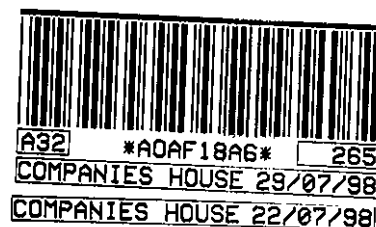


**KENNING MOTOR GROUP plc**

**REPORT & ACCOUNTS**

**31 DECEMBER 1997**



Suite 3, Rushmoor Court  
Croxley Business Park  
Hatters Lane  
Watford  
Hertfordshire  
WD1 8YL

## KENNING MOTOR GROUP plc

### REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 1997.

#### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Kenning Motor Group plc ("the company") is an investment holding company. A list of principal investments and associated undertakings is set out in note 7. The company was delisted from the Stock Exchange after the repayment of its preference share capital in December 1997.

#### RESULTS AND DIVIDENDS

Profit on ordinary activities before taxation amounted to £6,133,000 (1996: £5,715,000). After taxation and dividends the retained profit attributable to shareholders was £2,977,000 (1996: profit of £3,424,000).

Ordinary dividends of £410,000 (1996: £1,353,000) and preference dividends of £54,000 (1996: £55,000) were paid in the year. The preference share capital of £1,168,000 was repaid at its nominal value of £1 per share during the year.

#### ACQUISITIONS AND DISPOSALS

A detail of investments in subsidiaries and movements in fixed asset investments is given in note 7 to the financial statements.

#### DIRECTORS

The names of the present directors of the Company are shown on page 1.

There were no appointments or resignations during the year.

No director was materially interested in any contract of significance.

#### DIRECTORS' INTERESTS

No director had any interests in the shares of the Company (or any of its subsidiaries or intermediate parent undertaking) at either 1.1.97 or 31.12.97.

The interests of the directors in the Ordinary Shares of Inchcape plc, the ultimate parent undertaking, are as shown below:

	31.12.97			1.1.97
Shares				
A M Ferguson	6,795			2,719
Executive Options		Granted	Exercised	
A M Ferguson	84,334	19,000	-	65,334
J W James	29,700	9,500	-	20,200
SAYE Options		Granted	Exercised	
A M Ferguson	5,804	-	-	5,804

Interests shown above under Executive Options refer to options granted under the Inchcape Executive Share Option Scheme and Inchcape Overseas Executive Share Option Scheme and those shown under SAYE Options refer to options granted under the Inchcape SAYE Share Option Scheme.

**KENNING MOTOR GROUP plc**

**REPORT OF THE DIRECTORS (Continued)**


**CREDITOR PAYMENT POLICY**

The company is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted. In line with Inchcape Group policy, payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

**AUDITORS**

In accordance with Section 384 of the Companies Act 1985, a resolution will be put to the Annual General Meeting proposing the re appointment of Coopers & Lybrand as auditors to the company, and to authorise the directors to fix their remuneration.

**BY ORDER OF THE BOARD**

  
J W James  
Secretary  
Date: 6 May 1998

## **KENNING MOTOR GROUP plc**

### **DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS**

The directors are required by law to prepare financial statements for the 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 result for that period. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable Accounting Standards. The directors are additionally responsible for maintaining adequate accounting records, for safeguarding the assets of the company and the group, and for preventing and detecting fraud and other irregularities. The directors confirm, in respect of the preparation of the financial statements, that:

- they have been prepared on a going concern basis,
- suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used; and
- applicable Accounting Standards have been followed.

## KENNING MOTOR GROUP plc

### REPORT OF THE AUDITORS TO THE MEMBERS OF KENNING MOTOR GROUP plc

We have audited the financial statements on pages 6 to 12.

#### Respective Responsibilities of Directors and Auditors

As described on page 4, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

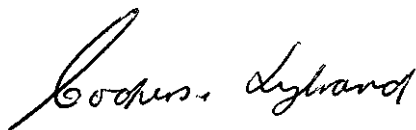
#### Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1997 and of the profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND  
Chartered Accountants and Registered Auditors  
London

Date: 6 May 1998

**KENNING MOTOR GROUP plc**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

	Notes	1997 £000	1996 £000
Administrative expenses		497	82
Provision against intercompany balances with subsidiary undertakings		(1,669)	-
Dividends received from subsidiary undertakings		2,878	3,167
Dividends received from associated undertakings		<u>512</u>	<u>196</u>
Operating profit	2	3,218	3,445
Exceptional item	3	1,000	-
Interest receivable	4	<u>2,915</u>	<u>2,270</u>
Profit on ordinary activities before taxation		6,133	5,715
Taxation	5	<u>(2,692)</u>	<u>(883)</u>
Profit for the financial year		3,441	4,832
Dividends (including dividends on non-equity shares)	6	<u>(464)</u>	<u>(1,408)</u>
Transfer to reserves	13	<u>2,977</u>	<u>3,424</u>

There were no discontinued operations in the current year.

The Company has no recognised gains or losses other than as presented in the Profit and Loss Account and thus a Statement of Total Recognised Gains and Losses is not required.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 8 to 12 form part of these financial statements.

KENNING MOTOR GROUP plc

BALANCE SHEET

AT 31 DECEMBER 1997

	Notes	1997 £000	1996 £000
<b>Fixed Assets</b>			
Investments	7	<u>18,493</u>	<u>18,493</u>
		<u>18,493</u>	<u>18,493</u>
<b>Current Assets</b>			
Debtors - amounts falling due within one year	8	2,990	2,353
Cash at bank and in hand		<u>33,476</u>	<u>30,243</u>
		36,466	32,596
<b>Current Liabilities</b>			
Creditors - amounts falling due within one year	9	<u>(5,224)</u>	<u>(3,163)</u>
<b>Net current assets</b>		<u>31,242</u>	<u>29,433</u>
<b>Total assets less current liabilities</b>		49,735	47,926
<b>Creditors - amounts falling due after more than one year</b>			
Provision for liabilities and charges	10	—	—
<b>Net Assets</b>		<u>49,735</u>	<u>47,926</u>
<b>Capital and Reserves</b>			
Called up share capital	11	16,600	17,768
Share premium account	12	15,476	15,476
Revaluation reserve	12	7	7
Capital redemption reserve	12	1,168	—
Profit and loss account	13	<u>16,484</u>	<u>14,675</u>
<b>Shareholders' funds</b>		<u>49,735</u>	<u>47,926</u>
Equity Shareholders' funds		49,735	46,758
Non- equity Shareholders' funds		—	<u>1,168</u>
		<u>49,735</u>	<u>47,926</u>

ON BEHALF OF THE BOARD



A M Ferguson  
Director

Date: 6 May 1998

The notes on pages 8 to 12 form part of these financial statements.

**KENNING MOTOR GROUP plc**

**ACCOUNTING POLICIES**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with United Kingdom Accounting Standards. The principal accounting policies of the Company, which have been consistently applied unless stated, are described below.

**ACCOUNTING CONVENTION**

The company prepares its financial statements under the historical cost basis modified for the revaluation of certain land and buildings, and in accordance with the Companies Act 1985.

**GROUP ACCOUNTS**

In accordance with the exemption permitted by Section 228 of the Companies Act 1985 no group financial statements has been prepared.

**FIXED ASSET INVESTMENTS**

Investments held as fixed assets are stated at cost less provision for permanent diminution in value.

**ASSOCIATED UNDERTAKINGS**

A company is treated as an associated company if, not being a subsidiary undertaking, the group interest is substantial and for the long term and the group exercises a significant influence over its policies and participates in commercial and financial policy decisions.

**DEFERRED TAXATION**

Deferred taxation is accounted for under the liability method, to the extent that it is probable that a liability will crystallise in the foreseeable future.

**RELATED PARTY TRANSACTIONS**

The directors regard Inchcape plc, a company registered in England and Wales, as the ultimate controlling party. Therefore the company has applied the exemption in paragraph 3(c) of FRS8 "Related Party Disclosures". This exemption permits the non-disclosure of transactions and balances with related parties that are included in the consolidated financial statements of Inchcape plc. The directors consider that, except for the transaction below, there are no other relationships, transactions or balances which are required to be disclosed by FRS8.

The company makes payments to its associated undertaking, The Lakeland Village Ltd, for the surrender of the latter's tax losses under a consortium relief arrangement. These payments amounted to £224,000 in 1997.

**2. OPERATING PROFIT**

None of the Directors received any remuneration for services rendered to the Company (1996:Nil).

Auditors' remuneration was borne by a fellow group company.



**KENNING MOTOR GROUP plc**  
**ACCOUNTING POLICIES (Continued)**

**3. EXCEPTIONAL ITEM**

	1997 £000	1996 £000
Compensation for severance/disturbance	<u>1,000</u>	<u>-</u>
The compensation is in respect of a motorway service station compulsorily purchased by the government in 1994.		

**4. INTEREST RECEIVABLE**

	1997 £000	1996 £000
On bank balances	1,915	2,270
On deferred proceeds from compulsory government purchase of motorway service station	<u>1,000</u>	<u>-</u>
	<u>2,915</u>	<u>2,270</u>

**5. TAXATION**

The taxation charge based on the results for the year is made up as follows:

	1997 £000	1996 £000
UK Corporation Tax at 31.5% (1996 : 33%)	1,243	1,274
Deferred taxation	165	(391)
Tax credit on dividends received	<u>102</u>	<u>-</u>
	1,510	883
Consortium relief payments for tax losses of associated undertaking:		
For 1997 losses	298	-
For prior years	<u>884</u>	<u>-</u>
Total tax charge in the Profit and Loss account	<u>2,692</u>	<u>883</u>

**6. DIVIDENDS**

	1997 £000	1996 £000
Equity shares:		
Ordinary	410	1,353
Non Equity shares payable:		
Preference : 3.85%	8	8
4.90%	<u>46</u>	<u>47</u>
	<u>464</u>	<u>1,408</u>

# KENNING MOTOR GROUP plc

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 7. FIXED ASSET INVESTMENTS

	Investments in Subsidiary Undertakings £000	Investments In Associated Undertakings £000	Total £000
<b>Cost:</b>			
At 1 January 1997 and 31 December 1997	<u>19,104</u>	<u>1,957</u>	<u>21,061</u>
<b>Amounts provided:</b>			
At 1 January 1997 and 31 December 1997	<u>(611)</u>	<u>(1,957)</u>	<u>(2,568)</u>
<b>Net book value:</b>			
At 31 December 1996 and 31 December 1997	<u>18,493</u>	<u>-</u>	<u>18,493</u>

Principal subsidiary undertakings and associated undertakings are listed below. Unless otherwise shown, the capital of each company is wholly owned and is in ordinary shares. All companies are incorporated in and operate in England. Where a company is not wholly owned, the percentage of the capital held is shown in brackets.

	Nature of business
* Kenning Leaseline Limited	Vehicle leasing
* Inchcape Estates plc	Property
* Atlantic Leisure Group Limited	Holding company
+* The Lakeland Village Limited	Leisure
Issued capital : 1,300,000 ordinary shares of £1 each	(49% owned)
+* MEVC Finance Limited	Finance
Issued capital : 100 ordinary shares of £1 each	(25% owned)

\* Indicates that the shares in the company are directly owned by Kenning Motor Group plc.

+ Indicates that the accounts of the associated undertaking are audited by auditors other than Coopers & Lybrand, who are the auditors of Kenning Motor Group plc.

### 8. DEBTORS - amounts falling due within one year

	1997 £000	1996 £000
Trade debtors	2	2
Amounts due from Group undertakings	2,937	1,761
Deferred tax (note 10)	-	165
Other debtors	26	-
Prepayments and accrued income	<u>25</u>	<u>425</u>
	<u>2,990</u>	<u>2,353</u>

**KENNING MOTOR GROUP plc**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**9. CREDITORS - amounts falling due within one year**

	1997 £000	1996 £000
Trade creditors	40	-
Amounts due to Group undertakings	1,917	627
Bank loans and overdrafts	96	-
Taxation and social security payable	1,231	1,000
Consortium relief payable to associated undertaking	298	-
Other creditors	18	68
Accruals and deferred income	<u>1,624</u>	<u>1,468</u>
	<u>5,224</u>	<u>3,163</u>

**10. PROVISION FOR LIABILITIES AND CHARGES**

Deferred taxation	£000
At 1 January 1997 (classified as Debtors, as per note 8)	(165)
Charged to Profit and Loss Account	<u>165</u>
At 31 December 1997	<u>-</u>

	Potential		Provided	
	1997 £000	1996 £000	1997 £000	1996 £000
The analysis of deferred taxation is as follows				
Capital allowances	(5)	(7)	-	-
Other timing differences	<u>-</u>	<u>(165)</u>	<u>-</u>	<u>(165)</u>
	<u>(5)</u>	<u>(172)</u>	<u>-</u>	<u>(165)</u>

**11. SHARE CAPITAL**

	Authorised		Allotted and fully paid	
	1997 £000	1996 £000	1997 £000	1996 £000
<b>Equity shares:</b>				
Ordinary shares of 25p each:				
70,000,000 authorised and 66,400,000 allotted	17,500	17,500	16,600	16,600
<b>Non-Equity shares:</b>				
Cumulative preference shares of £1 each:				
200,000 5.5% (now 3.85% + tax credit)	200	200	-	200
1,000,000 7% (now 4.9% + tax credit)	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>968</u>
	<u>18,700</u>	<u>18,700</u>	<u>16,600</u>	<u>17,768</u>

In December 1997, the preference shares were repaid at their nominal value of £1 each.

**12. RESERVES**

	Capital Redemption Reserve	Share Premium Account £000	Revaluation Reserve £000
At 1 January 1997	-	15,476	7
Transfer from Profit & Loss Account	<u>1,168</u>	<u>-</u>	<u>-</u>
At 31 December 1997	<u>1,168</u>	<u>15,476</u>	<u>7</u>

## KENNING MOTOR GROUP plc

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 13. PROFIT AND LOSS ACCOUNT

	£000
At 1 January 1997	14,675
Retained profit for the year	2,977
Transfer to capital redemption reserve	(1,168)
At 31 December 1997	<u>16,484</u>

#### 14. CONTINGENCIES

The company is party to composite cross guarantees between banks, its ultimate parent company and fellow subsidiaries. The company's contingent liability under these guarantees at 31 December 1997 was £33,475,687 (1996: £30,243,000)

The company has guaranteed a bank overdraft facility of its associated undertaking, Lakeland Village Limited. The maximum amount of the guarantee is £3,500,000 (1996 £3,500,000) and the contingent liability under this guarantee was £3,500,000 (1996 £3,500,000)

#### 15. CASH FLOW STATEMENTS

A cash flow statement is not required as Inchcape plc, the Company's ultimate holding company, has complied with Financial Reporting Standard 1 Revised by including a consolidated cash flow statement in its Report and Accounts for the year ended 31 December 1997.

#### 16. HOLDING COMPANY

The directors regard the ultimate holding company as Inchcape plc which is incorporated in Great Britain.

The largest group of which the company is a member and for which Group Financial Statements are drawn up is that of Inchcape plc which is registered in England. Copies of the Report and Financial Statements of that company are available from:

The Company Secretary  
Inchcape plc  
33 Cavendish Square  
London  
W1M 9HF