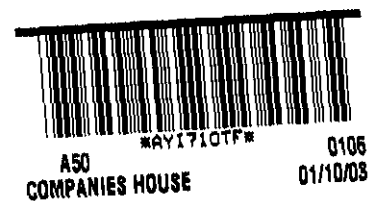


Peninsula Finance Plc

Financial statements

For the period from 4 March 2002 to 30 June 2003

Grant Thornton 



Company No. 4385846

Company information

Company registration number	4385846
Registered office	26 Lockyer Street Plymouth Devon PL1 2QW
Directors	R H G Michelmores R G Howard J S Ashley P A J Hussell D A Harrison
Secretary	R G Howard
Bankers	Lloyds TSB Bank plc 8 Royal Parade Plymouth PL1 1DS
Solicitors	Gill Akaster Solicitors 25 Lockyer Street Plymouth PL1 2QW
Auditors	Grant Thornton Chartered Accountants Registered Auditors 43 Queen Square Bristol BS1 4QR

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Report of the directors

The directors present their report and the financial statements of the company for the period from 4 March 2002 to 30 June 2003.

Principal activities and business review

The company was incorporated on 4 March 2002.

On 26 June 2002, the company issued loan stock totalling £10m.

The company used the proceeds of the loan stock issue, together with a revolving bank facility, to finance the acquisition of a mortgage portfolio.

The mortgage portfolio was acquired at book value with no goodwill arising.

Set up costs of £250,493 were incurred and these have been written off to the profit and loss account as an exceptional item.

The company has continued to manage this mortgage portfolio and has promoted itself to a wider range of brokers so as to be able to grant further mortgages to provide for future growth.

The principal activity of the company is therefore the provision of mortgage facilities.

The company will continue to review its product focus and, with effect from October 2004, will specialise exclusively in the provision of commercial mortgage finance.

There was a loss for the period after taxation amounting to £58,261.

Results and dividends

The trading results for the period, and the company's financial position at the end of the period are shown in the attached financial statements.

The directors have not recommended a dividend.

The directors and their interests in shares of the company

The directors who served the company during the period together with their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £1 each	
	At 30 June 2003	At 4 March 2002
R H G Michelmores	60,000	—
R G Howard	46,000	—
J S Ashley	44,000	—
P A J Hussell	40,000	—
D A Harrison	10,000	—

All directors were appointed to the Board on 4 March 2002.

Policy on the payment of creditors

The company pays all its creditors upon receipt of invoice.

Directors' responsibilities

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 at the end of the period and of the profit or loss for the period then ended.

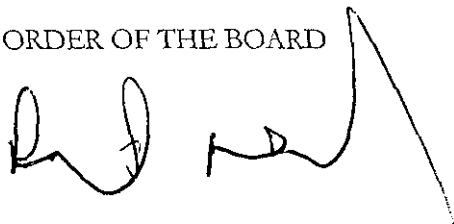
In preparing those financial statements, the directors are required to select suitable accounting policies, as described on page 8, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also prepare the financial statements on the 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. The directors 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.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to be 'R G Howard', written over the text 'BY ORDER OF THE BOARD'.

R G Howard
Secretary
29 September 2003

Report of the independent auditors to the members of Peninsula Finance plc

We have audited the financial statements of Peninsula Finance Plc for the period from 4 March 2002 to 30 June 2003 which comprise the principal accounting policies, profit and loss account, balance sheet, cash flow statement and notes 1 to 20. 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 report of the directors and the financial statements in accordance with United Kingdom law and accounting standards 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 United Kingdom 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 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.

We read other information contained in the Directors' Report 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 other information.

Basis of 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 affairs of the company as at 30 June 2003 and of its loss for the period then ended, and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'Grant Thornton', is written over the printed name.

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

29 September 2003

Principal accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

Turnover

Turnover consists of interest received and related commissions on money lending agreements.

The interest credit to the profit and loss account is calculated on a straight line basis pro rata to repayments recoverable on an accruals basis.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Fixtures & Fittings - 3 years straight line

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the Profit and Loss Account.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Profit and loss account

	Note	Period from 4 Mar 02 to 30 Jun 03 £
Turnover	1	1,597,786
Other operating income and charges	2	(360,846)
Operating profit	3	1,236,940
Interest payable and similar charges	7	(1,044,708)
Exceptional item	6	(250,493)
Loss on ordinary activities before taxation		(58,261)
Tax on loss on ordinary activities	8	-
Loss for the financial period		<u>(58,261)</u>

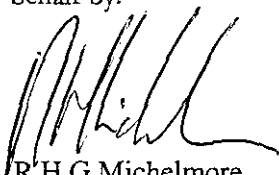
All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the period as set out above.

Balance sheet

	Note	30 Jun 03 £
Fixed assets		
Tangible assets	9	<u>4,592</u>
Current assets		
Debtors due within one year	10	600,417
Debtors due after one year	10	<u>15,469,753</u>
		16,070,170
Creditors: amounts falling due within one year	11	<u>8,870,623</u>
Net current assets		<u>7,199,547</u>
Total assets less current liabilities		<u>7,204,139</u>
Creditors: amounts falling due after more than one year	12	<u>7,062,400</u>
		<u>141,739</u>
Capital and reserves		
Called-up equity share capital	16	200,000
Profit and Loss Account	17	<u>(58,261)</u>
Shareholders' funds	18	<u>141,739</u>

These financial statements were approved by the directors on 29 September 2003 and are signed on their behalf by:



R H G Michelmores
Director

Cash flow statement

	Note	Period from 4 Mar 02 to 30 Jun 03 £
Net cash outflow from operating activities	19	(15,059,876)
Returns on investments and servicing of finance	19	(1,044,708)
Capital expenditure and financial investment	19	(6,887)
Cash outflow before financing		<u>(16,111,471)</u>
Financing	19	16,035,473
Decrease in cash	19	<u><u>(75,998)</u></u>

The accompanying notes form part of these financial statements.

Notes to the financial statements

1 Turnover

Turnover is attributable to interest and commissions received from money lending agreements.

2 Other operating income and charges

	Period from 4 Mar 02 to 30 Jun 03 £
Administrative expenses	<u>360,846</u>

3 Operating profit

Operating profit is stated after charging:

	Period from 4 Mar 02 to 30 Jun 03 £
Depreciation	2,295
Auditors' remuneration:	
Audit fees	9,988
Non-audit services	<u>7,556</u>

4 Directors and employees

The average number of persons employed by the company during the financial period, including the directors, amounted to 9.

The aggregate payroll costs of the above were:

	Period from 4 Mar 02 to 30 Jun 03 £
Wages and salaries	203,246
Social security costs	19,308
Pension costs	<u>2,011</u>
	<u>224,565</u>

5 Directors

Remuneration in respect of directors was as follows:

	Period from 4 Mar 02 to 30 Jun 03 £
Emoluments	<u>139,177</u>

6 Exceptional items

	Period from 4 Mar 02 to 30 Jun 03 £
Recognised in arriving at operating profit:	
Exceptional items - set up costs	<u>(250,493)</u>

Set up costs include legal and professional fees incurred in setting up the company, raising the loan finance and finalising the acquisition of the mortgage portfolio.

7 Interest payable and similar charges

	Period from 4 Mar 02 to 30 Jun 03 £
Interest payable on bank borrowing	250,075
Other interest payable and similar charges	794,633
	<u>1,044,708</u>

8 Tax on profit or (loss) on ordinary activities

(a) Taxation

There is no tax charge for the period ended 30 June 2003.

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 19%. The differences are explained as follows:

	Period from 4 Mar 02 to 30 Jun 03 £
Loss on ordinary activities before taxation	(58,261)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	(11,070)
Expenses not deductible for tax purposes	7,352
Capital allowances for the period in excess of depreciation	(542)
Loss to carry forward	4,260
Total current tax	—

9 Tangible fixed assets

	Fixtures & Fittings £
Cost	
Additions	6,887
At 30 June 2003	6,887
Depreciation	
Charge for the period	2,295
At 30 June 2003	2,295
Net book value	
At 30 June 2003	4,592

10 Debtors

	30 Jun 03 £
Trade debtors	16,069,753
Prepayments and accrued income	417
	16,070,170

10 Debtors (continued)

The debtors above include the following amounts falling due after more than one year:

	30 Jun 03
	£
Trade debtors	15,469,753

These mortgage loans are classified as due after more than one year as they have no due date. However, they can be redeemed at any time subject to the debtor giving 3 months' notice. The company also reserve the right to redeem the mortgage at any time subject to giving the mortgagee 3 months' notice.

Trade debtors consist solely of loans made on a commercial basis for properties upon which the company has first legal charge.

11 Creditors: amounts falling due within one year

	30 Jun 03
	£
Loan notes	2,865,600
Bank loans and overdrafts	5,983,471
Accruals and deferred income	21,552
	8,870,623

The bank loan is secured by an unlimited debenture including the right of set off and an inter-creditor deed by which the bank is granted security priority over the first legal charge provided to the company by the mortgagee.

The loan notes were issued at par on 26 June 2002. They are repayable at par at the option of the loan note holders.

The loan notes are secured by way of a debenture granted by the company over its assets and undertaking.

The bank security ranks in priority to the loan note holders' security in accordance with the provisions of the inter-creditor deed.

12 Creditors: amounts falling due after more than one year

	30 Jun 03
	£
Loan notes	<u>7,062,400</u>

The loan notes were issued at par on 26 June 2002. They are repayable at par at the option of the loan note holders but can not be redeemed before 26 June 2005.

Interest is paid to these loan note holders at a rate of 4.25% over base rate until 26 June 2005 when the rate will decrease to 3% over base rate.

The loan notes are secured by way of a debenture granted by the company over its assets and undertaking.

The debenture ranks behind the debenture being granted by the company in respect of the bank loan above.

13 Capital commitments

The company had no capital commitments at 30 June 2003.

14 Contingent liabilities

There were no contingent liabilities at 30 June 2003.

15 Related party transactions

On 26 June 2002 the company purchased a mortgage portfolio for its market value of £14,491,696 from private mortgage investors under a scheme managed up to that point by Gill Akaster, a firm of solicitors.

Gill Akaster is a related party of Peninsula Finance plc due to four of the directors of Peninsula Finance being partners of, and having control over, Gill Akaster.

During the period, under the term of a third party services agreement, the company paid to the partners in Gill Akaster £10,312 in respect of rent, £750 in respect of certain overhead expenses and £88,388 for staff salaries.

Two executive directors, who are partners of Gill Akaster, received remuneration totalling £139,177 (see note 5) under directors' service agreements.

R H G Michelmores, R G Howard, J S Ashley and P A J Hussell are the company's controlling related parties by virtue of their shareholdings.

16 Share capital

Authorised share capital:

	30 Jun 03
	£
1,000,000 Ordinary shares of £1 each	<u>1,000,000</u>

Allotted, called up and fully paid:

	30 Jun 03
	£
200,000 Ordinary shares at £1 each	
Issue of ordinary shares	<u>200,000</u>

16 Share capital (continued)

The company made an allotment of 200,000 ordinary £1 shares at £1 per share on 4 March 2002.

17 Profit and loss account

	Period from 4 Mar 02 to 30 Jun 03 £
Accumulated loss for the financial period	(58,261)
Balance carried forward	<u>(58,261)</u>

18 Reconciliation of movements in shareholders' funds

	30 Jun 03 £
Loss for the financial period	(58,261)
New equity share capital subscribed	200,000
Net addition to funds	<u>141,739</u>
Closing shareholders' equity funds	<u>141,739</u>

19 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	Period from 4 Mar 02 to 30 Jun 03 £
Operating profit	1,236,940
Depreciation	2,295
Increase in debtors	(16,070,170)
Increase in creditors	21,552
Exceptional item	(250,493)
Net cash outflow from operating activities	<u>(15,059,876)</u>

Returns on investments and servicing of finance

	Period from 4 Mar 02 to 30 Jun 03 £
Interest paid	(1,044,708)
Net cash outflow from returns on investments and servicing of finance	<u>(1,044,708)</u>

19 Notes to the statement of cash flows (continued)

Capital expenditure

	Period from 4 Mar 02 to 30 Jun 03 £
Payments to acquire tangible fixed assets	(6,887)
Net cash outflow from capital expenditure	<u>(6,887)</u>

Financing

	Period from 4 Mar 02 to 30 Jun 03 £
Issue of equity share capital	200,000
New loan notes	9,928,000
New bank loans	5,907,473
Net cash inflow from financing	<u>16,035,473</u>

Reconciliation of net cash flow to movement in net debt

	30 Jun 03 £
Decrease in cash in the period	(75,998)
Net cash (inflow) from loan notes	(9,928,000)
Net cash (inflow) from bank loans	<u>(5,907,473)</u>
Change in net debt	<u>(15,911,471)</u>
Net funds at 4 March 2002	-
Net debt at 30 June 2003	<u>(15,911,471)</u>

Analysis of changes in net debt

	At 4 Mar 2002 £	Cash flows £	At 30 Jun 2003 £
Net cash:			
Overdrafts	-	(75,998)	(75,998)
Debt:			
Debt due within 1 year	-	(8,773,073)	(8,773,073)
Debt due after 1 year	-	(7,062,400)	(7,062,400)
Net debt	-	<u>(15,911,471)</u>	<u>(15,911,471)</u>

20 Pension commitments

Pensions

The company operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.