# Merritts Motor Group Limited

Financial statements

For the year ended 31 January 2007

Grant Thornton

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**Company No. 2759719**

# Company information

| | |
|---|---|
| **Company registration number** | 2759719 |
| **Directors** | J A Merritt<br>D J Wallington<br>T J Merritt<br>S J Kidney |
| **Secretary** | R D Lockyer |
| **Bankers** | Barclays Bank plc<br>P O Box 104<br>St Albans<br>Herts<br>AL1 3AN |
| **Auditor** | Grant Thornton UK LLP<br>Chartered Accountants<br>Registered Auditors<br>Grant Thornton House<br>202 Silbury Boulevard<br>Central Milton Keynes<br>MK9 1LW |

# Contents

# Report of the directors

The directors present their report and the financial statements of the group for the year ended 31 January 2007.

## Principal activities

The principal activity of the group during the year was the purchasing, selling and repairing of motor vehicles and other ancillary services.

## Results and dividends

The trading results for the year, and the group's financial position at the end of the year are shown in the attached consolidated financial statements, and are discussed further in the business review below

The directors have not recommended a dividend.

## Business review

### Financial overview

Following a period of stable performance, turnover for the year ended 31 January 2007 was £30.8 million - an increase of 4.4% on last year (2006: £29 5 million) The loss before tax was £117,142 The prior year loss before tax was £422,699

The directors are pleased with the performance during the year and believe that the group is in a stronger position to continue its current performance levels

### Financial performance

Financial performance for the year has been analysed as follows:

| | Year to 31 January 2007 £ | Year to 31 January 2006 £ | Change £ | % |
|---|---|---|---|---|
| Turnover | 30,812,596 | 29,511,955 | 1,300,641 | 4.4 |
| Gross profit | 3,979,917 | 3,601,058 | 378,859 | 10.5 |
| Profit before tax | (117,142) | (422,699) | 305,557 | 72.3 |

# Report of the directors (continued)

### Strategy
The strategy adopted during the year has been to continually build on the market position established by the group. This strategy is based largely on well established models under the group's Jaguar, Lotus, Peugeot and Skoda brands and the development of new models to be launched in the coming year. The directors are not looking for high growth levels given a highly competitive market place, but are instead focused on stable quality growth and a focused after sales performance

### Turnover
The directors consider the results for the year to be in line with overall performance of the market.

### Vehicle sales
The group recorded a strong performance in vehicle sales. New vehicles sold in the year were 806 (2006 - 781).

### Service sales
The level of service hours represents a consistent performance year on year, with service hours having increased by 2.3% on 2006

### Parts sales
The level of parts sales represents a good performance year on year, with an increase in parts sales of 11 5%

### Operating costs

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Operating costs | 3,871,046 | 3,735,420 |

Wages and salaries represent the major element of operating costs.

### Capital expenditure
Capital expenditure of £86,354 was incurred during the year

### Environmental policy
Management continue to work towards the development of the group's environmental policy. It is our objective to continually improve our performance in this area. When assessing the environmental performance of the group, management consider various measures, including waste recycling and $CO_2$ emissions from the group's vehicles

# Report of the directors (continued)

## Summary of key performance indicators

The directors have monitored the progress of the overall group strategy and the individual strategic elements by reference to certain financial and non-financial key performance indicators

| | 2007 | 2006 | Method of calculation |
|---|---|---|---|
| Growth in turnover (%) | 4.4 | (3.8) | Annual growth in total sales. |
| New vehicle units | 806 | 781 | Number of new vehicles sold in the year |
| Gross profit margin (%) | 12.9 | 12 2 | Gross profit margin is the ratio of gross profit to sales expressed as a percentage. |
| Operating profit margin (%) | 0.5 | (0.3) | Operating profit margin is the ratio of operating profit to sales expressed as a percentage |
| Capital expenditure (£'000) | 86 | 74 | Investment made in respect of capital items during the year |
| Average head count | 132 | 128 | Average of total monthly head counts derived from the payroll records |

## Future developments for the business

The directors recognise that industry competition has put pressure on prices and margins We believe continued manufacturer investment in the product range and our investment in customer care, together with our strong working relationship with our manufacturers will enable us to improve on our market position.

# Report of the directors (continued)

## Principal risks and uncertainties

The management of the business and the nature of the group's strategy are subject to a number of risks

The directors have set out below the principal risks facing the business. The directors are of the opinion that a thorough risk management process is adopted which involves the formal review of all the risks identified below Where possible, processes are in place to monitor and mitigate such risks.

*Manufacturer supply of new and improved products*
We are reliant on our new vehicle products from vehicle manufacturers This exposes the group to risks in a number of areas as the group is dependent on vehicle manufacturers in respect of

- availability of new vehicle product
- quality of new vehicle product
- pricing of new vehicle product
- investment in marketing of new vehicle product

The directors are confident that future new products from the manufacturers will be of a continued high quality and that the manufacturers will continue to invest in the marketing of such new products We mitigate this risk by focusing on our other core business areas including used vehicle sales, parts sales and service sales.

*Economic downturn*
The success of the business is reliant on consumer spending An economic downturn, resulting in reduction of consumer spending power will have a direct impact on the income achieved by the group.

In response to this risk, senior management aim to keep abreast of economic conditions In cases of severe economic downturn, marketing and pricing strategies are modified to reflect the new market conditions.

*Competition*
The motor retail market in which the group operates is highly competitive As a result there is constant downwards pressure on margins and the additional risk of being unable to meet customers expectations Policies of constant price monitoring and continuing to focus on our high level of service are in place to mitigate such risks

# Report of the directors (continued)

## Financial risk management objectives and policies

The group uses financial instruments, other than derivatives, comprising borrowings, cash and other liquid resources and various other items such as trade debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below

### Interest rate risk

The group finances its operations through a mixture of retained profits, asset finance and bank borrowings. The group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities.

### Liquidity risk

The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest any cash assets safely and profitably Short term flexibility is achieved by overdraft facilities.

### Credit risk

The group's principal financial assets are cash and trade debtors The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from trade debtors

In order to manage credit risk the directors set credit limits for customers based on a combination of payment history and third party credit references Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history

# Report of the directors (continued)

### Directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom 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 group and of the profit or loss of the group for that period. In preparing these 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 group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as the directors are aware.

- there is no relevant audit information of which the group's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

### Auditor

A resolution to reappoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985

ON BEHALF OF THE BOARD

D J Wallington
Director

2 October 2007

Grant Thornton

# Report of the independent auditor to the members of Merritts Motor Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Merritts Motor Group Limited for the year ended 31 January 2007 which comprise the principal accounting policies, the group profit and loss account, the group and company balance sheets, the group cash flow statement and notes 1 to 25 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 Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

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

Grant Thornton

# Report of the independent auditor to the members of Merritts Motor Group Limited (continued)

### 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 group's and 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 United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 January 2007 and of the group's loss 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 Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
Central Milton Keynes

18 October 2007

# Principal accounting policies

### Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over its estimated useful life. The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985.

### Turnover

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

Sales of motor vehicles are recognised on delivery to the customer together with the associated manufacturer vehicle bonus income. Any other manufacturer income in relation to achieving targets is recognised on an accruals basis

### Goodwill

Positive purchased goodwill arising on acquisitions is capitalised, classified as an asset on the Balance Sheet and amortised over its estimated useful life up to a maximum of 20 years This length of time is presumed to be the maximum useful life of purchased goodwill because it is difficult to make projections beyond this period. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable

### Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows.

Goodwill - 20 years

# Principal accounting policies (continued)

### Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

| | |
|---|---|
| Leasehold Property | - Over the period of the lease and 4% straight line |
| Plant & Machinery | - 15% reducing balance |
| Fixtures & Fittings | - 15% reducing balance and 20% straight line |

Fixtures & Fittings include computer equipment which is depreciated at 20% straight line

### Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Under supply agreements with the manufacturers, the company has access to consignment stock during a consignment period. Where the nature of these supply agreements transfers the risks and rewards to the company, which in substance gives the company control over the stock during the consignment period and liabilities in respect of holding costs, the company recognises these stocks in the balance sheet together with an equivalent liability.

### Work in progress

Work in progress is valued on the basis of direct costs.

### Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### Pension costs

The company operates a defined contribution pension scheme for employees The assets of the scheme are held separately from those of the company The annual contributions payable are charged to the profit and loss account.

### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date

### Investments

Investments in the shares of group undertakings are stated at cost.

# Group profit and loss account

| | Note | 2007 £ | 2006 £ |
|---|---|---|---|
| **Group turnover** | 1 | 30,812,596 | 29,511,955 |
| Cost of sales | | 26,832,679 | 25,910,897 |
| Gross profit | | 3,979,917 | 3,601,058 |
| Other operating charges | 2 | 3,871,046 | 3,735,420 |
| Other operating income | 3 | (49,679) | (35,758) |
| **Operating profit/(loss)** | 4 | 158,550 | (98,604) |
| Interest receivable | 7 | 12 | - |
| Interest payable and similar charges | 8 | (275,704) | (324,095) |
| **Loss on ordinary activities before taxation** | | (117,142) | (422,699) |
| Tax on loss on ordinary activities | 9 | (5,000) | (6,000) |
| **Loss for the financial year** | 10 | (112,142) | (416,699) |

All of the activities of the group are classed as continuing.
The group has no recognised gains or losses other than the results for the year as set out above

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

# Group balance sheet

| | Note | 2007 £ | 2006 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 11 | 234,062 | 260,326 |
| Tangible assets | 12 | 872,600 | 911,873 |
| | | 1,106,662 | 1,172,199 |
| **Current assets** | | | |
| Stocks | 14 | 4,888,189 | 4,053,464 |
| Debtors | 15 | 1,229,925 | 1,333,633 |
| Cash in hand | | 1,545,959 | 1,514,502 |
| | | 7,664,073 | 6,901,599 |
| **Creditors: amounts falling due within one year** | 16 | 8,395,891 | 7,581,812 |
| **Net current liabilities** | | (731,818) | (680,213) |
| **Total assets less current liabilities** | | 374,844 | 491,986 |
| **Provisions for liabilities** | | | |
| Deferred taxation | 17 | 9,000 | 14,000 |
| | | 365,844 | 477,986 |
| **Capital and reserves** | | | |
| Called-up equity share capital | 20 | 299,310 | 299,310 |
| Profit and loss account | 21 | 66,534 | 178,676 |
| **Shareholders' funds** | 22 | 365,844 | 477,986 |

These financial statements were approved by the directors on 2.10.07 and are signed on their behalf by:

D. Wallington

D J Wallington

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

# Company balance sheet

| | Note | 2007 £ | 2006 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 12 | 20,144 | 14,706 |
| Investments | 13 | 399,410 | 399,410 |
| | | 419,554 | 414,116 |
| **Current assets** | | | |
| Debtors | 15 | 2,038,388 | 2,307,715 |
| **Creditors: amounts falling due within one year** | 16 | 3,896,202 | 3,613,571 |
| **Net current liabilities** | | (1,857,814) | (1,305,856) |
| **Total assets less current liabilities** | | (1,438,260) | (891,740) |
| **Capital and reserves** | | | |
| Called-up equity share capital | 20 | 299,310 | 299,310 |
| Profit and loss account | 21 | (1,737,570) | (1,191,050) |
| **Deficit** | | (1,438,260) | (891,740) |

These financial statements were approved by the directors on 2.10.07 and are signed on their behalf by:

D J Wallington

D J Wallington

# Group cash flow statement

| | Note | 2007<br>£ | 2006<br>£ |
|---|---|---|---|
| Net cash inflow from operating activities | 23 | 233,947 | 199,208 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | 12 | – |
| Interest paid | | (275,704) | (324,095) |
| Net cash outflow from returns on investments and servicing of finance | | (275,692) | (324,095) |
| **Capital expenditure** | | | |
| Payments to acquire tangible fixed assets | | (86,354) | (74,325) |
| Net cash outflow from capital expenditure | | (86,354) | (74,325) |
| Decrease in cash | 23 | (128,099) | (199,212) |

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

# Notes to the financial statements

## 1 Turnover

Turnover is wholly derived from within the United Kingdom

## 2 Other operating charges

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Administrative expenses | 3,871,046 | 3,735,420 |

## 3 Other operating income

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Rent receivable | 49,679 | 35,758 |

## 4 Operating profit/(loss)

Operating profit/(loss) is stated after charging

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Amortisation | 26,264 | 26,264 |
| Depreciation of owned fixed assets | 125,627 | 121,110 |
| Auditor's remuneration: | | |
| Audit fees | 3,800 | 4,250 |
| Other fees - audit of associated companies | 23,500 | 23,250 |
| Other fees - taxation | 5,000 | 3,250 |
| Operating lease costs | | |
| Other | 368,000 | 368,000 |

# Notes to the financial statements (continued)

## 5 Particulars of employees

The average number of staff employed by the group during the financial year amounted to

| | 2007 No | 2006 No |
|---|---|---|
| Number of production staff | 60 | 86 |
| Number of administrative staff | 56 | 29 |
| Number of management staff | 16 | 13 |
| | 132 | 128 |

The aggregate payroll costs of the above were:

| | 2007 £ | 2006 £ |
|---|---|---|
| Wages and salaries | 2,981,203 | 2,763,364 |
| Social security costs | 323,448 | 307,951 |
| Other pension costs | 64,768 | 75,554 |
| | 3,369,419 | 3,146,869 |

## 6 Directors

Remuneration in respect of directors was as follows

| | 2007 £ | 2006 £ |
|---|---|---|
| Emoluments receivable | 198,041 | 215,776 |
| Value of company pension contributions to money purchase schemes | 8,075 | 9,147 |
| | 206,116 | 224,923 |

Emoluments of highest paid director

| | 2007 £ | 2006 £ |
|---|---|---|
| Total emoluments (excluding pension contributions) | 84,487 | 77,223 |
| Value of company pension contributions to money purchase schemes | 6,500 | 6,500 |
| | 90,987 | 83,723 |

The number of directors who accrued benefits under company pension schemes was as follows

| | 2007 No | 2006 No |
|---|---|---|
| Money purchase schemes | 2 | 3 |

# Notes to the financial statements (continued)

## 7 Interest receivable

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Bank interest receivable | 12 | - |

## 8 Interest payable and similar charges

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Interest payable on bank borrowing | 91,823 | 84,055 |
| Other similar charges payable | 183,881 | 240,040 |
| | 275,704 | 324,095 |

## 9 Taxation on ordinary activities

(a) Analysis of charge in the year

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Current tax: | | |
| Total current tax charge for the year | - | - |
| Deferred tax: | | |
| Origination and reversal of timing differences | (5,000) | (6,000) |

(b) Factors affecting current tax charge

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Loss on ordinary activities before taxation | (117,142) | (422,699) |
| Loss on ordinary activities by rate of tax | (22,255) | (80,313) |
| Expenses not deductible for tax purposes | 12,978 | 5,054 |
| Capital allowances in excess of depreciation | (8,745) | 11,178 |
| Utilised tax losses | 24,647 | 71,897 |
| Income not taxable for tax purposes | (6,625) | (7,057) |
| Other timing differences | - | (759) |
| Total current tax (note 9(a)) | - | - |

# Notes to the financial statements (continued)

## 10 Loss attributable to members of the parent company

The loss dealt with in the accounts of the parent company was £(546,520) (2006 - £(431,247))

## 11 Intangible fixed assets

| Group | Goodwill £ |
|---|---|
| **Cost** | |
| At 1 February 2006 and 31 January 2007 | 521,280 |
| **Amortisation** | |
| At 1 February 2006 | 260,954 |
| Charge for the year | 26,264 |
| At 31 January 2007 | 287,218 |
| **Net book value** | |
| At 31 January 2007 | **234,062** |
| At 31 January 2006 | 260,326 |

## 12 Tangible fixed assets

| Group | Leasehold Property £ | Plant & Machinery £ | Fixtures & Fittings £ | Total £ |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 February 2006 | 1,147,218 | 473,416 | 795,483 | 2,416,117 |
| Additions | 6,750 | 64,754 | 14,850 | 86,354 |
| At 31 January 2007 | 1,153,968 | 538,170 | 810,333 | 2,502,471 |
| **Depreciation** | | | | |
| At 1 February 2006 | 583,375 | 309,482 | 611,387 | 1,504,244 |
| Charge for the year | 43,989 | 33,319 | 48,319 | 125,627 |
| At 31 January 2007 | 627,364 | 342,801 | 659,706 | 1,629,871 |
| **Net book value** | | | | |
| At 31 January 2007 | **526,604** | **195,369** | **150,627** | **872,600** |
| At 31 January 2006 | 563,843 | 163,934 | 184,096 | 911,873 |

# Notes to the financial statements (continued)

## 12 Tangible fixed assets (continued)

| Company | Fixtures & Fittings £ |
|---|---|
| Cost | |
| At 1 February 2006 | 51,625 |
| Additions | 12,147 |
| At 31 January 2007 | 63,772 |
| Depreciation | |
| At 1 February 2006 | 36,919 |
| Charge for the year | 6,709 |
| At 31 January 2007 | 43,628 |
| Net book value | |
| At 31 January 2007 | 20,144 |
| At 31 January 2006 | 14,706 |

# Notes to the financial statements (continued)

## 13 Investments

| Company | Group companies £ |
|---|---|
| Cost | |
| At 1 February 2006 and 31 January 2007 | 399,410 |
| Net book value | |
| At 31 January 2007 | 399,410 |
| At 31 January 2006 | 399,410 |

### Subsidiary undertakings

All held by the company

| | Country of incorporation | Holding | Proportion of voting rights and shares held | Nature of business |
|---|---|---|---|---|
| Merritts Jaguar Limited | England and Wales | Ordinary shares | 100% | Motor trade |
| Merritts Chesham Limited | England and Wales | Ordinary shares | 100% | Motor trade |
| Merritts Autopoint Limited | England and Wales | Ordinary shares | 100% | Motor trade |
| Merritts of Amersham Limited | England and Wales | Ordinary shares | 100% | Non-trading |

All of the subsidiary undertakings have been consolidated in the group financial statements All are subsidiary undertakings by virtue of 100% ownership by Merritts Motor Group Limited.

# Notes to the financial statements (continued)

## 14 Stocks

| | The group | | The company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | £ | £ | £ | £ |
| Work in progress | 16,834 | 10,479 | - | - |
| Finished goods | 2,890,872 | 2,780,757 | - | - |
| Consignment stock | 1,980,483 | 1,262,228 | - | - |
| | 4,888,189 | 4,053,464 | - | - |

The directors have considered the substance of stocking arrangements with the manufacturer and consider that the consignment stock held by the group is in substance an asset of the group. The group has access to the benefit of the stock and exposure to the risks and costs of holding it

The group has therefore recognised consignment stock in its balance sheet and a corresponding liability to the manufacturer.

## 15 Debtors

| | The group | | The company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | £ | £ | £ | £ |
| Trade debtors | 878,184 | 1,038,135 | - | - |
| Amounts owed by group undertakings | - | - | 2,010,990 | 2,269,269 |
| Other debtors | 50,240 | 41,689 | 26,398 | 18,451 |
| Directors' loan accounts | - | 12,921 | - | - |
| Prepayments and accrued income | 301,501 | 240,888 | 1,000 | 19,995 |
| | 1,229,925 | 1,333,633 | 2,038,388 | 2,307,715 |

# Notes to the financial statements (continued)

## 16 Creditors: amounts falling due within one year

| | The group | | The company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | £ | £ | £ | £ |
| Consignment stock | 1,980,483 | 1,262,228 | - | - |
| Bank loans and overdrafts | 2,306,091 | 2,146,535 | 2,306,091 | 2,120,103 |
| Trade creditors | 3,526,582 | 3,483,834 | 6,698 | 21,380 |
| Amounts owed to group undertakings | - | - | 1,311,039 | 1,163,570 |
| Directors' loan accounts | 27,137 | 164,019 | - | 137,497 |
| Other taxation and social security | 107,569 | 211,964 | 14,662 | 10,716 |
| Other creditors | 236,621 | 126,347 | 200,000 | 100,000 |
| Accruals and deferred income | 211,408 | 186,885 | 57,712 | 60,305 |
| | 8,395,891 | 7,581,812 | 3,896,202 | 3,613,571 |

The bank loan and overdraft are secured by a debenture charging all of the assets and undertakings of the group

### Consignment creditor

Consignment stock amounting to £1,980,483 (2006. £1,262,228) is secured by way of a first fixed charge and a first floating charge over all of the present and future property and assets of the company.

### Trade creditors

Trade creditors includes amounts due under manufacturer funding plans amounting to £1,193,321 (2006: £1,482,190) which are secured by way of a first fixed charge and a first floating charge over all of the present and future property and assets of the company.

# Notes to the financial statements (continued)

## 17 Deferred taxation

The movement in the deferred taxation provision during the year was

| | The group | | The company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | £ | £ | £ | £ |
| Provision brought forward | 14,000 | 20,000 | - | - |
| Decrease in provision | (5,000) | (6,000) | - | - |
| Provision carried forward | 9,000 | 14,000 | - | - |

The group's provision for deferred taxation consists of the tax effect of timing differences in respect of:

| | 2006 | 2005 |
|---|---|---|
| | £ | £ |
| Excess of taxation allowances over depreciation on fixed assets | 9,000 | 14,000 |

The group has unrelieved tax losses of £572,000 (2006 £517,000) available to offset against future taxable trading profits subject to agreement by HM Customs and Revenue

## 18 Commitments under operating leases

At 31 January 2007 the group had annual commitments under non-cancellable operating leases as set out below

| The group | Land and buildings | |
|---|---|---|
| | 2007 | 2006 |
| | £ | £ |
| Operating leases which expire: | | |
| After more than 5 years | 368,000 | 368,000 |

# Notes to the financial statements (continued)

## 19 Related party transactions

Mr J A Merritt is a director of the company and therefore both he and his children, Mr T J Merritt and Mrs C J Hitchcock, are related parties of the company. He is also a director and shareholder of Merritts Properties Limited with which the group trades Mr T J Merritt is also a director of the company.

Mr J A Merritt has made loans to the group As at 31 January 2007 £64,001 (2006: £64,019) was due to him. Interest charged on this loan amounted to £2,707 (2006. £14,335).

In addition Mr J A Merritt rents a property to the group. The annual rent was £100,000 (2006 £100,000).

Biggleswade Investments Limited (the parent company) has given the company's bankers a charge over a property owned by it as security for the company's borrowings

Mr T J Merritt and Mrs C J Hitchcock have made loans to the group totalling £200,000 (2006 £200,000). Interest charged on these loans during the year totalled £24,002 (2006: £24,002)

Merritts Properties Limited leases a property to the group. The annual rent amounted to £100,000 (2006. £101,621).

Mr J A Merritt is a director of Skinglade Limited which provides consultancy services to the group These amounted to £2,000 (2006: £2,000)

## 20 Share capital

Authorised share capital

| | 2007<br>£ | 2006<br>£ |
|---|---|---|
| 1,000,000 Ordinary shares of £1 each | 1,000,000 | 1,000,000 |

Allotted, called up and fully paid.

| | 2007<br>No | £ | 2006<br>No | £ |
|---|---|---|---|---|
| Ordinary shares of £1 each | 299,310 | 299,310 | 299,310 | 299,310 |

# Notes to the financial statements (continued)

## 21 Reserves

| Group | Profit and loss account £ |
|---|---|
| At 1 February 2006 | 178,676 |
| Loss for the year | (112,142) |
| At 31 January 2007 | 66,534 |

| Company | Profit and loss account £ |
|---|---|
| At 1 February 2006 | (1,191,050) |
| Loss for the year | (546,520) |
| At 31 January 2007 | (1,737,570) |

## 22 Reconciliation of movements in shareholders' funds

| | 2007 £ | 2006 £ |
|---|---|---|
| Loss for the financial year | (112,142) | (416,699) |
| Opening shareholders' funds | 477,986 | 894,685 |
| Closing shareholders' funds | 365,844 | 477,986 |

## 23 Notes to the statement of cash flows

### Reconciliation of operating profit/(loss) to net cash inflow from operating activities

| | 2007 £ | 2006 £ |
|---|---|---|
| Operating profit/(loss) | 158,550 | (98,604) |
| Amortisation | 26,264 | 26,264 |
| Depreciation | 125,627 | 121,110 |
| (Increase)/decrease in stocks | (834,725) | 673,994 |
| Decrease in debtors | 103,708 | 114,389 |
| Increase/(decrease) in creditors | 767,444 | (637,945) |
| Net cash inflow from operating activities | 233,947 | 199,208 |

# Notes to the financial statements (continued)

## 23 Notes to the statement of cash flows (continued)

**Reconciliation of net cash flow to movement in net debt**

| | 2007<br>£ | 2006<br>£ |
|---|---|---|
| Decrease in cash in the period | (128,099) | (199,212) |
| Change in net debt | (128,099) | (199,212) |
| Net debt at 1 February 2006 | (632,033) | (432,821) |
| Net debt at 31 January 2007 | (760,132) | (632,033) |

**Analysis of changes in net debt**

| | At<br>1 Feb 2006<br>£ | Cash flows<br>£ | At<br>31 Jan 2007<br>£ |
|---|---|---|---|
| Net cash. | | | |
| Cash in hand and at bank | 1,514,502 | 31,457 | 1,545,959 |
| Overdrafts | (2,146,535) | (159,556) | (2,306,091) |
| Net debt | (632,033) | (128,099) | (760,132) |

## 24 Contingencies

The company is a member of VAT group with Merritts Jaguar Limited, Merritts Chesham Limited and Merritts Autopoint Limited. At 31 January 2007 the VAT liability under the group registration was £48,064 (2006 £123,920).

The company has entered into a cross guarantee with other group companies in favour of Jaguar Financial Services Limited with regard to finance facilities provided to Merritts Jaguar Limited. At 31 January 2007 the liability was £2,861,113 (2006 £2,326,864).

The company has entered into a cross guarantee with other group companies in favour of Volkswagon Finance Limited with regard to finance facilities provided to Merritts Autopoint Limited. At 31 January 2007 the liability was £182,593 (2006:212,597)

There is a bank cross guarantee and debenture between the company, Merritts Jaguar Limited, Merritts Chesham Limited, Merritts Autopoint Limited and Merritts Amersham Limited. At 31 January 2007 the total bank borrowings for the group were £761,934 (2006: £580,493)

## 25 Ultimate controlling related party

The ultimate controlling related party of the company is the Merritts Trust, (the beneficiaries of which are Mr T J Merritt and Mrs C J Hitchcock) as a result of its majority shareholding in Biggleswade Investments Limited, a company incorporated in the British Virgin Islands, which owns the entire share capital of Merritts Motor Group Limited.