



# HAMPSHIRE TRUST

PRIVATE BANKERS

## Annual Report

Year Ended 30 April 2005

# Hampshire Trust Plc

## Annual report for the year ended 30 April 2005

	Pages
Directors and advisers	2
Chairman's statement	3 - 4
Directors' report	5 - 8
Auditors' report	9
Profit and loss account	10
Balance sheet	11
Cash flow statement	12
Notes to the financial statements	13 - 27
Five year financial summary	28

Registered no: 1311315

# **Hampshire Trust Plc**

## **Directors and advisers**

### **Directors**

P G Cordrey (Chairman)  
M J Wilks (Managing Director)  
S M B Hunter (Deputy Managing Director)  
J E Pakenham-Walsh  
C G Marsh  
D L Stewart  
T W Trinder

### **Company Secretary**

J E Pakenham-Walsh

### **Registered office**

Fareham House  
69 High Street  
Fareham  
Hants PO16 7BB

### **Independent Auditors**

PricewaterhouseCoopers LLP  
The Quay  
30 Channel Way  
Southampton  
Hants SO14 3QG

### **Clearing Bank**

HBOS Plc  
144-148 High Street  
Southampton  
Hants SO14 2JF

### **Solicitors**

Thomas Eggar  
The Corn Exchange  
Baffins Lane  
Chichester  
West Sussex  
PO19 1GE

# **Hampshire Trust Plc**

## **Chairman's Statement** **For the year ended 30 April 2005**

### **Review**

I am pleased to report that we have again increased the profits of the Bank to a record level.

The disbursement funding book has continued its growth, showing a 20% increase over the previous year. The repayment experience is good and the loans are well spread with a quality customer profile. The book is performing well and our management systems and controls have ensured that we do not have a material bad debt exposure.

We have become a leading player in the disbursement funding market and continue to develop this area of the business. We have recently introduced new loan facilities which are particularly beneficial to solicitors and these have been very well received. Our latest product assists tenants with the expenses involved in acquiring property under the Right to Buy legislation, and we are already experiencing significant demand.

Our strategy is to continue to focus on providing funding to solicitors and their clients and to develop into other related areas as opportunities arise and are identified. Our products have been developed in line with market conditions and needs, ensuring that we remain ahead of the competition.

The investment in our bespoke databases and computer systems has helped this process and ensured that we have a comprehensive management information system that enables us to monitor individual risks and to be proactive in identifying and dealing with default.

Our traditional property lending book has seen little growth because of our focus on bridging and related short term lending. These products have continued to attract good quality short term business largely introduced directly via the internet and as a result our previous dependence on broker introductions and the associated cost have reduced materially to our advantage.

This year we are not consolidating the accounts of Hampshire Trust Factors Limited as we now own less than 50% (49.9%) of the equity, and our lending has been repaid. We are pleased with their performance and we believe the value of the investment is materially above the book cost of £150,000.

### **Dividends**

Your Board proposes to recommend an increase in the ordinary dividend to a level which provides a reasonable return on shareholder investment whilst ensuring that the profit retained is sufficient for the Bank's ongoing requirements. The recommended dividend of 16.00p per share is up from 3.57p last year. The Board is considering the payment of interim ordinary dividends in future years.

The Bank's risk asset ratio is 22% and is substantially in excess of the requisite 15% prescribed by the Financial Services Authority. As a Board we are comfortable we have

## **Hampshire Trust Plc**

sufficient capital in the business to support growth and at the same time to generate a premium return on capital, currently 23%.

### **The Future**

The Board is keen this year to explore ways of returning value to our shareholders in addition to the improved dividend policy and this will be the focus of our efforts.

We remain excited about the future of the business and look forward to a successful year and progress. On behalf of the shareholders I thank the Board and staff for their hard work and achievements.

**Peter Cordrey**

**9 June 2005**

# Hampshire Trust Plc

## Directors' Report For the year ended 30 April 2005

The Directors have pleasure in submitting their report together with the financial statements for the year ended 30 April 2005.

### Activity

The company is a bank (the Bank), authorised under the Financial Services and Markets Act 2000 to accept deposits, and provides a range of banking services.

### Business Review

The Directors are pleased to report a record pre-tax profit of £1,767,682 (2004: £1,680,128) an increase of 5%, due largely to the success of the disbursement funding business allied to the introduction of related products including loans to enable tenants to take advantage of the Right to Buy legislation. The Bank has the necessary experience and expertise to manage this growth area. Its established systems and controls have enabled it to avoid problems which have been encountered by other banks which have entered this market. The Bank has not suffered any bad or doubtful debts in this area.

The Bank's liquidity remains extremely strong and is further supported by £5 million of standby credit facilities with other banks.

As a result of growth in both the disbursement funding and property loans books the total book (ignoring intragroup loans) has increased by 14% to £26.4 million (2004: £23.1 million).

The Bank continues to invest heavily in IT which is crucial to the successful management of its disbursement funding business. In particular, it has established an IT Department, which includes a team dedicated to software development, to ensure that it remains at the forefront of developments in an increasingly evolving sector.

The Bank's savings products continue to be in demand and in particular its fixed rate bonds have been well received enabling the Bank to attract funds in line with its working capital requirements. The demand for further working capital fell away at the beginning of the year following the repayment of loans totalling £3.7 million by Hampshire Trust Factors Limited and as a result, during the year, the Bank's public deposits reduced by £1.9 million to £23.2 million (2004: £25.1 million).

In May 2004, the minority shareholders of Hampshire Trust Factors Limited invested further capital into the company and as a result the Bank's shareholding was reduced to 49.9%. Furthermore, external funding was arranged to finance the repayment of the intercompany debt, as noted above, thereby enabling the factoring company to develop in accordance with its own requirements. If the Bank's investment in Hampshire Trust Factors Limited was revalued in line with a net asset valuation, the carrying value would increase by £243,603.

The Directors consider that the market value of the Bank's only property asset, Fareham House, is more than £200,000 in excess of the carrying value noted in the accounts.

## **Hampshire Trust Plc**

The Directors have considered the option of moving to International Accounting Standards but do not believe it is appropriate at present. Furthermore following the dilution of its holding in Hampshire Trust Factors Limited, the Bank no longer owns any material trading subsidiaries and it consequently has not prepared group/consolidated accounts.

### **Financial Reporting Standard 13**

This reporting standard requires all banks to include in their annual report information relating to derivatives and other financial instruments. The Bank has not engaged in derivatives or other complex financial instruments, either for trading or non-trading purposes, nor has it conducted business in foreign currencies. The Bank pays interest on its public deposits and receives interest on its loan assets. The Bank closely monitors the sources and maturities of assets and liabilities to ensure that it can meet its cash financial obligations as and when they fall due. All credit decisions are made in formal committee in accordance with the Bank's lending policies and all loan assets are reviewed at least annually by the Bank's Credit Committee. All of the policies noted above have been followed during the year.

### **Dividends And Transfer To Reserves**

The Directors recommend the payment of a 16.00p dividend (2004: 3.57p) to ordinary shareholders in respect of the year ended 30 April 2005. The Bank's capital is such that it is no longer required to increase capital annually to ensure that it exceeds the minimum capital requirement under the regulations and is now able to pay a dividend which provides a reasonable return on shareholders' investment.

After provision for the ordinary dividend and the Class A Preference Share dividend of 6.64p (2004:6.10p), the retained profit for the year of £664,284 (2004: £986,696) will be transferred to reserves.

### **Creditor Payment Policy**

The Bank's policy concerning the payment of its creditors is to:

- (a) settle the terms of payment with those suppliers when agreeing the terms of each transaction,
- (b) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

Creditor days are nil (2004: nil). It is the Bank's usual practice to make payment on receipt of invoice.

### **Directors' Responsibilities**

The Directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the profit or loss of the Bank for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 April 2005. The

## Hampshire Trust Plc

Directors also confirm that applicable UK accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

### Directors' Interests In The Shares Of The Bank

As at the year end the Directors of the Bank and their interests in the shares of the Bank were as follows:

	£1 Ordinary	Class A £1 Preference
P Cordrey (Chairman)	738,375	nil
M J Wilks (Managing Director)	458,319	34,500
S M B Hunter	429,309	34,500
J E Pakenham-Walsh	37,500	18,000
C G Marsh	234,252	nil
D L Stewart	nil	nil
T W Trinder	nil	nil

During the year, the movements in the respective holdings were as follows:

	£1 Ordinary	Class A £1 Preference
M J Wilks	45,000	(24,000)
S M B Hunter	45,000	(24,000)
J E Pakenham-Walsh	7,500	nil

All the movements in relation to the £1 Ordinary Shares relate to the exercise of rights under the terms of the Bank's share option scheme. When the options were initially issued, the exercise price was set at £2.10 per share. As a consequence of the two for one bonus issue in July 2002 the exercise price was reduced to £0.70 per share which is a £0.30 discount to par value. The terms of the share options are set out in note 5 to the financial statements.

The shareholdings detailed above include both legal and beneficial interests and interests in shares held by connected parties.

## **Hampshire Trust Plc**

Peter Cordrey also owns 75,001 £1 Ordinary Shares in Hampshire Trust Factors Limited, which includes the purchase, on 4 May 2004, of a further 50,001 £1 Ordinary Shares. No other directors of the Bank held shares in other group companies.

### **Corporate Governance**

The Bank has an Audit Committee, a Remuneration Committee and a Nomination Committee.

#### **Audit Committee**

Under the chairmanship of Chris Marsh the members of the Committee are Peter Cordrey, David Stewart and Terry Trinder (all of whom are non-executive directors). The Bank's Company Secretary acts as secretary to the Committee. During the year the Chairmanship passed to Terry Trinder in line with the Bank's three year rotation policy. The Committee's responsibilities include the review of internal control systems and procedures and liaising, where appropriate, with the external auditors.

#### **Remuneration Committee**

Peter Cordrey is the chairman of the Remuneration Committee of which Chris Marsh, David Stewart and Terry Trinder are also members. The Committee's responsibilities include making recommendations to the Board about the remuneration strategy, policy, and individual arrangements for all executive and associate directors. The remuneration of the non-executive directors is decided by the Board excluding the non-executive director concerned.

#### **Nomination Committee**

The three members of the Nomination Committee are Peter Cordrey, Terry Trinder and Michael Wilks. The purpose of the committee is to consider nominations to the board of directors and make recommendations.

#### **Independent Non-Executive Directors**

Terry Trinder is the senior independent non-executive director. David Stewart is also an independent non-executive director.

#### **Auditors**

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

#### **By order of the board**

**J E Pakenham-Walsh**  
Company Secretary

**23 June 2005**

## **Hampshire Trust Plc**

### **Independent auditors' report to the members of Hampshire Trust Plc**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

#### **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 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 at 30 April 2005 and of the profit and the cash flow of the company for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

**PricewaterhouseCoopers LLP,**  
Chartered Accountants and Registered Auditors, Southampton

23 June 2005

# Hampshire Trust Plc

## Profit and Loss Account for the year ended 30 April 2005

	Notes	2005 £	2004 £
Interest receivable from loans and advances		<b>3,983,936</b>	3,708,270
Interest payable		<b><u>(1,230,475)</u></b>	<b><u>(1,086,819)</u></b>
<b>Net interest income</b>		<b>2,754,461</b>	2,621,451
Fees and commissions receivable	2	<b><u>885,729</u></b>	<b><u>809,107</u></b>
<b>Operating income</b>		<b><u>3,639,190</u></b>	<b><u>3,430,558</u></b>
Administrative expenses	3	<b>1,837,034</b>	1,765,321
Depreciation	15	<b>82,037</b>	70,981
Provisions for bad and doubtful debts	4	<b><u>(47,563)</u></b>	<b><u>(85,872)</u></b>
		<b><u>1,871,508</u></b>	<b><u>1,750,430</u></b>
<b>Operating profit</b>		<b>1,767,682</b>	1,680,128
Tax on operating profit	7	<b><u>(537,447)</u></b>	<b><u>(506,781)</u></b>
<b>Profit for the financial year</b>		<b>1,230,235</b>	1,173,347
Dividends and appropriations	9	<b><u>(565,951)</u></b>	<b><u>(186,651)</u></b>
<b>Retained profit</b>	21	<b><u>664,284</u></b>	<b><u>986,696</u></b>

The Bank has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been prepared. All of the operations of the Bank are continuing.

# Hampshire Trust Plc

## Balance Sheet at 30 April 2005

	Notes	2005 £	£	2004 £	£
<b>ASSETS</b>					
Cash			750		750
Loans and advances to banks	10		4,417,469		5,163,725
Loans and advances to customers	11				
- intragroup			-	3,691,034	
- other		<u>26,383,801</u>		<u>23,130,198</u>	
		26,383,801			26,821,232
Investments in associates	13		195,000		45,000
Investments	14		105		150,105
Tangible fixed assets	15		618,832		587,952
Other assets			41,466		50,773
Prepayments and accrued income			<u>18,793</u>		<u>15,104</u>
Total assets			<u>31,676,216</u>		<u>32,834,641</u>
<b>LIABILITIES</b>					
Customer accounts	16		23,238,818		25,184,016
Other liabilities	17		842,131		529,346
Accruals and deferred income	18		<u>471,493</u>		<u>730,039</u>
			<u>24,552,442</u>		<u>26,443,401</u>
<b>Capital and reserves</b>					
Called up share capital	20		4,433,363		4,335,863
Share premium account	21		238,579		267,829
Profit and loss account	21		<u>2,451,832</u>		<u>1,787,548</u>
Shareholders' funds					
- Equity			5,623,774		4,891,240
- Non-equity			<u>1,500,000</u>		<u>1,500,000</u>
	22		<u>7,123,774</u>		<u>6,391,240</u>
Total liabilities			<u>31,676,216</u>		<u>32,834,641</u>
<b>MEMORANDUM ITEMS</b>					
Other commitments	23		<u>901,143</u>		<u>2,125,419</u>

The financial statements on pages 10 to 27 were approved by the Board of Directors on 23 June 2005 and were signed on its behalf by:

**M J Wilks**  
Director

**J E Pakenham-Walsh**  
Director

# Hampshire Trust Plc

## Cash Flow Statement for the year ended 30 April 2005

	Notes	2005 £	2004 £
Net cash inflow/(outflow) from operating activities	24	<b>1,297,526</b>	1,911,937
Servicing of finance - preference dividends paid (outflow)		<b>(98,330)</b>	(108,247)
Taxation - UK corporation tax paid		<b>(538,038)</b>	(581,392)
Capital expenditure - purchase of tangible fixed assets	15	<b>(119,208)</b>	(66,974)
Acquisitions - investment in associate		-	(44,998)
Ordinary dividends paid		<b><u>(101,240)</u></b>	<b><u>(86,362)</u></b>
Net cash inflow/(outflow) before financing		<b>440,710</b>	1,023,964
Financing – issue of new Ordinary £1 Shares		<b>68,250</b>	76,000
– issue of new Class A £1 Preference Shares		<b><u>-</u></b>	<b><u>46,250</u></b>
Increase/(decrease) in cash	25	<b><u>508,960</u></b>	<b><u>1,146,214</u></b>

# Hampshire Trust Plc

## Notes to the financial statements for the year ended 30 April 2005

### 1. Accounting policies

#### **Basis of preparation**

The financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies, applicable United Kingdom Accounting Standards and Statements of Recommended Practice issued by the British Bankers' Association.

#### **Investments**

The investments are stated at cost less any provision for a diminution in value.

#### **Segmental analysis**

The Bank trades as a bank operating only in the United Kingdom. As permitted under Statement of Standard Accounting Practice no. 25, since the income streams of its business are substantially the same, segmental information has not been disclosed.

#### **Interest receivable and payable**

Interest is recognised in the profit and loss account as it accrues, except in the case of doubtful debts (see below). Fixed credit charges are accrued over the expected duration of the loan.

#### **Fees and commissions receivable**

Acceptance/arrangement fees are credited to the profit and loss account as accrued. Negotiating fees, property related administration fees, redemption fees and commissions receivable are credited to the profit and loss account in full when received. Miscellaneous fees are credited to the profit and loss account when receipt of payment is considered to be reasonably certain.

#### **Tangible fixed assets**

Tangible fixed assets are stated in the balance sheet at cost less depreciation. Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful lives of the assets as follows:

Computer hardware and software	- 4 years
Other equipment	- 5 years
Fixtures and fittings	- 10 years
Freehold property	- 50 years

However, no depreciation is provided on listed freehold property. Based on the impairment tests undertaken in accordance with FRS15, it is the Directors' opinion that since the Bank's listed head office is maintained in a continual state of sound repair and due to the longevity of the useful economic life of the asset, any depreciation would be immaterial. The Directors are of the opinion that there has been no diminution in the value of the property during the year.

#### **Secured deposits**

Where the holder of a deposit account has provided a legally enforceable right of set-off over one of the Bank's loans, the corresponding loan is reported net of that security.

# Hampshire Trust Plc

## 1. Accounting policies (cont)

### Bad and doubtful debts

Specific provision is made against all advances considered to be impaired. When there is no longer any realistic prospect of recovery, the outstanding debt is written off. A general provision is maintained against all advances to customers where there is no apparent impairment.

Interest on doubtful debts is suspended and not taken to profit until the Directors are satisfied as to its recoverability.

### Deferred tax

Deferred tax is recognised on all timing differences where the transaction or events that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax has not been discounted.

### Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

### Pensions

Pension costs are in respect of the defined contribution schemes and are charged as incurred.

## 2. Fees and commissions receivable

	2005 £	2004 £
Acceptance/arrangement fees	667,880	482,630
Negotiating fees	88,908	101,983
Redemption fees	83,746	180,586
Administration fees	26,578	28,796
Miscellaneous fees	<u>18,617</u>	<u>15,112</u>
	<u>885,729</u>	<u>809,107</u>

The acceptance/arrangement fees relate to the Disbursement Funding book. All the other fees relate to the Property book. The acceptance/arrangement fees were previously reported within Interest Receivable.

# Hampshire Trust Plc

## 3. Administrative expenses

	2005 £	2004 £
Staff Costs:		
Wages and salaries	1,170,212	1,142,548
Pension Costs	51,921	43,701
Social security costs	131,025	126,161
Remuneration of auditors excluding VAT		
Fees for audit	31,400	29,000
Fees for other services	13,811	10,580
Operating leases - plant and equipment	-	-
- property	-	-
Donations (charitable)	1,725	1,375
Other expenses	<u>436,940</u>	<u>411,956</u>
	<u>1,837,034</u>	<u>1,765,321</u>

## 4. Provision for bad and doubtful debts – charge to profit

	2005 £	2004 £
Provisions made during year		
- specific	-	-
- general	-	-
Amounts written off during the year	-	146
Reversal of prior year suspended interest	<u>(47,563)</u>	<u>(86,018)</u>
	<u>(47,563)</u>	<u>(85,872)</u>

The balance sheet analysis is detailed in note 12.

## 5. Directors' emoluments

The remuneration receivable by the Directors of Hampshire Trust Plc or amounts payable to third parties in respect of services provided by those Directors were:

	2005 £	2004 £
Aggregate emoluments		
- contributions to group personal pension plan	22,897	19,911
- other emoluments	<u>572,880</u>	<u>562,870</u>
	<u>595,777</u>	<u>582,781</u>
Highest paid director		
- contributions to group personal pension plan	9,254	8,377
- profit share	68,530	75,178
- other emoluments	<u>136,506</u>	<u>133,127</u>
	<u>214,290</u>	<u>216,682</u>

## Hampshire Trust Plc

### 5. Directors' emoluments (cont)

In addition to the above the highest paid director is entitled to a deferred bonus of £20,378 (2004: £23,420), the payment of which is conditional upon the profitability of the coming financial year. Share options granted to the highest paid director, M J Wilks, are detailed below.

#### Share Options

At the year end the following directors and employees held options in respect of £1.00 Ordinary Shares in the Bank as follows:

<u>Director/Employee</u>	<u>Date Granted</u>	<u>Number of Shares</u>	<u>Exercise Criteria</u>
P G Cordrey	21.09.98	30,000	B
M J Wilks	04.09.98	60,000	B
S M B Hunter	04.09.98	45,000	B
S Dixon (employee)	04.09.98	7,500	A

The following information applies to all the share options:

- the options may be exercised after the 5<sup>th</sup> anniversary of the grant, or on a change of ownership or control.
- the options remained unexercised as at 30 April 2005.
- as a result of the two for one bonus issue in July 2002, the exercise price was reduced from £2.10 to £0.70 and is subject to the criteria below.
- the expiry date is the tenth anniversary of the granting date or following the death, bankruptcy or cessation of employment of the option holder.
- no consideration was paid for the options.

The criteria relating to the exercise of the options is as follows:

#### Exercise Criteria A:

- (i) Profits, after tax and dividends to preference shareholders, must equal or exceed, on average, 15% of shareholders funds for the relevant period, and
- (ii) dividend growth must equal or exceed 10% per financial period with any three consecutive financial periods averaging at least 15% per period.

#### Exercise Criteria B:

- (i) The acceptance of an offer by the holders of more than 50% of the ordinary share capital, or
- (ii) the Bank obtaining a listing or quotation on a recognised stock exchange, or

# Hampshire Trust Plc

## 5. Directors' emoluments (cont)

- (iii) the acquisition of not less than 20% of the ordinary shares by an institutional investor.

Each event noted in Exercise Criteria B requires a price that (a) values the ordinary shares at an amount not less than 125% of shareholders funds or (b) results in a price earnings ratio of not less than 10:1.

No share options were held by any other director of a group company in any shares of other group companies.

## 6. Employee information

The average number of persons employed during the year was:

	2005	2004
Directors	7	7
Other staff	<u>24</u>	<u>23</u>
	<u>31</u>	<u>30</u>

The analysis includes non-executive directors and both full-time and part-time staff.

## 7. Tax on profit on ordinary activities

	2005 £	2004 £
UK corporation tax:		
- current period	534,997	523,038
- previous periods	<u>(6,857)</u>	<u>5,180</u>
Current tax	<u>528,140</u>	<u>528,218</u>
Deferred tax (origination and reversal of timing differences):		
- current	9,307	(18,024)
- previous periods	<u>-</u>	<u>(3,413)</u>
Deferred tax	<u>9,307</u>	<u>(21,437)</u>
Tax on profit on ordinary activities	<u>537,447</u>	<u>506,781</u>

# Hampshire Trust Plc

## 8. Factors affecting tax charge for period

The tax assessed in the period is lower than the standard rate of corporation tax in the UK (30%), as indicated below:

	2005 £	2004 £
Profit on ordinary activities before tax	<u>1,767,682</u>	<u>1,680,128</u>
Profit on ordinary activities multiplied by standard rate of UK corporation tax (30%) (2004: 30%)	<b>530,305</b>	504,039
Effects of:		
Non tax deductible expenses	<b>3,584</b>	975
Other timing differences	<b>1,108</b>	18,024
Adjustment to tax charge re previous periods	<u><b>(6,857)</b></u>	<u>5,180</u>
Current tax charge for period	<u><b>528,140</b></u>	<u>528,218</u>

Based on current capital investment plans, the Bank expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

## 9. Dividends and appropriations

	2005 £	2004 £
On equity shares:		
Ordinary proposed (16.00p per share (2004: 3.57p))	<u><b>466,404</b></u>	<u>101,240</u>
On non-equity shares:		
Class A preference (6.64p per share (2004: 6.10p)):		
- paid	<b>90,948</b>	55,714
- accrued	<b>8,599</b>	7,382
Class B preference (0.00p per share (2004: 13.50p))		
- paid	<u>-</u>	<u>22,315</u>
	<u><b>99,547</b></u>	<u>85,411</u>
	<u><b>565,951</b></u>	<u>186,651</u>

## 10. Loans and advances to banks

	2005 £	2004 £
Repayable on demand	<b>3,643,567</b>	3,134,607
Remaining maturity of 3 months or less	<b>750,713</b>	1,998,498
Remaining maturity of 12 months or less but over 3 months	<u><b>23,189</b></u>	<u>30,620</u>
	<u><b>4,417,469</b></u>	<u>5,163,725</u>

# Hampshire Trust Plc

## 11. Loans and advances to customers

	2005 £	2004 £
Remaining maturity, net of suspended interest:		
- on demand or at short notice	1,014,294	675,855
- less than 3 months	4,894,064	9,649,871
- 3 months to 1 year	4,919,523	10,079,606
- 1 year to 5 years	<u>15,693,920</u>	<u>6,553,900</u>
	<b>26,521,801</b>	26,959,232
General and specific bad debt provisions	<u>(138,000)</u>	<u>(138,000)</u>
	<b><u>26,383,801</u></b>	<b><u>26,821,232</u></b>

The net amounts due may be analysed between the constituent areas of business, as follows:

	2005 £	2004 £
Disbursement funding	21,465,621	18,510,154
Property	5,056,180	4,758,044
Hampshire Trust Factors Ltd - loans	-	3,341,034
- loan stock	<u>-</u>	<u>350,000</u>
	<b>26,521,801</b>	26,959,232
General and specific bad debt provision	<u>(138,000)</u>	<u>(138,000)</u>
	<b><u>26,383,801</u></b>	<b><u>26,821,232</u></b>

The disbursement funding loans are reported net of related secured deposits. The gross value of such loans totalled £27,975,760 (2004: £23,171,317).

## 12. Provision for bad and doubtful debts

	2005 £	2004 £
<b>Specific</b>		
At 1 May	18,000	18,000
Charge to profit and loss account	-	146
Provided for previously - recovered	-	-
- written off	<u>-</u>	<u>(146)</u>
At 30 April	<b><u>18,000</u></b>	<b><u>18,000</u></b>
<b>General</b>		
At 1 May	120,000	120,000
Charge to profit and loss account	<u>-</u>	<u>-</u>
As at 30 April	<b><u>120,000</u></b>	<b><u>120,000</u></b>

# Hampshire Trust Plc

## 13. Investments in associates

The Bank's investments in associates are shown at cost.

	<b>Holding</b>	<b>Trade</b>	<b>2005</b>	2004
			£	£
Hampshire Trust Factors Limited	49.9%	Factoring	<b>150,000</b>	-
Quality Rating Limited	45.0%	Auditing/vetting	<b><u>45,000</u></b>	<u>45,000</u>
			<b><u>195,000</u></b>	<u>45,000</u>

On 4 May 2004 the minority shareholders of Hampshire Trust Factors Limited invested further capital into the company. As a result the Bank's investment reduced to 49.9% of the company's ordinary share capital, and, since the Bank is no longer in a position to exercise significant influence, it is therefore treated as an associate rather than a subsidiary, as previously (see note 14).

Both companies have been incorporated and trade in the UK.

## 14. Investments

The Bank's investments in subsidiaries are shown at cost.

	<b>2005</b>	2004
	£	£
Hampshire Bank Limited	2	2
Hampshire Trust Factors Limited (see note 13)	-	150,000
Hampshire Trust Nominees Limited	<b>100</b>	100
Litigation Funding Limited	<b>1</b>	1
Nationwide Compensation Service Limited	<b><u>2</u></b>	<u>2</u>
	<b><u>105</u></b>	<u>150,105</u>

Apart from Hampshire Trust Factors Limited, all the companies are fully owned, non-trading subsidiaries.

# Hampshire Trust Plc

## 15. Tangible fixed assets

	Freehold Buildings	Equipment	Fixtures/ Fittings	Total
<b>Cost</b>				
At 1 May 2004	404,298	447,373	63,814	915,485
Additions	-	114,247	4,961	119,208
Disposals	<u>-</u>	<u>(11,267)</u>	<u>-</u>	<u>(11,267)</u>
<b>At 30 April 2005</b>	<b><u>404,298</u></b>	<b><u>550,353</u></b>	<b><u>68,775</u></b>	<b><u>1,023,426</u></b>
<b>Depreciation</b>				
At 1 May 2004	-	284,573	42,960	327,533
Charge for year	-	76,903	5,134	82,037
Disposals	<u>-</u>	<u>(4,976)</u>	<u>-</u>	<u>(4,976)</u>
<b>At 30 April 2005</b>	<b><u>-</u></b>	<b><u>356,500</u></b>	<b><u>48,094</u></b>	<b><u>404,594</u></b>
<b>Net book value at 30 April 2005</b>	<b><u>404,298</u></b>	<b><u>193,853</u></b>	<b><u>20,681</u></b>	<b><u>618,832</u></b>
Net book value at 30 April 2004	<u>404,298</u>	<u>162,800</u>	<u>20,854</u>	<u>587,952</u>

## 16. Customer accounts

	2005 £	2004 £
With agreed maturity dates or periods of notice by remaining maturity:		
- on demand	1,663,312	1,458,079
- 3 months or less	916,637	1,161,211
- 3 months to 1 year	13,425,275	13,207,064
- 1 to 5 years	<u>7,233,594</u>	<u>9,357,662</u>
	<b><u>23,238,818</u></b>	<b><u>25,184,016</u></b>

## 17. Other liabilities

	2005 £	2004 £
Corporation tax	258,139	268,037
Other taxation and social security	31,059	27,451
Dividends	475,856	108,622
Other liabilities	<u>77,077</u>	<u>125,236</u>
	<b><u>842,131</u></b>	<b><u>529,346</u></b>

# Hampshire Trust Plc

## 18. Accruals and deferred income

	2005 £	2004 £
Accruals	352,728	383,173
Deferred income	<u>118,765</u>	<u>346,866</u>
	<u>471,493</u>	<u>730,039</u>

## 19. Deferred taxation

	2005 £	2004 £
Tax effect of timing differences because of:		
- Excess of tax allowances over depreciation	8,408	6,078
- Short term timing differences	(49,139)	(55,820)
- Pension contribution provision	<u>(735)</u>	<u>(1,031)</u>
	<u>(41,466)</u>	<u>(50,773)</u>
<b>Movement in provisions</b>		
At 1 May	(50,773)	(29,336)
Charge to profit (note 7)	<u>9,307</u>	<u>(21,437)</u>
At 30 April	<u>(41,466)</u>	<u>(50,773)</u>

The deferred tax asset has been included in Other Assets on the balance sheet.

## 20. Called up share capital

	2005 £	2004 £
<b>Authorised</b>		
Ordinary Shares of £1 each	5,000,000	5,000,000
Class A Preference Shares of £1 each	<u>2,500,000</u>	<u>2,500,000</u>
	<u>7,500,000</u>	<u>7,500,000</u>
<b>Allotted, called up and fully paid Equity</b>		
£1 Ordinary Shares	2,933,363	2,835,863
<b>Non-equity</b>		
Class A £1 Preference Shares	<u>1,500,000</u>	<u>1,500,000</u>
	<u>4,433,363</u>	<u>4,335,863</u>
<b>Share capital</b>		
At 1 May	4,335,863	3,950,863
New issues		
- Class A £1 Preference Shares	-	500,000
- £1 Ordinary Shares	97,500	50,000
Cancelled shares - Class B £1 Preference Shares	<u>-</u>	<u>(165,000)</u>
At 30 April	<u>4,433,363</u>	<u>4,335,863</u>

## Hampshire Trust Plc

### 20. Called up share capital (cont)

- a. In June 2004, 97,500 Ordinary £1 Shares were issued to directors following the exercise of rights under the share option scheme.
- b. The Class A £1 Preference Shares carry a cumulative dividend based upon a 2% margin on the gross interest rate payable to six month quarterly income depositors. The shares do not carry voting rights. In the event of a winding up of the Bank, the claims of the shareholders rank behind those of the ordinary creditors.

### 21. Reserves

	2005 £	2004 £
<b>Profit and loss</b>		
At 1 May	1,787,548	1,089,602
Cancellation of Class B £1 Preference Shares	-	(288,750)
Retained profit for the year	<u>664,284</u>	<u>986,696</u>
At 30 April	<u>2,451,832</u>	<u>1,787,548</u>
<b>Share premium</b>		
At 1 May	267,829	244,184
Capitalisation of reserves re stock options	(29,250)	-
Issue of new £1 Ordinary Shares	-	26,000
Issue costs	<u>-</u>	<u>(2,355)</u>
At 30 April	<u>238,579</u>	<u>267,829</u>

### 22. Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Opening shareholders' funds	6,391,240	5,284,649
Profit for the financial year	664,284	986,696
Issue of Class A £1 Preference Shares	-	500,000
Cancellation of Class B £1 Preference Shares	-	(165,000)
- capitalisation of reserves	-	(288,750)
New £1 Ordinary Shares - nominal value	97,500	50,000
- share premium	-	26,000
- capitalisation of reserves	(29,250)	-
Issue costs	<u>-</u>	<u>(2,355)</u>
<b>Closing shareholders' funds</b>	<u>7,123,774</u>	<u>6,391,240</u>
The split of shareholders' funds is as follows:		
<b>Equity</b>		
Interests of the ordinary shareholders	5,623,774	4,891,240
<b>Non-equity</b>		
Interests of the Class A preference shareholders	<u>1,500,000</u>	<u>1,500,000</u>
<b>Closing shareholders' funds</b>	<u>7,123,774</u>	<u>6,391,240</u>

## Hampshire Trust Plc

### 23. Memorandum commitments

	2005 £	2004 £
Commitments in relation to retentions of loans and advances re:		
- property loans	547,224	968,740
- disbursement funding	<u>353,919</u>	<u>1,156,679</u>
	<u>901,143</u>	<u>2,125,419</u>

The Bank has terminated the facilities previously provided to Hampshire Trust Factors Limited and hence has no further commitments to that company, as follows:

	2005 £	2004 £
Overdraft and accrued interest	-	58,367
Loan facility	-	1,450,000
Subordinated loan stock facility	<u>-</u>	<u>150,000</u>
	<u>-</u>	<u>1,658,367</u>

### 24. Reconciliation of operating profit to net operating cash

	2005 £	2004 £
<b>Operating profit</b>	<b>1,767,682</b>	1,680,128
(Increase)/decrease in prepayments and accrued income	(3,689)	(1,568)
Increase/(decrease) in accruals and deferred income	(258,546)	(43,986)
Provision for bad and doubtful debts	(47,563)	-
Loans and advances written off net of recoveries	-	146
Depreciation	82,037	70,981
Effect of other deferrals and accruals on operating activity cash flow	<u>(13,033)</u>	<u>154,741</u>
Net cash flow from trading activities	<b>1,526,888</b>	1,860,442
Net (decrease)/increase in deposits by customers	(1,945,198)	5,286,314
Net decrease/(increase) in loans to customers	437,431	(4,946,564)
Net decrease/(increase) in loans and advances to banks*	<u>1,278,405</u>	<u>(288,255)</u>
Net cash (outflow)/ inflow from operating activities (see page 12)	<u><b>1,297,526</b></u>	<u>1,911,937</u>

\* excludes cash and funds repayable on demand.

## Hampshire Trust Plc

### 25. Analysis of the balances of cash as shown in the balance sheet

	2005 £	2004 £	Cash Flow £	2004 £	2003 £	Cash Flow £
Cash in hand	750	750	-	750	750	-
Loans and advances to banks repayable on demand	<u>3,643,567</u>	<u>3,134,607</u>	<u>508,960</u>	<u>3,134,607</u>	<u>1,988,393</u>	<u>1,146,214</u>
	<u>3,644,317</u>	<u>3,135,357</u>	<u>508,960</u>	<u>3,135,357</u>	<u>1,989,143</u>	<u>1,146,214</u>

### 26. Financial commitments

At 30 April 2005 the Bank had no annual commitments under non-cancellable operating leases.

### 27. Financial instruments

Part of the Bank's return on its assets is obtained from controlled mis-matching of the dates on which interest receivable on assets and interest payable on liabilities are varied or, if earlier, maturity dates. The table below summarises these re-pricing mis-matches and include short term debtors and creditors. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

As at 30 April 2005	Contractual Interest Rate Re-pricing Date, or Maturity Date if earlier						Total £'000
	0-3 £'000	Months 3-6 £'000	6-12 £'000	Years 1-5 £'000	Beyond £'000	Non Interest Bearing £'000	
Assets							
Loans and advances							
- financial institutions	4,418						4,418
- customers	23,921	1,357	1,106	-			26,384
Other assets	-	-	-	-	-	874	874
Total assets	<u>28,339</u>	<u>1,357</u>	<u>1,106</u>	<u>-</u>	<u>-</u>	<u>874</u>	<u>31,676</u>
Liabilities							
Customer accounts – deposits	17,043	875	4,208	1,113			23,239
Other liabilities						1,313	1,313
Minority interest and shareholders' funds	-	-	-	-	-	7,124	7,124
Total liabilities	<u>17,043</u>	<u>875</u>	<u>4,208</u>	<u>1,113</u>	<u>-</u>	<u>8,437</u>	<u>31,676</u>
Interest rate sensitivity gap							
- period	11,296	482	(3,102)	(1,113)	-	(7,563)	-
- cumulative	<u>11,296</u>	<u>11,778</u>	<u>8,676</u>	<u>7,563</u>	<u>7,563</u>	<u>-</u>	<u>-</u>

# Hampshire Trust Plc

## 27. Financial instruments (cont)

As at 30 April 2004	Contractual Interest Rate Re-pricing Date, or Maturity Date if earlier						Total
	0-3	Months 3-6	6-12	1-5	Years Beyond	Non Interest Bearing	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>							
Loans and advances							
- financial institutions	5,164						5,164
- customers	22,924	1,350	2,547				26,821
Other assets	—	—	—	—	—	850	850
<b>Total assets</b>	<b><u>28,088</u></b>	<b><u>1,350</u></b>	<b><u>2,547</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>850</u></b>	<b><u>32,835</u></b>
<b>Liabilities</b>							
Customer accounts – deposits	18,972	492	2,719	3,001			25,184
Other liabilities						1,260	1,260
Minority interest and shareholders' funds	—	—	—	—	—	6,391	6,391
<b>Total liabilities</b>	<b><u>18,972</u></b>	<b><u>492</u></b>	<b><u>2,719</u></b>	<b><u>3,001</u></b>	<b><u>—</u></b>	<b><u>7,651</u></b>	<b><u>32,835</u></b>
<b>Interest rate sensitivity gap</b>							
- period	9,116	858	(172)	(3,001)	-	(6,801)	-
- cumulative	<u>9,116</u>	<u>9,974</u>	<u>9,802</u>	<u>6,801</u>	<u>6,801</u>	<u>—</u>	<u>—</u>

The Bank has not traded in derivatives or other complex financial instruments (see the Directors' Report concerning Financial Reporting Statement 13, page 6).

There is no active liquid market in any of the Bank's financial instruments.

## 28. Related party transactions

A number of Directors and parties connected with the Directors held deposit accounts with the Bank. Balances with individual Directors have not been disclosed, as permitted under the banking confidentiality exemption.

The Bank had no other material business dealings with any connected party other than those disclosed in this report.

## Hampshire Trust Plc

### 29. Pensions

All directors and staff are able to contribute to one of two defined contribution pension schemes, one of which is a stakeholder pension scheme. The assets of the schemes are held separately from those of the Bank. The schemes are managed and administered by third parties. The relevant financial information relating to the schemes is as follows:

	2005 £	2004 £
Pension costs	<u>51,921</u>	<u>43,701</u>
Year end accrual	<u>2,449</u>	<u>3,436</u>

There are no year end prepayments relating to either scheme.

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**Five Year Financial Summary**

		2005	2004	2003	2002	2001
<b>Return on capital</b>	%	23	26	19	23	20
<b>Trading profit before tax</b>	£'000	1,768	1,680	1,075	961	779
- annual growth	%	5	56	12	23	22
<b>Ordinary dividend per share</b>	p	16.00	3.57	3.10	2.69	2.34
- annual growth	%	348	15	15	15	15
<b>Total customer loans*</b>	£'000	26,384	23,130	18,635	17,189	16,202
- annual growth	%	14	24	8	6	8

\*ignoring

intragroup

loans

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