

**SPECIALIST MORTGAGE SERVICES LIMITED**

**DIRECTORS' REPORT AND ACCOUNTS**

**REGISTERED NUMBER 2466320**

**30 APRIL 2004**



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## **Directors' Report**

The directors have pleasure in submitting their annual report and accounts for the year ended 30 April 2004.

### **Principal Activity and Future Developments**

The principal activity of the company is the administration of mortgages and will continue to be so for the foreseeable future.

### **Business Review**

The profit for the year amounts to £398,000 before a dividend payment of £4.5 million (2003: £1,042,000 profit).

The directors recommend that a dividend of £4.5 million is paid for the year (2003: £nil).

### **Directors**

Directors during the year were as follows:-

J J Carrier

R S P Litten

J R Auburn                      appointed 12 January 2004

K D Moran                      appointed 24 February 2004

M J Frazer                      appointed 24 February 2004

R L Grunwell                  resigned 24 February 2004

No director had an interest in either shares or share options of any Group undertakings during the year.

### **Creditor Payment Policy**


The company's policy is to agree terms of the payment with suppliers which normally provide for payment within 30 days after the date of the invoice. It is the policy of the company to abide by the agreed terms of payment, provided that the supplier performs according to the terms of the contract.

The number of trade creditor days as at 30 April 2004 was 29 days (2003: 8 days).

### Reappointment of Auditors

The auditors, KPMG Audit Plc, have expressed their willingness to continue in office and, in accordance Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors is to be proposed at the Annual General Meeting.

On behalf of the Board

  
**John J Carrier**  
Director

Prospect House  
Lake View  
Scarborough  
YO11 3WZ  
24 June 2004

## Statement of Directors' Responsibilities

Company law requires the 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 year. 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.
- 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.

# **Independent auditors' report to the member of Specialist Mortgage Services Limited**

We have audited the financial statements on pages 5 to 12.

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 3, 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.

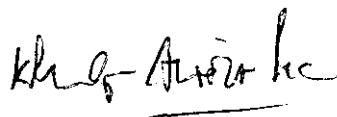
## **Basis of audit opinion**

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 30 April 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**KPMG Audit Plc**  
**Chartered Accountants**  
**Registered Auditor**

KPMG Audit Plc  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

24 June 2004

**Profit and Loss Account**  
*for the year ended 30 April 2004*

	<i>Note</i>	<b>2004</b> £000	<b>2003</b> £000
Turnover		3,636	3,235
Other interest receivable and similar income		1	199
		<u>3,637</u>	<u>3,434</u>
Administrative expenses		(3,062)	(1,940)
		<u>          </u>	<u>          </u>
<b>Profit on Ordinary Activities Before Taxation</b>	<i>3</i>	575	1,494
Tax on profit on ordinary activities	<i>7</i>	(177)	(452)
		<u>          </u>	<u>          </u>
Profit on ordinary activities after taxation		398	1,042
Dividends on equity shares		(4,500)	-
		<u>          </u>	<u>          </u>
<b>(Loss)/Profit for the Financial Year</b>	<i>12</i>	<u><u>(4,102)</u></u>	<u><u>1,042</u></u>

All amounts relate to continuing operations. There have been no acquisitions or disposals during the year ended 30 April 2004 (2003: nil).


There are no recognised gains or losses other than those included in the profit and loss account above (2003: £nil).

The notes on pages 7 to 12 form part of these accounts.

**Balance Sheet**  
*as at 30 April 2004*

	<i>Note</i>	<b>2004</b> £000	<b>2003</b> £000
<b>Current Assets</b>			
Debtors: Amounts falling due within one year	8	1,546	5,982
Debtors: Amounts falling due after more than one year	8	33	70
		—	—
		1,579	6,052
<b>Current Liabilities</b>			
Creditors: amounts falling due within one year			
Amounts owed to group companies		-	(40)
Corporation tax		(90)	(274)
Accruals and deferred income		(12)	(166)
		—	—
		(102)	(480)
		—	—
<b>Total assets less current liabilities</b>		1,477	5,572
Provision for liabilities and charges	9	(1)	6
		—	—
<b>Net Assets</b>		1,476	5,578
		==	==
<b>Equity Shareholder's Funds</b>			
Called up share capital	11	-	-
Profit and loss account		1,476	5,578
		—	—
<b>Total Shareholder's Funds</b>	12	1,476	5,578
		==	==

These accounts were approved by the Board of Directors on 24 June 2004 and signed on its behalf:-

  
**John J Carrier**  
Director

The notes on pages 7 to 12 form part of these accounts.



## Notes

*(forming part of the accounts)*

### 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 accounts.

#### a) *Basis of Preparation*

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The format of the accounts reflects the special nature of the Company's business.

Under Financial Reporting Standard No 1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement as all of its voting rights are controlled by Scarborough Building Society, whose Group Annual Report and Accounts are publicly available.

Under Financial Reporting Standard No 8, the Company is exempt from the requirement to disclose transactions with entities within the Scarborough Building Society Group as all its voting rights are controlled by Scarborough Building Society, whose Group Annual Report and Accounts are publicly available.

#### b) *Turnover*

Turnover is defined as gross fees receivable from administration of mortgages, excluding Value Added Tax.

#### c) *Mortgage Administration Contract Set Up Costs*

Costs incurred in preparing for and acquiring new mortgage administration contracts are accounted for as a prepayment and written off over the shorter of the life of the contract and five years.

#### d) *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 taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

## Notes (continued)

### 1 Accounting Policies (continued)

#### e) Pensions

The parent undertaking operates one scheme with both a defined benefit section and a defined contribution section for its employees, which are funded by contributions from the Company and its employees.

The Company's contributions to its pension schemes are charged to the Profit and Loss account, under administrative expenses, so as to spread the cost of pensions as assessed by independent actuaries over the service lives of the members of the scheme.

### 2 Parent Undertaking

The Company is a wholly owned subsidiary of Scarborough Building Society, a building society incorporated under the Building Societies Act. Group Annual Report and Accounts are available from the Society's Head Office, Prospect House, Lake View, Scarborough, North Yorkshire, YO11 3WZ.

### 3 Profit on Ordinary Activities Before Taxation

Profit on ordinary activities before taxation is stated after charging:-

	2004 £000	2003 £000
Auditors' remuneration:		
Audit fees	10	8
	==	==

### 4 Staff Numbers and Costs

	2004 £000	2003 £000
Wages and salaries	86	57
Social Security costs	8	4
Pension costs (note 10)	9	6
	—	—
	103	67
	==	==

The average number of employees of the Company during the year, excluding Directors, was 4 administration staff (2003: 4 administration staff).

SMS employ only 5 staff directly. Other Services are provided by Scarborough Building Society staff and recharged through a management charge.

**Notes (continued)**

**5 Directors' Emoluments**

The highest paid director's emoluments were £28,000 (2003: £143,000). The Chairman did not receive any remuneration in 2004 or 2003. Directors received remuneration as follows:-

	Salary and Fees	Compensation for loss of office	Bonus	Taxable Pension Benefits Contributions	Total 2004
Executive Directors' Emoluments	£000	£000	£000	£000	£000
J R Auburn	22	-	4	1	1
					28
Total directors' emoluments 2004	22	-	4	1	1
					28
Total directors' emoluments 2003	55	81	-	6	1
					143

Retirement benefits are accruing to one director under a defined contribution pension scheme (2003: one).

No other directors received any remuneration from the Company in their capacity as a director.

**6 Interest Receivable and Similar Income**

	2004 £000	2003 £000
Group interest	1	199
	<u>          </u>	<u>          </u>

**Notes (continued)**

**7 Tax on Profit on Ordinary Activities**

	<b>2004</b> £000	<b>2003</b> £000
a) Analysis of charge in year at 30% (2003 - 30%)		
Current tax at 30% (2003 - 30%)	170	461
Under provision of tax in prior years	-	2
	<hr/>	<hr/>
Total Current Tax	170	463
	<hr/>	<hr/>
Deferred Tax		
Origination and reversal of timing differences	4	(11)
Adjustment in respect of prior years	3	-
	<hr/>	<hr/>
Total Deferred Tax	7	(11)
	<hr/>	<hr/>
Tax on Profit on Ordinary Activities	177	452
	<hr/> <hr/>	<hr/> <hr/>
b) Factors affecting current tax charge in year		
The tax assessed for the year differs to the standard rate of corporation tax in the UK of 30%. A reconciliation is shown below.		
Profit on ordinary activities before tax	575	1,494
	<hr/>	<hr/>
Tax on profit on ordinary activities at UK standard rate of 30% (2003 - 30%)	173	448
Effects of:		
Expenses not deductible for tax purposes	1	2
Other	(4)	11
Adjustment in respect of prior years	-	2
	<hr/>	<hr/>
Current tax charge for year	170	463
	<hr/> <hr/>	<hr/> <hr/>

**Notes (continued)**

**8 Debtors**

	<b>2004</b> £000	<b>2003</b> £000
Amounts falling due within one year:		
Trade Debtors	857	453
Amounts owed by parent undertaking	652	5,486
Mortgage admin contract prepayment	37	43
	<hr/>	<hr/>
	1,546	5,982
	<hr/>	<hr/>
Amounts falling due after more than one year:		
Mortgage admin contract prepayment	33	70
	<hr/>	<hr/>
	33	70
	<hr/>	<hr/>

**9 Provisions for liabilities and charges**

	<b>2004</b> £000	<b>2003</b> £000
Deferred Taxation		
At 1 May	(6)	5
Charge for the year	7	(11)
	<hr/>	<hr/>
At 30 April	1	(6)
	<hr/>	<hr/>

The amount provided for deferred tax at a rate of 30%, representing the full potential liability, is set out below:-

	<b>2004</b> £000	<b>2003</b> £000
Other timing differences	1	(6)
	<hr/>	<hr/>

**10 Pension scheme**

The Company's employees are members of the Scarborough Building Society Group Pension and Death in Service Scheme. Individual employees share of the scheme assets and liabilities are not separately identified. Full details of the scheme are available in the Group Annual Report and Accounts of Scarborough Building Society.

**11 Called up share capital**

	2004 £	2003 £
<i>Authorised:</i>		
100 £1 ordinary shares	100	100
	==	==
<i>Issued and fully paid:</i>		
2 £1 ordinary shares	2	2
	==	==

**12 Reconciliation of movements in shareholder's funds**

	2004 £000	2003 £000
Opening Shareholder's funds	5,578	4,536
(Loss)/profit for the financial year	(4,102)	1,042
	-----	-----
Closing Shareholder's funds	1,476	5,578
	=====	=====