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LLOYDS LEASING DEVELOPMENTS LIMITED

31 December 1998

Member of Lloyds TSB Group

LLOYDS LEASING DEVELOPMENTS LIMITED
203 Blackfriars Road London SE1 8NH

DIRECTORS

D P Pritchard - Chairman
M J Green
D H A Harrison
P B Miles (alternate: A R Foad)

SECRETARY

N S Black

AUDITORS

PricewaterhouseCoopers

REGISTERED OFFICE

71 Lombard Street
London EC3P 3BS

REGISTERED NUMBER

1856355

LLOYDS LEASING DEVELOPMENTS LIMITED

REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITY

The principal activity of the company is property investment.

At the end of the year the cost of leased assets amounted to £136,464,000.

RESULTS

The profit after taxation for the year ended 31 December 1998 amounted to £1,767,000 as set out in the profit and loss account on page 5.

An interim dividend of £1,800,000 will be paid in July 1999.

DIRECTORS

The following changes in directors have taken place during the year:

Director's name	Appointed	Resigned
A E Moore		30 April 1998
D P Pritchard	1 May 1998	
J A Davies		30 September 1998
M J Green	1 October 1998	

All the directors are also directors of Lloyds Leasing Limited, the immediate parent company, and reference to their interests in the capital of Lloyds TSB Group plc, the ultimate parent company, and its subsidiaries is made in the report and accounts of Lloyds Leasing Limited.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The company does not follow a code relating to payments to suppliers. Its policy is to agree terms of payment and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the company owed no amounts to trade creditors at 31 December 1998, the number of days required to be shown in this report, to comply with the provisions the Companies Act 1985, is nil.

YEAR 2000

The company recognises the far-reaching implications of the Year 2000 problem. The principal risk faced by the company is a failure to maintain electronically based services to its customers. Lloyds Leasing Limited, of which the company is a subsidiary, has undertaken a review of computerised systems throughout the group, to identify any alterations needed to deal with problems arising from the failure to recognise dates before, on or after 1 January, 2000. Testing of all systems has now been satisfactorily completed and there are plans to ensure that customer service will be maintained at all times.

The group is liaising with its customers, suppliers and others to assess and minimise the impact on the group should they fail to deal adequately with this issue.

AUDITORS

The company's auditors, Price Waterhouse, merged with Coopers & Lybrand on 1 July 1998, following which Price Waterhouse resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors.

On behalf of the board

N S Black
Secretary

14 June 1999

AUDITORS' REPORT TO THE MEMBER OF LLOYDS LEASING DEVELOPMENTS LIMITED

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 4.

Respective responsibilities of directors and auditors

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 as at the end of the year and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;

- make judgments 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 a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have responsibility for ensuring the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which 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.

Our responsibilities, as independent auditors, are established 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 at true and fair view and are properly prepared in accordance with the Companies Act. 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 is 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 judgments 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 the company's affairs as at 31 December 1998 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY

14 June 1999

ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention, in compliance with the Companies Act 1985 and in accordance with applicable accounting standards. The company is exempted from producing a cash flow statement since a consolidated cash flow statement prepared in accordance with the requirements of Financial Reporting Standard 1 is included in the accounts of its ultimate parent company. In addition advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with Lloyds TSB Group plc or other group or associated undertakings as the consolidated accounts of Lloyds TSB Group plc in which the company is included are publicly available.

(a) Accounting presentation

A property investment company has no equivalent to cost of sales or gross profit. Consequently, the directors consider adaptation of the Companies Act 1985 profit and loss account format to be appropriate. Amortisation of leased assets is the charge or credit to the profit and loss account necessary to comply with the company's policy on income recognition for finance leases. Interest expense has been shown above administration expenses since this reflects more meaningfully the nature of interest expense within the context of a property investment business. Operating expenses include administration expenses, management fees payable to the parent company and such other expenses as may be incurred as overheads during the normal conduct of the company's business.

(b) Income recognition - finance leases

Income and expenses are included in the profit before taxation on the basis of the amounts actually payable or receivable, without any adjustment to reflect a notional amount of tax that would have been paid or relieved in respect of the transaction if it had been taxable, or allowable for tax purposes on a different basis. In order to preserve the recognition of profit after tax in accordance with the actuarial after tax method, tax equalisation adjustments are made on those transactions which include permanent tax differences resulting from income and expenses subject to non standard rates of tax.

(i) Tax variable leases

Post-tax profits on leases are allocated to the profit and loss account in proportion to the net cash invested in each period taking into account the effects of taxation so as to give a constant periodic rate of return. The pre-tax profits are determined by reference to the post-tax profit allocated at the effective rate of tax applicable to the lease for the period.

(ii) Fixed for tax leases

Rentals receivable, after adjusting for the amortisation of the cost of leased assets either positive or negative, are credited to the profit and loss account over the primary period of each lease in proportion to the net cash invested in each period, taking into account the effects of taxation.

(c) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are based on a year-end appraisal of rentals receivable less income allocated to future periods.

(d) Deferred taxation

Deferred taxation is provided at the appropriate rates of taxation where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

LLOYDS LEASING DEVELOPMENTS LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1998

	Note	1998		1997	
		£000	£000	£000	£000
TURNOVER	1		11,847		8,491
AMORTISATION OF LEASED ASSETS			4,407		6,031
			16,254		14,522
INTEREST EXPENSE	2		14,334		14,772
			1,920		(250)
OPERATING EXPENSES					
Administrative expenses		4		37	
Management fee payable to parent company		63		63	
			67		100
PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION			1,853		(350)
TAXATION (CHARGE) CREDIT	3		(86)		1,985
PROFIT AFTER TAXATION			1,767		1,635

There are no further gains or losses attributable to the shareholder other than those disclosed above.

The notes on pages 8 to 10 form part of these accounts.

RECONCILIATION OF MOVEMENTS IN CAPITAL AND RESERVES
for the year ended 31 December 1998

	1998 £000	1997 £000
PROFIT FOR THE YEAR AFTER TAXATION	1,767	1,635
DIVIDEND	1,800	1,600
NET (DECREASE) INCREASE IN CAPITAL AND RESERVES	(33)	35
CAPITAL AND RESERVES AT BEGINNING OF YEAR	154	119
CAPITAL AND RESERVES AT END OF YEAR	121	154

The notes on pages 8 to 10 form part of these accounts.

LLOYDS LEASING DEVELOPMENTS LIMITED

BALANCE SHEET
at 31 December 1998

	Note	1998		1997	
		£000	£000	£000	£000
CURRENT ASSETS					
DEBTORS					
Finance lease receivables					
within one year			29,515		-
after more than one year			150,758		175,466
	4		180,273		175,466
Amounts owed by group companies	5		-		1,712
			180,273		177,178
LIABILITIES					
CAPITAL AND RESERVES					
Called up share capital	6		100		100
Profit and loss account	7		21		54
			121		154
PROVISIONS FOR LIABILITIES AND CHARGES	8		19,216		19,585
CREDITORS					
Amounts owed to group companies	9	160,921		157,427	
Other creditors		15		12	
			160,936		157,439
			180,273		177,178

Director Whitchard.

Director

The notes on pages 8 to 10 from part of these accounts

LLOYDS LEASING DEVELOPMENTS LIMITED

NOTES TO THE ACCOUNTS

1 TURNOVER

Turnover represents gross rentals receivable in the year.

2 INTEREST EXPENSE

	1998 £000	1997 £000
Interest expense comprises:		
Interest payable to group companies on bank loans and overdrafts	14,334	14,772

3 TAXATION (CHARGE) CREDIT

	1998 £000	1997 £000
Group relief (payable) receivable - current year	(202)	1,461
Group relief (payable) receivable - prior year	(253)	244
Deferred taxation	(125)	600
Tax equalisation	494	(320)
	(86)	1,985

The taxation charge (1997: credit) on the profit (1997: loss) for the year has been based on a United Kingdom corporation tax rate of 31% (1997: 31.5%).

The movement in the prior year deferred tax includes a one off credit amounting to £2,080,000, as a consequence of the reduction in the corporation tax rate from 33% to 30% . A corresponding adjustment was made to the charge for amortisation and the net book value of finance lease receivables to reflect the net reduction in future rentals.

4 FINANCE LEASE RECEIVABLES

	1998 £000	1997 £000
Future rentals	324,932	405,302
Less:		
Rentals received in advance	(451)	(852)
Income allocated to future periods	(144,208)	(228,984)
	180,273	175,466

Finance lease receivables represents the cost of leased assets less rentals received in after crediting for the following:

Accumulated amortisation	*44,260*	*39,853*

5 AMOUNTS OWED BY GROUP COMPANIES

	1998 £000	1997 £000
Amounts falling due within one year:		
Group relief receivable	-	1,712

6 CALLED UP SHARE CAPITAL

	1998 £000	1997 £000
Authorised, allotted and issued fully paid ordinary shares of £1 each	100	100

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent company of the largest group of companies for which group accounts are drawn up and of which the company is a member. Lloyds Bank plc is the parent company of the smallest such group of companies. Copies of the group accounts of both companies may be obtained from the company secretary's office, Lloyds TSB Group plc, 71 Lombard Street, London EC3P 3BS.

7 PROFIT AND LOSS ACCOUNT

	£000
At 1 January 1998	54
Retained loss for the year	(33)
At 31 December 1998	21

8 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £000	Tax equalisation £000	Balance sheet amounts £000
At 1January 1998	14,327	5,258	19,585
Charge (credit) for the year	125	(494)	(369)
At 31 December 1998	14,452	4,764	19,216

The deferred taxation balances at 1 January and 31 December 1998 represent full provision in respect of the potential liability of the company for taxation on the excess of capital allowances over related amortisation of leased assets and other short-term timing differences.

9 AMOUNTS OWED TO GROUP COMPANIES

	1998 £000	1997 £000
Amounts falling due within one year:		
Bank overdraft	3,457	1,314
Bank borrowings	153,660	151,757
Sum due to fellow subsidiary undertakings	125	-
Interest payable	237	226
Group relief payable	1,642	-
Interim dividend	1,800	4,130
	160,921	157,427

10 CAPITAL AND OTHER COMMITMENTS

The company in the course of its business enters into interest rate swap contracts. The underlying principal amount of these contracts and the replacement cost obtained by marking to market are:

	1998 £000	1997 £000
Underlying principal amount	96,022	94,619
Replacement cost	47,264	33,105

11 DATE OF APPROVAL

The directors approved the accounts on 14 June 1999.