

HIGHWAY VEHICLE LEASING LIMITED

Report and Financial Statements

31 January 1991



Touche Ross & Co  
Chartered Accountants  
8 Melville Crescent  
Edinburgh EH3 7PQ

Company Number

1523965

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DIRECTORS AND ADVISERS

DIRECTORS

A A Dunn, LLB, Chairman  
P M Knox, Joint Managing Director  
D G Anderson, MBA, CA, Joint Managing Director  
D A Boon  
A Orr

SECRETARY

D M MacLeod, BA CA

REGISTERED OFFICE

1 Little New Street  
London EC4A 3TR

AUDITORS

Touche Ross & Co  
Chartered Accountants  
8 Melville Crescent  
Edinburgh EH3 7PQ

BANKERS

Bank of Scotland  
Polmont Branch  
Station Road  
Brightons  
Falkirk FK2 0TU

COMPANY NUMBER

1523965



**DIRECTORS' REPORT**

The directors have pleasure in submitting their annual report, together with the audited financial statements for the year ended 31 January 1991.

**PRINCIPAL ACTIVITY**

The principal activity of the company throughout the year comprised the leasing and contract hire of motor vehicles.

**DEVELOPMENTS AND PROSPECTS**

The more difficult trading conditions foreshadowed towards the end of 1989 materialised in 1990, but with a severity and breadth which was quite remarkable. Given these circumstances the quality and scale of Highway's business, together with prompt reaction to exceptional trading conditions, enabled the company to produce a solid performance during the year. We believe the effects of the recession will now diminish, albeit very slowly, and this together with the action we have already taken over the last eighteen months, enables us to view the future with cautious optimism.

**RESULTS AND DIVIDEND**

The trading of the company, after providing for all expenses, has resulted in a profit of £943,000 for the year after taxation. Dividends totalling £150,000 have been paid or proposed as shown in note 8, and the retained profit amounting to £793,000 has been transferred to reserves.

**DIRECTORS**

The present directors of the company are listed on page 2. All directors served throughout the year with the exception of A Orr who was appointed to the board on 3 December 1990.

No director had any notifiable interests in the shares of the company or any other group company during the year, apart from those disclosed in the accounts of the ultimate holding company, Highway Finance Holdings Limited.

**AUDITORS/**



DIRECTORS' REPORT (Contd)

AUDITORS

Messrs. Touche Ross & Co, Chartered Accountants, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board

Secretary

11 July 1991



**Chartered Accountants**

Touche Ross & Co.  
8 Melville Crescent  
Edinburgh EH3 7PQ

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International + 44 31 225 6834  
Telex: 778662 TRGLAS G  
Fax (Gp. 3): 031 225 4049

**AUDITORS' REPORT TO THE MEMBERS OF  
HIGHWAY VEHICLE LEASING LIMITED**

We have audited the financial statements on pages 6 to 18 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 January 1991 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants  
Edinburgh

11 July 1991

Member  
**DRT** International

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Aberdeen, Belfast, Birmingham, Bolton, Boumemouth, Bracknell, Bristol, Cambridge, Cardiff, Chester, Coleraine, Crawley, Croydon, Darford, Dudley, Edinburgh, Glasgow, Hull, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newark, Newcastle upon Tyne, Newport, Newry, Nottingham, Peterborough, Southampton, Swansea and Uxbridge.

Principal place of business at which a list of partners' names is available:  
Hill House, 1 Little New Street, London EC4A 3JR

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.



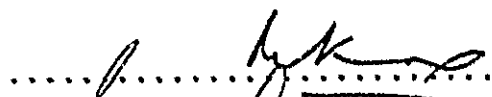

**PROFIT AND LOSS ACCOUNT - YEAR ENDED 31 JANUARY 1991**

	Note	£'000	1990 £'000
Turnover	2	43,910	37,210
Direct costs		39,350	32,248
Gross Profit		4,560	4,962
Administrative expenses		(3,219)	(2,723)
Interest receivable		370	416
Profit before exceptional item		1,711	2,655
Exceptional item	3	(482)	-
Profit on ordinary activities before taxation	4	1,229	2,655
Tax on profit on ordinary activities	7	406	943
Profit on ordinary activities after taxation for the financial year		823	1,712
Dividends paid and proposed	8	150	200
Profit for the year retained		673	1,512
Profit and loss account brought forward		6,417	4,905
Profit and loss account carried forward		7,090	6,417

**BALANCE SHEET - 31 JANUARY 1991**

	Note	£'000	1990 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	61,799	57,079
<b>CURRENT ASSETS</b>			
Debtors	10	7,495	5,526
Cash at bank and in hand		2,142	3,450
		9,637	8,976
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Trade creditors		3,206	4,504
Amount owed to group company		750	-
Other creditors including taxation and social security	11	2,683	2,647
Proposed dividend	8	150	100
		6,789	7,251
<b>NET CURRENT ASSETS</b>		2,848	1,725
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		64,647	58,804
<b>PROVISION FOR LIABILITIES AND CHARGES</b>			
Deferred taxation	12	(1,113)	(1,329)
<b>DEFERRED INCOME</b>		(2,912)	(2,559)
<b>LEASE PURCHASE LIABILITIES</b>	13	(53,182)	(48,149)
		7,440	6,767
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	350	350
Profit and Loss account		7,090	6,417
		7,440	6,767

The financial statements were approved by the Board of Directors on 11 July 1991.

.....  Director  
 .....  Director





HIGHWAY VEHICLE LEASING LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED 31 JANUARY 1991

SOURCE OF FUNDS	£'000	£'000	1990 £'000
Profit before taxation		1,229	2,655
Adjustment for items not involving the movement of funds:			
Depreciation		15,464	13,082
Loss on disposal of fixed assets		813	198
		-----	-----
Total generated from operations		17,506	15,935
Increase in lease purchase finance		5,033	11,157
Sale of fixed assets		10,942	9,370
		-----	-----
		33,481	36,462
		-----	-----
APPLICATION OF FUNDS			
Purchase of fixed assets	31,939		36,923
Taxation paid	641		430
Dividend paid	100		125
	-----		-----
		32,680	37,478
		-----	-----
		801	(1,016)
		-----	-----
(INCREASE)/DECREASE IN WORKING CAPITAL			
Increase in debtors	(1,969)		(2,695)
(Decrease)/Increase in trade creditors	(1,298)		1,349
Increase in other creditors	55		537
Increase/(decrease) in amount due to group companies	750		(353)
Increase/(decrease) in deferred income	353		(12)
	-----		-----
		(2,109)	(1,174)
		-----	-----
(DECREASE) IN CASH AT BANK AND IN HAND			
		(1,308)	(2,190)
		=====	=====

NOTES TO THE ACCOUNTS - YEAR ENDED 31 JANUARY 1991

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with statements of standard accounting practice issued by UK accountancy bodies. The particular accounting policies adopted are described below.

(a) Accounting Convention

The financial statements have been prepared under the historical cost convention.

(b) Leases - with funders

Vehicles acquired under finance leases and the related lease purchase liabilities are recorded in the balance sheet at the fair value of the vehicles at the inception of the leases. The amounts by which the lease payments exceed the recorded lease purchase liabilities represent finance costs which are charged over each lease term to give a constant rate of charge on the remaining balance of the liability.

(c) Leases - with customers

(i) Contract hire

Vehicles leased to customers under contract hire arrangements are treated as operating leases. Rentals are recognised in the profit and loss account on a straight line basis over the term of the contract.

Profit on each hire contract is credited to the profit and loss account evenly over the term of the contract. The cost of each vehicle, less estimated residual value, is spread over the contract term in such a way that depreciation taken together with the related finance cost (see note 1(b) above) amounts to a constant charge throughout the period of the lease.

(ii) Hire purchase contracts

Vehicles which are sold to customers under hire purchase contracts are treated as disposals in the amount of their net book value. Amounts receivable from customers are shown in the balance sheet as debtors.

Rentals/



NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991

1. ACCOUNTING POLICIES (Contd)

Rentals receivable from customers are apportioned between finance income and repayment of the debtor balance in such a way that the amount of finance income recorded in each hire period represents a constant rate of return on the outstanding debtor balance.

(d) Depreciation of Fixed Assets

No depreciation is charged on heritable property since in the directors' opinion its useful life is long and residual value will remain at a high level through proper care and maintenance. Leasehold improvements are depreciated in equal annual instalments over the remainder of the lease.

All other fixed assets are depreciated over their expected useful lives as follows:-

Contract hire vehicles	see (c) above
Company and service vehicles	as for contract vehicles, but over a 5 year term
Furniture and fittings	25% Reducing balance
Computer equipment	Evenly over 7 years

(e) Deferred Taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

(f) Pension Costs

The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme, in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

2. TURNOVER

Turnover represents the net invoice value of vehicle sales and rental income attributable to the year, excluding value added tax.

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NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991

3. EXCEPTIONAL ITEM

	£	1990 £
Exceptional item	482	-
	=====	=====

The recession in the UK economy severely affected the values of ex-contract vehicles disposed of in the used car market during the year. In particular, the latter half of 1990 saw residual values fall to unprecedented low levels due to the collapse in demand for ex-contract vehicles. Whilst the worst effects of the reduced demand was experienced in the period from September 1990 to January 1991, these conditions have continued until May 1991 when some improvement in residual values has been experienced.

The exceptional cost to the company in the period arising from these unforeseeable market conditions has been provided in these accounts.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	£'000	£'000
The profit on ordinary activities before taxation is arrived at after charging the following items:		
Depreciation	15,464	13,082
Auditors' remuneration	24	22
Directors' emoluments (Note 5)	228	218
Interest (Note 6)	7,001	4,959
	=====	=====
and crediting:		
Rental income under operating leases	30,079	24,595
Management fee from fellow subsidiary	1,325	1,358
	=====	=====

5./

**NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991**

**5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

(a) Directors	1990	
	£'000	£'000
Fees	Nil	Nil
	=====	=====
Management remuneration (including pension contributions)	228	218
	=====	=====
Emoluments (excluding pension contributions) have been paid as follows:-		
Chairman and highest paid director	72	70
	=====	=====
Number of other directors whose emoluments were within the scales indicated are	No	No
£ 5,001 - £10,000	1	~
£25,001 - £30,000	-	1
£30,001 - £35,000	1	-
£40,001 - £45,000	1	1
£65,001 - £70,000	1	1
	=====	=====
(b) Employees:	£'000	
	£'000	£'000
Aggregate remuneration	1,442	1,219
Social security costs	133	111
Other pension costs	40	33
	=====	=====
	No	No
Average numbers employed	115	95
	=====	=====

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**NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991**

**6. INTEREST COSTS**

	£'000	1990 £'000
On sums repayable within five years:		
Lease purchase	6,868	4,811
Bank overdraft	133	148
	-----	-----
	7,001	4,959
	=====	=====

Lease purchase interest and bank overdraft interest are included as direct costs in the profit and loss account.

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	£'000	£'000
United Kingdom corporation tax at 34.2% (1990: 35%) based on the profit for the year	564	489
Deferred taxation	(158)	454
	-----	-----
	406	943
	=====	=====

**8. DIVIDENDS**

	£'000	£'000
Paid - Nil (1990: 28.5713p per share)	-	100
Proposed - 42.8569p per share (1990: 28.5713p per share)	150	100
	-----	-----
	150	200
	=====	=====

9./

NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991

9. TANGIBLE ASSETS

Cost	Contract Vehicles £'000	Service Vehicles £'000	Company Vehicles £'000	Computer Equipment & Fittings £'000	Furniture £'000	Leasehold		Total £'000
						Improve- ments £'000	Heritable property £'000	
At 1.2.90	71,794	1,070	527	636	453	220	371	75,071
Additions	30,682	807	360	43	35	9	3	31,939
Disposals	(21,846)	(712)	(324)	-	(1)	-	-	(22,883)
At 31.1.91	80,630	1,165	563	679	487	229	374	84,127

Aggregate Depreciation

At 1.2.90	17,145	269	86	257	214	21	-	17,992
Charge	14,924	260	107	93	67	13	-	15,464
Disposals	(10,829)	(210)	(89)	-	-	-	-	(11,128)
At 31.1.91	21,240	319	104	350	281	34	-	22,328

Net Book Value

At 31.1.91	59,390	846	459	329	206	195	374	61,799
At 31.1.90	54,649	801	441	379	239	199	371	57,079

The net book value of contract vehicles includes £53,182,000 (1990 - £48,149,000) in respect of vehicles held under finance leases with funders.

**NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991**

**10. DEBTORS**

	£'000	1990 £'000
Trade debtors	1,813	1,829
Amounts receivable under hire purchase contracts	1,272	374
Amount owed by group companies	1,952	1,422
Other debtors	1,507	1,444
Prepayments and accrued income	951	457
	-----	-----
	7,495	5,526
	=====	=====

The cost of vehicles acquired for the purpose of hire purchase contracts during the year was £1,156,000 (1990 - £389,000). Rentals receivable in the year ended 31 January 1990 amounted to £356,412 (1990 - £31,000).

Of amounts receivable under hire purchase contracts, £717,728 is due after more than one year (1990 - £215,000).

**11. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY**

	£'000	£'000
Taxation (including VAT) and social security	1,803	1,675
Accrued charges	488	375
Other creditors	392	597
	-----	-----
	2,683	2,647
	=====	=====

12./



NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991

12. DEFERRED TAXATION

The amounts of deferred taxation provided in the accounts and the full potential liability are:

		Provided 1990	Full potential liability 1990
	£'000	£'000	£'000
Capital allowances in excess of depreciation	1,309	1,367	2,515
Interest receivable	111	40	111
Other	(216)	(45)	(216)
	-----	-----	-----
	1,204	1,362	2,410
Less: ACT on dividends paid and proposed	(91)	(33)	(91)
	-----	-----	-----
	1,113	1,329	2,319
	=====	=====	=====

The movement in deferred taxation is reflected in the charge to the profit and loss account (see Note 7).

13. LEASE PURCHASE LIABILITIES

Lease purchase liabilities represent instalments outstanding on Lease Purchase and Conditional Sale Agreements which are entered into in order to finance vehicle purchases. Agreements are entered into for periods of up to three years on both fixed and variable interest terms, the rate on existing fixed rate agreements varying from 9.87% to 14.57%.

These liabilities are repayable as follows:-

	1990	1990
	£'000	£'000
Within 12 months	26,027	21,500
Beyond 12 months	27,155	26,649
	-----	-----
	53,182	48,149
	=====	=====

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NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991

13. LEASE PURCHASE LIABILITIES (Contd)

The liabilities are structured such that repayments are matched by contracted future rental income and ultimate vehicle sales proceeds. The directors consider that to classify that portion of the liability repayable within twelve months as a current liability (as required by the Companies Act 1985) would fail to show a true and fair view of the company's state of affairs since it would materially distort the net current assets position.

Lease purchase liabilities are secured over the related vehicles.

14. CALLED UP SHARE CAPITAL

	£'000	1990 £'000
Authorised:		
500,000 ordinary shares of £1 each	500	500
	=====	=====
Allotted and fully paid:		
350,002 ordinary shares of £1 each	350	350
	=====	=====

15. SUBSIDIARY COMPANY

	£'000	£'000
Shares in subsidiary at cost,		
less amounts written off	-	-
	=====	=====

The subsidiary company, which is wholly owned, is Overseas Cars Limited, a dormant company registered in England. Consolidated accounts for the company and its subsidiary are not prepared because Highway Vehicle Leasing Limited is itself a wholly owned subsidiary.

16./



**NOTES TO THE ACCOUNTS (Continued) - YEAR ENDED 31 JANUARY 1991**

**16. PENSION SCHEME**

The company is part of a consortium which operates a defined benefit pension scheme for all qualified employees. Contributions are based on pension costs across the consortium as a whole. The assets of the scheme are held in a separate trustee administered fund. The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out as at June 1987, using the projected unit method, in which the actuarial liability makes allowances for projected earnings. The following actuarial assumptions were applied:

Investment returns	9% per annum
Salary growth	8% per annum

At the last actuarial valuation date, the market value of the assets of the scheme was £334,000 and this actuarial value was sufficient to cover 103% of accrued service liabilities on current salaries.

**17. ULTIMATE HOLDING COMPANY**

The company's ultimate holding company is Highway Finance Holdings plc, a company incorporated in Great Britain.