

Company Registration No. 05779958

MG Motor UK Limited (Formerly
known as NAC MG UK Limited)

Report and Financial Statements

Year ended 31 December 2008



MG Motor UK Limited

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MG Motor UK Limited

Officers and professional advisers

Directors

Xiao Hu Lin
Yao Ping Wang (resigned 25/12/2008)
Guorong Ji (resigned 25/12/2008)
Xiao Qing He (appointed 08/05/2008)
Hong Biao Wang (resigned 08/05/2008)
Zhixin Chen (appointed 25/12/2008)
Hao Wang (appointed 25/12/2008)

Secretary

Yan Xu (resigned 18/07/2007)
Cheng Cai (appointed 18/07/2007)

Registered office

International Headquarters
Q Gate
Low Hill Lane
Longbridge
Birmingham
B31 2BQ

Bankers

Bank of China
98 Cannon Street
London
EC4N 6HA

Solicitors

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Auditors

Deloitte LLP
Chartered Accountants
Birmingham, UK

MG Motor UK Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

On 8 January 2009 the company changed its name to MG Motor UK Ltd to reinforce the presence and image of the MG brand within the company name. We anticipate our new name will help strengthen our reputation and re-emergence in the market by emphasising the already well known MG brand.

Activities

The principal activity of the company is the assembly and sale of automotive vehicles and parts, the sale of automotive body parts to group companies and the provision of support services to group companies.

On 1 October 2008 the company purchased all the fixed assets and stocks of Nanjing Automobile Corporation (UK) Limited and combined both businesses (note 6).

Business performance and future prospects

These activities generated a turnover of £12,424,000 (2007 - £411,000). The increase of turnover during the year was mainly due to the increased level of sales on automotive parts to group companies in China and the start of car production and sales in 2008. The loss after tax amounted to £12,022,000 (2007 - £4,450,000 loss). The net liability and shareholders deficit at 31 December 2008 were £5,886,000 (2007 - £6,136,000 net assets and share holders funds).

The company commenced production in the second half of 2008, launching not only the MG Brand but also the MG TF at a level that enabled us to assess the business risks in model selection, product pricing and to allow flexibility enabling adjustments to strategies to meet the market need. We have established a line of funding, a dealership network, a working relationship with the media and a manufacturing presence in the Midlands.

In addition, we have created a new modular stand alone Data Centre to support the needs of the Company and to support SAIC Motor UK Technical Centre Ltd, a fellow subsidiary of SAIC Group, who joined us on the Longbridge site at the beginning of 2009.

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks detailed below:

Credit risk

The company's credit risk, in what has become a significant economic downturn, is primarily attributed to trade receivables. The risk is minimised as most trade receivables are from within the Group and the Directors believe that the risk of default is not significant. In addition, the risk from our sales receivables is minimised by the funding arrangements for the dealers.

In addition, the company has entered into a debtor factoring agreement with GE Commercial Distribution Finance Europe Limited ("CDF") on 28 November 2007. Under such agreement CDF will purchase certain receivables pursuant to the Purchase Agreements entered into by the company and a dealer under a credit limit set by CDF. Current credit limits granted to each dealer varies between £75,000 and £150,000. The company has adopted separate presentation in respect of gross trade debtor receivable from the dealers and trade payables refundable to CDF in case of dealer default. An amount of £1,874,000 (2007: £nil) is included in the trade debtor balance as at 31 December 2008. Management has assessed the recoverability of the trade debtor receivable from the dealers and has concluded there is no significant doubtful debt risk as at 31 December 2008. Hence, no provision was made in this regard. There is no definite term of the debtor factoring agreement and it can be terminated by either party on 3-month notice.

MG Motor UK Limited

Directors' report (continued)

Cash flow risks

The company cash flow has been affected by the change in the foreign exchange rates with the rising price of raw materials and continued appreciation of Euro against the British Pound leading to increased purchasing costs, limited only by the level of production.

Liquidity risk

In order to maintain liquidity and to ensure sufficient funds are available for ongoing operations and future development the company relies on financial support from its parent company.

A letter of support has been obtained from Nanjing Automobile (Group) Corporation (NAC China), an intermediate holding company within the SAIC Group, confirming that NAC China will support the continuation of the operation of the company for at least one year from the date this report was signed.

Dividends

The directors do not recommend payment of a dividend for the year ended 31 December 2008 (2007: nil).

Going concern

The company relies on financial support from its parent company to maintain liquidity and to ensure ongoing operations and future development. A letter of support has been obtained from Nanjing Automobile (Group) Corporation (NAC China), an intermediate holding company within the SAIC Group, confirming that NAC China will support the continuation of the operation of the company for at least one year from the date this report was signed.

In addition, the company has entered into a debtor factoring agreement with GE Commercial Distribution Finance Europe Limited ("CDF") on 28 November 2007. Details of such agreement can be found in "Credit risk" section above. Under the agreement MG Motor UK Ltd gets paid upfront by CDF before cars are sold by the dealers to end customers.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. No material uncertainties leading to significant doubt about going concern have been identified.

Directors and their interests

The directors of the company, who served throughout the financial year unless stated otherwise, are as shown on page 1.

None of the Directors holds shares or share options in the company or in any other companies within the group.

Environmental responsibility

The company recognises the importance of environmental responsibility and aims to comply with all relevant environmental legislation.

MG Motor UK Limited

Directors' report (continued)

Employee participation and disabled employees

Employee participation and consultation has continued to benefit the company.

A time banking system and the use of agency contract labour has allowed a flexible approach to hours worked particularly within the production areas.

It is the policy of the company to support the employment of disabled persons where possible, both in recruitment and by the retention of employees who become disabled whilst in the employment of the company as well as generally through training and career development.

Disclosure of information to the auditors

Each of the persons who are a director at the date of approval of this report confirms that:

- So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

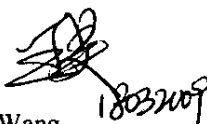
This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

The company's auditors, Deloitte & Touche LLP, have changed their name to Deloitte LLP on 1 December 2008.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board


Hao Wang
Director

MG Motor UK Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of MG Motor UK Limited

We have audited the financial statements of MG Motor UK Limited (formerly known as NAC MG UK Limited) for the year ended 31 December 2008 which comprises the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 15. 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 auditors' 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the 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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Birmingham, UK

Date: 19 March 2009

MG Motor UK Limited

Profit and loss account

Year ended 31 December 2008

		Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
	Note		
Turnover	2	12,424	411
Cost of sales		(6,424)	(435)
Gross profit		6,000	(24)
Administrative expenses (including in 2008 exceptional cost of £1,953,000 (2007: £nil) in respect of fixed assets impairment as set out in note 7)		(18,010)	(4,426)
Operating loss	4	(12,010)	(4,450)
Finance charges - net		(12)	-
Loss on ordinary activities before taxation		(12,022)	(4,450)
Taxation	5	-	-
Loss on ordinary activities after taxation for the financial period		(12,022)	(4,450)

All activities derive from continuing operations.

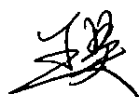
There have been no recognised gains and losses for the current or the prior period other than as stated in the profit and loss account above and, accordingly, separate statement of total recognised gains and losses is presented.

MG Motor UK Limited

Balance sheet 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	7	6,290	5,820
Current assets			
Stocks	8	5,350	2,457
Debtors	9	4,951	941
Cash at bank and in hand		457	3
		<u>10,758</u>	<u>3,401</u>
Creditors: amounts falling due within one year	10	<u>(22,934)</u>	<u>(3,085)</u>
Net current (liabilities)/assets		<u>(12,176)</u>	<u>316</u>
Net (liabilities)/assets		<u>(5,886)</u>	<u>6,136</u>
Capital and reserves			
Called up share capital	12	1	1
Share premium account	12	10,585	10,585
Profit and loss account (deficit)	12	<u>(16,472)</u>	<u>(4,450)</u>
Total equity shareholders' (deficit)/funds	13	<u>(5,886)</u>	<u>6,136</u>

These financial statements were approved by the Board of Directors on *March 18* 2009.
Signed on behalf of the Board of Directors



Hao Wang
Director

MG Motor UK Limited

Notes to the financial statements Year ended 31 December 2008

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

The financial statements have been prepared on a going concern basis. This is discussed in the Report of the Directors on page 2, under the heading 'Going Concern'.

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

The company has taken advantage of the exemption under Financial Reporting Standard No. 1 (revised 1996) from the requirements to prepare a cash flow statement as the company is a wholly owned subsidiary undertaking of SAIC Motor Corporation Limited whose financial statements for the year ended 31 December 2008 includes a consolidated cash flow statement and is publicly available.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Leasehold improvement	20% per annum straight-line
Plant and machinery	15% per annum straight-line
Electronics equipment	16.67% per annum straight-line
Motor vehicles	12.5% per annum reducing balance

Residual value is calculated on prices prevailing at the date of acquisition.

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Taxation

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

MG Motor UK Limited

Notes to the financial statements (continued) Year ended 31 December 2008

1. Accounting policies (continued)

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income on an straight line basis over the lease term.

Foreign currencies

Exchange differences on normal trading transactions are reflected in the profit and loss account in the year. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange ruling at that date.

Intangible assets – research and development

Research expenditure is written off as incurred.

Turnover

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and Value Added Tax. The turnover with third parties arises in the United Kingdom and the turnover within the group arises in China.

2. Turnover

	2008 £'000	2007 £'000
With third parties (in UK)	4,176	-
Within the group (in China)	8,248	411
	<u>12,424</u>	<u>411</u>

3. Information regarding directors and employees

Remuneration to the directors was paid by company's parent company for their services. No part of this remuneration is directly attributable to their services to this company. No charges have been made in respect of the directors' services during the year.

	2008 Number	2007 Number
Average number of persons employed		
Production	42	33
Sales, distribution and administration	70	49
	<u>112</u>	<u>82</u>
	£'000	£'000
Staff costs during the period		
Wages and salaries	3,411	1,679
Social security costs	357	179
	<u>3,768</u>	<u>1,858</u>

MG Motor UK Limited

Notes to the financial statements (continued) Year ended 31 December 2008

4. Operating loss

	2008 £'000	2007 £'000
Operating loss is stated after charging		
Depreciation on fixed assets	804	306
Fixed assets impairment	1,953	
Research and development costs	187	695
Loss on sale of tangible fixed assets	-	34
Auditors' remuneration		
- for audit services	24	6
- other services	60	10

The analysis of auditors' remuneration for the provision of non-audit services is as follows:

	2008 £'000	2007 £'000
Fees payable to the company's auditors for other services to the company		
Tax services	60	10
<i>Total non-audit fees</i>	60	10

MG Motor UK Limited

Notes to the financial statements (continued) Year ended 31 December 2008

5. Tax on loss on ordinary activities

a) Factors affecting the tax charge for the period:

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 28.5% (2007: 30%). The differences are explained below:

	2008 £'000	2007 £'000
Current tax reconciliation:		
Loss on ordinary activities before tax	(12,022)	(4,450)
Tax at 28.5% thereon (2007: 30%):	(3,426)	(1,335)
Effects of:		
Expenses not deductible for tax purposes	9	1
Depreciation in excess of capital allowances	796	92
Other timing differences	165	27
Origination of losses	2,456	1,215
	<u>3,426</u>	<u>1,335</u>
Total current tax charge	<u>-</u>	<u>-</u>

b) Factors that may affect future tax charges:

The company has unused tax losses of £19,969,000 (2007: £4,051,000) which are available to offset future profits from the same trade.

The company has unrecognised deferred tax assets in relation to these tax losses of £5,591,000 (2007: £3,216,000) and unclaimed capital allowances of £915,000 (2007: £129,000) and other timing differences of £162,000 (2007: nil) which have not been recognised due to uncertainty as to the timing of future recovery.

Following the Finance Act 2007, the standard rate of UK corporation tax has reduced from 30% to 28% from 1 April 2008.

MG Motor UK Limited

Notes to the financial statements (continued) Year ended 31 December 2008

6. Acquisition of trade and assets

On 1 October 2008, the company acquired the fixed assets and stocks of Nanjing Automobile Corporation (UK) Limited (NAC UK), its direct parent company. Since that date, NAC UK acts solely as a holding company and all other trade within the UK Group is carried out by MG Motor UK Limited.

The book values of the fixed assets and stocks acquired from Nanjing Automobile Corporation (UK) Limited are as follows:

	Book Value £'000
Tangible fixed assets	363
Stock	334
	<hr/>
	697
	<hr/>

The directors of the company consider that the fair value of the fixed assets and stocks acquired to be consistent with the book values noted above.

The consideration in respect of this transaction was agreed as £697,000 and this balance is included within intercompany creditor as at 31 December 2008. Accordingly, no goodwill has been recognised.

As fixed assets and stocks are managed in a centralised manner, it is not possible to assess the contribution of those acquired fixed assets and stocks to the company post acquisition.

MG Motor UK Limited

Notes to the financial statements (continued) Year ended 31 December 2008

7. Tangible fixed assets

	Leasehold improvement	Plant and machinery	Electronics equipment	Motor vehicles	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2008	-	5,131	290	115	590	6,126
Transfer from holding company during the year	-	358	5	-	-	363
Additions	14	24	363		2,463	2,864
Transfer of assets under construction	264	118	87	-	(469)	-
At 31 December 2008	278	5,631	745	115	2,584	9,353
Depreciation						
At 1 January 2008	-	(261)	(26)	(19)	-	(306)
Charge for the year	(23)	(662)	(96)	(23)	-	(804)
Impairment provision		(1,953)	-	-	-	(1,953)
At 31 December 2008	(23)	(2,876)	(122)	(42)	-	(3,063)
Net book value						
At 31 December 2008	255	2,755	623	73	2,584	6,290
At 31 December 2007	-	4,870	264	96	590	5,820

The impairment of fixed assets has been calculated in accordance with the provisions of Financial Reporting Standard (FRS) 11. The impairment provision made during 2008 represented a fully written down of a production line that is not expected to be used in the future.

MG Motor UK Limited

Notes to the financial statements (continued) Year ended 31 December 2008

8. Stocks

	2008 £'000	2007 £'000
Raw materials and consumables	3,436	2,457
Work in progress	47	-
Finished goods	1,867	-
	<u>5,350</u>	<u>2,457</u>

9. Debtors

	2008 £'000	2007 £'000
Trade debtors	2,500	1
Prepayments and other debtors	2,024	292
VAT receivable	427	648
	<u>4,951</u>	<u>941</u>

10. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	3,724	634
Amounts owed to group undertakings	17,616	2,358
Accruals	1,594	93
	<u>22,934</u>	<u>3,085</u>

MG Motor UK Limited

Notes to the financial statements (continued) Year ended 31 December 2008

11. Called up share capital

	2008 £'000	2007 £'000
Authorised		
1,050 (2007: 1,050) ordinary shares of £1 each	<u>1</u>	<u>1</u>
Called up and allotted		
1,007 (2007: 1,007) ordinary shares of £1 each	<u>1</u>	<u>1</u>

On 18 December 2007, the company increased its authorised share capital by 50 ordinary shares of £1 each, taking its cumulative authorised share capital to 1,050 ordinary shares of £1 each. On the same date, the company issued seven further shares to its parent company in exchange for £10,584,925, being satisfied by capitalisation of parent company funding of this amount.

12. Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2008	10,585	(4,450)	6,135
Loss for the year	-	(12,022)	(12,022)
At 31 December 2008	<u>10,585</u>	<u>(16,472)</u>	<u>(5,887)</u>

13. Reconciliation of movements in shareholders' (deficit)/funds

	2008 £'000	2007 £'000
Loss for the year	(12,022)	(4,450)
New shares issued	-	10,585
Net movement in shareholders' funds	<u>(12,022)</u>	<u>6,135</u>
Opening shareholders' funds	<u>6,136</u>	<u>1</u>
Closing shareholders' (deficit)/funds	<u>(5,886)</u>	<u>6,136</u>

14. Related party transactions

The company has taken advantage of the exemption granted within Financial Reporting Standard 8 "Related party disclosures", which does not require disclosure of transactions between a subsidiary undertaking and other group undertakings, as more than 90% of the company's voting rights are controlled within the group and SAIC Motor Corporation Limited prepares publicly available consolidated accounts that incorporate the results of the company.

MG Motor UK Limited

Notes to the financial statements (continued) **Year ended 31 December 2008**

15. Ultimate parent company

At 31 December 2008, the company is a wholly owned subsidiary of Nanjing Automobile Corporation (UK) Limited, which is incorporated in the UK. This represents the smallest group in which the company's results are consolidated. The company's ultimate controlling party is SAIC Motor Corporation Limited, which is incorporated in China. This represents the largest group in which the company's results are consolidated.

