

ANNUAL REPORT AND ACCOUNTS

2005



Designed and produced by The Roundhouse Newcastle upon Tyne.

# HIGHLIGHTS



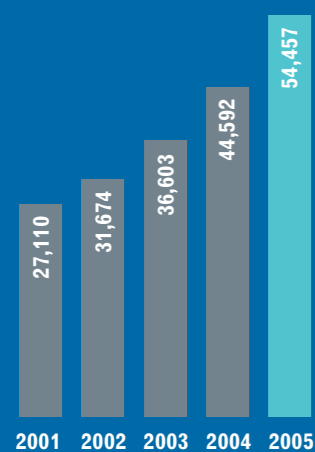
	2005	2004
Turnover	£458.3m	£355.6m
Group operating profit	£75.7m	£55.6m*
Profit before tax	£54.5m	£44.6m*
Earnings per share	59.7p	50.7p*
Dividend per share	20.0p	17.6p
Net assets per Ordinary share	336p	293p*

\*As restated (see Note 9 to the accounts)

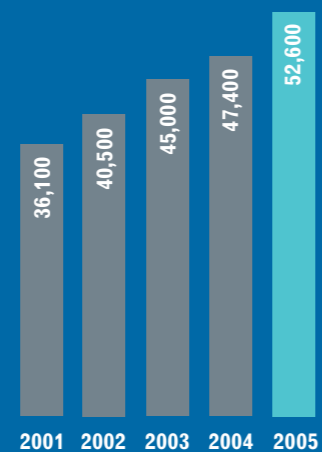
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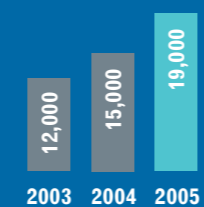
Group profit before tax



Vehicle Fleet – UK



Vehicle Fleet – Spain



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

[www.northgateplc.com](http://www.northgateplc.com)

# CHAIRMAN'S STATEMENT

Dear Shareholder,

This is the first Annual Report Statement I have written as Chairman of your Company. I would like first to pay tribute to my predecessor, Michael Waring. Few could have foreseen the growth of the business achieved during the 20 years of his leadership. His skills and determination have helped the development of the Northgate business and in the formulation of its strategies, leaving it well placed to continue that growth in the future.

I am, therefore, pleased to report on the Company's excellent results in Michael's last year at Northgate. Turnover for the year increased by 28.9% to £458.3m (2004 – £355.6m). Profit before tax and goodwill amortisation is up by £10.7m to £55.6m (2004 – £44.9m as restated). Earnings per share rose 17.8% to 59.7p (2004 – 50.7p as restated). All provide further evidence of Northgate's progress towards the targets stated in the three year Strategy for Growth, taking the Company forward to April 2006.

Based on these results and the Board's view of future prospects, the Board has decided to recommend to shareholders a final dividend of 12p per share. This will make the total dividend for the year 20p – an increase of 13.6% on last year and it will be covered three times. The dividend will be payable on 30 September 2005 to those shareholders on the register on 5 August 2005.

Northgate's success is due in large part to its corporate culture. Its structure of separate businesses enables each local team to focus on the opportunities in its own area. Local relationships allow a diversified range of business sectors and geographic areas in the customer base and ensure prompt attention to each customer's needs on-site. The devolved management structure is complemented by central corporate functions to monitor and audit Health and Safety standards, asset management, performance and finance controls. Moreover, the centralised vehicle purchasing and sales function, national accounts, marketing and sales, treasury and IT teams provide essential support to those local businesses. The Northgate culture yields a flexible, robust business model that continues to lead the field in commercial vehicle solutions.

Northgate's UK business returned to strong growth in the year with its fleet advancing 11% to 52,600 vehicles (2004 – 47,400). Whilst hire rates remained competitive, the operational gearing effect of this larger fleet, coupled with utilisation averaging 90%, ensured the hire operating margin remained healthy at 20.8% (2004 – 20.8% as restated). The residual market for used vehicle sales remained stable and the UK business was successful in its aim of achieving a greater proportion (up by 60%) of used vehicle sales through retail and semi-retail channels. As a result, the operating profit per vehicle sold improved to £205 (2004 – £189).

Northgate's Spanish vehicle rental business, Fualsa, contributed its first full year as a wholly owned subsidiary. Its result underscores our belief in the exceptional opportunity afforded by the vehicle rental market in Spain.

With a fleet growth of 27% to 19,000 vehicles and a profit before tax of £9.9m in the year, Fualsa is an excellent platform for further expansion in Spain. Fualsa's network of 15 depot locations at 30 April 2005 has grown further to 17 depots since the year end and is well on course to expand to 20 by April 2006.

The Company is currently updating its Strategy for Growth to progress through 2006 to 2009 and beyond. The growth of the business in Spain has indicated the attraction of further acquisitions in due course in mainland Europe. Clearly not every EU country shares the growth in the sector experienced in Spain and Northgate will consequently be very selective in its acquisition strategy. Northgate has also identified further consolidation opportunities in the UK. The Company is in a strong position to make such acquisitions and has an executive team with proven skills in integrating them into the Northgate business model. Strategic planning will also focus on opportunities for organic growth both in the UK and in Spain, using the proven Northgate business model, adapted for local cultural realities.

The Company's senior independent director, Ron Williams, has announced that he is to retire in September, being over 70 years of age and with a length of service of over nine years. He has been a great support to Michael Waring in the development of your Company and he has been invaluable to me, the incoming Chairman. The Board will miss him greatly. We were joined in April by Tom Brown, a very experienced public company director, whose skills complement those of other Board members. As the other 'new boy' I am very pleased to have joined the Northgate team. The staff and management at local and corporate levels have worked very hard to achieve these results, within the vision and leadership of the senior executives. The Board itself, executives and non-executives, have a blend of skills and experience that, I believe, will ensure Northgate will continue to deliver. It is a privilege to be part of that team.

Since the end of the year we have experienced a weaker vehicle residual market in the UK than in the prior financial year. In Spain, meanwhile, our fleet growth rates are higher than those planned.

Despite the softer residual market and perceived weaknesses in the UK economy, the Board remains of the opinion that we should achieve further progress towards our planned objectives in both the UK and Spain during the forthcoming year.

**Martin Ballinger**

Chairman



Earnings per share have increased by 17.8% in the second year of our three year Strategy for Growth, increasing from 50.7p (as restated) to 59.7p

## Three Year Strategy for Growth

We are now reporting on the second year of our three year Strategy for Growth that was announced in July 2003. The strategy was based on 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; and
- An established portfolio of non-rental products.

In the summer of 2003 very low levels of interest rates and inflation combined to give conditions that resulted in lower than expected fleet growth in the UK. Since September 2003 fleet growth has been more in line with our expectations with growth of 11% in the year to April 2005. We do not, however, expect to make up the shortfall in fleet growth which arose in 2003 and as such now anticipate having a UK fleet below our original target of 60,000 vehicles in April 2006. The fleet growth in Fualsa, our Spanish subsidiary, has, however, exceeded our expectations such that the closing fleet at April 2005 of 19,000 vehicles already exceeds the target for April 2006 of 18,000 vehicles. Through the successful implementation of our strategy we were seeking to achieve annual double-digit earnings per share growth in each year of the plan. An increase in earnings per share of 22.9% in the first year of the plan, followed by a further increase of 17.8% in the year to 30 April 2005 leaves us well placed to achieve that objective.

## Review of Current Year

### UNITED KINGDOM AND REPUBLIC OF IRELAND

The first half of our financial year usually represents the strongest period of fleet growth and utilisation for the UK since the second half is impacted by a significant number of vehicle returns in December and January as construction and distribution sector customers adjust their vehicle requirements in line with holiday periods and seasonal demand. The year that we are reporting on is a good example of this cycle with 11% fleet growth for the year as a whole being achieved but with 9.7% of this growth being in the first half of the financial year and 1.3% in the second.

#### DEPOT NETWORK

As at 30 April 2005 we operated from 36 primary and 40 branch locations. We have added new locations in Wakefield, Kidderminster and Worcester since 1 May 2004 – the latter two being as a result of acquiring Foley Self Drive Limited on 1 August 2004. Since the year end we have opened a new branch at Keighley and further branch openings at Chelmsford, Erith (Kent) and Hove are scheduled for the next few weeks. These new branches will bring our network to a total of 80 locations, 36 primary and 44 branches.

As highlighted in previous years we will take the appropriate opportunities to consolidate businesses where we feel this will lead to efficiencies without detracting from customer choice and service. During the year Daman Vehicle Rental Limited, which was acquired in April 2004, was merged with Maincrest Vehicle Hire Limited in the North West of England.

One of the features of our growth over the past six years has been the achievement of our planned level of fleet growth through fewer locations

than was originally envisaged as a result of the average fleet size per location being greater than expected. This enhances the operating margin of the UK since fixed costs are spread over a larger fleet. Some depots are, however, constrained from taking advantage of this operational gearing due to the physical aspects of their location. We, therefore, have plans to relocate four primary locations to larger depots during the next financial year, thus increasing the capacity of the network.

#### VEHICLE FLEET

As highlighted above the historic pattern of fleet growth for the UK has been one whereby there has been a stronger first half to the financial year than the second half. This year is no exception with growth of 4,600 vehicles from May to October 2004 of which 850 vehicles were as a result of the acquisition of Foley Self Drive Limited on 1 August 2004. A further 1.3% growth in the fleet was achieved in the second half of the financial year producing a closing fleet of 52,600 vehicles (2004 – 47,400).

#### UTILISATION AND HIRE RATES

Utilisation, which averaged 90% (2004 – 89%) for the year, remains the key management tool within the business.

As we outlined last July, our three year Strategy for Growth does not envisage any material improvement in hire rates, with increased profitability being driven in the main by growth in the fleet and cost efficiencies.

Our interim report mentioned that hire rates had softened slightly both as a result of localised competitor activity and our focus on fleet growth. With regards to fleet growth, we continue to aim to win selected business from contract hire companies. Since this business tends to be lower mileage and longer term, contract hire companies generally operate at the lower end of our hire rate range. This new business has, therefore, contributed to a slightly reduced average hire rate over the year but has improved profitability as a result of operational gearing.

#### USED VEHICLE SALES

We sold 17,700 vehicles (2004 – 18,700) during the year and at the same time improved the operating profit per vehicle sold to £205 (2004 – £189). This improvement in margin is mainly driven by the sales mix since the market has remained reasonably stable over both years. We have actively sought to increase the proportion of vehicles sold through retail and semi-retail sales channels since such disposals attract better margins. For the year ended April 2004 we saw 6% of our disposals go through a refurbishment process into the semi-retail or retail channels, whereas for the year to April 2005 this has been increased to over 10%. One of our objectives is to continue to increase this percentage over the next couple of years to around 15% of the Group's UK disposals. In addition to our Carnaby and Walsall remarketing centres we sell vehicles from three other dedicated sales locations in the UK – Darlington, Snodland in Kent and Banbury, as well as direct from selected hire locations.

#### NON-RENTAL PRODUCTS

Although not the main focus of our business, we continue to build on the portfolio of products that we offer customers as ancillary services to our rental product. In particular, we now have over 1,900 (2004 – 1,400) tracking units installed on vehicles in our fleet.

## FUALSA (SPAIN)

This is the first year that Fualsa has been included as a subsidiary of the Group following the exercise of options to acquire the remaining equity of Fualsa on 3 May 2004. It has been another excellent year of progress with fleet growth of 27% and a profit before tax of £9.9m. During the year steps have been taken to strengthen the management team with the appointment of a Commercial Director and an Operations Director. We believe we have a strong and committed team capable of taking advantage of the tremendous opportunity that exists in Spain.

#### DEPOT NETWORK

The depot network as at 30 April 2005 comprised 15 locations as a result of Murcia, Cadiz, Badojoz and Alicante opening during the financial year. Since the year end, depots at Leon and Cordoba have opened bringing the total number of locations to 17, well on track to achieve the objective of 20 locations set out in the three year Strategy for Growth.

#### VEHICLE FLEET

Fleet growth during the year was 27% producing a closing fleet of 19,000 vehicles (2004 – 15,000). This growth was evenly spread between the first and second half of the financial year since Spain does not have the same seasonality of demand as the UK. The industrial sectors contributing to this growth continue to be in line with our existing customer profile with a bias towards the construction sector. With the appointment of the Commercial Director and the resultant marketing activity into other sectors, we are aiming to move to a more diversified customer base over the medium term.

#### UTILISATION AND HIRE RATES

The overall utilisation rate improved to 89% (2004 – 88%) despite being held back slightly by lower rates of utilisation as the network continues to expand. Of the 17 depots operated by Fualsa, nine have been opened during the last two years.

Hire rates in Spain have been increasing at a modest rate of around 1% per annum for the last couple of years. A large proportion of this increase is, however, funding increases in the capital cost of the fleet where price increases for new vehicles generally exceed the 1% hire rate improvement.

## CURRENT TRADING AND OUTLOOK

Since our trading update on 3 May 2005, we have experienced a weaker vehicle residual market in the UK than that experienced in the last financial year. As a consequence, we currently expect to achieve a lower operating profit per unit compared to the £205 per unit achieved in the financial year to 30 April 2005. We do, however, expect to achieve operating profits on disposal within our target range of between plus or minus £100 per unit.

Fualsa continues to achieve fleet growth rates higher than those planned.

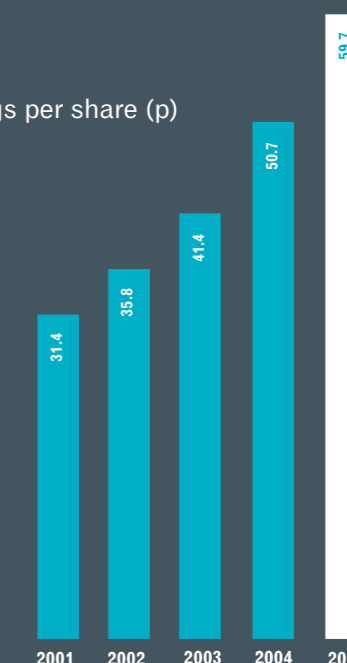
We remain of the opinion that we should make further progress during the financial year towards the objectives communicated in our three year Strategy for Growth.

### Steve Smith

Chief Executive



Earnings per share (p)



# FINANCIAL REVIEW

## Financial Reporting

### SALES, MARGINS AND RETURN ON CAPITAL

Group turnover increased by 28.9% to £458.3m (2004 – £355.6m) as a result of an increase in UK turnover of 8.3% and the first time inclusion of Fualsa's turnover that contributed £73.0m.

### UNITED KINGDOM AND REPUBLIC OF IRELAND

The composition of the Group's UK turnover and operating profit as between hire activities and vehicle sales is set out below:

	2005	2004
	As restated	
	£000	£000
<b>Turnover</b>		
Hire	283,414	250,747
Used vehicle sales	101,810	104,877
	<b>385,224</b>	<b>355,624</b>
<b>Operating profit</b>		
Hire	58,968	52,143
Used vehicle sales	3,632	3,533
Goodwill amortisation	(435)	(71)
<b>UK Operating profit</b>	<b>62,165</b>	<b>55,605</b>
<b>Operating margins (excluding goodwill)</b>		
UK overall	16.3%	15.7%
Hire	20.8%	20.8%
Used vehicle sales	3.6%	3.4%

The UK's overall operating margin increased to 16.3% (2004 – 15.7%) mainly as a result of hire representing a larger proportion of total operating profit than in the prior year. UK hire turnover increased by 13%, reflecting increases in the closing and average UK rental fleet of 11% and 12% respectively and generated the same operating margin of 20.8% (2004 – 20.8%) as the prior year.

The operating profit generated from used vehicle sales has increased by £0.1m representing an operating profit per vehicle sold of £205 (2004 – £189). The number of vehicles disposed of during the year was in line with expectations at a similar level to the prior year at 17,700 vehicles (2004 – 18,700).

### FUALSA

This is the first financial year that Fualsa has been reported within the Group's results as a wholly owned subsidiary. The composition of Fualsa's turnover and operating profit as between hire activities and vehicle sales is set out as follows:

	Subsidiary		Joint venture
	(100%)	(100%)	(40%)
	2005	2004	2004
	£000	£000	£000
<b>Turnover</b>			
Hire	55,968	43,492	17,397
Used vehicle sales	17,075	15,160	6,064
	<b>73,043</b>	<b>58,652</b>	<b>23,461</b>
<b>Operating profit</b>			
Hire	13,170	8,835	3,534
Used vehicle sales	1,027	2,610	1,044
Goodwill amortisation*	(681)	–	(236)
<b>Fualsa Operating profit</b>	<b>13,516</b>	<b>11,445</b>	<b>4,342</b>
<b>Operating margins (excluding goodwill)</b>			
Fualsa overall	19.4%	19.5%	19.5%
Hire	23.5%	20.3%	20.3%
Used vehicle sales	6.0%	17.2%	17.2%

\*Goodwill amortisation arises on consolidation of Fualsa in the current year and accounting for Fualsa as a joint venture in the prior year.

Fualsa's hire turnover increased by 28.7%, in line with the rental fleet increase of 27%. Hire margins have improved to 23.5% (2004 – 20.3%), reflecting fleet growth that has generated operational gearing benefits. This is despite a continued investment programme in new locations throughout Spain, with four new locations opening during the financial year. The overall operating margin of 19.4% (2004 – 19.5%) is similar to the prior year even though 2004 had been enhanced by £1.75m of non-recurring profits on vehicle disposals of which the Group's share was estimated to be £0.7m for the year.

### GROUP

Group return on capital employed, calculated as Group operating profit divided by average capital employed (being shareholders' funds plus net debt), is 14.2% (2004 – 13.9%).

Group return on equity, calculated as profit after tax divided by average shareholders' funds, is 19.0% (2004 – 18.3%).

### PRIOR YEAR ADJUSTMENTS

Prior year adjustments have been made to reflect accounting policy changes following the adoption of Urgent Issues Task Force Abstract ("UITF") 38 and UITF17 (revised), both with effect from 1 May 2004.

UITF38 is in respect of investments in own shares. The impact of this change is to reduce both fixed asset investments and shareholders' funds by £1,330,000 at 30 April 2004. There is no impact on the consolidated profit and loss account for either year.

UITF17 (revised) is in respect of shares granted to employees. The impact of this change is to increase administrative expenses and reduce profit



after taxation by £191,000 in the current year and by £141,000 in the prior year. Within the consolidated cash flow statement, the Group operating profit is reduced by the same amounts for the respective years but there is no effect on the net cash inflow from operating activities in either year. There is no change to the profit and loss reserve in either year.

### TAXATION

The Group's UK operations have a total tax charge of 31% (2004 – 31%) which is slightly higher than the standard rate of 30% due to disallowable expenditure incurred within the business.

The Fualsa tax rate of 20% (2004 – 12%) is below the standard Spanish tax rate of 35% because of tax concessions based on vehicle purchase reliefs that are available to the business. As was outlined last year it remains the case that as long as these tax concessions are available it is likely that the tax rate for Fualsa will remain below the standard rate. The tax rate for future years is anticipated to remain in the range of 20% to 30% of profit before tax rather than the very low rate of 2004.

### DIVIDEND

The Directors recommend a final dividend of 12.0p per share (2004 – 10.6p) giving a total for the year of 20.0p (2004 – 17.6p), an increase of 13.6%. The dividend is covered three times (2004 – 2.84 times).

### EARNINGS PER SHARE

Earnings per share increased by 17.8% to 59.7p (2004 – 50.7p as restated), reflecting the increase in profit after tax of 23% and the full year effect of 3.04m new shares issued as a result of a 5% Cash Placing on 14 January 2004.

Basic 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 exclude those Ordinary shares held by Walbrook Trustees (Guernsey) Limited and Capita IRG Trustees Limited for the Company's various share schemes until such time as they rank for dividend.

### INVESTMENTS

On 3 May 2004 the Company exercised its option to acquire a further 40% of the equity of Fualsa for the maximum consideration of £15.1m. On the same date the Company also exercised its option to acquire the final 20% of Fualsa's share capital. The consideration for this exercise is, however, deferred until 2006 and will be dependent on the profit after tax of Fualsa for the calendar years 2004 and 2005. The maximum amount of deferred consideration payable under the terms of the Share Purchase Agreement is €14.9m. This amount has been used to calculate the cost of the investment in Fualsa and the resultant goodwill. In prior years this investment has been treated as a joint venture within the Group's accounts but with effect from May 2004 it has been accounted for as a subsidiary undertaking of the Group.

On 1 August 2004 the Group acquired 100% of Foley Self Drive Limited, a UK vehicle hire operation based in the West Midlands, for a total cash consideration (including the bank overdraft acquired) of £4.4m.

Ordinary shares of the Company have been acquired in the open market by Walbrook Trustees (Guernsey) Limited and Capita IRG Trustees Limited in order to satisfy the Company's obligations under its various share schemes. These shares are included within the Group's balance sheet within the own shares held reserve.

### GOODWILL

The Group amortises goodwill acquired over its useful life up to a maximum of 20 years. The goodwill that has been paid for the initial 40% equity in Fualsa and the goodwill arising following the exercise of the options over the remaining share capital of Fualsa on 3 May 2004 is being amortised over 20 years from the date of the initial investment in July 2002. This gives rise to a goodwill amortisation charge in the year of £0.7m relating to Fualsa.

Further goodwill amortisation of £0.4m was charged to the profit and loss account relating to UK businesses.

# FINANCIAL REVIEW

## ● CAPITAL STRUCTURE

As at 30 April 2005 the Group's total gearing increased to 203% (2004 – 137%). The prior year comparative for gearing has been amended from 132% to reflect our decision that the gearing ratio going forward will be calculated as net debt (including cash balances) as a percentage of shareholders' funds but after the deduction of goodwill. The net cash balance taken into account in calculating the gearing ratios for this year is £41.4m (2004 – £46.2m).

The significant increase in gearing is in line with our expectations and is mainly due to the first time consolidation of Fualsa's balance sheet and the funding of fleet growth in the UK and Spain of 11% and 27% respectively during the financial year.

## Treasury

### ● CASH FLOWS

The Group's net debt increased by 64% to £410.4m (2004 – £249.8m) reflecting the consolidation of Fualsa and the funding of fleet growth in the UK and Spain. Gross cash generation as reflected by EBITDA\* increased to £205.1m (2004 – £154.2m). The Group funded the purchase of 22,600 new vehicles in the UK and 7,700 new vehicles in Fualsa for a total cash outflow of £274.5m. The sale of 17,700 UK vehicles and 3,700 Fualsa vehicles generated a cash inflow of £113.1m. The Group paid cash of £15.1m following the exercise of its option to acquire a further 40% in Fualsa on 3 May 2004. The option over the remaining 20% of Fualsa's equity, whilst exercised, has not yet given rise to a cash outflow. This deferred consideration of a maximum of €14.9m is classified as debt in the Group's balance sheet but is not expected to be paid until 2006. The acquisition of Foley Self Drive Limited gave rise to a £4.4m cash outflow.

\*EBITDA – Earnings before interest, taxation, depreciation and amortisation.

### ● INTEREST COSTS

Following the consolidation of Fualsa and the subsequent increase in net debt, the Group's net interest costs increased by 38.2% to £21.2m (2004 – £15.4m). The percentage increase in interest costs is significantly lower than the corresponding percentage increase in net debt because the cost of debt in Fualsa is based on EURIBOR whereas the UK debt is based on the higher cost LIBOR. Interest cover has decreased to 3.6 times (2004 – 3.9 times) as a result of UK base rates being higher in the financial year compared to the prior year.

### ● 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 and other capital expenditure. 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 of the Group with banks are

negotiated and monitored centrally. On 10 January 2005 the Group entered into a series of unsecured, revolving, bilateral facilities with major UK and European banks to provide an aggregate Group facility of £565m over one, three and five years. These new facilities have replaced the bank and asset finance facilities that previously existed for the UK. They are also being used to gradually replace debt facilities in Fualsa within the next two years. All funds generated by the Group's operations are controlled by a central treasury function.

### ● LIQUIDITY

The Group's aggregate finance facilities, including existing Fualsa loan facilities, total £672m compared to net debt of £410.4m. As described above, the core of these arrangements relate to the £565m unsecured facilities with the following terms:

Term	Amount (£m)
Within one year	113
Within three years	226
Five years	226
<b>Total</b>	<b>565</b>

### ● INTEREST RATE MANAGEMENT

The Group has variable rate interest agreements for all of its UK borrowings. Historically, it has sought to manage this risk by having in place a number of financial instruments covering 30% to 40% of its borrowings at any time. Some of the earlier financial instruments are at levels 2% to 4% above prevailing base rates and as a consequence the Group increased this coverage by entering into additional interest rate derivatives in May and June 2003. Five-year swaps to cover £45m of debt at an average rate of 3.97% were contracted for as were five-year interest rate collars covering £55m of debt with a range of 3.15% to 5.5%. Since the year end, the Group has entered into a number of Euro swaps, with a minimum term of three years, to cover €150m of debt with an average swap rate of 2.27%.

Based on the Group's closing net debt position at 30 April 2005 of £410.4m (represented by Sterling debt of £235.2m and Euro debt of £175.2m), a 1% increase in LIBOR and EURIBOR would generate an additional £4.1m per annum of interest costs if financial instruments were not in place. The table below indicates the additional annual funding costs to the Group at this level of debt following increases in LIBOR and EURIBOR for a range between 1% to 3% after applying the benefits of the Group's financial instruments, including those put in place since 30 April 2005:

Increase in interest rate	Additional interest costs		
	Sterling debt	Euro debt	Total
1%	£1.2m	£0.9m	£2.1m
2%	£2.1m	£1.6m	£3.7m
3%	£2.5m	£2.3m	£4.8m

## ● INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under European Union legislation, all listed companies will be required to report under International Financial Reporting Standards ("IFRS") for accounting periods commencing on or after 1 January 2005. The first annual report and accounts for the Group prepared under IFRS will be for the year ended 30 April 2006. At that time comparative information will be restated on the same basis. Interim results for the year to 30 April 2006 will also be prepared on an IFRS basis.

During the last financial year, work has been ongoing with regard to the first time adoption of IFRS. The restatement of the opening balance sheet will be completed in 2005. While the exact financial impact of the changes in Group accounting policies as a result of IFRS is still being assessed and has not yet been finalised, the following key areas of difference have been identified:

- accounting for options and other share-based payments will require a charge against profit on a different basis.
- the treatment of goodwill, whereby existing goodwill and goodwill on future acquisitions will no longer be amortised. Future annual impairment reviews of goodwill could result in periodic charges against profit.
- recognition of intangibles arising on acquisition and amortisation of these assets.
- accounting for derivative financial instruments may cause some volatility of earnings, although the Group's financial instruments are restricted to managing some of the Group's currency and interest rate risks.
- the Group will no longer classify the proceeds from vehicle disposals as part of its revenue.
- no provision for final dividends payable will be made until approved at a general meeting.

Whilst the Group anticipates currently that these will be the major adjustments which arise on transition to IFRS, the Group's convergence project is ongoing and IFRS, along with associated interpretations, continues to be refined and developed. The Group has established a project timetable to ensure the requirements under IFRS will be met and adopted in its interim results for the year to 30 April 2006.

### Gerard Murray

Finance Director



# DIRECTORS

## Martin Ballinger (61)

Appointed to the Board as a non-executive Director in November 2004, becoming Chairman on 5 January 2005. Formerly Chief Executive of Go-Ahead Group plc since 1982.

## Stephen Smith ACA (48)

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 the Company.

## Jan Astrand MBA (58)

Appointed to the Board as a non-executive Director in February 2001. A Swedish national based in London, he is a non-executive Director of PHS Group plc and CRC Group plc. Prior to this, he was Chairman of Car Park Group AB in Stockholm. 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.

## Tom Brown (56)

Appointed to the Board as a non-executive Director in April 2005. He is Chairman of Dyson Group plc and Chamberlin & Hill plc and a Director of a number of private companies. He was previously Group Chief Executive of United Industries plc and before that Group Managing Director of Fenner plc.

## Phil Moorhouse FCCA (52)

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 (42)

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 as Chief Executive from 2001 to 2002.

## Alan Noble (54)

Executive Director since 1990. In 1981 he founded the commercial vehicle hire business, which was acquired by the Company in 1987.

## Philip Rogerson (60)

Appointed to the Board as a non-executive Director in November 2003. He is Chairman of Aggreko plc, Carillion plc and THUS Group plc and a non-executive Director of Davis Service Group plc. He was Deputy Chairman of BG plc (formerly British Gas plc) until February 1998 having been a Director since 1992.

## Ronald Williams FCA (71)

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. Mr Williams will be retiring from the Board at the conclusion of the Annual General Meeting to be held on 28 September 2005.

## Board Committees

### Audit

Philip Rogerson (Chairman from 5 July 2004)  
Jan Astrand  
Tom Brown (Appointed 8 June 2005)  
Ronald Williams (Chairman until 5 July 2004)

### Remuneration

Jan Astrand (Chairman)  
Tom Brown (Appointed 8 June 2005)  
Philip Rogerson  
Ronald Williams

### Nomination

Martin Ballinger (Chairman from 5 January 2005)  
Ronald Williams (Chairman until 5 January 2005)  
Jan Astrand  
Tom Brown (Appointed 8 June 2005)  
Philip Rogerson  
Stephen Smith

# 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 23, 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 2005.

## Results

Profit for the year after taxation was £38,494,000 (2004 – £31,289,000 as restated). An interim dividend of 8p per share was paid on the Ordinary shares on 11 February 2005. The Directors recommend a final ordinary dividend of 12p per share making a total for the year of 20p per share.

The final dividend, if approved, will be paid on 30 September 2005 to shareholders on the register at close of business on 5 August 2005.

Ordinary and preference dividends paid and recommended for payment in respect of the year total £12,837,000 (2004 – £11,064,000).

## Principal activities

The Company is an investment holding company. The Group's activities are reported on pages 4 to 9.

## Fualsa

Details of the acquisition of the remaining 60% of the share capital of Furgonetas de Alquiler SA (Fualsa) on 3 May 2004 are given in Note 18 to the accounts on page 42.

## 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 plc	2,410,852 (3.8%)
Columbia Wanger Asset Management	1,935,000 (3.0%)

## Directors

The names of the present Directors are listed on page 10. All have served throughout the year except Mr Ballinger who was appointed on 10 November 2004 and Mr Brown who was appointed on 13 April 2005. In addition, Mr F M Waring resigned as Chairman and as a Director on 5 January 2005. Mr Noble is retiring by rotation in accordance with the Articles of Association and, being eligible, is seeking re-election.

As has previously been announced, Mr Williams, having served as a non-executive Director since 1996, will resign from the Board at the conclusion of the Annual General Meeting to be held on 28 September 2005.

The termination provisions in respect of executive Directors' contracts are set out in the Remuneration Report on page 14.

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 May 2004	30 April 2005
M Ballinger	–†	2,500
S J Smith	71,729	72,271
J Astrand	–	–
T Brown	–†	–
P J Moorhouse	44,396	34,938
G T Murray	10,000	10,540
A T Noble	731,737	732,279
P Rogerson	–	–
R Williams	5,000	5,000

† On appointment

No Director has an interest in the Preference shares of the Company. No changes in the above interests have occurred between 30 April 2005 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 14 to 17.

## Donations

The Group made charitable donations of £45,000 (2004 – £25,000).

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 2005 the Group's creditor days were 48.

## Remuneration report

As required by the Directors' Remuneration Report Regulations 2002, the Remuneration Report, set out on pages 14 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 £160,000 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 to a total of 6,400,000 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.

## Share option scheme

A resolution to amend the rules of the Share Option Scheme will be proposed at the Annual General Meeting. The proposed changes are summarised on page 49.

## Auditors

A resolution for the re-appointment of Deloitte & Touche LLP as auditors of the Company will be proposed at the forthcoming Annual General Meeting. This proposal is supported by the Audit Committee.

By order of the Board  
**D Henderson**  
 Secretary  
 4 July 2005





# REMUNERATION REPORT

## Remuneration Committee

The Remuneration Committee has written terms of reference which are available on the Company's website. Membership of the Committee is shown on page 10.

The Committee is responsible for making recommendations to the Board on the remuneration packages and terms and conditions of employment of the Chairman, 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 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 Committee has access to external independent advice on matters relating to remuneration. During the year the Committee took advice from New Bridge Street Consultants LLP ("NBSC") in relation to the remuneration packages of the Chairman, the executive Directors and senior management. NBSC is appointed by the Committee and undertakes no other work for the Company.

## 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 and changes in salaries elsewhere in the Group.

## Flexible benefits scheme

The Company operates a flexible benefits scheme 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.

## 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:

S J Smith	8 January 2003
P J Moorhouse	8 January 2003
G T Murray	8 January 2003
A T Noble	9 June 2004

In the event of early termination of an executive Director's service contract, compensation of up to the equivalent of one year's basic 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 are as follows:

S J Smith	£300,000
P J Moorhouse	£220,000
G T Murray	£210,000
A T Noble	£168,000

All were last reviewed on 1 May 2005.

## 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 the Company as compensation for the time commitment involved. External appointments currently held are:

P J Moorhouse – Director, Renew (North East) Limited (non fee earning)  
A T Noble – Director, Tees Valley Regeneration (non fee earning)

## 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:

M Ballinger	Chairman	£100,000
R Williams	Deputy Chairman and Senior non-executive Director	£40,000
J Astrand	Chairman of Remuneration Committee	£36,000
T Brown	Non-executive Director	£32,000
P Rogerson	Chairman of Audit Committee	£38,000

All were last reviewed on 1 May 2005.

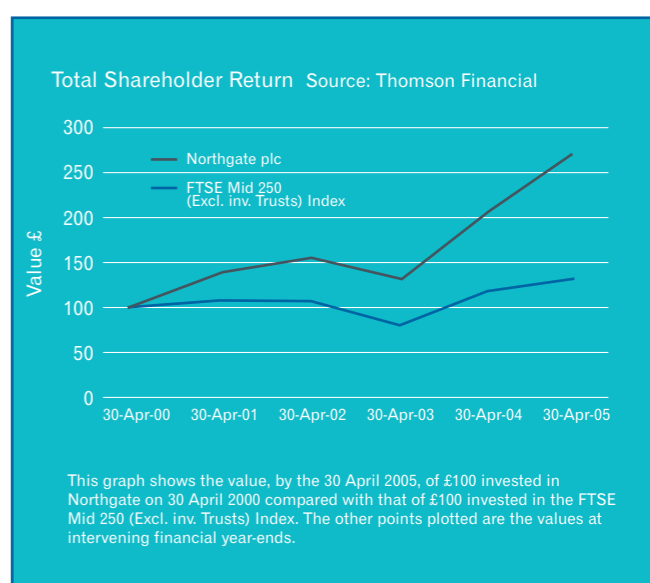
In addition to the above, Mr Astrand receives an amount of £15,000 in recognition of the additional time commitment required following his appointment as a non-executive Director of Fualsa with effect from 3 May 2004. The Board do not consider that this appointment in any way affects his independence.

## Pension schemes

Throughout the year all pension arrangements operating throughout the Group were defined contribution schemes. The Group will not incur any additional costs as a result of the introduction of Pension Simplification on 6 April 2006.

## 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 the Company is a constituent of the FTSE 250 index, that index (excluding investment companies) is considered to be the most appropriate benchmark.



The mid-market price of the Company's Ordinary shares at 30 April 2005 was 812.5p (30 April 2004 – 624p) and the range during the year was 583p to 944p.

The following elements of this report have been audited:

## Emoluments

	Salary/fees £000	Cash bonus £000	Cost of benefits* £000	Chargeable expenses £000	2005 total £000	2004 total £000	2005 Pension contributions† £000	2004 Pension contributions† £000
M Ballinger	37	–	–	–	37	–	–	–
F M Waring	71	–	–	–	71	85	–	–
S J Smith	275	124	25	1	425	361	30	26
J Astrand	49	–	–	–	49	29	–	–
T Brown	3	–	–	–	3	–	–	–
P J Moorhouse	210	63	25	3	301	278	29	28
G T Murray	190	66	23	–	279	225	17	14
A T Noble	163	41	25	–	229	200	23	22
P Rogerson	34	–	–	–	34	15	–	–
R Williams	40	–	–	–	40	36	–	–
Total emoluments excluding pension contributions	1,072	294	98	4	1,468	1,229	–	–
Total pension contributions	–	–	–	–	–	–	99	90

\*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.

# REMUNERATION REPORT

## Northgate share option scheme

The Northgate Share Option Scheme ("the NSOS") was introduced in 2000 and was designed on broadly similar lines to the Executive Incentive Scheme ("the EIS") (see below). The NSOS provides incentives, in the form of Ordinary shares in the Company, to Directors and senior executives, currently numbering approximately 12 in total. It is proposed that the rules of the NSOS be amended in order to bring them into line with current market practice. Shareholders will be asked to approve these changes at the Annual General Meeting to be held on 28 September 2005. The changes are summarised on page 49 of these Report and Accounts. The Committee continues to believe that earnings per share growth is the most appropriate performance measure for the Company, particularly as there are no other listed companies whose business is directly comparable to that of Northgate. A consistent calculation methodology will apply following the adoption of International Financial Reporting Standards in due course.

The Directors hold the following options granted under the NSOS:

	At 01.05.04	Granted	At 30.04.05	Exercise price	Normally exercisable between
S J Smith	–	20,000	20,000	663p	Aug 07 – Feb 09
P J Moorhouse	–	15,000	15,000	663p	Aug 07 – Feb 09
G T Murray	50,000	–	50,000	380p	Jan 06 – July 08
	–	13,500	13,500	663p	Aug 07 – Feb 09
	<b>50,000</b>	<b>13,500</b>	<b>63,500</b>		

No Director exercised any options during the year and none lapsed.

It is proposed that the option award for 2005 be made after the Annual General Meeting, in line with the new rules, rather than our usual practice of making awards after the announcement of our year end results. It is the intention that the level of this award will not exceed 100% of basic salary.

In addition, options over 281,000 shares granted to 56 employees at exercise prices ranging from 403.5p to 663p were outstanding at 30 April 2005.

## Deferred annual bonus plan

A Deferred Annual Bonus Plan ("DABP") was introduced in 2003 for Directors and senior and middle management. Part of the bonus is delivered in cash payable immediately after the year end and part (not normally exceeding 50% of basic salary) in the form of deferred shares awarded following the announcement of the Group's full year results.

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 strong retention mechanism 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.

The Directors received the following number of shares (in the form of nil cost options) in respect of the financial year ended 30 April 2004:

	No. of options
S J Smith	15,813
P J Moorhouse	10,542
G T Murray	6,325

These options, granted in July 2004 when the share price was 683p, are normally exercisable between July 2007 and July 2009. In addition, options over 50,463 shares awarded to 48 management level employees were outstanding at 30 April 2005.

The bonuses for executive Directors upon which the award for 2004/05 was made was 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 bonuses payable are as follows:

	CASH			SHARES		
	£000	% of basic salary awarded	maximum	value £000	% of basic salary awarded	maximum
S J Smith	124	45	50	138	50	50
P J Moorhouse	63	30	40	84	40	40
G T Murray	66	35	40	76	40	40

It is intended that the number of shares to be awarded will be calculated based on the closing mid-market price on 5 July 2005, being the date of the Preliminary Results Announcement.

For the financial year 2005/06 the maximum awards will be the same as for 2004/05. Following Mr Noble's recovery from illness and his return to management on a full-time basis, he will participate in the DABP for the financial year 2005/06. His maximum award will be 40% for both cash and shares.

The criteria for executive Directors for 2005/06 will be as follows:

- Share element: to be based solely on earnings per share improvement over the previous year. The maximum award to be made for growth in excess of 12%, nil for growth of less than 5% and pro rata for growth between those two figures.
- Cash element: to be based on individual key performance indicators relevant to their areas of responsibility and including an element of discretion by the Remuneration Committee.

For other levels of management bonus levels are 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.

## 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 ("the Capita Trust").

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 fourth annual cycle ended in December 2004 and resulted in 460 employees acquiring 69,824 Partnership shares at 554.75p each and being allocated the same number of Matching shares. As at 30 April 2005 the Capita Trust held 489,166 Ordinary shares that have vested to employees from the first four cycles.

The fifth annual cycle started in January 2005 and currently some 600 employees are making contributions to the scheme at an annualised rate of £550,000.

## Executive incentive scheme

The EIS, introduced in 1999, was designed to motivate those key executives in the Group 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 measured by earnings per share, that target was achieved in 2003. As the EIS was specifically aligned to that strategy plan, no further options will be awarded under the EIS, the last options being granted in January 2002.

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.

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% per annum. 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 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% per annum over the two, three and four years following their grant respectively. Partial exercise of these options over a sliding scale is permitted for growth in earnings per share of between 8% and 15% per annum over these periods.

In September 2004 the second tranche of 25% of options became exercisable, the performance condition having been satisfied. For this

tranche to be exercisable in full a growth in earnings per share over the three financial years from 1 May 1999 to 30 April 2002 of at least 15% per annum compound was required; the actual growth achieved was 23.3%.

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
S J Smith	180,000	492.5p
P J Moorhouse	180,000	492.5p
A T Noble	174,050	492.5p
	5,950	503.5p
	<b>180,000</b>	

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 567,075 shares granted to 33 employees at exercise prices ranging from 367.5p to 523p were outstanding at 30 April 2005.

## Long term incentive plan

At 30 April 2005 there were no options remaining outstanding under this scheme. No Director held any options under the plan at any time during the year. No further options will be awarded under this scheme.

## Sourcing of shares

Shares to satisfy the requirements of the Group's share schemes are currently sourced as follows:

- EIS and NSOS – New issue
- DABP – Through open market purchases by an employee benefit trust ("the Trust") based in Guernsey. At 30 April 2005 the Trust held 185,041 Ordinary shares as a hedge against the Group's obligations under this scheme.
- AESS – Through open market purchases by the Capita Trust. At 30 April 2005 the Capita Trust held 129,887 Ordinary shares as a hedge against the Group's obligations under this scheme.

By order of the Board  
**D Henderson**  
 Secretary  
 4 July 2005

# CORPORATE GOVERNANCE

UK listed companies are required by the Financial Services Authority (the designated UK Listing Authority) to include a statement in their annual accounts on compliance with the Principles of Good Corporate Governance and Code of Best Practice set out in the Combined Code published in a revised form in July 2003 ('the New Code'). This New Code, which incorporates recommendations made in the Higgs Report on the role and effectiveness of non-executive Directors and in the Financial Reporting Council's new guidance for audit committees, applies to the Company for the first time for the financial year ended 30 April 2005.

During the year the Corporate Governance Committee, established by the Board in 2003, consisting of the Deputy Chairman, the Finance Director and the Company Secretary, continued to review the Company's compliance with best practice and made further recommendations towards achieving compliance with the New Code. The Board accepted the Committee's recommendations and considers that the Company complied with the New Code throughout the year, except for the following:

- Board composition: the New Code requires that at least half the Board, excluding the Chairman, should comprise independent non-executive Directors. With four executive Directors, compliance would require a total of five non-executive Directors, including the Chairman. The Company did not comply with this requirement except for the period between Mr Ballinger's appointment on 10 November 2004 and Mr Waring's retirement on 5 January 2005 and the period following Mr Brown's appointment on 13 April 2005. As is referred to elsewhere in these Report and Accounts, Mr Williams will be retiring from the Board at the Annual General Meeting on 28 September 2005. There is no present intention to appoint a further

non-executive Director following his retirement. During the year, the Chairmen, respectively Mr Waring until 5 January 2005 and Mr Ballinger from that date, were satisfied that at all times the balance of skills and experience between the executive and non-executive Directors was appropriate for the requirements of the business and Mr Ballinger remains of that view.

- Performance evaluation: during the year, an evaluation process of the performance of the Board and of its committees was carried out, led by the Chairman, Mr Ballinger. The process consisted of a formal and detailed questionnaire completed by each Director, followed by one-to-one meetings with the Chairman. As a result of this process, Mr Ballinger was satisfied that all the non-executive Directors continued to demonstrate a commitment to their role and in particular to devote adequate time to properly carry out their duties as a member of the Board and Board committees. The process initiated during the year is an evolutionary one in that it will continue to be developed during the current year to include in particular an assessment of the performance of individual Directors. With the change to the position of Chairman during the year, it was not felt appropriate to carry out a review of the performance of either of them: the non-executive Directors will carry out such a review during the current year.

The provisions of the New 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 five non-executive Directors, details of whom are set out on page 10. All the non-executive Directors are considered to be independent both in the sense outlined in the New Code and in terms of the criteria laid down by the National Association of Pension Funds for judging the independence of non-executive Directors. Mr Williams, as Deputy Chairman, is considered to be the senior such independent Director. The offices of the Chairman and Chief Executive Officer are separate. The division of their responsibilities has been set out in writing, approved by the Board and is available on the Company's website.

The Board meets regularly to review trading results and has responsibility for the major areas of Group strategy, the annual Business Plan, financial reporting to and relationships with shareholders, dividend policy, internal financial and other controls, financing and treasury policy, insurance policy, major capital expenditure, acquisitions and disposals, Board structure, remuneration policy, corporate governance and compliance.

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.

Directors' attendance at Board and Committee meetings during the year is detailed below.

All Directors in office at that time were present at the Annual General Meeting held in September 2004. Attendance by executive Directors at

meetings of the Audit and Remuneration Committees were by invitation. The external auditors attended three Audit Committee meetings. The internal audit manager attended two Audit Committee meetings. The non-executive Directors, including the Chairman, but without executive Directors present, met informally on four occasions during the year. In addition, the non-executive Directors met informally on two occasions during the year without the Chairman being present.

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 all Directors who held office at the time of the two preceding Annual General Meetings and did not retire by rotation shall be subject to re-election. In addition, any Director appointed by the Board during the year is obliged to seek re-election at the next following Annual General Meeting. The Board has established a Nomination Committee, which is chaired by Mr Ballinger. All the non-executive Directors and the Chief Executive are members. Its main function is to lead the process for Board appointments by selecting and proposing to the Board suitable candidates of appropriate calibre. The Committee would normally expect to use the services of professional search consultants to help in the search for candidates. The Committee has written terms of reference which are available on the Company's website.

During the year, the Committee led the process which resulted in the appointment of Mr Brown to the Board in April 2005 and, previously, under the Chairmanship of Mr Williams, the appointment of Mr Ballinger to the Board in November 2004. In both cases the services of external search consultants were used.



	BOARD		AUDIT		REMUNERATION		NOMINATION	
	A	B	A	B	A	B	A	B
M Ballinger	6	6	–	4	–	1	1	1
F M Waring	9	8	–	4	–	4	2	1
S J Smith	12	12	–	6	–	3	3	3
J Astrand	12	12	7	7	5	5	3	3
T Brown	1	1	–	–	–	1	–	–
P J Moorhouse	12	12	–	6	–	2	–	–
G T Murray	12	11	–	6	–	–	–	–
A T Noble	12	12	–	6	–	1	–	–
P Rogerson	12	12	7	7	5	5	3	3
R Williams	12	12	7	7	5	5	3	3

A = Maximum number of meetings the Director was entitled to attend.  
B = Number of meetings attended

## 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 14 to 17.

## 3 Accountability and audit

An assessment of the Company's position and prospects is included in the Chairman's Statement on page 2 and in the Operational and Financial Review on pages 4 to 9.

### INTERNAL CONTROL

Provision C2.1 of the New 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 New 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 prepared by management 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 decision, 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.

### 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

Membership of the Audit Committee is shown on page 10. The Committee has written terms of reference setting out its duties which are available on the Company's website. 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. In addition to the meetings referred to in the table above, the members of the Committee, together with the Chairman of the Board, had informal meetings with the external auditors 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 and payable to Deloitte & Touche LLP in respect of the year under review are as follows:

	30 April	
	2005	2004
	£000	£000
Statutory audit work and interim review	228*	178
Tax compliance	60	82
Other	106	73
<b>Total</b>	<b>394</b>	<b>333</b>

\* This includes audit fees paid to Deloitte & Touche LLP for the statutory audit of Fualsa which has a year end different to that of the Group. In prior years this audit was performed by an audit firm other than Deloitte & Touche LLP.

## 4 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 and Finance Director. The Company's major institutional shareholders have been advised by the Chief Executive that, in line with the provisions of the New Code, the Senior Independent Director and other non-executives may attend these briefings and, in any event, would attend if requested to do so. 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. 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, the Company issues brief 'pre-close' trading statements two months prior to the announcement of both its interim and full year results. In compliance with the requirement in the New 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.

The Board recognises that the monitoring and control of health and safety and environmental issues forms 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.

The Group has adopted the principles set out in the management model "HSG 65 Successful Health and Safety Management". This enables the Group to apply consistent health and safety standards and disciplines at all locations.

Comprehensive health and safety procedures and vehicle user manuals provide guidance and advice on implementing the Group's health and safety policy. Relevant training is provided to all employees through a rolling programme designed to promote a positive health and safety culture throughout the business.

A head office steering group reviews health and safety and environmental performance and policy issues on a quarterly basis. Technical advice and support is provided by a qualified health and safety officer.

Health and safety and environmental issues impact on the Group's operations in two main areas:

## Vehicle fleet

The total fleet in the UK and Ireland at 30 April 2005 was 52,600, with an average age of between 15 and 16 months, of which 6,400 were cars and the remainder commercial vehicles. Cars are sold after an average life of 20 months and commercial vehicles of 30 months. Our fleet is therefore comprised entirely of modern vehicles. Over 99% of the fleet is diesel powered. Of the 3,400 cars purchased in calendar year 2004, just over 30% were Euro IV compliant. We expect this to rise to 75% in calendar year 2005 and to 100% in 2006. Commercial vehicle manufacturers are still debating the launch of Euro IV products but current expectations are that such products should become available in the UK in the last quarter of 2006.

To encourage a safe driving culture amongst our own staff, 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.

The Group was the first UK vehicle rental company to participate in the Institute of Road Transport Engineers Certification scheme for motor technicians, run in conjunction with the Society of Operation Engineers. To date over 30% of our technicians have successfully completed the course. The Group has received an award from Brake, the road safety organisation, for its initiative in adopting the scheme.

## Property

As at 30 April 2005, the vehicle rental business in the UK and Ireland operated out of 76 properties, of which 36 were primary sites and 40 were branches. All but four of these sites (all of which are branches) are located on industrial estates, so our activities have minimal impact on the local community of the areas in which we operate. A typical primary site will have an area of 1.2 acres, will comprise approximately 9,000 sq. ft. of workshops and office facilities, with the remainder hard-standing and will employ approximately 35 people. A typical branch location will have an area of 0.3 acres, have a small office (often of the portacabin type), a valet/washbay and in some cases a workshop facility, again, often a modular building. They employ an average of 9 people. Three of the primary sites, Darlington, Banbury and Snodland are shared with Northgate Vehicle Sales. In addition, the head office building in Darlington houses all central administrative and support services and the Northgate Vehicle Solutions business.

Part of the responsibilities of the Group health and safety officer is to visit all locations annually to carry out a health and safety audit. Where appropriate, outside professional advice and services are also 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, which came 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;
- all primary sites and some branch locations have above-ground fuel storage tanks. A programme to upgrade those tanks which do not currently comply with the guidelines relating to double-bundling laid down by the Environment Agency in PPG2 will be completed by September 2005.

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

The Group's commitment to health and safety has been recognised during the year, with a Merit award from the Royal Society for the Prevention of Accidents for demonstrating the effective implementation of safety arrangements within the organisation.

We have audited the financial statements of Northgate plc for the year ended 30 April 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the accounting policies and the related Notes 1 to 26 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 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 Remuneration Report. Our responsibility is to audit the financial statements and the part of the 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 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 Report of the Directors 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 nine provisions of the July 2003 FRC 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 also review whether the company has complied with the requirements set out in Listing Rules 9.8.8R(2) with regards to the amount of each element in the remuneration package and information on share options, 9.8.8R(3), (4) and (5) with regards to details of long term incentive schemes for directors, 9.8.8R(11) with regards to money purchase schemes, and 9.8.8R(12) with regards to defined benefit schemes, and we give a statement, to the extent possible, of details of any non-compliance.

We read the Report of the Directors 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 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 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 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 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 2005 and of the profit of the Group for the year then ended; and
- the financial statements and that part of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

## Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Leeds

4 July 2005



# FINANCIAL STATEMENTS

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 APRIL 2005

# BALANCE SHEETS

30 APRIL 2005

		Before goodwill amortisation 2005	Goodwill amortisation 2005	Total 2005	Total 2004 As restated
	Notes	£000	£000	£000	£000
<b>Turnover</b>					
– continuing operations		380,486	–	380,486	355,624
– acquisitions		77,781	–	77,781	–
– joint venture		–	–	–	23,461
Turnover: Group and share of joint venture		458,267	–	458,267	379,085
Less: share of joint venture's turnover		–	–	–	(23,461)
<b>Group turnover</b>	1	<b>458,267</b>	<b>–</b>	<b>458,267</b>	<b>355,624</b>
<b>Cost of sales</b>					
– continuing operations		(277,376)	–	(277,376)	(261,255)
– acquisitions		(56,537)	–	(56,537)	–
Total cost of sales		(333,913)	–	(333,913)	(261,255)
<b>Gross profit</b>					
– continuing operations		103,110	–	103,110	94,369
– acquisitions		21,244	–	21,244	–
Total gross profit		124,354	–	124,354	94,369
<b>Administrative expenses</b>					
– continuing operations		(40,471)	–	(40,471)	(38,693)
– acquisitions		(7,086)	–	(7,086)	–
– goodwill amortisation		–	(1,116)	(1,116)	(71)
Total administrative expenses		(47,557)	(1,116)	(48,673)	(38,764)
<b>Group operating profit</b>					
– continuing operations		62,639	(206)	62,433	55,605
– acquisitions		14,158	(910)	13,248	–
<b>Total operating profit</b>	1, 2	<b>76,797</b>	<b>(1,116)</b>	<b>75,681</b>	<b>55,605</b>
Share of joint venture's operating profit		–	–	–	4,578
Amortisation of goodwill on joint venture investment		–	–	–	(236)
<b>Profit on ordinary activities before interest and taxation</b>					
		76,797	(1,116)	75,681	59,947
Interest payable, net	4	(21,224)	–	(21,224)	(15,355)
<b>Profit on ordinary activities before taxation</b>		<b>55,573</b>	<b>(1,116)</b>	<b>54,457</b>	<b>44,592</b>
Tax on profit on ordinary activities	5	–	–	(15,963)	(13,303)
<b>Profit for the financial year</b>					
Dividends	7	–	–	38,494	31,289
		–	–	(12,837)	(11,064)
<b>Profit transferred to reserves</b>				<b>25,657</b>	<b>20,225</b>
Earnings per Ordinary share – basic	8			<b>59.7p</b>	50.7p
Diluted earnings per Ordinary share	8			<b>59.1p</b>	50.6p
Dividends per Ordinary share	7			<b>20.0p</b>	17.6p

		Group		Company	
	Notes	2005 £000	2004 As restated £000	2005 £000	2004 £000
<b>Fixed assets</b>					
Intangible assets	10	14,110	1,981	–	–
Tangible assets					
– Vehicles for hire	11	531,843	379,346	–	–
– Other fixed assets	12	37,947	23,342	3,056	3,117
Investments	13	–	–	103,234	79,050
		583,900	404,669	106,290	82,167
<b>Investment in joint venture</b>					
Share of gross assets		–	50,389	–	–
Share of gross liabilities		–	(40,215)	–	–
Goodwill on investment less amortisation		–	4,293	–	–
		–	14,467	–	–
<b>Total fixed assets</b>		<b>583,900</b>	<b>419,136</b>	<b>106,290</b>	<b>82,167</b>
<b>Current assets</b>					
Stocks	14	18,160	15,285	–	–
Debtors	15	92,841	56,382	391,968	122,881
Cash at bank and in hand		41,375	46,160	46,180	44,311
		152,376	117,827	438,148	167,192
<b>Creditors: amounts falling due within one year</b>	16	<b>107,284</b>	<b>133,756</b>	<b>15,846</b>	<b>12,197</b>
<b>Net current assets (liabilities)</b>		<b>45,092</b>	<b>(15,929)</b>	<b>422,302</b>	<b>154,995</b>
<b>Total assets less current liabilities</b>		<b>628,992</b>	<b>403,207</b>	<b>528,592</b>	<b>237,162</b>
Creditors: amounts falling due after more than one year	17	403,319	208,079	387,639	100,000
Provisions for liabilities and charges	19	9,424	6,821	–	(119)
		<b>216,249</b>	<b>188,307</b>	<b>140,953</b>	<b>137,281</b>
<b>Capital and reserves</b>					
Called up share capital	20	3,709	3,702	3,709	3,702
Share premium account	21	62,544	61,829	62,544	61,829
Revaluation reserve	22	1,054	23	1,371	–
Merger reserve	22	4,721	4,721	417	417
Own shares held	22	(2,471)	(1,330)	–	–
Profit and loss account	22	146,692	119,362	72,912	71,333
<b>Shareholders' funds</b>	23	<b>216,249</b>	<b>188,307</b>	<b>140,953</b>	<b>137,281</b>
Attributable to equity shareholders		215,749	187,807	140,453	136,781
Attributable to non-equity shareholders		500	500	500	500
		<b>216,249</b>	<b>188,307</b>	<b>140,953</b>	<b>137,281</b>

The accounts were approved by the Board of Directors on 4 July 2005.

**M Ballinger**  
Director

**G T Murray**  
Director

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 APRIL 2005

	Notes	2005 £000	2004 As restated £000
<b>Net cash inflow from operating activities</b>	(i)	192,108	157,203
<b>Returns on investments and servicing of finance</b>	(ii)	(20,691)	(14,679)
<b>Taxation</b>		(15,241)	(11,279)
<b>Capital expenditure and financial investment</b>			
Purchase of vehicles for hire		(274,517)	(215,129)
Sale of vehicles for hire		113,133	106,771
Other items, net		(7,254)	(4,333)
<b>Net cash outflow from capital expenditure and financial investment</b>	(iii)	(168,638)	(112,691)
<b>Acquisitions</b>			
Acquisitions of subsidiary undertakings (Note 18)		(19,353)	(1,092)
<b>Equity dividends paid</b>		(11,874)	(11,005)
<b>Cash (outflow) inflow before use of liquid resources and financing</b>		(43,689)	6,457
<b>Management of liquid resources</b>			
Cash placed on deposit		(21)	(205)
<b>Financing</b>			
Issue of Ordinary shares (net of expenses)		722	16,351
Purchase of investments (net)			
– purchase of own shares (Note 9)		(1,141)	(1,081)
Increase in borrowings		221,166	93,833
Capital element of vehicle loans, hire purchase and finance lease payments		(279,243)	(263,310)
Cash inflow from vehicle loans, hire purchase and finance lease agreements		93,663	169,577
<b>Net cash inflow from financing</b>		35,167	15,370
<b>(Decrease) increase in cash for the year</b>		(8,543)	21,622

# RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

FOR THE YEAR ENDED 30 APRIL 2005

	2005 £000	2004 £000
<b>(Decrease) increase in cash for the year</b>	(8,543)	21,622
<b>Financing</b>		
Increase in borrowings	(221,166)	(93,833)
Capital element of vehicle loans, hire purchase and finance lease payments	279,243	263,310
Cash inflow from vehicle loans, hire purchase and finance lease agreements	(93,663)	(169,577)
Cash placed on deposit	21	205
Change in net debt resulting from cash flows	(44,108)	21,727
Vehicle loans, hire purchase and finance lease agreements acquired with subsidiary undertakings	(66,829)	(3,271)
Other net debt acquired with subsidiary undertakings	(27,144)	–
New vehicle loans and hire purchase agreements	(15,083)	–
Deferred consideration in respect of Fualsa (Note 18)	(9,548)	–
Foreign exchange differences	2,184	96
<b>Movement in net debt for the year</b>	(160,528)	18,552
<b>Opening net debt</b>	(249,826)	(268,378)
<b>Closing net debt</b>	(410,354)	(249,826)

# NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 APRIL 2005

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

	2005 £000	2004 As restated £000
Group operating profit	75,681	55,605
Depreciation	128,253	98,547
Goodwill amortisation	1,116	71
Loss (profit) on sale of equipment and other fixed assets	39	(63)
Charge for shares granted to employees under UITF17 (revised) (Note 9)	191	141
Increase in stocks	(128)	(4,922)
(Increase) decrease in debtors	(9,340)	1,450
(Decrease) increase in creditors	(3,704)	6,374
<b>Net cash inflow from operating activities</b>	<b>192,108</b>	<b>157,203</b>

## (ii) Returns on investments and servicing of finance

	2005 £000	2004 £000
Interest received	1,957	1,028
Interest paid on bank loans and overdrafts	(15,966)	(4,849)
Interest paid on hire purchase agreements and vehicle loans	(6,657)	(10,833)
Non-equity preference dividends paid	(25)	(25)
	(20,691)	(14,679)

## (iii) Capital expenditure and financial investment

	2005 £000	2004 As restated £000
Purchase of vehicles for hire	(274,517)	(215,129)
Sale of vehicles for hire	113,133	106,771
Purchase of other fixed assets	(7,632)	(5,729)
Sale of other fixed assets	378	1,236
Sale of investments – unlisted investment	–	160
	(168,638)	(112,691)

# CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 30 APRIL 2005

	2005 £000	2004 As restated £000
<b>Profit for the financial year</b>	<b>38,494</b>	<b>31,289</b>
Revaluation of land and buildings (Note 18)	1,031	–
Foreign exchange differences	1,482	(290)
Share options adjustment under UITF17 (revised) (Note 9)	191	141
<b>Total recognised gains and losses for the financial year</b>	<b>41,198</b>	<b>31,140</b>



# 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 12.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year, with the exceptions of the changes in the accounting policies with respect to own shares and shares granted to employees, as explained in Note 9 to the accounts.

## 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 over the fair value of net assets acquired 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 to 6 years

## Investments

Current assets are stated at the lower of cost and net realisable value. Shares in Group undertakings and other unlisted fixed asset investments are stated at cost less provision for impairment, except as described in the accounting policies for foreign currency below.

## Own shares

The Company's shares held by Walbrook Trustees (Guernsey) Limited, as trustees of the Goode Durrant Employees' Trust, and by Capita IRG Trustees Limited, as trustees of The All Employee Share Scheme, are included in the consolidated balance sheet until such time as the interest in the shares is transferred to employees. The shares are held as a hedge against the Group's obligations under its various share schemes and, accordingly, the shares purchased are recorded at cost.

In accordance with UITF38, the Group has changed its accounting policy with respect to own shares, with effect from 1 May 2004. Shares held by the Group, as described above, were previously shown as fixed asset investments and are now shown within an own shares held reserve, as a deduction from equity shareholders' funds.

## Shares granted to employees

In accordance with UITF17 (revised), the Group has changed its accounting policy with respect to shares granted to employees under the Group's various share schemes. Previously, the cost of granting shares to employees was recognised in the profit and loss account, as the difference between the price paid by employees and the historic cost to the Group of acquiring the shares. Under UITF17 (revised), the cost to the Group of granting the shares is recognised in the profit and loss account as the difference between the price paid by employees and the market value of the shares, on the day that the shares are granted. The difference between the market value and the book value of the shares is recognised in the profit and loss account reserve over the relevant performance period.

## Stocks

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

## 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.

## Current tax

Current tax, including UK corporation tax and foreign tax, is provided at the amounts expected to be paid (or recovered) using the tax rates enacted, or substantively enacted, at the balance sheet date.

## 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.

The Company maintains certain borrowings in the same currency as the functional currency of its overseas subsidiary undertaking, as a hedge against the net assets of the subsidiary. These borrowings are translated into Sterling using the exchange rate prevailing at the balance sheet date. Any variances are reflected directly in the profit and loss reserve.

Goodwill arising on the consolidation of an overseas subsidiary is denominated in the local currency of the subsidiary and retranslated into Sterling at the exchange rate prevailing at the balance sheet date.

The Company has denominated the investment in its overseas subsidiary undertaking in the functional currency of the subsidiary. This investment is translated into Sterling using the exchange rate prevailing at the balance sheet date. In accordance with SSAP20, any variances are reflected directly in the profit and loss reserve to the extent that they offset foreign exchange differences upon retranslation of the foreign currency borrowings held as a hedge by the Company. Any remaining difference is recognised in the profit and loss account.

## Turnover

Turnover represents the revenue resulting from Group operating activities, excluding value added tax. These comprise the hire of vehicles, the sale of used vehicles and the supply of related goods and services.

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

## 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.

# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2005

## 1 Segmental analysis

The Directors consider that the only material class of business is that of vehicle hire. As such, the only segmental analysis provided is by geographical area.

	2005 £000	2004 £000
United Kingdom and Republic of Ireland	385,224	355,624
Spain	73,043	–
<b>Total turnover</b>	<b>458,267</b>	<b>355,624</b>
United Kingdom and Republic of Ireland	62,165	55,605
Spain	13,516	–
<b>Total operating profit</b>	<b>75,681</b>	<b>55,605</b>
United Kingdom and Republic of Ireland	44,598	41,536
Spain	9,859	3,056
<b>Total profit before taxation</b>	<b>54,457</b>	<b>44,592</b>
United Kingdom and Republic of Ireland	192,373	173,840
Spain	23,876	14,467
<b>Total net assets</b>	<b>216,249</b>	<b>188,307</b>

Prior to the acquisition of Furgonetas de Alquiler SA ("Fualsa") on 3 May 2004 (Note 18), all turnover from the joint venture arose in Spain.

## 2 Operating profit

### Operating profit is stated after charging (crediting)

	2005 £000	2004 £000
Depreciation of owned tangible fixed assets	80,260	39,679
Depreciation of fixed assets held under hire purchase and finance lease agreements	47,993	58,868
Amortisation of goodwill	1,116	71
Hire of plant and equipment and other assets	5,080	3,710
Auditors' remuneration	228	178
Fees paid to auditors for other services	166	155
Loss (profit) on sale of tangible fixed assets	39	(63)
Other rental income	(297,935)	(216,318)

## 3 Information regarding employees and Directors

The average number of persons employed by the Group:

	2005 £000	2004 £000
Direct operations	1,723	1,362
Administration	446	375
	<b>2,169</b>	<b>1,737</b>

The staff costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	45,855	37,496
Social security costs	5,386	3,401
Other pensions costs	1,125	944
	<b>52,366</b>	<b>41,841</b>

Details of Directors' remuneration, pension contributions and share options are provided in the audited part of the Remuneration Report on pages 14 to 17.

## 4 Interest

Income from fixed asset investments  
Interest receivable and similar income:  
Interest receivable on bank and other deposits

Interest payable and similar charges:  
On bank loans, overdrafts and other loans  
Finance charges related to hire purchase and finance lease agreements

Interest payable, net  
Share of joint venture interest payable, net

Interest payable on bank loans, overdrafts and other loans of £17,040,000 includes £489,000 relating to the amortisation of the discounted element of the Fualsa deferred consideration, as explained in Note 17.

## 5 Tax on profit on ordinary activities

### Corporation tax

UK corporation tax charge for the current year  
Overprovision of corporation tax for prior years

### Overseas taxation

Overseas tax charge for the current year

Total current taxation

### Deferred taxation

Origination and reversal of timing differences  
Adjustment in respect of prior years

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

	2005 £000	2004 As restated £000
Profit on ordinary activities before taxation	54,457	44,592
Tax on profit on ordinary activities at the standard rate	16,337	13,378
Expenses not deductible for tax purposes	895	552
Depreciation in excess of capital allowances for the year	784	932
Difference in taxation on overseas subsidiary / joint venture	(1,030)	(598)
Adjustment to tax charge in respect of prior years	(1,214)	(599)
Other	18	(15)
Total current taxation	<b>15,790</b>	<b>13,650</b>

## 6 Profit of parent company

Of the profit attributable to shareholders, a profit of £14,225,000 (2004 – £14,271,000 as restated) 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.

# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2005 (CONTINUED)

## 7 Dividends

Equity dividend on Ordinary shares:  
Interim paid 8p per share (2004 – 7p)  
Final proposed 12p per share (2004 – 10.6p)

Total dividend 20p per share (2004 – 17.6p)  
Non-equity dividend on Preference shares

2005 £000	2004 £000
5,136	4,259
7,676	6,780
<u>12,812</u>	<u>11,039</u>
25	25
<u>12,837</u>	<u>11,064</u>

## 8 Earnings per Ordinary share

The calculation of basic earnings per Ordinary share in respect of the year ended 30 April 2005 is based on the profit attributable to equity shareholders of £38,469,000 (2004 – £31,264,000 as restated) and the weighted average of 64,443,741 (2004 – 61,647,279) Ordinary shares in issue (excluding those shares held by employee trusts in connection with the Group's various share schemes).

Diluted earnings per Ordinary share have been calculated on the basis of earnings described above and assume that 465,690 shares (2004 – nil), remaining exercisable under the Group's various share schemes, had been fully exercised at the commencement of the relevant period, such that the weighted average number of shares is 65,064,599 (2004 – 61,817,783), including 155,168 shares (2004 – 170,504) held by employee trusts in connection with the Group's various share schemes.

## 9 Prior year adjustments

### Investments in own shares

On 1 May 2004, the Group changed its accounting policy in respect of investments in its own shares, in accordance with Urgent Issues Task Force Abstract 38. A prior year adjustment has been made to reflect this change in accounting policy. The impact of this change is to reduce both fixed asset investments and shareholders' funds by £1,330,000 at 30 April 2004. The change in accounting policy gives rise to an own shares held reserve. This represents shares held by employee trusts in order to meet commitments under the Group's various share schemes. The impact of the change in accounting policy in the current year is to decrease fixed asset investments by £1,141,000 and to increase the own shares held reserve by the same amount. Within the consolidated cash flow statement, the change in accounting policy has caused a reduction in the cash outflow from capital expenditure and financial investment and a reduction in the net cash inflow from financing of the same amount. This amount is £1,081,000 for the year ended 30 April 2004 and £1,141,000 for the year ended 30 April 2005. There is no impact on the consolidated profit and loss account in either year.

### Shares granted to employees

On 1 May 2004, the Group changed its accounting policy in respect of shares granted to employees, in accordance with Urgent Issues Task Force Abstract 17 (revised). A prior year adjustment has been made to reflect this change in accounting policy. The impact of this change is to increase administrative expenses by £141,000 and reduce profit after taxation by £141,000 for the year ended 30 April 2004. There is no impact on the profit and loss account reserve as at 30 April 2004. Within the consolidated cash flow statement, the change in accounting policy has caused a reduction in Group operating profit of £141,000. There is no impact on the net cash inflow from operating activities for the year ended 30 April 2004. The impact of the change in accounting policy in the current year is to increase administrative expenses by £191,000 and decrease profit after taxation by £191,000. There is no impact on the profit and loss account reserve as at 30 April 2005. Within the consolidated cash flow statement, the Group operating profit is reduced by £191,000. There is no impact on the net cash inflow from operating activities for the year ended 30 April 2005.

## 10 Intangible assets

### Group

#### Cost

At 1 May 2004  
Additions (Note 18)  
Reclassification from joint venture  
At 30 April 2005

#### Amortisation

At 1 May 2004  
Reclassification from joint venture  
Charge for the year  
At 30 April 2005

#### Net book value

##### At 30 April 2005

At 30 April 2004

Goodwill £000
2,440
8,952
4,726
<u>16,118</u>
459
433
1,116
<u>2,008</u>
<u>14,110</u>
1,981

## 11 Vehicles for hire

### Group

#### Cost

At 1 May 2004  
Transfer to motor vehicles  
Foreign exchange differences  
Additions  
Acquisitions (Note 18)  
Disposals

At 30 April 2005

#### Depreciation

At 1 May 2004  
Transfer to motor vehicles  
Foreign exchange differences  
Charge for the year  
Disposals

At 30 April 2005

#### Net book value

##### At 30 April 2005

At 30 April 2004

£000
488,793
(134)
(757)
295,851
95,342
(201,603)
<u>677,492</u>
109,447
(35)
(252)
124,959
(88,470)
<u>145,649</u>
531,843
<u>379,346</u>

The net book value of the above vehicles held under hire purchase or finance lease agreements amounts to £26,085,000 (2004 – £152,539,000).

## 12 Other fixed assets

### Group

#### Cost or valuation

At 1 May 2004  
Transfer from vehicles for hire  
Foreign exchange differences  
Additions  
Acquisitions (Note 18)  
Disposals

At 30 April 2005

#### Depreciation

At 1 May 2004  
Transfer from vehicles for hire  
Foreign exchange differences  
Charge for the year  
Disposals

At 30 April 2005

#### Net book value

##### At 30 April 2005

At 30 April 2004

Cost or valuation at 30 April 2005 is represented by:  
Valuation performed in 1992  
Valuation performed in 2004 (Note 18)  
Additions at cost

Land and buildings £000	Plant, equipment & fittings £000	Motor vehicles £000	Total £000
23,096	9,945	1,405	34,446
–	–	134	134
(42)	(8)	–	(50)
5,817	1,222	593	7,632
9,833	798	–	10,631
(179)	(1,560)	(851)	(2,590)
<u>38,525</u>	<u>10,397</u>	<u>1,281</u>	<u>50,203</u>
3,495	7,209	400	11,104
–	–	35	35
(2)	(2)	–	(4)
1,061	1,756	477	3,294
(175)	(1,457)	(541)	(2,173)
<u>4,379</u>	<u>7,506</u>	<u>371</u>	<u>12,256</u>
<u>34,146</u>	<u>2,891</u>	<u>910</u>	<u>37,947</u>
<u>19,601</u>	<u>2,736</u>	<u>1,005</u>	<u>23,342</u>
525	–	–	525
3,403	–	–	3,403
34,597	10,397	1,281	46,275
<u>38,525</u>	<u>10,397</u>	<u>1,281</u>	<u>50,203</u>

# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2005 (CONTINUED)

## 12 Other fixed assets (continued)

### Group (continued)

#### Land and buildings by category:

	2005 £000	2004 £000
Freehold	26,031	16,943
Short leasehold	8,115	2,658
	<u>34,146</u>	<u>19,601</u>

Certain of the above freehold properties were valued as at 30 April 1992 by Jones Lang Wootton, Chartered Surveyors, and certain other freehold properties as at 3 May 2004 by Amercian Appraisal, Professional Valuers, on the basis of open market value for existing use.

At 30 April 2005, under the historical cost convention, land and buildings would have been stated at £38,803,000 (2004 – £23,374,000) and related accumulated depreciation of £4,472,000 (2004 – £3,591,000).

### Company

#### Cost

At 1 May 2004 and 30 April 2005

#### Depreciation

At 1 May 2004

Charge for the year

At 30 April 2005

#### Net book value

##### At 30 April 2005

At 30 April 2004

## 13 Fixed asset investments

### Company

#### Cost

At 1 May 2004

Acquisitions (see below)

Foreign exchange differences on investment denominated in foreign currency (see below)

At 30 April 2005

#### Provisions

At 1 May 2004 and 30 April 2005

#### Net book value

##### At 30 April 2005

At 30 April 2004

	Shares in subsidiary undertakings £000	Investment in joint venture £000	Loans to group undertakings £000	Total £000
At 1 May 2004	24,315	10,170	47,000	81,485
Acquisitions (see below)	34,372	(10,170)	–	24,202
Foreign exchange differences on investment denominated in foreign currency (see below)	(18)	–	–	(18)
At 30 April 2005	<u>58,669</u>	<u>–</u>	<u>47,000</u>	<u>105,669</u>
Provisions	2,435	–	–	2,435
At 30 April 2005	<u>56,234</u>	<u>–</u>	<u>47,000</u>	<u>103,234</u>
At 30 April 2004	<u>21,880</u>	<u>10,170</u>	<u>47,000</u>	<u>79,050</u>

At 30 April 2005, the principal subsidiary undertakings of the Company were as follows:

Name of undertaking	Principal activity	Country of registration
Northgate Vehicle Hire Limited	Vehicle hire	England and Wales
Furgonetas de Alquiler SA (see below)	Vehicle hire	Spain

A full list of the Company's subsidiaries was included with the Annual Return filed with the Registrar of Companies.

At 30 April 2004, the investment in joint venture related to the Company's interest in the share capital of Furgonetas de Alquiler SA ("Fualsa").

During the current year, the Company increased its interest in the share capital of Fualsa to 100% (Note 18), such that it became a wholly owned subsidiary of the Company from May 2004. All amounts relating to this investment, included within fixed asset investments, are now shown as shares in subsidiary undertakings.

The investment in Fualsa is denominated in Euro in the Company balance sheet. The foreign exchange movement recognised in investments arose when this investment amount was retranslated into Sterling at the foreign exchange rate prevailing on the balance sheet date.

## 14 Stocks

Stocks comprise goods for resale and finished goods.

## 15 Debtors

Amounts falling due within one year:

Trade debtors	76,291	41,801	–	–
Amounts due from subsidiary undertakings	–	–	388,300	122,583
Social security and other taxes	1,447	–	1,163	–
Corporation tax	492	–	–	–
Deferred tax asset (Note 19)	–	–	700	–
Other debtors	2,389	7,647	1,144	242
Prepayments and accrued income	12,222	6,496	661	56
	<u>92,841</u>	<u>55,944</u>	<u>391,968</u>	<u>122,881</u>

Amounts falling due after more than one year:

Prepayments and accrued income	–	438	–	–
	<u>92,841</u>	<u>56,382</u>	<u>391,968</u>	<u>122,881</u>

## 16 Creditors: amounts falling due within one year

Borrowings (Note 17)	48,410	87,907	18	–
Trade creditors	20,008	9,838	48	–
Amounts due to subsidiary undertakings	–	–	5,693	3,097
Corporation tax	7,231	7,143	–	–
Social security and other taxes	2,138	7,050	88	81
Accruals and deferred income	21,779	15,038	2,281	2,239
Proposed dividends	7,718	6,780	7,718	6,780
	<u>107,284</u>	<u>133,756</u>	<u>15,846</u>	<u>12,197</u>

Group		Company	
2005 £000	2004 £000	2005 £000	2004 £000
76,291	41,801	–	–
–	–	388,300	122,583
1,447	–	1,163	–
492	–	–	–
–	–	700	–
2,389	7,647	1,144	242
12,222	6,496	661	56
<u>92,841</u>	<u>55,944</u>	<u>391,968</u>	<u>122,881</u>
–	438	–	–
<u>92,841</u>	<u>56,382</u>	<u>391,968</u>	<u>122,881</u>

Group		Company	
2005 £000	2004 £000	2005 £000	2004 £000
48,410	87,907	18	–
20,008	9,838	48	–
–	–	5,693	3,097
7,231	7,143	–	–
2,138	7,050	88	81
21,779	15,038	2,281	2,239
7,718	6,780	7,718	6,780
<u>107,284</u>	<u>133,756</u>	<u>15,846</u>	<u>12,197</u>

# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2005 (CONTINUED)

## 17 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	
	2005 £000	2004 £000	2005 £000	2004 £000
<b>Amounts falling due within one year:</b>				
Bank overdraft	7,318	3,485	18	–
Vehicle related bank loans	3,946	–	–	–
Vehicle loans, hire purchase and finance leases	36,491	84,422	–	–
Other	655	–	–	–
	<u>48,410</u>	<u>87,907</u>	<u>18</u>	<u>–</u>
<b>Amounts falling due after more than one year:</b>				
Bank overdraft	–	51	–	–
Vehicle related bank loans	378,275	140,628	378,091	100,000
Vehicle loans, hire purchase and finance leases	12,151	67,400	–	–
Other	12,893	–	9,548	–
	<u>403,319</u>	<u>208,079</u>	<u>387,639</u>	<u>100,000</u>
<b>Due within one to two years:</b>				
Bank overdraft	–	51	–	–
Vehicle related bank loans	185	–	–	–
Vehicle loans, hire purchase and finance leases	11,470	44,933	–	–
Other	10,530	–	9,548	–
	<u>22,185</u>	<u>44,984</u>	<u>9,548</u>	<u>–</u>
<b>Due within two to five years:</b>				
Vehicle related bank loans	378,090	140,628	378,091	100,000
Vehicle loans, hire purchase and finance leases	681	22,467	–	–
	<u>378,771</u>	<u>163,095</u>	<u>378,091</u>	<u>100,000</u>
<b>Due in more than five years:</b>				
Other	2,363	–	–	–
	<u>2,363</u>	<u>–</u>	<u>–</u>	<u>–</u>

Vehicle related loans, hire purchase and finance lease agreements of £48,642,000 (2004 – £151,822,000) are secured by fixed charges over the vehicles to which they relate.

At 30 April 2004, vehicle related bank loans and overdrafts of £144,113,000 and bank loans and overdrafts of £51,000 were secured by fixed and floating charges over the assets of the subsidiary undertakings. There were no such charges in place as at 30 April 2005.

Other borrowings falling due within one to two years include £9,548,000 in respect of the deferred consideration for 20% of the issued share capital of Fualsa (Note 18). This amount is unsecured and represents the actual amount payable of £10,040,000, which has been discounted by the Group's cost of capital, in accordance with FRS7. This has resulted in a charge to the profit and loss account of £489,000 for the year ended 30 April 2005, that has been classified as interest (Note 4). Accordingly, an additional amount of £492,000 will be charged to the profit and loss account on a straight line basis from May 2005 until the expected date that the consideration falls due.

Other borrowings of £458,000 (2004 – £nil), falling due within one year, and £3,284,000 (2004 – £nil), falling due in more than one year, represent Fualsa property loans which are secured by fixed charges over the properties to which they relate.

All other borrowings are unsecured.

## 17 Creditors: amounts falling due after more than one year (continued)

### Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed borrowing facilities at 30 April 2005, in respect of which all conditions precedent had been met at that date, expire as follows:

	2005 £000	2004 £000
In one year or less	144,338	138,010
In one year to five years	87,421	14,097
	<u>231,759</u>	<u>152,107</u>

On 10 January 2005, the Company agreed new committed term loan facilities with seven major UK and European banks. The total facilities of £565,000,000 have commitment termination dates one, three and five years from the agreement dates.

The total amount permitted to be borrowed by the Company and its subsidiary undertakings 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 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 of Directors.

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 2005 the Group's total gross borrowings were £451,729,000 (2004 – £295,986,000).

#### Financing and interest rate risk

The Group's policy is to finance operating subsidiary undertakings by a combination of retained earnings and bank borrowings including medium term loans.

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 2005, 48% of gross borrowings were at fixed or capped rates of interest: £85,000,000 of swaps and £125,000,000 plus €12,000,000 of caps and collars as detailed on page 40. 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 2005 was:

	Gross borrowings £000	Floating rate borrowings £000	Fixed rate borrowings £000	Fixed rate borrowings	
				Weighted average interest rate at year end %	Weighted average time for which rate is fixed Years
<b>At 30 April 2005</b>					
UK Sterling	269,272	184,272	85,000	5.29	2.86
Euro	182,457	149,835	32,622	3.81	1.25
	<u>451,729</u>	<u>334,107</u>	<u>117,622</u>		
<b>At 30 April 2004</b>					
UK Sterling	295,986	210,986	85,000	5.29	3.86

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 UK Sterling floating rate borrowings bear interest at relevant national LIBOR equivalents. The Euro floating rate borrowings bear interest at relevant national EURIBOR equivalents.

# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2005 (CONTINUED)

## 17 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:

### UK Sterling contracts effective as at 30 April 2005

Cap amount (£m)	Cap %	Floor %	Finish date
5	8.00	–	April 2006
5	7.50	–	June 2006
<b>10</b>			
Collar amount (£m)	Cap %	Floor %	Finish date
10	7.00	5.00	April 2007
10	7.00	5.00	April 2007
10	7.00	5.00	April 2008
10	7.00	5.00	April 2008
25	5.50	3.22	May 2008
10	5.25	3.19	June 2008
10	5.00	3.15	June 2008
10	4.75	3.25	June 2008
10	7.00	5.00	April 2009
10	7.00	5.00	April 2010
<b>115</b>			
<b>Total value of current contracts (£m)</b>			
<b>125</b>			

### UK Sterling contracts to commence after 30 April 2005

Collar amount (£m)	Cap %	Floor %	Start date	Finish date
10	6.50	4.50	April 2007	April 2012
<b>10</b>				

### Euro contracts effective as at 30 April 2005

Cap amount (€m)	Cap %	Floor %	Start date	Finish date
12	3.75	–	October 2003	October 2006
<b>12</b>				

### Euro contracts to commence after 30 April 2005

In addition to the instruments reflected in the tables above, the Group has further Euro swaps with forward starting dates, as follows:

Swap amount (€m)	Swap %	Start date	Finish date
50	2.30	June 2005	June 2008
50	2.28	June 2005	June 2009*
50	2.23	June 2005	June 2009*
<b>150</b>			

\*The counterparty to these contracts has a right to cancel this arrangement, with no cost to the Company or the counterparty, on the third anniversary of the inception date of the contract.

## 17 Creditors: amounts falling due after more than one year (continued)

### Fair values of financial instruments

The comparison of fair and book values of all the Group's financial instruments as at 30 April 2005 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.

	2005		2004	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Cash at bank and in hand	41,375	41,375	46,160	46,160
Debt	(451,729)	(451,729)	(295,986)	(295,986)
Net borrowings	(410,354)	(410,354)	(249,826)	(249,826)
Derivatives to manage interest rate	–	(923)	682	180
	<b>(410,354)</b>	<b>(411,277)</b>	<b>(249,144)</b>	<b>(249,646)</b>

### Analysis of net debt

	At 1 May 2004 £000	Cash flow £000	Acquisitions (Note 18) £000	Other non-cash changes £000	Foreign exchange movements £000	At 30 April 2005 £000
Cash at bank and in hand	44,407	(4,712)	–	–	(94)	39,601
Bank overdraft due within one year	(3,485)	(3,831)	–	–	(2)	(7,318)
	40,922	(8,543)	–	–	(96)	32,283
Short term deposits	1,753	21	–	–	–	1,774
Bank loans and overdrafts	(140,679)	(226,732)	(17,577)	–	2,767	(382,221)
Vehicle loans, hire purchase and finance leases	(151,822)	185,580	(66,829)	(15,083)	(488)	(48,642)
Other borrowings	–	5,566	(9,567)	(9,548)	1	(13,548)
	<b>(249,826)</b>	<b>(44,108)</b>	<b>(93,973)</b>	<b>(24,631)</b>	<b>2,184</b>	<b>(410,354)</b>

The Group calculates gearing to be net borrowings as a percentage of shareholders' funds less goodwill, where net borrowings comprise borrowings less cash at bank and short term deposits. At 30 April 2005, the gearing of the Group amounted to 203% (2004 – 137% as restated) where net borrowings are £410,354,000 (2004 – £249,826,000) and shareholders' funds less goodwill are £202,139,000 (2004 – £182,033,000 as restated).

# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2005 (CONTINUED)

## 18 Acquisitions

### Furgonetas de Alquiler SA ("Fualsa")

On 16 July 2002, the Group acquired a 40% share in Fualsa, a company registered in Spain, for a cash consideration of £10,170,000, including goodwill of £4,726,000. In the year to 30 April 2004, this investment was accounted for as a joint venture.

On 3 May 2004, the Group exercised its option to acquire a further 40% of the issued share capital of Fualsa for a consideration of £15,143,000 under the share purchase agreement. On the same date, the Group also exercised its option to acquire the final 20% of the issued share capital of Fualsa. The consideration for this exercise is deferred until May 2006 and will be dependent upon the profit after tax of Fualsa for the calendar years 2004 and 2005. With effect from May 2004, Fualsa has been accounted for as a subsidiary undertaking and in accordance with acquisition accounting principles.

The detail relating to the 60% share of Fualsa, that was acquired on 3 May 2004, is as follows:

	Book value £000	Provisional fair value adjustment £000	Fair value £000
Fixed assets – vehicles for hire	85,624	–	85,624
Other fixed assets	6,398	2,578	8,976
Stocks	2,536	–	2,536
Debtors	27,624	–	27,624
Cash at bank and in hand	1,194	–	1,194
Bank overdraft	(1,104)	–	(1,104)
Borrowings falling due in less than one year	(54,871)	–	(54,871)
Other creditors falling due in less than one year	(8,417)	–	(8,417)
Borrowings falling due after more than one year	(31,957)	–	(31,957)
Provisions for liabilities and charges	(1,594)	–	(1,594)
	<u>25,433</u>	<u>2,578</u>	<u>28,011</u>
60% interest in net assets acquired	15,260	1,547	16,807
Goodwill			7,395
Acquisition cost (including expenses)			<u>24,202</u>
Fair value of consideration:			
Cash			15,143
Deferred consideration			9,059
			<u>24,202</u>
Cash payment made			15,143
Cash equivalents with subsidiary undertaking acquired			(90)
Cash outflow in the year on acquisition of Fualsa			<u>15,053</u>

The total goodwill of £12,121,000, arising on this acquisition, comprises £4,726,000 relating to the initial 40% share and £7,395,000 relating to the 60% share of Fualsa. This is being amortised over a 20 year period from July 2002.

The deferred consideration is included within creditors falling due after more than one year (Note 17).

The fair value adjustment made to other fixed assets represents a revaluation of land and buildings as at 3 May 2004 in line with an open market valuation performed by professional valuers (Note 12). The Group revaluation reserve in the consolidated balance sheet has been credited with 40% of the total revaluation, relating to the Group's existing interest in Fualsa prior to 3 May 2004, amounting to £1,031,000.

In its financial year to 31 December 2003, Fualsa made a profit after tax of £7,044,000. For the period from that date to the date of acquisition, Fualsa had hire turnover of £15,407,000, operating profit of £3,852,000, profit before taxation of £2,786,000, taxation of £697,000 and profit after taxation of £2,089,000. The post acquisition results of Fualsa are detailed in the segmental analysis in Note 1, being the results arising in Spain for the year ended 30 April 2005. In addition, Fualsa contributed a post acquisition net cash inflow from operating activities of £25,153,000 and paid £33,429,000 in respect of net capital expenditure for the year ended 30 April 2005.

## 18 Acquisitions (continued)

### Foley Self Drive Limited ("Foley")

On 1 August 2004, the Group acquired the entire issued share capital of Foley for a cash consideration of £3,895,000, including goodwill of £1,557,000. The goodwill on the acquisition of Foley is capitalised and written off over a period of five years, being its estimated useful economic life. The transaction has been accounted for in accordance with acquisition accounting principles.

Fixed assets – vehicles for hire	9,718
Other fixed assets	1,655
Stocks	237
Debtors	896
Bank overdraft	(475)
Borrowings falling due in less than one year	(3,692)
Other creditors falling due in less than one year	(758)
Borrowings falling due after more than one year	(3,453)
Other creditors falling due after more than one year	(954)
Provisions for liabilities and charges	(836)
Fair value of net assets acquired	<u>2,338</u>
Goodwill	1,557
Acquisition cost (including expenses)	<u>3,895</u>
Fair value of consideration:	
Cash	3,895
Bank overdraft with subsidiary undertaking acquired	475
Cash outflow in the year on acquisition of Foley	<u>4,370</u>

The provisional fair values equate to the book values.

In its financial year to 31 March 2004, Foley made a profit after tax of £527,000. For the period from that date to the date of acquisition, Foley made a profit after tax of £124,000.

### F Herriman & Sons Limited ("Daman")

On 30 April 2004, the Group acquired the entire issued share capital of Daman for a cash consideration of £960,000, including goodwill of £670,000. During the current year, the Group received £70,000 from the vendor, under the retention terms of the sale and purchase agreement. There is no impact on goodwill in the current year.

In all of the above acquisitions, the fair values represent the Directors' current estimates of the net assets acquired. In accordance with FRS7, the values attributed may be revised as further information becomes available.

Book & fair value £000
9,718
1,655
237
896
(475)
(3,692)
(758)
(3,453)
(954)
(836)
<u>2,338</u>
1,557
<u>3,895</u>
3,895
475
<u>4,370</u>

# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2005 (CONTINUED)

## 19 Provisions for liabilities and charges

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
<b>Deferred tax provided:</b>				
Accelerated capital allowances	11,329	8,562	167	110
Other timing differences	(1,905)	(1,741)	(867)	(229)
	<u>9,424</u>	<u>6,821</u>	<u>(700)</u>	<u>(119)</u>
<b>Movement in deferred tax:</b>				
At 1 May	6,821	7,005	(119)	(6)
Acquisitions (Note 18)	2,430	166	–	–
Credited in profit and loss account	(784)	(932)	(671)	(119)
Adjustments to prior years	957	585	90	6
Foreign exchange movement	–	(3)	–	–
Reclassification to debtors (Note 15)	–	–	700	–
At 30 April	<u>9,424</u>	<u>6,821</u>	<u>–</u>	<u>(119)</u>

## 20 Called up share capital Group and Company

Authorised:  
80,000,000 Ordinary shares of 5p each  
1,300,000 cumulative Preference shares of 50p each

Allotted and fully paid:  
64,183,217 (2004 – 64,034,340) Ordinary shares of 5p each  
1,000,000 5% cumulative Preference shares of 50p each

	2005 £000	2004 £000
	4,000	4,000
	650	650
	<u>4,650</u>	<u>4,650</u>
	3,209	3,202
	500	500
	<u>3,709</u>	<u>3,702</u>

During the year 148,877 Ordinary shares with a nominal value of £7,444 were issued pursuant to the exercise of options under the Group's various share schemes, for a cash consideration of £722,164.

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.

## 21 Share premium account Group and Company

At 1 May  
Premium on shares issued (net of expenses) (Note 20)

At 30 April

	2005 £000	2004 £000
	61,829	45,635
	715	16,194
	<u>62,544</u>	<u>61,829</u>

## 22 Reserves

	Revaluation reserve £000	Merger reserve £000	Own shares held £000	Profit and loss account £000	Total reserves £000
<b>Group</b>					
At 1 May 2004 (as originally stated)	23	4,721	–	119,362	124,106
Prior year adjustment (Note 9)	–	–	(1,330)	–	(1,330)
At 1 May 2004 (as restated)	23	4,721	(1,330)	119,362	122,776
Profit transferred to reserves	–	–	–	25,657	25,657
Share options adjustment under UITF17 (revised) (Note 9)	–	–	–	191	191
Revaluation of land and buildings (Note 18)	1,031	–	–	–	1,031
Foreign exchange differences on retranslation of net assets of subsidiaries	–	–	–	(153)	(153)
Foreign exchange differences on long term borrowings	–	–	–	1,635	1,635
Increase in own shares held	–	–	(2,567)	–	(2,567)
Disposal of own shares held	–	–	1,426	–	1,426
At 30 April 2005	<u>1,054</u>	<u>4,721</u>	<u>(2,471)</u>	<u>146,692</u>	<u>149,996</u>
<b>Company</b>					
At 1 May 2004	–	417	–	71,333	71,750
Profit transferred to reserves	–	–	–	1,388	1,388
Share options adjustment under UITF17 (revised) (Note 9)	–	–	–	191	191
Foreign exchange differences on retranslation of investments in subsidiaries	–	–	–	(1,389)	(1,389)
Foreign exchange differences on long term borrowings	–	–	–	1,389	1,389
Revaluation of foreign currency denominated investment in subsidiary upon inception of hedge (see below)	1,371	–	–	–	1,371
At 30 April 2005	<u>1,371</u>	<u>417</u>	<u>–</u>	<u>72,912</u>	<u>74,700</u>

During the year, the Company took out borrowings denominated in Euro in order to hedge its Euro denominated investment in Fualsa. The investment balance was translated into Sterling at the exchange rate prevailing when this hedge was put into place and the gain arising was reflected in the revaluation reserve of the Company. The Company retranslated the borrowings and the investment into Sterling using the exchange rate prevailing at the balance sheet date. In accordance with SSAP20, the full loss on the retranslation of the investment has been recognised directly in reserves and the gain on the retranslation of the borrowings has been recognised directly in reserves to the extent that it offsets the loss arising on the retranslation of the investment. The remaining gain on the retranslation of the borrowings has been recognised in the profit and loss account of the Company.

The cumulative amount of goodwill written off directly to reserves is £13,195,000 (2004 – £13,195,000).

At 30 April 2005, a total of 314,928 (2004 – 239,779) Ordinary shares in the Company, with a market value of £2,558,790 (2004 – £1,496,221) were held by Walbrook Trustees (Guernsey) Limited and Capita IRG Trustees Limited as a hedge against the Group's obligations under its various share schemes. All but a nominal dividend right in respect of these shares has been waived. Further details of the Group's share schemes are outlined in the Remuneration Report on pages 14 to 17.



# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 2005 (CONTINUED)

# FIVE YEAR FINANCIAL SUMMARY

## 23 Reconciliation of movements in shareholders' funds

	2005 £000	2004 as restated £000
<b>Profit for the financial year</b>	38,494	31,289
Dividends	(12,837)	(11,064)
	<u>25,657</u>	<u>20,225</u>
Issue of Ordinary share capital (net of expenses)	722	16,351
Share options adjustment under UITF17 (revised) (Note 9)	191	–
Revaluation of land and buildings (Note 18)	1,031	–
Increase in own shares held (net)	(1,141)	–
Foreign exchange differences	1,482	(290)
	<u>27,942</u>	<u>36,286</u>
<b>Opening shareholders' funds (as originally stated)</b>	188,307	153,210
Prior year adjustment - UITF38 (Note 9)	–	(1,330)
Prior year adjustment - UITF17 (revised) (Note 9)	–	141
<b>Opening shareholders' funds (as restated)</b>	<u>188,307</u>	<u>152,021</u>
<b>Closing shareholders' funds</b>	<u>216,249</u>	<u>188,307</u>

## 24 Contingent liabilities

The Company has guaranteed borrowings by subsidiary undertakings of £nil (2004 – £44,033,000) as at 30 April 2005.

## 25 Commitments

### Capital expenditure commitments:

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

	Group	
	2005 £000	2004 £000
Contracted for but not provided in the accounts	<u>119</u>	<u>475</u>

### Financial commitments:

As at 30 April 2005 the Group had annual commitments to make payments under operating leases as follows:

	2005		2004	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Leases expiring:				
within one year	736	533	250	683
two to five years	671	2,026	590	1,161
over five years	912	11	1,299	12
	<u>2,319</u>	<u>2,570</u>	<u>2,139</u>	<u>1,856</u>

## 26 Pensions

The pension cost for the Group was £1,125,000 (2004 – £944,000).

During the year ended 30 April 2005 the Group only operated defined contribution arrangements.

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

### Turnover

	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
Continuing operations	380,486	355,624	337,875	277,829	261,801
Acquisitions	77,781	–	–	–	–
Joint venture	–	23,461	14,514	–	–
Turnover: Group and share of joint venture	<u>458,267</u>	<u>379,085</u>	<u>352,389</u>	<u>277,829</u>	<u>261,801</u>
Less: share of joint venture's turnover	–	(23,461)	(14,514)	–	–

### Group turnover

	<u>458,267</u>	<u>355,624</u>	<u>337,875</u>	<u>277,829</u>	<u>261,801</u>
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### Operating profit

Group operating profit - continuing operations	62,433	55,605	48,279	45,055	42,569
Group operating profit - acquisitions	13,248	–	–	–	–
Share of joint venture's operating profit	–	4,342	2,620	–	–

	<u>75,681</u>	<u>59,947</u>	<u>50,899</u>	<u>45,055</u>	<u>42,569</u>
Exceptional items	–	–	736	–	–
Interest	(21,224)	(15,355)	(15,032)	(13,381)	(15,459)

Profit before taxation	54,457	44,592	36,603	31,674	27,110
Tax	(15,963)	(13,303)	(11,497)	(9,953)	(8,054)

Profit for the financial year	38,494	31,289	25,106	21,721	19,056
Dividends	(12,837)	(11,064)	(9,736)	(9,119)	(8,517)

### Retained profit

	<u>25,657</u>	<u>20,225</u>	<u>15,370</u>	<u>12,602</u>	<u>10,539</u>
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### Earnings per Ordinary share

	<u>59.7p</u>	<u>50.7p</u>	<u>41.4p</u>	<u>35.8p</u>	<u>31.4p</u>
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### Dividends per Ordinary share

	<u>20.0p</u>	<u>17.6p</u>	<u>16.0p</u>	<u>15.0p</u>	<u>14.0p</u>
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## Balance sheet

### Assets employed

	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
Fixed assets	583,900	419,136	402,173	344,494	317,754
Net current assets (liabilities)	45,092	(15,929)	(86,615)	(60,676)	(51,625)
Creditors (after one year) and provisions	(412,743)	(214,900)	(162,597)	(147,201)	(142,436)
	<u>216,249</u>	<u>188,307</u>	<u>152,961</u>	<u>136,617</u>	<u>123,693</u>

### Financed by

Share capital	3,709	3,702	3,545	3,542	3,539
Share premium account	62,544	61,829	45,635	45,471	45,321
Reserves	149,996	122,776	103,781	87,604	74,833
	<u>216,249</u>	<u>188,307</u>	<u>152,961</u>	<u>136,617</u>	<u>123,693</u>

### Net asset value per Ordinary share

	<u>336p</u>	<u>293p</u>	<u>250p</u>	<u>224p</u>	<u>203p</u>
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# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and seventh Annual General Meeting of Northgate plc will be held at Norflex House, Allington Way, Darlington at 11.30 am on 28 September 2005 for the following purposes:

1. To receive and adopt the Directors' report and audited accounts of the Company for the year ended 30 April 2005.
2. To declare a final dividend of 12p per Ordinary share.
3. To approve the Remuneration Report for the financial year ended 30 April 2005 set out on pages 14 to 17 of the 2005 Annual Report and Accounts.
4. To re-appoint Deloitte & Touche LLP as auditors of the Company.
5. To authorise the Audit Committee to determine the remuneration of the auditors.
6. To re-elect Mr M Ballinger as a Director.
7. To re-elect Mr T Brown as a Director.
8. To re-elect Mr A T Noble as a Director.

As special business to consider, and if thought fit, to pass the following resolutions: numbers 9 and 10 are to be proposed as Special Resolutions and number 11 as an Ordinary Resolution.

9. 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 8 September 2004 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 (other than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £160,000.

and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2006 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.

10. 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 6,400,000 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 five 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 2006 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.
11. That the amendments to the Rules of the Northgate Share Option Scheme, produced in draft to this Meeting in the document marked 'A' and signed by the Chairman of the Meeting for the purposes of identification, be and the same are hereby approved and the Directors be and they are hereby authorised to cause such Rules to be adopted in the form of such draft and to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

## NOTES

1. Only the holders of Ordinary shares registered in the register of members of the Company as at 6.00 pm on 26 September 2005 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 three-way proxy card for this purpose is enclosed.
3. Copies of the draft document referred to in Resolution 11 will be available for inspection at the registered office and at the offices of New Bridge Street Consultants LLP, 20 Little Britain, London EC1A 7DH until the conclusion of the Annual General Meeting.

# THE NORTHGATE SHARE OPTION SCHEME

With assistance from New Bridge Street Consultants LLP, the Company has recently reviewed the provisions of the Northgate Share Option Scheme (the "Scheme") against current market practice and corporate governance.

In summary the proposed changes, which will only apply to future grants, are:

**Eligibility:** in line with current market practice flexibility has been incorporated to enable grants up to six months before retirement (the current rules prohibit grants within two years of retirement);

**Option Price:** the default option price for unapproved options has been set to be the middle market quotation on the dealing day prior to grant or on such other dealing day within the preceding 5 days (i.e. curbing the 30 day window in the current rules to 5 days);

**Option Term:** the term has been increased from 5.5 years to 10 years which is the norm for share options;

**Timing of grants:** authority to make grants for a further ten years from the date of the AGM to be held on 28 September 2005;

**Dilution limits:** the dilution limits within the existing rules have been replaced with two new limits which are in line with current market practice. The first limit provides that in any ten year period the Company may not issue (or have the possibility to issue) more than 10 per cent of the issued Ordinary share capital of the Company under the Scheme and any other employees' share scheme adopted by the Company. The second limit provides that on the same basis no more than 5 per cent of the issued Ordinary share capital of the Company may be issued under a discretionary executive share option plan. The limits provide flexibility to periodically recalculate the "dilution" position to take into account grants structured or restructured as Share Appreciation Rights (see below);

**Individual limits:** The four times remuneration limit within the existing rules of the Scheme has been removed. Unapproved options are now limited to grants not exceeding 150% of salary per financial year. Approved options are subject to the £30,000 limit prescribed by the relevant legislation (or such higher limit prescribed by the legislation from time to time);

**Rights on cessation of employment:** For future grants performance conditions will continue to apply in all circumstances (the performance conditions will expressly deal with the measurement of performance over a curtailed period). Where options vest early, they will also ordinarily be pro-rated to time, reflecting the number of days elapsed from the grant date to the date of cessation bears to three years. There is discretion not to pro-rate;

**Rights on takeover, reconstruction and winding up:** For future grants performance conditions will continue to apply on a change of control, reconstruction or winding up of the Company (again, the performance conditions will expressly deal with the measure of performance over a curtailed period). Where options vest early, they will ordinarily be pro-rated for time, reflecting the number of days elapsed from the grant date to the date of cessation bears to three years. There is discretion not to pro-rate; and

**Share appreciation rights:** Flexibility has been incorporated into the rules to grant Share Appreciation Rights (SARs) and/or restructure "unapproved" option grants as SARs. SARs deliver the net gain made on the exercise of an unapproved share option in shares (they cannot currently be used in connection with Inland Revenue approved grants). The way they can work is as follows:

A participant is granted an option with an exercise price equal to the market value of the shares at grant;

On the exercise of the option the participant does not pay the exercise price;

The Company calculates the amount of gain which the participant would make on the exercise of his option, i.e. the amount by which the market value of the shares exceeds the exercise price;

The resulting gain is then divided by the Company's share price;

The resulting number of shares is either issued or transferred to the Participant.

As SARs only deliver the gain in shares, this reduces the number of shares which have to be used to satisfy an option.

## Performance conditions

The performance condition that has been attached to grants to date has been a single hurdle target of EPS growth over three financial years to exceed inflation by a simple average of 3% per annum with two re-tests at the end of the fourth and fifth financial years if the test has not been met.

The vesting schedule proposed for grants made in 2005 and subsequently is as follows.

Average annual EPS growth in excess of inflation over three year performance period	Proportion of share option exercisable
5%	Zero
5%	Options over shares at grant worth 75% of salary or less
11%	Options over shares at grant worth 150% of salary or less
Between 5% and 11%	Pro-rata between the above

For example, were an executive to receive a grant over options equating to 100% of salary, assuming a zero rate of inflation, for any part of the option to vest, EPS for the final financial year would need to exceed EPS for the base year by 15%. For such performance 75% of the option would become exercisable (i.e. such portion representing 75% of salary). In the same scenario, for the option to vest in full, EPS for the last financial year would need to exceed the EPS of the base year by 21% (plus inflation) or more (i.e. 7% average p.a. falls one third between 5% and 11% p.a., corresponding to 100% of salary falling one third between 75% and 150% of salary).

The re-testing provisions will be removed.

## 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.

The Company's sponsoring broker is Hoare Govett Limited (part of ABN AMRO) and the Company's Ordinary shares are traded on SETSmm.

## Financial calendar

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

## Secretary and registered office

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## Registrars

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Find out the latest news and information about our business at

[www.northgateplc.com](http://www.northgateplc.com)

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