

Citygate Dealerships Limited

Annual report for the year ended 31 December 1996

	Pages
Directors and advisers	1
Directors' report	2 - 4
Statement of directors' responsibilities	5
Report of the auditors	6
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9 - 19



Citygate Dealerships Limited

1

Directors and advisers

Directors

N R Lancaster
D H Jaggar
D G Evans
A Foster
D Coomber

Solicitors

Plummer Tilsley & Partners
8 - 9 West Stockwell Street
Colchester
Essex
CO1 1HN

Secretary and registered office

J M Dodwell
25 Old Brompton Road
London
SW7 3TD

Auditors

Coopers & Lybrand
Abacus House
Castle Park
Gloucester Street
Cambridge
CB3 0AN

Bankers

Midland Bank Plc
26 North Station Road
Colchester
Essex
CO1 1SY

**Directors' report
for the year ended 31 December 1996**

The directors present their financial statements for the year ended 31 December 1996.

Principal activity

The principal activity of the company during the year was that of franchised motor dealer operating sites in the Greater London and Stockport areas.

Review of business and future developments

The level of business and the year end financial position of the company were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Results and dividends

The profit for the year after taxation amounted to £707,000 (1995: £871,000).

The directors are unable to recommend the payment of a dividend. The profit for the year of £707,000 will be transferred to reserves.

Directors

The directors of the company who served during the year are listed below:

N R Lancaster
T C M Dodwell (resigned 3 September 1996)
D H Jaggar
D G Evans
A Foster
D Coomber

Directors' interests

No director had any interest in the shares of the company at 31 December 1996. At 31 December 1996, Mr A Foster was interested in 13,900 (1995: 13,900) and Mr D Coomber was interested in 2,605 (1995: 2,605) ordinary shares of Malaya Group Plc, the ultimate holding company. There have been no movements in their holding since the end of the financial year. The interests of the other directors in the shares of Malaya Group Plc, the ultimate holding company, are disclosed in that company's financial statements.

Charitable donations

During the year the company made charitable donations of £1,000 (1995: £4,000). No political donations were made.

Employees

The company's policy is to consult and discuss with employees matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Payment to suppliers

The company agrees payment terms with its suppliers when it enters into binding purchase contracts. The company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The company does not have a standard or code which deals specifically with the payment of suppliers.

Citygate Dealerships Limited

4

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board

A handwritten signature in dark ink, appearing to read "David H. Jaggard", with a long horizontal flourish extending to the right.

Director

11 March 1997

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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.

Report of the auditors to the members of Citygate Dealerships Limited

We have audited the financial statements on pages 7 to 19.

Respective responsibilities of directors and auditors

As described on page 5, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

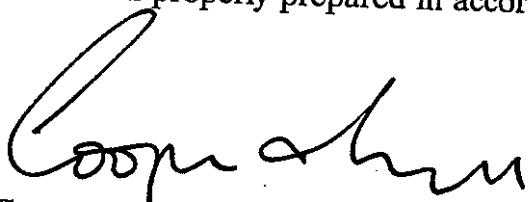
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
Cambridge

11 March 1997

Citygate Dealerships Limited

7

Profit and loss account for the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
Turnover	2	200,000	176,255
Cost of sales		(177,084)	(156,641)
		<hr/>	<hr/>
Gross profit		22,916	19,614
Net operating expenses	3	(21,390)	(17,960)
		<hr/>	<hr/>
Operating profit		1,526	1,654
Interest receivable	6	60	-
Interest payable and similar charges	7	(361)	(501)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	8	1,225	1,153
Tax on profit on ordinary activities	9	(518)	(282)
		<hr/>	<hr/>
Retained profit for the year	17, 18	<u>707</u>	<u>871</u>

All of the above results of the company derive from continuing operations throughout the year.

The company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Citygate Dealerships Limited

8

Balance sheet at 31 December 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	10	3,982	4,583
Current assets			
Stocks and work in progress	11	21,460	21,983
Debtors	12	10,091	9,070
Cash at bank and in hand		4,864	932
Creditors: amounts falling due within one year	13	36,415	31,985
		(24,881)	(21,940)
Net current assets		11,534	10,045
Total assets less current liabilities		15,516	14,628
Creditors: amounts falling due after more than one year	14	(13,017)	(13,132)
Provisions for liabilities and charges	15	(60)	(14)
Net assets		2,439	1,482
Capital and reserves			
Called up share capital	16	10,000	10,000
Profit and loss account	17	(7,561)	(8,518)
Equity shareholders' funds	18	2,439	1,482

The financial statements on pages 7 to 19 were approved by the Board of Directors on 11 March 1997 and were signed on its behalf by:


Director

Notes to the financial statements for the year ended 31 December 1996

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on acquisitions is written off immediately against reserves.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated on a straight line basis so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Plant and equipment	10 - 20
Fixtures and fittings	15
Computer equipment	20 - 33½

Improvements to leasehold premises are depreciated over the remaining life of the relevant lease.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements, which transfer to the company substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost of vehicles and parts stocks represents the purchase price plus any additional costs incurred. Where necessary, provision is made for obsolete, slow moving and defective stock. Cars used for demonstration purposes are valued at cost less an appropriate charge for use.

Vehicles on consignment are included in stock when substantially all of the principal benefits and inherent risks rest with the company. The corresponding liability after deducting any deposits is included under creditors, as manufacturers' vehicle stocking loans.

Turnover

Turnover, which excludes value added tax, represents the invoiced value of goods and services supplied.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension scheme arrangements

The company operates a defined contribution pension scheme. The pension cost charge represents contributions payable to the fund in respect of the accounting period.

Cash flow

The company is a wholly owned subsidiary of Malaya Group Plc and the cash flows of the company are included in the consolidated group cash flow statement of Malaya Group Plc. Consequently the company is exempt from the requirement to publish a cash flow statement.

2 Turnover

Turnover consists entirely of sales made in the United Kingdom and arises from the company's sole principal activity.

3 Net operating expenses

	1996 £'000	1995 £'000
Continuing operations		
Distribution and selling expenses	11,941	9,821
Administrative expenses	9,449	8,319
Other operating income	-	(180)
	<u>21,390</u>	<u>17,960</u>

4 Directors' emoluments

	1996 £'000	1995 £'000
Fees	-	-
Other emoluments (including pension contributions and benefits in kind)	118	128
	<u>118</u>	<u>128</u>

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	1996 £'000	1995 £'000
The Chairman	-	-
The highest paid director	63	78

The number of directors (including the Chairman and highest paid director) who received fees and other emoluments (excluding pension contributions) within the following ranges was:

	1996 Number	1995 Number
£0 - £5,000	4	4
£40,001 - £45,000	-	1
£45,001 - £50,000	1	-
£60,001 - £65,000	1	-
£75,001 - £80,000	-	1

5 Employee information

The average weekly number of persons (including executive directors) employed by the company during the year was:

	1996 Number	1995 Number
By activity		
Distribution and selling	441	391
Administration	106	111
	<u>547</u>	<u>502</u>
	<u><u>547</u></u>	<u><u>502</u></u>
	1996 £'000	1995 £'000
Staff costs (for the above persons)		
Wages and salaries	9,730	9,205
Social security costs	1,026	907
Other pension costs (see note 22)	88	66
	<u>10,844</u>	<u>10,178</u>
	<u><u>10,844</u></u>	<u><u>10,178</u></u>

6 Interest receivable and similar income

	1996 £'000	1995 £'000
Bank deposit interest	60	-
	<u>60</u>	<u>-</u>

7 Interest payable and similar charges

	1996 £'000	1995 £'000
On bank loans and overdrafts	-	157
On manufacturers' vehicle stocking loans	320	327
On finance leases and hire purchase contracts	41	17
	<u>361</u>	<u>501</u>
	<u><u>361</u></u>	<u><u>501</u></u>

8 Profit on ordinary activities before taxation

	1996 £'000	1995 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year		
Owned tangible fixed assets	424	324
Leased tangible fixed assets	325	255
Loss on disposal of tangible fixed assets	160	-
Loss on disposal of business	50	-
Auditors' remuneration for audit services	29	34
Auditors' remuneration for non-audit services	6	5
Operating leases - land and buildings	1,723	1,526
Operating leases - plant and machinery	336	124
	<u> </u>	<u> </u>

9 Taxation on profit on ordinary activities

	1996 £'000	1995 £'000
UK Corporation tax at 33% (1995: 33%)		
Current	512	269
Deferred	46	14
Overprovision for prior years	(40)	(1)
	<u> </u>	<u> </u>
	<u>518</u>	<u>282</u>

10 Tangible fixed assets

	Leasehold improvements £'000	Plant and equipment £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost					
At 1 January 1996	3,167	1,032	961	289	5,449
Additions	154	196	111	538	999
Transfers (to)/from group companies	-	(14)	8	(5)	(11)
Disposals	(548)	(312)	(405)	(18)	(1,283)
At 31 December 1996	2,773	902	675	804	5,154
Depreciation					
At 1 January 1996	246	210	349	61	866
Charge for year	208	280	110	151	749
Transfers (to)/from group companies	-	(5)	(6)	(3)	(14)
Disposals	(131)	(144)	(151)	(3)	(429)
At 31 December 1996	323	341	302	206	1,172
Net book value					
At 31 December 1996	2,450	561	373	598	3,982
Net book value					
At 31 December 1995	2,921	822	612	228	4,583

The net book value of tangible fixed assets includes an amount of £618,000 (1995: £247,000) in respect of assets held under finance leases and hire purchase contracts. The depreciation charge for the year includes £117,000 (1995: £40,000) in respect of these assets.

11 Stocks and work in progress

	1996 £'000	1995 £'000
Work in progress	165	85
Vehicles and parts	18,161	18,766
Interest bearing consignment stock	3,134	3,132
	<u>21,460</u>	<u>21,983</u>

The company's stocks of new vehicles are held on consignment from the manufacturers and are not included within the balance sheet until either the vehicles are registered or the manufacturers' free stocking period has expired. The value of such vehicles excluded from stocks of vehicles above at 31 December 1996 was £3,216,000 (1995: £1,918,000).

In the opinion of the directors, the values of stocks shown above are not materially different from their replacement values.

12 Debtors

	1996 £'000	1995 £'000
Amounts falling due within one year:		
Trade debtors	6,190	5,146
Amounts owed by parent company and fellow subsidiaries	43	503
Other debtors	2,933	2,330
Prepayments and accrued income	925	1,091
	<u>10,091</u>	<u>9,070</u>

13 Creditors: amounts falling due within one year

	1996 £'000	1995 £'000
Trade creditors	15,217	10,641
Manufacturers' vehicle stocking loans	4,214	5,635
Other loans	1,807	1,035
Amounts owed to fellow subsidiaries	519	167
Corporation tax	358	269
Other taxation and social security costs	402	333
Obligations under finance leases and hire purchase contracts	250	88
Other creditors	1,198	2,865
Accruals and deferred income	916	907
	<u>24,881</u>	<u>21,940</u>

The manufacturers' vehicle stocking loans are secured by fixed and floating charges over the stocks of new and demonstrator vehicles held. Other loans are secured by fixed and floating charges over the stocks of used vehicles held.

14 Creditors: amounts falling due after more than one year

	1996 £'000	1995 £'000
Amounts owed to parent company	12,711	12,958
Obligations under finance leases and hire purchase contracts	306	174
	<u>13,017</u>	<u>13,132</u>

Amounts owed to parent company have no specific repayment dates and are interest free.

Obligations under finance leases and hire purchase contracts are all due within five years.

15 Provisions for liabilities and charges

Deferred taxation provided in the financial statements, and the amount unprovided of the total potential liability, are as follows:

	Amount provided		Amount unprovided	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Tax effect of timing differences because of:				
Excess of capital allowances over depreciation	60	14	-	-
	<u>60</u>	<u>14</u>	<u>-</u>	<u>-</u>

The movement on the provision for deferred taxation is as follows:

	£'000
At 1 January 1996	14
Charged to profit and loss account	46
	<u>-</u>
At 31 December 1996	<u>60</u>

16 Called up share capital

	Ordinary shares of £1 each	
	Number	£'000
Authorised		
At 1 January and 31 December 1996	10,000,000	10,000
	<u>10,000,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
At 1 January and 31 December 1996	10,000,000	10,000
	<u>10,000,000</u>	<u>10,000</u>

17 Profit and loss account

	1996	1995
	£'000	£'000
At 1 January 1996	(8,518)	(9,326)
Retained profit for the year	707	871
Goodwill arising on acquisitions	-	(63)
Goodwill arising on disposal of business	250	-
	<u>(7,561)</u>	<u>(8,518)</u>
At 31 December 1996	<u>(7,561)</u>	<u>(8,518)</u>

18 Reconciliation of movements in equity shareholders' funds

	1996 £'000	1995 £'000
Profit for the year	707	871
Goodwill arising on acquisitions	-	(63)
Goodwill arising on disposal of business	250	-
Net increase in equity shareholders' funds	957	808
Opening equity shareholders' funds	1,482	674
Closing equity shareholders' funds	2,439	1,482

19 Capital commitments

	1996 £'000	1995 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	Nil	108

20 Financial commitments

At 31 December 1996 the company had annual commitments under non-cancellable operating leases as follows:

	1996		1995	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiry date:				
Within one year	32	153	-	59
Between one and five years	-	32	19	71
After five years	1,498	-	1,766	-
	1,530	185	1,785	130

21 Contingent liabilities

Midland Bank Plc hold unlimited guarantees by the company in respect of amounts owing by Malaya Group Plc, the holding company, and its subsidiaries. At 31 December 1996 the total amount outstanding to Midland Bank Plc by Malaya Group Plc and its subsidiaries in respect of bank term loans, mortgages and overdrafts was £6,144,000 (1995: £7,093,000).

22 Pension obligations

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge for the year represents contributions payable by the company to the fund and amounted to £88,000 (1995: £66,000). Included in creditors are outstanding pension contributions of £8,000 (1995: £33,000).

23 Related party transactions

As a wholly owned subsidiary whose results are included in the consolidated financial statements of Malaya Group Plc (see note 24), the company is exempt from the requirements to disclose transactions with other group companies.

24 Ultimate holding company

The directors regard Malaya Group Plc, a company registered in England and Wales, as the ultimate parent company. According to the register kept by the company, Malaya Group Plc has a 100% interest in the equity capital of Citygate Dealerships Limited at 31 December 1996. Copies of the parent company's consolidated financial statements may be obtained from The Secretary, 25 Old Brompton Road, London SW7 3TD.