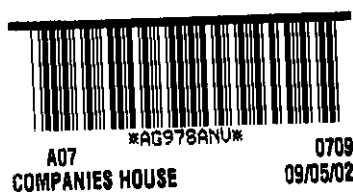


AIRE VALLEY FINANCE plc

REPORT AND ACCOUNTS 2001

Registered number
3416148



Registered Office

Endeavour House
1 Lyonsdown Road
New Barnet
Herts EN5 1HU

Directors' report and financial statements

Contents

Directors' report	3
Statement of directors' responsibilities	4
Report of the independent auditor to the members of Aire Valley Finance plc	5
Profit and loss account	6
Balance Sheet	7
Notes	8

Directors' report for the year ended 31 December 2001

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 2001 was a profit after tax of £5,167,873 (2000: £5,703,986).

Dividend

During the year an interim dividend was proposed of £Nil (2000 paid: £2,500,000), and a final proposed dividend of £5,150,000 (2000 paid: £3,200,000) was declared.

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:

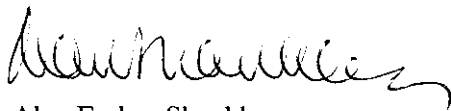
Peter Michael Hills
Bryan Donald Needham
Rosemary Prudence Thorne

No director had any interest in the share capital of the company or in the share 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



Alan Forbes Shankley
Company Secretary

14th February 2002

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;
- 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.

KPMG Audit Plc

1 The Embankment
Neville Street
Leeds
LS1 4DW

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

We have audited the financial statements on pages 6 to 13.

Respective responsibilities of directors and auditor

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 auditor, 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 required for our audit, or if information specified by law regarding directors' remuneration and transaction with the company is not disclosed.

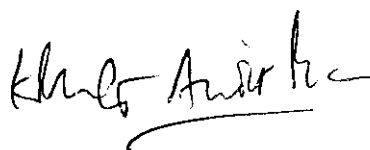
Basis of opinion

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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

14th February 2002

Profit and loss account for the year ended 31 December

	Notes	2001 £000	2000 £000
Interest receivable		37,533	49,120
Interest payable		(29,382)	(40,072)
Net interest receivable		8,151	9,048
Administrative expenses		(661)	(781)
Profit on ordinary activities before tax	2	7,490	8,267
Tax on profit on ordinary activities	3	(2,322)	(2,563)
Profit for the financial year after tax		5,168	5,704
Dividend	4	(5,150)	(5,700)
Retained profit for the year	12,13	18	4

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 their historical cost equivalent.

All activities of the company are continuing.

The notes on pages 8 to 13 form part of these financial statements.

AIRE VALLEY FINANCE plc

Balance sheet at 31 December

	Notes	2001 £000	2000 £000
Current assets			
Mortgage advances falling due within one year		4,821	4,481
Mortgage advances falling due after one year		434,585	545,212
Debtors	6	2,465	3,918
Cash at bank and in hand		31,116	25,820
		<u>472,987</u>	<u>579,431</u>
Creditors: amounts falling due within one year	7	(26,403)	(26,111)
Net current assets		<u>446,584</u>	<u>553,320</u>
Creditors: amounts falling due after more than one year	8	(446,543)	(553,297)
Net assets		<u>41</u>	<u>23</u>
Capital and reserves			
Called up share capital	11	12	12
Profit and loss account	12	29	11
Shareholders' funds	13	<u>41</u>	<u>23</u>

The notes on pages 8 to 13 form part of these financial statements.

Approved by the Board on 14th February 2002 and signed on its behalf.



ROSEMARY P THORNE - Director

Notes to the financial statements for the year ended 31 December

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 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

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 15.

2. Profit on ordinary activities before tax

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Profit on ordinary profits before tax is stated		
after charging:		
Amortisation of issue costs	<u>516</u>	<u>516</u>

Auditors' remuneration for 2001 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

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
United Kingdom Corporation Tax at 30% (2000: 31%)		
Corporation tax payable	1,989	2,563
Deferred tax (see note 9)	333	-
	<u>2,322</u>	<u>2,563</u>

4. Dividend

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Interim dividend paid	-	2,500
Final dividend proposed	5,150	3,200
	<u>5,150</u>	<u>5,700</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 2001 £000	31 December 2000 £000
Other	18	17
Deferred tax (see note 9)	70	403
Prepayments and accrued interest	2,377	3,498
	<u>2,465</u>	<u>3,918</u>

AIRE VALLEY FINANCE plc

7. Creditors: amounts falling due within one year

	31 December 2001 £000	31 December 2000 £000
Amounts due to Note Holders (see note 10)	14,177	13,069
Corporation tax payable	2,485	2,444
Other creditors	1,851	-
Accruals and deferred income	2,740	4,898
Dividend	5,150	5,700
	<u>26,403</u>	<u>26,111</u>

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

	31 December 2001 £000	31 December 2000 £000
Amounts due to Note Holders (see note 10)	<u>446,543</u>	<u>553,297</u>

9. Deferred tax asset

	31 December 2001 £000	31 December 2000 £000
Opening balance	403	403
Charge during the year	(333)	-
Closing balance	<u>70</u>	<u>403</u>

As at the year end there was no unprovided deferred tax on the only class of deferred tax - mortgage loan general provision (2000:£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	Unamortised Start up costs £000	C/fwd 31 December 2001 £000
A1	300,000	300,000	-	-
A2	567,000	263,790	368	302,842
A3	68,000	-	64	67,936
A4	28,500	-	28	28,472
A5	25,500	-	30	25,470
B	36,000	-	-	36,000
	1,025,000	563,790	490	460,720
Falling due within one year				14,177
after one year				446,543
				460,720

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 2001 £	31 December 2000 £
Authorised		
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted and issued		
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	11
Retained profit for the year	18
At the end of the year	<u>29</u>

13. Shareholders' funds

	31 December 2001 £000	31 December 2000 £000
Profit for the financial year	5,168	5,704
Dividend	<u>(5,150)</u>	<u>(5,700)</u>
Net addition to shareholders' funds	18	4
Opening shareholders' funds	23	19
Closing shareholders' funds	<u>41</u>	<u>23</u>

14. Related party disclosures

The company is controlled by Mortgage Express Holdings which owns 90% of the voting rights of the company.

The ultimate controlling party is Spicedeck Limited through its indirect ownership of Mortgage Express Holdings.

15. 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.