

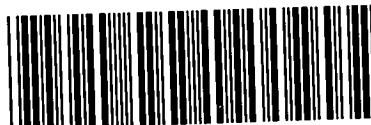
MG Motor UK Limited

Annual Report and Financial Statements

For the year ended 31 December 2016

Company Registration No. 05779958

FRIDAY



A6G0JS2H

A01

29/09/2017

#164

COMPANIES HOUSE

MG Motor UK Limited

Contents	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	5
Directors' responsibilities statement	7
Independent auditor's report	8
Statement of profit and loss and retained earnings	9
Balance sheet	10
Notes to the financial statements	11

MG Motor UK Limited

Officers and Professional Advisers

Directors

Xiaoqiu Wang (China)
Hao Wang (China)
Sijie Zu (China)
Jingmin Yu (China)

Company secretary

Lian Zhong Su (China)

Registered office

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

Bankers

Bank of China
98 Cannon Street
London
EC4N 6HA

HSBC Bank plc
PO Box 68
130 New Street
Birmingham
B2 4JU

Auditor

Deloitte LLP
Statutory Auditor
Birmingham,
United Kingdom

MG Motor UK Limited

Strategic Report

The directors present their strategic report for the year ended 31 December 2016.

Activities

The principal activities of the MG Motor UK Limited (referred to as 'MGUK' underneath) during the year are the assembly and sale of automotive vehicles up to September 2016, the provision of after sale service, and the provision of support services to group. The principal activity of assembly and sale of automotive vehicles was replaced in September 2016 with the activity to purchase vehicles from China and resale in the UK.

Business performance

MGUK had a good year maintaining the progress of the previous year with a 73% growth in total sales to £47,697,000 (2015:£27,545,000).

This increase was attributed to a growth in vehicle sale volumes, an increase in after sales parts sold as more MG models are now on the road, and an increase in service income from sales to Chinese based group companies.

In September 2016 MGUK launched a sports utility vehicle in the UK. This vehicle has been well received and initial orders are encouraging.

Income from Chinese based group companies supporting the development and growth of the MG brand globally increased in the year to £5,120,000 (2015:£3,148,000).

MGUK KPI's revolve around changes in turnover as it seeks to establish itself in the UK (see below). These showed positive increases, only exception is automotive parts to group, which stopped in May 2015.

	2016 £000	2015 £000	Change %
Turnover -Activity			
Vehicles	41,289	22,679	82%
Aftersales Parts	1,288	774	66%
Services	5,120	3,148	63%
Turnover-excluding production parts	47,697	26,601	79%
Automotive parts to group	-	944	-
Total Sales	47,697	27,545	73%

To support the growth objectives of MGUK, dealer numbers have increased to 77 in the current year (2015:62), providing an increase to the nationwide coverage in the UK and a solid platform to continue to grow sales volumes and market share.

In 2016, MGUK decided to change its operating strategy in the UK, by buying vehicles from China, transporting them to a port location and to then transport from the port location direct to the dealer network. As a result of this change of strategy a provision has been set aside to cover environmental costs of decommissioning of assembly equipment and other related remediation costs.

Future prospects

Next year promises to be an even better year for MGUK with another model being added to the portfolio in the third quarter, bringing the total in the MG model range up to three. This is expected to provide a solid platform to grow the business in the future, and with further models in the pipeline, the company is optimistic for the future.

MG Motor UK Limited

Strategic Report (continued)

Risks and uncertainties

Finance related risks are dealt with separately in the section below.

MGUK appropriately manages all risks that arise from all of its activities and has a formal structure for managing these risks throughout the company. This includes but is not limited to;

- (i) Personnel development and training –aimed at reducing the risk of key staff leaving the company and to keep the company up to date with latest industry skills and techniques.
- (ii) Management reporting- a system of KPI's identifies areas of risk for the company by identifying worsening performance at an early stage enabling corrective action to be taken in a timely fashion.
- (iii) Disaster recovery- actions and responsibilities have been identified in the unlikely event of a disaster to maintain the day to day operation of the business.

Financial risk management objectives and policies

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

Credit risk

MGUK's credit risk is primarily attributed to trade receivables. The risk is mitigated as some trade receivables are from group undertakings (SAIC Motor Corporation Limited, referred to as 'SAIC Motor' underneath), and the directors believe that the risk of default is not significant as the company's debts would be covered by SAIC Motor.

The risk from non group sales receivables is minimised by the funding arrangements for the purchase of vehicles by dealers being provided by GMAC UK Plc. (GMAC), a specialist vehicle finance provider. (See below for further details of this arrangement).

MGUK entered into a financing agreement with GMAC. The initial term has expired and the agreement becomes a rolling agreement with either party having to give 6 months notice to terminate the agreement. Under this agreement, MGUK sells vehicles to GMAC first and receives payment from GMAC upfront. GMAC in turn sells the vehicles to the MGUK authorized dealers and provides wholesale financing to the latter. In the worst case scenario, if a dealer is unable to sell a vehicle after an extended period of financing, then MGUK is obliged to buy back the vehicle. Given that the dealers' credit worthiness has been checked by GMAC and that the dealers' stock levels are managed, the director's believe that the risk of having to buy back dealers' stock is minimal.

MGUK has adopted separate presentation in respect of gross trade debtor receivable owed to GMAC by the dealers and trade payables refundable. An amount of £6,118,000 (2015: £3,224,000) is included in the trade debtor balance and other creditors as at 31 December 2016. Management has assessed the recoverability of the trade debtor receivable and has concluded there is a limited risk of doubtful debt at 31 December 2016. Management believes that it is prudent to provide for bad debts and a provision of £455,000 at 31 December 2016 (2015: £302,000) was made in this regard.

Cash flow risks

Cash flow risk is mitigated by the financing agreement with GMAC, described above. Moreover, SAIC Motor UK Technical Centre (SMTUCUK), a subsidiary of SAIC Motor, pays to MGUK in a timely manner for the services it is provided by MGUK. The services provided include use of the buildings, utilities, site maintenance and site security. These contributed to the healthy cash flow of MGUK. As a result, MGUK cash flow has been reasonably strong throughout the year of 2016 with an average monthly cash balance of £8,516,000 (2015: £8,400,000).

MG Motor UK Limited

Strategic Report (continued)

Financial risk management objectives and policies (continued)

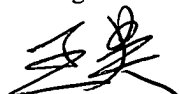
Liquidity risk

In order to maintain liquidity and to ensure sufficient funds are available for ongoing operations and future development MGUK relies on financial support from Nanjing Automobile (Group) Corporation Limited (NAC China), an intermediate holding company to the company's parent company Nanjing Automobile Corporation (UK) Limited (NAC UK) within SAIC Motor.

The balance sheet of MGUK has improved in the last couple of years and MGUK is in a much stronger financial position for future development and growth. The net worth of MGUK remains positive at £7,344,000 (2015: £7,683,000).

NAC China will support the continuation of the operation of MGUK for at least eighteen months from the date this report was signed.

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



Hao Wang
Director

28 September 2017

MG Motor UK Limited

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2016.

As reported in 2015 financial statements, MGUK has reviewed its operating strategy in the UK and in September 2016 it was decided to purchase vehicles from China and resale these vehicles in the UK. This change of strategy had led to a review of the business with the resultant impairment of assembly equipment and reduction in headcount.

Details of future developments and financial risks are covered in the strategic report.

Going concern

At the year end MGUK held a cash balance of £7,337,000 (2015: £9,915,000) and had a net current assets position of £12,871,000 (2015: £8,005,000). MGUK has made operating losses over the last few years and was primarily funded by Nanjing Automobile (Group) Corporation Limited (NAC China). However, directors are of the view that the continued growth of sales of MG models will help improve future results and increase cash flows and believe that SAIC Motor will continue to support the group.

In addition, MGUK has a rolling debt factoring agreement with GMAC which minimises the risk of issues with trade receivables. Directors have a reasonable expectation that the agreement will continue to be in place and effective for the foreseeable future, being a period of at least 12 months from the date of signing and approving these financial statements. Details of such agreement can be found in "Credit risk" section in the strategic report. Under the agreement MGUK gets paid upfront by GMAC before cars are sold by the dealers to end customers.

MGUK has a commitment of financial support from its parent company Nanjing Automobile (Group) Corporation Limited (NAC China) an intermediate holding company to Nanjing Automobile Corporation (UK) Limited (NAC UK) within SAIC Motor Corporation Limited for its future development. This is by way of a non-binding letter of support confirming that NAC China will support the continuation of operations of MGUK for at least eighteen months from the date the financial statements are signed.

There has been no material uncertainties identified which would lead to significant doubt MGUK continuing as going concern. After considering the above factors, the directors have a reasonable expectation that MGUK has adequate resources to continue in operational existence for a period of not less than 12 months from the date the financial statements are signed.

Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Dividends

The directors do not recommend payment of a dividend for the year ended 31 December 2016 (2015: £nil).

Directors

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

Environmental responsibility

MGUK 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 MGUK.

It is the policy of MGUK 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 auditor

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Board Meeting.

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



Hao Wang
Director

Date: 28 September 2017

MG Motor UK Limited

Directors' responsibilities statement

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) including FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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 auditor's report to the members of MG Motor UK Limited

We have audited the financial statements of MG Motor UK Limited for the year ended 31 December 2016 which comprise the Statement of profit and loss and retained earnings, the Balance Sheet and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Peter Gallimore FCA (senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

28 September 2017

MG Motor UK Limited

Statement of profit and loss and retained earnings For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Turnover	3	47,697	27,545
Cost of sales		(37,886)	(22,143)
Gross profit		9,811	5,402
Administrative expenses		(22,737)	(15,604)
Other operating income	6	12,400	10,339
Operating profit/(loss)		(526)	137
Finance costs (net)	4	187	(85)
Profit/(loss) on ordinary activities before taxation	5	(339)	52
Tax on profit/(loss) on ordinary activities	8	-	-
Profit/(loss) for the financial year		(339)	52
Retained losses at 1 January		(40,172)	(40,224)
Retained losses at 31 December		(40,511)	(40,172)

All activities derive from continuing operations.

There have been no recognised gains and losses for the current or the prior year other than as stated in the profit and loss account above and, accordingly, no separate statement of comprehensive income is presented or a statement of changes in equity.

MG Motor UK Limited

Balance sheet

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible fixed assets	9	178	1,927
		<u>178</u>	<u>1,927</u>
Current assets			
Stocks	10	5,091	6,925
Debtors	11	20,148	12,023
Cash at bank and in hand		7,337	9,915
		<u>32,576</u>	<u>28,863</u>
Creditors: amounts falling due within one year	12	(19,705)	(20,858)
Net current assets		<u>12,871</u>	<u>8,005</u>
Total assets less current liabilities		<u>13,049</u>	<u>9,932</u>
Creditors: amounts falling due after more than one year	13	(247)	(404)
Provisions for liabilities	14	(5,458)	(1,845)
Net assets		<u>7,344</u>	<u>7,683</u>
Capital and reserves			
Called up share capital	15	21,585	21,585
Capital contribution reserve		26,270	26,270
Profit and loss account		(40,511)	(40,172)
Shareholder's funds		<u>7,344</u>	<u>7,683</u>

These financial statements of MG Motor UK Limited, registered number 05779958, were approved by the Board of Directors and authorised for issue on 28 September 2017.

They were signed on its behalf by:



Hao Wang
Director

Notes to the financial statements For the year ended 31 December 2016

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and preceeding year.

General information and basis of accounting

MG Motor UK Limited (MGUK) is a private company limited by shares and incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the strategic report on pages 2 to 4.

The financial statements have been prepared under the historical cost basis and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

There are no judgements made by the directors, in the application of these accounting policies that have a significant impact on the financial statements.

The financial statements are presented in pounds sterling and are rounded to the nearest thousand.

In accordance with FRS 102, MGUK has taken advantage of the exemption from the following disclosure requirements:

- Section 7 'Statement of Cash Flows'-Presentation of a Statement of Cash Flow and related notes and disclosures
- The requirement of section 33 Related Party Disclosures paragraph 33.7.

These financial statements are separate financial statements. Details of the parent in whose consolidated financial statements the company is included are shown in note 20 to the financial statements.

Going concern

At the year end MGUK held a cash balance of £7,337,000 (2015: £9,915,000) and had a net current assets position of £12,871,000 (2015: £8,005,000). MGUK has made operating losses over the last few years and was primarily funded by Nanjing Automobile (Group) Corporation Limited (NAC China). However, directors are of the view that the continued growth of sales of MG models will help improve future results and increase cash flows and believe that SAIC Motor will continue to support the group.

In addition, MGUK has a rolling debt factoring agreement with GMAC which minimises the risk of issues with trade receivables. Directors have a reasonable expectation that the agreement will continue to be in place and effective for the foreseeable future, being a period of at least 12 months from the date of signing and approving these financial statements. Details of such agreement can be found in "Credit risk" section in the strategic report. Under the agreement MGUK gets paid upfront by GMAC before cars are sold by the dealers to end customers.

MG Motor UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2016

1. Accounting policies (continued)

Going concern (continued)

MGUK has a commitment of financial support from its parent company Nanjing Automobile (Group) Corporation Limited (NAC China) an intermediate holding company to Nanjing Automobile Corporation (UK) Limited (NAC UK) within SAIC Motor Corporation Limited for its future development. This is by way of a non-binding letter of support confirming that NAC China will support the continuation of operations of MGUK for at least eighteen months from the date the financial statements are signed.

There has been no material uncertainties identified which would lead to significant doubt MGUK continuing as going concern. After considering the above factors, the directors have a reasonable expectation that MGUK has adequate resources to continue in operational existence for a period of not less than 12 months from the date the financial statements are signed.

Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Leasehold improvement	20% per annum straight-line
Plant and machinery	10% -15% per annum straight-line
Electronics equipment	16.67%-20% per annum straight-line
Motor vehicles	16.67% per annum straight-line

Residual value is calculated on prices prevailing at the date of acquisition or revaluation. Useful lives and residual values are reviewed at the end of every reporting period.

Properties in course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Impairment of Tangible Assets

At each reporting date, the carrying amounts of tangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss.

Notes to the financial statements (continued) For the year ended 31 December 2016

1. Accounting policies (continued)

Financial Instruments

The company only has basic financial instruments.

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

The company has basic financial assets and basic financial liabilities.

(i) Financial Assets

Basic financial assets, including trade and other receivables, and cash and bank balances are recognised at transaction price. Trade and other receivables are reviewed at the end of each reporting period for impairment; any impairment is recognised in profit and loss.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled or b) MGUK transfers to another party substantially all the risks and rewards of ownership of the financial asset or c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial Liabilities

Basic financial liabilities, including trade and other payables and loans from other group companies are recognised at transaction price.

Loans from group companies are interest free and repayable on demand.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged cancelled or expires.

There is no offsetting of financial assets and financial liabilities in the financial statements.

Stocks

Stocks and work-in-progress are stated at the lower of cost, and estimated selling price less costs to sell which is equivalent to the net realisable value. Stocks are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined using standard cost. Cost includes materials, duty and transportation costs of materials.

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified item is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss and is recognised in the profit and loss account.

Net Realisable Value of Vehicles

The company considers the future revenue expectations model by model of the vehicle stock carried at the end of the reporting period to establish whether any adjustment is required to the carrying amount of the vehicle stock. This review takes into account various criteria including the current price trends in the market, sales incentives, competitor activities and historic records to establish expected revenues after selling costs that each model carried at the balance sheet date can be expected to realise.

Notes to the financial statements (continued) For the year ended 31 December 2016

1. Accounting policies (continued)

Taxation

Current tax including UK corporation 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 tax 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 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 the gains and losses in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited in the profit and loss account.

Revenue

Revenue represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods has transferred to the buyer.

(i) Interest income

Interest income is recognised on the date of receipt.

(ii) Other operating income

Other operating income (excluding government grants) including service income is recognised when ownership of the item has transferred to the customer.

Notes to the financial statements (continued) For the year ended 31 December 2016

1. Accounting policies (continued)

Employee benefits

The company provides a range of benefits to employees including annual paid holiday pay arrangements and defined contribution pension plans.

Short term employee benefits including holiday pay and other similar non monetary benefits are recognised as an expense in the period in which the service is received. As the reporting period is co-terminus as the holiday year, and that unused holiday is unable to be carried forward, there is no requirement for a provision for holiday pay.

The company operates a defined contribution pension plan. This is a plan where the company pays contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences on normal trading transactions are reflected in the profit and loss account in the reporting period.

Leases

The company has no finance leases.

Rentals under operating leases are charged on a straight line basis over the lease term, unless the rental payments are structured to increase in line with inflation, in which case the company recognises annual rent expense equal to amounts owed to the lessor.

Government grants

Government grants are recognised based on the accrual model and are measured at the fair value of the asset received or receivable.

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

In the reporting period grants were received for support of motoring parts research project which has been credited to the profit and loss account in the period.

Warranties

Provisions for the expected cost of warranty obligations are recognised at the date of sale of the relevant vehicle model, at the directors' best estimate of the expenditure required to settle the company's obligation.

Notes to the financial statements (continued) For the year ended 31 December 2016

2. Key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below:

a) Net Realisable Value of Vehicle Stocks

The company considers the future revenue expectations model by model of the vehicle stock carried at the end of the reporting period to establish whether any adjustment is required to the carrying amount of the vehicle stock. This review takes into account various criteria including the current price trends in the market, sales incentives, competitor activities and historic records to establish expected revenues after selling costs that each model carried at the balance sheet date can be expected to realise.

b) Warranty

The company estimates the potential liability for warranty claims on vehicles. The standard warranty period for all models is 3-5 years and an average per vehicle sold is estimated. This is done on a model by model basis. The total provision is included in provision for liabilities in the balance sheet with further details in note 14.

c) Provision

The company believes environmental costs will be incurred from the decommissioning of assembly equipment at its main location. The provision has been included in provision for liabilities in the balance sheet (see note 14).

3. Turnover

Analysis of the company's turnover by geographical market is set out below:

	2016 £'000	2015 £'000
With third parties (in UK)	42,697	23,566
Within the SAIC Group (in China)	5,000	3,979
	<u>47,697</u>	<u>27,545</u>

Analysis of the company's turnover is as follows:

	2016 £'000	2015 £'000
Sale of goods	42,577	24,397
Rendering of services	5,120	3,148
	<u>47,697</u>	<u>27,545</u>

MG Motor UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2016

4. Finance costs (net)

	2016 £'000	2015 £'000
Interest receivable and similar income	2	11
Bank charges	(16)	(17)
Foreign exchange gain/(loss)	201	(79)
	<u>187</u>	<u>(85)</u>

5. Profit/ (loss) on ordinary activities before taxation

Profit/ (loss) on ordinary activities before taxation is stated after charging/ (crediting);	2016 £'000	2015 £'000
Auditor's remuneration:		
Fees payable to the company's auditor for the audit of the company's financial statements	44	40
Fees payable to the company's auditor and its associates for other services:		
Tax compliance services	6	6
Other services	10	-
Foreign exchange (gains)/losses	(201)	80
Depreciation of tangible fixed assets	401	719
Impairment of tangible fixed assets	1,446	408
Operating leases	2,004	1,928
Cost of stock recognised as an expense	31,044	19,776
Impairment of stock recognised as an expense	1,960	122
Government grant	(215)	(76)
	<u>12,400</u>	<u>10,339</u>

Impairments of fixed assets (see note 9) is included within administrative expenses.

Cost of stock recognised as an expense is included within cost of sales.

Impairment of stock is included within administrative expenses.

6. Other operating income

	2016 £'000	2015 £'000
Government grant	215	76
Other revenue	2,203	369
Service income*	9,982	9,894
	<u>12,400</u>	<u>10,339</u>

Other revenue is deferred income released as a result of the decision to no longer assemble vehicles in the United Kingdom.

* Service income relates to income received from SAIC Motor UK Technical Centre Ltd, a fellow subsidiary of SAIC Motor Corporation Limited sharing the facilities of the Longbridge site

MG Motor UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2016

7. Staff Costs and directors remuneration

a) Staff costs

The average monthly number of persons employed was:

	2016 Number	2015 Number
Production	26	32
Sales, distribution and administration	58	62
	<u>84</u>	<u>94</u>

	2016 £'000	2015 £'000
--	---------------	---------------

Their aggregate remuneration comprised:

Wages and salaries	2,904	2,748
Social security costs	263	258
Pension cost	114	105
	<u>3,281</u>	<u>3,111</u>

b) Directors Remuneration

The company paid the following emoluments to the directors;

	2016 £'000	2015 £'000
Directors' remuneration		
Emoluments	<u>267</u>	<u>203</u>
The remuneration of the highest paid director:		
Emoluments	<u>267</u>	<u>203</u>

Some of the directors of the company are paid by SAIC Motor Corporation Limited, China, the ultimate parent company. It is not practicable to determine the proportion of such emoluments which are attributable to the directors' services to this company as their services are considered incidental to their duties in respect of other group entities. There are no directors receiving pension benefits in the current or previous years.

MG Motor UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2016

8. Tax on loss on ordinary activities

The tax charge comprises:

	2016 £'000	2015 £'000
Total current tax	-	-
Total deferred tax	-	-
Total tax on profit (loss) on ordinary activities	-	-

The company earns all of its profits in the UK. Therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 20% (2015: 20.25%).

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2016 £'000	2015 £'000
(Loss)/Profit on ordinary activities before tax	(339)	52
Tax on group losses on ordinary activities at standard UK corporation tax rate of 20% thereon (2015: 20.25%):	(68)	11
Effects of:		
Expenses not deductible for tax purposes	7	6
Losses (utilised) / created during the year	61	(17)
	68	(11)
Total tax charge for year	-	-

The company has unused tax losses of £39,183,000 (2015: £43,725,000) which are available to offset future trading profits.

The company has unrecognised deferred tax assets in relation to these tax losses of £6,661,000 (2015: £7,870,000) and unclaimed capital allowances of £642,000 (2015: £487,000) and other timing differences of £640,000 (2015: £136,000) which have not been recognised due to uncertainty in relation to profits arising in future periods.

In recent years the UK Government has steadily reduced the rate of UK corporation tax, now standing at 20% with effect from 1 April 2015. In the Budget on 24 July 2015, the UK Government proposed, amongst other things, to further reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In the Budget on 24 March 2016, the UK Government proposed a further reduction to 17% with effect from 1 April 2020. These rate changes were substantively enacted in the Finance Bill 2016 on 6 September 2016. The closing deferred tax assets and liabilities have been calculated at 17% in accordance with the rates enacted at the balance sheet date.

MG Motor UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2016

9. Tangible fixed assets

	Leasehold improve- ment £'000	Plant and machinery £'000	Electronics equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2016	2,894	7,061	1,704	614	12,273
Additions	-	34	6	58	98
Disposals	-	-	-	(8)	(8)
At 31 December 2016	2,894	7,095	1,710	664	12,363
Depreciation					
At 1 January 2016	(2,621)	(5,784)	(1,418)	(523)	(10,346)
Charge for the year	(20)	(280)	(18)	(83)	(401)
Impairment	(219)	(993)	(233)	(1)	(1,446)
Disposals	-	-	-	8	8
At 31 December 2016	(2,860)	(7,057)	(1,669)	(599)	(12,185)
Net book value					
At 31 December 2016	34	38	41	65	178
At 31 December 2015	273	1,277	286	91	1,927

In accordance with accounting policy on impairment, a review was performed at the year end. The assets that were directly associated with the assembly of vehicles have been reviewed, resulting in an impairment charge in the year of £1,446,000. The impairment charge has been included in profit and loss account within administration expenses.

All tangible fixed assets are owned outright by the company.

There are no capital commitments for tangible assets for year ended 31 December 2016 (2015: £nil).

10. Stocks

	2016 £'000	2015 £'000
Raw materials and consumables	-	1,305
Finished goods	5,091	5,620
	5,091	6,925

There is no material difference between the balance sheet value of stocks and their replacement costs.

MG Motor UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2016

11. Debtors

	2016 £'000	2015 £'000
Trade debtors	8,255	3,802
Amounts owed by group undertakings	10,458	6,718
Other debtors	211	161
Prepayments and other debtors	1,224	1,342
	<u>20,148</u>	<u>12,023</u>

Trade debtors are stated after provisions for impairment of £455,000. (2015:£ 302,000)

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

12. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	329	1,086
Amounts owed to group undertakings	8,180	11,069
Other taxation and social security	25	600
Other creditors	7,361	4,073
Government grants	13	51
Accruals & deferred income	3,797	3,979
	<u>19,705</u>	<u>20,858</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

13. Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Government grants	40	204
Intercompany loan	207	207
Other	-	(7)
	<u>247</u>	<u>404</u>

Intercompany loan is unsecured, interest free, have no fixed date of repayment and is repayable on demand.

Notes to the financial statements (continued)
For the year ended 31 December 2016

14. Provision for liabilities

	Warranty	Decommissioning	Total
At 1 January 2016	1,845	-	1,845
Charge to profit and loss account	1,857	2,265	4,122
Utilisation of provision	(509)	-	(509)
At 31 December 2016	<u>3,193</u>	<u>2,265</u>	<u>5,458</u>

Provision for liabilities includes expected warranty claims on cars sold in the previous years and the environmental costs of decommissioning of assembly equipment and other related remediation costs. It is expected that the majority of this expenditure will be incurred within the next five financial years of the balance sheet date.

15. Called up share capital

	2016	2015
	£'000	£'000
Called up, allotted and fully paid		
21,584,925 (2015: 21,584,925) ordinary shares of £1 each	<u>21,585</u>	<u>21,585</u>

16. Financial instruments

The carrying values of financial assets and liabilities are summarised by category below.

The financial assets are measured at undiscounted amount receivable and financial liabilities are measured at undiscounted amount payable.

	2016	2015
	£'000	£'000
<u>Financial assets</u>		
Trade and other debtors (see note 11)	8,466	3,963
Amounts owed by group undertakings (see note 11)	<u>10,458</u>	<u>6,718</u>
	<u>18,924</u>	<u>10,681</u>
<u>Financial liabilities</u>		
Trade and other creditors (see note 12)	7,690	5,159
Amounts owed to group undertakings (see note 12)	<u>8,180</u>	<u>11,069</u>
	<u>15,870</u>	<u>16,228</u>

MG Motor UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2016

17. Leasing commitments

Operating lease commitments

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 £'000	2015 £'000
Within one year	1,818	1,781
Within two to five years	7,572	7,405
Greater than 5 years	41,997	43,960
Total	51,387	53,146

Operating lease payments represent rentals payable for the site and buildings the company leases in Birmingham, rentals payable for accommodation for senior executives from the parent company on long term assignment in the UK and rentals of fork lift trucks for use in assembly and production. Lease of land and buildings is on a 35 year lease with expiry date of 2038, the lease is subject to an annual uplift and provide for the lessee to pay insurance, maintenance and repairs costs.

18. Retirement benefit schemes

The company operates a defined contribution retirement benefit scheme for all employees. This is personal pension plan scheme with the funds of the scheme being under the control of the individual employees. The total expense charged to profit or loss in the period ended 31 December 2016 was £114,000 (2015: £110,000). This represents contributions payable to the scheme by the company at rates specified in the rules of the scheme. There was an amount outstanding at the end of the year of £9,000 (2015: £13,000).

19. Related party transactions

The company has taken advantage of the exemption granted within section 33 of FRS 102, which does not require disclosure of transactions between a subsidiary undertaking and other group undertakings, as 100% of the company's voting rights are controlled within the Group and SAIC Motor Corporation Limited, Shanghai, China prepares publicly available consolidated financial statements that incorporate the results of the company.

20. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Nanjing Automobile Corporation (UK) Limited whose registered address is Q Gate, Lowhill Lane, Longbridge, Birmingham, B31 2BQ and is parent of the smallest group to prepare consolidated financial statements.

The ultimate parent undertaking and controlling party is SAIC Motor Corporation Limited, incorporated in China, and whose registered address is 5th Floor, Building A, No. 563, Songtao Road, Zhangjiang High-Tech Park, Pudong District, Shanghai, China. It is the parent of the largest group to consolidate these financial statements.

Copies of SAIC Motor consolidated financial statements can be obtained from company secretary at the registered address, SAIC Motor Corporation Limited, 5th Floor, Building A, No. 563, Songtao Road, Zhangjiang High-Tech Park, Pudong District, Shanghai, China.