Registered no: 05197592

Zopa Limited
Annual report
for the year ended 31 December 2008

Zopa Limited

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for the year ended 31 December 2008

Zopa Limited

Directors and advisers

Directors
Douglas Dolton
Giles Andrews

Secretary
Giles Andrews (appointed on 6 May 2008 – resigned 14 October 2008)
Steven Hoy (appointed on 14 October 2008)

Registered Office
3rd Floor Radiant House
36-38 Mortimer Street
London
W1W 7RG

Bankers
The Royal Bank of Scotland
London Cavendish Square Branch
28 Cavendish Square
London
W1G 0DB

Lawyers
Wilmer Cutler Pickering Hale and Dorr LLP
Alder Castle
10 Noble Street
London
EC2V 7QJ

Registered Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Directors' report for the year ended 31 December 2008

The directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activity and business review

The principal activity of Zopa Limited is the development and provision of an on-line lending and borrowing exchange.

The results of the company show a pre-tax loss of £0.9 million (2007: £5.7 million). The directors do not recommend the payment of a dividend in the current year. The loss for the year has been charged against reserves.

As at 31 December 2008, the company has net assets of £1.1 million (2007: £0.8 million).

The Directors anticipate the entry of new competitors to our sector but are confident we will continue to show strong growth.

Directors

The directors who held office during the year and up to the date of the approval of these financial statements are listed below:
Giles Andrews
Douglas Dolton

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

Directors report for the year ended 31 December 2008 (continued)

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

Financial risk management

The company's principal financial instruments comprise bank balances, bank overdrafts, trade creditors and trade debtors. The main purpose of these instruments is to raise funds for the company's operations and to finance the company's operations. Due to the nature of the financial instruments used by the company the directors believe there is no exposure to price risk.

Liquidity risk is managed through continuous monitoring of working capital and by maintaining the continuity of funding e.g. capital contributions from the parent company. This is designed to ensure the company has sufficient available funds for operations and planned expansions. The company makes use of money market facilities where funds are available.

Loans comprise balances from and to other group companies. No interest is charged on these loans and amounts are repayable on demand. The company manages the liquidity risk by ensuring there are sufficient funds to meet any payments.

The company's exposure to foreign currency risk is minimal as there is only a small amount of foreign trade with Italy

Provision of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors have taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By order of the board

Giles Andrews
Director
7 AUGUST 2009

Independent auditors' report to the members of Zopa Limited

We have audited the financial statements of Zopa Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (Effective January 2007).

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report and all of the other information listed on the contents page. 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 other information.

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.

Independent auditors' report to the members of Zopa Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller entities, of the state of the company's affairs as at 31 December 2008 and of its 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
7 August 2009

Profit and loss account
for the year ended 31 December 2008

	Notes	2008	2007
		£	£
Turnover	1	**672,989**	523,620
Cost of sales		**(73,156)**	(152,277)
Gross profit		**599,833**	371,343
Distribution costs		**(189,719)**	(672,468)
Administrative expenses		**(1,325,728)**	(5,515,718)
Represented by:			
Recurring administrative expenses		**(1,444,245)**	(3,108,405)
Exceptional administrative income/(expenses)	3	**118,517**	(2,407,313)
Operating loss		**(915,614)**	(5,816,843)
Interest receivable	2	**58,526**	68,902
Loss on ordinary activities before taxation		**(857,088)**	(5,747,941)
Tax on loss on ordinary activities	6	**58,528**	86,004
Loss for the financial year	13	**(798,560)**	(5,661,937)

All activities relate to continuing operations.

The company has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

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

Zopa Limited

Balance sheet
as at 31 December 2008

	Notes	2008	2007
		£	£
Fixed assets			
Tangible assets	7	**57,117**	40,731
		57,117	40,731
Current assets			
Debtors	8	**547,488**	682,000
Cash at bank and in hand		**669,742**	773,012
		1,217,230	1,455,012
Creditors: amounts falling due within one year	9	**(100,074)**	(561,864)
Net current assets		**1,117,156**	893,148
Total assets less current liabilities		**1,174,273**	933,879
Provisions for liabilities and charges	10	**(28,269)**	(97,888)
Net assets		**1,146,004**	835,991
Capital and reserves			
Called up share capital	12	**199,824**	199,824
Share premium account	13	**5,815,640**	5,815,640
Capital contribution	13	**8,093,020**	6,984,447
Profit and loss reserve	13	**(12,962,480)**	(12,163,920)
Total shareholders' funds	14	**1,146,004**	835,991

These financial statements have been prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective January 2007).

The financial statements, which comprises the profit and loss account, the balance sheet and the related notes were approved by the board of directors on
7 AUGUST 2009 and were signed on its behalf by:

Giles Andrews
Director
7 AUGUST 2009

Notes to the financial statements for the year ended 31 December 2008

1 Principal accounting policies

These financial statements are prepared on a going concern basis, under the true historic cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007), the Companies Act 1985 and the applicable UK accounting standards (United Kingdom Generally Accepted Accounting Practice). The principal accounting policies, which have been consistently applied, are set out below:

Going concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate. The Directors have prepared cash flow projections for the company covering the period ending 12 months from the date of their approval of these financial statements and the Directors consider the company will be able to operate within its available facilities.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values on a straight-line basis over the expected useful economic lives of the assets concerned. The principal lives used for this purpose are:

Office equipment	3-4 years
Fixtures and fittings	3-4 years

Deferred taxation

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.

A net deferred tax asset is recognised 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 against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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.

Research and development expenditure

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred.

Turnover

Turnover arises from the principal activity and represents the commission charged to borrowers and lenders for the use of the on-line lending and borrowing exchange. Turnover from lender fees is recognised over the term of the loan. The fixed borrower fee is recognised when the borrower accepts the loan.

Franchise fees are charged on an annual basis and are recognised on a straight line basis in the profit and loss account over the franchise period.

Segmental analysis

Turnover and profit before tax all derive from the principal activity in the UK.

Cash flow statement

The company has prepared the financial statements under the Financial Reporting Standard for Smaller Entities and as such is exempt from preparing a cash flow statement.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and any differences arising are taken to the profit and loss account.

Provisions

Provisions have been made in respect of loan subsidies and against the loan run-off. Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the size of which can be reliably estimated, Provisions are measured on a non-discounted basis.

2 Interest receivable

	2008	2007
	£	£
Interest receivable on bank deposits	58,526	68,902

3 Operating loss

Operating loss is stated after charging/(crediting):

	2008	2007
	£	£
Services provided by the company's auditor		
Fees payable for the audit	**15,076**	10,000
Fees payable for other services – tax compliance	**28,059**	19,400
Research and development costs	**-**	573,999
Depreciation of owned tangible fixed assets	**40,142**	23,816
Operating lease payments – land and buildings	**48,303**	42,726
Provision against intercompany balance	**(118,517)**	2,407,313
Loss on disposal of fixed assets	**1,044**	8,074

The exceptional item relates to a reduction to the provision made in 2007 against the intercompany balance due to the company.

4 Directors' emoluments

Total emoluments in respect of all directors were:

	2008	2007
	£	£
Aggregate emoluments	**138,199**	188,304

The aggregate emoluments of £138,199 (2007: £188,304) pertained to two directors. The second director was paid by Zopa Inc for which Zopa Ltd incurred intercompany recharges to the value of £18,199 (2007: £44,984).

Zopa Limited
Notes to the financial statements
for the year ended 31 December 2008 (continued)

5 Employee information

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

	2008	2007
	£	£
Selling and distribution	7	4
Administration	13	36
	20	40

Employment costs for all of the above employees, including directors, were:

	2008	2007
	£	£
Staff costs		
Wages and salaries	758,371	1,427,611
Social security costs	80,147	155,460
	838,518	1,583,071

6. Tax on loss on ordinary activities

(a) Analysis of tax in the year

	2008	2007
	£	£
Current tax:		
Research and development tax credits received	(58,528)	(86,004)

(b) Deferred tax asset

Deferred tax:	2008	2007
	£	£
	Un-provided	Un-provided
Origination and reversal of timing differences	8,454	4,680
Tax losses available in future years	2,842,000	2,643,189
Total	2,850,454	2,647,869

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

The un-provided deferred tax assets are not recognised as of 31 December 2008 as it is not considered likely that such deferred assets would be realised in the foreseeable future. Unprovided deferred tax has been recognised at 28% (2007: 28%) as this is the expected corporation tax rate for future periods.

7 Tangible fixed assets

	Office equipment	Fixtures and fittings	Total
	£	£	£
Cost			
At 1 January 2008	73,384	9,529	82,913
Additions	58,971	-	58,971
Disposals	(12,779)	-	(12,779)
At 31 December 2008	**119,576**	**9,529**	**129,105**
Depreciation			
At 1 January 2008	37,044	5,138	42,182
Charge for the year	37,824	2,318	40,142
Eliminated on disposal	(10,336)	-	(10,336)
At 31 December 2008	**64,532**	**7,456**	**71,988**
Net book value			
31 December 2008	**55,044**	**2,073**	**57,117**
31 December 2007	36,340	4,391	40,731

During the year, a loss of £1,044 (2007: £8,074) was made on the disposal of fixed assets.

8 Debtors

	2008	2007
	£	£
Amounts due from group companies	**56,188**	64,753
Other debtors	**438,056**	588,983
Prepayments	**53,244**	28,264
	547,488	682,000

The amounts due from group companies have no fixed date for repayment and are non-interest bearing.

9 Creditors: amounts falling due within one year

	2008	2007
	£	£
Trade creditors	**52,123**	223,086
Other taxation and social security	**16,860**	34,478
Accruals and other creditors	**31,091**	304,300
	100,074	561,864

10 Provisions for liabilities and charges

	Loan run-off	Loan subsidies	Total
	£	£	£
At 1 January 2008	64,898	32,990	97,888
Charged to the profit and loss account	(43,092)	-	(43,092)
Utilised during the year	-	(26,527)	(26,527)
At 31 December 2008	**21,806**	**6,463**	**28,269**

The loan run-off provision is held in a separate client account at RBS, therefore protected from creditors and is there to allow for late payments collection activity in the unlikely event that Zopa Limited should stop trading.

11 Share based payment arrangements

During the year ended 31 December 2008, Zopa Limited had a single share based payment arrangement with 20 employees for shares of Zopa Holdings Inc, the ultimate parent undertaking. In accordance with the FRSSE, no share based payments charge has been recognised in the financial statements. The details of the arrangement are described below.

Arrangement	**Share options granted**
Number of instruments granted	19,750
Exercise price	£0.97
Share price at the date of grant	£0.97
Vesting conditions	Continuous employment since grant date to exercise date.
Settlement	Equity shares

During the year 8,111 options were exercised. The above information applies to options outstanding at the end of the year.

Of the 19,750 shares outstanding as at 31 December 2008, 1,250 shares were granted on 18 September 2007 and 18,500 share options were granted on 21 February 2008.

12 Called up share capital

	2008	2007
	£	£
Authorised:		
200,000 ordinary shares of £1 each	**200,000**	200,000
Allotted and fully paid:		
199,824 ordinary shares of £1 each	**199,824**	199,824

13 Reserves

	Share premium	Capital Contribution	Profit and loss
	£	£	£
At 1 January 2008	5,815,640	6,984,447	(12,163,920)
Capital contribution	-	1,108,573	-
Loss for the year	-	-	(798,560)
At 31 December 2008	**5,815,640**	**8,093,020**	**(12,962,480)**

The other reserves movement relates to capitalisation of funds received from the parent company during the year.

14 Reconciliation of movements in shareholders' funds

	2008	2007
	£	£
Loss for the year	**(798,560)**	(5,661,937)
Capital contribution from ultimate parent undertaking	**1,108,573**	3,068,262
Net addition to/(reduction in) shareholders' funds	**310,013**	(2,593,675)
Opening shareholders' funds	**835,991**	3,429,666
Closing shareholders' funds	**1,146,004**	835,991

15 Financial commitments

The company had annual commitments under non-cancellable operating leases, expiring as follows:

	Land and buildings	
	2008	2007
	£	£
Under 1 year	**29,700**	-
Between 2 and 5 years	**-**	31,967
Total	**29,700**	31,967

16 Related party transactions

During the year, the company obtained funding in the amount of £1,108,573 (2007: £3,068,262) from its parent entity, Zopa Holdings Inc in the form of a non-distributable capital contribution.

At the year end, £2,021,758 (2007: £2,407,313), against which there is a provision of £1,965,571 (2007: £2,407,312), is due from a fellow group company, Zopa Incorporated.

At the year end, £323,225 (2007: £64,752), against which a provision of £323,225 (2007: nil) has been created, is due from the parent company, Zopa Holdings Inc.

The provisions have been created due to the winding up of Zopa Incorporated which is now dormant, and the increased risk of recoverability of the balances.

During the year, £257,283 of the debt was transferred from Zopa Incorporated to Zopa Holdings Inc, and repayments of £129,838 were made by Zopa Incorporated.

17 Ultimate parent undertaking

Zopa Holdings Inc. (incorporated in the U.S.) continues to hold 100% of the issued capital of Zopa Limited at 31 December 2008 and is therefore regarded as the immediate and ultimate parent undertaking.