Pendragon Annual Report 2001

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Group Review

Financial summary

	2001	2000	1999	1998	1997
	£000	£000	£000	£000	£000
Total turnover	**1,728,363**	1,637,248	1,797,443	1,271,978	863,666
Group turnover	**1,549,175**	1,428,255	1,754,168	1,271,978	863,666
Gross profit	**219,775**	185,705	219,992	157,007	106,009
Total operating profit before exceptional items	**39,229**	24,977	25,553	26,977	20,449
Profit before taxation	**30,602**	4,137	19,159	18,663	15,076
Net assets	**143,649**	139,870	142,806	132,028	126,373
Net borrowings	**127,482**	137,557	103,548	48,199	25,240

Other financial information

Gross margin	**14.2 %**	13.0 %	12.5 %	12.3 %	12.3 %
Total operating margin (Note 1)	**2.5 %**	1.7 %	1.5 %	2.2 %	2.4 %
After tax return on equity (Note 2)	**14.3 %**	3.9 %	9.7 %	10.0 %	10.8 %
Basic earnings per share (Note 3)	**33.7 p**	9.0 p	21.9 p	21.2 p	21.2 p
Adjusted earnings per share (Note 4)	**30.1 p**	19.5 p	18.9 p	23.8 p	21.7 p
Dividend per share	**15.9 p**	14.7 p	13.2 p	12.0 p	10.7 p
Dividend cover (times)	**2.3**	0.6	1.7	1.8	1.8
Interest cover (times) (Note 5)	**3.0**	1.4	2.8	4.0	4.1
Gearing	**88.7 %**	98.3 %	72.5 %	36.5 %	20.0 %

Business development summary

Number of franchises	**168**	183	206	153	118
Number of trading locations	**143**	153	149	111	89

Note 1 Total operating margin is calculated after adding back goodwill amortisation and exceptional items.

Note 2 Return on equity is profit after tax as a percentage of average shareholders' funds.

Note 3 Earnings per share have been adjusted to reflect the effects of the 1997 rights issue.

Note 4 Earnings per share adjusted to eliminate the effects of notional interest, goodwill amortisation and exceptional items, see note 10 of the financial statements.

Note 5 Notional interest on deferred consideration has been excluded.

Note 6 The above table has been restated to reflect the adjustments made to prior years on adoption of FRS 19.

Chairman's Statement

Dear Shareholder

The group has had one of its most successful years of trading. Profits have improved significantly and margins are at their highest level for five years. We have further improved returns for shareholders by actively managing our property portfolio in order to realise significant profits from selective disposals.

Our motor car franchise portfolio is focused increasingly on the luxury car market. During the year we expanded our business overseas and have seen a particularly strong performance from our USA dealerships.

We have continued to successfully develop and apply innovative technology based services to our car retailing business. Apart from improving the operating efficiency of the group these services are being marketed to third party dealers and manufacturers.

Total turnover for the year ended 31 December 2001 was £1.7 billion compared to £1.6 billion in 2000. Operating profit before goodwill amortisation, exceptional items and business and property disposals is up by 54% to £42.6 million from £27.6 million in 2000. The group made a net profit on property and business disposals of £7.9 million compared to £1.0 million in 2000. Profit on ordinary activities before taxation increased to £30.6 million from £4.1 million last year.

Earnings per share increased to 33.7 pence compared to 9.0 pence in 2000. The Board has proposed a final dividend of 10.6 pence per share. Together with the interim dividend of 5.3 pence per share, this makes a total of 15.9 pence per share for the year, an increase of 8% when compared with the 14.7 pence per share in 2000.

We continued to have strong cash flow during the year which has enabled us to invest in new businesses whilst at the same time reduce our borrowings. Our borrowings decreased to £127.5 million at the end of 2001 from £137.6 million last year. Cash flow generated from operations was £62.4 million up from £42.3 million in 2000.

The UK car market was buoyant in 2001 fuelled by lower interest rates and consumer confidence. This was in stark contrast to the disorderly market which prevailed over the previous eighteen months caused by issues surrounding new car prices.

During the year we expanded our business overseas. In the USA our dealerships have continued to perform very well. We are seeking to expand our interests in this market where dealers enjoy significantly more favourable franchise contracts than in the UK. We also increased our investment in Germany. Unlike in the UK the German car market struggled in 2001 which consequently led to more disappointing results than we had expected at the commencement of the year. Our German dealerships are in good shape and will return to acceptable levels of profitability when the market for our products and the general economy there improves.

Draft proposals have recently been made by the European Commission on changes to block exemption regulations. The changes are due to take effect from 1 October 2002. We see the changes as broadly in favour of consumers and dealers. As a large well organised and well funded dealer group with national coverage in the UK, we will be able to take advantage of exciting new opportunities which will undoubtedly appear. Until these opportunities become clearer our net investment in the UK is unlikely to increase.

The excellent results which we have achieved this year would not have been possible but for the continued hard work and commitment of everyone in the Pendragon team to whom I, and my colleagues on the Board, extend our thanks once again.

Sir Nigel Rudd
Chairman
13 February 2002

Chief Executive's Report

The outstanding operating results for the year demonstrate the potential which has been created in the business over the last four years. This has been achieved by enhancing our franchise portfolio, representing fewer manufacturers, and by the development and deployment of new technology.

The table below summarises our results for the year.

	2001	2000
	£m	£m
Total turnover - group and share of joint venture	**1,728.4**	1,637.2
Total underlying operating profit	**42.6**	27.6
Exceptional costs	**-**	(6.4)
Goodwill amortisation	**(3.4)**	(2.6)
Total operating profit	**39.2**	18.6
Business disposals	**(2.3)**	(3.0)
Property disposals	**10.2**	4.0
Profit on ordinary activities before interest	**47.1**	19.6
Interest	**(16.5)**	(15.5)
Profit on ordinary activities before tax	**30.6**	4.1
Earnings per share	**33.7 p**	9.0 p
Dividend per share	**15.9 p**	14.7 p

Trading environment A number of factors influenced the car market in the UK in 2001. Lower interest rates combined with lower new car prices helped registrations of new cars to reach record levels. We have also seen more stability in used car prices. The steady growth over the past few years in the absolute number of motor cars on the road in the UK contributes to strong performance in the after sales area of the business. There was much talk of recession in the USA in 2001 and, together with the terrorist attacks in September, this led to a fragile US car market. A slowdown in the German economy placed the car market under severe pressure which resulted in reduced volumes and diluted margins.

Motor retail business

The principal activity of the business is the sale and servicing of motor cars. Across the whole group, new car sales account for 32% of gross profit, used car sales for 16% and after sales for 46%. These percentages have not changed significantly year on year. The business is split across three markets: UK, USA and Germany, each of which is explained in more detail below.

UK We currently operate 150 franchises in the UK from 133 locations. We have a national network of dealerships from Exeter in the south to Edinburgh in the north. Our activities are centred on specialist and luxury cars and we also operate Vauxhall and Ford dealerships in the volume sector.

The scale we have sought with our selected manufacturer partners in the UK was mostly achieved in 2000 so that in 2001 we have had relatively little dealership acquisition and disposal activity. We have, however, continued to focus on underperforming and non-core dealerships. We disposed of our remaining Saab, Toyota, Suzuki and Mazda dealerships during the year and no longer represent those manufacturers. We also closed seven Volvo locations in December. This was in full consultation with the manufacturer and is in line with their current representation plans. We continue to operate 12 Volvo dealerships.

In the year we undertook selective greenfield developments within our existing franchise territories. The most significant of these were our investments in a brand new BMW site at Taplow, Berkshire and five retail outlets for the new Mini, a car which had strong sales performance in the second half of 2001. We also opened a new Land Rover showroom in the West End of London. The results for the UK business can be summarised as follows:

£m	Turnover	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	1,265.7	170.0	13.4	43.6	3.5
Acquired	57.6	7.7	13.3	(1.0)	(1.8)
Disposed	55.2	7.4	13.3	(0.9)	(1.6)
Total 2001	**1,378.5**	**185.1**	**13.4**	**41.7**	**3.0**
Total 2000	1,344.5	169.8	12.6	29.4	2.2

Turnover in 2001 was maintained at a similar level to last year. The increase in activity due to the enlarged new car market in 2001 plus the contribution from business acquisitions more than offset the reduction arising from the disposal of volume franchises in 2000. Gross margins and operating margins have improved principally due to our moving the franchise portfolio up market and higher activity levels in our specialist franchises. All our motor car franchise groups showed an improvement in trading performance. The strongest franchise performance in the year was in our BMW group which almost doubled operating profit.

The results for acquired businesses shown in the above table principally relate to our Ford group for November and December 2001. These are seasonally the poorest trading months in the UK industry and therefore the operating loss of £1.0 million was in line with expectations. The Ford group, prior to November, had been part of our joint venture with Ford Motor Company.

The disposals during the year contributed turnover of £55.2 million and an operating loss of £0.9 million. The properties occupied by these businesses have been retained for either alternative use within the group or for separate disposal.

In December 2000 Mercedes-Benz notified us of a planned reorganisation of its UK dealership network. The new plan involved a reduction in the number of operators with each retained operator having a larger market territory. Discussions between existing operators and Mercedes resulted in an agreed process for the transfer of businesses within the network. A formula was put in place to calculate compensation to be paid to outgoing dealers for loss of business. We currently operate seven Mercedes passenger car dealerships. Mercedes has offered us a Yorkshire market area, which would require us to add to the two dealerships we currently operate in that area. Our five other UK Mercedes dealerships are in areas that will transfer to other operators.

Currently we plan to operate the five divestment sites until 30 June 2003. We are also in discussions with the owners of the two areas we will invest in, although as yet no dates of purchase have been agreed.

Ford dealerships joint venture Our share of the loss on ordinary activities before tax of our Ford joint venture, Stripestar, was £1.6 million compared to £4.0 million in 2000. The results for 2001 are for the first ten months only, since we acquired Ford Motor Company's 49% shareholding in Stripestar on 2 November 2001. Progress on improving the financial return on this business had proved difficult under the joint venture structure. Single ownership will enable a more rapid response to changes in the industry sector and provide focus on business and property reconfiguration, which will be an important element to improving financial returns.

Whilst the business continued to make a loss, the overall performance has improved significantly. Since 2 November 2001 we have closed the Chesham satellite and disposed of its freehold property. We expect further progress on changes to the format of the business during 2002 and continuing improvements in the operating performance.

USA We are very pleased with the progress we have made in building our business in the USA over the past eighteen months. Our dealerships, which are located in California, performed well in the year as summarised in the table below.

£m	Turnover	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	53.2	7.6	14.3	2.5	4.7
Acquired	49.0	8.4	17.1	1.9	3.9
Total 2001	**102.2**	**16.0**	**15.6**	**4.4**	**4.3**
Total 2000	24.5	3.3	13.5	1.1	4.5

Our original investment, Bauer Motors in Santa Ana acquired in July 2000, has performed ahead of our expectations and is one of the highest volume Jaguar dealers in the USA. We have recently developed a new site in San Juan Capistrano, the adjacent market area. The new dealership called South Coast Motors retails Jaguar cars and has contributed a small profit after only three months of start up trading which is extremely encouraging. Bauer Motors started to sell Aston Martin in January 2002 following the award of the franchise for Orange County.

In April 2001 we acquired Hornburg, the Jaguar and Land Rover dealer in Hollywood and Santa Monica, approximately 40 miles north of our Bauer business. Hornburg has contributed £1.9 million to operating profit in 2001 following a successful integration into the group. The gross margin at Hornburg is higher than at Bauer due to the sales mix comprising a greater percentage of service and parts business.

We operate four sales points and two separate service centres representing six franchises - four Jaguar, one Land Rover and one Aston Martin. We are actively seeking to expand our USA business and anticipate making further progress in 2002.

Germany Our business in Germany has grown over the last 18 months. In September 2000 we purchased dealerships in Munich and Anzing. This has been followed by the introduction of Land Rover to our Frankfurt Jaguar dealership. In March 2001, we acquired a new Land Rover business in Darmstadt, a town south of Frankfurt, for £2.1 million to which we have subsequently added Jaguar. In total we operate six sites with twelve franchises - six Jaguar, four Land Rover and two Aston Martin. The results for our German business can be summarised as follows:

£m	Turnover	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	32.1	4.7	14.7	(0.5)	(1.5)
Acquired	1.8	0.2	10.0	(0.1)	(6.7)
Total 2001	**33.9**	**4.9**	**14.5**	**(0.6)**	**(1.8)**
Total 2000	21.3	3.6	16.9	1.3	5.9

The performance of the German business has been disappointing for a number of reasons. The German economy has been depressed throughout the year and although the launch of the Jaguar X-Type in the second half of 2001 helped increase volumes it did not achieve the results we had anticipated.

We believe that these businesses can trade profitably in 2002 with appropriate manufacturer action. However, until we can see a return to more normal trading conditions in Germany further acquisitions there are unlikely.

Technology and support services This group of businesses provides a broad range of technology based services to both the Pendragon group and to outside customers. The services are provided by a number of specialist businesses which comprise:

- Pinewood Computers (dealership management systems provider)
- Pinewood Telecom (telecom provider)
- Car Fleet Control (fleet management software)
- Pinewood Security (remote security monitoring)
- C2K.co.uk (online contract hire)
- Pendragon i (contract hire)
- tins.co.uk (online car sales)
- Loxley House (centralised customer service provider)

Collectively, these businesses contributed 6% of the total group gross profit and made an operating profit of £2.5 million (2000: break even).

Technology Pinewood specialises in the provision of dealership management systems, telecommunications and remote security monitoring systems for the retail motor industry. It provides services to third parties as well as to Pendragon's operations. Subsequent to the dealer management system, CARS, being granted approved status by Ford, a significant level of integration with Ford's internal systems has been achieved. The Ford approval has enabled us to market the product more aggressively to Ford dealerships in the UK.

A new web based version of the dealership management system has been developed over the past two years. This product is due to be released in 2002 and we see great opportunity in the UK and overseas markets.

E commerce We operate two on line sales operations, C2K online and tins.co.uk, in addition to which we provide administration and back office processes to the Microsoft Carview website. The sites continue to generate significant traffic although the conversion rate to actual sales remains low. We believe this is generally the experience across the sector. During the year we opened a number of used car sites, branded as tins car supermarkets, to take advantage of the market exposure that the tins brand has had over the past two years and satisfy the consumer requirement for a physical presence. Although the venture is in its early stages the results are encouraging.

Contract hire The performance of the business improved during the year as the impact of the fall in used car residual values experienced during 1999 and 2000 worked its way out of the system. The business made an operating profit of £0.5 million (2000: loss of £0.4 million before repurchase commitment provision of £1.5 million). Predicting future used car residuals remains difficult especially with recent record sales of new cars in the UK. Consequently, we have allowed the fleet size to reduce to 8,127 cars at the end of 2001 compared to 8,993 cars a year earlier by not aggressively marketing for new business.

Loxley House Customer Service Centre The Customer Service Centre provides a broad range of services to the group including, call centre, customer retention, video sales functions and accounting services. During the year we commenced the provision of services to our Land Rover, Jaguar and Volvo businesses. Opportunities are being pursued to provide services to third party dealers and manufacturers.

Profits on sale of property and share buybacks During 2001 surplus property disposals generated £25.6 million proceeds and a net profit before tax of £10.2 million. We are continuing to manage our property portfolio in order to release value from properties which become, through the property management process, surplus to our business requirements. We currently have under offer properties with a market value of £5.2 million. In addition, we have two other significant properties being considered for alternative planning approval.

In last year's annual report we stated our intention to realise shareholder value created as a result of holding freehold property by utilising net profits from the disposal of surplus properties to repurchase the company's ordinary shares. It is currently the board's intention to continue with this policy. During 2001 we repurchased 1.7 million shares at a cost of £3.9 million.

Outlook We will be monitoring closely progress of the European Commission draft proposals on block exemption this year. Our initial reaction is that the proposals are favourable to car dealers, especially our group which has a large national UK network. We are particularly pleased that the Commission has introduced measures designed to improve dealers' commercial independence from manufacturers.

We have built a strong business platform over the past four years through the development and deployment of innovative technology solutions allied to a franchise portfolio which we have positioned at the upper end of the market. Our leadership team and business systems are strong and flexible and can respond very quickly to opportunities which should arise from changes to the way motor cars are retailed and serviced under new European Commission rules. Our acquisitions in the USA add a new dimension to the business and offer great potential for the future.

Overall we made significant progress in all respects in 2001 and the improved trading conditions which we enjoyed last year have continued into 2002. We look forward to another successful year.

Trevor Finn
Chief Executive
13 February 2002

Finance Director's Report

Turnover Total turnover of the group grew from £1,637.2 million for 2000 to £1,728.4 million for 2001. Total turnover includes our share of the turnover of the Ford joint venture which was £209.0 million in 2000 and, for the ten months of the joint venture in 2001, was £179.2 million. Excluding the results of the joint venture, group turnover was up by £120.9 million to £1,549.2 million. An explanation of the increase in group turnover is set out below:

	£m
2000 Group turnover	1,428.3
Increase in existing businesses	88.4
Impact of acquisitions	235.6
Impact of disposals	(203.1)
2001 Group turnover	**1,549.2**

The increase in turnover of the existing businesses of £88.4 million reflects the improved trading conditions in 2001. The increase in activity has mainly been in our specialist vehicle franchises with some of the increase coming through the introduction of new models such as the Jaguar X-Type and the BMW Mini. Higher activity levels in our specialist franchises have been offset by a reduction in low margin fleet sales in our volume dealerships during the year. Acquisitions increased turnover by £235.6 million year on year. This includes the turnover from acquisitions in 2001, namely Hornburg, Darmstadt and Stripestar, plus the first full year contribution from the dealerships acquired from Lex Service PLC in April 2000 and Bauer in July 2000. Disposals have reduced turnover by £203.1 million, which is principally the year on year impact of the 44 businesses that we disposed of in 2000.

Gross profit The group gross profit of £219.8 million in 2001 compares to £185.7 million in 2000. The margin has improved during the year to 14.2% from 13.0% in 2000. The increase in margin is primarily due to the change in mix of the franchise portfolio towards specialist brands. The split of gross profit by business activity is shown below:

	2001	2000
New cars	**32%**	33%
Used cars	**16%**	14%
After sales	**46%**	48%
Technology and support services	**6%**	5%
Total	**100%**	100%

Profit before tax The underlying operating profit of the business, arrived at prior to accounting for goodwill amortisation, exceptional items, and profits and losses on business and property disposals, amounted to £42.6 million in 2001 against £27.6 million in 2000. Operating margin on this basis was 2.5% compared to 1.7% for 2000. Three main factors contributed to the improvement in operating margin in the year. Firstly, our decision to dispose of under performing assets, principally the Fiat franchise, in 2000. Secondly, our acquisition of luxury franchises during 2000 and 2001, which typically have higher margins. Finally, there was an increase in the volume of units sold as private buyer confidence returned to the UK market. Underlying operating profit after interest was £26.1 million in 2001 compared to £12.1 million in 2000, an increase of £14.0 million. This is shown in the table below including a reconciliation to the profit before tax shown in the profit and loss account.

	2001	2000
	£m	£m
Underlying operating profit	**42.6**	27.6
Interest	**(16.5)**	(15.5)
Underlying operating profit after interest	**26.1**	12.1
Exceptional costs	**-**	(6.4)
Goodwill amortisation	**(3.4)**	(2.6)
Losses on business disposals	**(2.3)**	(3.0)
Profits on property disposals	**10.2**	4.0
Profit before tax	**30.6**	4.1

There are no operating exceptional costs in 2001. Last year there was a charge of £6.4 million, which consisted of £4.0 million in respect of vehicle repurchase commitments, £1.8 million costs in respect of the set up of our Customer Service Centre and £0.6 million of costs in respect of integrating the Lex dealerships purchased in April 2000.

Our repurchase commitments have fallen during the year as the motability scheme under which we underwrote residual values ends in February 2002. Actual losses incurred during the year selling these returned vehicles have been in line with the level of provisions established in 2000. After February the remaining repurchase commitments are those in respect of our contract hire business. Repurchase commitments at 31 December 2001 were £31.7 million (2000 : £51.8 million).

Goodwill amortisation was £3.4 million in 2001 compared to £2.6 million in 2000. The increase in goodwill amortisation is a result of the acquisitions over the last 24 months, primarily the dealerships acquired from Lex Service PLC, Bauer, Hornburg and Stripestar. Goodwill is amortised over a ten year period.

The losses on business disposals in 2001 of £2.3 million arose mainly on the closure of seven Volvo dealerships at the year end. Profit before tax of £10.2 million was realised in the year through the sale of property which was surplus to the requirements of the business. In 2000 the profit on property disposals was £4.0 million before tax. We utilised £3.9 million to buy back 1.7 million of the company's ordinary shares. The full year effect on earnings of the share buyback in 2001 is 0.5 pence per share.

The total interest charge for the year rose to £16.5 million from £15.5 million in the previous year. These figures include bank interest of £11.3 million in 2001 and £10.8 million in 2000. The rise in bank interest in the year is due to increased average borrowings. Group interest cover was 3.0 times compared to 1.4 times in 2000 with cover on bank interest at 4.4 times in 2001.

Tax The overall tax rate for the year was 33.9%. The rate is higher than the standard UK tax rate primarily due to the levels of depreciation and goodwill charges incurred by the group for which no tax relief is available.

The group has adopted Financial Reporting Standard 19 'Deferred Tax' in advance of the mandatory date. The adoption of the new policy has been made by way of an adjustment to previously published results as though the revised policy had always been applied. The effect is to increase shareholders' funds at 31 December 2000 by £3.2 million because deferred tax assets are now recognised on the balance sheet whereas under our previous policy only deferred tax liabilities were recognised. In addition, the profit after tax for the year ended 31 December 2000 has been increased by £2.9 million.

Earnings per share Reported earnings increased by 24.7 pence from 9.0 pence in 2000 to 33.7 pence in 2001. The prior year earnings per share has been restated from 4.2 pence to 9.0 pence due to the adoption of Financial Reporting Standard 19 as noted earlier. Earnings per share excluding goodwill amortisation and non trading items were 30.1 pence compared to 19.5 pence for 2000 (14.7 pence before restatement).

Financing Borrowings at 31 December 2001 reduced to £127.5 million from £137.6 million at the end of 2000. Gearing at the year end was 88.7%, down from 98.3% at the end of 2000. The reduction in borrowings is after bringing £21.3 million on balance sheet in respect of the borrowings acquired with the purchase of Ford's share of the joint venture.

Cash flow generated from operations was £62.4 million, which is an increase of £20.1 million from the £42.3 million generated in 2000. During the year we continued to focus on working capital management. A reduction of £8.0 million was achieved in 2001 compared to £7.1 million reduction last year. Net capital expenditure excluding the proceeds from the sale of properties was £9.3 million compared to £19.5 million in 2000. The proceeds from property disposals amounted to £25.6 million in the year.

During the year we made further investments in new businesses. Acquisitions in the year amounted to £18.6 million.

Dividends The proposed final dividend of 10.6 pence per share will bring the total dividend for the year to 15.9 pence, an increase of 8.2%. Dividend cover is 2.3 times (2000 : 0.6 times).

Treasury policy and procedures Group treasury matters are managed within policy guidelines set by the Board with prime areas of focus being liquidity, interest rate and foreign exchange exposure. Management of these areas 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 Board does not permit the speculative use of derivatives.

Liquidity management The group is financed by bank loans, manufacturer loans and operating cash flow. Committed facilities are maintained at levels in excess of planned requirements and are in addition to short term uncommitted facilities that are also available to the group. Whilst each business within the group is responsible for its own day to day cash management, the cash position is monitored daily by the group treasury department. We refinanced committed facilities expiring during the year with a new medium term committed facility of £80 million, expiring in July 2004. Further short term committed facilities of £10 million were also put in place.

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 movements.

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 USD 55 million 6.93% loan notes into floating rate sterling and has borrowed Euro 8 million and USD 24 million against its investments in overseas subsidiaries.

Future obligations resulting from orders placed to be satisfied in foreign currencies are hedged by acquiring these currencies under forward contracts. Forward contracts outstanding at 31 December 2001 amounted to Euro 1.9 million.

Joint venture accounting treatment On 2 November 2001 we acquired the shares owned by Ford Motor Company Limited in the joint venture company Stripestar. On completion, Pendragon owned 100% of Stripestar and assumed its borrowings. For the first 10 months of the year the joint venture was accounted for under the gross equity method in accordance with Financial Reporting Standard 9. For this period of time Pendragon's share of the turnover of Stripestar Limited is presented separately on the face of the profit and loss account and 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.

Since 2 November 2001, the results of Stripestar Limited have been fully consolidated within the profit and loss account and the balance sheet. This change in accounting treatment is the primary factor for the increase in working capital items (stock, debtors and creditors) when comparing the 2001 and 2000 group balance sheets.

Summary Operating cash flow and property disposals in the year enabled borrowings to be reduced whilst further investments have been made in new businesses. Both interest and dividend cover were at acceptable levels in the year and earnings grew strongly. The business continues to be well financed with strong asset backing.

David Forsyth
Finance Director
13 February 2002

Directors and Advisors

Sir Nigel Rudd (55) Non-executive Chairman
Appointed non-executive chairman of Pendragon in October 1989 prior to the demerger from Williams PLC. He is non-executive chairman of Kidde plc, which demerged from Williams PLC during 2000. He is non-executive chairman of Pilkington plc, non-executive deputy chairman of The Boots Company PLC and a non-executive director of Barclays PLC.

Neil Hannah (64) 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 (63) Non-executive Director
Joined Pendragon in October 1989 prior to the demerger from Williams PLC. He is a director of a number of private companies. Mr Rhodes is the senior independent non-executive director of the company.

John Holt (62) Non-executive Director
Joined Pendragon in November 1999. Prior to his retirement from PricewaterhouseCoopers in 1998, he was 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. Mr Holt is chairman of the Audit Committee.

Trevor Finn (44) 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 PLC. He is also a non-executive director of Falcon Investment Trust PLC.

Martin Casha (41) Chief Operating Officer
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 (45) Finance Director
Joined Pendragon in October 1997 from Lonrho PLC where, since 1986, he held a number of senior finance positions. He is a chartered accountant.

Hilary Sykes (41) Corporate Services Director
Hilary Sykes is a solicitor and prior to joining Pendragon, advised the company as a corporate lawyer with the company's principal solicitors, Edwards Geldard. She joined Pendragon in 1994 as company secretary and became a director in April 1999.

Secretary
Hilary Sykes

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Royal Bank of Scotland

Stockbrokers
Old Mutual Securities Limited

Auditors
KPMG Audit Plc

Solicitors
Edwards Geldard

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

Results and dividends The results of the group for the year are set out in the financial statements on pages 27 to 51. The directors recommend a final dividend for the year ended 31 December 2001 of 10.6 pence per ordinary share which, together with the interim dividend of 5.3 pence per share paid to shareholders on 26 October 2001, will make a total for the year of 15.9 pence per share. Subject to approval at the Annual General Meeting, the final dividend will be paid on 16 April 2002 to shareholders appearing on the register at the close of business on 15 March 2002. Total dividends amount to £8,940,000 leaving retained profit for the year of £11,287,000. 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 4 to 11. The dealership network has been extended by the businesses acquired during the year ended 31 December 2001 set out below:

Company / Business	Location	Activity / Franchise	Date of Acquisition
SGZ Darmstadt	Darmstadt, Germany	Land Rover	March 2001
Homburg Jaguar	California, USA	Jaguar	April 2001
Land Rover Beverley Hills	California, USA	Land Rover	April 2001
Douglas Graham	Windsor	BMW / Mini	November 2001
Stripestar Limited	Various	Ford	November 2001

Directors The directors of the company are listed on page 15. Mr S N Hopewell resigned as a director on 26 November 2001. In accordance with the Articles of Association of the company, Mr W W Rhodes, Mr D R Forsyth and Miss H C Sykes retire by rotation and, being eligible, offer themselves for re-election. Mr Rhodes has terms of appointment as a non-executive which contain no notice period. Each of Mr D R Forsyth and Miss H C Sykes has a service contract with the company with an unexpired period of twelve months. Details of directors' service contracts and directors' interests in shares are included in the Report on Remuneration on pages 21 to 24.

Substantial shareholdings At 13 February 2002 the directors had been advised of the following interests in the shares of the company.

Shareholder	Shares	%
Fidelity International Limited	6,002,100	10.13
Jupiter Asset Management Limited	5,607,776	9.47
Standard Life Nominees Limited	3,824,316	6.46
Schroder Unit Trust Funds	2,628,214	4.44
Eaglet Investment plc	1,840,101	3.11

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. The company was awarded Investors in People accreditation in March 1999. Financial participation is further encouraged through the company's Sharesave Scheme and 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, including regular video briefings.

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. Four employee representatives, who broadly reflect the businesses within the group from which scheme beneficiaries originate, serve as directors of the corporate trustee.

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 £11,517. 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 2001 was 32 days (2000 : 22 days). The company had no trade creditors.

Repurchase of Shares Details of movements in the company's share capital are given in note 22 to the financial statements. At the Annual General Meeting on 23 April 2001, shareholders authorised the company to repurchase its own 25p ordinary shares in the market. Details of share repurchases made during the year are given in note 22 to the financial statements.

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

HC Sykes

By order of the Board
H C Sykes
Secretary
13 February 2002

Corporate Governance

Compliance Pendragon PLC is committed to maintaining high standards of corporate governance in line with the Financial Services Authority ('FSA') Listing Rules together with the related Principles of Good Governance and Code of Best Practice (the 'Combined Code') now adopted by the FSA. The company has complied with the Combined Code throughout the year. A summary of the Company's procedures for applying the principles of the Combined Code appears below.

Board of Directors The Board of Directors, comprising four executive and four non-executive directors, meets regularly throughout the year. Brief biographical details of each of the directors appear on page 15. Each of Sir Nigel Rudd, Neil Hannah, John Holt and William Rhodes 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 at least nine times during the year 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 and all directors will have submitted themselves for re-election every three years. 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 21 to 24 below.

Audit Committee The chairman of the committee is Mr John Holt. The committee is composed of the non-executive directors of the company as shown on page 15 above 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 review the proposed financial statements of the company prior to publication
- To review the activities of the auditors and to make recommendations to the Board concerning the appointment, resignation, removal or re-appointment of auditors
- To review the independence and objectivity of the auditors and matters relating to the provision of non-audit services
- To monitor and review the activities of the internal audit department, including receiving reports thereon, and to ensure adequate levels of staffing
- To review and consider the cost effectiveness of the external audit and the auditors fee and make recommendations to the Board concerning the auditors fees
- To ensure the company's systems of financial and operational controls are adequate and functioning properly; to commission investigations into any control weaknesses; to consider the results of any such investigations and to make recommendations to the Board to act upon identified weaknesses
- To ensure that the company has adequate systems to ensure comprehensive legislative compliance
- To ensure that the company's approach to risk management and control is systematic and structured, ensure that its systems are appropriate to the levels of risk to which the company is exposed, and to carry out monitoring of controls and systems sufficient to satisfy itself that their implementation is effective.

Information and advice The directors regularly receive financial and other information concerning the group's activities and performance. Each director is entitled to receive information to enable him to make informed judgments 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' terms of appointment also permit them, 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 During 2001, both private and institutional shareholders have been invited to tour the company's Loxley House facility and view the technological advances now incorporated into the company's business model for its car retail operations. The Board is always prepared, where practicable, to enter into dialogue with shareholders based on mutual understandings of their respective objectives and being mindful of the company's obligations under the Listing Rules. 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. The chairman's letter contains a summary of the business at the Annual General Meeting, at which 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 level of proxies received for and against the resolution and any abstentions will be disclosed at the meeting.

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 introduced a requirement that the directors review the effectiveness of all internal controls.

In discharging this function, the Board has investigated and completed a thorough review during the year of all relevant risk areas and controls under the following headings:-

- financial
- physical
- transactional
- technological
- socio-economic
- political / regulatory

The Board has adopted a risk-based approach to establishing the system of internal control. Operational management is charged with the ongoing responsibility for identifying and evaluating risks facing the group's businesses and for putting in place procedures and practices to mitigate and monitor risks. The internal control systems are designed to meet the group's particular needs and the risks to which it is exposed. Operational management is supported by a multi-disciplinary team from the central finance, internal audit, information technology, legal and human resources functions in the development and communication of policies and procedures for risk control.

Internal audit reports its findings on a regular basis to the Board of Directors and to the Audit Committee up to three times a year. There is a direct line of communication between the head of internal audit and the Audit Committee.

Major commercial, technological and financial risks are assessed at the Board's annual strategic planning meeting, which reviews the company's principal areas of business and considers any adaptations to the company's business strategy required to meet specific commercial and other risks or threats. The conclusions are incorporated in the company's business strategy and formally adopted by the Board.

The Board has established a strong control framework within which the group operates. This contains the following elements:-

Management structure Pendragon is a large multi-franchise retailer of motor vehicles and ancillary services operating through a franchise grouping structure. Each franchise or business head participates in a monthly operational meeting attended by the chief operating officer. Best practice meetings chaired by the chief operating officer are held monthly, at which key operating controls or improvements to their implementation are discussed.

Communication There is an embedded culture of openness of communication between management and the Board on matters relating to risk and control. Face-to-face and video-conference meetings of all operational teams occur regularly. Processes and controls devised centrally are communicated across the group by means of control manuals and procedural checklists and are reinforced at operational meetings and via video communications.

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.

Functional reporting The group has identified a number of key areas which are subject to periodic reporting to the Board. These include treasury, corporate taxation matters and value added tax. Other areas are given particular emphasis through the operation of appropriately constituted teams which meet regularly, and report to the Board via a designated executive director. These include the following central functions: group finance, health and safety, human resources, internal audit, insurance, legal, payroll and property.

Risk control A risk control group, consisting of representatives from the finance, internal audit, information technology and legal teams, with responsibility for the development and monitoring of the group's systems of internal control, meets monthly and reports regularly to the directors via the Audit Committee. Its remit includes the identification and assessment of new risks facing the group's businesses, business continuity planning and the establishment of policies and procedures for risk control for implementation in the group's businesses. It has the power to co-opt representatives from the group's operating businesses to assist in the design of new systems of control and the improvement of existing ones. A twice-yearly review of the risk control group's work is included in the Board's agenda.

Since 1 October 2000, processes, responsibilities and monitoring mechanisms and frequencies have been defined and communicated to the directors and executives concerned and a regular pattern of meetings and reporting requirements established to ensure that the Board is sufficiently informed of risk management measures to enable them to review the effectiveness of the group's systems of internal control.

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 as shown on page 15 above 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. Remuneration packages for executive directors are structured to include a performance related element, linked to corporate and individual objectives.

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 1,782,397 shares under the Pendragon PLC Sharesave Schemes as at 31 December 2001.

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 certain limited circumstances, the executive directors' service agreements provide for a compensation payment equal to the emoluments for the unexpired period of notice, including the equivalent of up to one annual bonus payment. Where applicable, this would be in full and final settlement of all claims other than in respect of share options and pension arrangements. The company reserves the right to make payment in lieu of notice but is not obliged to do so. Each non-executive director has a service contract with the company providing for appointment for a one or two year period with no notice periods required by either party. The appropriateness of reappointments of non-executive directors is reviewed by the Board.

Salaries Salaries are reviewed annually by the Remuneration Committee as from 1 January. 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 performance of the company against its principal objectives and the individual performance of the director over the immediately preceding financial year. Awards of bonus are limited to 70% of the director's salary for outstanding performance. The bonus criteria for 2001 were set by the Remuneration Committee early in the year: up to 42% of bonus was payable based on achievement of financial targets and, up to 28% based on individual performance. These levels are not such as to render the total remuneration unreasonable or excessive in the context of the company's sector. The salary, together with any bonus, is the only pensionable element of the executive directors' remuneration packages. The Combined Code Schedule A requires that in general, annual bonuses should not be 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. Fees for non-executive directors are agreed by the Board.

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 "1999 Schemes"), each of which was approved at the company's 1999 Annual General Meeting. In accordance with the terms of the 1999 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.

Details of options held by directors are shown below.

	At 31.12.00 and at 31.12.01	Exercise price (pence)	Exercise period
Sir Nigel Rudd	-	-	-
T G Finn	220,000	194.00	03.03.02 to 02.03.09
	800,000	98.50	08.03.03 to 07.03.10
	*16,189	113.50	01.07.07 to 31.12.07
M S Casha	35,492	295.84	29.04.97 to 28.04.04
	80,000	194.00	03.03.02 to 02.03.09
	250,000	98.50	08.03.03 to 07.03.10
	*8,535	113.50	01.07.05 to 31.12.05
D R Forsyth	80,000	194.00	03.03.02 to 02.03.09
	*9,926	170.00	01.07.04 to 31.12.04
H C Sykes	10,000	308.00	17.03.01 to 16.03.08
	**10,000	127.00	09.10.01 to 08.10.08
	10,000	127.00	09.10.01 to 08.10.08
	20,000	194.00	03.03.02 to 02.03.09
	*1,331	293.00	01.07.03 to 31.12.03
	75,000	98.50	08.03.03 to 09.03.10
	*12,949	113.50	01.07.07 to 31.12.07
N G Hannah	-	-	-
W W Rhodes	-	-	-
J H Holt	-	-	-
Total	1,639,422		

* Options granted under the Pendragon 1998 Sharesave Scheme.

** Parallel grant.

The middle market price of Pendragon PLC ordinary shares at 31 December 2001 was 223.5 pence, and the range during the year was 169.5 pence to 267.0 pence.

During the year, 13,000 options were exercised by S N Hopewell (who resigned as a director on 26 November 2001), for a consideration of £22,224. At the date of exercise, the company's share price was 222.0 pence. Accordingly, Mr Hopewell was able to realise a gain of £6,637. All other share options held by Mr Hopewell lapsed on his resignation.

Details of all share options granted during the year are set out in note 22 to the financial statements on page 46 below.

Directors' remuneration

	Salary / Fees £000	Bonus £000	Benefits £000	**Total emoluments exc. pensions 2001 £000**	Total emoluments exc. pensions 2000 £000	**Pension contributions 2001 £000**	Pension contributions 2000 £000
Executive directors							
T G Finn	338	162	29	**529**	367	-	43
M S Casha	150	72	16	**238**	167	-	18
D R Forsyth	125	23	23	**171**	148	-	16
S N Hopewell*	205	-	15	**220**	155	-	16
H C Sykes	98	28	19	**145**	101	-	9
Non-executive directors							
Sir Nigel Rudd	70	-	14	**84**	87	-	-
N G Hannah	28	-	-	**28**	28	-	-
W W Rhodes	15	-	13	**28**	28	-	-
J H Holt	28	-	-	**28**	28	-	-
Total 2001	1,057	285	129	**1,471**	-	-	-
Total 2000	972	-	137	-	1,109	-	102

* Mr Hopewell resigned on 26 November 2001. Included within his salary for the year is £78,000 paid as compensation for loss of office.

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 2001 he earned benefits to the value of £20,000 (2000 : £20,000) in the form of fees. As chairman of commercial property surveyors Innes England Limited, Mr Hannah is interested in contracts for the provision of their services to the company, which during the year had an aggregate value of £38,000 (2000 : £60,000).

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 the chairman. The management of the Plan's assets is delegated to specialist independent investment managers and there is no direct investment in 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 2001 £000	Total annual accrued pension entitlement at 31 December 2000 £000
T G Finn	5	66	125	116
M S Casha	2	16	41	38
D R Forsyth	2	10	7	5
S N Hopewell	2	24	32	28
H C Sykes	1	7	9	8

The pension benefits shown are those which would be paid annually on retirement, based on service to 31 December 2001. The benefits do not allow for any retained benefits which the directors may have relating to previous employment. The increase in the accrued pension for the year ended 31 December 2001 excludes the statutory revaluation on the accrued pension at 31 December 2000.

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 to the Inland Revenue earnings cap imposed by the Finance Act 1989 (currently £95,400 per annum).

The pension benefits exclude any additional pension purchased by additional voluntary contributions.

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 2001 were as set out below:

	31 December 2001 Shares	31 December 2000 Shares
Sir Nigel Rudd	848,610	848,610
T G Finn	926,251	926,251
M S Casha	81,000	81,000
N G Hannah	72,000	72,000
W W Rhodes	262,669	252,669
D R Forsyth	87,595	87,595
H C Sykes	10,000	10,000
J H Holt	10,000	10,000

There were no changes to the directors' interests shown above between 31 December 2001 and the date of this report.

Sir Nigel Rudd
Chairman
Remuneration and Nominations Committee
13 February 2002

Director's 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; and
- 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.

Independent Auditors' Report to the Members of Pendragon PLC

We have audited the financial statements on pages 27 to 51

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report. As described on page 25, 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 Financial Services Authority, 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 1985. 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 page 18 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 2001 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
13 February 2002

Consolidated Profit and Loss Account | Year ended 31 December 2001

	Notes	2001 Exisiting operations £000	2001 Acquisitions £000	**2001 Total £000**	restated (note 1) 2000 £000
Total turnover - group and share of joint venture	2,3	1,620,047	108,316	**1,728,363**	1,637,248
Less: share of joint venture turnover		(179,188)	-	**(179,188)**	(208,993)
Group turnover		1,440,859	108,316	**1,549,175**	1,428,255
Cost of sales	3	(1,237,951)	(91,449)	**(1,329,400)**	(1,242,550)
Gross profit		202,908	16,867	**219,775**	185,705
Net operating expenses	3	(163,255)	(16,637)	**(179,892)**	(164,087)
Group operating profit		39,653	230	**39,883**	21,618
Operating profit before goodwill amortisation		42,702	555	**43,257**	24,210
Goodwill amortisation		(3,049)	(325)	**(3,374)**	(2,592)
Group operating profit		39,653	230	**39,883**	21,618
Share of operating loss in joint venture		(654)	-	**(654)**	(3,072)
Total operating profit		38,999	230	**39,229**	18,546
Loss on disposal of businesses	3			**(2,302)**	(3,023)
Profit on disposal of fixed assets	3			**10,201**	4,036
Profit on ordinary activities before interest				**47,128**	19,559
Net interest payable					
Group	7			**(15,617)**	(14,483)
Joint venture				**(909)**	(939)
				(16,526)	(15,422)
Profit on ordinary activities before taxation				**30,602**	4,137
Taxation	8			**(10,375)**	1,354
Profit for the financial year				**20,227**	5,491
Dividends	9			**(8,940)**	(8,553)
Retained profit / (loss) for the financial year	23			**11,287**	(3,062)
Earnings per ordinary share	10			**33.7 p**	9.0 p
Diluted earnings per ordinary share	10			**32.8 p**	8.9 p

All amounts relate to continuing operations.

Movements in reserves are shown in note 23.

The notes on pages 32 to 51 form part of these financial statements.

Consolidated Balance Sheet | At 31 December 2001

	Notes	2001 £000	2001 £000	restated (note 1) 2000 £000	restated (note 1) 2000 £000
Fixed assets					
Goodwill	12		27,500		23,684
Tangible assets	13		173,773		183,046
Investments	14				
Investments in joint venture:					
Share of gross assets and preference shares		-		71,597	
Share of gross liabilities		-		(62,537)	
		-		9,060	
Other investments		5,091		3,613	
			5,091		12,673
			206,364		219,403
Current assets					
Stocks	15		267,160		160,594
Repurchase commitments	16		31,675		51,808
Debtors	17		95,166		80,799
Cash at bank and in hand			14,707		-
			408,708		293,201
Creditors: amounts falling due within one year	18		(327,516)		(279,482)
Net current assets			81,192		13,719
Total assets less current liabilities			287,556		233,122
Creditors: amounts falling due after more than one year	19		(142,996)		(91,881)
Provisions for liabilities and charges	21		(911)		(1,371)
Net assets			143,649		139,870
Capital and reserves					
Called up share capital	22		14,812		15,242
Share premium account	23		74,716		74,697
Other reserves	23		10,769		14,798
Profit and loss account	23		43,352		35,133
Equity shareholders' funds			143,649		139,870

Approved by the Board of directors on 13 February 2002 and signed on its behalf by:

T G Finn
Chief Executive

D R Forsyth
Finance Director

The notes on pages 32 to 51 form part of these financial statements.

Consolidated Cash Flow Statement | Year ended 31 December 2001

	Notes	2001 £000	2000 £000
Cash flow from operating activities	25	**62,420**	42,318
Interest received		**391**	324
Interest paid		**(14,711)**	(15,238)
Returns on investments and servicing of finance		**(14,320)**	(14,914)
Taxation paid		**(1,746)**	(4,515)
Payments to acquire tangible fixed assets		**(40,307)**	(35,833)
Payments to acquire investments		**(1,490)**	(2,113)
Receipts from sales of tangible fixed assets		**58,042**	44,294
Receipts from sales of investments		**12**	-
Capital expenditure and financial investment		**16,257**	6,348
Business acquisitions	24	**(18,580)**	(91,343)
(Borrowings) / cash of acquired businesses	24	**(21,303)**	974
Business disposals		**-**	35,241
Acquisitions and disposals		**(39,883)**	(55,128)
Equity dividends paid		**(8,727)**	(8,118)
Net cash flow before financing		**14,001**	(34,009)
Financing			
Issue of ordinary share capital	22	**22**	-
Redemption of issued ordinary share capital	22	**(3,930)**	-
Repayment of unsecured bank loans		**(73,294)**	(6,000)
Repayment of loan notes		**(203)**	(655)
Unsecured bank loans		**90,000**	25,211
Net cash inflow from financing		**12,595**	18,556
Movement in cash and overdrafts	26	**26,596**	(15,453)
Reconciliation of net cash flow to movement in net debt			
Movement in cash and overdrafts		**26,596**	(15,453)
Exchange differences		**(18)**	-
Cash inflow from increase in debt financing		**(16,503)**	(18,556)
Movement in net debt in the year		**10,075**	(34,009)
Net debt at 31 December 2000		**(137,557)**	(103,548)
Net debt at 31 December 2001		**(127,482)**	(137,557)

The notes on pages 32 to 51 form part of these financial statements.

Group Statement of Total Recognised Gains and Losses

Year ended 31 December 2001

	2001 £000	restated 2000 £000
Profit for the financial year	**20,227**	5,491
Currency translation adjustments relating to net investments in foreign enterprises	**438**	(379)
Total recognised gains and losses relating to the year	**20,665**	5,112
Prior year adjustment (see note 1(i))	**3,234**	
Total gains and losses since last annual report	**23,899**	

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

Year ended 31 December 2001

	2001 £000	restated 2000 £000
Profit for the financial year	**20,227**	5,491
Dividends	**(8,940)**	(8,553)
	11,287	(3,062)
Exchange adjustment	**438**	(379)
Goodwill written back	**-**	505
Issue of ordinary shares	**22**	-
Repurchase of ordinary shares	**(3,930)**	-
Unrealised profit eliminated on acquisition of Stripestar Limited	**(4,038)**	-
Net addition / (reduction) to shareholders' funds	**3,779**	(2,936)
Opening shareholders' funds	**139,870**	142,806
Closing shareholders' funds	**143,649**	139,870

The notes on pages 32 to 51 form part of these financial statements.

Company Balance Sheet | At 31 December 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Investments	14	**254,656**	254,656
Current assets			
Debtors	17	**2,306**	2,737
Cash at bank and in hand		**291**	-
		2,597	2,737
Creditors: amounts falling due within one year	18	**(55,805)**	(46,708)
Net current liabilities		**(53,208)**	(43,971)
Total assets less current liabilities		**201,448**	210,685
Creditors: amounts falling due after more than one year	19	**(37,006)**	(37,209)
Net assets		**164,442**	173,476
Capital and reserves			
Called up share capital	22	**14,812**	15,242
Share premium account	23	**74,716**	74,697
Other reserves	23	**14,297**	13,863
Profit and loss account	23	**60,617**	69,674
Equity shareholders' funds		**164,442**	173,476

Approved by the Board of directors on 13 February 2002 and signed on its behalf by:

T G Finn
Chief Executive

D R Forsyth
Finance Director

The notes on pages 32 to 51 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.

(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 using the acquisition method of accounting. 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 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 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 The group has adopted Financial Reporting Standard 19 (FRS 19) during the year, in advance of the mandatory effective date. Prior to the adoption of FRS 19, the group provided for deferred taxation under the liability method, only to the extent that it was probable that a liability or asset would crystallise in the foreseeable future. As a result of FRS 19, the new policy requires that full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

(i) tax payable on the future remittance of the past earnings of subsidiaries, associates and joint ventures is provided only to the extent that dividends have been accrued as receivable or a binding agreement to distribute all past earnings exists;

(ii) deferred tax is not recognised on the difference between book values and fair values of non-monetary assets arising on acquisitions unless there is a binding agreement to sell such an asset and the gain or loss expected to arise has been recognised; and

(iii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

The adoption of the new policy has been made by way of an adjustment to previously published results as though the revised policy had always been applied by the group.

The previously published figures at 31 December 1999 and 31 December 2000 have been restated as follows:

(i) the deferred tax balance has been reduced by £114,000 and £2,491,000 respectively and has been transferred to debtors from provisions for liabilities and charges;

(ii) investment in the joint venture has been increased by £198,000 and £743,000 respectively.

These changes have resulted in increases in shareholders' funds of £312,000 and £3,234,000 respectively. The profit after tax for the year ended 31 December 2000 has been increased by £2,922,000 and decreased by £1,989,000 in the year ended 31 December 2001.

(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. The group has adopted the disclosure requirements of Financial Reporting Standard 17.

1. Accounting policies (continued)

(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 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) Leases Assets acquired under finance leases are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the capital balance outstanding. Rentals received / paid under operating leases are credited / charged to the profit and loss account in the year in which they are incurred.

(p) 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.

2. Segmental analysis

	United Kingdom		Overseas		Total	
		restated		restated		restated
	2001	2000	**2001**	2000	**2001**	2000
	£000	£000	**£000**	£000	**£000**	£000
Turnover						
Group turnover by origin	**1,413,009**	1,382,442	**136,166**	45,813	**1,549,175**	1,428,255
Group share of turnover of joint venture	**179,188**	208,993	**-**	-	**179,188**	208,993
Total turnover	**1,592,197**	1,591,435	**136,166**	45,813	**1,728,363**	1,637,248
Profit before taxation						
Segment profit	**30,341**	6,335	**1,824**	1,813	**32,165**	8,148
Group share of loss before taxation of joint venture	**(1,563)**	(4,011)	**-**	-	**(1,563)**	(4,011)
Total profit before taxation	**28,778**	2,324	**1,824**	1,813	**30,602**	4,137
Net Assets						
Segment net assets	**121,876**	117,719	**21,773**	13,091	**143,649**	130,810
Group share of the net assets of joint venture	**-**	9,060	**-**	-	**-**	9,060
Total net assets	**121,876**	126,779	**21,773**	13,091	**143,649**	139,870

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

	Existing operations	**Acquisitions**	**2001 Total**	2000 Total
	£000	**£000**	**£000**	£000
Group turnover	1,440,859	108,316	**1,549,175**	1,428,255
Cost of sales	(1,237,951)	(91,449)	**(1,329,400)**	(1,242,550)
Gross profit	202,908	16,867	**219,775**	185,705
Net operating expenses:				
Distribution costs	(95,415)	(8,644)	**(104,059)**	(95,682)
Administrative expenses	(71,350)	(7,993)	**(79,343)**	(70,887)
Other operating income	3,510	-	**3,510**	2,482
	(163,255)	(16,637)	**(179,892)**	(164,087)
Group operating profit	39,653	230	**39,883**	21,618

3. Group turnover, cost of sales, net operating expenses, operating profit and exceptional items (continued)

There were no exceptional items during the year. During 2000 exceptional costs of £6,431,000 were included within administrative expenses. £654,000 was in respect of costs incurred in the reorganisation following the acquisition from Lex Service PLC, £1,767,000 of one off costs incurred during the set up of a centralised customer service centre and a £4,010,000 provision reflecting the estimated reduction in net realisable value of vehicles subject to repurchase commitments, which included £510,000 in respect of the joint venture.

Profit on disposal of fixed assets consists principally of profits made on sale of surplus properties. Losses on business disposals arose mainly from the disposal of motor vehicle dealerships.

4. Operating profit

Operating profit has been arrived at after charging:	**2001 £000**	2000 £000
Depreciation of tangible fixed assets	**11,115**	10,929
Amortisation of goodwill	**3,374**	2,592
Auditors' remuneration:		
Audit fees - group	**219**	229
Audit fees - parent company	**8**	8
Operating lease rentals payable:		
Hire of plant and machinery	**930**	553
Property	**7,433**	4,639
Operating Lease rentals receivable:		
Property rentals from joint venture	**1,012**	1,739

Payments to KPMG Audit Plc and its associates during the year ended 31 December 2001 for non audit services in relation to the group amounted to £385,000 (2000 - £259,000). The non audit fees for the year ended 31 December 2001 related mainly to fees in connection with the acquisition of Stripestar Limited. Non audit fees for 2000 related mainly to the acquisition of dealerships from Lex Service PLC.

5. Employees

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

	2001 number	2000 number
Sales	**1,708**	1,720
After sales	**2,890**	2,904
Administration	**969**	968
	5,567	5,592

Costs incurred in respect of these employees were:

	2001 £000	2000 £000
Wages and salaries	**104,775**	98,491
Social security costs	**9,849**	8,585
Other pension costs	**839**	209
	115,463	107,285

6. Directors

Total emoluments of directors (including pension contributions) amounted to £1,471,000 (2000 - £1,211,000).
Information relating to directors' emoluments, share options and pension entitlements is set out in the Remuneration Report on pages 21 to 24.

7. Net group interest payable

	2001 £000	2000 £000
Interest payable and similar charges:		
Bank loans and overdrafts	11,156	10,896
Other loans - manufacturer stocking plans	4,930	4,298
	16,086	15,194
Less: amount capitalised	(78)	(29)
	16,008	15,165
Interest receivable:		
Bank interest receivable	(391)	(172)
Other loans	-	(152)
Interest credit on termination of swap and collar arrangements	-	(358)
	15,617	14,483

8. Taxation

	2001 £000	restated 2000 £000
UK corporation tax:		
Current tax on income for the year at 30% (2000 - 30%)	7,426	1,114
Adjustments in respect of prior periods	137	(1,401)
	7,563	(287)
UK deferred taxation:		
Current year deferred taxation	1,976	(675)
Adjustments in respect of prior periods	3	147
	9,542	(815)
Overseas taxation:		
Current tax on income for the year	1,079	143
Overseas deferred taxation	10	344
	10,631	(328)
Attributable taxation of joint venture	(256)	(1,026)
	10,375	(1,354)

The total aggregate tax charges are analysed as:	2001 £000	2000 £000
Current tax attributable to group	8,642	(144)
Deferred tax attributable to group	1,989	(184)
	10,631	(328)
Aggregate tax attributable to joint venture	(256)	(1,026)
	10,375	(1,354)

8. Taxation (continued)

Factors affecting tax charge for the period

The tax assessed is different from the standard rate of corporation tax in the UK (30%)

The differences are explained below:	2001 £000	2000 £000
Profit on ordinary activities before tax	**30,602**	4,137
Tax on profit at UK rate of 30% (2000 - 30%)	**9,181**	1,241
Permanent differences:		
Accounting depreciation for which no tax relief is due	**581**	448
Goodwill amortisation for which no tax relief is due	**899**	701
Difference between accounts profits and taxable profits on capital asset disposals	**(1,453)**	(2,667)
Other disallowables	**260**	175
Unrecognised losses	**366**	-
Tax rate differential on overseas income	**176**	-
Time apportionment differences arising on joint venture	**314**	-
Adjustments to tax charge in respect of previous periods (including joint venture)	**198**	(1,401)
Total permanent differences	**1,341**	(2,744)
Deferred tax movements taken to the profit and loss account:		
Accelerated capital allowances	**(301)**	(594)
Other provisions	**(1,685)**	927
Timing differences attributable to group	**(1,986)**	333
Timing differences attributable to joint venture	**262**	545
Total current tax including joint venture share	**8,798**	(625)
Less: current tax attributable to joint venture	**(156)**	481
Total current tax attributable to group	**8,642**	(144)

Factors affecting future tax charge

The group operates in countries where the tax rates are different to that of the UK rate. Germany has a lower tax rate than the UK with the US having a higher tax rate. From 1 April 2002 due to changes in the UK tax legislation, amortisation charges relating to future purchases of goodwill become tax deductible. Amortisation charges on goodwill purchased prior to 1 April 2002 remain non deductible for tax purposes.

Tax relief of £nil (2000 - £1,929,000) has been claimed on exceptional charges of £nil (2000 - £6,431,000).

9. Dividends

	2001 £000	2000 £000
Ordinary shares		
Interim paid 5.3p per share (2000 - 4.9p)	**3,006**	2,832
Final proposed 10.6p per share (2000 - 9.8p)	**5,934**	5,721
	8,940	8,553

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10. Earnings per share

(a) Adjustments to basic earnings per share, based on ordinary shares in issue	2001 Earnings per share pence	2001 Total £000	restated 2000 Earnings per share pence	restated 2000 Total £000
Earnings	33.7	20,227	9.0	5,491
Goodwill amortisation	5.6	3,374	4.3	2,592
Earnings excluding goodwill amortisation	39.3	23,601	13.3	8,083
Non trading items:				
Exceptional items	-	-	10.5	6,431
Profit on business and fixed asset disposals	(13.1)	(7,899)	(1.6)	(1,013)
Tax effect of non trading items	3.9	2,370	(2.7)	(1,625)
Earnings excluding goodwill amortisation and non trading items	30.1	18,072	19.5	11,876

(b) Diluted earnings per share, based on weighted average number of shares in issue	2001 Diluted earnings per share pence	2001 Total £000	restated 2000 Diluted earnings per share pence	restated 2000 Total £000
Earnings	32.8	20,227	8.9	5,491

(c) Shares in issue	2001 number	2000 number
Weighted average number of ordinary shares in issue	60,108,349	60,964,152
Weighted average number of dilutive shares under option	1,650,126	542,974
Weighted average number of shares in issue taking account of applicable outstanding share options	61,758,475	61,507,126

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 (4) 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 2001 is £3,814,000 (2000 - £60,547,000).

12. Fixed assets - intangible assets

Group	Goodwill £000
Cost	
At 31 December 2000	28,433
Additions	7,644
Exchange adjustments	68
Disposals	(726)
At 31 December 2001	35,419
Amortisation	
At 31 December 2000	4,749
Amortised during the year	3,374
Exchange adjustments	21
Disposals	(225)
At 31 December 2001	7,919
Net book value	
At 31 December 2001	27,500
At 31 December 2000	23,684

Goodwill on dealerships acquired is amortised over a period of 10 years. Disposals relates to the closure of businesses during the year.

13. Fixed assets - tangible assets

Group	Land & buildings £000	Plant & equipment £000	Motor vehicles £000	Total £000
Cost				
At 31 December 2000	155,669	30,978	17,651	**204,298**
Additions - existing operations	7,413	5,319	27,653	**40,385**
- acquisitions	4,232	4,938	182	**9,352**
Exchange adjustments	(31)	(17)	(4)	**(52)**
Disposals	(16,327)	(10,819)	(30,659)	**(57,805)**
At 31 December 2001	150,956	30,399	14,823	**196,178**
Depreciation				
At 31 December 2000	6,418	12,119	2,715	**21,252**
Exchange adjustments	(3)	(8)	(1)	**(12)**
Charge for the year	2,368	5,797	2,950	**11,115**
Disposals	(950)	(5,655)	(3,345)	**(9,950)**
At 31 December 2001	7,833	12,253	2,319	**22,405**
Net book value				
At 31 December 2001	143,123	18,146	12,504	**173,773**
At 31 December 2000	149,251	18,859	14,936	**183,046**

Land and buildings at net book value comprise:	**2001 £000**	2000 £000
Freehold	**114,253**	119,384
Long leasehold	**17,361**	22,721
Short leasehold	**11,509**	7,146
	143,123	149,251

Motor vehicles at net book value comprise:		
Service loan vehicles	**6,607**	8,452
Other vehicles	**5,897**	6,484
	12,504	14,936

Freehold land with a cost of £56,515,000 (2000 - £66,565,000) has not been depreciated during the year.

Cumulative interest charges of £1,241,000 (2000 - £1,163,000) have been capitalised as construction costs and included in land and buildings. Interest of £78,000 has been capitalised during the year at a rate of 6.1% and tax relief of £23,000 has been obtained.

Land and buildings include £6,678,000 (2000 - £1,768,000) 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 £135,000 (2000 - £267,000).

14. Fixed assets - investments

Group	restated Group joint venture equity £000	Own shares £000	restated Total £000
At 31 December 2000 as previously reported	8,317	3,613	**11,930**
Prior year adjustment (see note 1(i))	743	-	**743**
At 31 December 2000 as restated	9,060	3,613	**12,673**
Additions	-	1,490	**1,490**
Share of joint venture loss	(1,307)	-	**(1,307)**
Disposals	(7,753)	(12)	**(7,765)**
At 31 December 2001	-	5,091	**5,091**

Company	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
At 31 December 2000 and at 31 December 2001	164,656	90,000	**254,656**

The market value of the investment in the company's own shares at 31 December 2001 was £7,292,000 (2000 - £4,430,000), being 3,262,577 (2000 - 2,590,820) shares with a nominal value of 25 pence each, acquired at a cost of between £1.00 and £2.17 each (2000 - £1.00 and £1.70) held by Pendragon Quest Trustees Limited and Guinness Flight Trustees Limited.

Dividends on the shares owned by the trusts, the purchase of which was funded by interest free loans to the trusts from Pendragon PLC are waived. All expenses incurred by the trusts 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% of the issued ordinary share capital of the following principal subsidiaries which are all included in the consolidation.

Name	Activity
Incorporated in Great Britain:	
Alloy Racing Equipment Limited	Motor vehicle dealer
c.2k Limited	Contract hire & 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 Contracts Limited	Contract hire & fleet management
Pendragon Javelin Limited	Motor vehicle dealer
Pendragon Management Services Limited	Management services
Pendragon Motorcycles Limited	Motor vehicle dealer
Pendragon Motor Group Limited	Motor vehicle dealer
Pendragon Premier Limited	Motor vehicle dealer
Pendragon Property Holdings Limited	Property holdings
Pendragon Sabre Limited	Motor vehicle dealer
Pendragon Viking Limited	Motor vehicle dealer
Pinewood Technologies PLC*	Computer systems and services
Stripestar Limited	Motor vehicle dealer
Tins Limited*	Internet sales

14. Fixed assets - investments (continued)

Name	Activity
Incorporated in Germany:	
Autohaus Avalon Darmstadt GmbH	Motor vehicle dealer
Autohaus Avalon Frankfurt GmbH	Motor vehicle dealer
Autohaus Avalon Jaguar GmbH	Motor vehicle dealer
Autohaus Avalon Munchen GmbH	Motor vehicle dealer
Jaguar Autohaus Kronberg GmbH	Motor vehicle dealer
Incorporated in the United States of America:	
Bauer Motors Inc.	Motor vehicle dealer
Penegon West Inc.	Motor vehicle dealer
South County Inc.	Motor vehicle dealer

**Direct subsidiary of Pendragon PLC*

15. Stocks

	2001 £000	2000 £000
New and used vehicles	**166,403**	94,789
Consignment vehicles	**79,603**	50,408
Vehicle parts and other stocks	**21,154**	15,397
	267,160	160,594

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 £60,005,000 (2000 - £38,027,000).

16. Repurchase commitments

	2001 £000	2000 £000
Within one year	**16,021**	27,576
Between one and two years	**7,970**	16,484
Over two years	**7,684**	7,748
	31,675	51,808

The directors consider that losses arising from disposal of the vehicles for less than the repurchase value are likely to occur, and accordingly provision for such losses is made in the financial statements. The amount provided is £1,495,000 (2000 - £3,500,000).

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

17. Debtors

	2001 £000	restated 2000 £000
Group		
Trade debtors	48,950	40,475
Amounts owed by joint venture	-	4,233
Other debtors	35,128	20,390
Corporation tax	-	1,371
Deferred tax (see note 21)	740	485
Other taxation and social security	1,371	-
Prepayments	8,977	13,845
	95,166	80,799
Company		
Corporation tax	2,239	2,732
Other debtors	67	5
	2,306	2,737

All amounts are due within one year.

18. Creditors: amounts falling due within one year

	2001 £000	2000 £000
Group		
Unsecured loans	14,000	57,000
Unsecured bank loans and overdrafts	1,183	13,054
Consignment vehicle liabilities	79,603	50,408
Repurchase commitments (see note 16)	17,516	31,076
Payments received on account	9,420	4,948
Trade creditors	144,200	77,548
Amounts owed to joint venture	-	215
Dividends payable	5,934	5,721
Corporation tax	5,481	-
Other taxation and social security	4,231	7,284
Accruals and deferred income	45,948	32,228
	327,516	279,482
Company		
Unsecured bank loans and overdrafts	-	4,388
Amounts due to subsidiary undertakings	49,256	36,512
Dividends payable	5,934	5,721
Other taxation and social security	591	30
Other creditors	24	57
	55,805	46,708

All unsecured loans and overdrafts bear interest at normal variable commercial rates.

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

	2001 £000	2000 £000
Group		
Unsecured bank loans (repayable between one and two years)	**14,336**	108
Unsecured bank loans (repayable between two and five years)	**112,670**	67,395
Repurchase commitments (see note 16)	**15,654**	24,232
Other creditors	**336**	146
	142,996	91,881
Company		
Unsecured bank loans (repayable between two and five years)	**37,006**	37,209

All unsecured loans and overdrafts bear interest at normal variable commercial rates.

20. Financial instruments and derivatives

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

As permitted by Financial Reporting Standard 13, short term debtors and creditors that meet the definitions of a financial asset or liability respectively have been excluded from the disclosures.

(a) Fair values of financial assets and liabilities

The fair value of the currency swap has been determined with reference to the market price prevailing at 31 December 2001. All other financial liabilities are at floating rates of interest and therefore fair value is equal to book value.

Primary financial instruments held or issued to finance the company's operations

	Book value 2001 £000	Fair value 2001 £000	Book value 2000 £000	Fair value 2000 £000
Cash at bank and in hand	**14,707**	**14,707**	-	-
Bank overdraft	**(1,183)**	**(1,183)**	(2,778)	(2,778)
Bank loans	**(100,000)**	**(100,000)**	(83,093)	(83,093)
6.93% USD 55 million loan notes 2005	**(32,670)**	**(33,728)**	(32,670)	(34,038)
Other	**(8,336)**	**(8,336)**	(8,941)	(8,941)

Derivative financial instruments held to manage interest rate profile

	Book value 2001 £000	Fair value 2001 £000	Book value 2000 £000	Fair value 2000 £000
Currency swap (USD / £ sterling)	**-**	**1,058**	-	1,368

20. Financial instruments and derivatives (continued)

(b) Interest rate risk profile as at 31 December 2001

The table below reflects the effect of interest rate swaps

(i) Financial liabilities	**Total 2001 £000**	**Floating rate 2001 £000**	Total 2000 £000	Floating rate 2000 £000
Bank loans and overdrafts	**(101,183)**	**(101,183)**	(85,871)	(85,871)
6.93% USD 55 million loan notes 2005	**(32,670)**	**(32,670)**	(32,670)	(32,670)
Other	**(8,336)**	**(8,336)**	(8,941)	(8,941)

The floating rate liabilities pay interest based on LIBOR.

(ii) Financial assets	**Total 2001 £000**	**Floating rate 2001 £000**	Total 2000 £000	Floating rate 2000 £000
Cash at bank and in hand	**14,707**	**14,707**	-	-

(c) Foreign currency exposure profile

Operations with a US functional currency have sterling intra-group monetary liabilities amounting to £12,501,000. Operations with a German functional currency have sterling intra-group monetary liabilities amounting to £4,738,000.

There were no other material foreign currency monetary assets and liabilities that may give rise to exchange gains or losses in the profit and loss account (2000 - nil).

(d) Maturity of borrowings

Details are shown in notes 18 and 19.

(e) Maturity of facilities

At 31 December 2001 the group had the following undrawn committed facilities available:

	2001 £000	2000 £000
Expiring in one year or less	**-**	55,000
Expiring in more than one year but not more than two years	**22,000**	-
Expiring in more than two years	**20,000**	2,000
	42,000	57,000

21. Provisions for liabilities and charges

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

	2001 £000	restated 2000 £000
Depreciation in excess of tax allowances	**(1,504)**	(392)
Other timing differences	**764**	(93)
Amounts included in debtors (see note 17)	**(740)**	(485)

There is no unprovided deferred tax.

The movement in provisions for the year are as follows:	Deferred tax £000	Vacant property £000	**Total £000**
At 31 December 2000 as previously reported	2,006	1,371	**3,377**
Prior year adjustment (see note 1(i))	(2,491)	-	**(2,491)**
At 31 December 2000 as restated	(485)	1,371	**886**
Acquisitions	(2,263)	-	**(2,263)**
Profit and loss account	1,989	-	**1,989**
Utilised	-	(460)	**(460)**
Exchange adjustment	19	-	**19**
Deferred tax transferred to debtors (see note 17)	740	-	**740**
At 31 December 2001	-	911	**911**

The vacant property 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

	2001 £000	2000 £000
Authorised:		
80,000,000 (2000 - 80,000,000) ordinary shares of 25p each	**20,000**	20,000
Allotted, called up and fully paid:		
59,242,152 (2000 - 60,964,152) ordinary shares of 25p each	**14,812**	15,242

On 13 March 2001, 13,000 ordinary shares at an aggregate nominal value of £3,250 were issued for a total consideration of £22,224.

During the year the company repurchased 1,735,000 ordinary shares with a nominal value of £433,750 at a total cost of £3,930,000, representing 2.8% of the total issued ordinary shares as at 1 January 2001. The transactions were made through market purchases on the London Stock Exchange. At 13 February 2002 the company has an unexpired authority to repurchase further shares up to maximum of 5,262,715 ordinary shares.

Notes to the Financial Statements | Continued

22. Called up share capital (continued)

Movements in the number of options to acquire ordinary shares under the group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2001 were as follows :

Exercise period	Exercise price per share	At 31 December 2000 number	Exercised number	Granted number	Lapsed number	At 31 December 2001 number
11 October 1994 to 10 October 2001	170.95 p	27,533	(13,000)	-	(14,533)	-
29 April 1997 to 28 April 2004	295.84 p	187,602	-	-	(86,196)	101,406
17 March 2001 to 16 March 2008	308.00 p	289,500	-	-	(29,000)	260,500
9 October 2001 to 8 October 2008 *	127.00 p	289,500	-	-	(29,000)	260,500
9 October 2001 to 8 October 2008	127.00 p	177,000	-	-	(12,000)	165,000
1 July 2003 to 31 December 2003	293.00 p	128,140	-	-	(23,879)	104,261
1 July 2005 to 31 December 2005	293.00 p	51,363	-	-	(4,656)	46,707
3 March 2002 to 2 March 2009	194.00 p	480,000	-	-	(80,000)	400,000
1 July 2002 to 31 December 2002	170.00 p	149,620	(492)	-	(22,016)	127,112
1 July 2004 to 31 December 2004	170.00 p	193,652	(3,331)	-	(55,441)	134,880
1 July 2006 to 31 December 2006	170.00 p	55,283	-	-	(20,273)	35,010
21 June 2002 to 20 June 2009	162.50 p	220,721	-	-	(26,000)	194,721
21 June 2002 to 20 June 2009	162.50 p	216,279	-	-	(15,000)	201,279
8 March 2003 to 7 March 2010	98.50 p	1,350,000	-	-	(125,000)	1,225,000
1 July 2003 to 31 December 2003	113.50 p	772,869	(3,403)	-	(161,755)	607,711
1 July 2005 to 31 December 2005	113.50 p	557,750	(717)	-	(93,233)	463,800
1 July 2007 to 31 December 2007	113.50 p	97,055	-	-	(30,431)	66,624
9 March 2004 to 8 March 2011	234.00 p	-	-	719,000	(45,000)	674,000
1 July 2004 to 31 December 2004	224.50 p	-	-	119,846	(8,625)	111,221
1 July 2006 to 31 December 2006	224.50 p	-	-	82,627	(12,774)	69,853
1 July 2008 to 31 December 2008	224.50 p	-	-	18,327	(3,109)	15,218
		5,243,867	(20,943)	939,800	(897,921)	5,264,803

* Parallel grant

On 9 March 2001 options over 719,000 ordinary shares of 25p were granted to employees (excluding directors) at an exercise price of 234.0p per share. The grant comprised 525,528 ordinary shares under the Pendragon 1999 Approved Executive Share Option Scheme and 193,472 under the Pendragon 1999 Unapproved Executive Share Option Scheme, (the "1999 Schemes").

On 26 April 2001 options over 220,800 ordinary shares of 25p were granted pursuant to the 1998 Pendragon Sharesave Scheme at an exercise price of 224.5p per share.

Each of the grants of share options made during the year under the 1999 Schemes prescribed an earnings per share performance criterion. It is a pre-condition to the exercise of grants made under the 1999 Schemes that the growth in the company's earnings per share over the prescribed three year period must exceed by at least 3% per annum compound the annual rate of inflation as shown by the RPI Index.

23. Reserves

	Share premium account £000	Other reserves £000	Profit and loss account £000
Group			
At 31 December 2000 as previously reported	74,697	14,798	31,899
Prior year adjustment	-	-	3,234
At 31 December 2000 as restated	74,697	14,798	35,133
Retained profit for the year	-	-	11,287
Arising on issue of ordinary shares	19	-	-
Repurchase of ordinary shares	-	-	(3,497)
Transfer to capital redemption reserve	-	434	(434)
Share of goodwill amortisation of joint venture in respect of unrealised profit on disposal	-	(425)	425
Unrealised profit eliminated on acquisition of Stripestar Limited	-	(4,038)	-
Exchange adjustment	-	-	438
At 31 December 2001	**74,716**	**10,769**	**43,352**
Company			
At 31 December 2000	74,697	13,863	69,674
Retained profit	-	-	(5,126)
Arising on issue of ordinary shares	19	-	-
Repurchase of ordinary shares	-	-	(3,497)
Transfer to capital redemption reserve	-	434	(434)
At 31 December 2001	**74,716**	**14,297**	**60,617**

The prior year adjustment has arisen on adoption of Financial Reporting Standard 19 'Deferred Taxation' as detailed in note 1(i).

Cumulative goodwill written off to reserves at 31 December 2001 amounted to £6,618,000 (2000 - £6,618,000).

The cumulative amount of negative goodwill written to reserves at 31 December 2001 amounted to £3,928,000 (2000 - £3,928,000).

24. Acquisitions

(a) Acquisition from Ford Motor Company Limited

On 2 November 2001 the group acquired the entire issued "B" ordinary shares of Stripestar Limited from Ford Motor Company Limited for a total consideration, including costs, of £5,981,000. Consideration was satisfied in cash. The acquisition has been accounted for by the acquisition method of accounting.

Net assets at date of acquisition:	**Book and fair value at acquisition £000**
Tangible fixed assets	**4,389**
Stocks	**36,117**
Debtors	**35,676**
Deferred tax	**2,263**
Creditors	**(50,261)**
Borrowings	**(21,303)**
	6,881
Share acquired 49%	**3,372**
Goodwill	**2,609**
Consideration (including costs)	**5,981**
Consideration satisfied by cash	**5,500**
Costs of acquisition satisfied	**481**
Fair value of consideration	**5,981**

There were no fair value adjustments arising.

In the period from 1 January 2001 to 2 November 2001, the date of acquisition, the results of Stripestar Limited included turnover of £351,349,000, operating loss of £725,000, loss before tax of £2,507,000 and loss after tax of £1,831,000. Loss after tax in the year ended 31 December 2000 was £7,442,000.

(b) Other acquisitions

The group acquired the trade and assets of Homburg for £9,224,000 on 18 April 2001, SGZ Darmstadt for £2,304,000 on 1 March 2001 and Douglas Grahams for £1,071,000 on 1 November 2001. 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**	**Revaluation £000**	**Fair value at acquisition £000**
Tangible fixed assets	4,364	599	**4,963**
Stocks	10,813	-	**10,813**
Debtors	47	-	**47**
Creditors	(8,259)	-	**(8,259)**
	6,965	599	**7,564**
Goodwill			**5,035**
Consideration (including costs)			**12,599**
Consideration satisfied by cash			**12,193**
Costs of acquisition satisfied			**406**
Fair value of consideration			**12,599**

The fair value adjustments above principally arise on the revaluation of plant and equipment to their estimated market value.

24. Acquisitions (continued)

Contributions to cashflow from acquisitions

The businesses acquired during the year utilised £8,844,000 of the group's net operating cash flow, paid £589,000 in respect of servicing finance and utilised £208,000 for capital expenditure.

25. Net cash flow from operating activities

	2001 £000	2000 £000
Operating profit	39,229	18,546
Add share of joint venture's operating loss	654	3,072
Depreciation	11,115	10,929
Goodwill amortisation	3,374	2,592
Loss on disposal of fixed assets	14	77
(Increase) / decrease in stocks	(31,970)	988
Decrease in debtors	21,559	18,443
Increase / (decrease) in creditors	18,445	(12,329)
	62,420	42,318

26. Analysis of net debt

	Cash at bank and in hand £000	Overdrafts and other borrowings £000	Total £000	Other borrowings Due within one year £000	Other borrowings Due after one year £000	Total £000
At 31 December 2000	-	(13,054)	(13,054)	(57,000)	(67,503)	(137,557)
Exchange differences	-	(18)	(18)	-	-	(18)
Net cash flow	14,707	11,889	26,596	-	-	26,596
Financing and liquid resources	-	-	-	43,000	(59,503)	(16,503)
At 31 December 2001	14,707	(1,183)	13,524	(14,000)	(127,006)	(127,482)

27. Lease commitments

Operating Leases

Annual lease payments due in 2002 under operating leases of the group according to the period in which the lease expires, are as follows:

	Property		Other leases	
	2001 £000	2000 £000	2001 £000	2000 £000
Within one year	273	84	55	74
Between one and five years	882	247	1,704	186
Over five years	8,499	3,783	161	681
	9,654	4,114	1,920	941

28. Pensions

Pension Costs Statement of Standard Accounting Practice 24 (SSAP 24)

The group participates in two defined benefit pension schemes in the United Kingdom. The Pendragon Pension Plan for eligible employees is a funded defined benefit and defined contribution 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 actuarial valuation of the Plan was carried out as at 6 April 2000. At this date the market value of the Plan's assets was £76 million. The actuarial value of the Plan assets represented 116% of the value of accrued liabilities allowing for projected increases in earnings. The main assumptions used for this valuation were that the annual rate of return on existing investments would be between 6.2% - 7.0%, the annual rate of earnings increases would be 4.75%, and the annual rate of pension increases would be between 2.25% - 2.75%. Plan assets were included at market value.

The group also operates the Stripestar Pension Scheme for eligible employees. This is a funded defined benefit and defined contribution scheme administered by trustees who hold scheme assets separately from the group, and there is no direct investment in the group. The Stripestar Pension Scheme commenced on 1 January 2000. A fully funded bulk transfer value of £4.7 million was paid into the scheme in December 2001 in respect of members' past service benefits. Since inception, contributions have been paid into the scheme in accordance with the actuary's recommendations. The initial actuarial valuation is expected to be completed imminently.

The group has continued to account for pensions in accordance with SSAP 24.

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 the surplus over employees' future service lifetimes. The pension cost for the year is calculated as £839,000 (2000 - £209,000). The closing balance sheet prepayment is £5,366,000 (2000 - £6,074,000). Contributions paid into the Pendragon Pension Plan during the year were £nil, based upon actuarial advice. The pensions contribution holiday is expected to continue through 2002. Contributions to the Stripestar Pension scheme were £306,000, being the regular pension cost, of which £59,000 was contributed after 2 November 2001.

Financial Reporting Standard 17 (FRS 17)

In November 2000 FRS 17 'Retirement Benefits' was issued, becoming mandatory for the group from the year ended 31 December 2003. In the year ended 31 December 2001, the group has adopted the transitional disclosure requirements permitted by FRS 17. Scheme valuations have been updated by a qualified independent actuary on an FRS 17 basis as at 31 December 2001. The major assumptions used in this valuation were:

Financial assumptions

Valuation method	Projected unit
Inflation	2.50%
Rate of increase in salaries	4.25%
Rate of increase of post 6 April 1997 pensions in payment	2.50%
Rate of increase of deferred pensions subject to statutory revaluation	2.50%
Discount rate	5.80%

The expected rates of return on the main asset classes at 31 December 2001 were:

Equities	7.83%
Gilts	5.00%
Bonds	5.80%
Cash	4.00%

The weighted average expected long term rates of return by scheme at 31 December 2001 were:

Pendragon Pension Plan	7.47%
Stripestar Pension Plan	7.75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

28. Pensions (continued)

The fair value of the schemes' assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

Scheme assets and liabilities at 31 December 2001	**Pendragon Pension Plan £000**	**Stripestar Pension Plan £000**	**Total £000**
Equities	60,982	5,258	**66,240**
Gilts	2,829	-	**2,829**
Bonds	3,449	-	**3,449**
Cash	2,702	128	**2,830**
Fair value of scheme assets	69,962	5,386	**75,348**
Actuarial value of scheme liabilities	(66,202)	(6,144)	**(72,346)**
Surplus / (deficit)	3,760	(758)	**3,002**
Related deferred tax (liability) / asset	(1,128)	227	**(901)**
Net Pension asset / (liability)	2,632	(531)	**2,101**

Had the group adopted FRS 17 early, the group profit and loss reserves would have been stated as follows:	**2001 £000**
Profit and loss reserve in the financial statements at 31 December 2001	**43,352**
Surplus in relation to Pendragon Pension Plan, net of deferred tax	**2,632**
Deficit in relation to Stripestar Pension Plan, net of related deferred tax asset	**(531)**
SSAP 24 repayments for the Pendragon Pension Plan, net of deferred tax	**(3,756)**
Profit and loss reserve as adjusted	**41,697**

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 £2,521,000 (2000 - £2,521,000) 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:

	2001 £000	2000 £000
Within one year	**3,516**	4,228
Between one and two years	**2,734**	3,670
Between two and five years	**2,737**	2,297
	8,987	10,195

30. Related party transactions

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

Following the acquisition on 2 November 2001, described in note 24, the group acquired the remaining 49% of the issued ordinary share capital of Stripestar Limited making it a wholly owned subsidiary from this date and consequently exempt from the requirements of Financial Reporting Standard 8 'Related Party Disclosure' to disclose transactions and balances with other wholly owned group companies. Prior to this date the group supplied management services and facilities to Stripestar Limited and traded goods and services in the ordinary course of its business.

During the year the group entered into transactions with Stripestar Limited as follows:

	2001	2000
	£000	£000
Sales to related party	**26,713**	9,838
Purchases from related party	**3,187**	3,497
Dividend due from related party	**-**	8
Amounts owed to related party	**-**	215
Amounts owed from related party	**-**	4,233

In addition to services as a non-executive director, Mr N G Hannah provides commercial property advice to the group under a retainer arrangement. In 2001 he earned benefits to the value of £20,000 (2000 - £20,000) in the form of fees. As chairman of commercial property surveyors Innes England Limited, Mr Hannah is interested in contracts for the provisions of their services to the group, which during the year had an aggregate value of £38,000 (2000 - £60,000).

Special Business at the Annual General Meeting

Resolutions 1 to 6 set out in the notice deal with the ordinary business to be transacted at the Annual General Meeting. Resolution 7 grants authority for the company to purchase its own shares and Resolution 8 grants authority to the directors to establish the Pendragon Share Incentive Plan.

Resolution 7 - Authority to purchase own shares (special resolution).

At the Annual General meeting in 2001 the Board was given authority ("the 2001 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.

During 2001 the company has utilised exceptional profits arising from the disposal of property to make market purchases of a total of 1,735,000 of the company's ordinary shares, of which one million were acquired pursuant to the authority granted at the Annual General Meeting in 2000 and 735,000 pursuant to the 2001 Authority. The directors believe it remains 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 the 2001 Authority by way of a special resolution, details of which are also included in the notice of meeting on page 55. 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 4,977,463 ordinary shares of 25p each in the company. That number of shares represents 8.4% 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 7, the 4,977,463 ordinary shares for which there are outstanding options to subscribe would represent 9.34% of the company's existing issued share capital as reduced by those purchases.

Resolution 8 - Authority to form Pendragon Share Incentive Plan (Ordinary Resolution)

This resolution seeks shareholders' authority to allow the directors to establish the Pendragon Share Incentive Plan ("the Plan") substantially in the form produced to the Annual General Meeting, the principal provisions of which are summarised below.

The Plan is intended to qualify for Inland Revenue approval as an All-Employee Share Ownership Plan pursuant to Schedule 8 of the Finance Act 2000 ("Schedule 8"). The directors' authority to issue shares for the purposes of the Plan will expire on 15 April 2012.

Constitution - Shares acquired for the purposes of the Plan, or appropriated to or acquired on behalf of participants under the Plan, will be held by the trustee of the Pendragon Share Incentive Trust, an employees' share trust which will comply with the requirements of Schedule 8 ("the Plan Trustee"). The Plan Trustee may be either a specially formed, wholly owned subsidiary of the company or an independent trustee services company. The Plan comprises a set of rules incorporating the terms of the Trust Deed. The directors are responsible for the operation of the Plan but, together with the Plan Trustee, they may delegate this responsibility to an independent firm of share scheme administrators.

Eligibility - Participation in the Plan may, subject to Schedule 8, be extended to all employees of the Pendragon Group of companies ("the group") who have a qualifying period of continuous employment of not more than eighteen months, or such other period as is specified in Schedule 8 from time to time.

Operation of the Plan - The Plan provides for appropriation of ordinary shares in the company to eligible employees for no consideration ("Free Shares") and/or acquisition of shares by eligible employees out of deductions from salary ("Partnership Shares") and, if the directors so determine, appropriation of additional shares ("Matching Shares"). The directors may from time to time, and subject to the Plan limits, decide whether to offer an appropriation of Free Shares and/or invite applications to acquire Partnership Shares and, if the directors so determine, Matching Shares.

Partnership and Matching Shares - An eligible employee may be invited to permit the application of up to £125 per month (or such other amount as may from time to time be specified in Schedule 8) of pre-tax salary in the acquisition of Partnership Shares to be held on his or her behalf by the Plan Trustee. Insofar as employees elect to acquire Partnership Shares on any occasion, the directors may procure the transfer of Matching Shares, free of charge, on the basis of up to two free Matching Shares for each Partnership Share so acquired. The number of Matching Shares made available on any occasion may be based on the performance of the company over such period as the directors may determine. A participant may withdraw his Partnership Shares from the Plan at any time and must do so on leaving employment. If a participant leaves employment in consequence of death, disability, redundancy, retirement or the company or business in which he is employed being sold outside the group (a "good reason") his Matching Shares cannot be forfeited. If a participant leaves employment otherwise than for a good reason or withdraws his Partnership Shares within a period not exceeding 3 years, his Matching Shares may be forfeited.

Free Shares - If the directors so determine, the Plan Trustee may, each year, invite eligible employees to accept an allocation of Free Shares in the company with a market value of up to £3,000 per employee. Free Shares must be allocated amongst participating eligible employees on a 'similar terms' basis except that, the whole or a proportion of such Free Shares may be allocated by reference to individual, team, divisional or corporate performance determined according to such objective criteria and over such period as the directors may specify and advise the eligible employees before the start of the performance period. The performance targets set for each unit must be broadly comparable and must not have the effect of concentrating share allocations on directors or higher paid employees. Participants must agree to allow their Free Shares to remain with the Plan Trustee throughout a holding period specified by the directors of between 3 and 5 years. The directors may stipulate that a participant will forfeit his Free Shares if he leaves the group (otherwise than for a good reason) within 3 years of allocation. Free and Matching Shares will be purchased in the market or from existing shareholders or subscribed for by the Plan Trustee using funds contributed by the respective employer companies within the group.

Reinvestment of dividends on Plan shares - The directors may determine that dividends on shares held in the Plan on behalf of participants may be reinvested in acquiring additional shares in the company to be held in the Plan. Schedule 8 imposes a limit of (currently) £1,500 per annum on the amount of dividends, which may be so reinvested, and be exempt from income tax.

Tax benefits for participants - Salary applied in the acquisition of Partnership Shares is free of tax and National Insurance contributions ("NICs"). Free and Matching Shares will be acquired free of income tax and NICs. For so long as shares are held in the Plan, any gain in their value is exempt from capital gains tax. Participants may be charged to income tax and NICs if shares are withdrawn from the Plan within 5 years. Participating companies will be entitled to relief from corporation tax for expenses incurred in funding the acquisition of shares for the purposes of the Plan and for the costs of establishing and administering the Plan.

Limits on the issue of new shares - The Plan Trustee may acquire shares for the purposes of the Plan by subscription for shares at their market value or purchase in the market. The number of shares which may be issued or be issuable pursuant to rights granted in any 10-year period under the Plan and any other employees' share scheme is limited to 10 per cent of the issued share capital of the company.

Rights of participants - Participants will beneficially own shares held in the Plan by the Plan Trustee on their behalf. All dividends and other distributions received in respect of such shares (except those reinvested in Plan Shares) will be passed on to participants. The Trustee will only exercise voting rights in respect of such shares if given written instructions by the participants. In the event of a takeover or a rights or capitalisation issue or other variation of the company's share capital, participants may instruct the Trustee how to act or vote on their behalf.

Pension rights - Salary applied in the acquisition of Partnership Shares will remain pensionable, but other benefits under the Plan will not form part of pensionable earnings.

Amendment of the Plan - Before Inland Revenue approval is obtained, the directors and the Plan Trustee may amend the Plan in any respect but not so as to conflict in any material respect with this summary or, in the opinion of the directors, materially prejudice the interests of shareholders. Once Inland Revenue approval is obtained, the directors may not make any amendment to the advantage of existing or future participants to the provisions relating to: eligibility, the overall limit on the issue of new shares, the basis for determining an eligible employee's participation and any adjustment thereto on a variation of the company's share capital, the limits on participation, or amendment of the Plan without the prior approval of shareholders of the company (except for minor amendments to benefit or facilitate the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax or regulatory treatment for participants or for any member of the group). No amendment to any key feature shall have effect until it is approved by the Inland Revenue and no amendment may be made which would affect the beneficial interests of participants in shares held by the Trustee on their behalf.

The above summary does not form part of the rules of the Plan and should not be taken as affecting the interpretation of its detailed terms and conditions. The Board reserves the right up to the time of the forthcoming Annual General Meeting to make such amendments and additions to the rules of the Plan as may be necessary to take account of comments of the UK Listing Authority and otherwise provided that such amendments do not conflict in any material respect with the above summary.

Copies of the Rules of the Pendragon Share Incentive Plan may be inspected at the registered office of the Company and at the offices of Pinsent Curtis Biddle, Dashwood House, 69 Old Broad Street, London, EC2M 1NR, during the usual business hours of any weekday (Saturdays and public holidays excepted) for a period of 21 days prior to the Annual General Meeting.

Shareholder Information

Stock classification The ordinary shares of the company are traded on the London Stock Exchange. Information concerning the day to day movement of the share price can be found on the London Stock Exchange's Topic Information service on pages 266 (mid-price) and 52037 (SEAQ).

2002 Financial calendar

Ex-dividend date for 2001 proposed final dividend	13 March 2002
Record Date for 2001 proposed final dividend	15 March 2002
Annual General Meeting	15 April 2002
Payment date for 2001 proposed final dividend	16 April 2002
Interim results for 2002 announced	August 2002
Interim dividend for 2002 payable	October 2002
Final results for 2002 announced	February 2003
Final dividend for 2002 payable	April 2003

Low cost share dealing service Barclays Stockbrokers Limited offers private individuals a low cost telephone share dealing service for dealings in the company's shares. They will purchase and sell shares at the following commission rates plus stamp duty where applicable, subject to the minimum dealing charge of £25 per transaction:

1.50% commission on first £5,000

0.85% commission on the next £5,000

0.15% commission thereafter

Details of the scheme can be obtained by telephoning 08457 777400 (calls are charged at local rates and this telephone number can be accessed only from within the United Kingdom).

Notice of Meeting

Notice is hereby given that the fourteenth Annual General Meeting of Pendragon PLC will be held at Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR on 15 April 2002 at 10.30am and for the following purposes:

As ordinary business:

1. To receive the report of the directors and the audited financial statements of the group for the year ended 31 December 2001.
2. To declare a final dividend.
3. To re-elect Mr D R Forsyth as a director.
4. To re-elect Miss H C Sykes as a director.
5. To re-elect Mr W W Rhodes as a director.
6. To re-appoint KPMG Audit Plc as auditors and to authorise the directors to determine their remuneration.

As special business:

To consider and if thought fit to pass the following resolution which will be proposed as a special resolution:

7. That the company be and it is hereby generally and unconditionally authorised pursuant to Article 1(K) of the Articles of Association of the company and section 166 of the Companies Act 1985 (in substitution for all existing authorities granted to the company pursuant to the said Article 1(K) and section 166, which authorities are hereby revoked) to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of its own ordinary shares on a recognised stock exchange of up to an aggregate of 5,924,215 ordinary shares of 25p each at a price per share which is not more than five percent above the average of the middle market quotation for shares of the same class derived from the London Stock Exchange Daily Official List during the five dealing days immediately prior to the date of purchase of such shares nor less than the nominal value of the shares provided that the authority conferred by this resolution shall, unless previously varied, revoked or renewed, expire on 14 October 2003 or at the conclusion of the Annual General Meeting of the company held in 2003, whichever is the earlier, except in relation to a purchase of shares a contract for which shall have been made before that time.

To consider and if thought fit to pass the following resolution which will be proposed as an ordinary resolution:

8. That:-
(a) subject to the approval of the Board of the Inland Revenue, the directors, should they decide to do so, be and are hereby authorised to establish The Pendragon Share Incentive Plan (the "Plan"), a copy of the draft rules of which has been produced to the meeting and signed by the Chairman for the purposes of identification and a summary of the principal terms of which is set out in the notes of this resolution; and
(b) the directors be and are hereby authorised to do all such acts and things as may be necessary or expedient to give effect to the Plan, including amending the Plan in such a manner as the directors may consider necessary or appropriate, or as may be necessary to ensure that the Plan is approved by the Board of the Inland Revenue or to take account of any relevant statutory or regulatory requirements, provided that no such amendment may be made if, in the opinion of the directors, it would conflict in any material respect with the summary of the Plan set out in the notes to this resolution or would materially prejudice the interests of the shareholders; and
(c) the directors of the Company be and are hereby authorised to establish further employee share arrangements based on the Plan modified to take account of local tax exchange control and securities laws in overseas territories provided that any shares made available under such further arrangements are treated as counting against the limits on individual and overall participation in the Plan.

By order of the Board
H C Sykes
Secretary
13 February 2002

Loxley House
2 Oakwood Court
Little Oak Drive
Annesley
Nottingham
NG15 0DR

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on a poll instead of him. A proxy need not be a member of the company. A proxy form is enclosed and to be effective must reach the company's registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH, not less than 48 hours before the time appointed for holding the meeting.

The completion and return by a member of a duly completed form of proxy will not preclude any such member who wishes to do so from attending in person and voting at the Annual General Meeting convened by the above notice.

To be entitled to attend and vote at the meeting (and for the purposes of the determination by the company of the number of votes they may cast), members must be entered on the company's register of members at close of business on Saturday 13 April 2002. If the meeting is adjourned then, to be so entitled, members must be entered on the company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting, at the time specified in that notice.