

STRIPESTAR LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

Registered Number : 3786959

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STRIPESTAR LIMITED

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STRIPESTAR LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2006

The directors have pleasure in submitting their report and the audited financial statements of the company for the year ended 31 December 2006.

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 4. The directors do not recommend the payment of a dividend (2005 : £nil).

BUSINESS REVIEW

The company is a wholly-owned subsidiary of Pendragon PLC and operates as part of the Evans Halshaw division.

The company's principal activity is that of motor retailers. There have not been any significant changes in the company's principal activities in the year under review. The Directors are not, at the date of this report, aware of any likely major changes in the company's activities in the next year.

As shown in the company's profit and loss account on page 4, turnover decreased by 1.7% from £268,181,000 in the prior year to £263,646,000 in the current year and the result for the financial year worsened marginally from a £2,241,000 profit in the prior year to a £2,067,000 profit in the current year.

The balance sheet on page 5 of the financial statements shows that the net assets of the company have increased by £2,357,000 to £12,453,000. This was due the profit of £2,067,000 for the year, the share based payment credit to the profit and loss account of £36,000, and the actuarial gain of £254,000 in the year.

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

One of the main risks facing the business is the year on year decline in new car registrations in the United Kingdom. This risk is partly mitigated by the sale of used cars and aftersales services, as well as new cars in the company's car dealerships. Other risks to the business include fluctuations in general economic conditions, such as interest rate increases, environmental concerns and legislation and the loss of key personnel. These risks are significant to the group and are also detailed in the group financial statements.

The company is a subsidiary of Pendragon PLC who have a dedicated treasury management team to ensure the business is financed in the most effective manner possible. The company also aim to keep key personnel by offering competitive employment terms supplemented by benefits and security, arising from being a member of a large group.

Details of the number of employees and related costs can be found in note 5 to the financial statements. The company participates in policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters.

The directors are satisfied that the company is well positioned to take advantage of future opportunities.

DIRECTORS

The directors who held office during the year were as follows:

T G Finn
D R Forsyth
M S Casha
H C Sykes
Pendragon Management Services Limited

EMPLOYMENT OF DISABLED PERSONS

The company recognises its responsibilities in employing and training disabled persons. If any employee becomes disabled it is standard practice, in all but the most extreme circumstances, to offer an alternative job and provide retraining where necessary.

EMPLOYEE INVOLVEMENT

Regular contact and exchanges of information are maintained to keep employees informed of the progress of the business.

PAYMENTS TO SUPPLIERS

The company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms (provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions). The company does not follow any code or standard on payment practice.

The number of days' purchases outstanding for payment by the company at 31 December 2006 was 24 days (2005 : 15 days).

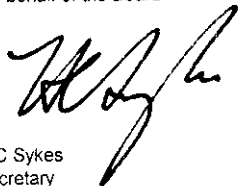
POLITICAL AND CHARITABLE DONATIONS

The company made charitable donations of £250 during the year (2005 : £nil).

STRIPESTAR LIMITED**DIRECTORS' REPORT continued****YEAR ENDED 31 DECEMBER 2006****DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



H C Sykes
Secretary

Loxley House
Little Oak Drive
Annesley
Nottinghamshire
15 October 2007

STRIPESTAR LIMITED**DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Principles).

The financial statements are required by law to 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 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRIPESTAR LIMITED

We have audited the financial statements of Stripestar Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders Funds and the related notes. 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 financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 Directors' Report 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 company's circumstances, consistently applied and adequately disclosed.

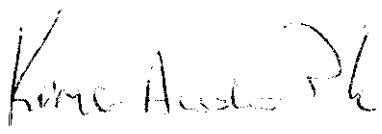
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit 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 Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Birmingham
Chartered Accountants
Registered Auditor



15 October 2007

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2006

Note		2006 £000	2005 £000
2	TURNOVER	263,646	268,181
3	Cost of sales	(228,882)	(228,383)
	GROSS PROFIT	34,764	39,798
3	Net operating expenses	(30,387)	(33,205)
4	OPERATING PROFIT	4,377	6,593
	Profit on disposal of business	-	203
	PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	4,377	6,796
6	Interest payable	(1,471)	(3,404)
	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,906	3,392
7	Taxation	(839)	(1,151)
16	PROFIT FOR THE FINANCIAL YEAR	2,067	2,241

All amounts relate to continuing operations.

Movements in reserves are shown in note 16.

The notes on pages 7 to 14 form part of these financial statements.

BALANCE SHEET**AT 31 DECEMBER 2006**

Note		2006 £000	2005 £000
	FIXED ASSETS		
8	Goodwill	5,041	5,541
9	Tangible assets	2,512	4,853
		7,553	10,394
	CURRENT ASSETS		
10	Stocks	25,904	25,990
11	Debtors	11,037	7,756
	Cash at bank and in hand	7,442	266
		44,383	34,012
12	CREDITORS: amounts falling due within one year	(38,111)	(32,060)
	NET CURRENT ASSETS	6,272	1,952
13	CREDITORS : amounts falling due in more than one year	(100)	(100)
	NET ASSETS EXCLUDING PENSION LIABILITIES	13,725	12,246
21	Pension liabilities	(1,272)	(2,150)
	NET ASSETS	12,453	10,096
	CAPITAL AND RESERVES		
15	Called up share capital	100	100
16	Share premium account	24,900	24,900
16	Profit and loss account	(12,547)	(14,904)
	SHAREHOLDERS' FUNDS	12,453	10,096

Approved by the Board of Directors on 15 October 2007 and signed on its behalf by :



H C Sykes
Director

The notes on pages 7 to 14 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**YEAR ENDED 31 DECEMBER 2006**

	2006 £000	2005 £000
Profit for the financial year	2,067	2,241
Actuarial gain / (loss) recognised in the defined benefit pension scheme	363	(649)
Deferred taxes arising on gains / (losses) in the defined benefit pension scheme	(109)	194
Total recognised gains and losses relating to the year	2,321	1,786
Prior year adjustment*	-	(1,673)
Total gains and losses since last annual report	2,321	113

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**YEAR ENDED 31 DECEMBER 2006**

	2006 £000	2005 £000
Profit for the financial year	2,067	2,241
Share based payments	36	-
Net increase in shareholders' funds	2,103	2,241
Opening shareholders' funds	10,096	8,310
Other recognised gains / (losses)	254	(455)
Closing shareholders' funds	12,453	10,096

The notes on pages 7 to 14 form part of these financial statements.

* Prior year adjustment relates to adoption of FRS 17 in prior year.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES

(a) Accounting convention. The financial statements have been prepared in accordance with applicable accounting standards using the historical cost convention. The financial statements have been prepared on a going concern basis.

(b) Turnover. Turnover represents sales invoiced to third parties exclusive of value added tax. Consideration received from customers is only recorded as turnover when the company has performed its obligation in respect of that consideration.

(c) Tangible fixed assets and depreciation. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic life as follows:

Leasehold properties - 2% per annum or over the period of the lease if less than 50 years
 Plant and equipment - 10 to 33% per annum
 Motor vehicles - 20 to 25% per annum.

(d) Stocks.

(i) Motor vehicles and parts stocks are stated at the lower of cost and net realisable value.

(ii) Consignment vehicles are new unregistered vehicles owned by the manufacturers, mainly located at the company's premises, and insured by the company. New consignment vehicles in respect of which finance charges are levied are regarded as being effectively under the control of the company and, in accordance with Financial Reporting Standard No. 5, are included within stocks on the balance sheet even though legal title has not yet passed to the company. The corresponding liability is included in creditors.

Net realisable value is based on estimated selling price less further costs expected to be incurred to disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

(e) Taxation. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation. Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

- (i) deferred tax is not recognised on the difference between book values and fair values of non-monetary assets arising on acquisitions unless there is a binding agreement to sell such an asset and the gain or loss expected to arise has been recognised; and
- (ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

(f) Cash flow statement. As a wholly owned subsidiary undertaking of Pendragon PLC - whose consolidated financial statements are publicly available and include the results of this company, the company has relied upon the exemption in Financial Reporting Standard No. 1 (revised) and has not included a cash flow statement as part of these financial statements.

(g) Post-retirement benefits. The company participates in the Stripestar Pension Scheme providing benefits based on both final pensionable pay and defined contributions. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Pension assets and liabilities are measured using the mid-market price and projected unit credit method. The pension deficit is recognised in full. The movement in the scheme is split between operating charges, finance items, and in the Statement of Total Recognised Gains and Losses, actuarial gains and losses.

(h) Share based payments. The Group operates a number of employee share option schemes. The fair value at the date at which the share options are granted is recognised in the profit and loss account on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised. In accordance with FRS 20, no profit and loss account expenses are recorded in respect of grants of share options made prior to 7 November 2002.

(i) Leases. Rentals under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

(j) Related parties. Under Financial Reporting Standard No. 8 the company has relied upon the exemption not to disclose related party transactions with other group undertakings as they are all included in the Pendragon PLC consolidated financial statements.

(k) Goodwill. Goodwill represents the excess of the fair value of consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on acquisitions is capitalised and amortised to nil by equal instalments over its estimated useful life.

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES continued

(i) Classification of financial instruments issued by the Company. Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the Reconciliation of Movements in Shareholders' Funds.

2 TURNOVER

All turnover arises in the United Kingdom from the company's principal activities.

3 TURNOVER, COST OF SALES AND NET OPERATING EXPENSES

	2006 £000	2005 £000
Turnover	263,646	268,181
Cost of sales	(228,882)	(228,383)
Gross profit	34,764	39,798
Net operating expenses :		
Distribution costs	(18,491)	(20,035)
Administrative expenses	(11,896)	(13,170)
	(30,387)	(33,205)
Operating profit	4,377	6,593

4 OPERATING PROFIT

Operating profit has been arrived at after charging :

	2006 £000	2005 £000
Depreciation of tangible fixed assets - owned	831	1,007
Amortisation of goodwill	500	403
Audit of these financial statements	8	24
Operating lease charges - Plant & Equipment	172	172
Operating lease charges - Land & Buildings	1,436	1,537

Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's parent, Pendragon PLC.

5 EMPLOYEES

The average number employed by the company in the following areas was:

	2006 Number	2005 Number
Sales	243	269
After sales	409	453
Administration	105	116
	757	838

Costs incurred in respect of these employees were :

	2006 £000	2005 £000
Wages and salaries	15,463	16,650
Social security costs	1,455	1,559
Other pension costs - including gain on curtailment (see note 21)	(297)	282
Equity settled transactions	36	-
	16,657	18,491

No director of the company received or waived any remuneration for services to the company during the year (2005 : £nil).

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2006

6 INTEREST PAYABLE

	2006 £000	2005 £000
Interest payable on loans wholly repayable within five years :		
Bank loans and overdrafts	-	175
Stocking loans	1,016	2,386
Intra group loan interest	977	882
Interest receivable:	1,993	3,443
Bank interest receivable	(453)	-
Net return on pension scheme (see note 21)	(69)	(39)
	1,471	3,404

7 TAXATION

	2006 £000	2005 £000
UK corporation tax at 30% (2005 : 30%):		
Current tax on income for the year	-	228
Adjustments in respect of prior periods	(27)	-
	(27)	228
Deferred taxation:		
Current year deferred taxation	260	923
Adjustments in respect of prior periods	54	-
	287	1,151
Receipt for group relief	552	-
	839	1,151

Factors affecting the tax charge for the period:

The tax assessed is different than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

	2006 £000	2005 £000
Profit on ordinary activities before tax	2,906	3,392
Tax on profit at UK rate of 30% (2005 : 30%)	872	1,018
Permanent differences:		
Accounting depreciation for which no tax relief is due	10	18
Goodwill amortisation for which no tax relief is due	150	121
Other disallowables	7	4
Tax relief on employee share option gains	(227)	(10)
Adjustments to tax charge in respect of previous periods	(27)	-
Total permanent differences	(87)	133
Deferred tax movements taken to the profit and loss account:		
Accelerated capital allowances	(1)	(64)
Recognition of FRS 17 pension liability	(267)	(18)
Other provisions	8	(841)
Total timing differences	(260)	(923)
Total current tax charge / (credit)	525	228
Aggregate tax charge / (credit) is analysed as:		
Current tax	525	228
Deferred tax	314	923
	839	1,151

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008. The deferred tax asset has been calculated at 30% in accordance with FRS 19. Any timing differences which reverse before 1 April 2008 will be (charged)/relieved at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% and, because of the uncertainty of when the deferred tax asset will reverse, it is not possible to calculate the full financial impact of this change.

8 GOODWILL

	Goodwill £000
Cost	
At 31 December 2005 and at 31 December 2006	10,000
Amortisation	
At 31 December 2005	4,459
Charge for the year	500
	4,959
At 31 December 2006	
Net book value	
At 31 December 2006	5,041
At 31 December 2005	5,541

Goodwill on dealerships acquired is amortised over a period of twenty years.

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2006

9	FIXED ASSETS - TANGIBLE ASSETS	Short Leasehold Property £000	Plant & Equipment £000	Motor Vehicles £000	Total £000
	Cost				
	At 31 December 2005	601	6,501	4,254	11,356
	Additions	-	820	2,510	3,330
	Disposals	(2)	(661)	(5,706)	(6,369)
	At 31 December 2006	599	6,660	1,058	8,317
	Depreciation				
	At 31 December 2005	362	5,506	635	6,503
	Disposals	(2)	(661)	(866)	(1,529)
	Charge for the year	33	395	403	831
	At 31 December 2006	393	5,240	172	5,805
	Net book value				
	At 31 December 2006	206	1,420	886	2,512
	At 31 December 2005	239	995	3,619	4,853
	Motor vehicles comprise (at net book value):		2006 £000		2005 £000
	Service loan vehicles		438		1,344
	Other vehicles		448		2,275
			886		3,619
10	STOCKS		2006 £000		2005 £000
	New and used vehicles		22,690		21,079
	Consignment vehicles		246		2,080
	Vehicle parts and other stocks		2,968		2,831
			25,904		25,990
	Consignment vehicles exclude new vehicle stocks held by the manufacturers to the order of the company, which are not capable of bearing a finance charge, amounting to £15,666,000 (2005 : £40,497,000).				
11	DEBTORS		2006 £000		2005 £000
	Trade debtors		6,765		3,940
	Amounts owed by group undertakings		1,180		110
	Deferred tax (see note 14)		114		161
	Other taxation and social security		899		2,450
	Other debtors and prepayments		2,079		1,095
			11,037		7,756
	All amounts are due within one year with the exception of deferred taxation.				
12	CREDITORS : amounts falling due within one year		2006 £000		2005 £000
	Consignment vehicle liabilities		246		2,080
	Payments received on account		643		405
	Trade creditors		15,497		10,135
	Amounts owed to group undertakings		15,922		13,935
	UK corporation tax		76		228
	Other taxation and social security		429		479
	Accruals and deferred income		5,298		4,798
			38,111		32,060
13	CREDITORS : amounts falling due in more than one year		2006 £000		2005 £000
	Shares classified as liabilities (see note 15)		100		100

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2006

14 DEFERRED TAX ASSET

The movement in the deferred tax asset for the year was as follows:

	Deferred Tax £000
At 31 December 2005	161
Profit and loss account (excluding deferred tax on pension liability)	(47)
At 31 December 2006	114

The amounts of deferred tax provided in the financial statements are as follows:

	2006 £000	2005 £000
Fixed asset timing differences	124	161
Other timing differences	(10)	-
	114	161

15 CALLED UP SHARE CAPITAL

	2006 £000	2005 £000
Authorised:		
120,000 (2005: 120,000) Ordinary shares of £1.00 each	120	120
200,000 (2005: 200,000) Preference shares of £1.00 each	200	200
	320	320
Allotted, called up and fully paid:		
100,000 (2005: 100,000) Ordinary shares of £1.00 each	100	100
100,000 (2005: 100,000) Preference shares of £1.00 each	100	100
	200	200
Shares classified as liabilities (see note 13)	100	100
Shares classified in shareholders' funds	100	100
	200	200

Preference shares confer upon the holders the right to receive payment of a cumulative preferential dividend at a rate of 1.5% above 3 month LIBOR per annum.

Preference shareholders have no participation in the assets of the company on winding up beyond the issue price of their shares and any accrued dividend.

Preference shares do not confer any rights to vote at a general meeting except in the case of a variation of class rights.

The preference shares are redeemable on 8 September 2009 or at an earlier date by agreement between all the shareholders and the company.

16 RESERVES

	Share Premium Account £000	Profit and Loss Account £000
At 31 December 2005	24,900	(14,904)
Profit for the year	-	2,067
Actuarial gain recognised in the pension scheme	-	363
Deferred tax arising on gains in the pension scheme	-	(109)
Share based payments	-	36
At 31 December 2006	24,900	(12,547)

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2006

17 OPERATING LEASE COMMITMENTS

Annual lease payments due in 2007 under operating leases of the company, according to the period in which the lease expires are as follows:

	Land and Buildings		Other	
	2006	2005	2006	2005
	£000	£000	£000	£000
Under 1 year	-	15	163	172
Between 1 and 5 years	25	298	-	-
Over 5 years	1,287	1,123	-	-
	1,312	1,436	163	172

18 SHARE BASED PAYMENTS

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2006	'000	2005	'000
Outstanding at beginning of period	37.44p	2,219	27.12p	2,092
Lapsed during the period	65.07p	(287)	32.04p	(209)
Exercised during the period	24.71p	(927)	11.98p	(263)
Granted during the period	130.60p	404	60.40p	599
Outstanding at the end of the period	66.87p	1,409	37.44p	2,219
Exercisable at the end of the period	28.00p	292	17.75p	37

The options outstanding at 31 December 2006 have an exercise price in the range of 9.1 pence to 130.6 pence and a weighted contractual life of 2.7 years.
All share options are settled in equity

Movements in the number of options to acquire ordinary shares under the parent company's share option schemes, together with exercise prices and the outstanding position at 31 December 2006 were as follows :

Exercise period	Date of grant	Scheme Description	Exercise price per share	At 31 December 2005 Number	Granted Number	Exercised Number	Lapsed Number	At 31 December 2006 Number
17 March 2001 to 16 March 2008	17 March 1998	1989 Executive Scheme	24.6p	7,233	-	-	(1,085)	6,148
9 October 2001 to 8 October 2008 *	9 October 1998	1989 Executive Scheme	10.2p	7,233	-	(1,085)	-	6,148
1 July 2006 to 31 December 2006	1 July 1999	1998 Sharesave Scheme	13.6p	14,068	-	(11,567)	(2,501)	-
21 June 2002 to 20 June 2009	21 June 1999	1999 Executive Scheme	13.0p	2,893	-	(2,170)	-	723
1 July 2007 to 31 December 2007	1 July 2000	1998 Sharesave Scheme	9.1p	34,890	-	-	-	34,890
9 March 2004 to 8 March 2011	9 March 2001	1999 Executive Scheme	18.7p	19,429	-	(10,660)	-	8,769
1 July 2006 to 31 December 2006	1 July 2001	1998 Sharesave Scheme	18.0p	18,044	-	(18,044)	-	-
1 July 2008 to 31 December 2008	1 July 2001	1998 Sharesave Scheme	18.0p	4,142	-	-	(152)	3,990
24 March 2006 to 23 March 2013	24 March 2003	1999 Executive Scheme	23.4p	797,118	-	(593,168)	(21,700)	182,250
1 July 2006 to 31 December 2006	1 July 2003	1998 Sharesave Scheme	24.6p	232,883	-	(217,393)	(14,014)	1,476
1 July 2008 to 31 December 2008	1 July 2003	1998 Sharesave Scheme	24.6p	99,812	-	(773)	(11,741)	87,298
1 July 2010 to 31 December 2010	1 July 2003	1998 Sharesave Scheme	24.6p	32,192	-	-	(2,759)	29,433
30 September 2006 to 29 September 2013	30 September 2003	1999 Executive Scheme	40.2p	168,394	-	(70,335)	(11,284)	86,775
20 September 2007 to 19 September 2014	20 September 2004	1999 Executive Scheme	60.2p	224,236	-	-	(14,467)	209,769
1 July 2008 to 31 December 2008	1 July 2005	1998 Sharesave Scheme	60.4p	301,276	-	(1,363)	(69,329)	230,584
1 July 2010 to 31 December 2010	1 July 2005	1998 Sharesave Scheme	60.4p	211,624	-	(144)	(77,931)	133,549
1 July 2012 to 31 December 2012	1 July 2005	1998 Sharesave Scheme	60.4p	43,142	-	-	(8,924)	34,218
1 July 2009 to 31 December 2009	1 July 2006	1998 Sharesave Scheme	130.6p	-	175,175	-	(19,893)	155,282
1 July 2011 to 31 December 2011	1 July 2006	1998 Sharesave Scheme	130.6p	-	174,493	-	(22,789)	151,704
1 July 2013 to 31 December 2013	1 July 2006	1998 Sharesave Scheme	130.6p	-	53,883	-	(7,966)	45,917
				2,218,608	403,551	(926,701)	(286,535)	1,408,923

The share option arrangements scheduled above include a number of arrangements granted before 7 November 2002. The recognition and measurement principles in IFRS 2 have not been applied to those grants in accordance with the transitional provisions of IFRS 2.

On 1 July 2006 options over 403,551 ordinary shares of 5p were granted pursuant to the 1998 Pendragon Sharesave Scheme at an exercise price of 130.6p per share.

The grants of share options under the 1989 and 1999 Schemes prescribed an earnings per share performance criterion. It is a pre-condition to the exercise of grants made under the 1989 and 1999 Schemes that the growth in the company's earnings per share over the prescribed three year period must exceed by at least 3 percent per annum (for 1999 scheme) and 2 percent per annum (for 1989 scheme) compound the annual rate of inflation as shown by the RPI Index.

The weighted average share price at the date of exercise for share options exercised in the year was 25.7 pence (2005 : 63.0 pence).

The vesting conditions attaching to the 1998 Pendragon Sharesave schemes are that the option holder must be employed by the group on the date of exercise.

All options are settled by physical delivery of shares.

The fair value of the services received in return for share options is measured by reference to the fair value of the options granted. The estimate of the fair value of the services received in respect of share option and share save schemes is measured using the Black-Scholes option pricing model.

The weighted average fair value of the options at the date of grant for those that are outstanding at 31 December 2006 is 19.2 pence (2005: 6.0 pence).

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2006

18 SHARE BASED PAYMENTS (CONTINUED)

There were no executive share options granted during 2006 to any team members. The average assumptions input into the models for options granted under the share save schemes in the year were as follows:

	Share save scheme	
	2006	2005
Number of share options granted in year	403,551	598,650
Weighted average share price (pence)	130.6	60.4
Weighted average exercise price (pence)	130.6	60.4
Expected volatility (%)	32.8%	31.7%
Expected life (years)	4.4	4.1
Risk free rate (%)	4.7%	4.0%
Expected dividend yield (%)	2.6%	5.1%

Expected volatility was determined by calculating the historical volatility of the parent company's share price over the corresponding historical period. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and team member turnover.

The company recognised a total expense of £36,000 relating to equity-settled share based payment transactions.

The note has been restated following the subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

19 ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH COMPANY IS A MEMBER

The company's ultimate parent company is Pendragon PLC which is incorporated in England and Wales. The largest and smallest group in which the results of the company are consolidated is that headed by Pendragon PLC. Financial statements of Pendragon PLC for the year ended 31 December 2006 are available from the Company Secretary, Pendragon PLC, Loxley House, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.

20 CONTINGENT LIABILITIES

The company is party to a group arrangement with its bankers whereby any in-hand balance may be applied against the overdraft of other group companies. As at 31 December 2006 the cash at bank and in hand was £7,442,000 (2005 : £266,000).

21 PENSIONS

The Company operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 5 April 2006 and updated to 31 December 2006 by a qualified actuary. The major assumptions chosen by the Directors and used by the actuary were:

	At 31 December 2006	At 31 December 2005	At 31 December 2004
Discount rate	5.20%	4.80%	5.50%
Rate of increase in salaries	n/a	4.10%	4.10%
Inflation assumption	2.90%	2.80%	2.80%
Rate of increase in pensions in payment (where appropriate)	2.90%	2.80%	2.80%

The assumptions used by the actuaries are the best estimates chosen by the Directors from a range of possible actuarial assumptions which, due to the timescales covered, may not be borne out in practice.

The fair value of scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the scheme liabilities, which is derived from cash flow projections over long periods and is therefore inherently uncertain, are:

	Long-term rate of return expected at 31 December 2006	Market value at 31 December 2006	Long-term rate of return expected at 31 December 2005	Market value at 31 December 2005	Long-term rate of return expected at 31 December 2004	Market value at 31 December 2004
		£'000		£'000		£'000
Equities	8.60%	8,253	8.10%	7,065	8.50%	5,782
Bonds	4.60%	246	4.10%	49	-	-
Cash	4.60%	149	4.10%	17	4.50%	18
Total market value of assets		8,648		7,131		5,800
Present value of scheme liabilities		10,465		10,202		8,282
Deficit in the scheme		1,817		3,071		2,482
Related deferred tax asset		545		921		745
Net pension liability		1,272		2,150		1,737

Analysis of the amount charges to operating profit

	2006 £'000	2005 £'000
Current service cost (including defined contribution section)	207	282
Curtailments (gain) / loss	(504)	-
Total operating charge	(297)	282

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2006

21 PENSIONS (continued)

Analysis of the amount charged to other finance income

	2006 £'000	2005 £'000
Expected return on pension scheme assets	(555)	(499)
Interest on pension scheme liabilities	486	460
Credit to other financing income	(69)	(39)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2006 £'000	2005 £'000
Actual return less expected return on scheme assets	533	615
Experience gains and losses arising on the scheme liabilities	(307)	34
Changes in assumptions underlying the present value of the scheme liabilities	137	(1,298)
Actuarial gain / (loss) recognised in STRGL	363	(649)

Movement in surplus during the period

	2006 £'000	2005 £'000
Deficit in schemes at beginning of the period	(3,071)	(2,482)
Movement in the period:		
Current service cost (including defined contribution section)	(207)	(282)
Contributions (including defined contribution section)	525	303
Curtailments gain / (loss)	504	-
Other finance income	69	39
Actuarial (loss) / gain	363	(649)
Deficit in schemes at end of period	(1,817)	(3,071)

History of experience gains and losses

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Actual less expected return on scheme assets	533	615	443	495	(2,191)
Percentage of scheme assets	6.2%	8.6%	8.0%	10.0%	-52.5%
Experience gains and losses on the scheme liabilities	(307)	34	112	126	769
Percentage of scheme liabilities	-2.9%	0.3%	1.4%	2.0%	12.0%
Total amount recognised in the STRGL	363	(649)	179	(129)	(1,423)
Percentage of scheme liabilities	3.5%	-6.4%	2.2%	-2.0%	-22.0%

This scheme is a closed scheme and therefore under the projected unit method the current service cost would be expected to increase as the members of the scheme approach retirement. The scheme was closed on 30 September 2006.