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PENDRAGON
ANNUAL REPORT 2004

CONTENTS

Financial summary

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Total turnover	**3,173,151**	1,841,610	1,875,494	1,728,363	1,637,248
Group turnover	**3,173,151**	1,841,610	1,875,494	1,549,175	1,428,255
Gross profit	**447,779**	265,510	258,616	219,775	185,705
Total operating profit	**76,828**	48,396	39,455	39,229	18,546
Profit before taxation	**65,042**	44,348	35,835	30,602	4,137
Net assets (as restated - note 6)	**179,255**	147,072	140,732	138,558	136,257
Net borrowings	**244,803**	96,741	114,044	127,482	137,557

Other financial information

Gross margin	**14.1 %**	14.4 %	13.8 %	14.2 %	13.0 %
Total operating margin (note 1)	**2.9 %**	2.8 %	2.3 %	2.5 %	1.7 %
After tax return on equity (note 2)	**27.0 %**	21.2 %	17.2 %	14.7 %	4.0 %
Basic earnings per share (note 3)	**35.9 p**	24.5 p	17.5 p	14.2 p	3.7 p
Adjusted earnings per share (note 4)	**33.9 p**	20.6 p	14.3 p	11.6 p	8.0 p
Dividends per share (note 5)	**10.2 p**	7.6 p	6.9 p	6.4 p	5.9 p
Dividend cover (times)	**3.5**	3.2	2.6	2.3	0.6
Interest cover (times)	**3.1**	4.5	3.7	3.0	1.4
Gearing (as restated - note 6)	**136.6 %**	65.8 %	81.0 %	92.0 %	101.0 %

Business summary

Number of franchises	**244**	139	150	166	183
Number of trading locations	**213**	117	124	141	153

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

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

note 3 Earnings per share has been restated for the impact of the 2003 bonus issue.

note 4 Earnings per share adjusted to eliminate the effects of notional interest, goodwill amortisation and exceptional items, see note 10 of the financial statements. It has been restated for the impact of the 2003 bonus issue.

note 5 Dividends per share has been restated for the impact of the 2003 bonus issue.

note 6 The above table has been adjusted to reflect the adjustments made to prior year net assets on adoption of UITF 38 - Accounting for ESOP Trusts.

Bridgegate Derby BMW/MINI
Acquired 2004

Dear Shareholder

Following on from the successful acquisition of CD Bramall at the end of February our focus in 2004 has been to integrate the new business, reduce debt and, at the same time, continue to drive forward the performance of the group. In doing so we have achieved strong results for the year, which reinforces our position as the UK's leading motorcar and truck dealership group.

Group sales, for the year ended 31 December 2004, have risen to £3.2 billion compared to £1.8 billion in 2003. Underlying profit before tax is up by 58.4 per cent to £60.5 million from £38.2 million in 2003. Earnings per share on this basis increased 64.6 per cent to 33.9 pence. On a statutory basis, including exceptionals and goodwill amortisation, pre tax profit was £65.0 million and earnings per share were 35.9 pence.

Your board has proposed a final dividend of 6.0 pence, which together with the interim dividend of 4.2 pence, gives a full year dividend of 10.2 pence, an increase of 34.2 per cent. The uplift in the dividend reflects both the confidence your board has in the future and the step up in the earnings capacity of the group after the major acquisition made in the year.

We increased our borrowings by £293 million in February 2004 to acquire CD Bramall. We have managed our cash flow well during the year and generated £167 million from operations. We are confident of meeting our objective of bringing gearing back to more normal levels by the end of 2005.

The group has almost doubled in size in 2004 and, whilst the core business is motorcar retailing and servicing, we have added new complementary businesses in parts wholesale and truck retailing and servicing. Our strategy is to have scale with the manufacturers we represent. We have an integrated business model, industry leading management information across each of our franchise focused groups and innovative activities in our customer services centre, all of which are delivering benefits to the business.

We now have almost twelve thousand Pendragon team members and the contribution of each individual within the team has again enabled these excellent results to be achieved. My colleagues on the board and I extend our thanks to them for their hard work and commitment.

Sir Nigel Rudd
Chairman
17 February 2005

Mercedes-Benz of Huddersfield
New dealership opened during 2004

We have had another very successful and busy year, ending with an outstanding set of results. The integration of the Pendragon and Bramall businesses has progressed ahead of plan and the acquisition of Bramall, using borrowings, has significantly increased earnings in the year. For the longer term it has added more momentum to our drive to increase operational efficiencies through economies of scale.

Summary Financial Statement

£m	**2004**	2003
Turnover	**3,173.2**	1,841.6
Underlying operating profit	**91.2**	50.8
Goodwill amortisation	**(9.7)**	(2.4)
Exceptional costs of integration	**(4.7)**	-
Operating profit	**76.8**	48.4
Business disposals	**0.4**	4.5
Property disposals	**18.5**	3.0
Profit on ordinary activities before interest	**95.7**	55.9
Income from investments	**-**	1.0
Interest	**(30.7)**	(12.6)
Profit on ordinary activities before tax	**65.0**	44.3
Earnings per share	**35.9 p**	24.5 p
Dividend per share	**10.2 p**	7.6 p

Underlying operating profit of £91.2 million (2003: £50.8 million) less interest of £30.7 million (2003: £12.6 million) gives profit before tax, goodwill amortisation and exceptionals of £60.5 million (2003: £38.2 million), an increase of 58.4 per cent.

Trading environment During 2004 the UK new car market remained stable at around 2.5 million registrations. Demand in all segments of the market, retail, fleet and corporate, was strong in the first quarter compared to the same period in 2003. The trend in the remaining nine months showed a decline in sales to private buyers with this segment finishing the year 4.4 per cent down on 2003. The fall in retail customer sales was compensated in the market by fleet registrations which ended the year strongly.

The strong fleet market demand for cars was mirrored in commercial vehicles where registrations were up again in 2004 at 0.4 million. The large truck segment of this market was stable with light commercials making up most of the 7.2 per cent increase year on year. The aftersales market in both cars and commercials continued strongly backed by a number of years of stable sales and a steadily growing vehicle parc in the UK.

Overall the US market remained fairly buoyant with sales of cars and light trucks up by 1.4 per cent to just under 17 million. New car sales were more difficult in the narrow range of brands we represent in California with sales of Land Rover and Jaguar both down. The aftermarket remained strong. In Germany the market for our products suffered again as a result of the lacklustre economy although total registrations for all brands were slightly up. Registrations for brands we represent, Jaguar and Land Rover, were down six and fifteen per cent respectively.

Mercedes-Benz of Huddersfield

Adrian Patterson
Business Manager

Karen Kellett
Service Adviser

The principal activity of our business is the sale and servicing of motorcars. We also operate a number of commercial vehicle dealerships. Within the business there are distinct areas of activity; new vehicle sales, used vehicle sales, aftersales and support services. In 2004 new vehicle sales accounted for 32.1 per cent of gross profit, used car sales for 18.1 per cent, aftersales for 44.2 per cent and support services 5.7 per cent. These percentages have not changed significantly year on year.

Motor vehicle retail business We have businesses in three of the largest car markets, UK, USA and Germany. The business in the UK accounted for 97 per cent of our underlying operating profits in 2004.

UK We own and operate 244 franchised dealers from 213 sites in the UK. This now includes 33 commercial vehicle dealerships. We have a national network of dealerships from Scotland in the North to the south coast of England with a diverse portfolio of franchises consisting of specialist, luxury, volume and commercial vehicles. The CD Bramall acquisition early in the year added 133 franchises. These have brought scale in certain areas such as Ford and Vauxhall volume businesses and broadened the portfolio to include other franchises such as Peugeot and Citroën.

Our specialist and luxury car franchises include Aston Martin, BMW, Ferrari, Jaguar, Land Rover, Maserati, Mercedes-Benz, Mini and Porsche. The principal volume franchises are Ford and Vauxhall. Commercial vehicle franchises include DAF, Iveco, LDV, Mercedes-Benz and Mitsubishi. We also have five sites selling Harley-Davidson and Japanese motorcycles.

£m	Turnover	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	1,505.8	202.1	13.4	40.9	2.7
Acquired	1,321.2	179.6	13.6	34.7	2.6
Disposed	54.8	7.0	12.8	0.8	1.4
Total 2004	**2,881.8**	**388.7**	**13.5**	**76.4**	**2.6**
Total 2003	1,596.5	221.0	13.8	43.1	2.7

We have almost doubled the size of our UK business through the acquisition of CD Bramall. Whilst the new businesses have diluted the operating margin slightly, the results for the combined business have been outstanding.

Of our luxury and specialist franchises Aston Martin, Jaguar and Porsche performed well in the year. The new car over supply situation in 2003 for Jaguar was rectified, leading to a much more orderly market and stock holdings at more normal levels. Aston Martin and Porsche benefited from the introduction of new models. Of the other luxury marques Mercedes-Benz was more difficult compared to 2003 with sales and margins under pressure throughout the year.

As stated previously, we have been working to further improve the margins in our existing Ford business. This has been achieved on sales of £272 million. Given that Ford registrations were down three per cent nationally it is an excellent performance. Our Ford franchise group, with the addition of the CD Bramall sites, had sales of £760 million in 2004 and as we bring more of this business into our shared services model we expect to see more scale benefits arising.

The other main volume business we operate is Vauxhall with sales of over £300 million in the year. The dealerships performed well in a more competitive market. Year on year profitability declined slightly although good margins were maintained on reduced sales volumes. With the introduction of more of this franchise group to our new technology system this year we anticipate that some of the scale benefits already enjoyed elsewhere in the group will start to enhance this franchise group's already good performance.

We are now one of the biggest commercial vehicle retailers in the UK and, against the background of another strong market, we saw the performance of this division move forward in the year with margins ahead by almost one per cent.

Chatfields of Sheffield DAF
David Wright, Technician

Eight dealerships were disposed of or closed during the year. Seven of the eight were acquired CD Bramall dealerships which were either non core or unlikely to meet our performance criteria.

We have enhanced our relationship with General Motors during the year with a number of developments and acquisitions. We now represent General Motors with Vauxhall, SAAB, Chevrolet and Cadillac. We have been appointed sole distributor and retailer of Cadillac cars in the UK, with initial representation plans for London, Manchester and Birmingham. We expect to deliver the first cars to customers in April this year. We acquired three SAAB dealerships towards the end of 2004 and have added a further one in Nottingham in January 2005. We also acquired three Chevrolet businesses in December 2004, which complement our existing Vauxhall network.

USA We have again moved the profitability of our US business forward compared to the prior year. This is mainly due to utilising the business model we developed in the UK to control costs and drive sales, and to the continuing good results in the aftersales operations of the dealerships.

Including two new SAAB dealerships we acquired in January 2005, we now operate twelve franchises from nine locations in southern California. The portfolio of brands consists of Jaguar, Land Rover, Aston Martin, SAAB, Lincoln and Mercury. Whilst the portfolio remains concentrated on a few brands, we are continuing with our plan to introduce other franchises as we move the business forward.

£m	Turnover	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Total 2004	**170.0**	**28.9**	**17.0**	**6.0**	**3.5**
Total 2003	172.3	31.1	18.0	5.1	3.0

The more competitive market for new car sales especially in the Jaguar franchise led to the slight dip in gross margins from 18.0 per cent to 17.0 per cent. Better cost control and more efficient working practices enabled us to grow the operating margin by 0.5 per cent.

In January 2005 we took our first step to establish a relationship with General Motors in the US through the acquisition of two SAAB dealerships. Both dealerships are well established businesses in the Los Angeles area. We believe this is an important step in both building on the relationship we enjoy with General Motors in the UK and in enriching the portfolio of brands we sell in the Californian market.

SAAB Santa Monica
Acquired January 2005

Our management team has completed a lot of the groundwork in 2004 to enable the roll out of more of our in-house technology systems in 2005. As a consequence we will be able to operate the business on a more integrated model thereby simplifying future expansion. We have also continued to strengthen our established leadership team in order to take advantage of suitable opportunities to expand our business in California.

Germany The German economy remains weak and the performance of our businesses continues to be disappointing. In total we operate five sites in Munich and Frankfurt with ten franchises: five Jaguar, three Land Rover and two Aston Martin. In comparative terms it is a small part of the group contributing just over 1 per cent of turnover and an underlying operating loss of £2.1 million (2003: loss of £1.6 million).

Support services We provide a broad range of support services to both the Pendragon group and to outside customers. The services are provided by a number of specialist businesses, which principally comprise:

- Contract hire and leasing
- Computer software solutions
- Wholesale parts distribution
- Shared services (Loxley House)

A number of new businesses acquired with CD Bramall have been added in this area in 2004. These are the Quickco parts wholesale operation, Bramall Contracts and the Extra Leasing business.

£m	Turnover	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Existing	56.7	19.5	34.4	5.5	9.7
Acquired	88.4	14.4	16.3	5.5	6.2
Total 2004	**145.1**	**33.9**	**23.4**	**11.0**	**7.6**
Total 2003	49.3	15.4	31.2	4.2	8.5

Contract Hire and Leasing Our combined contract hire and leasing business made an operating profit of £3.9 million (2003: £1.3 million). The total fleet size at the year end was twelve thousand compared to thirteen thousand on a like for like basis at the end of 2003. The Extra Leasing business stopped writing new primary leases in June 2003 and we continue to manage the disposal of vehicles and plant when they come to the end of their hire period. The number of vehicles and plant at the end of 2004 was eight thousand, a reduction of two thousand from the end of 2003.

Pinewood Technologies Pinewood is responsible for the computer and telecoms network for the group as well as providing services to third party customers. The focus of activity in the year for Pinewood has been the development, sale and installation of the new dealer management system, Pinnacle. At the end of 2004 we had Pinnacle installed at 24 dealerships within the Pendragon group and demand from external customers has continued to grow. Since the year end we have continued with installations, and plan to have substantial numbers of our dealerships on the new system by the end of 2005. Also within Pinewood Technologies is CFC, which provides software solutions for the management of small fleets, contract hire and workshops.

Shared Services The customer service centre at Loxley House provides a broad range of services to the group including a call centre, video sales functions, customer retention and accounting services. During the year we have integrated more dealerships from the group into parts of this business model, including the call centre activities for our BMW and Porsche franchise groups and a further 19 Ford dealerships.

Pinewood technology system
Loxley House

Profits from property disposals Property disposals generated £47.1 million proceeds (2003: £11.8 million) and a net profit before tax of £18.5 million (2003: £3.0 million). We are continuing to manage our property portfolio in order to release value from properties. As announced on 1 December 2004 we have obtained planning consent on one of our properties which when disposed of in 2005 will result in a significant exceptional gain. We have a number of other properties also awaiting change of use planning approval.

Back Row L-R
Darren Murray, Kieran Kelly, Martin Dodsworth, Colin Isaacs, Paul Linley, Paul Clements

Front Row L-R
John Blanchard, Dave Charlton, David Stones, Martyn Thorley, Richard Coopey

Winner not pictured Geoff Smith

Team members Each year we recognise the contribution of our team members towards the success of the business. Pictured above are the winners of the 2004 awards for outstanding achievement.

Outlook Our efforts in the year have been focused on integrating the Bramall business whilst still continuing to drive the performance of the group. Our achievements in 2004 have confirmed our position as the UK's leading auto retailer.

The UK remains our primary market place where new car registrations have been stable over the last five years. Industry analysts are, at this early stage of the new year, forecasting a slight dip in new car registrations compared to 2004. We see the aftermarket continuing to remain strong in the coming year.

Whilst we are being cautious on outlook at this early stage we are confident that we will achieve our objectives in the year including a further reduction in our debt and the roll out of our new technology platform to a large proportion of the group.

TREVOR FINN
Chief Executive
17 February 2005

Evans Halshaw Wakefield
Acquired during 2004

This year our results have been transformed by the acquisition of CD Bramall, which was our largest competitor in the UK. We paid £293.5 million including assumed borrowings of £52.4 million. The acquisition was immediately earnings enhancing and contributed underlying operating profits of over £40.0 million in just ten months of ownership.

We incurred exceptional one off costs of £4.7 million as part of the process of integrating the acquired business. A majority of the costs were incurred to take out duplicate functions which were performed at the Bramall head office and for severance payments made to former directors.

Cash flow Borrowings at 31 December 2004 were £244.8 million compared to £96.7 million at the end of 2003. At the time of the CD Bramall acquisition we said our target would be to reduce our debt to more normal levels by the end of 2005. We are on track to achieve our target. Our pro forma statement, contained in the circular sent to shareholders in February 2004, indicated a debt level at completion of the CD Bramall deal of just under three times shareholders' funds. In the ten months since then we have reduced the gearing ratio to 136.6 per cent.

The reduction in debt has been achieved by a combination of good cash flow from operations and property and business disposals.

£m	**2004**	2003
Cash flow from operating activities	**167.1**	59.1
Interest paid	**(23.4)**	(13.8)
Tax	**(19.3)**	(12.3)
Replacement capital expenditure	**(9.4)**	(9.0)
Free cash flow	**115.0**	24.0
Acquisitions	**(315.4)**	(24.4)
Disposals	**65.0**	37.9
Share buyback	**-**	(11.0)
Dividend	**(9.8)**	(10.8)
Other	**(2.9)**	1.6
(Increase) / reduction in net debt	**(148.1)**	17.3

Cash flow generated from operations was £167.1 million, which compares with £59.1 million generated in 2003. Operating profit, after adding back depreciation and goodwill amortisation, was £110.1 million. A further £57.0 million of cash was generated in the year as a result of lower working capital utilisation. The reduction in the second half of the year was £6.3 million compared to a first half reduction of £50.7 million. Working capital management has been a key part of the integration of the Bramall businesses.

Net interest paid has increased in line with borrowings during the year and, taxation payments in proportion to the higher profits generated within the group. Replacement capital expenditure was £9.4 million which includes plant and machinery, fixtures and fittings and motor vehicles.

Gary Driver & Adele Towers
Service Reception

Simon Nestor
Parts Reception

The acquisitions of £315.4 million mainly related to the purchase of CD Bramall at a cost of £293.5 million which includes the final dividend of £2.7 million paid to the former shareholders and assumed borrowings of £52.4 million. Investment in new property developments was £19.8 million which includes land acquisitions of £7.0 million.

Porsche Centre Wilmslow
Refurbished during 2004

Business disposals raised £17.9 million in 2004 (2003: £26.1 million), which included the sale of five dealerships and of our stake in our associate company Thrifty. Property disposals raised £47.1 million (2003: £11.8 million).

Financing costs The total net interest charge for the year of £30.7 million includes both bank interest and vehicle stocking charges. Bank interest has increased in line with higher debt and stocking charges have increased in line with the level of vehicle stock held in the enlarged group. Total net interest cover was 3.1 times compared to 4.5 times in 2003.

Tax The overall effective tax rate for the year was 32.2 per cent (2003: 31.2 per cent). The rate is higher than the standard 30.0 per cent UK tax rate primarily due to depreciation on assets not eligible for capital allowances together with charging goodwill amortisation and incurring trading losses in Germany for which no tax relief in the current year is available.

Earnings per share Reported earnings per share increased by 11.4 pence from 24.5 pence in 2003 to 35.9 pence in 2004. Earnings per share excluding goodwill amortisation and non trading items increased by 13.3 pence from 20.6 pence to 33.9 pence for 2004.

Dividends The proposed final dividend of 6.0 pence per share will bring the total dividend for the year to 10.2 pence, an increase of 34.2 per cent. This increase in dividend demonstrates our confidence in the future prospects of the group. Dividend cover is 3.6 times. Since the company's shares commenced trading on the London Stock Exchange in 1989 the compound annual growth rate in dividend has been 11.7 per cent.

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

Funding and liquidity management The group is financed primarily by loan notes, bank loans, vehicle stocking credit lines and operating cash flow. Committed facilities have a range of maturities, are maintained at levels in excess of planned requirements and are in addition to short term uncommitted facilities that are also available to the group.

Each business within the group is responsible for its own day to day cash management and the overall cash position is monitored on a daily basis by the group treasury department. Where our overseas subsidiaries borrow to fund their businesses they do so independently of and without recourse to the UK parent company.

Interest rate risk management The objective of the group's interest rate policy is to minimise interest costs whilst protecting the group from adverse movements in interest rates. The group's policy is to borrow on a floating rate basis as the Board believes that the retail sector in which the group operates provides a natural hedge against interest rate movements. Consequently, all fixed rate borrowings entered into by the group have been swapped into floating rate.

Foreign exchange risk management The group faces currency risk in respect of its net assets denominated in currencies other than sterling. On translation into sterling movements in currency will affect the value of these assets. The group's policy is therefore to match, where possible, net assets in overseas subsidiaries which are denominated in a foreign currency with borrowings in the same currency. Similarly, where the group borrows in a foreign currency to finance assets denominated in sterling the borrowings are swapped into sterling. In line with these policies the group has swapped all of its fixed rate loan notes denominated in US dollars into floating rate sterling and has borrowed Euro 18.9 million and USD 40.1 million against its net assets held in overseas subsidiaries.

Acquisition of CD Bramall The group acquired CD Bramall for a total consideration of £238.4 million, excluding debt and the final dividend paid to the former shareholders. Upon acquisition the book value of the assets acquired were fair valued by making adjustments to align accounting policies and restate assets and liabilities to their estimated market value. The net impact of the fair value adjustments made reduced the book value of the assets at acquisition from £105.5 million to £93.1 million. The goodwill on acquisition, being the consideration less fair value, was £145.4 million. The principal adjustments made were the revaluation of properties and the recognition on balance sheet of the deficits on the pension funds.

Pension Funds The group participates in six defined benefit pension schemes. The schemes have been closed to new members for a number of years. The financial statements are prepared in accordance with SSAP 24 although we also include, in the notes of the financial statements, details of valuations prepared in accordance with FRS 17. The pension cost for the year was £6.0 million (2003: £3.5 million). Under FRS 17 valuation rules the total assets held by the six schemes at the end of the year were £170.2 million against liabilities of £249.7 million giving a deficit before tax of £79.5 million. Of this £79.5 million, £46.0 million is already recognised as a liability on the balance sheet as a consequence of the fair value exercise for CD Bramall.

International Financial Reporting Standards For reporting periods from 2005 onwards the consolidated accounts of Pendragon are required under European legislation to comply with International Financial Reporting Standards (IFRS). The first financial statements that will be published in accordance with IFRS will be the interim statement for the six months to 30 June 2005. The group has a transition plan to manage the conversion to IFRS. We will brief the investment community on the changes more fully in advance of our half year statement.

Summary Following the successful acquisition of CD Bramall we have once again demonstrated our ability, through strong operating cash flow and selective disposals, to manage our borrowings efficiently. Both interest and dividend cover remained at good levels in the year and earnings grew strongly.

DAVID FORSYTH
Finance Director
17 February 2005

Sir Nigel Rudd (58) Non-executive Chairman
Appointed non-executive chairman of Pendragon in October 1989. He is non-executive chairman of Pilkington plc and of Boots Group PLC and Deputy Chairman of Barclays Bank PLC. Sir Nigel chairs the company's Nomination Committee.

Neil Hannah (67) Non-executive Director
Joined Pendragon in August 1993. He is non-executive chairman of Innes England Limited, commercial property surveyors. He is a member of the following committees: Audit, Nomination and Remuneration.

William Rhodes (66) Non-executive Director
Joined Pendragon in October 1989. He is a director of a number of private companies. Mr Rhodes is chairman of the Remuneration Committee and is the senior independent director. He is also a member of the Audit Committee and the Nomination Committee.

John Holt (65) Non-executive Director
Joined Pendragon in November 1999. Prior to his retirement from PriceWaterhouseCoopers in 1998, he was head of Coopers and Lybrand's computer assurance practice in the North of England. From 1994 he was a member of Coopers and Lybrand's international audit software development team. Mr Holt is chairman of the Audit Committee. He is also a member of the Nomination Committee and the Remuneration Committee.

Mike Davies (57) Non-executive Director
Joined Pendragon in October 2004. He is the senior non-executive director of Taylor Woodrow plc and recently became the non-executive chairman of Marshalls plc. He also serves as a non-executive director on the boards of a number of private companies. He is a member of the following committees: Audit, Nomination and Remuneration.

Trevor Finn (47) Chief Executive
Joined the vehicle division of Williams PLC in 1982 and subsequently became divisional managing director. He was appointed chief executive of Pendragon prior to the demerger from Williams. He is also a non-executive director of Falcon Investment Trust PLC and of Automotive Skills Limited.

Martin Casha (44) Chief Operating Officer
Joined the vehicle division of Williams PLC in 1982 and subsequently became a group general manager. He was appointed operations director of Pendragon in September 1995 and chief operating officer in November 2001.

David Forsyth (48) Finance Director
Joined Pendragon in October 1997 from Lonrho PLC where, since 1986, he held a number of senior finance positions. He is a chartered accountant.

Hilary Sykes (44) Corporate Services Director
Hilary Sykes is a solicitor and prior to joining Pendragon, advised the company as a corporate lawyer with Edwards Geldard. She joined Pendragon in 1994 as company secretary and became a director in April 1999.

Secretary
Hilary Sykes

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Royal Bank of Scotland plc

Stockbrokers
Arden Partners Limited

Auditors
KPMG Audit Plc

Solicitors
Edwards Geldard

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Results and dividends The results of the group for the year are set out in the financial statements on pages 29 to 57. The directors recommend a final dividend for the year ended 31 December 2004 of 6.0 pence per ordinary share which, together with the interim dividend of 4.2 pence per share paid to shareholders on 1 October 2004, will make a total for the year of 10.2 pence per share. Subject to approval at the Annual General Meeting, the final dividend will be paid on 19 April 2005 to shareholders appearing on the register at the close of business on 19 March 2005. Total dividends amount to £12.5 million leaving retained profit for the year of £31.6 million. Movements in reserves are set out in note 23 to the financial statements.

Principal activities Pendragon's principal activities throughout the year were the sale of new and used vehicles, contract hire and after sales services.

Review of operations A review of the group's activities and future developments is presented by the chief executive on pages 3 to 8 and the finance director also provides a review of the operations on pages 9 to12. The dealership network has been extended following the successful acquisition of CD Bramall PLC in February 2004 and by the acquisition of further businesses acquired during the year ended 31 December 2004 as detailed below:

Business	Location	Franchise	Date of Acquisition
PJ Evans	Birmingham	SAAB	October 2004
Evans Halshaw	Cardiff	Citroën	October 2004
Paramount	Cardiff	Chrysler Jeep	October 2004
Stratstone	Manchester	SAAB & Chevrolet	October 2004
Stratstone	Stockport	SAAB & Chevrolet	October 2004
Evans Halshaw	Luton	Chevrolet	December 2004
Evans Halshaw	Swansea	Chevrolet	December 2004
Evans Halshaw	Cardiff	Chevrolet	December 2004

Directors The directors of the company are listed on page 13. In accordance with the Articles of Association of the company, each of Mr W W Rhodes and Mr N G Hannah, having served as directors in excess of nine years retires and, being eligible, offer themselves for re-election. Mr D R Forsyth and Ms H C Sykes retire by rotation and Mr M T Davies, having been appointed during 2004, also retires. Each of them being eligible, offer themselves for re-election. Each of Mr Rhodes, Mr Hannah and Mr Davies has terms of appointment as a non-executive director which contain no notice period. Mr Forsyth and Ms Sykes have terms of appointment with the company with unexpired periods of twelve months. Details of directors' service contracts and directors' interests in shares are included in the Report on Remuneration on pages 22 to 27. The Corporate Governance Report on pages 16 to 21 provides details of the terms of appointment. The description of Ordinary Business at the Annual General Meeting contained in the attached Circular provides information, in accordance with the Combined Code, supporting the proposal for re-election of Mr Rhodes and Mr Hannah.

Substantial shareholdings At 9 February 2005 the directors had been advised of the following interests in the shares of the company.

Shareholder	Shares	%
Scottish Widows Investment Partnership	9,835,687	7.50
Fidelity International Limited	7,267,918	5.54
Threadneedle Asset Management	7,218,000	5.50
Jupiter Asset Management (UK) Limited	6,946,940	5.30
Framlington Asset Management	6,525,188	4.97
Morley Fund Management	6,319,915	4.82
Standard Life Investment Management	5,602,964	4.27
Barclays Global Investors (UK)	5,207,262	3.97
Legal & General Investment Management	4,774,297	3.64

Employee involvement The group recognises the importance of good communications and relations with employees, as its ability to meet the needs of its customers in a profitable and competitive manner depends on the contribution of employees throughout the group. Employees are encouraged to develop their contribution to the business wherever they work. In many areas ongoing programmes, focused on quality and customer service, provide an opportunity for everyone to be involved in making improvements. The company was awarded Investors in People accreditation in March 1999, and accreditation was renewed in May 2003. Financial participation is further encouraged through the company's Sharesave Scheme and a variety of bonus schemes, which provide employees with rewards linked to the growth and prosperity of the business. In addition, the company communicates with its employees about its activities through a variety of channels, including regular video briefings.

Involvement also extends to the board of directors of Pendragon Pension Trustees Limited, the corporate trustee of the company's retirement and death benefits scheme. Four employee representatives, who broadly reflect the businesses within the group from which scheme beneficiaries originate, serve as directors of the corporate trustee. Employee representation is also present on the board of trustees of the group's other pension schemes, the Stripestar Pension Scheme and the Quicks Pension Scheme.

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

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

Donations Charitable donations amounted to £47,374 (2003: £7,902). No political donations were made (2003: £nil).

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

The number of days' purchases outstanding for payment by the group at 31 December 2004 was 45 days (2003: 38 days). The company had no trade creditors.

Repurchase of Shares Details of movements in the company's share capital are given in note 22 to the financial statements. At the Annual General Meeting on 15 April 2004, shareholders authorised the company to repurchase its own 25p ordinary shares in the market. The company has not repurchased any of its own shares during the year. The authority is only exercised if the directors expect it to result in an increase in earnings per share.

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

By order of the Board
H C Sykes
Secretary
17 February 2005

Compliance Pendragon PLC is committed to maintaining high standards of corporate governance in line with the Financial Services Authority (FSA) Listing Rules together with the related Principles of Good Governance and Code of Best Practice (the 'Combined Code') adopted by the FSA as it applies to the financial year which is the subject of this report. Other than as set out below, the company has complied with the Combined Code throughout the year and a summary of the company's application of the principles of the Combined Code appears below.

Board of directors The Board of directors, comprising four executive and five non-executive directors, meets regularly throughout the year. Brief biographical details of each of the directors appear on page 13.

The senior independent director is Mr W W Rhodes who is also the chairman of the remuneration committee. The company has not identified any individual as deputy chairman. In the absence of the Chairman, meetings are chaired by the senior independent director.

In respect of each non-executive, the Board has to consider whether he has any relationships or whether there exist any circumstances which might appear to affect his exercising independent judgement. The Board regards each of Mr W W Rhodes, Mr N G Hannah, Mr J H Holt and Mr M T Davies as independent. The appointment of Mr M T Davies as an additional non-executive means that there is now more independent non-executives than executives on the Board. The only matter relevant for consideration in relation to Mr Rhodes is the duration of his appointment as a director, which commenced in 1989. The Board considers that notwithstanding his length of service as a non-executive director, Mr Rhodes remains independent in character and judgement and continues to be committed to the role he performs for the company. Mr Hannah has served as a non-executive director for over nine years. In recent years he has received a retainer for property related advice to group companies. The retainer payment to Mr Hannah is negotiated on arms' length terms, is subject to annual review and reflects the time spent by Mr Hannah over and above his Board and committee duties. He is non-executive chairman of one of the company's commercial property advisors, Innes England Limited. Property advisers to the company are selected by means of a rigorous tendering process and the allocation of work among the respective advisers is regularly reviewed. This transparent and objective process ensures that at all times the company's dealings with Innes England Limited are at arms' length. Details of the additional services provided to group companies by Mr Hannah and of his association with Innes England Limited appear on page 27 and the amounts of payments are not regarded by either party as material. This relationship and the retainer arrangement are not regarded by the Board as affecting Mr Hannah's independence. For these reasons the Board considers that he remains independent in character and judgement and continues to be committed to the role he performs for the company. Other than as set out above, there are no relationships or circumstances in relation to any director which are regarded by the company as having the potential to affect his exercising independent judgement.

Pendragon is treated as a smaller company for the purposes of the Combined Code.

The Board meets at least seven times during a year and has adopted a structure for its meetings which is reflected in a standing agenda. Between meetings, monthly information packs are circulated to directors. The chairman holds meetings with the non-executive directors without the executives present when he deems it appropriate. Three of the five non-executives (including the chairman) have served in excess of nine years. Their terms of appointment are for a fixed two-year period, renewable on expiry if the company so desires. The Board believes that shareholders' interests are well served by the continuity and experience brought by board members who have served for a number of years. A prescribed maximum term of office for non-executive directors inevitably produces unwelcome disruption and the loss of a valuable knowledge base. Those non-executive directors (other than the chairman) who have served more than nine years will seek re-election annually. At least one third of the Board is required to retire from office by rotation at the Annual General Meeting. All directors will have submitted themselves for re-election at least every three years. All directors attend the Annual General Meeting. The attendance of directors at meetings of the Board and (where applicable) of its committees is set out in the table below.

Board and Committee Attendance*

Director	**Board**	**Audit**	**Nomination**	**Remuneration**
Sir Nigel Rudd	10/10	n/a	2/2	n/a
W W Rhodes	10/10	3/3	2/2	2/2
N G Hannah	9/10	2/3	2/2	1/2
J H Holt	10/10	3/3	2/2	2/2
M T Davies**	3/3	n/a	n/a	n/a
T G Finn	10/10	n/a	n/a	n/a
M S Casha	9/10	n/a	n/a	n/a
D R Forsyth	10/10	n/a	n/a	n/a
H C Sykes	10/10	n/a	n/a	n/a

*Attendance is displayed showing the number of meetings attended out of the total eg 9/10 means nine of the ten Board meetings were attended.

**Mr M T Davies was appointed to the Board in October 2004 and was eligible to attend the three Board meetings held during the last quarter of 2004.

There is a clear separation of the functions of chairman and chief executive recorded in a written statement adopted by the Board. This is available for shareholders' inspection at the Annual General Meeting and at any time upon request. The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of individual trading businesses, their annual budgets and their progress towards achievement of those budgets. All matters of an operational nature and within the executive directors' capital expenditure authority are dealt with by the executive directors.

The Board reviews annually the composition of the Board and its committees and the respective contribution of each director. As a result of such a review, an additional independent non-executive director has been appointed during the year. The composition of the Board as a whole and the performance of the Board and its committees, together with the adequacy of the skill set represented by the directors in their respective fields of expertise are considered by the Board at least annually. The latest of these reviews, in September 2004, concluded that the Board and its committees were operating effectively and that this was facilitated particularly by the clear demarcation of the responsibilities of the individual directors, and between the executive and the full Board and its committees. The Board also concluded that the skills and experience represented are appropriate to the company's business activities and provide adequate oversight of the assessment and management of risk.

Executive directors' performance is individually evaluated by the non-executives. This assessment features two aspects of performance: the director's individual contribution to the company's corporate goals; and the achievement of the annually agreed individual objectives appropriate to his or her role. In reviewing the performance of executive directors other than the chief executive, the non-executives take into account the views of the chief executive. The executive directors evaluate the performance of the non-executive directors annually. Each non-executive director's performance in furthering the company's corporate objectives is assessed, together with his contribution in his areas of expertise, reflected in his committee work and participation in the Board's periodic strategy meetings and familiarisation visits. Attendance at meetings is also considered. The performance assessments take place shortly after the conclusion of the company's financial year. The chairman's performance during the last year has been formally appraised by the non-executive directors. This performance review considered the responsibilities of the role of chairman as set out in the Combined Code, including capability, commitment, effectiveness and shareholder communication. The Board is evaluating processes for a more formal review of committees' and directors' performance, the current arrangements being of an informal nature.

Certain of the Board's duties are delegated to committees of the Board, whose responsibilities and composition are set out below.

Nominations Committee The committee is composed of the non-executive directors of the company, meets at least once a year and its chairman is Sir Nigel Rudd. It has written terms of reference which include making recommendations to the Board concerning the appointment of directors. The committee and the Board operate to a protocol for the selection and appointment of executive and non-executive directors, adopted in November 2003. This includes a six stage process, from the identification of a vacancy to the making of a recommendation to the Board for an appointment. Following the identification of the vacancy, the current skills profile of the Board is considered and a candidate skills profile produced, with the aim of strengthening and enhancing the skills, knowledge base and experience of the Board by the making of the appointment. The need to advertise the vacancy or engage executive search advisers is considered at this point. Interviews with short-listed candidates follow, conducted by an appropriately constituted panel of the directors, comprising a majority of non-executive directors. All Board members are also given the opportunity to meet a recommended candidate before a nomination is put to the Board.

The protocol was followed in the nomination of Mr M T Davies, who joined as a non-executive director in October 2004. Open advertising and the use of an executive search adviser was considered. However, on this occasion, a short-list of candidates with appropriate skills and experience, including Mr Davies was readily available without employing such measures. The committee recommended that such candidates would be considered first and that advertising or an executive search adviser would be employed only if a nominee was not selected from the first short list. Mr Davies has received a formal induction and will be available to meet shareholders at the Annual General Meeting.

Remuneration Committee The chairman of the committee is Mr W W Rhodes, the senior independent director. The committee is composed of the non-executive directors (except the chairman) of the company and meets at least once a year. It has written terms of reference. The committee has responsibility for determining the remuneration packages of the executive directors on behalf of the Board in the context of the policy adopted by the Board. The Report on Remuneration is considered by the Remuneration Committee, but adopted by the Board as a whole. That Report is set out on pages 22 to 27.

Audit Committee The chairman of the committee is Mr J H Holt. The committee is composed of the non-executive directors of the company (except the chairman), whose biographical details appear on page 13. The company considers each to have recent and relevant financial experience. Their meetings are attended, by invitation, by the finance director Mr D R Forsyth and representatives of the company's internal and external auditors. It met three times in 2004. The committee's terms of reference include the following:

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance and to review significant financial reporting judgements contained in them;
- to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, resignation, removal or re-appointment of the company's external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to monitor and review the effectiveness of the company's internal audit department and its activities including receiving reports and to ensure adequate levels of staffing within that department;
- to ensure that the company's systems of internal financial control are adequate and functioning properly; to commission investigations into any control weaknesses, to consider the results of any such investigations and to make recommendations to the Board to act upon any identified weaknesses;
- to ensure that the company's approach to risk management and control is systematic and structured, that the company's systems are appropriate to the levels of risk to which the company is exposed, and to carry out monitoring of controls and risk management systems sufficient to satisfy itself that their implementation is effective;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- to review arrangements by which the company's employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

During the year the Audit Committee has reviewed the company's whistleblowing policy. This is the statement of the arrangements the company has in place to enable employees to raise in confidence concerns about possible improprieties, whether financial or other.

The policy of awarding non-audit related work to the company's auditors, has been considered by the committee. The company does not impose an automatic ban on its auditor undertaking non-audit work, and the company's auditor is permitted to perform audit related and non-audit work in areas where, in the opinion of the Audit Committee, it is appropriate for it to do so. The company's objective is to ensure that non-audit work is carried out in a manner that affords full value for money, whilst obtaining a service that serves the best interests of the company. Contracts for non-audit work are not therefore awarded to the company's auditor where there is a perceived conflict of interest. Where appropriate the provision of non-audit services is formally market tested through a tender process. During the year, the company's auditor provided non-audit services as corporate adviser and reporting accountants on the acquisition of CD Bramall PLC. KPMG LLP was appointed to advise upon, administer and act as actuary to the Pendragon Pension Plan and the Stripestar Pension Scheme and to the Quicks Pension Scheme, established in February 2005. A competitive tender process was adopted in arriving at KPMG's selection to act as pensions advisors. Details of the amounts paid to the auditor and its related entities for non-audit services in the year are set out in note 4 to the financial statements on page 36.

Information and advice The directors regularly receive financial and other information concerning the group's activities and performance. Each director is entitled on request to receive information to enable him to make informed judgements and adequately discharge his duties and has access to the advice and services of the company secretary on all matters of Board procedure, corporate governance and in particular Combined Code compliance. The company secretary also provides advice and support to each of the committees of the Board. The directors' terms of appointment also permit them, at the company's expense, to take independent professional advice in connection with their duties. Although no formal training programme exists, all directors are encouraged to maintain an awareness of new developments in the areas of the group's principal activities and attend appropriate briefings throughout the year. Where necessary, directors have access to professional training on matters relating to their Board or committee functions. In line with common practice, the company maintains, at its expense, insurance cover in respect of the liability of its directors and officers to third parties. The Board includes individuals from various backgrounds with many years' experience of senior positions in listed companies and professional life. The directors are expected to bring to bear an independent judgement on issues of strategy, performance, resource and standards of conduct.

Shareholder relations During 2004, both private and institutional shareholders have been invited to tour the company's Loxley House facility and view the technological advances now incorporated into the company's business model for its car retail operations. The Board's statement concerning the respective roles of chairman and chief executive also deals with the company's approach to shareholder communication. The chief executive, Mr T G Finn, is responsible for implementation of the strategy set by the Board. Among his duties is the conduct of communications with shareholders on the company's performance. He must ensure that major shareholders have the opportunity for regular dialogue with the company on issues of concern to them, and, in particular that any changes in policy or strategy are effectively articulated to shareholders. In the main, shareholder communication is based around meetings with shareholders at key points in the financial reporting year. These are conducted by the chief executive and the finance director, rather than the non-executive chairman. In this respect the company's approach is not compliant with the Combined Code. The directors believe this to be the most effective way of communicating on matters such as strategic direction, financial performance, underlying market conditions and operational issues. Issues raised by shareholders on these occasions are fed back to the Board, and, where appropriate, access to the chairman for further discussion is arranged. The chairman also holds himself available at all times for contact with shareholders. Unless specifically requested to participate in discussions or to provide information or explanations, the chairman will, however, refer enquiries he receives to the chief executive or, if the matter concerns his own remuneration or performance as a director, or any other matter with which it is inappropriate for him to deal, to the senior independent director. The Board is always willing, where practicable, to enter into dialogue with shareholders based on mutual understandings of their respective objectives and being mindful of the company's obligations under the Listing Rules. The respective chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee are available to answer shareholders' questions at the Annual General Meeting.

Business at the Annual General Meeting The annual report and the financial statements of the company are despatched to shareholders, together with the Notice of the Annual General Meeting, giving the requisite period of notice. At the Annual General Meeting, a separate resolution is being proposed for each substantive matter. The business at the Annual General Meeting ("AGM") may be summarised as follows:

Resolutions 1 to 9 set out in the notice, deal with the ordinary business to be transacted at the AGM.

Resolution 2 Directors' remuneration report

The Companies Act 1985 (the "Act") requires the company to seek shareholder approval at its AGM of the directors' remuneration report for the year. Voting on this resolution is advisory in nature, meaning that by voting for the resolution shareholders indicate their approval of the report. However, should the resolution not be carried, the shareholders cannot by that means require the company or the Board to amend its policy on the directors' remuneration.

Resolutions 4 to 8 Proposals to re-elect or reappoint directors

Resolution 4 set out in the notice of AGM is for the appointment of Mr M T Davies as a director. Mr Davies was appointed as non-executive director in October 2004, and therefore in accordance with the company's articles of association and the Combined Code, retires and offers himself for reappointment at the AGM, this being the first AGM following his appointment. Brief biographical details of Mr Davies appear on page 13.

Resolutions 5 and 6 set out in the notice of the AGM are for the re-election as directors respectively of Mr D R Forsyth and Miss H C Sykes, each of whom retires by rotation in accordance with the company's articles of association and offers himself or herself respectively up for re-election. Brief biographical details of Mr Forsyth and Miss Sykes appear on page 13.

Resolution 7 set out in the notice of AGM proposes the re-election of Mr W W Rhodes as a director. Mr Rhodes is a non-executive director and is the senior independent director. He is a member of the audit committee and the nomination committee and is the chairman of the remuneration committee. He also chairs the board of trustees of five of the company's pension funds. Brief biographical details of Mr Rhodes appear on page 13. Mr Rhodes' accounting and corporate finance background enables him to contribute effectively to the company's strategy and risk management, and his extensive involvement in pension trusteeship provides skills valuable to the functioning of the company's schemes. Following performance evaluation, Mr Rhodes' performance continues to be regarded by the Board as effective and to demonstrate commitment to the role.

Resolutions 8 set out in the notice of AGM proposes the re-election of Mr N G Hannah as a director. Mr Hannah is a non-executive director and serves on the audit committee, the remuneration committee and the nomination committee. Brief biographical details of Mr Hannah appear on page 13. As a chartered surveyor and commercial property specialist, Mr Hannah's experience is highly relevant to the strategic management of the company's property portfolio. Following performance evaluation, Mr Hannah's performance continues to be regarded by the Board as effective and to demonstrate commitment to the role.

Resolution 10 set out in the notice of AGM deals with the special business to be transacted at the AGM.

Resolution 10 Authority to purchase own shares (special resolution)

At the Annual General Meeting in 2004, the company was given authority (the "2004 Authority") to purchase up to 13,115,252 of its ordinary shares, representing ten per cent of its then existing issued ordinary shares, through market purchases on the London Stock Exchange. The maximum price to be paid on any exercise of the 2004 Authority was restricted to five per cent above the average of the middle market quotation for ordinary shares for the five dealing days immediately preceding the day of a purchase.

During 2004, the directors have not made any market purchases of the company's ordinary shares. Nevertheless, the directors believe it remains in the interests of the shareholders of the company to have authority to make purchases of ordinary shares when market conditions are favourable. Therefore the directors are seeking the approval of shareholders for the revocation and replacement of the 2004 Authority by way of a special resolution, details of which are included in the notice of AGM on page 59. Pursuant to this authority, the company would be able to purchase up to 13,118,777 ordinary shares, representing ten per cent of the company's existing issued ordinary share capital. The authority would only be exercised if the directors expected it to result in an increase in earnings per share and in compliance with any other restrictions placed on the company from time to time.

Instead of immediately cancelling them, the company may decide to hold shares purchased pursuant to this authority (to the extent statutory requirements are met and provided they do not exceed 10 per cent of the company's issued share capital) in treasury for future cancellation, sale for cash, or transfer to an employee's share scheme, although they may be cancelled immediately upon repurchase in the light of circumstances at the time. The company proposes to comply with the relevant requirements of the guidelines issued by the Investment Committees in this regard.

Currently, there are outstanding options to subscribe for a total of 7,200,556 ordinary shares of 25p each in the company, representing 5.49 per cent of the company's existing issued share capital. If the company were to exercise in full the authority to purchase its own shares which is proposed in resolution 10, the ordinary shares for which there are outstanding options to subscribe would represent 5.78 per cent of the company's existing issued share capital as reduced by those purchases (excluding any shares held in treasury).

The results of votes taken on a poll will be declared at the Annual General Meeting (or any adjournment thereof). Where a vote is taken on a show of hands, the level of proxies received for and against the resolution and any abstentions will be disclosed at the meeting. The Annual General Meeting will be attended by the respective chairmen of each of the Audit, Nomination and Remuneration Committees.

Systems of internal control The Board is ultimately responsible for the group's systems of internal control and for reviewing their effectiveness. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Combined Code has introduced a requirement that the directors review the effectiveness of all systems of internal control. Continuing the process for the assessment of risks and corresponding systems of control, established in 2001, the Board has during the year reviewed all relevant risk areas and systems of internal controls and received reports on new risk areas and changes to existing ones, and the corresponding systems of internal controls, under the following headings:

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

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

Internal audit reports its findings monthly directly to the Board. Both the internal audit function and the Risk Control Group report to the Audit Committee at least three times a year. There is a direct line of communication between the head of internal audit and the Audit Committee. The secretary chairs the Risk Control Group and reports to the Board on the work of the Risk Control Group.

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

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

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

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

Financial reporting There are comprehensive management reporting disciplines which involve the preparation of financial plans by all operating units. The plans are reviewed by executive management and are subsequently passed to the Board for approval. Monthly actual results are reported against the approved plans.

Investment appraisal The group has a clearly defined framework for capital expenditure including appropriate authorisation levels beyond which such expenditure requires the approval of the executive directors and, for larger capital projects and acquisitions, the Board. There is a prescribed format for capital expenditure applications which places heavy emphasis on the commercial and strategic logic for the investment, and demands a detailed financial presentation of the business case.

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

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

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

Going concern The directors are satisfied that the group is in a sound financial position with adequate resources to continue in operation for the foreseeable future. In forming this view, the directors have reviewed budgets and other financial information. The financial statements of the group have therefore been prepared on the basis that the group is a going concern.

Remuneration Committee The remuneration policy is determined by the Board and is described below. Within the framework of this policy, individual remuneration packages are determined by the Remuneration Committee of the Board ("the Committee"). The Committee is composed of the non-executive directors, Mr W W Rhodes, Mr N G Hannah, Mr J H Holt, Mr M T Davies and Sir Nigel Rudd. Its chairman throughout the year was Mr W W Rhodes, the senior independent director. Matters relating to the executive directors' remuneration for the financial year 2004 were considered by the Committee during the year.

Advisers The Committee did not receive advice, services or assistance from any person during the year, save from the secretary, Hilary Sykes, who is also a director of the company. KPMG Audit Plc, solely in its capacity as auditor to the company has provided advice to the company on the requirements for the company's reporting on remuneration matters. In each case the advice given was solely in connection with the company's compliance with the Directors' Remuneration Report Regulations 2002 ("the Regulations"). Neither of the advisers was appointed by the Committee.

Remuneration Policy The company's policy in respect of directors' remuneration for the forthcoming year recognises the need to attract and retain executive directors with levels of remuneration that are arrived at responsibly and to reward them fairly, when compared with similar organisations. Remuneration packages for executive directors are structured to include a performance related element, linked to corporate and individual goals. The performance related element takes the form of an annual bonus, payable on fulfilment of the prescribed conditions, which are determined annually at the commencement of the company's financial year. Bonus earnings may not exceed 100 per cent of an executive's salary. However, the maximum bonus of 100 per cent of salary may be achieved only for exceptional performance. The making of any award is conditional on the company's achieving the profit target set for the financial year.

The company's policy on non-executive directors' remuneration is reviewed annually by the Board. Remuneration for non-executive directors is confined to basic salary without a performance related element. Non-executive directors may elect to receive all or part of their remuneration in the form of benefits in kind, typically the provision of a motor vehicle for their use.

The Board does not foresee any variation to the policy for either executive or non-executive directors in the forthcoming year.

It is the policy of the company to align the interests of all employees with the interests of shareholders as closely possible. Schemes encouraging employee share ownership are an important element of this policy. Employees held options over 2,367,956 shares under the Pendragon PLC Sharesave Scheme (described in more detail on page 48) as at 31 December 2004. During the year, options over a total of 344,155 shares granted under this scheme were exercised by employees.

Share Option Schemes The company operates the Pendragon 1999 Approved Executive Share Option Scheme and the Pendragon 1999 Unapproved Executive Share Option Scheme ("the Executive Schemes") and the 1998 Pendragon Sharesave Scheme ("the Sharesave Scheme"). The features of the Executive Schemes are described on page 24. The Sharesave Scheme is an All Employee Share Option Scheme, in which all full time employees with the requisite period of continuous service are eligible to participate. The executive directors are eligible to participate in the schemes in the forthcoming financial year. Non-executive directors are not eligible to participate in any share option schemes.

Service Contracts Each executive director has a service contract with the company. The executive directors' service agreements contain provisions regarding remuneration, holiday and sick pay entitlements, restrictions and disciplinary matters. Executive directors have twelve month rolling notice periods. In setting such notice periods, the company had regard to practice, both within the retail automotive sector and elsewhere, as regards positions of this seniority. Factors influencing this choice are the time reasonably required to select and recruit to such positions and the desirability in certain circumstances of retaining a director's services during the notice period whilst a suitable replacement is found.

In line with the Combined Code and best practice, during the year Mr Finn's service agreement has been amended so as to reduce the notice period to twelve months.

Each non-executive director has a service contract appointing him for a two year period, with no notice period for termination required from either party. The appointment is renewable upon expiry, at the company's discretion. Upon expiry of each such appointment the Board reviews the appropriateness of the non-executive director's reappointment, having regard to the attendance and performance of the non-executive director and the composition and skills of the Board as a whole.

Details of the directors' service contracts and notice periods or, as the case may be, expiry dates are set out below.

Name	Commencement	Expiry	Notice Period
Sir A N R Rudd	01.01.04	31.12.05	none
T G Finn	20.12.99	n/a	1 year
M S Casha	20.12.99	n/a	1 year
D R Forsyth	20.12.99	n/a	1 year
H C Sykes	20.12.99	n/a	1 year
W W Rhodes	01.01.05	31.12.07	none
N G Hannah	01.01.05	31.12.07	none
J H Holt	01.01.04	31.12.05	none
M T Davies	18.10.04	31.12.06	none

Compensation for termination of each such contract is payable only in limited circumstances, as described below.

Each of the directors' appointments contains terms entitling him to a compensation payment in the event of a change of control of the company. For executive directors, the compensation is payable if his employment is terminated by him or by the company giving notice within the period of six months after the take-over event which constitutes the change of control. The elements of the compensation payable in the limited circumstances described above are:

(i) the director's basic salary for the unexpired portion of the contractual notice period applicable to him;

(ii) one year's entitlement to annual bonus, applying an assumption that all relevant performance conditions to achieve maximum bonus have been met; and

(iii) an amount representing the value of one year's benefits under his service contract.

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

Non-executive directors have similar compensation entitlements, save that these are confined to one year's remuneration and the value of one year's benefits, since non-executives have no bonus scheme entitlement.

Individual directors' eligibility for the various elements of compensation is set out below:

Name	Salary	Bonus	Benefits
Sir A N R Rudd	1 year	n/a	1 year
T G Finn	1 year	1 year	1 year
M S Casha	1 year	1 year	1 year
D R Forsyth	1 year	1 year	1 year
H C Sykes	1 year	1 year	1 year
W W Rhodes	1 year	n/a	1 year
N G Hannah	1 year	n/a	1 year
J H Holt	1 year	n/a	1 year
M T Davies	1 year	n/a	1 year

Where applicable, payment of this compensation would be in full and final settlement of all claims other than in respect of share options and pension arrangements.

Other than as described above, there are no express provisions within the directors' service contracts for the payment of compensation or liquidated damages on termination of employment.

No significant awards of compensation for loss of office or for any other reason have been made to any person, whether a director or a former director, during the year.

Salaries and Bonus Within the framework of the remuneration policy set by the Board, salaries are reviewed annually by the Committee as from 1 January. Executive directors also receive further benefits which include two cars, one of which is fully expensed, and private health care. The Committee may recommend that the company make additional payments to executive directors each year in the form of a discretionary bonus. When considering whether or not to recommend any such payment, the Committee takes into account the performance of the company against its principal objectives and the individual performance of the director over the immediately preceding financial year. Awards of bonus are limited to 100 per cent of the director's salary. This is increased from the 70 per cent maximum limit applicable for 2003. The change was made to reflect more closely the practice emerging for FTSE 350 companies, obtained from independent research. Bonus awards at the highest available percentage of salary are made only upon achievement of outstanding performance. The bonus criteria for 2004 were set by the Committee early in the year. Of the available bonus, up to 40 per cent is achievable by reference to financial targets and up to 60 per cent based on individual performance. These levels are not such as to render the total remuneration unreasonable or excessive in the context of the company's sector. The salary, together with any bonus, is the only pensionable element of the executive directors' remuneration packages. The Combined Code Schedule A requires that in general, annual bonuses should not be pensionable. However, the Board regards the bonus element as an important motivational and retention feature of the executive directors' remuneration packages. If awarded, bonuses come to be regarded by directors as part of their on target earnings and for this reason are treated as pensionable. Fees for non-executive directors are agreed by the Board.

Individual Aspects of Remuneration The auditors are required to report on the information contained in the following sections of the report, except where stated otherwise.

Directors' Remuneration

	Salary/Fees	Bonus	Benefits	Total emoluments exc. pensions 2004	Total emoluments exc. pensions 2003
	£000	£000	£000	£000	£000
Executive directors					
T G Finn	375	375	45	795	682
M S Casha	185	185	25	395	337
D R Forsyth	145	116	28	289	258
H C Sykes	98	69	14	181	158
Non-executive directors					
Sir Nigel Rudd	44	-	41	85	84
N G Hannah	35	-	-	35	30
W W Rhodes	25	-	10	35	30
J H Holt	35	-	-	35	30
M T Davies*	8	-	-	8	-
Total 2004	950	745	163	1,858	
Total 2003					1,609

* Mr Davies was appointed a non-executive director in October 2004 and accordingly this figure represents his salary for the final three months of 2004.

Pension contributions paid in 2004 were £195,934 (2003: £nil).

Share Options The company operates the Pendragon 1999 Approved Executive Share Option Scheme, which is an Inland Revenue approved scheme, and the Pendragon 1999 Unapproved Executive Share Option Scheme (the "Executive Schemes"), each of which was approved at the Company's 1999 Annual General Meeting. Under the terms of the Executive Schemes, employees (including executive directors) may receive options at current market value. Options may be exercised, subject to the achievement of certain criteria relating to the performance of earnings per share as detailed above, between three and ten years after grant. No variation has been made during the financial year in the terms and conditions of the share options.

Performance Condition for the Executive Schemes Each of the Executive Schemes operates to the same performance conditions. It is a pre-condition to the exercise of options granted under the Executive Schemes that the growth in the company's adjusted earnings per share over the prescribed three year period exceeds by at least 3 per cent per annum compound the rate of inflation for that period as shown by the Retail Prices Index. The period in question is the period of three consecutive years beginning with the financial year in which the option is granted.

For the purposes of the performance condition, the means of calculating the adjusted earnings per share is to take the company's consolidated profit on ordinary activities after tax but before charging or crediting (as the case may be) the after tax effect of exceptional items (as defined in paragraph 20 of FRS3) and divide it by the weighted average number of ordinary shares in issue and ranking for dividend. The adjusted earnings per share for the third of the three years in question is compared to that for the first of such periods to identify the growth in adjusted earnings per share. The amount of such growth, expressed as a percentage, is compared to the increase in the Retail Prices Index for the period of three years commencing on the last day of the financial period ended before the date of grant. The earnings per share of the company has been selected by the company as the performance measurement for the Executive Schemes because it is the principal measure used by analysts, investors and potential investors in assessing the company's performance. This is borne out by the fact that the investor and advisory community publishes forecasts of the company's profit performance expressed as profit before tax and as earnings per share. The definition of adjusted earnings per share applied for the purposes of the performance condition is more restrictive than that used by the investor community, and therefore renders the fulfilment of the performance condition more difficult to achieve. This is in line with ABI guidelines regarding share option scheme performance conditions.

The factors considered in relation to the performance condition for the Executive Schemes are confined to the company's earnings per share performance as compared to the percentage increase in the Retail Prices Index. This performance condition was selected in accordance with ABI guidelines and was approved by the shareholders in general meeting upon the company's adoption of the Executive Schemes in 1999. Since then there has been no variation to the performance condition. It is the company's policy that non-executive directors are not eligible to participate in any share option scheme or long-term incentive scheme, nor are they entitled to any other element of remuneration linked to performance conditions.

Details of options held by executive directors are shown below:

	At 01.01.04	Number of options lapsed during year	Number of options exercised during year	Number of options granted during year	At 31.12.04	Exercise price pence	Exercise period
T G Finn							
1999 4th Grant	750,000	-	-	-	750,000	117.2	24.03.06 to 23.03.13
	*40,472	-	-	-	*40,472	45.4	01.07.07 to 31.12.07
M S Casha							
1999 4th Grant	375,000	-	-	-	375,000	117.2	24.03.06 to 23.03.13
D R Forsyth							
1999 4th Grant	175,000	-	-	-	175,000	117.2	24.03.06 to 23.03.13
	*24,815	-	(24,815)	-	-	68.0	01.07.04 to 31.12.04
H C Sykes							
1999 4th Grant	125,000	-	-	-	125,000	117.2	24.03.06 to 23.03.13
	*3,327	-	-	-	*3,327	117.2	01.07.05 to 31.12.05
	*32,371	-	-	-	*32,371	45.4	01.07.07 to 31.12.07
	*2,890	-	-	-	*2,890	122.8	01.07.10 to 31.12.10
Total	1,528,875	-	(24,815)	-	1,504,060		

*Options granted under the Pendragon 1998 Sharesave Scheme

Details of share options exercised during the year are shown below:

	Number exercised	Exercise date	Price at exercise date * pence	Exercise price pence	Exercise period
D R Forsyth					
1998 Sharesave	24,815	01.07.04	343.0	68.0	01.07.04 to 31.12.04

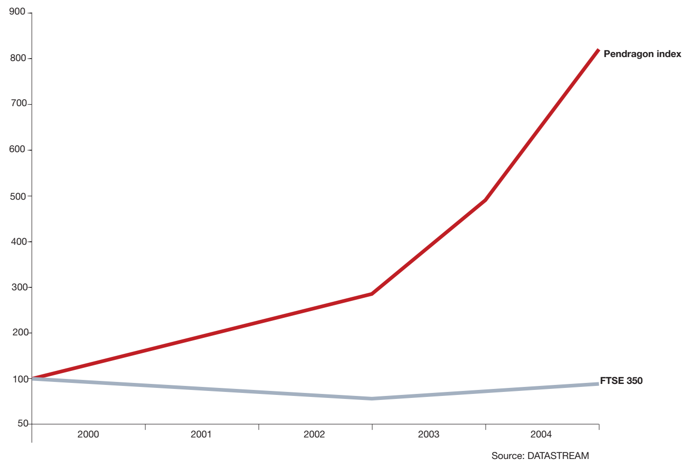
* Daily Official List closing price on the Exercise Date.

The aggregate gain made by the directors on share options exercised during 2004 was £68,241 (2003: £2,139,404).

The middle market price of Pendragon PLC ordinary shares at 31 December 2004 was 300.00 pence, and the range during the year was 187.75 pence to 348.00 pence.

There are no other share option or long term incentive schemes for which the directors are eligible. It is not proposed to make any significant amendments to the terms and conditions of any entitlement of a director to share options nor are there any proposals to introduce a long term incentive scheme (as defined in the Regulations) for which directors are eligible.

Total Shareholder Return (not subject to audit) The graph below shows the growth in total shareholder return on the company's shares in comparison to the FTSE 350 Index. For the purposes of the graph, total shareholder return has been calculated as the percentage change during the relevant period in the market price of the shares, assuming that any dividends paid are reinvested. The relevant period is the five years ending 31 December 2004. A more detailed description of the total shareholder return calculation is set out in the Notes.



Notes:

1. This report is required, pursuant to the Regulations, to contain this graph as a visual interpretation of the share price performance against a comparator stock market index.
2. Total Shareholder Return ('TSR') is calculated over the period of five years ended on 31 December 2004 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends are reinvested in shares in the company. The price at which the dividends are reinvested is assumed to be the amount equal to the closing price of the shares on the ex-dividend date plus the gross amount of annual dividend. The calculation ignores tax and reinvestment charges. For each company in the index the TSR statistics are normalised to a common start point, which gives the equivalent of investing the same amount of money in each company at that time. The percentage growth in TSR is measured over the chosen period. To obtain the TSR growth of the relevant index over the chosen period, the weighted average TSR growth for all the companies in the index is calculated. In this case, it is the FTSE350 Index (excluding investment companies) as explained in Note 3. The weighting is by reference to the market capitalisation of each company in the index in proportion to the total market capitalisation of all the companies in the index at the end of the chosen measurement period.
3. The FTSE 350 Index has been selected because the company clearly falls within the criterion reported on by that index, namely, market capitalisation not less than circa £340 million.

Pensions The assets of the Pendragon Pension Plan, established for the benefit of the group's eligible employees, are held by trustees separately from those of the group. The Plan operates through a trustee company of which Mr W W Rhodes is the chairman. The management of the Plan's assets is delegated to specialist independent investment managers and there is no direct investment in Pendragon PLC. The executive directors participate on a non-contributory basis in the Pendragon Pension Plan. The non-executive directors are not eligible to participate in the Pendragon Pension Plan.

Pension benefits earned by the directors:

£000	T G Finn	M S Casha	D R Forsyth	H C Sykes
Total annual accrued pension entitlement at 31.12.03 (p.a)	179	71	28	15
Total annual accrued pension entitlement at 31.12.04 (p.a)	230	86	31	17
Increase in accrued pension during the year excluding inflation (p.a)	45	12	2	2
Increase in accrued pension during the year including inflation (p.a)	51	15	3	2
Transfer value of increase excluding inflation	689	142	15	12
Transfer value of accrued benefits at 31.12.03	2,096	617	145	68
Transfer value of accrued benefits at 31.12.04	3,538	1,002	219	103
Increase in transfer value over the year	1,442	385	74	35

The pension benefits shown are those which would be paid annually on retirement, based on service to 31 December 2004. The benefits do not allow for any retained benefits which the directors may have relating to previous employment.

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

Where applicable, the pension benefits are based on the directors' pensionable salaries limited to the Inland Revenue earnings cap imposed by the Finance Act 1989 (currently £99,000 per annum).

All the above pension benefits exclude any additional pension purchased by Additional Voluntary Contributions.

Directors' Additional Services (not subject to audit) In addition to services as a non-executive director, Mr Hannah provides commercial property advice to group companies under a retainer arrangement. In 2004 he earned benefits to the value of £30,000 (2003: £30,000) in the form of fees. As non-executive chairman of commercial property surveyors Innes England Limited, Mr Hannah is interested in contracts for the provision of their services to the company, which during the year had an aggregate value of £154,000 (2003: £142,000).

Directors' interests (not subject to audit) The interests of the directors and those of their families in the shares of the company (all of which were beneficial) at 31 December 2004 were as set out below:

	31 December 2004 Shares	31 December 2003 Shares
Sir Nigel Rudd	1,800,000	1,800,000
T G Finn	2,903,127	2,903,127
M S Casha	823,837	823,837
N G Hannah	198,173	180,000
W W Rhodes	656,672	656,672
D R Forsyth	301,302	276,487
H C Sykes	187,500	187,500
J H Holt	25,000	25,000
M T Davies	10,000	-

There were no changes to the director's interests above between 31 December 2004 and the date of this report.

William Rhodes
17 February 2005

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

We have audited the financial statements on pages 29 to 57. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 27, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on page 16 to 21 reflects the company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be 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 group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be 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 31 December 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Birmingham
Chartered Accountants
Registered Auditor
17 February 2005

	Notes	2004 Existing operations £000	2004 Acquisitions £000	**2004 Total £000**	2003 £000
Turnover	2,3	1,760,777	1,412,374	**3,173,151**	1,841,610
Cost of sales	3	(1,511,725)	(1,213,647)	**(2,725,372)**	(1,576,100)
Gross profit		249,052	198,727	**447,779**	265,510
Net operating expenses	3	(201,855)	(169,096)	**(370,951)**	(217,114)
Operating profit		47,197	29,631	**76,828**	48,396
Operating profit before goodwill amortisation and exceptional costs		50,651	40,543	**91,194**	50,784
Goodwill amortisation	4	(3,454)	(6,261)	**(9,715)**	(2,388)
Exceptional costs	3	-	(4,651)	**(4,651)**	-
Operating profit		47,197	29,631	**76,828**	48,396
Profit on disposal of businesses	3			**354**	1,894
Profit on disposal of investments	3			**-**	2,560
Profit on disposal of fixed assets	3			**18,512**	3,010
Profit on ordinary activities before investment income, interest and taxation				**95,694**	55,860
Income from investments	3			**-**	1,040
Net interest payable	7			**(30,652)**	(12,552)
Profit on ordinary activities before taxation				**65,042**	44,348
Taxation	8			**(20,931)**	(13,858)
Profit for the financial year				**44,111**	30,490
Equity dividends	9			**(12,519)**	(9,490)
Retained profit for the financial year	23			**31,592**	21,000
Basic earnings per ordinary share	10			**35.9 p**	24.5 p
Diluted earnings per ordinary share	10			**34.8 p**	24.1 p

All amounts relate to continuing operations.

Movements in reserves are shown in note 23.

The notes on pages 34 to 57 form part of these financial statements.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004

	Notes	2004 £000	restated * 2003 £000
Fixed assets			
Intangible assets	12	**163,186**	29,220
Tangible assets	13	**303,374**	161,057
		466,560	190,277
Current assets			
Stocks	15	**446,835**	255,206
Repurchase commitments	16	**61,523**	22,048
Debtors	17	**151,068**	74,797
Cash at bank and in hand		**114,339**	7,523
		773,765	359,574
Creditors: amounts falling due within one year	18	**(692,063)**	(328,074)
Net current assets		**81,702**	31,500
Total assets less current liabilities		**548,262**	221,777
Creditors: amounts falling due after more than one year	19	**(320,780)**	(73,025)
Provisions for liabilities and charges	21	**(48,227)**	(1,680)
Net assets		**179,255**	147,072
Capital and reserves			
Called up share capital	22	**32,799**	32,790
Share premium account	23	**56,792**	56,773
Capital redemption reserve	23	**2,529**	2,529
Other reserves	23	**12,563**	12,563
Profit and loss account	23	**74,572**	42,417
Equity shareholders' funds		**179,255**	147,072

Approved by the Board of directors on 17 February 2005 and signed on its behalf by:

T G Finn
Chief Executive

D R Forsyth
Finance Director

* restated on adoption of UITF 38, see note 1.
The notes on pages 34 to 57 form part of these financial statements.

	Notes	2004 £000	2003 £000
Net cash flow from operating activities	25	**167,069**	59,134
Dividends received		**-**	1,040
Interest received		**509**	101
Interest paid		**(23,942)**	(13,868)
Returns on investments and servicing of finance		**(23,433)**	(12,727)
Taxation paid		**(19,309)**	(12,334)
Payments to acquire tangible fixed assets		**(83,978)**	(42,991)
Payments to acquire investments		**-**	(8,565)
Receipts from sales of tangible fixed assets		**102,115**	38,691
Receipts from sales of investments		**845**	16,605
Capital expenditure and financial investment		**18,982**	3,740
Business acquisitions	24	**(224,771)**	(8,557)
Borrowings of acquired businesses		**(4,988)**	-
Dividend paid to former shareholders of CD Bramall PLC post acquistion		**(2,700)**	-
Business disposals	24	**17,925**	9,486
Acquisitions and disposals		**(214,534)**	929
Equity dividends paid		**(9,845)**	(10,789)
Net cash flow before financing		**(81,070)**	27,953
Financing			
Issue of ordinary share capital	22	**28**	586
Redemption of issued ordinary share capital	22	**-**	(11,017)
Payment of capital element of finance lease rentals		**(11,454)**	-
Repayment of unsecured bank loans		**(92,202)**	(35,445)
Repayment of loan notes		**(469)**	(15,218)
Unsecured loans drawn down		**294,567**	29,019
Net cash inflow / (outflow) from financing		**190,470**	(32,075)
Movement in cash and overdrafts	26	**109,400**	(4,122)

	Notes	2004 £000	2003 £000
Reconciliation of net cash flow to movement in net debt			
Movement in cash and overdrafts		**109,400**	(4,122)
Exchange differences		**(264)**	(219)
Issue of loan notes on purchase of investment in CD Bramall PLC		**(15,756)**	-
Loans and finance leases acquired		**(47,395)**	-
New finance leases		**(3,605)**	-
Cash (inflow) / outflow from increase / decrease in debt financing		**(190,442)**	21,644
Movement in net debt in the year		**(148,062)**	17,303
Net debt at 31 December 2003		**(96,741)**	(114,044)
Net debt at 31 December 2004	26	**(244,803)**	(96,741)

The notes on pages 34 to 57 form part of these financial statements.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES YEAR ENDED 31 DECEMBER 2004

	2004	2003
	£000	£000
Profit for the financial year	**44,111**	30,490
Currency translation adjustments relating to net investments in foreign enterprises	**(282)**	(302)
Total recognised gains and losses relating to the year	**43,829**	30,188

Tax in respect of currency translation adjustments amounts to £20,000 (2003: £29,000). Currency translation adjustments are net of exchange gains in respect of hedging loans of £1,475,000 (2003: £707,000) and associated taxation of £442,000 (2003: £212,000).

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS YEAR ENDED 31 DECEMBER 2004

		restated *
	2004	2003
Group	**£000**	£000
Profit for the financial year	**44,111**	30,490
Dividends	**(12,519)**	(9,490)
	31,592	21,000
Exchange adjustment	**(282)**	(302)
Goodwill written back	**-**	2,228
Issue of ordinary shares	**28**	586
Repurchase of ordinary shares for cancellation	**-**	(11,017)
Acquisition of own shares in share trusts	**-**	(8,565)
Disposal of own shares in share trusts	**845**	2,410
Net addition to shareholders' funds	**32,183**	6,340
Opening shareholders' funds		
(originally stated at £157,894,000 before deducting a prior year adjustment of £10,822,000)	**147,072**	140,732
Closing shareholders' funds	**179,255**	147,072

	2004	2003
Company	**£000**	£000
(Loss) / profit for the financial year	**(15,050)**	48,977
Dividends	**(12,519)**	(9,490)
	(27,569)	39,487
Issue of ordinary shares	**28**	586
Repurchase of ordinary shares for cancellation	**-**	(11,017)
Acquisition of own shares in share trusts	**-**	(8,565)
Disposal of own shares in share trusts	**845**	2,410
Net addition to shareholders' funds	**(26,696)**	22,901
Opening shareholders' funds	**167,071**	144,170
Closing shareholders' funds	**140,375**	167,071

* restated on adoption of UITF 38, see note 1.

The notes on pages 34 to 57 form part of these financial statements.

	Notes	2004 £000	restated * 2003 £000
Fixed assets			
Investments	14	**493,104**	254,656
Current assets			
Debtors	17	**85,341**	8,006
Cash at bank and in hand		**5,283**	4,746
		90,624	12,752
Creditors: amounts falling due within one year	18	**(158,352)**	(67,667)
Net current liabilities		**(67,728)**	(54,915)
Total assets less current liabilities		**425,376**	199,741
Creditors: amounts falling due after more than one year	19	**(285,001)**	(32,670)
Net assets		**140,375**	167,071
Capital and reserves			
Called up share capital	22	**32,799**	32,790
Share premium account	23	**56,792**	56,773
Capital redemption reserve	23	**2,529**	2,529
Other reserves	23	**13,863**	13,863
Profit and loss account	23	**34,392**	61,116
Equity shareholders' funds		**140,375**	167,071

Approved by the Board of directors on 17 February 2005 and signed on its behalf by:

T G Finn
Chief Executive

D R Forsyth
Finance Director

* restated on adoption of UITF 38, see note 1.

The notes on pages 34 to 57 form part of these financial statements.

1. Accounting policies

(a) Accounting convention The financial statements have been prepared in accordance with applicable accounting standards using the historical cost convention.

The group has adopted UITF Abstract 38 - "Accounting for ESOP Trusts" during the year. As a result, shares in Pendragon PLC held by ESOP trusts have been reclassified from Fixed Asset Investments and are now treated as a deduction from Shareholders' Equity. This has resulted in a prior year adjustment and previously reported figures have been restated accordingly. The effect of the prior year adjustment was to reduce the group's and company's net assets at 31 December 2003 by £10,822,000 (31 December 2002: £4,667,000). There was no profit and loss account impact. Note 23 gives details of amounts deducted from Shareholders' Equity for shares held by ESOP trusts.

(b) Basis of consolidation The consolidated financial statements include the financial statements of Pendragon PLC and all of its subsidiary undertakings.

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

(d) Turnover Turnover represents sales invoiced to third parties and income from contract hire operations when acting as agent, all exclusive of value added tax. Consideration received from customers is only recorded as turnover when the group has performed it's obligations in respect of that consideration.

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

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

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

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

Plant and machinery - 10-33% per annum

Motor vehicles - 20-25% per annum

(f) Stocks

(i) Consignment vehicles in respect of which finance charges are levied are regarded as being effectively under the control of the group and, in accordance with Financial Reporting Standard 5, are included within stocks on the balance sheet as the group has the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in creditors.

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

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

(h) Deferred taxation Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

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

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

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

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

(i) Foreign currencies Profit and loss accounts in foreign currencies are translated into sterling at the average rates of exchange ruling for the relevant financial period. Assets and liabilities are translated at exchange rates ruling at the balance sheet date. Exchange differences arising on consolidation of the net investments in overseas subsidiary undertakings are taken to reserves, as are the exchange differences on the group's long term foreign currency borrowings and commitments used to finance the group's overseas investments. All other exchange gains or losses are taken to the profit and loss account as they arise.

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

(k) Pensions The regular cost of the group's defined benefit pension schemes is expensed in order to allocate the cost of providing the pensions, recognising any actuarial surplus or deficiency (where appropriate), over the working lives of the relevant employees. The group has continued to adopt the disclosure requirements of Financial Reporting Standard 17.

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

1. **Accounting policies** (continued)

(m) Goodwill Goodwill represents the excess of the fair value of consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on acquisitions before 1 January 1998 was eliminated against reserves on acquisition. In accordance with the transitional rules of Financial Reporting Standard 10 this treatment has continued to be applied to such acquisitions. On a subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill not written off through the profit and loss account, including any previously taken direct to reserves.

Goodwill arising on acquisitions since 1 January 1998 is capitalised and amortised to nil by equal instalments over its estimated useful life.

(n) Leases Assets acquired under finance leases which confer rights and obligations similar to those attached to owned assets are treated as tangible fixed assets and depreciation is provided accordingly. The capital element of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the capital balance outstanding. Rentals received / paid under operating leases are credited / charged to the profit and loss account on a straight line basis over the period of the lease.

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

(p) Share incentive schemes Where share options are granted with an exercise price of less than the market price at the date of grant the difference is charged to the profit and loss account over the period to the exercisable date of the options. Due regard is made to the likelihood of the stipulated performance criteria being attained with the charge being amended accordingly.

No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

2. **Segmental analysis**

	Turnover		**Profit before interest**		**Net assets**	
	2004	2003	**2004**	2003	**2004**	2003
	£000	£000	**£000**	£000	**£000**	£000
Europe	**3,003,146**	1,669,333	**89,506**	50,552	**156,531**	126,038
United States of America	**170,005**	172,277	**6,188**	5,308	**22,724**	21,034
Total	**3,173,151**	1,841,610	**95,694**	55,860	**179,255**	147,072

Turnover represents sales by origin and destination.

3. **Turnover, cost of sales, net operating expenses, operating profit and exceptional items**

	Existing operations £000	Acquisitions £000	**2004 Total £000**	2003 Total £000
Turnover	1,760,777	1,412,374	**3,173,151**	1,841,610
Cost of sales	(1,511,725)	(1,213,647)	**(2,725,372)**	(1,576,100)
Gross profit	249,052	198,727	**447,779**	265,510
Net operating expenses:				
Distribution costs	(122,801)	(112,671)	**(235,472)**	(126,173)
Administrative expenses	(80,028)	(56,703)	**(136,731)**	(91,478)
Other operating income	974	278	**1,252**	537
	(201,855)	(169,096)	**(370,951)**	(217,114)
Operating profit	47,197	29,631	**76,828**	48,396

Operating exceptional costs incurred during the year are £4,651,000 (2003 : £nil). These are in respect of integration costs arising from the acquisition of CD Bramall PLC which include redundancy payments made to the former directors. Tax relief on operating exceptional items of £1,395,000 (2003 : £nil) has been obtained.

Profit on disposal of fixed assets which consists principally of profits on sale of property was £18,512,000 (2003 : £3,010,000). Profit on business disposals arising from the disposal of motor vehicle dealerships was £354,000 (2003 : £1,894,000). The profit on disposal of investments in 2003 of £2,560,000 related to the sale of the group's 29.99% investment in Ryland Group plc. Prior to disposal of the investment in 2003, a dividend of £1,040,000 was received from Ryland Group plc. Tax attributable to non operating exceptional items is £4,413,000 (2003 : £1,469,000).

4. Operating profit

Operating profit has been arrived at after charging:		**2004**	2003
		£000	£000
Depreciation of tangible fixed assets:	owned	**19,720**	10,279
	held under finance leases	**3,765**	-
Amortisation of goodwill		**9,715**	2,388
Auditors' remuneration:			
Audit services - group	statutory audit	**368**	249
	audit-related regulatory services	**15**	15
Tax services - group	compliance services	**38**	30
	advisory services	**-**	8
Other services		**-**	2
Audit fees - parent company		**8**	8
Operating lease rentals payable:	Hire of plant and machinery	**1,161**	1,425
	Property	**14,332**	11,035

In addition to the above, further payments were made to KPMG Audit Plc and its associates during the year ended 31 December 2004:

- £610,000 (2003: £nil) in relation to the acquisition of CD Bramall PLC which was capitalised as part of the costs of acquisition.
- £322,000 (2003: £103,500) in relation to the provision of services to the trustees of the group's pension schemes, paid directly by the pension schemes.

5. Employees

The average number employed by the group in the following areas was:	**2004**	2003
	number	number
Sales	**3,291**	1,805
After sales	**5,562**	3,054
Administration	**1,662**	1,012
	10,515	5,871

Costs incurred in respect of these employees were:	**2004**	2003
	£000	£000
Wages and salaries	**217,665**	124,475
Social security costs	**20,743**	11,575
Other pension costs	**6,031**	3,457
	244,439	139,507

6. Directors

Total emoluments of directors (including pension contributions) amounted to £2,054,000 (2003 : £1,609,000).

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 22 to 27.

7. Net interest payable

	2004 £000	2003 £000
Interest payable and similar charges:		
Bank loans and overdrafts	**13,208**	4,157
Other loans - loan notes	**8,529**	1,919
Vehicle stocking plans	**9,370**	6,668
Finance lease interest	**276**	-
	31,383	12,744
Less: amount capitalised	**(222)**	(91)
Total interest payable	**31,161**	12,653
Interest receivable:		
Bank interest receivable	**(509)**	(101)
Net interest payable	**30,652**	12,552

8. Taxation

	2004 £000	2003 £000
UK corporation tax:		
Current tax on income for the year at 30% (2003 : 30%)	**20,669**	13,584
Adjustments in respect of prior periods	**(1,427)**	1,236
	19,242	14,820
UK deferred taxation:		
Current year deferred taxation	**426**	(986)
Adjustments in respect of prior periods	**(149)**	(976)
	19,519	12,858
Overseas taxation:		
Current tax on income for the year	**1,391**	1,003
Adjustments in respect of prior periods	**407**	-
Overseas deferred taxation	**(386)**	(3)
	20,931	13,858

The total aggregate tax charges are analysed as:	2004 £000	2003 £000
Current tax	**21,040**	15,823
Deferred tax	**(109)**	(1,965)
	20,931	13,858

8. Taxation (continued)

Factors affecting the tax charge for the period:

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

The differences are explained below:	**2004**	2003
	£000	£000
Profit on ordinary activities before tax	**65,042**	44,348
Tax on profit at UK rate of 30% (2003 : 30%)	**19,513**	13,304
Permanent differences:		
Accounting depreciation for which no tax relief is due	**862**	475
Goodwill amortisation for which no tax relief is due	**2,716**	490
Difference between accounts profits and taxable profits on fixed asset disposals	**(1,247)**	(510)
Other disallowables	**237**	416
Unrecognised losses	**870**	834
Investment income on which no tax liability arises	**-**	(312)
Tax rate differential on overseas income	**388**	264
Tax relief on employee share option gains	**(778)**	(1,360)
Utilisation of trading losses brought forward	**(75)**	-
Adjustments to tax charge in respect of previous periods	**(1,020)**	1,236
Total permanent differences	**1,953**	1,533
Deferred tax movements taken to the profit and loss account:		
Accelerated capital allowances	**(796)**	(367)
Other provisions	**370**	1,353
Timing differences	**(426)**	986
Total current tax	**21,040**	15,823

Factors affecting the future tax charge

The group operates in countries where the tax rates are different to that of the UK rate. Germany has a lower tax rate than the UK whilst the US tax rate is higher compared to the UK. As is common in the motor retail industry, the group also incurs a significant level of expenses which are not tax deductible (mainly depreciation on showrooms and other non deductible capital expenditure). As a result, it is expected that the effective rate of tax on the group's trading profits will continue to be higher than the standard rate of corporation tax.

The adoption of International Financial Reporting Standards on the 1 January 2005 will have implications for the future effective tax rate of the group.

There are unutilised tax losses within the group of £9,624,000 (2003 : £6,725,000) for which no deferred tax asset has been recognised. These losses are all in respect of the businesses trading in Germany.

9. Dividends

	2004	2003
	£000	£000
Ordinary shares		
Interim paid 4.2p per share (2003 : 3.8p)	**5,112**	4,757
Final proposed 6.0p per share (2003 : 3.8p)	**7,407**	4,733
	12,519	9,490

10. Earnings per share

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

	2004 Earnings per share, pence	2004 Total £000	2003 Earnings per share, pence	2003 Total £000
Earnings	**35.9**	**44,111**	24.5	30,490
Goodwill amortisation	**7.9**	**9,715**	1.9	2,388
Tax effect of goodwill	**(0.2)**	**(199)**	(0.2)	(226)
Earnings excluding goodwill amortisation	**43.6**	**53,627**	26.2	32,652
Adjusting items:				
Profit on business, fixed asset and investment disposals	**(15.3)**	**(18,866)**	(6.0)	(7,464)
Operating exceptional costs	**3.8**	**4,651**	-	-
Dividends received	**-**	**-**	(0.8)	(1,040)
Tax effect of adjusting items	**1.8**	**2,240**	1.2	1,469
Earnings excluding goodwill amortisation and adjusting items	**33.9**	**41,652**	20.6	25,617

(b) Diluted earnings per share, based on weighted average number of shares in issue

	2004 Diluted earnings per share, pence	2004 Total £000	2003 Diluted earnings per share, pence	2003 Total £000
Earnings	**34.8**	**44,111**	24.1	30,490

(c) Shares in issue

	2004 number	2003 number
Weighted average number of ordinary shares in issue	**123,028,436**	124,391,818
Weighted average number of dilutive shares under option	**3,870,221**	2,328,925
Weighted average number of shares in issue taking account of applicable outstanding share options	**126,898,657**	126,720,743

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

11. Profit and loss account of the company

In accordance with the exemption allowed by Section 230 (4) of the Companies Act 1985, the profit and loss account of the company is not presented. The loss after taxation attributable to the company dealt with in its own accounts for the year ended 31 December 2004 is £15,050,000 (2003 : profit £48,977,000).

12. Fixed assets - intangible assets

Group	Goodwill £000
Cost	
At 31 December 2003	**42,281**
Additions	**145,471**
Exchange adjustments	**(1,106)**
Disposals	**(1,443)**
At 31 December 2004	**185,203**
Amortisation	
At 31 December 2003	**13,061**
Amortised during the year	**9,715**
Exchange adjustments	**(117)**
Disposals	**(642)**
At 31 December 2004	**22,017**
Net book value	
At 31 December 2004	**163,186**
At 31 December 2003	**29,220**

Goodwill on dealerships is amortised over a period of twenty years.

13. Fixed assets - tangible assets

Group	Land & buildings £000	Plant & equipment £000	Motor vehicles £000	Total £000
Cost				
At 31 December 2003	140,911	30,645	20,335	**191,891**
Additions- existing operations	19,770	8,103	59,932	**87,805**
- acquisitions	126,560	8,320	23,235	**158,115**
Exchange adjustments	(612)	(188)	(26)	**(826)**
Disposal of businesses	-	(243)	-	**(243)**
Other disposals	(25,621)	(1,428)	(59,086)	**(86,135)**
At 31 December 2004	261,008	45,209	44,390	**350,607**
Depreciation				
At 31 December 2003	11,194	17,237	2,403	**30,834**
Exchange adjustments	(44)	(69)	(5)	**(118)**
Charge for the year	3,661	6,257	13,567	**23,485**
Disposal of businesses	-	(28)	-	**(28)**
Other disposals	(1,447)	(866)	(4,627)	**(6,940)**
At 31 December 2004	13,364	22,531	11,338	**47,233**
Net book value				
At 31 December 2004	247,644	22,678	33,052	**303,374**
At 31 December 2003	129,717	13,408	17,932	**161,057**

13. Fixed assets - tangible assets (continued)

Land and buildings at net book value comprise:	**2004**	2003
	£000	£000
Freehold	**217,122**	106,765
Long leasehold	**19,232**	14,340
Short leasehold	**11,290**	8,612
	247,644	129,717

Motor vehicles at net book value comprise:	**2004**	2003
	£000	£000
Service loan vehicles	**16,280**	9,909
Other vehicles	**16,772**	8,023
	33,052	17,932

Included in the amounts for plant, equipment and motor vehicles above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

Group	Plant & equipment £000	Motor vehicles £000	**Total £000**
Depreciation			
Charge for the year	1,464	2,301	**3,765**
Net book value			
At 31 December 2004	3,029	884	**3,913**
At 31 December 2003	-	-	**-**

Freehold land with a cost of £73,920,000 (2003 : £51,134,000) has not been depreciated during the year.

Cumulative interest charges of £1,395,000 (2003 : £1,349,000) have been capitalised as construction costs and included in land and buildings. Interest of £222,000 has been capitalised during the year at an average rate of 5.75% and tax relief of £67,000 has been obtained.

Land and buildings include £15,608,000 (2003 : £4,421,000) in respect of building projects currently under construction for which no depreciation has been charged during the year.

Future capital expenditure which has been contracted for but not yet provided in the financial statements amounted to £1,796,000 (2003 : £856,000).

14. Fixed assets - investments

Company	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	**Total £000**
Cost and net book value			
At 31 December 2003	164,656	90,000	**254,656**
Additions	238,448	-	**238,448**
At 31 December 2004	403,104	90,000	**493,104**

Shares in subsidiary undertakings are stated at cost. Pendragon PLC owns directly or indirectly 100 percent of the issued ordinary share capital of the following principal subsidiaries which are all included in the consolidation:

Name	Activity
Incorporated in Great Britain:	
Alloy Racing Equipment Limited	Motor vehicle dealer
Andre Baldet Limited	Motor vehicle dealer
Bramall Contracts Limited	Contract hire and fleet management
Bramall Quicks Dealerships Limited	Motor vehicle dealer
Bridgegate Limited	Motor vehicle dealer
Car Fleet Control Limited	Computer systems and services
CD Bramall (Blackpool) Limited	Motor vehicle dealer
CD Bramall (York) Limited	Motor vehicle dealer
CD Bramall Dealerships Limited	Motor vehicle dealer
CD Bramall Motors Limited	Motor vehicle dealer
Charles Sidney Holdings Limited	Motor vehicle dealer
Chatfield Martin Walters Limited	Motor vehicle dealer
Derwent Vehicles Limited	Motor vehicle dealer
Evans Halshaw (Chesham) Limited	Motor vehicle dealer
Evans Halshaw Limited	Motor vehicle dealer
Evans Halshaw Motors Limited	Motor vehicle dealer
Executive Motors Limited	Motor vehicle dealer
Extra Leasing Limited	Plant leasing and rentals
Pendragon Contracts Limited	Contract hire and fleet management
Pendragon Javelin Limited	Motor vehicle dealer
Pendragon Management Services Limited	Management services
Pendragon Motor Group Limited	Motor vehicle dealer
Pendragon Motorcycles Limited	Motor vehicle dealer
Pendragon Premier Limited	Motor vehicle dealer
Pendragon Property Holdings Limited	Property holdings
Pendragon Sabre Limited	Motor vehicle dealer
Pendragon Viking Limited	Motor vehicle dealer
Petrogate Limited	Property holdings
Pinewood Technologies PLC*	Computer systems and services
Stripestar Limited	Motor vehicle dealer
Vertcell Limited	Motor vehicle parts distribution

* Direct subsidiary of Pendragon PLC

14. Fixed assets - investments (continued)

Incorporated in Germany:

Autohaus Avalon Darmstadt GmbH	Motor vehicle dealer
Autohaus Avalon Frankfurt GmbH	Motor vehicle dealer
Autohaus Avalon München GmbH	Motor vehicle dealer
Jaguar Autohaus Kronberg GmbH	Motor vehicle dealer

Incorporated in the United States of America:

Bauer Motors Inc.	Motor vehicle dealer
Penegon West Inc.	Motor vehicle dealer
South County Inc.	Motor vehicle dealer
Lincoln Irvine Inc.	Motor vehicle dealer
Penegon Mission Viejo Inc.	Motor vehicle dealer
Penegon Newport Beach Inc.	Motor vehicle dealer

15. Stocks

	2004	2003
	£000	£000
New and used vehicles	**318,430**	198,796
Consignment vehicles	**85,486**	37,219
Vehicle parts and other stocks	**42,919**	19,191
	446,835	255,206

Consignment vehicles exclude new vehicle stocks held by the manufacturers to the order of the group, which are not capable of bearing a finance charge, amounting to £207,389,000 (2003 : £90,380,000).

16. Repurchase commitments

	2004	2003
	£000	£000
Within one year	**27,405**	10,712
Between one and two years	**12,319**	7,974
Between two and five years	**21,799**	3,362
	61,523	22,048

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

17. Debtors

	2004 £000	2003 £000
(a) Group		
Trade debtors	**83,976**	42,699
Other debtors	**35,895**	20,271
Other taxation and social security	**-**	6,663
Deferred tax (see note 21)	**15,293**	-
Prepayments	**15,904**	5,164
	151,068	74,797

	2004 £000	2003 £000
(b) Company		
Corporation tax	**14,882**	7,391
Deferred tax (see note 21)	**548**	548
Amounts due from subsidiary undertakings	**69,844**	-
Other debtors	**67**	67
	85,341	8,006

All amounts are due within one year with the exception of the deferred taxation.

18. Creditors: amounts falling due within one year

	2004 £000	2003 £000
(a) Group		
Unsecured loans	**4,300**	4,000
Unsecured bank loans and overdrafts	**34,340**	38,062
Unsecured loan notes	**32,714**	513
Finance leases	**1,126**	-
Consignment vehicle liabilities	**85,486**	37,219
Repurchase commitments (see note 16)	**27,405**	10,712
Payments received on account	**16,634**	9,894
Trade creditors	**347,779**	172,818
Dividends proposed	**7,407**	4,733
Corporation tax	**18,470**	10,176
Deferred consideration on acquisitions	**3,900**	-
Other taxation and social security	**8,431**	2,847
Accruals and deferred income	**104,071**	37,100
	692,063	328,074

	2004 £000	2003 £000
(b) Company		restated*
Unsecured bank loans and overdrafts	**25,000**	162
Unsecured loan notes	**32,714**	513
Amounts due to subsidiary undertakings	**90,000**	61,476
Dividends payable	**7,407**	4,733
Other creditors	**3,231**	783
	158,352	67,667

* restated on adoption of UITF 38, see note 1.

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

	2004 £000	2003 £000
(a) Group		
Unsecured bank loans (repayable between one and two years)	**50,000**	9,019
Unsecured loan notes (repayable between one and two years)	**15,756**	32,670
Unsecured bank loans (repayable between two and five years)	**109,185**	20,000
Unsecured loan notes (repayable between two and five years)	**253**	-
Unsecured loan notes (repayable after five years)	**110,060**	-
Finance leases (repayable between one and two years)	**949**	-
Finance leases (repayable between two and five years)	**459**	-
Repurchase commitments (see note 16)	**34,118**	11,336
	320,780	73,025

	2004 £000	2003 £000
(b) Company		
Unsecured bank loans (repayable between one and two years)	**50,000**	-
Unsecured loan notes (repayable between one and two years)	**15,756**	32,670
Unsecured bank loans (repayable between two and five years)	**109,185**	-
Unsecured loan notes (repayable after five years)	**110,060**	-
	285,001	32,670

20. Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the Finance Director's Review on page 11.

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

(a) Fair values of financial assets and liabilities

The fair value of fixed rate liabilities have been determined with reference to the market rates prevailing at 31 December 2004. All other financial liabilities are at floating rate and therefore fair value is equal to book value.

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

	Book value 2004 £000	Fair value 2004 £000	Book value 2003 £000	Fair value 2003 £000
Cash at bank and in hand	**114,339**	**114,339**	7,523	7,523
Bank overdraft	**-**	**-**	(2,320)	(2,320)
Bank loans	**(193,525)**	**(193,525)**	(64,761)	(64,761)
USD 55 million loan notes 2005	**(32,670)**	**(28,830)**	(32,670)	(33,185)
USD 110 million loan notes 2011	**(57,834)**	**(55,545)**	-	-
USD 67 million loan notes 2014	**(35,226)**	**(33,878)**	-	-
GBP 17 million loan notes 2014	**(17,000)**	**(17,191)**	-	-
Finance leases	**(2,534)**	**(2,534)**	-	-
Other	**(20,353)**	**(20,353)**	(4,513)	(4,513)
	(244,803)	**(237,517)**	(96,741)	(97,256)

20. Financial instruments and derivatives (continued)

Derivative financial instruments held to manage interest rate and currency profile

	Book value 2004 £000	**Fair value 2004 £000**	Book value 2003 £000	Fair value 2003 £000
Currency and interest swap				
USD 55 million / GBP: fixed rate to floating rate	-	**(3,544)**	-	515
Currency and interest swap				
USD 110 million / GBP: fixed rate to floating rate	-	**(2,365)**	-	-
Currency and interest swap				
USD 67 million / GBP: fixed rate to floating rate	-	**(1,125)**	-	-
Interest swap				
GBP 17 million: fixed rate to floating rate	-	**130**	-	-

(b) Interest rate risk profile as at 31 December 2004

The table below reflects the effect of the interest rate and currency swaps

(i) Financial liabilities	**Total 2004 £000**	**Floating rate 2004 £000**	**Fixed rate 2004 £000**	Total 2003 £000	Floating rate 2003 £000	Fixed rate 2003 £000
Bank loans and overdrafts	**(193,525)**	**(193,525)**	**-**	(67,081)	(67,081)	-
USD 55 million loan notes 2005	**(32,670)**	**(32,670)**	**-**	(32,670)	(32,670)	-
USD 110 million loan notes 2011	**(57,834)**	**(57,834)**	**-**	-	-	-
USD 67 million loan notes 2014	**(35,226)**	**(35,226)**	**-**	-	-	-
GBP 17 million loan notes 2014	**(17,000)**	**(17,000)**	**-**	-	-	-
Finance leases	**(2,534)**	**-**	**(2,534)**	-	-	-
Other	**(20,353)**	**(20,353)**	**-**	(4,513)	(4,513)	-
	(359,142)	**(356,608)**	**(2,534)**	(104,264)	(104,264)	-

The floating rate liabilities pay interest based on LIBOR. The fixed rate liabilities have a weighted interest rate of 4.01% and a weighted average time to maturity of 2.8 years. In addition to the above, other long term commitments that meet the definition of financial liabilities given in Financial Reporting Standard 13 comprise repurchase commitments which are disclosed in notes 18 and 19. The repurchase commitments are at zero interest and have a weighted average period to maturity of 29 months (2003 : 14 months).

(ii) Financial assets	**Total 2004 £000**	**Floating rate 2004 £000**	Total 2003 £000	Floating rate 2003 £000
Cash at bank and in hand	**114,339**	**114,339**	7,523	7,523

(c) Foreign currency exposure profile

There were no material foreign currency monetary assets and liabilities that may give rise to exchange gains or losses in the profit and loss account (2003 : nil).

(d) Maturity of borrowings

Details are shown in notes 18 and 19.

20. Financial instruments and derivatives (continued)

(e) Maturity of facilities

At 31 December 2004 the group had the following undrawn committed facilities available:

	2004	2003
	£000	£000
Expiring in one year or less	**1,076**	44,258
Expiring in more than one year but not more than two years	**-**	2,255
Expiring in more than two years	**155,815**	52,000
	156,891	98,513

21. Provisions for liabilities and charges

(a) Group

The movements in provisions for the year are as follows:	Pensions	Deferred tax	Vacant property	**Total**
	£000	£000	£000	**£000**
At 31 December 2003	-	356	1,324	**1,680**
Transferred from debtors	(1,638)	-	-	**(1,638)**
Acquired	48,725	(15,509)	835	**34,051**
Charged in the year	5,453	(109)	139	**5,483**
Pension contributions paid	(6,551)	-	-	**(6,551)**
Utilised	-	-	(60)	**(60)**
Exchange adjustment	-	(31)	-	**(31)**
Transferred to debtors (see note 17)	-	15,293	-	**15,293**
At 31 December 2004	45,989	-	2,238	**48,227**

The vacant property provision is comprised of the future costs of vacated properties, being predominantly future lease commitments. The majority of the provision should be utilised over the next six years.

The amounts of deferred tax (asset) / provisions in the financial statements are as follows:

	2004	2003
	£000	£000
Differences between tax allowances and depreciation	**2,604**	1,164
Other timing differences	**(17,897)**	(808)
	(15,293)	356

(b) Company

The movements in the deferred tax asset for the year is as follows:	**Deferred tax**
	£000
At 31 December 2003 and at 31 December 2004	**548**

The amounts of deferred tax asset in the financial statements are as follows:	**2004**	2003
	£000	£000
Other timing differences	**548**	548

22. Called up share capital

	2004 £000	2003 £000
Authorised:		
160,000,000 (2003 : 160,000,000) ordinary shares of 25p each	**40,000**	40,000
Allotted, called up and fully paid:		
131,187,770 (2003 : 131,152,520) ordinary shares of 25p each	**32,799**	32,790

During the year 35,250 ordinary shares at an aggregate nominal value of £8,813 were issued for a total consideration of £28,000.

Movements in the number of options to acquire ordinary shares under the group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2004 were as follows:

Exercise period	Exercise price per share	At 31 December 2003 number	Granted number	Exercised number	Lapsed number	At 31 December 2004 number
17 March 2001 to 16 March 2008	123.20 p	40,000	-	(8,750)	-	31,250
9 October 2001 to 8 October 2008*	50.80 p	40,000	-	(8,750)	-	31,250
9 October 2001 to 8 October 2008	50.80 p	2,500	-	(2,500)	-	-
1 July 2005 to 31 December 2005	117.20 p	62,872	-	-	-	62,872
1 July 2004 to 31 December 2004	68.00 p	185,090	-	(179,863)	(5,227)	-
1 July 2006 to 31 December 2006	68.00 p	52,944	-	-	(4,323)	48,621
21 June 2002 to 20 June 2009	65.00 p	47,500	-	(32,500)	-	15,000
1 July 2003 to 31 December 2003	45.40 p	1,707	-	-	(1,707)	-
1 July 2005 to 31 December 2005	45.40 p	735,055	-	(26,593)	(29,149)	679,313
1 July 2007 to 31 December 2007	45.40 p	128,678	-	-	-	128,678
9 March 2004 to 8 March 2011	93.60 p	982,498	-	(749,696)	-	232,802
1 July 2004 to 31 December 2004	89.80 p	177,413	-	(133,060)	(35,296)	9,057
1 July 2006 to 31 December 2006	89.80 p	107,061	-	(3,225)	(8,788)	95,048
1 July 2008 to 31 December 2008	89.80 p	16,772	-	-	(2,455)	14,317
24 March 2006 to 23 March 2013	117.20 p	3,054,990	-	-	(112,500)	2,942,490
1 July 2006 to 31 December 2006	122.80 p	1,131,745	-	(975)	(184,904)	945,866
1 July 2008 to 31 December 2008	122.80 p	561,734	-	(114)	(117,947)	443,673
1 July 2010 to 31 December 2010	122.80 p	171,370	-	(285)	(39,016)	132,069
30 September 2006 to 29 September 2013	201.00 p	724,000	-	-	(79,500)	644,500
20 September 2009 to 19 September 2014	301.00 p	-	775,000	-	-	775,000
		8,223,929	775,000	(1,146,311)	(620,812)	7,231,806

* Parallel grant

On 20 September 2004 options over 775,000 ordinary shares of 25p were granted to employees (including directors) at an exercise price of 301.0p per share. The grant comprised 39,069 ordinary shares under the Pendragon 1999 Approved Executive Option Scheme and 735,931 under the Pendragon 1999 Unapproved Executive Share Option Scheme.

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

23. Reserves

	Share premium account £000	Capital redemption reserve £000	Other reserves £000	restated * Profit and loss account £000
(a) Group				
At 31 December 2003 as originally stated	56,773	2,529	12,563	53,239
Prior year adjustment - (see note 1)	-	-	-	(10,822)
At 31 December 2003 as restated	56,773	2,529	12,563	42,417
Retained profit for the year	-	-	-	31,592
Arising on issue of ordinary shares	19	-	-	-
Disposal of own shares in share trusts	-	-	-	845
Exchange adjustment	-	-	-	(282)
At 31 December 2004	**56,792**	**2,529**	**12,563**	**74,572**
(b) Company				
At 31 December 2003 as originally stated	56,773	2,529	13,863	71,938
Prior year adjustments - (see note 1)	-	-	-	(10,822)
At 31 December 2003 as restated	56,773	2,529	13,863	61,116
Retained loss for the year	-	-	-	(27,569)
Arising on issue of ordinary shares	19	-	-	-
Disposal of own shares in share trusts	-	-	-	845
At 31 December 2004	**56,792**	**2,529**	**13,863**	**34,392**

* restated on adoption of UITF 38, see note 1.

Cumulative goodwill written off to reserves at 31 December 2004 amounted to £4,390,000 (2003 : £4,390,000).
The cumulative amount of negative goodwill written to reserves at 31 December 2004 amounted to £3,928,000 (2003 : £3,928,000).

The market value of the investment in the company's own shares at 31 December 2004 was £23,183,000 (2003 : £17,223,000), being 7,727,580 (2003 : 9,112,891) shares with a nominal value of 25 pence each, acquired at a cost of between £0.40 and £2.17 each. The amounts deducted from Shareholders' Equity for shares held by ESOP trusts at 31 December 2004 was £9,977,000 (2003 : £10,822,000). The investment in own shares represents shares in the company held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited (employee share ownership trusts) which may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors' Remuneration Report on pages 22 to 27.

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

The trusts are regarded as quasi subsidiaries under Financial Reporting Standard 5 and their assets and results are consolidated into the financial statements of the group.

24. Acquisitions and disposals

(a) Acquisition of CD Bramall PLC

The group acquired the entire share capital of CD Bramall PLC on 25 February 2004 for a total consideration, including costs, of £238,448,000. Consideration was satisfied by £222,692,000 in cash and the issue of loan notes of £15,756,000. The acquisition has been accounted for by the acquisition method of accounting.

Net assets at date of acquisition:	Book value at acquisition £000	Revaluation £000	Accounting policy adjustments £000	**Fair value at acquisition £000**
Tangible fixed assets	133,823	19,808	-	**153,631**
Assets held for resale	8,457	8,636	-	**17,093**
Stocks	132,491	(42)	1,289	**133,738**
Debtors	87,360	-	910	**88,270**
Dividend creditor	(2,700)	-	-	**(2,700)**
Corporation tax creditor	(4,435)	(2,190)	-	**(6,625)**
Finance lease creditor	(10,383)	-	-	**(10,383)**
Other creditors	(194,106)	(9,785)	-	**(203,891)**
Borrowings	(42,000)	-	-	**(42,000)**
Deferred tax	(580)	16,089	-	**15,509**
Other provisions for liabilities and charges	(2,389)	(47,171)	-	**(49,560)**
	105,538	(14,655)	2,199	**93,082**
Goodwill				**145,366**
Consideration (including costs)				**238,448**

Consideration satisfied by cash	**217,463**
Consideration satisfied by issue of loan notes	**15,756**
Costs of acquisition	**5,229**
Fair value of consideration	**238,448**

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

i) Recognition of the deficits in the pension funds and related deferred taxation.

ii) Alignment of accounting policies in respect of debt and parts provisions and the recognition of income.

iii) Revaluation of properties.

iv) Revaluations of other assets, principally equipment and parts stocks, to their estimated realisable values.

v) Recognition of unprovided amounts in respect of other liabilites.

The summarised profit and loss account and statement of total recognised gains and losses of CD Bramall PLC for the period 1 January 2004 to 24 February 2004, being the period from the beginning of its financial year to the effective date of acquisition, are disclosed below, together with its summarised profit and loss account for the year ended 31 December 2003.

	Period from 1 January 2004 to 24 February 2004 £000	Year ended 31 December 2003 £000
Turnover	276,249	1,763,492
Operating profit	3,256	35,344
Net interest payable	(1,049)	(6,228)
Profit before taxation	2,207	29,116
Taxation	(662)	(8,987)
Profit and total recognised gains for the financial period	1,545	20,129

24. Acquisitions and disposals (continued)

(b) Other acquisitions

The group acquired the trade and assets of SAAB Birmingham for £245,000 on 8 October 2004, Cardiff Citroën and Jeep for £4,389,000 on 15 October 2004, two SAAB dealerships in Stockport and Manchester for £713,000 on 22 October 2004 and Chevrolet in Swansea, Cardiff and Luton for £632,000 on 18 December 2004.

Consideration was satisfied by payments of £2,079,000 in cash with £3,900,000 deferred until 2005. The acquisitions have been accounted for by the acquisition method of accounting.

Net assets at date of acquisition:	**Book & Fair value at acquisition £000**
Tangible fixed assets	**4,484**
Stocks	**1,407**
Debtors	**122**
Creditors	**(139)**
	5,874
Goodwill	**105**
Consideration (including costs)	**5,979**
Consideration satisfied by cash	**2,024**
Consideration deferred	**3,900**
Costs of acquisition	**55**
Fair value of consideration	**5,979**

There were no material fair value adjustments arising.

Contributions to cash flow from acquisitions

The businesses acquired during the year contributed £23,450,000 of the group's net operating cash flows, paid £5,102,000 in respect of servicing finance and utilised £8,055,000 for capital expenditure.

(c) Disposals - Motor vehicle dealerships

Net assets at date of disposal	**Net book value £000**
Tangible fixed assets	**215**
Assets held for resale	**9,250**
Goodwill	**801**
Stocks	**6,481**
Debtors	**3,192**
Creditors	**(5,968)**
	13,971
Profit on disposal of businesses	**354**
Proceeds on sale	**14,325**

(d) Disposals - Investment in Flightform Limited

The group acquired a 37.5% holding in Flightform Limited as part of the assets acquired with CD Bramall PLC. This investment was held as an asset for resale and the entire shareholding was subsequently disposed of during the year realising proceeds on sale of £3,600,000.

25. Net cash flow from operating activities

	2004	2003
	£000	£000
Operating profit	**76,828**	48,396
Depreciation	**23,485**	10,279
Goodwill amortisation	**9,715**	2,388
Loss on disposal of fixed assets	**14**	9
Increase in stocks	**(12,978)**	(17,519)
Decrease / (increase) in debtors	**24,222**	(2,190)
Increase in creditors	**45,783**	17,771
	167,069	59,134

26. Analysis of net debt

	Cash at bank and in hand	Overdrafts and other borrowings	Total	Other borrowings Due within one year	Other borrowings Due after one year	Finance Leases Due within one year	Finance Leases Due after one year	Total
	£000	£000	£000	£000	£000	£000	£000	£000
At 31 December 2003	7,523	(2,320)	5,203	(40,255)	(61,689)	-	-	**(96,741)**
On acquisition	-	-	-	(37,012)	-	(4,487)	(5,896)	**(47,395)**
Exchange differences	(264)	-	(264)	-	-	-	-	**(264)**
Net cash flow	107,080	2,320	109,400	-	-	-	-	**109,400**
Financing	-	-	-	5,913	(207,809)	3,361	4,488	**(194,047)**
Loan notes issued on acquisition of CD Bramall PLC	-	-	-	-	(15,756)	-	-	**(15,756)**
At 31 December 2004	114,339	-	114,339	(71,354)	(285,254)	(1,126)	(1,408)	**(244,803)**

27. Lease commitments

Operating leases

Annual lease payments due in 2005 under operating leases of the group according to the period in which the lease expires, are as follows:

	Property		Other leases	
	2004	2003	2004	2003
	£000	£000	£000	£000
Within one year	**1,218**	915	**821**	317
Between one and five years	**3,037**	1,471	**413**	993
Over five years	**11,599**	8,451	**1,013**	207
	15,854	10,837	**2,247**	1,517

28. Pensions

Statement of Standard Accounting Practice 24 (SSAP24)

The group participates in six defined benefit pension schemes in the United Kingdom for eligible employees. This includes four pension schemes previously operated by CD Bramall PLC. Three of the schemes also operate a defined contribution section. The assets of the schemes are held in separate trustee administered funds.

Pendragon Pension Plan

The Pendragon Pension Plan is a funded defined benefit scheme with a defined contribution section. The last actuarial valuation of the Plan for SSAP 24 purposes was carried out as at 6 April 2003 using the defined accrued benefit method. At this date the market value of the Plan's assets relating to the defined benefit section was £50.4 million; these assets represented 85% of the value of accrued liabilities. The main assumptions used for this valuation were that the annual rate of return on existing investments would be between 5.6% - 8.6%, the annual rate of earnings increases would be 5%, and the annual rate of pension increases would be between 2.6% - 3.5%.

The employer contributions paid to the defined benefit section of the Plan during the year were £1,919,000, based upon actuarial advice.

Stripestar Pension Scheme

The Stripestar Pension Scheme is a funded defined benefit scheme with a defined contribution section. The last actuarial valuation of the Scheme was carried out as at 6 April 2004 using the defined accrued benefit method. At this date the market value of the Scheme's assets relating to the defined benefit section was £5.15 million; these assets represented 73% of the value of accrued liabilities. The main assumptions used for this valuation were that the annual rate of return on existing investments would be between 4.9% - 6.9%, the annual rate of earnings increases would be 5%, and the annual rate of pension increases would be 3%.

The employer contributions paid to the defined benefit section of the Scheme during the year were £174,000, based upon actuarial advice.

CD Bramall Pension Scheme

The CD Bramall Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2003 using the attained age method. At the valuation date, the market value of assets was £10.1 million; these assets represented 62% of the value of accrued liabilities, after allowing for expected future increases in earnings. The main assumptions used for this valuation were that the annual rate of return on existing investments would be between 5.75% - 6.75%, the annual rate of earnings increases would be 4%, and the annual rate of pension increases would be 2.5%.

The employer contributions paid to the Scheme during the year were £670,000, based upon actuarial advice.

CD Bramall Dealerships Limited Pension Scheme

The CD Bramall Dealerships Limited Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2003 using the attained age method. At the valuation date, the market value of assets was £13.4 million; these assets represented 64% of the value of accrued liabilities, after allowing for expected future increases in earnings. The main assumptions used for this valuation were that the annual rate of return on existing investments would be between 5.75% - 6.75%, the annual rate of earnings increases would be 4%, and the annual rate of pension increases would be 2.5%.

The employer contributions paid to the Scheme during the year were £518,000, based upon actuarial advice.

CD Bramall Retirement Benefits Scheme

The CD Bramall Retirement Benefits Scheme is a funded defined benefit scheme with a defined contribution section. The last actuarial valuation was carried out as at 31 March 2003 using the attained age method. At the valuation date, the market value of assets relating to the defined benefit section was £2.84 million; these assets represented 60% of the value of accrued liabilities, after allowing for expected future increases in earnings. The main assumptions used for this valuation were that the annual rate of return on existing investments would be between 5.75% - 6.75%, the annual rate of earnings increases would be 4%, and the annual rate of pension increases would be 2.5%.

The employer contributions paid to the Scheme during the year were £132,000, based upon actuarial advice.

28. Pensions (continued)

Bramall Quicks Limited section of The Motor Industry Pension Plan ('MIPP')

The Bramall Quicks scheme is a funded defined benefit section of the MIPP. The last actuarial valuation was carried out as at 5 April 2004 using the projected unit method. At the valuation date, the market value of assets was £46.0 million; these assets represented 50% of the value of accrued liabilities, after allowing for expected future increases in earnings. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5.9%, the annual rate of earnings increases would be 4.5%, and the annual rate of pension increases would be between 2.8% - 3.7%.

The employer contributions paid to the Scheme during the year were £3,138,000, based upon actuarial advice.

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

The total pension cost for the year for all six schemes and the balance sheet prepayment are assessed by independent qualified actuaries, allowing for the amortisation of the deficit over employees' future service lifetimes. The total pension cost for the year is calculated as £6,031,000 (2003 : £3,457,000). The increase on last year is due principally to the acquired pension schemes. The closing balance sheet provision is £45,989,000 (2003 : prepayment £1,638,000).

Financial Reporting Standard 17 (FRS 17)

In November 2000 FRS 17 'Retirement Benefits' was issued, but full adoption is not mandatory for the group until the year ended 31 December 2005. Until that time companies are required to proceed with the disclosure requirements of FRS 17. This is the fourth year of the intervening implementation period.

Scheme valuations have been updated by a qualified independent actuary on an FRS17 basis as at 31 December 2004 and 31 December 2003. The major assumptions used in this valuation were:

Financial assumptions	**2004**	2003	2002
Inflation	**2.80%**	2.70%	2.30%
Rate of increase in salaries	**4.10%**	4.00%	4.00%
Rate of increase of post 6 April 1997 pensions in payment	**2.80%**	2.70%	2.30%
Rate of increase for deferred pensioners subject to statutory revaluation	**2.80%**	2.70%	2.30%
Discount rate	**5.50%**	5.60%	5.80%

The expected long term rates of return on the main asset classes at were:	**2004**	2003	2002
Equities	**8.50%**	8.60%	8.60%
Bonds	**5.00%**	-	-
Cash	**4.50%**	3.75%	4.00%

The weighted average expected long term rates of return were:	**2004**	2003	2002
	7.83%	8.45%	8.36%

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

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

28. Pensions (continued)

Scheme assets and liabilities	**2004 £000**	2003 £000	2002 £000
Equities	**138,179**	67,536	54,633
Bonds	**28,481**	-	-
Cash	**3,542**	2,125	3,001
Fair value of scheme assets	**170,202**	69,661	57,634
Actuarial value of scheme liabilities	**(249,691)**	(100,186)	(81,235)
Deficit	**(79,489)**	(30,525)	(23,601)
Related deferred tax asset	**23,847**	9,158	7,080
Net pension liability	**(55,642)**	(21,367)	(16,521)

Movement in deficit during the year	**Total £000**
Deficit in plans at 31 December 2003	**(30,525)**
Deficit recognised on acquisition	**(48,725)**
Current service cost	**(5,094)**
Contributions	**7,554**
Other finance cost	**(803)**
Actuarial loss	**(1,896)**
Deficit in plans at 31 December 2004	**(79,489)**

On full compliance with FRS 17, on the basis of the above assumptions, the amounts that would have been charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 31 December 2004 are set out below:

Operating profit	**Total 2004 £000**	Total 2003 £000
Current service cost	**5,094**	2,661
Total operating charge	**5,094**	2,661
Finance Income		
Expected return on pension scheme assets	**(10,845)**	(4,755)
Interest on pension scheme liabilities	**11,648**	4,746
Net cost / (credit) to finance cost / (income)	**803**	(9)
Impact on profit before taxation	**5,897**	2,652
Amounts recognised in the consolidated statement of total recognised gains and losses		
Actual return less expected return on assets	**8,188**	8,796
Experience gains and losses arising on liabilities	**(443)**	(2,699)
Assumption changes regarding present value of liabilities	**(9,641)**	(10,706)
Actuarial loss recognised in the consolidated statement of total recognised gains and losses	**(1,896)**	(4,609)

28. Pensions (continued)

History of actuarial gains and losses	**Total 2004**	Total 2003	Total 2002
Difference between expected and actual return on scheme assets			
Amount (£000)	**8,188**	8,796	23,992
% of plan assets at end of year	**4.8 %**	12.6 %	41.6 %
Experience (gain) / loss on scheme liabilities			
Amount (£000)	**(443)**	(2,699)	2,655
% of plan liabilities at end of year	**(0.2) %**	(2.7) %	3.3 %
Total actuarial loss recognised in the Statement of Total Recognised Gains and Losses			
Amount (£000)	**(1,896)**	(4,609)	24,578
% of plan liabilities at end of year	**(0.8) %**	(4.6) %	30.3 %

Had the group adopted FRS 17 in full, the group profit and loss reserves would have been stated as follows:	**2004 £000**	2003 £000
Profit and loss reserve in the financial statements at 31 December 2004	**74,572**	53,239
Deficit in relation to Pension Plans, net of deferred tax	**(55,642)**	(21,367)
SSAP 24 provision / (prepayment) for the Pension Plans, net of deferred tax	**32,192**	(1,147)
Profit and loss reserve under FRS17	**51,122**	30,725

29. Contingent liabilities

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

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

(c) Bank guarantees in favour of third parties amounting to £1,750,000 (2003: £2,621,000) have been counter-indemnified by the group.

(d) The group has arranged external financing for a number of vehicles where customers have an option to purchase the vehicle from the finance company at a predetermined value at the end of each agreement. The group has undertaken to repurchase the vehicle from the finance company in place of the customer if the customer does not exercise the option to purchase.

The total value of the contingent repurchases is as follows :	**2004 £000**	2003 £000
Within one year	**2,766**	2,589
Between one and two years	**3,688**	1,857
Between two and five years	**4,003**	1,013
	10,457	5,459

30. Related party transactions

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

Following the acquisition of CD Bramall PLC the group obtained a 37.5% holding in the issued share capital of Flightform (UK) Limited with which it traded goods and services. During the year the group entered into transactions with its related party by making sales of £2,277,000 and purchases of £609,000. During December 2004 the group's entire shareholding of Flightform (UK) Limited was disposed of for a consideration of £3,600,000.

In addition to services as a non-executive director, Mr N G Hannah provides commercial property advice to the group under a retainer arrangement. In 2004 he earned benefits to the value of £30,000 (2003 : £30,000) in the form of fees. As chairman and a shareholder of commercial property surveyors Innes England Limited, Mr Hannah is interested in contracts for the provision of their services to the group, which during the year had an aggregate value of £154,000 (2003 : £142,000).

31. Post balance sheet events

During January 2005 the company purchased the trade and assets of two SAAB dealerships in Santa Monica and South Bay, California, USA, for a cash consideration of £1,660,000.

Stock classification The ordinary shares of the company are traded on the London Stock Exchange. Information concerning the day to day movement of the share price can be found on the London Stock Exchange's website under the code PDG. Users of GlobalTOPIC Trader and Reuters can identify the stock by the code PDG.L, and Bloomberg users by the code PDG LN.

2005 Financial calendar

Ex-dividend date for 2004 proposed final dividend	16 March 2005
Record Date for 2004 proposed final dividend	18 March 2005
Annual General Meeting	15 April 2005
Payment date for 2004 proposed final dividend	19 April 2005
Interim results for 2005 announced	August 2005
Interim dividend for 2005 payable	October 2005
Final results for 2005 announced	February 2006
Final dividend for 2005 payable	April 2006

Share dealing service The following companies offer private investors a quick and easy telephone share dealing service for dealings in the company's shares.

Barclays Stockbrokers Limited will purchase and sell shares at the following commission rates plus stamp duty and PTM Levy of £1 where applicable, subject to the minimum dealing charge of £15.00 per transaction.
1.5% commission on first £5,000
0.85% commission on the next £5,000
0.15% commission thereafter

Details of the service may be obtained by telephoning 08457 777400 (calls are charged at local rates and this telephone number can be accessed only from within the United Kingdom). For your protection, to check instructions and to maintain high quality service standards, Barclays Stockbrokers may record and monitor calls made to or from them.

Capita Share Dealing Services, a Trading Division of Capita IRG Trustees Limited, will purchase and sell shares at the following commission rates plus stamp duty and PTM Levy where applicable. Online (www.capitadeal.com) at commission of 1% of the value of the trade, minimum £17.50 / maximum £40 dealing charge, or by telephone on 0870 458 4577 at commission of 1.25% of the value of the trade, minimum £20 / maximum £50 dealing charge.

Further details of the services including full Terms and Conditions may be obtained by telephoning 0870 458 4577 (calls are charged at national rates).

In so far as this statement constitutes a financial promotion it has been approved for the purpose of Section 21 (2) (b) of the Financial Services and Markets Act 2000 only by Capita IRG Trustees Limited who are authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register Register Number 184113).

This is not a recommendation to buy, sell or hold shares in Pendragon PLC. If you are unsure of what action to take, you should contact a financial advisor authorised under the Financial Services and Markets Act 2000. Please note that share values may go down as well as up, which may result in you receiving less than the amount originally invested.

Where the document containing this Shareholder Information on share dealing services has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as for information only.

Notice is hereby given that the seventeenth Annual General Meeting of Pendragon PLC (the "Company") will be held at Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR on Friday, 15 April 2005 at 10.30 am for the following purposes:

As ordinary business:

To receive the annual accounts of the company for the year ended 31 December 2004, together with the directors' report and the auditors' report on those accounts and on the auditable part of the directors' remuneration report.
To receive and approve the directors' remuneration report (advisory vote).
To declare a final dividend.
To re-appoint Mr M T Davies as a director.
To re-elect Mr D R Forsyth as a director.
To re-elect Miss H C Sykes as a director.
To re-elect Mr W W Rhodes as a director.
To re-elect Mr N G Hannah as a director.
To re-appoint KPMG Audit Plc as auditors and to authorise the directors to determine their remuneration.

As special business:

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

THAT the company be and it is hereby generally and unconditionally authorised pursuant to article 1(K) of the Articles of Association of the company and section 166 of the Companies Act 1985 (in substitution for all existing and unexercised authorities granted to the company pursuant to the said article 1(K) and section 166, which authorities are hereby revoked) to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of its own ordinary shares on a recognised stock exchange of up to an aggregate of 13,118,777 ordinary shares of 25p each at a price per share which is not more than five per cent above the average of the middle market quotation for shares of the same class derived from the London Stock Exchange Daily Official List during the five dealing days immediately prior to the date of purchase of such shares nor less than the nominal value of the shares, provided that the authority conferred by this resolution shall, unless previously varied, revoked or renewed, expire on 14 October 2006 or at the conclusion of the Annual General Meeting of the company held in 2006, whichever is the earlier, except in relation to a purchase of shares a contract for which shall have been made before that time.

By order of the Board
H C Sykes
Secretary
17 February 2005

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

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on a poll instead of him. A proxy need not be a member of the company. A proxy form is enclosed and to be effective must reach the company's registrars, Capita IRG Plc, The Registry, 34 Beckenham Road, Kent, BR3 4TU not less than 48 hours before the time appointed for holding the meeting.

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

To be entitled to attend and vote at the meeting (and for the purposes of the determination by the company of the number of votes they may cast), members must be entered on the company's register of members by 10.30 am on Wednesday, 13 April 2005. If the meeting is adjourned then, to be so entitled, members must be entered on the company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting.

Copies of the directors' service contracts and the register of directors' interests maintained under section 325 of the Companies Act 1985 are available for inspection at the company's registered office during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) and will also be available for inspection at the place of the meeting for at least 15 minutes before and during the meeting.