

Company Registration No: 436088

FARMING AND AGRICULTURAL FINANCE LIMITED

REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 2003

**3 Princess Way,
Redhill,
Surrey
RH1 1NP**



FARMING AND AGRICULTURAL FINANCE LIMITED

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FARMING AND AGRICULTURAL FINANCE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G C Clemett
J McLean

SECRETARY

C J Whittaker

REGISTERED OFFICE

3 Princess Way,
Redhill,
Surrey
RH1 1NP

AUDITORS

Deloitte & Touche LLP
London

Registered in England and Wales

FARMING AND AGRICULTURAL FINANCE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 30 September 2003.

ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company is the provision of credit finance by way of instalment credit and leasing.

The profit after tax for the year was £261,000 (2002: loss £428,000) and this was transferred to reserves. The net amount financed under all forms of financial agreements entered into during the year was £nil (2002: £10,315,747). The directors do not propose to pay a dividend (2002: £nil).

The directors do not anticipate any material change in either the type or level of activities of the company.

DIRECTORS

The names of the present directors and secretary are as listed on page 1.

From 1 October 2002 to date the following changes have taken place:

Directors	Appointed	Resigned
Mr N Pearce		31 May 2003
Mr G C Clemett	1 June 2003	
Mr P R Ibbetson		31 December 2003
Mr J McLean	1 January 2004	

DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing the 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; 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 are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these financial statements comply with the aforementioned requirements.

FARMING AND AGRICULTURAL FINANCE LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

No director had an interest in the shares of the company at any time during the year.

The following director was beneficially interested in:

The Royal Bank of Scotland Group plc ("RBSG") Ordinary shares of £0.25 each

	Shareholdings			Share Options			
	As at 1	As at 30	As at 1	Granted	Exercised		As at 30
	October	September	October	during the period	during the period		September
	2002	2003	2002	Options	Price	Options	Price
	No.	No.	No.	No.	£	No.	£
P R Ibbetson	9,467	10,495	11,293	8,000	12.37	515	4.01
							18,778

As at 30 September 2003 Mr P R Ibbetson also held 2,533 Additional Value Shares in RBSG (1 October 2002: 2,533).

As at 30 September 2003 Mr P R Ibbetson also held 15,752 Floating rate Unsecured Loan notes 2005 in RBSG (1 October 2002: 15,752).

At the year end Mr G C Clemett was also a director of the immediate parent undertaking, Lombard North Central PLC, a company which is itself required to keep a register of directors' interests. His interest in the shares of Royal Bank of Scotland Group plc are disclosed in the accounts of Lombard North Central PLC.

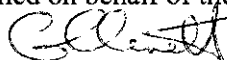
ELECTIVE RESOLUTIONS

Elective Resolutions electing to dispense with the requirement to hold annual general meetings, lay accounts before a general meeting and re-appointment of auditors annually were passed on 8 November 1993.

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 15 September 2003 under the provisions of Section 26 (5) of the Companies Act 1989. The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of Section 386(2) of the Companies Act 1985.

Approved by the Board of Directors
and signed on behalf of the Board



G C Clemett
Director

27 October 2004

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
FARMING AND AGRICULTURAL FINANCE LIMITED**

We have audited the financial statements of Farming and Agricultural Finance Limited for the year ended 30 September 2003, which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

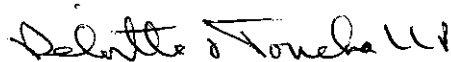
BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom 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 30 September 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London 27 October 2004

FARMING AND AGRICULTURAL FINANCE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	Note	2003 <u>£'000</u>	2002 <u>£'000</u>
Turnover	2	(182)	1,230
Depreciation on tangible fixed assets	8	(51)	(69)
Other operating credit/(charges)		<u>667</u>	<u>(1,222)</u>
Operating profit/(loss)	3	434	(61)
Interest receivable	4	116	323
Interest payable	5	<u>(177)</u>	<u>(825)</u>
Profit/(loss) on ordinary activities before taxation		373	(563)
Taxation (charge)/credit on profit/(loss) on ordinary activities	7	<u>(112)</u>	<u>135</u>
Retained profit/(loss) for the financial year	12	<u><u>261</u></u>	<u><u>(428)</u></u>

All items dealt with in arriving at the profit/(loss) on ordinary activities before taxation for 2003 and 2002 arise from continuing operations.

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £261,000 in the year ended 30 September 2003 and the loss of £428,000 in the year ended 30 September 2002, accordingly no statement of total recognised gains and losses has been presented.

The notes on pages 7 to 15 form part of these financial statements.

FARMING AND AGRICULTURAL FINANCE LIMITED

BALANCE SHEET

AT 30 SEPTEMBER 2003

	Note	2003 <u>£'000</u>	2002 <u>£'000</u>
<u>ASSETS</u>			
FIXED ASSETS			
Tangible assets	8	72	220
Investments	9	<u>10,041</u>	<u>10,041</u>
		10,113	10,261
CURRENT ASSETS			
Debtors falling due within one year	10	5,340	3,299
Debtors falling due after more than one year	10	<u>1,003</u>	<u>2,608</u>
		<u>16,456</u>	<u>16,168</u>
<u>LIABILITIES</u>			
CAPITAL AND RESERVES			
Called up share capital	11	456	456
Share premium account		15	15
Profit and loss account	12	<u>(105)</u>	<u>(366)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	13	366	105
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	14	-	399
CREDITORS			
Amounts falling due within one year	15	<u>16,090</u>	<u>15,664</u>
		<u>16,456</u>	<u>16,168</u>

The financial statements were approved at a meeting of the board of directors on 27 October 2004 and were signed on their behalf by:


 Graham Colin Clemett Director

All of the above share capital relates to equity funds.

The notes on pages 7 to 15 form part of these financial statements.

FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Accounting Convention

The financial statements have been prepared on the basis of historical cost and in accordance with applicable United Kingdom law and accounting standards.

The company's accounts fall within the scope of the Statement of Recommended Practice ("SORP") issued by the Finance & Leasing Association. The accounts have been prepared in accordance with all SORP in the material aspects.

b. Finance Leases

Income from finance leases is recognised over the primary period of the lease in order that pre tax and post tax profits are allocated to accounting periods so as to give a constant periodic rate of return on the net cash investment. Finance lease receivables are stated at the amount of the net investment in the lease.

The balance sheet carrying values of finance lease assets include balances in respect of residual values. Unguaranteed residual values are subject to regular review and movements are reflected via the depreciation charge.

c. Operating Leases

Assets held for use in operating leases are recorded as tangible fixed assets.

Net income from operating leases, after charging interest, depreciation, maintenance and other costs, is credited to the profit and loss account to give a constant periodic return on the operating lease fixed asset throughout the period of the lease.

The balance sheet carrying values of operating lease assets include balances in respect of residual values. Unguaranteed residual values are subject to regular review and movements are reflected via the depreciation charge.

d. Commissions

Commissions payable are charged against profit over the period of the contracts to which they relate.

e. Income from Instalment Credit Business

Where charges on instalment credit agreements are added to the amount financed at the commencement of the agreement, income and unearned charges have been calculated in accordance with a formula known as the 'Rule of 78'. In other transactions, charges are debited to customers' accounts as and when they fall due.

f. Depreciation

Depreciation is provided on tangible fixed assets so as to write them down to their estimated residual value over their estimated useful lives, as follows:-

	<u>Basis</u>	<u>Estimated Useful Life</u>
Assets held for use in operating leases	Actuarial	Term of contract

FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

g. Other Operating Charges

Operating charges includes provisions for bad and doubtful debts and other operating charges. Specific provisions are made against advances for which recovery is considered to be doubtful. General provision is made in respect of losses which, although not separately identified, are from experience to be present in any portfolio of leasing/hire purchase assets. Other operating charges are accounted for on an accruals basis.

h. Deferred Taxation

Deferred tax is provided in full, without discounting, in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax assets are only recognised to the extent that it is regarded that it is more likely than not that they will be recovered. Deferred tax amounts are not discounted.

i. Cash flow statement

As a wholly owned subsidiary of The Royal Bank of Scotland Group plc, the company has taken advantage of the exemption permitted by Financial Reporting Standard 1, 'Cash Flow Statements', and does not prepare a cash flow statement.

j. Investments

Interests in subsidiary undertakings are stated at cost less provision for any permanent impairment in value.

2. TURNOVER

- (i) Turnover represents lease income, charges on instalment credit agreements, mortgage agreements and termination adjustments credited to the profit and loss account during the year, all of which arises in the United Kingdom and is from continuing activities.

	2003 <u>£'000</u>	2002 <u>£'000</u>
(ii) Net amounts financed by instalment credit agreements entered into during the year were as follows:	<u>-</u>	<u>10,316</u>
(iii) Aggregate rentals receivable during the year were as follows:		
Finance leases	1,974	4,166
Operating leases	64	77
Instalment credit agreements	2,717	7,806
	<u>4,755</u>	<u>12,049</u>

FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. OPERATING PROFIT/(LOSS)

There is no charge in this year's financial statements for auditors' remuneration as the fee is to be charged in the financial statements of the immediate parent undertaking (2002: £nil).

4. INTEREST RECEIVABLE	2003 <u>£'000</u>	2002 <u>£'000</u>
From group undertakings	111	323
Other	<u>5</u>	<u>-</u>
	<u>116</u>	<u>323</u>

5. INTEREST PAYABLE	2003 <u>£'000</u>	2002 <u>£'000</u>
On bank loans and overdrafts:		
To group undertakings	177	820
Other	<u>-</u>	<u>5</u>
	<u>177</u>	<u>825</u>

6. EMPLOYEES, DIRECTORS' REMUNERATION AND INTERESTS

No emoluments were paid to any director by the company during the year (2002 - £Nil).

None of the directors had any material interest in any contract of significance in relation to the business of the company (2002 - £nil).

Employee costs are incurred by the immediate parent company, Lombard North Central PLC, and allocated together with other overheads by way of management charge to the company.

FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TAXATION CHARGE/(CREDIT) ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	2003 <u>£'000</u>	2002 <u>£'000</u>
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A) Analysis of (charge)/credit in the year

Current taxation:		
Group relief payable*	435	935
Adjustments in respect of prior years	107	254
Deferred Taxation:		
Origination and reversal of timing differences (note 14)	(323)	(1,104)
Adjustments in respect of prior years (note 14)	(107)	(220)
	<u>112</u>	<u>(135)</u>

* Provision for group relief is made on the assumption that the claimant companies will make payment to the surrendering companies at rates appropriate to the periods in which the losses claimed are utilised.

B) Factors affecting the tax (credit)/charge for the year

Current tax (credited)/charged for the year is different to that resulting from applying the standard rate of corporation tax in the UK: 30% (2002: 30%). The differences are explained below:

	2003 <u>£'000</u>	2002 <u>£'000</u>
Profit/(loss) on ordinary activities before tax	<u>373</u>	<u>(563)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	112	(169)
Effects of:		
Depreciation for the year in excess of capital allowances	-	1,104
Capital allowances in excess of depreciation	(510)	-
Non-deductible items	187	
Adjustments in respect of prior years	107	254
Current tax charge for the year	<u>(104)</u>	<u>1,189</u>
Deferred Taxation:		
Origination and reversal of timing differences (note 14)	323	(1,104)
Adjustments in respect of prior years	(107)	(220)
	<u>112</u>	<u>(135)</u>

FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. TANGIBLE FIXED ASSETS

Assets held
for use in
operating
leases
£'000

Cost

At 1 October 2002	489
Additions	-
Disposals	(210)
At 30 September 2003	<u>279</u>

Depreciation

At 1 October 2002	269
Charge for the year	51
Disposals	(113)
At 30 September 2003	<u>207</u>

Net book value at 30 September 2003	<u>72</u>
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Net book value at 30 September 2002	<u>220</u>
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FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. INVESTMENTS	2003 <u>£'000</u>	2002 <u>£'000</u>
Shares in subsidiary undertakings at cost:		
Cost at 1 October 2002 and 30 September 2003	<u>10,041</u>	<u>10,041</u>
The company holds 100% of the ordinary share capital of the following companies, registered in England and Wales, none of which are currently trading but for which former activities are shown:		
	Accounting Reference Date	
Providing credit finance by way of leasing:		
FAF Contracts Limited	30 June	
Holding company:		
Farming and Agricultural Finance (Holdings) Limited	30 September	
Providing point of sale finance:		
FAF Growbook Limited	30 September	

The company is exempt under Section 228 of the Companies Act 1985 from the obligation to prepare group financial statements as the company is itself a wholly owned subsidiary of Lombard North Central PLC, which is registered in England and Wales. The financial statements present information about the company as an individual undertaking and not about its group.

10. DEBTORS	2003 <u>£'000</u>	2002 <u>£'000</u>
Amounts falling due:		
i) Within one year		
Trade debtors	-	72
Amounts owed by group undertakings	4,769	-
Net investment in finance leases	259	1,381
Net investment in instalment credit agreements	298	1,805
Other debtors	14	41
	<u>5,340</u>	<u>3,299</u>
ii) After more than one year		
Net investment in finance leases	519	1,257
Net investment in instalment credit agreements	453	1,351
Deferred Taxation	31	-
	<u>1,003</u>	<u>2,608</u>
Total debtors	<u>6,343</u>	<u>5,907</u>

FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. CALLED UP SHARE CAPITAL

	2003		2002	
	<u>Authorised</u>	<u>Allotted, called up and fully paid</u>	<u>Authorised</u>	<u>Allotted, fully paid</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Ordinary shares of £1 each	<u>500</u>	<u>456</u>	<u>500</u>	<u>456</u>

12. PROFIT AND LOSS ACCOUNT

	<u>£'000</u>
Balance at 1 October 2002	(366)
Retained profit for the financial year	261
Balance at 30 September 2003	<u>(105)</u>

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2003 £'000</u>	<u>2002 £'000</u>
(Loss)/profit attributable to members of the company	<u>261</u>	<u>(428)</u>
Net movement in shareholders' funds	261	(428)
Opening shareholders' funds	<u>105</u>	<u>533</u>
Closing shareholders' funds	<u>366</u>	<u>105</u>

FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. DEFERRED TAXATION

	2003 £	2002 £
Accelerated capital allowances	(111)	598
Other	80	(199)
	<u>(31)</u>	<u>399</u>
Balance at 1 October 2002	399	
Transfer to profit and loss account (note 7)	(430)	
Balance at 30 September 2003	<u>(31)</u>	

15. CREDITORS

	2003 £'000	2002 £'000
Amounts falling due within one year:		
Amounts owed to group undertakings	15,845	15,171
Other creditors	245	493
	<u>16,090</u>	<u>15,664</u>

16. ULTIMATE PARENT UNDERTAKING

The company's immediate parent company is Lombard North Central PLC.

The company's ultimate holding company, ultimate controlling party, and the parent of the largest group into which the company is consolidated is The Royal Bank of Scotland Group plc that is incorporated in Great Britain and registered in Scotland. Financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.

The smallest subgroup into which the company is consolidated has as its parent company The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland plc, 42 St Andrew Square, Edinburgh, EH2 2YE.

FARMING AND AGRICULTURAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. RELATED PARTY TRANSACTIONS

The company is exempt from the requirement of Financial Reporting Standard 8 'Related Party Disclosures' to disclose transactions and balances with other subsidiaries or investees of The Royal Bank of Scotland Group plc as the company's results are included in the Consolidated Financial Statements of The Royal Bank of Scotland Group plc.