

MIDLAND MONTAGU LEASING (AF) LIMITED

FINANCIAL STATEMENTS

30 JUNE 1997



MIDLAND MONTAGU LEASING (AF) LIMITED

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MIDLAND MONTAGU LEASING (AF) LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1997

Results

The results for the year ended 30 June 1997 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

Messrs T V Holmes, N P Quinn, K V Smithson and W G W Stein were appointed Directors of the Company on 1 April 1997. Mr W F Devenish was appointed as a Director of the Company on 14 April 1997.

Mr P C Aldridge resigned as a Director of the Company on 14 April 1997 and Mr G W Evans resigned as a Director of the Company on 16 March 1998.

The Directors of the Company who held office at 30 June 1997 served throughout the year, except where indicated. 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 July 1996</u> <u>(or date of appointment if later)</u>			<u>At 30 June 1997</u>		
	<u>Shares</u>	<u>Options</u>	<u>Bonds</u>	<u>Shares</u>	<u>Options</u>	<u>Bonds</u>
W F Devenish (appt. 14.4.97)	1	1,273	-	1	1,527	-
G W Evans	3,742	12,021	-	3,857	16,521	-
D W Gilman	10,750	14,535	-	5,350	18,535	-
T V Holmes (appt. 1.4.97)	2,873	13,976	-	2,266	13,976	-
G E Picken	3,521	29,273	-	2,772	27,683	-
N P Quinn (appt. 1.4.97)	-	13,000	-	-	13,000	-
K V Smithson (appt. 1.4.97)	-	-	-	-	1,271	-
W G W Stein (appt. 1.4.97)	1,956	20,660	-	115	20,660	-

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

	<u>Granted</u>	<u>Exercised</u>
W F Devenish (appt. 14.4.97)	254	-
G W Evans	4,500	-
D W Gilman	4,000	-
T V Holmes (appt. 1.4.97)	-	-
G E Picken	8,500	10,090
N P Quinn (appt. 1.4.97)	-	-
K V Smithson (appt. 1.4.97)	1,271	-
W G W Stein (appt. 1.4.97)	-	-

MIDLAND MONTAGU LEASING (AF) LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1997 (CONTINUED)

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.

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

In respect of the year ending 30 June 1998 and in relation to goods and services supplied by third party suppliers, the Company will subscribe to the Confederation of British Industry Prompt Payers code. 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.

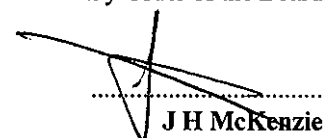
During the year ended 30 June 1997, the Company only received goods and services from group undertakings. Part VI of Schedule 7 of the Companies Act 1985, setting out the reporting requirements in relation to the policy and practice on payment of creditors is, therefore, not applicable.

Auditors

KPMG resigned as auditors of the Company on 1 August 1996 and KPMG Audit Plc were appointed auditors of the Company in their place.

Registered Office:
54 Hagley Road
Birmingham
B16 8PE

By Order of the Board



J H McKenzie
Secretary

Date: 29 APR 1998

REPORT OF THE AUDITORS TO THE MEMBERS OF MIDLAND MONTAGU LEASING (AF) LIMITED

We have audited the financial statements on pages 4 to 10.

Respective responsibilities of directors and auditors

As described on page 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 30 June 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

VP16 Audit Plc

30/4/98

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

MIDLAND MONTAGU LEASING (AF) LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1997

	Note	<u>1997</u> £	<u>1996</u> £
Turnover		1,113,061	1,837,735
Administrative expenses	3	(481,958)	198,616
Interest receivable	4	146,824	261,557
Interest payable	4	(1,348,201)	(1,126,043)
<u>(Loss)/profit on ordinary activities before taxation</u>		(570,274)	1,171,865
Tax credit/(charge) on (loss)/profit on ordinary activities	5	337,239	(49,787)
<u>(Loss)/profit on ordinary activities after taxation and retained for the year</u>		(233,035)	1,122,078
Accumulated losses brought forward		(4,104,842)	(5,226,920)
Accumulated losses carried forward		(4,337,877)	(4,104,842)

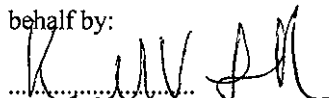
There were no material acquisitions and no discontinued operations during the year.

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

MIDLAND MONTAGU LEASING (AF) LIMITED
BALANCE SHEET AS AT 30 JUNE 1997

	Note	1997 £	1996 £
Current assets			
Debtors: amounts falling due within one year:	6		
Lease agreements		40,265,121	5,048,704
Amounts owed by parent undertakings		4,799,193	3,665,591
Value added tax		5,651,289	-
Other debtors		-	23,552
		50,715,603	8,737,847
Debtors: amounts falling due after more than one year:	6		
Lease agreements		4,720,721	9,415,682
		55,436,324	18,153,529
Creditors: amounts falling due within one year:			
Obligations under finance leases with parent undertakings		1,073,303	1,507,813
Amounts owed to parent undertakings		54,806,503	17,895,435
Value added tax		-	599,154
		55,879,806	20,002,402
Net current liabilities		(443,482)	(1,848,873)
Creditors: amounts falling due after more than one year:			
Obligations under finance leases with parent undertakings	7	744,865	1,822,696
Provisions for liabilities and charges	8	3,149,430	433,173
NET LIABILITIES		(4,337,777)	(4,104,742)
Capital and reserves			
Called up share capital	10	100	100
Profit and loss account		(4,337,877)	(4,104,842)
		(4,337,777)	(4,104,742)

These financial statements were approved by the Board of Directors on 29 APR 1998 and were signed on its behalf by:


K V Smithson
Director

MIDLAND MONTAGU LEASING (AF) 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 (revised 1996) "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 and provision for reduced future rentals.

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) **Tax Credit Equalisation**

Since rates for leasing in the UK reflect the tax benefits which will continue to accrue to the Company from the decline in corporation tax rates and which have been taken into account in arriving at the tax credit, a provision in the form of tax credit equalisation has been made, to reduce leasing balances to amounts which equate with the principal element of future rentals.

MIDLAND MONTAGU LEASING (AF) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

1. **ACCOUNTING POLICIES (Continued)**

c) **Turnover**

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

d) **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.

e) **Taxation**

The credit 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 £539,536 (1996 : £253,597) 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 £138,578 (1996 : £238,264) in respect of finance lease charges.

MIDLAND MONTAGU LEASING (AF) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

5. **TAXATION ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES**

The (credit) / charge for taxation comprises:

	<u>1997</u>	<u>1996</u>
	£	£
Group relief (receivable)/payable		
- current year	(2,951,053)	(386,780)
- prior year	(99,215)	2,767
Deferred taxation		
- current year	2,716,257	278,003
- prior year	-	(1,097)
Transfer for the year to tax credit equalisation reserve	(3,228)	156,894
	-----	-----
	(337,239)	49,787
	-----	-----

The company has made full provision for deferred taxation at 30 June 1997. This has had the effect of increasing the effective tax rate for the year.

6. **DEBTORS**

Lease agreements:

During the year assets valued at £36,253,495 (1996 : £15,146) 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 £632,882 (1996 : £1,935,824) and a provision of £864,965 (1996 : £773,450) in respect of rental rebates and tax credit equalisation.

Aggregate lease rentals receivable in the financial year were £3,413,798 (1996 : £5,205,841).

MIDLAND MONTAGU LEASING (AF) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

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

	<u>1997</u>	<u>1996</u>
	£	£
Amounts payable:		
Within one year	1,178,164	1,704,372
Within two to five years	815,358	3,251,765
	-----	-----
	1,993,522	4,956,137
Less:		
Finance charges allocated to future periods	175,354	1,625,628
	-----	-----
	1,818,168	3,330,509
	-----	-----
Obligations under finance leases:		
Amounts falling due within one year	1,073,303	1,507,813
Amounts falling due after more than one year	744,865	1,822,696
	-----	-----
	1,818,168	3,330,509
	-----	-----

8. **PROVISIONS FOR LIABILITIES AND CHARGES**

	Deferred taxation £
As at 1 July 1996	433,173
Transfer from profit and loss account	2,716,257

As at 30 June 1997	3,149,430

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

	<u>1997</u>		<u>1996</u>
	Provided	Unprovided	Provided
	£	£	£
Leasing transactions	3,149,430	-	433,173
	-----	-----	-----
			240,842

MIDLAND MONTAGU LEASING (AF) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

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

	<u>1997</u>	<u>1996</u>
	£	£
(Loss) / profit on ordinary activities after taxation and retained for the financial year	(233,035)	1,122,078
Opening shareholders' deficit	(4,104,742)	(5,226,820)
Closing shareholders' deficit	(4,337,777)	(4,104,742)

Shareholders' funds are wholly attributable to equity shareholders.

10. **SHARE CAPITAL**

	<u>1997</u>	<u>1996</u>
	£	£
Authorised		
Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
Ordinary shares of £1 each	100	100

11. **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 (which is also the immediate controlling undertaking) of the smallest such Group is Forward Trust Group Limited (formerly Forward Trust Limited). The immediate holding company is Midland Montagu Leasing Limited.

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

Forward Trust Group Limited
(formerly Forward Trust Limited)
12 Calthorpe Road
Edgbaston
Birmingham
B15 1QZ

HSBC Holdings plc
10 Lower Thames Street
London
EC3R 6AE