

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS)
FINANCE LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 1998



ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)

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ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

Results

The results for the year ended 31 December 1998 are incorporated within the accompanying profit and loss account.

The Directors do not recommend the payment of a dividend.

Principal activities

The Company undertakes leasing services for commercial and industrial customers in the public and private sectors. No change in the Company's activities is anticipated.

Directors

Mr G W Evans resigned as a Director of the Company on 16 March 1998 and Mr K V Smithson resigned as a Director of the Company on 30 July 1999.

The Directors of the Company who held office at 31 December 1998 served throughout the year. Their names and interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, as required to be disclosed under the Companies Act 1985, are set out below:

Interests in shares of HSBC Holdings plc

	<u>At 1 January 1998</u>			<u>At 31 December 1998</u>		
	<u>Shares</u>	<u>Options</u>	<u>Bonds</u>	<u>Shares</u>	<u>Options</u>	<u>Bonds</u>
D W Gilman	5,350	18,535	-	3,550	21,535	-
T V Holmes	2,291	13,976	-	2,373	14,476	-
G E Picken	1,660	27,683	-	1,660	36,183	-
N P Quinn	-	13,000	-	-	17,500	-
K V Smithson	-	1,271	-	-	4,271	-
W G W Stein	116	20,914	-	-	27,134	-

During the year options over shares were granted/exercised as follows:

	<u>Granted</u>	<u>Exercised</u>
D W Gilman	3,000	-
T V Holmes	3,500	3,000
G E Picken	8,500	-
N P Quinn	4,500	-
K V Smithson	3,000	-
W G W Stein	6,220	-

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities, 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.

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998
(CONTINUED)

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 are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors consider that in preparing 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 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 a 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.

Supplier payment policy

The Company has subscribed to the Confederation of British Industry Prompt Payers Code for all suppliers. Information about the Code may be obtained from the CBI. In applying the Code, the company will settle the terms of payment with those suppliers when agreeing the terms of each transaction; ensure that those suppliers are made aware of the terms of payment; and abide by the terms of payment.

During the year ended 31 December 1998, the Company only received goods and services from group undertakings. Part VI of Schedule 7 of the Companies Act 1985, setting out the reporting requirements in relation to the policy and practice on payment of creditors is, therefore, not applicable.

Year 2000

The company adopts the Year 2000 conformity requirements issued by the British Standards Institution ('BSI') as its definition of Year 2000 compliance.

The Company has assessed the impact of Year 2000 and does not expect its operations to be disrupted up to, during and after the turn of the millennium, as a result of the Company's systems not being Year 2000 compliant.

The Year 2000 compliance programme ('Programme') involves testing all relevant systems to ensure that they are Year 2000 compliant.

The costs of the Year 2000 modifications have been assessed on a group basis and are incorporated within the report of HSBC Asset Finance (UK) Limited (formerly Forward Trust Group Limited).

The directors are satisfied with the overall progress of the programme to date.

Registered Office:
54 Hagley Road
Birmingham
B16 8PE

Date:

09 NOV 1999

By Order of the Board


.....
D W Gilman
Director

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ASSETFINANCE DECEMBER (F) LIMITED (FORMERLY FORWARD TRUST
BUSINESS FINANCE LIMITED)**

We have audited the financial statements on pages 4 to 11.

Respective responsibilities of directors and auditors

As described on pages 1 and 2 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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 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 at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

9/11/99

KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 Cornwall Street
Birmingham
B3 2DL

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	<u>1998</u> £	<u>1997</u> £
Turnover		18,004,770	19,936,105
Cost of sales		(11,693,266)	(12,473,331)
Administrative expenses	3	(1,373,983)	(1,727,080)
Interest receivable	4	169,027	310,503
Interest payable	4	(5,492,987)	(7,362,947)
<u>Loss on ordinary activities before taxation</u>		(386,439)	(1,316,750)
Tax charge on loss on ordinary activities	5	(417,541)	(7,636,398)
<u>Loss on ordinary activities after taxation and retained for the financial year</u>		(803,980)	(8,953,148)
Accumulated losses brought forward		(17,016,445)	(8,063,297)
Accumulated losses carried forward		(17,820,425)	(17,016,445)

The company has revised the presentation of the profit and loss account to disclose cost of sales separately (see note 1(c)).


There were no material acquisitions and no discontinued operations during the year.

There have been no other recognised gains or losses other than the loss for the financial year as stated above.

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
BALANCE SHEET AS AT 31 DECEMBER 1998

	Note	<u>1998</u>	<u>1997</u>
		£	£
Fixed assets			
Tangible fixed assets	6	28,118,554	49,160,926
Current assets			
Debtors: amounts falling due within one year:			
Lease agreements	7	14,386,461	27,498,958
Other debtors		-	9,597
		<u>14,386,461</u>	<u>27,508,555</u>
Debtors: amounts falling due after more than one year:			
Lease agreements	7	9,733,043	26,210,157
		<u>24,119,504</u>	<u>53,718,712</u>
Creditors: amounts falling due within one year:			
Obligations under finance leases with parent undertakings	8	1,233,521	3,132,884
Amounts owed to parent undertakings		57,052,753	101,125,370
Value added tax		1,907,145	1,642,406
Accruals and deferred income		1,092,919	2,168,101
		<u>61,286,338</u>	<u>108,068,761</u>
Total assets less current liabilities		(9,048,280)	(5,189,123)
Creditors: amounts falling due after more than one year:			
Obligations under finance leases with parent undertakings	8	-	219,014
Provisions for liabilities and charges	9	<u>6,272,145</u>	<u>9,108,308</u>
NET LIABILITIES		<u>(15,320,425)</u>	<u>(14,516,445)</u>
Capital and reserves			
Called up share capital	11	2,500,000	2,500,000
Profit and loss account - deficit		<u>(17,820,425)</u>	<u>(17,016,445)</u>
		<u>(15,320,425)</u>	<u>(14,516,445)</u>

These financial statements were approved by the Board of Directors on **09 NOV 1999** and were signed on its behalf by:


D W Gilman
 Director

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
NOTES ON THE FINANCIAL STATEMENTS

1. **ACCOUNTING POLICIES**

The accounting policies adopted by the Company are set out below.

a) **Basis of Preparation**

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

In accordance with Financial Reporting Standard Number 1 "Cash Flow Statements", no cash flow statement is presented as all voting rights are controlled by HSBC Holdings plc which publishes such a statement in its own publicly available accounts.

The Company has taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard Number 8 "Related Party Disclosures" and has not disclosed details of transactions with entities that are part of the HSBC Group or with investees of that Group qualifying as related parties.

b) **Income Release**

i) **Leasing**

Income from leasing contracts, other than those with major recourse or other similar agreements, is credited to the profit and loss account in proportion to the funds invested.

Where leasing contracts are covered by major recourse or other similar agreements, income is released to maintain the book amount of the asset at a value consistent with the contractual arrangements.

Leasing balances are stated in the balance sheet after the deduction of unearned charges, provision for reduced future rentals and grant equalisation.

ii) **Leasing Obligations**

Leasing debtors, for which the underlying assets are held under finance leases, are recognised in the balance sheet, the income from which is credited to the profit and loss account in proportion to the funds invested.

The interest element of rental obligations is charged to the profit and loss account over the period of the lease, and in proportion to the capital outstanding.

iii) **Regional Development Grants**

Grants are released to the profit and loss account through an equalisation account in accordance with the income policy for leasing.

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
NOTES ON THE FINANCIAL STATEMENTS

1. **ACCOUNTING POLICIES (Continued)**

c) **Turnover**

Turnover represents the amounts (excluding Value Added Tax) derived from finance leases and operating leases. This business is operated entirely within the United Kingdom.

During the year, the company has revised its profit and loss account presentation to disclose operating lease cost of sales as a separate item (previously included within turnover). This change has no effect on the overall result for the year.

d) **Tangible Fixed Assets and Depreciation**

Fleet vehicles are depreciated over the period of the relevant hirer's rental contract to an estimated residual value on an actuarial basis to reflect the interest expense to the Company.

e) **Bad Debts**

Lease agreements in debtors are written off to the extent that there is no realistic prospect of recovery. Specific provisions are made to reduce all impaired balances to their expected realisable values. General provisions are made on the basis of past experience, current economic conditions and other relevant factors to provide for losses not yet specifically identified.

f) **Taxation**

The charge for taxation is based on the loss for the year and recognises deferred taxation, calculated on the liability method, to the extent that it is considered that a liability will crystallise. The Company is able to participate in arrangements whereby tax losses may be surrendered for nil consideration by other group undertakings, which will support any residual liability.

2. **ACCUMULATED LOSSES**

The accumulated losses being greater than the called up share capital gives rise to there being an excess of liabilities over assets. The financial statements have been prepared under the going concern concept because the parent undertaking has agreed to provide adequate funding for the Company to meet its liabilities as they fall due.

3. **ADMINISTRATIVE EXPENSES**

Administrative expenses include movements in bad debt provisions and £1,422,987 (1997 : £1,374,074) in respect of group management charges. The Directors made no charge for their services. Audit fees are borne by another group undertaking.

4. **INTEREST RECEIVABLE/(PAYABLE)**

All interest receivable was due from parent undertakings.

All interest payable was due to parent undertakings and includes £196,595 receivable (1997 : £1,285) in respect of finance lease charges.

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
NOTES ON THE FINANCIAL STATEMENTS

5. **TAXATION ON LOSS ON ORDINARY ACTIVITIES**

The charge for taxation comprises:	<u>1998</u>	<u>1997</u>
	£	£
Group relief payable		
- current year	3,573,268	4,604,767
- prior year	(319,564)	(4,215)
Deferred taxation		
- current year	(3,663,347)	3,347,255
- prior year	827,184	(311,409)
	<hr/>	<hr/>
	417,541	7,636,398
	<hr/>	<hr/>

6. **TANGIBLE FIXED ASSETS**

Operating lease assets

<u>Cost</u>	£
At 1 January 1998	76,833,179
Additions	33,522
Disposals	(23,288,810)
At 31 December 1998	<hr/> 53,577,891 <hr/>

Depreciation

At 1 January 1998	27,672,253
Charge for the year	11,693,266
Disposals	(13,906,182)
At 31 December 1998	<hr/> 25,459,337 <hr/>
Net book value at 31 December 1998	<hr/> 28,118,554 <hr/>
Net book value at 31 December 1997	<hr/> 49,160,926 <hr/>

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
NOTES ON THE FINANCIAL STATEMENTS

7. **DEBTORS**

Lease agreements:

During the year assets valued at £900 (1997 : £738,513) were acquired for use in finance lease agreements.

The balances outstanding on lease agreements, all of which are finance leases, are stated after deducting unearned charges of £2,092,422 (1997 : £5,552,128) and a provision of £2,017,500 (1997 : £1,706,433) in respect of rental rebates and grant equalisation.

Aggregate lease rentals receivable in the financial year from finance leases were £18,349,518 (1997 : £23,070,169).

Aggregate lease rentals receivable in the financial year from operating leases were £15,549,068 (1997 : £16,446,153).

8. **OBLIGATIONS UNDER FINANCE LEASES WITH GROUP UNDERTAKINGS**

	<u>1998</u>	<u>1997</u>
	£	£
Amounts payable:		
Within one year	1,233,521	3,215,729
Within two to five years	-	224,805
	-----	-----
	1,233,521	3,440,534
Less:		
Finance charges allocated to future periods	-	88,636
	-----	-----
	1,233,521	3,351,898
	-----	-----
Obligations under finance leases:		
Amounts falling due within one year	1,233,521	3,132,884
Amounts falling due after more than one year	-	219,014
	-----	-----
	1,233,521	3,351,898
	-----	-----

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
NOTES ON THE FINANCIAL STATEMENTS

9. **PROVISIONS FOR LIABILITIES AND CHARGES**

	Deferred taxation £
As at 1 January 1998	9,108,308
Transfer to profit and loss account	(2,836,163)

As at 31 December 1998	6,272,145

The amounts provided for deferred taxation and the amounts not provided are set out below:

	<u>1998</u>		<u>1997</u>	
	Provided £	Unprovided £	Provided £	Unprovided £
Leasing transactions	6,272,145	-	9,108,308	-
	-----	-----	-----	-----

10. **RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>1998</u> £	<u>1997</u> £
Loss on ordinary activities after taxation and retained for the financial year	(803,980)	(8,953,148)
Opening shareholders' funds - deficit	(14,516,445)	(5,563,297)
	-----	-----
Closing shareholders' funds - deficit	(15,320,425)	(14,516,445)
	-----	-----

Shareholders' funds are wholly attributable to equity shareholders.

ASSETFINANCE DECEMBER (F) LIMITED
(FORMERLY FORWARD TRUST BUSINESS FINANCE LIMITED)
NOTES ON THE FINANCIAL STATEMENTS

11. **SHARE CAPITAL**

	<u>1998</u>	<u>1997</u>
	£	£
Authorised		
Ordinary shares of £1 each	5,000,000	5,000,000
	-----	-----
Allotted, called up and fully paid		
Ordinary shares of £1 each	2,500,000	2,500,000
	-----	-----

12. **PARENT UNDERTAKINGS**

The ultimate parent undertaking (which is the ultimate controlling party) and the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is HSBC Holdings plc, and the parent undertaking of the smallest such group is HSBC Asset Finance (UK) Limited (formerly Forward Trust Group Limited). The immediate holding company is HSBC Equipment Finance (UK) Limited (formerly Forward Trust Limited).

The result of the Company is included in the group financial statements of HSBC Asset Finance (UK) Limited (formerly Forward Trust Group Limited) and HSBC Holdings plc. Copies of the group financial statements may be obtained from the following addresses:

HSBC Asset Finance (UK) Limited
 (formerly Forward Trust Group Limited)
 12 Calthorpe Road
 Edgbaston
 Birmingham
 B15 1QZ

HSBC Holdings plc
 10 Lower Thames Street
 London
 EC3R 6AE