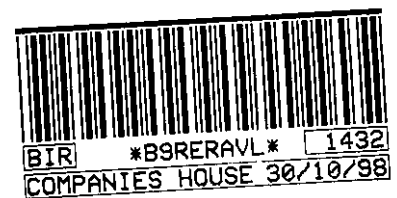


MIDLAND GILLET LEASING (NORTH) LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 1997



MIDLAND GILLET LEASING (NORTH) LIMITED

Contents	Page
Directors' report	1 - 2
Auditors' report	3
Profit and loss account	4
Balance sheet	5
Notes	6 - 11

MIDLAND GILLETT LEASING (NORTH) LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997

Results

The results for the year ended 31 December 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 and Mr W F Devenish was appointed as a Director on 14 April 1997.

Mr P C Aldridge resigned as a Director of the Company on 1 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 31 December 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 January 1997</u> <u>(or at date of appointment if later)</u>			<u>At 31 December 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	1,527	-	1	1,527	-
G W Evans	3,791	12,021	-	3,894	16,521	-
D W Gilman	7,600	14,535	-	5,350	18,535	-
T V Holmes (appt. 1.4.97)	2,873	13,976	-	2,291	13,976	-
G E Picken	3,521	29,273	-	1,660	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	-	116	20,914	-

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

	<u>Granted</u>	<u>Exercised</u>
W F Devenish (appt. 14.4.97)	-	-
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)	254	-

MIDLAND GILLETT LEASING (NORTH) LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 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

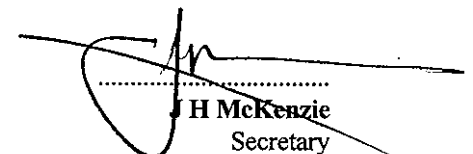
In respect of the year ending 31 December 1998 and in relation to goods and services supplied by third party suppliers, the Company will subscribe to the Confederation of British Industry Prompt Payers code. Information about the code may be obtained from the CBI.

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 31 December 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.

Registered Office:
54 Hagley Road
Birmingham
B16 8PE

By Order of the Board


J H McKenzie
Secretary

Date: **29 OCT 1998**

REPORT OF THE AUDITORS TO THE MEMBERS OF MIDLAND GILLETT LEASING (NORTH) LIMITED

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

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 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

29/10/98

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

MIDLAND GILLET LEASING (NORTH) LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	<u>1997</u> £000	<u>1996</u> £000
Turnover		7,311	737
Administrative expenses	3	(1,475)	(790)
Interest payable	4	<u>(6,500)</u>	<u>(1,918)</u>
<u>Loss on ordinary activities before taxation</u>		(664)	(1,971)
Tax (charge)/credit	5	<u>(3,637)</u>	<u>1,075</u>
<u>Loss on ordinary activities after taxation and retained for the year</u>		(4,301)	(896)
Accumulated losses brought forward		(1,626)	(730)
Accumulated losses carried forward		<u>(5,927)</u>	<u>(1,626)</u>

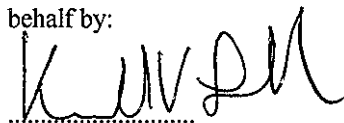
There were no material acquisitions and no discontinued operations during the year.

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

MIDLAND GILLETT LEASING (NORTH) LIMITED
BALANCE SHEET AS AT 31 DECEMBER 1997

	Note	<u>1997</u> £000	<u>1996</u> £000
Fixed assets			
Tangible fixed assets	6	11,383	-
Current assets			
Debtors: amounts falling due within one year:	7		
Advances		132	-
Lease agreements		27,844	11,371
Amounts owed by parent undertakings		-	8,527
Value added tax		-	11,340
Other debtors		179	209
		28,155	31,447
Debtors: amounts falling due after more than one year:	7		
Advances		-	1,496
Lease agreements		92,047	134,011
		120,202	166,954
Creditors: amounts falling due within one year:			
Amounts owed to parent undertakings		117,425	147,165
Other loans	8	-	7,029
Value added tax		18	-
Accruals and deferred income		176	-
		117,619	154,194
Total assets less current liabilities		13,966	12,760
Provisions for liabilities and charges	9	19,888	14,381
NET LIABILITIES		(5,922)	(1,621)
Capital and reserves			
Called up share capital	11	5	5
Profit and loss account - deficit		(5,927)	(1,626)
		(5,922)	(1,621)

These financial statements were approved by the Board of Directors on
 behalf by:



K V Smithson
 Director

and were signed on its

29 OCT 1998

MIDLAND GILLET LEASING (NORTH) 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, provision for reduced future rentals and grant equalisation.

ii) **Partnership Income**

The company invests in a partnership, income from which is included in profit based on the latest available management accounts. The balance due from the partnership is included in advances.

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.

iv) **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.

MIDLAND GILLETT LEASING (NORTH) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

1. **ACCOUNTING POLICIES (Continued)**

c) **Turnover**

Turnover represents the amounts (excluding value added tax) derived from finance leases, operating leases and partnerships. This business is operated entirely within the United Kingdom.

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 £1,065,329 (1996 : £762,000) in respect of group management charges. The Directors made no charge for their services. Audit fees are borne by another group undertaking.

MIDLAND GILLETT LEASING (NORTH) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

4. **INTEREST PAYABLE**

	<u>1997</u>	<u>1996</u>
	<u>£000</u>	<u>£000</u>
Interest payable on amounts due to parent undertakings	6,352	1,693
Interest on other loan	148	225
	<u>6,500</u>	<u>1,918</u>

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

The charge/(credit) for taxation comprises:	<u>1997</u>	<u>1996</u>
	<u>£000</u>	<u>£000</u>
Group relief (receivable) / payable		
- current year	(2,162)	(7,295)
- prior year	292	37
Deferred taxation		
- current year	5,852	6,183
- prior year	(345)	-
	<u>3,637</u>	<u>(1,075)</u>

The Company has made full provision for deferred taxation at 31 December 1997. This has had the effect of increasing the tax charge for the year.

MIDLAND GILLET LEASING (NORTH) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

6. TANGIBLE FIXED ASSETS

Operating lease assets:

	<u>£000</u>
Cost	
At 1 January 1997	-
Reclassifications	12,948
Disposals	(21)

At 31 December 1997	12,927

Depreciation	
At 1 January 1997	-
Reclassifications	1,552
Disposals	(8)

At 31 December 1997	1,544

Net book value	
At 31 December 1997	11,383

At 31 December 1996	-

Certain contract hire agreements have been reclassified as operating leases (1996: finance leases) as this is considered to be in accordance with SSAP 21. This change has no effect on the overall result for the year.

7. DEBTORS

i) Lease agreements:

During the year assets valued at £8,892,889 (1996 : £109,940,000) 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 £18,582,089 (1996 : £24,083,000) and a provision of £1,991,669 (1996 : £4,205,000) in respect of rental rebates, tax credit equalisation and grant equalisation.

Aggregate lease rentals receivable in the financial year from finance leases were £28,306,025 (1996 : £6,841,329).

Aggregate lease rentals receivable in the financial year from operating leases were £2,493,009 (1996 : £Nil).

MIDLAND GILLETT LEASING (NORTH) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

7. **DEBTORS (CONTINUED)**

ii) Advances:

In the opinion of the directors, advances are valued at no less than the amounts shown in the balance sheet.

The Company had an interest in the following partnership:

<u>Interest</u>	<u>Partnership Name</u>	<u>Principal activities</u>
25%	North Sea Marine Leasing	Leasing activities

8. **OTHER LOAN**

This was a loan of £3 million together with accrued interest thereon at 7.5% per annum, repaid during the year.

9. **PROVISIONS FOR LIABILITIES AND CHARGES**

	Deferred taxation £000
As at 1 January 1997	14,381
Transfer from profit and loss account	5,507

As at 31 December 1997	19,888

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

	<u>1997</u>		<u>1996</u>	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Leasing transactions	19,888	-	14,381	5,753
	-----	-----	-----	-----

MIDLAND GILLET LEASING (NORTH) LIMITED
NOTES ON THE FINANCIAL STATEMENTS

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

	<u>1997</u>	<u>1996</u>
	£000	£000
Loss on ordinary activities after taxation	(4,301)	(896)
and retained for the year		
Opening shareholders' funds - deficit	(1,621)	(725)
	-----	-----
Closing shareholders' funds - deficit	(5,922)	(1,621)
	-----	-----
Shareholders' funds are wholly attributable to equity shareholders.		

11. **SHARE CAPITAL**

	<u>1997</u>	<u>1996</u>
	£	£
Authorised		
Ordinary shares of £1 each	5,000	5,000
	-----	-----
Allotted, called up and fully paid		
Ordinary shares of £1 each	5,000	5,000
	-----	-----

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 (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