

Copelco Limited

Directors' report and financial statements

31 December 1997

Registered number 3088213



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The principal activities of the group are the provision of a range of leasing, financing and asset management services to NHS Trusts and other users of technology equipment in the UK, France, Germany and other EEC countries.

Business review

Copelco Limited was incorporated on 7 August 1995. In line with expectation there have been significant losses to date as a result of the administration costs being greater than the finance income during the start-up period.

Copelco Limited continues to expand and develop technology financing through a number of vendor programmes across Europe.

Results and dividends

The group made a loss for the year of £3,079,448. No ordinary dividends have been paid or proposed in the year.

The loss for the year has been transferred to reserves.

Directors and directors' interests

The directors who held office during the year were as follows:

JT Bailey	
I Berg	
MG Briggs	
J Hakemian	
S Lempert	
DJ Nadis	(resigned 20 October 1997)
M Ritter	(resigned 7 November 1997)
T Seki	
RE Guilbert	(resigned 30 April 1997)
J Szmigin	(appointed 8 October 1997; resigned 25 November 1997)
N Antonaccio	(appointed 19 November 1997)
R Lemenze	(appointed 19 November 1997)

None of the directors had any interest in shares or debentures of the Company or other group companies consolidated in the UK.

Directors' report *(continued)*

Fixed assets

Changes in fixed assets are set out in note 9.

Auditors

In accordance with Section 366(A) of the Companies Act 1985 (as amended), a resolution was passed to dispense with the obligation to appoint auditors of the company annually, KPMG will therefore continue in office.

By order of the board


JT Bailey
Director

19 June 1998

Statement of directors' responsibilities

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 the group and of the profit or loss 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

The directors are responsible for maintaining 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and detect fraud and other irregularities.



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditors' report to the members of Copelco Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1997 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

19 June 1998

Consolidated profit and loss account

for the year ended 31 December 1997

	<i>Note</i>	Year ended 31 December 1997 £	17 month period ended 31 December 1996 £
Turnover	<i>1</i>	5,278,696	1,330,553
Cost of sales	<i>3</i>	(1,912,322)	(1,011,617)
Gross profit		<u>3,366,374</u>	<u>318,936</u>
Administrative costs		(3,330,758)	(1,458,467)
Depreciation		(2,699,866)	(80,404)
Operating loss		<u>(2,664,250)</u>	<u>(1,219,935)</u>
Interest receivable and similar income		100,167	42,420
Exchange loss		(87,477)	(13,961)
Loss on ordinary activities before exceptional item and taxation		<u>(2,651,560)</u>	<u>(1,191,476)</u>
Exceptional item	<i>4</i>	(427,888)	956,828
Tax on loss on ordinary activities	<i>7</i>	-	-
Loss on ordinary activities after taxation	<i>8</i>	<u>(3,079,448)</u>	<u>(234,648)</u>

All losses relate to continuing operations.

All gains and losses have been dealt with in the profit and loss account.

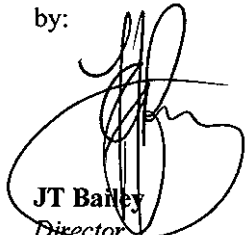
The notes on pages 9 to 18 form part of these financial statements.


Consolidated balance sheet

at 31 December 1997

	Note	1997		1996	
		£	£	£	£
Fixed assets					
Tangible assets	9		23,081,492		9,094,541
Current assets					
Assets held for resale		1,279,289		-	
Cash at bank		3,783,307		2,866,711	
Debtors due within one year	11	6,843,640		3,262,296	
Debtors due after one year	11	8,404,384		2,753,234	
		<u>20,310,620</u>		<u>8,882,241</u>	
Creditors: amounts falling due within one year	12	(27,856,753)		(15,760,430)	
Net current liabilities			(7,546,133)		(6,878,189)
Total assets less current liabilities			<u>15,535,359</u>		<u>2,216,352</u>
Creditors: amounts falling due after more than one year	13		(12,481,457)		-
			<u>3,053,902</u>		<u>2,216,352</u>
Capital and reserves					
Called up share capital	14		6,500,000		2,500,000
Profit and loss account	16		(3,446,098)		(283,648)
	15		<u>3,053,902</u>		<u>2,216,352</u>

These financial statements were approved by the board of directors on 19 June 1998 and were signed on its behalf by:


JT Bailey
Director


MG Briggs
Director

Company balance sheet

at 31 December 1997

	Note	1997		1996	
		£	£	£	£
Fixed assets					
Tangible assets	9	23,015,146		9,094,541	
Investment in subsidiaries	10	2,584,520		527,421	
			25,599,666		9,621,962
Current assets					
Assets held for resale		1,279,289		-	
Cash at bank		1,672,708		2,693,159	
Debtors due within one year	11	7,013,278		3,218,437	
Debtors due after one year	11	8,070,855		2,378,062	
		18,036,130		8,289,658	
Creditors: amounts falling due within one year	12	(27,749,040)		(15,646,268)	
Net current liabilities			(9,712,910)		(7,356,610)
Total assets less current liabilities			15,886,756		2,265,352
Creditors: amounts falling due after more than one year	13		(12,481,457)		-
			3,405,299		2,265,352
Capital and reserves					
Called up share capital	14	6,500,000		2,500,000	
Profit and loss account		(3,094,701)		(234,648)	
			3,405,299		2,265,352

These financial statements were approved by the board of directors on 19 June 1998 and were signed on its behalf by:


JT Bailey
Director


MG Briggs
Director

Consolidated cash flow statement

for the period ended 31 December 1997

	Note	Year ended 31 December 1997 £	17 month period ended 31 December 1996 £
Cash flow from operating activities	19	(8,624,616)	8,040,347
Return on investment and servicing of finance			
Interest receivable		100,167	42,420
Taxation paid		-	-
Capital expenditure			
Purchase of tangible fixed assets		(433,818)	(301,057)
Purchase of operating lease asset		(16,330,311)	(9,511,760)
Sale of fixed assets		-	(445)
		<hr/>	<hr/>
		(16,764,129)	(9,812,362)
Acquisitions and disposals			
Purchase of subsidiary undertaking	22	(40,839)	(527,421)
Less cash acquired		-	173,552
		<hr/>	<hr/>
		(40,839)	(353,869)
Cash outflow before use of liquid resources and financing		<hr/>	<hr/>
		(25,329,417)	(2,083,464)
Financing			
Increase in share capital	14	4,000,000	2,500,000
Debt due within one year:			
Increase in revolving loan facility		16,351,574	-
Decrease in loan from parent company		(7,427,054)	-
Debt due beyond one year:			
Head lease		15,386,329	-
		<hr/>	<hr/>
		28,310,849	2,500,000
Increase in cash	21	<hr/>	<hr/>
		2,981,432	416,536
		<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company has taken advantage of the partial exemption from FRS 8 with respect to disclosure of transactions with other group companies qualifying as related parties.

Basis of consolidation

The group accounts consolidate the accounts of Copelco Limited and its subsidiary undertakings Copelco Finance SAS and Copelco Finance GmbH (formerly TL Technologie). TL Technologie was acquired on 31 December 1996 and Copelco Finance SAS was incorporated on 11 February 1997. The acquisition method of consolidation is adopted using closing rates for foreign currency translation and exchange differences are taken to reserves.

Fixed assets and depreciation

Depreciation is provided by the company to write tangible fixed assets down to their estimated residual value at the following rates/bases:

Leasehold	Straight line over period of lease
Fixtures, computers and equipment	Straight line over 4 years
Assets held for use in operating leases	Actuarial over Term of lease contract

Operating leases

Where the company leases out equipment for less than its expected useful life or does not transfer substantially all the risks and rewards of ownership, the lease is accounted for as an operating lease. Rental income is taken to the profit and loss account, and the cost of equipment is recorded as a fixed asset and depreciated in accordance with the policy stated above.

Finance leases

Where the company leases out equipment and there is a transfer of substantially all of the risks and rewards of ownership to the lessee, the lease is accounted for as a finance lease, and the net investment is included in current assets. Income from finance leases is credited to the profit and loss account, in proportion to the funds invested.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. The results of overseas operations are translated at average exchange rates for the year. Translation differences arising from application of year end rates of exchange to the operating net assets of overseas subsidiaries and to related foreign currency borrowings are dealt with through reserves. Other translation differences are recognised in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover comprises income on finance leases together with rentals receivable on operating leases and income from the sale of equipment.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Initiation costs

Costs of initiating leases are included as prepayments and written off over 60 months under the sum of digits method.

Comparative figures

The comparative figures represent the financial position of the group and the company as at 31 December 1996 and the results for the period from incorporation, on 7 August 1995, to 31 December 1996.

Goodwill

Goodwill purchased and arising on consolidation, representing the excess of the purchase price of subsidiary companies over the fair value of the net assets acquired, is written off immediately against reserves on consolidation of the results of the company and its subsidiary undertakings.

2 Lease rentals

Aggregate rentals receivable in the period were:

	1997 £	1996 £
Finance leases	2,578,308	964,936
Operating leases	4,249,877	1,444,753
	<hr/> 6,828,185 <hr/>	<hr/> 2,409,689 <hr/>

3 Cost of sales

Included within cost of sales for statutory purposes is interest payable to group undertakings of £398,957 (1996: £374,200).

Notes (continued)

4 Consolidated loss on ordinary activities before taxation

	Year ended 31 December 1997 £	17 month period ended 31 December 1996 £
<i>Consolidated loss on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration:		
Audit	17,000	9,500
Non-audit	148,929	20,041
Depreciation		
- operating leases	2,592,624	637,417
- other tangible fixed assets	105,309	80,528
Loss/(profit) on sale of fixed assets	77,304	(124)
	<hr/> <hr/>	<hr/> <hr/>

Advantage has been taken by the parent company of the exemption from the requirement to prepare a separate profit and loss account, as permitted by Section 230 of the Companies Act 1985.

The loss after tax of the parent company for the year was £2,260,054 (1996 17 months: loss £234,648).

5 Staff numbers and costs

The average numbers of people employed by the company (including directors) during the period was 24.

The aggregate payroll costs of the above persons were as follows:

	Year ended 31 December 1997	17 month period ended 31 December 1996
Wages and salaries	1,505,409	778,562
Social security	139,066	-
Other pension costs	30,098	22,000
	<hr/> <hr/>	<hr/> <hr/>
	1,674,573	800,562

Notes (continued)

6 Remuneration of directors

	Year ended 31 December 1997	17 month period ended 31 December 1996
Directors' emoluments (excluding pension contributions)	286,905	438,823
Pension contributions	8,849	-
Compensation for loss of office	185,101	-
	<u>480,855</u>	<u>438,823</u>

The emoluments of the highest paid director were £320,930 including the compensation for loss of office.

Retirement benefits are accruing to two directors under money purchase schemes (1996 - none).

7 Exceptional item

	Year ended 31 December 1997 £	17 month period ended 31 December 1996 £
Exchange (loss)/gain arising on translation of loan from holding company	(427,888)	965,828
	<u>(427,888)</u>	<u>965,828</u>

The exchange loss and gain relate to a loan from CFSG in the United States of America (see note 23).

8 Taxation

	Year ended 31 December 1997 £	17 month period ended 31 December 1996 £
UK corporation tax at 31.5% (1996: 33%) on the loss for the period on ordinary activities	-	-
	<u>-</u>	<u>-</u>

As at 31 December 1997 the company had losses available to carry forward and utilise against future profits.

Notes (continued)

9 Tangible fixed assets

Group	Leasehold premises	Office equipment	Equipment used for operating leases	Total
	£	£	£	£
Cost				
At 1 January 1997	4,000	296,602	9,511,760	9,812,362
Additions	24,081	409,737	16,330,311	16,764,129
Disposals	(4,000)	(144,564)	-	(148,564)
At end of the period	24,081	561,775	25,842,071	26,427,927
Depreciation				
At 1 January 1997	1,250	79,154	637,417	717,821
Charge for period	1,920	105,322	2,592,624	2,699,866
Disposals	(2,167)	(69,085)	-	(71,252)
At end of the period	1,003	115,391	3,230,041	3,346,435
Net book value				
At 31 December 1997	23,078	446,384	22,612,030	23,081,492
At 31 December 1996	2,750	217,448	8,874,343	9,094,541

Company	Leasehold premises	Office equipment	Equipment used for operating leases	Total
	£	£	£	£
Cost				
At 1 January 1997	4,000	296,602	9,511,760	9,812,362
Additions	24,081	341,449	16,330,311	16,695,841
Disposals	(4,000)	(144,563)	-	(148,563)
At end of the period	24,081	493,488	25,842,071	26,359,640
Depreciation				
At 1 January 1997	1,250	79,154	637,417	717,821
Charge for period	1,920	103,389	2,592,624	2,697,933
Disposals	(2,167)	(69,093)	-	(71,260)
At end of the period	1,003	113,450	3,230,041	3,344,494
Net book value				
At 31 December 1997	23,078	380,038	22,612,030	23,015,146
At 31 December 1996	2,750	217,448	8,874,343	9,094,541

Notes (continued)

10 Fixed asset investments

	1997	1996
Company	£	£
Investment in Copelco GmbH	527,421	527,421
Investment in Copelco SAS	2,057,099	-
Cost at 31 December 1997	2,584,520	527,421

On 11 February 1997 a French Company Copelco Finance SAS was incorporated with a share capital injection of £26,977 and costs of £40,839 were incurred. On 30 December 1997 there was a further capital injection of £1,989,283.

Copelco Limited holds 100% of the ordinary share capital of Copelco Finance SAS and Copelco Finance GmbH. The companies are registered in France and Germany respectively.

11 Debtors

	1997		1996	
Group	Due within one year £	Due after one year £	Due within one year £	Due after one year £
Finance lease receivables	4,465,232	8,404,384	1,162,152	2,753,234
Trade debtor	759,244	-	382,059	-
Amounts owed by parent undertaking	9,428	-	-	-
Other debtors	1,579,186	-	1,506,513	-
Prepayments and accrued income	30,550	-	211,572	-
	6,843,640	8,404,384	3,262,296	2,753,234

The cost of assets acquired for the purpose of letting under finance leases during the period was £12,337,289.

	1997		1996	
Company	Due within one year £	Due within one year £	Due within one year £	Due after one year £
Finance lease receivable	4,288,193	8,070,855	1,053,287	2,378,062
Trade debtors	734,824	-	364,305	-
Amounts owed by parent undertaking	9,428	-	133,793	-
Amounts owed by group undertakings	433,969	-	-	-
Other debtors	1,516,314	-	1,455,480	-
Prepayments and accrued income	30,550	-	211,572	-
	7,013,278	8,070,855	3,218,437	2,378,062

Notes (continued)

11 Debtors (continued)

The cost of assets acquired for the purpose of letting under finance leases and hire purchase during the period was £12,150,396.

Amounts owed by group undertakings in respect of loans are unsecured and repayable on demand. They bear interest at commercial rates.

12 Creditors: amounts falling due within one year

	1997	1996
	£	£
Group		
Bank loans and overdrafts	19,256,446	1,507,308
Trade creditors	2,225,008	1,356,832
Amounts owed to parent undertaking	5,011,478	12,438,532
Other creditors including taxation and social security	134,367	23,781
Accruals and deferred income	1,229,454	433,977
	<hr/> 27,856,753 <hr/>	<hr/> 15,760,430 <hr/>
	1997	1996
	£	£
Company		
Bank loans overdraft	19,248,110	1,507,308
Trade creditors	2,161,529	1,242,670
Amounts owed to parent undertaking	5,011,478	12,438,532
Other creditors including taxation and social security	100,809	23,781
Accruals and deferred income	1,227,114	433,977
	<hr/> 27,749,040 <hr/>	<hr/> 15,646,268 <hr/>

Amounts owed to group undertakings in respect of loans are unsecured and are repayable on demand. They bear commercial rates of interest.

13 Creditors: amounts falling due after more than one year

Company and Group

£12,481,457 relates to amounts owing on the head lease funding which expires in 2004.

Notes (continued)

14 Called up share capital

	1997	1996
	£	£
<i>Authorised</i>		
Ordinary shares of £1 each	10,000,000	10,000,000
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	6,500,000	2,500,000
	<u> </u>	<u> </u>

During the year 4,000,000 ordinary shares were allotted for a consideration of £4,000,000.

15 Reconciliation of movements in shareholders' funds

	1997	1996
	£	£
Loss for the financial year	(3,079,448)	(234,648)
Other recognised gains and losses relating to the year		
Exchange loss on translation of capitalised loan	-	(49,000)
Exchange difference on consolidation	(42,163)	
New share capital subscribed	4,000,000	2,500,000
Goodwill written-off	(40,839)	-
	<u> </u>	<u> </u>
Net addition to shareholders' funds	837,550	2,216,352
Opening shareholders' funds	2,216,352	-
	<u> </u>	<u> </u>
Closing shareholders' funds	3,053,902	2,216,352
	<u> </u>	<u> </u>

16 Reserves

	Share capital £	Profit and loss account £	Total £
At beginning of year	2,500,000	(283,648)	2,216,352
New share capital subscribed	4,000,000	-	4,000,000
Transfer from profit and loss account	-	(3,079,448)	(3,079,448)
Goodwill written off	-	(40,839)	(40,839)
Exchange difference on consolidation	-	(42,163)	(42,163)
	<u> </u>	<u> </u>	<u> </u>
	6,500,000	(3,446,098)	3,053,902
	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

17 Commitments

At 31 December 1997 the group's annual commitments under operating leases were as follows:

	£
Over five years	2,904,868

The commitments relate to rentals payable on a head lease which expires in June 2004.

The lease on the building is for 10 years at £116,550 per annum. The first year of the lease is rent free.

At 31 December 1997 the group had no capital commitments.

18 Pensions

The company does not operate its own pension scheme. The staff are all members of the group personal pension scheme, to which Copelco Limited contributes on its staff's behalf.

19 Reconciliation of operating loss to operating cash flows

	Year ended 31 December 1997 £	17 month period ended 31 December 1996 £
Operating loss	(2,664,250)	(1,219,935)
Depreciation charges	2,699,866	717,945
Loss on disposal of fixed assets	77,312	(124)
Increase in debtors	(10,511,783)	(5,596,499)
Increase in creditors	1,774,239	14,138,960
	<u>(8,624,616)</u>	<u>8,040,347</u>

20 Analysis of net cash

	At 1 January 1997 £	Cash flow £	At 31 December 1997 £
Cash at bank and in hand	2,866,711	916,596	3,783,307
Overdrafts	(1,507,308)	1,507,308	-
Debt less than 1 year	-	(16,351,574)	(16,351,574)
Debt more than 1 year	-	(15,386,329)	(15,386,329)
	<u>1,359,403</u>	<u>(29,313,999)</u>	<u>(27,954,596)</u>

Notes (continued)

21 Reconciliation of net cash flow to movement in net debt

	Year ended 31 December 1997 £	17 month period ended 31 December 1996 £
Increase in cash for the period	2,981,432	416,536
Cash flow from increase in debt	(31,737,903)	-
Change in net debt resulting from cashflows	(28,756,471)	416,536
Exchange rate movements	(557,528)	942,867
Net debt at 1 January 1997	1,359,403	-
Net debt at 31 December 1997	(27,954,596)	1,359,403

22 Purchase of subsidiary undertaking

	1997 £	1996 £
<i>Net assets acquired</i>		
Debtors	-	419,031
Cash at bank and in hand	-	173,552
Creditors	-	(114,162)
Exchange loss on translation of intercompany loan	-	478,421
	-	49,000
	-	527,421

Costs of £40,839 were incurred and capitalised on the incorporation of Copelco Finance SAS on 11 February 1997 (see note 10).

23 Ultimate holding company and parent undertaking of larger group of which the company is a member

The company's ultimate holding company is Itochu Corporation which is incorporated and registered in Japan. Itochu Corporation is also the parent undertaking of the largest group to consolidate the accounts of the company. Copies of its financial statements are available from 5-1, Kita-Aoyama 2 Chome, Minato-ku, Tokyo 107-77, Japan.

The smallest group in which the results of the company are consolidated is that headed by Copelco Capital Inc which is incorporated in the United States of America. On 30 December 1997 the share capital of the Company was transferred from Copelco Financial Services Group Inc to Copelco Capital Inc also incorporated in the United States of America.