

PEACH HOLDINGS, LLC  
ANNUAL REPORT AND ACCOUNTS 2005



HELPING TOMORROW'S DREAMS COME TRUE TODAY



## CORPORATE STATEMENT

Peachtree is a specialty finance company focused on illiquid, yet high credit quality assets. Peachtree provides financial solutions for individuals holding high quality illiquid assets. We are the leading US buyer of deferred payment obligations, such as structured legal settlements, life insurance policies and lottery prize payments. Peachtree is focused on expanding its leading market position in each of these product groups and is the only company that originates with scale across multiple asset classes. Peach Holdings, Inc. trades publicly on AiM (LSE: PSF).

## BUSINESS STRATEGY

Peachtree will seek to create value for its shareholders by continuing to deliver earnings growth. In particular, the Group will endeavor to:

- increase penetration in structured settlements, life settlements, lottery prize winnings, and other types of annuities;
- access new asset classes, particularly those that will permit Peachtree to leverage existing origination infrastructure; and
- secure new financing sources with enhanced economics.

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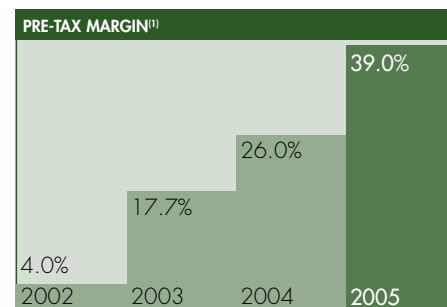
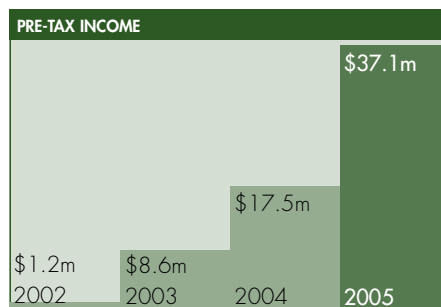
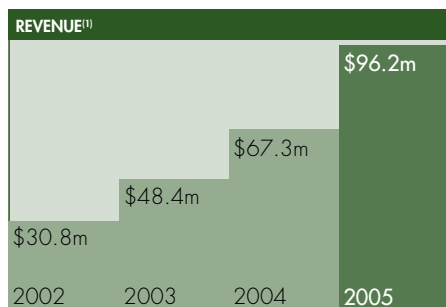
# HIGHLIGHTS

## FINANCIAL

- results in line with expectations at IPO
- adjusted revenues increased by 43% to US\$96.2 million (2004: US\$67.3 million)
- PBT of US\$37.1 million, an increase of 112% (2004: US\$17.5 million)
- pre-tax margin on adjusted revenues of 39% (2004: 26%)
- forecast dividend of US\$20 million for current year
- strongly cash generative (cash position post-IPO US\$32 million)

## OPERATIONAL

- leader in personal factoring
- strong growth in existing business lines
- early success from new product offerings
- new credit facilities of US\$325 million to support growth
- completed two securitizations in 2005 and three expected in 2006
- successful AiM listing in March 2006



<sup>(1)</sup> excludes installment obligation gain/loss from installment sales transaction structure

## COMPANY DIVISIONS

Peachtree's core business consists of purchasing deferred payment obligations, such as structured settlements, lottery prize winnings and selected insurance products, on a discounted basis from individual holders. The obligors of these receivables are predominately highly-rated insurance companies and US state governments. There is a limited prepayment risk and credit exposure associated with any of Peachtree's purchased receivables.

Peachtree generally participates in large, highly fragmented markets with predominantly small, under-capitalized competitors. The Directors of Peachtree believe that Peachtree has the number one (1) or number two (2) market share in the US in each of its core businesses.



### STRUCTURED SETTLEMENTS

A structured settlement is a contract between a plaintiff and defendant whereby the plaintiff agrees to settle a lawsuit (usually a personal injury, product liability or medical malpractice claim) in exchange for periodic payments over time. Generally, the settling defendant (either a self-insured corporation or its liability insurer) arranges to discharge its payment obligation to an individual plaintiff by purchasing a commercial annuity from an investment-grade annuity provider, such as a life insurance company, thereby guaranteeing a low-risk stream of payments to the plaintiff. The settling defendant's insurance company is motivated to seek a structured settlement as it is often less costly than the up-front payment alternative.

[www.settlementfunding.com](http://www.settlementfunding.com)



### LIFE SETTLEMENTS

A life settlement is the sale of an existing life insurance policy to an unrelated investor for an amount greater than the policy's cash surrender value, but lower than the face amount of the policy. The investor assumes the obligation of making premium payments until the face amount of the policy is realized.

[www.life-settlementco.com](http://www.life-settlementco.com)



### LOTTERY

Lottery prize payments are typically paid in installments over a period of 20 to 30 years. Approximately 10,000 individuals are currently receiving lottery prize payments in installments in the US. Peachtree estimates the present value of all outstanding lottery prize payment streams to be approximately \$12 billion in the US. To date, Peachtree estimates that approximately \$3 billion of such lottery prize winnings have been purchased by all market participants.

[www.peachtreefunding.com](http://www.peachtreefunding.com)



### **PRE-SETTLEMENT FUNDING**

Pre-settlement funding provides personal injury plaintiffs with a payment in exchange for an assignment of a portion of the proceeds of their pending case. Accident victims often are unable to work for a prolonged period of time and therefore incur high expenses which they find difficult to meet. As a result, accident victims often accept quick, minimal settlements. The pre-settlement funding payment provides a victim and their attorney with the flexibility to continue litigating a case by satisfying the victim's immediate need for funds.

[www.presettlementfunds.com](http://www.presettlementfunds.com)



### **LEVERAGED BONUS PLAN**

A Leveraged Bonus Plan is an individually owned non-qualified executive deferred compensation plan funded with life insurance. A Leveraged Bonus Plan utilizes leveraged insurance policy ownership to fund a high cash value insurance policy. A Leveraged Bonus Plan is designed to ensure that the executive does not incur any direct expenses, as all expenses are covered by the structure's features and/or the executive's employer. A Leveraged Bonus Plan may also serve as a solution to the "safe harbor" costs associated with an employer's 401k plan.

[www.peachtreelbp.com](http://www.peachtreelbp.com)



### **TOBACCO FUNDING**

Through the Tobacco Transition Payment Program of the US government, tobacco farmers have been provided with a deferred schedule of tobacco quota buyout payments. These payments may be sold to a third party for a present lump sum of money.

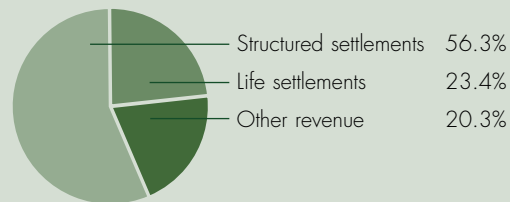
[www.tobaccofunding.com](http://www.tobaccofunding.com)

# CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

## SUMMARY OF CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

- Achieved a year of significant development and growth
- Net income was US\$37,456,799 on adjusted revenue of US\$96.2 million (39% total margin)
- Business is strongly cash generative and the Board anticipates paying a dividend of at least US\$0.192 per share in the current year
- Increasing our penetration of key markets (Life Settlements, Structured Settlements) while continuing to innovate (Premium Financing, Pre-Settlements) and maintaining market leading positions
- Successful AiM listing in March 2006

### BUSINESS OVERVIEW



We are very happy to release our maiden set of annual results for the period ending 31 December 2005 after successfully joining AiM in March 2006. These results are in line with management's estimates. Management is pleased to report that 2005 was a year of significant growth for Peachtree. Net income was US\$37,456,799 on adjusted revenue of US\$96.2 million (39% total margin). As a limited liability company no actual shares were outstanding through 31 December 2005. Notwithstanding, assuming that the post flotation shares outstanding were outstanding as of 31 December 2005, earnings per share would have been US\$0.36.

### BUSINESS OVERVIEW

Peachtree is active in various speciality factoring markets, which although similar in some respects, are distinct. For 2005 the main drivers of revenue were the purchase of structured legal settlement payments, lottery prize payments and life insurance policies. In addition, Peachtree launched a pre-settlement funding division, and commenced a life insurance premium finance business in 2005.

### Structured Settlements

A structured settlement is the settlement of a personal injury claim for a series of installments payments. The settling party typically purchases a commercial annuity to satisfy the ongoing payment obligation to the injured plaintiff. Often, post-settlement, an individual will desire liquidity and will seek to sell some or all of the future payments due under the structured settlement. Peachtree provides this liquidity to individuals throughout the United States. Each transfer of structured settlement payments must be approved by a court finding that the



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Peachtree has been able to  
achieve significant returns on  
investment in relatively large  
but under penetrated markets  
”

transfer is in the best interest of the selling party. In 2005, Peachtree processed transactions generating revenue of US\$52.4 million from the purchase and resale of structured legal settlement payments. This represents growth of approximately 43% over 2004 and is a result of our continued efforts to more deeply penetrate the structured settlement marketplace through direct marketing activities. Through more focused and broader marketing activity, Peachtree believes it can increase its market penetration in the structured settlement arena. Moreover, certain tort reform measures (which may or may not ever become law) actually mandate the use of structured settlements. The growing use of structured settlements to resolved litigation means that the total addressable market for this aspect of our business continues to grow.

#### **Annuities**

As part of its marketing efforts for the purchase of structured settlement payments, Peachtree often comes in contact with and will purchase immediate and other type of annuities (owned annuities) from individuals. This market is truly enormous with estimates ranging in the many hundreds of billions of dollars. We are planning on expanding our marketing efforts throughout 2006 to focus on this extremely large and untapped market.

#### **Life Settlements**

A life settlement is the purchase of a life insurance policy that is no longer needed or wanted from an insured age 65 or above. Peachtree believes it is the second largest life settlement provider in the United States and is licensed in all jurisdictions in which it does business which require such licensure.

For 2005, Peachtree's life settlement operations generated gross revenue of US\$22.5 million. This represents an increase of 84% over 2004. In addition, in January 2006 Peachtree closed on a substantial credit facility for the acquisition of life settlements. This facility provides materially better terms than previously available. Peachtree's strategy is to continue expanding its life settlement origination activities through organic marketing and purchasing activities, and expanding penetration with insurance marketing organizations and brokers.

#### **Lottery Prize Payments**

For 2005 the lottery division contributed US\$8.4 million in revenue. As a mature business, Peachtree did not forecast nor experience any significant growth in this department versus 2004. Peachtree purchases lottery prize payments from an individual pursuant to a court order transfer process as permitted by state law.

We are also pleased to report that Peachtree closed on a US\$100 million credit facility for the acquisition of lottery prize payments in late 2005. This credit facility provides better terms than previously available to the Company.

#### **Pre-Settlement Funding**

Pre-settlement funding is a relatively new business for Peachtree but not for Peachtree management. Pre-settlement funding is the purchase of an interest in the proceeds of a pending personal injury case. In January of 2005 Peachtree purchased the assets of Lancaster Financial Corp, a provider of pre-settlement

# CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

## KEY STRENGTHS

Peachtree is active in various speciality factoring markets and the leader in personal factoring. For 2005 the main drivers of revenue were the purchase of structured legal settlement payments, lottery prize payments and life insurance policies.

### → STRUCTURED SETTLEMENTS

Peachtree processed transactions generating revenue of US\$52.4 million from the purchase and resale of structured legal settlement payments which represents growth of approximately 43% over 2004. The growing use of structured settlements to resolved litigation means that the total addressable market for this aspect of our business continues to grow.

### → LIFE SETTLEMENTS

Peachtree believes it is the second largest life settlement provider in the United States and is licensed in all jurisdictions in which it does business which require such licensure. For 2005, Peachtree's life settlement operations generated gross revenue of US\$22.5 million. This represents an increase of 84% over 2004.

### → LOTTERY PRIZE PAYMENTS

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funding financing. Peachtree has rapidly grown its pre-settlement origination activity. Peachtree currently conducts pre-settlement funding transactions in 16 states. The US tort markets are deep and wide and accordingly present a ripe area for growth. Peachtree believes it is the low cost provider of pre-settlement funding in the US. We are investing in marketing and transaction processing for this asset class and believe that continued significant growth in this sector is likely.

## NEW INITIATIVES

### Class Action Litigation Funding

Certain class action or mass tort settlements present unique opportunities for Peachtree. The inherent complexity of mass tort or class action settlements means that they take time to work their way through the judicial system. Although the dollar amounts of the settlement are typically known, the date of payment is far less clear. Peachtree believes that many individuals holding these settlement rights are interested in immediate cash for all or a portion of their settlement proceeds. Peachtree is evaluating and screening potential class action and mass tort settlements to determine which warrant its attention.

### Leverage Bonus Plan (LBP)

Peachtree's Leverage Bonus Plan is a solution for firms seeking to provide non-qualified executive deferred compensation plans without the complexity, tax and compliance risks which typically come from same given the current US regulatory and tax environment. LBP is a turn key solution for firms and executives in this situation. We have recently identified a particularly good application for LBP with regard to companies utilizing the so called "401K safe harbor" provisions of the tax code to permit greater retirement savings for senior





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Peach enjoys a leading competitive position that will drive strong return on equity  
”



and highly compensated executives. We are hopeful that this application will see significant market take up in the coming year.

**NEW FINANCING FACILITIES:**

As stated in the Group's AiM admission document, Peachtree in January 2006 closed on a new credit facility for US\$225 million to facilitate purchases of life settlement policies.

Subsequent to year end, Peachtree also signed a term sheet for a US\$50 million facility to fund its growing pre-settlement funding business indicating that the product demand has grown to warrant a dedicated credit facility rather than use of its own funds. This facility will allow us to refinance and immediately monetize over US\$10 million of receivables currently held on balance sheet.

Peachtree has also amended a US\$30 million structured facility to enhance its existing facility allowing us to finance certain non-conforming receivables. This facility will allow Peachtree to refinance and immediately monetize another US\$8 million of receivables currently held on balance sheet.

**OUTLOOK:**

By focusing on high quality illiquid assets that are individually held, Peachtree has been able to capitalize on liquidity mis-matches which often exist. By bringing the capital markets to bear in these areas Peachtree has been able to achieve significant returns on investment in relatively large but under penetrated markets. By continuing to improve on our access to the capital markets, financing rates and terms available to us, and by focusing on customer service, Peachtree can continue to be the leader in personal factoring.

We are dedicated to increasing our penetration of key markets (Life Settlements, Structured Settlements) while continuing to innovate (Premium Financing, Pre-Settlements).

The new facility put in place in the life settlement division has greatly strengthened our competitive position and the early indications are that this is greatly assisting in the growth of the business. Originations in structured settlements and our other lines of business are in line with the Board's expectations. The Company completed a structured settlement securitization in March 2006, and the Board anticipates two securitizations in the second half of the current year, one in structured settlements, one in life settlements, which under the accounting guidelines to be adopted in 2006 will result in profits in the current year being weighted towards the second half. The business is strongly cash generative and the Board anticipates paying a dividend of at least US\$0.192 per share in the current year.

Our strategy of diversification (but not at the expense of product specific focus) has enabled Peachtree to grow robustly while maintaining market leading positions. 2006 has started off well and we anticipate continued growth in our core divisions and substantial expansion in some of our newer business lines.

A handwritten signature in black ink, appearing to read "Dermot Smurfit".

**Dermot Smurfit**  
Chairman

A handwritten signature in black ink, appearing to read "James D. Terlizzi".

**James D. Terlizzi**  
CEO

# FINANCIAL REVIEW

## SUMMARY OF FINANCIAL REVIEW

- Adjusted revenues increased by 43% to US\$96.2 million (2004: US\$67.3 million)
- PBT of US\$37.1 million increased 112% (2004: US\$17.5 million)
- The Group generated cash flow from operating activities of \$53.4 million in 2005
- Structured Settlement revenue increased by 43% to US\$52.4 million (2004: US\$36.6 million)
- Life Settlement revenue increased by 84% to US\$22.5 million (2004: US\$12.2 million)
- Board's intention to pay a dividend of not less than US\$20 million in the current year

EARNINGS PER UNIT:	
EARNINGS PER UNIT:	
NUMERATOR – NET INCOME PER THE COMBINED STATEMENT OF OPERATIONS	\$37,456,799
ADJUST FOR NET LOSS OF LIFE SETTLEMENT CORPORATION, OWNED BY OTHER SHAREHOLDERS	946,806
NET INCOME AVAILABLE TO UNIT HOLDERS	\$38,403,605
DENOMINATOR FOR BASIC AND DILUTED EARNINGS PER UNIT – WEIGHTED-AVERAGE UNITS OUTSTANDING	
	10,000,000
BASIC AND DILUTED EARNINGS PER UNIT	\$3.84
PRO FORMA EARNINGS PER COMMON SHARE:	
DENOMINATOR FOR BASIC AND DILUTED EARNINGS PER COMMON SHARE – WEIGHTED-AVERAGE SHARES OUTSTANDING	
	100,000,000
BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$0.384

The year ending December 31, 2005 was a highly successful period for the Peachtree Group as we substantially increased net income, sustained continued growth in our pretax margin and improved our ability to generate cash. Our business is strong and we are well positioned to add shareholder value through continued solid earnings growth and strong operational efficiency.

### OPERATING RESULTS

Revenues of \$114.7 million reflect an increase of \$22.2 million or 24% in calendar year 2005 (2004: \$92.6 million). Adjusted revenue<sup>(1)</sup> of \$96.2 million increased \$28.8 million or 43% (2004: \$67.3 million). Approximately 80% of our revenues were derived from the Structured Settlement and Life Settlement divisions, which generated \$52.4 million and \$22.5 million, respectively. Revenue from the purchase and resale of Structured Settlements increased \$15.8 million or 43% over the prior year (2004: \$36.6 million) and Life Settlement revenue increased \$10.2 million or 84% over the prior year (2004: \$12.2 million).

Operating expenses of \$77.7 million reflect an increase of \$2.6 million or 3% in calendar year 2005 (2004: \$75.1 million). Adjusted operating expenses of \$59.1 million<sup>(1)</sup> increased \$9.2 million or 19% (2004: \$49.9 million). Salaries and Related Costs, and Marketing and Advertising are our two largest categories of expense at \$22.6 million and \$12.9 million, respectively. These expense categories increased 16% and 38%, respectively, against prior year expenditures. Combined, these two categories represent 60% of total adjusted operating expense for the year (2004: 58%).



“2006 has started off well and we anticipate continued growth in our core divisions and expansion of our newer business lines”

\$000's	2005	2004	2003	2002
TOTAL REVENUE	114,723	92,559	84,753	48,041
ADJUSTED REVENUE	96,166	67,347	48,419	30,777
NET INCOME	37,457	17,420	8,538	1,187
TOTAL ASSETS	391,371	375,778	309,984	195,506
TOTAL LIABILITIES	329,800	324,773	279,359	176,102
TOTAL MEMBERS' EQUITY	61,571	51,005	30,625	19,404

Income before taxes for the year was \$37.1 million representing an increase of \$19.6 million or 112% over the prior year (2004: \$17.5 million). Our pre-tax margin on adjusted revenue for 2005 was 39% (2004: 26%). Our continued focus on growth, improving operational efficiency and leveraging our scalable originations platform produced a 51% improvement in our pre-tax margin. After-tax net income of \$37.5 million reflects an increase of \$19.6 million or 115% (2004: \$17.4 million).

#### TAXATION

At December 31, 2005, the Peachtree Group consisted primarily of limited liability companies most of which are disregarded for income tax purposes. The Peachtree Group includes approximately five taxable entities for which the cumulative 2005 tax provision resulted in a tax benefit of \$385,000.

#### EARNINGS PER UNIT / EARNINGS PER SHARE

At December 31, 2005, the Peachtree Group was organized as a limited liability company with 10 million units of membership outstanding. On March 30, 2006, immediately prior to flotation as Peach Holdings, Inc. ("PHI") on the AiM of the London Stock Exchange, the Peachtree Group completed a restructuring resulting in the issuance of 10 shares of PHI in exchange for each unit of Peach Holdings, LLC. The table on page 8 sets forth the computation of basic and diluted earnings per unit for the year ended December 31, 2005 and the pro forma earnings per share as though the above-referenced exchange of shares occurred on December 31, 2005. The table on page 8 does not reflect earnings per share based on shares outstanding after commencement of dealings in PHI shares on AiM.

#### DIVIDEND

The Peachtree Group paid dividends of \$32 million in 2005. The Company's progressive dividend policy reflects its long-term earnings and cash flow potential, while maintaining an appropriate level of dividend cover. Absent unforeseen circumstances, the Company intends to pay an aggregate dividend of \$20 million for the year ended December 31, 2006.

#### FINANCING AND CASH FLOW

The Peachtree Group generated cash flow from operating activities of \$53.4 million in 2005. The Peachtree Group's unrestricted cash position at year end was \$5.8 million (2004: \$8.7 million).

During the period, the Peachtree Group incurred capital expenditures of \$2.3 million (2004: \$1 million) and had a depreciation charge of \$0.6 million. The Peachtree Group has modest capital expenditure requirements and will commit to major items of capital investment only after thorough analysis. The capital expenditures relate primarily to the acquisition of technology equipment and certain furniture and fixtures related to the relocation of corporate headquarters completed April 7, 2006.

#### EVENTS SUBSEQUENT TO YEAR END

Flotation – On March 30, 2006 the Peachtree Group was admitted to the AiM of the London Stock Exchange. Immediately prior to flotation, the Peachtree Group completed a restructuring resulting in the issuance of 10 shares of stock of Peach Holdings, Inc., a Florida corporation formed in February 2006, in exchange for each membership unit of Peach Holdings, LLC. The restructuring also caused Peach Holdings, Inc. to become the sole

## FINANCIAL REVIEW

“  
 We continue to focus on growth,  
 improving operational efficiency  
 and leveraging our scalable  
 originations platform.  
 ”

ADJUSTED REVENUE EXCLUDING ISTS	2005	2004	2003	2002
TOTAL REVENUE	\$114,723,311	\$92,559,000	\$84,753,000	\$48,041,000
LESS: INTEREST & DIVIDEND FROM ISTS	(8,905,900)	(8,319,000)	(4,762,000)	(3,673,000)
LESS: INSTALLMENT OBLIGATION GAIN				(13,591,000)
LESS: NET REALIZED AND UNREALIZED GAINS ON ISTS INVESTMENTS	(9,650,950)	(16,893,000)	(31,572,000)	—
ADJUSTED REVENUE EXCLUDING ISTS REVENUES	\$96,166,461	\$67,347,000	\$48,419,000	\$30,777,000

shareholder of Peach Holdings, LLC. For the benefit of the shareholders of Peach Holdings, Inc. and in order to provide a more informative comparison of current year performance against prior years, the data presented for years prior to 2005 is consistent with the presentation of results for such prior years as set forth in the Prospectus and admission to AiM document.

**Securitization** – The Company completed its 4th asset-backed securitization of structured settlement receivables in March 2006 in the amount of \$105 million. The securitization was rated AAA by Standard & Poor’s and was nearly four times over subscribed.

**Accounting Change** – On or about March 27, 2006, the staff of the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FTB 8-5-4-1. The FASB Staff Position (FSP) provides initial and subsequent measurement guidance and financial statement presentation and disclosure guidance for purchases by third-party investors in life settlement contracts.

Pursuant to FTB 8-5-4-1, the Peachtree Group, as purchaser of life settlement contracts may elect to account for its purchases using the “fair value method”. The fair value method provides that the purchaser shall recognize the initial investment at the transaction price. In subsequent periods, the investor shall re-measure the investment at fair value in its entirety at each reporting period and shall recognize changes in fair value in earnings. Under the prior method, Peachtree was required to recognize the purchase at the cash surrender value of the policy which is a value that is typically materially below the transaction price. The difference between the transaction price and the cash surrender value is expensed in the period the life settlement contract is acquired.

The Peachtree Group is making an election to account for its purchases of life settlement contracts using the fair value method.



**Timothy Trankina**  
 President

**Notes:**

1) Included in total revenue are amounts in respect of the Installment Sale Transaction Structure (“ISTS”). Peachtree issues installment obligations as consideration on the purchase of certain lottery prize winnings and other assets. Peachtree subsequently sells the assets generating cash. The installment obligations provide investment returns based on the specified index profiles selected by the obligation holders. Funds generated from Peachtree’s sale of the assets are invested by Peachtree in the same index profiles and accordingly the changes in the installment obligation liabilities are matched by the investment returns.

Although the investment fluctuations from this structure have not had an impact on net income (ISTS revenue is offset by an equal ISTS expense), the total revenue has fluctuated according to the investment returns on this program. Over the four year period ended December 31, 2005, adjusted revenue excluding ISTS revenues are shown in the table above.

2) Historically, no consolidated audit has been performed for the Group as a whole, although a number of the companies making up the Group have been audited. For 2005, a combination of Life Settlement Corporation and the remaining consolidated group was completed. In order to provide a consistent view of the Group’s performance over the prior years, the information contained herein has been presented in the manner set forth in the Group’s documents submitted in conjunction with its admission to the AiM of the London Stock Exchange (Admission Document). The Admission Document is available for inspection by contacting the Company’s Nominated Advisor, Collins Stewart Limited.

## BOARD OF DIRECTORS



### DERMOT SMURFIT

#### Non-Executive Chairman

Dr. Smurfit is the recently retired Chairman of Smurfit Europe (paper, paperboard and packaging). He was joint deputy Chairman of Jefferson Smurfit Group PLC (paper, paperboard and packaging) from January 1994 to January 2003, Chairman and chief executive of Jefferson Smurfit's European operations from 1994 to 1997, and Director of sales and marketing from 1997 to 2003. Additionally, Dr. Smurfit had held a number of senior positions within Jefferson Smurfit. Dr. Smurfit is President of FEFCO and Chairman of WCO, both paper related trade bodies, and recently retired from the board of the Confederation of European Paper Industries (CEPI). Dr. Smurfit is Chairman of Eurolink Motorways Operations Ltd (toll road operator) and Powerflute Oy (paper mfg.) and a director of ACE Ltd. (insurance/reinsurance). During 2005 Dr. Smurfit resigned as Chairman of Anker PLC (an AiM listed electronic point-of-sale company) following its sale.



### JAMES TERLIZZI

#### Chief Executive Officer – Executive Director

In 1993, Mr. Terlizzi formed JUA Funding Corporation, a company that focused on purchasing settled personal injury claims. Subsequently, Mr. Terlizzi arranged for a joint venture between JUA Funding Corporation and Enhance Financial Services Group ("Enhance") a then NYSE listed insurance holding company that is currently part of the Radian Group. In 1995 Mr. Terlizzi was hired by Enhance to create, develop and manage Enhance's structure settlements department through their subsidiary, Singer Asset Finance Company, LLC ("Singer"). In 1998, Mr. Terlizzi left Singer and joined Peachtree and COO and later became CEO. Mr. Terlizzi's responsibilities include overseeing the development and deployment of all credit facilities for existing and new business activities. Mr. Terlizzi graduated from Rutgers College at Rutgers University with a B.A. in economics in 1986 and then attended Rutgers University Law School where he earned his J.D. in 1989.



### TIMOTHY TRANKINA

#### President – Executive Director

Mr. Trankina founded Peachtree in 1996 and is currently the Company's President. Prior to founding Peachtree, Mr. Trankina was employed by PriceWaterhouse, where he provided tax consulting and transactional structuring advice to major corporations and high net worth individuals. Mr. Trankina also has experience at IBM and Arthur Andersen LLP. His current responsibilities at Peachtree include managing ISP operations, deployment of the Leveraged Bonus Plan business line and financing and structuring certain other business opportunities. Mr. Trankina is also actively involved in managing the Company's accounting and servicing departments and is directing significant improvements in these areas. Mr. Trankina has a B.A. in Economics from Rutgers College at Rutgers University and a law degree and M.B.A. from Georgia State University. Mr. Trankina is also a Certified Public Accountant.



### ANTHONY MITCHELL

#### Chief Operating Officer – Executive Director

In 1993, Mr. Mitchell co-founded Singer and entered into an exclusive funding arrangement with Enhance. In 1997, Enhance acquired Singer. Mr. Mitchell remained an officer of the new entity and held a seat on the company's board of directors. Over the next two years, Singer purchased over \$300 million of receivables. Mr. Mitchell was a key member of the team that first securitized assets in the lottery prize winnings and structured settlements asset classes. In February 2001, Mr. Mitchell joined Peachtree as Chief Operating Officer. His current responsibilities include overseeing personnel related issues and the management and operations of the Company's structured settlements business. Mr. Mitchell is also involved in the Company's life settlements business.



### MITCHELL HOLLIN

#### Non-Executive Director

Mr. Hollin served as a Director of Peach Holdings, LLC since 2004. Mr. Hollin is a Partner of LLR Partners Inc., an independent private equity firm, which he joined in 2000. LLR Partners, Inc. manages a series of affiliated funds totalling \$620 million of capital. From 1994 until joining LLR Partners Inc., Mr. Hollin was a founder and Managing Director of Advanta Partners, LP, a private equity firm affiliated with Advanta Corporation. Prior to his involvement with Advanta Partners, LP, Mr. Hollin was a Vice President of Cedar Point Partners LP, a middle market buyout firm and before that, an Associate at Patricof & Co. Ventures, Inc., an international venture capital firm. Mr. Hollin received a B.S. in Economics and a M.B.A. from the Wharton School of the University of Pennsylvania.



### BRUCE CROCKETT

#### Non-Executive Director

Mr. Crockett is Chairman of Crockett Technologies Associates (consulting) and a private investor. Mr. Crockett served as President and Chief Executive Officer of Comsat Corporation (COMSAT) (information services) from February 1992 to July 1996 and as President and Chief Operations Officer of COMSAT from April 1991 to February 1992. As an employee of COMSAT since 1980, Mr. Crockett held various other operational and financial positions including Vice President and Chief Financial Officer. Mr. Crockett is Chairman of the AiM family of Mutual Funds, is Chairman of the board of Captaris, Inc. and a director of ACE Ltd. Mr. Crockett is also a senior trustee of the University of Rochester.

# DIRECTORS' REPORT

## PRINCIPAL ACTIVITIES

The principal activities of the Company have been the acquisition of high-quality deferred payment obligations/receivables from the individual holders of same. The receivables purchased fall into three principal business lines – structured settlements, life settlements and lottery prize winnings. In addition, the Company has three smaller business lines – senior premium financing, pre-settlement funding and the Leveraged Bonus Plan®.

## REVIEW OF BUSINESS AND FUTURE PROSPECTS

The Company and Group have performed satisfactorily during the year and performance is in line with the Directors' expectations. The Directors expect the Group's activity levels to be sustained through the foreseeable future. A detailed review of the Group's performance, financial results and future development are contained within the Chairman and Chief Executive's Statement and the Financial Review.

## DIVIDENDS

The Directors intend to adopt a progressive dividend policy that will reflect the long-term earnings and cash flow potential of the Company, while maintaining an appropriate level of dividend cover.

Prior to its listing on AiM

The details of this dividend are found in the statement of accounts ending December 31, 2005 and found herein.

It is intended that the Company will pay a dividend in respect of current activities. In the absence of unforeseen circumstances, the Directors are intending an aggregate minimum dividend of \$20 million will be paid. All dividends will be paid in US Dollars.

However, the actual payment of future dividends, if any, and the amounts thereof, will depend upon a number of factors including, but not limited to, the amount of the Group's distributable profits, its capital expenditure, investment plans, performance against financial covenants and any other factors that the directors of the Company may deem relevant. As a result, the Company's ability to pay dividends in the future may be limited or its dividend policy may change.

## DIRECTORS

The following directors have held office since the initial AiM listing:

Dermot Smurfit – Non-executive director and Chairman

Bruce Crockett – Non-executive director

Mitchell Hollin – Non-executive director

James Terlizzi – Chief Executive Officer and Executive Director

Timothy Trankina – President and Executive Director

Antony Mitchell – Chief Operating Officer and Executive Director

None of the directors had a material interest in any contract of significance to which the Company, or its subsidiaries, was a part during the financial year. There were no contractual relationships between the non-executive directors and their companies and the Group since the flotation on AiM. Mitchell Hollin has a relationship with a significant shareholder (LLR) and thus will not be considered an independent director for purposes of the Combined Code. Dermot Smurfit is a shareholder and has a relationship with a significant shareholder (LLR) and thus will not be considered an independent director for purposes of the Combined Code.

## DIRECTORS' REMUNERATION

Companies trading on AiM are not required to provide a formal remuneration report. However, in line with current best practice, the Directors provide the following information to enable a better understanding as to how Directors' remuneration is determined.

The Board of Directors' Remuneration Committee is comprised of two non-executive directors and one executive director and meets at least three times per year. The Remuneration Committee is chaired by Bruce Crockett, an independent non-executive director (as defined under the Combined Code).

Benefit packages awarded

a mix of performance-related and non-performance related remuneration designed to provide incentive but not detract from the goals of good corporate governance. The total remuneration for the Executive Directors for the year ending December 31, 2005 was US\$1,660,000.00. The specifics of the Directors' remuneration are set forth below:

### **JAMES TERLIZZI – EXECUTIVE DIRECTOR**

Settlement Funding, LLC has entered into an Executive Employment Agreement dated December 17, 2004 with James Terlizzi. The agreement provides for Mr. Terlizzi to be employed as the Chief Executive Officer at a base salary of \$125,000.00 (anticipated to increase to \$300,000.00 upon approval of the Remuneration Committee) per year. In addition, Mr. Terlizzi may receive a discretionary bonus of between 0 and 3 times his base salary, and he is entitled to such other employment benefits as are offered to all other senior executives of Settlement Funding, LLC. The agreement has an initial term of one (1) year from the date of election and will renew automatically for successive one (1) year terms unless notice of non-renewal is given by either party. The agreement may also be terminated by either party by giving ninety (90) days notice. During the term of the agreement, Mr. Terlizzi will not engage in any business activities or business ventures that compete with Settlement Funding, LLC, except that he may own up to five (5) percent of the stock of any business which has traded stock. For two (2) years after the termination of the agreement, Mr. Terlizzi will not solicit any employee or customer (including prospective customers) of Settlement Funding, LLC.

### **TIMOTHY TRANKINA – EXECUTIVE DIRECTOR**

Settlement Funding, LLC has entered into an Executive Employment Agreement dated December 17, 2004 with Timothy Trankina. The agreement provides for Mr. Trankina to be employed as an Executive Director at a base salary of \$150,000.00 per year. In addition, Mr. Trankina is entitled to incentive compensation equal to ten (10) percent of Settlement Funding, LLC's Structured Settlement Division net cash income (excluding incentive compensation for senior executives). Mr. Trankina is also entitled to incentive compensation equal to five (5) percent of net cash income (exclusive of the net cash income attributable to the Structured Settlement Division) of the calendar year; provided, however, that incentive compensation shall not exceed \$1.0 million per calendar year.

The agreement has an initial term of three (3) years from the date of execution and will renew automatically for successive one (1) year terms unless notice of non-renewal is given by either party. The agreement may also be terminated by either party by giving ninety (90) days notice. During the term of the agreement, Mr. Trankin

own up to five (5) percent of the stock of any business which has traded stock. For two (2) years after the termination of the agreement, Mr. Trankina will not solicit any employee or customer (including prospective customers) of Settlement Funding, LLC.

### **ANTONY MITCHELL – EXECUTIVE DIRECTOR**

Antony Mitchell is an owner of Warburg Investment Corporation ("Warburg"). Settlement Funding, LLC and Warburg are parties to an Administrative Services, Lease and Consulting Agreement dated January 15, 2004 (the "Warburg Agreement"). Pursuant to the Warburg Agreement, the Company provides Warburg with (i) office space; (ii) equipment; and (iii) personnel, so far as these are available in Palm Beach County, Florida. The value of the provision of these facilities shall not exceed \$5,000.00 per month. In exchange, Warburg provides consulting services to Peachtree and currently receives a consulting fee of \$15,000.00 per month which is expected to increase to \$25,000.00 per month. In addition, it is expected that the Warburg Agreement will be modified to provide for a discretionary bonus of \$0 to \$900,000, such change being subject to approval of the Remuneration Committee. The Warburg Agreement shall last for one (1) year and will renew automatically for successive one (1) year terms. The Warburg Agreement provides that Antony Mitchell shall be the Chief Operating Officer of Settlement Funding, LLC and that Settlement Funding, LLC may terminate the Warburg Agreement at such time as Antony Mitchell no longer has a significant interest in Warburg. Save as disclosed above, the Warburg Agreement may only be terminated by one party if the other party is in breach of the agreement.

### **DERMOT SMURFIT – NON-EXECUTIVE DIRECTOR; CHAIRMAN**

Dermot Smurfit is engaged to be Non-Executive Director – Chairman of the Company, such appointment commencing on Admission. Unless terminated earlier by either party in accordance with the Letter of Appointment, Dr. Smurfit's initial appointment shall expire on the date of the Company's 2009 annual general meeting. Thereafter, Dr. Smurfit will be required to retire by rotation every three (3) years. Dr. Smurfit receives a fee of £100,000 per annum. The Company will also reimburse Dr. Smurfit for all expenses reasonably incurred in the proper performance of his duties. Dr. Smurfit also has the benefit of an option to purchase

### **BRUCE CROCKETT – NON-EXECUTIVE DIRECTOR**

Bruce Crockett is engaged to be a Non-Executive Director of the Company, such appointment commencing on Admission. Unless terminated earlier by either party in accordance with the Letter of Appointment, Mr. Crockett's initial appointment shall expire on the date of the Company's 2008 annual general meeting. Thereafter, Mr. Crockett will be required to retire by rotation every three (3) years. Mr. Crockett receives a fee of £30,000 per annum (plus £20,000 for chairing the Audit and Remuneration Committees). The Company will also reimburse Mr. Crockett for all expenses reasonably incurred in the proper performance of his duties.

### **MITCHELL HOLLIN – NON-EXECUTIVE DIRECTOR**

Mitchell Hollin is engaged to be a Non-Executive Director of the Company, such appointment commencing on Admission. Unless terminated earlier by either party in accordance with the Letter of Appointment, Mr. Hollin's initial appointment shall expire on the date of the Company's 2007 annual general meeting. Thereafter, Mr. Hollin will be required to retire by rotation every three (3) years. Should the aggregate shareholding of LLR and Greenhill fall below twelve (12) percent of the issued share capital of the Company, or the shareholding of LLR falls below seven and one-half (7.5) percent, Mr. Hollin may be required to retire without delay or hesitation. Mr. Hollin receives a fee of £30,000 per annum. The Company will also reimburse Mr. Hollin for all expenses reasonably incurred in the proper performance of his duties.

# DIRECTORS' REPORT

## DIRECTORS' INTEREST IN SHARES

The interests of the Directors in the shares of the Company were as follows:

Name	June 21, 06	December 31, 05 <sup>(1)</sup>
James Terlizzi	35,281,023	0
Timothy Trankina	4,471,011	0
Dermot Smurfit	161,812	0
Antony Mitchell	0	0
Mitchell Hollin	0	0
Bruce Crockett	0	0

<sup>1</sup> The Company was not formed until February 27, 06, and thus, as of December 31, 05, no Director held any shares of Peach Holdings, Inc.

## EMPLOYEE POLICY

The Group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Group.

The Group's employment policies include a commitment to equal opportunities regardless of sex, age, race, ethnic origin or other forms of discrimination.

It is the policy of the Group to give equal consideration to all applicants of the applicants concerned. In the event an employee becomes disabled, every effort is made to ensure their continued employment within the Group and to provide specialized training where appropriate.

## CREDITOR PAYMENT POLICY

It is the Group's policy to agree to terms with suppliers which are appropriate for the markets in which they operate and to abide by such terms when the supplier has also met their obligations.

## DIRECTORS' RESPONSIBILITIES

The Directors are, among other things, required to review and approve the financial statements prepared by the Company's auditors. These financial statements and the review process is intended to confirm that the financial statements for each fiscal year give a true and fair view of the state of the financial affairs of the Company and the profit and loss of the Group for that period. The Directors' review also serves to confirm that the financial statements of the Group have been prepared on a going concern basis unless it would be inappropriate to presume that the Group would continue in business.

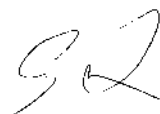
The Directors confirm that suitable accounting policies have been used and applied consistently throughout the year. They confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the year ending December 31, 2005 and that applicable accounting standards have been followed. The financial statements have been prepared in accordance with US GAAP.

The Directors are also responsible for the preparation of the financial statements and other irregularities.

## AUDITORS

McGladrey & Pullen, LLP have indicated their willingness to continue in office and a resolution proposing their reappointment will be made at the AGM.

By order of the Board.



**Craig M. Lessner**  
Company Secretary  
June 22, 2006



# CORPORATE GOVERNANCE

## INTRODUCTION

The Company was listed on AiM on March 30, 2006. Although the rules of AiM do not require the Company to comply with the Combined Code on Corporate Governance (the "Code"), the Company fully supports the principles set out in the Code and will seek to comply with them whenever practical, given both the size and resources available to the Company. Details are provided below of how the Company applies those parts of the Code which it believes to be appropriate.

## THE BOARD

The Company has appointed non-executive directors to be an independent view to the Board of Directors (the "Board"), and to provide a balance to the executive directors. The Board comprises three (3) executive directors and three (3) non-executive directors, one of whom is the chairman.

The Company considers Bruce Crockett to be independent within the meaning of the Code. The Company does not consider Dermot Smurfit and Mitchell Hollin to be truly independent within the meaning of the Code due to Dr. Smurfit's ownership of and option to purchase shares of the Company and Mr. Hollin's close relationship with a significant shareholder. As soon as practical, the Directors intend to appoint another non-executive director to the Board who will be independent.

The Board generally meets quarterly and receives a board pack comprising any relevant and timely individual reports from each of the executive directors together with any other materials deemed necessary for the Board to discharge its duties. The Board has responsibility for formulating, reviewing and approving the Group's strategy, budgets, major items of expenditure and acquisitions.

## BOARD COMMITTEES

On March 24, 2006 the Board established three (3) committees: audit, remuneration and nomination. All committees have written terms of delegated responsibilities.

### AUDIT COMMITTEE

The Audit Committee consists of Bruce Crockett, Mitchell Hollin and Timothy Trankina, and is chaired by Bruce Crockett. It meets at least three (3) times per year and is responsible for, amongst other things, planning and reviewing the Company's annual report and accounts and interim statements and involve, where appropriate, the Company's auditors. The Committee will focus primarily on compliance with legal requirements and accounting standards. It is also responsible for ensuring that an effective system of internal controls is maintained. The ultimate responsibility for reviewing and approving the annual accounts and the interim statement remains with the Board of the Company.

### REMUNERATION COMMITTEE

The Remuneration Committee consists of Bruce Crockett, Mitchell Hollin and Timothy Trankina, and is chaired by Bruce Crockett. It meets three (3) times per year and has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the executive directors.

### NOMINATION COMMITTEE

The Nomination Committee consists of Bruce Crockett, Mitchell Hollin and James Terlizzi, and is chaired by Mitchell Hollin. Amongst other matters, it is responsible for considering and making recommendations on the appointment of additional directors, the retirement of existing directors and for reviewing the size, structure and composition of the Board and membership of the Board Committees.

## SHAREHOLDER RELATIONS

The Company meets shareholders. The Company welcomes feedback from investors about its published reports. Please address your feedback to the investor relations team by e-mail to [investors@peachholdings.com](mailto:investors@peachholdings.com), or in writing to the Corporate Headquarters, Attn: Investor Relations.

## INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for the system of internal controls, for reviewing their effectiveness and intends to continue to develop and review such systems in accordance with the appropriate Code guidelines. The internal controls system will be designed to manage rather than eliminate the risk of failure to

The Company does not have an internal audit function due to the high level of executive review and authorization of transactions.

The Board recognizes that an essential part of its responsibilities is the effective safeguarding of Company assets, the proper recognition of liabilities and the accurate reporting of results. The Company has a comprehensive system for regular reporting to the Board. This includes annual planning and budgeting systems. The financial reporting system compares against budget and prior year and reconsiders its financial year forecast on a quarterly basis.

The Board has established a formal policy of determining matters which requires its express approval and which matters and authority may be designated to the executive directors.

In compliance with and connected persons.

The Company maintains the Group, and it regularly reviews the adequacy of cover for such items.

# CONSOLIDATED BALANCE SHEETS

as at December 31, 2005

	Note	2005	2004
<b>ASSETS</b>	8		
Cash		\$5,818,693	\$8,734,014
Restricted cash		3,232,930	2,095,327
Marketable securities		307,772,266	293,261,743
Finance receivables held for sale, net	3	18,328,064	16,097,515
Finance receivables, net	4	9,950,592	1,565,470
Advances receivable, net	4	1,082,055	1,869,266
Other receivables		5,492,038	5,664,317
Due from affiliates	12	1,562,583	5,907,236
Retained interest in receivables sold	5	31,344,950	34,854,633
Equipment and leasehold improvements, net	6	2,929,784	1,190,401
Other assets		3,857,126	4,537,816
<b>Total assets</b>		<b>\$391,371,081</b>	<b>\$375,777,738</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses		\$10,564,406	\$9,227,069
Unremitted asset servicing collections		994,519	1,756,222
Escrows held on contracts		615,156	512,259
Swap liabilities	9	403,069	796,192
Other liabilities		1,173,691	3,294,412
Installment obligations payable	7	308,221,416	296,627,199
Borrowing under line of credit	8	7,827,430	12,559,585
<b>Total liabilities</b>		<b>\$329,799,687</b>	<b>\$324,772,938</b>
<b>Members' equity</b>	10		
Paid-in capital		\$5,201,886	\$5,201,886
Retained earnings		39,005,610	33,548,811
Accumulated other comprehensive income		17,363,898	12,254,103
<b>Total members' equity</b>		<b>\$61,571,394</b>	<b>\$51,004,800</b>
<b>Total liabilities and members' equity</b>		<b>\$391,371,081</b>	<b>\$375,777,738</b>

# CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended December 31, 2005

	Note	2005
<b>REVENUES</b>		
Gain on sales of receivables	5	\$54,105,743
Life settlement origination fee income	13	22,472,421
Other fee income		11,465,421
Interest and dividend income		14,316,822
Net realized and unrealized gains on investments		9,650,950
Servicing and other revenue	12	2,711,954
Total revenues		\$114,723,311
<b>OPERATING EXPENSES</b>		
Salaries and related costs		\$22,587,145
Consulting fees		3,025,000
General and administrative		7,148,021
Professional fees		7,514,716
Broker fee expense		205,748
Occupancy		1,768,695
Marketing and advertising		12,882,198
Postage and courier		715,500
Interest expense		904,265
Provision for loss on receivables		384,499
Losses on acquisition of life settlements		1,958,626
Installment obligation expense		18,556,850
Total operating expenses		\$77,651,263
<b>INCOME BEFORE TAXES</b>		\$37,072,048
Provision for income taxes (benefit)	11	(384,751)
<b>NET INCOME</b>		\$37,456,799

# COMBINED STATEMENT OF CHANGES IN MEMBERS' EQUITY

for the year ended December 31, 2005

	Note	Members' equity	Retained earnings	Accumulative other comprehensive income	Total members' equity
Balance, December 31, 2004		\$5,201,886	\$33,548,811	\$12,254,103	\$51,004,800
<b>Comprehensive income</b>					
Net income		—	37,456,799	—	37,456,799
Other comprehensive income					
Unrealized gain on retained interest on receivables sold	5	—	—	5,109,795	5,109,795
Total comprehensive income					\$42,566,594
Dividends paid		—	(32,000,000)	—	(32,000,000)
Balance, December 31, 2005		\$5,201,886	\$39,005,610	\$17,363,898	\$61,571,394

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2005

2005

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## Cash flows from operating activities

Net income	\$37,456,799
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	584,992
Provision for losses on receivables and life settlements	2,343,125
Mark to market swap accrual	(393,123)
Deferred income taxes	(688,000)
Proceeds from sale of finance receivables held for sale	136,787,699
Gain on sale of finance receivables held for sale	(54,105,743)
Purchase of finance receivables held for sale	(74,536,485)
Increase in trading securities	(14,510,523)
Interest accretion on retained interests	(2,117,202)
Installment obligation expense	18,556,850
Net decreases (increases) in assets	
Restricted cash	(1,137,603)
Advances receivable	818,364
Other receivables	(3,197,493)
Due from affiliates	4,344,653
Other assets	1,531,065
Net increases (decreases) in liabilities	
Accounts payable and accrued expenses	4,396,573
Unremitted asset servicing collections	(761,703)
Escrows held on contracts	102,897
Other liabilities	(2,120,721)
Net cash provided by operating activities	\$53,354,421

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## Cash flows from investing activities

Originations and collections on finance receivables, net	\$(9,061,405)
Payment for purchase of pre-settlement receivables business	(3,059,236)
Collections of retained interest in receivables sold	621,290
Purchase of life settlements	(2,121,000)
Purchases of equipment and leasehold improvements	(2,324,375)
Net cash used in investing activities	\$(15,944,726)

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# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2005

2005

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## CASH FLOWS FROM FINANCING ACTIVITIES

Borrowings under lines of credit	\$27,325,470
Repayments under lines of credit	(32,057,625)
Issuance of installment obligations payable	32,512,980
Repayments of installment obligations payable	(39,475,613)
Cash received for installment obligations payable	3,369,772
Cash distribution to owners	(32,000,000)

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Net cash used in financing activities	\$(40,325,016)
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Decrease in cash	\$(2,915,321)
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Cash at beginning of year	8,734,014
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Cash at end of year	\$5,818,693
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## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$900,377
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Cash paid for income taxes	\$92,927
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## SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY:

Retained interests in receivables sold recognized upon sale of finance receivables	\$10,380,031
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Adjustment of retained interests in receivables sold to fair value	5,109,795
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Recognition of receivables and derecognition of retained interest from Peachtree Finance Company upon disqualification of status as qualified special purpose entity	\$7,961,274
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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. ORGANIZATION AND DESCRIPTION OF BUSINESS ACTIVITIES

Peach Holdings, LLC (the "Company") was formed pursuant to an Operating Agreement dated December 21, 2004 between Peachtree Settlement Funding Corporation ("PSFC"), Funding Investors, LLC ("FI"), LLR Equity Partners, LP and its affiliates ("LLR"), and Greenhill Capital Partners, LP and its affiliates ("Greenhill") (collectively

in the Company's subsidiaries (with the exception of Life Settlement Corporation) in exchange for 7.0% and 70.5% interests in the Company, respectively, represented by 697,500 and 7,052,500 common units of membership. Simultaneously, a 22.5% equity interest in the Company was sold to LLR and Greenhill (the "Investment Partners"), represented by 2,250,000 Series A convertible preferred units of membership for \$40,000,000 in cash, of which \$35,000,000 was distributed to the common unit holders in accordance with the agreement with the Investment Partners. Members of the Company's management group wholly own PSFC and FI.

Subsequent to December 31, 2005, the members of the Company formed a new holding company, Peach Holdings, Inc. ("PHI"), and contributed 100% of their membership interests in the Company, resulting in PHI becoming sole owner of the Company.

The Company, operating through its subsidiaries and affiliates, is a specialty finance and factoring company with offices in Boynton Beach, Florida (prior to April 7, 2006, Boca Raton, Florida) and Norcross, Georgia. The Company provides liquidity to individuals with financial assets such as structured settlements, lottery prize receivables, life insurance policies, annuities, business receivables, and others by either purchasing these financial assets for a lump-sum payment, issuing installment obligations payable over time, or serving as a broker to other purchasers of financial assets. The Company also provides premium financing to purchasers of life insurance policies, pre-settlement funding, and warehousing or securitization of certain of these financial assets. The Company purchases receivables throughout the United States of America.

### Structured Settlements

A structured settlement refers to the settlement of a personal injury claim with a series of future installment payments. In many instances claimants wish to monetize some of the proceeds from the settlement. The seller and buyer seek the court's approval of the transaction. Upon issuance of a court order approving the sale and ordering the settlement obligor to make the structured settlement payments to the Company, the Company effectuates the purchase of the structured settlement. The purchase price for a structured settlement represents the present value of the future payments purchased using a discount rate negotiated with the seller.

Generally on a semi-monthly basis, all structured settlements purchased are sold and transferred to a qualified special-purpose entity ("QSPE"). The proceeds from the sale consist of cash and a retained interest in the receivables sold. The discount rate used to determine the cash proceeds is based on rates specified by the QSPE's funding source, the beneficial interest holder in the QSPE. The discount rate used to determine the amount of the retained interest is generally based on market rates commensurate with the risk involved.

The Company provides cash collection and payment services to the QSPEs for a fee that is considered to be adequate compensation for the services provided.

### Lottery Winnings

The purchase of annuitized lottery winnings is substantially similar to the purchase of structured settlement payments.

Lottery prize payments are purchased and are either sold to third party institutional investors with no interest retained by the Company or sold and transferred to an affiliated qualified special-purpose entity ("QSPE"). The Company earns broker's fees for facilitating sales to third party investors.

The proceeds from the sale to the affiliated QSPE consist of cash and a retained interest in the receivables sold. Both the cash proceeds and the amount of the retained interest are determined based on the present value of the payments purchased by the QSPE. The discount rate used to determine the cash proceeds is based on rates specified by the QSPE's funding source, the beneficial interest holder in the QSPE. The discount rate used to determine the amount of the retained interest is generally based on market rates commensurate with the risk involved.

In prior periods, such receivables were sold and transferred to a separate affiliated special-purpose entity, Peachtree LW Receivables I ("PLW"). Those transfers did not meet the criteria to be accounted for as sales and PLW does not meet the criteria to be considered a QSPE, therefore those receivables are included in finance receivables held for sale in the accompanying financial statements. In 2005, the Company did not transfer any lottery receivables to PLW.

### Life Settlements

Through Life Settlement Corporation, the Company provides liquidity to persons or entities that own life insurance policies by facilitating the sale of their policies to trusts in which the Company owns the Unified Trust Interest. In turn, the trusts transfer Special Undivided Beneficial Interests (of which the Company has no interest) in the policies to unrelated parties to raise funds for the purchase of the policies. The Company also performs servicing functions related to mortality tracking and monthly reporting. The Company earns origination and servicing fees related to the life settlement transactions. Fees are based on a percentage of the net death benefit of the underlying life insurance policies.

The Company formed DLP, a special-purpose entity and subsidiary effective December 23, 2005. DLP will obtain funding from unrelated third parties for the purpose of acquiring and holding life settlements.

### Installment Sale Transaction Structure

Through its patented installment sale transaction structure (the "Structure"), the Company provides financing alternatives and deferred tax treatment for certain transactions that qualify for installment sale treatment under the federal tax code (such as the sale of real estate, business assets, certain services-based receivables, and lottery winnings). In the case of lottery winnings, the Structure is marketed under the name Asset Advantage<sup>®</sup> by the Company's internal purchasing personnel. For transactions involving all other assets, the Structure is marketed under the name WealthBuilder<sup>®</sup> via a network of CPAs and financial consultants. Assets involved in these transactions are acquired by Delaware statutory trusts and the proceeds from the monetization of these assets are invested. The trusts issue long-term installment obligations to the transferors of the assets. The Company earns initial facilitation fees and other ongoing fees in connection with these transactions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. ORGANIZATION AND DESCRIPTION OF BUSINESS ACTIVITIES (CONTINUED)

### Pre-Settlement Funding

The Company makes payments to litigants or attorneys in exchange for an assignment of a portion of the proceeds of pending litigation before a matter has been settled. The Company earns fees for such payments based on the amount of the payment and the time to recovery of the proceeds. Although these payments are not loans, fees are reported as interest income in the accompanying statement of operations.

### Premium Finance

The Company makes loans to life insurance trusts established by executives to purchase universal or whole life insurance policies. Interest on these loans is typically paid out of executive bonuses and the principal repaid through accumulated cash surrender value. This business line is financed with proceeds from a revolving line of credit. The Company earns origination fees and interest on each loan in addition to insurance commissions. In addition, the Company lends money or arranges for loans to life insurance trusts to purchase life insurance policies insuring older, high net worth individuals. The Company earns a broker fee on each transaction as well as interest on the advances. These transactions may be later converted to life settlement transactions at the discretion of the insured and trustee of the life insurance trust.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Combination

The combined financial statements include the accounts of the Company, its wholly-owned subsidiaries, excluding those subsidiaries that meet the criteria of Financial Assets and Extinguishments of Liabilities," and Life Settlement Corporation ("LSC"), a company affiliated through common ownership and management.

LSC is wholly owned by FI and PSFC, which companies own 77.5% of the Company. In addition, LSC is under common management with the Company. LSC's assets totaled approximately \$2.8 and 1.8 million at December 31, 2005 and 2004, respectively. Substantially all of LSC's assets are pledged as collateral for LSC's obligations. LSC's creditors have no recourse to the general credit of the Company. The net loss of LSC included in the combined statement of operations for the year ended December 31, 2005 was approximately \$947,000.

Wholly owned subsidiaries included in the combined financial statements are as follows:

Company name	Holding company
<b>FIRST TIER SUBSIDIARIES</b>	
DLP Funding, LLC	Peach Holdings LLC
Senior Settlement Holdings Corp	Peach Holdings LLC
Peachtree Financial Solutions LLC	Peach Holdings LLC
PSF Holdings LLC	Peach Holdings LLC
TATS Licensing Company LLC	Peach Holdings LLC
Settlement Funding LLC	Peach Holdings LLC
WealthLink Advisers LLC	Peach Holdings LLC
Peachtree LBP Finance Company LLC	Peach Holdings LLC
Peachtree SLPO Finance Company	Peach Holdings LLC
Peachtree Pre-Settlement Funding	Peach Holdings LLC
<b>SECOND TIER SUBSIDIARIES</b>	
Peachtree LW Receivables I LLC	Settlement Funding LLC
Peachtree Finance Company LLC	Settlement Funding LLC
Peachtree LBP Warehouse	Peachtree LBP Finance Company LLC
Peachtree Life & Annuity Group LLC	Peachtree Financial Solutions LLC

All material intercompany balances and transactions are eliminated in combination.

The Company is required to consolidate all variable interest entities for which the Company has been determined to be the primary beneficiary under Financial Accounting Standards Board Interpretation No. 46 (FIN 46). FIN 46 defines the primary beneficiary of a variable interest entity as the entity that is subject to a majority of the risk of loss from that variable interest entity's activities or entitled to receive a majority of the variable interest entity's residual returns or both. Life Settlement Corporation is required to be consolidated under FIN 46 and is included in the combined financial statements.

### Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee (or the beneficial interest holder, if the transferee is a QSPE) obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets (or the beneficial interests, if the transferee is a QSPE), and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity, or the ability to unilaterally cause the holder to return specific assets (or the beneficial interests, if the transferee is a QSPE). Transfers that do not meet the criteria to be accounted for as sales are accounted for as secured borrowings.

### Gains or Losses on Sales of Receivables

Gains or losses on sales of receivables are recognized based on the difference between the cash proceeds from the sale and the allocable portions of the carrying values of the receivables sold, determined based on the relative fair value of the portion sold and the portion retained.

Interest income on retained interest of the receivables. The dis

ows.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Restricted Cash

Restricted cash represents payments received by the Company, as servicer, on the purchased structured settlement payments or lottery prize payments. Amounts, less the servicing fee due to the Company, are due to QSPE's, lenders or, in the case of excess payments received, to the structured settlement claimant or lottery winner. Payments are made from the restricted cash accounts to the lenders and other appropriate parties on a monthly basis in accordance with the applicable loan agreements or indentures. At December 31, 2005, restricted cash also includes approximately \$1.2 million of income tax refunds received and held pending a determination of the amount to be allocated between the Company and the respective investment account in conjunction with a corresponding installment obligation to be issued under the Asset Advantage® transaction.

### Marketable Securities

Assets acquired through the Company's installment sale transaction structure are invested in a diverse portfolio of debt and marketable equity securities. Management has classified these investments as trading securities. Trading securities are held for resale in anticipation of fluctuations in market prices. Trading securities are stated at fair value with realized and unrealized gains and losses included in income.

Interest on debt securities is recognized in income as earned and dividend income on marketable equity securities is recognized in income on the ex-dividend date.

### Advances Receivable

Advances receivable represent cash payments made to sellers prior to the Company's funding the purchase of receivables from those sellers.

### Finance Receivables

The Company acquires receivables associated with structured settlement payments and lottery winnings from individuals in exchange for cash (purchase price). The difference between the gross cash to be received in the future and the purchase price represents unearned income to be recognized over the term of the receivable at a constant effective interest rate. These receivables are generally held for sale.

Other finance receivables include pre-settlement funding payments and insurance premium financing. Interest income on premium loans and pre-settlement payments is recognized over the terms of the loans or advances using the interest method based on principal amounts outstanding.

Fees charged upon the origination of finance receivables and certain direct origination costs, including personnel, travel, postage, legal fees and other associated costs, are deferred and the net amount is amortized on an interest basis over the contractual life of the related finance receivables.

### Finance receivables held for sale

and lottery payments held for sale that are not believed to be collectible are recognized as a reduction of cost, as though those payments have been charged-off.

### Allowance for Losses on Receivables

The Company on an ongoing basis reviews the ability to collect all outstanding receivables.

Management has established a set of policies it utilizes on a routine basis to determine the ability to collect all outstanding structured settlement and lottery payments receivable. These policies take into account the length of time a receivable is delinquent, the existence of a court order, the amount of excess collateral available to recover missed payments, historical loss experience and other subjective criteria. When the Company has determined that a scheduled payment receivable is impaired, the Company's

based on the discount rate utilized to determine the initial purchase price of the receivable.

The collectibility of other receivables is evaluated based on historical experience, evaluation of collateral, if applicable, and other subjective criteria, as described more fully in Note 4.

### Retained Interests in Receivables Sold

Retained interests in receivables sold represent subordinated interests retained by the Company upon sales of structured settlement payments to QSPEs. After initial recording at date of sale, the present value discounts determined at time of sale are accreted to interest income over the expected periods of collection. At each balance sheet date, the carrying amounts of the retained interests are compared to the estimated market values determined using discount rates commensurate with the risks involved. Differences between the carrying values and estimated market values represent unrealized appreciation or depreciation which is recorded

AS No. 115,

"Accounting for Certain Investments in Debt and Equity Securities."

The Company generally retains the right to service finance receivables sold to others. The fees received are believed to represent adequate compensation for the services performed and, therefore no servicing asset or liability has been recognized.

### Equipment and Leasehold Improvements

#### Equipment and leasehold

on management's estimate of useful lives, which range from three to ten years. Leasehold improvements are amortized using the straight-line method over the shorter of the term of the respective lease or the life of the improvement.

### Deferred Financing Costs

Costs incurred to obtain financing are deferred and amortized by the interest method over the expected life of the related credit facility and are included in other assets in the accompanying balance sheets. Amortization expense is included in interest expense in the statement of operations.

### Income Taxes

The Company is a Limited Liability Company ("LLC"), as are most of its subsidiaries. LLCs are not subject to federal or state income taxes; rather, the results of their operations are allocated to the individual members for inclusion in their federal and state income tax returns. Therefore, no provision for income taxes related to these entities is included in the accompanying financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

However, LSC and two of the Company's wholly owned subsidiaries are subject to income taxes and file separate income tax returns. Additionally, three trusts holding assets acquired through th and liability method; whereby, deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their income tax bases. Deferred tax assets are reduced by a valuation allowance, when in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

### Swap Liability

One of the Company's line of credit agreements contains a derivative instrument that is "embedded" in the financial instrument. The embedded swaps are designed by the lender as perfectly matched amortizing fixed for floating rate notional contracts which hedge interest rate risk. However, under current generally accepted accounting principles, it was determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, therefore

Interest rate swaps are recognized on the balance sheet at estimated fair value and changes in their fair value are recorded in current-period earnings. Since the Company has not de of operations.

### Other Revenue Recognition

Fee income in the combined

between the purchasing finance company and the seller is closed for the sale of finance receivables or upon the issuance of a life insurance policy for the origination of insurance policies. Origination fee revenue from life settlement transactions is recognized upon the transfer of life insurance policies to trusts, which coincides with the culmination of the earnings process. Servicing fee revenue is recognized as services are provided.

### Marketing and Advertising Expenses

Marketing and advertising costs are expensed as incurred.

### Earnings Per Unit

Earnings per unit has be converted to common

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant balance sheet account that could be affected by such estimates is the retained interests in receivables sold. Actual results could differ from these estimates.

### Transactions Between Entities Under Common Control

In a transfer of assets or exchange of shares between entities under common control, the assets and liabilities transferred are initially recognized by the acquirer at their carrying amounts in the accounts of the transferring entity at the date of transfer. Results of operations for the period in which the transfer occurs are reported as thou ference between the predecessor's cost and the cash disbursed or liability incurred is charged to retained earnings as dividends or credited to additional paid-in capital as a capital contribution.

### Recently Issued Accounting Statements

The Financial Accounting Standards Board issued FASB Staff Position No. FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors," (the FSP) on March

to acquisition. Under the FSP, the Company may elect to account for life settlements using either the investment method or the fair value method. Under the investment method, a life settlement contract will be carried at the total of the acquisition cost plus any continuing costs to keep the policy in force. Under the fair value method, a life settlement contract will be carried at its fair value. The Company will elect the investment method or the fair value method on an instrument-by-instrument basis and such election is irrevocable. The FSP is effective for fiscal years beginning after June 15, 2006. Earlier application is permitted as of the beginning of the Company's fiscal year (January 1, 2006). The Company will be assessing the impact of this accounting standard on the Company.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 ("SFAS 154"), Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3, which eliminates the requirement to reflect changes in accounting principles as cumulative adjustments to net income in the period of the change and requires retrospective application to prior periods' financial statements for voluntary changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. If it is impracticable to determine the cumulative effect of the change to all prior periods, SFAS 154 requires that the new accounting principle be adopted prospectively. For new accounting pronouncements, the transition guidance in the pronouncement should be followed.

In February 2006, the FASB issued SFAS 155, which applies to certain "hybrid financial instruments," which are instruments that contain embedded derivatives. The new standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments containing embedded derivatives requiring bifurcation. This new standard also permits an election for fair value re-measurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS 133. The fair value election can be applied on an instrument-by-instrument basis to existing instruments at the date of adoption and can be applied to new instruments on a prospective basis. This pronouncement will apply to the Company's financial statements for the period beginning January 1, 2007. Management will be assessing how SFAS 155 may impact the Company's financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In March 2006, the FASB issued SFAS 156, Accounting for Servicing of Financial Assets, which amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement requires among other things that an entity recognize a servicing asset or liability whenever it enters into a servicing contract, that all servicing assets and liabilities be initially measured at fair value, permits an entity to amortize servicing assets or liabilities in proportion to and over the period of net servicing income or measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur. The statement also permits (at its initial adoption) a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights. This statement is effective for fiscal years beginning after September 15, 2006. Management will be assessing how SFAS 156 may impact the Company's financial statements.

## 3. FINANCE RECEIVABLES HELD FOR SALE

Finance receivables held for sale as of December 31, 2005 and 2004 consist of the following:

	December 31, 2005	December 31, 2004
Finance receivables	\$36,641,055	\$35,971,037
Less unearned discount	(16,614,962)	(18,480,881)
Discounted receivables	20,026,093	17,490,156
Capitalized origination costs, net	309,108	368,376
Reserve for doubtful accounts	(2,007,137)	(1,761,017)
Finance receivables, net	\$18,328,064	\$16,097,515

Peachtree Finance Company (PFC), which previously met the requirements to be considered a QSPE, sold a majority of its receivables to a new QSPE on September 7, 2005 (at the request of its lender) and used the proceeds from the sale to retire its debt to the lender. As a result of this transaction, PFC no longer meets the requirements to be considered a QSPE and the receivables were reacquired.

Activity in the reserve for doubtful accounts was as follows for the years ended December 31, 2005 and 2004:

	December 31, 2005	December 31, 2004
Balance, beginning	\$1,761,017	\$2,393,584
Provision for loss	(260,631)	4,546,721
Receivable sale adjustments	517,132	(763,978)
Settlements and judgments	(10,381)	(4,415,310)
Balance, ending	\$2,007,137	\$1,761,017

There was approximately \$1,200,000 and \$1,500,000 of delinquent lottery payment receivables held at December 31, 2005 and 2004, respectively. Eleven transactions with approximately \$990,000 of delinquent receivables and approximately \$510,000 of future receivables with a discounted value of \$387,000 were identified as impaired at December 31, 2005. Fourteen transactions with approximately \$1,125,000 of the delinquent receivables and approximately \$1,185,000 of future receivables with a discounted value of \$635,000 were identified as impaired at December 31, 2004. The Company fully reserved for these receivables at the discounted value as of December 31, 2005 and 2004. The Company had approximately \$275,000 of interest foregone on the impaired lottery receivables during the year ended December 31, 2005.

There was a balance of approximately \$629,000 and \$112,000 of which were identified as impaired and fully reserved at December 31, 2005 and 2004, respectively. No income was recognized on impaired structured settlement payment receivables during the year ended December 31, 2005.

## 4. FINANCE AND ADVANCES RECEIVABLE

Finance receivables as of December 31, 2005 and 2004 consist of the following:

	December 31, 2005	December 31, 2004
Pre-settlement receivables	\$7,453,447	\$1,615,488
Less: deferred revenue	(527,344)	(50,018)
	6,926,103	1,565,470
Life insurance premium financing	3,600,772	—
	10,526,875	1,565,470
Less: reserve for doubtful accounts	(576,283)	—
Finance receivables, net	\$9,950,592	\$1,565,470

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. FINANCE AND ADVANCES RECEIVABLE (CONTINUED)

Activity in the reserve for doubtful accounts for finance receivables was as follows for the year ended December 31, 2005:

	December 31, 2005
Balance, beginning	—
Provision for loss	676,283
Receivables charged off	(100,000)
Balance, ending	\$576,283

Pre-settlement receivables are usually outstanding for a period of time exceeding one year. Based on historical portfolio experience, the Company has reserved approximately \$66,000 as of December 31, 2005. No reserve for losses was recognized as of December 31, 2004. Reserves for life insurance premium finance receivables are receivables were determined to be impaired, with specific reserves of approximately \$510,000 included in the reserve for doubtful accounts. No interest income was recognized on impaired receivables for the year ended December 31, 2005.

Advances receivable as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Lottery advances	\$1,028,184	\$1,805,728
Structured settlement advances	222,856	304,417
Other advances receivable	—	28,688
	1,251,040	2,138,833
Less: reserve for doubtful accounts	(168,985)	(269,567)
Advances receivables, net	\$1,082,055	\$1,869,266

Activity in the reserve for doubtful accounts for advances receivable was as follows for the years ended December 31, 2005 and 2004:

	December 31, 2005	December 31, 2004
Balance, beginning	\$269,567	\$128,229
Provision for loss (recovery)	(31,153)	208,145
Receivables charged off	(69,429)	(66,807)
Balance, ending	\$168,985	\$269,567

The Company's lottery and structured settlements businesses in some cases will advance a portion of the purchase price to a customer prior to the closing of the transaction. These transactions usually close within 90 days and the advances are repaid at the time of closing. Based on historical experience, as transactions exceed 180 days, the Company reserves

100% of all advances over 180 days outstanding.

## 5. SALES OF STRUCTURED SETTLEMENT, LOTTERY AND TOBACCO PAYMENTS AND RETAINED INTERESTS

Information regarding sales of structured settlement, lottery and tobacco payments is as follows for the year ended December 31, 2005:

	2005
Proceeds of sale	\$136,787,699
Carrying amount of receivables sold	102,394,621
Less: retained interest	19,712,665
Basis in receivables sold	82,681,956
Gain on sale	\$54,105,743

When the Company sells structured

Gain or loss on sale of the receivables depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. The retained interests are subordinated to the repayment of the financial institutions or investors that provide financing to the QSPs. The carrying amounts at December 31, 2005 and 2004 are derived based on the scheduled collections of purchased receivables held by the QSPs and the assumed amortization of amounts payable to the financial institution or investors using interest rates in effect at those respective dates. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows estimated using management's best estimates of the key assumptions-credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

## 5. SALES OF STRUCTURED SETTLEMENT, LOTTERY AND TOBACCO PAYMENTS AND RETAINED INTERESTS (CONTINUED)

Key economic assumptions used in measuring the retained interests at the date of the financial statements are as follows:

Factor	Assumptions		Basis
	December 31, 2005	December 31, 2004	
Prepayment speed (annual rate)	0.00%	0.00%	Prepayments are not permitted
Expected credit losses <sup>(a)</sup>	0.00%	0.00%	Experience with court-ordered payment assignments
Residual cash flows discounted at	7.57%	7.75%	Approximate market rate based on BBB rating

(a)

The actual amounts could vary significantly from those shown depending on changes in the amounts, terms or providers of funding to the QSPEs. At December 31, 2005, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate adverse changes in those assumptions are as follows (\$ in millions):

	PLMT	PFC2	SRF #1	SRF #2	SRF #3	Total
Carrying amount/fair value of retained interests	\$0.4	\$6.2	\$4.1	\$3.8	\$16.8	\$31.3
Weighted average life (in years)	9.6	11.7	13.9	15.9	14.8	13.6
Credit losses (annual rate)						
Impact on fair value for a 0.5% credit loss	\$0.0	\$0.4	\$0.2	\$0.2	\$0.5	\$1.3
Impact on fair value for a 1% credit loss	\$0.0	\$0.9	\$0.3	\$0.4	\$1.0	\$2.6
Residual cash flows discount rate						
Impact on fair value for a 10% adverse change	\$0.0	\$0.6	\$0.4	\$0.4	\$1.4	\$2.8
Impact on fair value for a 20% adverse change	\$0.1	\$1.1	\$0.7	\$0.7	\$2.7	\$5.3

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in increased credit losses), which might magnify or counteract the sensitivities.

In March 2006, the Company received approximately \$14.6 million in return for the transfer of approximately 80% of its retained interest in SRF #3 to an unrelated party.

The Company accounts for retained interests in receivables sold similar to available for sale securities. As such, unrealized gains or losses related to those interests are recognized December 31, 2005:

	2005
Fair value of retained interests received upon sale of receivables	\$18,150,855
Less allocated cost of receivables sold	10,380,031
	7,770,824
Unrealized gain on retained interests held	8,926,209
Less gain realized on sale of retained interest	11,504,363
	(2,578,154)
Amortization of unrealized gain on PFC receivables	(82,875)
Other comprehensive income	\$5,109,795

Unrealized gains increased during the period primarily due to a decrease in the discount rate applied to retained interests from December 31, 2004 to the date of term financing transactions entered into during 2005.

## 6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31, 2005 and 2004 is summarized as follows:

	December 31, 2005	December 31, 2004
Computer software and equipment	\$2,021,481	\$976,461
Furniture, fixtures and equipment	891,991	629,922
Leasehold improvements	1,469,083	451,797
	4,382,555	2,058,180
Less: accumulated depreciation	(1,452,771)	(867,779)
Equipment and leasehold improvements, net	\$2,929,784	\$1,190,401

Depreciation expense for the year ended December 31, 2005 was \$584,992.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. INSTALLMENT OBLIGATIONS PAYABLE

Installment obligations issued by PSF Holdings LLC trusts under the Structure totaled \$308,221,416 and \$296,627,199 at December 31, 2005 and 2004, respectively. Under the terms of the Structure, the obligations earn income or losses based on indexing options selected by the obligee, which may be based on equity or debt i

An obligee may request an unscheduled installment payment which must be agreed to by the Company, and if so agreed the Company may charge a penalty up to 15% of the unscheduled installment amount. In addition, obligation balances are charged on a quarterly basis for a guarantee fee and an administration fee, both of which are paid to PSF Holdings LLC, a wholly owned subsidiary of the Company. The obligations of the respective trusts under the obligations are guaranteed by Settlement Funding, LLC, another wholly owned subsidiary of the Company. A majority of the obligations are also guaranteed by bank letters of credit to the extent of assets held in related trust accounts.

The actual maturities of the obligations depend on market conditions. Estimated maturities for the next five years are as follows:

	Twelve months ending December 31,
2006	\$31,475,449
2007	24,984,174
2008	24,864,425
2009	25,136,736
2010	26,827,437
Thereafter	174,933,195
	<hr/> \$308,221,416

## 8. BORROWINGS UNDER LINES OF CREDIT

Settlement Funding, LLC, a wholly owned subsidiary of the Company, has a revolving credit facility with a bank providing for a \$10 million working capital line, and a \$3 million lottery advance li

plus 0.5% (7.75% at December 31, 2005) and has a termination date of July 31, 2006. Interest on the working capital line is payable monthly in arrears; interest on the lottery advance lines is payable at maturity of the advances made under the facility. The lottery advance line is secured by related lottery advance receivables. The working capital line is secured by a blanket lien on substantially all of the assets of Settlement Funding, LLC. A fee equal to 25% per annum on the average daily unused commitment is payable quarterly. The facility contains certain restrictive covenants and is guaranteed by another wholly owned subsidiary of the Company. At December 31, 2005, \$482,408 was outstanding under the lottery advance line, while there was nothing outstanding with respect to the working capital line. At December 31, 2004, \$2,500,000 and \$1,065,600 were outstanding on the working capital and lottery advance lines, respectively.

PLW is the borrower under a non-committed credit facility with a financial institution. At December 31, 2005 and 2004, advances under the facility totaled \$6,941,022 and \$8,669,985, respectively, and bore interest at fixed rates ranging from 7.4% to 8.2%. The facility has a termination date of September 30, 2006, which is expected to be extended. Advances under the facility are collateralized by PLW's right, title and interest in, to and under the lottery receivables, including the Lockbox and Lockbox Account, as defined in the credit agreement. The credit facility is guaranteed by one of the Company's affiliated QSPEs.

LSC is the borrower under two revolving loan agreements with an investment bank. The agreements have an interest rate of one-month LIBOR plus 2.50% (6.87% at December 31, 2005), are collateralized by all assets of LSC except life insurance policies and are payable on ten days written notice. At December 31, 2005 and 2004, there were outstanding balances of \$404,000 and \$324,000, respectively, under one of the agreements. Interest on advances under the revolving loan agreements is paid by an affiliate.

On December 23, 2005, DLP Funding, LLC ("DLP"), a wholly-owned subsidiary of the Company, obtained a \$225 million revolving line of credit with a financial institution to fund the acquisition and associated carrying costs of life insurance policies. The line bears interest at the one-month Eurodollar Rate plus 1.5% (5.93% at December 31, 2005). The line is secured by all of the life insurance assets acquired by DLP. The facility has a termination date of December 23, 2006. There were no borrowings under this line of credit at December 31, 2005.

Peachtree LBP Warehouse, LLC, a wholly-owned subsidiary of the Company, obtained a \$50 million revolving line of credit with a financial institution to fund premium loans, originally effective January 1, 2004 and modified to be effective January 1, 2006. Proceeds under the line may be disbursed up to a maximum of \$10 million per year for five years from the effective date, as modified. The line bears interest at the one-year LIBOR rate plus 1.5% (6.34% at December 31, 2005). A commitment fee of .25% per annum on the daily average unused commitment is payable monthly. Advances under the line are due on maturity of credit at December 31, 2005 or December 31, 2004.

## 9. INTEREST RATE SWAPS

Under the terms of its revolving LOC agreement with PLW, the lender enters into interest-rate swaps to manage its exposure to changes in interest rates related to PLW's borrowings under the Loan Agreement. Under the terms of the LOC, if the Lender realizes a gain on termination of the swaps as a result of any payment of principal on outstanding advances, the Lender will pay the gain to PLW, and if the Lender realizes a loss on termination of the swap, PLW will reimburse the Lender for such loss. These embedded derivative instruments have been separated from the host contract and carried at fair value. Hedge accounting has not been applied to these interest rate swaps. At December 31, 2005 and 2004, PLW had \$7,775,017 and \$9,158,767 in notional amount of embedded interest rate swaps, respectively. However, there is no credit risk to the Company because any gain to be received from the embedded swaps will be offset against principal payments made on outstanding advances.

## 10. MEMBERS' EQUITY

As of Decemb

and 7,052,500 are directly owned by FI, and 2,250,000 Series A convertible preferred units of membership, owned by the Investment Partners. Subsequent to December 31, 2005, a new holding company, Peach Holdings, LLC ("PHI") was formed. At that time, all of the Series A convertible preferred units were first converted to common units, and then each of the members of the Company exchanged each of their common units of membership in the Company for 10 shares of common stock issued by PHI. On March 30, 2006, PHI completed an offering on the Alternative Investment Market of the London Stock Exchange, under which the stock at a price of \$5.42 per share, resulting in proceeds of approximately \$20.7 million, net of offering costs.

## 11. INCOME TAXES

The provision for income taxes for the year ended December 31, 2005 reflects current income taxes, computed by applying the estimated annual effective income tax rate for 2005 to tax year ended December 31, 2005, income tax expense computed at the Federal statutory income tax rate for taxable entities differs from the recorded amount of income tax expense due to changes in the valuation allowance related to deferred tax assets, primarily related to utilization of net operating loss carry forwards.

The provision for income taxes (benefit) charged to operations for the year ended December 31, 2005 consists of the following:

	2005
<b>CURRENT:</b>	
Federal	\$286,071
State	17,178
	<u>303,249</u>
<b>DEFERRED:</b>	
Federal	(675,000)
State	(13,000)
	<u>(688,000)</u>
Income tax (benefit) expense	<u>\$(384,751)</u>

Deferred tax assets, which are included in other assets in the combined balance sheets, are comprised of the tax effect of the difference between the book and tax bases of the Company's investment in life settlements and total approximately \$722,000 and \$34,000 at December 31, 2005 and 2004.

As of December 31, 2005, one of the company's taxable subsidiaries had net operating loss carry forwards for federal income tax purposes of approximately \$4,000,000 expiring through 2024. The deferred tax asset resulting from net operating loss carry forwards of this entity that remain at December 31, 2005, in the amount of approximately \$1,500,000, has been entirely offset by a valuation allowance because utilization of those carry forwards in the future is not likely.

## 12. RELATED PARTY TRANSACTIONS

The Company furnishes certain services (including administration and overhead) and performs certain product servicing for the QSPEs under servicing and administrative revenue. The Company has also advanced funds to the QSPEs as needed in years prior to 2005. At December 31, 2005 and 2004, balances due from these affiliates were \$1,560,722 and \$5,906,236, respectively. Amounts due from other affiliates were not significant at December 31, 2005 or December 31, 2004. Amounts due from affiliates bear interest at the one-month LIBOR rate (4.39% at December 31, 2005).

In January 2005, the Company acquired the assets of Lancaster Financial Corporation, an entity formerly under common control with the Company, for \$3,059,236 in cash. The consolidated financial statements include the balances and activity related to the assets acquired, consisting primarily of pre-settlement payments receivable, from the earliest date presented at their historical cost. The difference between the amount of cash paid and the historical cost of the receivables totaling \$1,523,083 was charged to beginning retained earnings as dividends.

## 13. EQUITY IN EARNINGS OF JOINT VENTURE

In 2001, the Company entered into a joint venture in the Life Settlement business with an unrelated third party. In June 2005, the joint venture received proceeds of \$14,250,000 in connection with the transfer of residual interests in life insurance policies held by a subsidiary. The Company recognized fee income of \$7,125,000 as its share of the joint venture's revenue, which is included in life settlement origination fee income in the accompanying statement of operations.

## 14. RISKS AND UNCERTAINTIES

At December 31, 2005, the Company's balance of finance receivables held for sale are primarily lottery winnings (which are obligations of state governments) and obligations of insurance companies and states comprising the receivable base, their dispersion across geographical areas, and state insurance guarantee funds. However, as of December 31, 2005, approximately 7.9% of total finance receivables are due from one insurance company. The Company is subject to risks associated with, and potential risks of regulations and changes in legislation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. RISKS AND UNCERTAINTIES (CONTINUED)

As discussed in Note 1, the Company facilitates the sale of life insurance policies to affiliates. The affiliates, in turn, issue trust interests respecting those policies to a single investor. During the year ended December 31, 2005, approximately \$21.4 million of the Company's revenue was earned in connection with the sale of trust interests to this investor. Subsequent to December 31, 2005, the Company has begun retaining its interests in certain of these policies. The Company is subject to risks associated with purchasing life insurance contracts, which include, but are not limited to, insolvency of a life insurance contract issuer, and potential risks of regulations and changes in legislation.

The Company maintains cash balances at financial institutions in excess of FDIC insurance limits. Management does not believe the company is exposed to significant risk of loss related to uninsured deposits.

## 15. EARNINGS PER UNIT

At December 31, stock in exchange for each unit of membership in Peach Holdings, LLC. The following table sets forth the computation of basic and diluted earnings per unit for the year ended December 31, 2005 and the pro forma earnings per share as though the Peach Holdings Inc. exchange occurred on December 31, 2005:

Earnings per unit:

Numerator – net income per the combined statement of operations	\$37,456,799
Adjust for net loss of Life Settlement Corporation, owned by other shareholders	946,806
Net income available to unit holders	\$38,403,605
Denominator for basic and diluted earnings per unit – weighted-average units outstanding	10,000,000
Basic and diluted earnings per unit	\$3.84
Pro forma earnings per common share:	
Denominator for basic and diluted earnings per common share – weighted-average shares outstanding	100,000,000
Basic and diluted earnings per common share	\$0.38

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

### Investments

The estimated fair value of investments in marketable securities is based on quoted market prices.

### Finance Receivables, Net

The estimated fair value of finance receivables, net (including finance receivables held for sale) is estimated by discounting the expected cash flows at market interest rates for comparable investments.

### Advances Receivable, Net and Other Receivables

The estimated fair value of advances receivable and other receivables, which are generally recovered in less than three months, is equal to the carrying amount.

### Due From Affiliates

The estimated fair value of due from affiliates and due to affiliates, which bear interest at a variable rate equal to current short-term rates, is equal to the carrying amount.

### Retained Interests in Receivables Sold

The estimated fair value of retained interest in receivables sold is determined by discounting the expected residual cash flows at estimated market interest rates for comparable investments.

### Unremitted Asset Servicing Collections

The estimated fair value of unremitted asset servicing collections is equal to the carrying amount.

### Installment Obligations Payable

Obligations payable are reported at fair value determined based on changes in the measuring indices selected by the obligees under the terms of the obligations over the lives of the obligations.

### Borrowings Under Line of Credit

Based on the borrowing rates currently available to the Company for debt with similar terms and remaining maturities, the Company estimates that the carrying value of its borrowings approximate fair value.

### Swap Liability

The estimated fair value of interest rate swaps is based upon market quotes from a large US bank.



## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of the Company's financial instruments are as follows at December 31, 2005 and 2004:

	December 31, 2005		December 31, 2004	
	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount
<b>FINANCIAL ASSETS</b>				
Investments	\$307,772,266	\$307,772,266	\$293,261,743	\$293,261,743
Finance receivables held for sale, net	22,409,265	18,328,064	24,637,329	16,097,515
Finance receivables, net	9,950,592	9,950,592	1,565,470	1,565,470
Advances receivable, net	1,082,055	1,082,055	1,869,266	1,869,266
Other receivables	5,492,038	5,492,038	5,664,317	5,664,317
Due from affiliates	1,562,583	1,562,583	5,907,236	5,907,236
Retained interest in receivables sold	31,344,950	31,344,950	34,854,633	34,854,633
<b>FINANCIAL LIABILITIES</b>				
Unremitted asset servicing collections	994,519	994,519	1,756,222	1,756,222
Installment obligations payable	308,221,416	308,221,416	296,627,199	296,627,199
Borrowings under line of credit	7,827,430	7,827,430	12,559,585	12,559,585
Swap liability	403,069	403,069	796,192	796,192

## 17. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is subject to various legal proceedings and claims, the resolution of which, in management's opinion, will not have a material adverse effect on the financial position or the results of operations of the Company.

The Company has had discussions with the Internal Revenue Service (the "IRS") relating to certain federal income tax matters arising from Peachtree's ordinary business activities. The discussions pertained to (i) a refund of the federal income tax withheld on two purchased lottery prizes and (ii) the issuance by Peachtree of a series of installment obligations in exchange for purchased lottery prizes and other non-lottery receivables. On March 30, 2004, the Office of Chief Counsel issued a Chief Counsel Advice, which resolved the majority of the issues raised as to the aforementioned lottery transactions.

Thereafter, the IRS issued a series of Information Document Requests primarily regarding (i) the manner in which Peachtree accounted for its installment obligation liability and (ii) Peachtree's use of installment obligations to purchase certain non-lottery receivables, including the structure's legal rationale, manner of operation, creation, development, and marketing. The Company has provided responses to all Information Document Requests. The subject matter of the inquiry concerns . The Company has not accrued any liability for any potential settlement because management does not believe any material loss is probable. Management does not believe any potential settlement of this matter will have a material adverse effect on the financial position or the results of operations of the Company.

The Company has indemnified a non-affiliated lending institution for all costs and damages associated with legal actions related to loans made by the entity which are collateralized by structured settlement payments. No significant costs have been incurred to date related to this indemnification.

The Company entered into a consulting agreement with an unrelated company in 2003 for assistance with the development of financing facilities. Under the terms of the agreement, the Company will pay from \$150,000 to \$200,000 per month through March 2006 and also pay up to \$1 million per year related to successful securitizations. For the year ended December 31, 2005, the Company paid \$3,025,000 under this agreement.

The Company leases office space and equipment under varying lease arrangements. None of the agreements contain unusual renewal or purchase options. Leases for office space and equipment having an initial or remaining non-cancelable term in excess of one year at December 31, 2005 require the following minimum future rental payments:

	Twelve months ending December 31,
2006	\$710,907
2007	674,557
2008	689,890
2009	596,019
2010	557,500
2011 and thereafter	187,666
	<u>\$3,416,539</u>

Rental expense for the year ended December 31, 2005 was \$858,328.

## 18. EMPLOYEE BENEFIT PLAN

The Company maintains a Savings Plan under Section 401(k) ("the Plan") under the Internal Revenue Code which was established effective January 1, 1998. The Plan covers all eligible employees. The Company's contributions to the Plan are based upon a percentage of employee contributions. Plan expense for the year ended December 31, 2005 was \$77,718.

# INDEPENDENT AUDITORS' REPORT

to the members of Peach Holdings, LLC.

## TO THE BOARD OF DIRECTORS, PEACH HOLDINGS, LLC, BOYNTON BEACH, FLORIDA

We have audited the accompanying combined balance sheets of Peach Holdings, LLC and its combined affiliate as of December 31, 2005 and 2004, and the related combined statements of operations, changes in members' equity and cash flows for the year ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Peach Holdings, LLC and its combined affiliate as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, on January 1, 2005 the Company changed its method of accounting for consolidated subsidiaries to adopt Financial Accounting Standards Board Interpretation No. 46 (Revised).

### McGladrey & Pullen

Certified Public Accountants  
Fort Lauderdale, Florida

June 7, 2006

# CORPORATE INFORMATION

In addition to the Board, the Company has an Executive Committee which consists of James Terlizzi (Chief Executive Officer), Timothy Trankina (President) and Antony Mitchell (Chief Operating Officer).

## GLOSSARY

"Combined Code" – the Principles of Good Governance and Code of Best Practice produced by the Financial Reporting Council, as amended from time to time

"Company" or "Peachtree Group" or "Group" – Peachtree

"Peachtree" – Peach Holdings, LLC, the predecessor company of Peach Holding, Inc., and also refers to all entities owned by Peach Holdings, LLC prior to March 30, 2006, or all entities owned by Peach Holdings, Inc. on or after March 30, 2006

"Settlement Funding, LLC" – the main operating company of the Group

## ADVISORS AND OFFICES

Registered Office	Other USA office
3301 Quantum Boulevard, 2nd Floor Boynton Beach, FL 33426 USA	3720 DaVinci Court, Suite 450 Norcross, Georgia 30092 USA

## ANNUAL GENERAL MEETING

The annual general meeting (AGM) of the Company will take place at the Company's headquarters, 3301 Quantum Boulevard, 2nd Floor, Boynton Beach, Florida 33426 USA, on August 15, 2006 at 10:00am.

## EVENT CALENDAR

15 August	Annual General Meeting
30 September	2006 Interim Results

## AUDITORS

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## INVESTOR ENQUIRIES

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## FORWARD-LOOKING STATEMENTS

Certain statements contained in these materials, including statements regarding the Company's future operations, and other statements contained herein regarding matters that are not historical facts, are "forward-looking" statements. These forward-looking statements can generally be identified as such because the context of the sta

meaning. Similarly, statements that describe future plans, objectives, outlooks, targets or goals are also forward-looking statements. Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, the availability of adequate financing at reasonable terms, the ability of the Company to securitize its financial assets on a timely basis, changes in tax or accounting policies applicable to the Company and its subsidiaries, adverse changes in regulatory or licensing requirements, adverse changes in political, economic or market conditions, increased competition in one or more of the Company's business lines, a loss of business continuity due to severe weather, acts of terror or other catastrophes, the occurrence of material litigation, fluctuations in interest rates, and increasing costs. Any forward-looking statements included in these materials are on ward-looking  
statements to reflect subsequent events or circumstances.



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