

AIRE VALLEY FINANCE plc

REPORT AND ACCOUNTS 2003

Registered number
3416148



Registered Office

Endeavour House
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Herts EN5 1HU

Directors' report and financial statements

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Directors' report for the year ended 31 December 2003

Principal activity

The company's principal activity is to hold mortgages secured on residential properties and service loan notes.

Business Review

The results for the year are shown in the profit and loss account on page 6. The result for the year ended 31 December 2003 was a profit after tax of £4,058,113 (2002: £5,456,014).

Dividend

During the year a final proposed dividend of £4,130,000 was declared (2002 paid: £5,400,000).

Payment policy

Standard terms provide for payment of all invoices within 30 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 directors who served during the year were as follows:

Peter Michael Hills
Bryan Donald Needham
Rosemary Prudence Thorne

No director had any interest in the share or loan capital of the company or in the share or loan capital of any other company in the group at any time during the year.

Auditors

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

By order of the Board



Rosemary Prudence Thorne
Director

29 July 2004

Statement of directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

Independent auditor's report to the members of Aire Valley Finance plc

We have audited the financial statements on pages 6 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

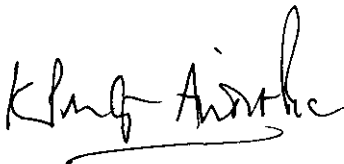
Basis of audit opinion

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 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

29 July 2004

1 The Embankment
Neville Street
Leeds
LS1 4DW

Profit and loss account for the year ended 31 December

	Notes	2003 £000	2002 £000
Interest receivable		18,433	25,539
Interest payable		(12,929)	(18,141)
Net interest receivable		5,504	7,398
Provision for bad and doubtful debts		791	456
Administrative expenses		(96)	(562)
Profit on ordinary activities before tax	2	6,199	7,292
Tax on profit on ordinary activities	3	(2,141)	(1,836)
Profit for the financial year after tax		4,058	5,456
Dividend	4	(4,130)	(5,400)
Retained (loss) / profit for the year	12,13	(72)	56

The company had no recognised gains or losses other than the current year profits, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation stated above and the historical cost equivalent.

All activities of the company are continuing.


The notes on pages 8 to 12 form part of these financial statements.

Balance sheet at 31 December

	Notes	2003 £000	2002 £000
Current assets			
Mortgage advances falling due within one year		4,978	5,785
Mortgage advances falling due after one year		263,849	338,666
Debtors	6	520	1,201
Cash at bank and in hand		20,837	26,394
		<u>290,184</u>	<u>372,046</u>
Creditors: amounts falling due within one year	7	(16,810)	(22,436)
Net current assets		<u>273,374</u>	<u>349,610</u>
Creditors: amounts falling due after more than one year	8	(273,349)	(349,513)
Net assets		<u>25</u>	<u>97</u>
Capital and reserves			
Called up share capital	11	12	12
Profit and loss account	12	13	85
Shareholders' funds	13	<u>25</u>	<u>97</u>

The notes on pages 8 to 12 form part of these financial statements.

Approved by the Board on 29 July 2004 and signed on its behalf.

 ROSEMARY P THORNE - Director

Notes to the financial statements for the year ended 31 December 2003

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of accounting

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

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 period. The charge for taxation is based on profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Full provisions are made for deferred tax in accordance with Financial Reporting Standard No.19 "Deferred Tax".

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

Under Financial Reporting Standard No.1 (Revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Related parties

As permitted by Financial Reporting Standard No.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, as more than 90% of the company's share capital is held by the group. The consolidated financial statements within which this company is included can be obtained from the address given in note 14.

2. Profit on ordinary activities before tax

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Profit on ordinary profits before tax is stated		
after charging:		
Amortisation of issue costs	<u>-</u>	<u>491</u>

Auditors' remuneration for 2003 was borne by the company Mortgage Express and is included within the administration fee paid to Mortgage Express.

3. Tax on profit on ordinary activities

	2003 £000	2002 £000
a) Analysis of charge in the year at 30% (2002 30%)		
Current tax at 30% (2002 30%)	1,623	1,975
Under provision of tax in prior years	<u>281</u>	<u>10</u>
Total current tax	<u>1,904</u>	<u>1,985</u>
Deferred tax (Note 9)		
Origination and reversal of timing differences	<u>237</u>	<u>(149)</u>
Total deferred tax	<u>237</u>	<u>(149)</u>
Tax on profit on ordinary activities	<u>2,141</u>	<u>1,836</u>

- b) The 2003 current tax charge of £1,904k (2002:£1,985k) equates to an effective tax rate of 30.7% (2002:27.2%)

This is reconciled to the standard UK rate as follows:

	2003 %	2002 %
Standard rate of corporation tax	30.0	30.0
Effects of:		
Short term timing differences	(3.8)	(3.0)
Adjustment to tax charge in respect of previous periods	<u>4.5</u>	<u>0.2</u>
Current tax charge for the year	<u>30.7</u>	<u>27.2</u>

4. Dividend

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Final dividend proposed	<u>4,130</u>	<u>5,400</u>

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 2003 £000	31 December 2002 £000
Prepayments and accrued interest	74	142
Deferred tax (see note 9)	-	219
Amounts due from group undertakings	13	13
Other debtors	433	827
	<u>520</u>	<u>1,201</u>

7. Creditors: amounts falling due within one year

	31 December 2003 £000	31 December 2002 £000
Amounts due to note holders (see note 10)	8,182	11,726
Corporation tax payable	1,127	2,823
Deferred tax (see note 9)	18	-
Other creditors	1,847	225
Accruals and deferred income	1,506	2,262
Dividend	4,130	5,400
	<u>16,810</u>	<u>22,436</u>

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

	31 December 2003 £000	31 December 2002 £000
Amounts due to note holders (see note 10)	<u>273,349</u>	<u>349,513</u>

9. Deferred tax (liability)/asset

	31 December 2003 £000	31 December 2002 £000
Opening balance	219	70
(Charge)/credit during the year (see note 3)	<u>(237)</u>	<u>149</u>
Closing balance	<u>(18)</u>	<u>219</u>

As at the year end there was no unprovided deferred tax on the only class of deferred tax - mortgage loan general provision (2002: £nil).

10. Floating Rate Notes and Subordinated Debt

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 reduction in 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.

Floating Rate Notes due 2039

Class	Original Cost £000	Repaid £000	C/fwd 31 December 2003 £000
A1	300,000	300,000	-
A2	567,000	443,469	123,531
A3	68,000	-	68,000
A4	28,500	-	28,500
A5	25,500	-	25,500
B	36,000	-	36,000
	1,025,000	743,469	281,531
Falling due within one year			8,182
after one year			273,349
			281,531

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 a Saturday or Sunday the next succeeding business day on which banks are open for business in London):

0.14% per annum in relation to the A2 Notes, 0.22% per annum in relation to the A3 Notes, 0.35% per annum in relation to the A4 Notes, 0.6% per annum in relation to the A5 Notes and 2.0% 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 annum in relation to the A2 Notes, 0.45% per annum in relation to the A3 Notes, 0.65% per annum in relation to the A4 Notes and 1.15% per annum in relation to the A5 Notes.

The FRNs 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.

11. Called up share capital

	31 December 2003 £	31 December 2002 £
Authorised		
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted and called up		
49,998 Ordinary shares of £1 each 25p paid	12,500	12,500
2 Ordinary shares of £1 each fully paid	<u>2</u>	<u>2</u>
	<u>12,502</u>	<u>12,502</u>

12. Movement on reserves

	Profit and loss reserve £000
At the beginning of the year	85
Retained profit for the year	(72)
At the end of the year	<u>13</u>

13. Shareholders' funds

	31 December 2003 £000	31 December 2002 £000
Profit for the financial year	4,058	5,456
Dividend	<u>(4,130)</u>	<u>(5,400)</u>
Net movement in shareholders' funds	(72)	56
Opening shareholders' funds	<u>97</u>	<u>41</u>
Closing shareholders' funds	<u>25</u>	<u>97</u>

14. 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 Limited 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, Endeavour House, 1 Lyonsdown Road, New Barnet, Herts EN5 1HU.