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Surrey Asset Finance Limited

Report and Financial Statements

31 July 2004

 **ERNST & YOUNG**



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Surrey Asset Finance Limited

Registered No: 2740386

Directors

R A Aust
B Bannayi
M J Barley
D J Dine
M Gregg

Secretary

S C F Chan

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

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 2004.

Results and dividends

The company's trading profit before taxation amounted to £2,954,000 (2003 - £2,312,000). The directors paid an interim dividend of £317,515 (2003 - £222,000); no final dividend was proposed (2003 - £642,000), leaving a retained profit carried forward of £5,661,000.

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. During the year the company purchased the entire share capital of Commercial Finance Credit Limited (formerly known as Close Engineering Finance Limited) from Close Asset Finance Limited.

Directors and their interests

The directors during the year were as follows:

R A Aust
B Bannayi
M J Barley
M Booker (resigned 10 September 2004)
D J Dine
J R Mort (resigned 31 August 2004)
R H Stone

Since the year end, M Gregg was appointed a director on 1 August 2004.

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.

M Booker was a director of Close Asset Finance Limited. His interest in the share capital of Close Brothers Group plc is dealt with in the report of Close Asset Finance Limited.

Details of the options to subscribe for ordinary shares of Close Brothers Group plc held by the directors under the company's sharesave scheme and Executive Share Option Purchase Scheme and details of the directors' interests in ordinary shares of Close Brothers Group plc are given in note 5(c) to the financial statements.

Policy and practice on payment of creditors

The company does not follow any stated code on payment practice. It is the company's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with supplier at the outset. There are 19 creditor days of suppliers' invoices outstanding at the year end (2003: 33).

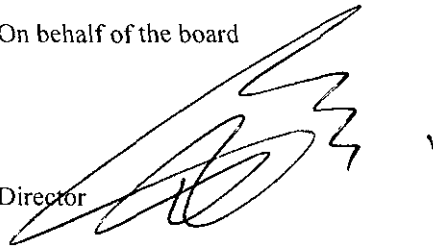
Directors' report

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;
- 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 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 2004, which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 19. 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 2004 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

Date *23 September 2004*

Profit and loss account

for the year ended 31 July 2004

	<i>Notes</i>	<i>2004 £'000</i>	<i>2003 £'000</i>
Turnover	2	8,691	7,578
Operating costs		(3,197)	(2,826)
Operating profit		5,494	4,752
Other income	3	19	10
Interest payable and similar charges	4	(2,559)	(2,450)
Profit on ordinary activities before taxation	5	2,954	2,312
Taxation	6	(868)	(703)
Profit for the financial year		2,086	1,609
Dividend		(318)	(864)
Retained profit	14	1,768	745
Retained profit brought forward		3,893	3,148
Retained profit carried forward	15	5,661	3,893

Statement of total recognised gains and losses

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

The notes on pages 8 to 18 form part of these financial statements.

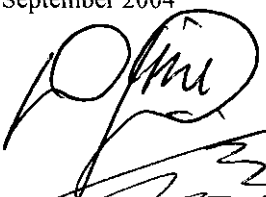

Balance sheet

at 31 July 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	7	28	61
Investments	8	—	—
Current assets			
Debtors - amounts falling due within one year	9	24,562	20,439
- amounts falling due after more than one year	9	38,297	36,198
Cash at bank and in hand		758	1,380
		<u>63,617</u>	<u>58,017</u>
Creditors: amounts falling due within one year	12	(55,893)	(52,094)
Net current assets		<u>7,724</u>	<u>5,923</u>
Total assets less current liabilities		<u>7,752</u>	<u>5,984</u>
Capital and reserves			
Called up share capital	13	1	1
Share premium account	15	2,356	2,356
Profit and loss account	14	5,395	3,627
Equity Shareholders' funds	15	<u>7,752</u>	<u>5,984</u>

The notes on pages 8 to 18 form part of these financial statements.

The financial statements were approved by the board
on 23 September 2004

 Director
 Director

Notes to the financial statements

at 31 July 2004

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 2004

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 a cash flow statement for the year ended 31 July 2004.

Group accounting

The company has taken advantage of the exemption available under section 228 of the Companies Act 1985 from preparing group financial statements. Accordingly these financial statements only contain information about Surrey Asset Finance Limited and not its subsidiary undertakings.

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.

The analysis of turnover is as follows:

	2004 £'000	2003 £'000
Hire purchase	3,442	3,029
Lease finance	4,091	3,754
Other income	1,158	795
	<u>8,691</u>	<u>7,578</u>

3. Other income

	2004 £'000	2003 £'000
Other income	<u>19</u>	<u>10</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.

	2004 £'000	2003 £'000
Bank loans and overdrafts – payable to group undertaking	<u>2,559</u>	<u>2,450</u>

Notes to the financial statements

at 31 July 2004

5. Profit on ordinary activities before taxation

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

	2004 £'000	2003 £'000
Auditors' remuneration:		
- as auditors	16	11
- other services	12	15
Depreciation of owned tangible fixed assets	24	28
Staff costs including executive directors:		
Wages and salaries	880	912
Social security costs	129	124
Other pension costs	29	37
Loss on disposal of fixed assets	(2)	(4)
Operating lease	41	35
	<u> </u>	<u> </u>

(b) Directors' remuneration:

	2004 £'000	2003 £'000
Emoluments	659	735
Company contributions paid to money purchase pension schemes	37	41
	<u> </u>	<u> </u>

	2004 No.	2003 No.
Members of money purchase pension schemes	4	4

The amounts in respect of the highest paid director are:

	£'000	£'000
Emoluments	220	237
	<u> </u>	<u> </u>
Company contributions paid to money purchase pension schemes	13	13
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 July 2004

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 2003</i>	<i>Lapsed</i>	<i>Granted</i>	<i>31 July 2004</i>
B L Bannayi	—	—	1,574	1,574
D J Dine	2,416	—	—	2,416
R A Aust	1,450	—	—	1,450
J R Mort	2,416	—	—	2,416

Directors' interests in ordinary shares of Close Brothers Group plc held in own name or spouse's name were as follows:

	<i>31 July 2004</i>	<i>1 August 2003</i>
R A Aust	1,025	1,025

Directors' interests in ordinary shares of Close Brothers Group plc granted under the Group's profit sharing scheme were as follows:

	<i>31 July 2004</i>	<i>1 August 2003</i>
D J Dine	1,833	1,833

Directors' interests in ordinary shares of Close Brothers Group plc granted under the Group's Executive Share Option Purchase Scheme were as follows:

	<i>31 July 2004</i>	<i>1 August 2003</i>
B L Bannayi	8,000	—
D J Dine	5,000	—

The interests of M J Barley in shares of Close Brothers Group plc is dealt with in the report of Close Brothers Limited. The interests of M Booker in shares of Close Brothers Group plc are dealt with in the report of Close Asset Finance Limited.

Notes to the financial statements

at 31 July 2004

5. Profit on ordinary activities before taxation (continued)

(d) Employee numbers:

The average number of employees during the year was:

	2004 No.	2003 No.
Office and management	7	8
Sales and collections	4	4
	<u>11</u>	<u>12</u>

6. Taxation on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2004 £'000	2003 £'000
<i>Current Tax:</i>		
UK corporation tax:	1,391	762
Tax (over)/under provided in prior years	(32)	(28)
Total current tax (note 6(b))	<u>1,359</u>	<u>734</u>
<i>Deferred Tax:</i>		
Deferred tax – current year	(488)	(59)
Deferred tax – prior year	(3)	28
Total deferred tax	<u>(491)</u>	<u>(31)</u>
Tax on profit on ordinary activities	<u>868</u>	<u>703</u>

(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% (2003 – 30%). The differences are reconciled below:

	2004 £'000	2003 £'000
Profit before tax	<u>2,954</u>	<u>2,312</u>
Corporation tax at 30%	886	694
Expenses not deductible for tax purposes	18	10
Depreciation in excess of capital allowances	456	222
Movement in general provisions	31	(30)
Other movement in deferred tax items	–	(134)
Tax overprovided in previous years	(32)	(28)
	<u>1,359</u>	<u>734</u>

Notes to the financial statements

at 31 July 2004

7. Fixed assets

	<i>Motor vehicles £'000</i>	<i>Fixtures, fittings and computer equipment £'000</i>	<i>Total £'000</i>
Cost:			
At 1 July 2003	36	103	139
Additions	—	6	6
Disposals	(18)	(14)	(32)
At 31 July 2004	18	95	113
Depreciation:			
At 1 July 2003	6	72	78
Charge for the year	9	15	24
Disposals	(7)	(10)	(17)
At 31 July 2004	8	77	85
Net book value:			
At 31 July 2004	10	18	28
At 31 July 2003	30	31	61

8. Investments

	<i>Subsidiary undertakings £</i>
Cost:	
At 31 July 2003	100
Additions	—
At 31 July 2004	100
Net book value:	
At 31 July 2004	100
At 1 August 2003	100

Notes to the financial statements

at 31 July 2004

8. Investments (continued)

During the year, the company acquired all the shares of Commercial Finance Credit Limited (formerly known as Close Engineering Finance Limited) from its immediate parent Close Asset Finance Limited for a cash consideration of £100.

Details of the investments in which the company holds more than 10% of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Country of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
<i>Subsidiary undertaking</i>				
Held by the company unless indicated:				
Commercial Finance Credit Limited	England and Wales	Ordinary shares	100%	Financing

9. Debtors

	<i>Amounts falling due within one year</i>		<i>Amounts falling due after more than one year</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Finance receivables	22,948	18,875	38,297	36,198
Prepayments	26	37	—	—
Other debtors	993	1,423	—	—
Deferred tax	595	104	—	—
	<u>24,562</u>	<u>20,439</u>	<u>38,297</u>	<u>36,198</u>

Notes to the financial statements

at 31 July 2004

9. Debtors (continued)

Included in finance receivables are the following amounts:

	2004	2004	2004	2003
	Gross	Unearned	Net	Net
	£'000	charges	£'000	£'000
		£'000		
HP agreements:				
within one year	14,034	2,654	11,380	9,190
after one year	21,824	2,728	19,096	15,876
	<u>35,858</u>	<u>5,382</u>	<u>30,476</u>	<u>25,066</u>
Finance leases:				
within one year	14,577	3,026	11,551	9,678
after one year	21,979	2,781	19,198	20,314
	<u>36,556</u>	<u>5,807</u>	<u>30,749</u>	<u>29,992</u>
Regulated loans:				
within one year	21	4	17	7
after one year	5	2	3	8
	<u>26</u>	<u>6</u>	<u>20</u>	<u>15</u>
Total:				
within one year	28,632	5,684	22,948	18,875
after one year	43,808	5,511	38,297	36,198
	<u>72,440</u>	<u>11,195</u>	<u>61,245</u>	<u>55,073</u>

10. Hire purchase contracts and finance leases

The aggregate cost at 31 July 2004 of assets acquired for the purpose of letting under hire purchase contracts or finance leases was £128,184,560 (2003 - £111,960,081).

11. Deferred taxation

	Capital allowances		Short term and other timing differences		Total	
	2004	2003	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	£'000
Total deferred tax asset	1,143	620	(547)	(516)	596	104

Notes to the financial statements

at 31 July 2004

11. Deferred taxation (continued)

Movement in the year:

	£'000
Asset at 1 August 2003	104
Deferred tax charge – current year	488
Deferred tax charge – prior year	3
Asset at 31 July 2004	595

12. Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Trade creditors	3,066	2,902
Amounts due to parent undertaking	26	167
Amounts due to group undertaking	51,588	47,598
Current corporation tax	697	283
PAYE and social security costs	137	113
Accruals and deferred income	379	389
Dividend payable	–	642
	55,893	52,094

13. Called up share capital

	2004 £'000	2003 £'000
Authorised:		
Ordinary shares of £1 each		
Ordinary 'A' shares of £1 each	79	79
Ordinary 'B' shares of £1 each	21	21
	100	100
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	–	–
	1	1

“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.

Notes to the financial statements

at 31 July 2004

14. Reserves

	2004 £'000
At beginning of year	3,627
Retained profit for the financial year	1,768
At end of year	5,395

15. 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 2003	1	2,356	3,893	(266)	5,984
Profit for the year	–	–	1,768	–	1,768
At 31 July 2004	1	2,356	5,661	(266)	7,752

The cumulative goodwill written off against reserves is £266,000 (2003 - £266,000)

16. Financial commitments and contingent liabilities

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

	2004 £'000	2003 £'000
Land and buildings		
Leases expiring:		
Between two and five years	9	9
More than five years	26	26
	35	35

17. 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.

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 2004 was £35 million (2003 - £45 million).

Notes to the financial statements

at 31 July 2004

19. 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.