

**PILLING MOTOR GROUP
LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 1997



PILLING MOTOR GROUP LIMITED

FINANCIAL STATEMENTS

For the year ended 31 December 1997

Company registration number: 00993353

Registered office: London Road
Two Waters
Hemel Hempstead
Hertfordshire
HP3 9AA

Directors: K J Pilling
C G Pilling

Secretary: C G Pilling

Bankers: National Westminster plc
Central Milton Keynes

Solicitors: Pictons
St Albans

Auditors: Grant Thornton
Registered auditors
Chartered accountants
Central Milton Keynes

PILLING MOTOR GROUP LIMITED

FINANCIAL STATEMENTS

For the year ended 31 December 1997

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PILLING MOTOR GROUP LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 December 1997.

Principal activities

The principal activity of the company during the year was that of motor retailers.

Business review

There was a loss for the year after taxation amounting to £69,050 (1996: profit £125,957) after taking into account the diminution in value of one of the freehold properties owned by the company.. The directors do not recommend payment of a dividend and the loss has therefore been deducted from reserves. The results this year incorporate those of the business formerly in Pilling (MK) Limited which was transferred on 31 December 1996.

The development of the new Luton site was completed during the year with results from this branch in line with projections.

In addition, a new site in Milton Keynes has been purchased to expand the company's trading area.

Directors

The present membership of the Board is set out below. All directors served throughout the year.

The interests of the directors and their families in the shares of the company as at 31 December 1997 and 1 January 1997 were as follows:

	Ordinary shares	
	31 December 1997	1 January 1997
K J Pilling	125,850	125,850
C G Pilling	124,150	124,150

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PILLING MOTOR GROUP LIMITED

REPORT OF THE DIRECTORS

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

K. Pilling
Director

12 June 1998

**REPORT OF THE AUDITORS TO THE MEMBERS OF
PILLING MOTOR GROUP LIMITED**

We have audited the financial statements on pages 4 to 17 which have been prepared under the accounting policies set out on pages 4 to 5.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

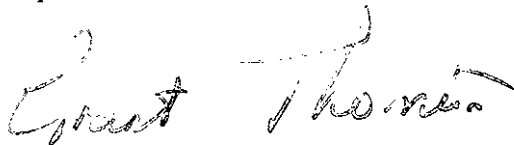
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

CENTRAL MILTON KEYNES

Date 17 June 1998

PILLING MOTOR GROUP LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention except that certain fixed assets have been included at their revalued amount.

The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

TURNOVER

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

INCOME FROM INVESTMENTS

Investment income comprises dividends declared during the accounting period and interest receivable on listed and unlisted investments.

DEPRECIATION

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land and buildings over their expected useful economic lives. The rates generally applicable are:-

Plant and machinery	20% - reducing balance
Fixtures and fittings	20% - reducing balance

Depreciation is not provided in respect of freehold land and buildings as it is the company's policy to maintain these assets in a continued state of sound repair. The useful economic lives of these assets are thus so long and their residual value so high that any depreciation would not be material. Residual values are based on price prevailing at the date of acquisition or subsequent valuation.

INVESTMENTS

Investments are included at cost. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is provided using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Debit balances arising in respect of advance corporation tax on dividends payable or proposed are carried forward to the extent that they are expected to be recoverable.

CONTRIBUTIONS TO PENSION FUNDS

Defined contribution scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

PILLING MOTOR GROUP LIMITED

PRINCIPAL ACCOUNTING POLICIES

LEASED ASSETS

Operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

MANUFACTURERS BONUS

Administration expenses includes amounts received from suppliers for non-refundable bonuses. These amounts are accounted for when they are received.

LIQUID RESOURCES

Liquid Resources within the cashflow statement are term deposits with banks.

PILLING MOTOR GROUP LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 1997

	Note	1997 £	1996 £
Turnover	1	32,679,788	17,383,193
Write down of fixed asset		(480,000)	-
Other operating income and charges	2	(31,705,552)	(17,006,523)
Operating profit		494,236	376,670
Exceptional items			
Net interest	3	(427,286)	(168,381)
Profit on ordinary activities before taxation	1	66,950	208,289
Tax on profit on ordinary activities	5	(136,000)	(82,332)
Loss transferred from reserves	15	(69,050)	125,957

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

PILLING MOTOR GROUP LIMITED

BALANCE SHEET AT 31 DECEMBER 1997

	Note	1997 £	1997 £	1996 £	1996 £
Fixed assets					
Tangible assets	6		3,678,129		2,481,828
Investments	7		1		-
Current assets					
Stocks	8	4,625,380		3,330,849	
Debtors	9	601,509		889,221	
Cash at bank and in hand		30,736		27,299	
		5,257,625		4,247,369	
Creditors: amounts falling due within one year	10	(5,613,125)		(4,557,770)	
Net current liabilities			(355,500)		(310,401)
Total assets less current liabilities			3,322,630		2,171,427
Creditors: amounts falling due after more than one year	11		(2,152,713)		(1,559,882)
Provisions for liabilities and charges	12		(8,632)		(8,632)
			1,161,285		602,913
Capital and reserves					
Called up share capital	14		250,000		250,000
Revaluation reserve	15		627,422		-
Profit and loss account	15		283,863		352,913
Shareholders' funds	16		1,161,285		602,913

The financial statements were approved by the Board of Directors on

K J Pilling

12/6/98
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

PILLING MOTOR GROUP LIMITED**CASH FLOW STATEMENT**

For the year ended 31 December 1997

	Note	1997 £	1996 £
Net cash inflow from operating activities	17	162,061	(1,959,075)
Returns on investments and servicing of finance			
Interest paid		(427,286)	(168,381)
Net cash outflow from returns on investments and servicing of finance		(427,286)	(168,381)
Taxation		(116,052)	44,500
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,089,504)	(1,294,951)
Sale of tangible fixed assets		6,950	-
Net cash outflow from capital expenditure and financial investment		(1,082,554)	(1,294,951)
Purchase of investments		(1)	-
Management of liquid resources			
Deposits		(15,000)	-
Net cash outflow from management of liquid resources		(15,000)	-
Financing			
Receipts from borrowings		1,562,439	3,674,110
Net cash inflow from financing		1,562,439	3,674,110
Increase in cash	18	83,607	296,203

The accompanying accounting policies and notes form an integral part of these financial statements.

PILLING MOTOR GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The whole of the turnover is attributable to the principal activity of the company and is derived wholly from within the United Kingdom.

The profit on ordinary activities is stated after:

	1997 £	1996 £
Auditors' remuneration:		
Audit services	18,000	9,700
Non-audit services	13,390	8,410
Depreciation and amortisation:		
Tangible fixed assets, owned	33,675	20,739
Other operating lease rentals	92,190	67,340

2 OTHER OPERATING INCOME AND CHARGES

	1997 £	1996 £
Other operating income and charges:		
Change in stocks of finished goods and in work-in-progress	(1,217,537)	(1,177,453)
Other operating income	(20,880)	(20,880)
Raw materials and consumables	29,781,352	16,695,170
Staff costs	2,215,824	956,237
Other operating charges	946,793	553,449
	31,705,552	17,006,523

3 INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £	1996 £
On bank loans and overdrafts	210,699	79,367
Other interest payable and similar charges	216,587	89,014
	427,286	168,381

PILLING MOTOR GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

4 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	1997 £	1996 £
Wages and salaries	1,965,455	826,064
Social security costs	183,075	82,454
Other pension costs	67,294	47,719
	<u>2,215,824</u>	<u>956,237</u>

The average number of employees of the company during the year were as follows:

	1997 Number	1996 Number
Production	44	20
Selling and distribution	27	15
Administration	6	2
Management	12	5
	<u>89</u>	<u>42</u>

Remuneration in respect of directors was as follows:

	1997 £	1996 £
Emoluments	227,967	49,510
Pension contributions to money purchase pension schemes	45,611	47,719
	<u>273,578</u>	<u>97,229</u>

During the year 2 directors (1996: 2) participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	1997 £	1996 £
Emoluments	116,242	53,927
Pension contributions to money purchase pension scheme	22,806	10,000

PILLING MOTOR GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the year and represents:

	1997 £	1996 £
UK Corporation tax at 31.5% (1996: 25%)	136,000	77,800
Deferred taxation	-	4,532
	<u>136,000</u>	<u>82,332</u>

The 1997 taxation charge has been affected as it does not take into account a provision for a permanent diminution in value in respect of a freehold property.

6 TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant and machinery £	Fixtures and fittings £	Total £
Cost or valuation				
At 1 January 1997	2,446,042	311,899	83,069	2,841,010
Additions	1,000,638	17,157	71,709	1,089,504
Surplus on revaluation	627,422	-	-	627,422
	<u>4,074,102</u>	<u>329,056</u>	<u>154,778</u>	<u>4,557,936</u>
Disposals	-	(11,600)	-	(11,600)
At 31 December 1997	<u>4,074,102</u>	<u>317,456</u>	<u>154,778</u>	<u>4,546,336</u>
Depreciation				
At 1 January 1997	86,898	235,251	37,033	359,182
Provided in the year	-	18,419	15,256	33,675
Permanent diminution	480,000	-	-	480,000
	<u>566,898</u>	<u>253,670</u>	<u>52,289</u>	<u>872,857</u>
Eliminated on disposals	-	(4,650)	-	(4,650)
At 31 December 1997	<u>566,898</u>	<u>249,020</u>	<u>52,289</u>	<u>868,207</u>
Net book amount at 31 December 1997	<u>3,507,204</u>	<u>68,436</u>	<u>102,489</u>	<u>3,678,129</u>
Net book amount at 31 December 1996	<u>2,359,144</u>	<u>76,648</u>	<u>46,036</u>	<u>2,481,828</u>

During the year the property at Hemel Hempstead was revalued by Messrs. Aitchinsons. The basis of the valuation was existing use value assuming vacant possession. The surplus arising has been transferred to revaluation reserve. Also during the year the property at Saxon Street, Milton Keynes was revalued by the directors. The deficit on the revaluation reserve has been taken to the profit and loss account in the year.

PILLING MOTOR GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

7 FIXED ASSETS INVESTMENTS

	Shares in group undertakings £
Cost or valuation	
Additions	1
At 31 December 1997	1
Net book amount at 31 December 1997	1

At 31 December 1997 the company held 100% of the allotted share capital of Lotus Food Products Limited. The company is incorporated in England and Wales.

8 STOCKS

	1997 £	1996 £
Raw materials and consumables	295,779	218,785
Finished goods and goods for resale	4,329,601	3,112,064
	<u>4,625,380</u>	<u>3,330,849</u>

Consignment Stock

Following the issue of Financial Reporting Standard No 5, Reporting the substance of transactions, the directors have considered the substance of the stocking arrangements with the suppliers of vehicle stock. The company held consignment stock not included in the balance sheet at 31 December 1997 of nil (1996 £87,434). The directors consider that Volvo consignment stock held by the company is in substance an asset held by the company and as such has been treated as an asset of the company.

9 DEBTORS

	1997 £	1996 £
Trade debtors	437,079	620,062
Other debtors	153,356	256,796
Taxation recoverable	586	-
Prepayments and accrued income	10,488	12,363
	<u>601,509</u>	<u>889,221</u>

PILLING MOTOR GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £	1996 £
Bank loans and overdrafts	725,700	508,926
Stocking finance	3,652,712	2,995,048
Trade creditors	226,011	223,874
Corporation tax	155,434	134,900
Social security and other taxes	51,587	35,320
Other creditors	801,681	659,702
	<u>5,613,125</u>	<u>4,557,770</u>

The loan, mortgages and overdraft are secured by mortgages on the properties of the company.

The stocking loans are secured by a floating charge over all stocks of vehicles and by guarantees by the directors and Pilling (Coachbuilders) Limited.

11 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1997 £	1996 £
Bank loans	<u>2,152,713</u>	<u>1,559,882</u>

Bank loans

The bank mortgages and loan are secured by a mortgages over the company's assets. The mortgage of £1,890,850 is repayable in equal quarterly instalments over a 10 year period. The long term loan of £500,000 is repayable in monthly instalments of £8,334 inclusive of interest from January 1998 to December 2002.

Borrowings are repayable as follows:

	1997 £	1996 £
Within one year		
Bank and other borrowings	4,378,412	3,503,974
After one and within two years		
Bank loan and mortgage	253,575	133,617
After two and within five years		
Bank loan and mortgage	846,179	434,207
After five years		
Bank loan and mortgage	<u>1,052,959</u>	<u>992,058</u>
	<u>6,531,125</u>	<u>5,063,856</u>

PILLING MOTOR GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

12 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £
At 1 January 1997 and at 31 December 1997	8,632

13 DEFERRED TAXATION

Deferred taxation provided for and in the financial statements is set out below. There is no amount unprovided for.

	Amount provided	
	1997	1996
	£	£
Accelerated capital allowances	8,632	8,632

14 SHARE CAPITAL

	1997 £	1996 £
Authorised 500,000 ordinary shares of £1 each	500,000	500,000
Allotted, called up and fully paid 250,000 ordinary shares of £1 each	250,000	250,000

15 RESERVES

	Revaluation reserve £	Profit and loss account £
At 1 January 1997	-	352,913
Retained loss for the year	-	(69,050)
Surplus on revaluation of assets	627,422	-
At 31 December 1997	627,422	283,863

PILLING MOTOR GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1997

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Loss for the financial year	(69,050)	125,957
Other recognised gains and losses	627,422	-
Net increase in shareholders' funds	558,372	125,957
Shareholders' funds at 1 January 1997	602,913	476,956
Shareholders' funds at 31 December 1997	1,161,285	602,913

17 NET CASH INFLOW/OUTFLOW FROM OPERATING ACTIVITIES

	1997 £	1996 £
Operating profit	494,236	376,670
Depreciation	513,675	20,739
Increase in stocks	(1,294,531)	(2,311,441)
Decrease in debtors	288,298	(676,040)
Increase in creditors	160,383	630,997
Net cash inflow from operating activities	162,061	(1,959,075)

18 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1997 £	1996 £
Increase in cash in the year	83,607	296,203
Cash inflow from financing in the year	(1,562,439)	(3,674,110)
Cash outflow from increase in liquid resources	15,000	-
Movement in net debt in the year	(1,463,832)	(3,377,907)
Net debt at 1 January 1997	(5,036,557)	(1,658,650)
Net debt at 31 December 1997	(6,500,389)	(5,036,557)

PILLING MOTOR GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

19 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 1997 £	Cash flow £	At 31 December 1997 £
Cash in hand, at bank	12,299	(11,563)	736
Overdrafts	(382,694)	95,170	(287,524)
Debt	(4,681,162)	(1,562,439)	(6,243,601)
Current asset investments	15,000	15,000	30,000
	<u>(5,036,557)</u>	<u>(1,463,832)</u>	<u>(6,500,389)</u>

20 CONTINGENT LIABILITIES

The company has given unlimited guarantees to the bankers of Pilling (Coachbuilders) Limited covering any liabilities due to the bank. In the opinion of the directors at 31 December 1997 the potential liability is £nil (1996 £nil).

21 PENSIONS

Defined Contribution Scheme

The company operated a contributory and non-contributory pension scheme for the benefit of senior employees and directors. The assets of the scheme are administered by trustees in a fund independent from those of the company.

During the year the contributory fund was terminated, becoming a personal scheme for its members.

22 LEASING COMMITMENTS

Operating lease payments amounting to £67,340 (1996: £67,340) are due within one year. The leases to which these amounts relate expire as follows:

	1997 Land and buildings £	1996 Land and buildings £
In five years or more	<u>67,340</u>	<u>67,340</u>

23 CAPITAL COMMITMENTS

Prior to year end the company signed a contract to purchase land in Milton Keynes for £777,000 with the view of developing a new dealership site.

PILLING MOTOR GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

24 TRANSACTIONS WITH DIRECTORS AND OTHER RELATED PARTIES

a) Transactions with directors

During the year the company paid Mr K. Pilling £8,263 interest on his loan to the company.

b) Transactions with other related parties

This company traded with two other companies which are also controlled by the directors. The trade has been carried out on usual business terms (unless otherwise stated), as follows:

Pilling (MK) Ltd	Sales	Parts and servicing	nil (1996 £54,845)
		Vehicle (at cost)	nil (1996 £131,373)
		Salary recharges (at cost)	nil (1996 £92,939)
		Insurance recharge (at cost)	nil (1996 £11,299)
	Purchases	Parts and servicing	nil (1996 32,248)
		Vehicles (at cost)	nil (1996 £153,262)
		Salary recharge (at cost)	nil (1996 £5,650)
Pilling (Coachbuilders) Ltd	Sales	Parts and servicing	£56,742 (1996 £72,440)
		Vehicles (at cost)	£85,275 (1996 £119,663)
		Salary recharge (at cost)	£120,466 (1996 £117,122)
	Purchases	Parts and servicing	£370,774 (1996 £105,168)
		Vehicles	£48,461 (1996 £13,597)

The company also had the following balances at 31 December 1997 with its related companies:

Pilling (MK) Ltd	Intercompany debtor	nil (1996 £55,100)
	Other creditors loan	£203,446 (1996 nil)
Pilling (Coachbuilders) Ltd	Trade debtors	£2,454 (1996 £4,488)
	Trade creditors	£32,034 (1996 £25,946)
	Other creditors loan	£300,000 (1996 £100,000)