

AIRE VALLEY FINANCE plc

REPORT AND ACCOUNTS 2000

Registered number
3416148

Registered Office

Endeavour House
1 Lyonsdown Road
New Barnet
Herts EN5 1HU



Directors' report and financial statements

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Directors' report for the year ended 31 December 2000

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 2000 was a profit after tax of £5,703,986 (1999: £9,307,000).

Dividend

During the year an interim dividend was proposed of £2,500,000 (1999 paid: £8,396,000), and a final proposed dividend of £3,200,000 (1999: £8,800,000) 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
David Roger Finney
Bryan Donald Needham
John Arthur William Smith
Rosemary Prudence Thorne


John Arthur William Smith resigned his directorship on the 4 January 2000 and was replaced by Rosemary Prudence Thorne. David Roger Finney resigned his directorship on the 7 February 2000 and was replaced by Peter Michael Hills.

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

27th February 2001

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

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 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. 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 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

27th February 2001

Profit and loss account for the year ended 31 December

	Notes	Year ended 31 December 2000 £000	Year ended 31 December 1999 £000
Interest receivable		49,120	58,804
Interest payable		(40,072)	(45,474)
Net interest receivable		9,048	13,330
Administrative expenses		(781)	16
Profit on ordinary activities before tax	2	8,267	13,346
Tax on profit on ordinary activities	3	(2,563)	(4,039)
Profit for the financial year after tax		5,704	9,307
Dividend	4	(5,700)	(17,196)
Retained profit/(loss) for the year	12,13	4	(7889)

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

There is no difference between the profit on ordinary activities before taxation and the retained profit (loss) for the year stated above, and their historical cost equivalent.

All activities of the company are continuing.

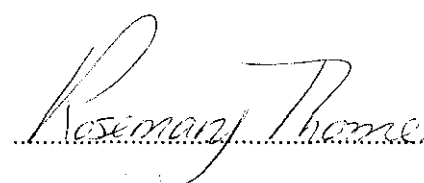
The notes on pages 8 to 13 form part of these financial statements.

Balance sheet at 31 December

	Notes	31 December 2000 £000	31 December 1999 £000
Current assets			
Mortgage advances falling due within one year		4,481	2,143
Mortgage advances falling due after one year		545,212	659,033
Debtors	6	3,918	9,441
Cash at bank and in hand		25,820	37,872
		<u>579,431</u>	<u>708,489</u>
Creditors: amounts falling due within one year	7	(26,111)	(44,829)
		<u>553,320</u>	<u>663,660</u>
Net current assets			
Creditors: amounts falling due after more than one year	8	(553,297)	(663,641)
		<u>23</u>	<u>19</u>
Net assets			
Capital and reserves			
Called up share capital	11	12	12
Profit and loss account	12	11	7
Shareholders' funds	13	<u>23</u>	<u>19</u>

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

Approved by the Board on 27th February 2001 and signed on its behalf.

.....ROSEMARY P THORNE - Director

Notes to the financial statements for the year ended 31 December 2000

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

Profit on ordinary profits before tax is stated

after charging:

Amortisation of issue costs

Year ended
31 December 2000
£000

516

Year ended
31 December 1999
£000

516

Auditors' remuneration for 2000 was borne by Mortgage Express and is included within the administration fee paid to Mortgage Express.

3. Tax on profit on ordinary activities

United Kingdom Corporation Tax at 31% (1999:
 30.25%)

Corporation tax payable
 Deferred tax

Year ended
31 December 2000
£000

2,563
-

2,563

Year ended
31 December 1999
£000

4,321
(282)

4,039**4. Dividend**

Interim dividend proposed
 Interim dividend paid
 Final dividend paid

Year ended
31 December 2000
£000

5,700
-
-

5,700

Year ended
31 December 1999
£000

-
8,396
8,800

17,196**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

Other
 Deferred tax (see note 9)
 Prepayments and accrued interest

31 December 2000
£000

17
403
3,498

3,918

31 December 1999
£000

4,762
403
4,276

9,441

7. Creditors: amounts falling due within one year

	31 December 2000 £000	31 December 1999 £000
Amounts due to Note Holders (see note 10)	13,069	21,739
Corporation tax payable	2,444	3,136
Other creditors	-	5,509
Accruals and deferred income	4,898	5,645
Dividend	5,700	8,800
	<u>26,111</u>	<u>44,829</u>

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

	31 December 2000 £000	31 December 1999 £000
Amounts due to Note Holders (see note 10)	<u>553,297</u>	<u>663,641</u>

9. Deferred tax asset

	31 December 2000 £000	31 December 1999 £000
Opening balance	403	121
Charge during the year	-	282
Closing balance	<u>403</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 (1999: £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 2000 £000
A1	300,000	300,000	-	-
A2	567,000	157,626	755	408,619
A3	68,000		131	67,869
A4	28,500	-	58	28,442
A5	25,500	-	64	25,436
B	36,000	-	-	36,000
	1,025,000	338,096	1,008	566,366
Falling due within one year				13,069
after one year				553,297
				566,366

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 2000 £	31 December 1999 £
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	7
Retained profit for the year	4
At the end of the year	<u>11</u>

13. Shareholder's funds

	31 December 2000 £000	31 December 1999 £000
Profit for the financial year	5,704	9,307
Dividend	<u>(5,700)</u>	<u>(17,196)</u>
Net addition / (reduction) to shareholders' funds	4	(7,889)
Opening shareholders' funds	19	7,908
Closing shareholders' funds	<u>23</u>	<u>19</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.