

REGISTERED NUMBER: 519068

PROTON FINANCE LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 1996



REPORT OF THE DIRECTORS

The directors present the audited financial statements of the Company for the year ended 31 December 1996. Because of the change in accounting reference date reported last year, comparative figures are for the fourteen month period ended 31 December 1995.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the provision of unit stocking facilities for motor dealers, consumer finance for motor vehicles through instalment credit agreements and the leasing of passenger cars and other vehicles.

BUSINESS REVIEW AND RESULTS FOR THE PERIOD

During the year ended 31 December 1996, the Company made a profit after taxation of £1,082,000 (1995 - profit £251,000).

DIVIDENDS

No interim dividend was paid (1995 - £804,000) during the period. The directors do not recommend the payment of a final dividend (1995 - £Nil). Reserves carried forward amount to £1,335,000 (1995 - £253,000).

DIRECTORS

A R Achmed	
C D Coles	Resigned 13 May 1997
J L Davies	Resigned 22 January 1997
S W Green	
J M Hayes	
P F Hook	Appointed 22 January 1997
R Maclachlan	Appointed 15 April 1997
D K Potts	
P J Stones	Resigned 8 April 1997
M Zainal	Resigned 1 March 1997
J A S Oliver	Appointed 1 March 1997

Except where noted above all directors served throughout the period.

INTERESTS IN SHARE CAPITAL

The directors' beneficial interests in ordinary shares of 25p each in the Company's ultimate parent undertaking, Lloyds TSB Group plc, at 1 January 1996 and at 31 December 1996 are shown below:

	<u>31.12.96</u>		<u>1.1.96</u>	
	<u>Shares</u>	<u>Shares under option</u>	<u>Shares</u>	<u>Shares under option</u>
C D Coles	1,174	9,532	617	7,487
J L Davies	150	138,856	150	123,356
S W Green	2,090	-	2,090	-
J M Hayes	3,800	-	3,800	-
D K Potts	27,433	35,531	5,226	58,429
P J Stones	1,600	32,076	-	19,486

The options to purchase shares were granted under the terms of the executive share option and sharesave schemes of the Lloyds TSB Group plc, and are exercisable in normal circumstances between 1997 and 2006 at prices ranging from 103 pence to 321 pence per share.

Net changes in options shown above arose as a result of the grant and exercise of options during the period. Movements in options during the period are shown below:

	<u>Type of Scheme</u>	<u>Number of options granted</u>	<u>Number of options exercised</u>
C D Coles	Sharesave	2,045	-
	Executive	-	-
J L Davies	Sharesave	-	-
	Executive	15,500	-
D K Potts	Sharesave	1,363	3,073
	Executive	6,750	27,938
P J Stones	Sharesave	4,090	-
	Executive	8,500	-

Except as disclosed above, no director held any interests in shares or debentures of Lloyds TSB Group plc or any of its subsidiary undertakings at 1 January 1996, or at 31 December 1996.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company's ultimate parent undertaking maintains directors' and officers' liability insurance in respect of Lloyds TSB Group plc and its subsidiary undertakings.

By order of the board


J H Ross
Secretary

18 June, 1997

RESPONSIBILITY STATEMENTS OF DIRECTORS AND AUDITORS

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the Statement of Auditors' Responsibilities set out below, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements. The directors are required by the Companies Act 1985 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 for the financial year.

The directors consider that in preparing pages 5 to 14 of the financial statements the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The directors are required to prepare the financial statements on a going concern basis unless this is inappropriate.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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.

Statement of auditors' responsibilities

The auditors are responsible for forming an independent opinion on the financial statements presented by the directors, based on their audit, and for reporting their opinion to members. They also have the responsibility under the Companies Act 1985 to report to members if particular requirements are not met. These requirements are:

- that the Company has maintained proper accounting records and obtained proper returns from branches not visited by the auditors;
- that the financial statements are in agreement with the accounting records;
- that directors' emoluments and other transactions with directors are properly disclosed in the financial statements; and
- that they have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the directors' report on pages 1 and 2. However, the Companies Act 1985 requires the auditors to report to members if the matters contained in the directors' report are inconsistent with the rest of the financial statements.

AUDITORS' REPORT TO THE MEMBERS OF PROTON FINANCE LIMITED

We have audited pages 5 to 14 of the financial statements.

Respective responsibilities of directors and auditors

As described on page 3 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

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 accounts. 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 as at 31 December 1996 and of the profit of the Company 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

London

31 July, 1997

PROFIT AND LOSS ACCOUNT

		<u>Year ended</u> <u>31 December</u> <u>1996</u> £'000	<u>Fourteen months</u> <u>ended</u> <u>31 December</u> <u>1995</u> £'000
	<u>Note</u>		
Turnover	1	122,208	120,939
Cost of sales		115,807	114,662
		<hr/>	<hr/>
Gross profit		6,401	6,277
Administrative expenses		1,516	4,787
		<hr/>	<hr/>
Operating profit		4,885	1,490
Interest payable to immediate parent company		3,311	1,132
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3	1,574	358
Tax on profit on ordinary activities	5	492	107
		<hr/>	<hr/>
Profit on ordinary activities after taxation for the period		1,082	251
Dividends paid	6	-	804
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation and dividends for the period		1,082	(553)
Balance brought forward		253	806
		<hr/>	<hr/>
Balance carried forward		1,335	253
		<hr/> <hr/>	<hr/> <hr/>

There are no recognised gains or losses other than those shown in the profit and loss account. All items dealt with in the profit and loss account relate to continuing operations.

The notes on pages 8 to 14 form an integral part of these financial statements.

BALANCE SHEET

		<u>As at</u> <u>31 December</u> <u>1996</u> £'000	<u>As at</u> <u>31 December</u> <u>1995</u> £'000
	<u>Note</u>		
CURRENT ASSETS			
Debtors			
Trade debtors	7	58,345	31,426
Other debtors		1,096	484
		<u>59,441</u>	<u>31,910</u>
Creditors: Amounts falling due within one year			
Amounts owed to immediate parent undertaking	8	35,404	22,841
Other creditors	9	1,037	219
Accruals and deferred income		145	77
		<u>36,586</u>	<u>23,137</u>
Net liabilities due within one year		(10,149)	(5,967)
Net assets due after one year		33,004	14,740
Net current assets		22,855	8,773
Creditors: Amounts falling due after one year			
Amounts owed to immediate parent undertaking	8	21,500	8,500
Net assets		<u>1,355</u>	<u>273</u>
CAPITAL AND RESERVES			
Called up share capital	10	20	20
Profit and loss account		1,335	253
Shareholders' funds		<u>1,355</u>	<u>273</u>

Approved by the board of directors on 18 June, 1997

P F Hook

J A S Oliver

The notes on pages 8 to 14 form an integral part of these financial statements.

CASH FLOW STATEMENT

		<u>Year ended</u> <u>31 December</u> <u>1996</u> £'000	<u>Fourteen months</u> <u>ended</u> <u>31 December</u> <u>1995</u> £'000
	<u>Note</u>		
Net cash flow from operating activities	11(a)	(22,142)	53,991
Servicing of finance:			
Interest paid		(3,311)	(1,132)
Dividends paid		-	(804)
Net cash flow from servicing of finance		(3,311)	(1,936)
Taxation:			
Tax paid		(110)	(244)
Tax received		-	-
Net tax paid		(110)	(244)
Net cash flow before financing		(25,563)	51,811
Financing:			
Increase in intercompany fixed term loans	11(b)	26,500	15,000
Share capital issued		-	20
Net cash flow from financing		26,500	15,020
Increase in cash and cash equivalents	11(c)	937	66,831

The notes on pages 8 to 14 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared under the historic cost convention, and in accordance with applicable accounting standards.

Turnover

Turnover represents the total of sales, income earned on instalment credit business, interest income, rents receivable on leasing business, proceeds from the disposal of leased assets and insurance commission.

Income earned on instalment credit agreements

In the case of such business where the charges are added to the amount lent at the commencement of the period the general principle adopted for crediting income, net of commissions, to the profit and loss account is to spread the income over the period in which repayments are due in proportion to the reducing balance outstanding, using the "rule of 78".

Finance Leases

Income from finance leases, net of commissions, is credited to the profit and loss account in proportion to the net funds invested using the actuarial method. Finance leases are included in the balance sheet as advances to customers at amounts based on the discounted value of rentals.

Unit Stocking

Finance is provided for unit stocking on which interest is charged and taken to profit on a daily basis on balances outstanding.

Provisions for bad and doubtful debts

Specific provisions are made against advances which are recognised to be bad or doubtful. In addition, general provisions are maintained to cover bad and doubtful debts which may be present at the year end in the portfolio of advances but which have not been specifically identified.

Deferred Taxation

Provision is made in the financial statements for deferred taxation arising from timing differences between the accounting and taxation treatment of assets on lease except to the extent that the potential tax liability is not expected to arise in the foreseeable future. The rates of taxation used are those which are expected to apply in the year in which the timing differences are expected ultimately to reverse.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. INSTALMENT CREDIT ACTIVITY

- a) Cost of assets acquired for use in instalment credit and finance lease agreements.

	<u>Year ended</u> <u>31 December</u> <u>1996</u> <u>£'000</u>	<u>Fourteen months</u> <u>ended</u> <u>31 December</u> <u>1995</u> <u>£'000</u>
Instalment credit	51,463	47,222
Finance leases	1,356	24
	<u>52,819</u>	<u>47,246</u>

- b) Amounts receivable during the period under finance agreements.

	<u>Year ended</u> <u>31 December</u> <u>1996</u> <u>£'000</u>	<u>Fourteen months</u> <u>ended</u> <u>31 December</u> <u>1995</u> <u>£'000</u>
Instalment credit repayments	31,524	99,169
Finance lease rentals	103	92
	<u>31,627</u>	<u>99,261</u>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>Year ended</u> <u>31 December</u> <u>1996</u> <u>£'000</u>	<u>Fourteen months</u> <u>ended</u> <u>31 December</u> <u>1995</u> <u>£'000</u>
This is stated after charging:		
Auditors remuneration - audit	9	7
- non audit	-	-
Management fee to the immediate parent undertaking	671	5,898

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. DIRECTORS/EMPLOYEES EMOLUMENTS

	<u>Year ended</u> <u>31 December</u> <u>1996</u> £	<u>Fourteen months</u> <u>ended</u> <u>31 December</u> <u>1995</u> £
Total directors' emoluments for services to the Company	68,096	49,739
Chairman's emoluments	-	-
Highest paid director's emoluments (excluding pension contribution)	60,622	44,307

All of the other seven director's emoluments, excluding pension contributions, fell within the £0 - £5,000 band (1995 - seven).

Other than as stated above, the Company had no employees (1995 - Nil).

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) UK Corporation Tax @ 33% (1995: 33%)

	<u>Year ended</u> <u>31 December</u> <u>1996</u> £'000	<u>Fourteen months</u> <u>ended</u> <u>31 December</u> <u>1995</u> £'000
Based on profit for the period	492	107
	<u>492</u>	<u>107</u>

(b) Deferred Taxation

Deferred tax liabilities of £67,000 (1995 - Nil) relating to capital allowances have been recognised in these financial statements.

6. DIVIDENDS

	<u>Year ended</u> <u>31 December</u> <u>1996</u> £'000	<u>Fourteen months</u> <u>Year ended</u> <u>31 December</u> <u>1995</u> £'000
Interim	Nil	804

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. TRADE DEBTORS

	<u>Note</u>	<u>1996</u> £'000	<u>1995</u> £'000
Receivable on instalment credit balances	7(a)	46,779	21,810
Receivable on leased assets	7(b)	1,267	23
Consignment stock loans		7,781	8,943
Other advances		2,518	650
		<u>58,345</u>	<u>31,426</u>

(a) RECEIVABLE ON
INSTALMENT CREDIT
BALANCES

	<u>Gross</u> <u>Investment</u> £'000	<u>Finance</u> <u>Charges</u> £'000	<u>Net</u> <u>Investment</u> £'000
<u>At 31 December 1996</u>			
Due within one year	19,348	4,782	14,566
Due after one year	36,620	4,407	32,213
	<u>55,968</u>	<u>9,189</u>	<u>46,779</u>
<u>At 31 December 1995</u>			
Due within one year	9,460	2,380	7,080
Due after one year	17,048	2,318	14,730
	<u>26,508</u>	<u>4,698</u>	<u>21,810</u>

(b) RECEIVABLE ON
LEASED ASSETS

	<u>Gross</u> <u>Investment</u> £'000	<u>Finance</u> <u>Charges</u> £'000	<u>Net</u> <u>Investment</u> £'000
<u>At 31 December 1996</u>			
Due within one year	577	101	476
Due after one year	850	59	791
	<u>1,427</u>	<u>160</u>	<u>1,267</u>
<u>At 31 December 1995</u>			
Due within one year	15	2	13
Due after one year	12	2	10
	<u>27</u>	<u>4</u>	<u>23</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. AMOUNTS OWED TO IMMEDIATE PARENT UNDERTAKING

	<u>1996</u> £'000	<u>1995</u> £'000
Repayable - within one year	35,404	22,841
- between one and five years	21,500	8,500
	<u>56,904</u>	<u>31,341</u>

The above includes fixed term loans of £41,500,000 (1995 - £15,000,000) which are at fixed rates of interest based upon LIBOR applicable at the dates of drawdown of the loans.

9. OTHER CREDITORS

	<u>1996</u> £'000	<u>1995</u> £'000
Taxation	489	107
Other	548	112
	<u>1,037</u>	<u>219</u>

10. CALLED UP SHARE CAPITAL

	<u>1996</u> £	<u>1995</u> £
Authorised		
100 ordinary shares of £1 each	-	-
9,999 'A' ordinary shares of £1 each	9,999	9,999
10,001 'B' ordinary shares of £1 each	10,001	10,001
	<u>20,000</u>	<u>20,000</u>
Allotted, called up and fully paid		
3 ordinary shares of £1 each	-	-
9,999 'A' ordinary shares of £1 each	9,999	9,999
10,001 'B' ordinary shares of £1 each	10,001	10,001
	<u>20,000</u>	<u>20,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. CASH FLOW STATEMENT

	<u>Year ended</u> <u>31 December</u> <u>1996</u> <u>£'000</u>	<u>Fourteen months</u> <u>ended</u> <u>31 December</u> <u>1995</u> <u>£'000</u>
(a) Reconciliation of operating profit before taxation to net cash flow from operating activities		
Operating profit	4,885	1,490
(Increase)/decrease in debtors	(27,531)	53,760
Increase/(decrease) in creditors	504	(1,259)
Net cash flow from operating activities	<u>(22,142)</u>	<u>53,991</u>

	<u>Year ended</u> <u>31 December</u> <u>1996</u> <u>£'000</u>	<u>Fourteen months</u> <u>Year ended</u> <u>31 December</u> <u>1995</u> <u>£'000</u>
(b) Analysis of the change in intercompany fixed term loans		
Balance at beginning of period	15,000	-
Loan advances	34,250	15,000
Loan repayments	(7,750)	-
Change in intercompany fixed term loans	26,500	15,000
Balance at end of period	<u>41,500</u>	<u>15,000</u>

	<u>Year ended</u> <u>31 December</u> <u>1996</u> <u>£'000</u>	<u>Fourteen months</u> <u>Year ended</u> <u>31 December</u> <u>1995</u> <u>£'000</u>
(c) Analysis of the balances of cash and cash equivalents		
Intercompany funding at beginning of period	16,341	83,172
Intercompany funding at end of period	15,404	16,341
Increase in cash and cash equivalents	<u>937</u>	<u>66,831</u>

12. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The Company is a joint venture between United Dominions Trust Limited (50.005%) and Proton Cars (UK) Ltd (49.995%).

The Company's immediate parent undertaking is United Dominions Trust Limited which is registered in England and Wales. The consolidated accounts of United Dominions Trust Limited are available from the Secretary, United Dominions Trust Limited, 116 Cockfosters Road, Barnet, Herts, EN4 0DY.

The Company's ultimate parent undertaking is Lloyds TSB Group plc which is registered in Scotland. The consolidated accounts of Lloyds TSB Group plc are available from the Secretary, Lloyds TSB Group plc, 71 Lombard Street, London, EC3P 3BS.