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Annual Report

For the financial year ended 2004

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Foreword by Kate Sharp



The FDA's members transact around £132 billion of clients' invoices each year, and as the industry continues to thrive so do the activities of its trade association. 2004 was a particularly busy year at the FDA. In addition to providing the services that you all see

being delivered throughout the year, such as the Day Course programme, newsletter production, networking events and the like, in 2004 the team was also researching the current services behind the scenes. We took this course of action to ensure that a relevant, focused and streamlined approach to Member services is maintained, and many aspects of FDA activity were reviewed.

The review projects included looking at our Membership structure, which will result in changes to the structure moving forward in 2005. Our Sponsorship Programme was reviewed, and we asked our Sponsors what they would like to see in the future. Again, based on recommendations from our sponsors, you will see changes being introduced to the Sponsorship Programme next year, not least of which is changing the name from 'Sponsors' to 'Affiliates'. Training Managers' Workshops were held to research the market and ensure that courses remain relevant and that future courses in development are demand driven. We also reviewed our newsletter format and launched a brand new industry website, with new functionality, which will continue to be built upon in 2005.

Meanwhile, the 2004 FDA events calendar continued apace. For the first time in 2004 the FDA held four Staff Forums, adding Glasgow to the list of FDA venues. 2004 also saw the introduction of the first-ever FDA Educational Foundation Awards Dinner on 16th September. This was a very enjoyable evening and I look forward to making it a regular annual event from 2006. The FDA Annual Dinner in May hosted 750 of the

industry's finest with Clive Anderson entertaining everyone with his after-dinner speech. The FDA Golf Day was enjoyed by many of the industry's golf enthusiasts and the 8th Annual Conference rounded off the year nicely as the theme of 'Evolution' was discussed and debated in Prague on 1st-3rd December.

In the Public Affairs area, the FDA continues to achieve success in influencing legislation and profile raising in Government circles. 2004 saw the first-ever industry event at Lancaster House - jointly hosted by FDA Chairman, David Robertson and the then Parliamentary Under-Secretary of State for Small Business, Enterprise and Construction, Nigel Griffiths MP. FDA Members and clients alike came together for the evening to celebrate the contribution to British export that this industry is making. It was rewarding to hear so many client success stories. Consultations took place in respect of the Construction industry, the Government Debt Strategy, the proposals for Registration of Security Interests and the Payment Services Directive, all with positive results.

2004 also saw our Educational Foundation go from strength to strength. 576 students came through the doors of our Day Course Programme and the Distance Learning Programme saw increasing numbers and improved results. This year saw the introduction of assignment-based course work for the Certificate course and 27 delegates attended the FDA Residential Week in July.

As the membership continues to grow in size and marketplace the FDA is endeavouring to keep pace and, for the first time, in 2005 activity that will take the Association into Europe is planned. In keeping pace with the current forward thinking and progressive nature of the industry 2005 promises to be another very active year for myself, and the team.



Kate Sharp

A Chairman's Perspective - by David Robertson



It has been a great privilege to have chaired an Association whose industry is so dynamic and whose members are constantly evolving to meet the changing needs of our marketplace.

If we were to look at the market 10 years ago we would be painting a very different picture to that of today. Since 1993 we have seen our client turnover surge from £19 bn to £132bn. An incredible achievement, particularly considering 10 years ago the industry was relatively embryonic providing factoring to a small number of SMEs only. Today, nearly 40,000 UK businesses benefit from the funding provided by our members but with an estimated 150,000 to 250,000 suitable businesses in the UK, the market has significant opportunity for expansion still.

However, the most impressive part of this industry is the way in which our members continually evolve our offerings to meet the changing needs of UK business. Looking at the industry today, our members provide a variety of sophisticated forms of funding including syndicated deals, asset based lending and international funding.

The growth of syndicated deals represents the growing requirement from larger organisations to be provided with more substantial and flexible funding, so rather than miss the opportunities members are working together to combine their resources to provide for the larger funding requirement. The FDA figures reveal that syndication deals currently represent £1.8 bn worth of the market. Although a small proportion of the whole market, growth in this area is expected to continue over the next few years.

Europe continues to offer real potential for UK business. Our industry saw a 13% growth in the level of funding we provided to British businesses taking their products overseas. As distances between countries are effectively shrinking the potential within European markets is brought even closer to us

all. These markets are our industry's future and will become the domestic market in which we operate. We can feel the presence of our European counterparts spreading their wings into the UK and we must do the same in Europe.

I would like to extend my thanks to Kate Sharp and her team at the FDA for their direction, hard work and dedication which has ensured that we remain a modern and professional association, which works for the benefit of its members. We have had some notable successes in 2004:

- A busy Public Affairs programme where the FDA has met many Government ministers to discuss various industry issues such as Ban on Assignment, Anti Money Laundering and the Construction Industry Scheme review. A notable success was lobbying against the proposals within Basle II that required an invoice financier to treat the debtor as the counter party. It is envisaged that the UK industry is likely to get the required definition on factoring it requires
- The FDA and the DTI joint hosted a reception where industry clients exporting to Europe were able to voice directly to the Small Business Minister, Nigel Griffiths, what they needed the government to do to support them
- The FDA's website has been relaunched with an online members search facility
- A successful Annual Conference in Prague
- The launch of customised day courses for members who have specific internal requirements

Finally, I would like to wish my successor, Adrian Sainsbury all the best for his year in the chair. The industry is at an exciting point with many opportunities ahead - it promises to be another busy and interesting year.

David Robertson

FDA Members

The FDA Membership is united by an entrepreneurial approach to the provision of invoice finance to Small Medium Enterprises (SMEs). FDA members usually provide finance for businesses by advancing payments against money owed to that business by their customers. In this scenario, the finance available to businesses grows in line with sales. Factoring and Invoice Discounting services primarily provide these facilities, but many members are able to extend their product offerings to include facilities secured against stock-in-trade, plant and machinery and property.

FDA membership is diverse; it includes divisions and subsidiaries of all the major UK banks, foreign banks, major global industrial companies, through to small owner-managed finance companies.

In 2004 there were 38 member organisations of the FDA, providing billions of pounds of working capital finance to businesses across the UK.

MEMBERSHIP CRITERIA

To be a Member of the FDA an organisation must meet the following requirements:

- Be established for more than 12 months
- Have a net worth of over £1 million
- 75% of the business must come from Factoring or Invoice Discounting
- Their clients' debts must not have been pledged to any lenders beyond that advanced to each individual client

AIB Commercial Services Ltd	Close Invoice Finance Ltd	London Scottish Invoice Finance
Anglo Irish Bank Corporation	DCD Factors	National Australia Group Europe Ltd
Aston Rothbury Factors Ltd	Enterprise Finance Europe (UK) Ltd	RDM Factors Ltd
Bank of America Business Credit	Eurofactor UK Ltd	Regency Factors Plc
Bank of Ireland Commercial Finance	First Trust Bank	Royal Bank of Scotland Commercial Services
Bank of Ireland Finance	Five Arrows Commercial Finance Ltd	Skipton Business Finance Ltd
Bank of Scotland (Ireland) Commercial Finance Ltd	Fortis Commercial Finance	SME Invoice Finance Ltd
Bank of Scotland Cashflow Finance	GE Commercial Finance Ltd	Ulster Bank Commercial Services Ltd
Barclays Sales Financing	GE Commercial Distribution Finance (CDF)	Ultimate Finance Group Plc
Bibby Financial Services Ltd	GMAC Commercial Finance Plc	UPS Capital UK Ltd
Burdale Financial Ltd	HSBC Invoice Finance (UK) Ltd	Venture Finance Plc
Cashflow Partners Group	IGF Invoice Finance Ltd	
Cattles Invoice Finance Ltd	Lloyds TSB Commercial Finance Ltd	
City Invoice Finance Ltd		



2004 - A Year in the Media - by Lawson Dodd



The role that trade associations play has never been more important for their members as it is today. The increase in regulation, media scrutiny and the pace of change in business requires professional organisations to be much more visibly proactive. They need to be perceived as highly effective and able to meet the needs of their members.

Recently the FDA has played a significant role in the formulation of business policy by acting as a mediator with regulators; interpreting legislation and sharing industry intelligence. However, the FDA hasn't just taken on the mantle of lobbying Government. The FDA recognises that the business and financial media can help develop a corporate reputation as a primary source of information for stakeholders and the business community. Media comment is sometimes viewed as more objective and therefore more credible than paid-for communications such as advertising. Making the media one of the more powerful forces in determining business success.

However, over the last couple of years the media landscape has changed considerably. With less advertising revenue, newspapers and magazines have fewer editorial pages to fill. That, coupled with an increase in the number of business finance providers shouting for a share of the voice, has meant that competition is fierce. Also, during this time the private equity industry has attracted a huge amount of interest in the national press. Most broadsheets now have dedicated

private equity correspondents. Journalists are fighting to get the next news scoop, and thrive on deal rumours, industry gossip and leaks.

So in the midst of all this competition, how did we differentiate the invoice finance industry from the rest of the business finance market?



Developing trusted relationships with journalists and a savvy approach to packaging stories are just part of the process. Lawson Dodd has been on the offensive, and has focused on raising the business community's perception of the contribution the invoice finance industry has made to the economy.

Using the FDA quarterly statistics as collateral, we have negotiated regular national exclusives with The Times or the Daily Telegraph for each quarter's results, selling in news stories such as:

ALMOST 40,000 COMPANIES TURN TO INVOICE FINANCE FOR CASH INJECTION

FDA 2004 Total Annual Figures released today sees factoring and invoice discounting become a £132 billion industry.

2004 - A Year in the Media continued

The annual statistics were also released to the regional newspapers and business magazines, with coverage achieved in publications ranging from the Birmingham Post to Acquisitions Monthly.

Lawson Dodd also developed a number of topics for the industry which were used as opportunities for the FDA to provide expert industry comment and to demonstrate how the industry has developed.



Throughout the year, we spoke to a number of private equity correspondents, talking to them about the rise of asset based lending in private equity deals. Armed only with anecdotal evidence, we decided that we needed to go to the FDA membership and ask them about their experience of the role that asset based lending (ABL) plays within management buy-outs. From the information gathered, we drafted a news release that demonstrated the benefits of using ABL as an integral part of the financial structure of an MBO. Lawson Dodd then sold the story to the Daily Telegraph as a national exclusive. Thanks to all the members who responded!

Another hot topic that we developed with the FDA in 2004 was the impact late payment has on SME's. We calculated that if 46 days is the average length of time for SME's to get paid then those extra 16 days over the standard 30-day terms of trade cost UK SME's an extra £8 billion a year in interest last year. If SME's were paid within the standard 30-day terms of trade, then that would have injected an extra £98bn of cash back into business. This was covered by The Daily Telegraph and a number of trade publications.



Not forgetting the smaller end of the deal spectrum, Lawson Dodd worked very closely with business journalists to continue to

demonstrate that factoring and invoice discounting can bring greater business benefits than bank loans and overdrafts which are fixed and need to be constantly re-negotiated. A number of business titles covered this topic in 2004, including Real Finance, CA Magazine, Accountancy, Mind Your Own Business, Acquisitions Monthly, Mergers and Acquisitions, Financial Director, Business Money, Business Money Facts, Making Money and Credit Management, to name a few. This allowed the FDA to voice its opinions and offer advice and support for those companies looking for flexible forms of financing that they may either not have been a) sure of or b) aware of.

FDA Public Affairs - 2004 Activity - by DLA Upstream



Upstream, the government affairs and media relations practice, in Europe and Asia, of DLA

Piper Rudnick Gray Cary, a global legal services organisation, has worked with the FDA since 2000.

The objective of the public affairs programme is to ensure the Association, the industry and the important services it provides are known and understood by politicians, policy-makers and other key organisations who condition the legislative and policy environments in which the industry operates, and who also influence perceptions of the industry more widely.



Throughout this period, Upstream has specifically worked with the FDA to develop and nurture relationships with the UK Government, its Departments and related bodies. In 2004, activity was undertaken to ensure that the profile of the FDA and the industry it represents remained high within

these circles. The FDA's relationship with the DTI was further developed, particularly with Nigel Griffiths, Small Business Minister until the Cabinet reshuffle of May 2005, with whom the FDA had established an excellent working relationship. In October 2004, the Minister generously hosted a Gala Reception for the FDA at the Foreign and Commonwealth

Office's prestigious Lancaster House venue to showcase the industry's potential in supporting exports. The well-attended event was a huge success and a worthwhile opportunity for members and their clients to engage with the Minister and contacts from the Government on a one-to-one level. A key component of activity in 2005 will be sustaining this momentum with the newly appointed Ministers responsible for Small Business, Alun Michael and Barry Gardiner.



As well as keeping the Government fully briefed on the work of the FDA, it has also been important to ensure that politicians from across the political spectrum are aware of the

role the industry plays in the UK economy and the expertise it has at its disposal. Consequently, the FDA met with the Conservative Party's Shadow Industry Secretary, Stephen O'Brien, and Henry Bellingham, the Shadow Minister for Small Business and Industry. The FDA also met with the Liberal Democrats' Shadow Trade and Industry Secretary, Malcolm Bruce, and Brian Cotter, the party's spokesperson on Small Business. Relationships with the opposition parties and the newly appointed Shadow Cabinet and Ministers will be increasingly important in the new Parliament given that the majority of the Government is now reduced.

As members know, 2003 saw the introduction of the new corporate insolvency regime, as a consequence of the Enterprise Act 2002. The FDA worked closely with the DTI and the Insolvency Service throughout the preparations for the Act and its progress through Parliament, and we remain involved in the policy evaluation process. In order to ascertain the impact and effectiveness of the legislation a year on from

FDA Public Affairs - 2004 Activity *continued*

its introduction, a survey was carried out on the new regime during the summer of 2004 to assess how it is working in practice. It is clear that a broad range of opinion exists on the impact of the Act and this was provided to the DTI and Insolvency Service. A similar survey will be carried out in 2005 to provide an analysis of members' opinions over the second year of the new regime's operation.

The FDA has also continued to work closely with the Law Commission on its proposals to reform the Company Security Interests regime to ensure that the industry's interests are fully represented and protected, and to ensure that the proposed scheme does not negatively impact on the FDA's members' ability to provide funding to SMEs across the UK.



Significant amongst the issues covered by the Law Commission, from the FDA's perspective, is the proposal to abolish ban on

assignment clauses. Ban on assignment is an issue upon which the FDA has lobbied for several years. It is greatly encouraging that this pressure has culminated in the Law Commission proposals, and the challenge now is to encourage the DTI to implement the proposals in legislation.

Another policy issue of key focus in 2004 was in relation to the Department for Constitutional Affairs' proposals to introduce Enforcement Restriction Orders, aimed at providing temporary enforcement relief for debtors. Through working with the DCA, the FDA was able to represent the industry's concerns over the possible application of the EROs to businesses and draw a "line in the sand" on the issue. The FDA recognised that it is

important that the proposed ERO regime recognises and protects the rights of consumers, but highlighted that businesses who provide essential finance must have the protection they need to provide these services at the most efficient levels possible. The FDA was pleased that the DCA finally concluded that business to business debts would not be covered by the scheme.



In addition, the FDA has lobbied on a range of other issues over the last 12 months, not least on Anti-Money Laundering issues,

the Basel II Accord/Capital Requirements Directive and the Payment Services Directive. Indeed, Europe is increasingly key in terms of policy development. With this in mind, the FDA will be doing further work on raising the profile and understanding of the industry amongst key audiences in Brussels over the year to come.



Legal Developments in 2004 – by Edward Wilde, Hammonds

THIS REVIEW WILL SUMMARISE:



- An important Act of Parliament
- A number of judicial decisions of importance to FDA members
- An important Court of Appeal decision for secured lenders
- The increased costs of using

the law to enforce members' rights

- FSA's new involvement with factors and discounters
- The progress of the Law Commission's consultations with the FDA about the registration of factoring and invoice discounting agreements

ACT OF PARLIAMENT

Members will be familiar with the Inland Revenue's Construction Industry Scheme, designed to enforce tax compliance by industry sub-contractors through the issue of CIS certificates 4,5 and 6. The Finance Act 2004 proposes substantial changes to the operation of the CIS scheme. The good news is that factors as nominees will be able to receive gross payments whenever their clients are so entitled. This is an improvement on the present scheme. The bad news is that physical CIS certificates will no longer be used. Sub-contractors registration particulars will be directly verifiable on-line with the Inland Revenue but only by main contractors. Unfortunately FDA members will be unable to use the Revenue's on-line system to verify their client's registration status. However the FDA are lobbying the Inland Revenue for alternative arrangements to ensure members can safely finance sub-contractors.

JUDICIAL DECISIONS

Floating Charges - The hallmark of a floating charge is that it allows the chargor to deal with its assets in the ordinary course of its business, free from the charge. In *Ashborder BV v Green Gas Power Ltd* the judge concluded that "unprecedented or exceptional transactions" may in appropriate circumstances be regarded as in the "ordinary course of business". However "transactions which are intended to bring an end, or have the effect of bringing to an end the company's business are not permitted under a floating charge".

BANK'S DUTY UNDER ACCOUNT FREEZING INJUNCTION

If a bank is served with a freezing order obtained by a creditor against its customer's account, what happens if the bank still allows the customer to draw out the frozen money? Clearly the Court can penalise the Bank for contempt of court for disobeying the Court's order. However this does not help the creditor. In *Customs and Excise v Barclays Bank* the Court of Appeal held the bank liable to pay to the creditor damages for negligence. Because of the "proximity" of the parties the Bank had a duty of care to the claimant, even though the bank was not a party to the action between the debtor and creditor.

TERMS AND CONDITIONS

FDA members will be familiar with a contract clause that a client is bound by a statement of account to which it does not object within 10 days. This was the subject of a Privy Council judgment in *Financial Institutions v Negril Holdings*. The Court held that this cannot permit the validation of items wrongly debited, such as an interest charge which the bank was not entitled to make.

Legal Developments in 2004 continued

AGREEMENT NOT TO SET-OFF

In *International Lease Finance v Buzz Stansted* an agreement to pay leasing charges without deduction of set-offs was upheld. The case contains a very useful summary of the matters to be considered when drafting such a provision but also reminding us that the clause must also pass the tests in the Unfair Contract Terms Act 1977. This summary will assist members drafting standard personal guarantees or reviewing their clients' terms of business.

Guarantees - The case of *Marubeni v Mongolian Government* gave a valuable review of the operation of the rule that a surety must be consulted and its consent obtained before there is any variation of the obligations guaranteed. Members should always obtain a waiver of this rule in the standard wording of their guarantees, indemnities and warranties. However this case emphasised that care should always be taken when relying on such a waiver in situations involving a substantial variation affecting the position of the surety. It may be wise to obtain a fresh guarantee.

Liquidation expenses - In the *Leyland DAF* case the House of Lords held that the expenses of a liquidation could not be taken from the floating charge recoveries in priority to the floating charge holder's claims. It is understood that the DTI is considering legislation to overcome this decision.

POWERS OF ADMINISTRATIVE RECEIVER

In *GE Capital Commercial Finance v Sutton* the Court of Appeal limited the extent of the rights of an Insolvency Act office holder (receiver, liquidator or administrator) to the "property, books papers or records" under s.234(2) of the Act. Such right cannot be used for a purpose foreign to the performance of the office holder's proper functions. In this case the receiver was not permitted to hand over to the secured creditor confidential information and documents of the company involving legal advice about the company's obligations to the creditor.

COURT OF APPEAL DECISION

After the landmark Privy Council case from New Zealand of *Brumark* in 2001, banks were advised that fixed charges on book debts would only be possible if collections were to be paid into a blocked account under the control of the lender. This proved difficult to arrange and resulted in increased receivables financing through bank's factoring subsidiaries.

The case of *National Westminster Bank Plc v Spectrum Plus Ltd* sought to overrule *Brumark*. It went to the Court of Appeal in mid 2004. On the face of it, the appeal judgment was good news for banks. It endorsed the pre-*Brumark* view that where a fixed charge on debts is held, if collections are paid into an account at the charge holding bank, from which the company can withdraw sums as needed, this does not negate the fixed nature of the charge.

This was contrary to the decision in *Brumark*. What happens next? Banks may believe that once again they can lend against security over book debts in a customer friendly manner. However, the Court of Appeal hinted heavily that if the *Spectrum* judgment were to be appealed to the House of Lords then *Brumark* might again be upheld. The blocked account or similar control mechanism would then always have to be used. A final appeal was heard by the House of Lords in April 2005 and judgment is awaited. A *Brumark* style judgment from the House of Lords will make factoring and invoice discounting the dominant and most user friendly form of receivables financing.

Legal Developments in 2004 continued

THE INCREASED COST OF ENFORCING YOUR RIGHTS

It has been said that nothing is certain in life except death and taxes. Lawyers would add that the annual increases in the court fees for access to justice, vastly in excess of inflation, also seem certain for years to come. Those announced in the Civil Proceedings Fees Order 2004 evidence this. Previously the highest court fee just to issue proceedings (eg for a factor to collect assigned debts) was £800. This will now be £1700.

FINANCIAL SERVICES AUTHORITY

FDA Members are often involved with credit insurance and other general insurance business. After January 2005 if you introduce clients or prospects to an insurance broker or an insurer, advise on any policy or help with claims then you must be authorised by the FSA. During 2004 FDA members will have prepared their applications and systems in order to continue such business. Members who are now subject to FSA Regulation are reminded to take their legal obligations seriously. The FSA's first "newsletter" to you bluntly states:

"We will use our disciplinary powers where necessary, for example with firms and individuals that are wilfully unco-operative, persistently and knowingly non-compliant and who flout the regulations to their own ends."

LAW COMMISSION RELENTS

The Law Commission keeps the Law under review and recommends reform when needed. In 2004 the Commission proposed a simplified on-line registration procedure for company charges. Such "charges" would cover all traditional factoring and invoice discounting agreements, even though, as purchase arrangements they do not qualify under current security law as mortgages or charges.

After careful deliberation, the FDA agreed that on balance there would be no objection to such registration. Benefits are that: it would satisfy current commercial demands for transparency, avoid the fraud of double factoring, ensure correct inter-factor transfers and avoid the current need for cumbersome registered security over non-vesting debts. The priority of factors and invoice discounters against subsequent bank debentures would be clear and certain.

The FDA's working party lobbied against many objectionable proposals by the Commission and is pleased to note that in its subsequent report these have been dropped. These revised proposals are regarded by the FDA as being of benefit to asset based lenders. The final scheme shows the positive benefit of targeted and well briefed lobbying at the early stage of any legislative proposals affecting asset based lenders.

FINALLY

Members with legal issues of general interest can raise these with the Secretariat and are welcome to attend the quarterly meetings of the Legal and Technical Committee. Alternatively Edward welcomes any comments on the matters raised in this report.

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Education Update

DAY COURSES 2004

The FDA Educational Foundation's objective is to deliver a range of industry specialist courses for the receivables finance industry. Subjects range from Fraud & Loss Prevention to Legal Aspects of Receivables Financing. In 2004 the FDA delivered 25 Day Courses attended by 576 delegates, an increase in attendance levels of 30% on 2003.

The year saw the FDA deliver its popular courses plus a number of new courses based on demand - including the Understanding Basic Financial Information course and the Credit Control Skills course. In addition, two workshops were organised throughout the year on industry specific "hot" issues - the Enterprise Act, which was delivered in July and an Anti- Money Laundering seminar, delivered in September. Three tailor made courses were delivered for FDA members in Ireland - Advanced Audit Skills, Fraud and Loss and Account Management Skills. The FDA courses are also open to non-members and in 2004 there was attendance from delegates from the University of Exeter and Siemens.

In the summer of 2004, the FDA conducted a research project with its members - the aims being to understand the needs of our members; to understand the member's perceptions of the existing education programme and to undertake research to form the basis of the 2005 education programme. Training Managers from the FDA membership were asked to complete and return a series of questionnaires regarding past and future training needs and four regional training workshops were organised to feedback the research results. The findings from the research are currently being used to build new training courses over the next 2-3 years.

In 2004, the Day Course Programme also saw four new individuals join as presenters to share their experiences and knowledge with delegates. They were - James Hodgkinson - RBSCS, Pat James - RDM Factors, Leighton Dowding - GMAC Finance and Edward Winterton - Bibby

Factors Manchester. The FDA would like to thank them all for the hard work and support presenting on the Introduction to Factoring course, and to their companies for supporting them and allowing them the time off to contribute to the programme.

The FDA also delivers be-spoke and customised training courses. One member that made extensive use of the FDA in-house training programme during the year was Barclays Sales Financing. Following the recruitment of a number of personnel with limited industry knowledge Barclays identified the potential to use the FDA as part of their induction process. Gordon Barber, Technical Information Development Manager at Barclays, approached the FDA to deliver several courses - which included a two-day Introduction to Factoring course and a series of one-day Financial Information courses.

DISTANCE LEARNING 2004

The FDA Distance Learning Programme offers FDA members and non-members the opportunity to study for up to three, progressively challenging courses. Each is designed to be largely completed in the student's own time, although the most successful students are often those receiving support, (time and/or assistance), from their employers.

Our Distance Learning courses are intended to increase the invoice financing knowledge and skills of the people operating in our industry. They are targeted at three distinct levels to appeal and apply to employees as they progress through their roles, from new entrants through to senior managers.

During 2004 the FDA Distance Learning structure remained unchanged - with the programme offering three tiers of qualifications - the FDA Foundation Course, the FDA Certificate Course and the FDA Diploma Course (inclusive of the Residential Week, which also acts as a stand alone industry qualification). A decision was taken, however, to commission the writing of a replacement workbook for the Asset Based Working Capital Finance module of the Diploma, and this will be available in January 2006.

Education Update continued

DISTANCE LEARNING 2004 continued

2004 saw 465 students enrol with the FDA for Distance Learning Courses. Many more enrolled with the *ifs* for the Asset Based Working Capital Finance and the Structure of Accounts modules, which form part of the FDA Diploma.

The FDA Foundation Course enrolled 300 students and continues to be very popular; increasingly used as an induction course for employees new to the industry. The Certificate Course, with compulsory assignments introduced in late 2003, has seen significantly reduced levels of deferrals as students feel more prepared for the examination after completing the new style assignments. As the fail rate in November 2004 reduced to 19% from an average of 25% over the previous four sittings, and 43% of students achieved a credit compared with an average of 28% over the same we are hopeful that our target of "improved commitment and

results" is being achieved. In 2004 we saw 140 students enrol on this particular FDA course. The Residential Week saw 25 students being put through their paces and 2004 also welcomed 17 students to the newly qualified FDA Dip status.

The quality and cost of the FDA's education programme is inextricably linked to the generosity of FDA Affiliates, often contributing to the programme free of charge. Their contributions range from: developing, hosting and presenting day courses; writing and updating the distance learning workbooks; to attending the residential course as advisors and judges. We would like to take this opportunity to thank all of those companies and individuals who help to deliver and maintain the professional standards of the FDA Educational Programme. Thanks also to all of the students who have taken part in the courses during 2004.

To celebrate the achievement of the industry's top students the first ever Educational Awards Dinner was held in September 2004 at Café Royal, Piccadilly, London. Congratulations to all of the award winners, who are listed below:

TOP FDA STUDENTS 2003

Congratulations to the following students who were awarded Top Student Awards for 2003 at the FDA Educational Foundation Awards Dinner on 16th September 2004 at the Café Royal, Piccadilly.

- **Top Foundation Student Award 2003** sponsored by Baker Tilly
Alice Jobling - RBSCS
- **Top Certificate Student Award 2003** Sponsored by Bermans
Caroline Williams - Barclays Sales Financing

- **Top Asset-Based Working Capital Finance (Diploma) Student 2003** Sponsored by Kroll
Paul Housley - RBSCS
- **Top Structure of Accounts (Diploma) Student 2003** Sponsored by KPMG
Rebecca Campbell - RBSCS
- **Top Residential Student Award 2003** Sponsored by Grant Thornton
Andrew Charnley - City Invoice Finance
- **Top Diploma Student Award 2003** Sponsored by Hammonds
Nick Reason - Venture Finance
- **Lecturer of the Year 2003**
David Oughton & Scott Mitchell - GMAC
- **Best Newcomer Lecturer 2003**
David Kelsey - Venture Structured Finance
- **Lifetime Achievement Award**
Edward Wilde

The FDA would like to thank all the sponsors of the awards on the night - Baker Tilly, Bermans Solicitors, KPMG, Kroll, Grant Thornton and Hammonds, all of who contribute greatly to the success of the Day Course Programme. To read more about the event, and the FDA Staff Forums, please see our Events section.

Finally the FDA wishes to thank and acknowledge all of the trainers who take time out to present on the FDA day courses. With your support the FDA programme continues to grow from strength to strength. As always we look forward to growing the Day Course Programme and working with you in 2005!

* Should any members have a specific training requirement, please contact the FDA directly.

Industry Statistics

Overall growth for the year at 13% signified yet another successful year for the invoice finance industry. Invoice Discounting continues to display the most impressive growth at 16% and now represents 44% of domestic clients. Total clients were just short of 40,000, at 39,895 and advances grew by 11% to £9.7 billion. In Ireland total clients' sales grew an impressive 29% from 2.8 to 3.5 billion Euros.

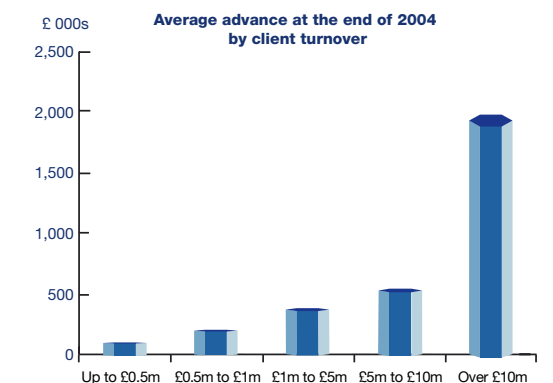
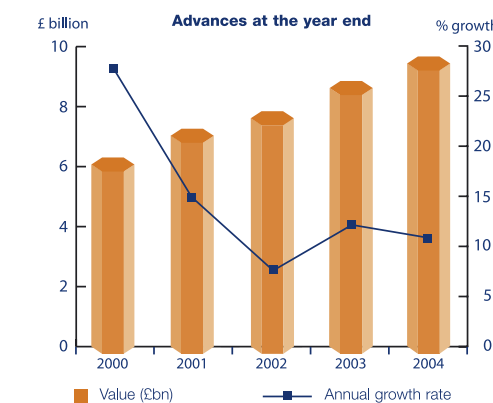
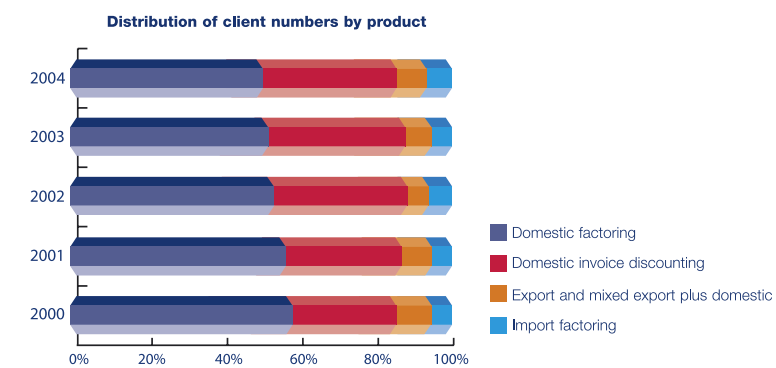
Clients' sales volumes (£m)	2000	2001	2002	2003	2004	% change
Domestic factoring	15,137	16,374	17,222	17,632	17,740	1%
Domestic invoice discounting	56,830	68,464	82,995	94,647	109,664	16%
Export factoring & ID	3,570	3,250	3,206	3,723	4,170	11%
Import factoring	711	701	713	744	848	14%
Total clients' sales	76,248	88,789	104,136	116,746	132,422	13%

Client numbers at the year end

Number of clients by product	2000	2001	2002	2003	2004	% change
Domestic factoring	15,715	16,529	17,472	18,178	19,547	8%
Domestic invoice discounting	8,298	10,380	12,416	13,776	15,272	11%
Export and mixed export plus domestic	2,151	2,195	1,953	2,332	2,837	22%
Import factoring	1,196	1,418	1,681	1,628	2,239	38%
Total clients' sales	27,360	30,522	33,522	35,914	39,895	11%

Analysis of client numbers by industry sector

At the end of 2004	Manufacturing	Distribution	Services	Transport	Other	Total
Number of clients	12,628	8,228	11,025	3,311	4,703	39,895



Events Review

Every year the FDA hosts a variety of events for the invoice finance industry. These events range from the black tie Annual Dinner for the industry in London, to smaller, informal networking Staff Forum events throughout the country. We also put together an Annual Conference towards the end of the year, which is held abroad and addresses topical issues for the industry. 2004 was a particularly busy year, in that we also held an Educational Awards Dinner to specifically reward students' hard work and determination in forwarding their careers. Every year, well over 1,000 people enjoy the range of events that the FDA provide.

EDUCATIONAL AWARDS DINNER

The FDA held its first-ever Educational Foundation Awards Dinner on September 16th, 2004 at the Cafe Royal, Piccadilly. 160 people from the invoice finance industry came to this black tie event to recognise and celebrate the efforts of those professionals within the industry who are applying their abilities to further their qualifications and careers. Managing Directors networked with staff from their own companies and others, as everyone began the evening with a glass of champagne. The Champagne Reception was followed by a three-course meal, before which Adrian Sainsbury (Chairman of the Governors of the Educational Foundation and, then, Managing Director of Barclays Sales Financing) welcomed everyone with an amusing and captivating speech that was absolutely perfect for the occasion.

Following dinner it was our guest speaker Garry Richardson's turn to take centre stage, and he did so with style and professionalism - with a very amusing speech. Then it was time for the awards ceremony where ten award winners were announced during the evening. The awards ceremony finished with a surprise 'Lifetime Achievement Award' being presented to Edward Wilde.

The FDA will not be holding a separate Educational Awards event in 2005, but will incorporate all of the Educational Awards back in to the Annual Dinner's agenda for the coming

year. However, the intention is to re-introduce an annual Educational Awards Dinner around February/March time in 2006.

ANNUAL DINNER



The FDA Annual Dinner was held on Thursday May 13th, 2004 at the Inter-Continental Hotel, Hyde Park, London. The Chinese-themed evening was attended by over 750 people, and Ann Horan (outgoing FDA Chairman, 2003) began the evening's speeches with a topical look at the industry.



After a beautiful meal accompanied with cabaret music, Clive Anderson took to the stage. He proved hugely entertaining with his quick wit and dry sense of humour.

Following Clive Anderson's after-dinner speech, there was also a charity raffle and auction, designed to raise money for the leukaemia charity - Gene Machine, founded by one of our Members - Hilary Craft of Regency Factors. £6,000 was raised on the night.

After the auction Art Walters, Joan Viskant and their band provided the music for people to dance well into the night. The dinner also provided the chance to catch up with old friends and network well into the early morning, again demonstrating the health of this vibrant industry.

GOLF DAY

The 2004 Golf Day was held on June 24th at Wentworth Golf Club, Surrey and was jointly sponsored by Riskfactor and Experian. The day provided a relaxing and good-humoured competitive networking day out for people from the industry and was, as usual well attended. The weather was also kind

Events Review *continued*



during the full 18 holes, and John Smith and Chris Osbourne provided the entertainment - by helping to give out the awards and giving the after dinner speeches. Then it was time for Kate Sharp, the FDA's CEO, to thank everyone for their support before the England v Portugal match in Euro 2004 was watched by everyone. We've forgotten the result!

STAFF FORUMS

The FDA Staff Forums are primarily informal social gatherings for all staff of FDA Member organisations. The FDA provides a motivational and entertaining speaker and a number of complimentary drinks and a buffet, totally free of charge.

In 2004 we held four Staff Forums. The first was in the south-east at Gatwick on April 22nd, 2004 with Rt Hon William Hague MP as our guest speaker. The FDA Chairman at the time, David Robertson, was there to lend support to the Association and the evening's events generously sponsored by ICC Credit and Menzies Corporate Restructuring.

On June 3rd, 2004 Tanni Grey Thompson OBE arrived at the second FDA Staff Forum in Manchester and spoke to over 160 people from the industry about determination and her accomplishments in sport. The Manchester event was sponsored by Hammonds, Singletons and PriceWaterhouseCoopers, and was a truly inspirational evening.

The third Staff Forum of the year was back in Dublin on October 7th and John McCarthy OBE joined us to share his amazing stories of being kidnapped and held hostage in Lebanon from 1986-1991. There was no shortage of Irish hospitality at the event, sponsored by Matheson Ormsby Prentice, as the celebrations went on well into the night.

Then the FDA ventured north of the border for the first time, by holding the first ever Staff Forum in Glasgow. On October 12th, 2004 Tom Farmer CBE KCSG joined us for an evening, sponsored by PriceWaterhouseCoopers and hosted by Kate Sharp of the FDA. Tom, the founder of Kwik-Fit, was requested by the Scottish members to be their guest speaker, and about 100 of the industry's employees turned out to listen to this highly entertaining man talk about his life and achievements.

We are glad that so many staff of Member organisations enjoy these Staff Forum events and look forward to continuing to deliver more in 2005.

8TH ANNUAL CONFERENCE - EVOLUTION



2004's Annual Conference - Evolution (with Platinum Sponsor Experian and Gold Sponsor Dancerace) at the Hilton Hotel in

Prague was generally received as the best FDA conference to date. On the night of the 1st of December guests enjoyed a Welcome Reception, sponsored by Hilco, before the FDA's Chairman, David Robertson, officially opened the conference on Thursday morning.

370 Members, Affiliates and guests came to enjoy a full programme of knowledgeable speakers. Michael Buerk, the ultimate professional, hosted the day. His presence and journalistic expertise added polish and prowess to the proceedings. Throughout the day industry experts discussed the evolution of the industry, and one slot had a panel of experts, with the likes of Dr DeAnne Julius and Rt Hon Lord Norman Lamont, debate the future of the industry in UK and Europe. These industry led presentations were interspersed with guest speakers like Sebastian Coe OBE, Rachel Kelsey and Gordon Ramsey - working their magic on the audience to inspire and entertain everyone.

The evening saw all of the attendees enjoy a wonderful meal and the conference finished in style with an after dinner speech by Michael Buerk.

FDA Accounts

Profit & Loss Account

For the year ended 31 December 2004

	2004 £	2003 £
TURNOVER	362,500	346,880
Administrative Expenses	<u>294,842</u>	<u>344,497</u>
OPERATING PROFIT	67,658	2,383
Interest receivable and similar income	<u>8,312</u>	<u>7,285</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	75,970	9,668
Tax on profit on ordinary activities	<u>14,579</u>	<u>0</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	61,391	9,668
RETAINED PROFIT BROUGHT FORWARD	92,741	<u>83,073</u>
RETAINED PROFIT CARRIED FORWARD	154,132	<u>92,741</u>

All income and profits are derived from continuing operations.

The Company had no recognised gains or losses other than those disclosed in the profit and loss account.

TURNOVER

Turnover excludes Value Added Tax and represents subscriptions and application fee income paid by the members of the Association, and income received from sponsors of the Association.

All of the Company's turnover and profit on ordinary activities is derived in the UK from its principal activity.

FDA Accounts

Balance Sheet

As at 31 December 2004

	2004 £	2003 £
CURRENT ASSETS		
Cash at bank	197,523	94,684
Debtors	<u>26,067</u>	<u>37,124</u>
	223,590	131,808
CREDITORS		
Amounts falling due within one year	<u>69,458</u>	<u>39,067</u>
NET ASSETS	154,132	<u>92,741</u>
RESERVES		
Profit and loss account	<u>154,132</u>	<u>92,741</u>
TOTAL MEMBERS' FUNDS	154,132	<u>92,741</u>

THESE FINANCIAL STATEMENTS WERE APPROVED BY THE COMMITTEE ON 21 JUNE 2005
AND WERE SIGNED ON ITS BEHALF BY:

D Robertson
Chairman

A Sainsbury
Vice Chairman

FDA Educational Foundation Accounts

Income & Expenditure Account
For the year ended 31 December 2004

	2004 £	2003 £
Income of continuing operations		
Sponsorship	-	19,000
Course and certificate fees	366,943	299,651
Interest received	7,676	6,951
Donations	60,000	-
	<hr/>	<hr/>
Total income of continuing operations	434,619	325,602
	<hr/>	<hr/>
Expenditure		
Direct charitable expenditure	315,978	206,359
Management and administration	67,718	69,472
Fundraising and publicity	57,724	60,436
	<hr/>	<hr/>
Total expenditure	441,420	336,267
	<hr/>	<hr/>
Net deficit for the year	(6,801)	(10,665)

The income and expenditure account has been prepared to comply with Companies Act requirements. It differs from the statement of financial activities by exclusion of the value of donated services.

FDA Educational Foundation Accounts

Balance Sheet
As at 31 December 2004

	2004 £	2003 £
Current assets		
Debtors	16,775	14,144
Cash at bank	243,026	251,152
	<hr/>	<hr/>
	259,801	265,296
Creditors: Amounts falling due within one year	(31,023)	(29,717)
	<hr/>	<hr/>
Total assets less current liabilities	228,778	235,579
	<hr/>	<hr/>
Funds		
Unrestricted funds	228,778	235,579
	<hr/>	<hr/>

These financial statements were approved by the Board of Governors on 7th June 2005 and were signed on its behalf by:

D Robertson
Governor

EMG Ettershank
Governor

FDA Sponsors

The support that the FDA receives from its sponsors enables the Association to continue its work promoting the industry and running educational programmes for those working within the industry.

Opportunities for companies to get involved with sponsorship of the FDA are always available. The Sponsorship Programme runs yearly from January to December, however organisations can become sponsors at any time throughout the year. Once a company is an Annual Sponsor they are then invited to get involved with FDA activities and events, however invitation to these events is subject to the company first achieving Annual Sponsorship status.

We would like to thank all our Sponsors for their contribution to the FDA and the ongoing commitment they have shown on behalf of the best interests of the industry.

FOUNDER SPONSORS

BDO Stoy Hayward LLP	CI Group	Haines Watts	Morton Fraser Solicitors
Bermans Solicitors	Cobbetts	Halliwells LLP	Naismiths
DLA	Connell Associates	Henderson Boyd Jackson	Numerica
Hammonds Solicitors	Cuff Roberts Solicitors	Henry Butcher	Paul Davidson Taylor
KPMG LLP	Dancerace	Hilco	Penningtons Solicitors
Morgan Cole	Deloitte & Touche LLP	Hilton-Baird Financial Solutions	Pinsent Masons
Smith & Williamson	D.W.F.	HPD Software	PKF
Tenon Recovery	D.M.H.	ICC Information Systems	PriceWaterhouseCoopers
	Edward Symmons & Partners	Jones Day	Risk Factor Solutions
	Ernst & Young	Kennedys	Rochman Landau
	Eversheds	Kingston Smith & Partners LLP	RSM Robson Rhodes
	Experian	Kroll's Corporate Advisory and Restructuring Group	Sanderson Weatherall
	FA Simms & Partners	KSB Law	Surecomp Business Solutions
	Factoring UK	Lawrence Graham LLP	The P & A Partnership
	Fanshawe Lofts	LCL Law	UHY Hacker Young Group
	Farrell Grant Sparks	Matheson Ormsby Prentice	Vincent & Beatty Solicitors
	Gateley Wareing LLP	Mazars	Wacks Caller
	Grant Thornton	Menzies Corporate Restructuring	Wragge & Co
	Graydon UK		Xbridge

ANNUAL SPONSORS

Addleshaw Goddard			
Atlantic Risk Management Services			
Bache Treharne LLP			
Baker Tilly			
Barlow Lyde & Gilbert			
Begbies Traynor			
Berkeley Berry Birch			
Blake Lapthorn Linnell Solicitors			
Card and Company (Commercial Finance)			

Executive Members and Governors 2004

Chairman

David Robertson -
Bibby Financial Services

Vice Chairman

Adrian Sainsbury -
Barclays Sales Financing

FDA Executive

Steve Bottomley -
HSBC Invoice Finance

Tony Cox -
Venture Finance

Maurice Craft -
Regency Factors

Ted Ettershank -
Lloyds TSB Commercial Finance

Paul Hancock -
Bank of America

Ronnie King -
AIB Commercial Services

Jeff Longhurst -
IGF Invoice Finance

David Marsden -
RDM Factors

David Thomson -
Close Invoice Finance

Previous Chairman

Ann Horan -
Bank of Ireland Finance

Tony Cox - Venture Finance

FDA Educational Foundation Governors Chairman

Adrian Sainsbury -
Barclays Sales Financing

Tony Cox -
Venture Finance

Ted Ettershank -
Lloyds TSB Commercial Finance

Wendy Izod - GE Commercial
Finance

Paulette Lloyd -
Lloyds TSB Commercial Finance

David Marsden -
RDM Factors

David Robertson -
Bibby Financial Services

Mike Watson

Edward Wilde -
Honorary Legal Advisor

FDA Secretariat

Kate Sharp -
Chief Executive

Edward Wilde -
Honorary Legal Advisor

FDA Sub-Committees

Factors Group
Jeff Longhurst -
IGF Invoice Finance

Irish Members
Ronnie King -
AIB Commercial Services

Larger Members
Ted Ettershank -
Lloyds TSB Commercial Finance

Legal and Technical Committee
John Kilbee -
Lloyds TSB Commercial Finance

Operations Forum
Kate Sharp - FDA

Professional Standards Committee

Ted Ettershank -
Lloyds TSB Commercial Finance

Paul Hancock -
Bank of America

Jeff Longhurst -
IGF Invoice Finance