

AIRE VALLEY FINANCE plc

REPORT AND ACCOUNTS 1997

Registered number

3486148

Registered Office

200 Aldersgate Street

London

EC1A 4JJ

Directors

David Roger Finney
Bryan Donald Needham
John Arthur William Smith

Secretary

Kenneth Cromar



Directors' report for the period ended 31 December 1997

Principal activity

The Company was incorporated on 7 August 1997 under the name of Middlebay plc and changed its name to Aire Valley Finance plc on 16 September 1997.

The issued share capital comprises 50,000 ordinary shares of £1.00 each of which 49,998 are partly paid to £0.25 each and held by Mortgage Express Holdings and two of which are fully paid up and held by Bradford and Bingley Building Society.

On 4 November 1997, the company acquired an equitable interest in residential mortgages from Mortgage Express (No.2), Scotlife Homeloans (No.2) Limited, Finance for Mortgages Limited, Silhouette Mortgages Limited and HSMS, of £1,002,186,800. The acquisition was financed by the issue of Mortgage Backed Floating Rate Notes due 2039, the details of which are set out in note 9.

The company was established for the purpose of obtaining a credit facility secured by a pool of commercial mortgages.

Results

The Company was dormant during the period from incorporation to 4 November 1997. The results for the period are shown in the profit and loss account on page 5.

The directors do not recommend the payment of a final dividend for the year.

Payment policy

Standard terms provide for payment of all invoices within 14 days after the date of the invoice, except where different arrangements have been agreed with suppliers. It is the policy of the company to abide by the agreed terms of payment.

Directors

The names of the present directors of the company are shown on page 1. These directors served as directors throughout the period.

No Director had a beneficial interest in the share capital or loan capital of the Company or in the share capital of any other company in the group at any time during the period under review.

By order of the Board



18th June 1998

Kenneth Cromar
Company Secretary

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. They are also required to prepare the accounts on a going concern basis unless this is inappropriate.

The directors consider that in preparing the financial statements on pages 5 to 11 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors' report to the members of Aire Valley Finance plc

We have audited the financial statements on pages 5 to 11.

Respective responsibilities of directors and auditor

As described on page 3 the Company's directors are responsible for the preparation of 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 examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants and Registered Auditor
LONDON

18 June 1998

Profit and loss account for the period 7 August 1997 to 31 December 1997

<i>Continuing Activities</i> <i>(acquired during the period)</i>	Notes	Period 7 August to 31 December 1997 £
Profit on ordinary activities before tax	2	2,408,569
Tax on profit on ordinary activities	3	(758,706)
Profit for the financial period		<u>1,649,863</u>
Dividend	4	—
Retained Profit for the period		<u><u>1,649,863</u></u>

The company had no recognised gains or losses other than the above profit for the period.

The notes on pages 7 to 11 form part of these financial statements.

Balance sheet at 31 December 1997

	Notes	31 December 1997 £
Current Assets		
Mortgage advances - due within one year		4,663,000
- due after more than one year		967,122,665
		<u>971,785,665</u>
Debtors	6	13,487,176
Cash at bank and in hand		55,624,382
		<u>1,040,897,223</u>
Creditors: amounts falling due within one year	7	(51,843,993)
		<u>989,053,230</u>
Net current assets		
		<u>989,053,230</u>
Creditors : amounts falling due after more than one year	8	(987,390,865)
		<u>1,662,365</u>
Net current assets less current liabilities		<u>1,662,365</u>
Capital and Reserves		
Called up share capital	10	12,502
Profit and loss account	11	1,649,863
Shareholders' funds		<u>1,662,365</u>

Approved by the Board on *18 June* 1998 and signed on its behalf.


..... J. A. W. Smith - Director

The notes on pages 7 to 11 form part of these financial statements

Notes to the financial statements for the period ended 31 December 1997

1. Accounting policies

Basis of accounting

The financial statements are prepared on the historical cost basis of accounting, and in accordance with applicable accounting standards.

Provisions for Bad and Doubtful Debts

Specific provisions are made for advances which are recognised to be bad or doubtful. In addition, general provisions are maintained to cover losses that, although not yet specified, are known to be present at the year end in any portfolio of advances.

Interest charged to mortgage accounts which are in possession and which is expected to be irrecoverable is written off against interest receivable in the year.

Taxation

Corporation tax and any group relief arising is provided at the current rate on the taxable profit for the year.

Deferred tax

Deferred tax is provided at the appropriate rates of tax where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

Issue costs

The costs relating to the issue of the floating rate notes were capitalised against the proceeds of the issue and are amortised over the expected economic life of the notes.

Cash flow statement

The accounts do not include a cash flow statement because, in accordance with Financial Reporting Standard 1, the company's ultimate holding company, Spicedeck Limited, includes such a statement in its consolidated accounts.

Related parties

As permitted by Financial reporting Standard 8 the company is exempt from providing full details of its transactions with entities included within the group of its ultimate parent company, Spicedeck Limited.

2. Profit on ordinary activities before tax.

This is stated after:

Period ended
31 December 1997
£

Crediting

Interest income

14,944,399

Debiting

Interest payable

(12,425,543)

Other costs

(110,287)

2,408,569

Auditor's remuneration for 1997 was borne by Mortgage Express and is included within the administration fee paid to Mortgage Express.

3. Tax on profit on ordinary activities

Period ended
31 December 1997
£

United Kingdom Corporation Tax at 31.50%

(758,706)

(758,706)

4. Dividends

There were no dividend payments during the year.

5. Employees and directors' emoluments

There were no employees during the year and none of the directors received emoluments in respect of their services to the Company.

6. Debtors

31 December 1997
£

Amounts owed from group undertakings

5,684,717

Accrued interest receivable

415,015

Accrued mortgage interest receivable

6,474,852

Other

912,592

13,487,176

7. Creditors : amounts falling due within one year31 December 1997
£

Corporation tax payable	758,706
Interest payable on FRNs	12,397,734
Amounts due to Note Holders (See Note 9)	35,064,135
Other creditors	3,623,418
	<u>51,843,993</u>

8. Creditors: amounts falling due after more than one year31 December 1997
£

Amounts due to Note Holders (See Note 9)	<u>987,390,865</u>
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9. Floating Rate Notes and subordinated debt31 December 1997
£

£300,000,000	Class A1 Floating Rate Notes due 2039 (less unamortised issue costs of £344,851)	299,655,149
£567,000,000	Class A2 Floating Rate Notes due 2039 (less unamortised issue costs of £1,629,420)	565,370,580
£68,000,000	Class A3 Floating Rate Notes due 2039 (less unamortised issue costs of £293,124)	67,706,876
£28,500,000	Class A4 Floating Rate Notes due 2039 (less unamortised issue costs of £131,043)	28,368,957
£25,500,000	Class A5 Floating Rate Notes due 2039 (less unamortised issue costs of £146,562)	25,353,438
£36,000,000	Class B Floating Rate Notes due 2039	36,000,000
		<u>1,022,455,000</u>
	Falling due within one year	35,064,135
	after one year	987,390,865
		<u>1,022,455,000</u>

9. Floating Rate Notes and subordinated debt (continued)

- A. Under the terms of the above FRN issues any shortfalls arising on the redemption or repossession of the mortgage assets, over which the note holders have a floating charge, result in a reduction in the liability under the notes. The liability under the notes is in reverse order to the seniority of the FRN's class, resulting in any shortfalls being first allocated against the B notes. To take account of anticipated and actual shortfalls as at 31 December 1997 the B notes have been stated as followed:

	£
Net Proceeds on issue	36,000,000
Amortisation of issue costs	-
Reduction for anticipated shortfall	-
Reduction for actual shortfall	-
	<u>36,000,000</u>

The company issued mortgage backed Floating Rate Notes (FRNs) and Subordinated Debt which fall due for repayment in 2039 and bear interest at the following rates over sterling LIBOR as determined quarterly on the 17th day falling in February, May, August and November (or, if such a day is not a day other than a Saturday or Sunday the next succeeding business day) on which banks are open for business in London:

- (i) 0.07 per cent., per annum in relation to the A1 Notes until the interest payment date falling in November 2000 and thereafter 0.2 per cent. per annum
- (ii) 0.14 per cent., per annum in relation to the A2 Notes, 0.22 per cent., per annum in relation to the A3 Notes, 0.35 per cent., per annum in relation to the A4 Notes, 0.6 per cent., per annum in relation to the A5 Notes and 2.0 per cent., per annum in relation to the B Notes in each case until the interest payment date falling in November 2004 and thereafter 0.3 per cent., per annum, in relation to the A2 Notes, 0.45 per cent., per annum, in relation to the A3 Notes, , 0.65 per cent., per annum, in relation to the A4 Notes and 1.15 per cent., per annum, in relation to the A5 Notes.

The FRN's and Subordinated Debt outstanding principal balance declines over time as the proceeds from redemption on the mortgage advances are used to repay the note holders, along with accrued interest, on each quarterly interest payment date.

10. Called up share capital

31 December 1997
£

Authorised

50,000 Ordinary shares of £1 each 50,000

Issued

49,998 Ordinary shares of £1 each, 25p paid 12,500

2 Ordinary shares of £1 each, fully paid 2

12,502

11. Reserves

31 December 1997
£

Opening balance	-
Profit for the financial period	1,649,863
Dividend proposed	-
Closing balance	<u><u>1,649,863</u></u>

12. Acquisition of Mortgage Portfolios

The fair value of the residential mortgage portfolios acquired on 4 November 1997 were:

4 November 1997
£

Mortgage Express (No.2)	738,431,516
Scotlife Homeloans (No.2) Limited	145,216,014
HSMS	96,976,376
Finance For Mortgages Limited	15,984,497
Silhouette Mortgages Limited	5,578,397
Consideration	<u><u>1,002,186,800</u></u>

13. Ultimate parent undertaking

The company regarded by the directors as the immediate holding company is Mortgage Express Holdings, which is registered in England and Wales. The company regarded by the directors as the ultimate parent undertaking is Spicedeck Limited, registered in England and Wales, the whole of whose share capital is held by Royal Exchange Trust Company Limited on trust for charitable purposes.

Spicedeck is the parent company of the smallest and largest group of companies for which group accounts are prepared. Copies of these accounts may be obtained from the Secretary, Spicedeck Limited, 200 Aldersgate Street, London, EC1A 4JJ.