

**LANCASHIRE MORTGAGE  
CORPORATION LIMITED**

**Report and Financial Statements**

**Year ended 30 June 2007**

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# **LANCASHIRE MORTGAGE CORPORATION LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2007**

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# **LANCASHIRE MORTGAGE CORPORATION LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2007**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

H N Moser  
G D Beckett  
M R Goldberg  
A J Grant  
G Bailey (appointed 14 September 2006)  
R Watson (appointed 1 May 2007)  
M J Ridley (appointed 27 July 2007)

#### **SECRETARY**

M J Ridley

#### **REGISTERED OFFICE**

Bracken House  
Charles Street  
Manchester  
M1 7BD

#### **PRINCIPAL BANKERS**

Royal Bank of Scotland Plc  
Spinningfields  
Manchester  
M3 3AP

#### **AUDITORS**

Deloitte & Touche LLP  
Manchester  
United Kingdom

# LANCASHIRE MORTGAGE CORPORATION LIMITED

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2007

### ENHANCED BUSINESS REVIEW

The company's principal activity during the year under review continues to be that of financiers. A number of key indicators (KPI's) on performance, position and liquidity are monitored in order to control the business and to plan for future growth

#### *Profitability*

As shown in the Company's profit and loss account on page 6, profit before tax has increased to £33.4m (2006 - £25.5m). The increase is the result of significant growth in the underlying loan book as detailed below.

An interim dividend of £30m was paid during the year (2006 - £Nil).

#### *Position*

As shown in the Company's balance sheet on page 7, loan book values (classified within trade debtors) have increased by 40.9% to £419.3m (2006 - £297.6m). This is reflective of an increase in new business levels throughout the year. At the same time, shareholder's funds have decreased by 11.8% to £49.9m (2006 - £56.6m), following the payment of a dividend of £30m.

#### *Liquidity*

The ability of the Company to service its debts is measured using an interest cover ratio, being profit before tax and interest divided by interest. This has been reduced slightly to 2.81 (2006 - 3.31). The directors monitor the unutilised facility position on a regular basis. Where and when required further facilities are either negotiated or new business levels are adjusted to ensure a minimum period of utilisation of between six and twelve months.

#### *Non-financial KPIs*

The Directors monitor certain non-financial KPIs, which are detailed below. In addition, the Directors monitor compliance with FSA and Consumer Credit Act regulation, and in particular the level of complaints received. Complaints levels in the year have been minimal.

### PRINCIPAL RISKS AND UNCERTAINTIES

#### *Credit risk*

The Company is exposed to changes in economic position of its customers, which may impact adversely on their ability to make loan repayments. The level of risk in this respect is driven by both macro-economic factors, such as levels of consumer indebtedness, as well as by factors relating to specific customers, such as the failure of the business of a corporate customer. Credit risk is managed at loan inception via stringent underwriting policies with regard to equity levels and affordability ratios, and throughout the life of the loan via monitoring by the Board of arrears levels.

#### *Interest rate risk*

The Company is financed by another group company. The Group is funded by variable rate facilities. Interest rate risk is managed through the use of hedging instruments.

#### *Regulatory risk*

The Company undertakes activities which are regulated by the Financial Services Authority and the Office of Fair Trading. The Company has an established compliance function and uses third party specialist advisors to support its business operations.

#### *Exchange rate risk*

All the Company's activities are in sterling and are not subject to exchange rate risk.

# LANCASHIRE MORTGAGE CORPORATION LIMITED

## DIRECTORS' REPORT (continued)

### ENVIRONMENT

As the Company operates in the financial services sector, its actions do not have a significant environmental impact. However the Company does recognise the importance of the environment and acts to minimise its impact on the environment wherever it can, including recycling and reducing energy consumption.

### DIRECTORS

The directors of the Company are set out on page 1. All directors served throughout the year except as noted on page 1.

### AUDIT INFORMATION

In the case of each of the persons who are directors of the Company at the date when this report is approved:


- as far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any audit information (as defined) and to establish that the Company's auditors are aware of that information.

This statement is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

### AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board

  
MJ Ridley  
Secretary  
28 APRIL 2008

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report including the financial statements with applicable law and regulations. Under that law the directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP")

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for establishing and maintaining the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LANCASHIRE MORTGAGE CORPORATION LIMITED**

We have audited the financial statements of Lancashire Mortgage Corporation Limited for the year ended 30 June 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report, as detailed in the contents page, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2007 and of the profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
Manchester  
United Kingdom  
30 APRIL 2008

# LANCASHIRE MORTGAGE CORPORATION LIMITED

## PROFIT AND LOSS ACCOUNT

Year ended 30 June 2007

	Note	2007 £	2006 £
<b>TURNOVER</b>	2	59,486,902	44,506,514
Cost of sales		<u>(1,588,656)</u>	<u>(882,475)</u>
<b>GROSS PROFIT</b>		57,898,246	43,624,039
Administrative expenses		<u>(5,987,374)</u>	<u>(7,133,458)</u>
<b>OPERATING PROFIT</b>		51,910,872	36,490,581
Interest payable (net)	4	<u>(18,559,257)</u>	<u>(10,999,720)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	33,351,615	25,490,861
Tax on profit on ordinary activities	6	<u>(10,048,257)</u>	<u>(7,620,682)</u>
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>	12	<u><u>23,303,358</u></u>	<u><u>17,870,179</u></u>

All activity has arisen from continuing operations

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

# LANCASHIRE MORTGAGE CORPORATION LIMITED

## BALANCE SHEET

30 June 2007

	Note	2007 £	2006 £
<b>FIXED ASSETS</b>			
Tangible assets	7	-	-
<b>CURRENT ASSETS</b>			
Debtors			
- due within one year	8	295,476,891	231,513,321
- due after one year	8	124,672,573	67,493,941
Cash at bank		-	200
		<u>420,149,464</u>	<u>299,007,462</u>
<b>CREDITORS: Amounts falling due within one year</b>	9	<u>(370,262,257)</u>	<u>(242,423,613)</u>
<b>NET CURRENT ASSETS</b>		<u>49,887,207</u>	<u>56,583,849</u>
<b>NET ASSETS</b>		<u>49,887,207</u>	<u>56,583,849</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	2	2
Profit and loss account	12	<u>49,887,205</u>	<u>56,583,847</u>
<b>EQUITY SHAREHOLDER'S FUNDS</b>	13	<u>49,887,207</u>	<u>56,583,849</u>

These financial statements were approved by the Board of Directors on 28 April 2008

Signed on behalf of the Board of Directors



G D Beckett

Director



M R Goldberg

Directors



A J Grant

Director

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2007**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below. They have been applied consistently throughout the current and prior year.

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**Tangible fixed assets**

Fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided evenly on the cost of tangible fixed assets, to write them down to their estimated residual value over their expected useful lives. The principal annual rates used are as follows:

Fixtures and fittings	15% on cost
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**Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

**Turnover and Cost of Sales**

Turnover consists of interest recoverable on loans and commissions income. Interest income is recognised on an accruals basis. Other finance related fees receivable are credited to income when the related service is performed.

Cost of sales includes the direct costs of financing, including commissions payable.

**Bad and doubtful debts**

Specific provisions are made when the directors consider that the recoverability of the advance is in part or in whole doubtful. General provisions are raised to cover losses that are judged to be present in loans and advances at the balance sheet date but which have not been specifically identified as such. Provisions for bad and doubtful debts, along with bad debt write-offs, are charged to operating profit as part of administrative expenses.

# LANCASHIRE MORTGAGE CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 2 TURNOVER

	2007 £	2006 £
Loan interest and commissions	59,422,083	44,478,516
Other income	64,819	27,998
	<u>59,486,902</u>	<u>44,506,514</u>

### 3. STAFF COSTS

The company had no employees and paid no directors' emoluments during either year

### 4. INTEREST PAYABLE (NET)

	2007 £	2006 £
Bank interest receivable	-	(215)
Bank loans and overdrafts	18,559,257	10,999,935
	<u>18,559,257</u>	<u>10,999,720</u>

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007 £	2006 £
Profit on ordinary activities before taxation is stated after charging		
Depreciation on owned assets	-	-
	<u>-</u>	<u>-</u>

In both years the audit fee was borne by another group undertaking

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises

	2007 £	2006 £
<b>Current tax</b>		
UK corporation tax	9,737,203	7,943,052
Adjustment in respect of prior years		
- UK corporation tax	(267)	(21,970)
<b>Total current tax</b>	<u>9,736,936</u>	<u>7,921,082</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	311,321	(300,400)
<b>Total deferred tax (see note 10)</b>	<u>311,321</u>	<u>(300,400)</u>
<b>Total tax on profit on ordinary activities</b>	<u>10,048,257</u>	<u>7,620,682</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2007**

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)**

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
<b>Profit on ordinary activities before tax</b>	<b>33,351,615</b>	<b>25,490,861</b>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 – 30%)	10,005,485	7,647,258
Effects of		
Expenses not deductible for tax purposes	1,734	3,291
Capital allowances (less than)/in excess of depreciation	(102)	(135)
Other timing differences	(269,914)	292,638
Adjustments to tax charge in respect of previous periods	(267)	(21,970)
<b>Current tax charge for year</b>	<b>9,736,936</b>	<b>7,921,082</b>

There is no unprovided deferred tax at the year end (2006 - £Nil)

**7. TANGIBLE FIXED ASSETS**

	<b>Fixtures and fittings £</b>
<b>Cost</b>	
At 1 July 2006 and 30 June 2007	9,322
<b>Depreciation</b>	
At 1 July 2006	9,322
Charge for the year	-
At 30 June 2007	9,322
<b>Net book value</b>	
At 30 June 2007	-
At 30 June 2006	-

# LANCASHIRE MORTGAGE CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 8. DEBTORS

	2007 £	2006 £
Amounts falling due within one year		
Amounts owed by fellow group undertakings	3,656	39,343
Amounts owed by related companies	7,947	-
Trade debtors	295,176,504	231,017,592
Prepayments	13,387	-
Other debtors	275,397	456,386
	<u>295,476,891</u>	<u>231,513,321</u>
Amounts falling due after more than one year		
Trade debtors	124,094,312	66,604,359
Deferred taxation (see note 10)	578,261	889,582
	<u>124,672,573</u>	<u>67,493,941</u>
	<u>420,149,464</u>	<u>299,007,262</u>

Included in trade debtors is £2,767,028 (2006 - £4,939,822) loaned to August Blake Developments Limited, £3,049,988 (2006 - £2,856,943) loaned to Edgeworth Developments Limited, £4,919,916 (2006 - £4,911,362) loaned to Sunnywood Estates Limited and £2,658,015 (2006 - £626,490) loaned to Oakbray Developments Limited. H N Moser is a director of each of these companies. All loans are on a commercial basis and secured on the assets of that company.

Amounts owed by related parties are in respect of Sterling Property Co Limited, a company which Henry Moser is a director of.

### 9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £	2006 £
Bank loans and overdrafts	3,506,674	1,849,445
Amounts owed to fellow group undertakings	356,820,555	232,357,563
Amounts owed to related undertakings	12,356	17,845
Corporation tax	9,736,425	7,943,052
Accruals and deferred income	131,335	255,708
Other creditors	54,912	-
	<u>370,262,257</u>	<u>242,423,613</u>

Amounts owed to related undertakings in the current year are in respect of Bracken House Properties LLP, an entity in which H N Moser is a partner.

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

# LANCASHIRE MORTGAGE CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 10. DEFERRED TAXATION

	£
Balance at 1 July 2006	889,582
Credit to profit and loss account	(311,321)
Balance at 30 June 2007	<u>578,261</u>

The amounts provided in the financial statements comprising full provision are as follows

	2007 £	2006 £
Capital allowances in advance of depreciation	283	674
Other timing differences	<u>577,978</u>	<u>888,908</u>
	<u>578,261</u>	<u>889,582</u>

The directors believe that future profits will be sufficient to ensure that the deferred taxation asset is recovered

### 11. CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised 1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Called up, allotted and fully paid 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

### 12. PROFIT AND LOSS ACCOUNT

	£
At 1 July 2006	56,583,847
Retained profit for the financial year	23,303,358
Dividend Paid	<u>(30,000,000)</u>
At 30 June 2007	<u>49,887,205</u>

An interim dividend of £15m per share (2006 - nil) was paid in the year

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2007**

**13 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDER'S FUNDS**

	2007 £	2006 £
Profit for the financial year	23,303,358	17,870,179
Opening equity shareholder's funds	56,583,849	38,713,670
Dividend paid (see note 12)	(30,000,000)	-
Closing equity shareholder's funds	<u>49,887,207</u>	<u>56,583,849</u>

**14. CONTINGENT LIABILITY**

The Company's assets are subject to a fixed and floating charge in respect of £722.5 million of bank borrowings of the group (2006 - £481 million)

**15. CASH FLOW STATEMENT**

As permitted by FRS 1 (Revised 1996) "cash flow statements", the company has not produced a cash flow statement, as it is a wholly owned subsidiary undertaking of Jerrold Holdings Limited which has produced consolidated financial statements that are publicly available

**16 RELATED PARTY TRANSACTIONS**

On 29 September 2006 the company made a loan in the normal course of business to M R Goldberg, a director of the Company. The loan has been made under normal commercial terms.

As a subsidiary undertaking of Jerrold Holdings Limited, the company has taken advantage of the exemption in FRS 8, "Related party disclosures" not to disclose transactions with other members of the group headed by Jerrold Holdings Limited.

**17. ULTIMATE PARENT COMPANY**

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

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