MSF Motor Group Limited

Directors' report and financial statements

Registered number 2863609

31 December 1998

Contents

Officers and advisors

Directors

TJA McPhail
N Smillie
JR Fletcher OBE MBA (Chairwoman)
K Colgrave FCA MBA (appointed 31 December 1999)

Secretary

K Colgrave FCA MBA

Registered office

Rossmore Road East
Ellesmere Port
South Wirral
CH65 3BR

Auditors

KPMG
St James' Square
Manchester
M2 6DS

Solicitors

Pinsent Curtis
1 Park Row
Leeds
LS1 5AB

Bankers

HSBC Bank plc
33 Park Row
Leeds
LS1 1LD

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 1998.

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 Directors are extremely disappointed with the exceptional costs incurred during the year, as detailed in note 3. However, the performance of the core business has been encouraging in the light of the general market conditions. The Directors look forward to a much improved level of profitability in 1999.

Dividends and transfers to reserves

Interim dividends of £nil (1997: £300,000) were paid during the year. A dividend in specie was paid as part of the demerger of RVR Limited.

The group made a profit before tax (excluding exceptional items) of £732,000.

The net loss for the financial year has been transferred to the group's reserves.

Directors

The directors of the company at 31 December 1998 are listed on page 1. G Manton resigned form the Board of Directors on 31 December 1999 and K Colgrave was appointed as Finance Director on the same date.

Directors' interests

The interest of the directors in the shares of the company at 1 January and 31 December 1998 were:

	Ordinary shares of £1 each	
	1 January 1998	**31 December 1998**
TJA McPhail	100	100
N Smillie	100	100
JR Fletcher OBE	100	100
K Colgrave	-	-

Directors' report *(continued)*

Changes in fixed assets

The movements in tangible fixed assets during the year are set out in note 10 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 1998.

Year 2000

The directors of the company are aware of the year 2000 problem, and have considered the associated risks and uncertainties. Management have taken steps to address the year 2000 issues relating to its business and operations and, where material, relationships with customers, suppliers and other relevant parties.

No significant impact has been noted within the business as a result of the year 2000 date change.

The total estimated costs regarding the year 2000 problem cannot be practicably isolated as they have been integrated with the upgrading of systems for normal business improvement.

Supplier payment policy

The company policy is normally to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the company seeks to adhere to the payment terms providing the relevant goods and services have been supplied in accordance with the contracts.

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 (1997: £1,000). No political donations were made.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution to re-appoint KPMG as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board

JR Fletcher
Chairwoman
27 april 2000

Rossmore Road East
Ellesmere Port
South Wirral
L65 3BR

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.

KPMG

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 22.

Respective responsibilities of directors and auditors

As described on page 4 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 group and company as at 31 December 1998 and of the loss for the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

23 April 2000

Consolidated profit and loss account

for the year ended 31 December 1998

	Note	1998 £000	1998 £000	1997 £000	1997 £000
Turnover					
Continuing operations		**157,369**		137,707	
Discontinued operations		**-**		7,535	
			157,369		145,242
Cost of sales			**(138,186)**		(123,720)
Gross profit			**19,183**		21,522
Administrative expenses			**(17,807)**		(18,865)
Operating profit					
Continuing operations		**1,376**		2,288	
Discontinued operations		**-**		407	
Operating profit			**1,376**		2,695
Funding and other costs incurred on discontinuance of related undertaking	*3*		**(5,681)**		-
(Loss) / Profit on ordinary activities after exceptional item and before interest			**(4,305)**		2,695
Interest Payable and similar charges	*6*		**(644)**		(685)
(Loss) / Profit on ordinary activities after exceptional item and before taxation	*7*		**(4,949)**		2,010
Tax on (loss) / profit on ordinary activities	*8*		**(325)**		(650)
(Loss) / Profit for the financial year	*9*		**(5,274)**		1,360
Dividends - distribution in specie	*10*		**(576)**		(300)
Retained (loss) / profit for the year	*21*		**(5,850)**		1,060

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 1998

	Note	Group 1998	Group 1997 £000	Company 1998	Company 1997 £000
Fixed assets					
Tangible assets	*11*	**4,852**	7,109	**2,127**	1,905
Investments	*12*	**-**	-	**1,180**	1,180
		4,852	7,109	**3,307**	3,085
Current assets					
Stocks	*13*	**5,810**	8,215	**-**	-
Debtors	*14*	**10,995**	15,436	**3,258**	3,835
		16,805	23,651	**3,258**	3,835
Creditors: amounts falling due within one year	*15*	**(20,177)**	23,001	**(10,875)**	5,686
Net current assets/(liabilities)		**(3,372)**	650	**(7,617)**	(1,851)
Total assets less current liabilities		**1,480**	7,759	**(4,310)**	1,234
Provisions for liabilities and charges	*16*	**-**	(429)	**-**	-
Net assets		**1,480**	7,330	**(4,310)**	1,234
Capital and reserves					
Called up share capital	*18*	**-**	-	**-**	-
Merger reserve	*19*	**2,268**	2,268	**-**	-
Capital redemption reserve	*19*	**663**	663	**-**	-
Profit and loss account	*19*	**(1,451)**	4,399	**(4,310)**	1,234
Equity shareholders' funds		**1,480**	7,330	**(4,310)**	1,234

These financial statements were approved by the board of directors on 27 April 2000 and were signed on its behalf by:

TJA McPhail
Director

N Smillie
Director

Consolidated cash flow statement

for the year ended 31 December 1998

	Note	1998 £000	1997 £000
Net cash inflow / (outflow) from operating activities	*21*	**7,813**	(845)
Returns on investments and servicing of finance	*22*	**(644)**	(685)
Taxation	*23*	**(669)**	(508)
Capital expenditure	*24*	**(674)**	96
Termination of related undertaking	*25*	**(5,680)**	-
Equity dividends paid		**-**	(300)
Cash inflow before financing		**146**	(2,242)
Financing	*26*	**(2,682)**	(3,188)
Decrease in cash in the period		**(2,536)**	(5,430)

Reconciliation of net cashflow to movement in net debt

	Note	1998 £000	1997 £000
Decrease in cash in the period		**(2,536)**	(5,430)
Cash inflow from decrease in debt and lease financing		**2,682**	3,188
Changes in net debt resulting from cashflow		**146**	(2,242)
Non cash movement: new finance leases		**-**	(2,561)
Net debt at start of period	*27*	**(11,601)**	(6,798)
Net debt at end of period	*27*	**(11,455)**	(11,601)

The notes on pages 9 to 22 form part of these financial statements.

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 1998. 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

Deprecation 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% straight line
Short leasehold buildings	-	20% straight line
Plant and equipment	-	20% straight line
Fixtures and fittings	-	20% straight line
Motor vehicles	-	33 1/3% straight line

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

The group 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.

A small number of employees participate in defined benefit schemes administered by Motor Industry Pensions Scheme Limited and the MSF Motor Group Pension Scheme. 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.

Notes *(continued)*

2 Analysis of continuing and discontinued operations

	1998 Continuing £000	1998 Discontinued £000	1998 Total £000	1997 Continuing £000	1997 Discontinued £000	1997 Total £000
Turnover	**157,369**	-	**157,369**	137,707	7,535	145,242
Cost of sales	**(138,186)**	-	**(138,186)**	(120,554)	(3,166)	(123,720)
Gross profit	**19,183**	-	**19,183**	17,153	4,369	21,522
Administrative expenses	**(17,807)**	-	**(17,807)**	(14,903)	(3,962)	(18,865)
Operating profit	**1,376**	-	**1,376**	2,250	407	2,657

During the year RVR Limited was sold on an arms length basis to Jasmor Limited, a company with common director ownership.

The disposal of the assets has been treated as a dividend in specie to the shareholders equivalent to the net asset value of the subsidiary at the time of transfer during the year.

The assets of RVR Limited, included in the comparative consolidated balance sheet at 31 December 1997, were as follows:

	1997 £000
Fixed assets	2,388
Stock	35
Debtors	4,257
Cash	3
Creditors	(5,706)
Deferred tax provision	(401)
	576

3 Funding and other costs incurred on the discontinuance of related undertaking

The share capital of RVR Limited was sold to Jasmor Limited (a company controlled by the shareholders of MSF Limited) on 3 April 1998.

Following the sale and as part of the business restructuring of the Jasmor Group, RVR Limited changed its name to Jasmor Rent a Car Limited.

MSF funded the development of Jasmor Limited incurring costs of £685,000. Subsequently MSF provided support for the development of the business and incurred costs to protect its own trading position. Jasmor Limited and Jasmor Rent A Car Limited went into receivership in June 1999. The write-off in respect of the above amounted to £5,681,000.

Notes *(continued)*

4 Directors' emoluments

	1998 £000	1997 £000
Directors' emoluments	**320**	255
Company contributions to pension scheme	**52**	52
	372	307

Fees and other emoluments (excluding pension contributions) paid to the highest paid director totalled £98,000 (1997: £98,000) and contributions of £20,000 *(1997: £20,000)* were paid to a pension scheme on his behalf.

5 Employee information

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

	1998 Number	1997 Number
By activity:		
Administration	**116**	215
Other	**421**	530
	537	745

	1998 £000	1997 £000
Staff costs (for the above persons):		
Wages and salaries	**6,754**	8,304
Social security costs	**766**	790
Other pension costs	**127**	120
	7,647	9,214

Notes *(continued)*

6 Interest payable and similar charges

	1998 £000	1997 £000
On bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	**574**	408
On finance leases	**70**	277
	644	685

7 Profit on ordinary activities before taxation

	1998 £000	1997 £000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year		
Tangible owned fixed assets	**543**	508
Tangible fixed assets held under finance leases	-	484
Auditors' remuneration:		
Audit (Company £10,000; *1997: £10,000)*	**45**	45
Non-audit services	**96**	30
Hire of plant and machinery - operating leases	-	3,166
Hire of other assets - operating leases	-	852

8 Tax on profit on ordinary activities

	1998 £000	1997 £000
United Kingdom corporation tax at 31.5 % *(1997: 33%)*		
Current	**353**	810
Deferred	**(28)**	(264)
Under provision in respect of prior years:		
Current	-	104
	325	650

9 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 loss for the financial year was £5,544,000 (1997: profit £948,000).

Notes *(continued)*

10 Dividends

	1998 £000	1997 £000
Dividends on equity shares:		
Ordinary - interim paid of £1,000 per share (1997: £1,000 per share)	-	300
Distribution in specie	576	-

11 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 1998	3,630	364	1,914	622	2,647	9,177
Additions	209	188	196	96	52	741
Disposals	-	(41)	(263)	(63)	(2,468)	(2,835)
At 31 December 1998	**3,839**	**511**	**1,847**	**655**	**231**	**7,083**
Depreciation						
At 1 January 1998	112	241	1,067	398	250	2,068
Charge for year	61	49	296	70	67	543
Disposals	-	(12)	(153)	(39)	(176)	(380)
At 31 December 1998	**173**	**278**	**1,210**	**429**	**141**	**2,231**
Net book value						
At 31 December 1998	**3,666**	**233**	**637**	**226**	**90**	**4,852**
Net book value						
At 31 December 1997	3,518	123	847	224	2,397	7,109

The cost of freehold land, which is not depreciated, is £843,000 (1997: £843,000).

Notes *(continued)*

11 Tangible fixed assets *(continued)*

Company

	Freehold land and buildings £000	Motor vehicles £000	Plant & Equipment £000	Total £000
Cost				
At 1 January 1998	1,800	177	-	1,977
Additions	238	22	86	346
Disposals	-	(79)	-	(79)
At 31 December 1998	2,038	120	86	2,244
Depreciation				
At 1 January 1998	18	54	-	72
Charge for year	26	51	6	83
Disposals	-	(38)	-	(38)
At 31 December 1998	44	67	6	117
Net book value				
At 31 December 1998	1,994	53	80	2,127
Net book value				
At 31 December 1997	1,782	123	-	1,905

12 Fixed asset investments

Company

	£000
Cost	
At beginning and end of year	1,184
Amounts written off	
At beginning and end of year	4
Net book value	
At beginning and end of year	1,180

Notes *(continued)*

12 Fixed asset investments *(continued)*

Interests in group undertakings

The directors consider that to give full particulars of all investments 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 Group %	Company %	Nature of business
MSF Motors Limited	Ordinary shares	100	100	Ford main dealership
MSF Motors (Yorkshire) Limited	Ordinary shares	100	100	Peugeot main dealership
MSF Accident Repair Centres Limited	Ordinary shares	100	100	Accident repairs centres
MSF Fleet Services Limited	Ordinary shares	100	100	Fleet Sales

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

13 Stocks

	Group 1998 £000	Group 1997 £000
Goods for re-sale	**5,810**	8,215

14 Debtors

Amounts falling due within one year	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Trade debtors	**6,797**	11,179	**8**	278
Amounts owed by subsidiary undertakings	**-**	-	**743**	1,458
Other debtors	**2,897**	2,735	**2,507**	1,982
Prepayments and accrued income	**1,301**	1,522	**-**	117
	10,995	15,436	**3,258**	3,835

Included within other debtors in 1997 was an amount of £685,000 due from Jasmor Limited, a company with common director ownership. Included within other debtors are amounts totalling £1,904,000 (1997: £nil) due from FPS Limited and Pinco (1327) Limited, companies owned by JR Fletcher, a director of MSF Motor Group Limited. Included within other debtors is a directors loan account of £29,775 due from N Smillie. The amount was repaid on 31 December 1999.

Notes *(continued)*

15 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997	**1998**	**1997**
	£000	£000	**£000**	**£000**
Bank loans and overdrafts	**10,651**	8,115	**6,315**	**3,656**
Obligations under finance leases	**554**	3,236	**-**	**-**
Trade creditors	**5,496**	7,932	**-**	**61**
Amounts owed to subsidiary undertakings	**-**	-	**2,888**	**1,255**
Corporation tax	**601**	917	**30**	**80**
Other taxation and social security	**90**	592	**78**	**12**
Other creditors	**1,664**	437	**1,327**	**250**
Accruals	**1,121**	1,772	**237**	**372**
	20,177	23,001	**10,875**	**5,686**

The bank loans and overdrafts are secured by fixed charges over certain group properties together with floating charges over other group assets.

16 Provisions for liabilities and charges

Group

	Deferred taxation £000
At 1 January 1998	**429**
Arising on the de-merger of RVR Limited	**(401)**
Profit and loss account	**(28)**
At 31 December 1998	**-**

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	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Tax effect of timing differences:				
Excess of tax allowances over depreciation	**-**	429	**(21)**	-
Other timing differences	**-**	-	**(3)**	-
	-	429	**(24)**	-

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

Notes *(continued)*

17 Pensions and similar obligations

The group operates a defined contribution pension scheme for certain of its employees. The pension cost for the year ended 31 December 1998 under this scheme was £52,500 (1997: £52,500). There were no accruals or prepaid contributions at the year end.

A small number of employees also participate in a defined benefit scheme administered by Motor Industry Pensions Scheme Limited ('MIP') and the MSF Motor Group Pension Scheme ('MSFPS'). The assets of the schemes are held in separate trustee administered funds.

The total pension cost arising under the schemes was £75,000 (1997: £68,000), which was assessed in accordance with the advice of an independent qualified actuary using the Attained Age method. The latest actuarial valuation of the MIP scheme was as at 6 April 1995, and that of MSFPS as at 6 April 2000. 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.

Key assumptions - MIP scheme

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.

Key assumptions - MSFPS

The investment return would be 8.5% per annum, that salary increases would average 8% per annum and that present and future pensions would not increase beyond the 6.5% 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 £550,000 and the actuarial value of the assets was sufficient to cover 135% 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.

18 Called up share capital

	1998	1997
	£	£
Authorised:		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid:		
300 ordinary shares of £1 each	**300**	300

Notes *(continued)*

19 Reserves

Group

	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000
At 1 January 1997	663	2,268	3,339
Retained profit for the financial year	-	-	1,060
At 31 December 1997	663	2,268	4,399
Retained loss for the financial year *(after exceptional loss of £5,681,000)*	-	-	**(5,850)**
At 31 December 1998	**663**	**2,268**	**(1,451)**

Company

	Profit and loss account £000
At 1 January 1997	286
Retained profit for the financial year	948
At 31 December 1997	1,234
Retained loss for the financial year *(after exceptional loss of £5,681,000)*	**(5,544)**
At 31 December 1998	**(4,310)**

20 Reconciliation of movement in shareholders' funds

	Group		Company	
	1998 £000	1997 £000	**1998 £000**	1997 £000
(Loss) / Profit for the financial year	**(5,274)**	1,360	(4,968)	1,248
Dividends	**(576)**	(300)	(576)	(300)
Net additions to shareholders' funds	**(5,850)**	1,060	(5,544)	948
Opening shareholders' funds	**7,330**	6,270	1,234	286
Closing shareholders' funds	**1,480**	7,330	(4,310)	1,234

Notes *(continued)*

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

	1998 £000	1997 £000
Operating profit before exceptional items	1,376	2,657
Depreciation	543	992
(Decrease)/Increase in stock	2,370	(1,855)
(Decrease)/Increase in debtors	182	(5,877)
Increase in creditors	3,342	3,238
Net cashflow from operating activities	7,813	(845)

22 Return on investments and servicing of finance

	1998 £000	1997 £000
Interest paid	(574)	(408)
Interest element of finance lease payments	(70)	(277)
	(644)	(685)

23 Taxation

	1998 £000	1997 £000
UK corporation tax paid	(669)	(508)

24 Capital expenditure

	1998 £000	1997 £000
Purchase of fixed assets	(741)	(3,515)
Sale of fixed assets	67	3,611
	(674)	96

25 Analysis of net outflow of cash and cash equivalents in respect of the termination of a related undertaking

	1998 £000	1997 £000
Sums incurred and advanced	5,680	-

Notes *(continued)*

26 Financing

	1998 £000	1997 £000
Capital element of finance lease repayments	**(2,682)**	(3,188)

27 Analysis of changes in net debt

	At start of year £000	Cash flows £000	Non cash changes £000	At end of year £000
Bank loans and overdrafts	(8,115)	(2,536)	-	(10,651)
Finance company loan	(250)	-	-	(250)
Finance leases	(3,236)	2,682	-	(554)
	(11,601)	146	-	(11,455)

28 Contingent liabilities

Company

The company has given an Unlimited Multilateral Company Guarantee, dated 22 July 1998 in respect of the bank borrowings of its subsidiary undertakings. At 31 December 1998, such borrowings amounted to £4,336,000 (1997: £4,459,000).

Group

At 31 December 1998, the group had an obligation to buy back vehicles acquired by its customers under the Motability Scheme totalling £7,268,000 (1997: £7,166,755). The obligation at 31 December 1998 relates to vehicle buy backs in the period from 1 January 1999 to 31 December 2001.

The directors do not expect a loss to arise as a result of these arrangements.

29 Consignment stock

The value of consignment stock held by the group on behalf of vehicle manufacturers was £12,815,000 (1997: £17,585,000). The stock remains the property of the manufacturers until such time as it is formally adopted by the group.

30 Capital commitments

Neither the company nor the group had any capital commitments either contracted but not committed or authorised but not contracted as at 31 December 1998.

Notes *(continued)*

31 Related party transactions

During the year, the group made payments of £344,000 (1997: £454,000) to FPS Limited, of which 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.

32 Financial commitments

At 31 December 1998, the group had annual commitments under non-cancellable operating leases as follows:

	1998		1997	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Expiring within one year	-	**21**	-	830
Expiring within two to five years inclusive	-	-	117	21
Expiring in over five years	**595**	-	628	-
	595	**21**	745	851

A number of the subsidiaries operate from premises leased from FPS Limited (see note 31 above).