

Lotus Cars Limited
Annual report
for the year ended 31 March 2007

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Lotus Cars Limited

Annual report for the year ended 31 March 2007

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Directors' report for the year ended 31 March 2007

The directors present their report and the audited financial statements for the year ended 31 March 2007

Principal activities

The principal activity of the company comprises the manufacture and sale of high performance motor cars, the provision of engineering consultancy services and the commercial development and supply of technology to automotive and industrial clients world-wide. The company is a wholly owned subsidiary of Proton Holdings Berhad ("Proton")

Review of business and future developments – Company

The year has been a year of transition for the business. Pre-exceptional items, operating losses of £12.2m (2006: loss of £6.0m) were incurred after expensing research and development costs of £4.3m (2006: £5.3m). Exceptional items amounted to £8.8m credit (2006: £0.5m charge), further details of which are given in note 6 to the financial statements. The retained loss for the year was £6.3m (2006: loss of £7.2m).

Review of business and future developments – Cars division

2006/07 was a challenging year for Lotus Cars. There was a high level of stock in the sales pipeline at the start of the year, particularly in North America, and this needed to be reduced to bring the business back to a true retail demand led production situation.

A combination of stimulating demand through promotional activities and reducing production achieved this aim, reducing global pipeline stocks by 937 units (approximately 55%), although this was at the considerable cost of rightsizing our operation and resulted in wholesaling only 3,264 units during the year, a reduction of some 26.5% on the previous year. This essential action had a large impact on the Cars Division trading results, which recorded a loss.

Operations

Lotus Cars' UK production facility had a challenging year, delivering the three new product variants launched during the first half of the year plus reducing its output and then regrettably reducing headcount through a voluntary redundancy programme in late 2006. Reductions in staffing levels affected both direct and overhead areas as the operation strove to take the breakeven point of the company from around 6,000 units per annum to below 3,000 units in preparation for a profitable operation in the 2007/08 financial year.

A new management team has been put in place with renewed enthusiasm for the company and the considerable task that lies ahead to deliver the aggressive 5 year strategic plan. Aligning and motivating the workforce after the recent and necessary reductions in personnel has been a high priority and progress is being made.

Prospects

Much time in 2006/07 has been devoted to developing a 5 year strategic plan to achieve a sustainable business model for the Group Lotus businesses. The backbone is a detailed product plan that involves the development and market launch of a 3-model range by the end of the 5 year period. The plan is prudently aggressive but will provide the company with a revenue platform derived from new customer segments from which to exploit business extension activities for further growth in future periods. The plan envisages that volumes will grow throughout the plan as new models are introduced, whilst overheads will be kept in check to ensure economies of scale are achieved. The product plan will also be a shop window to demonstrate Lotus Engineering's capabilities that has been lacking in recent years as an effective marketing tool.

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Review of business and future developments – Engineering division

Third party sales orders exceeded plan, however they were won late in the year and had a limited impact on the years' revenues and performance. A key internal project was substituted by a new 'fast to market' product as a logical market driven next step for current model owners as part of an overall strategic review of the business carried out by the new Chief Executive.

Underlying budgeted profits were adversely affected by the increased shortfall in Lotus Engineering revenues and higher overheads, which were adverse due to unrealised planned savings and an over spend on sales activities. This was despite project margins being better than forecast.

Research and development spend was reduced following a review of whether projects were relevant or commercially viable.

Operations

A new organisational structure was implemented during the year giving much better accountability for the business. This included a project management office to oversee all engineering projects worldwide. A key internal project commenced under a "lean and mean" banner to reduce time and overheads in delivering projects.

Prospects

The outsourced light duty automotive market amounted to £5.7 billion, of which Lotus Engineering has a less than 1% share. As such the market potential is very significant.

The global market outlook is positive for the coming year with growth forecast for all territories especially in China and India. There is a growing understanding in the global market that Lotus is a leading light in relation to environmentally green products and services. The electric vehicle and Proton hybrid projects, the bio fuel Exige demonstrator and the recent announcement regarding a wind farm on the Lotus site have all helped to engender this focused objective.

The above, together with the recent winning of a major new opportunity in China, suggest that Lotus Engineering's prospects for the coming year are more positive than in recent years and this bodes well in terms of achieving the turnaround for the division planned within the approved 5 year strategy.

Recapitalisation

A major recapitalisation of the company took place in March 2007. The balance sheet was significantly strengthened by the shareholders to eliminate trading losses incurred in previous years.

At 31 March 2006 there was a shareholders' deficit of £45.5m. With the recapitalisation and financial reorganisation this has been transformed to positive shareholders' funds of £2.4m.

The directors believe that with the new five year strategic plan, the intention for the business to operate with three car platforms, new engineering programmes won in the Far East and the recapitalisation referred to above, the business is well placed to grow steadily and profitably over the next few years.

Key performance indicators ("KPIs")

The directors monitor the overall group performance through the following KPIs:

- Turnover by class of business and geographical segment – see note 1 for further details
- Profit before tax by class of business and geographical segment – this KPI has not been disclosed in note 1 because in the opinion of the directors to do so would be seriously prejudicial to the Group
- The number of units sold in the year – see above for further details

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Principal risks and uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks. A risk register for the group is maintained and updated regularly, and reported at quarterly board meetings. The key business risks affecting the performance of the group and the mitigation of those risks are as follows:

- Supply chain – Key suppliers' ability to deliver to the agreed timetable and quality, mitigated by multi-sourcing where possible, and careful supplier selection based on quality and capability,
- Quality management – The company is an ISO90001 accredited organisation with regular third party assessments underpinning the business operations,
- Foreign exchange – A large proportion of the company's revenues are in currencies other than sterling. In addition the business sources supplies from all over the world in a variety of currencies. Where there is a significant forecast net position in any foreign currency a proportion of that risk is mitigated by forward contract hedging arrangements,
- Loss of major clients/contracts – The group is reliant on a limited number of major clients/contracts, mitigated in part by the widening of the customer base.

All risks and uncertainties are monitored on a regular basis with action plans put in place to mitigate any adverse effects on the business.

Financial risk management

The company's operations expose it to a variety of financial risks, which include price risk, credit risk, liquidity risk and interest rate cash flow risk. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Price risk

The company is exposed to price risk through the indirect impact of competitor activities. The pricing of competitors is closely monitored and it is the policy of the company to ensure that the company's products and services are competitively priced, whilst reflecting the quality of the products and services supplied.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. In some circumstances advance payments are expected.

Liquidity risk

The company actively maintains a mixture of Proton group loans and short-term debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

Interest rate cash flow risk

The company pays interest on its external debt at a variable rate. The debt is not considered significant enough to warrant hedging. The directors will revisit the appropriateness of this policy should the company's external debt change in size or nature.

Results and dividends

The company's loss for the year after taxation amounted to £6,264,000 (2006: loss of £7,245,000). The directors do not recommend the payment of a dividend (2006: £nil), and the loss for the year has been transferred to reserves.

Pensions

The pension deficit under FRS 17 has reduced from £9,489,000 to £3,334,000 during the year. The principal reason for this is the revision of the discount rate applied to the scheme liabilities and the rate of return on equities, although other positive factors include greater than expected asset returns, the curtailment gain.

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following the redundancies in 2006, and contribution payments being in excess of the FRS 17 service costs. Detailed pension information is disclosed in note 4 to the financial statements.

Research and development

The company is committed to research and development and undertaking such expenditure as is required to maintain its current market position and further enhance future growth and profitability. Development costs that meet the capitalisation criteria of SSAP 13, 'Accounting for Research and Development', are capitalised and amortised over their estimated useful life. Research costs are expensed as incurred. Research and development expenditure charged to the profit and loss account amounted to £4,259,000 (2006 £5,278,000).

Employees

The directors acknowledge the importance of good communication and employee relations. Communications are essential to progress, as such the company has devoted considerable time and effort to ensure that employees are well informed about those aspects of the business which affect them.

Employees and their representatives are briefed on all matters relevant to their area of operation and their views are sought and taken into account.

Applications for employment from disabled persons are fully considered, bearing in mind the aptitudes and abilities of the persons concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the company continues. It is the policy of the company to further as far as possible the training, career development and promotion of disabled employees.

Payment of creditors policy

The company's payment policy is to pay on terms agreed with individual suppliers. The average number of days outstanding in respect of trade creditors at 31 March 2007 was 37 days (2006 39 days).

Directors

The following directors served during the year and up to the date of signing this report, except where otherwise stated.

Michael J Kimberley	
Dato' Syed Zainal Abidin Syed Mohamed Tahir	
Dato' Michael Lim Heen Peek	(Appointed 20 th November 2006)
Clive Dopson	(Resigned 5 th February 2007)
Kamarulzaman Darus	(Resigned 13 th November 2006)
En Badrul Feisel bin Abdul Rahim	(Resigned 7 th November 2006)
Kim Ogaard-Nielsen	(Resigned 17 th May 2006)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that 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 year. The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2007 and that applicable accounting standards have been followed.

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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.

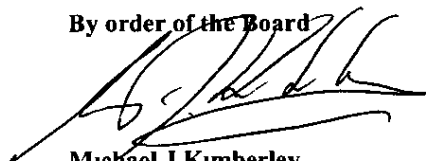
Statement of disclosure of information to auditors

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

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'Michael J Kimberley', written over a horizontal line.

Michael J Kimberley
Director

Lotus Cars Limited

Independent auditors' report to the members of Lotus Cars Limited

We have audited the financial statements of Lotus Cars Limited for the year ended 31 March 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the statement of historical cost profits and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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.

Lotus Cars Limited

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 March 2007 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



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Norwich

23 January 2008

Lotus Cars Limited

Profit and loss account for the year ended 31 March 2007

		2007	2007	2007	2006
	Note	Before exceptional items £'000	Exceptional items (note 6) £'000	Total £'000	Total £'000 (restated)
Turnover	1	116,881	-	116,881	145,067
Cost of sales		(95,642)	10,518	(85,124)	(121,952)
Gross profit		21,239	10,518	31,757	23,115
Administrative expenses		(33,408)	(5,049)	(38,457)	(29,670)
Operating loss	2	(12,169)	5,469	(6,700)	(6,555)
Interest receivable	5	159	-	159	106
Interest payable and similar charges	5	(2,046)	3,329	1,283	(790)
Other finance income	5	463	-	463	242
Loss on ordinary activities before taxation		(13,593)	8,798	(4,795)	(6,997)
Taxation	7	501	(1,970)	(1,469)	(248)
Retained loss for the financial year	17	(13,092)	6,828	(6,264)	(7,245)

The results for the current and prior year relate entirely to continuing operations

The prior comparatives have been restated to reclassify £10,374,000 from cost of sales to administrative expenses, for consistency with the current year presentation

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Statement of total recognised gains and losses for the year ended 31 March 2007

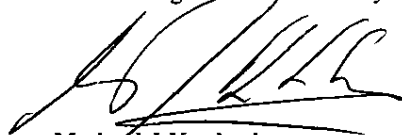
	Notes	2007 £'000	2006 £'000
Loss for the financial year	17	(6,264)	(7,245)
Actuarial gain/(loss) relating to pension scheme liability	4	4,801	(4,016)
Movement on deferred tax relating to pension scheme liability	4	(1,440)	1,205
Total recognised losses for the year		(2,903)	(10,056)

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Balance sheet as at 31 March 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Intangible assets	8	1,362	-
Tangible assets	9	21,949	23,639
Investments	10	-	-
		23,311	23,639
Current assets			
Stocks	11	12,337	18,850
Debtors	12	15,064	26,930
Cash at bank and in hand		2,133	996
		29,534	46,776
Creditors: amounts falling due within one year	13	(40,515)	(54,826)
Net current liabilities		(10,981)	(8,050)
Total assets less current liabilities		12,330	15,589
Creditors: amounts falling due after more than one year	14	(803)	(49,235)
Provisions for liabilities and charges	15	(5,795)	(5,211)
Net assets/(liabilities) excluding pension deficit		5,732	(38,857)
Pension deficit	4	(3,334)	(6,642)
Net assets/(liabilities) including pension deficit		2,398	(45,499)
Capital and reserves			
Called up share capital	16	53,540	27,400
Revaluation reserve	17	4,266	4,358
Capital reserve	17	17	17
Profit and loss account	17	(55,425)	(77,274)
Total shareholders' funds/(deficit)	18	2,398	(45,499)

The financial statements on pages 9 to 32 were approved by the board of directors on 10 JANUARY 2008 and were signed on its behalf by



Michael J Kimberley
Director

Lotus Cars Limited

Statement of historical cost profits and losses for the year ended 31 March 2007

	2007 £'000	2006 £'000
Loss before taxation	(4,795)	(6,997)
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	92	92
Historical cost loss on ordinary activities before taxation	(4,703)	(6,905)
Historical cost loss on ordinary activities after taxation	(6,172)	(7,153)

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Accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future

The company has incurred losses during the year ended 31 March 2007 but had net assets at that date of £2,398,000. The directors anticipate an improvement in performance in future years

Perusahaan Otomobil Nasional Berhad (‘PONSBB’) a fellow subsidiary of Proton, has confirmed that it will provide financial support to the company in order for it to meet its commitments as they fall due for a period of at least 12 months from the date of approval of these financial statements

Taking the foregoing into account the directors consider it appropriate to prepare the financial statements on the going concern basis

Cash flow statement and related party disclosures

The company is a wholly-owned subsidiary and is included in the consolidated financial statements of Proton Holdings Berhad, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Revised 1996), ‘Cash Flow Statements’. The company is also exempt under the terms of FRS 8, ‘Related Party Disclosures’ from disclosing related party transactions with Proton Holdings Berhad and other group companies

Consolidated financial statements

The company is a wholly owned subsidiary undertaking of a company incorporated in Great Britain and registered in England and Wales. Accordingly, the preparation of group financial statements is not required under section 228 of the Companies Act 1985

Turnover

Turnover represents the sales value of goods and services supplied to customers and is net of commission paid to dealers and VAT

Turnover on the sale of a vehicle is recognised upon despatch of the vehicle to the dealer

Turnover is recognised on long-term engineering contracts on the basis of the stage of completion of such contracts at the year end, where the contract outcome can be assessed with reasonable certainty. Related costs are included in cost of sales. Full provision is made for all foreseeable losses on contracts entered into before the year end

Amounts are included within accrued income and payments in advance on engineering contracts to recognise timing differences arising between amounts invoiced, received and paid and amounts recognised in the profit and loss account on individual engineering contracts

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Tangible fixed assets

The cost of tangible fixed assets is their purchase cost or deemed cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, over their estimated useful economic lives at the following principal rates

Freehold buildings	40 years
Plant and machinery	2 to 10 years
Motor vehicles	4 to 5 years
Fixtures, fittings, tooling and equipment	2 to 10 years

Freehold land is not depreciated. Vehicle tooling costs are depreciated based upon the number of units produced in the year and an amortised rate per unit calculated based upon forecast production to the end of each respective model's life.

Assets in the course of construction are not depreciated. Depreciation begins with effect from the date that assets are brought into operational use.

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate based upon the company's weighted average cost of capital that reflects current market assessments of the time value of money and the risks specific to the company.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Research and development expenditure

Development costs that meet the capitalisation criteria of SSAP 13, 'Accounting for Research and Development' are capitalised and amortised over their estimated useful life. Research costs are expensed as incurred.

Stocks and work in progress

Stocks are stated at the lower of cost (comprising direct materials and labour together with manufacturing overheads) and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Deferred taxation

Provision is made for deferred taxation, using the full provision accounting method, when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future, in

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accordance with FRS19, 'Deferred Taxation' Deferred tax assets are recognised to the extent that they are regarded as recoverable Deferred tax assets and liabilities are not discounted

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transaction All exchange differences arising thereon are included in the profit and loss account

Warranty provision

Provision is made for the estimated liability on all products under warranty in addition to claims already received The provision is based on experienced levels of claims arising during the period of warranty and the average cost of fulfilling these claims on a model by model basis

Finance and operating leases

Assets obtained under finance leases are capitalised in the balance sheet and are depreciated over the shorter of the lease term and their estimated useful economic lives The lease rentals are treated as consisting of capital and interest elements The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element Costs in respect of operating leases are charged on a straight-line basis over the lease term

Pensions

The company operates a defined benefit pension scheme, the Lotus Pension Plan, which is accounted for under the provisions of FRS 17, 'Retirement Benefits' The assets are held in separate trustee administered funds Full actuarial valuations are carried out every three years with interim reviews in the intervening years, these valuations are updated to 31 March each year by qualified independent actuaries The last full actuarial valuation was performed on 31 December 2005 For the purpose of these updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method These liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term The post-retirement benefit deficit is included on the balance sheet, net of the deferred tax where the asset is considered recoverable The current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the scheme's assets net of the impact of the unwinding of the discount on the scheme's liabilities, is included within other finance income Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the statement of recognised gains and losses

The company also operates a defined contribution scheme, contributions to the scheme being charged to the profit and loss account in the period to which they relate

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost in the financial statements of the company Provision against the underlying value of assets of the company's investments in subsidiaries is made, where in the opinion of the directors, there is a permanent diminution in value of the underlying business

Provisions

In accordance with FRS 12, 'Provisions, contingent liabilities and contingent assets' the company provides in full for liabilities when it has a legal or constructive obligation arising from a past event

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Financial instruments

Financial assets and financial liabilities are recognised upon becoming a party to the contractual provisions of the instrument

(a) Trade debtors

Trade debtors are non-interest bearing and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts

(b) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the company after deducting all of its liabilities

(c) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are initially recorded at the proceeds received, net of associated transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings

(d) Trade creditors

Trade creditors are not interest bearing and are stated at their nominal value

(e) Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs

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Notes to the financial statements for the year ended 31 March 2007

1 Segment information

	2007 £'000	2006 £'000
Turnover by class of business		
Sales and servicing of cars	79,316	115,396
Engineering consultancy	37,565	29,671
	116,881	145,067
Turnover by geographical market supplied		
United Kingdom	33,073	30,789
Continental Europe	21,078	20,481
North and South America	27,372	57,170
Asia and Africa	35,358	36,627
	116,881	145,067

Details of turnover by origin are not disclosed because in the opinion of the directors to do so would be seriously prejudicial to the company

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2 Operating loss

	2007 £'000	2006 £'000
The operating loss is stated after charging/(crediting).		
Operating lease rentals		
- plant and machinery	6	18
- other assets	179	229
Depreciation		
- owned assets	3,922	5,432
- leased assets	42	-
Research and development		
- expenditure on research	3,765	5,278
- amortisation of capitalised development costs	494	-
(Profit) on disposal of tangible fixed assets	-	(12)
Loss/(gain) on foreign exchange transactions	1,258	(620)
Audit services		
- fees payable to the company's auditors for the audit of the financial statements	40	35

For detail of exceptional operating items see note 6

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3 Directors' emoluments

	2007	2006
	£'000	£'000
Directors' emoluments amounted to:		
Aggregate emoluments	314	668
Compensation for loss of office	422	-
	736	668

Three (2006: five) directors have retirement benefits accruing under a defined benefit scheme. None of the directors (2006: none) have retirement benefits accruing under a defined contribution scheme.

	2007	2006
	£'000	£'000
The emoluments of the highest paid director amounted to:		
Aggregate emoluments	21	176
Compensation for loss of office	257	-

The highest paid director had an accrued pension of £3,740 (2006: £21,912) as at 31 March 2007.

4 Employees and pension costs

The average number of persons employed by the company (including executive directors) during the year was as follows:

	2007	2006
	Number	Number
Category		
Management and administration	559	466
Production and sales staff	481	668
	1,040	1,134

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The aggregate payroll costs of the above persons was as follows

	2007 £'000	2006 £'000
Wages and salaries	33,335	31,712
Social security costs	3,257	2,847
Other pension costs	1,510	1,948
	38,102	36,507

Other pension costs comprise as follows

	2007 £'000	2006 £'000
Charges in respect of the defined benefit pension scheme (see below)	1,381	1,777
Contributions to defined contribution pension schemes	129	171
	1,510	1,948

Defined benefit pension scheme

The company operates a defined benefit pension scheme, the Lotus Pension Plan. The assets are held in separate trustee administered funds. The company has agreed to contribute additional annual contributions of £300,000 into the scheme with effect from September 2003 until the deficit has been eradicated.

An actuarial valuation using the projected unit basis was carried out at 31 March 2007 by an independent actuary. The major assumptions used by the actuary were as follows:

	2007	2006	2005
Rate of increase in salaries	4.10%	3.85%	3.75%
Rate of increase in pensions in payment	3.00%	2.85%	2.75%
Discount rate	5.40%	5.00%	5.40%
Inflation	3.10%	2.85%	2.75%
Long term expected rate of return on			
Equities	7.50%	7.25%	7.50%
Bonds	4.75%	4.50%	5.00%
Other	4.00%	4.00%	4.00%

Lotus Cars Limited

The assets of the scheme were

	2007 £'000	2006 £'000	2005 £'000
Equities	46,661	41,700	28,750
Bonds	4,893	3,910	3,881
Other	2,952	2,538	3,152
Total market value of assets	54,506	48,148	35,783

The following amounts at 31 March 2007 were measured in accordance with the requirements of FRS 17

	2007 £'000	2006 £'000
Total market value of assets	54,506	48,148
Present value of scheme liabilities	(57,840)	(57,637)
Deficit in the scheme	(3,334)	(9,489)
Related deferred tax asset	-	2,847
Net pension liability	(3,334)	(6,642)

The deferred tax asset in respect of the pension liability has been impaired in the current year due to uncertainty over future recoverability

Analysis of the amount charged to operating profit	2007 £'000	2006 £'000
Current service cost	2,067	1,777
Settlements and curtailments	(686)	-
Total operating charge	1,381	1,777

Analysis of the amount credited to other finance income	2007 £'000	2006 £'000
Expected return on pension scheme assets	3,379	2,566
Interest on pension scheme liabilities	(2,916)	(2,324)
Net credit to other finance income	463	242

Lotus Cars Limited

Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")	2007 £'000	2006 £'000
Actual return less expected return on pension scheme assets	716	7,198
Experience gains and losses arising on the scheme liabilities	872	(301)
Changes in assumptions underlying the present value of the scheme	3,213	(10,913)
Actuarial gain/(loss) recognised in STRGL	4,801	(4,016)

Movement in deficit during the year	2007 £'000	2006 £'000
Deficit in scheme at beginning of the year	(9,489)	(6,199)
Movement in year		
Current service cost	(2,067)	(1,777)
Contributions	2,272	2,261
Settlements and curtailments	686	-
Other finance income	463	242
Actuarial gain/(loss)	4,801	(4,016)
Deficit in scheme at end of the year	(3,334)	(9,489)

History of experience gains and losses	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets					
- Amount (£'000)	716	7,198	1,530	3,178	(6,089)
- Percentage of scheme assets	1.3%	14.9%	4.3%	11.1%	(29.7)%
Experience gains and losses on scheme liabilities					
- Amount (£'000)	872	(301)	1,022	408	854
- Percentage of the present value of the scheme liabilities	1.5%	(0.5)%	2.4%	1.0%	2.7%
Total amount recognised in statement of total recognised gains and losses					
- Amount (£'000)	4,801	(4,016)	3,276	1,263	(8,414)
- Percentage of the present value of the scheme liabilities	8.3%	(7.0)%	7.8%	3.2%	(26.5)%

Lotus Cars Limited

5 Interest

	2007 £'000	2006 £'000
Interest receivable		
Interest from bank deposits	159	106
	159	106
Interest payable and similar charges		
Bank overdrafts and loans	(1,047)	(790)
Loans from group fellow subsidiaries	(968)	-
Loan interest waived on loans owing to fellow group undertakings (exceptional item – see note 6)	3,329	-
Finance lease interest	(31)	-
	1,283	(790)
Other finance income		
Net credit in respect of the defined benefit pension scheme (note 4)	463	242
	463	242

6 Exceptional items

Exceptional items in the current year are as follows

	2007 £'000	2006 £'000
Cost of sales:		
Waiver of royalty payments owing to fellow group undertakings	10,518	-
Administrative expenses		
Reorganisation and redundancy costs	(3,953)	(37)
Provision against amounts owed by fellow subsidiaries	(1,096)	-
Impairment charges	-	(1 600)
Recovery of previously fully provided debtor balance	-	1,127
	(5,049)	(510)
Interest payable and similar charges		
Loan interest waived on loans owing to fellow group undertakings	3,329	-
Total	8,798	(510)

The above items for the year ended 31 March 2007 relate to an operational and capital restructuring exercise completed during the year

Lotus Cars Limited

7 Taxation

a) Analysis of charge in the year

	2007 £'000	2006 £'000
Current taxation		
Overseas taxation – current year	62	30
Total current taxation	62	30
Deferred taxation		
Impairment of deferred tax asset in respect of the pension liability	1,000	-
Pension contribution relief in excess of net pension charge	407	218
Total deferred taxation	1,407	218
Taxation on loss on ordinary activities	1,469	248

b) Factors affecting taxation charge in the year

	2007 £'000	2006 £'000
Loss on ordinary activities before tax	(4,795)	(6,997)
Loss on ordinary activities at standard rate of corporation tax in the UK of 30% (2006 30%)	(1,439)	(2,099)
Depreciation/impairment in excess of capital allowances	1,025	1,923
Other short term timing differences	(69)	(5)
Expenses not deductible for tax purposes	634	107
Pension contribution relief in excess of net pension charge	(407)	(218)
Income not taxable	(998)	-
Overseas tax on UK income	62	-
Current year tax losses not utilised	1,254	322
Current tax charge for year	62	30

Lotus Cars Limited

c) Factors affecting future taxation charges

The company has approximately £63.6m (2006: £58.3m) of unprovided losses available to be utilised against future years' profits. Further details of these losses are provided in note 15 to the financial statements.

8 Intangible assets

	Capitalised development costs £'000
Cost	
At 1 April 2006	-
Additions	1,856
At 31 March 2007	1,856
Amortisation	
At 1 April 2006	-
Charge for the year	494
At 31 March 2007	494
Net book amount	
At 31 March 2007	1,362
At 31 March 2006	-

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9 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tooling, equipment and motor vehicles £'000	Total £'000
Cost or deemed cost				
At 1 April 2006	23,580	29,997	25,496	79,073
Additions	-	341	1,933	2,274
Disposals	(382)	(55)	(7,038)	(7,475)
At 31 March 2007	23,198	30,283	20,391	73,872
Depreciation				
At 1 April 2006	9,228	25,584	20,622	55,434
Charge for the year	427	1,453	2,084	3,964
Disposals	(382)	(55)	(7,038)	(7,475)
At 31 March 2007	9,273	26,982	15,668	51,923
Net book amount				
At 31 March 2007	13,925	3,301	4,723	21,949
At 31 March 2006	14,352	4,413	4,874	23,639

The net book value of tangible fixed assets includes an amount of £958,000 (2006 £nil) in respect of assets held under finance leases

10 Investments

Shares in subsidiaries	£'000
Cost	
At 1 April 2006 and 31 March 2007	-

The following companies are the principal subsidiaries of Lotus Cars Limited, which directly or indirectly owns all of their issued ordinary share capital. The cost of the shareholding held by the company in Lotus Engineering Limited is £2 (2006 £2)

	Country of incorporation	Nature of business
Lotus Engineering Limited	England	Engineering consultancy
Lotus Engineering Malaysia Sdn Bhd (indirect)	Malaysia	Engineering consultancy

Lotus Cars Limited

11 Stocks

	2007	2006
	£'000	£'000
Raw materials	4,227	5,846
Cars in course of production and other work in progress	3,316	1,336
Service stocks	2,612	5,804
Finished goods	2,182	5,864
	12,337	18,850

12 Debtors

	2007	2006
	£'000	£'000
Trade debtors	9,036	9,941
Amounts owed by subsidiaries of the company	437	324
Amounts owed by fellow subsidiaries	4,650	14,756
Other debtors	606	610
Prepayments and accrued income	335	1 299
	15,064	26,930

The above amounts fall due within one year

13 Creditors – amounts falling due within one year

	2007	2006
	£'000	£'000
Bank overdrafts	9,460	18,306
Trade creditors	11,058	10,136
Amounts owed to subsidiaries of the company	5,880	469
Amounts owed to fellow subsidiaries	5,215	9,458
Other taxes and social security	844	938
Accruals and deferred income	4,705	7,168
Payments in advance	3,212	8,351
Obligations under finance leases (note 14)	141	-
	40,515	54,826

Lotus Cars Limited

The amounts owed to fellow subsidiaries are unsecured and bear interest at a market rate, however, as explained in note 6, accrued interest due was waived during the year. Bank overdrafts are secured by the assets of the group and are further guaranteed by a fellow group company.

14 Creditors – amounts falling due after more than one year

	2007 £'000	2006 £'000
Amounts owed to fellow subsidiaries of the Lotus Group International Limited ("LGIL") group	-	44,547
Amounts owed to fellow subsidiaries outside of the LGIL group	-	4,688
Obligations under finance leases	803	-
	803	49,235

Obligations under finance leases

Future minimum payments under finance leases are as follows.

	2007 £'000	2006 £'000
Within one year	208	-
In more than one year, but not more than five years	830	-
After five years	121	-
Total gross payments	1,159	-
Less finance charges included above	(215)	-
	944	-

15 Provisions for liabilities and charges

	Warranty provision £'000	Provision for losses on contracts £'000	Total £'000
At 1 April 2006	5,211	-	5,211
Charged to the profit and loss account	1,617	2,000	3,617
Utilised in the year	(3,033)	-	(3,033)
At 31 March 2007	3,795	2,000	5,795

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All vehicles sold by the company have a warranty period of between 12 and 36 months. Provision is made based upon the directors' best estimate of likely future claims under warranty. The provision is expected to be utilised within 3 years.

The provision for losses on contracts represents the directors' best estimate of anticipated future losses on an engineering services supply contract. The provision is expected to be utilised within the next year.

Provisions have not been discounted on the basis of materiality.

The company has unprovided deferred tax in respect of losses and other timing differences.

	2007 Recognised £'000	2007 Not recognised £'000	2006 Recognised £'000	2006 Not recognised £'000
Unprovided deferred tax asset is analysed as follows:				
Depreciation in excess of capital allowances	-	11,112	-	10,106
Short term timing differences	-	19	-	88
Losses available for future relief	-	19,076	-	17,501
Deferred tax on pension liability	-	1,000	-	-
	-	31,207	-	27,695

No deferred tax asset has been recognised in relation to these timing differences as their recovery is considered uncertain.

	£'000
Reconciliation of movement in unprovided deferred tax.	
At 1 April 2006	27,695
Movement - Adjustments arising in respect of prior years	302
- Current year (note 7)	3,210
At 31 March 2007	31,207

No provision has been made for the potential liability to deferred taxation of approximately £1,800,000 (2006 £1,800,000) in respect of the surplus arising on the revaluation of land and building, as the company does not intend to dispose of the asset in the foreseeable future.

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16 Called up share capital

	2007 Number	2007 £'000	2006 Number	2006 £'000
Authorised				
Ordinary shares of £1 each	78,200,000	78,200	27,400,000	27,400
Allotted, called up and fully paid				
At beginning of the year	27,400,000	27,400	27,400,000	27,400
Capital reduction and consolidation of share capital	(24,660,000)	(24,660)	-	-
Issue of new ordinary shares	50,800,000	50,800	-	-
At end of the year	53,540,000	53,540	27,400,000	27,400

During the year the company undertook a capital restructuring. This included a capital reduction, whereby 90 pence of the paid up share capital of each £1 ordinary share was cancelled to reduce the nominal value of each share to 10 pence. The credit arising of £24,660,000 was offset against the accumulated losses on the profit and loss account. The nominal share capital was subsequently consolidated such that each 10 ordinary shares of 10 pence each became 1 ordinary share with a nominal value of £1.

In addition, subsequent to the capital reduction, 50,800,000 new ordinary shares were issued at nominal value. Consideration of £50,800,000 was settled by cancelling amounts payable to the immediate parent company, Group Lotus plc.

17 Reserves

	Revaluation reserve £'000	Capital reserve £'000	Profit and loss account £'000
At 1 April 2006	4,358	17	(77,274)
Credit arising from capital reduction (see note 16)	-	-	24,660
Loss for the financial year	-	-	(6,264)
Actuarial gain relating to the pension scheme	-	-	4,801
Movement on deferred tax relating to the pension scheme liability	-	-	(1,440)
Transfer of amount equivalent to additional depreciation on revalued assets	(92)	-	92
At 31 March 2007	4,266	17	(55,425)

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18 Reconciliation of movements in shareholders' funds

	2007	2006
	£'000	£'000
Loss for the financial year	(6,264)	(7,245)
Proceeds of issue of ordinary share capital (note 16)	50,800	-
Actuarial gain/(loss) relating to pensions	4,801	(4,016)
Movement on deferred tax relating to pensions	(1,440)	1,205
Net movement in shareholders' funds/(deficit)	47,897	(10,056)
Opening shareholders' deficit	(45,499)	(35,443)
Closing shareholders' funds/(deficit)	2,398	(45,499)

19 Capital commitments

	2007	2006
	£'000	£'000
Contracted but not provided for	495	1,040

20 Operating leases

At 31 March 2007 the company was committed to making the following payments during the next year in respect of operating leases which expire

	2007	2006
	£'000	£'000
Operating leases which expire		
Within one year	92	89
Between one and five years	109	113
After five years	18	-
	219	202

All operating lease rentals are payable in respect assets other than land and buildings

Lotus Cars Limited

21 Ultimate parent undertaking

The ultimate parent undertaking of Lotus Cars Limited is Proton Holdings Berhad, a company incorporated in Malaysia. The consolidated financial statements of Proton comprise the group accounts of the largest group which includes the company. Copies of Proton's group financial statements are available from its registered office at Kawasan Perindustrian HiCom, Batu Tiga, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia.

Lotus Group International Limited, a company registered in England, is the immediate parent undertaking and the parent undertaking of the smallest group for which group accounts are prepared and of which the company is a member. Copies of the accounts of Lotus Group International Limited ("LGIL") may be obtained at its registered office at Lotus Group International Limited, Potash Lane, Hethel, Norwich, Norfolk, NR14 8EZ, United Kingdom.

22 Related party transactions

- 1) The company operates an Executive Car purchase scheme which allows directors to purchase company products at marginal cost or above. During the year directors purchased vehicles with a cost of £22,274 (2006: £101,348). At 31 March 2007 the amount outstanding from directors under this scheme was £nil (2006: £nil).
- 2) Under the terms of a financing agreement, Lotus Finance Limited, in which the LGIL Group has a 49.9% interest, provides finance services to dealers and customers of the company to enable them to acquire Lotus cars. During the year cars with a sales value of £20,975,912 (2006: £18,026,821) were sold through Lotus Finance Limited. At 31 March 2007 the amount outstanding from Lotus Finance Limited was £115,459 (2006: £181,277).