

SKIPTON BUSINESS FINANCE LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31ST DECEMBER 2002

(Registered Number 4171724)



SKIPTON BUSINESS FINANCE LIMITED

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the twelve months ended 31st December 2002.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activity of the company is that of factoring and invoice discounting services and it will continue to be so for the foreseeable future.

BUSINESS REVIEW

The results for the year are shown in the profit and loss account and notes thereto. No interim dividend has been paid during the year. The directors do not recommend the payment of a final dividend.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year and their beneficial interests in the share capital of the company at the balance sheet date and at the start of the period were as follows:

	No. Ordinary B Shares of £1 each
J G Goodfellow	
R J McCormick	
R A Walker	24,000
P M Craddock (resigned 28th February 2002)	
J D Walkden	20,000
G M Bell	6,000
R Lee (resigned 28th February 2002)	

Mr J G Goodfellow and Mr R J McCormick are also directors of the ultimate parent undertaking, Skipton Building Society. Their interests in the shares of group companies are not required to be recorded in the register maintained by this company. The other directors of the company as at 31st December 2002 had no interest in the shares of any other group undertaking at any time during the year.

CREDITOR PAYMENT POLICY

The company's policy concerning the payment of suppliers for the next financial year is to agree terms of payment in advance and to make payment in accordance with agreed terms and any other legal obligations. As at 31st December 2002 creditor days were 42 days.

By order of the board



J W Dawson
Secretary

27th January 2003

SKIPTON BUSINESS FINANCE LIMITED

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 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;
- 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 will continue in business.

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 have general responsibility for taking such steps which are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SKIPTON BUSINESS FINANCE LIMITED

We have audited the financial statements on pages 4 to 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 are not disclosed.

BASIS OF AUDIT 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 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 the company's affairs as at 31st December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds

27th January 2003

SKIPTON BUSINESS FINANCE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST DECEMBER 2002

	Notes	12 mths ended 31.12.02 £	6 mths ended 31.12.01 £
Turnover	1	707,424	35,266
Cost of sales		(446,850)	(102,097)
Gross profit/(loss)		260,574	(66,831)
Administrative expenses		(833,036)	(324,220)
Operating loss		(572,462)	(391,051)
Interest receivable	2	299,511	9,472
Interest payable	3	(211,126)	(6,200)
Loss on ordinary activities before taxation	4	(484,077)	(387,779)
Taxation on loss on ordinary activities	6	146,272	113,801
Loss on ordinary activities after taxation		(337,805)	(273,978)
Retained loss brought forward		(273,978)	-
Retained loss carried forward		(611,783)	(273,978)

In the current year the company made no material acquisitions and had no discontinued operations.

There were no recognised gains or losses in the current year other than those reflected in the above profit and loss account.

The profit and loss account is prepared on an unmodified historical cost basis.

The notes on pages 7 to 11 form part of these financial statements.

SKIPTON BUSINESS FINANCE LIMITED

BALANCE SHEET

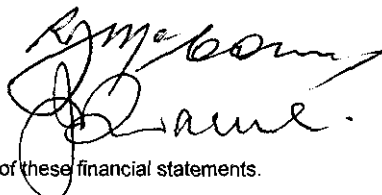
AS AT 31ST DECEMBER 2002

	Notes	2002		2001	
		£	£	£	£
Fixed assets					
Tangible assets	7		66,343		52,522
Current assets					
Debtors	8	14,598,626		1,354,862	
Creditors: Amounts falling due within one year	9	(15,076,752)		(1,481,362)	
Net current liabilities			(478,126)		(126,500)
Net liabilities			(411,783)		(73,978)
Capital and reserves					
Called up equity share capital	12		200,000		200,000
Profit and loss account reserve	13		(611,783)		(273,978)
Equity shareholders' funds	14		(411,783)		(73,978)

A reconciliation of the movement in shareholders' funds is given in note 14.

These financial statements were approved by the board of directors on 27th January 2003

R J McCormick)
) Directors
 J D Walkden)



The notes on pages 7 to 11 form part of these financial statements.

SKIPTON BUSINESS FINANCE LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDING 31ST DECEMBER 2002

	12 mths ended 31.12.02 £	6 mths ended 31.12.01 £
Net Cash Outflow from Operating Activities	(8,165,053)	(990,328)
Returns on investment and servicing of finance		
Interest Received	299,511	9,472
Interest Paid	(211,126)	(4,264)
Net cash inflow from returns on investment and servicing of finance	88,385	5,208
Taxation	159,607	961
Capital expenditure		
Purchase of tangible fixed assets	(32,270)	(58,967)
Net cash outflow from capital expenditure and financial investment	(32,270)	(58,967)
Financing		
Proceeds from issue of share capital	-	200,000
Increase in loan debt	7,857,460	824,384
Net cash inflow from financing	7,857,460	1,024,384
Decrease in cash for the period	(91,871)	(18,742)

Reconciliation of operating loss to net cash outflow from operating activities

Operating loss	(572,462)	(391,051)
Depreciation charges	18,449	6,445
Increase in Bad Debt Provision	185,865	69,454
Decrease/(Increase) in Debtors	(13,439,430)	(1,302,804)
Decrease/(Increase) in Prepayments	(3,534)	(8,672)
Increase/(Decrease) in Creditors	5,538,226	572,062
Increase/(Decrease) in Accruals and deferred income	107,833	64,238
Net cash outflow from operating activities	(8,165,053)	(990,328)

Analysis of changes in net debt

	At 1.1.02	Cash flows	At 31.12.02
Overdraft	18,742	91,871	110,613
Inter-company debt due within one year	824,384	7,857,460	8,681,844
Total net debt	843,126	7,949,331	8,792,457

Reconciliation of net cash flow to net debt

Decrease in cash in period	(91,871)
Cash inflow from increase in debt	(7,857,460)
Movement in net debt in the period resulting from cash flows	(7,949,331)
Net debt as at 1 January 2002	(843,126)
Net debt as at 31 December 2002	(8,792,457)

SKIPTON BUSINESS FINANCE LIMITED

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

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

(a) Basis of accounting

These accounts are drawn up under the historic cost convention and in accordance with applicable accounting standards. The company's parent undertaking has confirmed that they will continue to provide financial support to the company and on the strength of this assurance the accounts have been prepared on a going concern basis.

(b) Turnover

Turnover represents fees charged excluding VAT. All earnings are within the United Kingdom.

(c) Taxation

The charge for taxation is based on the profit for the year, adjusted for tax purposes. The requirements of FRS19 (Deferred Taxation) have now been adopted. Deferred taxation is now provided in full on all timing differences, which represent an asset at the balance sheet date.

(d) Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets over their estimated useful lives as set out below:

Computer hardware	5 years
Motor Vehicles	25% of net book value

(e) Pensions

The majority of the company's employees are members of the Skipton Building Society Group defined contribution pension scheme, the assets of which are held separately from the company in an independently administered scheme. Contributions are charged to revenue and included in staff costs.

SKIPTON BUSINESS FINANCE LIMITED

NOTES TO THE ACCOUNTS

	12 mths ended 31.12.02	6 mths ended 31.12.01
2. Interest receivable		
	£	£
Bank interest receivable	-	544
Other interest receivable	-	160
Factoring and invoice discounting interest receivable	299,511	8,768
	299,511	9,472

3. Interest payable		
	£	£
Bank charges	9,445	163
Payable to parent undertaking	201,681	6,037
	211,126	6,200

4. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging the following:

	£	£
Depreciation on tangible fixed assets	18,449	6,445
Auditors' and their associates' remuneration and expenses:		
For audit work	4,000	4,875
For non-audit work	-	-
Directors' emoluments (note 5)	278,152	136,592

5. Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category was as follows:

Directors	3	3
Others	11	4
	14	7

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	618,755	190,346
Social security costs	64,715	18,848
Other pension costs	21,811	6,304
	705,281	215,498

Directors' emoluments:

	£	£
Directors remuneration	266,810	134,726
Pension contributions	11,342	1,866
	278,152	136,592

Highest paid director's emoluments:

	£	£
Remuneration	97,766	57,315
Pension contributions	3,200	1,866
	100,966	59,181

SKIPTON BUSINESS FINANCE LIMITED

NOTES TO THE ACCOUNTS

6. Taxation on loss on ordinary activities

The requirements of FRS19 (Deferred Tax) have been adopted in the year. The adjustment required in respect of the prior year is not material and therefore does not require a prior year adjustment.

A reconciliation of current tax on loss on ordinary activities at the standard UK corporation tax rate to the actual current tax charge is as follows:

	12 mths ended 31.12.02 £	6 mths ended 31.12.01 £
a) Analysis of charge in the year at 30% (2001 : 30%)		
Current tax at 30%	(102,835)	(96,934)
Under provision of tax in previous year	(2,635)	-
Total Current Tax	(105,470)	(96,934)
Deferred taxation		
- origination and reversal of timing differences	(41,188)	(16,867)
- adjustment in respect of prior years	386	-
Total Deferred Tax	(40,802)	(16,867)
Taxation on loss on ordinary activities	(146,272)	(113,801)
b) Factors affecting current tax charge in year		
Loss on ordinary activities before tax	(484,077)	(387,779)
Tax on loss on ordinary activities at UK standard rate of 30% (2001 : 30%)	(145,223)	(116,334)
Effects of:		
- depreciation in excess of capital allowances and other timing differences	41,188	16,867
- expenses not deductible for tax purposes	1,200	2,533
- adjustment to tax charge in respect of previous periods	(2,635)	-
Current tax charge for the year	(105,470)	(96,934)

SKIPTON BUSINESS FINANCE LIMITED

NOTES TO THE ACCOUNTS

7. Tangible fixed assets

	Computer Hardware	Motor Vehicles	2002 Total
	£	£	£
Cost			
As at 1st January 2002	5,474	53,493	58,967
Additions	-	32,675	32,675
Disposals	(405)	-	(405)
As at 31st December 2002	5,069	86,168	91,237
Depreciation			
As at 1st January 2002	439	6,006	6,445
Charged in year	1,006	17,443	18,449
As at 31st December 2002	1,445	23,449	24,894
Net book value			
As at 31st December 2002	3,624	62,719	66,343
As at 31st December 2001	5,035	47,487	52,522

8. Debtors

	2002	2001
	£	£
Trade debtors	14,742,234	1,302,804
Less provision for bad debts	(255,319)	(69,454)
Corporation Tax	41,836	95,973
Deferred Tax	57,669	16,867
Prepayments and accrued income	12,206	8,672
	14,598,626	1,354,862

The amounts provided for deferred taxation, which represent the full potential deferred asset are as follows:

	2002	2001
	£	£
Excess of capital allowances over depreciation	1,773	
Other timing differences	55,896	16,867
Deferred Tax asset	57,669	16,867

9. Creditors: Amounts falling due within one year

	2002	2001
	£	£
Client retention	6,110,288	572,062
Overdraft	110,613	18,742
Amounts owed to parent undertaking	8,681,844	824,384
Accruals and deferred income	174,007	66,174
	15,076,752	1,481,362

10. Related party transactions

During the year ended 31st December 2002 the following related party transactions were entered into with Skipton Building Society:

Transactions throughout the year were as follows :

General Business Recharge	£84,451
Funding interest paid and accrued	£201,681

Balances outstanding as at 31st December 2002 :

Funding	£8,681,844
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SKIPTON BUSINESS FINANCE LIMITED

NOTES TO THE ACCOUNTS

11. Commitments

Operating leases

Annual commitments due under leases are as follows:-

	As at 31.12.02 £	As at 31.12.01 £
On leases expiring:		
Within two to five years	86,100	86,100

12. Equity share capital

	2002 £	2001 £
Authorised, allotted, called up and fully paid share capital		
150,000 ordinary A shares of £1 each	150,000	150,000
50,000 ordinary B shares of £1 each	50,000	50,000
As at 31st December	200,000	200,000

A and B shares rank pari passu, except that where the A shares constitute more than 50% of the issued equity share capital, they shall have at least such number of votes as represents 75% of the votes capable of being cast on the resolution concerned.

13. Profit and loss account reserve

	2002 £	2001 £
As at 1st January	(273,978)	-
Retained loss for the period	(337,805)	(273,978)
As at 31st December	(611,783)	(273,978)

14. Reconciliation of movement in shareholders' funds

	2002 £	2001 £
As at 1st January	(73,978)	-
Issue of share capital	-	200,000
Retained (loss) for the period	(337,805)	(273,978)
As at 31st December	(411,783)	(73,978)

15. Ultimate parent undertaking

The company is a 75% owned subsidiary of Skipton Group Holdings Limited. The ultimate parent undertaking is Skipton Building Society, which is registered in the United Kingdom. A copy of the group annual report and accounts into which the results of the company are consolidated is available from:

The Secretary,
Skipton Building Society,
The Bailey,
Skipton,
North Yorkshire,
BD23 1DN.

16. Pension contributions

The amount of pension contributions paid into the defined contribution scheme for the year was £1,819 (2001:£783). There were no amounts owing to the scheme at the year end.