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COMPANY PROFILE

TLS is a leading vehicle rental company providing cars and commercial vehicles for short term and contract hire to a wide range of users in the commercial, industrial, public and private sectors.

The aim of TLS is:
to become a national company through being the preferred regional supplier of rental and contract hire vehicles.

THE RIGHT PEOPLE • THE RIGHT VEHICLE • THE RIGHT PRICE



Armstrong House, the company's new head office



COMPANY INFORMATION

DIRECTORS

R D Yeomans – Chairman (Non-executive)
P A Roberts – Chief executive
C J Miller – Commercial director
J D Conway – Development director
P S Busby FCA – Finance director
M R de'Ath – Operations director
D M M Beever – (Non-executive)

SECRETARY AND REGISTERED OFFICE

J W Stewart FCA
Armstrong House
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Salford
Manchester M5 2RP
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FINANCIAL ADVISERS AND STOCKBROKERS

Albert E Sharp
Temple Court
35 Bull Street
Birmingham B4 6ES

TAXATION ADVISERS

Grant Thornton
Chartered Accountants
Heron House
Albert Square
Manchester M2 5HD

LEGAL ADVISERS

Halliwell Landau
St. James's Court
Brown Street
Manchester M2 2JF

Cooper Sons, Hartley & Williams
Portland Tower
Portland Street
Manchester M1 3PT

David C Clapham
79 West Regent Street
Glasgow G2 2AW

AUDITORS

Binder Hamlyn
Chartered Accountants
Bank House
9 Charlotte Street
Manchester M1 4EU

BANKERS

The Royal Bank of Scotland plc
Manchester Corporate Centre
PO Box 356
38 Mosley Street
Manchester M60 2BE

REGISTRARS

C.I. Registrars Limited
PO Box 30
Victoria Street
Luton
Bedfordshire LU1 2PZ
Telephone: 01582 405333

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SHAREHOLDERS INFORMATION

RELEVANT DATES

Interim announcement	2 September 1996	Interim dividend	11 October 1996
Preliminary announcement	26 March 1997	Final dividend:-	
Report and accounts posted	25 April 1997	Record date	25 April 1997
Annual general meeting	20 May 1997	Payment date	23 May 1997

CHAIRMAN'S STATEMENT



David Yeomans

INTRODUCTION

I am pleased to report another year of excellent progress, with the second half building further on the strong start to the year. Profit before taxation up 40% at £5.8m set another record for the group and the directors recommend a final dividend of 2.3p per share making a total of 3.4p per share for the year (1995: 2.7p) up 26%.

The two acquisitions made in the last quarter of 1996, Commercial Recovery & Repairs Limited (CRR) on 8 October and Halfpenny Self Drive (Halfpenny) on 1 December have started the current year ahead of budget. Both businesses have been integrated successfully into the group and are benefiting from being part of a larger, high quality "branded" group with clear objectives.

Strong cash flows enabled the group to invest a total of £61.4m during the year, £52.5m in additional vehicles and £8.9m in business acquisitions. Net gearing at 283% (1995: 158%) was within the group's self-imposed limits. Interest cover remains unchanged at 2.6 times.

During the year the group opened four greenfield branches; London Park Royal and Gateshead in April and May respectively and Stockton and Newport (Gwent) in December. These followed the openings of Stirling and Leeds at the end of 1995. All of these new branches have performed well, establishing the group in commercially important new areas. The group now has a total of 26 branches (1995: 16).

The head office move to Armstrong House in September 1996 was undertaken with minimal disruption to the business and it is already providing the improvements in working conditions and productivity that were required.

Installation of our new Kerridge computer system is proceeding ahead of the agreed timetable, with 17 branches now on line. We expect that installation will be completed by the end of June 1997. This is always a very challenging time and the commitment and dedication shown by all our people involved in the introduction of the system is exemplary. All the hard work will be repaid with the installation of an advanced executive and management information system that will improve further the efficient control of the business.

I would like to acknowledge John Stewart who retires after the AGM in May 1997. John joined the TLS board in February 1989 as finance director and company secretary. He remained finance director until December 1992. Both the company and the board have benefited from his quiet guidance and advice. On behalf of my fellow directors and myself I wish him a long and happy retirement.

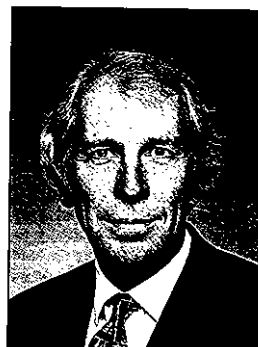
CHAIRMAN'S STATEMENT

continued

I welcome Mark de'Ath and David Beever who have joined the board. Mark was previously an associate director at TLS Auto-Rentals, our contract hire business, where he was responsible for contract hire and southern regional development. David Beever who joined us as a non-executive director in January 1997, is chairman of KPMG Corporate Finance. Previously he was vice chairman of SG Warburg & Co Ltd and a managing director of SBC Warburg.



Mark de'Ath



David Beever

FINANCIAL RESULTS

I am delighted to report another record year with pre-tax profits up 40% to £5.8m (1995: £4.15m).

- * Turnover increased 29% to £52.4m
- * Operating profit increased to £9.4m up 40%
- * Earnings per share were 9.5p up 20% (1995: 7.9p)
- * Interest cover was 2.6 times (1995: 2.6 times)
- * Dividend cover was 2.7 times (1995: 2.6 times)

DIVIDENDS

A final dividend of 2.3p per share is recommended, giving a total for the year of 3.4p per share (1995: 2.7p), an increase of 26%.

REVIEW OF ACTIVITIES

The group performed well during the year. All of the greenfield branches opened at the end of 1995 and during 1996 produced outstanding fleet growth. The group has rapidly become recognised in these new areas in terms of the age and presentation of the vehicle fleet, the quality of the service provided and our commitment to deliver value for money.

During the year we have developed three trading divisions each with its own management;

*TLS Vehicle Rental

The short and medium term hire and **Flexi-RentTM** of cars, vans and light heavy commercial vehicles.

*TLS Auto-Rentals

Contract hire of cars, vans, light and heavy commercial vehicles.

*CRR Truck Rental

The short, medium and long term hire of heavy commercial vehicles and trailers.

Jim Conway has specific responsibility with Terry Williams for the integration and development of CRR, Mark de'Ath is responsible for TLS Vehicle Rental and with Tim Minett, TLS Auto-Rentals.

CHAIRMAN'S STATEMENT

continued

TLS Vehicle Rental 7,598 vehicles (1995: 5,119)

This division has had a very rewarding year, with excellent fleet growth coupled with high utilisation fuelled by demand from both existing and new customers.

The TLS Vehicle Rental fleet grew by 48% to a total of 7,598 units at the year end (1995: 5,119). New branch development at Stirling, Gateshead, Leeds and London Park Royal and organic growth accounted for 1,985 and the Halfpenny acquisition 494 units.

Against a background of a 48% increase in the fleet size, average utilisation rates for the 12 months were very satisfactory with cars at 88.2% (1995: 85.6%) and commercials at 88.0% (1995: 87.4%).

The average number of vehicles on rent during the year increased to 5,395 (1995: 3,637).



TLS Auto-Rentals 1,008 vehicles (1995: 960)

As I reported last year, our contract hire division has been restructured with new management and sales personnel specifically to develop this part of our business. I am delighted to report that this team has achieved the short term goals agreed for the year. 446 new vehicles were added to the fleet with 398 returned. The fleet grew to 1,008 vehicles (1995: 960).

This division is generating a growing demand from quality companies and has won valuable new customers during the year. Amongst these were, BICC plc, Surrey Ambulance NHS Trust, Mid Anglia Community Health NHS Trust and Sunderland City Council. In addition, at the year end, we were awarded a three year solus, short term rental, contract hire and fleet management agreement by McNicholas PLC.

We are on course to achieve our objectives for this business.

CRR Truck Rental 434 vehicles and trailers

CRR was acquired on 8 October 1996. This division's contribution has already been better than expected and our clear focus on the key performance measures has already had a very positive effect on the results of the division. At the year end the hire fleet had increased by 16 vehicles, as a result of 56 additional vehicles and 40 disposals. The used vehicles were sold for £0.7m at a profit of £0.1m.

RESIDUAL VALUES AND UTILISATION

We have continued with our established policies of minimising the group's exposure to residual values. Over a third of the fleet were acquired on operating leases where the group's only liability is for the fixed monthly rental costs for the period of the agreement. This method of acquisition provides the group with the ability to adjust quickly the size or mix of the fleet to any changes in market demand without affecting holding costs.

CHAIRMAN'S STATEMENT

continued

VEHICLE PROVISIONS

Our vehicle provisions policy is to write down each vehicle to its estimated or guaranteed residual value at the anticipated date of sale. Vehicles are only held for short periods, cars 6-12 months and commercials 18-24 months. Where vehicles are owned by the group this policy results in an annual provision rate for cars of 36-60%. Commercials are written off to £nil in just over four years.

Flexi-Rent™ is now the recognised brand name of TLS Plc. For the last three years, this rental product has provided many of our customers with a "flexible bridge" between short term rental and fixed term contract hire. It satisfies the demand by today's business for a dynamic rental product. **Flexi-Rent™** is available from all TLS Vehicle Rental branches for cars and light commercial vehicles. Since its original introduction in 1993 we have experienced a growing demand from both new and existing customers.

PROSPECTS

1997 has started well with all divisions trading ahead of budget.

At TLS Vehicle Rental a profit improvement programme has been adopted, focusing on business quality and margin enhancement to counter the pressure on hire rates that was experienced in 1996. I am pleased to report that there are early signs that we are achieving margin improvements in some areas of our business. We will withdraw from business that is not of the right quality or that does not provide a satisfactory level of margin.

Our contract hire division, TLS Auto-Rentals has maintained its rate of progress. The relationship with McNicholas, who awarded TLS Auto-Rentals a major contract at the year end, is good, with 110 additional vehicles on rent. The contract envisages that the McNicholas hire fleet will exceed 550 vehicles by the end of 1997, an increase of 200 vehicles.

CRR Truck Rental has out-performed its budget for the first two months of the year. In its market place, the presentation and serviceability of CRR's vehicles and the quality of customer care is well accepted. These established qualities, coupled with the group's financial strength and proven vehicle procurement and financing policies place CRR in a primary position to become a preferred rental supplier of commercial vehicles and trailers. We are establishing a Scottish customer base on the back of the group's high reputation in this region and are reviewing actively other opportunities to develop the business.

We have a policy to train continuously and challenge our people for their personal development and satisfaction. The performance of the group reflects the experience, commitment and energy of our employees at all levels; to them a sincere, "Thank you".

David Yeomans

26 March 1997

STATEMENT OF DIRECTORS RESPONSIBILITIES

The following statement, which should be read in conjunction with the auditors' report set out below is made with a view to explaining to shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for the financial year.

The directors consider that in preparing the accounts set out on pages 14 to 32, the group has used appropriate accounting policies, consistently applied on a going concern basis and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and the group, which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors 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.

As explained in their report it is the responsibility of our auditors to form an independent opinion on the accounts.

REPORT OF THE AUDITORS ON THE ACCOUNTS

To the members of TLS Plc

We have audited the accounts set out on pages 14 to 32 which have been prepared on the basis of the accounting policies set out on pages 19 and 20.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 1996 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BINDER HAMLYN
Chartered Accountants
Registered Auditors
26 March 1997



Bank House
9 Charlotte Street
Manchester M1 4EU

REPORT OF THE DIRECTORS

INTRODUCTION

The directors have approved this report. The audited accounts of the company for the year ended 31 December 1996 will be laid before the shareholders at the annual general meeting to be held on 20 May 1997.

PRINCIPAL ACTIVITIES

The group's activities are described on page 41. A review of the group's operations for the year is given in the chairman's statement on pages 4 to 7.

ACQUISITIONS

On 8 October 1996 the company acquired the entire issued share capital of Commercial Recovery & Repairs Limited. On 1 December 1996 the company acquired the business of F Halfpenny & Son Limited. Further details of these acquisitions are given in the chairman's statement on pages 4 to 7 and in the accounts.

DIVIDENDS AND TRANSFER TO RESERVES

An interim dividend of 1.1p per share was paid in October 1996. The directors recommend a final dividend of 2.3p per share. These dividends absorb £1,619,000 and £2,741,000 has been transferred to reserves.

CHANGES IN THE VEHICLE FLEET

Fleet additions amounted to £52.5m. Disposals proceeds amounted to £19.1m. The number of vehicles at the end of the year was 9,040 (1995 – 6,079).

FIXED ASSETS

In the opinion of the directors there is no significant difference between the market value of the group's interests in land at 31 December 1996 and the amount at which they are included in the group's balance sheet.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

There are four items of special business to be proposed at the annual general meeting. A brief description of each of these proposals is given on page 35.

BOARD OF DIRECTORS

The names of the present members of the board are set out on page 2. Save for Mr de'Ath who was appointed on 1 September 1996 and for Mr Beever who was appointed on 14 January 1997 they were the directors who served throughout the financial year. The chairman, Mr Yeomans, aged 54 is a non-executive director and is chief executive of Milk Marque. Mr Beever, aged 56 is a non-executive director and was until recently vice chairman of S G Warburg & Co Limited and a managing director of SBC Warburg. He is currently chairman of KPMG Corporate Finance.

SUBSTANTIAL SHAREHOLDERS (OTHER THAN DIRECTORS)

As at 26 March 1997 the company was aware, so far as it could be, of the following interests (as defined in section 199 of the Companies Act 1985) which:

- (a) being material interests represent more than 3% of the nominal share capital; or
- (b) not being material interests represent more than 10% of the nominal share capital

	Number of shares	Percentage of issued share capital
Friends' Provident group	8,127,743	16.72
Prudential Corporation	2,100,446	4.32

EMPLOYMENT OF DISABLED PERSONS

The company's policy is to give full and fair consideration to applications for employment made by disabled persons and to recruit solely on the basis of the applicant's ability to perform in the appropriate role. When an employee becomes disabled during their employment, the company will make every effort to continue such employment by arranging for appropriate training or redeployment to a more suitable position.

REPORT OF THE DIRECTORS

continued

EMPLOYEE INVOLVEMENT

The company encourages the involvement of its employees in matters that concern them. Such involvement is illustrated by activities such as regular briefing notes which are distributed on a number of topics including half-year and full-year results, new appointments and acquisitions. Regular briefing sessions on a local management basis are also actively encouraged. During 1996 the company also embarked on its first employee survey which produced a number of action points which were implemented effectively and a further survey has already been distributed in February 1997 to gauge progress. A share option scheme has been a feature of the company's benefits package for a number of years which encourages share ownership and staff loyalty.

PAYMENT OF CREDITORS

It is company policy to settle all debts with its creditors on a timely basis, taking account of the credit period given by each supplier.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the year the company has maintained indemnity insurance for its directors and officers against liabilities which could arise in the discharge of their duties.

AUDITORS

A resolution to re-appoint Binder Hamlyn as auditors will be submitted to the annual general meeting.

Armstrong House
Houston Park
Montford Street
Salford
Manchester M5 2RP
26 March 1997

By order of the board

John W Stewart

JW Stewart
Secretary

REPORT OF THE REMUNERATION COMMITTEE

The company's policy on the remuneration of executive directors is that there should be an identifiable differential between the remuneration of the chief executive and the other executive directors. The remuneration of the executive directors is based on the most recent Directors Rewards Survey carried out by the Institute of Directors.

Full details of the remuneration of individual directors and information on their share options are set out in notes 5 and 6 to the accounts on pages 21 and 22.

Save for Mr Beever each of the directors has entered into a service agreement with the company subject to twelve months notice of termination by the director and eighteen months notice of termination by the company except for Mr J D Conway whose contract is subject to twelve months notice by either party. There is an oral agreement with Mr Beever. An exchange of letters between him and the company regarding the terms of his appointment will be available for inspection at the annual general meeting.

The directors consider a twelve month notice period by the company to be too short to recruit and retain executives of the right calibre.

Mr J D Conway is the director who is proposed for re-election at the forthcoming annual general meeting.

Armstrong House
Houston Park
Montford Street
Salford
Manchester M5 2RP
26 March 1997

Signed on behalf
of the committee

R D Yeomans
Chairman

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE

During the year ended 31 December 1996 the company has complied with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance ('the Code'), except for the matters referred to below.

COMPLIANCE EXCEPTIONS

The Code requires that there should be at least three non-executive directors. Currently the board comprises a non-executive chairman, a non-executive director, a chief executive and four other executive directors. The directors are drawn from different disciplines so as to provide both balanced management and critical assessment of the group's activities, whilst ensuring that no one director can unduly influence decisions or group policy.

The board considers that given the size and nature of the company's present business, the existing flexibility and control of the company by the board should be maintained. The board also considers that it is not in the interests of shareholders to appoint a further non-executive director for the sole purpose of compliance with the Code at this stage in the company's development.

There is an established remuneration committee consisting of the two non-executive directors, the chief executive, an external consultant and the company's personnel manager.

There is an established audit committee consisting of the two non-executive directors, the two executive directors least concerned with financial control and the company's internal audit manager.

For the reasons stated above neither of these committees consist of at least three non-executive directors as required by the Code.

GOING CONCERN

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

INTERNAL FINANCIAL CONTROL

The directors are responsible for ensuring that the company and the group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the accounts are described below.

CORPORATE GOVERNANCE

continued

Control environment

There is a clearly defined organisational structure within which individual responsibilities are identified and can be monitored.

All branches operate to laid down procedures and are required to comply with them. The executive directors meet twice a month to review and control all operational matters relating to the company.

Identification and evaluation of business risks and control objectives

The board has the primary responsibility for identifying the major business risks facing the company and developing appropriate policies to manage those risks. The risk management approach is used to focus the work of the internal audit function on the company's most significant areas of risk.

Information systems

There is a comprehensive budgeting system in place with an annual budget approved by the board. Management information systems provide directors at least monthly with relevant and timely reports that identify significant deviations from approved plans and include regular re-forecasts for the year.

Main control procedures

The company has identified a number of key areas which are subject to regular reporting procedures. These procedures include, for example, the carrying out of a fleet audit twice a year which confirms the existence of every vehicle in the fleet without exception and the monitoring of the effectiveness of the company's computer systems.

Monitoring

The company has established an internal audit function which carries out reviews of its business and control procedures in operation on a regular basis having due regard to the key issues and business and financial risks identified. Formal reports are prepared of all such reviews and presented to the audit committee, which meets at least three times a year.

REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE

To the members of TLS Plc

In addition to our audit of the accounts, we have reviewed the directors' statements on pages 11 and 12 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange ("the Code").

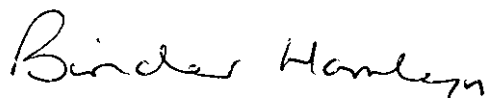
The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which are not disclosed.

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company and group to continue in operational existence for the foreseeable future.

Opinion

With respect to the directors' statements on internal financial control on pages 11 and 12, and going concern on page 11 in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statements on pages 11 and 12 appropriately reflect the company's compliance with the other paragraphs of the Code specified for our review.



BINDER HAMLYN
Chartered Accountants
Registered Auditors
26 March 1997

Bank House
9 Charlotte Street
Manchester M1 4EU

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

	Notes	Before CRR £'000	CRR £'000	1996 Total £'000	1995 Total £'000
TURNOVER	3	50,890	1,540	52,430	40,546
Cost of sales		37,424	840	38,264	30,015
GROSS PROFIT		13,466	700	14,166	10,531
Administrative expenses		4,631	165	4,796	3,842
OPERATING PROFIT	4	8,835	535	9,370	6,689
Interest receivable				126	321
Interest payable	9			3,682	2,859
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				5,814	4,151
Taxation	10			1,454	1,124
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND ATTRIBUTABLE TO SHAREHOLDERS				4,360	3,027
DIVIDENDS	11			1,619	1,143
TRANSFER TO RESERVES	25			2,741	1,884
EARNINGS PER 5p SHARE				9.5p	7.9p

The earnings per 5p share have been calculated using the profit on ordinary activities after taxation and on the weighted average number of shares in issue during the year of 46,037,142 (1995 – 38,312,545).

The above results derive from continuing activities.

Movements in equity shareholders' funds are given in note 26, on page 31.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses in the financial year other than the profit for the period.

CONSOLIDATED BALANCE SHEET

as at 31 December 1996

	Notes	1996 £'000	1995 £'000
FIXED ASSETS:			
Tangible assets			
Contract hire vehicles	13	4,453	5,852
Properties	12	1,610	1,608
Equipment, fixtures and fittings	12	910	412
		6,973	7,872
CURRENT ASSETS:			
Short term hire vehicles	13	63,849	36,360
Vehicle parts stocks and fuel		673	331
Debtors	16	15,388	9,489
Bank and cash balances		2,253	6,284
		82,163	52,464
CREDITORS:			
Amounts falling due within one year			
Hire purchase finance		32,842	11,341
Loan stock		50	56
Other creditors	18	17,041	12,555
		49,933	23,952
NET CURRENT ASSETS		32,230	28,512
TOTAL ASSETS LESS CURRENT LIABILITIES		39,203	36,384
CREDITORS:			
Amounts falling due after more than one year—note 14			
Hire purchase finance		19,741	20,041
PROVISION FOR LIABILITIES AND CHARGES:			
Deferred taxation	19	1,736	386
		21,477	20,427
		17,726	15,957
CAPITAL AND RESERVES:			
Called up share capital	20	2,430	2,255
Share premium account	21	5,784	7,681
First reserve	22	—	1,538
Second reserve	22	2,288	—
Revaluation reserve	25	74	76
Other reserves	25	229	229
Profit and loss account	25	6,921	4,178
EQUITY SHAREHOLDERS' FUNDS		17,726	15,957

COMPANY BALANCE SHEET

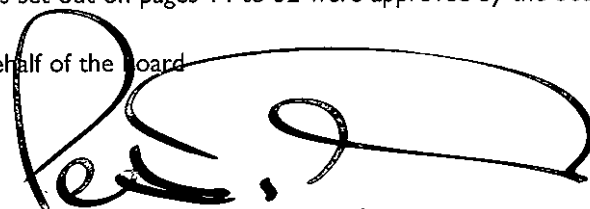
as at 31 December 1996

	Notes	1996 £'000	1995 £'000
FIXED ASSETS:			
Tangible assets			
Contract hire vehicles	13	4,453	5,852
Properties	12	1,156	1,144
Equipment, fixtures and fittings	12	726	412
		6,335	7,408
Investments			
Shares in subsidiary undertakings at cost	17	5,965	695
		12,300	8,103
CURRENT ASSETS:			
Short term hire vehicles	13	55,979	36,360
Vehicle parts stocks and fuel		551	331
Debtors	16	14,752	9,944
Bank and cash balances		1,804	6,284
		73,086	52,919
CREDITORS:			
Amounts falling due within one year			
Hire purchase finance		28,658	11,341
Loan stock		50	56
Other creditors	18	17,429	13,747
		46,137	25,144
NET CURRENT ASSETS		26,949	27,775
TOTAL ASSETS LESS CURRENT LIABILITIES		39,249	35,878
CREDITORS:			
Amount falling due after more than one year—note 14			
Hire purchase finance		19,741	20,041
PROVISION FOR LIABILITIES AND CHARGES:			
Deferred taxation	19	594	386
		20,335	20,427
		18,914	15,451
CAPITAL AND RESERVES:			
Called up share capital	20	2,430	2,255
Share premium account	21	5,784	7,681
First reserve	22	—	1,538
Second reserve	22	4,283	—
Revaluation reserve	25	10	10
Profit and loss account	25	6,407	3,967
EQUITY SHAREHOLDERS' FUNDS		18,914	15,451

The accounts set out on pages 14 to 32 were approved by the board on 26 March 1997.

Signed on behalf of the board

P S Busby
Director



CASH FLOW STATEMENT

for the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
CASH FLOW FROM OPERATING ACTIVITIES	1	21,742	16,615
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	2	(3,681)	(2,145)
TAXATION		(154)	(467)
VEHICLE FLEET EXPENDITURE	3	(33,442)	(22,422)
CAPITAL EXPENDITURE	4	(480)	(322)
ACQUISITIONS	5	(1,654)	(10)
EQUITY DIVIDENDS PAID		(1,335)	(667)
CASH OUTFLOW BEFORE FINANCING		(19,004)	(9,418)
FINANCING			
Issue of shares (net of expenses)		(22)	5,430
New hire purchase finance		45,556	28,172
Hire purchase repayments		(30,555)	(21,336)
Short term loan repayments		(6)	(406)
		14,973	11,860
(DECREASE) INCREASE IN CASH IN THE YEAR		(4,031)	2,442

CRR contributed £1,360,000 to the group's net operating cash flows, received £2,000 in respect of net returns on investments and servicing of finance and paid £80,000 in respect of taxation.

NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 December 1996

1 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	1996	1995
	£'000	£'000
Operating profit	9,370	6,689
Vehicle fleet provisions	17,126	11,153
Depreciation charges	205	184
Profit on disposal of vehicles	(858)	(638)
Movement in vehicle parts stock and fuel	(174)	(106)
Movement in debtors	(4,346)	(3,321)
Movement in creditors	419	2,654
Net cash inflow from operating activities	21,742	16,615

2 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

Returns on investment and servicing of finance

Interest received	177	270
Interest paid	(3,858)	(2,415)
Net cash outflow for returns on investments and servicing of finance	(3,681)	(2,145)

3 VEHICLE FLEET EXPENDITURE

Purchase of hire vehicles	(52,527)	(37,793)
Sale of hire vehicles	19,085	15,371
Net cash outflow for vehicle fleet expenditure	(33,442)	(22,422)

4 CAPITAL EXPENDITURE

Purchase of tangible fixed assets	(480)	(322)
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5 ACQUISITIONS

Purchase of CRR	(1,003)	—
Purchase of Halfpenny	(1,057)	—
Costs of acquisitions	(175)	—
Cash acquired with CRR	581	—
Adjustment in respect of 1994	—	(10)
Net cash outflow for acquisitions	(1,654)	(10)

NOTES TO THE ACCOUNTS

for the year ended 31 December 1996

1 DEFINITIONS

(a) "CRR"

Commercial Recovery & Repairs Limited a wholly owned subsidiary undertaking acquired by the company on 8 October 1996.

(b) "Halfpenny"

The business of F Halfpenny & Son Limited which was acquired by the company on 1 December 1996.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The accounts are prepared under the historical cost convention as modified by the revaluation of properties and in accordance with applicable accounting standards.

(b) Basis of consolidation

The consolidated accounts include the accounts of the company and its subsidiary undertakings. The net assets of the subsidiary undertaking acquired during the year are incorporated, using the acquisition method, at their fair value at the date of acquisition which equated to their net asset value.

(c) Goodwill

Goodwill arises where on the acquisition of a business or a subsidiary undertaking the cost of purchase exceeds the fair value of the net assets acquired. Such goodwill is eliminated against the special reserves available for this purpose.

(d) Vehicle fleet

(i) Contract hire vehicles

All vehicles hired out under contracts for one year or more are included in fixed assets.

(ii) Short term hire vehicles

All other vehicles are treated as short term hire vehicles and are included in current assets.

(e) Vehicle fleet provisions

The group's vehicle fleet provision policy is to write down each vehicle to its estimated or guaranteed residual value at the anticipated date of sale. For the company this policy results in provision rates of between 24 and 60 per cent per annum on the straight line basis. For CRR this policy results in a provision rate of 21% per annum on the reducing balance basis.

(f) Vehicle rebates

Vehicle rebates are credited to the profit and loss account over the period for which the vehicles are expected to be held.

(g) Vehicles leased in

Vehicles held under finance leases are capitalised and their value written down in accordance with the company's vehicle fleet provision policy.

Obligations under finance leases are included in creditors net of finance charges allocated to future periods.

Vehicles held under operating leases are not capitalised. The company complies with FRS 5, Reporting the Substance of Transactions, in respect of material sale and leaseback arrangements.

Lease payments are charged to the profit and loss account in the period to which they relate.

(h) Hire purchase and finance lease interest

Interest on borrowings arranged at variable rates is charged to the profit and loss account in accordance with the amounts notified by the respective lenders. Interest on borrowings arranged on fixed interest terms is charged to the profit and loss account on a basis designed to give a reasonable approximation to a constant periodic rate of return.

NOTES TO THE ACCOUNTS

continued

2 PRINCIPAL ACCOUNTING POLICIES – (continued)

(i) Depreciation

Depreciation of equipment, fixtures and fittings is provided for on the straight line basis at between 10 and 33 1/3 per cent per annum.

Land is not depreciated. Freehold and long leasehold buildings are depreciated at 2 per cent per annum on the straight line basis. Nonetheless it is the group's policy to maintain its properties in good condition by a regular programme of maintenance and repair, the cost of which is charged to the profit and loss account in the year in which the expenditure is incurred. Short leasehold properties are depreciated over the period of the lease.

(j) Vehicle parts stocks and fuel

These are stated at the lower of cost and net realisable value.

(k) Deferred taxation

Provision for deferred taxation is made to the extent that tax liabilities are expected to arise within the foreseeable future.

(l) Pension costs

The company's pension schemes are defined contribution schemes which are administered by insurance companies. The charge to the profit and loss account comprises the total contributions payable to the schemes in respect of the accounting period.

3 TURNOVER

Turnover principally represents income from the short term and contract hire of vehicles and vehicle rebates and is stated net of value added tax.

4 OPERATING PROFIT is stated after charging:

	1996 £'000	1995 £'000
Vehicle fleet provisions		
– held under hire purchase agreements	13,245	7,692
– held under finance leases	3,750	2,922
– other	131	539
	17,126	11,153
Vehicle operating lease rentals	6,797	5,388
Other operating lease rentals	317	206
Depreciation	205	184
Auditors' remuneration – see also note 22	32	32

NOTES TO THE ACCOUNTS

continued

5 DIRECTORS EMOLUMENTS

	Salary or fee £'000	Taxable benefits £'000	Annual bonus £'000	Pension contri- butions £'000	1996 Total £'000	1995 Total £'000
R D Yeomans*	30	—	—	—	30	25
P A Roberts**	104	4	33	11	152	144
C J Miller	92	4	29	9	134	129
J D Conway	92	3	29	9	133	127
P S Busby	80	6	26	8	120	113
M R de'Ath	22	1	7	2	32	—
	420	18	124	39	601	538

* Chairman

** Highest paid director

Mr Denvir ceased to be a director on 13 March 1995. Negotiations are at an advanced stage to reach agreement with Mr Denvir to pay him a gross sum of £55,000 as compensation following the cessation of his employment and allow him to exercise an option held by him over 65,000 shares at an option price of 34p per share.

Save for Mr Yeomans and Mr Beever each directors service agreement provides for an annual salary, a profit related annual bonus, pension contributions, a car, private health insurance and reimbursement of expenses. The agreements with Mr Yeomans and Mr Beever provide for an annual directors fee and reimbursement of expenses.

In general terms the profit related annual bonuses are a percentage of the year on year increase in the group's profit before dividend.

The ranges of directors emoluments, excluding pension contributions, were as follows:

	1996 No	1995 No
£15,001– £20,000	—	1
£20,001– £25,000	—	1
£25,001– £30,000	2	—
£105,001– £110,000	—	1
£110,001– £115,000	1	1
£120,001– £125,000	2	1
£130,001– £135,000	—	1
£140,001– £145,000	1	—

NOTES TO THE ACCOUNTS

continued

6 DIRECTORS SHARE OPTIONS

	Number of shares under option			Exercise price	Date from which exercisable	Expiry date
	Total held at 01.01.96	Exercised in year	Total held at 31.12.96			
R D Yeomans	—	—	—	—	—	—
P A Roberts	72,000	—	72,000	17p	21.01.96	21.01.03
	103,000	—	103,000	34p	24.01.97	24.01.04
	90,000	—	90,000	64p	08.11.98	08.11.05
C J Miller	72,000	(72,000)	—	17p	—	—
	103,000	—	103,000	34p	24.01.97	24.01.04
	80,000	—	80,000	64p	08.11.98	08.11.05
J D Conway	175,000	—	175,000	34p	24.01.97	24.01.04
	80,000	—	80,000	64p	08.11.98	08.11.05
P S Busby	100,000	—	100,000	35p	21.04.97	21.04.04
	68,000	—	68,000	64p	08.11.98	08.11.05
M R de'Ath	50,000	—	50,000	64p	08.11.98	08.11.05
	993,000	(72,000)	921,000			

Mr Beever does not hold any share options. Share options are granted under seal and therefore at no cost to either the company or the grantee.

The exercise price is the middle market price of the company's shares on the business day before the day on which invitations to apply for the grant of an option are issued. There are no performance criteria conditional upon which the option invitations are issued.

Mr Miller exercised an option over 72,000 shares on 17 September 1996. The middle market price of the company's shares on that date was 90.5p.

The middle market price of the company's shares at 31 December 1996 was 95.5p and the range during the year 1996 was between 67p and 97.5p.

7 DIRECTORS INTERESTS IN SHARES (all beneficial)

The interests of the directors in office at the end of the year with corresponding figures at the beginning of the year (or date of appointment if later) are set out below.

	31 December 1996	1 January 1996
	No. of Shares	No. of Shares
R D Yeomans	519,782	519,782
P A Roberts	3,007,722	3,007,722
C J Miller	1,377,750	1,305,750
J D Conway	4,683,803	4,683,803
P S Busby	126,250	126,250
M R de'Ath	75,000	75,000

On 14 January 1997 Mr Beever purchased 50,000 shares from Mr Yeomans and 50,000 shares from Mr Miller at the market price on that day. Save for these transactions there have been no changes in the directors' interests between 31 December 1996 and 26 March 1997.

NOTES TO THE ACCOUNTS

continued

8 EMPLOYEES

The average number of persons employed in the following categories was:

	1996	1995
	No.	No.
Management and administration	91	78
Operations	97	69
Service and repair	127	88
	315	235

Employee costs amounted to:

	£'000	£'000
Wages and salaries	4,765	3,712
Social security costs	440	366
Pension costs	100	56
	5,305	4,134

9 INTEREST PAYABLE

Hire purchase and finance lease interest	3,674	2,838
Bank overdraft and short term loan interest	5	14
Other interest	3	7
	3,682	2,859

10 TAXATION ON ORDINARY ACTIVITIES

Corporation tax payable	1,186	1,257
Deferred taxation	268	—
Corporation tax over-provided in earlier years	—	(133)
	1,454	1,124

The taxation charge on the group profit for the year is lower than the standard rate of 33% principally due to the existence of capital allowances in excess of equivalent depreciation.

If full provision for deferred taxation had been made there would have been a deferred taxation charge of **£731,000** (1995—£377,000 after taking account of prior year adjustments).

11 DIVIDENDS

Interim paid of 1.1p per share (1995 – 0.85p)	499	307
Final proposed of 2.3p per share (1995 – 1.85p)	1,120	836
	1,619	1,143

NOTES TO THE ACCOUNTS

continued

12 TANGIBLE ASSETS

The group

	Freehold properties £'000	Long leasehold properties £'000	Short leasehold properties £'000	Equipment fixtures and fittings £'000	Total £'000
Cost or valuation					
At 1 January 1996	1,425	214	113	1,212	2,964
Acquisitions	—	—	—	506	506
Additions	—	8	46	426	480
At 31 December 1996	1,425	222	159	2,144	3,950
Depreciation					
At 1 January 1996	73	8	63	800	944
Acquisitions	—	—	—	281	281
Provided in the year	28	4	20	153	205
At 31 December 1996	101	12	83	1,234	1,430
Net book value					
At 31 December 1996	1,324	210	76	910	2,520
At 31 December 1995	1,352	206	50	412	2,020

The company

Cost or valuation

At 1 January 1996	983	163	113	1,212	2,471
Additions	—	8	46	451	505
At 31 December 1996	983	171	159	1,663	2,976

Depreciation

At 1 January 1996	47	5	63	800	915
Provided in the year	19	3	20	137	179
At 31 December 1996	66	8	83	937	1,094

Net book value

At 31 December 1996	917	163	76	726	1,882
At 31 December 1995	936	158	50	412	1,556

A valuation of certain of the group's properties as at 31 December 1988 was carried out by property consultants on the basis of open market value for existing use. These properties are included above at a valuation of **£487,000** (1995 – £487,000) for the group and for the company.

On an historical cost basis the net book value of properties would have been **£1,537,000** (1995 – £1,533,000) for the group and **£899,000** (1995 – £891,000) for the company.

NOTES TO THE ACCOUNTS

continued

13 VEHICLE FLEET

The group

	Contract hire vehicles £'000	Short term hire vehicles £'000	Total hire vehicles £'000
Cost			
At 1 January 1996	8,956	44,826	53,782
Acquisitions	–	15,439	15,439
Additions	2,332	50,195	52,527
Transfers between categories, net	(195)	195	–
Disposals	(3,719)	(26,373)	(30,092)
At 31 December 1996	7,374	84,282	91,656
Vehicle fleet provisions			
At 1 January 1996	3,104	8,466	11,570
Acquisitions	–	6,523	6,523
Provided in the year	1,874	15,252	17,126
Disposals	(2,057)	(9,808)	(11,865)
At 31 December 1996	2,921	20,433	23,354
Net book value			
At 31 December 1996	4,453	63,849	68,302
At 31 December 1995	5,852	36,360	42,212

Vehicles out on hire include vehicles the subject of finance leases where the company is the lessee, with a net book value of **£6,031,000** (1995 – £15,094,000) and vehicles the subject of hire purchase agreements with a net book value of **£55,469,000** (1995 – £22,655,000).

The company

Cost

At 1 January 1996	8,956	44,826	53,782
Additions	2,332	50,195	52,527
Transfers between categories, net	(195)	195	–
Disposals	(3,719)	(24,903)	(28,622)
At 31 December 1996	7,374	70,313	77,687
Vehicle fleet provisions			
At 1 January 1996	3,104	8,466	11,570
Provided in the year	1,874	14,804	16,678
Disposals	(2,057)	(8,936)	(10,993)
At 31 December 1996	2,921	14,334	17,255
Net book value			
At 31 December 1996	4,453	55,979	60,432
At 31 December 1995	5,852	36,360	42,212

Hire vehicles include vehicles the subject of finance leases where the company is the lessee, with a net book value of **£6,031,000** (1995 – £15,094,000) and vehicles the subject of hire purchase agreements with a net book value of **£47,599,000** (1995 – £22,655,000).

NOTES TO THE ACCOUNTS

continued

14 NET BORROWINGS

The group	1996 £'000	1995 £'000
Loans other than from banks		
(i) Hire purchase finance repayable		
– within 1 year	32,842	11,341
– between 1 and 2 years	19,604	9,529
– between 2 and 5 years	137	10,512
	52,583	31,382
(ii) Loan stock repayable		
– within 1 year	50	56
Total loans other than from banks	52,633	31,438
Total borrowings	52,633	31,438
Less: bank and cash balances	(2,253)	(6,284)
Net borrowings	50,380	25,154

Hire purchase finance carries interest at both fixed and floating rates and is secured on fleet vehicles. The figures include **£5,662,000** (1995 – £14,537,000) in respect of finance lease obligations.

The company

Loans other than from banks		
(i) Hire purchase finance repayable		
– within 1 year	28,658	11,341
– between 1 and 2 years	19,604	9,529
– between 2 and 5 years	137	10,512
	48,399	31,382
(ii) Loan stock repayable		
– within 1 year	50	56
Total loans other than from banks	48,449	31,438
Total borrowings	48,449	31,438
Less: bank and cash balances	(1,804)	(6,284)
Net borrowings	46,645	25,154

Bank borrowings of **£nil** (1995 – £nil) are secured by a debenture.

Hire purchase finance carries interest at both fixed and floating rates and is secured on fleet vehicles. The figures include **£5,662,000** (1995 – £14,537,000) in respect of finance lease obligations.

The repayment of the loan stock has been guaranteed by the company's bankers. The stock is repayable on three months notice at any time between 30 September 1997 and 30 September 1999 either in full or in minimum tranches of £5,000. It carries interest at 0.5 per cent below the London Inter Bank Offer Rate.

NOTES TO THE ACCOUNTS

continued

15 MOVEMENT IN NET BORROWINGS

The group		1996	1995
		£'000	£'000
(Decrease) increase in cash in the year		(4,031)	2,442
Cash inflow from changes in hire purchase financing		(15,001)	(6,836)
Cash outflow from changes in short term loans		6	406
Change in net borrowings resulting from cash flows		(19,026)	(3,988)
Loans and finance leases acquired with CRR		(6,200)	-
		(25,226)	(3,988)
Net borrowings at 1 January		(25,154)	(21,166)
Net borrowings at 31 December		(50,380)	(25,154)
The company			
(Decrease) increase in cash in the year		(4,480)	2,442
Cash inflow from changes in hire purchase financing		(17,017)	(6,836)
Cash outflow from changes in short term loans		6	406
Changes in net borrowings resulting from cash flows		(21,491)	(3,988)
Net borrowings at 1 January		(25,154)	(21,166)
Net borrowings at 31 December		(46,645)	(25,154)

16 DEBTORS

	The group		The company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade debtors	12,065	7,136	10,305	7,136
Amounts owed by subsidiary undertakings	-	-	1,505	464
Other debtors	63	123	63	114
Prepayments and accrued income	3,260	2,230	2,879	2,230
	15,388	9,489	14,752	9,944

17 SHARES IN SUBSIDIARY UNDERTAKINGS

	£'000
At 1 January 1996	695
Acquisition of CRR	5,270
At 31 December 1996	5,965

Since all subsidiary undertakings are wholly owned any intra group transactions are exempt from disclosure.

Save for CRR which is registered in England and Wales no subsidiary undertakings traded during the year.

Blocklane Limited which is a wholly owned subsidiary undertaking registered in England and Wales owns certain group properties. The names of all subsidiary undertakings are filed with the annual return of the company. All subsidiary undertakings have as their year end 31 December.

NOTES TO THE ACCOUNTS

continued

18 OTHER CREDITORS

	The group		The company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade creditors	1,282	1,377	969	1,377
Amounts owed to subsidiary undertakings	—	—	1,188	1,192
Taxation	1,960	1,006	1,702	1,006
Advance corporation tax	612	284	612	284
Other taxes and social security costs	861	717	647	717
Proposed dividend	1,120	836	1,120	836
Accruals and deferred income	11,206	8,335	11,191	8,335
	17,041	12,555	17,429	13,747

19 DEFERRED TAXATION

The group

	Full potential liability		Provided in the accounts	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Accelerated capital allowances	4,644	2,701	2,016	595
Surplus on revaluation of properties	4	4	—	—
Other timing differences	(75)	(16)	—	—
	4,573	2,689	2,016	595
Advance corporation tax recoverable	(280)	(209)	(280)	(209)
	4,293	2,480	1,736	386

The company

Accelerated capital allowances	3,502	2,701	874	595
Surplus on revaluation of properties	4	4	—	—
Other timing differences	(75)	(16)	—	—
	3,431	2,689	874	595
Advance corporation tax recoverable	(280)	(209)	(280)	(209)
	3,151	2,480	594	386

	The group		The company	
Movement in the year	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
At 1 January	595	595	595	595
Acquired with CRR	1,153	—	—	—
Transfer from profit and loss account	268	—	279	—
At 31 December	2,016	595	874	595

NOTES TO THE ACCOUNTS

continued

20 SHARE CAPITAL

	1996 £'000	1995 £'000
Authorised		
60,000,000 ordinary shares of 5p each	3,000	3,000

Allotted, issued and fully paid

	No. of 5p shares	£'000
At 1 January	45,109,932	2,255
Issued in connection with the exercise of share options	309,600	16
Issued as part of the consideration for CRR	3,181,818	159
At 31 December	48,601,350	2,430

The cash received by the company in 1996 in respect of share options exercised in that year amounted to £55,000.

At 31 December 1996 options were outstanding over 1,965,400 shares (1995 – 2,133,025 shares).

Between 1 January 1997 and 26 March 1997 a total of 100,000 shares of 5p were issued at a subscription price of 34p per share following the exercise of options between those dates.

21 SHARE PREMIUM ACCOUNT

	£'000
At 1 January 1996	7,681
Issue of 309,600 shares of 5p at various premiums, but mainly of 12p each	40
Issue of 3,181,818 shares of 5p at a premium of 83p each	2,641
Expenses of issue of 3,181,818 shares of 5p	(78)
	10,284
Reduction in share premium account transferred to the second reserve	(4,500)
At 31 December 1996	5,784

22 FIRST AND SECOND RESERVES

The group	First reserve £'000	Second reserve £'000	Total £'000
At 1 January 1996	1,538	–	1,538
Transfer from share premium account	–	4,500	4,500
Goodwill eliminated in the year	(1,363)	(2,212)	(3,575)
Costs of acquisitions (including £42,500 paid to the auditors)	(175)	–	(175)
At 31 December 1996	–	2,288	2,288

NOTES TO THE ACCOUNTS

continued

22 FIRST AND SECOND RESERVES – (continued)

The company	First reserve £'000	Second reserve £'000	Total £'000
At 1 January 1996	1,538	–	1,538
Transfer from share premium account	–	4,500	4,500
Goodwill eliminated in the year	(1,364)	(217)	(1,581)
Costs of acquisitions	(174)	–	(174)
At 31 December 1996	–	4,283	4,283

The first reserve was created by an order of the High Court in December 1989 for the elimination of goodwill. The second reserve was similarly created by an order of the High Court in December 1996. Both reserves are available for distribution by way of dividend in certain special circumstances but in all other respects are the equivalent of the share premium account.

23 GOODWILL ARISING IN THESE ACCOUNTS

	CRR £'000	Halfpenny £'000	Total £'000
Consideration			
Cash	1,003	1,057	2,060
Shares allotted	2,800	–	2,800
Provision for estimated future consideration	1,467	681	2,148
	5,270	1,738	7,008
Net assets acquired	3,276	157	3,433
Provisional goodwill arising	1,994	1,581	3,575
		CRR £'000	Halfpenny £'000
Acquisitions			
Net assets acquired (there were no fair value adjustments)			
Tangible fixed assets		200	25
Vehicle fleet		8,916	–
Vehicle parts stocks and fuel		145	23
Debtors		1,495	109
Bank and cash balances		581	–
Creditors		(708)	–
Loans and finance leases		(6,200)	–
Deferred taxation		(1,153)	–
		3,276	157

The total future consideration for CRR is dependent on its profits for the 27 months ending 31 December 1998 and cannot exceed £3m. The total future consideration for Halfpenny is dependent on its profit performance for the 31 months ending 30 June 1999 and cannot exceed £1.1m. These accounts include provisions (as set out above) for the estimated future considerations which may become payable. These estimates may be subject to revision in the 1997 accounts of the group as further information on the likely profits of CRR and Halfpenny becomes available. Any such future adjustments to the considerations payable will be reflected in the goodwill calculation.

NOTES TO THE ACCOUNTS

continued

24 GOODWILL ELIMINATED TO DATE

	£'000
At 1 January 1996	2,357
Goodwill eliminated in the year – in respect of CRR (provisional)	1,994
– in respect of Halfpenny (provisional)	1,581
At 31 December 1996	5,932

25 RESERVES

	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
The group			
At 1 January 1996	76	229	4,178
Transfer between reserves	(2)	–	2
Transfer from profit and loss account	–	–	2,741
At 31 December 1996	74	229	6,921
The company			
At 1 January 1996	10	–	3,967
Transfer from profit and loss account	–	–	4,059
Dividends paid and proposed	–	–	(1,619)
At 31 December 1996	10	–	6,407

In accordance with the provisions of section 230 of the Companies Act 1985 the company is exempt from presenting its own profit and loss account.

26 MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS IN THE YEAR

	1996 £'000	1995 £'000
Profit for the financial year	4,360	3,027
Dividends paid and proposed	(1,619)	(1,143)
Retained profit for the year	2,741	1,884
Share capital issued (net of expenses)	2,778	5,430
Goodwill eliminated	(3,575)	(10)
Costs of acquisitions	(175)	–
Increase in equity shareholders' funds in the year	1,769	7,304
Equity shareholders' funds at 1 January	15,957	8,653
Equity shareholders' funds at 31 December	17,726	15,957

27 CAPITAL COMMITMENTS

At 31 December 1996 the directors had authorised capital expenditure of £nil (1995 – £2,614,000)

NOTES TO THE ACCOUNTS

continued

28 LEASING COMMITMENTS

Annual commitments under non-cancellable operating leases were as follows:

The group	1996	1995
	£'000	£'000
Vehicles		
Expiring within one year	2,028	906
Expiring between one and five years	3,406	2,883
	5,434	3,789
Properties		
Expiring within one year	132	56
Expiring between one and five years	167	60
Expiring in five years or more	332	91
	631	207
Total	6,065	3,996

The company

Vehicles		
Expiring within one year	2,028	906
Expiring between one and five years	3,406	2,883
	5,434	3,789
Properties		
Expiring within one year	132	56
Expiring between one and five years	167	60
Expiring in five years or more	194	91
	493	207
Total	5,927	3,996

FIVE YEAR SUMMARY

	1992 £'000	1993 £'000	1994 £'000	1995 £'000	1996 £'000
Turnover	9,790	11,626	25,364	40,546	52,430
Operating profit	740	730	3,146	6,689	9,370
Net finance charges	930	521	1,434	2,538	3,556
Profit (loss) before taxation	(190)	209	1,712	4,151	5,814
Vehicles out on hire	9,087	16,365	30,305	42,212	68,302
Property and equipment	1,379	1,727	1,882	2,020	2,520
Working capital	10,466 1,466	18,092 1,340	32,187 (1,863)	44,232 (2,735)	70,822 (980)
Capital employed	11,932	19,432	30,324	41,497	69,842
Less: net borrowings	6,460	11,163	21,166	25,154	50,380
deferred taxation	62	367	505	386	1,736
Equity shareholders' funds	5,410	7,902	8,653	15,957	17,726
Operating profit/average capital employed %	5.6	5.7	14.3	18.6	16.8
Operating profit/ turnover %	7.6	6.3	12.4	16.5	17.9
Profit (loss) before tax/ turnover %	(1.9)	1.8	6.7	10.2	11.1
Operating profit/ finance charges (times)	0.8	1.4	2.2	2.6	2.6
Net borrowings/ shareholders funds (times)	1.2	1.4	2.4	1.6	2.8
Net assets per share (pence)	23.9	21.9	24.0	35.4	36.5
Number of vehicles in the fleet as at 31 December	1,738	3,056	4,370	6,079	9,040

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of TLS Plc for 1997 will be held at The Jubilee Suite, Lancashire, County Cricket Club, Talbot Road, Old Trafford, Manchester M16 0PX on Tuesday 20 May 1997 commencing at 12 o'clock noon for the following purposes:-

ORDINARY BUSINESS

1. To receive and adopt the accounts for the year ended 31 December 1996 and the reports of the directors and auditors thereon.
2. To declare a final dividend.
3. To elect Mr M R de'Ath as a director of the company.
4. To elect Mr D M M Beever as a director of the company.
5. To re-elect Mr J D Conway as a director of the company.
6. To re-appoint as auditors Messrs Binder Hamlyn and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

7. **To consider and if thought fit pass the following resolution as an ordinary resolution:**
THAT the board be and is hereby authorised to offer ordinary shareholders pursuant to the power contained in article 153 of the articles of association of the company the right to elect to receive additional ordinary shares credited as fully paid instead of cash in respect of any dividend or any part of any dividend to be declared for the financial year of the company ending on 31 December 1997, but so that this authority shall not extend beyond the conclusion of the next annual general meeting.
8. **To consider and if thought fit pass the following resolution as an ordinary resolution:**
THAT the directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the company to allot relevant securities as therein defined up to 11,298,650 shares of 5p each representing 23.2 per cent of the issued share capital at 26 March 1997. This authority is to expire at the conclusion of the annual general meeting of the company to be held in 1998 or, if earlier, the date being 15 months from the passing of this resolution unless renewed, varied or revoked by the company in general meeting. This authority shall be in substitution for any previous authority conferred upon the directors pursuant to the said Section 80 prior to the date of the passing of this resolution which (to the extent that it remains in force and unexercised) is hereby revoked.
9. **To consider and if thought fit pass the following resolution as a special resolution:**
THAT subject to the ordinary resolution set out above being duly passed, the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to Section 80 of the said Act as if Section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited to:
 - a. The allotment of equity securities in connection with a rights issue in favour of or general offer to ordinary shareholders where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the number of ordinary shares held by them (but subject to such exclusions and other arrangements as the directors of the company may deem necessary or expedient in relation to fractional entitlements and any legal or practical difficulties under the laws of any overseas territory or the requirements of any regulatory body or stock exchange); and

NOTICE OF ANNUAL GENERAL MEETING

continued

- b. the allotment (otherwise than pursuant to sub-paragraph a. above) of equity securities up to 2,435,067 shares of 5p each representing 5 per cent of the issued share capital at 26 March 1997 and unless it is (prior to its expiry) duly renewed, varied or revoked shall expire at the conclusion of the annual general meeting of the company to be held in 1998 or 15 months from the date of passing of this resolution (whichever shall occur first) save that the company may before such expiry make any offer or agreement which would or may require equity securities to be allotted after such expiry and the directors of the company may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired and provided also that the authority and power hereby conferred shall be in substitution for any previous authority conferred upon the directors pursuant to the said Section 95 prior to the date of the passing of this resolution which (to the extent that it remains in force and unexercised) is hereby revoked.

10. To consider and if thought fit pass the following resolution as an ordinary resolution:

THAT the aggregate of the remuneration (by way of fee) of all the directors of the company in respect of which the board may determine the remuneration (by way of fee) of each director in accordance with article 101 of the articles of association of the company shall be increased to £150,000 per annum from £50,000 per annum.

Armstrong House
Houston Park
Montford Street
Salford
Manchester M5 2RP
25 April 1997

By order of the board

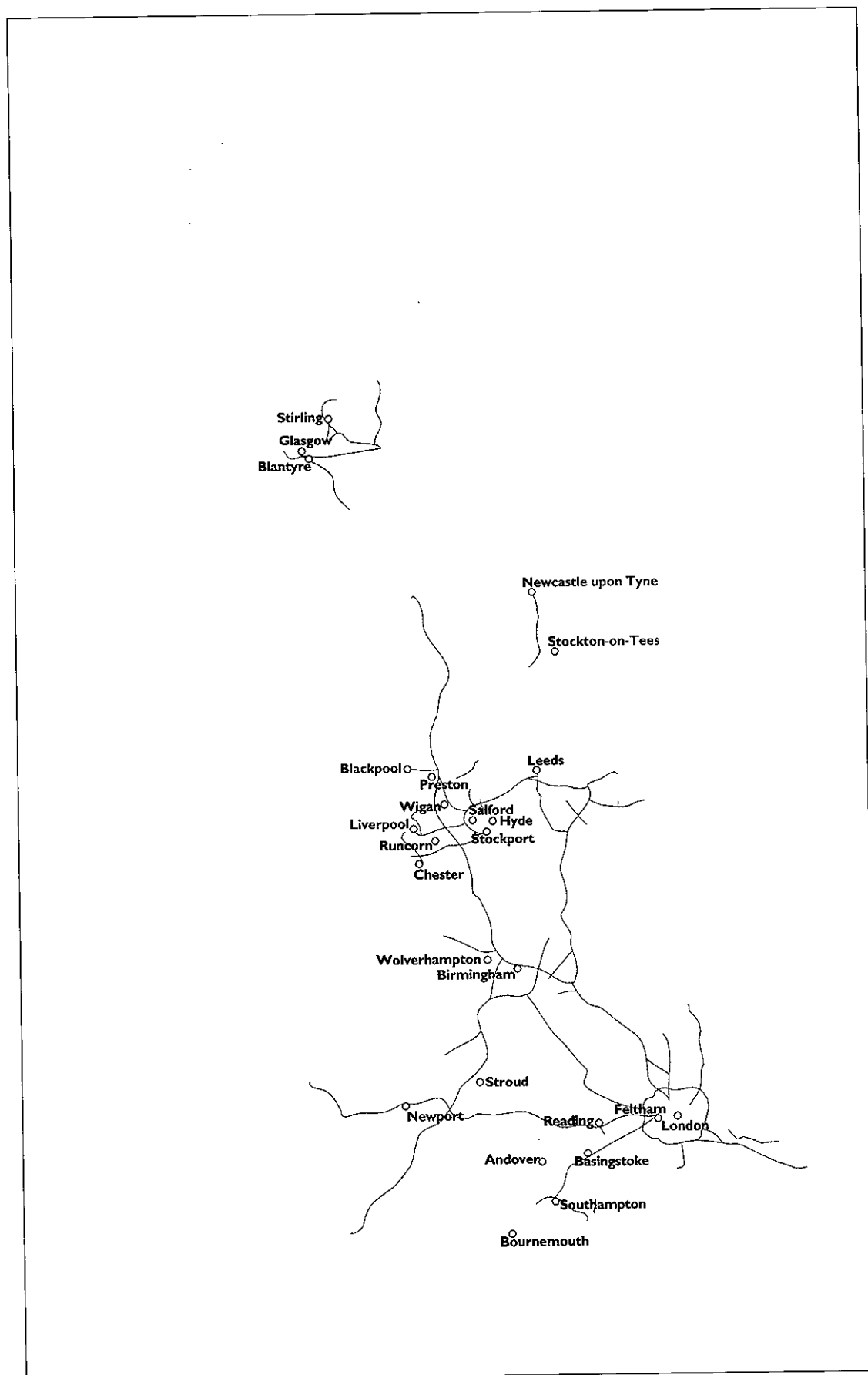
John W Stewart

JW Stewart
Secretary

Notes:

- 1 Directors – (items 3 to 5 on the agenda)**
Mr M R de'Ath, being eligible is recommended for election in accordance with article 93. Mr D M M Beever, being eligible is recommended for election also under that article. Mr J D Conway retires by rotation and being eligible is recommended for re-election.
- 2. Dividend alternative – (item 7 on the agenda)**
The resolution if passed would authorise the board to allow shareholders to receive fully paid up ordinary shares in place of cash for any dividend or part thereof declared in respect of the financial year ending 31 December 1997.
- 3. Authority to allot shares – (items 8 and 9 on the agenda)**
Resolutions will be proposed to renew for a further year the authority for the directors to allot ordinary shares and to exclude shareholders' pre-emption rights where ordinary shares are allotted to them pursuant to a rights issue subject, in both cases, to the limits set out in the resolutions. Save for the allotment of shares to satisfy the exercise of share options, the directors have no present intention of making allotments pursuant to these authorities.
- 4. Increase in the maximum permissible amount of directors' fees (item 10 on the agenda).**
The existing articles of association limit directors' fees to £50,000 per annum. Following the appointment of Mr Beever as a non-executive director this limit is insufficient. The board therefore propose that the maximum permissible amount of directors' fees be increased to £150,000. The board consider that this proposed amount is more than adequate for the foreseeable future.
- 5. Voting**
A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member, but may only vote on a poll. To be valid proxies must be lodged with the company's registrars not less than 48 hours before the time appointed for the meeting. **A form of proxy is enclosed on page 39** but the completion and return of a proxy will not prevent a member attending and voting in person at the meeting if desired.
- 6. Documents for inspection**
A register of interests of directors and their families in the shares of the company together with the articles of association of the company are available for inspection at Armstrong House, Houston Park, Montford Street, Salford, Manchester M5 2RP during business hours on any weekday (excluding Saturdays) from the date of this notice until the close of the meeting and will also be available for inspection at The Jubilee Suite, Lancashire Cricket Club, Talbot Road, Old Trafford, Manchester M16 0PX from 11.30 a.m. on 20 May 1997 until the conclusion of the meeting.

BRANCH LOCATIONS



BRANCH ADDRESSES

ANDOVER

Unit 76, Scott Close, Walworth Industrial Estate, Andover, Hampshire RG24 8FB
01264 323685

BASINGSTOKE

Unit 1, Bell Road, Daneshill Industrial Estate East, Basingstoke, Hampshire SP10 5NG
01256 461781

BIRMINGHAM

Upper Conybere Street, Highgate, Birmingham B12 0BS
0121 446 4555

BLACKPOOL

100 Gorton Street, Blackpool FY1 3JW
01253 28455

BLANTYRE

1 Rosendale Way, Blantyre, Glasgow G72 0NJ
01698 711122

BOURNEMOUTH

Hawthorn Road, Winton, Bournemouth, Dorset BH9 2QN
01202 534453

CHESTER

123 Brook Street, Chester CH1 3DU
01244 311439

FELTHAM

CRR Group House, Greenham Park, Chertsey Road, Feltham, Middlesex TW13 4RS
0181 893 1221

GLASGOW

Yorkhill House, Yorkhill Quay, Clyde Expressway, Glasgow G3 8QE
0141 339 8800

HYDE

Clarendon Service Station, Grafton Street, Hyde, Cheshire SK14 2AX
0161 368 2286

LEEDS

Hunslet Road, Leeds LS10 1JL
0113 242 4500

LIVERPOOL

Hawthorne Road, Bootle, Liverpool L20 9PR
0151 944 2233

LONDON

32/36 Minerva Road, Park Royal, London NW10 6HJ
0181 453 1646

NEWCASTLE UPON TYNE

Green Lane, Felling Industrial Estate, Gateshead, Newcastle NE10 0EZ
0191 469 9111

NEWPORT

Unit 1, Polo Grounds Industrial Estate, New Inn, Pontypool, Gwent NP4 0TW
01495 767711

PRESTON

Emmett Street, Preston, Lancashire PR1 1RD
01772 821079

READING

12 Arkwright Road, Reading, Berkshire RG2 0LU
01189 756641

RUNCORN

Chester Road, Sutton Weaver, Runcorn, Cheshire WA7 3EG
01928 717711

SALFORD

1 Aubrey Street, Salford, Manchester M5 2UT
0161 872 8055

SOUTHAMPTON

Belgrave Industrial Estate, Belgrave Road, Portswood, Southampton, Hampshire SO17 3AN
01703 585944

STIRLING

Foundry Loan, Larbert, Stirling, FK5 4PH
01324 557799

STOCKPORT

18 Reddish Road, Stockport SK5 7AA
0161 432 6228

STOCKTON-ON-TEES

Ascot Drive, Stockton-on-Tees, Cleveland TS18 2QF
01642 607766

STROUD

Westward Road, Ebley, Stroud, Gloucestershire GL5 4UE
01453 757091

WIGAN

Seven Stars Service Station, Wallgate, Wigan WN5 0XG
01942 231129

WOLVERHAMPTON

Unit 7, Wulfrun Trading Estate, Stafford Road, Wolverhampton WV10 6HH
01902 711775

TLS Pic FORM OF PROXY

I/We.....
of.....
.....

Please
complete
in BLOCK
CAPITALS

being (a) member(s) of the above named company hereby appoint*

whom failing the chairman of the meeting as my/our proxy to attend and vote for me/us and on my/our behalf at the annual general meeting of the company for 1997 to be held on 20 May 1997 and at any adjournment thereof.

I/We direct my/our proxy to vote for me/us on the resolutions set out in the notice convening the annual general meeting, as set out in the boxes below.

Please indicate with an X whether you wish to vote for or against any of the resolutions. If no specific direction as to voting is given, the proxy will vote, or abstain from voting, at his discretion.

RESOLUTIONS

For Against

- | | | | |
|--|--------------------------|----|--------------------------|
| 1. To receive and adopt the report and accounts for the year ended 31 December 1996. | <input type="checkbox"/> | 1 | <input type="checkbox"/> |
| 2. To declare a final dividend. | <input type="checkbox"/> | 2 | <input type="checkbox"/> |
| 3. To elect Mr M R de'Ath as a director of the company. | <input type="checkbox"/> | 3 | <input type="checkbox"/> |
| 4. To elect Mr D M M Beever as a director of the company. | <input type="checkbox"/> | 4 | <input type="checkbox"/> |
| 5. To re-elect Mr J D Conway as a director of the company. | <input type="checkbox"/> | 5 | <input type="checkbox"/> |
| 6. To re-appoint the auditors and to authorise the directors to fix their remuneration. | <input type="checkbox"/> | 6 | <input type="checkbox"/> |
| 7. To authorise the directors to permit shareholders to receive dividends in the form of shares instead of cash. | <input type="checkbox"/> | 7 | <input type="checkbox"/> |
| 8. To authorise the directors to allot shares within certain limits. | <input type="checkbox"/> | 8 | <input type="checkbox"/> |
| 9. To approve the disapplication of pre-emption rights. | <input type="checkbox"/> | 9 | <input type="checkbox"/> |
| 10. To increase the limit of directors fees. | <input type="checkbox"/> | 10 | <input type="checkbox"/> |

Dated this day of 1997

Signature.....

*The chairman of the meeting will act as your proxy if no other name is inserted.

Notes:

In the case of a corporation this proxy should be executed under its common seal or by the signature of a duly authorised officer. In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

To be valid, this proxy must be completed, signed and lodged (together with any power of attorney or other authority under which it is signed, or a notorially certified copy of it) with the company's registrars, C.I. Registrars Limited, P.O. Box 30, Victoria Street, Luton, Bedfordshire LU1 2PZ, at least 48 hours before the commencement of the meeting specified above.

In the case of a poll taken subsequent to the meeting, to be valid this proxy must be deposited at least 24 hours before the time appointed for taking the poll. This proxy shall be valid unless and until notice of determination is received at the company's registrars as above, before the commencement of the meeting or the taking of a poll.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. LOL395



C.I. Registrars Limited
PO Box 30
Victoria Street
Luton
Bedfordshire LU1 2BR

FIRST FOLD

THIRD FOLD

OUR SERVICES

TLS Vehicle Rental

Flexi-Rent™ The short and medium term hire and
of cars, vans and light heavy commercial vehicles

TLS Auto Rentals

Contract hire of cars, vans, light and heavy commercial vehicles

CRR Truck Rental

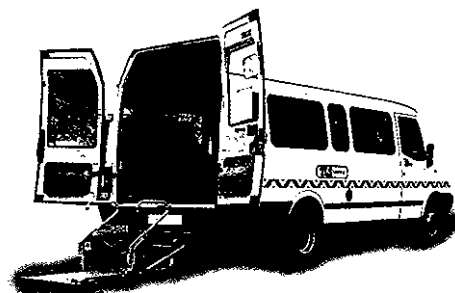
The short, medium and long term hire of
heavy commercial vehicles and trailers

Formed in 1979, floated on the Unlisted Securities Market in 1989 and fully listed in 1995, TLS has many years experience in providing a comprehensive self drive hire package for short, medium term and contract hire across all industry sectors. Whether you need a vehicle for one day or five years – TLS will help you control your transport costs, take away the pressures of fleet management and provide you with the flexibility to meet your changing requirements.



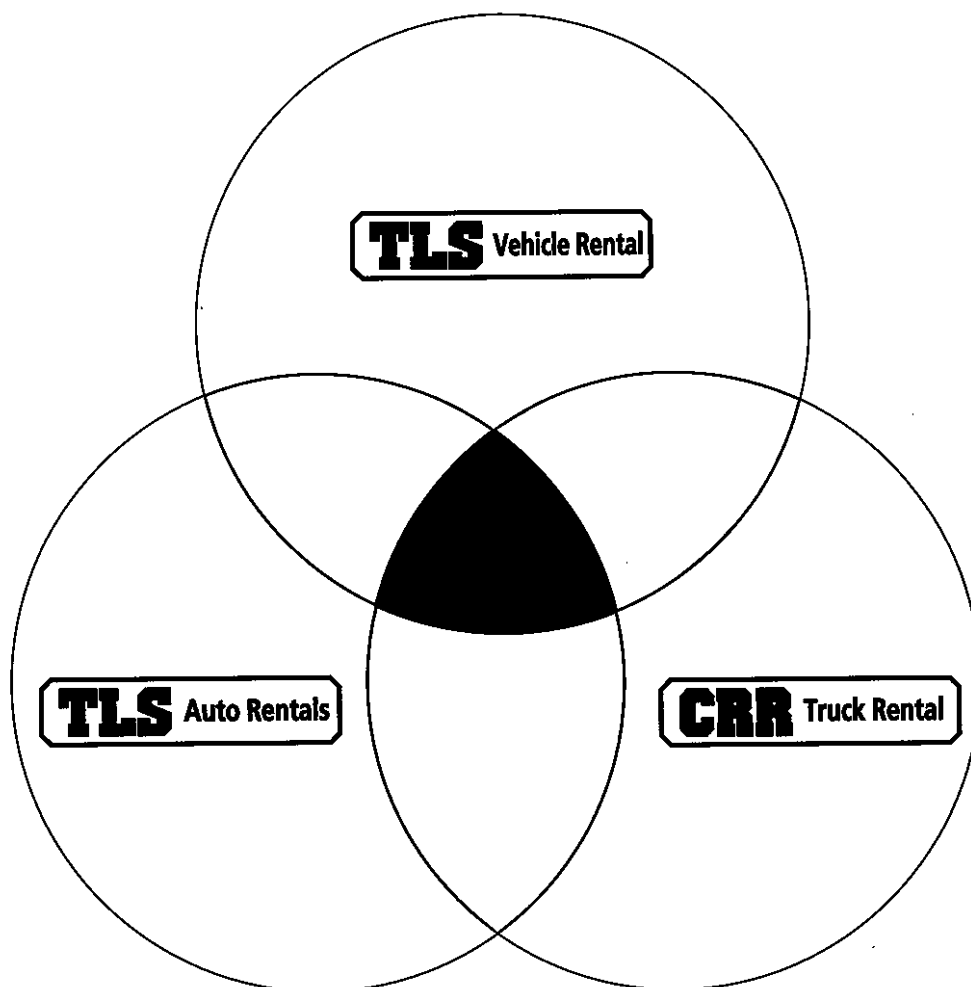
The unique TLS is the group to talk to about all your transport needs. Our large fleet of cars, light and heavy vehicles and trailers is comprehensive. You can hire exactly the vehicle you require for the period that you need it.

We continually update our vehicle fleet to ensure total vehicle reliability and customer satisfaction. In the unlikely event of a mechanical problem our national roadside service is on call 24 hours a day, 365 days a year including heavy vehicle recovery. Our trained staff are always available to support you and by understanding your requirements will react quickly and efficiently. Our hire rates are extremely competitive with specially tailored **Flexi-Rent™** and Contract Hire schemes available to make longer hire terms even more cost effective.



If you are seriously thinking about controlling your transport costs without compromising service or reliability talk to the right people, talk to TLS, the group that knows how.

THE RIGHT PEOPLE • THE RIGHT VEHICLE • THE RIGHT PRICE



TLS Plc