LNR Partners United Kingdom Ltd

(Formerly Lennar Partners United Kingdom Ltd)

Registered No. 4543359

Report and Financial Statements

30 November 2004

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LNR Partners United Kingdom Ltd
(Formerly Lennar Partners United Kingdom Ltd)

Registered No: 4543359

Directors
M A Griffith
T B Salzman
J Krasnoff
S N Goedken
S A Bjerke

Secretary
Z M Dickstein

Auditors
Baker Tilly
2 Bloomsbury Street
London WC1B 3ST

Registered office
7 Albermarle Street
London
W1S 4HQ

Directors' report

The directors present their report and financial statements for the year ended 30 November 2004.

Change of name

On 5 May 2005, the company changed its name from Lennar Partners United Kingdom Ltd to LNR Partners United Kingdom Ltd.

Principal activities

LNR Partners role in Europe is to evaluate, make and actively manage investments in real estate-related income bearing debt instruments and other forms of real estate-related income bearing securities (including commercial mortgage backed securities (CMBS), mezzanine debt, B-notes and distressed debt) directly or indirectly backed by mortgages on commercial and residential properties across the EU and Switzerland. Through its subsidiaries, the group is also engaged in real estate asset management and loan servicing.

Review of business and future developments

The directors are satisfied with the results for the year and believe that the foundations are now in place to expand the business across the UK and Europe.

Results and dividends

The loss for the period amounted to £2,679,034. The directors do not recommend the payment of any dividends.

Directors

The directors who served the company since 1 December 2003 were as follows:

M A Griffith	
T B Salzman	
J Krasnoff	
S A Goedken	(appointed 3 March 2005)
S N Bjerke	(appointed 9 May 2005)
S Rubin	(resigned 9 May 2005)

There are no directors' interests requiring disclosure under the Companies Act 1985.

Auditors

Ernst & Young resigned as auditors in 2004 and Baker Tilly were appointed as auditors for the financial year ended November 30 2004. A resolution to reappoint Baker Tilly as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

Mark Griffith
Director

25 July 2005

Statement of directors' responsibilities in respect of the financial statements

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 the group and of the profit or loss of the group 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; 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 the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of LNR Partners United Kingdom Ltd (Formerly Lennar Partners United Kingdom Ltd)

We have audited the financial statements set out on pages 6 to 17.

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 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 Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. 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 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.

Independent auditors' report

to the members of LNR Partners United Kingdom Ltd (Formerly Lennar Partners United Kingdom Ltd)
(continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 November 2004 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly

Baker Tilly
Registered Auditor
2 Bloomsbury Street
London WC1B 3ST

25th July 2005

Consolidated profit and loss account

for the year ended 30 November 2004

	Notes	2004 £	2003 £
Turnover	2		
Continuing Operations		647,610	–
Acquisitions		1,632,935	–
		2,280,545	–
Administrative expenses	3	(4,970,198)	(3,898,260)
Operating (loss)/profit	4		
Continuing Operations		(2,958,425)	(3,898,260)
Acquisitions		268,772	–
		(2,689,653)	(3,898,260)
Interest receivable and similar income	5	10,619	1,653
Loss on ordinary activities before taxation		(2,679,034)	(3,896,607)
Tax on loss on ordinary activities	6	-	–
Loss for the financial year	18	(2,679,034)	(3,896,607)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £2,679,034 attributable to the shareholders for the year ended 30 November 2004.

Consolidated Balance sheet
at 30 November 2004

	Notes	2004 £	2003 £
Fixed assets			
Intangible assets	8	4,293,327	–
Tangible assets	9	241,797	–
		4,535,124	–
Current assets			
Debtors	11	877,773	129,457
Cash at bank and in hand	12	1,423,356	442
		2,301,129	129,899
Creditors: amounts falling due within one year	13	(3,476,567)	(452,119)
Net current liabilities		(1,175,438)	(322,220)
Total assets less current liabilities		3,359,686	(322,220)
Creditors: amounts falling due after more than one year	14	(9,935,326)	(3,490,416)
Provisions for liabilities and charges	15	–	(83,970)
		(6,575,640)	(3,896,606)
Capital and reserves			
Called up share capital	17	1	1
Profit and loss account	18	(6,575,641)	(3,896,607)
Equity shareholder's funds	18	(6,575,640)	(3,896,606)

Approved by the board on 25 July 2005

Mark Griffith
Director

Company Balance sheet
at 30 November 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible assets	9	143,047	–
Investments	10	100	–
		143,147	–
Current assets			
Debtors	11	121,522	129,457
Cash at bank and in hand		90,225	442
		211,747	129,899
Creditors: amounts falling due within one year	13	(1,129,857)	(452,119)
Net current liabilities		(918,110)	(322,220)
Total assets less current liabilities		(774,963)	(322,220)
Creditors: amounts falling due after more than one year	14	(5,899,592)	(3,490,416)
Provisions for liabilities and charges	15	–	(83,970)
		(6,674,555)	(3,896,606)
Capital and reserves			
Called up share capital	17	1	1
Profit and loss account	18	(6,674,556)	(3,896,607)
Equity shareholder's funds	18	(6,674,555)	(3,896,606)

Approved by the board on 25 July 2005

Mark Griffith
Director

Notes to the financial statements

at 30 November 2004

1. Accounting policies

Basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Going concern
The financial statements have been prepared under the going concern basis as the intermediate parent undertaking, LNR Property Corporation, has agreed to provide the necessary support to enable the company to meet its liabilities as they fall due.

Basis of consolidation
The group financial statements incorporate the financial statements of the company and all its subsidiaries made up to 30 November 2004. Subsidiaries acquired during the year are consolidated using the acquisition method. Their results are incorporated from the date that control passes.

Intangible Fixed Assets
Intangible fixed assets are stated at historical cost. Depreciation is provided at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Loan Servicing Contract	over 10 years

Tangible fixed assets
Tangible fixed assets are stated at historical cost. Depreciation is provided at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Fixtures, fittings and equipment	over 3 years
IT equipment	over 3 years

Fixed asset investments
Fixed asset investments are stated at historical cost less provision for any impairment.

Cash flow statement
The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Foreign currencies
Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

In the previous year foreign exchange gains were shown under the heading of interest receivable and similar income. These are now included under Administration Expenses and the comparatives have been restated accordingly.

Notes to the financial statements
at 30 November 2004

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. Timing differences are differences between the group'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.

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

Turnover
Turnover consists of Loan Servicing Fees and Management and Administration Fees. These are recognised on an accruals basis.

Operating leases
Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on a straight line basis over the lease term.

Pensions
The group contributes to the personal pension plans of certain employees. The group's contributions are charged to the profit and loss account as they become due.

Comparative period
The comparative period is from 24 September 2002 to 30 November 2003.

2. Turnover and loss on ordinary activities before taxation

The group's turnover and loss before taxation were all derived from its principal activity wholly undertaken in the United Kingdom. The group made sales to the following geographical markets:

	2004 £	*2003* £
European Union	1,854,677	–
Rest of the World	425,868	–
	2,280,545	–

3. Administrative Expenses

	2004 £	*2003* £
Continuing operations	3,425,558	3,980,869
Acquisition	1,544,640	–
Total	4,970,198	3,980,869

Notes to the financial statements
at 30 November 2004

4. Operating loss

This is stated after charging:

		2004	2003
		£	£
Depreciation of tangible fixed assets		16,897	–
Amortisation of intangible fixed assets		151,789	–
Auditors' remuneration	- audit services	19,000	10,000
	- non-audit services	–	–

5. Interest receivable and similar income

	2004	2003
	£	£
Bank interest receivable	10,619	1,653
Other similar income receivable	–	–
	10,619	1,653

6. Taxation

No charge for corporation or deferred tax arises this year.

Factors affecting current tax charge
The tax assessed on the loss on ordinary activities for the period is assessed at the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	2004	2003
	£	£
Loss on ordinary activities before taxation	(2,679,034)	(3,896,607)
Loss on ordinary activities multiplied by the standard rate of tax at 30%	(803,710)	(1,168,982)
Expenses not deductible for tax purposes	62,834	216,948
Capital allowances in excess of depreciation	(9,404)	3,821
Other timing differences	(88,022)	163,768
Tax losses carried forward	838,302	784,445
	–	–

Factors that may affect future tax charges

At 30 November 2004, the group had estimated tax losses of £5,400,000 (2003: £2,600,000) which, subject to the agreement of the Inland Revenue, are available to carry forward against future profits of the same trade. A deferred tax asset of £1,620,000 (2003: £780,000) in respect of these losses and a further deferred tax asset of £75,000 (2003: £165,000) in respect of other timing differences have not been recognised in the financial statements because of the uncertainty as to the timing of future profits.

Notes to the financial statements
at 30 November 2004

7. Staff costs

	2004 £	*2003* £
Wages and salaries (Including directors salaries and bonus)	2,867,436	1,757,434
Social Security costs	416,504	240,254
Other Benefits	574,548	558,207
	3,858,488	2,555,895

The monthly average number of employees during the year was as follows (excluding directors):

	2004	*2003*
Accounts and Administration	9	4
Loan Servicing	25	–
Business Development	3	–
	37	4

	2004 £	*2003* £
Directors' emoluments for the year were	2,368,628	2,447,889
The total emoluments of the highest paid director were	1,210,553	1,297,528

8. Intangible fixed assets

Group

	Loan Servicing Contract £
Net Book Value December 1 2003	–
Acquisition in year	4,445,116
Amortisation Charge	(151,789)
Net Book Value at November 30 2004	4,293,327

On 14 July 2004, the group completed the acquisition of Hatfield Philips International LLC. The loan servicing contract was part of this acquisition and this is being written off over 10 years. Further details of this acquisition are disclosed in note 10.

Notes to the financial statements
at 30 November 2004

9. Tangible fixed assets

Group

	Fixtures, Fittings and Equipment £	*IT Equipment* £	*Total* £
Net Book Value at December 1 2003	–	–	–
Additions	191,933	66,761	258,694
Depreciation Charge	(11,497)	(5,400)	(16,897)
Net Book Value at November 30 2004	180,436	61,361	241,797

Company

	Fixtures, Fittings and Equipment £	*IT Equipment* £	*Total* £
Net Book Value at December 1 2003	–	–	–
Additions	115,098	32,346	147,444
Depreciation Charge	(2,864)	(1,533)	(4,397)
Net Book Value at November 30 2004	112,234	30,813	143,047

Notes to the financial statements

at 30 November 2004

10. Fixed asset investments

Company

	£
Opening Balance December 1 2003	–
Acquisition in year	100
Investments at November 30 2004	100

On 24 May 2004, the company acquired Hatfield Philips International Limited (formerly LNR Partners Europe Ltd). This company had not traded since incorporation.

On 14 July 2004, the group completed the acquisition of Hatfield Philips International LLC. There was no difference between the book value and the fair value of the net assets acquired that are detailed below.

	£
Net assets acquired:	
Tangible fixed assets	109,529
Loan Servicing Contract	4,445,116
Debtors	839,857
Cash at bank and in hand	165,638
Creditors	(521,845)
Total assets acquired	5,038,296
Satisfied by:	
Cash consideration paid	3,200,000
Loan notes issued	800,000
Deferred cash consideration	1,000,000
Acquisition costs capitalised	38,296
	5,038,296

The deferred cash consideration is dependent on the future performance of the acquired company and represents the directors' estimate of amounts payable on the acquisition. This will be due payable in July 2005.

The profit and loss account for Hatfield Philips International LLC from 1 January 2004 to 14 July 2004 comprised turnover of £1,712,532, operating profit of £142,171, profit before taxation of £147,428, taxation of £44,228 and profit after taxation of £103,200. The profit after taxation for the year ended 31 December 2003 was £449,527.

The company's two wholly owned subsidiaries as at 30 November 2004 were Hatfield Philips International Limited (formerly Lennar Partners Europe Ltd), a company registered in England and Wales, and Hatfield Philips International LLC, a corporation registered in Georgia, USA. Hatfield Philips International Limited is a holding company which owns Hatfield Philips International LLC, whose principal activity is real estate asset management and loan servicing.

Notes to the financial statements
at 30 November 2004

11. Debtors

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Trade debtors	427,498	–	–	–
Other debtors	265,803	86,283	95,281	86,283
Prepayments and accrued income	184,472	43,174	26,241	43,174
	877,773	129,457	121,522	129,457

12. Cash at bank and in hand

Group
Cash at bank and in hand includes restricted cash held in an escrow account of £809,357 (2003: £nil) that will be utilised to settle the loan notes issued as part of the acquisition of Hatfield Philips International LLC. The restricted monies are secured by a fixed and floating charge over the group's assets.

13. Creditors: amounts falling due within one year

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Loan notes	800,000	–	–	–
Trade creditors	325,884	–	274,501	–
Corporation tax	44,228	–	–	–
Other taxation and social security	187,501	–	102,652	–
Other creditors	1,000,000	56,432	–	56,432
Accruals and deferred income	1,118,954	395,687	752,704	395,687
	3,476,567	452,119	1,129,857	452,119

The loan notes were issued on the acquisition of Hatfield Philips International LLC and are secured on the restricted cash as detailed in note 12.

Other creditors include a deferred consideration estimated to amount to £1,000,000 payable in July 2005 in respect of the acquisition of Hatfield Philips International LLC as explained in note 10.

14. Creditors: amounts falling due after more than one year

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Amounts owed to group undertakings	9,935,326	3,206,073	5,899,592	3,206,073
Accruals and deferred income	-	284,343	–	284,343
	9,935,326	3,490,416	5,899,592	3,490,416

Notes to the financial statements
at 30 November 2004

15. Provisions for liabilities and charges

	Other taxes and social security 30 Nov 04
	£
The movements in other taxation and social security during the current period are as follows:	
Balance at 1 December 2003	83,970
Movements During the year	(83,970)
Balance at 30 November 2004	–

16. Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

17. Share capital

		2004	*2003*
Authorised		*£*	*£*
Ordinary shares of £1 each		1	1
Allotted, called up and fully paid	*No.*	*£.*	*£*
Ordinary shares of £1 each	1	1	1

Notes to the financial statements

at 30 November 2004

18. Reconciliation of shareholders' funds and movement on reserves

Group

	Share capital £	*Profit and loss account* £	*Total share-holders' funds* £
At 1 December 2003	1	(3,896,607)	(3,896,606)
Loss for the year	–	(2,679,034)	(2,679,034)
New equity share capital subscribed	–	–	–
At 30 November 2004	1	(6,575,641)	(6,575,640)

Company

	Share capital £	*Profit and loss account* £	*Total share-holders' funds* £
At 1 December 2003	1	(3,896,607)	(3,896,606)
Loss for the year	–	(2,777,949)	(2,777,949)
New equity share capital subscribed	–	–	–
At 30 November 2004	1	(6,674,556)	(6,674,555)

The company has taken advantage of s230 of the Companies Act 1985 from presenting its own profit and loss account.

19. Immediate and Ultimate parent company

In the directors' opinion, the company's immediate parent undertaking is LNR Property Corporation Eastern Region, a US Company, and at 30 November 2004, the ultimate parent undertaking and controlling party was LNR Property Corporation, which is incorporated in the United States of America. Copies of its group financial statements for LNR Property Corporation, which include the company, are available from its registered office: 1601 Washington Avenue, Suite 800, Miami Beach, Florida, USA 33139.

20. Post balance sheet events

On 3 February 2005 LNR Property Corporation was acquired by LNR Property Holdings Ltd., a Bermuda company (formerly known as Riley Property Holdings LLC). LNR Property Holdings is 75% owned by funds and accounts managed by Cerberus Capital Management L.P. and its real estate affiliate Blackacre Institutional Capital Management, LLC and co-investors. Another 20.4% of LNR Property Holdings is owned by Stuart Miller, the former chairman of the board of LNR Property Corp., a trust of which he is a principal beneficiary and family partnerships. The remainder is owned by members of LNR's management.