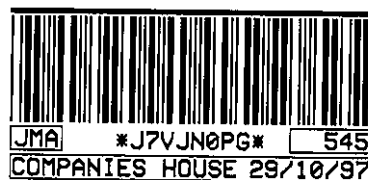


MSF Motor Group Limited

**Directors' report and consolidated
financial statements**

31 December 1996

Registered number 2863609



Directors' report and financial statements

Contents

Officers and advisors	
Directors' report	1
Report of the auditors to the members of MSF Motor Group Limited	2
Consolidated profit and loss account	5
Balance sheets	6
Consolidated cash flow statement	7
Notes	8
	9

Officers and advisors

Directors

Thomas James Allan McPhail
Neil Smillie
Janis Richardson Fletcher (Chairwoman)

Secretary

Gary Stephen Manton

Registered office

Rossmore Road East
Ellesmere Port
South Wirral
L65 3BR

Auditors

KPMG
St James' Square
Manchester
M2 6DS

Solicitors

Pinsent Curtis
41 Park Square
Leeds
LS1 2NS

Bankers

Midland Bank PLC
2 Eccleston Street
Prescot
Merseyside
L34 5QF

Registered Number

2863609 (England and Wales)

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

Principal activities

The principal activities of the group are the operation of motor vehicle dealerships and short-term vehicle hire specialists.

Review of business

The consolidated profit and loss account for the year is set out on page 6.

On 1 March 1996 and 7 June 1996, the group disposed of the trade and certain assets of Peter Garven Limited and Jansens Limited. The disposals included tangible fixed assets, parts stock, work in progress, goodwill and the benefits of contracts.

During the year, the group obtained the right to operate additional Ford franchises in Wigan, Leigh and Stanley, County Durham. In this respect, the group purchased certain business assets from the former operators of these franchises.

The directors are encouraged by the performance of the group given the economic climate during the year and look forward to improved trading conditions in 1997.

Dividends and transfers to reserves

Interim dividends of £300,000 (1995: £72,000) were paid during the year. The directors do not recommend the payment of a final dividend (1995: £nil).

After payment of the above dividends, £1,018,000 of the profit for the financial year will be transferred to the group's reserves.

Directors

The directors of the company at 31 December 1996 are listed on page 1. All the directors have been directors of the company for the whole of the year ended 31 December 1996.

Directors' interests

The interest of the directors in the shares of the company at 1 January and 31 December 1996 were:

	Ordinary shares of £1 each	
	1 January 1996	31 December 1996
TJA McPhail	100	100
N Smillie	100	100
JR Fletcher	100	100

Directors' report *(continued)*

Changes in fixed assets

The movements in fixed assets during the year are set out in notes 10 and 11 to the financial statements. In the opinion of the directors, there was no significant difference between market and book values of property at 31 December 1996.

After the year end, the company acquired the freehold interest in the land and buildings of the Wigan dealership.

Employees

The group, having regard to particular aptitudes and abilities, does not discriminate in any way in its employee recruitment, training or career development because of colour, sex, creed or physical disability. In the event of any employee becoming disabled, retraining and continued employment is arranged whenever practicable. During the year, the group continued its policy of regular meetings with employees and their representatives, within the limitations of commercial confidentiality and security.

Charitable and political contributions

The contributions made by the group during the year for charitable purposes amounted to £1,000 (1995: £1,000). No political donations were made.

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 for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Directors' report *(continued)*

Auditors

During the year, KPMG were appointed by the directors as auditors. A special resolution to appoint the auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board

JR Fletcher
Chairwoman

A handwritten signature in dark ink, appearing to be 'JR Fletcher', written over a horizontal line.

Rossmore Road East
Ellesmere Port
South Wirral
L65 3BR

28 October 1997



St James' Square
Manchester M2 6DS

Report of the auditors to the members of MSF Motor Group Limited

We have audited the financial statements on pages 6 to 24.

Respective responsibilities of directors and auditors

As described on page 3 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 the company's affairs as 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.

KPMG
Chartered Accountants
Registered Auditors

28 October 1997

Consolidated profit and loss account
for the year ended 31 December 1996

	Note	1996 £000	1995 £000
Turnover	2		
Continuing operations		121,013	80,302
Discontinued operations		5,458	1,356
		<hr/>	<hr/>
		126,471	81,658
Cost of sales	2	(107,802)	(69,631)
		<hr/>	<hr/>
Gross profit	2	18,669	12,027
Administrative expenses	2	(16,212)	(10,864)
		<hr/>	<hr/>
Operating profit	2		
Continuing operations		2,238	1,154
Discontinued operations		219	9
		<hr/>	<hr/>
		2,457	1,163
Profit on sale of fixed assets - discontinued activities		31	-
		<hr/>	<hr/>
Profit on ordinary activities before interest		2,488	1,163
Other interest receivable and similar income		33	81
Interest payable and similar charges	5	(513)	(476)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	6	2,008	768
Tax on profit on ordinary activities	7	(690)	(420)
		<hr/>	<hr/>
Profit for the financial year	8	1,318	348
Dividends	9	(300)	(72)
		<hr/>	<hr/>
Retained profit for the year	19	1,018	276
		<hr/>	<hr/>

The group has no recognised gains or losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

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

Balance sheet
at 31 December 1996

	<i>Note</i>	Group		Company	
		1996	1995	1996	1995
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10	5,598	5,278	111	58
Investments	11	-	-	1,180	123
		<u>5,598</u>	<u>5,278</u>	<u>1,291</u>	<u>181</u>
Current assets					
Assets held pending sale	10	-	930	-	-
Stocks	12	6,360	6,138	-	-
Debtors	13	9,559	8,235	1,767	717
Cash at bank and in hand		7	1,141	-	-
		<u>15,926</u>	<u>16,444</u>	<u>1,767</u>	<u>717</u>
Creditors: amounts falling due within one year	14	14,561	15,835	2,772	690
		<u>1,365</u>	<u>609</u>	<u>(1,005)</u>	<u>27</u>
Net current assets/(liabilities)					
Total assets less current liabilities		<u>6,963</u>	<u>5,887</u>	<u>286</u>	<u>208</u>
Creditors: amounts falling due after more than one year	15	-	9	-	-
Provisions for liabilities and charges	16	693	606	-	-
		<u>6,270</u>	<u>5,272</u>	<u>286</u>	<u>208</u>
Net assets					
Capital and reserves					
Called up share capital	18	-	-	-	-
Merger reserve	19	2,268	2,288	-	-
Capital redemption reserve	19	663	663	-	-
Profit and loss account	19	3,339	2,321	286	208
		<u>6,270</u>	<u>5,272</u>	<u>286</u>	<u>208</u>
Equity shareholders' funds					
		<u>6,270</u>	<u>5,272</u>	<u>286</u>	<u>208</u>

These financial statements on pages 6 to 25 were approved by the board of directors on 28 October 1997 and were signed on its behalf by:


TJA McPhail
Director


N Smillie
Director

Consolidated cash flow statement
for the year ended 31 December 1996

	<i>Note</i>	1996 £000	1995 £000
Net cash (outflow)/inflow from operating activities	21	(2,069)	2,673
Returns on investments and servicing of finance			
Interest received		33	81
Interest paid		(222)	(142)
Interest paid on finance leases		(291)	(334)
Dividends paid		(300)	(72)
		<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance		(780)	(467)
Taxation			
United Kingdom corporation tax paid		(356)	(544)
Investing activities			
Purchase of tangible fixed assets (net of new finance leases entered into)		(1,524)	(728)
Sale of tangible fixed assets		5,602	6,149
Purchase of subsidiary (net of cash acquired)	26	(20)	(557)
		<hr/>	<hr/>
Net cash inflow from investing activities		4,058	4,864
		<hr/>	<hr/>
Net cash inflow before financing		853	6,526
Financing			
Repayment of loan		-	(455)
Repayment of principal under finance leases		(4,047)	(6,970)
		<hr/>	<hr/>
Net cash outflow from financing		(4,047)	(7,425)
		<hr/>	<hr/>
Decrease in cash and cash equivalents	22	(3,194)	(899)
		<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

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 group accounting policies is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Turnover

Turnover, which excludes value added tax, sales between group companies and trade discounts, represents the invoiced value of goods and services supplied, together with incentives receivable from operating activities.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 1996. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of the acquisition are recorded at their fair values reflecting their condition at that date. All subsequent changes to those assets and liabilities, and the resulting gains and losses, that arise after the group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

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 the acquisition of subsidiaries and associates is written off immediately against reserves.

Tangible fixed assets

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

Depreciation

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

Freehold buildings	-	2%
Short leasehold buildings	-	20%
Plant and equipment	-	20%
Fixtures and fittings	-	20%
Motor vehicles	-	33 1/3% to 48%

Notes (continued)

1 Principal accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

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. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions.

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 group 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 so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of the equivalent owned assets.

Pension costs

A number of group companies participate in a defined benefit scheme administered by Motor Industry Pensions Limited. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years, the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the group benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

The group also operates a defined contribution pension scheme covering certain of its employees. The pension charge represents contributions payable by the group to the scheme during the year.

Notes (continued)

2 Analysis of continuing and discontinued operations

	Con- tinuing £000	1996 Dis- continued £000	Total £000	Con- tinuing £000	1995 Dis- continued £000	Total £000
Turnover	121,013	5,458	126,471	80,302	1,356	81,658
Cost of sales	(103,087)	(4,715)	(107,802)	(68,358)	(1,273)	(69,631)
Gross profit	17,926	743	18,669	11,944	83	12,027
Administrative expenses	(15,688)	(524)	(16,212)	(10,790)	(74)	(10,864)
Operating profit	2,238	219	2,457	1,154	9	1,163

During the year the trade and assets of Peter Garven Limited and Jansens Limited were sold to a third party.

3 Directors' emoluments

	1996 £000	1995 £000
Salary payments (including benefits in kind and pension contributions)	298	2,200

Fees and other emoluments (excluding pension contributions) paid to the highest paid director totalled £88,000 (1995: £998,000).

The number of directors who received fees and other emoluments (excluding pension contributions) within the following ranges, was:

	1996 Number	1995 Number
£0 - £5,000	-	1
£70,001 - £75,000	1	-
£85,001 to £90,000	2	-
£995,001 to £1,000,000	-	2

In 1995, the directors' emoluments of £2,000,000 excluding pension contributions, included fees of £1,605,000 paid to TJA Consultants Limited, a company controlled by TJA McPhail and N Smillie. Of these fees, £585,000 were paid by Regional Vehicle Rentals Limited.

Notes (continued)

4 Employee information

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

	1996 Number	1995 Number
By activity:		
Administration	219	127
Other	544	293
	<hr/> 763	<hr/> 420
	<hr/> <hr/>	<hr/> <hr/>
	1996	1995
	£000	£000
Staff costs (for the above persons):		
Wages and salaries	7,897	6,300
Social security costs	720	411
Other pension costs	172	224
	<hr/> 8,789	<hr/> 6,935
	<hr/> <hr/>	<hr/> <hr/>

5 Interest payable and similar charges

	1996 £000	1995 £000
On bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	222	111
Repayable within 5 years, by instalments	-	31
On finance leases	291	334
	<hr/> 513	<hr/> 476
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

6 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		
Tangible owned fixed assets	342	305
Tangible fixed assets held under finance leases	477	674
Auditors' remuneration:		
Audit (Company £10,000; 1995: £15,000)	49	78
Non-audit services	16	90
Hire of plant and machinery - operating leases	2,425	985
Hire of other assets - operating leases	850	361
	<u> </u>	<u> </u>

7 Tax on profit on ordinary activities

	1996 £000	1995 £000
United Kingdom corporation tax at 33%:		
Current	621	278
Deferred	87	138
Under provision in respect of prior years:		
Current	(18)	4
	<u> </u>	<u> </u>
	<u>690</u>	<u>420</u>

8 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £378,000 (1995: £181,000).

Notes (continued)

9 Dividends

	1996 £000	1995 £000
Dividends on equity shares:		
Ordinary - interim paid of £1,000 per share (1995: £360 per share)	300	72
	<u>300</u>	<u>72</u>

10 Tangible fixed assets

Group	Freehold and long leasehold land and buildings £000	Short leasehold land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost or valuation						
At 1 January 1996	1,002	243	1,109	440	3,969	6,763
Additions	757	61	449	141	4,372	5,780
Disposals	-	-	(14)	(59)	(5,172)	(5,245)
At 31 December 1996	<u>1,759</u>	<u>304</u>	<u>1,544</u>	<u>522</u>	<u>3,169</u>	<u>7,298</u>
Depreciation						
At 1 January 1996	45	196	656	250	338	1,485
Charge for year	20	15	172	82	530	819
Disposals	-	-	(6)	(3)	(595)	(604)
At 31 December 1996	<u>65</u>	<u>211</u>	<u>822</u>	<u>329</u>	<u>273</u>	<u>1,700</u>
Net book value						
At 31 December 1996	<u>1,694</u>	<u>93</u>	<u>722</u>	<u>193</u>	<u>2,896</u>	<u>5,598</u>
Net book value						
At 31 December 1995	<u>957</u>	<u>47</u>	<u>453</u>	<u>190</u>	<u>3,631</u>	<u>5,278</u>

The tangible fixed assets of Peter Garven Limited which were classified as current assets within the consolidated balance sheet were sold during the year realising a profit of £31,000.

The net book value of tangible fixed assets includes an amount of £2,742,000 (1995: £3,224,000) in respect of assets held under finance leases.

The cost of freehold land, which is not depreciated, is £378,000 (1995: £287,000).

Notes (continued)

10 Tangible fixed assets (continued)

Company

The tangible fixed assets of MSF Motor Group Limited consist entirely of motor vehicles:

	£000
Cost	
At 1 January 1996	72
Additions	90
	<hr/>
At 31 December 1996	162
	<hr/> <hr/>
Depreciation	
At 1 January 1996	14
Charge for year	37
	<hr/>
At 31 December 1996	51
	<hr/> <hr/>
Net book value	
At 31 December 1996	111
	<hr/>
Net book value	
At 31 December 1995	58
	<hr/> <hr/>

11 Fixed asset investments

Company

	£000
Cost	
At 1 January 1996	127
Additions	1,057
	<hr/>
At 31 December 1996	1,184
	<hr/> <hr/>
Amounts written off	
At 1 January 1996 and 31 December 1996	4
	<hr/>
Net book value	
At 31 December 1996	1,180
	<hr/> <hr/>
Net book value	
At 31 December 1995	128
	<hr/> <hr/>

Notes (continued)

11 Fixed asset investments (continued)

The additions in the year relate to the acquisition of the indirect subsidiary undertakings from the direct subsidiary undertakings.

Interests in group undertakings

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the group:

Name of undertaking	Description of shares held	Proportion of nominal value of issued shares held by		Nature of business
		Group %	Company %	
M&S Motors (Ellesmere Port) Ltd	Ordinary shares	100	100	Ford main dealership
M&S Motors (Durham) Ltd	Ordinary shares	100	100	Ford main dealership
M&S Motors (Southport) Ltd	Ordinary shares	100	100	Ford main dealership
M&S Motors (Wigan) Ltd	Ordinary shares	100	100	Ford main dealership
Regional Vehicle Rentals Ltd	Ordinary shares	100	100	Short term vehicle hire
Fletcher Motors (Crossgates) Ltd	Ordinary shares	100	100	Peugeot dealership
Scarsdale Finance Ltd	Ordinary shares	100	100	Vehicle financing
Jansens Ltd	Ordinary shares	100	100	Used car centre
Fletcher Motors Ltd	Ordinary shares	100	100	Peugeot and Citroen dealership
Peter Garven Ltd	Ordinary shares	100	100	Ford main dealership
Fletcher Dealership Ltd	Ordinary shares	100	100	Management services company

All of the above companies are registered in England and Wales and operate in Great Britain.

12 Stocks

	Group	
	1996 £000	1995 £000
Goods for re-sale	6,360	5,527
Stock deposits with Ford Motor Company Limited	-	611
	<hr/> 6,360 <hr/>	<hr/> 6,138 <hr/>

Notes (continued)

13 Debtors

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	7,534	7,019	286	250
Amounts owed by subsidiary undertakings	-	-	1,243	421
Dividends receivable	-	-	-	4
Other debtors (see below)	613	147	200	30
Prepayments and accrued income	1,412	769	38	12
	<u>9,559</u>	<u>7,935</u>	<u>1,767</u>	<u>717</u>
Amounts falling due after more than one year				
Other debtors (see below)	-	300	-	-
	<u>9,559</u>	<u>8,235</u>	<u>1,767</u>	<u>717</u>

Other debtors include an interest free loan of £300,000 to Fletcher Property Services Limited repayable in December 1997. Ms JR Fletcher, a director of the company, is the controlling shareholder of Fletcher Property Services Limited.

14 Creditors: amounts falling due within one year

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Bank loans and overdrafts (see (a) below)	2,692	632	400	76
Obligations under finance leases	3,863	3,654	-	-
Trade creditors (see (b) below)	4,765	6,086	51	25
Retail dealer deposits	-	267	-	-
Amounts owed to subsidiary undertakings	-	-	1,779	187
Corporation tax	511	264	86	41
Other taxation and social security	704	1,138	26	11
Other creditors	270	661	250	250
Directors' loan account	-	3	-	3
Accruals	1,756	3,130	180	97
	<u>14,561</u>	<u>15,835</u>	<u>2,772</u>	<u>690</u>

Notes (continued)

14 Creditors: amounts falling due within one year (continued)

- (a) The bank loans and overdrafts are secured by fixed charges over certain group properties together with floating charges over other group assets.
- (b) Included under trade creditors are the following loans from Ford Credit Europe plc which are secured by first floating charges on the stock deposits with Ford Motor Company Limited and all new vehicle stocks:

Group		Company	
1996	1995	1996	1995
£000	£000	£000	£000
-	611	-	-
<u> </u>	<u> </u>	<u> </u>	<u> </u>

15 Creditors: amounts falling due after more than one year

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Other creditors	-	9	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16 Provisions for liabilities and charges

Group	Deferred taxation £000
At 1 January 1996	606
Profit and loss account	87
	<u> </u>
At 31 December 1996	693
	<u> </u>

Notes (continued)

16 Provisions for liabilities and charges (continued)

Deferred taxation

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:				
Excess of tax allowances over depreciation	449	463	-	-
Other timing differences	244	143	-	-
	<u>693</u>	<u>606</u>	<u>-</u>	<u>-</u>

The company has no potential liability or unprovided liability to deferred taxation.

17 Pensions and similar obligations

A number of group companies participate in a defined benefit scheme administered by Motor Industry Pensions Limited. The assets of the scheme are held in separate trustee administered funds.

The total pension cost arising under this scheme was £84,000 (1995: £10,000), which was assessed in accordance with the advice of an independent qualified actuary using the Attained Age method. The latest actuarial valuation of the scheme was as at 6 April 1995. The assumptions that have the most significant effect on the valuation were those relating to the rate of return on investments, rate of increase in dividends and the rates of increase in salaries and pensions. It was assumed that the investment return would be 9% per annum, dividend increases would be 4.5% per annum, that salary increases would average 7% per annum and that present and future pensions would not increase beyond the 3% per annum on the Guaranteed Minimum Pension.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £604,000 and the actuarial value of the assets was sufficient to cover 105% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

There is no pension provision as the accumulated pension cost does not vary significantly from the payment of contributions to the pension scheme.

The group also operates a defined contribution pension scheme for certain of its employees. The pension cost for the year ended 31 December 1996 under this scheme was £36,000 (1995: £14,000). There were no accruals or prepaid contributions at the year end.

Notes (continued)

18 Called up share capital

	1996 £	1995 £
Authorised:		
1,000 ordinary shares of £1 each	1,000	1,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid:		
300 ordinary shares of £1 each	300	300
	<u> </u>	<u> </u>

19 Reserves

Group

	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000
At 1 January 1996	663	2,288	2,321
Goodwill written off (adjustment relating to prior year acquisition)	-	(20)	-
Retained profit for the financial year	-	-	1,018
	<u> </u>	<u> </u>	<u> </u>
At 31 December 1996	663	2,268	3,339
	<u> </u>	<u> </u>	<u> </u>

Company

	Profit and loss account £000
At 1 January 1996	208
Retained profit for the financial year	78
	<u> </u>
At 31 December 1996	286
	<u> </u>

The merger reserve in the group was created in 1995 on the issue of shares in MSF Motor Group Limited to acquire Fletcher Dealership Limited. The company has recorded the investment at the nominal value of the shares issued together with the expenses incurred on the acquisition and, accordingly, no merger reserve arises in the company.

Notes (continued)

20 Reconciliation of movement in shareholders' funds

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Profit for the financial year	1,318	348	378	181
Dividends	(300)	(72)	(300)	(72)
	<hr/>	<hr/>	<hr/>	<hr/>
	1,018	276	78	109
Merger reserve arising on acquisition	-	3,333	-	-
Goodwill acquired during the year	(20)	(1,045)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net additions to shareholders' funds	998	2,564	78	109
Opening shareholders' funds	5,272	2,708	208	99
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	6,270	5,272	286	208
	<hr/>	<hr/>	<hr/>	<hr/>

21 Reconciliation of operating profit to net cash inflow from operating activities

	1996	1995
	£000	£000
Continuing activities		
Operating profit	2,457	1,163
Depreciation on tangible fixed assets	819	979
Increase in stocks	(833)	(210)
Decrease in stock deposit	611	1,622
Increase in debtors	(1,324)	(672)
Decrease in creditors	(3,799)	(209)
	<hr/>	<hr/>
Net cash (outflow)/inflow from continuing operating activities	(2,069)	2,673
	<hr/>	<hr/>

Notes (continued)

22 Cash and cash equivalents

	1996 £000	1995 £000
Changes during the year:		
At the beginning of the year	509	1,408
Net cash (outflow)	(3,194)	(899)
	<hr/>	<hr/>
At the end of the year	(2,685)	509
	<hr/> <hr/>	<hr/> <hr/>

23 Analysis of balances

	1996 £000	1996 Change in year £000	1995 £000	1995 Change in year £000	1994 £000
Cash at bank and in hand	7	(1,134)	1,141	(267)	1,408
Bank overdrafts	(2,692)	(2,060)	(632)	(632)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	(2,685)	(3,194)	509	(899)	1,408
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

24 Analysis of changes in financing during the year

	1996 Share capital (including premium) £000	Loans and finance lease obligations £000	1995 Share capital (including premium) £000	Loans and finance lease obligations £000
At 1 January 1996	-	3,654	-	5,271
Net cash flows from financing	-	(4,047)	-	(7,425)
Shares issued for non-cash consideration	-	-	3,333	-
Transfer to merger reserve	-	-	(3,333)	-
Inception of finance lease contracts	-	4,256	-	5,808
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	-	3,863	-	3,654
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

25 Major non-cash transactions

During the year, the group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of £4,256,000 (1995: £5,808,000).

26 Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings

	1996 £000	1995 £000
Cash consideration	(20)	(123)
Cash at bank and in hand acquired	-	22
Bank overdrafts acquired	-	(456)
	<hr/>	<hr/>
	(20)	(557)
	<hr/>	<hr/>

27 Contingent liabilities

Company

The company has given an Unlimited Multilateral Company Guarantee, dated 8 August 1996 in respect of the bank borrowings of its subsidiary undertakings. At 31 December 1996, such borrowings amounted to £2,292,000 (1995: £nil).

Group

At 31 December 1996, the group had an obligation to buy back vehicles acquired by its customers under the Motability Scheme totalling £6,990,000 (1995: £4,729,000). The obligation at 31 December 1996 relates to vehicle buy backs in the period from 1 January 1997 to 31 December 1999.

At 31 December 1996, the group had further commitments to purchase motor vehicles within 12 months of the year end to the value of £553,000 (1995: £619,000). The directors do not expect a loss to arise as a result of these arrangements.

28 Consignment stock

The value of consignment stock held by the group on behalf of vehicle manufacturers was £12,179,000 (1995: £11,079,000). The stock remains the property of the manufacturers until such time as it is formally adopted by the group.

Notes (continued)

29 Capital commitments

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Future capital expenditure contracted but not provided for	1,530	-	1,530	-
Future capital expenditure authorised but not contracted for	-	5	-	-
	<u>1,530</u>	<u>5</u>	<u>1,530</u>	<u>-</u>

30 Related party transactions

During the year, the group made payments of £403,000 (1995: £31,000) to Fletcher Property Services Limited, of which Ms JR Fletcher is a director and controlling shareholder. The payments were for rents, which are calculated on an arms' length basis, on properties used by the group.

31 Financial commitments

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

	1996		1995	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Expiring within one year	28	635	40	180
Expiring within two to five years inclusive	199	21	49	2
Expiring in over five years	539	-	687	-
	<u>766</u>	<u>656</u>	<u>776</u>	<u>182</u>

A number of the subsidiaries operate from premises leased from Fletcher Property Services Limited (see note 30 above).