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**REGISTRAR OF
COMPANIES**

Home Equity Funding PLC

Report and Financial Statements

Year Ended

31 May 1995



BDO

BDO Stoy Hayward
Chartered Accountants

HOME EQUITY FUNDING PLC

Annual report and financial statements for the year ended 31 May 1995

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Director

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Director

Cliffside Investments Limited

Secretary and registered office

Greenbriar Secretarial Limited, 8 Baker Street, London, W1M 1DA.

Company number

02674724

Auditors

BDO Stoy Hayward, 8 Baker Street, London, W1M 1DA.

HOME EQUITY FUNDING PLC

Report of the director for the year ended 31 May 1995

The director presents his report together with the audited financial statements for the year ended 31 May 1995.

Results and dividends

The profit and loss account is set out on page 3 and shows the profit for the year.

The director does not recommend the payment of a dividend.

Principal activities, trading review and future developments

The principal activity of the company in the year under review was that of providers of mortgage finance.

Director

The director of the company during the year was Cliffside Investments Limited which had no interest in the ordinary share capital of the company.

The interests of the director in the share capital of the parent company, Equity Group Holdings Limited, are shown in the financial statements of that company.

Director's responsibilities

Company law requires the director to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

HOME EQUITY FUNDING PLC

Report of the director for the year ended 31 May 1995

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

Greenbriar Secretarial Limited

Secretary

Date 6 - 2 - 96

HOME EQUITY FUNDING PLC

Profit and loss account for the year ended 31 May 1995

	Note	Year ended 31 May 1995		14 months ended 31 May 1994	
		£	£	£	£
Turnover	2		131,452		82,689
Administrative expenses			40,056		52,706
			<hr/>		<hr/>
			91,396		29,983
Interest payable and similar charges	3		33,237		16,172
			<hr/>		<hr/>
Profit on ordinary activities before taxation	4		58,159		13,811
Taxation on profits from ordinary activities	5		19,588		4,560
			<hr/>		<hr/>
Profit on ordinary activities after taxation			38,571		9,251
Retained profit/(accumulated loss) brought forward					
- as originally stated		7,418		(3,818)	
- prior year adjustment		-		1,985	
		<hr/>		<hr/>	
			7,418		(1,833)
			<hr/>		<hr/>
Retained profit carried forward			45,989		7,418
			<hr/>		<hr/>

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

The retained profit for the year represents the movement in shareholders' funds.

The notes on pages 5 to 8 form part of these financial statements

HOME EQUITY FUNDING PLC

Balance sheet at 31 May 1995

	Note	1995	1994
		£	£
Fixed assets			
Tangible assets	6	165	220
Current assets			
Debtors - due within one year	7	145,396	77,455
- due after more than one year	7	407,606	214,877
		<u>553,002</u>	<u>292,332</u>
Creditors: amounts falling due within one year	8	<u>253,240</u>	<u>230,574</u>
Net current assets		<u>299,762</u>	<u>61,758</u>
Total assets less current liabilities		<u>299,927</u>	<u>61,978</u>
Creditors: amounts falling due after more than one year	9	183,316	-
Provision for liabilities and charges			
Deferred taxation	10	20,622	4,560
		<u>95,989</u>	<u>57,418</u>
Capital and reserves			
Called up share capital	11	50,000	50,000
Profit and loss account		45,989	7,418
Shareholders' funds		<u>95,989</u>	<u>57,418</u>

All amounts within shareholders' funds are equity.

The financial statements were approved by the Board on 6-2-96

Cliffside Investments Limited
Director

The notes on pages 5 to 8 form part of these financial statements

HOME EQUITY FUNDING PLC

Notes forming part of the financial statements for the year ended 31 May 1995

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Turnover

Turnover represents credit charges receivable, on a redemption value basis, on advances to customers.

Commissions payable

Commissions are written off over the life of the relevant loan.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets over their expected useful lives. It is calculated at the following rate:

Office equipment - 25% per annum reducing balance

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, except that no provision is made where it can be reasonably foreseen that such deferred taxation will not be payable in the future.

2 Turnover and profit

The turnover and profit before taxation are attributable to the one principal activity of the company and arises wholly within the United Kingdom.

3 Interest payable and similar charges

	1995 £	1994 £
Bank overdraft	14,052	16,172
Bank loan repayable after five years	19,185	-
	<hr/>	<hr/>
	33,237	16,172
	<hr/>	<hr/>

HOME EQUITY FUNDING PLC

Notes forming part of the financial statements for the year ended 31 May 1995 (*Continued*)

4 Profit on ordinary activities before taxation

	1995 £	1994 £
This is arrived at after charging:		
Depreciation	55	75
Auditors' remuneration	805	900
	<u> </u>	<u> </u>

5 Taxation on profits from ordinary activities

Transfer to deferred taxation	16,062	4,560
UK corporation tax at 33% based on taxable profits in the year	5,209	-
Group relief receivable	(1,683)	-
	<u> </u>	<u> </u>
	19,588	4,560
	<u> </u>	<u> </u>

6 Tangible assets

	Office equipment £
<i>Cost</i>	
At 1 June 1994 and 31 May 1995	393
	<u> </u>
<i>Depreciation</i>	
At 1 June 1994	173
Provided for the year	55
	<u> </u>
At 31 May 1995	228
	<u> </u>
<i>Net book value</i>	
At 31 May 1995	165
	<u> </u>
At 31 May 1994	220
	<u> </u>

HOME EQUITY FUNDING PLC

Notes forming part of the financial statements for the year ended 31 May 1995 (*Continued*)

7 Debtors

	1995 £	1994 £
Amounts falling due within one year		
Advances to customers	96,933	62,568
Other debtors	435	-
Amounts owed by fellow group undertakings	11,450	14,887
Amount owed by parent company	36,578	-
	<hr/>	<hr/>
	145,396	77,455
	<hr/>	<hr/>
Amounts falling due after more than one year		
Advances to customers	407,606	214,887
	<hr/>	<hr/>

8 Creditors: amounts falling due within one year

Bank overdraft (secured)	184,424	191,479
Bank loan (secured)	8,204	-
Other creditors (see below)	10,000	11,535
Corporation tax	5,209	-
Amounts owed to fellow group undertakings	32,058	-
Amount owed to parent company	-	22,035
Accruals and deferred income	13,345	5,525
	<hr/>	<hr/>
	253,240	230,574
	<hr/>	<hr/>

The bank overdraft and bank loan are secured by a fixed and floating charge over the assets of the company.

After the year end the amount shown under other creditors have been subordinated in favour of the bank.

HOME EQUITY FUNDING PLC

Notes forming part of the financial statements for the year ended 31 May 1995 (Continued)

9 Creditors: amounts falling due after more than one year

	1995 £	1994 £
Bank loan (secured - see note 8)	183,316	-

Of this balance £9,188 is repayable between one and two years, £34,725 is repayable between two and five years and the balance is repayable after more than five years. The rate of interest applied to this loan is 3% above the bank's base rate.

10 Provision for liabilities and charges

	1995		1994	
	Provided £	Unprovided £	Provided £	Unprovided £
Deferred taxation - Other timing differences	20,622	-	8,381	-
Unutilised tax losses	-	-	(3,821)	-
	<u>20,622</u>	<u>-</u>	<u>4,560</u>	<u>-</u>

11 Share capital

	Authorised		Issued	
	1995 £	1994 £	1995 £	1994 £
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

12 Parent company

The company's parent company is Equity Group Holdings Limited, a company registered in England.

HOME EQUITY FUNDING PLC

Report of the auditors

To the shareholders of Home Equity Funding PLC

We have audited the financial statements on pages 3 to 8 which have been prepared under the accounting policies set out on page 5.

Respective responsibilities of directors and auditors

As described on page 1 the company's director is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

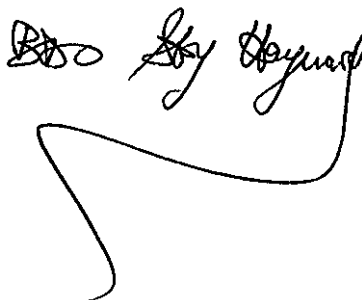
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 May 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD
Chartered Accountants
and Registered Auditors
London

A handwritten signature in black ink, appearing to read 'BDO Stoy Hayward', with a large, sweeping flourish underneath.

6 February 1996