>265</u>

6. Interest payable

	Group 2004 £'000	Group 2003 £'000
Interest payable on other loan	175	201
Debenture interest	<u>2,787</u>	<u>4,097</u>
	<u>2,962</u>	<u>4,298</u>

7. Profit on ordinary activities before taxation

	Group 2004 £'000	Group 2003 £'000
Profit on ordinary activities before taxation is stated after charging:		
Land and buildings – operating leases	930	1,561
Land and buildings – consideration for surrender of lease	200	-
Auditors' remuneration – audit (company: £3,000 2003: £4,000)	38	51
Auditors' remuneration – other services	2	6
Corporate service fee – SPV Management Limited	<u>33</u>	<u>44</u>

The company has no employees and, other than the fee noted above, the directors received no remuneration during the year.

8. Staff costs

	Group 2004 £'000	Group 2003 £'000
Staff costs during the year amounted to:		
Wages and salaries	-	492
Social security costs	<u>-</u>	<u>35</u>
	<u>-</u>	<u>527</u>

In June 2003 the Joint Employment Contracts for all employees between The Mortgage Corporation ("TMC"), a subsidiary of the group, and Mortgage Trust Limited (formerly Britannic Money plc) ("MTL") were terminated and all employees became solely employed by MTL.

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

9. Tax on profit on ordinary activities

	9 months to 30 Sep 2004 £'000	Year to 31 Dec 2003 £'000
The tax charge is based on the profit for the period / year and comprises:		
Current years tax		
U K Corporation tax at 30% (2003: 30%)	888	938
Adjustment in respect of prior years	<u>(178)</u>	<u>-</u>
	710	938
Deferred tax arising from origination and reversal of timing differences	<u>8</u>	<u>66</u>
	<u>718</u>	<u>872</u>

The current tax charge for the period is lower than (2003: lower than) the standard rate of corporation tax in the UK (30% ,2003: 30%). The differences are explained below:

	9 months to 30 Sep 2004 £'000	Year to 31 Dec 2003 £'000
Profit on ordinary activities before tax:	<u>718</u>	<u>1,316</u>
Profit on ordinary activities multiplied by standard rate tax of 30% (2003: 30%)	216	395
Effects of:		
Non-deductible interest charged in the period	680	1,047
Adjustment for under / (over) accrual from prior years	(178)	(340)
Non-taxable release of provisions	-	(142)
Accelerated capital allowances and other timing differences	<u>(8)</u>	<u>(22)</u>
Total current tax charge	<u>710</u>	<u>872</u>

10. Profit for the Period

As permitted by section 230(4) of the Companies Act 1985, the company's profit and loss account has not been included in these financial statements. The company's profit for the financial period was £nil (2003: £nil)

11. Fixed asset investments

	Company £'000
Investment in subsidiaries	
Cost:	
At 1 January 2004 and 30 September 2004	<u>14,488</u>
Net book value	
At 30 September 2004	<u>14,488</u>
At 31 December 2003	<u>14,488</u>

The subsidiaries of the company are TMC Tattenham No.1 Plc, TMC Tattenham No.2 Plc and The Mortgage Corporation.

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

12. Mortgage advances securitised

	Group 2004 £'000
The movement during the period / year was as follows:	
Balance at 1 January	153,562
Additions	25
Other debits	8,336
Repayments and redemptions	<u>(37,932)</u>
Mortgage advances at 30 September	<u>123,991</u>

As at 30 September 2004 a provision for bad and doubtful debts of £383k (2003: £383k) was held against mortgage advances securitised. Mortgage advances are all due to be repaid at various times and may be redeemed at any time at the option of the borrower.

13. Debtors

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Amounts falling due in more than one year:				
Deferred taxation	<u>173</u>	<u>114</u>	<u>-</u>	<u>-</u>
Amounts falling due within one year:				
Deferred taxation	-	67	-	-
Group relief	-	-	163	185
Dividends receivable	-	-	2,644	3,950
Other debtors	1,313	905	-	-
Prepayments and accrued income	<u>51</u>	<u>90</u>	<u>17</u>	<u>6</u>
	<u>1,364</u>	<u>1,062</u>	<u>2,824</u>	<u>4,141</u>

14. Cash at bank and in hand

Cash at bank and in hand for the group includes investment deposits of £25.8million (2003: £28.8million) and £5.9million (2003: £5.2million) for the company.

15. Called up share capital

	Group 2004 £'000	Group 2003 £'000
Authorised		
2 Ordinary 'A' shares of US\$ 1 each	-	-
49,998 Ordinary 'B' shares of US\$1 each	<u>31</u>	<u>31</u>
	<u>31</u>	<u>31</u>
Allotted, called up and fully paid		
2 Ordinary shares of US\$1 each	<u>-</u>	<u>-</u>

All shares carry the same rights and rank pari passu.

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

16. Profit and loss account

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
As at 1 January	1,312	868	-	-
Retained profit for the financial period / year	-	444	-	-
As at 30 September / 31 December	<u>1,312</u>	<u>1,312</u>	<u>-</u>	<u>-</u>

17. Reconciliation of movements in equity shareholders' funds

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Opening equity shareholders' funds	1,312	868	-	-
Retained profit for the financial period / year	-	444	-	-
Closing equity shareholders' funds	<u>1,312</u>	<u>1,312</u>	<u>-</u>	<u>-</u>

18. Provisions for liabilities and charges

	Group 2004 £'000	Group 2003 £'000
Provisions for mortgage related charges:		
As at 1 January	129	172
Increase / (Released) during the period / year	<u>30</u>	<u>(43)</u>
As at 30 September / 31 December	<u>159</u>	<u>129</u>
Lease costs:		
As at 1 January	551	1,050
Released for the period / year	-	(452)
Utilised during the period / year	<u>(281)</u>	<u>(47)</u>
As at 30 September / 31 December	<u>270</u>	<u>551</u>
Total provisions as at 30 September / 31 December	<u>429</u>	<u>680</u>

Provisions for mortgage related charges primarily consist of shortfalls on recoveries on the sale of repossessed properties. Lease costs represent a provision for the estimated future payments on premises sublet by the group. The estimated future payments are net of income from sub-leasing the vacant space.

19. Creditors: amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Overdrafts	-	670	-	-
Corporation tax	921	908	-	-
Other creditors and accruals	<u>6,655</u>	<u>6,691</u>	<u>5,370</u>	<u>5,953</u>
	<u>7,576</u>	<u>8,269</u>	<u>5,370</u>	<u>5,953</u>

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

20. Creditors: amounts falling due after one year

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Other loan – (note a)	5,000	5,000	5,000	5,000
Debentures – (note b)	12,849	12,849	12,849	12,849
Floating rate notes – (note c)	<u>124,724</u>	<u>155,163</u>	<u>-</u>	<u>-</u>
	<u>142,573</u>	<u>173,012</u>	<u>17,849</u>	<u>17,849</u>

- a) The other loan is not repayable by instalments and does not have a fixed date for repayment. It is secured by fixed and floating charges over the assets of the group. See note 22.
- b) The debentures are not repayable by instalments and do not have a fixed date for repayment except where they are repayable on demand to the extent that the company has received a return of capital from its investments in subsidiary undertakings. They are secured by fixed and floating charges over the assets of the group. See note 22.
- c) The total floating rate notes falling due within and after one year comprise:

	Group 2004 £'000	Group 2003 £'000
Principal outstanding	124,724	155,185
Unamortised issue costs	<u>-</u>	<u>(22)</u>
	<u>124,724</u>	<u>155,163</u>

The floating rate notes are secured on mortgage advances. The floating rate notes represent the financing obligations of subsidiaries, whose securitised mortgage advances have been separately presented on the balance sheet.

The floating rate notes for TMC Tattenham No.1 plc fall due for repayment in full in June 2028 and comprised, at issue, of £67m Class A1 notes, £245m Class A2 notes, £11m Class M notes and £7m Class B notes. The Class A1 notes were fully redeemed prior to the 31 December 2003. The Class A2 notes bore interest at a margin of 17 basis points over one month sterling LIBOR until June 2005 when the interest was adjusted to a margin of 34 basis points over one month sterling LIBOR. The Class M notes bore interest at a margin of 31 basis points over one month sterling LIBOR until June 2005 when the interest was adjusted to a margin of 62 basis points over one month sterling LIBOR. The Class B notes bore interest at a margin of 82 basis points over one month sterling LIBOR until June 2005 when the interest was adjusted to a margin of 164 basis points over one month sterling LIBOR. Interest is determined monthly on the last business day of each month of the year for the next succeeding month.

The floating rate notes for TMC Tattenham No.2 plc fall due for repayment in full in November 2028 and comprised, at issue, of £96.75m Class A1 notes, £156.65m Class A2 notes and £18.6m Class M notes. The Class A1 notes were fully redeemed prior to the 31 December 2003. The Class A2 notes bore interest at a margin of 26 basis points over one month sterling LIBOR until June 2005 when the interest was adjusted to a margin of 52 basis points over one month sterling LIBOR. The Class M notes bore interest at a margin of 70 basis points over one month sterling LIBOR until June 2005 when the interest was adjusted to a margin of 140 basis points over one month sterling LIBOR. Interest is determined monthly on the last business day of each month in each year for the next succeeding month.

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

21. Financial commitments

Lease commitments

The group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings 2004 £'000	Land and Buildings 2003 £'000
Operating leases which expire:		
After 5 years	<u>-</u>	<u>1,561</u>

22. Financial Instruments

Market Risk Management

Market risk is managed by the Asset and Liability Committee ("ALCO") of MTL and The Paragon Group of Companies plc ("Paragon"), the ultimate parent company of MTL, with whom the group has a servicing agreement. The ALCO is composed of senior management and meets regularly to review performance, positions and market conditions and to make strategic decisions regarding interest rate risk, liquidity and capital management. The policy is implemented by the Treasury Department of MTL and Paragon.

Interest rate risk is the group's most significant market risk and arises from mismatches between the repricing profiles of assets and liabilities. Interest rate risk is quantified, and limits set, based on the effect that a given movement in interest rates may have on the profitability of the company. Overall planning in relation to interest rate risk is performed using a risk management system, which allows gap analysis reports to be produced on a regular basis together with sensitivity of the net exposure to a shift in interest rates. The group does not use derivatives for creating risk that does not arise in the underlying business and the group does not trade in derivatives and consequently all derivatives are classified as hedging contracts and accounted for using hedge accounting.

Neither the company nor the the group had any derivative contracts in either the current or prior years.

Credit Risk Management

Credit risk is monitored by the Credit Department of MTL, and arises from the group's lending activities. MTL is committed to maintaining a consistent credit culture based on sound lending principles because this is the best safeguard against any decline in the property market in particular or the economy as a whole.

The approval process for secured loans takes into account the ratio of the loan amount to the value of the mortgaged property. MTL operates comprehensive monitoring systems which assist management in identifying any deterioration in loan quality. The quality of the loan book is reviewed on a regular basis.

Liquidity Management

It is the group's policy to ensure that adequate resources are available at all times to provide for the day to day activities of the company.

Management consider the year end position satisfactorily reflects the policies and objectives set out above.

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

22. Financial Instruments (continued)

Interest rate risk profile

The table below gives an indication of the interest rate risk profile of the group. Items are included in various time bands based on the earlier of the repricing or maturity date taking account of any amortisation of principal.

As at 30 September 2004	Not more than three months £'000	Non Interest Bearing £'000	Total £'000
Assets			
Mortgage advances	123,991	(383)	123,608
Other assets	<u>26,745</u>	<u>1,537</u>	<u>28,282</u>
	<u>150,736</u>	<u>1,154</u>	<u>151,890</u>
Liabilities			
Floating rate notes	(124,724)	-	(124,723)
Debentures and other loans	(17,849)	-	(17,849)
Provisions for liabilities and charges	-	(429)	(259)
Other liabilities	-	(7,576)	(5,647)
Shareholders' funds	-	<u>(1,312)</u>	<u>(3,412)</u>
	<u>(142,573)</u>	<u>(9,317)</u>	<u>(151,890)</u>
Interest rate risk profile	<u>8,163</u>	<u>(8,163)</u>	<u>-</u>

As at 31 December 2003	In less than three months £'000	More than three months but less than six months £'000	Over six months but less than one year £'000	Over one year but not more than five years £'000	Non Interest Bearing £'000	Total £'000
Assets						
Mortgage advances	152,779	1,020	91	-	(711)	153,179
Other assets	<u>28,918</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,176</u>	<u>30,094</u>
	<u>181,697</u>	<u>1,020</u>	<u>91</u>	<u>-</u>	<u>465</u>	<u>183,273</u>
Liabilities						
Floating rate notes	(155,185)	-	-	-	22	(155,163)
Debentures and other loans	(17,849)	-	-	-	-	(17,849)
Provisions for liabilities and charges	-	-	-	-	(680)	(680)
Other liabilities	(670)	-	-	-	(7,599)	(8,269)
Shareholders funds	-	-	-	-	<u>(1,312)</u>	<u>(1,312)</u>
	<u>(173,704)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,569)</u>	<u>(183,273)</u>
Interest rate risk profile	<u>7,993</u>	<u>1,020</u>	<u>91</u>	<u>-</u>	<u>(9,104)</u>	<u>-</u>

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

22. Financial Instruments (continued)

Fair value of financial instruments

The table below shows the estimated fair value and the carrying value for each major category of assets and liabilities in the balance sheet at 30 September / 31 December. The fair value of a financial instrument is the amount at which it could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. Where external or quoted market prices were not available the fair values were estimated using discounted cash flow techniques based on interest rates prevailing at 30 September / 31 December. Financial instruments with short term maturities or near term repricing terms are assumed to have fair values equal to their carrying amounts.

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages and other balance sheet items whose book and fair values differ at 30 September / 31 December.

	Carrying Amount 2004 £'000	Fair Value 2004 £'000	Carrying Amount 2003 £'000	Fair Value 2003 £'000
As at 30 September / 31 December				
On balance sheet instruments				
Floating rate notes	<u>(124,724)</u>	<u>(124,724)</u>	<u>(155,163)</u>	<u>(155,163)</u>

Maturity profile

The maturity of the group's financial liabilities, other than short term creditors such as trade creditors, accruals and taxation, at 30 September / 31 December were as follows:

	2004 £'000	2003 £'000
In one year or less or on demand	-	670
In more than five years	<u>142,573</u>	<u>173,012</u>
	<u>142,573</u>	<u>173,682</u>

Included within the category of amounts maturing in more than five years are debentures and other loans amounting to £17,849k which have no fixed date for repayment. Details of these transactions are set out in note 22.

23. Related party transactions

The group has taken advantage under Financial Reporting Standard No.8, "Related Party Transactions", not to disclose transactions or balances between group entities that have been eliminated on consolidation.

The group has identified the following transactions which are required to be disclosed under the terms of Financial Reporting Standard 8, "Related Party Transactions" ("FRS8").

Transactions with MTL

i) During 1996 TMC, a subsidiary of the group entered into an agreement with MTL under which MTL acquired cash flows equating to the cash flows less 0.1% of a mortgage portfolio. TMC administered the remaining mortgage assets on behalf of MTL up to 30 June 2003, from which time MTL assumed the administration itself. TMC was due fees of £3k for the period to 30 June 2003. MTL also purchased for consideration of £1 an option to buy the equitable title of the portfolio. This option was exercisable within 21 years from 7 August 1996. On 13 November 2003 this £1 option was exercised.

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

23. Related party transactions (continued)

Transactions with MTL (continued)

ii) During 1996 TMC entered into a mortgage sale agreement with MTL under which MTL purchased a mortgage portfolio. TMC administered the remaining mortgage assets on behalf of MTL up to 30 June 2003, from which time MTL assumed the administration itself. TMC was due fees of £3k for the period to 30 June 2003.

iii) MTL paid the lease costs and service charges of the properties it occupies with TMC. All employees had joint employment contracts with MTL and TMC up to 30 June 2003. During 2003 MTL recharged £369k of administrative expenses under an agreement with TMC which was amended by a shareholder and subscription agreement dated 30 August 2000. From 30th June 2003 MTL replaced the recharge of administrative expenses to TMC with an administration fee based on mortgage assets. £785k was charged in the year (2003: £639k).

At 30 September 2004 £91k was owed to MTL (2003: £123k owed to MTL).

Transactions with First Active plc ("FA")

The group entered into a number of agreements with FA of which Zophonus Limited is under common control, as defined by FRS8.

i) During 1996, FA acquired a debenture from Zophonus Limited for a principal amount of £19.9million under which FA is entitled to interest at 1% above sterling LIBOR. As at 30 September 2004 the balance outstanding on this debenture was £11.8 million (2003: £11.8 million). The interest accrued in the period under this agreement was £477k (2003: £559k) and the amount outstanding at 30 September 2004 was £1,036k (2003: £559k).

ii) As disclosed under note (i) regarding transactions with MTL, on 29 December 2000 MTL sold the rights to the cashflows on £16.2 million of this mortgage portfolio to FA. MTL continues to administer these mortgage assets on behalf of FA.

iii) As disclosed under note (ii) regarding transactions with MTL, on 29 December 2000 MTL sold mortgage advances of £17.2 million from this mortgage portfolio to FA. MTL continues to administer these mortgage assets on behalf of FA.

Transactions with First Active Holdings UK Limited ("FAH")

The group entered into a number of agreements with FAH of which Zophonus Limited is under common control, as defined by FRS8.

i) During 1996, the group entered into a debenture to FA, which was subsequently assigned to FAH from Zophonus Limited, for a principal amount of £1million under which FAH is entitled to interest at 1% above LIBOR and any surplus distributable income or capital received within Zophonus Limited. As at 30 September 2004 the balance outstanding on this debenture was £1million (2003: £1million). The interest and distributable income accrued in the period under this agreement was £2.1million (2003: £3.5million) and the amount outstanding at 30 September 2004 was £1.6million (2003: £5.2million).

ii) The company has a £5m loan with FAH. The loan bears interest at a rate that is agreed from time to time between the parties. During the period, FAH was entitled to receive £175k (2003: £201k) interest. At 30 September 2004, FAH was owed £5m (2003: £5million) principal and £376k (2003: £201k) accrued interest under this agreement.

ZOPHONUS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2004

24. Ultimate parent undertaking

The immediate parent undertaking is SeaHorse Limited.

The smallest and largest group into which the company is consolidated is that of SeaHorse Limited, registered in the Cayman Islands.

The shares in SeaHorse Limited are held under a Declaration of Trust for charitable purposes, the charitable trust being registered in the Cayman Islands. The Group's ultimate controlling party is The Royal Bank of Scotland plc, which is incorporated in Great Britain and registered in Scotland.

Copies of the consolidated financial statements of SeaHorse Limited may be obtained from:

The Secretary, St Catherine's Court, Herbert Road, Solihull, West Midlands. B91 3QE