Group Lotus plc

Annual report

for the year ended 31 March 2005

Registered Number 606189

Group Lotus plc

Directors' report for the year ended 31 March 2005

The directors present their report and the audited financial statements of the Group for the year ended 31 March 2005.

Principal activities
The principal activity of the Company and its subsidiaries comprises the manufacture and sale of high performance motor cars, the provision of engineering consultancy services and the commercial development and supply of technology to automotive and industrial clients world-wide.

Review of business and future developments
The last financial year has seen some real successes for Group Lotus both in the Lotus Cars and Lotus Engineering divisions.

Lotus Cars successfully launched the Elise into the USA in June 2004. Production of the Elise, bolstered by sales to new markets, reached its highest ever level, with the factory producing cars at a rate of 120 cars per week by year end, requiring an increase in manpower by 50%. This record production rate is expected to be sustained throughout the next year. Unfortunately the strong sales performance in the USA was not matched financially due to the weakness of the dollar significantly reducing margins on vehicles.

The Engineering business continued to successfully grow its customer base with the office in China acquiring new and valuable contacts. This was despite a setback as a result of the postponement of two existing major contracts. This lead to the re-structuring of the business involving redundancies, with costs of this programme having a major impact on the overall performance of the Group.

The 2005/06 financial year has started on plan. After a period of reduced activity, the development of the eagerly awaited new Lotus supercar or Esprit replacement has started thanks to a major investment programme. Demand for Lotus products remains strong, pointing to further success for Lotus in the USA and overseas markets.

Further to the re-structuring and the drive for higher engineering revenue, Lotus Engineering has been reorganised into nine business units based around core competencies. The individual groups have been tasked with the principal objective of winning a greater volume of small projects to reduce the overall risk to the business. In addition, the outlook for Engineering has improved with the commencement of the new vehicle programme. This will be a two-year programme, and will require the use of additional manpower.

With the recent launch of the performance improvement initiative, the Board remains fully committed to enhancing the financial status of Group, and reducing the loss of £7,437k, which was seen in the last financial year 2004/05. This cannot be achieved without the hard work of all Lotus employees, and therefore the Board would like to take this opportunity to thank every individual for their continued commitment to the Group.

Pensions
In common with many long established businesses, our final salary pension scheme, the Lotus Pension Plan, has moved into a funding deficit as a result of falling values in the fund's investments, coupled with increasing costs attributable to liabilities.

Our actuarial assessment of the ongoing deficit is significantly below the snapshot FRS 17 calculation in note 5 to the accounts. Contributions from the company are being maintained in the new financial year in order to address over time the deficit as calculated by the scheme's actuary.

Results
The Group's consolidated loss for the year after taxation amounted to £7,437,000 (2004: profit of £231,000).

The directors do not recommend the payment of a dividend (2004: £Nil), and the loss for the year has been added to the deficit on reserves.

Research and development
The Group is committed to research and development and undertaking such expenditure as is required to maintain its current market position and further enhance future growth and profitability.

All such expenditure is written off as incurred. Research and development expenditure charged to the profit and loss account amounted to £3,916,000 (2004: £2,623,000).

Employees
The directors acknowledge the importance of good communication and employee relations. Communications are essential to progress, and the Group has devoted considerable time and effort to ensure that employees are well informed about those aspects of the business which affect them.

Employees and their representatives are briefed on all matters relevant to their area of operation and their views are sought and taken into account.

Applications for employment from disabled persons are fully considered, bearing in mind the aptitudes and abilities of the persons concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the Group continues. It is the policy of the Group to further as far as possible the training, career development and promotion of disabled employees.

Payment of creditors policy
The Group's payment policy is to pay on terms agreed with individual suppliers. The average number of days outstanding in respect of trade creditors at 31 March 2005 was 53 days (2004: 64 days).

Directors
The following directors served during the year and to the date of this report:

Dato' Mokhzani Mahathir	resigned 10th January 2005
Tengku Tan Sri Dr Mahaleel Tengku Ariff	resigned 14th October 2005
Simon Patrick Wood	
Clive Dopson	
James Barker Robertson Stronach	
Victor Min Hon Kiam	resigned 18th January 2005
Albert Lam	
Kim Ogaard-Nielsen	appointed 19th January 2005

None of the directors has an interest in shares of the Group which are required to be shown pursuant to Section 234 of the Companies Act 1985.

Group Lotus plc

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

J. St

James Stronach
Director

Group Lotus plc

Independent auditors' report to the members of Group Lotus plc

We have audited the financial statements which comprise the profit and loss accounts, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the accounting policies and the related notes.

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2005 and of the results of the Company and Group and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
Date: 24 October 2005

Group Lotus plc

Consolidated profit and loss account for the year ended 31 March 2005

	Note	2005	2004
		£'000	£'000
Turnover – group and share of joint venture	1	**162,632**	145,236
Less: Share of joint venture's turnover		**(881)**	(940)
Group turnover – continuing operations		**161,751**	144,296
Cost of sales		**(128,668)**	(108,333)
Gross profit		**33,083**	35,963
Operating expenses	2	**(37,304)**	(32,980)
Group operating (loss)/profit – continuing operations	3	**(4,221)**	2,983
Share of joint venture's operating profit		**240**	323
(Loss)/profit before interest and taxation		**(3,981)**	3,306
Interest receivable	6	**330**	413
Interest payable and similar charges	6	**(3,044)**	(3,086)
(Loss)/profit on ordinary activities before taxation		**(6,695)**	633
Taxation	8	**(742)**	(402)
Retailed (loss)/profit for the financial year	17	**(7,437)**	231

Group Lotus plc

Company profit and loss account for the year ended 31 March 2005

	Note	2005 £'000	2004 £'000
Turnover – continuing operations	1	**789**	744
Operating expenses	2	**(269)**	(1,450)
Operating profit/(loss) – continuing operations	3	**520**	(706)
Interest receivable	6	**2,530**	2,815
Interest payable	6	**(2,121)**	(2,510)
Profit/(loss) on ordinary activities before taxation		**929**	(401)
Income from fixed asset investments	7	**179**	245
Profit/(loss) before taxation		**1,108**	(156)
Taxation	8	**(14)**	-
Retained profit/(loss) for the financial year	17	**1,094**	(156)

Group Lotus plc

Statement of total recognised gains and losses

	2005 Group £'000	2004 Group £'000	**2005 Company £'000**	2004 Company £'000
(Loss)/profit for the financial year	**(7,437)**	231	**1,094**	(156)
Foreign exchange translation loss	**(150)**	(516)	**-**	-
Total recognised (losses)/profits for the year	**(7,587)**	(285)	**1,094**	(156)
Prior year adjustment	**-**	483	**-**	-
Total recognised (losses)/profits since the last annual report	**(7,587)**	198	**1,094**	(156)

Statement of historical cost profits and losses for the year ended 31 March 2005

	2005 Group £'000	2004 Group £'000	**2005 Company £'000**	2004 Company £'000
(Loss)/profit on ordinary activities before taxation	**(6,695)**	633	**1,108**	(156)
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**92**	92	**-**	-
Historical cost loss on ordinary activities before taxation	**(6,603)**	725	**1,108**	(156)
Historical cost loss for the year retained after taxation	**(7,345)**	323	**1,094**	(156)

Group Lotus plc

Consolidated balance sheet as at 31 March 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	9	**34,252**	36,362
Investment in joint venture			
- Share of gross assets		**10,306**	11,127
- Share of gross liabilities		**(9,878)**	(10,673)
	10	**428**	454
		34,680	36,816
Current assets			
Stocks	11	**21,181**	14,340
Debtors			
Falling due within one year	12	**28,873**	46,472
Falling due after more than one year	12	**13,511**	13,511
		42,384	59,983
Cash at bank and in hand		**5,783**	6,376
		69,348	80,699
Creditors: amounts falling due within one year	13	**(56,393)**	(63,785)
Net current assets		**12,955**	16,914
Total assets less current liabilities		**47,635**	53,730
Creditors : amounts falling due after more than one year	14	**(40,455)**	(40,445)
Provisions for liabilities and charges	15	**(4,487)**	(3,005)
		2,693	10,280
Capital and reserves – equity interests			
Called up share capital	16	**44,436**	44,436
Share premium account	17	**8,120**	8,120
Revaluation reserve	17	**6,303**	6,395
Other reserve	17	**210**	210
Profit and loss account	17	**(56,376)**	(48,881)
Total shareholders' funds	18	**2,693**	10,280

The financial statements on pages 5 to 33 were approved by the board of directors on 21 October 2005 signed on its behalf by

James Stronach J. St

Director

Group Lotus plc

Company balance sheet as at 31 March 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	9	**4,967**	5,218
Investments	10	-	-
		4,967	5,218
Current assets			
Debtors			
Falling due within one year	12	**26,452**	26,091
Falling due after more than one year	12	**13,511**	13,511
		39,963	39,602
Cash at bank and in hand		-	-
		39,963	39,602
Creditors: amounts falling due within one year	13	**(1,045)**	(2,039)
Net current assets		**38,918**	37,563
Total assets less current liabilities		**43,885**	42,781
Creditors: amounts falling due after more than one year	14	**(40,455)**	(40,445)
		3,430	2,336
Capital and reserves – equity interests			
Called up share capital	16	**44,436**	44,436
Share premium account	17	**8,120**	8,120
Other reserve	17	**210**	210
Profit and loss account	17	**(49,336)**	(50,430)
Total shareholders' funds	18	**3,430**	2,336

The Company's financial statements on pages 5 to 33 were approved by the board of directors on 21 October 2005 and signed on its behalf by:

James Stronach
Director

Group Lotus plc

Consolidated cash flow statement for the year ended 31 March 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	19(1)	**4,006**	617
Returns on investment and servicing of finance			
Interest received		**181**	271
Interest paid		**(2,839)**	(3,322)
Net cash outflow from returns on investment and servicing of finance		**(2,658)**	(3,051)
Taxation			
Overseas taxation paid		**(161)**	(83)
UK taxation paid		**-**	-
Net cash outflow from taxation		**(161)**	(83)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(4,766)**	(4,715)
Disposal of tangible fixed assets		**410**	8
Dividend received from joint venture company		**180**	245
Net cash outflow from capital expenditure and financial investment		**(4,176)**	(4,462)
Net cash (out)/inflow before financing		**(2,989)**	(6,979)
Financing			
Repayment of bank loans		**-**	(43,226)
Issue of new bank loans		**-**	40,000
Repayment of capital element of finance leases		**-**	(21)
Net cash outflow from financing		**-**	(3,247)
Decrease in cash in the year	19(2)	**(2,989)**	(10,226)

Group Lotus plc

Reconciliation of net cash flow to movement in net debt

	2005 £'000	2004 £'000
Reconciliation of net cash flow to movement in net debt		
Decrease in cash in the year	**(2,989)**	(10,226)
Cash inflow from increase in debt and lease financing	-	3,247
Change in net debt resulting from cash flows	**(2,989)**	(6,979)
Non cash movements	**154**	(116)
Exchange movements	**(122)**	(1,663)
Movement in net debt in the year	**(2,957)**	(8,758)
Net debt at 31 March 2004	**(43,914)**	(35,156)
Net debt at 31 March 2005	**(46,871)**	(43,914)

Additional information on the cash flows is set out in note 19.

Accounting policies

Basis of preparation
The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards. The principal accounting policies adopted are described below.

Going concern and financial support
The financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future. The validity of this assumption depends upon the continued support of Proton Holdings Berhad (see note 23).

In addition, as indicated in note 14, Proton is guarantor to certain existing indebtedness of the Group including the bank loan. The directors of Proton have confirmed that they have the financial resources to honour these guarantees, and will provide the Group with the financial support to enable it to repay the amount due on the due date in October 2006.

Taking the foregoing into account the directors of the Company consider it appropriate to prepare the financial statements on the going concern basis.

Basis of consolidation
These consolidated financial statements have been prepared from the financial statements of the Company and its subsidiaries drawn up to 31 March 2005.

Joint ventures are accounted for under the gross equity method. Lotus Finance Limited has a 31 December year end; its results are accounted for based upon management accounts for the period to 31 March 2005 and the latest available audited accounts to 31 December 2004.

Turnover
Turnover represents the sales value of goods and services supplied to customers and is net of commission paid to dealers and VAT.

Turnover recognised on engineering contracts represents the amount of work done at the appropriate stage of completion of each project.

Turnover on the sale of a vehicle is recognised upon despatch of the vehicle to the dealer. This accounting policy is consistent with that adopted by fellow subsidiaries within the Group and with general industry practice.

Depreciation
The cost (or revalued amount) of fixed assets is depreciated in equal instalments over their estimated useful lives, which are as follows:

Freehold buildings	40 years
Plant and machinery	2 to 10 years
Motor vehicles	4 to 5 years
Fixtures, fittings, tooling and equipment	2 to 10 years

Freehold land is not depreciated.

The cost of patents purchased from third parties is amortised in equal instalments over a term of three years commencing in the year following acquisition.

Vehicle tooling costs are depreciated on a per unit basis which takes into account actual production of each model or an estimate of future production to the end of model lives.

Assets in the course of construction are depreciated with effect from the date they are brought into operational use.

Research and development expenditure
The costs of general research and development including labour and materials are written off to the profit and loss account as incurred.

Stocks and work in progress
Stocks are stated at the lower of cost (including manufacturing overheads) and net realisable value.

Turnover is recognised on long-term engineering contracts on the basis of the stage of completion of such contracts at the year end, where the contract outcome can be assessed with reasonable certainty. Related costs are included in cost of sales. Full provision is made for all foreseeable losses on contracts entered into before the year end.

Amounts are included within debtors and payments in advance to recognise timing differences arising between amounts invoiced, received and paid and amounts recognised in the profit and loss account on individual engineering contracts.

Taxation
The charge for taxation is based on the result for the year. In accordance with FRS 19, deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

Foreign currency translation
Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transaction. All exchange differences arising therefrom are included in the profit and loss account.

The assets and liabilities of overseas subsidiaries are translated at the year end rate of exchange. The results of overseas subsidiaries are translated at the average exchange rate applicable to the year. Exchange gains or losses arising on the translation of assets, liabilities and reserves of overseas companies are shown as a movement on reserves.

Warranty provision
Provision is made for the estimated liability on all products under warranty in addition to claims already received. The provision is based on experienced levels of claims arising during the period of warranty.

Leases
Assets held under finance lease agreements are included in tangible fixed assets and are amortised in accordance with the Group's depreciation policy. Obligations under such agreements are included in creditors

net of finance charges allocated to future years. Finance charges are taken to the profit and loss account so that the annual rate of charge on the outstanding obligation at the end of each accounting year is constant. Operating lease costs are charged to the profit and loss account as incurred.

Pensions
The cost of providing pensions is charged to the profit and loss account over the expected service lives of employees in the scheme. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost in the financial statements of the Company. Provision against the underlying value of assets of the Group's investments in subsidiaries is made, where in the opinion of the directors, there is an impairment in value of the underlying business.

Investments in joint ventures
Joint ventures are arrangements in which the Group has a long term interest and shares control under a written contractual agreement. Investments in joint ventures are stated at cost in the financial statements of the Company.

The consolidated profit and loss account includes the Group's share of the profits of joint ventures and the consolidated balance sheet includes the investments in joint ventures at cost plus the Group's share of post acquisition reserves.

Impairment
In accordance with Financial Reporting Standard No 11 "Impairment of fixed assets and goodwill" the Group performs impairment reviews using the forecast net future cash flows of the business affected, discounted to net present value using the Group's cost of capital. Any impairment provision is offset directly against the underlying assets of the business deemed to have suffered the impairment.

Provisions
In accordance with FRS12 "Provisions, contingent liabilities and contingent assets" the Group provides in full for liabilities when it has a legal or constructive obligation arising from a past event.

Group Lotus plc

Notes to the financial statements for the year ended 31 March 2005

1 Segment information

	Group 2005 £'000	Group 2004 £'000
(1) Turnover by class of business		
Sales and servicing of cars	**105,626**	70,738
Engineering consultancy	**56,125**	73,558
	161,751	144,296
Share of joint venture's turnover	**881**	940
	162,632	145,236

	Group 2005 £'000	Group 2004 £'000
(2) Turnover by geographical market supplied		
United Kingdom	**30,361**	30,919
Continental Europe	**22,089**	30,010
North and South America	**51,657**	15,860
Asia and Africa	**57,644**	67,507
	161,751	144,296
Share of joint venture's turnover	**881**	940
	162,632	145,236

The turnover of the Company represents royalty income receivable in the UK.

Details of profit before taxation and net assets by class of business and geographical destination are not disclosed because in the opinion of the directors to do so would be seriously prejudicial to the Group.

2 Analysis of operating expenses

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Distribution costs	**10,866**	8,658	**-**	-
Administration expenses	**26,438**	24,322	**269**	1,450
	37,304	32,980	**269**	1,450

3 Operating (loss)/profit

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
The operating (loss)/profit is stated after charging:				
Operating lease rentals				
- plant and machinery	**2**	3	**-**	-
- other assets	**518**	652	**-**	-
Depreciation				
- owned assets	**6,188**	3,512	**252**	374
- leased assets	**278**	288	**-**	-
Research and development and continuous engineering expenditure	**3,916**	2,623	**-**	-
Auditors' remuneration and expenses:				
- audit fees	**95**	120	**15**	15
- other services	**8**	38	**-**	-
(Gain)/Loss on foreign exchange transactions	**(202)**	613	**-**	-
Other items:				
- Reorganisation and redundancy costs	**3,918**	161	**-**	-
- Provision against inter-company receivable	**-**	-	**-**	(1,040)
And after crediting:				
Royalties receivable	**371**	320	**371**	320

4 Directors' emoluments

	2005 £'000	2004 £'000
Directors' emoluments amounted to		
Aggregate emoluments	**709**	632
Pension contributions	**59**	53
	768	685

One director received remuneration directly from an intermediate holding company, Perusahaan Otomobil Nasional Berhad (Malaysian) ("Proton") for services to both the company and Proton. No recharge is made to the company or any of its subsidiaries in respect of these services.

	2005 £'000	2004 £'000
The emoluments of the highest paid director amounted to		
Aggregate emoluments	**173**	150
Pension contributions	-	-
	173	150

The highest paid director had an accrued pension of £Nil (2004: £Nil) per annum under a defined benefit scheme.

Retirement benefits were accruing to four (2004: three) directors under a defined benefit pension scheme.

All directors' emoluments were borne by subsidiary companies.

5 Employee and pensions costs

The average number of persons employed by the group (including directors) during the year was as follows:

	2005 Number	2004 Number
Category		
Management and administration	**785**	678
Production and sales staff	**723**	731
	1,508	1,409

The aggregate payroll costs of those persons were as follows:

	2005 £'000	2004 £'000
Wages and salaries	**46,889**	43,656
Social security costs	**3,892**	3,648
Other pensions costs	**2,993**	2,738
	53,774	5[illegible]

The Company had no employees.

Pension scheme

The Group operates a defined benefit pension scheme, the Lotus Pension Plan. The assets are held in separate trustee administered funds. In addition it provides life assurance cover for all employees.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a firm of qualified actuaries, Barnett Waddingham Actuaries and Consultants, independent of the Company on the basis of triennial valuations. The most recent valuation was at 31 December 2002, using the projected unit method. The assumptions which have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that annual pre retirement and post retirement investment returns would be 6.5% and 5.5% respectively, that annual salary increases would average 4.0% and that pensions would increase annually at the rate of 2.5%.

The most recent actuarial valuation showed that the market value of the scheme's assets was approximately £20.7 million and that the actuarial value of those assets represented 78% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

As at the valuation date, the scheme had a valuation deficit in respect of past service rights of £5.8 million. The Company has taken several steps to remove the ongoing deficit within a reasonable timescale.

With effect from 1 July 2003 the Company has taken the decision to amend the benefit structure of the scheme whilst maintaining the current contribution rate. The Company has also agreed to contribute additional annual contributions of £300,000 into the scheme with effect from September 2003 until the deficit has been eradicated.

The directors have continued the policy adopted in April 1997 of encouraging membership of the scheme, which has continued to increase throughout the year.

FRS17 transitional provisions

The disclosures required under the transitional arrangements within FRS17 "Retirement Benefits" have been calculated by qualified independent actuaries based on the most recent actuarial valuation at 31 December 2002, updated to 31 March 2005.

The major assumptions used by the actuary for the FRS 17 calculation were as follows:

	2005	2004
Rate of increase in salaries	**3.75%**	4.25%
Rate of increase in pensions in payment	**2.75%**	2.75%
Discount rate	**5.40%**	5.50%
Inflation assumption	**2.75%**	2.75%
Long term expected rate of return on:		
Equities	**7.50%**	7.50%
Bonds	**5.00%**	5.00%
Other	**4.00%**	4.00%

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The assets of the scheme and the expected rate of return were:

	2005 £'000	2004 £'000
Equities	**28,750**	21,847
Bonds	**3,881**	3,945
Other	**3,152**	2,773
Total value of assets	**35,783**	28,565
Present value of scheme liabilities	**(41,982)**	(39,024)
Deficit on the scheme	**(6,199)**	(10,459)
Related deferred tax asset	**1,860**	3,138
Net pension liabilities	**(4,339)**	(7,321)

FRS 17 requires disclosure of the effect of the above amounts if their amounts had been recognised in the group financial statements. The effect on the group's net assets and profit and loss reserves would be as follows:

	2005 £'000	2004 £'000
Net assets		
Net assets/(liabilities) excluding pension liability	**2,693**	10,280
Pension liability	**(4,339)**	(7,321)
Net assets/(liabilities) including pension liability	**(1,646)**	2,959
Reserves		
Profit and loss reserve excluding pension liability	**(56,376)**	(48,881)
Pension liability	**(4,339)**	(7,321)
Profit and loss reserve including pension liabilities	**(60,715)**	(56,202)

The following amounts would have been recognised in the performance statements in the year to 31 March 2005 under the requirements of FRS 17:

Analysis of the amount charged to operating profit	2005 £'000	2004 £'000
Current service cost	**2,327**	
Past service cost	-	18
Settlements and curtailments	**(682)**	-
Total operating charge	**1,645**	2,718

Analysis of the amount credited to other finance income	2005	2004
	£'000	£'000
Expected return on pension scheme assets	2,070	1,463
Interest on pension scheme liabilities	(2,215)	(1,842)
Net (charge)/return	(145)	(379)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	2005	2004
	£'000	£'000
Actual return less expected return on pension scheme assets	1,530	3,178
Experience gains and losses arising on the scheme liabilities	1,022	408
Changes in assumptions underlying the present value of the scheme liabilities	724	(2,323)
Actuarial gain recognised in STRGL	3,276	1,263

Movement in surplus during the year	2005	2004
	£'000	£'000
Surplus in scheme at beginning of the year	(10,459)	(11,175)
Movement in year:		
Current service cost	(2,327)	(2,700)
Contributions	2,774	2,550
Past service cost	-	(18)
Settlements and curtailments	682	-
Other finance income	(145)	(379)
Actuarial gain	3,276	1,263
Deficit in scheme at end of the year	(6,199)	(10,459)

History of experience gains and losses	2005
Difference between the expected and actual return on scheme assets:	
Amount (£'000)	**1,530**
Percentage of scheme assets	**4.3%**
Experience gains and losses on scheme liabilities:	
Amount (£'000)	**1,022**
Percentage of the present value of the scheme liabilities	**2.4%**
Total amount recognised in statement of total recognised gains and losses:	
Amount (£'000)	**3,276**
Percentage of the present value of the scheme liabilities	**7.8%**

6 Interest

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Interest receivable				
Interest from bank deposits	**149**	244	**-**	13
Other loans	**181**	169	**2,530**	2,802
	330	413	**2,530**	2,815
Interest payable and similar charges				
On amounts wholly repayable within five years:				
Bank overdrafts, trade finance and loans	**3,044**	1,415	**2,121**	942
Group loans	**-**	96	**-**	-
Listed debt	**-**	1,568	**-**	1,568
Other loans	**-**	7	**-**	-
	3,044	3,086	**2,121**	2,510

7 Income from fixed asset investment

	Company 2005 £'000	Company 2004 £'000
Dividend received from joint venture	**179**	245

8 Taxation

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Overseas taxation – current year	**656**	246	**14**	-
Corporation tax – current year	**-**	58	**-**	-
	656	304	**14**	-
Share of joint venture's taxation charge	**86**	98	**-**	-
	742	402	**14**	-

The above charges reconcile with the standard rate of corporation tax in the UK as follows:

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
(Loss)/profit on ordinary activities	**(6,695)**	633	**1,108**	(156)
Loss/(profit) on ordinary activities at standard rate of corporation tax in the UK of 30%	**(2,008)**	190	**332**	(47)
Shares of joint ventures tax	**86**	98	**-**	-
Depreciation in excess of capital allowances/ (Capital allowances in excess of depreciation)	**1,104**	(1,821)	**(99)**	(98)
Short term timing differences	**-**	(19)	**-**	-
Expenses not deductible for tax purposes	**562**	192	**-**	312
Overseas tax credit on UK earnings	**55**	(58)	**-**	-
Utilisation of brought forward losses	**-**	(167)	**(219)**	(167)
Current year losses surrendered as group relief for no payment	**419**	-	**-**	-
Current year losses not utilised	**524**	1,987	**-**	-
Current tax charge for year	**742**	402	**14**	-

Group Lotus plc

9 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tooling, equipment and motor vehicles £'000	Assets in course of construction £'000	Total £'000
Group					
Cost or valuation					
31 March 2004	28,686	34,829	22,966	23	86,504
Additions	-	1,335	3,209	222	4,766
		10			
Reclassification		10		(10)	
Disposals	(595)	(4,745)	(792)	-	(6,132)
31 March 2005	**28,091**	**31,429**	**25,383**	**235**	**85,138**
Depreciation					
31 March 2004	7,014	26,483	16,645	-	50,142
Charge for the year	1,690	2,164	2,612	-	6,466
Disposals	(436)	(4,523)	(763)	-	(5,722)
31 March 2005	**8,268**	**24,124**	**18,494**	**-**	**50,886**
Net book amount					
31 March 2005	**19,823**	**7,305**	**6,889**	**235**	**34,252**
31 March 2004	21,672	8,346	6,321	23	36,362
Company					
Cost					
31 March 2004	4,311	973	309	-	5,593
31 March 2005	**4,311**	**973**	**309**	**-**	**5,593**
Depreciation					
31 March 2004	99	276	-	-	375
Charge for the year	110	97	44	-	251
31 March 2005	**209**	**373**	**44**	**-**	**626**
Net book amount					
31 March 2005	**4,102**	**600**	**265**	**-**	**4,967**
31 March 2004	4,212	697	309	-	5,218

The freehold land and buildings of a subsidiary were valued at 31 December 1989 at £12,500,000, all other fixed assets are held at historical cost.

Group	2005 £'000	2004 £'000
The historical cost amounts of freehold land and buildings included at valuation are as follows:		
Cost	**5,513**	5,513
Depreciation	**(2,464)**	(2,335)
	3,049	3,178

Included within Group plant and machinery are leased assets with a cost of £4,967,000 (2004: £5,950,000) and accumulated depreciation of £4,595,000 (2004: £5,298,000). Included within fixtures, fittings, tooling, equipment and motor vehicles are leased assets with a cost of £Nil (2004: £104,000) and accumulated depreciation of £Nil (2004: £104,000).

10 Investments

	Group	Company			
	Joint venture £'000	**Shares in subsidiaries £'000**	**Loans to subsidiaries £'000**	**Joint venture £'000**	**Total £'000**
31 March 2004	454	28,506	3,000	1	31,507
Share of retained profit after taxation	154	-	-	-	-
Dividend received	(180)	-	-	-	-
31 March 2005	**428**	**28,506**	**3,000**	**1**	**31,507**
Provision for diminution					
31 March 2004	-	(28,506)	(3,000)	(1)	(31,507)
31 March 2005	**-**	**(28,506)**	**(3,000)**	**(1)**	**(31,507)**
Net book amount					
31 March 2005	**428**	**-**	**-**	**-**	**-**
31 March 2004	454	-	-	-	-

11 Stocks

	Group 2005 £'000	Group 2004 £'000
Raw materials	**4,376**	4,555
Cars in course of production and other work in progress	**1,201**	543
Service stocks	**5,490**	5,458
Finished goods	**10,114**	3,784
	21,181	14,340

The Company has no stocks.

12 Debtors

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Amounts falling due within one year				
Trade debtors	**15,411**	25,845	**75**	63
Amounts owed by ultimate parent undertaking	**4,410**	16,336	**-**	-
Amounts owed by other group undertakings	**-**	-	**23,988**	26,028
Amounts owed by fellow subsidiaries	**5,447**	2,277	**2,389**	-
Other debtors	**1,577**	1,255	**-**	-
Prepayments and accrued income	**2,028**	759	**-**	-
	28,873	46,472	**26,452**	26,091
Amounts falling due after more than one year				
Amount owed by immediate parent undertaking	**13,511**	13,511	**13,511**	13,511
	13,511	13,511	**13,511**	13,511
	42,384	59,983	**39,963**	39,602

The amount owed by the immediate parent undertaking comprises a loan to Lotus Group International Limited ("LGI"). The Company has provided a letter of undertaking to LGI indicating that it will not seek repayment of the outstanding debt for a period of at least one year from the date of signing these accounts. As disclosed in the Accounting Policies on page 12, the board of Proton have indicated that they will provide financial support to LGI and its subsidiary undertakings; this would include financial support to enable LGI to repay this debt to Group Lotus plc if called upon to do so.

13 Creditors – Amounts falling due within one year

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Bank overdrafts and trade finance	**12,808**	**10,290**	**-**	-
Trade creditors	**17,546**	12,681	**2**	3
Amounts owed to ultimate parent undertaking	**2,396**	2,393	**34**	34
Amounts owed to fellow group undertakings	**5,531**	2,883	**88**	88
Corporation tax	**-**	50	**-**	-
Other taxes and social security	**1,002**	1,183	**-**	-
Accruals and deferred income	**11,006**	13,359	**921**	1,914
Payments in advance	**6,104**	20,946	**-**	-
	56,393	63,785	**1,045**	2,039

Trade finance amounted to £9,153,000 (2004: £3,229,000) relating to bank advances to the Group in respect of vehicle sales to overseas dealers. Repayment is due when cash is received from the dealers. Interest is based on local currency bank base rates.

Bank overdrafts include a deposit balance of £138,000 (2004 advance of £6,616,000) secured on certain trade receivables of the Group.

14 Creditors – Amounts falling due after more than one year

	Group 2005 £'000	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Bank loans (unsecured)	**39,846**	39,744	**39,846**	39,744
Accruals and deferred income	**609**	701	**609**	701
	40,455	40,445	**40,455**	40,445

As at 31 March 2005, the Company has a bank loan of £40,000,000 (net of issue costs not yet amortised amounting to £154,000), repayable in full in October 2006. Interest is payable in arrears in April and October at a fixed rate of 4.94%. The debt is secured by fixed deposits of Proton Holdings Berhad.

15 Provisions for liabilities and charges

Group	£'000
(1) Warranty provision	
31 March 2004	3,005
Additional provision	3,305
Utilised in the year	(1,823)
31 March 2005	**4,487**

All vehicles sold by the Group have a warranty period of between 12 and 24 months.

	2005 Recognised	**2005 Not recognised**	2004 Recognised	2004 Not recognised
	£'000	**£'000**	£'000	£'000
(2) Deferred asset tax may be analysed as				
Accelerated capital allowances	-	**7,042**	-	3,696
Short term timing differences	-	**800**	-	825
Losses available for future relief	-	**17,510**	-	17,796
	-	**25,352**	-	22,317

No provision has been made for the potential liability to deferred taxation of approximately £1,800,000 (2004: £1,800,000) in respect of the surplus arising on the revaluation of land and buildings in a subsidiary company, as the Group does not intend to dispose of the assets in the foreseeable future. The Company has no potential deferred tax liability.

No deferred tax asset has been recognised as the recovery is considered to be uncertain in the short term.

The company has a net deferred tax asset of £1,243,000 (2004: £987,000) this has not been recognised as the recovery is considered to be uncertain in the short term.

16 Called up share capital

	Number 2005	Number 2004	Nominal value 2005 £'000	Nominal value 2004 £'000
Authorised				
Ordinary shares of 10p each	**444,360**	444,360	**44,436**	44,436
Allotted and fully paid				
Ordinary shares of 10p each	**444,360**	444,360	**44,436**	44,436

17 Reserves

	Share Premium account £'000	Revaluation reserve £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
Group					
31 March 2004	8,120	6,395	210	(48,881)	(34,156)
Loss for the financial year	-	-	-	(7,437)	(7,437)
Transfer of additional depreciation on revalued assets	-	(92)	-	92	-
Foreign exchange translation	-	-	-	(150)	(150)
31 March 2005	**8,120**	**6,303**	**210**	**(56,376)**	**(41,743)**
Company					
31 March 2004	8,120	-	210	(50,430)	(42,100)
Profit for the financial year	-	-	-	1,094	1,094
31 March 2005	**8,120**	**-**	**210**	**(49,336)**	**(41,006)**

Other reserve relates to the merger reserve arisen on the acquisition of Lotus Cars US Inc.

The profit and loss account reserve deficit is stated after deducting £428,000 (2004: £454,000) of reserves attributable to the joint venture.

18 Reconciliation of movements in shareholders' funds

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
(Loss)/profit for the financial year	**(7,437)**	231	**1,094**	(156)
Foreign exchange translation adjustments	**(150)**	(516)	**-**	-
Net movement in shareholders' funds	**(7,587)**	(285)	**1,094**	(156)
Opening shareholders' funds	**10,280**	10,565	**2,336**	2,492
Closing shareholders' funds	**2,693**	10,280	**3,430**	2,336

19 Cash flow statement

	2005 £'000	2004 £'000
(1) Reconciliation of operating profit to net cash flow from operating activities		
Group operating (loss)/profit	**(4,221)**	2,983
Depreciation of tangible fixed assets	**6,466**	3,800
Increase in warranty provision	**1,482**	475
(Increase) in stocks	**(6,841)**	(664)
Decrease in debtors	**17,450**	20,224
(Decrease) in creditors	**(10,330)**	(26,201)
Net cash inflow from operating activities	**4,006**	617

	At 31 March 2004 £'000	Cash flow £'000	Non cash movements £'000	Exchange movement £'000	At 31 March 2005 £'000
(2) Analysis of net debt					
Cash at bank and in hand	6,376	(471)	-	(122)	**5,783**
Bank overdrafts and trade finance	(10,290)	(2,518)	-	-	**(12,808)**
Net overdraft	(3,914)	(2,989)	-	(122)	**(7,025)**
Bank loans (note 14)	(40,000)	-	154	-	**(39,846)**
Total debt	(40,000)	-	154	-	**(39,846)**
Total net debt	(43,914)	(2,989)	154	(122)	**(46,871)**

20 Capital commitments

	Group 2005 £'000	Group 2004 £'000
Contracted for but not provided for	**896**	106

The Company has no capital commitments.

21 Operating leases

At 31 March 2005 the Group was committed to making the following payments during the next year in respect of operating leases expiring:

	2005 £'000	2004 £'000
Within one year	**541**	617
Between one and five years	**1,150**	343
After five years	**87**	-
	1,778	960

Included within the amounts disclosed above in respect of operating leases expiring within one year, between one and five years and over five years are £154k (2004: £Nil), £818k (2004: £Nil) and £87k (2004: £Nil) respectively in respect of land and buildings. The remaining operating lease rentals are payable in respect of plant and machinery and other assets.

22 Subsidiary undertakings and joint ventures

The following companies are the principal subsidiaries of Group Lotus plc, which directly or indirectly owns all of their issued ordinary share capital.

	Country of incorporation	Nature of business
Lotus Cars Limited	England	Car manufacture and engineering consultancy
Lotus Body Engineering Limited	England	Dormant
Lotus Engineering Limited (indirect)	England	Engineering consultancy
Lotus Motorsport Limited	England	Dormant
Lotus Engineering Malaysia Sdn Bhd (indirect)	Malaysia	Engineering consultancy
Lotus Holding Inc	USA	Holding company
Lotus Engineering Inc (indirect)	USA	Engineering test facilities
Lotus Cars USA Inc (indirect)	USA	Car sales and servicing

All subsidiary undertakings have been included in the consolidation.

The Group has a joint venture arrangement, Lotus Finance Limited, a company incorporated in England and Wales in which it has a 49.9% interest. The entity's financial year end is 31 December and its principal activity is the provision of finance to dealers for the acquisition of Lotus cars.

23 Parent companies and financial support

Group Lotus plc is a wholly owned subsidiary of Lotus Group International Limited, a company incorporated in Great Britain and registered in England and Wales. The Company's ultimate parent company is Proton Holdings Berhad, a company incorporated in Malaysia. As indicated on page 12 Proton has confirmed that it will provide the necessary financial support to enable the Company and its subsidiaries to continue to trade and meet its liabilities as they fall due for the foreseeable future.

The consolidated financial statements of Proton comprise the group accounts of the largest group which includes the Company. Copies of Proton's group financial statements are available from its registered office at Kawasan Perindustrian HICOM, Batu Tiga, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia. The parent undertaking of the smallest such group is Lotus Group International Limited. Copies of the group financial statements of Lotus Group International Limited are available from its registered office at Hethel, Norwich, Norfolk, NR14 8EZ.

24 Related party transactions

(1) Perusahaan Otomobil Nasional Berhad (Proton), a fellow subsidary of Proton.
During the year ended 31 March 2005 the Group provided Proton and its subsidiaries with engineering services to a value of £39,237,000 (2004: £56,710,000). At 31 March 2005 the outstanding balances due to and from Proton were £4,449,000 (2004: £4,446,000) and £4,410,000 (2004: £16,336,000) respectively.

(2) Proton Cars (UK) Limited (PCUKL) is a fellow subsidiary company of Proton.

PCUKL undertakes parts warehousing and distribution on behalf of the Group. Management fees of £1,107,000 (2004: £1,158,000) relating to this agreement and a further £101,000 (2004: £181,000) of expenses have been charged by PCUKL. The outstanding amount due to PCUKL at 31 March 2005 was £329,000 (2004: £418,000). During the previous financial year, PCUKL entered into a 10 year tenancy agreement with the Company. An advance rental for the ten year period was paid by PCUKL and as at 31 March 2005, a balance of £698,000 (2004: £789,000) remains outstanding as deferred income.

(3) The Group operates an Executive Car purchase scheme which allows directors to purchase Company products at marginal cost or above. During the year directors purchased vehicles with a cost of £127,000 (2004: £124,000). At 31 March 2005 the amount outstanding from directors under this scheme was £Nil (2004: £Nil).

(4) Under the terms of a financing agreement, Lotus Finance Limited, in which the Company has a 49.9% interest, provides finance services to dealers and customers of the Group to enable them to acquire Lotus cars. During the year cars with a sales value of £19,641,000 (2004: £20,481,000) were sold through Lotus Finance Limited. At the year end the outstanding balance due from Lotus Finance Limited was £215,000 (2004: £539,000).

(5) The Company has taken advantage of the exemptions provided by FRS 8 not to disclose transactions with other Lotus group companies that qualify as related parties.