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**annual report** and accounts **2003**

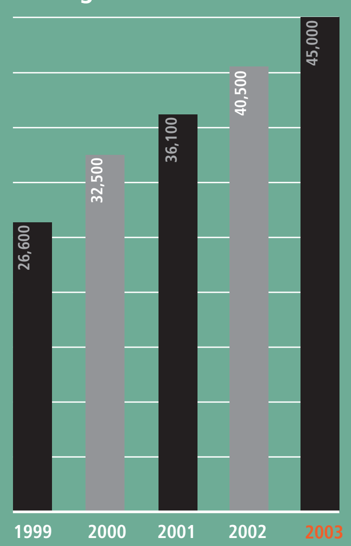
Designed and produced by The Roundhouse Newcastle upon Tyne. Printed by Reed Print Washington.

NORTHGATE plc

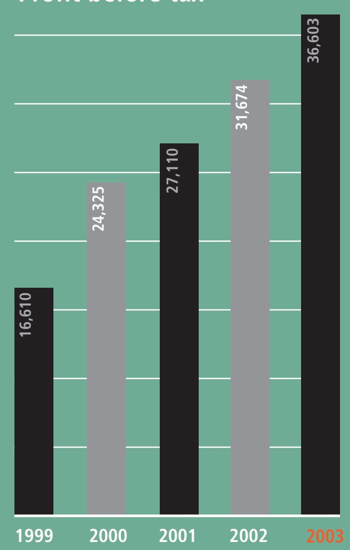
# **annual** report and accounts 2003

Commercial vehicles for business

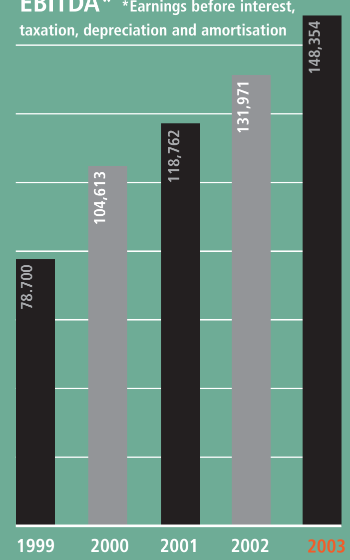

Fleet growth




Profit before tax




EBITDA* *Earnings before interest, taxation, depreciation and amortisation




| Highlights | 2003 | 2002 |
|---|---|---|
| Turnover | £337.9m | £277.8m |
| Group operating profit | £48.3m | £45.1m |
| Profit before tax | £36.6m | £31.7m |
| Earnings per share | 41.4p | 35.8p |
| Dividend per share | 16.0p | 15.0p |
| Net assets per share | 252p | 225p |

## Contents



Northgate plc rents vehicles and sells a range of fleet products to businesses via a network of companies.

www.northgateplc.com

Earnings per share have more than doubled since the commencement of our five year Strategy for Growth increasing from 19.1p to 41.4p



# CHAIRMAN'S STATEMENT

**Dear Shareholder,**

**The current financial year has seen your Company make significant progress with its five year Strategy for Growth for the UK announced in 1999, its plans to expand into the continental European market with an initial 40% investment in Furgonetas de Alquiler SA ('Fualsa') in Spain and the strengthening of the management structure for the Group as a whole.**

Earnings per share have more than doubled since the commencement of our five year Strategy for Growth, increasing from 19.1p to 41.4p. This represents a 21% per annum compound growth rate over the four year period. Furthermore the 69% growth in fleet during this same period has been achieved with an increase in gearing of only 9% to a current level of 175%. This gearing level is after an initial payment of £10.2m for Fualsa, being our first European investment. Interest cover remains at a healthy 3.4 times.

The UK remains the core of our business now and will continue to be so in the future. In order to ensure our ongoing success in this business, in January 2003 we appointed Phil Moorhouse, previously Group Finance Director, to the newly created position of Managing Director UK Rental. This appointment underpins our intention to remain the UK's largest vehicle rental company, providing first class service to our customers.

Our plan to expand into continental Europe has been well flagged over recent years. It is our policy to proceed cautiously with this expansion with the aim of delivering steady, sustainable growth from this area of our business. To this end, in respect of our initial investment in Spain and with the support of the vendors, we have transferred a number of senior managers from Northgate to Fualsa on a permanent basis and have made senior appointments locally. Our objective is to ensure a smooth assimilation of the business prior to 31 May 2004, when we are required to make the final decision on the exercise of the next option on shares in Fualsa, which would raise our stake to 80% and which would oblige us to purchase the remaining 20% by May 2006.

The Directors are recommending a final dividend of 11.1p which, if approved by shareholders at the Annual General Meeting, would make a total for the year of 16p, an increase of 6.7%. This is in line with the Board's progressive dividend policy.

We place a great deal of emphasis in creating the right management structure in each of our divisions. Furthermore we seek to provide proper training and incentives for the management with adequate reward should they achieve the goals set by the Board. During the financial year the Remuneration Committee has undertaken a review of salaries in respect of senior executives and is also proposing a new incentive scheme for management as detailed in the Remuneration Report. These proposals are in keeping with the requirement to retain and motivate senior management, but they are also an incentive that requires a continuation of management's total commitment to the progress of your Company.

In January we appointed Gerard Murray, a senior executive with significant experience in the automotive industry, as Group Finance Director. We have already felt the benefit of his ability and experience.

Your Board has determined the Strategy for Growth for the Company through to 2006. More details of this can be found in the Operational Review by the Chief Executive, which follows my statement. In pursuing this Strategy for Growth shareholders can be assured that the underlying philosophy of the Board, which is to manage the Company's assets prudently with the aim of delivering long term sustainable growth, will remain core to all our decisions.

As always I thank my fellow Directors and all members of staff for their efforts on behalf of shareholders, and I thank you, the owners, for your support.

**Michael Waring**

Chairman

# OPERATIONAL REVIEW

## Five Year Strategy for Growth

This report covers the fourth year of our five year Strategy for Growth announced in 1999, the overall aim of which was to double the size of the business.

As the table below demonstrates, in terms of the key measure of profitability, namely earnings per share, this has been achieved one year ahead of plan.

| 30 April | Fleet size | Hire locations | Basic e.p.s. |
|---|---|---|---|
| 1999 | 26,600 | 30 | 19.1p |
| 2003 | 45,000 | 70 | 41.4p |

We informed shareholders in our interim report to 31 October 2002 that we had achieved more vehicles per location than originally envisaged and that, as a consequence, we could operate a 50,000 vehicle fleet from a smaller number of outlets than the 100 estimated. This improved operational gearing has produced a larger profit per vehicle than forecast in 1999 and has made a significant contribution to the 117% increase in earnings per share in the four years to 30 April 2003.

The five year Strategy for Growth was focused solely on the development of our business in the UK. On 16 July 2002, we purchased 40% of the equity of Fualsa, the second largest van rental company in Spain and, as a consequence, now have our first operational involvement in continental Europe.

Having doubled the Group's earnings per share since 1999 and made our first step into Europe, we have concluded that it is important to set out to shareholders our new Strategy for Growth covering the three year period to April 2006. Over the past four years we have had positive feedback from shareholders on our policy of communicating the broad parameters of our forward strategy and, within our financial results, reporting the progress that we have made. We therefore intend to follow a similar policy for our strategic plan to April 2006, broad details of which are set out towards the end of this Operational Review.

## Review of Current Period

### Depot network

During the year we opened new branches in Andover, Grimsby, Northampton and Telford. The acquisition of Target Vehicle Rental Limited on 1 October 2002 added 1,100 vehicles and six new locations in the area along the M40 corridor. We continue to examine our hire company structure both in terms of improving customer service and reducing the cost base and, where appropriate, we will take the necessary steps to improve efficiencies in both areas. For example, we have merged three hire companies in Newcastle to form one large hire company and a branch, resulting in one less location in that city.

As a result of the above, we closed the year operating from a network of 70 locations.

### Vehicle fleet

Although fleet growth, at 11.1%, was in line with our expectations for the year as a whole, this was all achieved in the period to 31 October 2002, an imbalance we did not anticipate. This was due to the economic uncertainty in the early part of 2003, to which we referred in our pre-close trading statement issued on 2 May 2003. The quieter trading we experienced in January and February, combined with our relentless focus on utilisation, necessitated a reduction in the fleet of 1,500 vehicles in those months. Modest growth in the business resumed from mid March allowing the fleet to reach its year end level of 45,000.

### Utilisation

As referred to above, our focus on this area remains undiminished and, once again, we can report an average utilisation for the year of 90%. Utilisation analysed between mature locations, being those open for longer than 24 months and those not yet mature, is 90.3% and 85.1% respectively.

### Hire rates

Our marketplace remains competitive but, as a result of our excellent customer service levels, we have not needed to reduce hire rates. When combined with no increase in the purchase cost of new vehicles and a low interest rate environment, this has ensured the core operating margin of the business has also remained stable. The factors causing the reduction in the reported operating margin are set out in the Financial Review.

### Used vehicle sales

As predicted in last year's operational review, the residual market remained stable during the year and we were able to achieve a profit on used vehicle sales in each month of the year. Our outlook for this area of our business remains positive.

### Complementary non-rental products

We announced last year the development of a number of vehicle related, non-rental products through our Norfleet division; in particular, that we had commenced offering a telematics product, the provision of discounted vehicle parts and mobile servicing for customers who have their own fleets as well as renting from us. Although still in their infancy each of these products has been well received by our customers and they are making a valuable, albeit modest, contribution to the Group's performance.

In preparation for our next period of growth, we have now merged these Norfleet activities with our "*Central Reservations*" unit and our "*Wannavan.com*" business to form Northgate Vehicle Solutions. This division will now be responsible for the development of both our existing and future non-rental business.

### Fualsa (Spain)

Our first step into Europe has, to date, been better than our expectations and we are satisfied with Fualsa's trading performance in the ten months since our investment.

Since acquiring our 40% investment, the fleet has increased by 20% to 12,000; the network has been extended to eight hire sites, with an additional location in Barcelona, and a new site in Malaga; utilisation for the ten months averaged 88.7%. Fualsa contributed positively to earnings during the ten months of our investment, with Northgate's share of profit before tax and goodwill amortisation being £1.97m.

## Future Strategy for Growth

In March 2003, the Board approved a new three year Strategy for Growth for the Company based around three key areas of the business – UK Rental, Spain and non-rental products. This period takes us to April 2006, close to the point of time when our option to acquire full control of Fualsa, our Spanish rental business, lapses.

As indicated in the Chairman's Statement in our interim report for the six months ended 31 October 2002, we remain firmly of the view that the UK market is far from mature and that there remains significant potential for us to continue to grow our UK business.

In addition, our strategic investment in Fualsa has provided a platform for significant expansion in what is a relatively immature market in Spain.

Finally, the creation of Northgate Vehicle Solutions offers a means for the development of non-rental but vehicle-related products to be sold to our diverse customer base.

In terms of development, the plan is based on us achieving the following targets by April 2006:

- Fleet size of 60,000 in the UK and 18,000 in Spain
- Network of 100 locations in the UK and 20 in Spain
- 100% ownership of Fualsa
- An established portfolio of non-rental products

The last four years' results to 30 April 2003 represent a 21% annual compound growth in earnings per share. We are seeking to achieve double-digit annual growth in earnings per share through the successful implementation of the new plan.

We look forward to continuing to take your Company forward and to updating you on our progress against the targets set during the reporting periods of the plan.

**Steve Smith**
Chief Executive Officer

# FINANCIAL REVIEW

## Financial Reporting

### Sales, Margins and Return on Capital

Turnover increased by 21.6% to £337.9m (2002 - £277.8m) excluding turnover from the Fualsa joint venture. Hire company turnover increased by 16% and turnover from sales of used vehicles by 38%. Operating profits excluding any contribution from the Fualsa joint venture increased by 7.2% to £48.3m (2002 - £45.1m) representing an operating margin of 14.3% (2002 - 16.2%).

The factors that caused the reduction in operating margin during the year were broadly the turnover mix between hire revenue and used vehicles sales, a number of non recurring costs and the continued investment in the Group's network.

As highlighted above the Group's turnover from the sale of used vehicles has increased more than the corresponding increase in hire revenues. Used vehicle sales generates the lowest operating margin for the Group since our ongoing objective is to remain around break even in this activity. The larger increase in used vehicle turnover has had the effect of reducing the Group's overall operating margin by 0.5%.

During the year the Group incurred increased operating costs in the form of goodwill amortisation (£0.38m), reorganisation expenses (£0.3m) as the Central Reservations Operation was relocated to Darlington and increased insurance premiums (£0.4m). The aggregate effect of these costs was to reduce the Group's operating margin by 0.3%. The goodwill amortisation charged to operating profits will reduce to £0.07m in future years and the CRO relocation costs will not be incurred again.

Finally the operating margin has also been reduced as a result of the continuing investment in the Group's depot network. The Directors believe that fleet growth in immature locations during the next couple of years will reverse this short term margin dilution.

The operating margin reported by Fualsa is slightly ahead of the Group's UK operations. This result is attributable to the 20% fleet growth, mainly from existing sites, during the ten months since the joint venture investment was made. The medium term view is that overall operating margins in the Spanish market will be broadly similar to those achieved in the UK.

Profit before tax has increased by 15.5% to £36.6m (2002 - £31.7m) and includes an exceptional property profit of £0.7m and goodwill amortisation of £0.6m.

Return on capital employed, calculated as operating profit divided by average capital employed (being shareholders' funds plus net debt) is 12.9% (2002 - 12.7%).

Return on equity, calculated as profit after tax divided by average shareholders' funds is 17.3% (2002 - 16.6%).

### Taxation

The Group's UK operations have a total tax charge of 31.4% which is slightly higher than the standard rate of 30%. This is due to disallowable expenditure incurred within the business, comprising non-qualifying depreciation, goodwill amortisation and business entertaining. The joint venture tax rate at 25% is below the standard Spanish tax rate of 35% because of tax concessions that are available to the Fualsa business.

### Dividend

The Directors recommend a final dividend of 11.1p per share (2002 - 10.35p), making a total for the year of 16p (2002 - 15p) - an increase of 6.7%. The dividend is 2.6 times covered (2002 - 2.4 times).

### Earnings per share

Earnings per share increased by 15.6% to 41.4p (2002 - 35.8p).

Earnings per share have been calculated in accordance with FRS14. The weighted average number of shares in issue during the year has been amended to reflect that the Ordinary shares held by Kleinwort Benson (Guernsey) Trustees Limited for the Northgate All Employee Share Scheme and the Long Term Incentive Plan do not count towards the weighted average number of shares until they rank for dividend.

### Investments

On 16 July 2002 the Company acquired 40% of Fualsa, a leading commercial vehicle rental company in Spain, for a consideration of £10.2m. This investment has been treated as a joint venture within the Group's accounts to reflect the fact that the Company has joint management control of Fualsa and is disclosed in the consolidated balance sheet as 'Investment in joint venture'. The Company has an option to acquire the remaining 60% of Fualsa: 40% being exercisable no later than May 2004 and the remaining 20% no later than May 2006. The maximum total consideration for the additional share capital of Fualsa is €37m.

During the year the Group acquired 100% of two UK vehicle hire operations for a total cash consideration (net of cash acquired) of £4.5m.

Ordinary shares of the Company have been acquired in the open market by Kleinwort Benson (Guernsey) Trustees Limited in order to satisfy the Company's obligations under the Northgate All Employee Share Scheme and under the Long Term Incentive Plan. These shares are included within the Group's balance sheet as investments.

### Goodwill

The Group amortises goodwill acquired over its useful life to a maximum of 20 years. The goodwill that has been paid for the Fualsa joint venture and for Target Vehicle Rental Limited, one of the UK rental businesses acquired, is being amortised over 20 years. This gives rise to a goodwill amortisation charge to 30 April 2003 of £0.24m and an ongoing annual charge relating to these acquisitions of £0.3m in future years of which £0.07m will be charged to operating profits and £0.23m against the share of joint venture profits. The ongoing charge excludes any goodwill that may arise should the Company exercise its option to acquire additional share capital in Fualsa. Further goodwill of £0.34m paid for UK businesses acquired and then immediately absorbed into existing hire companies has been amortised in full.

### Capital structure

The Group's total gearing is 175% (2002 - 170%) of shareholders' funds which the Board views as modest considering the business activity of the Group. This gearing ratio is calculated after taking into account net cash balances of £31.5m (2002 - £26.1m). The Group's borrowings are in the form of hire purchase obligations (£242.4m), vehicle related loans (£46.8m) and a bank overdraft (£10.7m). The hire purchase and the vehicle related loans are used to finance the Group's vehicle fleet (£367m). As at 30 April 2003 the Fualsa joint venture had £18.9m of shareholders' funds and £65.3m of net debt.

## Treasury

### Cash flows

The Group's net debt increased by 15% to £268.4m (2002 - £232.9m) reflecting the continued fleet growth in the UK of 11.1% to 45,000 units (2002 - 40,500), net cash consideration of UK acquisitions totalling £4.5m, existing debt of £11.5m acquired within UK acquisitions and the £10.2m investment in the Fualsa joint venture. Gross cash generation remains strong with EBITDA increasing by 12% to £148m (2002 - £132m).

### Interest costs

The Group's net interest costs have increased by 12% to £15.0m (2002 - £13.4m). This increase includes the Group's share of interest costs in the joint venture of £0.8m leaving an underlying increase of 6% in interest costs in the UK business. This underlying increase in interest costs is lower than the growth in net debt reflecting the fact that UK interest rates continued to fall during the financial year and the Group has been a beneficiary of this fall. The Group's interest cover remains healthy at 3.4 times (2002 - 3.4 times).

### Strategy

The Group's financing strategy has been approved by the Board. This strategy is to use medium and long-term debt to finance the Group's vehicle fleet, other capital expenditure and acquisitions. Working capital is funded by internally generated funds and an overdraft facility. The Group's interest rate exposure is managed by a series of treasury contracts as described below.

### Treasury management

Each of the Group's operations is responsible for its own day-to-day cash management. The funding arrangements with asset finance companies are negotiated and monitored centrally on behalf of the operations. All funds generated by the Group's operations, with the exception of Fualsa, are controlled by a central treasury function.

### Interest rate management

The Group has historically managed its interest rate risk by having in place a number of financial instruments covering 30-40% of its total borrowings. As interest rates have continued to fall some of the earlier financial instruments are at levels 2-4% above the prevailing rates. Subsequent to the financial year end the Group has entered into additional interest rate swaps for five year terms to cover £45m of debt at an average rate of 3.97 %. Furthermore five year interest rate collars covering £55m of debt with a spread of 3.15% to 5.5%, have also been taken out.

### Liquidity risk

The finance facilities that are available to the Group are in excess of £454m compared to net debt of £268m. These facilities comprise hire purchase funding, revolving loans and overdraft secured primarily against the value of the vehicle hire fleet. The revolving loans comprising 16% of the total facilities are arranged on a rolling three year basis. These loans are the only element of the Group's facilities that are subject to covenants. The main covenant of interest rate cover is comfortably achieved with the Group's existing cover.

**Gerard Murray**

Finance Director

# DIRECTORS

## Michael Waring (56)

Became Non-Executive Chairman in October 1999, having been Executive Chairman since February 1996. Previously Chief Executive of the Group since 1985.

## Jan Astrand MBA* (56)

Appointed to the Board as a non-executive Director in February 2001. A Swedish national based in London, he is Chairman of Car Park Group AB in Stockholm and also a non-executive director of PHS Group plc. From 1994 to 1999 he was President and Chief Executive of Axus (International) Inc. (previously known as Hertz Leasing International). From 1989 to 1994 he was Vice President, Finance and Administration and Chief Financial Officer of Hertz (Europe) Ltd.

## Phil Moorhouse FCCA (50)

Appointed Managing Director, UK Rental operations in January 2003, having been Finance Director since February 1998 and a member of the Board since August 1997. Joined the vehicle hire division in 1991 as Finance Director. He previously held a number of senior financial positions within the Norcros group of companies and Meyer International.

## Gerard Murray ACA (40)

Appointed Group Finance Director in January 2003. Qualified as a Chartered Accountant with Arthur Andersen & Co before joining Reg Vardy plc in 1988, where he served as Finance Director from 1991 to 2001 and latterly as Chief Executive.

## Alan Noble (52)

Appointed Executive Deputy Chairman in October 1999 having been Managing Director since March 1996 and a member of the Board since 1990. In 1981 he founded the commercial vehicle hire business, which was acquired by Northgate in 1987.

## Stephen Smith ACA (46)

Appointed Chief Executive Officer in October 1999, having been a member of the Board since August 1997. Managing Director of the vehicle hire operations since 1990. He qualified as a Chartered Accountant with Coopers & Lybrand and held a number of senior financial positions in industry prior to joining Northgate.

## Ronald Williams FCA* (69)

A non-executive Director and Deputy Chairman since March 1996. Prior to his appointment he was for eight years an executive director of Smiths Group plc.

* Member of the Remuneration and Audit Committees



# DIRECTORS' RESPONSIBILITIES

### in relation to the preparation of the accounts

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out on page 22, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and auditors in relation to the accounts.

The Directors are required by the Companies Act 1985 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 as at the end of the financial year and of the profit or loss for that period. The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed.

The Directors are responsible for ensuring that the Company keeps adequate accounting records and for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Going concern

The accounts have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

# REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 30 April 2003.

## Results

Profit for the year after taxation was £25,106,000 (2002 - £21,721,000). An interim dividend of 4.9p per share was paid on the Ordinary shares on 7 February 2003.

The Directors recommend a final ordinary dividend of 11.1p per share making a total for the year of 16p per share.

The final dividend, if approved, will be paid on 11 September 2003 to shareholders on the register at close of business on 8 August 2003. Ordinary and preference dividends paid and recommended for payment in respect of the year total £9,736,000 (2002 - £9,119,000).

## Principal activities

Northgate plc is an investment holding company. The Group's activities are reported on pages 4 to 7.

## Close company status

So far as the Directors are aware the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

## Interests in shares

The following interests of 3% or more in the issued Ordinary share capital of the Company appear in the register required to be maintained under the provisions of Section 211 of the Companies Act 1985:

| | Number of shares |
|---|---|
| HBOS Group | 2,337,062 (3.8%) |
| Legal & General | 1,921,541 (3.2%) |
| Lazard Asset Management | 1,836,007 (3.0%) |
| Barclays plc | 1,828,999 (3.0%) |

## Directors

The names of the present Directors are listed on page 8. All have served throughout the year except Gerard Murray who was appointed on 8 January 2003. Phil Moorhouse and Steve Smith are retiring by rotation in accordance with the Articles of Association and with the requirements of the Combined Code and, being eligible, are seeking re-election.

The termination provisions in respect of executive Directors' contracts are set out in the Remuneration Report on page 12.

The following are the interests of the Directors in the share capital of the Company as shown in the register required to be maintained under Section 325 of the Companies Act 1985. All interests are beneficial unless otherwise stated.

| | Ordinary shares | |
|---|---|---|
| | 1.5.02 | 30.4.03 |
| J Astrand | – | – |
| P J Moorhouse | 41,616 | 43,674 |
| G T Murray | – | 4,000 |
| A T Noble | 817,624 | 821,015 |
| S J Smith | 70,616 | 73,007 |
| F M Waring | 1,673,100* | 1,663,767* |
| R Williams | 5,000 | 5,000 |

*5,767 (2002 - 15,100) shares are held beneficially. The interest of Mr Waring in the remainder is as a discretionary beneficiary of various family trusts.

No Director has an interest in the preference shares of the Company.

No changes in the above interests have occurred between 30 April 2003 and the date of this report.

Details of options held by the Directors under the Company's various share schemes are given in the Remuneration Report on pages 12 to 17.

## Donations

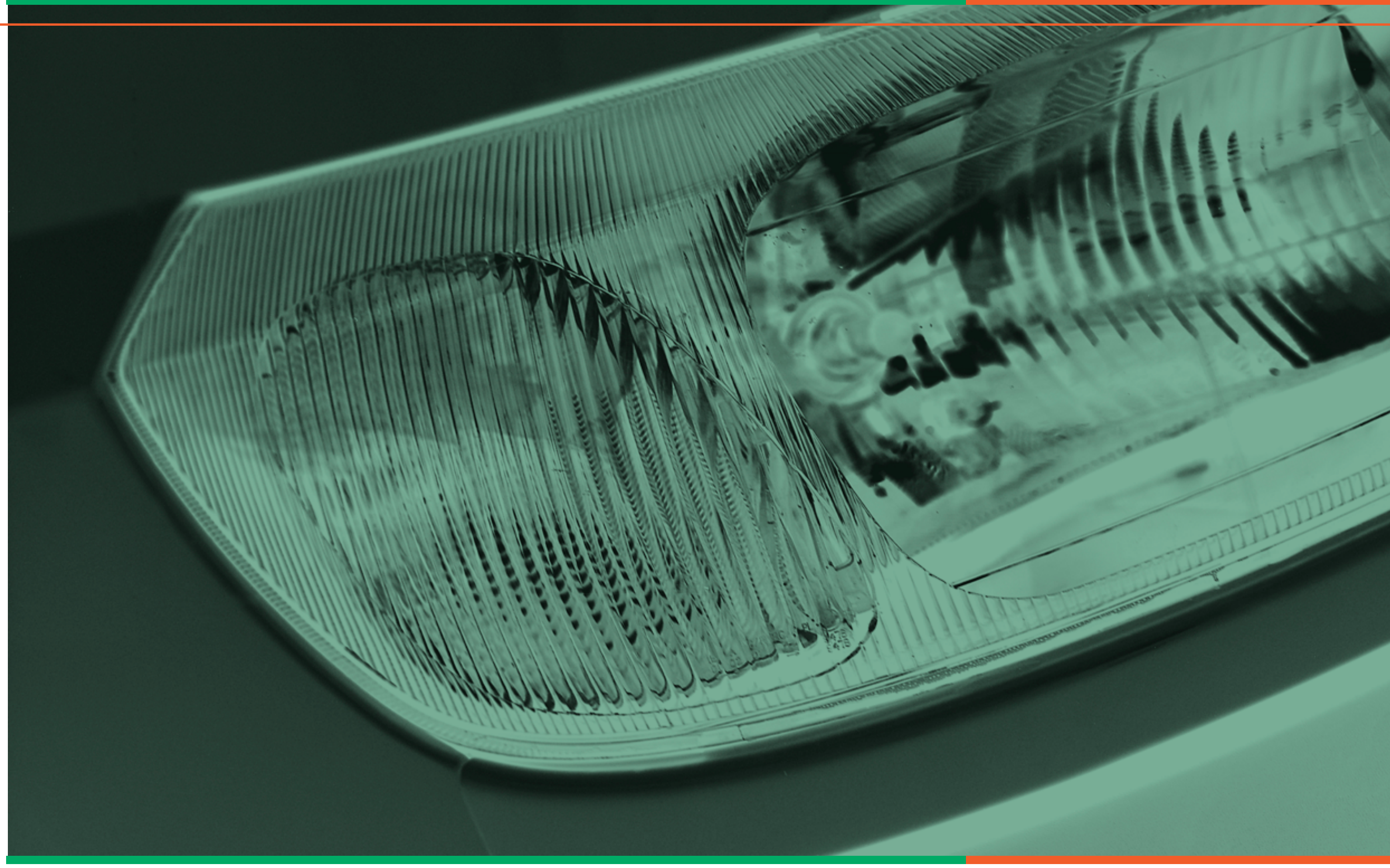
The Group made charitable donations of £17,000 (2002 - £20,000).
No political donations were made.

## Payment of suppliers

The Group's policy is to pay suppliers within normal trading terms agreed with that supplier. The policy is made known to the staff who handle payments to suppliers. At 30 April 2003 the Group's creditor days were 39.

## Remuneration report

As required by the Directors' Remuneration Report Regulations 2002, the Remuneration Report, set out on pages 12 to 17 of these Report and Accounts, will be put to shareholders for approval at the Annual General Meeting.



## Power to allot shares

A special resolution, pursuant to Section 95 of the Companies Act 1985, will be proposed to renew the authority of the Directors to allot Ordinary shares for cash other than to existing shareholders on a proportionate basis. This authority will be limited to an aggregate nominal amount of £152,000 representing approximately 5% of the current issued Ordinary share capital and will expire not later than 15 months after the date on which the resolution is passed.

## Authority for the Company to purchase its own shares

The Directors propose to renew the general authority of the Company to make market purchases of its own shares up to a total of 6,000,000 Ordinary shares (representing approximately 10% of the issued Ordinary share capital) and within the price constraints set out in the special resolution to be proposed at the Annual General Meeting.

There is no present intention to make any purchase of own shares and, if granted, the authority would only be exercised if to do so would result in an improvement in earnings per share for remaining shareholders.

## Auditors

On 1 August 2003, Deloitte & Touche will transfer their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. However, at present they remain the Company's auditors and have signed the accounts in that capacity. The Company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003. Accordingly, although the accounts have been signed in the name of Deloitte & Touche, a resolution for the re-appointment of Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

By order of the Board
**D Henderson**
Secretary
1 July 2003

# REPORT ON REMUNERATION

## Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration packages and terms and conditions of employment of the executive Directors of the Company and of other senior executives in the Group. The Committee also reviews remuneration policy generally throughout the Group. The members of the Committee are Ron Williams (Chairman) and Jan Astrand, both of whom are independent and both served throughout the year. The Committee consults with the Chairman of the Board and with the Chief Executive who may be invited to attend meetings. The Company Secretary is secretary to the Committee.

The Remuneration Committee has met on eight occasions during the year, all meetings being attended by both members of the Committee. In addition, the Chief Executive and/or the Chairman of the Board were invited to attend five meetings. Both members of the Committee also attended a meeting with New Bridge Street Consultants and the executive Directors to discuss the new Deferred Annual Bonus Plan ("DABP") referred to below.

The Committee has access to external independent advice on matters relating to remuneration. During the year the Committee took advice, directly or indirectly, from the following organisations:

– New Bridge Street Consultants, in relation to the remuneration packages of the executive Directors and senior management, including the DABP;
– Dickinson Dees, in relation to the service contracts for executive Directors; and
– Watson Wyatt, in relation to pension benefits for senior executives.

## Remuneration policy

The Committee aims to ensure that executive Directors are fairly and competitively rewarded for their individual contributions by means of basic salary, benefits in kind and pension benefits. High levels of performance are recognised by discretionary bonuses and the motivation to achieve the maximum benefit for shareholders in the future is provided by the allocation of share options. Only basic salary is pensionable.

Basic salaries are normally reviewed annually taking into account the performance of the individual, changes in responsibilities and market trends.

## Flexible benefits scheme

A flexible benefits scheme was introduced on 1 May 2002 which is designed to help in the recruitment and retention of employees by allowing them to tailor their remuneration package to best suit their individual needs.

In particular, it enables company car users to mitigate the effects of the new benefit in kind taxation system for company cars, introduced on 6 April 2002, which is based on $CO_2$ emission levels.

## Service contracts

The executive Directors have rolling service contracts which may be terminated by 12 months notice on either side.

| The dates of the contracts are: | |
|---|---|
| P J Moorhouse | 8 January 2003 |
| G T Murray | 8 January 2003 |
| A T Noble | 6 January 1998 |
| S J Smith | 8 January 2003 |

In the event of early termination of an executive Director's service contract, compensation of up to the equivalent of one year's base salary and benefits may be payable: there is no contractual entitlement to compensation beyond this. Directors have a duty to make reasonable efforts to mitigate any loss arising from such termination and the Committee will have regard to that duty on a case by case basis when assessing the appropriate level of compensation which may be payable. It is also the Board's policy that where compensation on early termination is due, in appropriate circumstances it should be paid on a phased basis.

## Basic salaries

The current basic salaries paid to the executive Directors and the date last reviewed are as follows:

| | | |
|---|---|---|
| P J Moorhouse | £200,000 | 8 January 2003 |
| G T Murray | £160,000 | 8 January 2003 |
| A T Noble | £158,500 | 1 May 2002 * |
| S J Smith | £240,000 | 8 January 2003 |

*Alan Noble's salary will be reviewed when he returns to full time working following a lengthy period of illness. The salaries of the other Directors are next due for review on 1 May 2004.

## External appointments

The Board recognises that executive Directors may be invited to become non-executive Directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Group. Provided that it does not impact on their executive duties, Directors are generally allowed to accept one such appointment. As the purpose of seeking such positions is self-education rather than financial reward, any resulting fees would normally be expected to be paid to Northgate plc as compensation for the time commitment involved.

## Non-executive Directors

The remuneration of the non-executive Directors is determined by the Board as a whole, within the overall limit set by the Articles of Association. Non-executive Directors are not eligible for performance related payments nor may they participate in the Company's share option or pension schemes.

Non-executive Directors do not have contracts of service with the Company and their appointments are terminable without notice.

The current fees paid to the non-executive Directors are as follows:

| | | |
|---|---|---|
| F M Waring | (Chairman) | £85,000 |
| R Williams | (Deputy Chairman and Chairman of Audit and Remuneration Committees) | £36,000 |
| J Astrand | | £29,000 |

All were last reviewed on 1 May 2003.

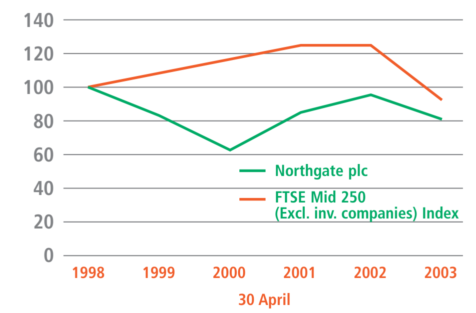
## Pension schemes

Throughout the year all pension arrangements operating throughout the Group were defined contribution schemes.

## Performance graph

As required by The Directors' Remuneration Report Regulations 2002, this graph illustrates the performance of Northgate plc measured by Total Shareholder Return (share price growth plus dividends paid) against a 'broad equity market index' over the last five years. As Northgate plc is a constituent of the FTSE 250 index, that index (excluding investment companies) is considered to be the most appropriate benchmark.

**Total Shareholder Return** Source: Datastream




This graph shows the value, by the 30 April 2003, of £100 invested in Northgate plc on 30 April 1998 compared with that of £100 invested in the FTSE Mid 250 (Excl. inv. companies) Index. The other points plotted are the values at intervening financial year ends.

# REPORT ON REMUNERATION

The following elements of this report have been audited.

## Emoluments

| | Salary/ fees £000 | Bonus £000 | Cost of benefits* £000 | Chargeable expenses £000 | 2003 total £000 | 2002 total £000 | 2003 Pension contributions† £000 | 2002 Pension contributions† £000 |
|---|---|---|---|---|---|---|---|---|
| J Astrand | 26 | – | – | – | 26 | 25 | – | – |
| M C Baughan | – | – | – | – | – | 12 | – | – |
| P J Moorhouse | 165 | 54 | 19 | 3 | 241 | 206 | 20 | 16 |
| G T Murray | 51 | – | 2 | – | 53 | – | 4 | – |
| A T Noble | 158 | – | 23 | 1 | 182 | 221 | 22 | 22 |
| S J Smith | 193 | 65 | 22 | 2 | 282 | 222 | 21 | 14 |
| C J Spence | – | – | – | – | – | 12 | – | – |
| F M Waring | 75 | – | – | – | 75 | 75 | – | – |
| R Williams | 33 | – | – | – | 33 | 32 | – | – |
| Total emoluments excluding pension contributions | 701 | 119 | 66 | 6 | 892 | 805 | | |
| Total pension contributions | | | | | | | 67 | 52 |

*These benefits include: company car, private medical insurance, permanent health insurance, life assurance and spouses death in service pension.
† All contributions are to a defined contribution type scheme.

## Share option scheme

The Goode Durrant Share Option Scheme ("the GD Scheme"), which has been approved by the Board of the Inland Revenue, was established in 1986. At 30 April 2003 options over 102,000 Ordinary shares were outstanding exercisable at various dates between 1998 and 2006 (See Note 19 on page 40). The last options were granted in January 1996 and no further options may be granted under this scheme. There are no performance conditions attached to this scheme.

The Directors held the following options granted under the GD Scheme:

| | At 1.5.02 | Exercised | At 30.4.03 | Exercise price (p) | Normally exercisable between | |
|---|---|---|---|---|---|---|
| F M Waring | 100,000 | – | 100,000 | 218.5 | Jan 1998 | Jan 2005 |
| | 52,500 | 52,500* | – | 280.5 | Jan 1999 | Jan 2006 |
| | 152,500 | 52,500 | 100,000 | | | |

*These options were exercised on 17 March 2003 when the market price was 375p. The total gross gain on exercise was therefore £49,612. No Directors' options under the GD scheme lapsed during the year. The mid-market price of the Ordinary shares at 30 April 2003 was 416p (30 April 2002 – 503p) and the range during the year was 370.5p to 548.5p.

## Long term incentive plan

In 1996 a Long Term Incentive Plan ("the Plan"), which is administered by the trustees of an employee trust ("the Trust"), was introduced for executive Directors and senior management within the Group.

The Plan was intended to provide incentives, in the form of Ordinary shares of the Company, to Directors and senior management.

The Board believes that the Plan failed to achieve its motivational objectives, largely due to its complexity, and it was therefore effectively replaced by a new share option scheme, ("the NSOS") (see below) which was approved by shareholders at the Annual General Meeting in 2000. It is the Board's intention that no further options under the Plan be awarded. The last options were awarded in July 1999.

An award under the Plan consists of a right to acquire shares for a nominal price which, in normal circumstances, can be exercised, subject to performance criteria being satisfied, between three and six years following the date of grant.

A condition of the grant of an option is that any shares acquired on exercise will be held on behalf of the employee by the trustees for a further period of two years, during which time the employee will be entitled to all the benefits of share ownership but may not dispose of the shares (other than sufficient to meet any income tax liability arising on exercise).

The performance criteria considered by the Board to be the most appropriate at the time the awards were made was a comparison of the growth in the Company's Total Shareholder Return ("TSR") with that of other companies included in the HSBC Trixie Index ("the Index") over the period of three years following the date of grant.

When granted, an option is expressed in terms of a standard number of shares. The number of shares which ultimately will be vested in the employees on exercise will depend on the Company's TSR performance relative to the Index and, provided the Company's performance is above the median, can range from a fraction of one third to a multiple of two. If performance is below the median, options cannot be exercised.

The maximum value of an award on any one occasion to any individual may not exceed 25% of basic annual salary at that time and the aggregate value (in each case taking the value at the time of grant) of all awards subsisting under the Plan at any one time may not exceed basic annual salary.

The Company will fund the Trust to enable it to acquire shares in the Company to be applied on the exercise of options under the Plan. At 30 April 2003 options over 1,304 Ordinary shares capable of exercise remained outstanding.

The Directors held the following options granted under The Plan:

| | At 1.5.02 | Exercised* | Date of Exercise | Share price on date of purchase (p) | Gross gain on exercise £ | Lapsed† | At 30.4.03 | Normally exercisable between | |
|---|---|---|---|---|---|---|---|---|---|
| P J Moorhouse | 4,000 | 1,334 | 4.9.02 | 438 | 5,842 | – | – | July 2000 | July 2003 |
| | 4,200 | | | | | 4,200 | – | Jan 2001 | Jan 2004 |
| | 8,200 | 1,334 | | | | 4,200 | – | | |
| A T Noble | 8,000 | 2,667 | 4.9.02 | 438 | 11,680 | – | – | July 2000 | July 2003 |
| | 6,800 | | | | | 6,800 | – | Jan 2001 | Jan 2004 |
| | 14,800 | 2,667 | | | | 6,800 | – | | |
| S J Smith | 5,000 | 1,667 | 4.9.02 | 438 | 7,300 | – | – | July 2000 | July 2003 |
| | 4,400 | | | | | 4,400 | – | Jan 2001 | Jan 2004 |
| | 9,400 | 1,667 | | | | 4,400 | – | | |
| F M Waring | 9,000 | 3,000 | 24.10.02 | 388.5 | 11,654 | – | – | July 2000 | July 2003 |
| | 7,700 | | | | | 7,700 | – | Jan 2001 | Jan 2004 |
| | 8,000 | 2,667 | 30.7.02 | 460 | 12,267 | – | – | July 2001 | July 2004 |
| | 24,700 | 5,667 | | | | 7,700 | – | | |
| Total | 57,100 | 11,335 | | | | 23,100 | – | | |

*The Company's TSR Performance over the period of three years following the date of grant placed it in the top 50% of the Index resulting in a multiple of one third being applied to the original number of options granted with any balance being forfeited. In all cases, the exercise price was £1 per award.

† Those options granted in January 1998 did not meet the above performance criteria over the three, four or five year periods following the date of their grant and therefore have lapsed.

## Executive incentive scheme

The EIS, introduced in 1999, was designed to motivate those key executives in Northgate most able to influence the successful implementation of our five year Strategy for Growth, with a target to double the size of the business over the period 1999-2004. As is referred to in the Operational Review on pages 4 and 5, as measured by earnings per share, we have achieved that target this year, one year ahead of expectations. As the EIS was specifically aligned to this strategy plan, it has been decided that no further options will be awarded under the EIS, the last options being granted in July 2001.

# REPORT ON REMUNERATION

An award under the EIS consists of a right to acquire Ordinary shares of the Company at a pre-determined price which, in normal circumstances, can be exercised, subject to a specified performance condition being satisfied, between four and ten years following the date of grant. Options may relate to new and/or existing shares when exercised.

The performance condition attached to the options granted during the year is that, for all the options to become exercisable, the Company's normalised earnings per share growth over the five year period following their grant should exceed 15% p.a. These options will normally only first become exercisable in full on the seventh anniversary of their grant and will lapse if they do not meet the prescribed level of growth over the five years. However, they will become capable of earlier exercise in tranches of 20%, 25% and 25% on the fourth, fifth and sixth anniversaries of their grant if earnings per share growth has been at least 15% p.a. over the two, three and four years following their grant respectively. Partial exercise of these options over a sliding scale will be permitted for growth in earnings per share of between 8% and 15% p.a. over these periods.

The aggregate value (in each case being the exercise price multiplied by the number of options) of options granted to an individual in the preceding ten years under the EIS and under any other executive share option scheme adopted by the Company may not exceed eight times their annual earnings. Waived and exercised options continue to count towards this limit.

The Directors hold the following options granted under the EIS:

| | No. of options | Exercise price (p) |
|---|---|---|
| P J Moorhouse | 180,000 | 492.5 |
| A T Noble | 174,050 | 492.5 |
| | 5,950 | 503.5 |
| | 180,000 | |
| S J Smith | 180,000 | 492.5 |

All the above options are normally exercisable between September 2003 and September 2009.

No Directors were granted options under the EIS during the year, none lapsed and none were exercised.

In addition to the above, options over 907,500 shares granted to 40 employees at exercise prices ranging from 367.5p to 523p were outstanding at 30 April 2003.

## New share option scheme

The NSOS was introduced in 2000 to replace the Plan (see page 14) and operates on broadly similar lines to the EIS (see above). The NSOS is designed to provide incentives, in the form of Ordinary shares in the Company, to selected employees at managerial level. Although Directors, with the exception of Gerard Murray who does not participate in the EIS, and certain other management at a senior level do not currently participate in the scheme (as their share incentives in recent years have been provided under the EIS), it is intended that, from July 2004, longer term incentives for Directors and senior executives (currently numbering approximately 12 in total) be provided by a modest level (up to 50% of salary per annum) of option grants under the NSOS: this would be in addition to participating in the new DABP (see below). From July 2004, middle management would no longer participate in the NSOS, instead being incentivised under the DABP.

The principal differences between the NSOS and the EIS are:

i) the maximum individual allocation over a ten year period is limited to four times annual earnings (EIS – eight times);

ii) subject to the performance criteria being satisfied, options may be exercised between three and five and a half years from the date of grant (EIS – four to ten years); and

iii) the performance criteria is that earnings per share should increase by at least 3% per annum above inflation over a period of at least three years (EIS – earnings per share growth of 15% per annum over five years but with partial exercise over a sliding scale for growth between 8% and 15%).

Gerard Murray was awarded 50,000 options under the NSOS at an exercise price of 380p following his appointment to the Board. These options are normally exercisable between January 2006 and July 2008.

In addition, options over 260,500 shares granted to 62 employees at exercise prices ranging from 403.5p to 478p were outstanding at 30 April 2003.

## Deferred annual bonus plan

A new DABP is being introduced for our 2003/04 financial year for Directors and senior and middle management. Part of the bonus will be delivered in cash and will be payable immediately after the year end and part (not normally exceeding 50% of the total) in the form of shares with the first share award being made following the announcement of our results in July 2004.

The shares will be retained in an employee benefit trust for three years and be subject to forfeiture if the employee leaves during that time. This will provide a stronger retention mechanism than share options and has the motivational benefits of certainty and clarity for the employee. During the retention period, executives continue to have an incentive to influence the share price so as to maximise the value on release.

For the financial year 2003/04, the bonuses for executive Directors upon which these awards will be made will be based upon business and individual performance, including elements based on cash flow and a target of growth in earnings per share of between 3% and 10% above inflation. The share element of the bonus will have stretched targets relative to the cash element. The maximum amount of bonus which may be earned, expressed as a percentage of basic salary is as follows:

| | Cash | Shares |
|---|---|---|
| S J Smith | 50% | 50% |
| P J Moorhouse | 40% | 40% |
| A T Noble | 30% | 30% |
| G T Murray | 30% | 30% |

For other levels of management bonus levels will be based on a combination of the performance of the relevant business unit and individual Key Performance Indicators and the maximum amounts, again expressed as a percentage of basic salary and split equally between cash and shares, range from 20% to 60% in total.

Shares to satisfy awards made under the DABP will be purchased in the market.

## All employee share scheme

The All Employee Share Scheme ("the AESS"), which is approved by the Inland Revenue under Schedule 8 Finance Act 2000, was introduced in 2000 to provide employees at all levels with the opportunity to acquire shares in the Company on preferential terms. The Board believes that encouraging wider share ownership by all staff will have longer term benefits for the Company and for shareholders. The AESS operates under a trust deed, the Trustees being Capita IRG Trustees Limited.

To participate in the AESS, which operates on a yearly cycle, employees are required to make regular monthly savings (on which tax relief is obtained), by deduction from pay, for a year at the end of which these payments are used to buy shares in the Company ("Partnership shares"). For each Partnership share acquired, the employee will receive one additional free share ("Matching shares"). Matching shares will normally be forfeited if, within three years of acquiring the Partnership shares, the employee either sells the Partnership shares or leaves the Group. After this three year period Partnership and Matching shares may be sold, although there are significant tax incentives to continue holding the shares in the scheme for a further two years. Those employees who are most committed to the Company will therefore receive the most benefit.

The second annual cycle ended in January 2003 and resulted in 393 employees acquiring 79,372 Partnership shares at 415p each and being allocated the same number of Matching shares.

As at 30 April 2003 the Trust held 260,624 Ordinary shares that have vested to employees from the first two cycles.

The third annual cycle started in January 2003 and currently some 450 employees are making contributions to the scheme at an annualised rate of £375,000.

As at 30 April 2003, the Trust held 25,960 Ordinary shares of the Company against the shares that are anticipated to be required at the end of the third annual cycle of the AESS in January 2004.

On behalf of the Board

**D Henderson**

Secretary

1 July 2003

# CORPORATE GOVERNANCE

The Financial Services Authority has incorporated into the Listing Rules the Combined Code ("the Code"), published in June 1998, which sets out Principles of Good Corporate Governance and contains a Code of Best Practice.

The provisions of the Code applicable to listed companies are divided into four parts, as set out below:

## 1 Directors

The business of the Company is managed by the Board of Directors, currently comprising four executive and three non-executive Directors, details of whom are set out on page 8.

The non-executive Directors, apart from the Chairman, who was formerly an executive Director of the Company, are considered to be independent both in the sense outlined in the Code and in terms of the criteria laid down by the National Association of Pension Funds for judging the independence of non-executive Directors. Ron Williams, as Deputy Chairman, is considered to be the senior such independent Director.

The offices and responsibilities of the Chairman and Chief Executive Officer are separate.

The Board meets regularly, normally monthly, to review trading results and has responsibility for, inter alia, overall Group strategy, financial reporting to and relationships with shareholders, dividend policy, acquisitions and disposals, major capital expenditure and financing and treasury policy.

The Chairman ensures that all Directors are properly briefed to enable them to discharge their duties. In particular, detailed management accounts are prepared and copies sent to all Board members every month and, in advance of each Board meeting, appropriate documentation on all items to be discussed is circulated.

During the year under review the full Board met on 11 occasions.

Attendance was as follows:

| | |
|---|---|
| F M Waring | 9 |
| J Astrand | 11 |
| P J Moorhouse | 11 |
| G T Murray | 3* |
| A T Noble | 5† |
| S J Smith | 11 |
| R Williams | 11 |

*Mr Murray has attended all meetings held since his appointment on 8 January 2003.
†Mr Noble's absences have been due to a prolonged period of illness.

In addition, the non-executive Directors, including the Chairman, but without executive Directors present, met informally on six occasions during the year.

Before appointment, non-executive Directors are required to assure the Board that they can give the time commitment necessary to properly fulfil their duties, both in terms of availability to attend meetings and discuss matters on the telephone and meeting preparation time.

The Company's Articles of Association provide that at each Annual General Meeting of the Company, one third (or the number nearest to but not exceeding one third) of the Directors shall retire from office. Those to retire in each year are those who have been longest in office since their appointment or re-appointment. (Any Director appointed by the Board during the year is obliged to seek re-election at the next following Annual General Meeting and is not included when determining the one third to retire by rotation). It is therefore possible for a Director to serve four years before seeking re-appointment by shareholders. The Company intends to amend its Articles to comply with the Code requirement that all Directors be subject to re-election at intervals of no more than three years the next time it makes other changes to its Articles of Association. No current Director has served more than three years without being re-elected by shareholders. Until the Articles are amended, the Company will in any event comply with the Code by ensuring that no Director serves more than three years without seeking re-election.

In terms of the Code requirement to establish a nominations committee, the Board considers that it is a small board and therefore does not need to establish such a committee. The appointment of new Directors is regarded as a matter for the Board as a whole.

## 2 Directors' remuneration

The Company's policy on remuneration and details of the remuneration of each Director are given in the Remuneration Report on pages 12 to 17.

## 3 Relations with shareholders

Throughout the year the Company maintains a regular dialogue with institutional investors and brokers' analysts, providing them with such information on the Company's progress and future plans as is permitted within the guidelines of the Listing Rules. In particular, twice a year, at the time of announcing the Company's interim and full year results, they are invited to briefings given by the Chief Executive Officer and Finance Director.

All shareholders are given the opportunity to raise matters for discussion at the Annual General Meeting, of which more than the recommended minimum 20 working days notice is given. In recent years the Company has adopted the practice of issuing a brief statement at the Annual General Meeting, which is simultaneously released to the London Stock Exchange, on current trading conditions. In addition, this year for the first time the Company issued brief 'pre-close' trading statements two months prior to the announcement of both our interim and full year results and would intend to continue this practice in the future.

In compliance with the requirement in the Code, the Company has adopted the practice at general meetings of the Company of advising shareholders of the numbers of proxy votes lodged on each resolution, after the resolution has been dealt with on a show of hands.

## 4 Accountability and audit

An assessment of the Company's position and prospects is included in the Chairman's Statement on page 3.

### Internal control

Provision D2.1 of the Code requires the Directors to conduct an annual review of the effectiveness of the Group's system of internal controls. The Turnbull Report, published by the ICAEW in September 1999, provides relevant guidance for directors on compliance with the internal control provisions of the Code.

The Directors are responsible for the Group's system of internal controls which aims to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Although no system of internal controls can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide the Directors with reasonable assurance that, should any problems occur, these are identified on a timely basis and dealt with appropriately. The key features of the Group's system of internal controls, which was in place throughout the period covered by the financial statements, are described below:

### Control environment

The Group has a clearly defined organisational structure within which individual responsibilities of line and financial management for the maintenance of strong internal controls and the production of accurate and timely financial management information are identified and can be monitored. Where appropriate, the business is required to comply with the procedures set out in written manuals.

To demonstrate the Board's commitment to maintaining the highest business and ethical standards and to promote a culture of honesty and integrity amongst all staff, the Board has established a confidential telephone service, operated by an independent external organisation, which may be used by all staff to report any issues of concern relating to dishonesty or malpractice within the Group. All issues reported are investigated by senior management.

### Identification of risks

The Board and the Group's management have a clearly defined responsibility for identifying the major business risks facing the Group and for developing systems to mitigate and manage those risks. The control of key risks is reviewed by the Board and the Group's management at their monthly meetings.

The Board is therefore able to confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that it has been in place for the year under review and up to the date of approval of these accounts and accords with the Turnbull guidance.

### Information and communication

The Group has a comprehensive system for reporting financial results to the Board. Each operating unit prepares monthly accounts with a comparison against their business plan and against the previous year, with regular review by management of variances from targeted performance levels. A business plan is received and approved by the Board annually. Each operating unit prepares a three year business plan with performance reported against key performance indicators on a monthly basis together with comparisons to plan and prior year. These are reviewed regularly by management. Forecasts are updated regularly throughout the year.

### Control procedures

The Board and the Group's management have adopted a schedule of matters which are required to be brought to it for decisions, thus ensuring that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues. Measures taken include clearly defined procedures for capital expenditure appraisal and authorisation, physical controls, segregation of duties and routine and ad hoc checks.

# CORPORATE GOVERNANCE

## Monitoring

The Board has delegated to executive management implementation of the system of internal control. The Board, including the Audit Committee, receives reports on the system of control from the external auditors and from management. An independent internal audit function reports bi-annually to the Audit Committee primarily on the key areas of risk within the business.

The Directors confirm that they have reviewed the effectiveness of the system of internal controls covering financial, operational and compliance matters and risk management, for the period covered by these financial statements in accordance with the guidance contained in the Turnbull Report.

## Audit

The Audit Committee is currently comprised of the two independent non-executive Directors and chaired by Ron Williams, who is Deputy Chairman of the Board. The Committee has written terms of reference setting out its duties. These include matters relating to the appointment and fees of the external auditors and review of the annual and interim statements, of the Group's internal controls and of the nature, scope and results of the internal audit programme.

The Committee has access to the resources and facilities it requires to enable it to carry out its duties. These include external professional advice and direct access to the Company Secretary and other relevant staff. Both the external auditors and the internal audit manager have direct access to members of the Committee and can meet with the Committee without the Company's management being present.

The Audit Committee has met formally on four occasions during the year.

- As well as being attended by both members of the Committee, all other Board members were invited attendees at the above meetings.
- The external auditors attended three meetings.
- The internal audit manager attended two meetings.
- In addition to the four meetings referred to above, the two members of the Committee, together with the Chairman of the Board, had informal meetings with the external auditors and, separately, with the internal audit manager, both with no other Directors present.

The Committee also monitors the independence and objectivity of the external auditors in carrying out their statutory audit work on behalf of shareholders and providing other fee-paying services to the Company. The Board's policy on non-audit work is:

Tax advisory and other audit-related work (including in particular Corporation Tax).
This is work that, in their capacity as auditors, they are best placed to carry out and will generally be asked to do so. Nevertheless, where appropriate, they will be asked for a fee quote.

Non-audit related and general consultancy work.
This type of work will either be placed on the basis of the lowest fee quote or to the consultants who are felt to be best able to provide the expertise and working relationship required. In certain instances, such as the appointment of consultants to provide external advice and support to the internal audit department, the auditors will not be invited to compete for the work.

Fees paid to Deloitte & Touche in respect of the year under review were as follows:

| | £000 |
|---|---|
| Statutory audit | 173 |
| Tax advice (principally Corporation Tax) | 72 |
| Due diligence | 102 |
| Other | 65 |
| | 412 |

In light of the recently published report on audit committees by the group appointed by the Financial Reporting Council and chaired by Sir Robert Smith, the Board is currently undertaking a review of the terms of reference of the Audit Committee. Subject to any further changes to the Combined Code resulting from the publication in January 2003 of Derek Higgs' 'Review of the role and effectiveness of non-executive directors', the Board would expect the new terms of reference to be in place by the end of the current financial year.

## Compliance

The Board considers that the Company was in compliance with the provisions of the Code applicable to listed companies throughout the financial year, with the exception of the requirement to appoint three non-executive Directors to the Audit Committee (see under Audit above). The composition of the Audit Committee will remain unchanged until the appointment of a further independent non-executive Director.

# HEALTH AND SAFETY

The Board regards the monitoring and control of health and safety and environmental issues as a key part of its risk management programme.

The Board has designated the Chief Executive as the person ultimately responsible to the Board for all health, safety and environmental matters throughout the Group. Responsibility for implementing the Group's policy is devolved to regional and depot management.

To provide technical advice and support a Group health and safety committee has been established and a qualified health and safety officer appointed, part of whose responsibility is to visit every Group location at least once a year to carry out a health and safety audit. Where appropriate, outside professional advice and services are used:

- in compliance with the Electricity at Work Regulations, a rolling programme of electrical inspections and surveys, covering all Group locations, is carried out by qualified electrical contractors;
- a programme of surveys has been put in place to meet the requirements of the new Asbestos Regulations, due to come into force in 2004, using licensed contractors;
- all hazardous waste (principally engine oils, batteries, tyres and other vehicle consumables) is collected and disposed of by licensed contractors;
- prior to acquiring new sites, environmental risk assessments, to ISO 9000 standard, are carried out by external consultants;
- we have arranged with the Institute of Advanced Motorists a rolling programme of driver assessment and training for all employees who have a company vehicle or who are otherwise required to drive as part of their duties.

A comprehensive health and safety procedures manual and a vehicle user handbook provide guidance and advice in implementing the Group's health and safety policy. Relevant training is provided to all employees.

During the year under review no major incidents (classed as those resulting in death, serious injury or significant pollution) occurred.

No health and safety enforcement notices were served on any company in the Group and there were no convictions for health and safety offences during the year. There were no pending prosecutions outstanding at the year end.

# REPORT OF THE AUDITORS

**Independent auditors' report to the members of Northgate plc**

We have audited the financial statements of Northgate plc for the year ended 30 April 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the accounting policies and the related Notes 1 to 25 together with the reconciliation of net cash flow to movement in net debt and the notes to the consolidated cash flow statement. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

As described in the Statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report described as having been audited have been 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 regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 Directors' Report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report and 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 United Kingdom 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 and the part of the Directors' remuneration report described as having been audited. 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 circumstances of the Company and the Group, 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 and the part of the Directors' remuneration report described as having been audited 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 and the part of the Directors' remuneration report described as having been audited.

## 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 30 April 2003 and of the profit of the Group for the year then ended; and
- the financial statements and that part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche**

Chartered Accountants and Registered Auditors
Leeds

1 July 2003



# FINANCIAL STATEMENTS

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 April 2003

| | Notes | Before goodwill amortisation and exceptional items 2003 £000 | Goodwill amortisation and exceptional items 2003 £000 | Total 2003 £000 | Total 2002 £000 |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Continuing operations | 1 | 337,875 | – | 337,875 | 277,829 |
| Acquired joint venture | | 14,514 | – | 14,514 | – |
| Turnover: Group and share of joint venture | | 352,389 | – | 352,389 | 277,829 |
| Less: share of joint venture's turnover | | (14,514) | – | (14,514) | – |
| **Group turnover** | | **337,875** | – | 337,875 | **277,829** |
| Cost of sales | | (250,213) | – | (250,213) | (202,315) |
| **Gross profit** | | **87,662** | – | 87,662 | **75,514** |
| **Administrative expenses** | | | | | |
| – general administrative expenses | | (38,999) | – | (38,999) | (30,455) |
| – goodwill amortisation | | – | (384) | (384) | (4) |
| Total administrative expenses | | (38,999) | (384) | (39,383) | (30,459) |
| **Group operating profit – continuing operations** | 1, 2 | **48,663** | **(384)** | 48,279 | **45,055** |
| Share of joint venture's operating profit | | 2,817 | (197) | 2,620 | – |
| | | 51,480 | (581) | 50,899 | 45,055 |
| Profit on disposal of property | | – | 736 | 736 | – |
| Interest payable, net | 4 | (15,032) | – | (15,032) | (13,381) |
| **Profit on ordinary activities before taxation** | | 36,448 | 155 | 36,603 | 31,674 |
| Tax on profit on ordinary activities | 5 | | | (11,497) | (9,953) |
| **Profit for the financial year** | 6 | | | 25,106 | 21,721 |
| Dividends | 7 | | | (9,736) | (9,119) |
| **Profit transferred to reserves** | 21 | | | 15,370 | 12,602 |
| **Earnings per Ordinary share – basic** | 8 | | | 41.4p | 35.8p |
| **Diluted earnings per Ordinary share** | 8 | | | 41.2p | 35.6p |
| **Dividends per Ordinary share** | 7 | | | 16.0p | 15.0p |

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30 April 2003

| | 2003 £000 | 2002 £000 |
|---|---|---|
| **Profit for the financial year** | 25,106 | 21,721 |
| Foreign exchange differences | 626 | – |
| | 25,732 | 21,721 |

# BALANCE SHEETS

30 April 2003

| | Notes | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 9 | 1,382 | 142 | – | – |
| Tangible assets | | | | | |
| Vehicles for hire | 10 | 366,976 | 325,116 | – | – |
| Other fixed assets | 11 | 21,574 | 19,076 | 2,188 | 1,932 |
| Investments | 12 | 409 | 590 | 79,050 | 70,161 |
| | | 390,341 | 344,924 | 81,238 | 72,093 |
| **Investment in joint venture** | 17 | | | | |
| Share of gross assets | | 38,450 | – | – | – |
| Share of gross liabilities | | (30,898) | – | – | – |
| Goodwill on investment less amortisation | | 4,529 | – | – | – |
| | | 12,081 | – | – | – |
| **Total fixed assets** | | 402,422 | 344,924 | 81,238 | 72,093 |
| **Current assets** | | | | | |
| Stocks | 13 | 10,328 | 8,028 | – | – |
| Debtors | 14 | 57,270 | 54,925 | 19,455 | 26,465 |
| Cash at bank and in hand | | 31,545 | 26,125 | 29,792 | 24,537 |
| | | 99,143 | 89,078 | 49,247 | 51,002 |
| **Creditors: amounts falling due within one year** | 15 | 185,758 | 149,754 | 12,909 | 12,844 |
| **Net current (liabilities) assets** | | (86,615) | (60,676) | 36,338 | 38,158 |
| **Total assets less current liabilities** | | 315,807 | 284,248 | 117,576 | 110,251 |
| Creditors: amounts falling due after more than one year | 16 | 155,592 | 142,031 | – | – |
| Provisions for liabilities and charges | 18 | 7,005 | 5,170 | (6) | (65) |
| | | 153,210 | 137,047 | 117,582 | 110,316 |
| **Capital and reserves** | | | | | |
| Called up share capital | 19 | 3,545 | 3,542 | 3,545 | 3,542 |
| Share premium account | 20 | 45,635 | 45,471 | 45,635 | 45,471 |
| Revaluation reserve | 21 | 23 | 23 | – | – |
| Merger reserve | 21 | 4,721 | 4,721 | 417 | 417 |
| Profit and loss account | 21 | 99,286 | 83,290 | 67,985 | 60,886 |
| **Shareholders' funds** | | 153,210 | 137,047 | 117,582 | 110,316 |
| Attributable to equity shareholders | | 152,710 | 136,547 | 117,082 | 109,816 |
| Attributable to non-equity shareholders | | 500 | 500 | 500 | 500 |
| | | 153,210 | 137,047 | 117,582 | 110,316 |

The accounts were approved by the Board of Directors on 1 July 2003.

**F M Waring**
Director

**G T Murray**
Director

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 April 2003

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| **Cash inflow from operating activities** | (i) | 150,896 | 127,057 |
| **Returns on investments and servicing of finance** | (ii) | (13,847) | (13,265) |
| **Taxation** | | (11,869) | (7,250) |
| **Capital expenditure and financial investment** | | | |
| Purchase of vehicles for hire | | (216,858) | (172,603) |
| Sale of vehicles for hire | | 95,341 | 68,866 |
| Other items, net | | (3,457) | (6,173) |
| **Net cash outflow from capital expenditure and financial investment** | (iii) | (124,974) | (109,910) |
| **Acquisitions** | (iv) | (14,672) | (6,150) |
| **Equity dividends paid** | | (9,240) | (8,631) |
| **Cash outflow before use of liquid resources and financing** | | (23,706) | (18,149) |
| **Management of liquid resources** | | | |
| Cash (placed on) withdrawn from deposit | | (191) | 39 |
| **Financing** | | | |
| Issue of Ordinary shares (net of expenses) | | 167 | 153 |
| Decrease in borrowings | | (7,226) | (1,735) |
| Capital element of vehicle related hire purchase payments | | (170,458) | (133,091) |
| Cash inflow from new vehicle related hire purchase agreements | | 199,254 | 166,258 |
| **Net cash inflow from financing** | | 21,737 | 31,585 |
| **(Decrease) increase in cash for the year** | | (2,160) | 13,475 |

# RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| **(Decrease) increase in cash for the year** | | (2,160) | 13,475 |
| **Financing** | | | |
| Decrease in borrowings | | 7,226 | 1,735 |
| Capital element of vehicle related hire purchase payments | | 170,458 | 133,091 |
| Cash inflow from new vehicle related hire purchase agreements | | (199,254) | (166,258) |
| Cash placed on (withdrawn from) deposit | | 191 | (39) |
| Change in net debt resulting from cash flows | | (23,539) | (17,996) |
| Hire purchase agreements acquired with subsidiary undertakings | 17(b) | (11,547) | (228) |
| Foreign exchange movements | | (393) | – |
| **Movement in net debt for the year** | | (35,479) | (18,224) |
| **Net debt at 1 May** | | (232,899) | (214,675) |
| **Net debt at 30 April** | | (268,378) | (232,899) |

# NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

**(i) Reconciliation of operating profit to net cash inflow from operating activities**

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| Group operating profit | | 48,279 | 45,055 |
| Depreciation | | 99,691 | 86,912 |
| Amortisation of goodwill | | 384 | 4 |
| Loss on sale of equipment and other fixed assets | | 3 | 10 |
| Increase in stocks | | (2,124) | (1,329) |
| Increase in debtors | | (1,557) | (4,429) |
| Increase in creditors | | 6,220 | 834 |
| Net cash inflow from operating activities | | 150,896 | 127,057 |

**Analysis of items stated on a net basis in the cash flow statement**

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| **(ii) Returns on investments and servicing of finance** | | | |
| Interest received | | 1,163 | 1,630 |
| Interest paid on bank loans and overdrafts | | (4,355) | (4,744) |
| Interest paid on hire purchase agreements | | (10,630) | (10,126) |
| Dividends paid – non-equity preference shares | | (25) | (25) |
| | | (13,847) | (13,265) |
| **(iii) Capital expenditure and financial investment** | | | |
| Purchase of vehicles for hire | | (216,858) | (172,603) |
| Sale of vehicles for hire | | 95,341 | 68,866 |
| Purchase of other fixed assets | | (6,027) | (7,009) |
| Sale of other fixed assets | | 2,389 | 667 |
| Purchase of investments – All Employee Share Scheme | | (472) | (419) |
| Sale of investments – All Employee Share Scheme | | 653 | 588 |
| | | (124,974) | (109,910) |
| **(iv) Acquisitions** | | | |
| Investment in joint venture | 17(a) | 10,170 | – |
| Acquisition of subsidiary undertakings | 17(b) | 4,502 | 746 |
| Acquisition of a business | | – | 5,404 |
| | | 14,672 | 6,150 |

# ACCOUNTING POLICIES

## Basis of accounting

The financial statements are prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention as modified by the revaluation of freehold and long leasehold properties.

The Group adopted the transitional provisions of FRS15 in respect of the valuation of properties. The valuation of previously revalued properties will not be updated. Details of the latest revaluations are shown in Note 11.

## Basis of consolidation

The consolidated financial statements comprise the accounts of the Company and all subsidiary undertakings made up to 30 April. Joint ventures are accounted for by the gross equity method. The results of subsidiary undertakings and joint ventures are included from their respective dates of acquisition.

## Goodwill

Goodwill representing the excess of the purchase consideration on acquisition of subsidiary undertakings and joint ventures is capitalised as an intangible asset in the year of acquisition. It is amortised through the profit and loss account over the Directors' estimate of its useful life of up to a maximum of 20 years. As permitted by FRS10, goodwill arising on acquisitions prior to 1 January 1998 was eliminated against reserves as a matter of accounting policy and has not been reinstated to intangible assets from reserves, but will be charged to the profit and loss account on subsequent disposal of the businesses to which it relates.

## Tangible fixed assets: depreciation

Freehold land and property under construction are not depreciated. Other tangible fixed assets are depreciated over their estimated useful lives on a straight line basis as follows:

| | |
|---|---|
| Freehold buildings | over 50 years |
| Leasehold property | over 50 years or over the term of the lease, whichever is the shorter |
| Plant, equipment and fittings | over 3 to 10 years |
| Vehicles for hire | over 3 to 6 years |
| Motor vehicles | over 3 years |

## Investments

(i) Current assets are stated at the lower of cost and net realisable value.

(ii) Shares in Group undertakings and other unlisted fixed asset investments are stated at cost less provision for impairment.

## Fixed asset investments - own shares

The Company's shares held by Kleinwort Benson (Guernsey) Trustees Limited as trustees of the Goode Durrant Employees' Trust are included in the consolidated balance sheet as a fixed asset investment until such time as the interest in the shares is transferred to the employees. The shares are held as a hedge against the Group's obligations under the Long Term Incentive Plan and the Northgate All Employee Share Scheme and accordingly the shares purchased are recorded at cost. The cost of meeting these obligations is charged to the profit and loss account on a systematic basis over the period of service in respect of which options are granted.

## Stocks

Goods for resale and finished goods are stated at the lower of cost and net realisable value.

## Foreign currency

Assets and liabilities of overseas subsidiaries and joint ventures are translated into sterling at the rates of exchange ruling at the balance sheet date. The effect of variances in exchange rates between the beginning and the end of the financial year on the net investment in subsidiary undertakings and joint ventures is dealt with through reserves. The results of overseas subsidiary undertakings and joint ventures are translated into sterling using average exchange rates for the financial year and variances compared with the exchange rate at the balance sheet date are dealt with through reserves. All other monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date with resulting exchange gains and losses being taken to the profit and loss account.

## Deferred taxation

In accordance with FRS19, Deferred Tax, full provision is made on timing differences that have originated but not reversed at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and joint ventures where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## Leasing

As lessee: Acquisitions of fixed assets funded through finance leases and hire purchase agreements are capitalised and depreciated in accordance with Group policies. Future obligations under these leases and agreements are included in creditors. Interest costs payable are charged to the profit and loss account over the life of the lease so as to produce a constant rate of return on the outstanding balance. All other leases are operating leases and the payments made are charged to the profit and loss account evenly over the period of the lease.

As lessor: Motor vehicles and equipment leased to customers under operating leases are included within fixed assets. Income from such leases is taken to the profit and loss account evenly over the period of the operating lease agreements.

## Turnover

Turnover represents the amounts charged to customers for goods and services supplied excluding value added tax.

## Pensions

The Group only operates defined contribution type pension arrangements. Contributions in respect of these arrangements are charged to the profit and loss account as they become payable by the Group. Pension contributions in respect of one of these arrangements are held in trustee administered funds independent of the Group's finances.

The other arrangements are Group personal pension plans.

## Financial instruments and their derivatives

Derivative instruments utilised by the Group are interest rate caps, collars and swaps. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies.

**Interest rate caps and collars** – The option premia are recognised on the Group balance sheet as 'Prepayments and accrued income'. The option premia are taken to net interest payable spread evenly over the lifetime of the cap/collar.

**Interest rate swaps** – Interest payments/receipts are accrued with net interest. They are not revalued to fair value or shown in the Group balance sheet at the year end.



# NOTES ON THE ACCOUNTS

### 1 Segmental information

All trading activities in 2003 and 2002 relate to the business of vehicle hire. The Group operates in the United Kingdom and Republic of Ireland and turnover relates to customers in the United Kingdom and Republic of Ireland. The joint venture operates in all material respects in Spain.

### 2 Operating profit

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Operating profit is stated after charging (crediting): | | |
| Depreciation of owned tangible fixed assets | 37,537 | 38,555 |
| Depreciation of fixed assets held under hire purchase agreements | 62,154 | 48,357 |
| Amortisation of goodwill | 384 | 4 |
| Hire of plant and equipment | 77 | 38 |
| Hire of other assets | 3,061 | 2,539 |
| Auditors' remuneration | 173 | 129 |
| Fees paid to auditors for other services | 239 | 177 |
| Loss on sale of tangible fixed assets | 3 | 10 |
| Other rental income | (213,842) | (184,217) |

### 3 Information regarding employees and Directors

| | 2003 number | 2002 number |
|---|---|---|
| The average number of persons employed by the Group: | | |
| Direct operations | 1,296 | 1,059 |
| Administration | 370 | 358 |
| | 1,666 | 1,417 |
| | £000 | £000 |
| The staff costs of these persons were as follows: | | |
| Wages and salaries | 32,838 | 26,973 |
| Social security costs | 3,016 | 2,569 |
| Other pensions costs | 725 | 563 |
| | 36,579 | 30,105 |

### 4 Interest

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Income from fixed asset investments | 231 | 15 |
| Interest receivable and similar income: | | |
| Interest receivable on bank and other deposits | 875 | 1,610 |
| | 1,106 | 1,625 |
| Interest payable and similar charges: | | |
| On bank loans, overdrafts and other loans repayable within five years | (4,532) | (4,760) |
| Finance charges related to hire purchase agreements | (10,758) | (10,246) |
| | (15,290) | (15,006) |
| UK interest payable, net | (14,184) | (13,381) |
| Share of joint venture's interest payable, net | (848) | – |
| | (15,032) | (13,381) |

# NOTES ON THE ACCOUNTS CONTINUED

**5 Tax on profit on ordinary activities**

| | 2003 £000 | 2002 £000 |
|---|---|---|
| UK corporation tax on profits of the year | 11,052 | 12,022 |
| Over provision of corporation tax for prior years | (740) | (1,418) |
| | 10,312 | 10,604 |
| Share of overseas joint venture taxation | 493 | – |
| Total current taxation | 10,805 | 10,604 |
| Deferred taxation | | |
| Origination and reversal of timing differences | (337) | (2,005) |
| Adjustment in respect of prior years | 1,029 | 1,354 |
| | 11,497 | 9,953 |

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Profit on ordinary activities before tax | 36,603 | 31,674 |
| Tax on profit on ordinary activities at the standard rate | 10,981 | 9,502 |
| Expenses not deductible for tax purposes | 573 | 490 |
| Capital gain covered by losses | (235) | – |
| Capital allowances for year in excess of depreciation | 337 | 2,005 |
| Difference in taxation on overseas joint venture | (99) | – |
| Adjustment to tax charge in respect of previous periods | (740) | (1,418) |
| Other | (12) | 25 |
| | 10,805 | 10,604 |

**6 Profit of parent company**

Of the profit attributable to shareholders, a profit of £16,835,000 (2002 – £11,380,000) has been dealt with in the accounts of the parent company. The Company has taken advantage of the exemption contained in the Companies Act 1985 from presenting its own profit and loss account.

**7 Dividends**

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Equity dividend on Ordinary shares: | | |
| Interim paid 4.9p per share (2002 – 4.65p) | 2,965 | 2,819 |
| Final proposed 11.1p per share (2002 – 10.35p) | 6,746 | 6,275 |
| Total dividend 16.0p per share (2002 – 15.0p) | 9,711 | 9,094 |
| Non-equity dividend on preference shares | 25 | 25 |
| | 9,736 | 9,119 |

**8 Earnings per Ordinary share**

The calculation of basic earnings per Ordinary share in respect of the year to 30 April 2003 is based on the profit attributable to equity shareholders of £25,081,000 (2002 – £21,696,000) and the weighted average of 60,646,882 (2002 – 60,560,376) Ordinary shares in issue (excluding those shares held by an employee trust in connection with the Goode Durrant Long Term Incentive Plan and the All Employee Share Scheme).

Diluted earnings per Ordinary share have been calculated on the basis of earnings described above and assume that 102,000 shares (2002 – 162,500) remaining exercisable under the Goode Durrant Share Option Scheme had been fully exercised at the commencement of the relevant period, such that the weighted average number of shares is 60,893,447 (2002 – 60,876,578) (including those shares held by an employee trust in connection with the Goode Durrant Long Term Incentive Plan and the All Employee Share Scheme).

**9 Intangible assets**

| Group | Goodwill £000 |
|---|---|
| **Cost** | |
| At 1 May 2002 | 146 |
| Additions (see Note 17) | 1,624 |
| At 30 April 2003 | 1,770 |
| **Amortisation** | |
| At 1 May 2002 | 4 |
| Charge for the year | 384 |
| At 30 April 2003 | 388 |
| **Net book value** | |
| At 30 April 2003 | 1,382 |
| At 30 April 2002 | 142 |

**10 Vehicles for hire**

| Group | £000 |
|---|---|
| **Cost** | |
| 1 May 2002 | 448,337 |
| Foreign exchange differences | 543 |
| Additions | 220,694 |
| Acquisitions | 12,904 |
| Disposals | (202,324) |
| 30 April 2003 | 480,154 |
| **Depreciation** | |
| 1 May 2002 | 123,221 |
| Foreign exchange differences | 100 |
| Charged to profit and loss account | 96,840 |
| Disposals | (106,983) |
| 30 April 2003 | 113,178 |
| **Net book value** | |
| 30 April 2003 | 366,976 |
| 30 April 2002 | 325,116 |

The net book value of the above vehicles which are held under hire purchase agreements amounts to £255,746,000 (2002 – £215,663,000).

# NOTES ON THE ACCOUNTS CONTINUED

## 11 Other fixed assets

| Group | Land and buildings £000 | Plant, equipment & fittings £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| 1 May 2002 | 17,101 | 8,003 | 1,563 | 26,667 |
| Foreign exchange differences | – | 20 | – | 20 |
| Additions | 2,758 | 2,112 | 1,157 | 6,027 |
| Acquisitions | 852 | 115 | – | 967 |
| Disposals | (1,024) | (1,258) | (1,297) | (3,579) |
| 30 April 2003 | 19,687 | 8,992 | 1,423 | 30,102 |
| **Depreciation** | | | | |
| 1 May 2002 | 2,219 | 4,869 | 503 | 7,591 |
| Foreign exchange differences | – | 9 | – | 9 |
| Charged to profit and loss account | 651 | 1,673 | 527 | 2,851 |
| Disposals | (137) | (1,078) | (708) | (1,923) |
| 30 April 2003 | 2,733 | 5,473 | 322 | 8,528 |
| **Net book value** | | | | |
| 30 April 2003 | 16,954 | 3,519 | 1,101 | 21,574 |
| 30 April 2002 | 14,882 | 3,134 | 1,060 | 19,076 |
| **Cost or valuation at 30 April 2003 is represented by:** | | | | |
| Valuation performed in 1992 | 795 | – | – | 795 |
| Subsequent additions at cost | 18,892 | 8,992 | 1,423 | 29,307 |
| | 19,687 | 8,992 | 1,423 | 30,102 |

| | 2003 £000 | 2002 £000 |
|---|---|---|
| **Land and buildings by category:** | | |
| Freehold | 14,393 | 13,130 |
| Short leasehold | 2,561 | 1,752 |
| Net book value | 16,954 | 14,882 |

Certain of the above freehold properties were valued as at 30 April 1992 by Jones Lang Wootton, Chartered Surveyors, on the basis of open market value for existing use.

At 30 April 2003, under the historical cost convention, land and buildings would have been stated at £19,965,000 and related accumulated depreciation at £2,829,000.

The gross amount of depreciable assets included in land and buildings is £15,317,000.

| Company | Land and buildings £000 |
|---|---|
| **Cost or valuation** | |
| 1 May 2002 | 1,944 |
| Additions | 293 |
| 30 April 2003 | 2,237 |
| **Depreciation** | |
| 1 May 2002 | 12 |
| Charged to profit and loss account | 37 |
| 30 April 2003 | 49 |
| **Net book value** | |
| 30 April 2003 | 2,188 |
| 30 April 2002 | 1,932 |

## 12 Fixed asset investments

| Group | Own shares £000 | Unlisted investments £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| 1 May 2002 | 1,289 | 184 | 1,473 |
| Additions | 472 | – | 472 |
| Disposals | (1,274) | – | (1,274) |
| 30 April 2003 | 487 | 184 | 671 |
| **Provisions** | | | |
| 1 May 2002 | 859 | 24 | 883 |
| Release on disposals | (621) | – | (621) |
| 30 April 2003 | 238 | 24 | 262 |
| **Net book value** | | | |
| 30 April 2003 | 249 | 160 | 409 |
| 30 April 2002 | 430 | 160 | 590 |

**Own shares**

At 30 April 2003, 25,960 (2002 - 62,360) Ordinary shares in Northgate plc with a market value of £107,994 (2002 - £313,670) were held by Kleinwort Benson (Guernsey) Trustees Limited as a hedge against the Group's obligations under the Northgate All Employee Share Scheme ("the AESS").

At 30 April 2003, 90,014 (2002 - 140,306) Ordinary shares in Northgate plc with a market value of £374,458 (2002 - £705,739) were held by Kleinwort Benson (Guernsey) Trustees Limited as a hedge against the Group's obligation under the Long Term Incentive Plan ("the Plan").

All but a nominal dividend right in respect of these shares has been waived. Further details of the AESS and of the Plan are outlined in the Remuneration Report on pages 12 to 17.

| Company | Own shares £000 | Shares in subsidiary undertakings £000 | Investment in joint venture £000 | Loans to group undertakings £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 1 May 2002 | 277 | 25,319 | – | 47,000 | 72,596 |
| Additions | – | 2 | 10,170 | – | 10,172 |
| Transfer to subsidiary | – | (1,006) | – | – | (1,006) |
| Disposals | (277) | – | – | – | (277) |
| 30 April 2003 | – | 24,315 | 10,170 | 47,000 | 81,485 |
| **Provisions** | | | | | |
| 1 May 2002 and 30 April 2003 | – | 2,435 | – | – | 2,435 |
| **Net book value** | | | | | |
| 30 April 2003 | – | 21,880 | 10,170 | 47,000 | 79,050 |
| 30 April 2002 | 277 | 22,884 | – | 47,000 | 70,161 |

At 30 April 2003 the Company's principal subsidiary undertaking was Northgate Vehicle Hire Limited (NVH), whose business is vehicle hire. NVH is wholly and directly owned by the Company, incorporated in Great Britain, registered in England and Wales and operates in the country of incorporation. A full list of the Company's subsidiaries was included with the Annual Return filed with the Registrar of Companies.

# NOTES ON THE ACCOUNTS CONTINUED

**13 Stocks**

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 |
| Goods for resale and finished goods | 10,328 | 8,028 | – | – |

**14 Debtors**

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 |
| Amounts falling due within one year: | | | | |
| Trade debtors | 45,821 | 43,867 | – | – |
| Amounts owed by subsidiary undertakings | – | – | 18,024 | 25,937 |
| Corporation tax | – | 1,257 | – | – |
| Other debtors | 4,840 | 2,840 | 1,369 | 410 |
| Prepayments and accrued income | 5,927 | 5,921 | 62 | 118 |
| | 56,588 | 53,885 | 19,455 | 26,465 |
| Amounts falling due after more than one year: | | | | |
| Prepayments and accrued income | 682 | 1,040 | – | – |
| | 57,270 | 54,925 | 19,455 | 26,465 |

**15 Creditors: amounts falling due within one year**

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 |
| Amounts falling due within one year: | | | | |
| Borrowings (see Note 16) | 144,331 | 116,993 | – | 115 |
| Trade creditors | 10,814 | 7,163 | – | – |
| Amounts owed to subsidiary undertakings | – | – | 4,589 | 5,322 |
| Corporation tax | 5,058 | 7,664 | – | 88 |
| Social security and other taxes | 3,751 | 3,610 | – | – |
| Accruals and deferred income | 15,058 | 8,049 | 1,574 | 1,044 |
| Proposed dividends | 6,746 | 6,275 | 6,746 | 6,275 |
| | 185,758 | 149,754 | 12,909 | 12,844 |

**16 Creditors: amounts falling due after more than one year**

The only creditors falling due after more than one year are borrowings. Details of total Group borrowings, including those due within one year are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 |
| Amounts falling due within one year: | | | | |
| Bank loans and overdrafts | – | 115 | – | 115 |
| Vehicle related bank loans and overdrafts | 10,686 | 3,126 | – | – |
| Vehicle related hire purchase | 133,645 | 113,752 | – | – |
| | 144,331 | 116,993 | – | 115 |
| Amounts falling due after more than one year: | | | | |
| Bank loans and overdrafts | 11 | 28 | – | – |
| Vehicle related bank loans and overdrafts | 46,835 | 54,027 | – | – |
| Vehicle related hire purchase | 108,746 | 87,976 | – | – |
| | 155,592 | 142,031 | – | – |
| Total borrowings | 299,923 | 259,024 | – | 115 |
| Of the amounts falling due after more than one year, repayments fall due in the following periods: | | | | |
| Due within one to two years | | | | |
| Bank loans and overdrafts | 11 | 28 | – | – |
| Vehicle related hire purchase | 72,497 | 58,651 | – | – |
| | 72,508 | 58,679 | – | – |
| Due within two to five years | | | | |
| Vehicle related bank loans and overdrafts | 46,835 | 54,027 | – | – |
| Vehicle related hire purchase | 36,249 | 29,325 | – | – |
| | 83,084 | 83,352 | – | – |

Vehicle related bank loans and overdrafts of £57,521,000 (2002 – £57,153,000) and £11,000 (2002 – £28,000) of the bank loans and overdrafts are secured by fixed and floating charges over the assets of the subsidiary undertakings. Vehicle related hire purchase of £242,391,000 (2002 – £201,728,000) is secured by a fixed charge over the vehicles to which it relates.

**Analysis of net debt**

| | At 1 May 2002 £000 | Cash flow £000 | Acquisitions (Note 17) £000 | Other non-cash changes £000 | Foreign exchange movement £000 | At 30 April 2003 £000 |
|---|---|---|---|---|---|---|
| Cash in hand, at bank | 24,768 | 5,229 | – | – | – | 29,997 |
| Bank overdraft due within one year | (3,241) | (7,389) | – | 17 | (73) | (10,686) |
| | 21,527 | (2,160) | – | 17 | (73) | 19,311 |
| Cash in hand, short term deposits | 1,357 | 191 | – | – | – | 1,548 |
| Bank loans and overdrafts due after one year | (54,055) | 7,226 | – | (17) | – | (46,846) |
| Hire purchase obligations | (201,728) | (28,796) | (11,547) | – | (320) | (242,391) |
| | (232,899) | (23,539) | (11,547) | – | (393) | (268,378) |

# NOTES ON THE ACCOUNTS CONTINUED

**16 Creditors: amounts falling due after more than one year (continued)**

At 30 April 2003 the gearing of the Group amounted to 175% (2002 – 170%) which is represented by net borrowings of £268,378,000 (2002 – £232,899,000) as a percentage of shareholders' funds of £153,210,000 (2002 – £137,047,000). Net borrowings comprise borrowings less cash at bank.

**Borrowing facilities**

The Group has various borrowing facilities available to it. The undrawn committed borrowing facilities at 30 April 2003 in respect of which all conditions precedent had been met at that date expire as follows:

| | 2003 £000 | 2002 £000 |
|---|---|---|
| In one year or less | 127,125 | 172,234 |
| In more than two years | 27,654 | 13,470 |
| | 154,779 | 185,704 |

The total amount permitted to be borrowed by the Company and its subsidiaries in terms of the Articles of Association shall not exceed five times the aggregate of the issued share capital of the Company and the Group reserves, as defined in those Articles.

**Financial instruments and their derivatives**

**Treasury policies and the management of risk**

The function of Group Treasury is to reduce or eliminate financial risk, to ensure sufficient liquidity is available to meet foreseeable requirements, to secure finance at minimum cost and to invest cash assets securely and profitably. Treasury operations manage the Group's funding, liquidity and exposure to interest rate risks within a framework of policies and guidelines authorised by the Board.

The Group uses derivative instruments for risk management purposes only. Consistent with Group policy, Group Treasury do not engage in speculative activity and it is policy to avoid using the more complex financial instruments.

The policy followed in managing credit risk permits only minimal exposures with banks and other institutions meeting required standards as assessed normally by reference to the major credit agencies. Deals are authorised only with banks with which dealing mandates have been agreed and which maintain a Double A rating. Individual aggregate credit exposures are limited accordingly.

Short term debtors and creditors have been excluded from the analysis below. At 30 April 2003 the Group's total borrowings were £299,923,000 (2002 – £259,024,000). The increase reflects the acquisition of Target Vehicle Rental Limited, the investment in 40% of the share capital of Fualsa and the growth in fleet numbers and funding thereof during the year. In all other respects the year end figures are consistent with the year as a whole.

**Financing and interest rate risk**

The Group's policy is to finance operating subsidiaries by a combination of retained earnings, bank borrowings including medium term loans and hire purchase finance.

Cash at bank and on deposit yield interest based principally on LIBOR rates applicable to periods of less than three months. The Group's exposure to interest rate fluctuations on its borrowings and deposits is managed through the use of interest rate caps, collars and swaps. These derivatives are also used to manage the Group's desired mix of fixed and floating rate debt. The policy is to fix or cap a substantial element of the interest cost on outstanding debt. At 30 April 2003, 38% of gross borrowings were at fixed or capped rates of interest; £30,000,000 of swaps as shown below and £85,000,000 of caps and collars as detailed on page 37. After taking into account the various interest rate swaps entered into by the Group, the interest rate exposure of the borrowings of the Group as at 30 April 2003 was:

| | | | | Fixed rate borrowings | |
|---|---|---|---|---|---|
| | Gross borrowings £000 | Floating rate borrowings £000 | Fixed rate borrowings £000 | Weighted average interest rate at year end % | Weighted average time for which rate is fixed Years |
| **At 30 April 2003 UK Sterling** | **299,923** | **269,923** | **30,000** | **7.05** | **4.14** |
| At 30 April 2002 UK Sterling | 259,024 | 214,024 | 45,000 | 7.16 | 3.53 |

The analysis of weighted average interest rates and weighted average years to maturity is on fixed rate borrowings and after adjustments for interest rate swaps. The floating rate borrowings bear interest at relevant national LIBOR equivalents.

**16 Creditors: amounts falling due after more than one year (continued)**

The interest rate exposure is further protected by interest rate caps and collars set out as follows:

**Contracts effective as at 30 April 2003**

| Cap amount (£m) | Cap % | Floor % | Finish date |
|---|---|---|---|
| 5 | 8 | – | July 2003 |
| 5 | 8 | – | April 2004 |
| 5 | 8 | – | May 2004 |
| 5 | 8 | – | December 2004 |
| 5 | 8 | – | January 2005 |
| 5 | 8 | – | April 2006 |
| 5 | 7.5 | – | June 2006 |
| **35** | | | |

| Collar amount (£m) | Cap % | Floor % | Finish date |
|---|---|---|---|
| 10 | 6 | 4 | January 2005 |
| 10 | 7 | 5 | April 2007 |
| 10 | 7 | 5 | April 2007 |
| 10 | 7 | 5 | April 2008 |
| 10 | 7 | 5 | April 2008 |
| **50** | | | |
| **Total value of current contracts (£m) 85** | | | |

**Contracts effected after 30 April 2003**

| Swaps amount (£m) | Swap Rate % | Start date | Finish date |
|---|---|---|---|
| 25 | 4.05 | May 2003 | May 2008 |
| 10 | 3.93 | May 2003 | May 2008 |
| 10 | 3.82 | June 2003 | June 2008 |
| 10 | 5.99 | April 2004 | April 2009 |
| **55** | | | |

| Collar amount (£m) | Cap % | Floor % | Start date | Finish date |
|---|---|---|---|---|
| 25 | 5.50 | 3.22 | May 2003 | May 2008 |
| 10 | 5.25 | 3.19 | June 2003 | June 2008 |
| 10 | 5.00 | 3.15 | June 2003 | June 2008 |
| 10 | 4.75 | 3.25 | June 2003 | June 2008 |
| 10 | 7.00 | 5.00 | April 2004 | April 2009 |
| 10 | 7.00 | 5.00 | April 2005 | April 2010 |
| 10 | 6.50 | 4.50 | April 2007 | April 2012 |
| **85** | | | | |
| **Total value of future contracts (£m) 140** | | | | |

**Fair values of financial instruments**

The comparison of fair and book values of all the Group's financial instruments as at 30 April 2003 is set out below. Market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Book value £000 | Fair value £000 | Book value £000 | Fair value £000 |
| Cash at bank and in hand | 31,545 | 31,545 | 26,125 | 26,125 |
| Debt | (299,923) | (299,923) | (259,024) | (259,024) |
| Net borrowings | (268,378) | (268,378) | (232,899) | (232,899) |
| Derivatives to manage interest rate | 1,040 | (6,659) | 1,412 | (2,104) |
| | (267,338) | (275,037) | (231,487) | (235,003) |

# NOTES ON THE ACCOUNTS CONTINUED

**17 Acquisitions**

**(a) Joint venture**

On 16 July 2002 the Group acquired a 40% share in Furgonetas de Alquiler SA ("Fualsa"), a business in Spain, for a cash consideration of £10,170,000 including goodwill of £4,726,000. The investment is accounted for as a joint venture. The goodwill on the investment in Fualsa is capitalised and amortised over a period of 20 years being the estimated useful economic life.

| | £000 |
|---|---|
| Provisional fair value of net assets acquired | 5,444 |
| Goodwill | 4,726 |
| Acquisition cost (including fees) | 10,170 |
| Satisfied by cash | 10,170 |

The provisional fair values represent the Directors' current estimates of the net assets acquired. However, in accordance with FRS7, the values attributed may be revised as further information becomes available.

In addition to the 40% of Fualsa's share capital acquired to date the Group has an option to acquire the remaining 60%: 40% being exercisable no later than May 2004 and the remaining 20% no later than May 2006. The balance sheet of Fualsa as at 30 April 2003 is shown below for information purposes.

| **Fixed assets** | **£000** |
|---|---|
| Vehicles for hire | 69,788 |
| Plant, equipment & fittings | 4,681 |
| | 74,469 |
| **Current assets** | |
| Stocks | 94 |
| Debtors | 21,176 |
| Cash at bank | 385 |
| | 21,655 |
| **Creditors: amounts falling due within one year** | |
| - Borrowings | 36,743 |
| - Other | 7,959 |
| | 44,702 |
| **Net current liabilities** | (23,047) |
| **Total assets less current liabilities** | 51,422 |
| **Creditors: amounts falling due after more than one year** | |
| - Borrowings | 28,917 |
| Provisions for liabilities and charges | 2,047 |
| Deferred income | 1,578 |
| **Net assets** | 18,880 |

Fualsa's net borrowings at 30 April 2003 were £65,275,000.

**17 Acquisitions (continued)**

**(b) Subsidiary undertakings**

**Target Vehicle Rental Limited**

On 1 October 2002 the Group acquired the entire issued share capital of Target Vehicle Rental Limited ("Target") for a cash consideration of £3,768,000 including goodwill of £1,424,000. The goodwill on the acquisition of Target is capitalised and amortised over a period of 20 years being the estimated useful economic life.

**KW Sadler Car Hire (Cleethorpes) Limited**

On 1 July 2002 the Group acquired the entire issued share capital of KW Sadler Car Hire (Cleethorpes) Limited ("KWS") for a cash consideration of £1,134,000 including goodwill of £200,000. The goodwill has been amortised in full during the year. No fair value adjustments have been made.

Since the acquisition dates both Target and KWS have been restructured with elements of the businesses being taken on by other companies within the Group and for that reason the post acquisition results from the businesses are not separately identifiable. The profit after tax of Target for the year ended 30 September 2002 was £208,800. The profit after tax of KWS for the year ended 31 October 2001 was £273,100 and for the period from 1 November 2001 to 30 June 2002 was £229,700.

| | Target | | | KWS | Total |
|---|---|---|---|---|---|
| | **Book value at date of acquisition £000** | **Revaluations £000** | **Fair value net assets £000** | **Fair value net assets £000** | **Fair value net assets £000** |
| Vehicles for hire | 11,720 | (41) | 11,679 | 1,225 | 12,904 |
| Other fixed assets | 686 | (55) | 631 | 336 | 967 |
| Stocks | 86 | – | 86 | 83 | 169 |
| Debtors | 2,113 | – | 2,113 | 322 | 2,435 |
| Cash at bank | 373 | – | 373 | 177 | 550 |
| Hire purchase obligations | (10,960) | – | (10,960) | (587) | (11,547) |
| Bank loan | – | – | – | (150) | (150) |
| Creditors | (579) | – | (579) | (328) | (907) |
| Provisions | (999) | – | (999) | (144) | (1,143) |
| Net assets acquired | 2,440 | (96) | 2,344 | 934 | 3,278 |
| Goodwill | | | 1,424 | 200 | 1,624 |
| Acquisition cost (including fees) | | | 3,768 | 1,134 | 4,902 |
| Satisfied by cash | | | 3,768 | 1,134 | 4,902 |
| Cash equivalents in subsidiary undertaking purchased | | | (373) | (27) | (400) |
| Cash outflow on acquisition | | | 3,395 | 1,107 | 4,502 |

The revaluation adjustments made to the book values of fixed assets are to align the rates of depreciation in Target with those of the Group.

**18 Provisions for liabilities and charges**

| | Group | | Company | |
|---|---|---|---|---|
| | **2003 £000** | **2002 £000** | **2003 £000** | **2002 £000** |
| **Deferred tax provided** | | | | |
| Accelerated capital allowances | 7,969 | 5,678 | 66 | – |
| Other timing differences | (964) | (508) | (72) | (65) |
| | 7,005 | 5,170 | (6) | (65) |
| **Movement in deferred tax** | | | | |
| 1 May 2002 | 5,170 | 6,681 | (65) | 36 |
| Prior period adjustment | – | (865) | – | – |
| Restated | 5,170 | 5,816 | (65) | 36 |
| On acquisition | 1,143 | 5 | – | – |
| Credited in profit and loss account | (337) | (2,005) | 27 | (101) |
| Adjustments to prior years | 1,029 | 1,354 | 32 | – |
| | 7,005 | 5,170 | (6) | (65) |

# NOTES ON THE ACCOUNTS CONTINUED

## 19 Called up share capital

| Group and Company | 2003 £000 | 2002 £000 |
|---|---|---|
| Authorised: | | |
| 80,000,000 Ordinary shares of 5p each | 4,000 | 4,000 |
| 1,300,000 5% cumulative preference shares of 50p each | 650 | 650 |
| | 4,650 | 4,650 |
| Allotted and fully paid: | | |
| 60,892,340 (2002 – 60,831,840) Ordinary shares of 5p each | 3,045 | 3,042 |
| 1,000,000 5% cumulative preference shares of 50p each | 500 | 500 |
| | 3,545 | 3,542 |

During the year 60,500 Ordinary shares with a nominal value of £3,025 were issued pursuant to the exercise of options under the GD Scheme, for a cash consideration of £167,222.

The cumulative preference shares of 50p each entitle the holder to receive a cumulative preferential dividend at the rate of 5% on the paid up capital and the right to a return of capital at either winding up or a repayment of capital. The preference shares do not entitle the holders to any further or other participation in the profits or assets of the Company. These shares have no voting rights other than in exceptional circumstances.

**Options**

At 30 April 2003 options outstanding for Ordinary shares granted under the GD Scheme were as follows:

| Year of Grant | Number of Shares | Exercise Price | Exercisable From | Exercisable To |
|---|---|---|---|---|
| 1995 | 100,000 | 218.5p | January 1998 | January 2005 |
| 1996 | 2,000 | 280.5p | January 1999 | January 2006 |

There is no commitment to issue Ordinary shares under the Company's other share schemes.

## 20 Share premium account

| Group and Company | 2003 £000 | 2002 £000 |
|---|---|---|
| 1 May 2002 | 45,471 | 45,321 |
| Premium on shares issued (net of expenses) | 164 | 150 |
| 30 April 2003 | 45,635 | 45,471 |

## 21 Reserves

| | Revaluation reserve £000 | Merger reserve £000 | Profit and loss account £000 | Total reserves £000 |
|---|---|---|---|---|
| **Group** | | | | |
| 1 May 2002 | 23 | 4,721 | 83,290 | 88,034 |
| Profit transferred to reserves | – | – | 15,370 | 15,370 |
| Foreign exchange differences | – | – | 626 | 626 |
| 30 April 2003 | 23 | 4,721 | 99,286 | 104,030 |
| **Company** | | | | |
| 1 May 2002 | – | 417 | 60,886 | 61,303 |
| Profit transferred to reserves | – | – | 7,099 | 7,099 |
| 30 April 2003 | – | 417 | 67,985 | 68,402 |

The cumulative amount of goodwill written off to reserves is £13,195,000 (2002 – £13,195,000).

## 22 Reconciliation of movements in shareholders' funds for the year ended 30 April 2003

| | 2003 £000 | 2003 £000 | 2002 £000 | 2002 £000 |
|---|---|---|---|---|
| **Profit for the financial year** | | 25,106 | | 21,721 |
| Dividends | | (9,736) | | (9,119) |
| | | 15,370 | | 12,602 |
| Issue of Ordinary share capital (net of expenses) | | 167 | | 153 |
| Foreign exchange differences | | 626 | | – |
| **Net increase in shareholders' funds** | | 16,163 | | 12,755 |
| **Opening shareholders' funds** | | | | |
| As previously reported | 137,047 | | 123,427 | |
| Prior period adjustment | – | | 865 | |
| As restated | | 137,047 | | 124,292 |
| **Closing shareholders' funds** | | 153,210 | | 137,047 |

## 23 Contingent liabilities

The Company has guaranteed borrowings by subsidiary undertakings of £10,686,000 as at 30 April 2003 (2002 – £3,126,000).

## 24 Commitments

**Capital expenditure commitments:**

Capital expenditure contracted for but not provided in the accounts is as follows:

| | Group 2003 £000 | Group 2002 £000 |
|---|---|---|
| Contracted for but not provided in the accounts | 947 | 225 |

**Financial commitments:**

As at 30 April 2003 the Group had annual commitments to make payments under operating leases as follows:

| | 2003 Land and buildings £000 | 2003 Other £000 | 2002 Land and buildings £000 | 2002 Other £000 |
|---|---|---|---|---|
| Leases expiring: | | | | |
| within one year | 469 | 628 | 146 | 234 |
| two to five years | 481 | 315 | 478 | 628 |
| over five years | 911 | 14 | 872 | 42 |
| | 1,861 | 957 | 1,496 | 904 |

## 25 Pensions

The total pension cost for the Group was £725,000 (2002 – £563,000).

With effect from 1 April 1997 the former defined benefit schemes were merged and converted into a single defined contribution plan. After full provision for all liabilities arising on conversion, independent qualified actuaries estimated that a surplus of £500,000 was attributable to the Company. This surplus was taken to the profit and loss account for the year ended 30 April 1997 as an exceptional credit to employment costs. The surplus has been used to fund the Group's contributions under the new defined contribution plan as they fell due. Accordingly an amount of £Nil (2002 – £30,000) has been included as a pensions prepayment in the balance sheet.

During the year ended 30 April 2003 the Group only operated defined contribution arrangements.

# FIVE YEAR FINANCIAL SUMMARY

Based on the consolidated financial statements for years ended 30 April and adjusted to reflect the effect of subsequent changes in accounting policy.

| Profit and loss account | 2003 £000 | 2002 £000 | 2001 £000 | 2000 £000 | 1999 £000 |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Continuing operations | 337,875 | 277,829 | 261,801 | 218,286 | 184,753 |
| Joint venture | 14,514 | – | – | – | – |
| Turnover: Group and share of joint venture | 352,389 | 277,829 | 261,801 | 218,286 | 184,753 |
| Less: share of joint venture's turnover | (14,514) | – | – | – | – |
| **Group turnover** | 337,875 | 277,829 | 261,801 | 218,286 | 184,753 |
| **Operating profit** | | | | | |
| Group operating profit - continuing operations | 48,279 | 45,055 | 42,569 | 37,942 | 28,620 |
| Share of joint venture's operating profit | 2,620 | – | – | – | – |
| | 50,899 | 45,055 | 42,569 | 37,942 | 28,620 |
| Exceptional items | 736 | – | – | – | – |
| Interest | (15,032) | (13,381) | (15,459) | (13,617) | (12,010) |
| Profit before taxation | 36,603 | 31,674 | 27,110 | 24,325 | 16,610 |
| Tax | (11,497) | (9,953) | (8,054) | (7,328) | (5,080) |
| Profit for the financial year | 25,106 | 21,721 | 19,056 | 16,997 | 11,530 |
| Dividends | (9,736) | (9,119) | (8,517) | (8,039) | (7,561) |
| **Retained profit** | 15,370 | 12,602 | 10,539 | 8,958 | 3,969 |
| **Earnings per Ordinary share** | 41.4p | 35.8p | 31.4p | 28.1p | 19.1p |
| **Dividends per Ordinary share** | 16.0p | 15.0p | 14.0p | 13.25p | 12.5p |

| Balance sheet | 2003 £000 | 2002 £000 | 2001 £000 | 2000 £000 | 1999 £000 |
|---|---|---|---|---|---|
| **Assets employed** | | | | | |
| Fixed assets | 402,422 | 344,924 | 318,353 | 294,788 | 251,765 |
| Net current liabilities | (86,615) | (60,676) | (51,625) | (32,530) | (14,905) |
| Creditors (after one year) and provisions | (162,597) | (147,201) | (142,436) | (148,841) | (132,493) |
| | 153,210 | 137,047 | 124,292 | 113,417 | 104,367 |
| **Financed by** | | | | | |
| Share capital | 3,545 | 3,542 | 3,539 | 3,532 | 3,530 |
| Share premium account | 45,635 | 45,471 | 45,321 | 44,992 | 44,902 |
| Reserves | 104,030 | 88,034 | 75,432 | 64,893 | 55,935 |
| | 153,210 | 137,047 | 124,292 | 113,417 | 104,367 |
| **Net asset value per Ordinary share** | 252p | 225p | 205p | 187p | 172p |



# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and fifth Annual General Meeting of Northgate plc will be held at Norflex House, Allington Way, Darlington at 11.30 am on 9 September 2003 for the following purposes:

1. To receive and adopt the Directors' report and audited accounts of the Company for the year ended 30 April 2003.
2. To declare a final dividend of 11.1p per Ordinary share.
3. To re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the Directors to agree their remuneration.
4. To re-elect Mr P J Moorhouse as a Director.
5. To re-elect Mr G T Murray as a Director.
6. To re-elect Mr S J Smith as a Director.

   As special business to consider, and if thought fit, to pass the following resolutions: number 7 is to be proposed as an Ordinary Resolution and numbers 8 and 9 as Special Resolutions.

7. That the Report on Remuneration for the financial year ended 30 April 2003 set out on pages 12 to 17 of the 2003 Annual Report and Accounts be approved.
8. That the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (within the meaning of Section 94 of the Act) for cash, pursuant to the authority given in accordance with Section 80 of the Act by a resolution passed at the Annual General Meeting of the Company held on 14 September 2000 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

   (a) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period fixed by the Directors, by way of rights to holders of Ordinary shares and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);

   (b) the allotment of equity securities in connection with any employees' share scheme approved by the members in general meeting; and

   (c) the allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £152,000.

   and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004 or, if earlier, fifteen months after the passing of this resolution except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements.

9. That the Company be generally and unconditionally authorised to make market purchases (as defined in Section 163, Companies Act 1985) of its Ordinary shares of 5p each provided that:

   (a) the Company does not purchase under this authority more than 6,000,000 ordinary shares;

   (b) the Company does not pay less than 5p for each share;

   (c) the Company does not pay more for each share than 5% over the average of the middle market price of the Ordinary shares according to the Daily Official List of the London Stock Exchange for the ten business days immediately preceding the date on which the Company agrees to buy the shares concerned;

   (d) this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004 unless such authority is renewed prior to such time; and

   (e) the Company may agree before the aforesaid authority terminates to purchase Ordinary shares where the purchase will or may be executed (either wholly or in part) after the authority terminates. The Company may complete such a purchase even though the authority has terminated.

By Order of the Board

**D. Henderson**
Secretary
1 July 2003

Registered Office:
Norflex House
Allington Way
Darlington DL1 4DY

NOTES

1. Only the holders of Ordinary shares registered in the register of members of the Company as at 6.00 pm on 7 September 2003 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after that time shall be disregarded in determining the right of any person to attend and vote at the meeting.
2. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy so appointed need not also be a member. A two-way proxy card for this purpose is enclosed.

# INFORMATION FOR SHAREHOLDERS

**Classification**
Information concerning day to day movements in the price of the Company's Ordinary shares is available on Cityline (09068 123456) code 2722. The Company's listing symbol on the London Stock Exchange is NTG.

**Market-makers**
The following companies have informed the London Stock Exchange that they make a market in the Company's shares:

ABN AMRO Equities (UK).
Altium Capital Ltd.
Credit Suisse First Boston Equities Ltd.
Dresdner Kleinwort Benson Securities Ltd.
Salomon Brothers.
WestLB Panmure Ltd.

**Financial calendar**

| | |
|---|---|
| January | Announcement of interim results |
| February | Payment of interim dividend |
| July | Announcement of year end results<br>Report and accounts posted to shareholders |
| September | Annual general meeting<br>Payment of final dividend |

**Secretary and registered office**
D Henderson FCIS

Norflex House
Allington Way
Darlington
Co. Durham DL1 4DY

Tel: 01325 467558

**Registrars**
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Tel: 0870 1623100

# OUR PRODUCTS

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**ONE Call Fleet Rental –** Nationwide fleet rental for companies that have large daily rental needs. Why deal with lots of different hire companies when ONE Call Fleet Rental can deal with all your rental needs anywhere in the UK. www.northgate-vehicle-solutions.com

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**Fleet Insurance Solutions –** We have taken the hassle out of finding insurance by giving you a direct link to the World's biggest supplier of insurance services. One call is all it takes to get a tailored policy specific to your business needs. This service is exclusive to our customers but can cover all of your fleet: call 0870 - 240 5828. www.fleet-insurance-solutions.com

**Norfleet Parts –** Using our buying power we have negotiated great deals for customers on vehicle parts, tyres and thousands of consumables (from tools to fluorescent jackets), all direct from the manufacturer. www.norfleet.co.uk

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www.wannavan.com

To find out more about our non-rental products go to
www.northgate-vehicle-solutions.com

Or you can ring or email for an information pack about all our products.
Call: 01325 370209
Email: info@northgateplc.com