

Bnl
070669
130+2

SEAHORSE LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 1998



United Kingdom Oversea Company Number: FC019687

Cayman Islands Company Number: 67337

SEAHORSE LIMITED

CONTENTS

	Pages
Report of the directors	2
Report of the auditors	3
Consolidated profit and loss account	4
Balance sheets	5
Consolidated cash flow statement	6
Notes to the financial statements	7 to 20

SEAHORSE LIMITED

REPORT OF THE DIRECTORS

Statement of directors' responsibilities

The directors are required by UK Company law to prepare consolidated financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group at the end of the financial year and of the profit or loss of the group for that year.

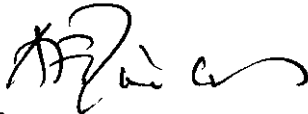
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements have been made in the preparation of the financial statements for the year then ended. The directors also confirm that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements and that the consolidated financial statements have been prepared on a going concern basis.

The directors are responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company and group will be proposed at the annual general meeting.

By order of the Board



Director
On behalf of SPV Management Limited
21 October 1999

REPORT OF THE AUDITORS

TO THE MEMBERS OF SEAHORSE LIMITED

We have audited the financial statements on pages 4 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 2, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and 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 group 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 affairs of the company and group at 31 December 1998 and of the profit and cashflows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985 applicable to Oversea Companies.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Croydon
21 October 1999

SEAHORSE LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	£'000	1998 £'000	£'000	1997 £'000
Continuing operations					
Operating income			58,569		66,893
Income from mortgages subject to non-recourse funding:					
Income		10,504		10,951	
Expenses		(10,396)		(10,823)	
			108		128
Turnover	2		58,677		67,021
Cost of funding	3	(51,497)		(56,033)	
Exceptional cost of funding	4	(1,336)		1,817	
			(52,833)		(54,216)
Gross Profit			5,844		12,805
Administrative expenses	5		(4,644)		(9,171)
Exceptional administrative credit	5		3,107		8,495
Operating profit			4,307		12,129
Interest receivable and similar income			6,189		6,328
Premium received on sale of mortgage assets			-		1,074
Interest payable	6		(6,739)		(12,948)
Profit on ordinary activities before taxation	7		3,757		6,583
Tax on profit on ordinary activities			(2,124)		(5,940)
Retained profit for the year	19		1,633		643

All recognised gains or losses of the group are included in the above profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

SEAHORSE LIMITED

BALANCE SHEETS

AS AT 31 DECEMBER 1998

		Group		Company	
		1998 £'000	1997 £'000	1998 £'000	1997 £'000
Notes					
ASSETS					
Fixed assets					
Tangible assets	10	-	58	-	-
Investments	11	-	-	-	-
		<u>-</u>	<u>58</u>	<u>-</u>	<u>-</u>
Mortgage advances					
Mortgage advances	12	1,020	-	-	-
Mortgage advances securitised	13	496,600	685,999	-	-
Mortgage advances subject to non-recourse funding					
Mortgage advances	14	97,939	118,804	-	-
Less: non-recourse funding	14	(97,939)	(118,804)	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>497,620</u>	<u>685,999</u>	<u>-</u>	<u>-</u>
Current assets					
Debtors:					
Amounts falling due after one year	15	208	-	-	-
Amounts falling due within one year	15	14,441	7,381	4	-
Cash at bank and in hand	16	62,064	60,490	8	8
		<u>76,713</u>	<u>67,871</u>	<u>12</u>	<u>8</u>
Total assets		<u>574,333</u>	<u>753,928</u>	<u>12</u>	<u>8</u>
LIABILITIES AND CAPITAL					
Capital and reserves					
Called up share capital	17	-	-	-	-
Profit and loss account	18	2,190	557	4	2
Equity shareholders' funds	19	2,190	557	4	2
Provisions for liabilities and charges					
	20	4,595	4,388	-	-
Creditors: amounts falling due within one year	21	239,430	23,957	8	6
Creditors: amounts falling due after more than one year	22	328,118	725,026	-	-
Total liabilities and capital		<u>574,333</u>	<u>753,928</u>	<u>12</u>	<u>8</u>

The group has taken advantage of the modifications and exemptions from disclosure that are set out in the Oversea Companies (Accounts) (Modifications and Exemptions) Order 1990.

The financial statements on pages 4 to 20 were approved by the Board of Directors on 21 October 1999 and were signed on its behalf by:

Director
On behalf of SPV Management Limited

SEAHORSE LIMITED

CONSOLIDATED CASH FLOW STATEMENT

AS AT 31 DECEMBER 1998

	Notes	1998 £'000	1997 £'000 Restated
Net cash inflow from operating activities	25	1,269	8,161
Return on investments and servicing of finance			
Interest received		5,158	5,344
Interest paid		(3,944)	(16,104)
Premium paid on redemption of notes		(785)	-
Costs on issue of notes		<u>(1,319)</u>	<u>-</u>
		(890)	(10,760)
Corporation tax paid		(8,048)	(5,741)
Capital expenditure			
Payments to acquire tangible fixed assets	(1)	-	-
Receipts from sale of tangible fixed assets	15	24	24
Redemption of mortgage advances		155,355	173,152
Disposals of mortgage advances		<u>34,037</u>	<u>-</u>
		189,406	173,176
Acquisitions and disposals			
Acquisition of subsidiaries	-	(20,817)	(20,817)
Net cash acquired with subsidiaries	-	2,453	2,453
Disposal of investments	<u>-</u>	<u>14,917</u>	<u>14,917</u>
		-	(3,447)
Management of liquid resources			
Movement in investment deposits		(4,118)	(2,255)
Financing			
Redemption of notes	(551,308)	(173,152)	(173,152)
Short term loans	43,195	7,000	7,000
Repayment of loan	-	(7,000)	(7,000)
Issue of notes	<u>330,000</u>	<u>-</u>	<u>-</u>
		(178,113)	(173,152)
Decrease in net cash		<u>(494)</u>	<u>(14,018)</u>
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the period		(494)	(14,018)
Cash used to increase liquid resources		4,118	2,255
Increase in bank loans		(43,195)	-
Redemption of floating rate notes		551,308	173,152
Issue of floating rate notes		(330,000)	-
Amortisation of capitalised issuer costs		(1,612)	(671)
Capitalisation of issue costs		<u>1,319</u>	<u>-</u>
Change in net debt		181,444	160,718
Net debt at 1 January		<u>(668,436)</u>	<u>(829,154)</u>
Net debt at 31 December	26	<u>(486,992)</u>	<u>(668,436)</u>

The comparative figures have been restated following the reclassification of certain balances in 1998.

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1. Principal accounting policies

These financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and all of its subsidiaries for the year ended 31 December 1998.

Format of financial statements

The group has complied with Financial Reporting Standard Number 5, "Reporting the Substance of Transactions" and, having met the conditions laid down in the Standard, has adopted "linked presentation" in respect of certain mortgage assets managed on behalf of other financial institutions.

The cost of funding heading within the profit and loss account has been adapted from that prescribed by Schedule 4 to the Companies Act 1985 in view of the nature of the business. Mortgage advances have been presented on the face of the balance sheet rather than included as part of current assets. In the opinion of the directors, this departure from the format of Schedule 4 of the Companies Act 1985 is required to give a true and fair view of the state of the group's affairs since to present mortgage advances as part of current assets would not fairly reflect the liquidity of these assets.

Turnover

Turnover is recognised on a receivable basis and represents interest, servicing fees, commissions and miscellaneous income. Interest includes interest recoverable from the Inland Revenue under MIRAS (Mortgage Interest Relief At Source).

Depreciation

Depreciation of tangible fixed assets is provided on a straight-line basis less estimated residual values over their estimated useful lives as follows:

Motor vehicles	4 years
Fixtures Fittings and equipment	4 years
Computer equipment	4 years

Operating leases

Rentals are charged to the profit and loss account on a straight-line basis over the term of the leases. Where the group has vacated or has contracted to vacate space, a provision is established for the estimated net future liability of the space vacated.

Taxation

Corporation tax is provided on taxable profits at the current rate.

Provision is made for deferred taxation, using the liability method on all material timing differences to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred taxation is disclosed as a contingent liability.

Pension costs

The company accounts for pension costs in accordance with the Statement of Standard Accounting Practice No. 24. For the defined contribution scheme the charge recorded in the profit and loss account is the amount of contribution payable in respect of the year plus administration costs incurred by the fund.

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1. Principal accounting policies (Continued)

Investments

Investments in subsidiary undertakings are recorded at cost less provisions for permanent diminution in value.

Mortgage advances

Mortgage advances comprise loans that are secured by way of mortgages over freehold and leasehold residential properties located in the United Kingdom.

Mortgage advances include properties in possession and are stated after deducting a provision for loan losses. The provision is maintained at a level that is considered adequate by management to absorb losses inherent in the loan portfolio of the group. A judgement as to the adequacy of the provision is made at the period end and includes anticipated recoveries under mortgage indemnity guarantees and other insurance policies. Should the provision be judged inadequate either because of reductions due to write-offs or because of changes to the size and characteristics of the portfolio, the provision is increased and charged to administrative expenses in the current period.

Floating rate notes

The floating rate notes outstanding principal balance declines over time as the proceeds from redemptions on mortgage advances are used to repay noteholders, along with accrued interest, on each quarterly interest payment date. Costs relating to the issue of the floating rate notes are deducted from the principal balance on the notes. These costs are charged to the profit and loss account in line with the redemptions of the underlying mortgages. Costs are fully amortised by the earliest date at which the option to redeem the floating rate notes may be exercised.

Goodwill

Goodwill arising prior to the introduction of Financial Reporting Standard No.10 ("FRS10") remains written off in the year of acquisition against reserves in the consolidated balance sheet.

2. Turnover

Contributions to turnover and profit on ordinary activities before taxation were derived from the group's principal activity, which it carried out in the United Kingdom.

3. Cost of funding

	Group 1998 £'000	Group 1997 £'000
Interest payable on floating rate notes	49,807	54,831
Interest payable on bank loans and other loans	78	531
Issue costs charged to the profit and loss account	<u>1,612</u>	<u>671</u>
	<u>51,497</u>	<u>56,033</u>

The interest payable on bank loans and other loans relates to short-term borrowings.

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

4. Exceptional cost of funding

	Group 1998 £'000	Group 1997 £'000
Securitisation charges	1,336	-
Release of BES funding liability	-	(1,817)
	<u>1,336</u>	<u>(1,817)</u>

5. Administrative expenses

	Group 1998 £'000	Group 1997 £'000
Administrative expenses	<u>4,644</u>	<u>9,171</u>
Exceptional administrative expenses/(credit):		
Provision for vacated property	900	-
Provision against mortgage advances	(2,972)	-
Securitisation charges	984	-
Negligence recoveries	<u>(2,019)</u>	<u>(8,495)</u>
	<u>(3,107)</u>	<u>(8,495)</u>
Total administrative expenses	<u>1,537</u>	<u>676</u>

6. Interest payable

	Group 1998 £'000	Group 1997 £'000
Interest payable on bank loan	775	1,178
Interest payable on other loan	388	326
Debenture interest	<u>5,576</u>	<u>11,444</u>
	<u>6,739</u>	<u>12,948</u>

7. Profit on ordinary activities before taxation

	Group 1998 £'000	Group 1997 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of owned assets	43	358
Hire of equipment – operating leases	-	40
Land and buildings – operating leases	1,571	1,571
Auditors' remuneration – audit (company: £2k; 1997: £2k)	130	91
Auditors' remuneration – other services	<u>66</u>	<u>73</u>

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

8. Staff costs

	Group 1998 £'000	Group 1997 £'000
Seconded employee costs during the year amounted to:		
Wages and salaries	3,041	3,250
Social security costs	220	323
Other pension costs	117	192
	<u>3,378</u>	<u>3,765</u>

There were no persons employed by the group in the year. The group's staffing requirements are met through a secondment agreement with a related party and have continued to be paid by the group (see note 27).

The average number of employees seconded under this arrangement during the period was 143 (1997: 143).

9. Profit for the year

As permitted by section 230 of the Companies Act 1985, the company's profit and loss account has not been included in these financial statements. The company's profit for the financial year was £2k (1997: £6k).

10. Tangible fixed assets

Group	Motor Vehicles £'000	Fixtures, Fittings & Equipment £'000	Computer Equipment £'000	Total £'000
Cost				
At 1 January 1998	36	99	3,329	3,464
Additions	-	-	1	1
Disposals	<u>(36)</u>	<u>-</u>	<u>-</u>	<u>(36)</u>
At 31 December 1998	<u>-</u>	<u>99</u>	<u>3,330</u>	<u>3,429</u>
Depreciation				
At 1 January 1998	20	95	3,291	3,406
Charge for the year	-	4	39	43
Disposals	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
At 31 December 1998	<u>-</u>	<u>99</u>	<u>3,330</u>	<u>3,429</u>
Net book value				
At 31 December 1998	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 1997	<u>16</u>	<u>4</u>	<u>38</u>	<u>58</u>

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

11. Fixed asset investments

	Company
Cost:	
At 1 January and at 31 December 1998	<u>£100</u>
Net book value	
At 31 December 1998	<u>£100</u>
At 31 December 1997	<u>£100</u>

SeaHorse Limited owns 100% of the issued share capital of Zophonus Limited, a company registered in the Cayman Islands.

12. Mortgage advances

During the year The Mortgage Corporation ("TMC"), a wholly owned subsidiary of the group purchased certain mortgage advances previously securitised amounting to £1,020k from a fellow subsidiary company at net book value. These mortgage advances have been sold after the year end (see note 28).

13. Mortgage advances securitised

	Group 1998 £'000	Group 1997 £'000
Mortgage advances securitised comprise:		
Mortgage advances	498,679	692,259
Provisions for mortgage related charges	<u>(2,079)</u>	<u>(6,260)</u>
As at 31 December	<u>496,600</u>	<u>685,999</u>

Provisions for mortgage related charges primarily consist of shortfalls on the sale of repossessed properties and associated insurance claims by fellow subsidiary undertakings.

Certain mortgage advances included in the mortgage advances above have been refinanced after the year end (see note 28).

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

14. Mortgage advances subject to non-recourse funding

	Group 1998 £'000	Group 1997 £'000
Mortgage advances	95,425	116,726
Investments	2,514	2,078
	97,939	118,804
Less: Non-recourse funding	(97,939)	(118,804)
	<u>-</u>	<u>-</u>

On 7 August 1996 The Mortgage Corporation ("TMC"), a wholly owned subsidiary of the group, sold the cash flows equating to the future cash flows less 0.1% on a mortgage portfolio of £146.7m to First Active Financial plc (formerly Mortgage Trust Limited) (see note 27). Investments represent redemption proceeds on mortgage debtors.

In accordance with Financial Reporting Standard Number 5 "Reporting the substance of transactions" these mortgages have been included in these accounts using linked presentation, whereby the non-recourse finance is shown deducted from the mortgage debtors. Certain of these mortgage advances have been transferred after the year end (see note 28).

The directors confirm that:

- (a) The group is not obliged to support any losses of its independent providers of finance, nor does it intend so to do; and
- (b) The providers of finance have agreed in writing that they will only seek repayment of the finance, as to both principal and interest, to the extent sufficient funds are generated by or attached to the mortgages they have financed and they will not seek recourse in any other form.

The group has no option or obligation to purchase the mortgages concerned.

15. Debtors

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Amounts falling due in more than one year:				
Other debtors	<u>208</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts falling due within one year:				
Dividends receivable	-	-	4	-
Other debtors	11,736	4,539	-	-
Prepayments and accrued income	<u>2,705</u>	<u>2,842</u>	<u>-</u>	<u>-</u>
	<u>14,441</u>	<u>7,381</u>	<u>4</u>	<u>-</u>

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

16. Cash at bank and in hand

Cash at bank and in hand includes segregated funds of £8,658k (1997:£13,627k) which have been established to meet potential claims by subsidiary undertakings for losses on current repossessed properties. Cash at bank and in hand also includes investment deposits £60,664k (1997:£56,546k).

17. Called up share capital

	Group 1998 £'000	Group 1997 £'000
Authorised		
50,000 Ordinary shares of US\$1 each	<u>31</u>	<u>31</u>
Allotted, called up and fully paid		
2 Ordinary shares of US\$1 each	<u>-</u>	<u>-</u>

All shares carry the same rights and rank pari passu.

18. Reserves

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Profit and loss account				
At 1 January	557	(21)	2	(4)
Retained profit for the year	1,633	643	2	6
Write off of goodwill	<u>-</u>	<u>(65)</u>	<u>-</u>	<u>-</u>
As at 31 December	<u>2,190</u>	<u>557</u>	<u>4</u>	<u>2</u>

19. Reconciliation of equity shareholders' funds

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Opening equity shareholders' funds/(deficit)	557	(21)	2	(4)
Write-off of goodwill	-	(65)	-	-
Retained profit for the year	<u>1,633</u>	<u>643</u>	<u>2</u>	<u>6</u>
Closing equity shareholders' funds	<u>2,190</u>	<u>557</u>	<u>4</u>	<u>2</u>

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

20. Provisions for liabilities and charges

	Group 1998 £'000	Group 1997 £'000
Provisions for liabilities and charges comprise:		
Provisions for mortgage related charges:		
At 1 January	2,322	1,137
Charge for the year	115	1,396
Released during the year	(373)	(211)
As at 31 December	<u>2,064</u>	<u>2,322</u>
Lease costs:		
At 1 January	1,631	3,173
Charge for the year	900	158
Utilised for the year	-	(439)
Released during the year	-	(1,261)
At 31 December	<u>2,531</u>	<u>1,631</u>
Deferred taxation:		
At 1 January	435	435
Transfer to the profit and loss account	(435)	-
At 31 December	<u>-</u>	<u>435</u>
Total provisions at 31 December	<u>4,595</u>	<u>4,388</u>

Provisions for mortgage related charges primarily consist of recoveries for shortfalls on the sale of repossessed properties, the properties being owned by subsidiary undertakings.

Lease costs represent a provision for the estimated future payments on premises sublet by the group. The estimated future payments are net of income from sub-leasing the vacant space.

Deferred taxation arises from timing differences relating to issuer costs.

21. Creditors: amounts falling due within one year

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Overdrafts	86	2,136	-	-
Bank loans – (note a)	35,718	-	-	-
Other loan – (see note 27)	7,477	-	-	-
Debentures – (see note 22 (c))	1,764	1,764	-	-
Floating rate notes – (see note 22 (d))	175,893	-	-	-
Amounts owed to group undertaking	-	-	-	-
Dividends payable	-	-	-	-
Corporation tax	2,516	8,005	-	-
Other taxes and social security	195	340	-	-
Other creditors and accruals	15,781	11,712	8	6
	<u>239,430</u>	<u>23,957</u>	<u>8</u>	<u>6</u>

(a) During 1998 the credit facilities and floating rate notes of two subsidiaries were repaid in full by raising interim financing (bank loans). The interim financing was repaid on 23 April 1999 (see note 28).

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

22. Creditors: amounts falling due after one year

	Group 1998 £'000	Group 1997 £'000
Bank loans – (note a)	10,000	10,000
Other loan – (note b)	5,000	5,000
Debentures – (note c)	19,170	19,170
Floating rate notes – (note d)	<u>293,948</u>	<u>690,856</u>
	<u>328,118</u>	<u>725,026</u>

(a) The bank loan is not repayable by instalments and does not have a fixed date for repayment. It is secured by fixed and floating charges over the assets of the group.

(b) The other loan is not repayable by instalments and does not have a fixed date for repayment. It is secured by fixed and floating charges over the assets of the group.

(c) The debentures are not repayable by instalments and do not have a fixed date for repayment except where they are repayable on demand to the extent that the group has received a return of capital from its investment in subsidiary undertakings. They are secured by fixed and floating charges over the assets of the group.

(d) The total floating rate notes falling due within and after one year comprise:

	Group 1998 £'000	Group 1997 £'000
Principal outstanding	470,951	692,259
Unamortised issue costs	<u>(1,110)</u>	<u>(1,403)</u>
	<u>469,841</u>	<u>690,856</u>

The floating rate notes bear interest at varying rates above LIBOR. They are secured on mortgage advances. The floating rate notes and credit facilities represent the financing obligations of fellow subsidiaries, whose securitised mortgage advances have been separately presented on the balance sheet of the company. These loans were classified as falling due after more than 5 years in 1997. Certain of these balances have been reclassified in 1998 as falling due within one year as the securitised mortgages have been refinanced in 1999 (see note 28).

23. Financial commitments

Lease commitments

The group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings 1998 £'000	Land and Buildings 1997 £'000	Other 1998 £'000	Other 1997 £'000
Operating leases which expire:				
Within 2-5 years	-	-	-	60
After 5 years	<u>1,571</u>	<u>1,571</u>	<u>-</u>	<u>-</u>
	<u>1,571</u>	<u>1,571</u>	<u>-</u>	<u>60</u>

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

24. Pension scheme

Eligible employees of the company participate in The Mortgage Corporation Pension Plan ("the plan"). The plan is a funded pension scheme providing defined contribution benefits and insured death benefits. The assets of the plan are held separately from those of the company and are administered by a Trustee.

The total costs relating to the plan for the year amounted to £117k (1997: £192k)

25. Reconciliation of operating profit to net cash inflow from operating activities

	Group 1998 £'000	Group 1997 £'000 Restated
Operating profit	4,307	12,129
Release of premium	(886)	1,074
Depreciation charges	43	358
Amortisation charges	1,612	671
Loss on sale of tangible fixed assets	1	44
Net change in provision for mortgage related charges	(1,271)	(2,499)
Increase in debtors	(6,237)	(113)
Increase / (decrease) in creditors	2,015	(1,686)
Increase in lease cost provisions	900	-
Premium on redemption of notes	785	-
Release of BES funding liability	-	(1,817)
Net cash inflow from operating activities	<u>1,269</u>	<u>8,161</u>

26. Analysis of changes in net debt

Group	1 January 1998 Restated £'000	Cash flows £'000	Non- Cash Changes £'000	31 December 1998 £'000
Cash in hand and at bank	3,944	(2,544)	-	1,400
Overdrafts	<u>(2,136)</u>	<u>2,050</u>	-	<u>(86)</u>
Net cash	1,808	(494)	-	1,314
Investment deposits	56,546	4,118	-	60,664
Debt falling due in more than one year				
Floating rate notes	(692,259)	221,308	-	(470,951)
Unamortised capitalised issuer costs	1,403	1,319	(1,612)	1,110
Debentures	(19,170)	-	-	(19,170)
Bank/Other loans	(15,000)	-	-	(15,000)
Debt falling due within one year				
Debentures	(1,764)	-	-	(1,764)
Bank loans	<u>-</u>	<u>(43,195)</u>	<u>-</u>	<u>(43,195)</u>
	<u>(668,436)</u>	<u>183,056</u>	<u>(1,612)</u>	<u>(486,992)</u>

Non-cash changes comprise of amortisation of issue costs relating to debt issues. The balances at 1 January 1998 have been restated following the reclassification of certain balances.

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

27. Related party transactions

The group has taken advantage under Financial Reporting Standard No.8, "Related Party Transactions", not to disclose transactions or balances between group entities that have been eliminated on consolidation.

The group has identified the following transactions which are required to be disclosed under the terms of Financial Reporting Standard 8, "Related Party Transactions" ("FRS8")

Transactions with Senior Management

At the balance sheet date The Mortgage Corporation ("TMC"), a wholly owned subsidiary of the group, had entered into one secured loan totaling £89k (1997: £89k) with a senior manager. This is at a commercial rate of interest.

In October 1998 all members of staff were offered a loan to purchase shares in First Active plc, the parent company of First Active Financial plc (formerly Mortgage Trust Limited), a company under common control as defined by FRS8. At the balance sheet date, £28k represented balances outstanding on such loans to senior management (1997:£nil). Interest is charged at a rate of 4% per annum.

Transactions with First Active Financial plc

During 1996, TMC entered into a number of agreements with First Active Financial plc. The following agreements remained effective during 1998:

i) An agreement with First Active Financial plc under which First Active Financial plc acquired cash flows equating to the cash flows less 0.1% on a mortgage portfolio of £146.8million for consideration of £150.8million. The book value of these loans at 31 December 1998 was £95.4 million (1997:£116.7million). TMC continues to administer these mortgage assets on behalf of First Active Financial plc and was due fees in 1998 of £108k (1997:£128k). During the year mortgage advances with a book value of £nil (1997: £628k) were transferred to First Active Financial plc for a consideration of £nil (1997: £628k) under this participation agreement.

First Active Financial plc has a floating charge over TMC's assets as security for these mortgages.

ii) A mortgage sale agreement with First Active Financial plc under which First Active Financial plc purchased a mortgage portfolio of £40.2million for consideration of £41.3million. The book value of these mortgages at 31 December 1998 was £27.8million (1997: £34.8million). TMC continues to administer these mortgage assets on behalf of First Active Financial plc and was due fees in 1998 of £39k (1997: £45k).

iii) TMC sold for consideration of £1 an option to buy the equitable title of the portfolio noted in (i) above. This option is exercisable within 21 years from 7 August 1996.

iv) A secondment agreement under which the employment of all TMC staff were transferred to First Active Financial plc, with the relevant staff then being seconded back to TMC, along with additional staff as required from time to time. TMC pays the costs associated with these staff. In 1998, the company has paid and recharged to First Active Financial plc staff costs for the First Active Financial plc employees of £3.7 million (1997: £2.8million).

v) A consultancy agreement, under which First Active Financial plc can provide consultancy services to the company at the latter's request. During the year TMC paid £nil (1997: £nil) for such services.

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

27. Related party transactions (continued)

Transactions with First Active Financial plc (continued)

During 1997, TMC entered into a number of additional arrangements, the following of which remained effective in 1998:

i) During 1998 First Active Financial plc recharged £367k (1997: £778k) of administrative expenses, incurred on behalf of the company, relating to canteen facilities, systems maintenance and human resource expenditure. First Active Financial plc also charged a management fee to TMC of £12k (1997: £9k).

ii) TMC continues to occupy the same premises as First Active Financial plc. First Active Financial plc pays the lease costs and service charge of the property but has not made a recharge to TMC for its occupancy during the year (1997: £nil).

During 1997 loans totalling £5million were assigned to First Active Financial plc by First Active plc (Formerly First National Building Society) of whom the SeaHorse Group is a quasi subsidiary. Interest accrues on these loans from the date of purchase at base rate and during 1998 the group was obliged to pay interest of £388k (1997: £326k). At 31 December 1998, the company was obliged to pay £5million principle and £388k accrued interest under this agreement.

During 1998, TMC entered into a number of additional arrangements as follows:

i) On 29 April 1998, First Active Financial plc entered into an agreement with a third party to purchase the floating rates notes (FRNs) of certain companies under common control, as defined by FRS8, namely, TMC Mortgage Securities No. 8 Plc, TMC Mortgage Securities No. 9 Plc, TMC Mortgage Securities No. 10 Plc, TMC Mortgage Securities No. 11 Plc, TMC P.I.M.B.S. Plc and TMC P.I.M.B.S. First, Second and Third Financing Plc. As part of this agreement, First Active Financial plc was granted an option to purchase these FRNs, which could be exercised up to 31 December 1998. In doing this, First Active Financial plc paid a premium (purchase value and accrued interest) of £785k. This option was subsequently assigned to TMC for £785k together with an administration fee, payable to First Active Financial plc, of £5k.

TMC Private Placements No.1 Limited, received a loan of £7,029k from First Active Financial plc in order to repurchase its floating rate notes. As at 31 December 1998, the balance outstanding on the loan amounted to £7,477k which incorporates further advances made during the year of £428k. Interest paid on the loan during the year amounted to £367k with an accrued balance at the year end of £3k.

Following the redemption of the FRN's, all mortgage advances held in the above companies (with the exclusion of TMC Mortgage Securities No 8 Plc), were sold. As part of this process, First Active Financial plc purchased all non-performing mortgage advances, together with advances in litigation and possession. These advances were transferred at net book value and amounted to £14,859k on 7 July 1998 (TMC Mortgage Securities Nos. 1,2,4, 5,7,10,11 Plc and TMC P.I.M.B.S. Second Financing Plc), £9,758k on 4 August 1998 (TMC Mortgage Securities Nos. 3, 6 Plc and TMC P.I.M.B.S. First and Third Financing Plc) and £9,410k on 2 September 1998 (TMC Mortgage Securities No 9 Plc and TMC P.I.M.B.S. Plc).

As at 31 December 1998, TMC was owed £4.1million (1997: £3.7million) by First Active Financial plc and First Active Financial plc was owed £883k (1997: £13k) by TMC.

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

27. Related party transactions (continued)

Transactions with MTL (Funding) Mayfair Limited ("Mayfair")

i) During the year CHI No. 1, a wholly owned subsidiary of the SeaHorse Group, collected rental monies and proceeds from the sale of a property on behalf of Mayfair, a company under common control as defined by FRS8. The amounts collected during the year amounted to £nil (1997: £130k).

CHI No.1 holds tenants' deposits on behalf of Mayfair which at 31 December 1998 amounted to £nil (1997: £33k).

At 31 December 1998 the amounts due to Mayfair from the group amounted to £nil (1997: £164k).

ii) During the year CHI No. 2, a wholly owned subsidiary of the SeaHorse Group, collected rental monies on behalf of Mayfair, a company under common control as defined by FRS8. The amounts collected during the year amounted to £nil (1997: £91k).

CHI No.2 holds tenants' deposits on behalf of Mayfair which at 31 December 1998 amounted to £11k (1997: £28k).

At 31 December 1998 the amounts due to Mayfair from the group amounted to £4k (1997: £118k).

iii) During the year CHI No. 3, a wholly owned subsidiary of the SeaHorse Group, collected rental monies on behalf of Mayfair, a company under common control as defined by FRS8. The amounts collected during the year amounted to £nil (1997: £107k).

CHI No.3 holds tenants' deposits on behalf of Mayfair which at 31 December 1998 amounted to £7k (1997: £31k).

At 31 December 1998 the amounts due to Mayfair from the group amounted to £nil (1997: £137k).

Transactions with First Active plc

During 1996, the SeaHorse Group entered into a number of agreements with First Active plc (formerly First National Building Society), of which SeaHorse Limited is a quasi subsidiary. The following agreements remained effective during 1998:

i) A debenture to First Active plc from Zophonius Limited, a wholly owned subsidiary of the group, for a principal amount of £19.9million under which First Active plc is entitled to interest at 1% above LIBOR. As at 31 December 1998 the balance outstanding on this debenture was £19.9million (1997: £19.9million). The interest accrued in the year under this agreement was £1.6million (1997: £1.5million) and the amount outstanding at 31 December 1998 was £1.6million (1997: £6k).

ii) A £10million (1997: £10million) loan to Zophonius Limited From First Active plc on which interest is paid at base rate. The interest accrued under this agreement in the year was £775k (1997: £652k) and the interest outstanding at 31 December 1998 was £866k (1997: £86k).

iii) SeaHorse Group placed deposits with First Active plc of £nil (1997: £471k).

At 31 December 1998 the amounts due to First Active plc from the group amounted to £1,450k (1997: £nil).

SEAHORSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

27. Related party transactions (continued)

Transactions with First Active Holdings UK Limited

During 1996, the SeaHorse Group entered into a number of agreements with First Active Holdings UK Limited (formerly First National Holdings UK Limited), of which SeaHorse Limited is under common control, as defined by FRS8. The following agreements remained effective during 1998:

i) A debenture to First Active plc, which was subsequently assigned to First Active Holdings UK Limited, from Zophonus Limited, for a principal amount of £1million under which First Active Holdings UK Limited is entitled to interest at 1% above LIBOR and any surplus distributable income or capital received within Zophonus Limited. As at 31 December 1998 the balance outstanding on this debenture was £1million (1997: £1million). The interest accrued in the year under this agreement was £3.9million (1997: £9.9million) and the amount outstanding at 31 December 1998 was £5.1million (1997: £1.2million).

ii) A debenture to First Active plc, which was subsequently assigned to First Active Holdings UK Limited, from SeaHorse Limited, for a principal amount of £100 under which First Active Holdings UK Limited is entitled to interest equating to surplus distributable income or capital received within SeaHorse Limited. No amounts were owed under this debenture (1997: £nil).

28. Post balance sheet event

In November 1998 First Active Financial plc, a company under common control, as defined by FRS8, entered into an agreement with a third party to purchase the floating rate notes (FRNs) of certain Special Purpose Vehicles (SPVs), disclosed in notes 21 and 22 of the financial statements. As part of this agreement, First Active Financial plc had been granted an option at a premium of £550k to purchase these FRNs, which could be exercised up to 30 June 1999.

On 23 April 1999, the TMC mortgage advances, certain mortgage advances subject to non recourse funding and 7 SPVs, being fellow subsidiaries of TMC, were refinanced into TMC Tattenham No.2 plc, a fellow subsidiary of TMC, through the issue of £272 million of Floating Rate Notes.

On the same date, First Active Financial plc assigned the option to TMC for £550k together with an administration fee, payable to First Active Financial plc, of £5k. As part of this process, First Active Financial plc purchased all non-performing mortgage advances, together with advances in litigation and possession. These advances were purchased at a net book value of £18,332k from the SPVs and £202k from TMC. At the same time, First Active Financial plc transferred mortgage advances with a net book value of £90,569k to TMC from the mortgage portfolios administered on behalf of First Active Financial plc by TMC.