

The directors present their annual report and the audited financial statements for the year ended 31 December 1994.

Results and dividends The results of the group for the year are set out in the financial statements on pages 14 to 31. The directors recommend a final dividend for the year ended 31 December 1994 of 5.4 pence per ordinary share which, together with the interim dividend of 2.7 pence per share paid to shareholders on 20 October 1994, will make a total for the year of 8.1 pence per share. Subject to approval at the Annual General Meeting, the final dividend will be paid on 2 May 1995 to shareholders appearing on the register at the close of business on 13 April 1995. Total dividends amount to £3,109,000 leaving retained profits for the year of £3,510,000.

Principal activities Pendragon's principal activities are the sale of new and used vehicles, contract hire, and after sales services.

Review of operations A review of the group's activities and future developments is presented by the chief executive on pages 4 to 7. The dealership network has been extended by the acquisitions during the year ended 31 December 1994 set out in Table 1 below.

A review of other franchises added to existing locations which commenced trading during 1994 is included in the chief executive's review.

Tangible fixed assets A summary of the changes in tangible fixed assets is set out in note 12 to the financial statements.

Directors The directors listed on page 9 served during the year. The interests of the directors and those of their families in the shares of the company (all of which were beneficial) at 31 December 1994 were as set out in Table 2 below.

In addition, Mr A N R. Rudd is beneficially

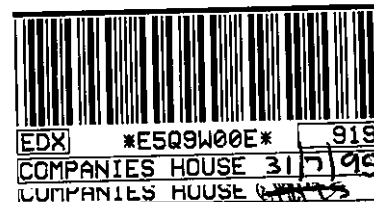
Table 1

Dealership	Franchise	Date of Acquisition	Investment at 31 December 1994 £000
Avalon Coventry	Peugeot	1 March 1994	1,319
Paramount Derby	Rover	1 July 1994	2,024
Follett	Mazda	12 September 1994	552

Investment in the above businesses comprises the initial purchase consideration plus subsequent fixed asset and working capital expenditure up to 31 December 1994.

Table 2

Director	31 December 1994		31 December 1993	
	Shares	Options	Shares	Options
A N R. Rudd	505,011	-	605,011	-
T G Finn	413,797	192,099	513,797	192,099
N G Hannah	-	-	-	-
S N Hopewell	-	81,151	-	31,151
T Neville	32,000	-	32,000	-
K B Quigg	108,725	79,570	138,725	79,570
W W Rhodes	195,000	-	195,000	-
I Wheeler	30,000	59,403	-	-



Report of the Directors *continued*

interested in 40 percent of the share capital of Coleman Investments Limited, which holds 74,998 Pendragon ordinary shares (1993 - 74,998 Pendragon ordinary shares).

Mr A N R Rudd, Mr T Neville and Mr I Wheeler retire by rotation and, being eligible, offer themselves for re-election. Each of Mr Rudd and Mr Neville has a service contract with the company for three years from 1 January 1993, and Mr Wheeler has a service contract which is not capable of exceeding one year.

The company maintains insurance providing liability cover for directors and officers of the company and its subsidiaries.

None of the directors who held office during the year had any contract of significance in relation to the group's business.

Substantial shareholdings At 6 March 1995 the directors had been advised of the interests in the shares of the company set out in Table 3 below.

Special business at the Annual General Meeting At the Annual General Meeting in 1994, the directors were authorised to allot equity securities for cash up to an amount not exceeding 5 percent of the issued ordinary share capital of the company without first being required to offer such shares to existing shareholders pro rata to their

holdings of ordinary shares in the company. This authorisation expires at the forthcoming Annual General Meeting, when the necessary resolution to renew this authority at the same level will be proposed as special business, details of which are included in the notice of meeting on page 36.

At the Annual General Meeting in 1994, the Board was given authority to purchase and cancel up to 3,835,756 ordinary shares of the company, representing 10 percent of the company's existing issued ordinary shares, through market purchases on The Stock Exchange. The maximum price to be paid on any exercise of the authority was restricted to 105 percent of the average of the middle market quotation for ordinary shares for the ten dealing days immediately preceding the day of a purchase.

The current authority expires at the forthcoming Annual General Meeting. Although the directors have not utilised the authority to make market purchases of the company's ordinary shares since it was granted and have no present intention of doing so, they believe it is still in the interest of the shareholders of the company to have such power. Therefore the directors are seeking the approval of shareholders for the renewal of this authority by way of a special resolution, details of which are also included in the notice of meeting on page 36. This authority would only be exercised if the directors expected it to result in an increase in earnings per share.

Table 3

Shareholder	Shares	%
Gartmore Investment Management Limited	4,875,233	12.70
Robert Fleming Holdings Limited	4,478,001	11.66
Prudential Corporation Group of Companies	3,097,326	8.07
Norwich Union Group of Companies	2,295,193	5.98
The Equitable Life Assurance Society	2,249,000	5.86
Schroder Investment Management Limited	2,110,718	5.50
Scottish Equitable Group of Companies	1,500,000	3.91

The disclosed interest of Robert Fleming Holdings Limited includes 1,396,000 shares, representing 3.64 percent, held on behalf of Metal Box Pension Trustees Limited.

Report of the Directors *continued*

Donations Charitable donations amounted to £2,427. No political donations were made.

Employees The group's policy is to give full and fair consideration to applications for employment by disabled persons, having regard to the nature of the employment. Suitable opportunities and training are offered to disabled persons in order to promote their career development.

The group also recognises the need to ensure effective communication with employees, and procedures have been developed to keep employees informed of the progress of the business.

Health and safety It is the policy of Pendragon to take every reasonable and practicable step to ensure a safe and healthy working environment for its employees and for those persons who are authorised to be on its premises. The company ensures that each location maintains the appropriate organisation, procedures and standards to implement this policy.

Company status Pendragon PLC is not, so far as the directors are aware, a close company for taxation purposes.

Auditors A resolution to re-appoint Pannell Kerr Forster as auditors will be proposed at the Annual General Meeting.

By order of the Board

H C Sykes

Secretary

13 March 1995

Corporate Governance

The directors' responsibilities statement is set out on page 32, and a summary of the corporate governance procedures maintained throughout the year by Pendragon PLC is as follows.

Board of directors The Board of directors, comprising four executive and four non-executive directors, meets regularly throughout the year. The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of individual trading businesses, their annual budgets and their progress towards achievement of those budgets. In addition, certain of the Board's duties are delegated to committees of the Board, whose responsibilities and composition are set out below.

Committees The audit committee consists of four non-executive directors, with Mr T Neville as chairman, and is attended by the finance director and a representative of the company's external auditors. The committee meets regularly and ensures that accounting and financial policies and controls are in place. It also reviews any problems or reservations arising from the work of the company's auditors, and time is set aside for discussions between the non-executive directors and the auditors in private.

The remuneration committee consists of four non-executive directors and the chief executive, with Mr A N R Rudd as chairman. It is responsible for reviewing the terms and conditions of employment of the directors and for setting their remuneration, part of which may be in the form of bonuses which can be earned only if certain criteria for the performance of the group are met. No director takes part in discussions regarding his own remuneration.

The share option committee, consisting of any two non-executive directors and the chief executive, is responsible for the granting of options under the Pendragon executive share option scheme to senior executives within the group.

Pensions The assets of the Pendragon Pension Plan established for the benefit of the group's eligible employees are held separately from those of the group by trustees. The Plan operates through a trustee company of which Mr W W Rhodes is chairman. The management of the assets is delegated to a specialist independent investment manager and there is no investment of Plan assets in shares of Pendragon PLC.

Internal financial control Pendragon attaches great importance to clear procedures designed to achieve accountability and control appropriate to a multi-site, multi-franchise retailer of motor vehicles.

Standards of operation are set centrally and local operating autonomy is monitored by the group's system of internal controls, which is regularly reviewed by the Board of directors. The financial control system is based on the budgeting process and the monthly reporting programme, through which executive directors and line managers discuss performance, variances to budget and operational matters. The group operates with capital expenditure authorisation procedures, and regular internal audit visits are made to each operating business. Treasury and banking arrangements and property investment are authorised by the Board of directors.

Auditors' review The auditors have confirmed that, in their opinion: with respect to the directors' statement on going concern on page 8, the directors have provided the disclosures required by the Code of Best Practice (as supplemented by the related guidance for directors) and such statement is not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' other statements on Corporate Governance appropriately reflect the company's compliance with the other paragraphs of the Code specified for their review. They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company to continue in operational existence.

Consolidated Profit and Loss Account

Year ended 31 December 1994

	Note	1994 £000	1993 £000
Turnover	2		
Continuing operations		376,640	276,411
Acquisitions		12,246	-
		388,886	276,411
Cost of sales	3	(339,019)	(237,749)
Gross profit		49,867	38,662
Net operating expenses	3	(38,270)	(29,674)
Operating profit	4		
Continuing operations		11,373	8,988
Acquisitions		224	-
Profit on ordinary activities before interest		11,597	8,988
Interest payable	7	(1,976)	(1,618)
Profit on ordinary activities before taxation		9,621	7,370
Taxation	8	(3,002)	(2,181)
Profit on ordinary activities after taxation		6,619	5,189
Dividends	9	(3,109)	(2,762)
Retained profit for the year	21	3,510	2,427
Earnings per ordinary share	10	17.3p	14.1p

Movements in reserves are shown in note 21.

The notes on pages 19 to 31 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 1994

	Note	1994 £000	1993 £000
Fixed assets			
Tangible assets	12	50,153	44,023
Current assets			
Stocks	14	61,633	47,387
Repurchase commitments	15	34,510	29,439
Debtors	16	17,780	15,563
Cash at bank and in hand		486	2,260
		114,409	94,649
Creditors: amounts falling due within one year	17	(75,573)	(68,179)
Net current assets		38,836	26,470
Total assets less current liabilities		88,989	70,493
Creditors: amounts falling due after more than one year	18	(34,430)	(19,083)
Provisions for liabilities and charges	19	(72)	(205)
Net assets		54,487	51,205
Capital and reserves			
Called up share capital	20	9,598	9,590
Share premium	21	23,522	23,476
Other reserves	21	7,284	7,503
Profit and loss account	21	14,083	10,636
Shareholders' funds		54,487	51,205

Approved by the Board of Directors on 13 March 1995 and signed on its behalf by:

T G Finn
Chief Executive

I Wheeler
Finance Director

The notes on pages 19 to 31 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 1994

	Note	1994 £000	1993 £000
Net cash flow from operating activities	23	7,236	3,506
Returns on investments and servicing of finance			
Interest received		129	258
Interest paid		(1,912)	(1,860)
Interest element of finance lease rentals		(1)	(20)
Dividends paid		(2,877)	(2,271)
Net cash outflow from returns on investments and servicing of finance		(4,661)	(3,893)
Taxation			
UK corporation tax paid		(1,428)	(2,286)
Investing activities			
Fixed asset purchases		(27,261)	(23,482)
Fixed asset disposals		19,041	16,602
Business acquisitions	22	(3,895)	(10,303)
Net cash outflow from investing activities		(12,115)	(17,183)
Net cash outflow before financing		(10,968)	(19,856)
Financing			
Issue of ordinary share capital		54	17,261
Cost of issue		-	(660)
Unsecured loan repayable in 1997		10,000	-
Repurchase commitments		5,347	1,056
Capital element of finance lease rentals		(6)	(238)
Net cash inflow from financing		15,395	17,419
Increase / (decrease) in cash and cash equivalents	24	4,427	(2,437)

The notes on pages 19 to 31 form part of these financial statements.

Statement of Total Recognised Gains and Losses

	1994	1993
	£000	£000
Profit for the financial year	6,619	5,189
Currency translation differences on foreign currency net investments	(63)	(28)
Total recognised gains and losses relating to the year	6,556	5,161

The reported profit for the year is not materially different from the profit on an unmodified historical cost basis.

Reconciliation of Movements in Shareholders' Funds

	1994	1993
	£000	£000
Profit for the financial year	6,619	5,189
Dividends	(3,109)	(2,762)
	3,510	2,427
Exchange adjustment	(63)	(28)
Issue of ordinary share capital	54	16,601
Goodwill	(219)	(504)
Net addition to shareholders' funds	3,282	18,496
Opening shareholders' funds	51,205	32,709
Closing shareholders' funds	54,487	51,205

The notes on pages 19 to 31 form part of these financial statements.

Company Balance Sheet

At 31 December 1994

	Note	1994 £000	1993 £000
Fixed assets			
Investments	13	18,863	18,863
Current assets			
Debtors	16	54,292	40,659
Cash at bank and in hand		509	612
		54,801	41,271
Creditors: amounts falling due within one year	17	(2,850)	(2,569)
Net current assets		51,951	38,702
Total assets less current liabilities		70,814	57,565
Creditors: amounts falling due after more than one year	18	(10,000)	-
Net assets		60,814	57,565
Capital and reserves			
Called up share capital	20	9,598	9,590
Share premium	21	23,522	23,476
Other reserves	21	13,863	13,863
Profit and loss account	21	13,831	10,636
Shareholders' funds		60,814	57,565

Approved by the Board of Directors on 13 March 1995 and signed on its behalf by:

T G Finn
Chief Executive



I Wheeler
Finance Director



The notes on pages 19 to 31 form part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

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

(b) **Basis of consolidation.** The consolidated financial statements include the financial statements of Pendragon PLC and all its subsidiary undertakings made up to 31 December 1994.

(c) **Accounting for acquisitions.** The results of companies and businesses acquired during the year are dealt with in the consolidated financial statements from the date of acquisition. On acquisition, the purchase consideration and the estimated costs of integrating the businesses acquired are allocated over assessed fair values of net assets and goodwill. Adjustments are also made to bring the accounting policies of businesses acquired into alignment with those of the group. The amounts attributed to goodwill are written off against reserves.

(d) **Turnover.** Turnover represents sales invoiced to third parties including income from contract hire operations, all exclusive of value added tax.

(e) **Contract hire and leasing.**

- (i) Income from operating leases is recognised on a straight line basis over the period of the lease.
- (ii) Profit arising on contract hire agreements is recognised on the termination of each agreement.

(f) **Tangible fixed assets and depreciation.** Tangible fixed assets, other than freehold land, are depreciated on a straight line basis over their estimated useful lives as follows:

- Freehold buildings - 2% per annum
- Leasehold properties - 2% per annum or over the period of the lease if less than 50 years
- Fixtures, fittings and office equipment - 10% to 20% per annum
- Plant and machinery - 10% to 33% per annum
- Motor vehicles (including demonstration vehicles) - 20% to 25% per annum

Where appropriate, gross interest charges on greenfield developments are included in the cost of the asset.

(g) **Stocks.**

- (i) Motor vehicles and parts stocks are stated at the lower of cost and net realisable value.
- (ii) Consignment vehicles are new unregistered vehicles owned by the manufacturers, mainly located at the group's premises, and insured by the group. New consignment vehicles are included as an asset in the balance sheet at consignment value where they are capable of bearing a finance charge at any time during the consignment period. New vehicle stocks held by the manufacturer to the order of the group, which are not capable of bearing a finance charge, are not included as an asset in the balance sheet. The comparative figures have been restated to include consignment vehicles.

(h) **Repurchase commitments.**

- (i) The majority of the vehicles comprising the group's contract hire fleet are owned by a number of finance companies. The group undertakes to repurchase every such vehicle at the end of each contract hire agreement, at a value determined at the outset of the agreement.
- (ii) Other repurchase commitments relate to undertakings to repurchase, at predetermined dates in the future, new vehicles sold by the group.

Repurchase commitments are included as an asset in the balance sheet at repurchase value. The comparative figures have been restated to include repurchase commitments.

(i) **Deferred taxation.** Provision is made for deferred taxation on timing differences, under the liability method, except where the liability is not expected to arise in the foreseeable future.

(j) **Foreign currencies.** Profit and loss accounts in foreign currencies are translated into sterling at the average rates of exchange ruling for the relevant financial period. Assets and liabilities are translated at exchange rates ruling at the balance sheet date. Exchange differences arising on consolidation of the net investments in overseas subsidiary undertakings are taken to reserves, as are the exchange differences on the group's long term foreign currency borrowings and commitments used to finance the group's overseas investments. All other exchange gains or losses are taken to the profit and loss account as they arise.

(k) **Pensions.** The regular cost of the group's defined benefit pension scheme is expensed in order to allocate the cost of providing the pensions, recognising any actuarial surplus or deficiency (where appropriate), over the working lives of the relevant employees.

Notes to the Financial Statements *continued*

2. Turnover

All turnover arises from the group's principal activities, which are the sale of new and used vehicles, contract hire, and after sales services.

	1994	1993
	£000	£000
United Kingdom	380,482	267,385
Continental Europe	8,404	9,026
	388,886	276,411

3. Cost of sales and net operating expenses

	Continuing operations	Acquisitions	1994 Total	1993 Total
	£000	£000	£000	£000
Cost of sales	328,212	10,807	339,019	237,749
Net operating expenses:				
Distribution costs	23,281	881	24,162	18,199
Administrative expenses	16,798	473	17,271	13,864
Other operating income	(3,024)	(139)	(3,163)	(2,389)
	37,055	1,215	38,270	29,674

4. Operating profit

(a) Operating profit has been arrived at after charging:

	1994	1993
	£000	£000
Depreciation of tangible fixed assets	4,725	3,834
Depreciation of assets held under finance leases	4	68
Auditors' remuneration:		
Audit fees	85	90
Other	56	26
Directors' emoluments (see note 6)	580	458
Leasing and hire charges	33	41
Property rentals	1,708	1,216
(b) Other operating income comprised:		
Commissions receivable	3,074	2,359
Sundry income	89	30
	3,163	2,389

Notes to the Financial Statements *continued*

5. Employees

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

	1994 Number	1993 Number
Sales	480	323
After sales	1,091	799
Administration	333	247
	1,904	1,369

Costs incurred in respect of these employees were:

	1994 £000	1993 £000
Wages and salaries	23,651	17,541
Social security costs	2,155	1,676
Other pension costs	468	393
	26,274	19,610

6. Directors

Emoluments of directors, including pension contributions, were as follows:

	1994 £000	1993 £000
Fees to non-executive directors	56	50
Management remuneration excluding bonus	449	348
Bonus	75	60

The emoluments, excluding pension contributions, of the chairman and other directors were as follows:

	1994	1993
Chairman	20	20
Highest paid director	219	177

The number of other directors whose emoluments during the year were within the bands stated was as follows:

	1994 Number	1993 Number
£ 5,001 - £10,000	1	2
£10,001 - £15,000	2	1
£20,001 - £25,000	-	1
£75,001 - £80,000	-	1
£80,001 - £85,000	2	1
£90,001 - £95,000	1	-

Notes to the Financial Statements *continued*

7. Interest payable

	1994	1993
	£000	£000
<hr/>		
Interest payable on loans wholly repayable within five years:		
Bank loans and overdrafts (not repayable by instalments)	1,276	1,179
Stocking loans	871	696
Hire purchase and finance leases	1	20
	<hr/>	<hr/>
	2,148	1,895
Less:		
Bank interest receivable	129	258
Interest capitalised	43	19
	<hr/>	<hr/>
	1,976	1,618
	<hr/>	<hr/>

8. Taxation

UK corporation tax at 33% (1993 – 33%)	3,056	2,141
Deferred taxation	(54)	40
	<hr/>	<hr/>
	3,002	2,181
	<hr/>	<hr/>

9. Dividends

Ordinary shares		
Interim paid 2.7p per share (1993 – 2.4p)	1,036	921
Final proposed 5.4p per share (1993 – 4.8p)	2,073	1,841
	<hr/>	<hr/>
	3,109	2,762
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10. Earnings per share

Earnings per ordinary share are based on profits after taxation of £6,619,000 (1993 – £5,189,000) and on the weighted average number of shares in issue for the year ended 31 December 1994 of 38,360,382 (1993 – 36,897,106) ordinary shares of 25p each.

11. Profit and loss account of the company

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the profit and loss account of the company is not presented. The profit after taxation attributable to the company dealt with in its own accounts for the year ended 31 December 1994 is £6,304,000 (1993 – £6,514,000).

Notes to the Financial Statements *continued*

12. Fixed assets – tangible assets

	Land & buildings £000	Plant & equipment £000	Motor vehicles £000	Total £000
Cost				
At 31 December 1993	29,587	11,609	13,115	54,311
Additions	4,221	1,745	21,338	27,304
Business acquisitions	1,539	377	558	2,474
Exchange adjustments	92	29	15	136
Disposals	–	(467)	(20,599)	(21,066)
At 31 December 1994	35,439	13,293	14,427	63,159
Depreciation				
At 31 December 1993	1,931	5,879	2,478	10,288
Disposals	–	(350)	(1,675)	(2,025)
Exchange adjustments	3	9	2	14
Charge for the year	643	1,621	2,465	4,729
At 31 December 1994	2,577	7,159	3,270	13,006
Net book value				
At 31 December 1994	32,862	6,134	11,157	50,153
At 31 December 1993	27,656	5,730	10,637	44,023

Fixed asset expenditure on business acquisitions of £2,474,000 shown above represents the initial purchase consideration plus subsequent expenditure incurred up to 31 December 1994.

Land and buildings comprise:	1994 £000	1993 £000
Cost		
Freehold	25,507	20,740
Long leasehold	6,786	5,991
Short leasehold	3,146	2,856
	35,439	29,587
Accumulated depreciation		
Freehold	1,213	926
Long leasehold	422	296
Short leasehold	942	709
	2,577	1,931
Motor vehicles at net book value comprise:		
Demonstrator and service loan vehicles	6,664	5,567
Capitalised contract hire fleet	1,953	2,749
Other vehicles	2,540	2,321
	11,157	10,637

Notes to the Financial Statements *continued*

12. Fixed assets – tangible assets *continued*

Freehold land with a cost of £3,850,000 (1993 – £2,900,000) has not been depreciated during the year. Interest charges of £43,000 (1993 – £19,000) have been capitalised as construction costs included in additions to land and buildings. Land and buildings include £188,000 (1993 – £482,000) in respect of building projects currently under construction. Fixed assets include motor vehicles held for the purpose of operating lease business of £3,510,000 (1993 – £3,629,000) with related depreciation of £1,557,000 (1993 – £880,000).

Future capital expenditure	1994 £000	1993 £000
Contracted for but not provided	623	1,333
Authorised by the directors but not contracted	356	160

13. Fixed assets – investments

Shares in subsidiary undertakings are stated at cost. Pendragon PLC owns directly or indirectly 100 percent of the issued share capital of the following principal subsidiaries, which trade in the country of registration or incorporation noted below:

Name	Activity
Registered in England and Wales:	
Alloy Racing Equipment Limited	Motor vehicle dealer
Derwent Vehicles Limited	Motor vehicle dealer
Pendragon Motor Group Limited*	Motor vehicle dealer
Pendragon Contracts Limited	Contract hire & fleet management
Incorporated in Germany:	
Jaguar Autohaus Kronberg GmbH	Motor vehicle dealer
Autohaus Avalon Jaguar GmbH	Motor vehicle dealer
*Direct subsidiary of Pendragon PLC	

14. Stocks

	1994 £000	1993 £000
New and used vehicles	28,832	20,987
Consignment vehicles	26,049	20,058
Deposits with motor manufacturers	1,267	895
Vehicle parts and other stocks	5,485	5,447
	61,633	47,387

Consignment vehicles exclude new vehicle stocks held by manufacturers to the order of the group, which are not capable of bearing a finance charge, amounting to £909,000 (1993 – £410,000).

Notes to the Financial Statements *continued*

15. Repurchase commitments

	Contract hire £000	Other £000	Total 1994 £000	Contract hire £000	Other £000	Total 1993 £000
Within one year	8,416	1,664	10,080	9,885	471	10,356
Over one year	23,527	903	24,430	18,074	1,009	19,083
	31,943	2,567	34,510	27,959	1,480	29,439

In addition to the repurchase commitments shown above, the group has entered into other contingent repurchase arrangements set out in note 27.

16. Debtors

	1994 £000	1993 £000
(a) Group		
Trade debtors	6,866	8,510
Other debtors	5,463	2,838
Prepayments	5,451	4,215
	17,780	15,563
(b) Company		
Amounts owed by subsidiary undertakings	53,515	39,931
Other debtors	777	728
	54,292	40,659

All the above amounts fall due within one year with the exception of advance corporation taxation of £518,000 (1993 - £406,000), which is recoverable after more than one year, and is included within other debtors.

17. Creditors: amounts falling due within one year

	1994 £000	1993 £000
(a) Group		
Bank loans and overdrafts	4,231	10,432
Consignment vehicle liabilities	26,049	20,058
Repurchase commitments (see note 15)	10,080	10,356
Payments received on account	1,715	2,027
Trade creditors	13,875	10,717
Dividends payable	2,073	1,841
Corporation tax	2,782	1,102
Other taxation and social security	654	607
Contract hire advances	522	2,492
Accruals and deferred income	13,592	8,547
	75,573	68,179

Notes to the Financial Statements *continued*

17. Creditors: amounts falling due within one year *continued*

	1994	1993
	£000	£000
<hr/>		
(b) Company		
Dividends payable	2,073	1,841
Corporation tax	777	728
	2,850	2,569

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

(a) Group		
Bank loans (repayable between two and five years)	10,000	-
Repurchase commitments (see note 15)	24,430	19,083
	34,430	19,083
<hr/>		
(b) Company		
Bank loans (repayable between two and five years)	10,000	-

19. Provisions for liabilities and charges

	Deferred tax £000	Acquisition provisions £000	Total £000
At 31 December 1993	-	205	205
Profit and loss account	(54)	-	(54)
Acquisitions	-	150	150
Utilised	-	(262)	(262)
Provisions no longer required (see note 22)	-	(21)	(21)
Advance corporation tax recoverable	54	-	54
At 31 December 1994	-	72	72

Deferred taxation has been fully provided in respect of accelerated capital allowances. The potential liability for deferred taxation on the revaluation of properties in subsidiary undertakings not provided in the financial statements amounts to £169,000 (1993 - £182,000).

Notes to the Financial Statements *continued*

20. Called up share capital

	1994	1993
	£000	£000
Authorised:		
50,000,000 (1993 - 50,000,000) ordinary shares of 25p each	12,500	12,500
Allotted, called up and fully paid:		
38,388,717 (1993 - 38,357,566) ordinary shares of 25p each	9,598	9,590

On 29 November 1994, 31,151 ordinary shares were allotted to an employee under the executive share option scheme. The nominal value of the shares issued was £7,788 for a consideration of £54,000. On that date the market price of a Pendragon ordinary share was 265p.

Movement in the number of options to acquire ordinary shares under the executive share option scheme, together with exercise prices and the outstanding position at 31 December 1994 were as follows:

	173.35p	182.98p	300.00p	
	Number	Number	Number	Total
At 31 December 1993	455,676	12,460	-	468,136
Granted	-	-	405,000	405,000
Lapsed	(31,151)	(12,460)	(10,000)	(53,611)
Exercised	(31,151)	-	-	(31,151)
At 31 December 1994	393,374	-	395,000	788,374

Periods during which options are exercisable	Exercise price per share	Number of shares under option
11 October 1994 to 10 October 2001	173.35p	393,374
29 April 1997 to 28 April 2004	300.00p	395,000
		788,374

Notes to the Financial Statements *continued*

21. Reserves

	Share premium £000	Other reserves £000	Profit and loss account £000
(a) Group			
At 31 December 1993	23,476	7,503	10,636
Retained profit	-	-	3,510
Goodwill	-	(219)	-
Exchange adjustment	-	-	(63)
Share premium	46	-	-
At 31 December 1994	23,522	7,284	14,083
(b) Company			
At 31 December 1993	23,476	13,863	10,636
Retained profit	-	-	3,195
Share premium	46	-	-
At 31 December 1994	23,522	13,863	13,831

Goodwill is stated net of taxation relief on fair value provisions.

Cumulative goodwill written off to reserves at 31 December 1994 amounted to £5,741,000.

22. Acquisitions and new businesses

The table below shows the net investment in new businesses and acquisitions made during the year, comprising the initial purchase consideration plus subsequent fixed asset and working capital expenditure up to 31 December 1994. Investment in each of the new businesses is set out in the report of the directors on page 10.

Asset	Book value £000	Reorganisation provisions £000	Fair value £000
Tangible fixed assets	2,474	-	2,474
Stocks	2,974	-	2,974
Debtors	1,028	-	1,028
Creditors	(2,650)	(150)	(2,800)
Total	3,826	(150)	3,676
Goodwill			240
Prior year reorganisation provisions no longer required			(21)
Total investment at 31 December 1994			3,895

There were no accounting policy or other fair value adjustments included in the financial statements in respect of the acquisitions and new businesses.

Of the total amount of reorganisation provisions shown above, £78,000 was utilised during the year and £72,000 was carried forward.

Notes to the Financial Statements *continued*

23. Net cash flow from operating activities

	1994	1993
	£000	£000
Operating profit	11,597	8,988
Depreciation	4,729	4,012
(Increase) in stocks	(12,879)	(15,232)
(Increase) in repurchase commitments	(5,071)	(5,059)
(Increase) in debtors	(1,083)	(2,754)
Increase in creditors	10,128	13,468
Other	(185)	83
	7,236	3,506

24. Cash and cash equivalents

	1994	1993
	£000	£000
At 31 December 1994		
Cash at bank and in hand	486	2,260
Bank loans and overdrafts	(4,231)	(10,432)
	(3,745)	(8,172)
Movement in year		
Cash at bank and in hand	(1,774)	1,525
Bank loans and overdrafts	6,360	(4,105)
Currency adjustment	(159)	143
	4,427	(2,437)

25. Lease commitments

(a) Operating leases

Annual lease payments due in 1995 under operating leases of the group, according to the period in which the lease expires, are as follows:

	Property		Other Leases	
	1994	1993	1994	1993
	£000	£000	£000	£000
Within 1 year	222	144	8	1
Between 1 and 5 years	513	209	41	38
Over 5 years	1,190	1,030	-	-
	1,925	1,383	49	39

Notes to the Financial Statements *continued*

25. Lease commitments *continued*

(b) Contract hire

Future commitments payable relating to funding the group's contract hire activities, according to the period in which the agreements expire, are as follows:

	Repurchase commitments £000	Other £000	Total 1994 £000	Repurchase commitments £000	Other £000	Total 1993 £000
Agreements expiring within 1 year	8,416	2,493	10,909	9,885	2,879	12,764
Agreements expiring after more than 1 year	-	14,091	14,091	-	11,716	11,716
Total payable within 1 year	8,416	16,584	25,000	9,885	14,595	24,480
Payable between 1 and 2 years	10,786	10,011	20,797	7,170	7,306	14,476
Payable between 2 and 5 years	12,741	3,724	16,465	10,904	3,588	14,492
Total payable	31,943	30,319	62,262	27,959	25,489	53,448

The above commitments are calculated to include future interest costs, monthly capital repayments, and a payment at the end of each contract equal to the residual value. All commitments, except residual value payments, are matched by customer receipts other than where monies are received in advance from customers. Aggregate customer receipts during the year were £20,478,000 (1993 - £18,636,000).

The directors do not consider that losses arising from disposal of the vehicles for less than the residual value will occur, and accordingly no provision for such losses is made in the financial statements.

26. Pensions

Pendragon PLC contributes to the Pendragon Pension Plan, a defined benefit retirement and death benefits scheme for its eligible employees. The assets of the Plan are held separately from those of the company. The pension cost is assessed in accordance with the advice of a qualified actuary using the projected unitary method.

The latest valuation was carried out at 5 April 1993. The total market value of the assets was 119% of the combined value of accrued benefits after allowing for expected future increase in earnings. For the purposes of this valuation it was assumed that the return on investments would exceed the rate of increase of salaries by 2% per annum, the rate of increase of pensions in payment by 5% per annum and the rate of dividend growth by 4.5% per annum. The surplus revealed is to be amortised over the average remaining service life of the members as a reduction to the regular cost.

Total pension costs for the year were £468,000 (1993 - £393,000).

Notes to the Financial Statements *continued*

27. Contingent liabilities

(a) The group has entered into guarantees for amounts due in the normal course of business under leases, and has given a performance bond of £400,000 (1993 - £400,000).

(b) The group has arranged financing for a number of vehicles where customers have an option to purchase the vehicle from the finance company at a predetermined value at the end of each agreement. The group has undertaken to repurchase the vehicle from the finance company in place of the customer if the customer does not exercise the option to purchase. The total value of the contingent repurchases is as follows:

	1994	1993
	£000	£000
Within 1 year	1,287	1,556
Between 1 and 2 years	2,237	881
Between 2 and 5 years	1,831	308
	5,355	2,745

The directors do not consider that losses arising from disposal of these vehicles for less than the repurchase value will occur, and accordingly no provision for such losses is made in the financial statements.

28. Post balance sheet event

On 3 February 1995 the group acquired a Vauxhall dealership in Bradford for a total consideration of approximately £1.2 million.

Directors' Responsibilities Statement

The directors are required by UK company law to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the group as at the end of the financial period and of the profit or loss for that period. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

Applicable accounting standards have been followed. The directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the group and for preventing and detecting fraud and other irregularities.

Auditors' Report

To the shareholders of Pendragon PLC

We have audited the financial statements on pages 14 to 31 which have been prepared under the accounting policies set out on page 19.

Respective responsibilities of directors and auditors

As described above the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1994 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Pannell Kerr Forster

Chartered Accountants
Registered Auditors

Derby
13 March 1995