

SURREY ASSET FINANCE LIMITED

Report and Financial Statements

31 July 2002

 ERNST & YOUNG



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Surrey Asset Finance Limited

Registered No. 2740386

DIRECTORS

D G Hardisty (Chairman))
R H Stone) 'A' Directors
M Booker)
P E Curtis)
M J Barley (appointed 1 August 2002)

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

SECRETARY

P E Curtis

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 2002.

RESULTS AND DIVIDENDS

The company's trading profit before taxation amounted to £1,667,000 (2001 - £1,250,000). The directors paid an interim dividend of £ Nil (2001 - £Nil) and recommend a final dividend of £515,000 (2001 - £Nil), leaving a retained profit carried forward of £642,000.

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 (Chairman)
R H Stone
M Booker
P E Curtis
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 is a director of Close Brothers Group plc, the ultimate parent undertaking. 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.

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


	<i>31 July</i> <i>2002</i>	<i>31 July</i> <i>2001</i>
B Bannayi	61	61
D J Dine	61	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 AUDITOR'S REPORT TO THE MEMBERS OF SURREY ASSET FINANCE LIMITED

We have audited the company's financial statements for the year ended 31 July 2002 which comprise Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses, and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditor

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

23 SEP 2002

Surrey Asset Finance Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 July 2002

	Notes	2002 £'000	2001 £'000
TURNOVER	2	18,496	16,476
Operating costs		(14,774)	(13,232)
Other income	3	15	24
Interest payable and similar charges	4	(2,070)	(2,018)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	1,667	1,250
Taxation	6	(510)	(232)
PROFIT FOR THE FINANCIAL YEAR		1,157	1,018
Dividend		(515)	—
RETAINED PROFIT		642	1,018
RETAINED PROFIT BROUGHT FORWARD		2,506	1,488
RETAINED PROFIT CARRIED FORWARD	13	3,148	2,506

STATEMENT OF RECOGNISED GAINS AND LOSSES

	2002 £'000	2001 £'000
Profit for the financial year	1,157	1,018
Total recognised gains and losses relating to the year	1,157	1,018
Prior year adjustment (as explained in note 10)	—	46
Total gains and losses since last annual report	1,157	1,064

Surrey Asset Finance Limited

BALANCE SHEET

at 31 July 2002

	Notes	2002 £'000	2001 £'000
FIXED ASSETS			
Tangible assets	7	58	137
CURRENT ASSETS			
Debtors - amounts falling due within one year	8	15,440	13,153
- amounts falling due after more than one year	8	31,212	27,259
Cash at bank and in hand		888	1,256
		<u>47,540</u>	<u>41,668</u>
CREDITORS: amounts falling due within one year	11	<u>(42,359)</u>	<u>(37,208)</u>
NET CURRENT ASSETS		<u>5,181</u>	<u>4,460</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,239</u>	<u>4,597</u>
CAPITAL AND RESERVES			
Called up share capital	12	1	1
Share premium account	14	2,356	2,356
Profit and loss account	14	2,882	2,240
		<u>5,239</u>	<u>4,597</u>
SHAREHOLDERS' FUNDS - Equity	14	<u>5,239</u>	<u>4,597</u>

The financial statements were approved by the board

on 23rd September 2002.

Director

Director



Surrey Asset Finance Limited

CASH FLOW STATEMENT for the year ended 31 July 2002

	<i>Notes</i>	<i>2002 £'000</i>	<i>2001 £'000</i>
NET CASH INFLOWS FROM OPERATING ACTIVITIES	15(a)	144	1,145
TAXATION		(550)	(186)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	15(b)	38	(15)
(DECREASE)/INCREASE IN CASH		<u>(368)</u>	<u>944</u>

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2002

1. ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

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.

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.

Surrey Asset Finance Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2002

1. ACCOUNTING POLICIES (continued)

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.

2. TURNOVER

Turnover, which arises wholly in the UK, represents gross rentals and repayments due on finance leases and hire purchase contracts, as well as commission and collection fees, exclusive of VAT.

The analysis of turnover is as follows:

	2002 £'000	2001 £'000
Hire purchase	8,412	7,014
Lease finance	9,351	8,793
Other income	733	669
	<u>18,496</u>	<u>16,476</u>

3. OTHER INCOME

	2002 £'000	2001 £'000
Other income	15	24
	<u>15</u>	<u>24</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.

	2002 £'000	2001 £'000
Bank loans and overdrafts – payable to group undertaking	2,070	2,018
	<u>2,070</u>	<u>2,018</u>

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) This is stated after charging/(crediting):

	2002 £'000	2001 £'000
Auditors' remuneration:		
- as auditors	8	12
- other services	6	8
Depreciation of owned tangible fixed assets	44	69
Staff costs including executive directors:		
Wages and salaries	705	764
Social security costs	83	79
Other pension costs	52	33
Profit on disposal of fixed assets	(2)	(9)
Operating lease	26	26
	<u>26</u>	<u>26</u>

Surrey Asset Finance Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2002

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)

(b) Directors' remuneration:

	2002 £'000	2001 £'000
Emoluments	559	504
Company contributions paid to money purchase pension schemes	39	38

	2002 No.	2001 No.
Members of money purchase pension schemes	4	4

The amounts in respect of the highest paid director are:

	£'000	£'000
Emoluments	179	157
Company contributions paid to money purchase pension schemes	12	11

(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:

	1 August 2001	Exercised	Granted	31 July 2002
B L Bannayi	—	—	2,168	2,168
D J Dine	2,562	2,562	2,168	2,168
R A Aust	1,025	1,025	867	867
J Mort	—	—	2,168	2,168

(d) Employee numbers:

The average number of employees during the year was:

	2002 No.	2001 No.
Office and management	7	7
Sales and collections	4	4
	11	11

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2002

6. TAXATION

	2002 £'000	2001 £'000
UK corporation tax	510	396
Corporation tax (over)/under provided	12	(149)
Deferred tax – current year	(3)	(15)
Deferred tax – prior year	(9)	–
	<u>510</u>	<u>232</u>

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% (2001 – 30%). The differences are reconciled below:

	£'000
Profit before Tax	1,667
Corporation Tax at 30%	500
Permanent Difference	7
Prior Year	3
	<u>510</u>

7. FIXED ASSETS

	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost:			
At 1 July 2001	197	71	268
Additions	–	19	19
Disposals	(144)	(3)	(147)
At 31 July 2002	<u>53</u>	<u>87</u>	<u>140</u>
Depreciation:			
At 1 July 2001	80	51	131
Disposals	(90)	(3)	(93)
Charge for year	33	11	44
At 31 July 2002	<u>23</u>	<u>59</u>	<u>82</u>
Net book value:			
At 31 July 2002	<u>30</u>	<u>28</u>	<u>58</u>
At 31 July 2001	<u>117</u>	<u>20</u>	<u>137</u>

Surrey Asset Finance Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2002

8. DEBTORS

	<i>Amounts falling due within one year</i>		<i>Amounts falling due after more than one year</i>	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Finance receivables	14,941	12,688	31,212	27,259
Prepayments	20	14	—	—
Other debtors	406	390	—	—
Deferred tax	73	61	—	—
	<u>15,440</u>	<u>13,153</u>	<u>31,212</u>	<u>27,259</u>

Included in finance receivables are the following amounts:

	2002	2002	2002	2001
	<i>Gross</i>	<i>Unearned charges</i>	<i>Net</i>	<i>Net</i>
	£'000	£'000	£'000	£'000
HP agreements:				
within one year	8,669	1,999	6,670	5,198
after one year	15,879	2,131	13,748	11,226
	<u>24,548</u>	<u>4,130</u>	<u>20,418</u>	<u>16,424</u>
Finance leases:				
within one year	10,771	2,508	8,263	7,490
after one year	20,100	2,644	17,456	16,033
	<u>30,871</u>	<u>5,152</u>	<u>25,719</u>	<u>23,523</u>
Regulated loans:				
within one year	9	1	8	—
after one year	9	1	8	—
	<u>18</u>	<u>2</u>	<u>16</u>	<u>—</u>
Total:				
within one year	19,449	4,508	14,941	12,688
after one year	35,988	4,776	31,212	27,259
	<u>55,437</u>	<u>9,284</u>	<u>46,153</u>	<u>39,947</u>

9. HIRE PURCHASE CONTRACTS AND FINANCE LEASES

The aggregate cost at 31 July 2002 of assets acquired for the purpose of letting under hire purchase contracts or finance leases was £95,521,089 (2001 - £61,209,432).

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2002

10. DEFERRED TAXATION

	<i>Capital allowances</i>		<i>Short term and other timing differences</i>		<i>Total</i>	
	2002	2001	2002	2001	2002	2001
	£'000	£'000	£'000	£'000	£'000	£'000
Total deferred tax asset	95	126	(22)	(65)	73	61

Prior year adjustment for the year ended 31 July 2001

During the prior year the company adopted Financial Reporting Standard No. 19 and both the profit and loss account and the balance sheet prior year comparatives were restated. The taxation charge for the year ended 31 July 2000 decreased by £46,000 as a result. As at 31 July 2000 the deferred tax asset increased by £46,000. The effect on the results for the year ended 31 July 2001 was to decrease the taxation charge by £15,000.

Movement in the year:

	£'000
Asset at 1 August 2001	61
Deferred tax charge – current year	3
Deferred tax charge – prior year	9
Asset at 31 July 2002	73

11. CREDITORS - amounts falling due within one year

	2002	2001
	£'000	£'000
Trade creditors	1,991	1,988
Amounts due to parent undertaking	39,474	34,756
Current corporation tax	60	87
PAYE and social security costs	77	49
Accruals and deferred income	242	328
Dividend proposed	515	–
	42,359	37,208

Surrey Asset Finance Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 July 2002

12. CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'000
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>

13. RESERVES

	2002 £'000
At beginning of year	2,240
Retained profit for the financial year	642
	<u>2,882</u>
At end of year	

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 2001	1	2,356	2,506	(266)	4,597
Profit for the year	—	—	642	—	642
At 31 July 2002	<u>1</u>	<u>2,356</u>	<u>3,148</u>	<u>(266)</u>	<u>5,239</u>

The cumulative goodwill written off against reserves is £266,000.

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2002

15. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2002 £'000	2001 £'000
Operating profit	3,722	3,244
Other income	15	24
Interest payable	(2,070)	(2,018)
Depreciation	44	69
Increase in debtors	(6,228)	(9,005)
Increase in creditors	4,663	8,840
Profit on sales of fixed assets	(2)	(9)
Net cash inflow from operating activities	144	1,145

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2002 £'000	2001 £'000
Capital expenditure and financial investment:		
Payments to acquire tangible fixed assets	(19)	(57)
Receipts from sales of fixed assets	57	42
	38	(15)

(c) Reconciliation of net cash flow to movement in net debt

	2002 £'000	2001 £'000
(Decrease)/increase in cash	(368)	944
Cash inflow from increases in loans	(4,718)	(8,315)
Movement in net debt	(5,086)	(7,371)
Net debt at 1 August 2001/1999	(33,500)	(26,129)
Net debt at 31 July 2002/2001	(38,586)	(33,500)

(d) Analysis of changes in net debt:

	At 31 July 2001 £'000	Cash flows £'000	At 31 July 2002 £'000
Cash in hand, at bank	1,256	(368)	888
Debt due within one year	(34,756)	(4,718)	(39,474)
	(33,500)	(5,086)	(38,586)

NOTES TO THE FINANCIAL STATEMENTS

at 31 July 2002

16. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

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

	2002 £'000	2001 £'000
Land and buildings		
Leases expiring:		
Between two and five years	26	26
	<u>26</u>	<u>26</u>

17. RELATED PARTIES

With effect from 21 August 1996, the company's immediate parent became Close Asset Finance Limited, a company registered in England and Wales. The company brokers business to its parent undertaking. The value of these transactions in the year amounts to £33,560 (2001 - £7,500).

The company is funded through Close Brothers Limited. Balances outstanding at year end and interest thereon can be found in notes 4 and 11.

18. 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 2002 was £25 million (2001 - £21 million).

19. PARENT UNDERTAKING

The parent undertaking of the largest group of undertakings for which group accounts 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.