


SURREY ASSET FINANCE LIMITED

Report and Financial Statements

31 July 2003

 ERNST & YOUNG



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Surrey Asset Finance Limited

Registered No. 2740386

DIRECTORS

M J Barley)
R H Stone)
M Booker) 'A' Directors

B Bannayi (Managing))
D J Dine) 'B' Directors
J R Mort)
R A Aust)

SECRETARY

S C F Chan

AUDITORS

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

HSBC Bank PLC
38 High Street
Dartford
Kent
DA1 1DG

REGISTERED OFFICE

Tolworth Tower
Surbiton
Surrey KT6 7EL

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 July 2003.

RESULTS AND DIVIDENDS

The company's trading profit before taxation amounted to £2,312,000 (2002 - profit of £1,667,000). The directors paid an interim dividend of £222,000 (2002 - £Nil) and recommend a final dividend of £642,000 (2002 - £515,000), leaving a retained profit carried forward of £3,893,000.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the company are the provision of instalment credit to business customers. The company has achieved good results in the year and the directors anticipate further growth in the foreseeable future.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

D G Hardisty (resigned 31 July 2003)
R H Stone
M Booker
P E Curtis (resigned 16 June 2003)
B Bannayi (Managing Director)
D J Dine
R A Aust
J R Mort

M J Barley was appointed a director on 1 August 2002.

D G Hardisty resigned as a director of Close Brothers Group plc, the ultimate parent undertaking on 31 July 2003. His interests in the share capital of Close Brothers Group plc are dealt with in the report of that company. M J Barley is a director of Close Brothers Limited and his interests in the share capital of Close Brothers Group plc are dealt with in the report of that company.

D J Dine and R A Aust held the following beneficial interest in the share capital of the ultimate parent undertaking, Close Brothers Group plc:

	<i>Ordinary shares 1 August 2002</i>	<i>Ordinary shares 31 July 2003</i>
D J Dine	-	1,833
R A Aust	-	1,025

R H Stone and M Booker are directors of Close Asset Finance Limited, while P E Curtis resigned in the course of the year. Their interests in the share capital of Close Brothers Group plc are dealt with in the report of Close Asset Finance Limited.

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS (continued)

The interests of directors or their families in the ordinary shares of the company are:

	<i>31 July</i> <i>2003</i>	<i>31 July</i> <i>2002</i>
B Bannayi	—	61
D J Dine	—	61

AUDITORS

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board



Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SURREY ASSET FINANCE LIMITED

We have audited the company's financial statements for the year ended 31 July 2003, which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 auditors' 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 July 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

25 September 2003

Surrey Asset Finance Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 July 2003

		2003	Restated 2002
	Notes	£'000	£'000
TURNOVER	2	7,578	6,406
Operating costs		(2,826)	(2,684)
OPERATING PROFIT		<u>4,752</u>	<u>3,722</u>
Other income	3	10	15
Interest payable and similar charges	4	(2,450)	(2,070)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	<u>2,312</u>	<u>1,667</u>
Taxation	6	(703)	(510)
PROFIT FOR THE FINANCIAL YEAR		<u>1,609</u>	<u>1,157</u>
Dividend		(864)	(515)
RETAINED PROFIT	13	<u>745</u>	<u>642</u>
RETAINED PROFIT BROUGHT FORWARD		<u>3,148</u>	<u>2,506</u>
RETAINED PROFIT CARRIED FORWARD	14	<u><u>3,893</u></u>	<u><u>3,148</u></u>

There are no recognised gains and losses other than those recognised in the profit and loss account.

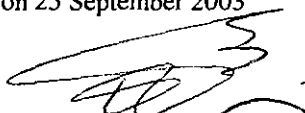

Surrey Asset Finance Limited

BALANCE SHEET

at 31 July 2003

	Notes	2003 £'000	2002 £'000
FIXED ASSETS			
Tangible assets	7	61	58
CURRENT ASSETS			
Debtors - amounts falling due within one year	8	20,439	15,440
- amounts falling due after more than one year	8	36,198	31,212
Cash at bank and in hand		1,380	888
		<u>58,017</u>	<u>47,540</u>
CREDITORS: amounts falling due within one year	11	<u>(52,094)</u>	<u>(42,359)</u>
NET CURRENT ASSETS		<u>5,923</u>	<u>5,181</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,984</u>	<u>5,239</u>
CAPITAL AND RESERVES			
Called up share capital	12	1	1
Share premium account	14	2,356	2,356
Profit and loss account	13	3,627	2,882
EQUITY SHAREHOLDERS' FUNDS	14	<u>5,984</u>	<u>5,239</u>

The financial statements were approved by the board
on 25 September 2003


 Director

 Director

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2003

1. ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. Following the requirement in FRS 18 'Accounting Policies' to observe the 'Statement of Recommended Practice' (SORP) issued for the asset finance industry by the Finance and Leasing Association, the company reviewed its treatment of leases and concluded that the existing accounting policies satisfied the recommendations of the SORP.

The following accounting policies are unchanged from prior years and have been applied consistently throughout this financial year.

Goodwill

Before 1 August 1998, goodwill arising on the acquisition of business assets representing the excess of the purchase consideration over the fair value ascribed to the net tangible assets was written off to reserves in the year of acquisition. From 1 August 1998 as required by Financial Reporting Standard 10, such goodwill arising subsequently shall be capitalised as an intangible asset and amortised in equal annual instalments over their useful lives. Goodwill written off to reserves would be charged to the Profit and Loss account on the subsequent disposal of the business to which it relates.

Tangible fixed assets

Fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Fixtures, fittings and computer equipment	-	25%-33% per annum
Motor vehicles	-	25% per annum

Initial costs

With the exception of variable interest rate agreements, a fixed percentage of the finance charges relating to hire purchase, finance lease or regulated loan agreements is taken to income on the commencement of a new agreement to match the costs associated with setting-up that agreement.

Loan and advances

Loans and advances are stated net of provisions against doubtful debts which are made on the basis of regular review by management. The provision raised is an estimate of the amount needed to reduce the carrying value of the asset to its expected net realisable value and takes into account management's assessment of a combination of factors including each portfolio structure, characteristics of individual cases, past and expected credit losses and business and economic conditions.

Hire purchase and finance leases agreements

Hire purchase and finance leases agreements are recognised as loans at the minimum lease payments less finance charges. Leasing income, after deduction of initial costs if appropriate, is taken to income by the actuarial method. Finance charges on hire purchase agreements are taken to income by the sum-of-digits method which has the approximate effect of recognising such income at a constant rate of return on the capital element.

Finance receivables

Finance receivables are stated net of provisions, which are made on the basis of regular review by management.

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2003

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred taxation is provided in full on material timing differences, at the rates of taxation anticipated to apply when these differences crystallise, arising from the inclusion of items of income and expenditure in taxation computations in periods different from those for which they are included in the financial statements.

Pensions

Contributions within defined contribution schemes are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme.

Cash flow

The company has taken advantage of the exemption in FRS 1 (Revised 1996) for 90% or more owned subsidiaries. Accordingly, it has not presented as cash flow statement for the year ended 31 July 2003.

2. TURNOVER

Turnover, which arises wholly in the UK, represents net finance income arising from finance leases and hire purchase contracts, as well as commission and collection fees, exclusive of VAT. To achieve a consistent approach across the group, turnover has been restated to the net basis.

The analysis of turnover is as follows:

	2003 £'000	2002 £'000
Hire purchase	3,029	2,476
Lease finance	3,754	3,197
Other income	795	733
	<u>7,578</u>	<u>6,406</u>

3. OTHER INCOME

	2003 £'000	2002 £'000
Other income	10	15
	<u>10</u>	<u>15</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable and similar charges represent funding costs, comprising interest and fees charged in respect of bank loans and overdrafts, and interest receivable or payable on interest rate swap agreements entered into for hedging purposes.

	2003 £'000	2002 £'000
Bank loans and overdrafts – payable to group undertaking	2,450	2,070
	<u>2,450</u>	<u>2,070</u>

NOTES TO THE FINANCIAL STATEMENTS
at 31 July 2003

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) This is stated after charging/(crediting):	2003 £'000	2002 £'000
Auditors' remuneration:		
- as auditors	11	8
- other services	15	6
Depreciation of owned tangible fixed assets	28	44
Staff costs including executive directors:		
Wages and salaries	912	705
Social security costs	124	83
Other pension costs	37	52
Profit on disposal of fixed assets	(4)	(2)
Operating lease	35	26

(b) Directors' remuneration:

	2003 £'000	2002 £'000
Emoluments	735	559
Company contributions paid to money purchase pension schemes	41	39

	2003 No.	2002 No.
Members of money purchase pension schemes	4	4

The amounts in respect of the highest paid director are:

	£'000	£'000
Emoluments	237	179
Company contributions paid to money purchase pension schemes	13	12

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2003

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)

(c) Directors' interests in shares and share options:

Directors' Group Share Options:

Unexercised options over ordinary shares of Close Brothers Group plc held by directors under the company's sharesave share option scheme were as follows:

	<i>1 August 2002</i>	<i>Lapsed</i>	<i>Granted</i>	<i>31 July 2003</i>
B L Bannayi	2,168	(4,584)	2,416	—
D J Dine	2,168	(2,168)	2,416	2,416
R A Aust	867	(867)	1,450	1,450
J Mort	2,168	(2,168)	2,416	2,416

The interest of D G Hardisty in shares of Close Brothers Group plc is dealt with in the report of the company. The interest of M J Barley in shares of Close Brothers Group plc is dealt with in the report of Close Brothers Limited. The interests of R H Stone and M Booker in shares of Close Brothers Group plc are dealt with in the report of Close Asset Finance Limited.

(d) Employee numbers:

The average number of employees during the year was:

	<i>2003</i> <i>No.</i>	<i>2002</i> <i>No.</i>
Office and management	8	7
Sales and collections	4	4
	<u>12</u>	<u>11</u>

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	<i>2003</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>
<i>Current Tax:</i>		
UK corporation tax:	762	510
Tax (over)/under provided in prior years	(28)	12
Total current tax (Note 6(b))	<u>734</u>	<u>522</u>
<i>Deferred Tax:</i>		
Deferred tax – current year	(59)	(3)
Deferred tax – prior year	28	(9)
Total deferred tax	<u>(31)</u>	<u>(12)</u>
Tax on profit on ordinary activities	<u>703</u>	<u>510</u>

NOTES TO THE FINANCIAL STATEMENTS
at 31 July 2003

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

(b) Factors affecting the tax charge

The tax assessment on profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2002 – 30%). The differences are reconciled below:

	2003 £'000	2002 £'000
Profit before tax	2,312	1,667
Corporation tax at 30%	694	500
Expenses not deductible for tax purposes	10	6
Depreciation in excess of capital allowances	222	(168)
Movement in general provisions	(30)	51
Other movement in deferred tax items	(134)	121
Tax overprovided in previous years	(28)	12
	734	522

7. FIXED ASSETS

	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost:			
At 1 July 2002	53	87	140
Additions	36	16	52
Disposals	(53)	–	(53)
At 31 July 2003	36	103	139
Depreciation:			
At 1 July 2002	23	59	82
Charge for the year	15	13	28
Disposals	(32)	–	(32)
At 31 July 2003	6	72	78
Net book value:			
At 31 July 2003	30	31	61
At 31 July 2002	30	28	58

Surrey Asset Finance Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 July 2003

8. DEBTORS

	<i>Amounts falling due within one year</i>		<i>Amounts falling due after more than one year</i>	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Finance receivables	18,875	14,941	36,198	31,212
Prepayments	37	20	-	-
Other debtors	1,423	406	-	-
Deferred tax	104	73	-	-
	<u>20,439</u>	<u>15,440</u>	<u>36,198</u>	<u>31,212</u>

Included in finance receivables are the following amounts:

	2003	2003	2003	2002
	<i>Gross</i>	<i>Unearned charges</i>	<i>Net</i>	<i>Net</i>
	£'000	£'000	£'000	£'000
HP agreements:				
within one year	11,460	2,270	9,190	6,670
after one year	18,204	2,328	15,876	13,748
	<u>29,664</u>	<u>4,598</u>	<u>25,066</u>	<u>20,418</u>
Finance leases:				
within one year	12,672	2,994	9,678	8,263
after one year	23,485	3,171	20,314	17,456
	<u>36,157</u>	<u>6,165</u>	<u>29,992</u>	<u>25,719</u>
Regulated loans:				
within one year	8	1	7	8
after one year	9	1	8	8
	<u>17</u>	<u>2</u>	<u>15</u>	<u>16</u>
Total:				
within one year	24,140	5,265	18,875	14,941
after one year	41,698	5,500	36,198	31,212
	<u>65,838</u>	<u>10,765</u>	<u>55,073</u>	<u>46,153</u>

9. HIRE PURCHASE CONTRACTS AND FINANCE LEASES

The aggregate cost at 31 July 2003 of assets acquired for the purpose of letting under hire purchase contracts or finance leases was £111,960,081 (2002 - £95,521,089).

Surrey Asset Finance Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 July 2003

10. DEFERRED TAXATION

	<i>Capital allowances</i>		<i>Short term and other timing differences</i>		<i>Total</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Total deferred tax asset	620	95	(516)	(22)	104	73

Movement in the year:

	<i>£'000</i>
Asset at 1 August 2002	73
Deferred tax charge – current year	59
Deferred tax charge – prior year	(28)
Asset at 31 July 2003	104

11. CREDITORS: amounts falling due within one year

	<i>2003</i>	<i>2002</i>
	<i>£'000</i>	<i>£'000</i>
Trade creditors	2,902	1,991
Amounts due to parent undertaking	167	–
Amounts due to group undertaking	47,598	39,474
Current corporation tax	283	60
PAYE and social security costs	113	77
Accruals and deferred income	389	242
Dividend payable	642	515
	<u>52,094</u>	<u>42,359</u>

12. CALLED UP SHARE CAPITAL

	<i>2003</i>	<i>2002</i>
	<i>£'000</i>	<i>£'000</i>
Authorised:		
Ordinary shares of £1 each		
Ordinary 'A' shares of £1 each	79	79
Ordinary 'B' shares of £1 each	21	21
	<u>100</u>	<u>100</u>
Called up, allotted and fully paid:		
Ordinary shares of £1 each		
Ordinary 'A' shares of £1 each	1	1
Ordinary 'B' shares of £1 each	–	–
	<u>1</u>	<u>1</u>

“A” and “B” shares convey identical rights to the owners and rank pari passu on winding up except that a quorum for any General Meeting must include at least one holder of “A” shares.

Surrey Asset Finance Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 July 2003

13. RESERVES

	2003 £'000
At beginning of year	2,882
Retained profit for the financial year	745
At end of year	<u>3,627</u>

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Goodwill write off reserve £'000	Total share- holders' funds £'000
At 31 July 2002	1	2,356	3,148	(266)	5,239
Profit for the year	-	-	745	-	745
At 31 July 2003	<u>1</u>	<u>2,356</u>	<u>3,893</u>	<u>(266)</u>	<u>5,984</u>

The cumulative goodwill written off against reserves is £266,000 (2002 - £266,000)

15. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

The minimum annual commitment under non cancellable operating leases was as follows:

	2003 £'000	2002 £'000
Land and buildings		
Leases expiring:		
Between two and five years	9	-
More than five years	26	26
	<u>35</u>	<u>26</u>

16. RELATED PARTIES

The company has taken advantage of the exemptions conferred by FRS 8 ('Related Party Transactions'), whereby details of transactions with group companies do not have to be disclosed in the subsidiary entity if the entity is more than 90% owned and if group financial statements are publicly available.

17. INTEREST RATE CONTRACTS

Interest rate swap agreements and interest rate caps are entered into for hedging purposes. The nominal value of the open contracts at 31 July 2003 was £45 million (2002 - £25 million).

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2003

18. PARENT UNDERTAKING

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Close Brothers Group plc, the ultimate parent undertaking, which is a listed company registered in England and Wales, and the parent undertaking of the smallest such group is Close Asset Finance Limited, registered in England and Wales. Copies of the financial statements of both Close Brothers Group plc and Close Brothers Limited may be obtained from 10 Crown Place, London EC2A 4FT.