PPH1 LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

Registered Number 05410412

PPH1 LIMITED

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DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2008

The directors have pleasure in submitting their report and the audited financial statements of the Company for the year ended 31 December 2008

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 5
No interim dividend was paid during the year (2007 £nil) No final dividend is proposed

BUSINESS REVIEW

The Company is a wholly-owned subsidiary of PPH0 Limited which is a joint venture undertaking between Pendragon Group Services Limited and aAim Turbo LLP

The Company s principal activity is the provision of property leasing services There have not been any significant changes in the Company s principal activities in the year under review The directors are not, at the date of this report aware of any likely major changes in the Company s activities in the next year

The Joint Venture Group of PPH0, PPH1 and PPH2 (the Group) owns a portfolio of properties which are currently leased to Pendragon PLC and which are used as security for the bank loan facilities A reduction in market values resulted in a breach of the loan to value covenant during 2007 As a consequence the Group entered into constructive discussions with the relevant lenders with a view to agreeing a suitable solution to rectify the position This solution will involve amendments or waivers of the covenant to enable the Group to be in compliance with any agreed covenant for the foreseeable future As at 31 December 2008 and at the date of signing of these financial statements, discussions with lenders continue An immediate resolution is not expected although the Group's lenders remain supportive As a result of the above breach of covenant all bank debt has been disclosed as current in the balance sheet as at 31 December 2008 The directors have considered whether the Group can continue in operational existence for the foreseeable future as explained in note 1

Although a breach of the loan to value covenant existed at 31 December 2007, the market valuation of the properties indicating such breach did not result in a valuation deficit in respect of the properties carrying value as at 31 December 2007 as the difference between the valuation and carrying value was not considered material However, as 2008 progressed, market information suggested that property values continued to fall In the current year a valuation of the investment properties at 31 December 2008 was completed by the property department of Pendragon PLC the ultimate parent of Pendragon Group Services Limited This resulted in a valuation deficit of £103 917,000 The directors consider this diminution of property value to be temporary which has been recognised in the Statement of Total Recognised Gains and Losses

The Group reported in its 2007 financial statements that it had made inquiries of its principal tenant, Pendragon PLC regarding its ability to fulfil its rental obligations to the Group The financial statements of Pendragon PLC for the year ended 31 December 2008 disclosed a successful refinancing of Pendragon PLC and consequently are prepared on a going concern basis The directors have therefore concluded that no further inquiry of Pendragon PLC is necessary and the directors are satisfied that the rental obligations of Pendragon PLC will continue to be fulfilled

As shown in the profit and loss account on page 5 turnover increased by 2% from £23,064 000 in the prior year to £23 494,000 in the current year due to the increased property rental income The profit for the financial year improved from £1,794 000 in the prior year to £2 729,000 in the current year The main reasons for the improved result for the year are the increase in turnover and a tax credit of £272,000 in the current year compared to a tax charge of £569 000 in the prior year

The balance sheet on page 6 of the financial statements shows that the net assets of the Company have decreased by £101 188,000 to £56 723 000 net liabilities This was due to the profit of £2,729 000 for the year and the valuation deficit of £103,917 000

Apart from the valuation deficit other balance sheet movements included total creditors falling from £337,080,000 to £334,528 000 This reduction was mainly due to the repayment of bank loans during the year

In February 2010 the investment properties were valued at £272,780,000 by the property department of Pendragon PLC This compares to a net book value £266 682 000 at the balance sheet date

Risks to the business include fluctuations in business conditions and the general economy that may result in the inability of tenants to service rent Other risks include general weakening of commercial property valuations which could affect banking covenants or the ability of the Company to obtain finance,and changes in tax legislation that affect the property sector

DIRECTORS

The directors who held office were as follows

Pendragon Management Services Limited (appointed 28 April 2008)
S Legassick (appointed 15 January 2009)
D R Forsyth (resigned 28 April 2008)
J Elton (resigned 8 December 2008)

PAYMENTS TO SUPPLIERS

The Company has no trade creditors therefore the number of days' purchases outstanding for payment by the company at 31 December 2008 was nil days (2007 nil days)

POLITICAL AND CHARITABLE DONATIONS

The Company made no political or charitable donations during the year (2007 £nil)

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware there is no relevant audit information of which the Company s auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company s auditors are aware of that information

On behalf of the Board

H C Sykes
Secretary

Loxley House
Little Oak Drive
Annesley
Nottinghamshire
NG15 0DR
8 April 2010

DIRECTORS RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing those financial statements the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF PPH1 LIMITED

We have audited the financial statements of PPH1 Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account the Balance Sheet the Statement of Total Recognised Gains and Losses the Reconciliation of Movements in Shareholders Funds and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members as a body in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company s members those matters we are required to state to them in an auditor s report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company s members as a body for our audit work for this report or for the opinions we have formed

Respective responsibilities of directors and auditors

The Directors responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors Report is consistent with the financial statements In addition we 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 the Directors Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with 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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of the Company s affairs as at 31 December 2008 and of its profit 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

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements which is not qualified, we have considered the adequacy of the disclosure made in Note 1 to the financial statements concerning the Group s and parent company s ability to continue as a going concern

As reported in the 2007 financial statements as the Group s borrowing covenant has been breached the lenders are able to request early repayment of all outstanding borrowings and cancel their existing commitments Accordingly the ability of the Group and parent company to continue in operational existence is dependent on agreeing a suitable solution to rectify the position This solution will involve amendments or waivers of the covenant to enable the Group to be in compliance with any agreed covenant for the foreseeable future This position along with other matters set out in Note 1 indicates the existence of material uncertainties which may cast significant doubt about the Group s and parent company's ability to continue as a going concern These financial statements do not include the adjustments that would result if the Group and parent company were unable to continue as a going concern

KPMG Audit Plc

KPMG Audit Plc
Birmingham
Chartered Accountants
Registered Auditor

08 April 2010

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2008

Note		2008 £000	2007 £000
2	TURNOVER	23,494	23 064
	GROSS PROFIT	23,494	23 064
	Administrative charges	(1,255)	(986)
3	OPERATING PROFIT	22,239	22 078
5	Net Interest payable	(19,737)	(19 715)
	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,502	2 363
6	Taxation on profit on ordinary activities	227	(569)
12	PROFIT FOR THE FINANCIAL YEAR	2,729	1 794

All amounts relate to continuing operations
Movements in reserves are shown in note 12
The notes on pages 8 to 11 form part of these financial statements
There were no recognised gains and losses for the current year other than as shown above

BALANCE SHEET

AT 31 DECEMBER 2008

Note		2008 £000	2007 £000
	FIXED ASSETS		
7	Tangible assets	**266,682**	370 599
	CURRENT ASSETS		
9	Debtors	**2,458**	2 822
	Cash at bank and in hand	**8,665**	8 124
		11,123	10 946
10	**CREDITORS** amounts falling due within one year	**(334,528)**	(337 080)
	NET CURRENT LIABILITIES	**(323,405)**	(326 134)
	NET (LIABILITIES) / ASSETS	**(56,723)**	44 465
	CAPITAL AND RESERVES		
11	Called up share capital	-	-
12	Share premium account	**41,818**	41 818
12	Revaluation reserve	**(103,917)**	-
12	Profit and loss account	**5,376**	2 647
	SHAREHOLDERS' (DEFICIT) / FUNDS	**(56,723)**	44 465

Approved by the Board of Directors on 8 April 2010 and signed on its behalf by

AS DULY AUTHORISED REPRESENTATIVE OF
Pendragon Management Services Limited
Director

Registered Company Number 05410412

The notes on pages 8 to 11 form part of these financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2008

	2008 £000	2007 £000
Profit for the financial year	**2,729**	1 794
Revaluation of investment properties	**(103,917)**	-
Total recognised gains and losses relating to the financial year	**(101,188)**	1 794

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

YEAR ENDED 31 DECEMBER 2008

	2008 £000	2007 £000
Profit for the financial year	**2,729**	1 794
On issue of share capital	**-**	296
Revaluation of investment properties	**(103,917)**	-
Net (decrease) / increase in shareholders' funds	**(101,188)**	2 090
Opening shareholders funds	**44,465**	42 375
Closing shareholders' (deficit) / funds	**(56,723)**	44 465

The notes on pages 8 to 11 form part of these financial statements

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

(a) Accounting convention The financial statements have been prepared in accordance with applicable UK GAAP accounting standards and under the historical cost accounting rules except that investment properties are carried at open market value in accordance with SSAP 19

(b) Basis of preparation

Going Concern The Group owns a portfolio of properties which are currently leased to Pendragon PLC and are used as security for the bank loan facilities A reduction in market values in 2007 had resulted in a breach of the loan to value covenant As the lenders are able to request early repayment of all outstanding borrowings and cancel their existing commitments all borrowings due to these lenders had been disclosed as current debt in the balance sheet as at 31 December 2007 The loan to value covenant remains in breach therefore all borrowings subject to the covenant have continued to be disclosed as current debt as at 31 December 2008

The Company continues to hold constructive discussions with the relevant lenders with a view to agreeing rectification of the position Any solution will involve amendments or waivers of the covenant to enable the Company to be in compliance with any agreed covenant for the foreseeable future Discussion with lenders continue and an immediate resolution is not expected although the Company's lenders remain supportive

The Company s directors have considered their cash flow projections for the period ending twelve months from the date of their approval of these financial statements which indicate that the Company can subject to the issues noted above continue to operate within the facilities expected to be provided If it is not possible to conclude these discussions satisfactorily then in the absence of other funding alternatives the Company will be unable to repay its borrowings as they fall due and as such there exists material uncertainties which may cast significant doubt about the ability of the Company to continue as going concern Therefore the Company may be unable to continue to realise its assets and discharge its liabilities in the normal course of business

On this basis the directors are confident that the Company will have adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing these financial statements Therefore these financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate

The Company s continuing existence is also dependent on the ability of Pendragon PLC to continue to discharge its rental obligation to the Company Based on the consolidated financial statements of Pendragon PLC for the year ended 31 December 2008 the directors have no reasons to believe that Pendragon PLC will not continue to discharge its obligation to the Group

(c) Turnover Rental income is credited to the profit and loss account as turnover in instalments over the period of the lease Consideration received from customers is only recorded as turnover when the Company has performed its obligation in respect of that consideration

(d) Tangible fixed assets and depreciation Freehold land is not depreciated The properties held by PPH1 Limited were investment properties and no depreciation is charged

Investment properties are held at Open Market Value at each Balance Sheet date and are valued by the property department of Pendragon PLC the ultimate parent of Pendragon Group Services Limited Any movements are posted to the Investment Revaluation Reserve unless there is a permanent deficit which is posted to the Profit and Loss Account

(e) Taxation Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred taxation Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date except as follows
(i) deferred tax is not recognised on the difference between book values and fair values of non-monetary assets arising on acquisitions unless there is a binding agreement to sell such an asset and the gain or loss expected to arise has been recognised and
(ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered

(f) Cash flow statement As a wholly owned subsidiary undertaking of PPH0 Limited the Company has relied upon the exemption in FRS 1 (revised) and has not included a cash flow statement as part of these financial statements

(g) Related parties The Group has related party relationships with the following

PPH0 Limited - Immediate parent company
PPH2 Limited - Subsidiary
Pendragon Group Services Limited - Joint Venture partner in PPH0 Limited
Pendragon PLC - Ultimate parent of Pendragon Group Services Limited
aAim Turbo LLP - Joint Venture partner in PPH0 Limited
Pendragon Management Services Limited - Director (appointed 28 April 2008)
S Legassick - Director (appointed 15 January 2009)

During the year, the following management charges were payable to related parties	2008 £000	2007 £000
Pendragon PLC	250	250

During the year the following rental income was received from related parties	2008 £000	2007 £000
Pendragon PLC	23,494	23 064

At the year end the following amounts were due to related parties	2008 £000	2007 £000
Pendragon PLC	5,555	5 414

There were no provisions for doubtful debts due from any related parties at the balance sheet date

2 TURNOVER

	2008 £000	2007 £000
Rentals receivable	**23,494**	23 064

All turnover arises in the United Kingdom from the Company's principal activities

3 OPERATING PROFIT

Operating profit has been arrived at after charging

	2008 £000	2007 £000
Audit of these financial statements	**15**	15

4 EMPLOYEES

The Company had no employees during the year (2007 nil)

No director of the Company received or waived any remuneration for services to the Company during the year (2007 £nil)

5 NET INTEREST PAYABLE

	2008 £000	2007 £000
Interest payable on loans		
Bank loans and overdrafts	**19,815**	19 811
Interest receivable		
Bank interest receivable	**(78)**	(96)
	19,737	19 715

6 TAXATION

	2008 £000	2007 £000
UK corporation tax at the UK average statutory rate of 28 5% (2007 30%)		
Current tax on income for the year	**317**	710
Adjustments in respect of prior periods	**(544)**	-
	(227)	710
Deferred taxation		
Current year deferred taxation	**-**	(141)
	(227)	569

Factors affecting the tax (credit) / charge for the year

The tax assessed is different than the average statutory rate of corporation tax in the UK (28 5%)

The differences are explained below

	2008 £000	2007 £000
Profit on ordinary activities before tax	**2,502**	2 363
Tax on profit at the UK average statutory rate of 28 5% (2007 30%)	**713**	709
Permanent differences		
Non qualifying capital allowances	**(396)**	-
Abolition of balancing adjustments	**-**	141
Adjustments to tax charge in respect of previous periods	**(544)**	1
Total permanent differences	**(940)**	142
Deferred tax movements taken to the profit and loss account		
Accelerated capital allowances	**-**	(141)
Total current tax (credit) / charge	**(227)**	710
Aggregate tax (credits) / charges are analysed as		
Current tax	**(227)**	710
Deferred tax	**-**	(141)
	(227)	569

The corporation tax rate applicable to the Company changed from 30% to 28% on 1 April 2008 Accordingly the Company's profits for this accounting period are taxed at an effective rate of 28 5%

7 FIXED ASSETS - TANGIBLE ASSETS

	Land & Buildings £000
Valuation	
At 31 December 2007 and 31 December 2008	370,645
Depreciation	
At 31 December 2007	46
Deficit arising following revaluation	103,917
At 31 December 2008	103,963
Net book value	
At 31 December 2008	266,682
At 31 December 2007	370 599

At 31 December 2008 the investment properties were valued at their market values by the property department of Pendragon PLC the ultimate parent of Pendragon Group Services Limited This resulted in a valuation deficit in the current year of £103 917 000 The deficit is considered temporary by the directors and therefore is recognised in the revaluation reserve in accordance with SSAP 19

Historical cost of land and buildings	2008 £000	2007 £000
Cost	370,645	370 645
Depreciation	(46)	(46)
	370,599	370 599

There were no capital commitments at the year end

8 FIXED ASSETS - INVESTMENTS

	Shares in undertakings £000
At 31 December 2007 and 31 December 2008	-

Shares in subsidiary undertakings are stated at cost PPH1 Limited owns 100 per cent of the issued ordinary share capital of the following subsidiary incorporated in the United Kingdom

	Activity
PPH2 Limited	Property Investment Company

9 DEBTORS

	2008 £000	2007 £000
Prepayments	2,458	2 822

10 CREDITORS amounts falling due within one year

	2008 £000	2007 £000
Bank loans and overdrafts	323,726	325 879
UK corporation tax	254	725
Other taxation	563	1 056
Deferred rental income from Pendragon PLC	5,555	5 414
Accruals and deferred income	4,430	4 006
	334,528	337 080

The loans bear interest at a floating rate based on LIBOR but the Company has entered into a swap to receive LIBOR and pay a fixed rate of 4 76 percent

The debt is secured on the properties held by the Company (see note 7)

11 CALLED UP SHARE CAPITAL

	2008 £000	2007 £000
Authorised allotted called up and fully paid		
6 ordinary shares of £1 00 each (2007 6 ordinary shares of £1 00 each)	-	-

During the year no (2007 1) ordinary shares at an aggregate nominal value of £nil (2007 £1) was issued for a total cash consideration of £nil (2007 £296 000)

12 RESERVES

	Revaluation Reserve £000	Share Premium Account £000	Profit and Loss Account £000
At 31 December 2007	-	41,818	2,647
Revaluation of investment properties	(103,917)	-	-
Profit for the financial year	-	-	2,729
At 31 December 2008	(103,917)	41,818	5,376

13 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has derivative financial instrument that it has not recognised at fair value as follows

The Company has entered into a interest rate swap to receive LIBOR based interest and pay a fixed rate of 4 76%

The fair value of the swap as at 31 December 2008 is a liability of £52 4m (2007 liability of £2 9m)

The Company has also entered into a swap to receive a fixed uplift of 2 25% in respect of certain rents and to pay an inflation linked uplift The fair value of this swap as at 31 December 2008 is an asset of £5 3m (2007 asset of £9 6m)

14 ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH COMPANY IS A MEMBER

The Company s immediate and ultimate parent company and ultimate controlling party is PPH0 Limited which is incorporated in England and Wales PPH0 Limited is a joint venture undertaking between Pendragon Group Services Limited and aAim Turbo LLP Pendragon PLC is the ultimate parent Company of Pendragon Group Services Limited Copies of the financial statements of PPH0 Limited Pendragon PLC and aAim Turbo LLP can be obtained from their respective Company Secretaries at the following addresses

PPH0 Limited Loxley House Little Oak Drive Annesley Nottinghamshire NG15 0DR
Pendragon PLC Loxley House Little Oak Drive Annesley Nottinghamshire NG15 0DR
aAim Turbo LLP, 100 Piccadilly London W1J 7NH