@ Charcol Limited

Directors' report and financial statements

Registered number 3795361

31 December 2006

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31st December 2006

Principal activities

The principal activity of the business is the provision of Online mortgage broking services to its customers

Business review

@Charcol Ltd revenue grew significantly in 2006 thanks to considerable investment in both systems and people The payback for the investment was not anticipated to increase profits in the short term as there is a significant training and development time lag once new sales staff are been taken on

The growth continued in 2007 as more trained consultants become productive The investment in growth will continue as more brokers are trained and the business forges more strategic alliances to feed the increased headcount with sales leads

The Charcol website was redesigned in early 2007 and it has played a significant role in increased lead flow in the direct telephony business

In the last quarter of 2007 there was a downturn in the mortgage market following the events in the US subprime market and at Northern Rock. This has resulted in a fall in transaction volumes of an estimated 20 – 25%. However @ Charcol is optimistic about the effect that the change in market conditions will have on the performance of the company; predicting that there will be a 'flight to quality' by consumers in a more challenging environment. Early indications of call volumes in 2008 support this.

Results, dividends and transfers to reserves

The loss after tax for the year amounted to £1,942,505 *(2005 £1,373,649)* and will be transferred to reserves The directors do not propose the payment of a dividend

Going Concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the reasons stated in Note 1 of the accounts, Accounting policies, *Basis of preparation*

Directors' report *(continued)*

Directors and directors' interests

The directors who held office during the year were as follows

J S G Garfield

P C Barrett (Resigned 27 July 2007)

W A Avrili

J E McMahon

N J Ward

The interests of J S G Garfield, P C Barrett and N J Ward are disclosed in the directors' report of the ultimate parent

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the company

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, each director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Political and charitable contributions

The company made no political contributions or charitable donations during the year

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

I Kennedy
Director

8/2/08 ~~2007~~
53-64 Chancery Lane
London

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

The directors have responsibility for preparing the Directors' 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 group and the parent company financial statements in accordance with UK Accounting Standards

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors have responsibility for ensuring the company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors have responsibility for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditor's report to the members of @ Charcol Limited

We have audited the financial statements of @ Charcol Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3

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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

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 UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 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

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in Note 1 to the financial statements concerning the company's ability to continue as a going concern The company incurred a net loss of £1,942,505 during the year ended 31 December 2006 and, at that date, the company's current liabilities exceeded its total assets by £3,315,729 These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern

KPMG Audit Plc

8 February 2008

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

Profit and loss account

for the year ended 31st December 2006

	Note	2006 £	2005 £
Turnover		**2,422,380**	1,681,693
Cost of sales		**(241,015)**	(38,928)
Gross profit		**2,181,365**	1,642,765
Administrative expenses	*2*	**(4,123,870)**	(3,016,414)
Operating loss		**(1,942,505)**	(1,373,649)
Tax on profit on ordinary activities	*4*	**-**	-
Loss for the financial year		**(1,942,505)**	(1,373,649)

There were no other recognised gains and losses during the year

Balance sheet
At 31st December 2006

	Note	2006 £	2005 £
Fixed assets			
Intangible fixed assets	5	**5,000**	5,000
Current assets			
Amounts owed by parent company		**1,000**	1,000
Creditors: amounts falling due within one year			
Amounts owed to parent company		**(3,321,729)**	(1,379,224)
Net current (liabilities) / assets		**(3,321,729)**	(1,378,224)
Total assets less current liabilities		**(3,315,729)**	(1,373,224)
Net (liabilities) / assets		**(3,315,729)**	(1,373,224)
Capital and reserves			
Called up share capital	6	**6,000**	6,000
Profit and loss account		**(3,321,729)**	(1,379,224)
		(3,315,729)	(1,373,224)

These financial statements were approved by the board of directors on 8/2/08 ~~2007~~ and were signed on its behalf by

I Kennedy
Director

Reconciliation of movements in shareholders' funds
For the year ended 31st December 2006

	2006	2005
	£	£
Loss for the financial year	**(1,942,505)**	(1,373,649)
New share capital subscribed	-	-
Net addition to shareholders' funds	**(1,942,505)**	(1,373,649)
Opening shareholders' funds	**(1,373,224)**	425
Closing shareholders' funds	**(3,315,729)**	(1,373,224)

Notes

(forming part of the financial statements)

1 Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules

The Company has taken advantage of the exemption contained under FRS 8 and has therefore not disclosed any transactions or balances with other group undertakings

The company has elected not to provide a cashflow statement in accordance with the exemption granted under FRS1 (revised 1996), to companies who are controlled within a group and whose consolidated financial statements in which the subsidiary undertaking are included are publicly available

Investor Support

The financial statements have been prepared on a going concern basis which the directors believe to be appropriate for the following reasons The company is dependant for its working capital on funds provided to them by its key investors As at the balance sheet date, certain funds were due for repayment by the company's penultimate parent, John Charcol Group Limited, in the next 24 months. As described in Note 8, subsequent to the balance sheet date, certain key investors have agreed both to defer existing repayment obligations and have also provided further finance to the group Further, the key investors have committed to make funds available for at least 12 months from the date of approval of these financial statements

The directors consider that this should enable the company to continue in operation for at least 12 months from the date of approval of these financial statements by meeting its liabilities as they fall due for payment As with any company placing reliance on key investors for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis However, the uncertainty may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business The financial statements do not include any adjustments that would result from the basis of preparation being adjusted to a non-going concern basis

Intangible Fixed Assets

Intangible fixed assets are capitalised at their cost less any provision for permanent diminution in value

Turnover

Turnover is recognised when a service is provided to a customer, when a mortgage is completed or when a protection policy goes on risk

Notes *(continued)*

2 Notes to the profit and loss account

Loss on ordinary activities before taxation is stated after charging:	**2006** **£000**	2005 £000
Auditors' remuneration	**10**	10
Management charge	**2,421**	2,000

The management charge comprises a proportional share of costs incurred in Charcol Limited

3 Staff numbers & costs

@ Charcol has no employees, as staff are employed by Charcol limited and are included in the management charge above As such these employees fall under the jurisdiction of the Charcol Limited Pension scheme and any liabilities outstanding at the end of the year with regard to these employees are disclosed in the ultimate parent's accounts

4 Taxation

There is no taxation in either financial year as the company made a loss in both years

5 Intangible Fixed Assets

The company acquired the online Charcol Business in 2004 at the value of £5,000 Consideration was the issue of 5,000 £1 ordinary shares

6 Called up share capital

	2006 **£**	2005 £
Authorised		
Equity Ordinary shares of £1 each	**6,000**	6,000
Allotted, called up and fully paid		
Equity Ordinary shares of £1 each	**6,000**	6,000

Notes *(continued)*

7 Ultimate parent company

Charcol Limited, a company incorporated in England and Wales, is the Company's immediate controlling entity

John Charcol Holdings Limited, a company incorporated in England and Wales, is the Company's ultimate parent company It is the parent undertaking of the largest group in which the results of the Company are consolidated No other group financial statements include the results of the Company The consolidated financial statements of these groups are available to the public from the Company's registered office at 53-64 Chancery Lane, London, WC2A 1QU

8 Subsequent Events

Loan stock

A deed of variation has been signed with effect that £820,000 of loan stock held in the penultimate parent company, John Charcol Group Limited, due to be repaid in June 2007 will be deferred to April 2008 at the latest

An additional £1 5m of Loan Stock has been issued by John Charcol Group Limited to John Garfield, Jon Moulton and Charles Wishart, of £0 5m each Funds have been received and the stock issued between 31 December 207 and 2 January 2008