


P E N D R A G O N

ANNUAL REPORT 1999

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Finance Director's Report

Analysis of results Group turnover rose by £482.2 million to £1,754.2 million in 1999 from £1,272.0 million in 1998. Operations acquired during the year accounted for turnover of £653.7 million. In arriving at group turnover £43.3 million has been deducted for our share of turnover in our Ford joint venture in respect of the last quarter of 1999.

Gross profits rose by £63.0 million to £220.0 million in 1999, up from £157.0 million in 1998. The gross profit margin increased during the year to 12.5 percent from 12.3 percent in 1998. Income from the sale of finance and insurance is now included within gross profit as it is considered to be an integral part of the car sales process, previously being included within sundry income. Gross profit does not include Pendragon's share of the gross profit in our joint venture with Ford in respect of the last quarter of 1999.

Total operating profits, excluding exceptional costs and goodwill amortisation, were £27.3 million in 1999 against £27.4 million in 1998. Goodwill amortisation was £1.8 million in 1999 (1998 £0.5 million) and exceptional costs were £4.5 million in 1999 (1998 £nil). The increase in goodwill amortisation is mainly due to goodwill of £8.8 million paid on the acquisition of Evans Halshaw Holdings Plc. The exceptional costs comprise £3.0 million in respect of the integration of Evans Halshaw and £1.5 million relating to one-off project costs in respect of relocating certain activities to our new customer service centre.

Excluding goodwill amortisation and exceptional costs the operating margin was 1.5 percent compared to 2.2 percent for 1998. Two main factors contributed to the reduction in operating margin in the year. First, our decision to decrease stocks of new, used and demonstrator vehicles in the first half. Second, the difficult trading conditions in the new car market since September 1999.

Average borrowings rose during the year mainly due to the acquisition of Evans Halshaw in February 1999 and the payment of deferred consideration on businesses acquired from Lex Retail Group Limited in 1997. As a consequence, the net interest charge rose by £4.0 million to £12.1 million in 1999 from £8.1 million in 1998. Notional interest on deferred consideration amounting to £0.6 million (1998 £1.4 million) is included in the interest charge in accordance with Financial Reporting Standard 7. Interest cover for 1999 was 2.8 times, which compares with the 4.0 times reported in 1998. The interest cover is calculated after excluding notional interest. Bank interest cover, excluding notional interest, was 3.8 times compared to 5.6 times in 1998.

The profit on disposal of businesses was £9.6 million. This included the profit on selected dealership disposals and profit on the sale of Ford dealerships to the joint venture.

The profit on disposal of fixed assets during the year was £0.6 million. This arose principally on the sale of surplus properties.

The tax rate for the year was 32.0 percent against 30.9 percent in 1998. The increase in the tax rate is mainly due to a larger amount of goodwill amortisation in 1999, which is not a deductible expense for tax purposes.

Reported earnings per share for 1999 increased to 21.4 pence from 21.2 pence for 1998. This represents an increase of 0.9 percent.

Cash flow and financing Operating cash inflow was £75.1 million in 1999 compared to £27.4 million in 1998. Working capital has decreased by £39.6 million principally due to more efficient stocking levels across the enlarged group. Net capital expenditure was £16.2 million in 1999 compared to £14.8 million in 1998. Included in capital expenditure is an amount of £3.9 million in relation to the new customer service centre.

Acquisitions, net of disposals, in the year amounted to £76.3 million, which includes the final payment of £12.7 million to Lex Retail Group Limited for businesses acquired from them in 1997. The purchase consideration for Evans Halshaw was £114.5 million, which includes acquired borrowings of £26.8 million. Business disposals amounted to £51.3 million, which includes the proceeds from the joint venture with Ford and the sale of selected dealerships.

Borrowings at 31 December 1999 were £103.5 million compared to £48.2 million last year. Gearing has increased to 73 percent at 31 December 1999 from 37 percent at 31 December 1998.

Treasury policy and procedures Group treasury matters are managed within policy guidelines set by the Board with the prime areas of focus being liquidity and interest rate exposure. Liquidity and interest rate management is the responsibility of our central treasury function. Derivative financial instruments are utilised to reduce exposure to movements in foreign exchange rates and interest rates. The speculative use of derivatives is not permitted by the Board.

Liquidity management The group is financed by bank loans, manufacturer loans and operating cash flow. A spread of maturities and sources of borrowing facilities from medium term committed bank loans to longer term loans through the private placement market in the US reduces the refinancing risk associated with the renewal of facilities. A surplus of committed facilities is maintained over borrowing levels forecast over a rolling twelve month period.

Finance Director's Report *continued*

Interest rate risk management The group's policy is to borrow on a floating rate basis as we believe that the retail sector within which we operate provides a natural hedge against interest rate movements. The group has retained an interest rate swap and an interest rate collar, which were arranged by Evans Halshaw prior to our acquiring the company. The interest rate swap contract is with a commercial bank and, requires us to pay a fixed interest rate of 7.59 percent in exchange for a floating interest rate on a notional principal amount of £14 million. This rises to £16 million from April 2000 and terminates in April 2002. The interest rate collar contract is also with a commercial bank and has a cap of 7.9 percent and floor of 7.3 percent on a notional principal amount of £6.25 million decreasing by £1.25 million each year. This terminates in January 2004.

Foreign exchange risk management The group's policy is to match, where possible, investments in overseas subsidiaries which are denominated in a foreign currency with borrowings in the same currency. Similarly, where the group borrows in a foreign currency to finance assets denominated in sterling the borrowings are swapped into sterling. In line with these policies the group has swapped USD55 million 6.93 percent loan notes into floating rate sterling and has borrowed DM4 million against its investment in overseas subsidiaries.

Joint venture accounting treatment On 1 October 1999 we sold our Ford dealerships to create a joint venture company called Stripestar Limited. Pendragon owns 51 percent of the share capital with the remaining 49 percent owned by the Ford Motor Company Limited.

The joint venture is accounted for under the gross equity method in accordance with Financial Reporting Standard 9. Pendragon's share of the turnover of Stripestar Limited is presented on the face of the profit and loss account although it is excluded from group turnover. Pendragon's share of the operating profits, interest and tax of Stripestar Limited is included within the consolidated results and separately disclosed on either the face of the profit and loss account or within the accompanying notes. The balance sheet includes Pendragon's share of the total assets and liabilities of Stripestar Limited which include unamortised goodwill in the joint venture. The carrying value of our investment in Stripestar Limited is £11.9 million. In addition we hold £7.5 million of Stripestar Limited loan notes within current assets. Both realised and unrealised profits on disposal arise in connection with our joint venture. The 49 percent of the profit realised outside the group is treated as profit on disposal through the profit and loss account. The other 51 percent of the profit that remains within the ownership of the group, and is therefore unrealised, is credited to reserves through the Statement of Total Recognised Gains and Losses.

Summary Evans Halshaw is now fully integrated into the group and the increased borrowings arising as a consequence of the acquisition have been reduced to a comfortable level at the year end. Bank interest cover remained at an acceptable level during 1999 and given the reduction in the level of borrowings since the acquisition the interest charge should reduce in 2000. We expect further improvements in cash flow through maintaining the working capital efficiencies achieved in 1999 and through selected disposals.

David Forsyth
Finance Director
22 February 2000

Directors and Advisers

Sir Nigel Rudd (53) Non-executive Chairman

Appointed non-executive chairman of Pendragon in October 1989 prior to the demerger from Williams PLC, where he is executive chairman. He is non-executive chairman of Pilkington PLC, and a non-executive director of Barclays Bank PLC and The Boots Company Limited.

Neil Hannah (62) Non-executive Director

Joined Pendragon in August 1993. He is executive chairman of Innes England Limited, commercial property surveyors, and is non-executive chairman of the Derbyshire Building Society.

William Rhodes (61) Non-executive Director

Joined Pendragon in October 1989 prior to the demerger from Williams PLC, where he is a non-executive director. He is also a director of a number of private companies. Mr Rhodes is the senior independent non-executive director of the company.

John Holt (60) Non-executive Director

Joined Pendragon in November 1999. Prior to his retirement from PricewaterhouseCoopers in 1998, he was for many years head of Coopers and Lybrand's computer assurance practice in the North of England. From 1994 he was a member of Coopers and Lybrand's international audit software development team.

Trevor Finn (42) Chief Executive

Joined the vehicle division of Williams PLC in 1982 and subsequently became divisional managing director. He was appointed chief executive of Pendragon prior to the demerger from Williams.

Martin Casha (39) Operations Director

Joined the vehicle division of Williams PLC in 1982 and subsequently became a group general manager. He was appointed operations director of Pendragon in September 1995.

David Forsyth (43) Finance Director

Joined in October 1997 from Lonrho PLC where, since 1986, he held a number of senior finance positions. He is a chartered accountant.

Stephen Hopewell (40) Operations Director

Joined the vehicle division of Williams PLC in 1987 and subsequently became a group general manager. He was appointed operations director of Pendragon in August 1993.

Hilary Sykes (39) Corporate Services Director

Joined Pendragon as company secretary in 1994. She was appointed corporate services director in April 1999.

Secretary

Hilary Sykes

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Registered number

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Registrars

Exchange Registrars Limited
18 Park Place
Cardiff CF1 3PD
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Facsimile 029 2038 8455

Solicitors

Edwards Geldard

Merchant bankers

J Henry Schroder & Co. Limited

Bankers

Barclays Bank PLC
54 Lombard Street
London EC3P 3AH

Lloyds TSB Bank Plc
6-8 Eastcheap
London EC3M 1LL

National Westminster Bank Plc

P.O. Box 4641
103 Colmore Row
Birmingham B3 3NR

Stockbrokers

Merrill Lynch International

Auditors

KPMG Audit Plc

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Results and dividends The results of the group for the year are set out in the financial statements on pages 17 to 35. The directors recommend a final dividend for the year ended 31 December 1999 of 8.8 pence per ordinary share which, together with the interim dividend of 4.4 pence per share paid to shareholders on 18 October 1999, will make a total for the year of 13.2 pence per share. Subject to approval at the Annual General Meeting, the final dividend will be paid on 3 May 2000 to shareholders appearing on the register at the close of business on 31 March 2000. Total dividends amount to £7,929,000 leaving retained profits for the year of £5,101,000. Movements in reserves are set out in note 23 to the financial statements.

Principal activities Pendragon's principal activities throughout the year were 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 3 to 4. The dealership network has been extended by the businesses acquired during the year ended 31 December 1999 set out below:

Company/Business	Location	Activity/Franchise	Date of Acquisition
Evans Halshaw Holdings Plc	Various	Multi-franchise Retail Dealer Group	3 February 1999
Loxley House Administration Centre	Annesley, Nottingham	Central Processing Centre and Head Office	23 March 1999
Telecom Services	Cardiff	Telecommunications Service Provider	6 April 1999
Grantham Ford	Grantham	Ford	26 April 1999
Gathurst Vauxhall	Wigan	Vauxhall	10 November 1999

Directors The directors of the company are listed on page 7. In accordance with the Articles of Association of the company, Mr M S Casha, Mr D R Forsyth and Sir A N R Rudd retire by rotation and, being eligible, offer themselves for re-election. Miss H C Sykes was appointed as a director on 27 April 1999 and Mr J H Holt was appointed as a director on 1 November 1999. As this is their first year of service, in accordance with the Articles of Association of the company, Miss Sykes and Mr Holt retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment. Each of Mr Casha, Mr Forsyth and Miss Sykes has a service contract with the company with a notice period and an unexpired period of service of twelve months. Each of Sir Nigel Rudd and Mr Holt has terms of appointment as a non-executive director which contain no notice period. Sir Nigel Rudd's appointment is for two years commencing 1 January 2000. Mr Holt's appointment commenced on 1 November 1999 and expires on 31 December 2000. Details of directors' service contracts are included in the Report on Remuneration on page 21. Mr T Neville resigned as a director on 31 December 1999.

Millennium Issues In order to identify those areas which could be affected by Year 2000 issues, the group carried out a risk based review of relevant computer systems and processes. An implementation plan was then put in place to test and remedy any faults. In accordance with group accounting policies, all remedial costs which were not considered to be significant to the group were written-off as incurred. No problems have arisen to date. However, given the complexity and the size of the millennium issue there is always the risk that unforeseen problems may arise in the coming months.

Substantial shareholdings At 22 February 2000 the directors had been advised of the following interests in the shares of the company.

Shareholder	Shares	%
Robert Fleming Holdings Limited	7,391,561	12.1
Clients of Jupiter Asset Management Limited	6,577,776	10.8
Standard Life Investments	5,183,647	8.5
Prudential Plc	4,433,905	7.3
Schroder Investment Management Limited	2,818,935	4.6
Legal & General Investment Management	2,631,896	4.3

Report of the Directors *continued*

Employee involvement The group recognises the importance of good communications and relations with employees, as its ability to meet the needs of its customers in a profitable and competitive manner depends on the contribution of employees throughout the group. Employees are encouraged to develop their contribution to the business wherever they work. In many areas ongoing programmes, focused on quality and customer service, provide an opportunity for everyone to be involved in making improvements. Financial participation is further encouraged through a variety of bonus schemes which provide employees with rewards linked to the growth and prosperity of the business. In addition, the company communicates with its employees about its activities through a variety of channels.

Involvement also extends to the board of directors of Pendragon Pension Trustees Limited, the corporate trustee of the company's retirement and death benefits scheme, on which, during 1999, there were two employee representatives. With effect from 1 January 2000, following the merger of the scheme with the Evans Halshaw retirement and death benefits scheme, the trustee body now has three employee representatives and one pensioner representative.

Disabled persons The group recognises its responsibilities in employing and training disabled persons and employs a number of people who are disabled, not all of whom are formally registered disabled persons in UK terms. If any employee becomes disabled it is standard practice, in all but the most extreme circumstances, to offer an alternative job and provide retraining where necessary.

The group makes every effort to ensure that disabled persons receive equal opportunities and are not discriminated against on the grounds of their disability.

Donations Charitable donations amounted to £11,627. No political donations were made.

Payments to suppliers The group's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms (provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions). The group does not follow any code or standard on payment practice.

The number of days' purchases outstanding for payment by the group at 31 December 1999 was 15 days (1998 : 22 days). The company had no trade creditors.

Auditors A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

By order of the Board
H C Sykes
Secretary
22 February 2000



Corporate Governance

Compliance Pendragon PLC is committed to maintaining high standards of corporate governance in line with the Combined Code, issued in June 1998 by the London Stock Exchange, which sets out the Principles of Good Governance and Code of Best Practice. A summary of the company's procedures for applying the principles and the extent to which the provisions of Section 1 of the Combined Code have been complied with appears below.

Board of Directors The Board of directors, comprising five executive and four non-executive directors, meets regularly throughout the year. Brief biographical details of each of the directors appear on page 7. Each of Sir Nigel Rudd, Neil Hannah, William Rhodes and John Holt is considered by the Board to be independent of the company. Mr William Rhodes is recognised as the senior independent director. There is a clear separation of the functions of chairman and chief executive. 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. The Board meets bi-monthly and has adopted a structure for its meetings which is reflected in the standing agenda. Between meetings, monthly information packs are circulated to directors, with similar contents. At least one third of the Board is required to retire from office by rotation at the Annual General Meeting. In practice, each director has offered himself for re-election at least once every three years in line with the provisions of the Code. As indicated in the Directors' Report for 1999, a revision of the company's Articles of Association so as to more accurately reflect the Code provisions on re-election of directors is proposed as part of the special business at the forthcoming Annual General Meeting, details of which appear on page 36. Certain of the Board's duties are delegated to committees of the Board, whose responsibilities and composition are set out below.

Remuneration and Nominations Committee The chairman of the committee is Sir Nigel Rudd. The committee is composed of the non-executive directors of Pendragon and meets at least once a year. It has written terms of reference which include making recommendations to the Board concerning the appointment of directors. The committee has responsibility for determining the remuneration packages of the executive directors in the context of the policy adopted by the Board and approving the report of the directors on remuneration. The Report on Remuneration is set out on pages 12 to 15.

Audit Committee The chairman of the committee is Mr J H Holt, who took up the chairmanship on the retirement of Mr T Neville on 31 December 1999. The committee is composed of the non-executive directors of Pendragon and is attended, by invitation, by the finance director and representatives of the company's internal and external auditors. It meets at least three times each year. The committee's terms of reference include the following:

- To oversee the group's approach to internal control risk management
- To review the proposed financial statements of the company prior to publication
- To make recommendations to the Board concerning the appointment or re-appointment of auditors and their fees
- To review the scope and results of the audit
- To monitor and review the activities of the internal and external auditors, receive reports thereon and address any control weaknesses identified.

Information and advice The directors regularly receive financial and other information concerning the group's activities and performance. Each director is entitled on request to receive information to enable him to make informed judgements and adequately discharge his duties and has access to the advice and services of the company secretary on all matters of Board procedure. The directors also have an express entitlement in their terms of appointment, at the company's expense, to take independent professional advice in connection with their duties. Although no formal training programme exists, all directors are encouraged to maintain an awareness of new developments in the areas of the group's principal activities and attend appropriate briefings throughout the year. Where necessary, directors have access to professional training on matters relating to their Board or committee functions. The directors are expected to bring to bear an independent judgement on issues of strategy, performance, resource and standards of conduct. The Board includes individuals from various backgrounds with many years' experience of senior positions in listed companies and professional life.

Shareholder relations The Board is always prepared, where practicable, to enter into dialogue with institutional shareholders based on mutual understandings of their respective objectives and being mindful of the company's obligations under the Listing Rules of the London Stock Exchange. The respective chairmen of the Audit Committee and the Remuneration and Nominations Committee are available to answer shareholders' questions at the Annual General Meeting.

Business at the Annual General Meeting The annual report and the financial statements of the company are despatched to shareholders, together with a letter from the chairman and Notice of the Annual General Meeting, giving the requisite period of notice, being not fewer than 20 working days before the date of the Annual General Meeting. A summary of the business at the Annual General Meeting accompanies the annual report and appears on page 36. A separate resolution is being proposed for each substantive matter. The results of votes taken on a poll will be declared at the Annual General Meeting (or any adjournment thereof). Where a vote is taken on a show of hands, the chairman of the meeting will also disclose the level of proxies received for and against the resolution and any abstentions.

Internal control The Board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Combined Code has introduced a new requirement, that the directors review the effectiveness of all internal controls, not only internal financial controls, as previously. This extends the review to cover all controls including:

- financial
- operational
- compliance; and
- risk management

Corporate Governance *continued*

Guidance for directors "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance) was published in September 1999. However, the directors have taken advantage of the London Stock Exchange's transitional rules and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance "Internal Control and Financial Reporting".

Nevertheless, the Board confirm that they are establishing procedures necessary to implement the Turnbull guidance such that they can fully comply with it by the end of the third quarter for the accounting period ending 31 December 2000.

The internal financial control systems are designed to meet the group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable but not absolute assurance against misstatement or loss.

The key components designed to provide effective internal financial control within the group are set out below.

- **Management structure** Pendragon is a large multi-site multi-franchise retailer of motor vehicles and ancillary services operating through a franchise grouping structure. Each franchise group head participates in a monthly operational meeting attended by an operations director. Finance, legal, personnel and other disciplines are also represented.
- **Financial reporting** There are comprehensive management reporting disciplines which involve the preparation of financial plans by all operating units. The plans are reviewed by executive management and are subsequently passed to the Board for approval. Monthly actual results are reported against the approved plans.
- **Investment appraisal** The group has a clearly defined framework for capital expenditure including appropriate authorisation levels beyond which such expenditure requires the approval of the executive directors and, for larger capital projects and acquisitions, the Board. There is a prescribed format for capital expenditure applications which places heavy emphasis on the commercial and strategic logic for the investment, and demands a detailed financial presentation of the business case. As a matter of routine, projects are also subject to post-investment appraisal after an appropriate period.
- **Functional reporting** The group has identified a number of key areas which are subject to periodic reporting to the Board. These include treasury operations, corporate taxation matters and value added tax. Other areas are given particular emphasis through the operation of appropriately constituted teams which meet regularly. These include information strategy and risk management, the latter including legal and insurance matters.
- **Risk control** A risk control group, consisting of representatives from the internal audit and legal teams, with responsibility for the development and monitoring of the group's systems of internal controls meets at least six times a year. This group co-ordinates the group's monitoring of control systems and reports to the directors via the Audit Committee. Its remit includes risk management, business continuity planning and the establishment of policies and procedures for implementation in the group's businesses. It has the power to co-opt representatives from the group's operating business to assist in the design of new systems of control and the improvement of existing ones.
- **Internal audit** The group has an internal audit function with a team responsible to the group internal audit manager. The scope of internal audit covers a wide variety of operational matters and, as a minimum, ensures compliance with the group's standard accounting and financial reporting policies. The group internal audit manager has a dual reporting responsibility to operational management and to the Audit Committee. The direct reporting route to management ensures that appropriate actions are taken quickly and can be reported back to the Audit Committee. The work of the internal audit team encompasses all businesses within the group and is directed towards higher risk areas and includes reviews of the integrity of monthly reporting, monitoring of adherence to group operating and financial procedures and reviews of major projects undertaken by the group.
- **Going concern** The directors are satisfied that the group is in a sound financial position with adequate resources to continue in operation for the foreseeable future. In forming this view, the directors have reviewed budgets and other financial information. The financial statements of the group have therefore been prepared on the basis that the group is a going concern.

Report on Remuneration

Compliance In the view of the Board, the company has throughout the year complied with the relevant provisions of the Combined Code, except where described below. In framing the company's remuneration policy, full consideration has been given to those provisions and the recommendations of the Remuneration and Nominations Committee ("the Remuneration Committee"), which consists solely of the non-executive directors and operates in accordance with the Code.

Remuneration policy The remuneration policy recognises the need to attract and retain executive directors with levels of remuneration that are arrived at responsibly and reward them fairly, when compared with similar organisations. Salaries are set to ensure that directors are motivated to achieve high levels of performance.

It is the policy of the Company to align the interests of all staff with the interests of shareholders as closely as possible. Schemes encouraging staff share ownership are an important element of this policy and staff held options over 1,691,009 shares under the Pendragon PLC Sharesave Schemes as at 31 December 1999.

Service contracts Each executive director has a service contract with the company. The executive directors' service agreements contain provisions regarding remuneration, holiday and sick pay entitlements, restrictions and disciplinary matters. Executive directors other than the Chief Executive have twelve month rolling notice periods. The notice period for the termination of the Chief Executive's service agreement is two years. The availability of service contracts on two year rolling terms for directors in similar positions to Mr Finn in comparator organisations is widespread. Having regard to these market conditions, the Board considers it both appropriate and reasonable to have a two year notice period in Mr Finn's case and that it is neither in the company's nor shareholders' interests to reduce this. In accordance with the terms of the executive directors' service agreements, compensation for early termination is limited to liquidated damages equivalent to the emoluments (excluding bonus but including provision of other benefits) for the unexpired period of notice. This would be in full and final settlement of all claims other than in respect of share options and pension arrangements. Each non-executive director, other than Mr Holt, has a service contract with the company providing for appointment for a two year period with no notice periods required by either party. Mr Holt's service contract is for an eleven month period expiring on 31 December 2000. The appropriateness of re-appointments of non-executive directors is reviewed by the Board.

Salaries Salaries are reviewed annually by the Remuneration Committee as from 1 January each year. Executive directors also receive further benefits which include two cars, one of which is fully expensed, and private health care. The Remuneration Committee may recommend that the company makes additional payments to executive directors each year in the form of a discretionary bonus. When considering whether or not to recommend any such payment, the Committee takes into account the individual performance of the director over the immediately preceding financial year. The salary, together with any bonus, is the only pensionable element of the executive directors' remuneration packages. Fees for non-executive directors are agreed by the Board. Awards of bonus are limited to 70 percent of the director's salary for outstanding performance and, when made, have typically been at levels of between 10 and 30 percent of salary. These levels are not such as to render the total remuneration unreasonable or excessive in the context of the company's sector. The Combined Code Schedule A requires that in general, annual bonuses should be not pensionable. However, the Board regards the bonus element as an important motivational and retention feature of the executive directors' remuneration packages. If awarded, bonuses come to be regarded by directors as part of their on target earnings and for this reason are treated as pensionable.

Share option scheme The Pendragon Executive Share Option Scheme, an Inland Revenue approved scheme adopted by the company in 1989, expired in November 1999 and was replaced by two new schemes, the Pendragon 1999 Approved Executive Share Option Scheme and the Pendragon 1999 Unapproved Executive Share Option Scheme (the "New Schemes"), each of which was approved at the company's 1999 Annual General Meeting. In accordance with the terms of the New Schemes, employees (including executive directors) may receive options at current market value. Options are exercised, subject to the achievement of certain criteria relating to the performance of earnings per share, between three and ten years after grant.

Report on Remuneration *continued*

Details of options held by directors are shown below.

	At 31.12.98	Number of options granted during year	Number of options lapsed during year	At 31.12.99	Exercise Price (Pence)	Exercise period
Sir Nigel Rudd	-	-	-	-	-	-
T G Finn	5,887	-	(5,887)	-	293.00	01.07.03 to 31.12.03
	-	220,000	-	220,000	194.00	03.03.02 to 02.03.09
	-	5,698	-	5,698*	170.00	01.07.02 to 31.12.02
M S Casha	35,492	-	-	35,492	295.84	29.04.97 to 28.04.04
	-	80,000	-	80,000	194.00	03.03.02 to 02.03.09
D R Forsyth	5,887	-	(5,887)	-	293.00	01.07.03 to 31.12.03
	-	80,000	-	80,000	194.00	03.03.02 to 02.03.09
	-	9,926	-	9,926*	170.00	01.07.04 to 31.12.04
S N Hopewell	27,533	-	-	27,533	170.95	11.10.94 to 10.10.01
	50,703	-	-	50,703	295.84	29.04.97 to 28.04.04
	-	80,000	-	80,000	194.00	03.03.02 to 02.03.09
H C Sykes	10,000	-	-	10,000	308.00	17.03.01 to 16.03.08
	10,000	-	-	10,000**	127.00	09.10.01 to 08.10.08
	10,000	-	-	10,000	127.00	09.10.01 to 08.10.08
	-	20,000	-	20,000	194.00	03.03.02 to 02.03.09
	1,331	-	-	1,331*	293.00	01.07.03 to 31.12.03
	-	4,558	-	4,558*	170.00	01.07.02 to 31.12.02
T Neville	-	-	-	-	-	-
W W Rhodes	-	-	-	-	-	-
J H Holt	-	-	-	-	-	-
Total	156,833	500,182	(11,774)	645,241		

* Options granted under the Pendragon 1998 Sharesave Scheme.

** Parallel grant.

The middle market price of Pendragon PLC ordinary shares at 31 December 1999 was 130.0 pence, and the range during the year was 212.5 pence to 130.0 pence.

Details of all share options granted during the year are set out in note 22 to the financial statements on page 31.

Report on Remuneration *continued*

Directors' remuneration

	Salary	Bonus	Benefits	Total emoluments		Pension contributions	
		Fees		excluding pensions		1999	1998
	£000	£000	£000	1999 £000	1998 £000	1999 £000	1998 £000
Executive directors							
T G Finn	338	-	29	367	416	43	40
M S Casha	138	-	19	157	179	18	15
D R Forsyth	125	-	19	144	136	13	9
S N Hopewell	138	-	20	158	149	18	15
H C Sykes	55	-	12	67	-	8	-
(appointed 27 April 1999)							
Non-executive directors							
Sir Nigel Rudd	65	-	18	83	76	-	-
N G Hannah	28	-	3	31	36	-	-
T Neville	28	-	-	28	25	-	-
(resigned 31 December 1999)							
W W Rhodes	15	-	13	28	25	-	-
J H Holt	4	-	-	4	-	-	-
(appointed 1 November 1999)							
Total 1999	934	-	133	1,067	-	100	-
Total 1998	817	115	110	-	1,042	-	79

The benefits provided are made up of cars and fuel, a contribution to home telephone, private medical insurance, and, in the case of Mr Forsyth, professional subscriptions.

In addition to services as a non-executive director, Mr Hannah provides commercial property advice to group companies under a retainer arrangement. In 1999 he earned benefits to the value of £13,000 in the form of fees and the provision of a car under this arrangement.

Pension rights 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 Plan's assets is delegated to a specialist independent investment manager and there is no investment of Plan assets in shares of Pendragon PLC. The executive directors participate on a non-contributory basis in the Pendragon Pension Plan.

Pension benefits earned by the directors

Name of director	Increase in accrued pension during the year £000	Transfer value of increase £000	Total annual accrued pension entitlement at 31 December 1999 £000
T G Finn	5	72	101
M S Casha	5	60	29
D R Forsyth	2	11	4
S N Hopewell	5	56	26
H C Sykes	1	6	4

The pension benefits shown are those which would be paid annually on retirement, based on service to 31 December 1999. The benefits do not allow for any retained benefits which the directors may have relating to previous employment. The increase in the accrued pension at 31 December 1999 excludes the statutory revaluation on the accrued pension at 31 December 1998.

The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and exclude directors' contributions.

Where applicable, the pension benefits are based on the directors' pensionable salaries limited by the Inland Revenue earnings cap imposed by the Finance Act 1989 (currently £90,600 per annum).

The pension benefits exclude any additional pension purchased by Additional Voluntary Contributions.

Report on Remuneration *continued*

Directors' interests The interests of the directors and those of their families in the shares of the company (all of which were beneficial) at 31 December 1999 are as set out below:

	31 December 1999	31 December 1998
	Shares	Shares
Sir Nigel Rudd	848,610	798,610
T G Finn	851,251	801,251
M S Casha	81,000	71,000
N G Hannah	72,000	72,000
S N Hopewell	16,000	16,000
W W Rhodes	252,669	252,669
D R Forsyth	87,995	87,995
H C Sykes	10,000	-
J H Holt	10,000	-

There were no changes to the directors' interests above between 31 December 1999 and the date of this report.

The interests of H C Sykes at the date of appointment were the same as at 31 December 1998.

Sir Nigel Rudd
Chairman
Remuneration and Nominations Committee
22 February 2000

Directors' Responsibilities Statement

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Auditors' Report to the Members of Pendragon PLC

We have audited the financial statements on pages 17 to 35.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report. As described above this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 10 to 11 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to 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 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Birmingham
Chartered Accountants
Registered Auditor

22 February 2000

Consolidated Profit and Loss Account

Year ended 31 December 1999

		1999	1999	1999	1998
		Pre-exceptional	Exceptional	Total	
		items	items		
	Notes	£000	£000	£000	£000
Total turnover - group and share joint ventures	2,3	1,797,443	-	1,797,443	1,271,978
Less: share of joint venture turnover		(43,275)	-	(43,275)	-
Group turnover					
Existing operations		1,100,488	-	1,100,488	1,271,978
Acquisition		653,680	-	653,680	-
		1,754,168	-	1,754,168	1,271,978
Cost of sales	3	(1,534,176)	-	(1,534,176)	(1,114,971)
Gross profit		219,992	-	219,992	157,007
Net operating expenses	3	(193,320)	(4,525)	(197,845)	(130,030)
Group operating profit	3,4				
Existing operations		15,016	(1,522)	13,494	26,977
Acquisitions		11,656	(3,003)	8,653	-
		26,672	(4,525)	22,147	26,977
Share of operating loss in joint venture				(1,119)	-
Total operating profit				21,028	26,977
Profit on sale of businesses				9,628	-
Profit / (loss) on disposal of fixed assets				600	(239)
Profit on ordinary activities before interest				31,256	26,738
Net interest payable					
Group	7			(11,849)	(8,075)
Joint venture				(248)	-
				(12,097)	(8,075)
Profit on ordinary activities before taxation				19,159	18,663
Taxation	8			(6,129)	(5,769)
Profit for the financial year				13,030	12,894
Dividends	9			(7,929)	(7,316)
Retained profit for the financial year	23			5,101	5,578
Earnings per ordinary share	10			21.4 p	21.2 p
Diluted earnings per ordinary share	10			21.3 p	21.1 p

All amounts relate to continuing operations.
Movements in reserves are shown in note 23.

The comparative figures for gross profit and net operating expenses have been restated as shown in note 3 to these financial statements.
The notes on pages 22 to 35 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 1999

	Notes	1999 £000	1999 £000	1998 £000	1998 £000
Fixed assets					
Goodwill	12		14,271		5,606
Tangible assets	13		168,747		108,877
Investments	14				
Investments in joint venture:					
Share of gross assets and preference shares		88,878		-	
Share of gross liabilities		(77,023)		-	
		11,855		-	
Other investments		1,500		-	
			13,355		-
			196,373		114,483
Current assets					
Stocks	15		134,551		187,771
Repurchase commitments	16		74,827		84,349
Debtors	17		78,770		73,018
Cash at bank and in hand			3,033		1,150
			291,181		346,288
Creditors: amounts falling due within one year	18		(206,954)		(241,801)
Net current assets			84,227		104,487
Total assets less current liabilities			280,600		218,970
Creditors: amounts falling due after more than one year					
	19		(136,464)		(86,362)
Provisions for liabilities and charges	21		(1,642)		(580)
Net assets			142,494		132,028
Capital and reserves					
Called up share capital	22		15,242		15,242
Share premium account	23		74,697		74,697
Other reserves	23		14,803		9,331
Profit and loss account	23		37,752		32,758
Equity shareholders' funds			142,494		132,028

Approved by the Board of directors on 22 February 2000 and signed on its behalf by:

T G Finn
Chief Executive



D R Forsyth
Finance Director



The comparative figures for stocks and creditors due within one year have been changed as detailed in notes 15 and 18 of these financial statements.

The notes on pages 22 to 35 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 1999

	Notes	1999 £000	1998 £000
Cash flow from operating activities	25	75,141	27,432
Interest received		39	539
Interest paid		(11,679)	(7,346)
Returns on investments and servicing of finance		(11,640)	(6,807)
Taxation paid (including £5,336,000 in respect of Evans Halshaw Holdings Plc)		(13,689)	(3,404)
Payments to acquire tangible fixed assets		(35,861)	(36,051)
Payments to acquire investments		(1,500)	-
Receipts from sales of tangible fixed assets		21,184	21,263
Capital expenditure and financial investment		(16,177)	(14,788)
Business acquisitions	24	(84,086)	(13,320)
Borrowings of acquired businesses		(26,839)	-
Dividend paid to former shareholders of Evans Halshaw Holdings Plc post acquisition		(3,700)	-
Deferred consideration paid		(12,710)	(11,654)
Cash sold on business disposal		(278)	-
Business disposals	24	51,343	6,349
Acquisitions and disposals		(76,270)	(18,625)
Equity dividends paid		(7,520)	(6,767)
Net cash flow before financing		(50,155)	(22,959)
Financing			
Repayment of unsecured bank loans		-	(13,997)
Unsecured bank loans		54,367	36,069
Net cash inflow from financing		54,367	22,072
Movement in cash and overdrafts	26	4,212	(887)
Reconciliation of net cash flow to movement in net debt			
Movement in cash and overdrafts		4,212	(887)
Cash inflow from increase in debt financing		(54,367)	(22,072)
Loan notes issued on acquisition of Evans Halshaw Holdings Plc		(5,194)	-
Movement in net debt in the year		(55,349)	(22,959)
Net debt at 31 December 1998		(48,199)	(25,240)
Net debt at 31 December 1999		(103,548)	(48,199)

The notes on pages 22 to 35 form part of these financial statements.

Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 1999

	1999	1998
	£000	£000
Profit for the financial year	13,030	12,894
Unrealised profit on disposal of business	5,100	-
Currency translation adjustments relating to net investments in foreign enterprises, net of tax effect	(234)	77
Total recognised gains and losses relating to the year	17,896	12,971

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

Group Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 1999

	1999	1998
	£000	£000
Profit for the financial year	13,030	12,894
Dividends	(7,929)	(7,316)
	5,101	5,578
Exchange adjustment	(234)	77
Unrealised profit on disposal of business	5,100	-
Goodwill written back	499	-
Net addition to shareholders' funds	10,466	5,655
Opening shareholders' funds	132,028	126,373
Closing shareholders' funds	142,494	132,028

The notes on pages 22 to 35 form part of these financial statements.

Company Balance Sheet

At 31 December 1999


	Notes	1999 £000	1998 £000
Fixed assets			
Investments	14	196,651	108,863
Current assets			
Debtors	17	2,357	56,540
Cash at bank		1	174
		2,358	56,714
Creditors: amounts falling due within one year	18	(36,663)	(5,686)
Net current (liabilities) / assets		(34,305)	51,028
Total assets less current liabilities		162,346	159,891
Creditors: amounts falling due after more than one year	19	(40,864)	(35,670)
Net assets		121,482	124,221
Capital and reserves			
Called up share capital	22	15,242	15,242
Share premium account	23	74,697	74,697
Other reserves	23	13,863	13,863
Profit and loss account	23	17,680	20,419
Equity shareholders' funds		121,482	124,221

Approved by the Board of directors on 22 February 2000 and signed on its behalf by:

T G Finn
Chief Executive



D R Forsyth
Finance Director



The notes on pages 22 to 35 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, all its subsidiary undertakings and the group's share of its joint venture under the gross equity accounting method, made up to 31 December 1999.

(c) **Accounting for acquisitions and disposals** The results of companies and businesses acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition.

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

(e) **Contract hire and leasing** Profit arising on contract hire agreements is recognised on the termination of each agreement.

(f) **Tangible fixed assets and depreciation** Freehold land is not depreciated. Depreciation is provided to write off the cost less the estimated residual value of other tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings - 2% per annum (except in the case of assets under the course of construction)

Leasehold properties - 2% per annum or over the period of the lease if less than 50 years

Fixtures, fittings and office equipment - 10 - 20% per annum

Plant and machinery - 10 - 33% per annum

Motor vehicles - 20 - 25% per annum

(g) Stocks

(i) Consignment vehicles in respect of which finance charges are levied are regarded as being effectively under the control of the group and, in accordance with Financial Reporting Standard No. 5, are included within stocks on the balance sheet even though legal title has not yet passed to the group. The corresponding liability is included in creditors.

(ii) Motor vehicles (including consignment and demonstrator vehicles) and parts stocks are stated at the lower of cost and net realisable value

(h) **Repurchase commitments** As part of its normal trading activities the group has contracted to repurchase, at predetermined values and dates, certain vehicles previously sold or let under operating leases or similar arrangements. The group's residual interest in these vehicles is included in current assets and the related liability is included as 'repurchase commitments' within creditors.

(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) **Derivative financial instruments** The group holds derivative financial instruments to manage the interest risk of long term liabilities. Amounts payable or receivable in respect of interest rate derivatives are recognised on an accruals basis over the life of the instrument.

(l) **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.

(m) **Investments** Investments held as fixed assets are stated at cost less any impairment losses.

(n) **Goodwill** Goodwill, represents the excess of the fair value of consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on acquisitions before 1 January 1998 was eliminated against reserves on acquisition. In accordance with the transitional rules of Financial Reporting Standard No. 10, this treatment has continued to be applied to such acquisitions. On a subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill not written off through the profit and loss account, including any previously taken direct to reserves. Goodwill arising on acquisitions since 1 January 1998 is capitalised and amortised to nil by equal instalments over its estimated useful life.

(o) **Capitalisation of finance costs** Gross finance costs directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets.

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. All material turnover originates in the United Kingdom from the group's principal activities.

3. Group turnover, cost of sales, net operating expenses and operating profit

	Existing operations £000	Acquisitions £000	1999 Total £000	1998 Total £000
Group turnover	1,100,488	653,680	1,754,168	1,271,978
Cost of sales	959,776	574,400	1,534,176	1,114,971
Gross profit	140,712	79,280	219,992	157,007
Net operating expenses:				
Distribution costs	74,708	40,253	114,961	80,329
Administrative expenses	54,079	30,484	84,563	50,709
Other operating income	(1,569)	(110)	(1,679)	(1,008)
	127,218	70,627	197,845	130,030
Operating profit	13,494	8,653	22,147	26,977

Exceptional items included within administrative expenses are £3,003,000 in respect of costs incurred in the reorganisation following the acquisition of Evans Halshaw Holdings Plc and £1,522,000 which are one off costs incurred during the set up of a new centralised customer service centre.

The above figures for the year ended 31 December 1999 include turnover of £327,784,000 and operating profit of £1,439,000 in respect of businesses sold to a joint venture in September 1999, of which £150,331,000 turnover and £2,903,000 operating profit related to acquisitions during the year.

Finance commissions earned as a result of the group's retail activities are now accounted for as a component of gross profit. This is a change in the presentation of prior years where such income was shown within other operating income. Accordingly all comparatives have been amended to reflect this change.

4. Operating profit

Operating profit has been arrived at after charging:	1999 £000	1998 £000
Depreciation of tangible fixed assets	11,732	8,182
Amortisation of goodwill	1,762	453
Auditors' remuneration:		
Audit fees - group	145	77
Audit fees - parent company	8	2
Operating lease rentals:		
Hire of plant and machinery	625	624
Property	4,970	5,156

Payments to KPMG Audit Plc and its associates during the year ended 31 December 1999 for non audit services amounted to £332,000 (1998: £28,000). The increase in non audit fees for the year ended 31 December 1999 related mainly to fees in connection with the acquisition of Evans Halshaw Holdings Plc.

Notes to the Financial Statements *continued*

5. Employees

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

	1999	1998
	Number	Number
Sales	2,247	1,456
After sales	3,801	2,636
Administration	1,120	929
	7,168	5,021

Costs incurred in respect of these employees were:

	1999	1998
	£000	£000
Wages and salaries	127,222	78,489
Social security costs	10,784	6,988
Other pension costs	1,894	1,688
	139,900	87,165

6. Directors

Total emoluments of directors (including pension contributions) amounted to £1,167,000 (1998 - £1,121,000).

Information relating to directors' emoluments, share options, long term incentive scheme interests and pension entitlements is set out in Remuneration Report on pages 12 to 15.

7. Net group interest payable

	1999	1998
	£000	£000
Interest payable and similar charges:		
Bank loans and overdrafts	8,242	4,815
Other loans - manufacturer stocking loans	3,356	2,691
Notional interest on deferred consideration	583	1,441
	12,181	8,947
Less: amount capitalised	(137)	(333)
	12,044	8,614
Interest receivable:		
Bank interest receivable	(39)	(539)
Other loans	(156)	-
	11,849	8,075

8. Taxation

	1999	1998
	£000	£000
UK corporation tax at 30.25% (1998 - 31.0%)	6,521	6,151
Overseas corporate taxation	536	517
UK deferred taxation	(556)	(899)
	6,501	5,769
Attributable taxation of joint venture	(372)	-
	6,129	5,769

Notes to the Financial Statements *continued*

9. Dividends

	1999	1998
	£000	£000
Ordinary shares		
Interim paid 4.4p per share (1998 - 4.0p)	2,643	2,439
Final proposed 8.8p per share (1998 - 8.0p)	5,286	4,877
	7,929	7,316

10. Earnings per share

(a) Adjustments to basic earnings per share, based on ordinary shares in issue

	1999	1999	1998	1998
	Earnings per	Total	Earnings per	Total
	share pence	£000	share pence	£000
Earnings	21.4	13,030	21.2	12,894
Goodwill amortisation	2.9	1,762	0.7	453
Notional interest on deferred consideration	0.9	583	2.3	1,441
Tax effect of notional interest	(0.3)	(176)	(0.7)	(447)
Earnings excluding goodwill amortisation and notional interest	24.9	15,199	23.5	14,341
Non trading items:				
Exceptional items	7.4	4,525	-	-
Profit on business and fixed asset disposals	(16.8)	(10,228)	0.4	239
Tax effect of non trading items	2.9	1,725	(0.1)	(74)
Earnings excluding goodwill amortisation, notional interest and non trading items.	18.4	11,221	23.8	14,506

(b) Diluted earnings per share, based on weighted average number of shares in issue.	1999	1999	1998	1998
	Diluted earnings	Total	Diluted earnings	Total
	per share pence	£000	per share pence	£000
Earnings	21.3	13,030	21.1	12,894

(c) Shares in issue	1999	1998
	number	number
Ordinary shares in issue	60,964,152	60,964,152
Weighted average number of dilutive shares under option	191,542	72,992
Weighted average number of shares in issue taking account of applicable outstanding share options	61,155,694	61,037,144

The directors consider that the adjusted earnings per share figures provide a better measure of comparative performance.

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 1999 is £5,190,000 (1998 - £7,396,000).

Notes to the Financial Statements *continued*

12. Fixed assets - intangible assets

Group	Goodwill £000
Cost	
At 31 December 1998	6,059
Additions	10,512
Disposals	(96)
At 31 December 1999	16,475
Amortisation	
At 31 December 1998	453
Amortised during the year	1,762
Disposals	(11)
At 31 December 1999	2,204
Net book value	
At 31 December 1999	14,271
At 31 December 1998	5,606

Goodwill on dealerships acquired is amortised over a period of 10 years.

13. Fixed assets - tangible assets

Group	Land & buildings £000	Plant & equipment £000	Motor vehicles £000	Total £000
Cost				
At 31 December 1998	88,693	28,833	15,178	132,704
Additions - existing operations	5,045	7,174	23,779	35,998
- acquisitions	71,135	4,434	1,612	77,181
Exchange adjustments	(168)	(68)	(23)	(259)
Disposal of business	(15,324)	(13,968)	-	(29,292)
Disposals	(1,530)	(379)	(26,700)	(28,609)
At 31 December 1999	147,851	26,026	13,846	187,723
Depreciation				
At 31 December 1998	5,898	15,347	2,582	23,827
Exchange adjustments	(13)	(49)	(6)	(68)
Charge for the year	2,480	6,198	3,054	11,732
Disposal of business	(1,090)	(7,345)	-	(8,435)
Disposals	(521)	(3,777)	(3,782)	(8,080)
At 31 December 1999	6,754	10,374	1,848	18,976
Net book value				
At 31 December 1999	141,097	15,652	11,998	168,747
At 31 December 1998	82,795	13,486	12,596	108,877
Land and buildings at net book value comprise:			1999	1998
			£000	£000
Freehold			114,506	65,852
Long leasehold			17,397	12,808
Short leasehold			9,194	4,135
			141,097	82,795

Notes to the Financial Statements *continued*

13. Fixed assets - tangible assets *(continued)*

Motor vehicles at net book value comprise:

	1999	1998
	£000	£000
Service loan vehicles	5,558	6,210
Other vehicles	6,440	6,386
	11,998	12,596

Freehold land with a cost of £45,753,000 (1998 - £28,380,000) has not been depreciated during the year.

Cumulative interest charges of £1,134,000 (1998 - £997,000) have been capitalised as construction costs and included in land and buildings. Land and buildings include £5,268,000 (1998 - £6,406,000) in respect of building projects currently under construction.

Future capital expenditure which has been contracted for but not yet provided in the financial statements amounted to £437,000 (1998 - £2,462,000).

14. Fixed assets - investments

Group	Group joint		Total
	venture equity	Own shares	
	£000	£000	£000
At 31 December 1998	-	-	-
Additions	12,850	1,500	14,350
Share of joint venture loss	(995)	-	(995)
At 31 December 1999	11,855	1,500	13,355

Company	Shares in	Loans to	Total
	subsidiary	subsidiary	
	undertakings	undertakings	£000
At 31 December 1998	18,863	90,000	108,863
Additions	87,788	-	87,788
At 31 December 1999	106,651	90,000	196,651

The market value of the investment in the company's own shares at 31 December 1999 was £1,163,000 (1998 - nil), being 894,360 shares with a nominal value of 25 pence each, acquired at a cost of between £1.63 and £1.70 each (1998 - nil) held by Pendragon Quest Trustees Limited.

Dividends on the shares owned by the trust, the purchase of which was funded by an interest free loan to the trust from Pendragon PLC are waived. All expenses incurred by the trust are settled directly by Pendragon PLC and charged in the accounts as incurred.

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 incorporation noted below:

Name	Activity
Incorporated in Great Britain:	
Alloy Racing Equipment Limited	Motor vehicle dealer
Arena Auto PLC	Motor vehicle dealer
c2k Limited	Contract hire and fleet management
Car Fleet Control Limited	Computer systems and services
Derwent Vehicles Limited	Motor vehicle dealer
Evans Halshaw Limited	Motor vehicle dealer
Evans Halshaw (Chesham) Limited	Motor vehicle dealer
Evans Halshaw Motors Limited	Motor vehicle dealer
Excalibur Motor Finance Limited	Motor vehicle finance
Pendragon Motor Group Limited*	Motor vehicle dealer
Pendragon Contracts Limited	Contract hire and fleet management
Pinewood Computer Technologies PLC*	Computer systems and services
Incorporated in Germany:	
Jaguar Autohaus Kronberg GmbH	Motor vehicle dealer
Autohaus Avalon Jaguar GmbH	Motor vehicle dealer

*Direct subsidiary of Pendragon PLC.

Notes to the Financial Statements *continued*

15. Stocks

	1999	1998
	£000	£000
New and used vehicles	78,955	109,348
Consignment vehicles	41,600	64,097
Vehicle parts and other stocks	13,996	14,326
	134,551	187,771

Consignment vehicles exclude new vehicle stocks held by the manufacturers to the order of the group, which are not capable of bearing a finance charge, amounting to £45,295,000 (1998 - £20,109,000). The 1998 comparative has been changed to exclude vehicle stocks that are not capable of bearing a finance charge to reflect common industry practice.

16. Repurchase commitments

	1999	1998
	Total	Total
	£000	£000
Within one year	34,326	34,373
Between one and two years	28,896	29,219
Over two years	11,605	20,757
	74,827	84,349

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

In addition to the repurchase commitments shown above, the group has entered into other contingent repurchase arrangements set out in note 29.

17. Debtors

	1999	1998
	£000	£000
(a) Group		
Trade debtors	36,501	42,599
Amounts owed by joint venture	7,450	-
Other debtors	22,716	18,000
Prepayments	12,103	12,419
	78,770	73,018
(b) Company		
Amounts owed by subsidiary undertakings	-	56,535
Taxation	2,352	-
Other debtors	5	5
	2,357	56,540

All amounts are due within one year.

Notes to the Financial Statements *continued*

18. Creditors: amounts falling due within one year

	1999	1998
	£000	£000
(a) Group		
Unsecured loans	10,000	10,000
Unsecured bank loans and overdrafts	634	2,963
Consignment vehicle liabilities	41,600	64,097
Repurchase commitments (see note 16)	34,326	34,373
Payments received on account	4,892	3,272
Trade creditors	65,625	71,109
Dividends payable	5,286	4,877
Corporation tax	4,630	5,698
Advance corporation tax	-	610
Other taxation and social security	3,869	4,847
Consideration payable to Lex Retail Group Limited	-	12,127
Accruals and deferred income	36,092	27,828
	206,954	241,801
(b) Company		
Bank loans and overdrafts	1,187	25
Amounts due to subsidiary undertakings	27,629	-
Dividends payable	5,286	4,877
Advance corporation tax	-	610
Corporation tax	2,250	-
Other taxation and social security	27	-
Other creditors	284	174
	36,663	5,686

The comparative figures for consignment vehicle liabilities have been changed to exclude those vehicles not bearing a finance charge as detailed in note 15.

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

	1999	1998
	£000	£000
(a) Group		
Unsecured bank loans (repayable between one and two years)	83	623
Unsecured bank loans (repayable between two and five years)	63,194	3,093
Unsecured bank loans (repayable after five years)	32,670	32,670
Repurchase commitments (see note 16)	40,501	49,976
Other	16	-
	136,464	86,362
(b) Company		
Unsecured bank loans (repayable between two and five years)	8,194	3,000
Unsecured bank loans (repayable after five years)	32,670	32,670
	40,864	35,670

Notes to the Financial Statements *continued*

20. Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the financial review on page 5.

As permitted by FRS 13, short term debtors and creditors that meet the definitions of a financial asset or liability respectively have been excluded from the disclosures. Prior year comparatives have not been provided, as permitted by the Standard.

(a) Fair values of financial assets and liabilities

The fair value of interest rate swaps and collars have been determined with reference to market prices prevailing at 31 December 1999. All other financial liabilities are at floating rates of interest and therefore fair value is equal to book value. The interest rate swaps relate to the swapping of floating rate interest into fixed rate interest; the interest rate collars fix floating rate interest within a defined range.

Primary financial instruments held or issued to finance the company's operations	Book value	Fair value
	1999	1999
	£000	£000
Cash at bank and in hand	3,033	3,033
Loan notes issued by joint venture	7,450	7,450
Bank loans	(58,717)	(58,717)
6.93% US \$55 million loan notes 2005	(32,670)	(34,157)
Other	(15,194)	(15,194)
Derivative financial instruments held to manage interest rate profile	Book value	Fair value
	1999	1999
	£000	£000
Interest rate swaps relating to floating rate borrowings	(740)	(256)
Interest rate collars relating to floating rate borrowings	(218)	(71)
Currency swap (US \$ / £ sterling)	-	1,487

(b) Interest rate risk profile as at 31 December 1999

The table below reflects the effect of interest rate swaps

(i) Financial liabilities	Total	Floating rate
	£000	£000
Bank loans	(58,717)	(58,717)
6.93% US \$55 million loan notes 2005	(32,670)	(32,670)
Other	(15,194)	(15,194)
(ii) Financial assets	Total	Floating rate
	£000	£000
Cash at bank and in hand	3,033	3,033
Loan notes issued by joint venture	7,450	7,450

(c) Foreign currency exposure profile

There were no material foreign currency monetary assets and liabilities that may give rise to exchange gains or losses in the profit and loss account.

(d) Maturity of borrowings

Details are shown in note 18.

(e) Maturity of facilities

At 31 December 1999 the group had the following undrawn committed facilities available

	Total
	£000
Expiring in one year or less	50,000
Expiring in more than one year but not more than two years	5,000
Expiring in more than two years	17,000
	72,000

Notes to the Financial Statements *continued*

21. Provisions for liabilities and charges

The amounts of provisions for deferred tax in the financial statements are as follows:

	Provided		Unprovided	
	1999 £000	1998 £000	1999 £000	1998 £000
Tax allowances in excess of depreciation	(913)	926	-	-
Other timing differences	950	(346)	-	-
	37	580	-	-

The movement in provisions for the year are as follows:

	Deferred tax £000	Closure costs £000	Total £000
At 31 December 1998	580	-	580
Acquisition of Evans Halshaw Holdings Plc	(912)	2,426	1,514
Profit and loss account	(556)	-	(556)
Additions	-	219	219
Utilised	-	(1,040)	(1,040)
Advance corporation tax recoverable	925	-	925
At 31 December 1999	37	1,605	1,642

The closure cost provision is comprised of the future costs of vacated properties, being predominantly future lease commitments. Although the majority of the provision should be realised in the next few accounting periods the exact timing remains uncertain.

22. Called up share capital

	1999 £000	1998 £000
Authorised:		
80,000,000 (1998 - 80,000,000) ordinary shares of 25p each	20,000	20,000
Allotted, called up and fully paid		
60,964,152 (1998 - 60,964,152) ordinary shares of 25p each	15,242	15,242

Movements 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 1999 were as follows:

Exercise period	Exercise price per share	At 31 December		At 31 December	
		1998 Number	Granted Number	Lapsed Number	1999 Number
11 October 1994 to 10 October 2001	170.95 p	27,533	-	-	27,533
29 April 1997 to 28 April 2004	295.84 p	187,602	-	-	187,602
17 March 2001 to 16 March 2008	308.00 p	429,000	-	(92,000)	337,000
9 October 2001 to 8 October 2008	127.00 p	429,000	-	(92,000)	337,000
9 October 2001 to 8 October 2008	127.00 p	263,000	-	(57,000)	206,000
1 July 2003 to 31 December 2003	293.00 p	921,446	-	(642,025)	279,421
1 July 2005 to 31 December 2005	293.00 p	317,903	-	(212,878)	105,025
3 March 2002 to 2 March 2009	194.00 p	-	480,000	-	480,000
1 July 2002 to 31 December 2002	170.00 p	-	630,926	(89,409)	541,517
1 July 2004 to 31 December 2004	170.00 p	-	684,934	(53,194)	631,740
1 July 2006 to 31 December 2006	170.00 p	-	157,511	(24,205)	133,306
21 June 2002 to 20 June 2009	162.50 p	-	377,682	(73,000)	304,682
21 June 2002 to 20 June 2009	162.50 p	-	237,818	-	237,818
		2,575,484	2,568,871	(1,335,711)	3,808,644

On 3 March 1999 options over 480,000 ordinary shares of 25 pence were granted to directors under the Pendragon 1989 Executive Share Option Scheme ("the 1989 Scheme") at an exercise price of 194.0 pence per share.

On 4 June 1999 options over 1,473,371 ordinary shares of 25 pence were granted pursuant to the 1998 Pendragon Sharesave Scheme at an exercise price of 170.0 pence per share.

In addition to the above, on 21 June 1999 options over a further 615,500 ordinary shares of 25 pence were granted to employees (excluding directors) at an exercise price of 162.5 pence per share. This grant comprised 377,682 ordinary shares under the Pendragon 1999 Approved Executive Share Option Scheme and 237,818 ordinary shares under the Pendragon 1999 Unapproved Executive Share Option Scheme ("the New Schemes").

Notes to the Financial Statements *continued*

22. Called up share capital (*continued*)

Each of the grants of share options made during the year under the 1989 Scheme and New Schemes prescribed an earnings per share performance criterion. In the case of grants under the 1989 Scheme, it is a pre-condition to the exercise of such options that the growth in the company's earnings per share over the prescribed three year period must exceed by at least 2 percent per annum compound the annual rate of inflation as shown by the RPI Index. It is a pre-condition to the exercise of grants made under the New Schemes that the growth in the company's earnings per share over the prescribed three year period must exceed by at least 3 percent per annum compound the annual rate of inflation as shown by the RPI Index.

23. Reserves	Share	Other	Profit
	premium account £000	reserves £000	and loss account £000
(a) Group			
At 31 December 1998	74,697	9,331	32,758
Retained profit	-	-	5,101
Goodwill written back	-	499	-
Unrealised profit on joint venture	-	5,100	-
Share of goodwill amortisation of joint venture in respect of unrealised profit on disposal	-	(127)	127
Exchange adjustment	-	-	(234)
At 31 December 1999	74,697	14,803	37,752
(b) Company			
At 31 December 1998	74,697	13,863	20,419
Retained loss	-	-	(2,739)
At 31 December 1999	74,697	13,863	17,680

Cumulative goodwill written off to reserves at 31 December 1999 amounted to £7,123,000 (1998 - £7,622,000).

The cumulative amount of negative goodwill written to reserves at 31 December 1999 amounted to £3,928,000 (1998 - £3,928,000).

24. Acquisitions and disposals

(a) Acquisition of Evans Halshaw Holdings Plc

On 3 February 1999 the group acquired the entire share capital of Evans Halshaw Holdings Plc for a total consideration, including costs, of £87,739,000. Consideration was satisfied by the issue of loan notes of £5,194,000 and £78,520,000 cash. The acquisition has been accounted for by the acquisition method of accounting.

Net assets at date of acquisition:	Book value at acquisition £000	Accounting policy adjustments £000	Revaluation £000	Other £000	Fair value at acquisition £000
Tangible fixed assets	77,130	-	(1,075)	-	76,055
Goodwill	1,568	-	-	-	1,568
Stocks	59,131	190	(250)	-	59,071
Debtors	37,658	858	5,300	-	43,816
Dividend creditor	(3,700)	-	-	-	(3,700)
Corporation tax creditor	(5,940)	-	-	-	(5,940)
Deferred tax	1,927	-	-	(1,015)	912
Creditors	(64,892)	-	(340)	(727)	(65,959)
Borrowings	(26,839)	-	-	-	(26,839)
	76,043	1,048	3,635	(1,742)	78,984
Goodwill					8,755
Consideration (including costs)					87,739
Consideration satisfied by cash					78,520
Consideration satisfied by the issue of loan notes					5,194
Costs of acquisition satisfied					4,025
Fair value of consideration					87,739

The fair value adjustments above principally arise for the following reasons:

- Alignment of accounting policies in respect of vehicle, debt and parts provisions and recognition of income.
- Recognition of the pension fund surplus and related deferred taxation.
- Revaluations representing the restatement of certain equipment, stocks, and financial instruments acquired to their estimated market values.
- Other adjustments principally representing the recognition of unprovided amounts in respect of other liabilities.

Notes to the Financial Statements *continued*

24. Acquisitions and disposals (*continued*)

(b) Other acquisitions

The group acquired from various vendors throughout the year trading assets for Telecom Services for £135,000 on 6 April 1999, Grantham Ford for £1,156,000 on 26 April 1999 and Gathurst Vauxhall for £233,000 on 8 November 1999. All consideration was satisfied in cash. The acquisitions have been accounted for by the acquisition method of accounting.

Net assets at date of acquisitions:	Book value at acquisition £000	Accounting policy adjustments £000	Revaluation £000	Other £000	Fair value at acquisition £000
Tangible fixed assets	1,172	-	(46)	-	1,126
Stocks	277	-	(1)	-	276
Debtors	-	-	-	-	-
Creditors	(20)	-	-	(30)	(50)
	1,429	-	(47)	(30)	1,352
Goodwill					189
Consideration (including costs)					1,541
Consideration satisfied by cash					1,524
Cost of acquisition					17
Fair value of consideration					1,541

The fair value adjustments above principally arise for the following reasons:

- i) Revaluations representing the restatement of certain properties and stocks acquired to their estimated market values.
- ii) Other adjustments principally representing the recognition of unprovided amounts in respect of other liabilities.

Contributions to cashflow from acquisitions

The businesses acquired during the year contributed £21,062,000 to the group's net operating cash flows, paid £1,323,000 in respect of servicing finance, dividends of £3,700,000, tax of £5,336,000, utilised £7,320,000 for capital expenditure and contributed £48,470,000 from the sale of businesses.

(c) Disposals

Net assets at date of disposal:

	Net book value £000
Tangible fixed assets	20,857
Stocks	37,300
Debtors	5,464
Cash balances	278
Creditors	(8,691)
	55,208
Goodwill written back	584
Profit on sale	9,628
Unrealised profit on sale	5,100
Proceeds on sale	70,520
Proceeds comprise:	
Cash	51,343
Share capital in joint venture company	12,850
Loan to joint venture company	7,450
Costs of disposal accrued	(1,123)
Proceeds on sale	70,520

Share capital in joint venture comprises ordinary share capital including share premium of £12,750,000 and preference shares of £100,000.

Notes to the Financial Statements *continued*

25. Net cash flow from operating activities	1999	1998
	£000	£000
Operating profit	21,028	26,977
Add share of joint venture's operating loss	1,119	-
Depreciation	11,732	8,182
Goodwill amortisation	1,762	453
(Profit) / loss on disposal of fixed assets	(55)	421
Decrease / (increase) in stocks	52,290	(17,722)
Decrease / (increase) in debtors	39,914	(4,571)
(Decrease) / increase in creditors	(52,649)	13,738
Other	-	(46)
	75,141	27,432

26. Analysis of net debt

	Cash at bank and in hand	Overdrafts and other borrowings	Total	Other borrowings		Total
	£000	£000		Due within one year	Due after one year	
At 31 December 1998	1,150	(2,963)	(1,813)	(10,000)	(36,386)	(48,199)
Net cash flow	1,883	2,329	4,212	-	-	4,212
Financing and liquid resources	-	-	-	-	(54,367)	(54,367)
Loan notes issued on acquisition of Evans Halshaw Holdings Plc	-	-	-	-	(5,194)	(5,194)
At 31 December 1999	3,033	(634)	2,399	(10,000)	(95,947)	(103,548)

27. Lease commitments

Operating leases

Annual lease payments due in 2000 under operating leases of the group according to the period in which the lease expires, are as follows:

	Property		Other leases	
	1999	1998	1999	1998
	£000	£000	£000	£000
Within one year	700	353	251	177
Between one and five years	801	1,537	338	170
Over five years	2,541	3,802	9	196
	4,042	5,692	598	543

28. Pensions

Pendragon PLC operates the Pendragon Pension Plan for eligible employees. This is a funded defined benefit scheme administered by a corporate trustee, Pendragon Pension Trustees Limited. The trustee holds Plan assets separately from Pendragon PLC, and there is no investment in shares of Pendragon PLC.

The last formal valuation of the Plan was carried out as at 5 April 1996. At this date the market value of Plan assets was £7.9 million. The actuarial value of Plan assets represented 114 percent of the value of accrued liabilities allowing for projected increases in earnings. The main assumptions used for this valuation were that the rate of return on investments would exceed the rate of earnings increases by 2 percent per annum, the rate of pension increases by 5 percent per annum and the rate of dividend increases by 4.5 percent per annum. An updated valuation is being carried out as at 6 April 1999.

The pension cost for the year includes the cost of pensions for the Evans Halshaw Group Retirement Benefits Scheme from the date of acquisition of Evans Halshaw Holdings Plc. This Scheme included defined benefit and defined contribution categories, with assets held in a separate trust fund. The last formal actuarial valuation was carried out as at 31 March 1998. At this date the market value of Scheme assets was £39.8 million, and the actuarial value of Scheme assets represented 113 percent of the value of accrued liabilities allowing for projected increases in earnings. The main assumptions used for this valuation were that the rate of return on investments would exceed the rate of earnings increases by 1.5 percent per annum and the rate of pension increases by 3 percent per annum. An updated valuation for the Scheme is being carried out as at 31 March 1999.

Under acquisition accounting treatment, the Scheme surplus is recorded as a prepayment on the consolidated balance sheet of Pendragon PLC. The Scheme was merged into the Pendragon Pension Plan with effect from 1 January 2000.

The pension cost for the year and the balance sheet prepayment are assessed by independent qualified actuaries using the projected unit method, allowing for the amortisation of surplus over employees' future service lifetimes. The pension cost for the year is calculated as £1,894,000 (1998 £1,688,000). The closing balance sheet prepayment is £5,053,000 (1998 £nil). The full year effect of the reduction in employees following the Ford joint venture disposal in September 1999 will tend to reduce the regular pension cost in the next accounting year.

Notes to the Financial Statements *continued*

29. Contingent liabilities

(a) The company has entered into cross-guarantees with its bankers whereby it guarantees payment of bank borrowings in respect of subsidiary undertakings.

(b) The company has given performance guarantees in the normal course of business in respect of subsidiary undertaking obligations.

(c) Bank guarantees in favour of third parties amounting to £2,947,000 (1998 - £2,287,000) have been counter-indemnified by the group.

(d) The group has arranged external 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:

	1999	1998
	£000	£000
Within one year	7,584	2,122
Between one and two years	4,106	6,211
Between two and five years	3,983	5,812
	15,673	14,145

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

30. Related party transactions

The company has transactions with its subsidiary undertakings in the form of dividends and loans only.

Special Business at the Annual General Meeting

Resolutions 1 to 8 set out in the notice deal with the ordinary business to be transacted at the Annual General Meeting. Resolution 9 grants authority for the company to purchase its own shares. Resolution 10 relates to making various amendments to the company's Articles of Association.

Resolution 9 - Authority to purchase own shares (special resolution)

At the Annual General Meeting in 1999 the Board was given authority to purchase and cancel up to 6,096,415 ordinary shares of the company, representing ten percent of the company's then existing issued ordinary shares, through market purchases on the London Stock Exchange. The maximum price to be paid on any exercise of the authority was restricted to five percent above the average of the middle market quotation for ordinary shares for the five dealing days immediately preceding the day of a purchase.

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 revocation and replacement of this authority by way of a special resolution, details of which are also included in the notice of meeting on page 38. This authority would only be exercised if the directors expected it to result in an increase in earnings per share.

There are outstanding options to subscribe for a total of 4,702,103 ordinary shares of 25p each in the company. That number of shares, represents 7.7% of the company's existing issued share capital. If the company were to exercise in full the authority to purchase its own shares, which is proposed in Resolution 9, the 4,702,103 ordinary shares for which there are outstanding options to subscribe would represent 8.6% of the company's existing issued share capital as reduced by those purchases.

Resolution 10 - Amendment to Articles of Association (special resolution)

The amendment is proposed in order to implement a provision of the Combined Code - Principles of Good Governance and Code of Best Practice. Under the existing Article 75, one-third of the directors, or the number nearest to one-third of the directors (which may be more or less than one-third), must retire by rotation at each Annual General Meeting. Article 75 as amended would require a minimum of one-third of the directors to retire at each Annual General Meeting. The amendment is designed to ensure that all directors will be required to submit themselves for re-election at least every three years.

Article 1.(E) of the company's Articles of Association provides that each of the directors shall be paid a fee in practice as may be determined by the Board, provided that the aggregate of all fees so paid to directors shall not exceed £75,000 or such higher amount as may from time to time be decided by ordinary resolution of the company. It is proposed that the maximum sum of £75,000 set out in this article be changed to £250,000 per annum. This sum excludes amounts payable to directors under any other provision of the Articles of Association, such as remuneration to executive directors in their capacity as employees and directors' expenses. This amount is considered to reflect current market rates.