

ESSEX AUTO GROUP LIMITED

Report and Financial Statements

31 October 2012



ESSEX AUTO GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

CONTENTS	Page
Officers and professional advisers	1
Chairman's report	2
Directors' report	4
Directors' responsibilities statement	7
Independent auditor's report	8
Profit and loss account	10
Statement of total recognised gains and losses	10
Note of historical cost profits and losses	10
Balance sheet	11
Cash flow statement	12
Notes to the financial statements	13

ESSEX AUTO GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P J Maskell
C A Maskell
M B Brown
M Reilly
M Bradbrook (Non-executive)

SECRETARY

M Reilly

REGISTERED OFFICE

Essex Auto Group Limited
Head Office
Dunton Ford Link
Basildon
Essex
SS15 6GB

BANKERS

Bank of Scotland	FCE Bank Plc	Lombard
24 Hills Road	Central Office	3 Princess Way
3rd Floor	Eagle Way	Redhill
Cambridge	Brentwood	Surrey
CB2 1JW	Essex	RH1 1NP
	CM13 3AR	

SOLICITORS

Birketts LLP
Incorporating Wollastons LLP
Brierly Place
New London Road
Chelmsford
Essex
CM2 0AP

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
St Albans, United Kingdom

ESSEX AUTO GROUP LIMITED

CHAIRMAN'S REPORT

VEHICLE MARKETS & TRADING ENVIRONMENT

The all make car market came in at 2.04m units for 2012. This was above the forecast given by the Society of Motor Manufacturers and Traders ("SMMT") at 2.00m units but still 15% adrift from the peak market seen in 2007 prior to the banking crisis.

Manufacturer and retailer marketing and discounting actions clearly stimulated demand but retained margins remained under pressure on both new and used car sales as the industry forced sales. Vehicle manufacturers saw that the UK market was receptive to more volume of production and inventory as continental Europe's market demand faltered and factory production capacity was challenged.

Market Statistics (Source : SMMT)

- UK new car registrations rose 5.3% in 2012 to 2.04m units
- Annual volume was highest since 2008, and recorded largest percentage increase since 2001
- 12.9% rise in private demand
- New car market was still 14.9% below 2007, pre-recession, level of 2.40m units
- Average new car CO₂ emissions fell to new low of 133.1g/km, 22.7% down on a decade ago
- Commercial vehicle registrations down 5.9% in 2012 to 285,000 units and van registrations down 7.9%

The used vehicle market demand showed similar, steady growth but resale prices remained under pressure as new car selling prices forced down values of used cars up to two years old.

TRADING PERFORMANCE

Vehicle Sales

The Essex Auto Group Area of Influence ("AOI") all make market volume opportunity was proportionately affected by the national factors mentioned above. New car volumes were up 9.2% on prior year. The 7 Sales and 9 After Sales brands meant that the Group were supplying approximately 35% of the new cars sold within its local market supported by a diverse customer choice of Ford, Mazda, Fiat, Kia, Volvo, Seat and Skoda.

Used car retail sales volumes were stable against the prior year and balanced by strong gross retained margins and a continuing successful policy on Used Vehicle Trade. Our overall vehicle sales volumes including used trade transactions totalled 8,206 (2011: 7,696) including 3,798 new (2011: 3,488) and 4,408 used retail and trade sales (2011: 4,208).

After Sales

Service revenues were particularly challenged with continuing inconsistency of demand as consumers remained conservative in their spending on anything other than essential servicing and repairs. The Group had large workshop capacity to fill and the multi-brand expansion was bringing in new revenue opportunities. Parts sales were impacted by the tough trading conditions and a decision by the Company to reduce inventories and avoid the industry malaise of overstocking. The non-Ford brands continued to make forward progress through organic growth. The Company's strategies on Loyalty Cards, Service Plans and Customer Relation Management (CRM) were having a positive impact on retaining customer loyalty. The Group Customer Relationship Centre (CRC) was at the heart of initiatives to capture greater customer data accuracy for more effective fulfilment of next service and MOT bookings. Our Accident Repair Centre continued to battle in an industry sector where the main strategy was damage limitation and consolidation.

FRANCHISE DEVELOPMENT

Our lead franchise, Ford, remained the engine room of the Company's portfolio at around 80% (2011 – 78%) of the turnover. The new Fiesta, B-Max and Kuga were already class leading introductions. Kia and Fiat performed strongly but Mazda and Volvo brands were more challenging as both were going through delays in replacing key model lines with more competitive new products. Volvo had, however, launched the V40, a compact hatchback to compete in the premium small family car segment and Mazda produced the new model CX5 SUV and Mazda 6 models. Our new brands from the VW Group of Seat and Skoda were emerging from the cold territories we had inherited and will take time to promote brand awareness and attraction.

ESSEX AUTO GROUP LIMITED

CHAIRMAN'S REPORT

MARKETING

By year end the Company re-launched its industry leading multi-brand web site on to a more advanced platform to provide more customer functionality and online transaction capability including service and tyre bookings. Digital marketing via emails and social media were further developed and customer Loyalty Card programme with 30,612 cards now issued.

STRATEGIC ACTIONS

The Company continued to reduce the cost base and specific actions were identified and taken across the year with the full benefit to come in the following financial year. Staff headcount was reduced further to 275 by the year end versus 295 in the prior year with resultant lower payroll costs. The Company had embarked on extending the Ford Master apprentice programme to include Technicians and Sales trainees as recruitment of existing staff within the industry did not generate an acceptable standard. The Company continued to evolve its Dealer Management System ("DMS") installed in-house in January 2011. This was working above expectations and is providing significant process improvements and operational efficiencies at reduced cost.

RESULTS FOR THE YEAR

The Company turnover was £101.83m (2011 - £96.25m) illustrating growth in our multibrand business mix.

EBITDA was £1.49m (2011 - £1.65m) and at the Operating profit level £0.98m (2011 - £0.89m) with finance charges of £0.78m (2011 - £0.79m). Pre-tax profits on ordinary activities were £0.20m versus £0.10m in 2011.

BALANCE SHEET AND CASH GENERATION

The Company's freehold property loans were reducing at the rate of £0.62m per annum with net long term debt at year end down to £6.20m versus the professional valuations of the prior year at £13.88m (further substantiated in a statement from the company's surveyors at this year end).

The balance sheet remained materially static in terms of net assets at £10.10m (2011 - £10.12m). Operating Cash flow performed positively netting £0.43m (2011 - £1.35m) and the Company maintained strong controls on working capital facilities, debtors and creditors.

FUNDING AND RETAIL FINANCE

Relationships with Lloyds Banking Group, Ford Credit Europe and Lombard as primary funding partners were well maintained through the year. The company wrote over £30m of customer finance contracts in the year through Ford Credit Europe, VW Bank, Santander, Barclays and Blackhorse.

SUMMARY

Considering the challenges in the general economy and the ultra aggressive trading within the retail motor industry the Company has navigated successfully through the year. Clearly the significant property and franchise investments made by the Company in the previous 5 years meant in the short term the overhead burden was high but this will be justified as the new brands mature. The Chairman and Board passed on sincere thanks for the hard work and dedication of the management and staff at the annual Group staff meetings held in December 2012.

2013 BUSINESS PLAN

UK consumer confidence seems to be improving although continuing Government actions were still biting hard on disposable incomes. Within the 7 sales franchises that we represent there are 15 new product launches in 2012-13 to stimulate accelerated interest in our brands. The primary message from the Chairman to all staff at the December 2012 meetings, as we face another challenging year, was not only to focus on all within our control, with everyone playing their part, but added to this a fresh Group wide strategy of the need to achieve best practice in all areas. The Company had introduced Performance Incentive Guilds across the various disciplines of the business requiring the achievement of financial and best practice operating criteria. These were designed to move forward improved effectiveness on all levels and a significant move forward on profitability. With the actions the Company has already taken and the additional actions to come, I am confident that the business is well placed to see improved growth in financial returns for the year ahead.



28th March 2013

Philip Maskell

Chairman & Managing Director

ESSEX AUTO GROUP LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 October 2012

PRINCIPAL ACTIVITY

The principal activity of the Company is the operation of Ford, Mazda, Fiat, Kia, Volvo, Seat, Skoda, Jaguar and Land Rover main motor dealerships. The directors do not anticipate any major changes in the Company's activities in the next year.

BUSINESS REVIEW

A full discussion of the performance of the business is contained in the Chairman's report on pages 2 and 3 which forms part of the directors' report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's activities expose it to a number of risks including cash flow and interest risk.

Interest risk

The Company has a number of loans in place which support property acquisitions. These are subject to interest rate movements. To minimise this risk the Company has taken out an interest rate hedge with their bankers for £9m over a minimum 10 year period.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the Company uses a mixture of long-term and short-term debt finance.

Other risks

Competitive pressure in the UK is a continuing risk for the Company. This is managed by providing an added value service to customers, positive solutions, reliability and fast response to customers. Maintaining and enhancing customer relationships is a core factor in providing a full and effective service.

There is a price risk that current economic conditions and competitive pressure results in lower transaction prices and squeezed retained margins. The costs of motor vehicles and parts apply an increasing pressure to margins, in a market where it is difficult to recover costs in selling prices.

GOING CONCERN

As explained in the Chairman's report, the current economic slowdown and global recession has created uncertainty and further risks to the Company, exacerbated by continuing competitive pressure in the UK. Nevertheless, the directors have prepared these financial statements on the going concern basis for the reasons set out below.

The Company has a strong balance sheet with net assets of £10,104,917 at 31 October 2012. During the year the Company has generated a pre-tax profit of £202,741 and cash inflows from operating activities of £428,119.

Since the balance sheet date, the Company has continued to generate profits and positive operating cash flows and has been able to meet all its obligations as they fall due and the overdraft facility has been renewed again for another year until 28 February 2014.

The directors have prepared detailed cash flow forecasts to 31 October 2014. These forecasts, which take account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility. The Company will open renewal negotiations with the bank in due course and has, at this stage, not sought any written commitment that the facility will be renewed. However, the Company has held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

In the event that the economic recovery slows and falls back into recession the directors have contingency plans to reduce the cost base further if required.

ESSEX AUTO GROUP LIMITED

DIRECTORS' REPORT (continued)

GOING CONCERN (continued)

The Company has excellent established relationships with its bankers Ford Credit (FCE Bank plc) and the Lloyds Banking Group as well as support provided by Lombard to support the used and Company vehicle stocks

On the basis of all of the above, the directors consider that they have reasonable grounds to assume that the Company will be able to meet its obligations as they fall due and not be in breach of bank covenants. Consideration has been given to this statement for the foreseeable future, being a period of at least 12 months from the date of approval of these financial statements and therefore the directors continue to adopt the going concern basis of preparation in the financial statements

DIVIDENDS

An interim dividend of £125,000 (2011 - £200,000) was paid during the year. No final dividends have been paid or proposed at the balance sheet date.

DIRECTORS

The directors who served during the year and to the date of this report, unless otherwise stated, were

P J Maskell

C A Maskell

M B Brown

M Reilly

C Ross (resigned office 31 March 2012)

M Bradbrook (Non-executive)

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

EMPLOYEE CONSULTATION

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings. The Company seeks to involve employees in the overall financial performance of the Company with performance-linked bonus and incentive schemes. Additionally the Company seeks to involve employees in decision making and encourages employees to come up with creative ideas to improve business performance.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Company made £3,921 in charitable donations during 2012 (2011 - £3,531) principally in relation to local charities serving the communities in which the Company operates. The Company did not make any political contributions during 2012 (2011 - £nil).

ESSEX AUTO GROUP LIMITED

DIRECTORS' REPORT (continued)

AUDITOR


Each of the persons who is a director at the date of approval of this annual report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director to make himself 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

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

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



M Reilly
Secretary

28th March 2012.

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). 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 judgements and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, 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 ESSEX AUTO GROUP LIMITED

We have audited the financial statements of Essex Auto Group Limited for the year ended 31 October 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits and losses, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net debt and the related notes 1 to 24. 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).

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. 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 October 2012 and of its profit 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 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSEX AUTO GROUP LIMITED (continued)

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



Robert Knight FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
St Albans, United Kingdom

28 March 2013

ESSEX AUTO GROUP LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 October 2012

	Note	2012 £	2011 £
TURNOVER	2	101,827,025	96,249,917
Cost of sales		(95,940,947)	(90,248,338)
Gross profit		5,886,078	6,001,579
Administrative expenses		(4,906,842)	(5,113,157)
OPERATING PROFIT	4	979,236	888,422
Finance charges (net)	3	(776,495)	(785,004)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		202,741	103,418
Tax on profit on ordinary activities	6	(96,370)	(166,789)
PROFIT (LOSS) ON ORDINARY ACTIVITIES AFTER TAX	17	106,371	(63,371)

All activities derive from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 October 2012

	2012 £	2011 £
Profit (loss) for the financial year	106,371	(63,371)
Surplus arising on revaluation of fixed assets	-	1,658,223
Total recognised gains and losses in the year	106,371	1,594,852

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 31 October 2012

	2012 £	2011 £
Profit on ordinary activities before taxation	202,741	103,418
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	44,666	84,792
Historical cost profit on ordinary activities before taxation	247,407	188,210
Historical cost profit (loss) for the year retained after taxation and dividends	26,037	(178,579)

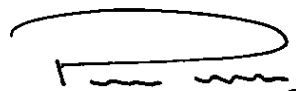
ESSEX AUTO GROUP LIMITED

BALANCE SHEET 31 October 2012

	Note	2012 £	2011 £
FIXED ASSETS			
Intangible assets	8	-	-
Tangible assets	9	14,720,186	15,158,090
Investments	10	10,000	10,000
		<u>14,730,186</u>	<u>15,168,090</u>
CURRENT ASSETS			
Stocks	11	16,355,169	18,701,925
Debtors	12	3,816,462	3,820,122
Cash at bank and in hand		3,845	260,785
		<u>20,175,476</u>	<u>22,782,832</u>
CREDITORS: amounts falling due within one year	13	(19,120,135)	(21,519,320)
NET CURRENT ASSETS		<u>1,055,341</u>	<u>1,263,512</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		15,785,527	16,431,602
CREDITORS: amounts falling due after more than one year	14	(5,581,715)	(6,200,906)
PROVISION FOR LIABILITIES	15	(98,895)	(107,150)
NET ASSETS		<u>10,104,917</u>	<u>10,123,546</u>
CAPITAL AND RESERVES			
Called up share capital	16	100,000	100,000
Share premium account	17	522,870	522,870
Capital redemption reserve	17	42,630	42,630
Revaluation reserve	17	3,872,076	3,916,742
Profit and loss account	17	5,567,341	5,541,304
SHAREHOLDERS' FUNDS	18	<u>10,104,917</u>	<u>10,123,546</u>

The financial statements of Essex Auto Group Limited, registered number 2382874, were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors



28th March 2013

P J Maskell
Director

ESSEX AUTO GROUP LIMITED

CASH FLOW STATEMENT

Year ended 31 October 2012

	Note	2012 £	2011 £
Net cash inflow from operating activities	19	428,119	1,348,326
Returns on investments and servicing of finance	20	(776,495)	(785,004)
Taxation	20	(98,148)	(761,657)
Capital expenditure and financial investment	20	(67,605)	(228,818)
Equity dividends paid	7	(125,000)	(200,000)
Net cash outflow before financing		(639,129)	(627,153)
Financing	20	203,499	(111,584)
Decrease in cash in the year	21	(435,630)	(738,737)

Reconciliation of net cash flow to movement in net debt (note 21)

	2012 £	2011 £
Decrease in cash in the year	(435,630)	(738,737)
Cash (inflow) outflow from movement in debt and lease financing	(203,499)	111,584
Change in net debt resulting from cash flows, being movement in net debt in year	(639,129)	(627,153)
Net debt at beginning of year	(11,717,519)	(11,090,366)
Net debt at end of year	(12,356,648)	(11,717,519)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2012

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. The accounting policies have been applied consistently throughout the year and preceding year.

Going concern

As explained in the Chairman's report, the current economic slowdown and global recession has created uncertainty and further risks to the Company, exacerbated by continuing competitive pressure in the UK. Nevertheless, the directors have prepared these financial statements on the going concern basis for the reasons set out below.

The Company has a strong balance sheet with net assets of £10,104,917 at 31 October 2012. During the year the Company has generated a pre-tax profit of £202,741 and cash inflows from operating activities of £428,119.

Since the balance sheet date, the Company has continued to generate profits and positive operating cash flows and has been able to meet all its obligations as they fall due and the overdraft facility has been renewed again for another year until 28 February 2014.

The directors have prepared detailed cash flow forecasts to 31 October 2014. These forecasts, which take account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility. The Company will open renewal negotiations with the bank in due course and has, at this stage, not sought any written commitment that the facility will be renewed. However, the Company has held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

In the event that the economic recovery slows and falls back into recession the directors have contingency plans to reduce the cost base further if required.

The Company has excellent established relationships with its bankers Ford Credit (FCE Bank plc) and the Lloyds Banking Group as well as support provided by Lombard to support the Used and Company Vehicle stocks.

On the basis of all of the above, the directors consider that they have reasonable grounds to assume that the Company will be able to meet its obligations as they fall due and not be in breach of bank covenants. Consideration has been given to this statement for the foreseeable future, being a period of at least 12 months from the date of approval of these financial statements and therefore the directors continue to adopt the going concern basis of preparation in the financial statements.

Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets.

Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business. Revenue on vehicles is recognised when the vehicle is taxed and registered. Revenue on parts is recognised on despatch. Revenue on vehicle servicing is recognised when the service is provided.

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

1. ACCOUNTING POLICIES (continued)

Intangible fixed assets

Intangible assets include goodwill purchased as part of the cost of acquiring the Company's trade from third parties which represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised and amortised on a straight-line basis over 15 years, which the directors believe is a reasonable estimate of its expected economic life. Provision is made for any impairment.

Intangible assets also include a lease premium paid in respect of the Company's premises which are held under an operating lease. The lease premium is being amortised over the period of the original lease. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are shown at cost, net of depreciation and any provision for impairment with the exception of freehold land and certain buildings which are held at valuation.

No depreciation is provided on freehold land. On other assets depreciation is provided at rates 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:

Freehold and leasehold buildings	2% per annum
Machinery and equipment	20% per annum
Computer equipment	25% per annum
Furniture and fittings	10% per annum

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

Revaluation of properties

The Company has a policy of revaluing all owned freehold and leasehold properties. In accordance with the provisions of FRS 15 "Tangible Fixed Assets", individual freehold and leasehold properties are revalued every 5 years by an external valuer with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus.

An interim valuation of all revalued properties will be carried out within three years of the last formal valuation by an appropriately qualified external valuer. In all years where formal valuations are not required, management will conduct their own review of carrying values.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 October 2012

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value

Cost incurred in bringing each product to its present location and condition is based on

Parts	Purchase cost on a first-in, first-out basis
New vehicles (owned)	Original purchase cost
New vehicles (consignment)	Current manufacturer purchase price
Demonstration vehicles	Original cost adjusted to reflect changes in residual value
Used vehicles	The price paid or trade-in allowance granted

Net realisable value is based upon selling price less an estimate for discounts and selling expenses to be incurred to disposal

The directors consider that consignment stocks of certain new vehicles held by the Company on behalf of the Ford Motor Company, Mazda and Volvo meet the criteria of Financial Reporting Standard No 5 "Reporting the substance of transactions" to be recognised as assets. Accordingly, such new vehicles are shown as stock in the financial statements with a corresponding liability being shown within creditors falling due within one year

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively 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 a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

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

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

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

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful economic lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2012

1. ACCOUNTING POLICIES (continued)

Pension costs

The Company operates two defined contribution pension schemes. The amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year. Further details are given in note 22. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2. TURNOVER

Turnover arises from sales made in the United Kingdom. The analysis of turnover by class of business has been omitted as the directors consider that the disclosure of such information would be seriously prejudicial to the interests of the Company.

3. FINANCE CHARGES (NET)

	2012 £	2011 £
Interest payable and similar charges comprises		
On bank loans and overdrafts	285,262	276,982
On all other loans	491,054	501,906
Interest element of charges payable under finance leases and hire purchase	179	6,116
	<u>776,495</u>	<u>785,004</u>

4. OPERATING PROFIT

	2012 £	2011 £
Operating profit is after charging:		
Depreciation of and amounts written off tangible fixed assets		
Owned	505,391	708,548
Held under finance leases and hire purchase contracts	6,118	56,074
Operating lease rentals		
Other	<u>809,341</u>	<u>806,816</u>
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>47,500</u>	<u>46,000</u>
Other services pursuant to legislation		
Tax services	<u>12,500</u>	<u>16,650</u>

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2012 £	2011 £
Directors' remuneration		
Directors of the Company received the following remuneration		
Emoluments	572,549	563,944
Company contributions to money purchase pension schemes	48,270	55,620
	<u>620,819</u>	<u>619,564</u>
	Number	Number
Number of directors who are members of a money purchase pension scheme	4	4
	<u>£</u>	<u>£</u>
Highest paid director's remuneration		
Emoluments	125,615	123,862
Company contributions to money purchase pension schemes	30,420	30,420
	<u>156,035</u>	<u>154,282</u>
	2012 £	2011 £
Staff costs during the year (including executive directors)		
Wages and salaries	7,446,234	7,927,809
Social security costs	717,781	773,875
Other pension costs (see note 22)	80,389	87,270
	<u>8,244,404</u>	<u>8,788,954</u>
	Number	Number
Average number of persons employed		
Sales and operatives	169	183
Administration	106	112
	<u>275</u>	<u>295</u>

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 £	2011 £
Current tax		
UK corporation tax	106,032	120,238
Adjustment to tax charge in respect of previous period	(1,407)	-
Total current tax	<u>104,625</u>	<u>120,238</u>
Deferred tax		
Origination and reversal of timing differences	(4,107)	46,722
Adjustment in respect of previous period	-	8,100
Effect of change in rates	(4,148)	(8,271)
Total deferred tax	<u>(8,255)</u>	<u>46,551</u>
Tax on profit on ordinary activities	<u>96,370</u>	<u>166,789</u>

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

	2012 £	2011 £
Profit on ordinary activities before taxation	<u>202,741</u>	<u>103,418</u>
Tax on profit on ordinary activities at blended standard UK corporation tax rate of 24.83% (2011 - 26.83%)	50,342	27,744
Effects of		
Expenses not deductible for tax purposes	55,304	165,367
Capital allowances in deficit (excess) of depreciation	4,106	(46,723)
Movement in short term timing differences	-	(20,416)
Adjustment to tax charge in respect of previous period	(1,407)	(5,734)
Effect of other tax rates/ credits	(3,720)	-
Current tax charge for year	<u>104,625</u>	<u>120,238</u>

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012 respectively.

In December 2012, the UK Government also proposed to further reduce the standard rate of UK corporation tax to 21% effective 1 April 2014, but this change has not been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

7. DIVIDENDS PAID

	2012 £	2011 £
Dividends paid in respect of current year:		
Interim ordinary dividend of 1 25p (2011 2 00p) per ordinary share	<u>125,000</u>	<u>200,000</u>

8. INTANGIBLE FIXED ASSETS

	Purchased goodwill £	Lease premium £	Total £
Cost			
At 1 November 2011 and at 31 October 2012	<u>1,033,075</u>	<u>406,210</u>	<u>1,439,285</u>
Amortisation			
At 1 November 2011 and at 31 October 2012	<u>1,033,075</u>	<u>406,210</u>	<u>1,439,285</u>
Net book value			
At 31 October 2012	<u>-</u>	<u>-</u>	<u>-</u>
At 31 October 2011	<u>-</u>	<u>-</u>	<u>-</u>

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

9. TANGIBLE FIXED ASSETS

	Freehold and long leasehold land and buildings £	Computer equipment £	Furniture and fittings £	Machinery and equipment £	Total £
Cost or valuation					
At 1 November 2011	13,880,000	202,964	2,949,093	184,674	17,216,731
Additions	-	-	73,605	-	73,605
Disposals	-	-	-	(44,000)	(44,000)
At 31 October 2012	13,880,000	202,964	3,022,698	140,674	17,246,336
Depreciation					
At 1 November 2011	-	202,964	1,695,014	160,663	2,058,641
Charge for the year	233,600	-	266,622	11,287	511,509
Disposals	-	-	-	(44,000)	(44,000)
At 31 October 2012	233,600	202,964	1,961,636	127,950	2,526,150
Net book value					
At 31 October 2012	13,646,400	-	1,061,062	12,724	14,720,186
At 31 October 2011	13,880,000	-	1,254,079	24,011	15,158,090

The net book value of fixtures and fittings includes £202,253 (2011 - £226,371) in respect of assets held under finance leases and hire purchase contracts

Freehold land at cost of £2,200,000 included above (2011 - £2,200,000) is not being depreciated

On 31 October 2011 an interim valuation was completed on the freehold and long leasehold land and buildings with a cost of £13,635,000 and these were revalued to £13,880,000. Freehold land and buildings at cost of £7,285,000 was revalued to £7,000,000. Long leasehold land and buildings at cost of £6,350,000 was revalued to £6,880,000. The valuation was conducted by Autohouse Associates who are qualified with the Royal Institute of Chartered Surveyors (RICS). The valuation represents the existing use valuation in accordance with the Appraisal and Valuation Standards of the RICS, Section UK P53.2.

The Directors are not aware of any material change in the value and therefore the valuation has not been updated. There was a transfer between the revaluation reserve and profit and loss account in the year of £44,666 for the additional depreciation charge following the revaluation.

10. INVESTMENTS HELD AS FIXED ASSETS

	Other investments £
Cost and net book value	
At 1 November 2011 and 31 October 2012	10,000

The Company has a 4.76 per cent interest in Retail Automotive Alliance Limited

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

11. STOCKS

	2012 £	2011 £
Parts and consumables	848,926	1,127,566
Motor vehicles		
New	8,371,709	11,687,099
Used	4,029,763	3,201,854
Demonstrators	3,104,771	2,685,406
	<u>16,355,169</u>	<u>18,701,925</u>

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

The value of new vehicles includes certain stocks of vehicles held on consignment from Ford Motor Company, Mazda, and Volvo and stocks of vehicles transferred from other dealerships. These stocks have been included in the balance sheet in accordance with Financial Reporting Standard No 5, 'Reporting the substance of transactions'. The total value of consignment vehicles included within stocks is £8,018,831 (2011 - £11,438,546). A corresponding liability including VAT is shown within vehicle creditors, see note 13.

12. DEBTORS

	2012 £	2011 £
Amounts falling due within one year		
Vehicle debtors	1,112,205	1,460,119
Other trade debtors	616,766	745,256
	<u>1,728,971</u>	<u>2,205,375</u>
Total trade debtors	1,728,971	2,205,375
Other debtors	1,586,867	1,340,486
Prepayments and accrued income	500,624	274,261
	<u>3,816,462</u>	<u>3,820,122</u>

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £	2011 £
Obligations under finance leases and hire purchase contracts (see note 14)	-	18,046
Bank overdraft (see note 14)	178,690	-
Short term loans and current portion of long term loans (see note 14)	6,600,088	5,759,352
Vehicle creditors	9,884,088	13,368,637
Other trade creditors	819,025	724,363
Other creditors		
UK corporation tax payable	106,032	99,555
VAT	29,711	128,067
Social security and PAYE	323,259	310,391
Other	781,655	628,987
Accruals and deferred income	397,587	481,922
	<u>19,120,135</u>	<u>21,519,320</u>

Vehicle creditors include £8,018,831 consignment stock (2011 - £11,438,546) in accordance with Financial Reporting Standard No 5 "Reporting the substance of transactions" A corresponding asset net of VAT is shown within stocks, see note 11

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012 £	2011 £
Long term loans (secured)	<u>5,581,715</u>	<u>6,200,906</u>
Borrowings are repayable as follows		
Secured overdraft		
On demand or within one year	<u>178,690</u>	<u>-</u>
Secured loans		
On demand or within one year	6,600,088	5,759,352
Between one and two years	619,191	619,191
Between two and five years	1,857,573	1,857,573
After five years	3,104,951	3,724,142
	<u>12,181,803</u>	<u>11,960,258</u>
Finance leases and hire purchase contracts		
On demand or within one year	<u>-</u>	<u>18,046</u>
Total borrowings		
On demand or within one year	6,778,778	5,777,398
Between one and two years	619,191	619,191
Between two and five years	1,857,573	1,857,573
After five years	3,104,951	3,724,142
	<u>12,360,493</u>	<u>11,978,304</u>

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate

Short term and long term loans are secured on the freehold properties to which they relate The Company has granted various floating and fixed charges on all assets as security for its bank overdraft

15. PROVISION FOR LIABILITIES

Deferred taxation provided is as follows

	£
At 1 November 2011	107,150
Credit to profit and loss account (see note 6)	(8,255)
	<hr/>
At 31 October 2012	98,895
	<hr/>

Deferred tax liability recognised is as follows

	2012 £	2011 £
Accelerated capital allowances	<hr/> 98,895	<hr/> 107,150

Deferred tax has not been provided on revaluation of tangible fixed assets and on chargeable gains deferred by way of rollover relief This tax will only become payable if the assets are subsequently sold at a gain and rollover relief is not obtained The estimated amount of tax that will become payable in these circumstances is £1,842,361 (2011 - £1,816,110)

16. CALLED UP SHARE CAPITAL

	2012 £	2011 £
Called up, allotted and fully paid		
100,000 ordinary shares of £1 each	<hr/> 100,000	<hr/> 100,000

The cumulative ordinary 'A' shares and the ordinary shares rank pari passu in all respects

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

17. RESERVES

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise

	2012 £	2011 £
Distributable		
Profit and loss account	5,567,341	5,541,304
Non distributable		
Share premium account	522,870	522,870
Capital redemption reserve	42,630	42,630
Revaluation reserve	3,872,076	3,916,742
Total reserves	<u>10,004,917</u>	<u>10,023,546</u>

The movement on reserves during the year was as follows

	Share premium account £	Capital redemption reserve £	Revalua- tion reserve £	Profit and loss account £	Total £
At 1 November 2011	522,870	42,630	3,916,742	5,541,304	10,023,546
Profit for the year	-	-	-	106,371	106,371
Dividends paid (note 7)	-	-	-	(125,000)	(125,000)
Historical cost transfer	-	-	(44,666)	44,666	-
At 31 October 2012	<u>522,870</u>	<u>42,630</u>	<u>3,872,076</u>	<u>5,567,341</u>	<u>10,004,917</u>

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012 £	2011 £
Profit (loss) for the financial year	106,371	(63,371)
Dividends paid (note 7)	(125,000)	(200,000)
Other recognised gains and losses	-	1,658,223
Net (reduction in) addition to shareholders' funds	(18,629)	1,394,852
Opening shareholders' funds	<u>10,123,546</u>	<u>8,728,694</u>
Closing shareholders' funds	<u>10,104,917</u>	<u>10,123,546</u>

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2012

19. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012 £	2011 £
Operating profit	979,236	888,422
Depreciation charge and amounts written off fixed assets	511,509	764,622
Profit on sale of tangible fixed assets	(6,000)	-
Decrease in stocks	2,346,756	3,365,138
Decrease (increase) in debtors	3,660	(224,378)
Decrease in creditors	(3,407,042)	(3,445,478)
Net cash inflow from operating activities	428,119	1,348,326

20. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2012 £	2011 £
Returns on investments and servicing of finance		
Interest paid	(776,316)	(778,889)
Interest element of finance lease rentals	(179)	(6,115)
Net cash outflow	(776,495)	(785,004)
Taxation		
UK corporation tax paid	(98,148)	(761,657)
Capital expenditure and financial investment		
Sale of tangible fixed assets	6,000	-
Purchase of tangible fixed assets	(73,605)	(228,818)
Net cash outflow	(67,605)	(228,818)
Financing		
Increase in short term loans	840,736	613,235
Repayment of secured loan	(619,191)	(619,191)
Capital element of finance lease rentals	(18,046)	(105,628)
Net cash inflow (outflow)	203,499	(111,584)

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

21. ANALYSIS OF NET DEBT

	At 1 November 2011 £	Cash flow £	Non-cash changes £	At 31 October 2012 £
Cash at bank and in hand	260,785	(256,940)	-	3,845
Bank overdraft	-	(178,690)	-	(178,690)
		(435,630)		
Debt due within one year	(5,759,352)	(221,545)	(619,191)	(6,600,088)
Debt due after one year	(6,200,906)	-	619,191	(5,581,715)
Finance leases and hire purchase contracts	(18,046)	18,046	-	-
Net debt	<u>(11,717,519)</u>	<u>(639,129)</u>	<u>-</u>	<u>(12,356,648)</u>

22. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Lease commitments

The Company has entered into operating leases for land and buildings. The Company pays all insurance, maintenance and repairs of these properties.

Annual commitments under non-cancellable operating leases for the Company are as follows:

	Land and buildings	
	2012 £	2011 £
Operating leases which expire		
Within two to five years	104,116	102,017
After more than five years	817,825	707,323
	<u>921,941</u>	<u>809,340</u>

Pension arrangements

The Company maintains two pension schemes. The schemes are as follows:

- i Non-management employees - a voluntary non-contributory contracted out scheme administered by Equitable Life Assurance
- ii Executive employees - a contributory scheme administered by AXA Life

Both of the above are defined contribution schemes. The amount charged in the profit and loss account for pension costs of the Company was £80,389 (2011 - £87,270).

ESSEX AUTO GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2012

23. DERIVATIVES NOT INCLUDED AT FAIR VALUE

The Company has derivatives which are not included at fair value in the accounts

	Principal £	Fair value £
Interest rate swap contracts	9,000,000	(2,510,526)

The Company uses derivatives to hedge its exposure to interest rate movements on its bank borrowings. The fair values are based on market values of equivalent instruments at the balance sheet date.

The interest rate swap contracts with a principal amount of £9 million have fixed interest payments at an average rate of 4.81 per cent for periods up until 2021 and have floating interest receipts at LIBOR.

24. CONTROLLING PARTY

Mr P Maskell, a director of Essex Auto Group Limited, controls the Company as a result of controlling directly or indirectly 100% of the issued share capital of Essex Auto Group Limited.