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AVIS RENT A CAR LIMITEDREPORT OF THE DIRECTORS

The directors present their report, together with the consolidated financial statements of the company and its subsidiaries for the year ended June 30, 1981.

ACTIVITIES

The principal activities of the group continue to be the renting and leasing of motor vehicles. The group also provides parking facilities.

RESULTS

The group's turnover and profit before taxation were divided between its main classes of business as follows:

	<u>Turnover</u> £	<u>Profit/(Loss)</u> <u>before taxation</u> £
Renting and leasing of motor vehicles	31,339,407	(1,233,477)
Provision of parking facilities	1,494,807	70,563
	<u>£32,834,214</u>	<u>£(1,162,914)</u>

The consolidated net loss for the year was £727,930 which, when deducted from the retained earnings at June 30, 1980, results in a consolidated balance of retained earnings as June 30, 1981 of £6,898,239. The directors do not recommend the payment of a dividend.

EMPLOYEES

The average weekly number of employees of the group during the period was 1,237 and their aggregate remuneration was £7,081,448.

CHANGES IN FIXED ASSETS

As detailed in note 5 to the attached financial statements on June 22, 1981, the company, as part of an alternative method of financing its vehicle fleets, entered into a sale and lease back agreement involving substantially all the company vehicles.

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REPORT OF THE DIRECTORS (Continued)

DIRECTORS AND THEIR INTERESTS

The following were directors of the company during the year:

Mr. D.J.E. Longridge (resigned June 30, 1981)
Mr. T.P. King-Smith
Mr. J. Sanz (appointed December 18, 1980)
Mr. W.J. Sykes

On August 4, 1981, Mr. G.J. Pollack and Mr. W.A. Cathcart were appointed directors of the Company.

None of the directors has any interest during the year in the shares of the company or its subsidiaries.

As the company is a wholly-owned subsidiary of a body corporate incorporated outside Great Britain, the directors are not required to notify the company of interests in shares or debentures of that or any other body corporate incorporated outside Great Britain.

CHARITABLE DONATIONS

Charitable donations made during the year totalled £181 (1980 NIL).

AUDITORS

In accordance with Section 14 of the Companies Act, a resolution proposing the re-appointment of Deloitte Haskins & Sells as auditors to the company will be put to the Annual General Meeting.

BY ORDER OF THE BOARD


Secretary

23rd October 1981

REPORT OF THE AUDITORS TO THE MEMBERS OF
AVIS RENT A CAR LIMITED

We have audited the financial statements on pages 4 to 15 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 30th June 1981 and of the loss and source and application of funds for the year then ended and comply with the Companies Acts 1948 to 1980.

The attached financial statements do not contain the current cost accounts required by Statement of Standard Accounting Practice No.16.

Debitte Haskins & Seils

Chartered Accountants

London

23rd October 1981

AVIS RENT A CAR LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1981

	<u>Notes</u>	<u>1981</u> <u>£</u>	<u>1980</u> <u>£</u>
Turnover		<u>£32,834,214</u>	<u>£35,929,049</u>
Operating profit/(loss)	1	(1,491,277)	1,422,003
Share of profit of associated company	7	<u>328,363</u>	<u>204,528</u>
Profit/(loss) before taxation		<u>(1,162,914)</u>	<u>1,626,531</u>
Taxation	3	<u>434,984</u>	<u>(929,370)</u>
Net profit/(loss)		<u>(727,930)</u>	<u>697,161</u>
Retained earnings at beginning of year		<u>7,626,169</u>	<u>6,929,008</u>
Retained earnings at end of year		<u>£ 6,898,239</u>	<u>£ 7,626,169</u>
Retained by the holding company		<u>6,357,823</u>	<u>7,175,546</u>
Retained by subsidiaries		<u>440,998</u>	<u>383,969</u>
Retained by the associated company		<u>99,418</u>	<u>66,654</u>
		<u>£6,898,239</u>	<u>£7,626,169</u>

AVIS RENT A CAR LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AND BALANCE SHEET AT JUNE 30, 1981

	Notes	GROUP		COMPANY	
		1981 £	1980 £	1981 £	1980 £
VEHICLES	5	25,863,822	31,186,191	22,163,426	28,745,540
PROPERTY & EQUIPMENT	6	2,421,553	2,443,328	2,283,444	2,359,201
INVESTMENTS	7	449,418	416,654	560,000	560,000
NON-CURRENT RECEIVABLE Due from affiliated company	3	939,942	601,947	323,280	601,947
CURRENT ASSETS					
Bank balances and cash		20,160,667	182,346	19,844,102	14,026
Accounts receivable		5,991,730	6,433,667	5,446,098	5,887,428
Prepayments and other current assets		1,737,054	4,253,313	1,466,132	4,000,244
Amounts due from affiliated companies		469,448	459,519	469,448	459,519
Amounts due from subsidiary companies		-	-	86,325	38,799
TOTAL CURRENT ASSETS		28,358,899	11,328,845	27,312,105	10,400,016
CURRENT LIABILITIES					
Bank loans and overdrafts		3,131,584	15,360,478	1,506,799	13,056,570
Accounts payable and accrued liabilities		13,917,915	3,916,129	12,590,270	3,397,213
Amounts due to affiliated companies		3,179,596	1,545,926	3,177,579	1,543,726
Amounts due to subsidiary companies		-	-	306,997	382,823
TOTAL CURRENT LIABILITIES		20,229,095	20,822,533	17,581,645	18,380,322
NET CURRENT ASSETS/ (LIABILITIES)		8,129,804	(9,493,688)	9,730,460	(7,980,306)
DEFERRED TAXATION	3	37,804,539	25,154,432	35,060,610	24,286,372
LONG TERM LIABILITIES	8	(10,351,049)	(10,662,384)	(9,237,623)	(10,244,947)
		(19,221,818)	(5,532,446)	(18,131,731)	(5,532,446)
		£ 8,231,672	£ 8,959,602	£ 7,691,256	£ 8,508,979
Financed by:					
SHARE CAPITAL	9	1,250,100	1,250,100	1,250,100	1,250,100
SHARE PREMIUM ACCOUNT		83,333	83,333	83,333	83,333
RETAINED EARNINGS		6,898,239	7,626,169	6,357,823	7,175,546
SHAREHOLDERS' FUNDS		£8,231,672	£8,959,602	£7,691,256	£8,508,979

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AVIS RENT A CAR LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED JUNE 30TH 1981

	<u>1981</u>	<u>1980</u>
	£	£
SOURCE OF FUNDS:		
FUNDS GENERATED FROM OPERATIONS:		
Profit/(Loss) before taxation	(1,162,914)	1,626,531
Adjustment for items not involving the movement of funds:		
Depreciation of vehicles	6,909,040	9,969,489
Depreciation of property and equipment	393,937	284,484
Surplus on sale of vehicles, property and equipment	(190,907)	(2,665,806)
Share of profit of associated company	(328,363)	(204,528)
Total funds generated from operations	<u>5,620,793</u>	<u>9,010,170</u>
OTHER SOURCES:		
Proceeds on sale of vehicles, property and equipment	15,652,727	22,338,438
Dividends received from associated company	81,253	134,373
Increase in long term liabilities	13,689,372	532,446
	<u>35,044,145</u>	<u>32,015,427</u>
APPLICATION OF FUNDS:		
Purchase of vehicles	17,007,826	30,741,200
Purchase of property and equipment	412,827	1,013,820
Additional investment in associate	-	250,000
	<u>17,420,653</u>	<u>32,005,020</u>
	<u>£17,623,492</u>	<u>£ 10,407</u>
INCREASE (DECREASE) IN WORKING CAPITAL		
Accounts receivable	(441,937)	1,594,680
Prepayments and other current assets	(2,516,259)	(1,057,538)
Amounts due from affiliated companies	9,929	(357,277)
Accounts payable	(10,001,786)	750,269
Amounts due to affiliated companies	(1,633,670)	5,547
Movement in net liquid funds:		
Bank balances and cash	19,978,321	167,900
Bank loans and overdrafts	12,228,894	(1,093,179)
	<u>£17,623,492</u>	<u>£ 10,407</u>

AVIS RENT A CAR LIMITED

ACCOUNTING POLICIES

The company prepares its financial statements on the historical cost basis of accounting.

The consolidated financial statements comprise the financial statements of Avis Rent a Car Limited and those of its subsidiaries for the year ended June 30th, 1981.

The principal accounting policies adopted in the preparation of these financial statements are as follows:

Turnover

Turnover consists primarily of invoiced amounts in respect of motor vehicle rental and leasing income, together with sales of gasoline and accessories, and car parking income, net of value added tax, discounts and commissions.

Associated Company

The investment in an associated company is accounted for by the equity method on consolidation whereby the original cost of the investment is adjusted for the increase or decrease in the group's share of the underlying net assets of the associated company since the date of formation or later investment.

Vehicles

Cost is after deducting all trade discounts and the net purchase rebate accruing during the year. Purchase rebates which depend on the future volume of purchases are credited to income over the average depreciable lives of the vehicles and the deferred element is deducted from the cost of vehicles.

Depreciation policy is based on an estimate of future residual values which for certain vehicles is agreed at the time of purchase. Depreciation rates vary between 15% and 50% p.a.

During the year, the Company modified its basis of charging depreciation to conform to corporate accounting practice. Previously, depreciation had been charged on a daily basis from the date of purchase to the date of sale. Currently, no charge is made for depreciation in the month of purchase and a full month's charge is made in the month of sale. The effect of this change is stated in note 5 to the attached financial statements.

The cost of vehicles invoiced to the group but not delivered and installed is classified under prepayments.

Vehicles transferred within the group are transferred at net book value on the date of transfer and are recorded in the books of the receiving company at original cost, with depreciation calculated from the original purchase date.

In the case of leased vehicles the company as lessee follows the financing method of accounting, whereby the vehicles leased are dealt with as though they had been purchased outright at the time that the vehicles were installed and depreciation is charged accordingly. Purchase cost is included under vehicles and an equivalent amount included under liabilities.

Property and equipment

Depreciation is calculated to write down the cost of fixed assets to their estimated residual values in equal annual instalments over their estimated economic lives at the following rates:

Freehold property (excluding land)	2½% p.a.
Leasehold buildings and improvements, furniture and equipment	3% to 33% p.a.

Deferred Taxation

The company, and its subsidiaries, provide in full, using the deferral method for the taxation arising on timing differences between the treatment of items in the financial statements and their treatment for taxation purposes. The directors of Avis Rent a Car Limited consider it uncertain that these timing differences, which arise mainly through the excess of tax depreciation (capital allowances) over book depreciation, will continue in the foreseeable future, and therefore consider such provisions are appropriate. Similarly, full provision is made for deferred taxation in respect of the group's share of profits of the associated company.

Translation of transactions and amounts in foreign currencies

Revenues and operating expenses transacted in foreign currencies are recorded in sterling at exchange rates ruling at the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated at exchange rates ruling at the balance sheet date.

All exchange differences are reflected in income.

AVIS RENT A CAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1981

1. OPERATING EXPENSES

- (a) Operating profit is arrived after charging (crediting) the following:

	<u>1981</u> £	<u>1980</u> £
Interest (note 2)	1,806,661	2,291,839
Depreciation on vehicles	6,909,040	9,969,489
Depreciation on buildings, furniture and equipment	393,937	284,484
Surplus on sale of vehicles, property and equipment	(190,907)	(2,665,806)
Vehicle lease rentals (net of interest)	657,327	587,105
Auditors' remuneration	31,300	29,250

- (b) Directors' remuneration, excluding pension contributions, was as follows:

Emoluments of chairman	-	-
Emoluments of highest paid director	24,151	29,968
Number of other directors whose emoluments were within the ranges:		
Up to - £5,000	3	4
£15,000 - £20,000	-	1

- (c) Employees' remuneration

Number of employees whose emoluments exceeded £20,000, excluding pension contributions, were within the ranges:

£20,000 - £25,000	2	3
£25,000 - £30,000	1	1

2. INTEREST

Interest charged

Interest on bank loans, overdrafts and loans from affiliated company, which are repayable within 5 years

1,181,604	1,713,686
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Interest on long-term loan from affiliated company

500,000	500,000
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Interest charge applicable to finance leases

207,209	98,170
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1,888,813	2,311,856
82,152	20,017

Interest received

£1,806,661	£2,291,839
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. TAXATION

1981

1980

- (a) The taxation (charge) credit at 52% of group taxable results, comprises:

Deferred:

Group companies:	649,330	(842,311)
Current year	-	39,172
Prior year adjustment		
	649,330	(803,139)
Share of associated company charge	(214,346)	(126,231)
	<u>£434,984</u>	<u>£(929,370)</u>

- (b) The balance on the deferred taxation account arises from the following sources:

	<u>1981</u>	<u>Group</u> <u>1980</u>	<u>1981</u>	<u>Company</u> <u>1980</u>
Excess of capital allowances over depreciation	10,841,178	15,055,864	9,711,243	13,728,947
Losses	(380,640)	(4,352,920)	(380,540)	(3,451,760)
Other	(109,489)	(40,560)	(93,080)	(32,240)
	<u>£10,351,049</u>	<u>£10,662,384</u>	<u>£9,237,623</u>	<u>£10,244,947</u>

- (c) Tax losses arising mainly from the excess of tax depreciation allowances over the book depreciation, subject to the effect of disclaiming first year tax depreciation allowances, amount to approximately £732,000. These losses are carried forward and are available for offset against future taxable profits.
- (d) In accordance with the group relief provisions of ICT Act 1970, the Company has elected to reduce the tax losses previously surrendered to an affiliate company by an amount of £904,155. A subsidiary of the company has now surrendered losses of an equal amount to this affiliate. The effect of these charges is reflected in the "non-current receivable due from affiliate" and in the provision for deferred taxation.
- (e) The group has surrendered tax losses of £1,807,580 to an affiliated company under the group relief provisions. The tax benefit of these losses will be repaid by that company at such time as, and to the extent that, the company becomes liable to corporation tax which would otherwise have been relieved by the carry forward of these losses. Provision is therefore made for the deferred taxation liability arising from the tax losses surrendered and the related non-current receivable of £939,942 is included in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. NET PROFIT/(LOSS)

The net profit/(loss) after taxation has been dealt with in the accounts of:

	<u>1981</u> £	<u>1980</u> £
The company (including dividends received)	(817,723)	599,899
Subsidiaries	57,029	153,337
Associated company (less dividend paid)	32,764	(56,075)
	<u>£(727,930)</u>	<u>£697,161</u>

5. VEHICLES

COST

At July 1, 1980

Additions

Disposals

Group transfers

At June 30, 1981

ACCUMULATED DEPRECIATION

At July 1, 1980

Charge for year

Change in basis

Disposals

Group transfers

At June 30, 1981

NET BOOK VALUE

At June 30, 1981

At June 30, 1980

	<u>GROUP</u>	<u>COMPANY</u>
At July 1, 1980	38,265,242	34,893,634
Additions	17,007,826	14,081,420
Disposals	(21,639,226)	(20,590,995)
Group transfers	-	127,856
At June 30, 1981	<u>33,633,842</u>	<u>28,511,915</u>
At July 1, 1980	7,079,051	6,148,094
Charge for year	7,371,746	6,477,726
Change in basis	(462,706)	(421,002)
Disposals	(6,218,071)	(5,891,152)
Group transfers	-	34,828
At June 30, 1981	<u>7,770,020</u>	<u>6,348,489</u>
At June 30, 1981	<u>£25,863,822</u>	<u>£22,163,426</u>
At June 30, 1980	<u>£31,186,191</u>	<u>£28,745,595</u>

On June 22, 1981 the Company entered into a sale and lease back agreement with Prime Vehicles Limited involving substantially all the company's vehicles. Although the Company does not have legal title to the vehicles, it carries all the risk of ownership, and consequently these vehicles are recorded using the financing method of accounting. Additionally, the group has continued to lease certain vehicles under other financing arrangements. The book value of leased vehicles, included in the above figures was:

	<u>GROUP</u>	<u>COMPANY</u>
At June 30, 1981	<u>£23,073,363</u>	<u>£21,675,778</u>
At June 30, 1980	<u>£1,607,178</u>	<u>£1,607,178</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. VEHICLES (Continued)

At June 30, 1981, the Group had the following capital commitments in respect of vehicle purchases:

- (a) as agent for its vehicle lessors, the Company had placed purchase orders for 750 vehicles at an approximate cost of £3,400,000. The Company is committed to lease these vehicles from the lessors.
- (b) On January 12, 1981 the Company issued an irrevocable credit of £253,575 to the benefit of a vehicle supplier, in respect of the purchase of vehicles to be delivered during August, September and October 1981.
- (c) The Company has a commitment under a contract signed in April 1981, for the purchase of truck bodies and refurbishment work during the period to January 31, 1982. At June 30, 1981, the outstanding commitment totalled £257,000 approximately.

6. PROPERTY AND EQUIPMENT

(a) Group

	<u>Freehold</u> <u>land</u>	<u>property</u>	<u>Leasehold</u> <u>buildings</u> <u>and</u> <u>improvements</u>	<u>Furniture</u> <u>and</u> <u>equipment</u>	<u>Total</u>
	£	£	£	£	£
COST					
At July 1, 1980	108,477	294,401	1,974,460	811,982	3,189,320
Additions	-	69,525	202,612	140,690	412,827
Deletions	-	-	(14,425)	(88,734)	(103,159)
At June 30, 1981	<u>108,477</u>	<u>363,926</u>	<u>2,162,647</u>	<u>863,938</u>	<u>3,498,988</u>
ACCUMULATED DEPRECIATION					
At July 1, 1980	-	33,475	426,544	285,973	745,992
Charge for year	-	12,972	157,250	223,715	393,937
Deletions	-	-	(5,260)	(57,234)	(62,494)
At June 30, 1981	<u>-</u>	<u>46,447</u>	<u>578,534</u>	<u>452,454</u>	<u>1,077,435</u>
NET BOOK VALUE					
At June 30, 1981	<u>£108,477</u>	<u>£317,479</u>	<u>£1,584,113</u>	<u>£411,484</u>	<u>£2,421,553</u>
At June 30, 1980	<u>£108,477</u>	<u>£260,926</u>	<u>£1,547,916</u>	<u>£526,009</u>	<u>£2,443,328</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. PROPERTY AND EQUIPMENT (continued)
(b) Company

	<u>Freehold</u> <u>land</u>	<u>property</u>	<u>Leasehold</u> <u>buildings</u> <u>and</u> <u>improvements</u>	<u>Furniture</u> <u>and</u> <u>equipment</u>	<u>Total</u>
	£	£	£	£	£
COST					
At July 1, 1980	108,477	294,401	1,952,482	709,559	3,064,919
Additions	-	69,525	143,755	120,036	333,316
Deletions	-	-	(14,425)	(88,734)	(103,159)
At June 30, 1981	<u>108,477</u>	<u>363,926</u>	<u>2,081,812</u>	<u>740,861</u>	<u>3,295,076</u>
ACCUMULATED DEPRECIATION					
At July 1, 1980	-	33,475	421,182	251,061	705,718
Charge for year	-	12,972	152,300	203,136	368,408
Deletions	-	-	(5,260)	(57,234)	(62,494)
At June 30, 1981	<u>-</u>	<u>46,447</u>	<u>568,222</u>	<u>396,963</u>	<u>1,011,632</u>
NET BOOK VALUE					
At June 30, 1981	<u>£108,477</u>	<u>£317,479</u>	<u>£1,513,590</u>	<u>£343,898</u>	<u>£2,283,444</u>
At June 30, 1980	<u>£108,477</u>	<u>£260,926</u>	<u>£1,531,300</u>	<u>£458,498</u>	<u>£2,359,201</u>

(c) The group occupies premises under leases expiring at various dates up to 2010, at current minimum annual rentals of £2,270,600. In addition, the company entered into a lease dated June 24, 1976, expiring at a current annual rental of £216,500. The rental expenses are borne by the fellow-subsidiary, which has also agreed to indemnify the company against any related costs.

(d) Capital commitments on property and equipment are as follows:

	<u>1981</u>	<u>1980</u>
Contracts not provided for in these accounts	<u>£31,000</u>	<u>£7,000</u>
Amounts authorised but not contracted for	<u>£ NIL</u>	<u>£ NIL</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. INVESTMENTS

	<u>Consolidated</u>		<u>Company</u>	
	<u>1981</u>	<u>1980</u>	<u>1981</u>	<u>1980</u>
	£	£	£	£
Associated company:				
Shares at cost	350,000	350,000	350,000	350,000
Add: Share of net profit from date of formation less dividends received	99,418	66,654	-	-
Subsidiary companies:				
Shares at cost	-	-	210,000	210,000
	<u>£449,418</u>	<u>£416,654</u>	<u>£560,000</u>	<u>£560,000</u>

Associated company:

The Company owns 50% of the issued share capital of Avis Car Leasing Limited. The remaining 50% is held by a non-affiliated company. The results included in respect of Avis Car Leasing Limited are based on those shown by the management accounts for the year ended 31st May, 1981.

Subsidiary companies:

The Company owns 100% of the issued share capital of the following companies, all of which are registered in England.

Avis Truck Leasing Limited
Avis Parking Limited
Barcelsure Limited
Victor Britain Limited

8. LONG TERM LIABILITIES

	<u>Group</u>		<u>Company</u>	
	<u>1981</u>	<u>1980</u>	<u>1981</u>	<u>1980</u>
	£	£	£	£
Obligation under capitalised leases	14,221,818	532,446	13,131,731	532,446
Loan from affiliate	5,000,000	5,000,000	5,000,000	5,000,000
	<u>£19,221,818</u>	<u>£5,532,446</u>	<u>£18,131,731</u>	<u>£5,532,446</u>

The loan from affiliate (Avis International Limited), on which interest is payable at 10% p.a., is repayable in 1989.

9. SHARE CAPITAL

	<u>1981</u>	<u>1980</u>
Authorised, issued and fully paid Ordinary shares of £1 each	<u>£1,250,100</u>	<u>£1,250,100</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. CASH AND BANKS

As security for Prime Vehicles Limited, the Company is obliged to maintain a restricted bank account; at June 30, 1981 the balance on this account (included in cash and banks) was £1,319,820.

11. PENSION SCHEME

Membership of the Avis U.K. Pension Plan is optional for those employed prior to January 1, 1974, but is compulsory for substantially all employees hired subsequently. The contributions by the Company to the Pension Plan during the year amounted to £263,438 (1980 - £249,344). The most recent actuarial valuation of the plan was carried out by Harris Graham and Partners as at January 1, 1981.

12. GUARANTEE OF BANK FACILITIES

The Company has guaranteed bank and lease facilities granted to a fellow subsidiary company, St. Brelade's Garages Limited, of up to £2,250,000 (1980 - £1,750,000). At June 30, 1981, the relevant indebtedness of that Company amounted to £759,486.

13. ULTIMATE HOLDING COMPANY

The ultimate holding company is Norton Simon, Inc., incorporated in the state of Delaware, U.S.A.