



HAMPSHIRE TRUST  
PRIVATE BANKERS

Annual Report

Year Ended 30 April 2006

# Hampshire Trust Plc

## Annual Report - Year Ended 30 April 2006

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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**

Bank of Scotland  
144-148 High Street  
Southampton  
Hants SO14 2JF

### **Solicitors**

Stephenson Harwood  
One, St Paul's Churchyard  
London  
EC4M 8SH

# Hampshire Trust Plc

## Chairman's Statement For the year ended 30 April 2006

The last year has been particularly challenging for the business and management team but nonetheless we have achieved another record profit and maintained our premium return on capital employed of in excess of 26%.

During the year we decided to rationalise our product range particularly in the area of our Litigation Disbursement Funding loans. As part of this process, we have streamlined and simplified our litigation finance product range concentrating on two core products being practice loans to firms of solicitors and loans to their clients directly. We have further enhanced our computer software to enable our solicitor clients to manage client loans through a web interface. Whilst this has involved significant investment in IT, it will improve the profitability of the business and lay the foundations for future asset growth. We have also developed further loan products available to solicitors' clients where our existing experience, contact and relationships will be invaluable.

Our property business continues to focus on short term lending such that the size of the book can vary substantially from week to week. The returns however are good and we regard it as important to maintain and foster our property expertise built up over many years.

Our deposit products continue to be popular with existing customers; and the Bank's innovative variable period fixed rate bond was well received by the market bringing in many new customers. We pride ourselves on maintaining first class relationships with our depositors and many new bondholders have reinvested their funds after their bonds have matured.

After reviewing our group businesses we decided to sell our interests in associated companies. During August 2005 we sold the investment in Quality Rating Ltd for a consideration of £100,000 – a profit of £55,000 on the initial investment. In January 2006, following the receipt of a dividend of £15,000, we completed the sale of our holding in Hampshire Trust Factors Ltd for an additional consideration of £400,000, generating a profit of £250,000 over the carrying value of £150,000. As the UK substantial shareholdings exemption applies, the profit on the sales will not be subject to corporation tax. Both investments were sold to the parties who had been co-shareholders when the businesses were initially set up - we wish the teams every success in the future.

This is the first year we have paid an interim dividend, approved by the Board at 12p per share representing a distribution of £352,003. You will see in the accounts the Board is proposing a final dividend of 6p a share which is subject to shareholder approval. The Board decided an interim dividend should be paid in view of a change in accounting standards which prohibits the inclusion of unapproved dividends in statutory accounts. The payment was appropriate in view of the surplus capital in the business augmented by the receipt of the net proceeds from the disposal of the associated companies. Our risk asset ratio remains in excess of 25%, which gives substantial capacity for growth in the coming year.

The Bank is well capitalised albeit a new accounting standard has required our Preference Share capital to be treated as debt for accounting though not regulatory purposes,

## **Hampshire Trust Plc**

resulting in changes to the Balance Sheet and a re-stating of the 2005 figures for comparison purposes.

We continue to enjoy standby credit facilities of £5 million with other banks but these have not been utilised during the year.

Our challenge for this year is to expand our loan book whilst at the same time maintaining asset quality and the repayment profile of those assets.

My thanks to the staff and Board of Directors for their hard work and considerable efforts and achievements as reflected in our profits.

Peter Cordrey

28 June 2006

# Hampshire Trust Plc

## Directors' Report - Year Ended 30 April 2006

The Directors have pleasure in submitting their report together with the financial statements for the year ended 30 April 2006.

### 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.

### Results

The Directors' are pleased to report record pre-tax profits of £2,000,596 (2005: 1,668,135) following the disposal of the Bank's interest in Quality Rating Limited and Hampshire Trust Factors Limited. The £2 million profit is a notable achievement and one of which all connected with the Bank can be justifiably proud.

The Directors consider that the market value of the office in Fareham is more than £200,000 in excess of the carrying value noted in the accounts.

The Directors have considered the option of moving to International Accounting Standards but do not believe it is appropriate at present.

### Financial Instruments

FRS 13 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 dividend totalling 18.0p (2005: 16.0p) to ordinary shareholders in respect of the year ended 30 April 2006 of which 12.0p (2005: nil) has been declared and paid as an interim dividend. Due to the accounting changes brought in by FRS 25, the balance of the dividend (6.0p per share), which has yet to be approved by shareholders, has not been provided for in the accounts.

Similarly FRS 21 now applies to the Bank. As a result, for accounting purposes, the Class A £1 Preference Share Capital has been recategorised as borrowing rather than capital as previously. The Bank's preference share capital is therefore now included as a liability (rather than capital) on its balance sheet as "Debt securities in issue – other". In a similar vein, the 6.75p (2005: 6.64p) preference share dividend (£101,250: 2005: £99,547) is now deemed to be an "interest payable" expense within the P&L rather than a post tax dividend, as previously.

Having taken account of ordinary dividends paid during the year, the retained profit for the year of £662,636 (2005: £1,029,448) will be transferred to reserves.

# Hampshire Trust Plc

## 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 (2005: nil). It is the Bank's usual practice to make payment on receipt of invoice.

## Donations

The Bank made charitable donations of £500 (2005: £1,725) during the year and made no (2005: £nil) political donations.

## 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 2006. The 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)	723,123	nil
M J Wilks (Managing Director)	458,319	34,500
S M B Hunter	429,309	10,500
J E Pakenham-Walsh	37,500	18,000
C G Marsh	234,252	nil
D L Stewart	nil	nil
T W Trinder	nil	nil

## **Hampshire Trust Plc**

During the year, the shareholdings remained unchanged save for (i) the transfer of 15,252 Ordinary £1 Shares by P Cordrey to his adult children and (ii) the disposal of the beneficial interest in 24,000 Class A £1 Preference Shares by S M B Hunter.

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

No directors of the Bank held shares in any other group companies.

### **Corporate Governance**

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

#### **Audit Committee**

Under the chairmanship of Terry Trinder the members of the Committee are Peter Cordrey, David Stewart and Chris Marsh (all of whom are non-executive directors). The Bank's Company Secretary acts as secretary to the Committee. 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 Bank will be proposed at the annual general meeting.

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

**J E Pakenham-Walsh**  
Company Secretary

**29 June 2006**

# **Hampshire Trust Plc**

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

We have audited the financial statements of Hampshire Trust Plc for the year ended 30 April 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement and the Five Year Financial Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

# Hampshire Trust Plc

## Independent auditors' report to the members of Hampshire Trust Plc (cont)

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 April 2006 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

***PricewaterhouseCoopers LLP***

*Chartered Accountants and Registered Auditor  
Southampton*

*29 June 2006*

# Hampshire Trust Plc

## Profit and Loss Account - Year Ended 30 April 2006

	Notes	2006 £	2005 Restated £
Interest receivable from loans and advances		<b>4,181,242</b>	3,983,936
Interest payable	2	<b><u>(1,223,478)</u></b>	<u>(1,330,022)</u>
<b>Net interest income</b>		<b>2,957,764</b>	2,653,914
Income from participating interests		<b>15,000</b>	-
Fees and commissions receivable	3	<b>549,317</b>	885,729
Other operating income	4	<b><u>75,559</u></b>	<u>-</u>
<b>Operating income</b>		<b><u>3,597,640</u></b>	<u>3,539,643</u>
Administrative expenses	5	<b>2,011,914</b>	1,837,034
Depreciation	17	<b>89,458</b>	82,037
Provisions for bad and doubtful debts	6	<b><u>(199,328)</u></b>	<u>(47,563)</u>
		<b><u>1,902,044</u></b>	<u>1,871,508</u>
<b>Operating profit</b>		<b>1,695,596</b>	1,668,135
Profit on sale of participating interests	15	<b><u>305,000</u></b>	<u>-</u>
Profit on ordinary activities		<b>2,000,596</b>	1,668,135
Tax on operating profit	9	<b><u>(519,554)</u></b>	<u>(537,447)</u>
<b>Profit for the financial year</b>		<b>1,481,042</b>	1,130,688
Dividends and appropriations	11	<b><u>(818,406)</u></b>	<u>(101,240)</u>
<b>Retained profit</b>	24	<b><u>662,636</u></b>	<u>1,029,448</u>

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.

As a result of FRS 25 the dividend payable on the Class A £1 Preference Share capital has been included as “interest payable” rather than as “dividends and appropriations”. The effect of the change has been to reduce the pre tax profit by £101,250 (2005: £99,547) from £2,101,846 (2005: £1,767,682). The retained profit remains unchanged.

# Hampshire Trust Plc

## Balance Sheet at 30 April 2006

	Notes	2006 £	2005 Restated £
<b>ASSETS</b>			
Cash		750	750
Loans and advances to banks	12	3,423,799	4,417,469
Loans and advances to customers	13	24,306,501	26,383,801
Participating interests	15	-	195,000
Investments	16	105	105
Tangible fixed assets	17	651,686	618,832
Other assets		83,221	41,466
Prepayments and accrued income		<u>21,377</u>	<u>18,793</u>
Total assets		<u>28,487,439</u>	<u>31,676,216</u>
<b>LIABILITIES</b>			
Customer accounts	18	19,466,767	23,238,818
Debt securities in issue – other	19	1,500,000	1,500,000
Other liabilities	20	261,734	375,727
Accruals and deferred income	21	<u>506,124</u>	<u>471,493</u>
		<u>21,734,625</u>	<u>25,586,038</u>
<b>Equity capital and reserves</b>			
Called up equity share capital	23	2,933,363	2,933,363
Share premium	24	238,579	238,579
Profit and loss reserve	24	<u>3,580,872</u>	<u>2,918,236</u>
	25	<u>6,752,814</u>	<u>6,090,178</u>
Total liabilities		<u>28,487,439</u>	<u>31,676,216</u>
<b>MEMORANDUM ITEMS</b>			
Other commitments	26	<u>3,195,657</u>	<u>901,143</u>

The financial statements on pages 10 to 27 were approved by the Board of Directors on 29 June 2006 and were signed on its behalf by:

**M J Wilks**  
Director

**J E Pakenham-Walsh**  
Director

# Hampshire Trust Plc

## Cash Flow Statement - Year Ended 30 April 2006

	Notes	2006 £	2005 £
Net cash inflow from operating activities	27	<b>872,764</b>	1,297,526
Returns on investments and servicing of finance - preference share dividends		<b>(102,109)</b>	(98,330)
Taxation - UK corporation tax paid		<b>(558,192)</b>	(538,038)
Capital expenditure - purchase of tangible fixed assets	17	<b>(122,312)</b>	(119,208)
Disposals – sale of investments	15	<b>500,000</b>	-
Ordinary dividends paid	11	<b><u>(818,406)</u></b>	<u>(101,240)</u>
Net cash (outflow)/inflow before financing		<b>(228,255)</b>	440,710
Financing – issue of new Ordinary £1 Shares		<b>—</b>	<u>68,250</u>
(Decrease)/increase in cash	28	<b><u>(228,255)</u></b>	<u>508,960</u>

# Hampshire Trust Plc

## Notes To The Financial Statements - Year Ended 30 April 2006

### 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 FRS 15, 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 to cover latent bad and doubtful debts inherent within any loan portfolio but which have not been specifically identified. The value of the provision is reviewed annually against actual losses.

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.

### Pensions

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

### Changes in accounting policy

The Bank has adopted FRS 25 “Financial Instruments” and FRS 21 “Events After The Balance Sheet Date”. The adoptions represent changes in accounting policy and the comparatives figures have been restated. Details of the effect of the prior year adjustments are given in note 25.

## 2. Interest Payable

	2006	2005
	£	Restated £
Payable to depositors	1,122,228	1,230,475
Class A £1 Preference Share dividend	<u>101,250</u>	<u>99,547</u>
	<u>1,223,478</u>	<u>1,330,022</u>

As a result of the adoption of FRS 25 the Class A £1 Preference Shares are now deemed to be a financial liability and the associated dividend categorised as interest payable within the accounts. The 2005 figure has been restated accordingly.

# Hampshire Trust Plc

## 3. Fees and commissions receivable

	2006 £	2005 £
Acceptance/arrangement fees	355,650	667,880
Negotiating fees	76,887	88,908
Redemption fees	98,061	83,746
Administration fees	9,755	26,578
Miscellaneous fees	8,964	18,617
	<u>549,317</u>	<u>885,729</u>

The acceptance/arrangement fees relate to the Disbursement Funding book. Apart from the miscellaneous fees, all the other fees relate to the Property book.

## 4. Other operating income

	2006 £	2005 £
Profit share on asset realisations	<u>75,559</u>	<u>-</u>

## 5. Administrative expenses

	2006 £	2005 £
Staff Costs:		
Wages and salaries	1,276,001	1,170,212
Pension Costs	60,592	51,921
Social security costs	143,621	131,025
Remuneration of auditors excluding VAT		
Fees for audit	31,400	31,400
Fees for other services	7,856	13,811
Operating leases - plant and equipment	-	-
- property	-	-
Donations (charitable)	500	1,725
Other expenses	491,944	436,940
	<u>2,011,914</u>	<u>1,837,034</u>

## 6. Provision for bad and doubtful debts – charge/(credit) to profit

	2006 £	2005 £
Provisions released during year		
- general	(120,000)	-
Amounts written off during the year	7,309	-
Reversal of prior year suspended interest	(86,637)	(47,563)
	<u>(199,328)</u>	<u>(47,563)</u>

The balance sheet analysis is detailed in note 14.

# Hampshire Trust Plc

## 7. 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:

	2006 £	2005 £
Aggregate emoluments		
- contributions to group personal pension plan	26,069	22,897
- long term incentive schemes	20,378	23,420
- other emoluments	<u>561,732</u>	<u>552,502</u>
	<u>608,179</u>	<u>598,819</u>
Highest paid director		
- contributions to group personal pension plan	10,660	9,254
- profit related bonus	78,510	91,950
- other emoluments	<u>146,561</u>	<u>136,506</u>
	<u>235,731</u>	<u>237,710</u>

Share options granted to the highest paid director, M J Wilks, are detailed below.

In addition to the above certain directors are entitled to a long term incentive bonus of £19,457 (2005: £20,378) (highest paid director - £16,214 (2005: £20,378)), the payment of which is conditional upon the profitability of the coming year.

Retirement benefits are accruing to 3 directors under the group personal pension plan (2005: 3).

### 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 2006.
- 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.

# Hampshire Trust Plc

## 7. Director's emoluments (cont)

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
- (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.

## 8. Employee information

The average number of persons employed during the year was:

	2006	2005
Directors	7	7
Other staff	<u>28</u>	<u>24</u>
	<u>35</u>	<u>31</u>

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

# Hampshire Trust Plc

## 9. Tax on profit on ordinary activities

	2006 £	2005 £
UK corporation tax:		
- current period	<b>504,524</b>	534,997
- previous periods	<b><u>(25,624)</u></b>	<u>(6,857)</u>
Current tax	<b><u>478,900</u></b>	<u>528,140</u>
Deferred tax (origination and reversal of timing differences):		
- current	<b>40,654</b>	9,307
- previous periods	<b><u>-</u></b>	<u>-</u>
Deferred tax	<b><u>40,654</u></b>	<u>9,307</u>
Tax on profit on ordinary activities	<b><u>519,554</u></b>	<u>537,447</u>

## 10. Factors affecting tax charge for period

The tax assessed in the period is lower (2005: lower) than the standard rate of corporation tax in the UK (30%), as indicated below:

	2006 £	2005 Restated £
Profit on ordinary activities before tax	<b><u>2,000,596</u></b>	<u>1,668,135</u>
Profit on ordinary activities multiplied by standard rate of UK corporation tax (30%) (2005: 30%)	<b>600,179</b>	500,441
Effects of:		
Non tax deductible expenses		
- Preference share dividend	<b>30,337</b>	29,864
- Other	<b>16,482</b>	3,584
Non taxable income	<b>(96,000)</b>	-
Other timing differences	<b>(46,474)</b>	1,108
Adjustment to tax charge re previous periods	<b><u>(25,624)</u></b>	<u>(6,857)</u>
Current tax charge for period	<b><u>478,900</u></b>	<u>528,140</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.

# Hampshire Trust Plc

## 11. Dividends and appropriations

	2006	2005
	£	Restated £
<b>Ordinary shares:</b>		
Prior year final-paid (16.00p ; 2005 : 3.57p)	466,403	101,240
Current year interim-paid (12.00p; 2005 : nil)	<u>352,003</u>	-
	<u>818,406</u>	<u>101,240</u>

As a result of the adoption of FRS 25, the dividend paid on the Class A £1 Preference Share Capital is, for accounting purposes, classified as “interest payable” rather than as a dividend, as previously.

## 12. Loans and advances to banks

	2006	2005
	£	£
Repayable on demand	3,415,312	3,643,567
Remaining maturity of 3 months or less	6,508	750,713
Remaining maturity of 12 months or less but over 3 months	<u>1,979</u>	<u>23,189</u>
	<u>3,423,799</u>	<u>4,417,469</u>

## 13. Loans and advances to customers

	2006	2005
	£	£
Remaining maturity, net of suspended interest:		
- on demand or at short notice	1,579,549	1,014,294
- less than 3 months*	5,035,491	4,894,064
- 3 months to 1 year	7,112,257	4,919,523
- 1 year to 5 years	<u>10,579,204</u>	<u>15,693,920</u>
	24,306,501	26,521,801
General and specific bad debt provisions	<u>-</u>	<u>(138,000)</u>
	<u>24,306,501</u>	<u>26,383,801</u>

\* Includes disbursement funding loans which have passed their initial credit term.

Included above is £nil (2005: 84,056) of non performing advances, £nil net of provisions (2005: £61,493).

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

## Hampshire Trust Plc

### 13. Loans and advances to customers (cont)

	2006 £	2005 £
Disbursement funding	19,800,138	21,465,621
Property	<u>4,506,363</u>	<u>5,056,180</u>
	24,306,501	26,521,801
General and specific bad debt provision	<u>-</u>	<u>(138,000)</u>
	<u>24,306,501</u>	<u>26,383,801</u>

The disbursement funding loans are reported net of related secured deposits. The gross value of such loans totalled £23,632,790 (2005: £27,975,760).

### 14. Provision for bad and doubtful debts

	2006 £	2005 £
<b>Specific</b>		
At 1 May	18,000	18,000
Charge to profit and loss account	7,309	-
Amounts written off	<u>(25,309)</u>	<u>-</u>
At 30 April	<u>-</u>	<u>18,000</u>
<b>General</b>		
At 1 May	120,000	120,000
Credit to profit and loss account	<u>(120,000)</u>	<u>-</u>
As at 30 April	<u>-</u>	<u>120,000</u>

### 15. Participating interests/Profit on sale of participating interests

The Bank's investments in participating interests are shown at cost.

	Trade	2006 £	2005 £
Hampshire Trust Factors Limited	Factoring	-	150,000
Quality Rating Limited	Auditing/vetting	<u>-</u>	<u>45,000</u>
		<u>-</u>	<u>195,000</u>

During the year both investments were sold with profits as follows:

	Holding Sold	2006 £	2005 £
Hampshire Trust Factors Limited	49.9%	250,000	-
Quality Rating Limited	45.0%	<u>55,000</u>	<u>-</u>
		<u>305,000</u>	<u>-</u>

Since the UK substantial shareholdings exemption applies to both disposals, no corporation tax is payable on the profit.

# Hampshire Trust Plc

## 16. Investments

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

	2006 £	2005 £
Hampshire Bank Limited	2	2
Hampshire Trust Nominees Limited	100	100
Litigation Funding Limited	1	1
Nationwide Compensation Service Limited	<u>2</u>	<u>2</u>
	<b><u>105</u></b>	<b><u>105</u></b>

All the subsidiaries are fully owned, non-trading and UK based companies. Since all of the non-trading subsidiaries are immaterial, the Bank is not required under S229 of the Companies Act 1985 to prepare consolidated financial statements.

## 17. Tangible fixed assets

	Freehold Property £	Equipment £	Fixtures/ Fittings £	Total £
<b>Cost</b>				
At 1 May 2005	404,298	550,353	68,775	1,023,426
Additions	1,011	118,771	2,530	122,312
Disposals	<u>-</u>	<u>(19,900)</u>	<u>-</u>	<u>(19,900)</u>
<b>At 30 April 2006</b>	<b><u>405,309</u></b>	<b><u>649,224</u></b>	<b><u>71,305</u></b>	<b><u>1,125,838</u></b>
<b>Depreciation</b>				
At 1 May 2005	-	356,500	48,094	404,594
Charge for year	-	84,779	4,679	89,458
Disposals	<u>-</u>	<u>(19,900)</u>	<u>-</u>	<u>(19,900)</u>
<b>At 30 April 2006</b>	<b><u>-</u></b>	<b><u>421,379</u></b>	<b><u>52,773</u></b>	<b><u>474,152</u></b>
<b>Net book value at 30 April 2006</b>	<b><u>405,309</u></b>	<b><u>227,845</u></b>	<b><u>18,532</u></b>	<b><u>651,686</u></b>
Net book value at 30 April 2005	<u>404,298</u>	<u>193,853</u>	<u>20,681</u>	<u>618,832</u>

# Hampshire Trust Plc

## 18. Customer accounts

	2006 £	2005 £
With agreed maturity dates or periods of notice by remaining maturity:		
- on demand	1,785,889	1,663,312
- 3 months or less	1,408,913	916,637
- 3 months to 1 year	11,295,627	13,425,275
- 1 to 5 years	<u>4,976,338</u>	<u>7,233,594</u>
	<u>19,466,767</u>	<u>23,238,818</u>

## 19. Debt securities in issue - other

	2006 £	2005 £
<b>Authorised</b>		
Class A £1 Preference Shares	<u>2,500,000</u>	<u>2,500,000</u>
<b>Allotted, called up and full paid</b>		
Class A £1 Preference Shares	<u>1,500,000</u>	<u>1,500,000</u>

Following the adoption of FRS 25, the Bank's preference share capital has been re-classified as a financial liability and now appears on the balance sheet as debt rather than capital.

The Class A £1 Preference Shares carry a cumulative dividend based upon a 2% margin on the gross interest rate payable to six month notice 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.

## 20. Other liabilities

	2006 £	2005 Restated £
Corporation tax	178,847	258,139
Other taxation and social security	33,587	31,059
Dividends	8,593	9,452
Other liabilities	<u>40,707</u>	<u>77,077</u>
	<u>261,734</u>	<u>375,727</u>

## 21. Accruals and deferred income

	2006 £	2005 £
Accruals	369,096	352,728
Deferred income	<u>137,028</u>	<u>118,765</u>
	<u>506,124</u>	<u>471,493</u>

# Hampshire Trust Plc

## 22. Deferred taxation

	2006 £	2005 £
Tax effect of timing differences because of:		
- Excess of tax allowances over depreciation	7,088	8,408
- Short term timing differences	(6,584)	(49,139)
- Pension contribution provision	<u>(1,316)</u>	<u>(735)</u>
	<u>(812)</u>	<u>(41,466)</u>
<b>Movement in assets</b>		
At 1 May	(41,466)	(50,773)
Charge to profit (note 9)	<u>40,654</u>	<u>9,307</u>
At 30 April	<u>(812)</u>	<u>(41,466)</u>

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

## 23. Called up equity share capital

	2006 £	2005 Restated £
<b>Authorised</b>		
£1 Ordinary Shares	<u>5,000,000</u>	<u>5,000,000</u>
<b>Allotted, called up and fully paid equity share capital</b>		
£1 Ordinary Shares		
At 1 May	2,933,363	2,835,863
New issues - £1 Ordinary Shares	<u>-</u>	<u>97,500</u>
At 30 April	<u>2,933,363</u>	<u>2,933,363</u>

Following the adoption of FRS 25, the Class A £1 Preference Share Capital has been reclassified as a financial liability and dealt with elsewhere (see note 19).

## 24. Reserves

	2006 £	2005 Restated £
<b>Profit and loss</b>		
At 1 May (as previously reported)	2,451,832	1,787,548
Prior year adjustment	<u>466,404</u>	<u>101,240</u>
At 1 May (as restated)	2,918,236	1,888,788
Retained profit for the year	<u>662,636</u>	<u>1,029,448</u>
At 30 April	<u>3,580,872</u>	<u>2,918,236</u>
<b>Share premium</b>		
At 1 May	238,579	267,829
Capitalisation of reserves re stock options	<u>-</u>	<u>(29,250)</u>
At 30 April	<u>238,579</u>	<u>238,579</u>

## Hampshire Trust Plc

### 26. Reserves (cont)

The prior year adjustment shown above results from the adoption of FRS 21 for the first time.

### 25. Reconciliation of movements in equity shareholders' funds

	2006	2005
	£	Restated £
Opening equity shareholders' funds (as previously stated)	7,123,774	6,391,240
Prior year adjustment – FRS 21	466,404	101,240
– FRS 25	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Opening shareholders funds (as restated)	6,090,178	4,992,480
Profit for the financial year	662,636	1,029,448
New £1 Ordinary Shares		
- nominal value	-	97,500
- capitalisation of reserves	<u>-</u>	<u>(29,250)</u>
Closing equity shareholders' funds	<u>6,752,814</u>	<u>6,090,178</u>

The adoption of FRS 21 has resulted in an increase in shareholders' funds of £466,404 at 1 May 2005 (2005: £101,240) in relation to the ordinary dividend proposed at 30 April 2005. Following the adoption of FRS 25, £1,500,000 (2005: £1,500,000) of shareholders' funds have been reclassified as a balance sheet liability, as a result of the reclassification of the Bank's Class A £1 Preference Shares as a financial liability.

### 26. Memorandum commitments

	2006	2005
	£	£
Commitments in relation to retentions of loans and advances re:		
- property loans	2,954,146	547,224
- disbursement funding	238,500	353,919
Other	<u>3,011</u>	—
	<u>3,195,657</u>	<u>901,143</u>

## Hampshire Trust Plc

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

	2006	2005
	£	Restated £
<b>Operating profit</b>	<b>1,695,596</b>	1,668,135
Increase in prepayments and accrued income	(2,584)	(3,689)
Increase/(decrease) in accruals and deferred income	35,490	(258,546)
Provision for bad and doubtful debts	(199,328)	(47,563)
Depreciation	89,458	82,037
Preference share dividends	101,250	99,547
Effect of other deferrals and accruals on operating activity cash flow	<u>(55,782)</u>	<u>(13,033)</u>
Net cash flow from trading activities	<b>1,664,100</b>	1,526,888
Net decrease in deposits by customers	(3,772,051)	(1,945,198)
Net decrease in loans to customers	2,215,300	437,431
Net decrease in loans and advances to banks*	<u>765,415</u>	<u>1,278,405</u>
Net cash inflow from operating activities (see page 12)	<u><b>872,764</b></u>	<u>1,297,526</u>

\* excludes cash and funds repayable on demand.

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

	2006	2005	Cash Flow	2005	2004	Cash Flow
	£	£	£	£	£	£
Cash in hand	750	750	-	750	750	-
Loans and advances to banks repayable on demand	<u>3,415,312</u>	<u>3,643,567</u>	<u>(228,255)</u>	<u>3,643,567</u>	<u>3,134,607</u>	<u>508,960</u>
	<u><b>3,416,062</b></u>	<u><b>3,644,317</b></u>	<u><b>(228,255)</b></u>	<u>3,644,317</u>	<u>3,135,357</u>	<u>508,960</u>

### 29. Financial commitments

At 30 April 2006 the Bank had no annual commitments under non-cancellable operating leases (2005: £nil).

### 30. 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.

# Hampshire Trust Plc

## 30. Financial instruments (cont)

	Contractual Interest Rate Re-pricing Date, or Maturity Date if earlier						Total £'000
	0-3 £'000	Months 4-6 £'000	7-12 £'000	1-5 £'000	Years Beyond £'000	Non Interest Bearing £'000	
<b>As at 30 April 2006</b>							
<b><u>Assets</u></b>							
Loans and advances							
- financial institutions	3,421		2				3,423
- customers	21,424	1,183	1,642			57	24,306
Other assets	-	-	-	-	-	758	758
<b>Total assets</b>	<b><u>24,845</u></b>	<b><u>1,183</u></b>	<b><u>1,644</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>815</u></b>	<b><u>28,487</u></b>
<b><u>Liabilities</u></b>							
Customer accounts – deposits	17,634	734	1,099				19,467
Debt securities in issue – other	1,500	-	-	-	-	-	1,500
Other liabilities						767	767
Equity shareholders' funds	-	-	-	-	-	6,753	6,753
<b>Total liabilities</b>	<b><u>19,134</u></b>	<b><u>734</u></b>	<b><u>1,099</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>7,520</u></b>	<b><u>28,487</u></b>
Interest rate sensitivity gap							
- period	5,711	449	545	-	-	(6,705)	-
- cumulative	<u>5,711</u>	<u>6,160</u>	<u>6,705</u>	<u>6,705</u>	<u>6,705</u>	<u>-</u>	<u>-</u>
<b>As at 30 April 2005 (restated)</b>							
<b><u>Assets</u></b>							
Loans and advances							
- financial institutions	4,418						4,418
- customers	23,921	1,357	1,106	-			26,384
Other assets	-	-	-	-	-	874	874
<b>Total assets</b>	<b><u>28,339</u></b>	<b><u>1,357</u></b>	<b><u>1,106</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>874</u></b>	<b><u>31,676</u></b>
<b><u>Liabilities</u></b>							
Customer accounts – deposits	17,043	875	4,208	1,113			23,239
Debt securities in issue – other	1,500	-	-	-	-	-	1,500
Other liabilities						1,313	1,313
Equity shareholders' funds	-	-	-	-	-	5,624	5,624
<b>Total liabilities</b>	<b><u>18,543</u></b>	<b><u>875</u></b>	<b><u>4,208</u></b>	<b><u>1,113</u></b>	<b><u>-</u></b>	<b><u>6,937</u></b>	<b><u>31,676</u></b>
Interest rate sensitivity gap							
- period	9,796	482	(3,102)	(1,113)	-	(6,063)	-
- cumulative	<u>9,796</u>	<u>10,278</u>	<u>7,176</u>	<u>6,063</u>	<u>6,063</u>	<u>-</u>	<u>-</u>

The Bank has not traded in derivatives or other complex financial instruments (see the Directors' Report concerning Financial Instruments, page 5).

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

# Hampshire Trust Plc

## 31. 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's investment in Hampshire Trust Factors Limited (150,000 Ordinary £1 shares) was sold on 4 January 2006 (see note 15), for £250,000, of which half was sold to P G Cordrey (Director).

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

## 32. 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:

	2006	2005
	£	£
Pension costs	<u>60,592</u>	<u>51,921</u>
Year end accrual	<u>2,337</u>	<u>2,449</u>

There are no year end prepayments relating to either scheme (2005: £nil).

## 33. Post Balance Sheet Event

In addition to the 12.0p (2005: nil) interim dividend paid during the year, the Board has declared a final dividend of 6.0p (2005: 16.0p). Following the adoption of FRS 25 the final dividend is not shown as a liability within the accounts.

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**Five Year Financial Summary**

		2006	2005	2004	2003	2002
<b>Return on equity capital</b>	%	26	23	26	19	23
<b>Operating profit before tax</b>	£'000	1,696	1,668	1,595	987	880
<b>- annual growth</b>	%	2	5	62	12	25
<b>Total customer loans*</b>	£'000	24,306	26,384	23,130	18,635	17,189
<b>- annual growth</b>	%	(8)	14	24	8	6

\*ignoring intragroup loans

The operating profit before tax figures for the prior years have been restated following the reclassification of the preference share dividend as a pre tax expense (FRS 25 – see note 2).

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