

Annual report and financial statements 2007

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People are the difference

Hitachi Capital

(UK)
Plc.

Year ended 31 March 2007

About us

Hitachi Capital provides a carefully selected range of high-quality financial products and related services that can be tailored to meet the needs of both business and personal customers. Our five business areas, Vehicle Solutions, Business Finance, Consumer Finance, Insurance Services and Credit Management offer our business partners and their customers a variety of financing options to support the purchase of a wide range of vehicles, specialist business equipment and consumer goods.

Part of one of the world's largest groups

Hitachi Capital is a member of one of the world's largest and most respected groups. The principal shareholder is Hitachi Capital Corporation of Japan, part of Hitachi Limited, a global supplier of information and social infrastructure systems.

Our business principles

- Building long-term relationships for mutual benefit
- Adding value to our customers by understanding what is important
- Valuing the ideas and enthusiasm of everyone we work with
- Focusing on markets where we can provide real expertise and gain a significant presence
- Specialising in financial products which support the purchase of goods and services
- Demonstrating integrity consistent with the reputation and strength of the Hitachi Group
- Striving to maintain our position as one of the most reliable and respected players in the industry

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Measuring our progress

- Strong performance from the Group's largest division, Vehicle Solutions increasing Operating Profit to £9.3m (2006: £7.2m)
- Significantly improved performance from Consumer Finance division producing Operating Profit of £2.5m (2006: £1.4m)
- Group Operating Profit Before Tax was £11.6m (2006: £14.7m)* – impacted by £4m provision announced in January 2007
- Administration expenses contained at £36.5m (2006: £36.5m)
- Tax issues successfully resolved, reducing the effective tax rate to 21.4%
- Group Profit After Tax: £10.5m (2006: £10.6m)
- Basic earnings per share broadly maintained at 24.9p (2006: 25.2p)
- Final dividend of 8p, increasing total declared for the year to 11.25p per share (2006: 11p)

excluding IAS39 fair value adjustment of £1.7m (2006: £0.3m)

Commenting, Anthony Jukes, Chairman of Hitachi Capital (UK) PLC, said

"A strong performance by Vehicle Solutions and a significant improvement in profitability of the Consumer Finance division was offset in the full year results by the provision made in the fourth quarter. Group arrears, however, remained low compared to the industry average which underlines the quality of the Group's overall book of business and the strength of the management systems in place.

"As previously advised, conditions in some markets have been challenging and we have seen nothing of late to change this view. Nonetheless, our strategy of focusing on higher-value niche markets is continuing to produce positive results, and we remain confident that we can continue to build on the Hitachi brand by providing effective and realistic finance and insurance solutions."

"On behalf of the Board, I thank all our employees for their commitment and contribution in what has been a challenging year. Their determination to deliver major projects and seek to improve our competitiveness has strengthened the Group and therefore we are well placed to meet the challenges of the coming year."

Revenue (£m)

2005 179.8
2006 195.2

2007
199.5

Operating profit (£m)

2005 16.8
2006 14.7

2007
11.6

Dividend per share (p)

2005 10.5
2006 11.0

2007
11.25

Earnings per share (p)

2005 26.8
2006 25.2

2007
24.9

Chairman's statement

Chairman, Anthony Jukes

The first half of the year saw strong growth, which was reflected in the interim results. The year as a whole, however, has produced a rather more mixed result. The Group experienced continued strong growth in many areas, with significant contract wins in Vehicle Solutions and uneven performance in our other main markets. The year-end results reflect the impact of the provision for bad and doubtful accounts announced in the fourth quarter of the year

Results

Group revenue for the 12 months to 31 March 2007 increased to £199m (2006 £195m). Profit before tax decreased to £13.4m (2006 £15m), while profit after tax remained broadly stable at £10.5m (2006 £10.6m). These results reflect the fourth quarter provision for bad and doubtful accounts of £4m, an IAS 39 fair value gain of £1.7m and an effective tax rate for the year of 21.4%. These results have not changed from the summary of unaudited results released in the announcement on 18 April 2007 about the recommended proposal for the acquisition by Hitachi Capital Corporation (HCC) of the shares of Hitachi Capital (UK) PLC not already owned by HCC.

The IAS39 fair value adjustment arises from the Group's use of derivative financial instruments to hedge risks associated with interest rate and foreign currency fluctuations. The Group does not use derivatives for speculative purposes; hence the gain will amortise over the life of the hedging instrument.

Group arrears mirrored the general trend in the industry, finishing the reported year at 1.45% of receivables (2006 1.3%). This remains well below the industry average and is a good indicator of the overall strength of the Group's portfolio and management systems in place.

During the year we have satisfied Hitachi Ltd Sarbanes-Oxley requirements, which again underlines our commitment to maintaining strong internal control systems.

Basic earnings per share remained broadly level at 24.9p (2006 25.2p). Consistent with the guidance given in the trading statement issued on 12 January 2007, the directors are recommending a final dividend of 8.0p per share (2006 8.0p). Together with the interim dividend of 3.25p per share (2006 3.0p), this takes the total dividend declared for the year to 11.25p per share, a rise of 2.3% on the previous year (2006 11.0p). The final dividend will be paid on 6 July 2007 to shareholders on the register at 4 May 2007. Going forward, the Board intends to review its dividend policy in view of the need to grow shareholders' equity to support anticipated balance sheet growth.

A recently completed interim valuation of our final salary pension scheme and consultation with the trustees has concluded that the current plan in place is more than sufficient to fund the existing deficit. The deficit calculated on the IAS19 basis at 31 March 2007 reduced to £3m from £5m in 2006.

Vehicle Solutions

Vehicle Solutions, the Group's largest division, returned a strong performance throughout the year, both in terms of profitability and new

business growth. Profit before tax was up 28% to £9.3m (2006 £7.2m) and new business volumes increased by 24% to £148m (2006 £119m). The impact of the new business volume growth was enhanced by another strong disposal result, up to £4.2m (2006 £4.0m) and a reduction in the bad debt charge to £1.3m (2006 £2.0m).

This performance is particularly encouraging given that new car registrations for the calendar year were down by 3.9% and commercial registrations remained relatively static (0.3% increase) compared to the same period last year.

Within this division, the commercial vehicles business experienced particularly strong growth, with volumes up by 200%. This increase was largely as a result of a number of significant contract wins with national and multinational companies, such as Centrica, Network Rail and Wales and West Utilities Limited, as well as the acquisition in August last year of part of the GE TLS commercial vehicle fleet. The acquisition, which is very much in line with our strategy of developing niche higher-value business, broadened the division's specialist offering into new sectors, such as waste management, and added a number of major new customers.

We also invested in upgrading the commercial vehicles premises in Trowbridge. This investment places the business in a good position to accommodate further development and growth successfully.

The ongoing success of the Vehicle Solutions division is partly attributable to our focus on customer service and satisfaction, in particular the 'Delighting the Customer' training and investment in a new computer platform that has greatly increased efficiency. According to the industry customer service satisfaction survey, this division is consistently ranked as one of the best performing.

We intend to continue to focus on the more profitable specialist commercial vehicle and corporate contract hire markets and to add value to the customer proposition by offering complementary products and services. Through ongoing training and development of staff, we aim to combine knowledge and expertise with market-leading service levels to retain and win new business.

Finance and Insurance Services

As a whole, this part of the Group produced mixed results. Consumer Finance has seen a much improved performance, while Business Finance and Insurance Services have experienced more challenging conditions.

Consumer Finance

Consumer Finance continued to produce a strong performance in the second half and a significantly improved result for the year as a whole, with a 70% increase in profit before tax at £2.5m (2006 £1.4m).

Average earning assets were up by 5% to £318m (2006 £303m). As a result of a decision to continue exiting from lower-quality and lower-margin business, new business volumes decreased by 10% to £321m (2006 £356m).

Much of the growth in this division came from newer high-growth markets, with 28% growth in home improvements and 85% growth in consumer healthcare. Having entered the market in 2002, Hitachi Capital is now the leading provider of finance to the consumer healthcare market.

Arrears continue to compare extremely well with the FLA industry average of 4% for 2006, but saw an increase to 2.3% of receivables (2006: 1.6%). The bad debt charge for the year increased by 11.6% to £5.4m (2006: 40% increase to £4.8m) which, given the dramatic increase in industry bad debt charges, is relatively modest.

Substantial improvements in operational processes and the benefit of shared service support have reduced administration costs. In September, the division relocated to the new Leeds office, Apex View, which it shares with Insurance Services operations and several of the shared services, including Hitachi Capital Credit Management. Plans to upgrade systems will be executed in 2007, which will improve efficiency, reduce costs and enable us to diversify our products in the medium term.

Looking forward, we aim to continue to develop and expand in newer, high-growth markets. We also intend to increase our market share in the more traditional areas, with a focus on new retailers utilising instalment credit in sectors that will enable us to supply higher-value, longer-term loans to deliver higher returns. Arrears and collections monitoring will continue to be a key focus for the division with Hitachi Capital Credit Management.

Business Finance

Business Finance recorded a loss of £1.9m (2006: profit £3.7m), which is a reflection of the increased level of provisions of £4m booked in the last quarter. The bad debt charge increased by £4.5m (2006: £nil) with the prior year including sizeable recoveries.

The broker segment of this division saw new business written increase by 13% to £128m (2006: £113m). The farm and country finance team continued to see solid growth and is an important source of finance in this niche market. The relocation of the broker business from Glasgow to Hounslow, where the Business Finance division is based, has also been beneficial in developing new business by improving communication and efficiency. We also continue to maintain our presence as a market leader in both the small corporate aircraft market and in our traditional market of block discounting.

On 12 January 2007, we announced a decision to make an additional provision of £4m. This related principally to our assessment of the potential loss that might arise from the appointment of administrators to the Transrent group of companies ("Transrent"), a long-standing customer involved in the trailer rental business. Conditions in the trailer rental market have been difficult since 2001. Business Finance has significantly reduced the capital balance of assets on lease to Transrent to lessen the Group's exposure.

Since the announcement, the division has successfully recovered the trailers from the administrator and entered into an agreement with a major trailer

operator to manage and maintain the fleet. This agreement is aimed at mitigating any potential losses which may otherwise arise from a forced sale of a significant number of trailers at one time. Early indications are promising and utilisation of the fleet is expected to build over the coming year.

Going forward, we intend to strengthen our position in our chosen key markets, principally block discounting, farm and country, aviation and general broker (including professional practice funding). Significant progress has been made to streamline operations and systems capability has been enhanced by the successful completion of our major platform upgrade in the fourth quarter.

Insurance Services

Profit before tax was £1.6m (2006: £2.1m). This follows a 54.5% decrease in gross premium written, driven by the closure of Provident Financial Group's Yes Car Credit, which was a major source of payment protection insurance ("PPI") and guaranteed asset protection business.

Net new business (excluding Yes Car Credit) has increased by 11%, as a result of winning several new accounts. Despite this success, new business growth has been hampered by adverse publicity relating to PPI insurance and an increased focus on underwriting monthly PPI insurance rather than single premium PPI.

In the future, we aim to continue to grow our market share through the development of new relationships with insurance brokers and motor dealers and further development of our successful web-based distribution system. Our principal focus will be on a range of products designed to give consumers a choice of cover at affordable premiums, with clear policy terms.

Prospects

The Group's focus continues to be on niche financial services markets, where we can establish a significant market share and achieve above average returns. The continued development of systems and investment in new and expanded premises will enable the Group to continue to improve efficiency and streamline operations, optimising the returns from our existing portfolio.

The continuing commitment to satisfy Hitachi Ltd Sarbanes-Oxley requirements provides added confidence in our internal control framework and enhances our risk-management processes.

We have advised consistently over the past 12 months that we expect conditions in some markets to be challenging and we have yet to see evidence to change this view. However, we have confidence in our strategy and ability to continue building on the Hitachi brand by providing effective and realistic finance and insurance solutions which will serve to deliver profitable growth.

Anthony Jukes

Chairman
23 April 2007

Business and financial review

Our principal strategy is to focus on niche markets where we can be a major player, achieving a significant market share and delivering enhanced returns for our shareholders. Our key financial target is to achieve a post-tax return on equity in excess of 20% over the medium term.

The Group operates three principal financing businesses, distinguished by the markets in which they operate: **Vehicle Solutions**, **Business Finance** and **Consumer Finance**. In addition, two businesses provide complementary products and services: **Insurance Services** and **Credit Management**. Each business unit has its own management team and has a high degree of autonomy, in order to meet customer expectations most effectively and to respond rapidly to changing market conditions. They are supported by a number of shared services functions, which are managed centrally to provide consistent and cost-effective services across the Group. The central head office team provides strategic direction and sets the policies and framework within which the Group operates.

Vehicle Solutions

We provide vehicle management solutions for businesses which require flexible funding arrangements for cars and commercial vehicles. We offer a variety of financing options, including contract hire, contract purchase finance and operating leasing, as well as a wide range of complementary services including fleet management, full outsourcing, daily rental, insurance and employee car schemes. We also provide advice regarding health and safety and fleet environmental impact.

Business Finance

We specialise in providing medium-term asset finance to commercial customers through the three main channels to the market: direct, broker and vendor relationships. We focus on one channel in a selected market to source new business. Selected markets include aviation, farm and country, construction, printing, lending to the professions and financial services. Our products include hire purchase, finance and operating leasing and block discounting. In addition to these core financing products, we also provide asset management and syndication services.

Consumer Finance

We are a leading provider of retail point-of-sale finance, predominantly to high-street retailers. We operate in a range of sectors, with particular strengths in furniture and jewellery as well as emerging sectors such as healthcare, home improvement and e-commerce. We provide fixed-term instalment credit finance, which is mainly interest-free to the customer.

Insurance Services

Hitachi Capital Insurance Europe Ltd acts as a direct insurer, mainly for payment protection ('PPI'), mortgage PPI and guaranteed asset protection ('GAP') insurance. Hitachi Capital Reinsurance Ltd accepts reinsurance business from companies world-wide, principally from Japan. The Group's insurance activities offer added-value insurance products to the Group's three main businesses as well as to external companies and Hitachi Capital Corporation in Japan.

Credit Management

Credit Management is principally a shared service which acts as the collections centre for the Group's debts. We provide a full range of credit control and debt recovery services to a select number of external customers operating in both the consumer and commercial markets. Services include arrears management, tracing, overseas collection and legal services.

Developments

During the year we continued to grow our specialist commercial vehicles business in Vehicle Solutions through acquisition and significant contract wins. The development of our healthcare and home-improvement products in the Consumer Finance division resulted in significant growth as we gain recognition as a market leader in those sectors. In the Business Finance division, we continued to build on selected niche markets such as farm and country finance, financing for the professions, block discounting and general aviation. The syndications team plays a vital role in the strategy by enabling us to support customer growth and augment fee-based revenues. We intend to continue to develop market specialisations which complement our portfolio.

To operate in multiple niche markets it is essential that we have a robust and scalable business model to support our business growth. We have continued with the implementation of the Operational Change Programme ('OCP') which is focused on the development of shared support services across the Group. The creation of shared services provides enhanced control and consistency across the Group and in due course will enable us to reduce costs through improved efficiency and economies of scale.

In September we relocated Consumer Finance, Credit Management Insurance operations and our Leeds-based shared services to one central office in Leeds – Apex View. This has generated efficiencies in producing a closer working relationship for the Leeds-based businesses. We completed a major systems process upgrade in the Business Finance division and have developed detailed plans for system upgrades for Consumer Finance and Insurance Services.

Hitachi Capital Credit Management now acts as the collection centre for the Group's debts. It has been successful in improving recovery rates across the Group, which is evidenced by our lower-than-industry arrears.

Our ultimate parent company, Hitachi Limited, is listed on the New York stock exchange and is required to comply with the US Sarbanes-Oxley legislation. This involves fully documenting the Group's processes that have an impact on the financial reporting, identifying the risks associated with those processes which could give rise to error in the financial statements, and identifying and testing the controls over those risks on an ongoing basis. We have satisfied Hitachi Ltd's Sarbanes-Oxley requirements, which underlines our commitment to maintaining a strong internal control environment.

This is the second year that the report and financial statements have been issued under the International Financial Reporting Standards.

Treasury

The Group has a central Treasury function, which manages the Group's borrowings in accordance with agreed policies and procedures. Debt is raised taking into account each business unit's requirements and portfolio maturity profile. We raise multi-currency fixed and floating debt in the major global markets. Derivatives are utilised to mitigate currency risk and reduce interest-rate risk.

On 15 March, the Group signed a revised £300m securitisation transaction, arranged by Royal Bank of Scotland. The revised programme was structured to accommodate potential growth opportunities for the Consumer Finance division. The high quality of the consumer loan portfolio enabled the Group to maintain the desired A-1/P-1 rating by Standard and Poor's and Moody's Investor Services respectively.

The Group's operations are financed by a mixture of shareholders' funds, working capital and borrowings. The Group has no banking covenants which limit its gearing ratio, but our objective is to maintain the gearing ratio at a maximum of ten times shareholders' funds. Since the Group adopted the International Financial Reporting Standards for the year ended 31 March 2006, securitised assets are classified on the balance sheet and the gearing ratio has increased beyond our policy limit. At 31 March 2007, the net gearing ratio was 12.2 times shareholders' funds (2006: 14.5 times).

The adequacy of the Group's capital base and Hitachi Capital Corporation (HCC) level of investment in the Group has been under review, given our plans to continue to grow the business. On 18 April 2007, the Board recommended that shareholders accept a proposal from HCC, the majority shareholder of Hitachi Capital (UK) PLC, to enter into a scheme of arrangement to acquire the minority interest shareholding. Details of the proposed scheme were sent to shareholders on 18 April 2007.

At 31 March 2007, the Group had total borrowing facilities amounting to £1,523m (2006: £1,492m), an increase of £31m over 2006. Borrowing facilities comprise a US\$1,400m euro-note programme, a US\$400m European commercial paper programme, a Euro 250m Belgian commercial paper programme, a £300m commercial paper backed securitisation programme and £139m of uncommitted bank and Hitachi Group company facilities. Total facilities utilised were 58.9% at the year-end (2006: 60.8%).

Further details of the Group's treasury policies and risks are set out in notes 18 and 31 to the financial statements.

Results

The results for the Group are set out in the financial statements on pages 23 to 60.

New business written in our three lending businesses fell by 6.1% to £691m (2006: £736m) as we continued with our portfolio optimisation programme, exiting from lower-margin relationships. As a result, net earning assets fell by 1.2% to £987m (2006: £999m).

Revenue increased by 2.2% to £199.5m and gross profit increased by 2.1% to £59.3m, reflecting the continued results of our portfolio optimisation programme.

The bad debt charge increased by £4.3m over the prior year to £11.2m. However, this includes £4m provision in Business Finance, which was required in the fourth quarter, principally due to anticipated losses upon the appointment of administrators to the Transrent group of companies.

Administration expenses were contained at £36.5m (2006: £36.5m), whilst we continued to invest in our infrastructure and meet the demands of compliance with Sarbanes-Oxley legislation. Satisfying Hitachi Ltd's Sarbanes-Oxley requirements underlines our commitment to maintaining a strong internal control environment. Costs associated with the implementation of Sarbanes-Oxley were in line with last year at £0.7m (2006: £0.7m) and should no longer be considered one-off costs as the regulatory and reporting environment continues to develop.

Operating profit was £11.6m, down £3.1m on the prior year due to the impact of the fourth-quarter Business Finance £4m bad debt charge.

The effective tax rate was 21.4% following the release of prior-year tax accruals upon the successful resolution of several outstanding tax issues with HM Revenue and Customs. As a consequence, basic earnings per share were broadly maintained at 24.9p per share (2006: 25.2p).

The post-tax return on equity was 16.0% (2006: 18.4%).

Segmental performance is detailed in the Chairman's Statement on pages 4 and 5 and analysis by business unit is set out in note 4 to the financial statements. Principal risks and uncertainties are detailed in the Corporate Governance Statement on pages 8 to 11 and financial risk management objectives and policies are set out in note 31. Management of employees is detailed in the Corporate Social Responsibility Statement on pages 12 to 13.

Corporate governance

Hitachi Capital (UK) PLC is committed to the highest standards of corporate governance.

The Company has a written corporate governance policy, which is regularly reviewed and updated by the board of directors. The Company's policy is to apply the principles and comply with the provisions set out in The Combined Code on Corporate Governance published by the Financial Reporting Council (the 'Combined Code') to the extent that they are proportionate and relevant to the Company's circumstances, taking into account the size and complexity of the Company and the nature of the risks and challenges it faces.

Combined Code

The original Combined Code was published in 1998 and revised in July 2003. Further revisions to the Combined Code were made in 2006, which apply to financial years beginning on or after 1 November 2006. This report therefore relates to the 2003 version of the Combined Code.

The Company has complied throughout the accounting period ended 31 March 2007 with the provisions of section 1 of the Combined Code except as expressly stated and explained below. The statements set out or referred to below explain how the principles of good governance set out in section 1 of the Combined Code have been applied across the Group in the year ended 31 March 2007.

Board of directors

The Board holds formal meetings on a monthly basis. There is a formal schedule of matters specifically reserved for decision by the Board, underpinned by policies which describe those matters in more detail. The

types of matters reserved for the Board include approval of business strategy, operating budgets and financial statements and monitoring performance against them, approving Group policies, reviewing the Company's overall corporate governance arrangements and authorising transactions which fall outside the ordinary course of the Company's business or are of major significance to the Group.

The day-to-day responsibility for managing the Group's business is delegated to the executive directors and the senior managers of the respective divisions and subsidiaries of the Company who implement the decisions made and policies approved by the Board and deal with matters within the ordinary course of business.

Certain responsibilities of the Board are delegated to committees, the work of which is described below.

The Board comprises the Chairman, four non-executive directors and four executive directors. The Chairman is A W Jukes, the Vice-Chairman is Y Aritoshi and the Senior Independent Director is J S Stubbings. Two of the non-executive directors (J S Stubbings and N Carter) are considered by the Board to be independent. Biographical details of each of the directors are set out on page 19.

The attendance of the directors at the meetings of the Board and committees of the Board during the year ended 31 March 2007 is set out in the table below (the number of meetings held being stated in brackets).

Director	Board (13)	Audit (6)	Remuneration (4)	Nomination (2)
D G Anthony	13	n/a	n/a	1
Y Aritoshi	1	n/a	n/a	1
N Carter***	12	6	4	2
M J Cutbill	13	n/a	n/a	n/a
R D Gordon*	7	n/a	n/a	n/a
N Hirasawa**	2	n/a	n/a	n/a
B A Iversen****	6	n/a	n/a	n/a
A.W Jukes	13	n/a	n/a	n/a
J S Stubbings***	13	6	4	2
A Tsuda	2	n/a	n/a	n/a
M Usami*****	11	n/a	n/a	n/a

* appointed as a director on 1 October 2006
 ** resigned as a director on 21 June 2006
 *** resigned as members of the Nomination Committee on 22 November 2006
 **** resigned as a director on 29 September 2006
 ***** appointed as a director on 21 June 2006

Having been appointed by the Board since the last Annual General Meeting Robert Gordon is (in accordance with the Company's Articles of Association) offering himself for reappointment at the 2007 Annual General Meeting. In accordance with the Articles of Association each of the other directors will retire and will offer himself for reappointment at the AGM on 20 June 2007

Performance evaluation and professional development

Hitachi Capital (UK) PLC is committed to the principle of performance evaluation and professional development of all of our staff together with the directors of the Company

The Group has a performance-driven culture with reward structures requiring both attainment of targets by the respective business units and achievement of individual objectives. The aim is to provide an environment which ensures maximum contribution from all of our employees for the benefit of the Group overall

The Group operates an appraisal scheme which focuses on the key areas of assessment of core skills required to undertake individual roles, assessment of achievement against both core and incentive scheme targets/objectives, as well as assessment of behavioural competencies linked to the company's core values. All employees are required to participate in this process on an annual basis and this is coupled with formal interim reviews at six-monthly intervals. In addition, regular one-to-one meetings are encouraged to ensure ongoing review of performance against targets and objectives set throughout the performance period

The executive directors have a similar annual performance appraisal process that focuses on the achievement against key business indicators (such as profit, stretch target, return on assets and instalment in arrears), personal objectives (such as strategic development, compliance, internal control and risk management) and assessment against a range of core behavioural competencies that have been specifically designed for the executive directors and senior management team

Annually the Board undertakes a formal and rigorous evaluation of its own performance and that of its committees and individual directors. This involves the use of specialist evaluation software which explores the workings, governance and effectiveness of the Board, its committees and non-executive directors through a series of individual questionnaires and appraisals. The directors completed detailed appraisals on matters relating to the Board, committees and director performance and a report of the overall results was presented to, and discussed by, the Board. The non-executive directors, led by the Senior Independent Director, took responsibility for the evaluation of the Chairman, taking into account the views of executive directors. Assessments of individual directors remain confidential between the Chairman and the non-executive director concerned

The individual strengths, weaknesses and professional development needs highlighted by the performance evaluation process form the basis for review and development of the effectiveness of the Board as a whole and of individual directors at the respective Board and committee meetings during the year ahead

Individual director evaluation showed that each director continued to contribute effectively and to demonstrate commitment to the role. The results of performance evaluations are used to determine whether the Board and its committees maintain the appropriate balance of skills, knowledge and experience

The Group encourages the continuous professional development of all its employees and development needs are addressed when highlighted through the formal appraisal mechanisms. Key training undertaken by the Board during the year included business seminars, pension and investment seminars, presentations on compliance issues, executive briefings on corporate governance and executive remuneration and a variety of web-based training

On appointment, each director receives information about the Group and is advised of the legal, regulatory and other obligations of a director of a listed company. A comprehensive induction is undertaken which includes an overview of the Group strategy, site visits and an overview of our various business units and their respective strategies, products and services. In addition, meetings are set up with key individuals within each of the business units and key Group functions and a comprehensive overview of our corporate governance framework and relevant committees is provided

All directors have access to the Company Secretary who is responsible for ensuring Board procedures are followed and that applicable laws and regulations are complied with. Directors have the right to take independent professional advice at the Company's expense if they judge it is necessary to discharge their responsibilities as directors

Board committees

The Board delegates certain defined responsibilities to committees, each of which have written terms of reference which are reviewed regularly. The respective terms of reference of each of the audit, nomination and remuneration committees are available on request and are published on the Company's website www.hitachicapital.co.uk. The composition and work of these committees is described below

The Board may also delegate matters to the Executive Steering Committee which comprises the executive directors, the managing directors of the Group's respective divisions and subsidiaries and the heads of certain shared service functions. The committee meets monthly and may make recommendations to the Board on matters reserved for consideration by the Board

Nomination committee

At the beginning of the year under review, the nomination committee comprised J S Stubbings (Chairman), N Carter and Y Aritoshi. J S Stubbings and N Carter are both considered by the Board to be independent non-executive directors

The committee met twice during the 2006/07 financial year and the attendance records of individual members are set out in the table on page 8

The committee met in May 2006 and, having consulted the Chairman of the Company – who was attending the meeting by invitation – on the results of the 2006 Board performance evaluation, resolved to recommend to the Board that the Board propose for reappointment at the 2006 AGM each director offering himself or herself for reappointment

As reported in the 2006 annual report, having been notified that N Hirasawa proposed to retire at the 2006 AGM without offering himself for reappointment, the committee also considered appropriate candidates for his successor as Managing Director of the Company. A formal job description for the role of Managing Director was also approved. After taking into account the views of the Company's majority shareholder in line with sub-section D of section 1 of the Combined Code, the committee interviewed Mr Masahiro Usami of Hitachi Capital Corporation and, having assessed Mr Usami's attributes against the skills, knowledge and experience required for the role of Managing Director, recommended to the Board that a proposal be put to the 2006 AGM for the appointment of Mr Usami as an executive director

The chairman of the committee also noted that the Chief Executive would be reaching the age of 60 in 2007 and reported that the process for recruiting his successor was already being discussed by the members of the committee

The committee met again in August, when it was reported that the Group Finance Director, B Iversen, had informed the Company that she would be relocating and would be leaving the Company at a mutually convenient date. An updated role profile for the position of Group Finance Director was also approved

Corporate governance

The chairman of the committee reported that following an announcement of the vacancy within the Group and an invitation for applications, the Divisional Managing Director of Hitachi Capital Business Finance, Robert Gordon, had offered himself as a candidate for the position of the Group Finance Director and had attended a series of interviews including one with the independent non-executive directors. Mr Gordon had also been interviewed by the relationship partner of the Group's then external auditors, Deloitte & Touche LLP.

The committee considered whether to seek candidates for the position externally and decided not to do so in the light of the need to fill the vacancy speedily and Mr Gordon's suitability for the role.

Accordingly the committee resolved to recommend to the Board that Mr Gordon be appointed as Group Finance Director.

Also in August the committee approved a proposed form of role profile for the position of Chairman of the Company and recommended it for approval by the Board.

On 22 November 2006, J S Stubbings and N Carter resigned as members of the committee. The Combined Code requires a nomination committee to have a majority of independent non-executive directors. As Mr Stubbings and Mr Carter were the only independent non-executive directors on the Board, the committee was no longer able to hold quorate meetings. The Board therefore resolved that any matters falling for consideration by the committee would be dealt with by the Board itself for the time being.

The Company therefore failed to comply with provision A 4.1 of the Combined Code during the period 22 November 2006 to 31 March 2007 (inclusive) as the nomination committee did not have a majority of members who were independent non-executive directors.

Details of the proposals for the appointment and reappointment of directors (including biographical details of the proposed new appointees) are set out in the Notice of Annual General Meeting 2007 and explanatory notes. Biographical details of the current directors (each of whom is offering himself for reappointment at the 2007 AGM) are set out on page 19.

Remuneration committee

Details of the composition and work of the remuneration committee are set out in the Directors' Remuneration Report on pages 14 to 18.

Audit committee

The audit committee comprises N Carter (Chairman), who is a Chartered Accountant, and J S Stubbings, who is a qualified solicitor. Each of the members of the committee is considered to be an independent non-executive director.

The committee met six times in the year under review, coinciding with key dates in the financial reporting and audit cycle. The attendance records of the individual members are set out in the table on page 8.

The external auditors, Group Internal Audit Manager and Finance Director attended meetings by invitation in order to ensure that all the information required by the audit committee was available for it to operate effectively. The Chairman of the Company and other directors also attended the meetings at the invitation of the committee. The committee met separately with the external auditors and with the Group Internal Audit Manager whenever it considered this appropriate.

The audit committee's responsibilities are set out in its terms of reference, which are reviewed annually. They include the review of the annual report and financial statements and the interim report, reviewing the findings of both external and internal auditors, agreeing the audit plan for the internal audit function, considering compliance with legal requirements, accounting standards and the rules made by the UK Listing Authority and reviewing the Group's internal control and risk-management systems. The committee meets separately with and keeps under review the independence and objectivity of the Group's auditors, value for money of the audit and the nature, extent and cost-effectiveness of the non-audit services provided by the auditors.

In discharging its responsibilities in respect of the year under review, the committee reviewed and approved audit plans presented by the internal and external auditors respectively and received reports on progress against the plans throughout the year. This year the committee also received regular updates on the implementation of certain aspects of the US Sarbanes-Oxley legislation in order, for example, to assure itself that the Group remained on target to satisfy its ultimate parent company, Hitachi Ltd's requirements by 31 March 2007. As reported in the 2006 annual report, this year the committee held an extra meeting, which focused primarily on internal control and risk management.

The external auditor provides non-audit services to the Company from time to time. The audit committee follows a written policy approved by the Board in relation to the provision of such services by the external auditor, which is designed to ensure that the provision of such services does not impair the external auditor's independence or objectivity. The policy divides non-audit services into three categories:

- (i) those from which the external auditor is excluded,
- (ii) those for which the external auditor can be engaged without referral to the audit committee,
- (iii) those for which the audit committee's approval or ratification must be obtained.

The committee also satisfies itself that any safeguards required by ethical guidance regarding the provision of non-audit services are implemented.

Going concern

The directors' statement on going concern is included in the directors' report on page 21.

Risk management

The Board is responsible for ensuring that appropriate mechanisms are in place to identify, evaluate and manage the risks which could prevent the Company from achieving its objectives.

Each of the business unit heads and head-office managers is responsible for risk management in their respective businesses or functional areas. A risk-management committee, chaired by the Finance Director, is responsible for co-ordinating this process and reporting its findings to the Board. The committee meets and reports to the Board quarterly.

The key business risks facing the Group are:

Credit risk – This is the risk that customers and other counterparties will not meet their financial obligations, resulting in the loss of amounts due or any unrealised gains. Credit risk arises throughout the Group's trading operations and in connection with its derivative contracts.

Residual value risk – This is the risk that the value of a physical asset, at the end of an operating or finance lease contract or at the end of its useful life, is worth less than its book value. Residual value risk occurs primarily within Vehicle Solutions and Business Finance.

Operational risk – This is the risk of loss resulting from a breakdown in internal control systems, which are designed to prevent and detect fraud and error. Operational risk occurs throughout the Group.

Financial reporting risk – This is the risk that due to a breakdown in internal control or fraud our financial statements are materially misstated, leading to a breakdown in stakeholder confidence.

Treasury risk – Liquidity, currency, interest rate and credit risks are discussed in more detail in notes 18 and 31 to the financial statements.

Market risk – This is the risk that the Group will be unable to compete effectively due to aggressively external competition or the failure to innovate.

Risk of economic downturn – A significant increase in unemployment could give rise to increased credit risk in Consumer Finance and Vehicle Solutions as well as increased payment protection claims in Insurance Services. A significant increase in interest rates would result in an increase in funding costs on the unhedged portion of our borrowings (see note 18) and could give rise to increased credit risk across the Group as well as lower market demand.

Key dependencies – This is the risk of losing a key customer, supplier or employee leading to financial loss or the loss of expertise from the Group.

Compliance and regulatory risk – This is the risk that changes in the regulatory framework within which we operate and could reduce our ability to conduct business profitably in the future. There is also the risk that we fail to comply with legislation or regulations leading to penalties imposed on us by the regulators.

Business continuity risk – This is the risk that a disaster or other unexpected event occurs, leading to an inability to conduct our business under the terms agreed with our customers or suppliers. Such an event could have a negative impact on business relationships and lead to financial loss.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The system of internal control includes controls designed to safeguard assets against unauthorised use, to maintain proper accounting records and to ensure the reliability of financial information. The system of internal control is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can provide only reasonable rather than absolute assurance against material misstatement, loss or fraud.

The Board confirms that there is an appropriate ongoing process for identifying, evaluating and managing the significant risks faced by the Group which has been in place throughout the year ended 31 March 2007 and up to the date of approval by the Board of the annual report and financial statements. This process accords with Internal Control Revised Guidance for Directors on the Combined Code ('the Turnbull Guidance') published by the Financial Reporting Council in October 2005 and is subject to regular review by the Board.

The key elements of the internal control system include the following:

- There is a clearly defined Board and Board committee structure in place, with terms of reference setting out membership, roles and responsibilities.
- Organisational structures are in place which allow clear delegation of authorities and responsibilities throughout the Group.
- Detailed annual budgets aligned with the corporate strategy are reviewed and approved by the Board. Regular progress reports and results are reviewed by the Board and actions taken as appropriate.
- The executive steering committee, comprising the executive directors and the heads of each subsidiary and division of the Company, is responsible for dealing with matters delegated to the committee by the Board, including implementing Board policies on risk management and control.
- Systems and procedures are in place to identify, control and report on the major risks facing the Group. The risk management committee is responsible for co-ordinating this process and making recommendations to the Board.
- The internal audit function, which is centrally controlled, reviews risk-management practice and monitors compliance with policies and the effectiveness of internal control structures across the Group. The work of the internal audit function is focused on areas of greatest risk to the Group. The Group Internal Audit Manager reports to the Chief Executive and to the Chairman of the audit committee.
- Directors and business unit heads have formally confirmed in writing in respect of each quarter of the year under review that, within their own areas of responsibility, material risks have been identified and that appropriate controls are in place to manage those risks and, where improvements can be made, action plans are in place to implement such changes.

The Board, through the audit committee, has reviewed the effectiveness of the system of internal control, including financial, operational and compliance controls and risk management through reports it receives from the risk management committee, representations from management and the independent monitoring undertaken by the internal audit function. In addition, the Group's external auditors present to the audit committee reports that include details of any significant internal control matters which they have identified. Weaknesses identified during the course of these reviews have been incorporated into action plans. None of the weaknesses has given rise to material loss, contingency or uncertainty requiring disclosure in the annual accounts.

Since 2005 the Group has been implementing the US Sarbanes-Oxley legislation using the COSO framework as a consequence of its ultimate parent company, Hitachi Limited, being listed on the New York Stock Exchange. The Group's aim was to achieve three key objectives by 31 March 2007:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The key elements of the implementation to achieve the objectives included the following:

- Detailed scoping and planning from a quantitative and qualitative perspective, identification of the key processes and mapping of the significant accounts with associated financial statement assertions.
- Documenting and walking through Entity Level, IT General, Business and IT Process controls to achieve management design effectiveness.
- Extensively testing all controls to achieve management operational assessment.
- A remediation management programme to resolve exceptions as they arose.
- Final management assessment of all controls.
- Independent audit of design effectiveness and operational testing by Ernst & Young LLP to validate management's assessment.
- Independent audit of the implementation programme by Internal Audit.

The Board, through its internal control committee, reviewed and monitored the implementation program and the effectiveness of the system of internal financial control through reports it received from independent Ernst & Young audits and Internal Audit reviews which monitored the Sarbanes-Oxley implementation programme.

Exceptions identified during the course of the implementation programme were included in the communication to the Board and remediation plans put in place. None of the exceptions identified during the year ended 31 March 2007 have given rise to a material weakness or significant deficiency.

Corporate social responsibility

The Company's policies on, and activities in the sphere of, corporate social responsibility, are described in the corporate social responsibility statement beginning on page 12.

Investor relations

The Board is committed to maintaining sufficient contact with major shareholders to ensure a mutual understanding of issues and concerns. The executive directors set aside appropriate time to meet both investors and analysts to discuss the Group's performance and listen to shareholders' views. All shareholders are welcome to attend the AGM and are always offered the opportunity to participate. As many directors as possible attend the AGM and are available to answer questions. The Chairman and independent non-executive directors, including the Senior Independent Director, regularly meet representatives of the Company's majority shareholder, Hitachi Capital Corporation, in order to promote the Board's understanding of the majority shareholder's views, issues and concerns.

Information for existing and potential shareholders is available on the Company's website www.hitachicapital.co.uk

Corporate social responsibility

The Hitachi Capital (UK) PLC Board requires high standards of professional and ethical conduct from all of its employees, as well as its business partners and any agents working on behalf of the Group.

Each of our business units operates within the confines of regulation and policies that are consistent with our underlying values and principles as a business

While the Board recognises that a director's primary duty is to the Company and its shareholders, it also recognises that this can only be achieved by taking account of the long-term impact of business decisions on employees, customers, the local community and the environment. The Company has a Business Ethics and Corporate Social Responsibility Policy, which is displayed on the Company's intranet and the key messages of this are reinforced in the employee handbooks for both permanent and temporary staff. The Company also has an Environmental Policy and a Charity Policy and has established Group wide environmental and charitable committees comprising staff at all levels from across the business.

The Company remains a member of the FTSE4Good Index Series, having achieved this accreditation in September 2003.

The Company's core values of People, Achievement, Clarity and Expertise underpin our conduct and decision-making process across all spheres of our business. These values are rigorously reinforced through our appraisal and performance-management system, employee literature and through the reward and recognition schemes we operate across the Group.

Employees

As a Board we are conscious our ability to succeed is driven by the need to attract, develop and retain the right employees. Our employee-relations policy is designed to encourage an atmosphere of trust and harmony across the organisation. An extensive library of Group policies covering all aspects of our business and our commitment to agreed processes and standards are available to staff on the Group intranet and are rigorously adhered to.

Across the Group we undertake an annual employee survey that focuses on a wide range of issues. Results of the survey are published and discussed with all staff and used to form the basis of action plans in which staff are fully involved. Regular monitoring against progress is then undertaken and feedback provided to employees accordingly. This initiative is well received by staff. The Group is committed to the personal development of its employees. The

annual appraisal process includes a review of training and development needs. We are also supportive of staff seeking professional qualifications, providing both financial assistance and paid study leave.

In April 2005 the Company implemented the Government-sponsored Childcare Voucher Scheme which provides support to employees in assisting with childcare costs. In addition, for the past two years the Company has successfully supported a flexible working policy at all levels of seniority across the Group and we employ a high proportion of part-time staff across our businesses. This ensures that staff with caring responsibilities can balance work and home life effectively. Maternity pay and paternity pay and leave in excess of statutory requirements are also paid to staff at all levels of seniority.

The Group holds the Investor in People (IIP) accreditation.

Health & Safety

Health and Safety continues to be a key focus for the Group with significant investment in ensuring comprehensive risk assessments are carried out annually at all sites. Additional, environmental audits are conducted bi-annually. Driver training is well established and all high-risk drivers undergo comprehensive driver training. Significant investment in the past 12 months has focused on ensuring our workplace environment meets the specific needs of those with disabilities to provide easy access and facilities to all in line with legislative changes.

Marketplace

The delivery of excellent service is a prerequisite in each of the markets in which we operate. The Group both undertakes its own independent customer survey and also participates in industry-specific surveys applicable to the business units.

Our service standards are made available to our customers and suppliers and we ensure that comprehensive tender processes are followed and that business is offered to suppliers solely on merit. We are continually developing the expertise of our staff to meet and exceed our customers' expectations. Each business area operates a Treating the Customer Fairly (TCF) forum that involves senior participants from across the Group who meet to discuss issues specifically impacting on the customer as a result of how we might choose to do business. The Group also holds ISO9000 accreditation.

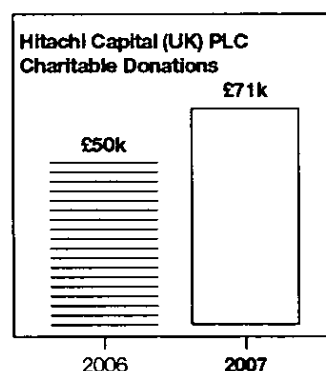
We aim at all times to conduct our business ethically responsibly and with integrity and to ensure transparency in our business dealings. This includes the reporting of our annual results, which are issued within one month of the year-end. We are aware of the need to pay suppliers promptly and aim to make all payments in accordance with agreed terms.

Community & charitable giving

The Group's charity committee is chaired by one of our executive directors. We established a Give As You Earn payroll giving scheme during 2005 and, due to the success of this scheme, were awarded a gold award by the Institute of Fund Raising. The Company matches the sums donated by employees in the Give As You Earn initiative as well as any other charitable giving on at least a £ for £ basis. Staff are actively encouraged to participate in charitable work within their local communities and both sponsorship and time off for such activity is available.

Charitable activity continues to develop and our aim, over time, is to allocate up to 0.5% of profit before tax to charitable causes in each financial year. Over the past year we have increased our charitable donations by 41%.

During the financial year, the Group (including staff contributions) donated £71,000 to a variety of charitable causes including Prostate Cancer, NSPCC, Diabetes UK, Children in Need, Get Kids Going, Rehab UK, Race for Life, Meningitis Trust, The Yorkshire Air Ambulance, Motability, the Prince of Wales Hospice and many more.



Environment

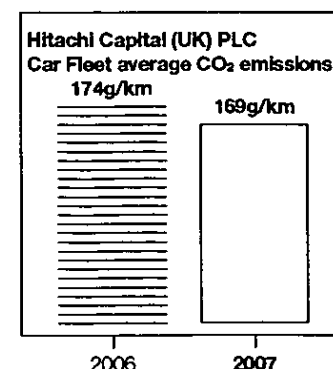
The Group-wide environment committee is chaired by one of our executive directors. The committee meets to discuss ways in which we can both contribute more to our local environments by getting involved in local initiatives and also to look at ways of promoting environmental well being amongst our staff within our local sites. The

key focus of the committee has been on recycling, conservation projects, awareness campaigns and reducing CO₂ emissions. Employees are actively encouraged to ensure conservation of energy and resources through awareness campaigns and positive action groups.

We liaise with a number of Government-sponsored environmental bodies such as the Carbon Trust and Envirowise to look at ways of improving energy efficiency across our business. We have recently become a gold member of the Yorkshire Wildlife Trust and we are working with them to look at ways we can support environmental projects in the Yorkshire area.

Our longer-term objective is to incorporate environmental considerations into our broader business policies. This includes the purchase and usage of recyclable and energy-efficient material and the promotion of recycling where possible. Within our own vehicle fleet we continue to promote the purchase of vehicles with lower CO₂ emissions and offer an additional cash incentive to staff who choose vehicles with the lowest CO₂ level. Consequently, we have successfully reduced our CO₂ emissions over the past year. In our vehicle division, we work with our customer base to promote the concept of environmental awareness and how they can achieve this within their own businesses.

The Company continually looks for system enhancements and more effective ways of working in order to reduce the amount of paper used within the office environment. We continue to develop our e-business infrastructure to improve the level of efficiency in handling customer orders and processing and also to reduce the level of paperwork involved. During 2005, the Group introduced video conferencing across our three main sites to reduce the requirement for travel between sites for meetings.



Directors' remuneration report

The Board has overall responsibility for the Group's remuneration policies and delegates responsibility for the remuneration policy in respect of the executive directors and senior executives (together, "executives") to the remuneration committee.

This Directors' Remuneration Report has been prepared by the remuneration committee and has been approved by the Board. The numerical disclosures included in the "Executive and non-executive directors' emoluments and compensation", "Directors' share options", and "Pensions" sections of this remuneration report have been audited by Ernst & Young LLP as required by the Directors' Remuneration Report Regulations 2002. Their audit report is set out on page 22.

Remuneration committee

The remuneration committee currently comprises two independent non-executive directors of the Group, namely J.S. Stubbings (Chairman) and N. Carter. The Group Head of Human Resources acts as the secretary of the committee.

The committee met four times in the 2006/07 financial year and both independent non-executive directors attended all four meetings. From time to time other directors and executives have been asked to attend meetings or part of meetings at the discretion of the Chairman. The remuneration committee has responsibility for determining the remuneration of the Chief Executive Officer and, in consultation with the Chief Executive Officer, for determining the remuneration of the other executive directors and the senior executives. No committee attendee participates in, or is present at, any discussion or decision on his or her own remuneration.

The committee is authorised by the Board to seek appropriate professional advice inside and outside of the Group as and when it considers necessary. Benchmark research of FTSE 350 and FTSE Small Cap companies and competitor data (for companies in a similar sector, with a similar market capitalisation and a comparable number of employees) as well as regional data were provided to the remuneration committee by the Group Head of Human Resources. Lane Clark & Peacock LLP provided actuarial and investment advice and Sacker & Partners provided legal advice on the Hitachi Capital (UK) PLC Group Pension & Life Assurance Scheme during the year.

Remuneration policy

The Board of Hitachi Capital (UK) PLC remains committed to using reward to support a high-performance culture across the Group. Executive directors can expect high reward if Group performance is high and low reward where objectives have not been achieved. It is also committed to ensuring that it operates a fair and transparent remuneration policy for all employees as well as the executive team, where remuneration policies and programmes are well communicated, easily understood and serve the interests of shareholders.

The committee reviews the elements of the reward package relative to both the strategic intent of the Group and the practice of other comparable organisations. Each part of the package has a specific role in achieving the short and long-term aims of the remuneration policy.

The Group's overall objective as set out in the Group Reward Policy is to ensure that the remuneration policy across the business allocates rewards that:

- Motivate individuals at all levels within the organisation to do their job well
- Maximise personal contributions to the business
- Are in line with market rates for location and role
- Are commensurate with Group and individual business unit performance
- Are consistent and equitable across the Group

In terms of executive remuneration specifically, the policy is designed to ensure that the level of remuneration is sufficient to attract, reward, motivate and retain the required calibre of executive to ensure the development and delivery of the business strategy, whilst remaining conscious of the need to avoid paying more than is reasonable for this purpose. The aim is to incentivise high performance both in the short term through the annual bonus scheme (capped at 40% of salary) and longer term through an executive share option plan. The remuneration committee seeks, in so far as is practicable, to structure total benefits packages that align the interests of shareholders and executives. Accordingly, the committee seeks to establish overall packages in which a significant proportion of potential total remuneration is performance related so as to link rewards to stretching corporate and individual performance, most specifically through the annual bonus scheme and the executive share option plan.

The total remuneration package of executives comprises:

- Base salary
- Performance-related bonus scheme (capped at 40% of basic salary)
- Executive share option plan
- Final salary pension scheme
- Company car and associated fuel benefit
- Private medical insurance
- Permanent health insurance

Salaries are reviewed annually in April each year by reference to market data and personal performance and contribution. The average salary increase for an executive director effective 1 April 2006 was 5%.

Non-executive remuneration

A committee comprising the Chief Executive Officer, Managing Director and Group Finance Director has been delegated responsibility to determine the remuneration of the non-executive directors.

The remuneration of the Chairman is determined by the Chief Executive Officer in consultation with the remuneration committee.

Non-executive directors receive fees only and are not entitled to participate in any bonus or incentive scheme arrangements, pension scheme or share-option plans. The fees paid to non-executive directors are structured so as to take account of prevailing market rates recognising time spent, responsibilities of the role and overall contribution made and to attract individuals with the necessary skills and experience to contribute to the future growth of the Group. Payment of non-executive directors does not continue beyond retirement from the Group.

Performance-related bonus scheme

Executives participate in a discretionary annual performance-related bonus scheme, which is designed to provide a direct link between each individual's remuneration and the performance of the Group in the short term. Annual bonuses are capped at 40% of salary and are not guaranteed. The performance-related bonus seeks to encourage behaviours that lead to an appropriate balance between financial performance, strategic development, governance and controls and risk management. Bonuses paid for the year ended 31 March 2007 are outlined in the table below.

Individual awards are typically based on pre-tax profit targets (25% of total award), a "stretch" profit target (25% of total award) and defined personal objectives, which may include business performance indicators (50% of total award) established at the start of each financial year. The profit targets reflect the growth requirements set out in the Group's annual budget as agreed by the Board. A "stretch" target was introduced in 2003/4 to encourage over achievement within the individual business units, as well as at Group level, and this approach has been maintained since then. The bonus year mirrors the financial year with an assessment of performance made in April and payments made in May of each year.

A performance-related bonus scheme (capped at 12% for all staff and 20% for senior management) for all other employees was also implemented with effect from 1 April 2004 and has continued in existence since that point. The scheme was designed to support the Group's move towards a more performance-driven culture and to align employee rewards to the overall success of the Group. It is felt that the scheme has achieved this objective and so has been continued. The scheme is an annual scheme with payments based on business unit Group and "stretch" profit targets. No bonus is paid to employees within the business units or at Group level unless agreed minimum profit targets have been achieved by the business unit and the Group. Following achievement of the profit targets, individual employee payments are then assessed based on the achievement of individual and/or team targets and objectives.

Executive share-option plans

The Group operates two share-option plans under which executives are eligible to participate:

- The Hitachi Capital (UK) PLC Executive Share Option Plan (for executives only), and
- The Hitachi Capital (UK) PLC ShareSave Scheme: a UK Inland Revenue approved scheme (open to all staff)

The maximum number of shares that may be granted under both of the Group's employee share plans in any ten-year period is a total of 10% of the Company's issued ordinary share capital. The benefits receivable by participants under the plans are not pensionable.

Hitachi Capital (UK) PLC Executive Share-Option Plan ("ESOP")

The ESOP is designed to provide the opportunity for executive directors and senior managers to receive rewards for creating sustained shareholder value growth. The remuneration committee maintains that, in an increasingly competitive marketplace, share incentives are necessary to achieve the Board's objectives of recruiting and retaining executives who will be influential in the future success of the Group.

The ESOP was established in June 2003 with the first grant of options being on 1 August 2003 and subsequent grants on 1 June 2004, 2005 and 2006. The ESOP is a discretionary share-option plan that allows the Group to grant share options each year to executives up to a maximum value of twice the individual's annual base salary. Although the plan provides for this maximum, it is currently the intention of the remuneration committee to make annual grants of up to a maximum of 100% of annual base salary only. Options granted under this scheme to date do not exceed this level and it is not expected to be exceeded in 2007.

Option price is set by the remuneration committee at not less than the higher of the nominal value of a share and the middle quotation of a share on the dealing day last proceeding the date of the grant. The vesting of options depends on the excess of the compound annual growth of the Group's fully diluted earnings per share before exceptional items ("EPS") over the increase in the Retail Price Index ("RPI") over a period of three years. The tiered targets are as follows:

EPS growth	Proportion vesting
RPI + 3%	33.3%
RPI + 8%	100%

For EPS growth in excess of the increase in RPI between 3% and 8%, options will vest on a straight-line basis. Re-testing is not permitted. Options that have vested can normally be exercised in accordance with the rules of the scheme at any time up to the tenth anniversary of the date of the grant. In order to further align the interests of executives with those of shareholders, share ownership guidelines related to the ESOP are also in place as follows:

- Prior to any date of grant under the option plan, executives are normally expected to hold a number of shares which amount to at least 10% of the number of shares to be granted to them under the plan, and
- Over the six-year period commencing from the date of grant of the first option, executives are expected to build up a shareholding amounting to the value of one year's base salary.

The first grant of options in August 2003 vested in full in August 2006: the maximum growth of RPI + 8% having been achieved. This resulted in 278,602 options vesting of which 100,298 were attributed to D.G. Anthony, Chief Executive Officer and 70,384 to B.A. Iversen, the former Group Finance Director.

Termination of employment of an executive for any reason other than injury, disability, redundancy, retirement or sale or transfer of a business will cause any options to lapse unless the remuneration committee, acting fairly and reasonably in its absolute discretion decides otherwise. Should the remuneration committee seek to exercise their discretion, the percentage of the option that shall become exercisable shall depend upon the performance conditions attained to the date of termination of employment and be pro-rated according to the effective date of termination.

In the event of a change of control, in deciding how much of the options should be able to be exercised, the remuneration committee will take account of the performance conditions that have been attained to date.

The remuneration committee will formally review the scheme in 2007.

Hitachi Capital (UK) PLC ShareSave Scheme

The Hitachi Capital (UK) PLC ShareSave Scheme, which is approved by the Inland Revenue, is linked to a save-as-you-earn contract under which participants save a regular monthly sum by deduction from earnings of up to £250 per month for three years. Subject to common service criteria, the scheme is open to all employees of the Group, including executive directors. Options are normally exercisable during a period of six months following the expiry of three years from the date of grant and there are no performance conditions. Option prices are set at the beginning of the savings contract at a discount of 20% to the then prevailing market price of the Group's shares. Invitations to participate in the scheme are normally made annually.

Service contracts

Non-executive directors are retained on the terms set out in their letters of appointment and do not have service contracts.

Service contracts are issued to executive directors on appointment on a rolling basis. D.G. Anthony, M.J. Cutbill and R. Gordon are employed on rolling contracts dated 3 May 1982, 18 November 2003 and 16 January 2006 respectively, and the notice period required is six months. M. Usami is an employee of Hitachi Capital Corporation who is on secondment to Hitachi Capital (UK) PLC and the Group pays for his services. M. Usami replaced N. Hirasawa who resigned as an executive director in June 2006. M. Usami was appointed as executive director in June 2006.

The Group's policy on termination payments is such that payments are not normally paid beyond its contractual obligations. In exceptional circumstances, an additional ex-gratia payment may be considered based on factors including the director's past contribution and the circumstances of the director's departure. In the event of termination of a director's service contract, the remuneration committee will seek to apply mitigation rigorously.

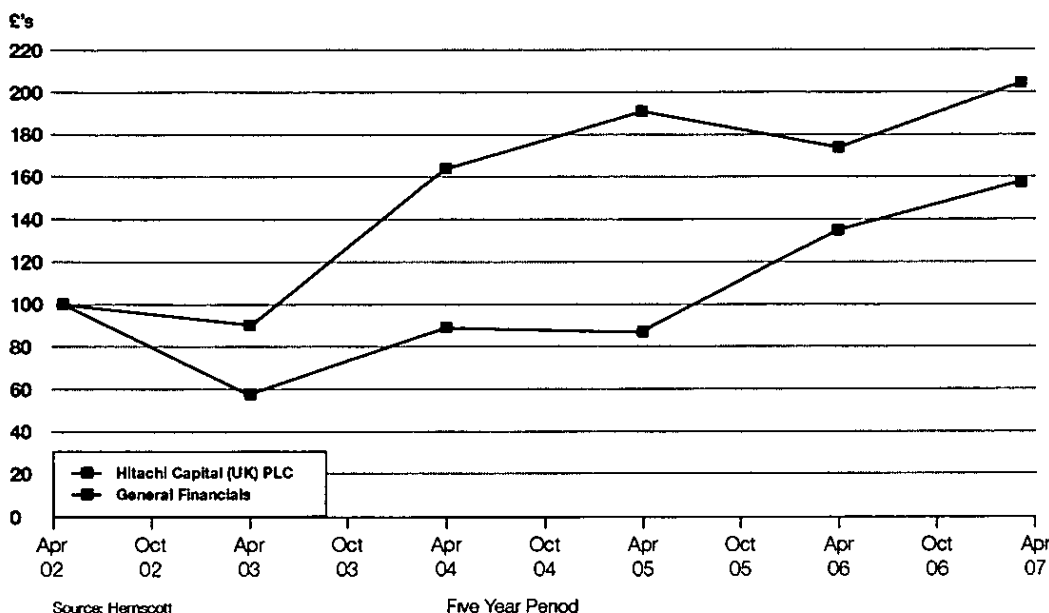
B.A. Iversen resigned her position as executive director on 29 September 2006. The remuneration committee approved the payment of £42,000 additional salary and benefits to B.A. Iversen on termination of employment based on her contribution to the Group during her five-year tenure.

Directors' remuneration report

Performance graph

The graph below shows a comparison of the Total Shareholder Return ("TSR") for the Group's shares for each of the last five financial years against the TSR for the companies included in the Speciality and Other Finance Index (*Financial Times*). This index was chosen for comparison because it is considered to be the most comparable to the Group's business.

Historic TSR performance growth in the value of a hypothetical £100 holding over five years compared with the Speciality and Other Finance Index based on spot values



Executive and non-executive directors' emoluments and compensation

The following table shows the emoluments of the executive directors and non-executive directors in the year ended 31 March 2007

	Base salary /fees £'000	Benefits in kind /other cash £'000	Performance-related bonuses £'000	Total for year ended 31 March 2007 £'000	Total for year ended 31 March 2006 £'000
Audited					
Executive directors					
D G Anthony	205	20	35	260	212
N Hirasawa*	35	9	7	51	198
B A Iversen**	135	43	31	209	154
M J Cutbill	143	13	21	177	167
R Gordon**	70	7	21	98	n/a
M Usami*	126	34	17	177	n/a
Total	714	126	132	972	731
Non-executive directors					
Y Antoshi	-	-	-	-	-
A W Jukes (Chairman)	45	-	-	45	35
J S Stubbings	28	-	-	28	26
N Carter	24	-	-	24	22
A Tsuda	-	-	-	-	-
Total	97	-	-	97	83

(UK & Japanese salary including tax equalisation). N Hirasawa retired as an executive director on 21 June 2006 and M Usami commenced employment on 1 May 2006 and became an executive director on 21 June 2006. Data for M Usami refers to the period from 1 May 2006. R Gordon was appointed as an executive director effective 1 October 2006 and the data relates to this period only. Data for B A Iversen relates to the period to 31 January 2007 which constituted the end of her contractual notice period.

Pensions

B.A. Iversen, M.J. Cutbill and R. Gordon earned pension benefits from the Hitachi Capital (UK) PLC Group Pension and Life Assurance Scheme (the Group's defined benefit pension scheme) during the year. The following table sets out details of the cash equivalent transfer value of each director's accrued pension benefits in the scheme.

Age at 31 March 2007 Audited	B.A. Iversen 52 £000	M.J. Cutbill 45 £000	R. Gordon 45 £000
Accrued benefits earned in the year	4	4	2
Total accrued benefits at 31 March 2007	19	10	2
Transfer value at 31 March 2007	266	100	21
Transfer value at 31 March 2006	223	63	3
Increase in transfer value over year	43	37	18
Increase in transfer value over year, less directors' contributions	35	30	12
Additional accrued benefits earned in year (excluding inflation)	4	4	2

D.G. Anthony left pensionable service of the Scheme on 5 April 2006 with a deferred pension entitlement of £170,000 p.a. He transferred his benefits out of the Scheme during the year for a cash sum of £3,574,000 (excluding any benefits in relation to Additional Voluntary Contributions). The transfer value of his benefits at 31 March 2006 was £3,405,000. Mr Anthony has no remaining benefits within the Scheme.

M. Usami is a member of a pension plan operated by Hitachi Capital Corporation ('HCC') and company pension contributions for the period amounted to £16,559.

Normal retirement age from the Scheme is 65. The accrual rate for M.J. Cutbill and R. Gordon is 1/50th. On the death of a director after retirement, a spouse's pension is payable equal to half of the director's corresponding pension. On early retirement without Group consent, the pension is subject to actuarial reduction. Pensions are guaranteed to increase in payment each year by the lower of 5% per annum and the increase in the Retail Price Index. Members pay contributions of 5% of Pensionable Earnings. No allowance is made for discretionary benefits in the calculation of the transfer values.

The defined benefit contribution scheme was closed to new entrants on 31 March 2002, although from time to time new members are admitted exceptionally with the approval of the remuneration committee and the trustees of the scheme. All employees joining the Group from 1 March 2003 are invited to join a Stakeholder Pension Plan organised with Prudential.

Following a review by the Board of the funding position of the closed Hitachi Capital (UK) PLC Group Pension & Life Assurance Scheme, to ensure the ongoing continuance of the scheme for current members for the foreseeable future, two key changes were made to the Scheme with effect from 1 April 2005. For service from 1 April 2005 the normal retirement age for members increased from 60 to 65 and the calculation of pensionable salary changed from gross earnings to basic salary less the lower earnings limit. Benefits accrued by members up to 1 April 2005 were unaffected.

Directors' remuneration report

Directors' share options

The number of options granted to the executive directors in 2006/7 and outstanding as at 31 March 2007 are set out below

	Plan	No of options at 31.3.06	Options granted during year	Options exercised during year	Options lapsed during year	No of options at 31.3.07	Date of grant	Exercise price (pence)	Market price at exercise (pence)	Gain made on exercise (£000)	Date from which exercisable	Expiry Date
D G. Anthony	(i)	100,298	-	100,298	-	-	01.08.03	170.5	*(iii)	£93,402	01.08.06	N/A
D G. Anthony	(i)	91,030	-	-	-	91,030	01.06.04	201.0	-	-	(iv) 01.06.07	(iv) 01.06.14
D G. Anthony	(i)	78,258	-	-	-	78,258	01.06.05	249.0	-	-	(iv) 01.06.08	(iv) 01.06.15
D G. Anthony	(i)	-	98,368	-	-	98,368	01.06.06	208.0	-	-	(iv) 01.06.09	(iv) 01.06.16
D G. Anthony	(ii)	4,785	-	-	-	4,785	14.06.05	198.0	-	-	(iv) 01.08.08	(iv) 01.02.09
B.A Iversen	(i)	70,384	-	70,384	-	-	01.08.03	170.5	227.5	£40,119	N/A	N/A
B.A Iversen	(i)	63,883	-	-	63,883	-	01.06.04	201.0	-	-	N/A	N/A
B.A Iversen	(i)	54,662	-	-	54,662	-	01.06.05	249.0	-	-	N/A	N/A
B.A Iversen	(ii)	7,644	-	7,644	-	-	12.06.03	121.0	223.25	£7,816	N/A	N/A
M J Cutbill	(i)	49,194	-	-	-	49,194	01.06.04	201.0	-	-	01.06.07	01.06.14
M J Cutbill	(i)	43,682	-	-	-	43,682	01.06.05	249.0	-	-	01.06.08	01.06.15
M J Cutbill	(i)	-	68,634	-	-	68,634	01.06.06	208.0	-	-	01.06.09	01.06.16
M J Cutbill	(ii)	2,871	-	-	-	2,871	14.06.05	198.0	-	-	01.08.08	01.02.09
R Gordon	(i)	-	44,231	-	-	44,231	01.06.06	208.0	-	-	01.06.09	01.06.16
R Gordon	(ii)	-	5,736	-	-	5,736	12.06.06	163.0	-	-	01.08.09	01.02.10

(i) Hitachi Capital (UK) PLC Executive Share Option Plan

(ii) Hitachi Capital (UK) PLC ShareSave Scheme

(iii) 89.849 @ 267.5385p, 17.002 @ 256.883p and 13,447 @ 252p

(iv) The exercise date for D G. Anthony is the earlier of his retirement date or the exercisable date stated in the table. The expiry date will be 6 months from his date of retirement

The market price of ordinary shares in the Group as at 31 March 2007 was £2.26. The highest and lowest market prices of ordinary shares during the financial year were £2.66 and £1.95 respectively. There have been no changes in D G. Anthony's, M J. Cutbill's or R. Gordon's interests in share options since the year-end.

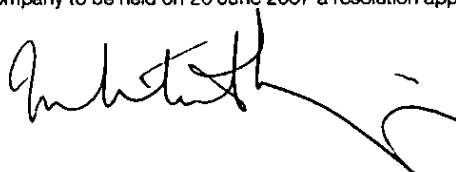
Shareholder approval of the Directors' Remuneration Report

At the Annual General Meeting of the Company to be held on 20 June 2007 a resolution approving this report is to be proposed as an ordinary resolution.

By order of the Board

J S Stubbings

Chairman of Remuneration Committee



Company directors

Chairman

1 **Anthony Jukes**

Chairman, aged 64, joined the Board as a non-executive director in 1996. He has held various senior positions within the financial sector and has served as a member of various committees, including Chairman of the Finance & Leasing Association during 1995-6. He currently holds a number of directorships within HBOS PLC.

Executive directors

2 **David Anthony**

Chief Executive, aged 60, joined the Company on its establishment in 1982 as General Manager, joined the Board in July 1986 and was appointed Chief Executive in 2001. He graduated in Modern History at St Catherine's College, Oxford, qualified as a Chartered Accountant and subsequently moved into the finance industry.

3 **Robert Gordon**

Group Finance Director, aged 45, joined the Board in October 2006. He graduated in Economics at Adelaide University, Australia and qualified as a Chartered Accountant. Prior to joining Hitachi Capital, he was Managing Director of Finova Capital PLC and worked for Touche Ross and Co. in Australia and the United Kingdom.

4 **Masahiro Usami**

Managing Director, aged 47, joined the Board in June 2006. A graduate of Keio University, he joined Hitachi Capital Corporation in 2004. Prior to this he held senior positions in Yaoko Ltd and The Long-Term Credit Bank of Japan Limited, with postings in Hong Kong and Japan.

5 **Martin Cutbill**

Aged 45, joined the Board in 2005. A graduate in Psychology from Nottingham University, he has responsibility for Group-wide business development. Prior to joining Hitachi Capital he was Head of Partnerships at HBOS and also previously worked for Pricewaterhouse

Non-executive directors

6 **Simon Stubbings**

Aged 62, joined the Board as a non-executive director in 1999. A graduate of Trinity College Dublin, he qualified as a solicitor and spent his career with Theodore Goddard where he rose to be a Managing Partner from 1993 to 1997. He also serves as a non-executive director of UTI Worldwide Inc. and certain private companies.

7 **Akira Tsuda**

Aged 62, joined the Board in 2005. A graduate of Waseda University, with a degree in Commerce. He is a Director of Hitachi Capital Corporation. Previously he was CEO and Chairman of Nomura Investor Relations.

8 **Yoshitaka Aritoshi**

Aged 66, joined the Board as a non-executive director in 2002 and was appointed Vice-Chairman in 2005. A graduate of Waseda University, he joined Hitachi Capital Corporation in 1963. Mr Aritoshi holds several non-executive director posts within Hitachi Capital Corporation Group companies.

9 **Nicholas Carter**

Aged 61, Mr Carter joined the Board as a non-executive director in July 2003. He qualified as a Chartered Accountant in 1968 and graduated in Italian from UCL. Having held senior financial positions in companies both in the United Kingdom and in mainland Europe, he was General Manager, Finance of the NFU Mutual & Avon Insurance Group for 14 years before retiring in October 2001.

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2007

Principal activities and business review

The principal activities of the Group during the year were the provision of finance in the form of contract hire, block discounting, leasing hire purchase personal loans and related products and services, as well as the provision of insurance and credit management services. The information that fulfils the requirements of the Enhanced Business Review and the likely future developments in the business of the Group is included in the Chairman's statement on pages 4 to 5 in the business and financial review on pages 6 to 7 and in the corporate governance report on pages 8 to 11 which are all incorporated in this report by reference.

Results and dividends

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 23.

The directors recommend a final dividend of 8p (2006: 8p) per share to be paid on 6 July 2007. An interim dividend of 3.25p per share was paid on 1 December 2006, giving a total dividend for the year of 11.25p (2006: 11p) per share. The total distribution of dividends for the year to 31 March 2007 will be £4,782,000 (2006: £4,644,000).

Greenwood Nominees Limited, which holds shares in the Company on behalf of the Hitachi Capital (UK) PLC Employee Share Ownership Plan Trust, has an arrangement with the Company under which it waived all but 0.01p per share of the dividends paid during the year and has agreed to waive such amount in respect of future dividends.

Donations

During the year the Group gave £31,000 (2006: £20,000) for charitable purposes. Further details are set out in the corporate social responsibility report on pages 12 to 13. No political donations were made this year (2006: £nil).

Policy on payment of creditors

The Group aims to settle trade creditors in accordance with their individual terms of business, subject to satisfactory performance by the supplier. Trade creditor days for the Group, based on the ratio of trade creditors at the year end to total purchases during the year, were 20 days (2006: 23 days). For the Company the trade creditor days at the year end were 55 days (2006: 23 days).

Employees

The Group has an HMRC-approved savings-related share-option scheme which UK employees are entitled to participate in on an annual basis (see the director's remuneration report on page 15, for further details). The Group is committed to regular and timely communication with staff, of information on matters of concern to them as employees, including both briefings and written communications. It is the Group's policy to be an equal opportunities employer. Human resource policies are reviewed regularly and initiatives are made in all the main areas of human resource policy. Further details are set out in the corporate social responsibility report on pages 12 and 13.

The Group's policy and practice is to encourage the recruitment, training, career development and promotion of disabled persons according to their aptitude and ability and the retention and re-training of employees who become disabled whilst in the employment of the Group.

Shareholders

The shareholders detailed below have reported an interest of 3% or more in the ordinary share capital of the Company as at 2 May 2007.

Ordinary shares	Number	% held
Hitachi Capital Corporation	27,637,400	64.76%
Trafalgar Asset Managers Ltd	2,936,692	6.88%

Directors and directors' interests in shares

The directors who served during the year and to the date of this report, together with their respective beneficial interests in shares, are as follows:

	31 March 2007	1 April 2006
D.G. Anthony †	47,611	26,120
Y. Antosh †	-	-
N. Carter * †	1,250	1,250
M.J. Cutbill	5,000	5,000
R.D. Gordon (appointed on 1 October 2006)	-	-
N. Hirasawa (resigned on 21 June 2006)	-	12,000
B.A. Iversen (resigned on 29 September 2006)	-	15,000
A.W. Jukes (Chairman)	10,740	10,740
J.S. Stubbings * †	11,000	11,000
A. Tsuda*	-	-
M. Usami (appointed on 21 June 2006)	-	-

* non-executive

† member of audit committee and remuneration committee

‡ member of nomination committee

(N. Carter and J.S. Stubbings resigned as members of the nomination committee on 22 November 2006).

No director has any non-beneficial interests in shares.

There have been no changes in directors' interests since the year end up to the date of this report.

Details of the directors' share options are included in the Directors' Remuneration Report on page 18.

At the AGM in June 2006 the Board was delighted to welcome Masahiro Usami and, in October 2006, Robert Gordon, as executive directors. Mr Usami and Mr Gordon both have over twenty years' experience in finance and investment, with the majority of Mr Usami's career at The Long-Term Credit Bank of Japan and Mr Gordon's with Finova Capital plc.

Nonchika Hirasawa left the Board in June 2006 upon his planned retirement and Barbara Iversen resigned in September 2006. The Board thanks both executive directors for their commitment and contribution to the Company.

Having been appointed by the Board since the last Annual General Meeting, Robert Gordon is (in accordance with the Company's Articles of Association) offering himself for reappointment at the 2007 Annual General Meeting. In accordance with the Company's Articles of Association, each of the other directors will retire by rotation at the forthcoming Annual General Meeting and, being eligible to be reappointed, will offer himself for reappointment at that meeting.

Biographical details of all directors are set out on page 19.

At the 2007 Annual General Meeting, resolutions will be proposed to appoint Glynis Appelbe and Simon Oliphant as executive directors of the Company. Further details are set out in the Notice of the Annual General Meeting 2007 and the explanatory notes.

Directors' remuneration

Details of the remuneration of the directors for the year ended 31 March 2007 are set out in the Directors' Remuneration Report on page 16

An ordinary resolution to approve the Directors' Remuneration Report as set out on pages 14 to 18 will be proposed as an item of special business at the forthcoming Annual General Meeting

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare Company financial statements in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's position and financial performance, and
- Prepare the accounts on a going-concern basis unless, having assessed the ability of the Company to continue as a going concern, management either intend to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and Directors' Remuneration Report which comply with the requirements of the Companies Act 1985.

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Qualifying indemnity provisions

By virtue of article 142(A) of the Articles of Association of the Company, a qualifying indemnity provision (within the meaning given by section 309B(1) of the Companies Act 1985) is in force at the date of this report in respect of each director of the Company and was in force throughout the year ended 31 March 2007 in respect of each person who was a director at any time during that year.

Going concern

The directors consider that the Group has adequate resources to continue in operation for the foreseeable future and that it is therefore appropriate to adopt the going-concern basis in preparing the financial statements.

Financial instruments

Information on the Group's financial risk-management objectives and policies and the Group's exposure to price risk, credit risk, liquidity risk and cash-flow risk is set out in note 31 to the financial statements.

Authority to repurchase shares

At the Annual General Meeting in 2006, shareholders gave the Company authority to make market purchases of up to 4,245,220 of its own shares. The Board has not exercised this authority to date and has no current plans to do so, but believes that it is in the best interests of shareholders that the Company should have the flexibility to make market purchases of its own shares. The current authority will expire at the 2007 Annual General Meeting and shareholders will be asked to renew the authority at that meeting.


Post balance sheet events

Details of post balance sheet events are set out in note 29 to the consolidated financial statements on page 58.

Auditors

During the year, Deloitte & Touche LLP resigned as independent auditors of the Company and the Board appointed Ernst & Young LLP to fill the vacancy. In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of Ernst & Young LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. Further details are set out in the explanatory notes to the Notice of Annual General Meeting 2007.

By order of the Board,



J N M Sims

Company Secretary
9 May 2007

Independent auditor's report to the members of Hitachi Capital (UK) PLC

We have audited the Group and parent company financial statements (the "financial statements") of Hitachi Capital (UK) PLC for the year ended 31 March 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, the directors' remuneration report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the unaudited part of the Directors' Remuneration Report, the Chairman's statement, the business and financial review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion

- The Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended.
- The parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 March 2007, and
- The financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.


Ernst & Young LLP

Registered auditor
London
9 May 2007

Consolidated income statement

For the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Revenue	3	199,455	195,228
Finance costs - interest payable	5	(46,005)	(45,153)
Depreciation - operating leased assets	12	(63,206)	(58,722)
Maintenance expense on contract hire vehicles		(15,647)	(15,393)
Other		(15,288)	(17,846)
Cost of sales		(140,146)	(137,114)
Gross profit		59,309	58,114
Bad debts impairment charge	13	(11,207)	(6,874)
Administrative expenses		(36,475)	(36,511)
		(47,682)	(43,385)
Operating profit	5	11,627	14,729
Fair value gains on derivative financial instruments	14	1,737	301
Profit before tax	5	13,364	15,030
Income tax expense	7	(2,856)	(4,390)
Profit after tax		10,508	10,640
Earnings per share			
Basic	8	24.9p	25.2p
Diluted	8	24.8p	25.1p
Dividends per share	9	11.25p	10.5p

Consolidated statement of recognised income and expense

For the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Profit after tax for the year		10,508	10,640
Actuarial gain/(loss) on defined benefit pension scheme	21	1,789	(3,370)
Gain on cash flow hedges taken to cash flow hedge reserve		19,452	8,320
Transfer to income statement from reserves on cash flow hedges		(16,277)	(5,663)
Tax on items taken directly to equity	7	(1,433)	224
Net income/(expense) recognised directly in equity		3,531	(489)
Total recognised income and expense for the year		14,039	10,151

Balance sheets

Consolidated and Parent Company

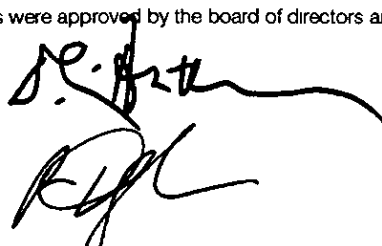
As at 31 March 2007

	Notes	Group 2007 £'000	Group 2006 £'000 (Restated)	Company 2007 £'000	Company 2006 £'000 (Restated)
Assets					
Non-current assets					
Goodwill and other intangibles	10	6,376	6,369	3,339	2,895
Investment in subsidiaries	11	-	-	13,078	13 078
Property plant and equipment	12	236,939	219,814	23,526	22 873
Loans and receivables	13	402,124	427,312	589,310	601,297
Derivative financial instruments	14	1,166	197	1,166	197
Deferred tax asset	15	-	-	1,026	2,813
		646,605	653,692	631,445	643,153
Current assets					
Loans and receivables	13	348,411	353,500	323,559	328 501
Derivative financial instruments	14	2,895	828	2,895	828
Trade and other receivables	16	44,301	50,200	1,548	6 981
Corporation tax debtor		1,091	503	845	159
Cash	17	14,955	9,542	1,589	-
		411,653	414,573	330,436	336 469
Total assets		1,058,258	1 068,265	961,881	979,622
Equity and liabilities					
Equity and reserves attributable to equity holders					
Share capital	22	10,669	10,613	10,669	10 613
Share premium account	23	15,559	15 235	15,559	15 235
Treasury shares	24	(1,039)	(693)	(1,039)	(693)
Retained earnings	24	42,730	35,496	15,343	13,878
Cash flow hedge reserve	24	2,212	(1)	2,212	(1)
Other reserves	24	168	196	168	196
Total equity		70,299	60,846	42,912	39,228
Non-current liabilities					
Interest-bearing loans and borrowings	18	294,880	292,590	294,880	292 590
Derivative financial instruments	14	37,014	11,502	37,014	11,502
Other liabilities	19	23,429	26,148	-	-
Deferred tax liability	15	4,412	1 708	-	-
Retirement benefit obligation	21	2,985	4,990	2,985	4 990
		362,720	336 938	334,879	309,082
Current liabilities					
Bank overdrafts	17	4,758	7,088	2,626	6,576
Interest-bearing loans and borrowings	18	555,099	594,722	555,099	594,722
Derivative financial instruments	14	16,364	11,603	16,364	11,603
Trade and other payables	19	49,018	57,068	10,001	18 411
		625,239	670,481	584,090	631,312
Total liabilities		987,959	1 007,419	918,969	940,394
Total equity and liabilities		1,058,258	1,068,265	961,881	979,622

The financial statements were approved by the board of directors and authorised for issue on 9 May 2007. They were signed on its behalf by

D G Anthony
Chief Executive

R Gordon
Finance Director



Cash flow statements

Consolidated and Parent Company

For the year ended 31 March 2007

	Notes	Group 2007 £'000	Group 2006 £'000 (Restated)	Company 2007 £'000	Company 2006 £'000 (Restated)
Cash flows from operating activities					
Net cash generated from/(used in) operations	25	98,561	8,491	23,647	(56,524)
Income tax paid		(2,173)	(7,477)	(338)	(3,841)
Net cash generated from/(used in) operating activities		96,388	1,014	23,309	(60,365)
Cash flows from investing activities					
Equity investment in subsidiary		-	-	-	(5,000)
Purchase of property, plant and equipment					
- Operating leased assets		(115,687)	(92,411)	(9,095)	(6,352)
- Other property, plant and equipment		(1,784)	(875)	(929)	(368)
Capitalised software development costs		(946)	(151)	(861)	(102)
Proceeds from sale of property, plant and equipment					
- Operating leased assets		39,573	43,213	3,031	2,715
- Other property, plant and equipment		126	160	11	-
Net cash used in investing activities		(78,718)	(50,064)	(7,843)	(9,107)
Cash flows from financing activities					
Dividends paid to shareholders	9	(4,777)	(4,420)	(4,777)	(4,420)
Proceeds from issuance of shares		380	-	380	-
(Purchases)/sales of treasury shares		(346)	202	(346)	202
Issue of medium term notes		123,571	129,165	123,571	129,165
Redemption of medium term notes		(136,998)	(181,557)	(136,998)	(181,557)
(Decrease)/increase in bank loans outstanding		(7,805)	44,562	(7,805)	44,562
Increase in commercial paper outstanding		17,493	80,591	17,493	80,591
Decrease in funding from securitised receivables		(1,445)	(10,032)	(1,445)	(10,032)
Net cash (used in)/generated from financing activities		(9,927)	58,511	(9,927)	58,511
Net increase/(decrease) in cash and bank overdrafts		7,743	9,461	5,539	(10,961)
Cash and bank overdrafts at beginning of year		2,454	(7,007)	(6,576)	4,385
Cash and bank overdrafts at end of year	17	10,197	2,454	(1,037)	(6,576)
Current assets - cash		14,955	9,542	1,589	-
Current liabilities - bank overdrafts		(4,758)	(7,088)	(2,626)	(6,576)
Cash and bank overdrafts at end of year		10,197	2,454	(1,037)	(6,576)

Notes to the consolidated financial statements

For the year ended 31 March 2007

1 General information

Hitachi Capital (UK) PLC is a limited Company incorporated in the United Kingdom under the Companies Act 1985, whose shares are publicly traded. The address of the registered office is given on page 61. The nature of the Group's operations and its principal activities are set out in the Business and financial review on pages 6 to 7.

The Company's immediate parent undertaking is Hitachi Capital Corporation, incorporated in Japan. Hitachi Capital Corporation is ultimately owned by Hitachi Ltd, also incorporated in Japan.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS7

Financial instruments: disclosures and the related amendment to IAS1 on capital disclosures

IFRS8

Operating segments

IFRIC 8

Scope of IFRS2

IFRIC 9

Reassessment of embedded derivatives

IFRIC 10

Interim financial reporting and impairment

IFRIC 11

Group and treasury share transactions

IFRIC 12

Service concession arrangements

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, except for potential changes to disclosures on financial instruments when the relevant standards come into effect for the year ending 31 March 2008.

Restatement of comparatives

Comparative information has been restated for the following items which are now more appropriately classified within the financial statements:

- Reclassification of capitalised software development costs from property, plant & equipment to goodwill and other intangibles
- Reinsurers' share of insurance premiums and insurance claims liabilities previously offset against unearned insurance premiums and insurance claim liabilities separately identified as assets
- Fair value gains on derivative financial instruments are shown as non-operating within the consolidated income statement.
- Cash flow statement and related reconciliations in Note 25 have been restated to conform with the current year presentation.

The restatements have not resulted in any change to the net assets, shareholders' equity or result for the year ended 31 March 2006.

2 Significant accounting policies

Basis of preparation

The parent company and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted for use in the European Union. The Group has adopted IFRSs from 1 April 2004, with details of the transition, including voluntary and mandatory exemptions from full restatement, set out in the Group's 2006 annual report.

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value. The principal accounting policies adopted are set out below.

Basis of consolidation

The Group's financial statements consolidate the financial statements of Hitachi Capital (UK) PLC (the parent company) and its subsidiary undertakings. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Group has a special purpose entity, Securitisation of Financial Assets Limited ('SOFA'), with a non-coterminous year-end of 31 May. The financial position and results of SOFA for the year ended 31 March 2007 have been consolidated within the Group's financial statements.

The purchase method of accounting has been adopted, whereby the results of subsidiaries acquired or disposed of in the year are included in the consolidated income statement from the date control of the net assets and operations are transferred to or from the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of acquisition over the Group's share of the fair value of identifiable net assets (including intangible assets, if its fair value can be measured reliably on acquisition) of a subsidiary at the date of acquisition.

Goodwill is reviewed annually for impairment (or more frequently where there is an indication that it may be impaired) and as such is stated at cost less any provision for impairment in value. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Notes to the consolidated financial statements

For the year ended 31 March 2007

2. Significant accounting policies (cont'd)

Investment in subsidiaries

Investments in subsidiaries are stated at cost

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value. Operating leased assets are reviewed for impairment annually whereas the carrying values of all other tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is calculated to write-off cost less residual value on a straight-line basis, over the estimated useful life of the assets as follows:

Freehold buildings	50 years
Leasehold improvements	Remaining term of the lease
Fixtures, fittings and IT equipment	4 years
Motor vehicles	3 years
Operating leased assets	Term of the lease

Where the Group has an interest in the residual value of certain operating leased assets, these values are reviewed on a regular basis and, where necessary, any variance from the exposure recognised by the Group is charged or credited to the income statement over the remaining lives of the operating leases of the assets concerned.

Financial instruments

Financial assets, liabilities and derivatives are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument. The derecognition of the financial asset takes place when the rights to the contractual cash flows expire, or when the Group no longer controls the contractual rights that comprise the financial asset. This is normally the case when the instrument is sold or all the cash flows attributable to the instrument are passed through to an independent third party. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Loans and receivables

Loans and receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If material, future cash flows have been discounted at the effective interest rate computed at initial recognition.

Cash and bank overdrafts

Cash and bank overdrafts comprise cash on hand, demand deposits and short-term bank overdrafts and are subject to an insignificant risk of changes in value.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are measured at initial recognition at fair value, which for external borrowings represents the value of the proceeds received, net of any transactional costs that are directly attributable. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accrued in the income statement using the effective interest rate method. They are added to the carrying value to the extent that they are not settled in the period in which they arise.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as cross-currency interest rate swaps, interest rate swaps and interest rate caps to hedge its risks associated with interest rate and foreign currency fluctuations. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recorded at fair value. The gains or losses on re-measurement are taken to the income statement except where the derivative is designated as a cash flow hedge and qualifies for hedge accounting.

In relation to cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in equity and the ineffective portion is recognised in the income statement. The gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged item affects the income statement.

In relation to fair value hedges that meet the conditions for hedge accounting, gains or losses on the re-measurement of the hedging instrument at fair value are recognised in the income statement. Any gains or losses on the hedged item attributable to the hedged risk are adjusted against the carrying value of the hedged item and also recognised in the income statement.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gains or losses on the hedging instrument which have been recognised in equity under a cash flow hedge are retained in equity until the forecast transaction occurs, at which point it is removed from equity and included in the income statement. Any adjustment made to the carrying amount of the hedged item under a fair value hedge is amortised in the income statement over the remaining life of the hedged item.

For derivative financial instruments that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Notes to the consolidated financial statements

For the year ended 31 March 2007

2 Significant accounting policies (cont'd)

Treasury shares

Upon consolidation, the balance sheet and income statement are adjusted for own shares held by the Hitachi Capital (UK) PLC Employee Benefit Trust to satisfy options under the Group's share options schemes

On purchase the cost of the shares acquired is deducted from equity. Subsequently, any gain or loss on the sale or cancellation of an entity's own shares is recognised in equity. Any net income in relation to own shares are eliminated before stating the profit for the year. Dividends paid in respect of these shares are also excluded when determining the retained profit for the year.

In calculating the basic earnings per share, the exclusion of the income in respect of treasury shares from the income statement requires the exclusion of treasury shares from the weighted average number of shares. When calculating the diluted earnings per share the number of shares included in the weighted average reflects the potential issue in respect of treasury shares.

Revenue activities

Instalment finance and other loans

Interest and other charges earned on instalment finance and other loan agreements are credited to the income statement, over the life of the agreement, using the effective interest rate method such that a constant rate of return is earned in proportion to the capital balances outstanding. Initial direct costs are recognised over the life of the agreement, on the same basis as revenues.

Leases

Finance and hire purchase agreements which transfer to the lessor substantially all the risks and benefits incidental to ownership of the leased item, are recorded in the balance sheet at the net investment in the lease. Interest income is recognised using the actuarial before tax method, which reflects a constant rate of return on the net investment outstanding.

Leases where the Group retains substantially all the risks and benefits of ownership are classified as operating leases and are recorded as operating leased assets within property, plant and equipment. Rental instalments are recognised in the income statement on a straight-line basis over the lease term.

Initial direct costs are recognised over the life of the leases, on the same basis as revenues.

Insurance

Insurance premiums, net of reinsurance and an allowance for cancellations, are recognised over the period of the policy written on a basis which reflects the expected profile of the risk undertaken. Acquisition costs, which represent commission and other related expenses, are amortised on the same basis and over the same period as the related premiums subject to recoverability. Provision is made for the estimated cost of reported claims not settled at the balance sheet date and for estimated claims incurred but not reported at that date. Provision is also made, where the expected value of claims attributable to policies in force at the balance sheet date exceeds the net unearned premiums on these policies.

The Group performs liability adequacy testing on its claims liabilities to ensure that the carrying amount of its liabilities including the provision for unearned reinsurance premium net of related deferred insurance commissions, is sufficient in view of estimated future cash flows.

The Group ceded reinsurance in the normal course of business for the purpose of limiting its net loss potential. Assets, liabilities, income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to the policyholders.

Reinsurance premium for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid and are included in trade and other receivables in the balance sheet.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Foreign currency translation

The Group's presentational and Company's functional currency is UK Sterling (£). Transactions in currencies other than UK Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are included in the income statement for the period.

In order to hedge its exposure to foreign exchange risks, the Group mostly enters into cross-currency and interest rate swaps, the accounting policies of which are set out on page 27.

Retirement benefit costs

The Group operates a defined benefit pension scheme and a defined contribution pension scheme. The pension cost relating to the defined benefit scheme is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method which attributes entitlements to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations).

Actuarial gains and losses are recognised, in full, in the statement of recognised income and expense in the periods in which they arise.

The Group's contributions to the defined contribution scheme are charged to the income statement in the period to which the contributions relate.

Notes to the consolidated financial statements

For the year ended 31 March 2007

2 Significant accounting policies (cont'd)

Share-based payments

The fair value of share options granted under the Group's incentive schemes is measured at the date of grant using a binomial model. The cost of these equity-settled transactions is recognised as an expense on a straight-line basis over the vesting period, which ends on the date on which the employees become fully entitled to the award. The valuation is based on the Group's annual estimate of the number of shares that will eventually vest. No expense is recognised for awards that do not ultimately vest.

At each balance sheet date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Taxation

Current tax payable is based on taxable profit for the year which differs from profit before tax as reported in the income statement because it excludes items of income or expense that are either taxable or deductible in future years or never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is calculated using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Dividends

Dividends proposed by the board of directors and unpaid at year end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting.

Critical accounting estimates and judgements

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates include operating leased assets residual values, the allowance for impairment of loans and receivables, deferred tax and insurance contract provisions and related deferred insurance commissions. Details of these are set out in the accounting policies above as well as notes 12, 13, 15 and 20.

3 Revenue

An analysis of the Group's revenue from continuing operations is as follows:

	Note	2007 £'000	2006 £'000
Instalment finance		29,398	27,255
Leasing - operating leases		99,763	100,164
Leasing - finance leases		10,018	9,920
Hire purchase agreements		22,807	22,567
Other financing activities		6,530	7,517
Insurance activities	20	20,465	16,982
Fees and commissions		10,474	10,823
Total revenue		199,455	195,228

Notes to the consolidated financial statements

For the year ended 31 March 2007

4 Segmental reporting

Business segments

For management purposes, the Group is currently organised into five operating divisions: Vehicle Solutions, Consumer Finance, Business Finance, Insurance Services and Credit Management. These divisions are the basis on which the Group reports its primary segment information. All operations are continuing. Inter-segment sales are charged at prevailing market rates.

The principal activities are as follows:

Vehicle Solutions	- vehicle management solutions and fleet management services
Business Finance	- medium term asset finance
Consumer Finance	- retail point-of-sale finance
Insurance Services	- direct insurer for payment protection and guaranteed asset protection
Credit Management	- credit control and debt recovery services

Segment information about these business divisions is presented below:

Year ended 31 March 2007	Vehicle Solutions £'000	Business Finance £'000	Consumer Finance £'000	Insurance Services £'000	Credit Management £'000	Unallocated Corporate £'000	Eliminations £'000	Consolidated £'000
Revenue								
External sales	106,541	40,263	31,372	20,457	822	-	-	199,455
Inter-segment sales	128	-	1,260	80	1,168	-	(2,636)	-
Total revenue	106,669	40,263	32,632	20,537	1,990	-	(2,636)	199,455
Result								
Segment result	9,291	(1,892)	2,456	1,614	158	-	-	11,627
Fair value gains on derivative financial instruments	-	-	-	-	-	-	-	1,737
Profit before tax	9,291	(1,892)	2,456	1,614	158	-	-	13,364
Capital additions	107,170	9,194	607	99	187	214	-	117,471
Depreciation	57,740	5,889	171	14	36	210	-	64,060
Balance sheet								
Segment assets	300,459	405,606	306,481	49,060	713	909,089	(913,150)	1,058,258
Segment liabilities	275,408	386,414	281,625	34,735	43	910,226	(900,492)	987,959

Notes to the consolidated financial statements

For the year ended 31 March 2007

4 Segmental reporting (cont'd)

Year ended 31 March 2006 (Restated)	Vehicle Solutions £'000	Business Finance £'000	Consumer Finance £'000	Insurance Services £'000	Credit Management £'000	Unallocated Corporate £'000	Eliminations £'000	Consolidated £'000
Revenue								
External sales	108,651	39,465	28,985	17,136	991	-	-	195,228
Inter-segment sales	404	-	1,355	16	858	-	(2,633)	-
Total revenue	109,055	39,465	30,340	17,152	1,849	-	(2,633)	195,228
Result								
Segment result	7,234	3,668	1,446	2,121	260	-	-	14,729
Fair value gains on derivative financial instruments	-	-	-	-	-	-	-	301
Profit before tax	7,234	3,668	1,446	2,121	260	-	-	15,030
Capital additions	86,549	6,386	110	8	8	225	-	93,286
Depreciation	54,089	5,525	180	31	24	178	-	60,027
Balance sheet								
Segment assets	287,394	404,680	321,717	52,808	1,519	940,815	(940,668)	1,068,265
Segment liabilities	267,070	384,893	298,204	38,966	875	945,458	(928,047)	1,007,419

Geographic segments

As the activities of the Group are predominantly carried out in the United Kingdom, with the exception being some of the insurance business carried out in Ireland no geographical analysis is presented

5 Profit for the year

Profit for the year has been arrived at after charging/(crediting)

	Notes	Group 2007 £'000	Group 2006 £'000
IEF integration costs		-	269
Sarbanes-Oxley implementation costs		701	743
Interest payable on third party loans and borrowings		46,005	45,153
Profit on disposal of operating leased assets and other property plant and equipment		(3,407)	(2,125)
Depreciation of property, plant and equipment	12	64,060	60,027
Impairment of property, plant and equipment	12	(6)	1,292
Operating lease rentals income	27	(99,763)	(99,406)
Operating lease rentals expense	27	1,148	736
Net insurance premiums earned	20	(20,465)	(16,982)
Net insurance claims incurred	20	3,338	3,096

Notes to the consolidated financial statements

For the year ended 31 March 2007

5 Profit for the year (cont'd)

A detailed analysis of auditors' remuneration paid to Ernst & Young LLP for 2007 and Deloitte & Touche LLP for 2006 is provided below

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Audit services				
Audit services	305	305	206	233
Audit related services	9	100	-	50
	314	405	206	283
Non-audit services				
Tax compliance	-	50	-	50
Tax advisory	-	9	-	9
Other services	-	7	-	7
	-	66	-	66
Total	314	471	206	349

Audit related services include Sarbanes-Oxley internal control reviews, attestation services not required by statute or regulation and consulting concerning financial accounting and reporting standards. The Group has established policies governing the use of auditors for non-audit services including limits thereon. The auditors are only permitted to perform non-audit services where their knowledge of the Group means that it is more efficient to use them rather than employing an alternative firm.

6 Staff Costs

The average monthly number of employees (including executive directors) was

	2007 Number	2006 Number
Management	61	74
Administration	390	320
Sales	53	69
Total	504	463

Their aggregate remuneration comprised

	2007 £'000	2006 £'000
Wages and salaries	16,773	16,510
Social security costs	1,756	1,836
Other pension costs	1,587	1,679
Expense of share based payments	157	63
Total	20,273	20,088

The directors' remuneration is included in the Directors' Remuneration Report on page 14

Notes to the consolidated financial statements

For the year ended 31 March 2007

7 Tax

The major components of income tax expense are

	Note	Group 2007 £'000	Group 2006 £'000
Current tax			
UK Corporation tax			
Charge for the year		1,908	4,118
Adjustment in respect of prior years		(323)	824
Total		1,585	4,942
Deferred tax			
Origination and reversal of temporary differences in the current year		2,415	562
Adjustment in respect of prior years		(1,144)	(1,114)
Total	15	1,271	(552)
Tax expense on profit from continuing operations		2,856	4,390

The charge for the year can be reconciled to the profit per the income statement as follows

	Group 2007 £'000	Group 2006 £'000
Profit before tax from continuing operations	13,364	15,030
Tax on profit before tax from continuing operations at UK Corporation tax rate of 30%	4,009	4,509
Increase/(decrease) resulting from		
Adjustments in respect of prior years	(1,467)	(290)
Disallowable expenses and other adjustments	314	171
Total tax on profit from continuing operations	2,856	4,390

In addition to the amount charged to the income statement, deferred tax relating to the following items has been charged/(credited) directly in equity

	Note	Group 2007 £'000	Group 2006 £'000
Revaluation of defined benefit pension scheme		471	(1,011)
Net gain on revaluation of cash flow hedges		962	787
Total tax charged/(credited) on items taken direct to equity	24	1,433	(224)

Adjustments in respect of prior years represents the release of over-accruals for taxation following successful resolution of several outstanding tax issues with HM Revenue and Customs

Notes to the consolidated financial statements

For the year ended 31 March 2007

8 Earnings per share

The major components of income tax expense are

	2007 £'000	2006 £'000
Profit attributable to equity holders	10,508	10,640
	2007 Number	2006 Number
Basic weighted average number of shares	42,289,874	42,161,983
Dilutive potential ordinary shares		
Employee ShareSave scheme options	51,330	114,200
Executive share options	51,853	90,089
Diluted weighted average number of shares	42,393,057	42,366,272
	2007 p	2006 p
Basic earnings per share	24.9	25.2
Diluted earnings per share	24.8	25.1

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year, which has been calculated after deducting 321,962 (2006: 290,232) ordinary shares representing the average of the Group's holdings of treasury shares in respect of employee share scheme trusts.

For the calculation of diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential shares. The Company has dilutive potential ordinary shares in respect of share options granted to employees.

As at 31 March 2007, the weighted average number of anti-dilutive share options excluded from the calculation of diluted earnings per share was 247,633 (2006: 328,682). These were excluded from the diluted earnings per share calculation due to certain vesting criteria not being met at the end of the year.

9 Dividends

Amounts recognised as distributions to equity holders in the year

	2007 £'000	2006 £'000
Final dividend for the year ended 31 March 2006 of 8.0p (2005: 7.5p) per share	3,378	3,154
Interim dividend for the year ended 31 March 2007 of 3.25p (2006: 3.0p) per share	1,399	1,266
Total	4,777	4,420
Proposed final dividend for the year ended 31 March 2007 of 8.0p (2006: 8.0p) per share	3,383	3,378

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Dividends on the treasury shares held by the ShareSave scheme trust have been waived, except for 0.01p per share.

Notes to the consolidated financial statements

For the year ended 31 March 2007

10 Goodwill and other intangibles

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Goodwill	4,458	4,458	2,367	2,367
Capitalised software development costs				
Cost				
At 1 April	5,810	5,659	3,647	3,545
Additions	946	151	861	102
At 31 March	6,756	5,810	4,508	3,647
Accumulated amortisation				
At 1 April	3,899	3,257	3,119	2,727
Charge for the year	939	642	417	392
At 31 March	4,838	3,899	3,536	3,119
Carrying amount	1,918	1,911	972	528
Total	6,376	6,369	3,339	2,895

Goodwill is allocated by business segment as follows

Vehicle Solutions	1,691	1,691	-	-
Business Finance	2,367	2,367	2,367	2,367
Credit Management	400	400	-	-
Total	4,458	4,458	2,367	2,367

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Impairment testing is performed for each cash flow generating unit which has been determined as being at the same level as that used for the segmental basis of reporting.

The recoverable amounts of the cash flow generating units are determined from value in use calculations.

Cash flow projections used in calculating value in use cover a five year period. The cash flows for the first three years are based on financial budgets approved by senior management. The cash flows for the last two years are extrapolated using a steady growth rate of 3% which does not exceed the long-term average growth rate for the markets in which the businesses operate.

The discount rate applied to cash flow projections, on a gross of tax basis, is 5.5% (2006: 5%). The discount rate is determined by reference to internal and external measures, including the Group's weighted average cost of capital.

Management have determined that any reasonably possible change in the key assumptions on which the value in use calculations are based would not cause the carrying amount of the cash flow generating unit to exceed its recoverable amount.

Notes to the consolidated financial statements

For the year ended 31 March 2007

11 Investment in subsidiaries

	2007 £'000	2006 £'000
Company		
At 1 April	13,078	8,078
Additions	-	5,000
At 31 March	13,078	13,078

The Company has the following wholly owned subsidiaries

	Place of incorporation and operation	Activity
Hitachi Capital Vehicle Solutions Limited	UK	Contract hire
Hitachi Capital Insurance Europe Limited	UK & Ireland	Insurance
Hitachi Capital Reinsurance Limited	Ireland	Reinsurance
Hitachi Capital Credit Management Limited	UK	Credit Management
Trowbridge Vehicle Rentals Limited	UK	Contract hire
Industrial Equipment Finance Limited	UK	Dormant

All the above subsidiaries are trading with the exception of Industrial Equipment Finance Limited and Trowbridge Vehicle Rentals Limited. All subsidiaries are directly held with the exception of Trowbridge Vehicle Rentals Limited which is held by Hitachi Capital Vehicle Solutions Limited.

In addition, the Group is required to consolidate Securitisation of Financial Assets Limited, a special purpose entity, the principal activity of which is to act as a vehicle for the Group's securitised operations.

Notes to the consolidated financial statements

For the year ended 31 March 2007

12. Property, plant and equipment

	Freehold property £'000	Motor vehicles £'000	Fixtures, fittings, computers and leasehold improvements £'000	Operating leased assets £'000	Total £'000
Group					
Cost					
At 1 April 2005	298	609	8,900	353,628	363,435
Additions	34	232	609	92,411	93,286
Disposals	-	(239)	(27)	(106,671)	(106,937)
At 1 April 2006	332	602	9,482	339,368	349,784
Additions	169	307	1,308	115,687	117,471
Disposals	-	(257)	(535)	(93,038)	(93,830)
At 31 March 2007	501	652	10,255	362,017	373,425
Accumulated depreciation and impairment					
At 1 April 2005	22	184	7,121	127,013	134,340
Charge for the year	2	149	1,154	58,722	60,027
Impairment loss	-	-	-	1,292	1,292
Eliminated on disposals	6	(98)	(14)	(65,583)	(65,689)
At 1 April 2006	30	235	8,261	121,444	129,970
Charge for the year	7	175	672	63,206	64,060
Impairment gain	-	-	-	(6)	(6)
Eliminated on disposals	(11)	(142)	(493)	(56,892)	(57,538)
At 31 March 2007	26	268	8,440	127,752	136,486
Carrying amount					
At 31 March 2007	475	384	1,815	234,265	236,939
At 31 March 2006	302	367	1,221	217,924	219,814

The impairment charge recognised during the previous year was calculated by reference to the value in use of operating leased assets within the Vehicle Solutions division. The discount rate applied to the cash flows was 13.5%, which is the average rate implicit in the leases and is indicative of the market rate of similar transactions.

At 31 March 2007, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £21,839,000 (2006: £32,900,000) which are predominantly in respect of assets to be leased to customers under operating leases. Management have determined that funding will be available from existing facilities to cover these commitments.

Notes to the consolidated financial statements

For the year ended 31 March 2007

12. Property, plant and equipment

	Freehold property £'000	Motor vehicles £'000	Fixtures, fittings, computers and leasehold improvements £'000	Operating leased assets £'000	Total £'000
Company					
Cost					
At 1 April 2005	150	102	4,392	38,912	43,556
Additions	-	-	368	6,352	6,720
Disposals	-	(51)	(27)	(7,437)	(7,515)
At 1 April 2006	150	51	4,733	37,827	42,761
Additions	-	-	929	9,095	10,024
Disposals	-	(32)	(426)	(7,135)	(7,593)
At 31 March 2007	150	19	5,236	39,787	45,192
Accumulated depreciation and impairment					
At 1 April 2005	12	32	3,626	15,550	19,220
Charge for the year	1	19	406	5,457	5,883
Eliminated on disposals	-	(19)	(14)	(5,182)	(5,215)
At 1 April 2006	13	32	4,018	15,825	19,888
Charge for the year	3	9	415	5,843	6,270
Eliminated on disposals	-	(25)	(414)	(4,053)	(4,492)
At 31 March 2007	16	16	4,019	17,615	21,666
Carrying amount					
At 31 March 2007	134	3	1,217	22,172	23,526
At 31 March 2006	137	19	715	22,002	22,873

At 31 March 2007, the Company had no contractual commitments for the acquisition of property, plant and equipment (2006 Nil)

Notes to the consolidated financial statements

For the year ended 31 March 2007

13 Loans and receivables

The present value of the Group's loans and receivables are analysed as follows

	Amounts due within 1 year £'000	2007 Amounts due after 1 year £'000	Total £'000	Amounts due within 1 year £'000	2006 Amounts due after 1 year £'000	Total £'000
Group						
Gross loans and receivables						
Finance leases	41,338	78,816	120,154	39,315	80,546	119,861
Hire purchase agreements	110,959	192,105	303,064	111,094	196,211	307,305
Instalment finance agreements	205,014	146,939	351,953	211,502	174,195	385,697
Other loans and advances	43,352	40,498	83,850	48,958	48,700	97,658
Total gross loans and receivables	400,663	458,358	859,021	410,869	499,652	910,521
Deferred revenue						
Finance leases	(6,845)	(9,647)	(16,492)	(5,303)	(11,731)	(17,034)
Hire purchase agreements	(12,726)	(20,949)	(33,675)	(13,168)	(22,689)	(35,857)
Instalment finance agreements	(23,224)	(19,894)	(43,118)	(30,492)	(30,153)	(60,645)
Other loans and advances	(4,579)	(2,746)	(7,325)	(4,590)	(3,553)	(8,143)
Total deferred revenue	(47,374)	(53,236)	(100,610)	(53,553)	(68,126)	(121,679)
Allowance for impairment losses						
Finance leases	(230)	(397)	(627)	(325)	(696)	(1,021)
Hire purchase agreements	(881)	(351)	(1,232)	(675)	(1,156)	(1,831)
Instalment finance agreements	(3,304)	(1,969)	(5,273)	(2,553)	(2,102)	(4,655)
Other loans and advances	(463)	(281)	(744)	(263)	(260)	(523)
Total allowance for impairment losses	(4,878)	(2,998)	(7,876)	(3,816)	(4,214)	(8,030)
Present value of loans and receivables						
Finance leases	34,263	68,772	103,035	33,687	68,119	101,806
Hire purchase agreements	97,352	170,805	268,157	97,251	172,366	269,617
Instalment finance agreements	178,486	125,076	303,562	178,457	141,940	320,397
Other loans and advances	38,310	37,471	75,781	44,105	44,887	88,992
Total present value of loans and receivables	348,411	402,124	750,535	353,500	427,312	780,812

Loans and receivables are due within five years

Revenue is recognised over the life of the agreements using either the effective interest rate method or actuarial before tax method for finance leases and hire purchase agreements. As such the portion of payments received but not yet recognised as revenue has been deferred on the balance sheet such as the unearned future finance income on finance leases. These amounts will be recognised in the income statement in accordance with the Group's revenue recognition policy.

Unguaranteed residual values of assets leased under finance leases at the balance sheet date are £2,665,000 (2006: £2,800,000).

The Group's leasing arrangements cover motor vehicles and specialist business equipment. As such the portfolio consists of high volume small value items, such as commercial vehicle fleets as well as financing for specific equipment. The more material individual arrangements are written within the Business Finance aviation sector, where financing of up to £2,500,000 may be provided on a single customer transaction.

The average term of finance leases is generally three years (2006: three years).

Notes to the consolidated financial statements

For the year ended 31 March 2007

13 Loans and receivables (cont'd)

Collateral held in loans and advances at the balance sheet date are estimated at £392,133,000 (2006 £325,377,000). No amounts of collateral have been re-pledged to support the Group's liabilities.

The book value of loans and receivables, stated net of deferred income, approximates to the fair value.

The present value of the Company's loans and receivables are:

	Amounts due within 1 year £'000	2007 Amounts due after 1 year £'000	Total £'000	Amounts due within 1 year £'000	2006 Amounts due after 1 year £'000	Total £'000
Company						
Gross loans and receivables						
Finance leases	18,053	37,855	55,908	22,176	40,388	62,564
Hire purchase agreements	103,615	186,776	290,391	98,775	179,945	278,720
Instalment finance agreements	205,014	146,939	351,953	211,504	175,385	386,889
Other loans and advances	43,352	40,498	83,850	48,958	48,700	97,658
Amounts owed by subsidiaries	-	229,385	229,385	-	220,437	220,437
Total gross loans and receivables	370,034	641,453	1,011,487	381,413	664,855	1,046,268
Deferred revenue						
Finance leases	(2,836)	(5,992)	(8,828)	(2,952)	(5,937)	(8,889)
Hire purchase agreements	(11,843)	(20,513)	(32,356)	(11,417)	(20,376)	(31,793)
Instalment finance agreements	(23,224)	(19,894)	(43,118)	(30,492)	(30,153)	(60,645)
Other loans and advances	(4,579)	(2,746)	(7,325)	(4,590)	(3,553)	(8,143)
Total Deferred revenue	(42,482)	(49,145)	(91,627)	(49,451)	(60,019)	(109,470)
Allowance for impairment losses						
Finance leases	(11)	(397)	(408)	(118)	(216)	(334)
Hire purchase agreements	(215)	(351)	(566)	(527)	(961)	(1,488)
Instalment finance agreements	(3,304)	(1,969)	(5,273)	(2,553)	(2,102)	(4,655)
Other loans and advances	(463)	(281)	(744)	(263)	(260)	(523)
Total allowance for impairment losses	(3,993)	(2,998)	(6,991)	(3,461)	(3,539)	(7,000)
Present value of loans and receivables						
Finance leases	15,206	31,466	46,672	19,106	34,235	53,341
Hire purchase agreements	91,557	165,912	257,469	86,831	158,608	245,439
Instalment finance agreements	178,486	125,076	303,562	178,459	143,130	321,589
Other loans and advances	38,310	37,471	75,781	44,105	44,887	88,992
Amounts owed by subsidiaries	-	229,385	229,385	-	220,437	220,437
Total present value of loans and receivables	323,559	589,310	912,869	328,501	601,297	929,798

Unguaranteed residual values of assets leased under finance leases by the Company at the balance sheet date are £128,000 (2006 £2,800,000).

The Company's leasing arrangements cover specialist business equipment. The more material individual arrangements are written within the Business Finance aviation sector, where financing of up to £2,500,000 may be provided on a single customer transaction.

The average term of finance leases is generally four years (2006 three years).

Collateral held in loans and advances at the balance sheet date are estimated at £392,133,000 (2006 £325,377,000). No amounts of collateral have been re-pledged to support the Company's liabilities.

The book value of loans and receivables, stated net of deferred income, approximates to the fair value.

Notes to the consolidated financial statements

For the year ended 31 March 2007

13 Loans and receivables (cont'd)

For finance leases, hire purchase agreements and other loans and advances, the allowance for impairment losses is determined on an individual basis by reference to past default experience and other recoverability information relating to the specific loan or other receivable. Recoverable amounts are assessed with reference to the expected future cash flows on the loan arrangements.

For instalment finance agreements, which comprise large numbers of small homogeneous assets with similar risk characteristics, allowance for impairment losses is supplemented by statistical techniques used to calculate impairment allowance on a portfolio basis. Agreements which are known to be impaired, such as when a counterparty is declared bankrupt, are fully impaired in the first instance. For all other agreements, where an indicator of potential impairment exists, such as payment default, the portfolio approach is adopted whereby historical write-off percentages are applied by product, retailer and arrears category.

Movements in the allowance for impairment losses during the year were as follows:

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
At 1 April	8,030	7,014	7,000	5,994
Amounts written off	(12,781)	(7,824)	(11,593)	(5,735)
Recoveries	1,859	1,908	1,696	1,908
Charge to the income statement	10,768	6,932	9,888	4,833
At 31 March	7,876	8,030	6,991	7,000

The income statement impact of the impairment can be analysed as follows:

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Finance leases	4,850	1,411	4,278	(7)
Hire purchase agreements	(347)	691	(655)	10
Instalment finance agreements	5,410	4,847	5,410	4,847
Other loans and advances	855	(17)	855	(17)
Impairment charge - loans and receivables	10,768	6,932	9,888	4,833
Trade debtors	439	(58)	-	-
Impairment charge - loans and receivables	11,207	6,874	9,888	4,833

The interest rate in the majority of loans and receivables is fixed at the contract date for all of the lease term. These balances are therefore subject to fair value rate risk. Approximately £4,814,000 (2006: £15,000,000) of loans and receivables are written at floating interest rates, and are therefore subject to cash flow interest rate risk.

The effective interest rates of loans and receivables are:

	2007 Group effective interest rate %	Company effective interest rate %	2006 Group effective interest rate %	Company effective interest rate %
Finance leases	11.0%	7.9%	7.4%	6.5%
Hire purchase agreements	7.9%	7.7%	6.8%	6.5%
Instalment finance agreements	9.5%	9.5%	9.0%	9.0%
Other loans and advances	7.6%	7.6%	6.5%	6.5%
Amounts owned by subsidiaries	-	4.8%	-	4.8%
Total loans and receivables (weighted average)	8.9%	7.5%	7.7%	6.9%

Notes to the consolidated financial statements

For the year ended 31 March 2007

14 Derivative financial instruments

Currency derivative financial instruments

The Group utilises cross-currency swaps to hedge against the foreign exchange exposure that arises from issuing debt in currencies other than Sterling. These are for the full amount and term of the currency funding raised unless currency proceeds are required to fund currency denominated assets.

The total notional amount of cross-currency swaps (being the Sterling equivalent at contracted rates) that the Group had committed was £431,661,000 (2006: £419,087,000). At 31 March 2007 and 31 March 2006, the Group had no forward rate agreements in place.

The fair value of the Group's cross-currency swaps, based on market values of equivalent financial instruments at the balance sheet date, comprise

	2007 £'000	2006 £'000
Assets		
Current	-	478
Liabilities		
Current	(16,331)	(11,026)
Non-current	(37,014)	(11,041)
Total	(53,345)	(21,589)

The fair value of cross-currency swaps that are designated and effective as cash flow hedges amount to £(16,375,000) (2006: £(5,030,000)), the movement of which has been deferred in equity. The hedged cash flows are expected to occur in the years up to 2010. The fair value of currency derivative financial instruments that are designated and effective as fair value hedges amount to £(29,604,000) (2006: £(15,566,000)), the movement of which has been recognised in the income statement. This has been offset by a corresponding adjustment to the underlying hedged item. The fair value of the remaining cross-currency interest rate swaps, which are not formerly designated in any hedging relationships, was £(7,366,000) (2006: £993,000).

Interest rate derivative financial instruments

The Group uses interest rate swaps to manage its exposure to interest rate movements on its borrowings. The total notional amount of interest rate derivative financial instruments that the Group had committed was £665,900,000 (2006: £659,700,000) which have fixed interest payments at an average effective interest rate of 5.0% (2006: 4.8%) for periods up until 2010 and have floating interest receipts at LIBOR.

The fair value of the Group's interest rate swaps, based on market values of equivalent financial instruments at the balance sheet date, comprise

	2007 £'000	2006 £'000
Assets		
Current	2,895	350
Non-current	1,166	197
Liabilities		
Current	(33)	(577)
Non-current	-	(461)
Total	4,028	(491)

Notes to the consolidated financial statements

For the year ended 31 March 2007

14 Derivative financial instruments (cont'd)

The fair value of interest rate swaps that are designated and effective as cash flow hedges amount to £1,612,000 (2006 £(497,000)) the movement of which has been deferred in equity. The hedged cash flows are expected to occur in the years up to 2010. As at 31 March 2007 and 31 March 2006 there were no interest rate swaps designated in fair value hedging relationships. The remaining fair value of interest rate swaps which are not formerly designated in any hedging relationships was £2,416,000 (2006 £6,000).

Fair value gains on derivative financial instruments

The fair value gains/(losses) on derivative financial instruments credited/(charged) in the income statement for the year are made up as follows

	2007 £'000	2006 £'000
Ineffective portion of cash flow hedges	(541)	243
Fair value hedges	382	119
Undesignated cross currency and interest rate swaps	1,896	(61)
Total	1,737	301

15 Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method. There are no temporary differences in respect of which deferred tax has not been recognised.

The deferred tax assets and liabilities have been offset for reporting purposes on the basis that deferred tax predominantly arises in respect of items taxable within the same jurisdiction (UK) and it is expected that a right of set-off will exist when the items reverse.

The following are the major deferred tax assets/(liabilities) recognised and movements thereon

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Derivative financial instruments £'000	Other £'000	Total £'000
Group					
At 1 April 2005	(6,493)	2,027	1,499	493	(2,474)
Charge to income statement	1,172	(518)	-	(102)	552
Charge to equity	-	1,011	(797)	-	214
At 1 April 2006	(5,321)	2,520	702	391	(1,708)
Charge to income statement	(727)	(375)	9	(178)	(1,271)
Charge to equity	-	(471)	(962)	-	(1,433)
At 31 March 2007	(6,048)	1,674	(251)	213	(4,412)
	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Derivative financial instruments £'000	Other £'000	Total £'000
Company					
At 1 April 2005	(1,888)	2,027	1,499	265	1,903
Charge to income statement	1,445	(518)	-	(231)	696
Charge to equity	-	1,011	(797)	-	214
At 1 April 2006	(443)	2,520	702	34	2,813
Charge to income statement	12	(375)	-	-	(363)
Charge to equity	-	(471)	(953)	-	(1,424)
At 31 March 2007	(431)	1,674	(251)	34	1,026

Notes to the consolidated financial statements

For the year ended 31 March 2007

16. Trade and other receivables

	Notes	Group 2007 £'000	Group 2006 £'000 (Restated)	Company 2007 £'000	Company 2006 £'000
Trade debtors		10,046	9,235	-	79
Prepayment		2,906	2,348	1,092	1,093
Other debtors		7,157	10,324	456	5,809
Reinsurers' share of provision for unearned premiums	20	1,176	1,886	-	-
Reinsurers' share of provision for insurance claim liabilities	20	181	53	-	-
Deferred insurance commissions		22,835	26,354	-	-
Total		44,301	50,200	1,548	6,981

The directors consider that the carrying value of trade and other receivables approximates their fair value

The movement in deferred insurance commissions can be analysed as follows

	Group 2007 £'000	Group 2006 £'000
At 1 April	26,354	13,430
Charge to income statement for the year		
Acquisition cost deferred during the year	10,735	23,678
Amortisation charged during the year	(14,254)	(10,754)
	(3,519)	12,924
At 31 March	22,835	26,354

17. Cash and bank overdrafts

Cash and bank overdrafts held by the Group all have an original maturity of three months or less. The carrying amount approximates their fair value.

Notes to the consolidated financial statements

For the year ended 31 March 2007

18. Interest-bearing loans and borrowings

	2007 £'000	2006 £'000
Bank loans	36,757	44,562
Commercial paper	263,753	246,260
Funding from securitised receivables	170,000	171,445
Medium term notes	379,469	425,045
Total	849,979	887,312

The Group has a central treasury function responsible for all external funding activities. Accordingly, the Group and Company disclosures for interest-bearing loans and borrowings are the same.

The borrowings are repayable as follows:

	2007 £'000	2006 £'000
Current liabilities		
On demand or within one year	555,099	594,722
Non-current liabilities		
More than one year but less than two years	57,739	88,480
More than two years but less than five years	237,141	204,110
Amount due for settlement after one year	294,880	292,590
Total	849,979	887,312

An analysis of borrowings by currency is as follows:

	Sterling £'000	Euros £'000	Yen £'000	All other currencies £'000	Total £'000
31 March 2007					
Bank loans	33,001	766	-	2,990	36,757
Commercial paper	93,878	146,255	-	23,620	263,753
Funding from securitised receivables	170,000	-	-	-	170,000
Medium term notes	-	-	376,729	2,740	379,469
Total	296,879	147,021	376,729	29,350	849,979
31 March 2006					
Bank loans	42,607	379	-	1,576	44,562
Commercial paper	82,176	139,967	-	24,117	246,260
Funding from securitised receivables	171,445	-	-	-	171,445
Medium term notes	26,000	-	375,279	23,766	425,045
Total	322,228	140,346	375,279	49,459	887,312

Loans and borrowings of £366,760,000 (2006: £365,660,000) were arranged at fixed interest rates and expose the Group to fair value interest rate risk. All other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Due to the short duration of the Group's funding programmes, the directors estimate that there is no material difference between the book value and fair value of the debt portfolio.

Notes to the consolidated financial statements

For the year ended 31 March 2007

18. Interest-bearing loans and borrowings (cont'd)

The weighted average effective interest rates paid were as follows

	2007 Group effective interest rate %	2006 Group effective interest rate %
Bank loans	5.07%	4.83%
Commercial paper	4.96%	4.69%
Funding from securitised receivables	4.96%	4.70%
Medium term notes	5.13%	4.88%
Total interest-bearing loans and borrowings (weighted average)	5.04%	4.79%

Bank overdrafts are repayable on demand and are secured by the right of set off against other cash balances held by certain Hitachi Ltd group companies with the same bank. The average effective rate on overdraft balances for the year was 5.8% (2006: 5.6%) and is based on UK base rates plus an agreed margin.

Other uncommitted borrowing facilities are available to the Group from banks and other sources. Certain of these facilities are secured by the right of set off against cash balances held by certain Group companies held at the same bank.

The Group raises funding under its Euro note programme mainly for terms of one to five years, borrowings from this source are unsecured although they benefit from a guarantee from Hitachi Capital Corporation.

Borrowings under the Group's two commercial paper programmes are typically raised for periods of between one and three months. Borrowings under these programmes are also guaranteed by Hitachi Capital Corporation.

Proceeds from the securitisation of certain receivables are typically at a floating rate of interest for a period of between one and three months.

19. Other financial liabilities

	Notes	Group 2007 £'000	Group 2006 £'000 (Restated)	Company 2007 £'000	Company 2006 £'000
Trade and other payables current					
Trade creditors and accruals		14,386	15,800	8,056	12,475
Other creditors		9,292	10,675	1,945	5,936
Deferred income		10,716	12,607	-	-
Provision for unearned insurance premiums	20	14,297	17,646	-	-
Provision for insurance claim liabilities	20	327	340	-	-
Total		49,018	57,068	10,001	18,411
Other liabilities non-current					
Deferred income		8,072	6,789	-	-
Provision for unearned insurance premiums	20	15,357	19,359	-	-
Total		23,429	26,148	-	-

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 20 days (2006: 23 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

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For the year ended 31 March 2007

20. Insurance

The Group's insurance activities are undertaken by its subsidiaries Hitachi Capital Insurance Europe Limited and Hitachi Capital Reinsurance Limited such that no Company disclosures are required

The Group is exposed to a number of insurance risks, being the risk of fluctuations in the timing, frequency and severity of insured events relative to the expectations of the Group at the time of underwriting

The focus is on high volume and relatively standardised general insurance products, being payment protection and guaranteed asset protection insurance whereby the insured risk is the inability of customers to make payments under a loan contract. The most significant factors resulting in claims under these policies tends to be the health of the policyholder and the possibility of unemployment which depends upon, among other things long-term and short-term economic factors

The Group manages underwriting and pricing risk through underwriting guidelines pricing policies by product line, and centralised control of policy wordings and subsequent changes. Reserving risk, being the risk that reserves are assessed incorrectly such that insufficient funds have been retained to pay claims as they fall due, are managed through the use of claims development data and historical patterns of reserving for risk. Claims management risk, being the risk that claims are paid inappropriately, is managed through the use of an external claims handling agency. Reinsurance protects against the effect of major catastrophic events or adverse trends in claims

There are no specific terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Group's future cash flows and the Group is not subject to any material levels of concentration risk. Group interest rate and credit risk are discussed in note 31. The Group has no interest rate exposure from general insurance liabilities because provisions for claims under insurance contracts are not discounted

Premium income and unearned insurance premium

Net insurance premiums revenue recognised during the year has been determined as follows

	2007 £'000	2006 £'000
Gross written premiums	13,922	34,320
Reinsurance premiums	(98)	(3,041)
Net written premiums	13,824	31,279
Change in the gross provision for unearned insurance premiums	7,351	(15,628)
Change in the reinsurers' share of provision for unearned insurance premiums	(710)	1,331
Change in provision for unearned insurance premiums	6,641	(14,297)
Net insurance premiums earned	20,465	16,982

Movements in the provision for unearned insurance premiums during the year were as follows

	Gross £'000	2007 Reinsurance £'000	Net £'000	Gross £'000	2006 Reinsurance £'000	Net £'000
At 1 April	37,005	(1,886)	35,119	21,377	(555)	20,822
Premiums written	13,922	(98)	13,824	34,320	(3,041)	31,279
Premiums earned	(21,273)	808	(20,465)	(18,692)	1,710	(16,982)
At 31 March	29,654	(1,176)	28,478	37,005	(1,886)	35,119

Notes to the consolidated financial statements

For the year ended 31 March 2007

20 Insurance (cont'd)

Claims expense and provision for insurance claims liabilities

Net insurance claims incurred during the year has been determined as follows

	2007 £'000	2006 £'000
Claims incurred and loss adjustment expenses	3,745	3,229
Reinsurance recoveries in respect of claims incurred	(407)	(133)
Net insurance claims incurred	3,338	3,096

Movements in the provision for insurance claims liabilities during the year were as follows

	Gross £'000	2007 Reinsurance £'000	Net £'000	Gross £'000	2006 Reinsurance £'000	Net £'000
At 1 April	340	(53)	287	942	(3)	939
Losses and expenses incurred	3,745	(407)	3,338	3,229	(133)	3,096
Total payments made in the year	(3,758)	279	(3,479)	(3,831)	83	(3,748)
At 31 March	327	(181)	146	340	(53)	287

Provisions for claims reported are estimated using the latest available information which comprises up to date reports from loss adjusters or fronting insurers. On that basis there are no significant assumptions impacting on the level of claims other than the assumption that the information used is complete and accurate. Due to the amount of time over which claims can develop, there may be significant uncertainty over the level of these reserves. Provisions for liabilities may therefore vary as a result of subsequent developments.

The estimation of the claims incurred but not reported (IBNR) reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not become apparent to the insured until many years after the event which gave rise to the claims has occurred. Actual claims in recent years have been materially the same as that estimated, with the exception of losses suffered on the electrical warranties policies. Electrical warranty business was discontinued in 2003/04.

The Company has adopted a policy of setting the level of provisions required by using claims triangulations and a qualified actuary.

Notes to the consolidated financial statements

For the year ended 31 March 2007

21 Retirement benefit pension schemes

Defined contribution pension scheme

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The total cost charged to the income statement of £468,000 (2006: £503,000) represents contributions payable to the scheme at rates specified in the rules of the plan. There were no unpaid contributions at either 31 March 2007 or 31 March 2006.

Defined benefit pension scheme

The Group operates a funded pension scheme providing benefits based on final pensionable earnings. The scheme is set up under trust and the assets are therefore held separately from the Group and invested by a specialist manager. Under the scheme the employees are entitled to retirement benefits of up to 66% of final pensionable earnings based on their number of years service, on attainment of reaching a normal retirement age of 65. No other post-retirement benefits are provided.

The most recent actuarial valuation of plan assets and the present value of defined benefit obligation were carried out at 31 March 2004 by Lane Clark & Peacock, LLP, an independent qualified actuary. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

Key assumptions used in the valuation of the scheme assets and net liabilities are as follows:

	2007 %	2006 %
Retail price inflation	3.0%	3.0%
Discount rate (per annum)	5.2%	4.9%
Expected return on scheme assets	7.3%	6.8%
General salary increases	5.0%	5.0%
Pension increases in payment	3.0%	3.0%

The expected return on assets assumptions are based on the asset allocation approved by the trustees and calculated net of investment management expenses. The expected return assumptions for each class are both subjective and critical to the overall expected return assumptions. For government bonds the expected return has been based on long term yields at 31 March 2007, with an appropriate risk adjustment for corporate bonds. Equity return assumptions are based on applying an equity margin of 3.25% to long term yields.

Amounts recognised in the income statement including administrative expenses, in respect of the scheme are as follows:

	2007 £'000	2006 £'000
Current service cost	1,275	1,030
Interest cost	1,287	1,108
Expected return on scheme assets	(1,433)	(962)
Charge for the year	1,129	1,176

In addition, an actuarial gain of £1,789,000 (2006: loss of £3,370,000) has been recognised in the statement of recognised income and expense, being the net decrease/(increase) in the defined benefit pension scheme deficit during the year.

The actual return on scheme assets was £1,230,000 (2006: £3,802,000).

Notes to the consolidated financial statements

For the year ended 31 March 2007

21 Retirement benefit pension schemes (cont'd)

The amount recognised in the balance sheet arising from the Group's obligations in respect the scheme is as follows

	2007 £'000	2006 £'000
Present value of defined benefit obligations	24,026	27,511
Fair value of scheme assets	(21,041)	(22,521)
Liability recognised in the balance sheet	2,985	4,990

Movements in the fair value of scheme assets and net present value of defined benefit obligations were as follows

	Fair value of scheme assets		Net present value of defined benefits obligations	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
At 1 April	22,521	12,644	27,511	19,401
Current service cost	-	-	1,275	1,030
Expected return/interest cost	1,433	962	1,287	1,108
Contributions from scheme members	174	183	174	183
Contributions by the employer	1,345	6,314	-	-
Actuarial gains / losses	(459)	2,840	(2,248)	6,211
Benefits paid	(3,973)	(422)	(3,973)	(422)
At 31 March	21,041	22,521	24,026	27,511

The analysis of the scheme assets and the expected rate of return at the balance sheet date are as follows

	Expected return		Fair value of assets	
	2007 %	2006 %	2007 £'000	2006 £'000
Equity instruments	7.8%	7.2%	16,204	15,890
Bonds	4.6%	4.8%	4,830	6,560
Cash	-	4.5%	7	71
Total			21,041	22,521

The five-year history of experience adjustments is as follows

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Present value of defined benefit obligations	24,026	27,511	19,401	13,807	n/a
Fair value of scheme assets	(21,041)	(22,521)	(12,644)	(10,235)	n/a
Defined benefit pension scheme deficit	2,985	4,990	6,757	3,572	n/a
Experience adjustments on scheme liabilities					
Amount (£'000)	(1,409)	1,147	(580)	n/a	n/a
Percentage of scheme liabilities (%)	(6)%	4%	3%	n/a	n/a
Experience adjustments on scheme liabilities					
Amount (£'000)	459	(2,840)	(517)	n/a	n/a
Percentage of scheme assets (%)	2%	(13)%	(4)%	n/a	n/a

The estimated amount of contributions expected to be paid to the scheme during the year ending 31 March 2008 is £1,167,000

Notes to the consolidated financial statements

For the year ended 31 March 2007

22. Share capital

The Company has one class of ordinary shares, which carry no right to fixed income

	2007 £'000	2006 £'000
Authorised		
80,000 000 ordinary shares of 25p each (2006 80 000 000)	20,000	20,000
Issued and fully paid:		
42,674,511 ordinary shares of 25p each (2006 42,452 215)	10,669	10,613

23. Share premium account

	2007 £'000	2006 £'000
At 1 April	15,235	15 235
Issue of shares under employee share ownership plans	324	-
At 31 March	15,559	15,235

Notes to the consolidated financial statements

For the year ended 31 March 2007

24 Reserves

	Notes	Treasury shares £'000	Retained earnings £'000	Cash flow hedge reserve £'000	Other reserves £'000	Total £'000
Group						
At 1 April 2006		(895)	31 635	(1 871)	155	29 024
Net profit for the year		-	10 640	-	-	10 640
Dividends paid	9	-	(4,420)	-	-	(4,420)
Share option charge for the year		-	-	-	41	41
Sale of treasury shares in respect of ShareSave scheme		202	-	-	-	202
Actuarial loss on defined benefit pension scheme	21	-	(3,370)	-	-	(3,370)
Increase in fair value of hedging derivatives		-	-	8,320	-	8 320
Transfer to income		-	-	(5,663)	-	(5 663)
Tax on items taken direct to equity	7	-	1 011	(787)	-	224
At 31 March 2006		(693)	35,496	(1)	196	34 998
Net profit for the year		-	10 508	-	-	10 508
Dividends paid	9	-	(4 777)	-	-	(4,777)
Share options charge for the year		-	-	-	157	157
Transfer to retained earnings on exercise of options		-	185	-	(185)	-
Purchase of treasury shares in respect of ShareSave scheme		(346)	-	-	-	(346)
Actuarial gain on defined benefit pension scheme	21	-	1 789	-	-	1,789
Increase in fair value of hedging derivatives		-	-	19,452	-	19,452
Transfer to income		-	-	(16 277)	-	(16,277)
Tax on items taken direct to equity	7	-	(47 1)	(962)	-	(1 433)
At 31 March 2007		(1,039)	42,730	2,212	168	44,071

The treasury shares reserve represents the cost of own shares in Hitachi Capital (UK) PLC purchased in the market and held by the Hitachi Capital (UK) PLC Employee Benefit Trust to satisfy options under the Group's share options schemes as set out in note 28

The cash flow hedge reserve represents the net gains on effective cash flow hedging derivative financial instruments that will be recycled to the income statement when the underlying hedged transaction affects profit or loss

Notes to the consolidated financial statements

For the year ended 31 March 2007

24 Reserves (cont'd)

	Notes	Treasury shares £'000	Retained earnings £'000	Cash flow hedge reserve £'000	Other reserves £'000	Total £'000
Company						
At 1 April 2005		(895)	14 264	(1,871)	155	11,653
Net profit for the year		-	6,393	-	-	6,393
Dividends paid	9	-	(4 420)	-	-	(4 420)
Share option charge for the year		-	-	-	41	41
Sale of treasury shares in respect of ShareSave scheme		202	-	-	-	202
Actuarial loss on defined benefit pension scheme	21	-	(3 370)	-	-	(3 370)
Increase in fair value of hedging derivatives		-	-	8,320	-	8,320
Transfer to income		-	-	(5 663)	-	(5,663)
Tax on items taken direct to equity	7	-	1,011	(787)	-	224
At 31 March 2006		(693)	13 878	(1)	196	13,380
Net profit for the year		-	4,739	-	-	4,739
Dividends paid	9	-	(4,777)	-	-	(4,777)
Share options charge for the year		-	-	-	157	157
Transfer to retained earnings on exercise of options		-	185	-	(185)	-
Purchase of treasury shares in respect of ShareSave scheme		(346)	-	-	-	(346)
Actuarial gain on defined benefit pension scheme	21	-	1 789	-	-	1 789
Increase in fair value of hedging derivatives		-	-	19,452	-	19,452
Transfer to income		-	-	(16,277)	-	(16 277)
Tax on items taken direct to equity	7	-	(471)	(962)	-	(1,433)
At 31 March 2007		(1,039)	15,343	2,212	168	16,684

Notes to the consolidated financial statements

For the year ended 31 March 2007

25 Notes to the cash flow statement

Reconciliation of profit before tax to net cash flow from operating activities

	Group 2007 £'000	Group 2006 £'000 (Restated)	Company 2007 £'000	Company 2006 £'000 (Restated)
Profit before tax	13,364	15,030	4,745	8,588
Depreciation and impairment charge				
Capitalised software development costs	939	642	417	392
Operating leased assets	63,200	60,014	5,843	5,457
Other property plant and equipment	854	1,305	427	426
Cash contributions to defined benefit pensions scheme	(1,345)	(6,313)	(1,561)	(6,313)
Defined benefit pension scheme charge to income statement	1,129	1,176	1,345	1,176
Share option charge during the year	157	41	157	41
Fair value gain on derivative financial instruments	(1,737)	(301)	(1,737)	(301)
(Gain)/loss on disposal of operating leases and other property, plant and equipment	(3,407)	(2,125)	59	(415)
Decrease/(Increase) in receivables	36,176	(70,412)	22,362	(65,995)
Increase /(Decrease) in payables	(10,769)	9,434	(8,410)	420
Net cash generated from/(used in) operating activities	98,561	8,491	23,647	(56,524)

Interest paid of £46,291,000 (2006 £44,912,000) has been included in net cash generated from /(used in) operating activities

26. Contingent liabilities

During the ordinary course of business the Group is subject to potential or actual legal proceedings. All material cases are regularly assessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Group incurring a liability.

Management do not expect the ultimate resolution of any legal proceedings to which the Group is party to have a significant adverse effect on the financial position of the Group. Contingent liabilities associated with these claims have not been disclosed either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claims.

Under Section 75 of the Consumer Credit Act 1974, the Group is jointly and severally liable to customers who have claims against retailers for misrepresentation or breach of contract, in respect of certain types of agreements regulated by that Act. This risk is minimised by the Group through regular due diligence reviews of the retailers through which consumer finance products are sold and termination of business where there is higher potential risk of default recognised. Deposits received which are subject to the Section 75 protection are estimated not to exceed £2.4 million.

There were no other contingent liabilities as at 31 March 2007.

As at 31 March 2006 the Group was engaged in an ongoing dispute with HMRC in relation to tax deductions claimed in respect of a transaction entered into in 1997. During the year the Group received confirmation from HMRC that they will no longer be pursuing this issue.

Notes to the consolidated financial statements

For the year ended 31 March 2007

27 Operating lease arrangements

Lessee activities

The following disclosures relate to the activities of the Group and the Company where they act as lessee

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Minimum lease payments under operating leases recognised in income statement during the year				
Plant and equipment	176	64	26	30
Land and buildings	972	672	730	381
Total	1,148	736	756	411

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Within one year	1,125	987	850	596
More than one year but less than five years	5,509	3,679	4,529	2,075
Over five years	6,686	5,577	6,616	4,092
Total	13,320	10,243	11,995	6,763

Operating lease payments represent rentals payable by the Group for certain of its office properties and related office equipment. Leases are negotiated for an average term of 15 years.

Lessor activities

The following disclosures relate to the activities of the Group and the Company where they act as lessor

Operating lease rental income on equipment forms a significant part of the Group's business and during the year amounted to £99,763,000 (2006: £99,406,000)

Operating lease contracts are entered into for an average term of three years (2006: three years)

At the balance sheet date the Group had contracted with lessees for the following future minimum lease payments

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Within one year	74,897	71,681	3,616	4,933
More than one year but less than five years	50,400	69,939	4,345	5,853
Over five years	27,326	-	3	-
Total	152,623	141,620	7,964	10,786

Notes to the consolidated financial statements

For the year ended 31 March 2007

28. Share based payments

ShareSave scheme

The Company has a ShareSave scheme open to all employees of the Group. Options are exercisable at a price representing a 20% discount to the average quoted market price of the Company's shares for the five days prior to the date of grant. The vesting period is three years. Any options not exercised expire three and a half years after the grant date. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding under the ShareSave scheme during the year are as follows:

	2007		2006	
	Average exercise price (per share) £	Outstanding options Number	Average exercise price (per share) £	Outstanding options Number
At 1 April	1.66	354,085	1.27	396,689
Granted	1.63	203,441	1.98	178,851
Exercised	1.23	(111,612)	1.15	(173,442)
Lapsed	1.85	(104,183)	1.53	(48,013)
At 31 March	1.72	341,731	1.66	354,085

The weighted average share price at the date of exercise for share options exercised during the period was £2.24 (2006: £2.24). The options outstanding at 31 March 2007 had a weighted average price of £1.72 (2006: £1.66) and a weighted average remaining contractual life of two years (2006: two years). During the year ended 31 March 2007, options were granted on 12 June 2006. The aggregate of the estimated fair value of the options granted on that date was £106,000. During the year ended 31 March 2006, options were granted on 13 June 2005. The aggregate of the estimated fair value of the options granted on that date was £123,000. No options were exercisable at either 31 March 2007 or 31 March 2006.

The Group recognised total expenses of £52,000 (2006: £52,000) in relation to the ShareSave scheme during the year.

Executive share option plan

The Company has an executive share option scheme open to executive directors and certain other senior employees of the Group. Options are granted up to a maximum value of twice the individual's base salary and shares may be purchased at a price representing the average quoted market price of the Company's shares on the day prior to the date of grant. The extent of vesting depends on EPS growth for the Group over a three year period. Vesting is proportionate on a straight-line basis to compound diluted EPS growth of 3%-8% over RPI. Unexercised options expire 10 years after the grant date. Options are forfeited if an employee leaves the Group before the options vest.

Notes to the consolidated financial statements

For the year ended 31 March 2007

28. Share based payments (cont'd)

Details of the share options outstanding under the executive share option plan during the year are as follows

	2007		2006	
	Average exercise price (per share) £	Outstanding options Number	Average exercise price (per share) £	Outstanding options Number
At 1 April	2.08	923,193	1.87	667,709
Granted	2.08	398,035	2.49	302,295
Exercised	1.71	(118,543)	1.85	(46,811)
Lapsed	1.71	(222,296)	-	-
At 31 March	2.21	980,389	2.08	923,193

The weighted average share price at the date of exercise for share options exercised during the period was £2.41 (2006: £2.13). The options outstanding at 31 March 2007 had a weighted average price of £2.21 (2006: £2.08) and a weighted average remaining contractual life of eight years (2006: eight years). Of these, 56,306 options were exercisable at 31 March 2007. During the year ended 31 March 2007 options were granted on 1 June 2006. The aggregate of the estimated fair value of the options granted on that date was £250,000. During the year ended 31 March 2006 options were granted on 1 June 2005. The aggregate of the estimated fair value of the options granted on that date was £242,000. No options were exercisable at 31 March 2006.

The Group recognised total expenses of £105,000 (2006: £111,000) in relation to the executive share option scheme during the year.

Fair value pricing assumptions

The fair values of the options granted under both schemes were determined using a binomial valuation model. The significant inputs into the model and resulting fair value of one option are set out below.

	2007		2006	
	ShareSave Scheme	Executive share option plan	ShareSave Scheme	Executive share option plan
Grant date	12 06 2006	01 06 2006	14 06 2005	01 06 2005
Exercise price (pence)	163p	208p	198p	249p
Vesting date	01 08 2009	01 06 2009	01 08 2008	01 06 2008
Price on grant date (pence)	208p	210p	254p	250p
Volatility (%)	27%	41%	26%	42%
Dividend yield (%)	5.30%	5.20%	4.13%	4.21%
Expected life (years)	3 years	5 years	3 years	5 years
Risk-free rate (%)	4.7%	4.7%	4.3%	4.2%
Fair value per option (pence)	52p	63p	69p	80p

Notes to the consolidated financial statements

For the year ended 31 March 2007

29 Events after the balance sheet date

On 18 April 2007 the Board recommended that shareholders accept a proposal from Hitachi Capital Corporation, the majority shareholder of the Company, to enter into a scheme of arrangement to acquire the remaining shares in the Company from minority shareholders. Details of the proposed scheme or arrangement are set out in the announcement published on the Group's web site and sent to shareholders on 18 April 2007.

30 Related party transactions

Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the year Group companies entered into the following transactions with related Hitachi companies who are not members of the Group:

- Administration fee of £45,000 (2006: £50,000) received in respect of the provision of treasury related services to Hitachi Capital America Corp. There were no amounts due from Hitachi Capital America Corp. at year end.
- Insurance premiums ceded to Hitachi Capital Insurance Japan of £54,000 (2006: £192,000). Reinsurance recoveries received under these policies totalled £28,000 (2006: £12,000). Amounts due to Hitachi Capital Insurance Japan at year end were £Nil (2006: £3,242,000).
- Vehicle operating lease income received from various Hitachi companies of £409,000 (2006: £430,000). Amounts due from related parties in respect of operating leases at year end were £18,000 (2006: £24,000).
- Guarantee fee and other charges of £350,000 (2006: £218,000) paid to Hitachi Capital Corporation (parent company). There were no amounts payable to Hitachi Capital Corporation at year end.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below:

	2007 £'000	2006 £'000
Short-term employee benefits	1,064	931
Post-employment benefits	88	94
Share-based payments	53	108
Total	1,205	1,133

Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 14 to 18.

Directors' transactions

There are no transactions with directors to be reported.

Notes to the consolidated financial statements

For the year ended 31 March 2007

31 Financial risk management objectives and policies

The Group has a central treasury function which provides finance for the Group's operations and manages treasury risk in accordance with policies approved by the Board

The Group's principal financial instruments comprise medium term notes, commercial paper a securitisation programme, various uncommitted bank facilities and derivative financial instruments

The Group accesses a variety of markets to raise finance and issues both fixed and floating rate debt in a number of currencies. Any non-Sterling borrowings are swapped upon issuance to Sterling, predominantly to a floating interest rate linked to LIBOR. A small portion of the Group's borrowings are subjected to a fixed Sterling rate of interest at the time of issue. Borrowings swapped to a Sterling floating rate are subject to the Group's policy on interest rate risk and may be swapped to a fixed rate of interest for a selected term. Certain Group borrowings attract a credit spread and a guarantee fee is payable to Hitachi Capital Corporation in respect of the medium term note programme and commercial paper programmes

In addition, the Group has various other financial instruments, hire purchase, instalment finance and finance lease agreements, and trade debtors and creditors that arise directly from its operations

The Group's primary derivative financial instrument transactions include interest rate swaps, cross-currency interest rate swaps and on occasion forward rate agreements and interest rate caps. The purpose of these derivative financial instruments is to manage the Group's exposure to adverse interest rate movements on the Group's variable rate borrowings and to eliminate foreign currency risk arising from the Group's non-Sterling borrowings

Funding sources

The Group has a number of funding options and regularly reviews alternative sources of financing. In selecting the most appropriate source of funding at any point in time, factors such as market conditions, interest rate levels, liquidity and the profile of the assets being funded are considered

The Group's core funding programmes and facilities are as follows

	Amount drawn 2007 £'000	Capacity 2007 %	Amount drawn 2006 £'000	Capacity 2006 %
US\$1,400 million multi-currency Euro note programme	431,661	61%	445	55%
US\$400 million European commercial paper programme	120,790	60%	150	65%
Euro250 million Belgian domestic commercial paper programme	142,964	84%	92	53%

All the above programmes are supported by a guarantee from Hitachi Capital Corporation and consequently, are rated A- by Standard and Poors Rating Agency

In addition, the Group has a committed £300 million securitisation programme which has a rating of Prime-1 and A-1 (long term) and A2 (short term) assigned to it by Moody's Investor Services and Standard and Poors Rating Agency respectively. At 31 March 2007, drawings under this programme were £170 million (2006: £171 million)

The Group also has uncommitted facilities from a number of relationship banks, totalling £39 million (2006: £42 million). This includes unsecured bank loans and overdraft facilities, all of which are priced at a floating rate of interest. Drawings under these facilities are generally for periods of one day to three months and are charged at a margin over LIBOR or base rate at the time of drawing. At 31 March 2007 and 31 March 2006 there were no material borrowings from this source. An uncommitted facility for £100 million (2006: £60 million) is provided by Hitachi Finance (UK) PLC. At 31 March 2007, drawings under this facility were £37 million (2006: £42 million)

Notes to the consolidated financial statements

For the year ended 31 March 2007

31 Financial risk management objectives and policies (cont'd)

Risk management

The Group is exposed to four key types of risk arising from its financial instruments. The Board is responsible for agreeing and reviewing an appropriate policy to manage and mitigate each of these risks. These are set out below.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. The term of each borrowing is determined by considering the market conditions of each of the Group's debt instruments, funding cost and correlation with the Group's receivables. Uncommitted and overdraft facilities provide short term financing if required. At 31 March 2007 67% (2006 48%) of the Group's total borrowings will mature over the next twelve months and the remainder will mature in more than one year.

Currency risk

The Group's currency risk mainly arises from its borrowings under its foreign currency facilities. The Group policy is to eliminate all foreign currency risk on borrowings by entering into cross currency swaps which convert non-Sterling obligations under the debt issuance into Sterling obligations. Currency debt raised under the medium term note and commercial paper programmes are completely hedged at the time of drawdown unless currency proceeds are required to fund currency denominated assets. Currency risk will therefore only arise in the unlikely event of a cross currency swap counterparty defaulting on its non-Sterling obligation. As at 31 March 2007 and 31 March 2006 all currency exposures on non-Sterling debt were 100% hedged.

Credit risk

The Group's principal financial assets are cash and bank balances, loans and receivables, and trade and other receivables (including reinsurers' share of insurance claim liabilities).

The Group's credit risk is primarily attributable to its loans and receivables. The amounts presented in the balance sheet are net of allowances for impairment losses. The gross amounts of loans and receivables represent the Group's maximum exposure to credit risk.

Credit risk is managed to minimise losses, maximise recoveries and prevent fraud through implementation of the Group's credit policy. The policy requires consideration to be given to the financial and credit status of the customer, dealer, supplier and/or vendor (including retailers and brokers), the quality of the asset being financed and the terms and conditions which are to be applied.

Compliance with the requirements of the policy is achieved by the existence of procedures in the areas of maximum funding periods and loan amounts, the requirement for deposits, deferral periods and authorisation limits. Customer scorecards and credit files, for commercial transactions and significant relationships, are an integral part of the approval process, with any material changes and significant advances requiring director and/or Board approval.

Where the exposure to any one party exceeds certain limits, annual reviews are performed to ensure that the credit quality has not deteriorated. Details of arrears management and setting of allowances for impairment losses are set out in note 13.

The credit risk on cash and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group policy is to assess all swap counterparties on an individual basis in terms of credit rating and the Group's current exposure to that particular financial institution.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate risk

Most of the Group's assets are at a fixed rate of interest so there is a risk of financial loss if interest rates in relation to the funding of these assets move adversely. This risk is managed by the use of interest rate derivative financial instruments, specifically interest rate swaps, forward rate agreements and interest rate caps. Interest rate exposure is managed by duration matching the fixed rate receivables and operating lease portfolio against the debt and derivative financial instruments portfolio.

The Group's policy is to hedge its exposure to floating rate interest movements to a minimum hedge efficiency as agreed by the Board from time to time. Currently the agreed minimum is 80% with an expectation that the Group will operate within the range of 80%-90%. Hedging levels are reviewed at least monthly to monitor compliance with Group policy and at 31 March 2007, the economic hedge efficiency was 87% (2006 87%).

The Group enters into interest rate swaps purely for hedging purposes, seeking to match the amount, interest basis and rollover dates of the underlying borrowing as closely as possible. In seeking to closely match the duration of the Group's assets and liabilities, the interest rate swap assigned to a debt instrument may not always run to the final maturity of the debt. This approach, although economically effective, can lead to derivative financial instruments that do not qualify for hedge accounting in accordance with IFRSs. In accordance with the Group's accounting policies set out in note 2, any gains or losses arising from changes in the fair value of these derivative financial instruments are taken directly to the income statement. Consequently increased volatility in the income statement will occur.

Company information

Secretary

J N M Sims

Registered office and head office

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Green Lane
Hounslow
Middlesex
TW4 6NW

Company registration number

1630491

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Registrar

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West Sussex
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Hitachi Capital (UK) PLC offers the following finance and insurance solutions

Business Finance

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T 020 8572 7554
F 020 8577 7775

Retailer Finance Health & Education Insurance

Risk & Credit Management
2 Apex View, Leeds
West Yorkshire
LS11 9BH
T 0870 235 9577
F 0870 235 9579

Vehicle Solutions

Kiln House, Kiln Road
Newbury, Berkshire
RG14 2NU
T 01635 589 500
F 01635 589 750

Commercial Vehicles

Quarry House, Canal Road
Trowbridge, Wiltshire
BA14 8QU
T 01225 777710
F 01225 776680

Reinsurance

4th Floor, Marsh House
25-28 Adelaide Road
Dublin 2, Republic of Ireland
T 353-1 605 3000
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We would like to thank everyone
who contributed to this report.

People are the difference

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