Inchcape

Annual Report & Accounts 2001

Inchcape, as an international automotive services group, provides quality representation for its manufacturer partners, a choice of channels to market and products for its retail customers and a range of business services for its corporate customers. Operating primarily in the UK, Greece, Belgium, Australia, Hong Kong and Singapore, its key partners are Toyota, Subaru, Ferrari, Jaguar and Land Rover. Inchcape's activities include exclusive Import, Distribution and Retail, Business Services, automotive E-commerce and Financial Services.

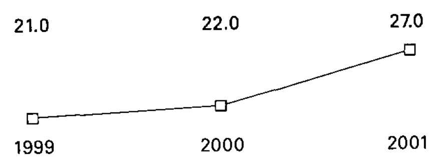
CONTENTS

2001 HIGHLIGHTS

GROUP FINANCIAL HIGHLIGHTS	2001	2000
Turnover (including associates and joint ventures)	**£3,319.5m**	£3,717.4m
Headline profit before taxation[1]	**£97.9m**	£74.1m
Headline earnings per share[1]	**78.2p**	49.3p
Dividends per share	**27.0p**	22.0p

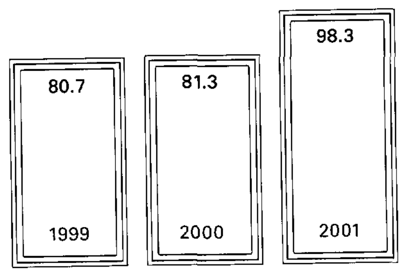
1 Headline profit and earnings per share are defined in note 8 of the Financial Statements.

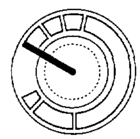
DIVIDEND PER SHARE (p)



Note: Excludes special dividend of 600p in July 1999.

CONTINUING OPERATING PROFIT (£m)





	2001
UK	**£13.7m**
GREECE/BELGIUM	**£12.7m**
AUSTRALIA/NEW ZEALAND	**£12.8m**
HONG KONG	**£48.9m**
SINGAPORE/BRUNEI	**£19.2m**
OTHER	**£5.9m**
	£113.2m*

*Before Central Costs.

A YEAR OF GROWTH

- Continuing operating profit up 20.9%
- Headline profit before taxation up 32.1%
- Headline earnings per share up 58.6%
- Dividends per share up 22.7%

Inchcape's excellent results are testament to the decisive actions that have been taken, since it became a pure automotive Group in June 1999, to re-focus on its core markets.

SIR JOHN EGAN, CHAIRMAN

Inchcape's excellent results are testament to the decisive actions that have been taken, since it became a pure automotive Group in June 1999, to re-focus on its core markets. Operating profit from our continuing businesses rose by 20.9%. Headline profit before tax (PBT) was up 32.1%, a key driver being the interest charge falling from £16.0m to £3.9m. This reduction was influenced in part by the successful disposal programme. Headline earnings per share rose 58.6% to 78.2p.

In completing our transition into an automotive services group, we have created a solid platform for the future by:

- Divesting 15 businesses, raising £90.1m in cash;
- Strong management of working capital, driving high levels of operational cash flow;
- Improving the quality of earnings through focusing on markets where we have scale, sustainability and solid growth prospects; and
- Acquiring Eurofleet Limited (Eurofleet), thus providing a creditable Business Services platform.

These actions, amongst others, have allowed the Group to fund a £45.0m return of cash to shareholders during 2001 and to invest in acquisitions totalling £81.9m.

Acquisitions/New Ventures

The net result of completing this transformation phase is to leave the Group effectively in a cash neutral position. We therefore have significant capacity to continue to build on the solid foundations that have been put in place.

In the UK we have strengthened our UK Retail business with the acquisition of the Bates Motor Group Ltd and associated properties (Bates Group) for £26.0m. Following this acquisition, and a number of smaller 'in fill' acquisitions, we are now approaching our goal of retailing 5.0% to 10.0% of our preferred partners national sales volumes. Our partners are BMW, Toyota/Lexus, the Premier Automotive Group (PAG) of Ford (encompassing Jaguar and Land Rover) and VW/Audi. It is our view that opportunities will arise in the specialist retail business as the manufacturers continue to consolidate their dealer networks. We do not believe this business will be fundamentally impacted by the proposed changes to Block Exemption. However, we are currently reviewing these changes to consider the implications for volume retailing.

Our new venture with the AA is a clear illustration of how we can play a major role in supporting new entrants to the car retailing market. We are delivering value to AA Buyacar through our retailing and sourcing business, and also through the provision of a full service logistics operation.

The acquisition of the remaining 51.0% of Eurofleet in December 2001 was an important part of our strategy to broaden our business base, into the refurbishment and logistics markets. These are growing markets in their own right. However, by

A YEAR OF STRATEGIC PROGRESSION

FEB	MAR	MAR	JUNE	AUG
Mazda distribution business in France sold back to the manufacturer for £8.5m. The company made a small loss in 2000.	Preliminary Results for year 2000 announced. Continuing operating profit up 3.9%. £45.0m return of capital to shareholders announced.	Sale of IRB, the Brunei Financial Services subsidiary, announced. Reduced debt by £68.3m leaving Group un-geared on a proforma basis at 2000 year end.	Share buyback completed. 10.9m shares re-purchased at an average cost of 412p per share, returning £45.0m to shareholders.	BMW/Audi specialist car retailer – Bates – acquired for £26.0m. Bates is one of the largest BMW/Audi dealers in the UK.

using our retailing expertise, we are able to offer a fully integrated service to manufacturers, self-drive hire and leasing companies. This encompasses fleet management, a full logistics and refurbishment capability as well as re-marketing expertise. The re-marketing activities are mainly carried out through AutoCascade, a joint venture with Avis Europe plc. Winning the contract to handle re-marketing and fleet management activities for Fiat Auto UK's entire fleet of used vehicles for the next three years is a clear demonstration of the success of this strategy.

Manufacturer Relationships

The strong relationship with Toyota Motor Corporation has provided the platform for further investments in our core markets of Hong Kong, Singapore, Greece and Belgium.

In Singapore we announced, on 28 February 2002, that a voluntary conditional cash offer of S$2.30 per share for the remaining c. 36.7% of Inchcape Motors Limited not owned by the Inchcape Group would be made. If successful the total consideration payable to the minority shareholders would be c. £53.2m.

Operational investments in Asia have been focused on providing better aftersales facilities for our customers, a very important profit contributor to the Group. We also continue to invest in Greek retail facilities whilst we have used our Greek infrastructure to build a business in the Balkans, which sold over 1,600 cars in the year.

In Australia we continue to invest with Subaru, VW and Jaguar. We will become the exclusive retailer for Subaru in Melbourne during 2002 introducing a new retail concept within this market. This will be a scale business selling over 6,000 new and used cars in a full year. We are also examining retail expansion plans in Sydney, particularly with the PAG.

Our relationship with Ferrari/Maserati continues to develop and strengthen. Maserati is set to expand significantly off the back of two new model launches this year. We have recently acquired the rights to distribute and retail the brand in Belgium.

DISPOSALS

During the year we completed, among others, the disposal of IRB, our Financial Services subsidiary in Brunei, Mazda France, Peugeot in Australia/New Zealand and Ford in Peru and Ecuador.

Disposal proceeds this year were £90.1m, whilst the operating profit generated by these businesses was £3.5m.

RETURN OF CAPITAL

During 2001 the Company returned £45.0m to shareholders through a share buyback programme. This reduced the number of shares in issue by 10.9m with the average price paid per share being 412p. The positive effect on earnings per share (EPS) from this buyback will continue to be felt throughout 2002.

The Board's policy in respect of further returns of capital is clear and consistent, in that if available funds are not applied for investment purposes, the Board will make additional returns of capital to shareholders. Given our stated strategic intentions a further return of capital is not currently considered appropriate by the Board. However, our shareholder value driven approach balances short-term considerations with long-term investment opportunities and is kept under regular review.

FINANCIAL PERFORMANCE

Continuing operating profit rose by 20.9% to £98.3m. The total operating profit increased 13.0% to £101.8m. Headline profit before tax was £97.9m compared to £74.1m in 2000. Headline earnings per share rose by 58.6% to 78.2p. Profit before tax was £61.0m. This is below last year's figure of £73.4m due to the loss on sale and termination of businesses of £36.3m. This has arisen due to historic goodwill of £36.7m being written off.

DIVIDEND

The Board recommends the payment of a final ordinary dividend of 18.2p (2000 – 14.7p), giving a total dividend for the year of 27.0p (2000 – 22.0p). The dividend is covered 2.9 times by Headline earnings per share.

AUG
Interim Results 2001 announced – headline PBT up 75.0%, headline EPS up 113.4%.

SEP
AutoCascade, a pan European re-marketing joint venture, launched in partnership with Avis Europe plc.

DEC
New venture, AA Buyacar, launched. Inchcape has a 30.0% stake and provides sourcing and logistic services to the business.

DEC
Acquired the remaining 51.0% of Eurofleet for £40.5m. Eurofleet is one of the leading UK providers of automotive refurbishment and logistics services.

DEC
AutoCascade awarded contract for fleet management and re-marketing of Fiat and Alfa Romeo used vehicles.

INCHCAPE MANAGEMENT AND EMPLOYEES

I would like to congratulate the management team on yet another successful year for the Group. The disposal programme has been largely completed, significantly strengthening our balance sheet, and a number of quality acquisitions have been made.

On behalf of the Board I would like to thank the employees of Inchcape for all their hard work and for their support during the year. Our people continue to embrace the changes that we are making and they have contributed significantly to a successful year.

BOARD CHANGES

I am delighted that Ken Hanna joined the Inchcape Board on 27 September 2001. Ken brings with him a wealth of experience from which the Group will benefit. I am, however, sorry to announce that Tony Alexander will step down from the Board at our Annual General Meeting in May 2002. Tony's contribution to the Group since he joined the Board in 1993 has been significant and I would like to expressly thank him for his service as Chairman of the Audit Committee and for the wise counsel he has given me during my tenure as Chairman. I would also like to thank Ken Hanna for agreeing to take over from Tony as Chairman of the Audit Committee and Simon Robertson who has agreed to take on the role of senior independent non-executive Director.

CURRENT TRADING AND PROSPECTS

Trading in the UK has started well. The new car market is expected to fall from its record levels achieved during 2001, however we expect our recovery to continue and remain positive about this market.

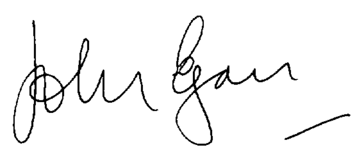
Our performance in Greece and Belgium is expected to improve due to the contribution from the new Toyota Corolla, which has been well received in both markets since its launch in January 2002.

Profits in Hong Kong remain underpinned by the breadth and quality of our earnings stream. However, the exceptional profits generated by the taxi market last year will not be repeated and this will impact overall results. Whilst the underlying retail market remains depressed, with little immediate sign of recovery, our aftersales and finance earnings remain strong.

In Singapore, the market is likely to weaken as the Singaporean authorities are expected to issue a lower quota of Certificates of Entitlement this year.

Our Australian business continues to grow and improvements in the exchange rate environment since year end will be beneficial. We should also see an improved performance from our retail investments.

On balance there are a number of positives, which are expected to offset any pressures felt in Asia. Taken as a whole the outlook is encouraging and we are confident that 2002 will see further progress.



SIR JOHN EGAN
CHAIRMAN
4 MARCH 2002

Our success in disposing of non-core businesses has left Inchcape with a strong balance sheet, well placed to take advantage of the significant opportunities that will arise as markets adjust to the proposed changes that emanate from Block Exemption renewal.

PETER JOHNSON, GROUP CHIEF EXECUTIVE

STRATEGY UPDATE

During 2001 Inchcape successfully completed its strategic transformation from a traditional automotive importer to a group focused on the retail customer, whilst rapidly expanding into the business services sector.

We now have a core distribution and retail business centered on four key manufacturers, Toyota, Subaru, Ferrari and the Premier Automotive Group (PAG) of Ford operating in six markets, UK, Greece, Belgium, Australia, Hong Kong and Singapore.

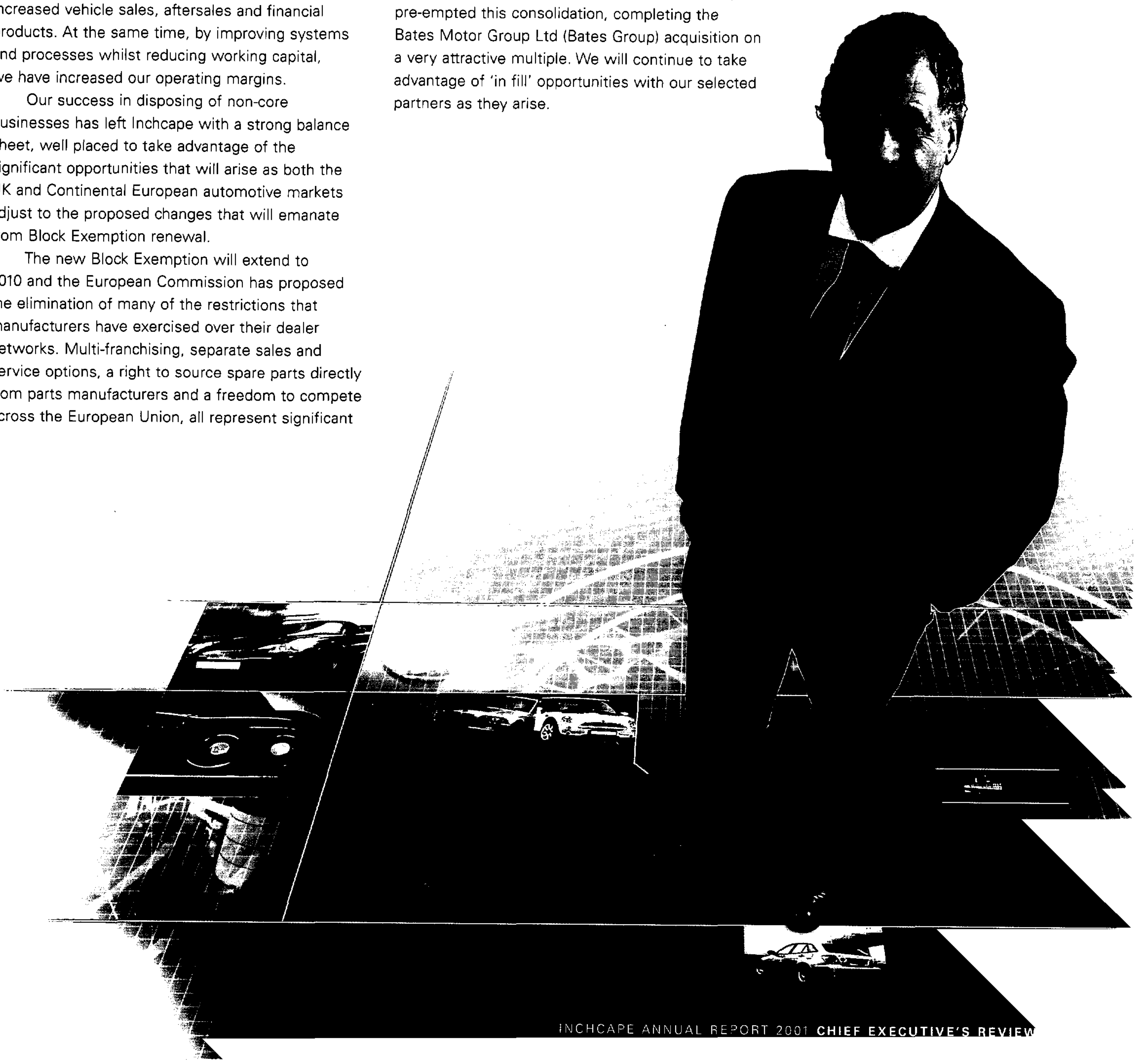
These businesses continue their drive into retail, developing the customer relationship through increased vehicle sales, aftersales and financial products. At the same time, by improving systems and processes whilst reducing working capital, we have increased our operating margins.

Our success in disposing of non-core businesses has left Inchcape with a strong balance sheet, well placed to take advantage of the significant opportunities that will arise as both the UK and Continental European automotive markets adjust to the proposed changes that will emanate from Block Exemption renewal.

The new Block Exemption will extend to 2010 and the European Commission has proposed the elimination of many of the restrictions that manufacturers have exercised over their dealer networks. Multi-franchising, separate sales and service options, a right to source spare parts directly from parts manufacturers and a freedom to compete across the European Union, all represent significant changes. Overall we believe that the benefits and opportunities offered to Inchcape by the proposed regulation outweigh the threats.

In the UK our decision to grow and consolidate with the key specialist brands of BMW, Toyota/Lexus, VW/Audi, Jaguar and Land Rover has proven to be appropriate as we anticipate them to be least affected by the proposed changes. Customers for luxury brands value the excellent customer service levels and total brand experience offered by the traditional retail outlets.

Recent weeks have seen an acceleration in the consolidation within the UK retail sector. Inchcape pre-empted this consolidation, completing the Bates Motor Group Ltd (Bates Group) acquisition on a very attractive multiple. We will continue to take advantage of 'in fill' opportunities with our selected partners as they arise.



Inchcape has acquired leading edge expertise in the logistics and refurbishment areas, by our purchase of Eurofleet Ltd (Eurofleet). Through AutoCascade, our 50/50 joint venture with Avis Europe plc, we have developed a web enabled re-marketing business that has been awarded the Fiat contract in the UK for some 25,000 nearly new vehicles. We are now targeting a number of manufacturers in the UK with a view to ultimately offering pan European solutions. Our primary focus is on the nearly new car market, which represents some 1.9m vehicles per annum in the UK, France and Germany alone.

In addition to our Business Service initiatives we are continuing to develop our alternative sales channels. We have aligned our Autobytel UK internet business more closely with our retail outlets and have recently announced a new venture with the AA offering their 12 million members access to both new and used cars in addition to an array of financial products.

Undoubtedly 2002 will see both significant change and challenge in the European automotive market place. Inchcape has invested ahead of these changes and entered into several new ventures with quality partners. All of this augurs well for the successful transformation of the Company into a broadly based automotive services group.

OPERATIONAL REVIEW

CONTINUING BUSINESSES

Continuing operating profit before exceptional items increased by 20.9% to £98.3m. Of this increase £2.2m relates to the exchange benefit of using 2001 average exchange rates compared to 2000 rates. Continuing operating profit by market is analysed below.

UNITED KINGDOM

Operating profit £13.7m 2001, £0.7m 2000

The UK new car market grew by 10.7% to a record 2.46m units, fuelled by low interest rates, price reductions and the return of consumer confidence following the uncertainties that arose from the Competition Commission enquiry in 2000.

Our UK Retail profits rose 38.6% to £12.2m. Adjusting for the acquisition of the Bates Group, made in August, underlying growth was 24.0%. The Bates Group made £1.6m pre-goodwill amortisation in the period to year end.

Our new car sales, on a like for like basis, were up over 16.0%. This, allied to a continued robust performance in used cars and aftersales, contributed to the strong result. The Financial Services profits (included in Financial Services results) generated from our UK Retail operations were £0.8m.

Results from the Leasing and Fleet Management businesses (included in Financial Services results) improved significantly due to the non-recurrence of the £7.0m residual value provision made last year. Used car residual values have stabilised as expected and the provision made last year has proved to be adequate.

Autobytel UK losses fell as forecast by £3.7m. Brand recognition remains strong and this business is an important part of our UK strategy of offering consumers and businesses a choice of products and channels to market. As revenues improve and costs are further reduced, losses in Autobytel UK will continue to fall.

Losses in Seaking, our new car pre-delivery inspection business, were £3.3m lower than last year due to the closures of loss making sites, and the fact that all remaining operations are now managed by Eurofleet. However, Eurofleet suffered as the nearly new car refurbishment sector had a difficult year with upheaval in the daily rental market caused by the foot and mouth epidemic and the events of 11 September. The market has now stabilised and this, allied to new contracts awarded for 2002, bodes well for the future.

Profits for the Ferrari/Maserati business grew again this year despite volume reductions due to supply constraints and the run out of the Maserati 3200. The growth prospects for this brand are excellent with the launch of two new models in 2002.

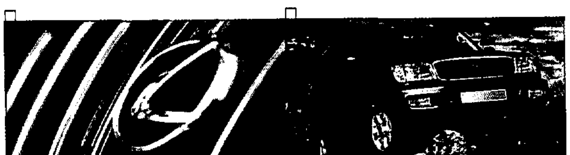
Profit from our associate, the MCL Group, fell by £2.6m. Profits from Enterprise Car Finance (previously known as Chrysler Jeep Financial Services) and Daihatsu Financial Services, which are in run off, fell as expected by £2.0m.

GREECE/BELGIUM

Operating profit £12.7m 2001, £17.7m 2000

In Greece profit fell by £3.5m, however £1.7m of this was due to the change in the way Greek stocks were financed, resulting in the stock holding charge moving from interest to operating profit.

Other factors were a reduction in market share and a declining market, which was down 4.0%.



The share decline was primarily due to the run out of the Corolla, Toyota's largest volume selling model. Despite this, Toyota retained second position in the market. The new Corolla, with a wider range of variants, was launched in January 2002.

Profits grew from our Greek ancillary businesses and from our modest recent investment in the Balkans, where we sold over 1,600 cars. We are close to finalising the closure of our Greek loss making daily rental business.

In Belgium volumes were down mainly due to the Corolla run out. The new Corolla was extremely well received at the Brussels Motor Show in January 2002.

AUSTRALIA/NEW ZEALAND

Operating Profit £12.8m 2001, £8.7m 2000

Subaru Australia continues to outperform the market, achieving a record volume (over 27,000 units in 2001) for the fifth consecutive year. Market share was 3.6%, the largest share for a major Subaru market outside Japan.

The growing Sydney Retail business achieved 4,750 unit sales in the year and improved profitability with VW performing particularly well. The launch of Subaru Melbourne, our exclusive new retail concept for this city, which represents some 20.0% of the Australian market, is scheduled for the second quarter of this year. The real benefits from this substantial new business (over 6,000 new and used cars per annum) will start to impact in 2003.

HONG KONG

Operating profit £48.9m 2001, £40.7m 2000

Profits rose sharply driven by the strength of the taxi market and also by a £2.5m currency translation benefit. Taxi sales increased more than 130.0% to c.9,000 units representing just over half of the total taxi fleet. This was the result of a government incentive campaign encouraging taxi drivers to switch from diesel to Liquified Petroleum Gas (LPG) taxis. This has had the effect of condensing the normal six year replacement cycle into three. As Toyota achieves over 90.0% of the taxi market this has led to a particularly high level of profit in the year. Taxi sales will continue but at a much reduced level in 2002.

The underlying market was down just over 5.0%. However, Toyota/Lexus increased market share, most other franchises performed well, especially Peugeot which took 5.1% of the passenger car market. Mazda lost market share and profits were well down, but the new product pipeline is strong and this should start to impact from late 2002 onwards.

SINGAPORE/BRUNEI

Operating Profit £19.2m 2001, £21.9m 2000

In Singapore the market fell slightly by 2.4%. Despite this Toyota increased market share to 21.3%. Margins were under pressure as the price of Certificate of Entitlements (COEs) varied more than expected.

Aftersales and finance income were strong in the year and helped mitigate the new car margin reduction. The Singapore market, dictated by the number of COEs issued, could fall by up to 15.0% in 2002, however, finance income and aftersales are anticipated to rise.

In Brunei, where Toyota is again the market leader, the recent reduction in import duties has resulted in retail price reductions. This should stimulate the market, which has been at a depressed level for a number of years.

OTHER

Operating Profit £5.9m 2001, £7.9m 2000

Operating profits rose in our Toyota businesses in Guam and Ethiopia. In Latin America, where the sole remaining businesses are BMW in Chile and Peru, profits also rose. Mazda Finland incurred losses in the year, but prospects look brighter given the new product pipeline. In the year we also provided £2.5m against our investment in the US listed Autobytel.com.

CENTRAL COSTS

£(14.9)m 2001, £(16.3)m 2000

Despite the expense associated with relocating the head office into more cost efficient premises, Central Costs were still £1.4m lower than last year. Headcount reductions, allied to property savings will mean a significant reduction in Central Costs for 2002.

DISCONTINUED BUSINESSES

Profits in the year for businesses that were sold or closed prior to 4 March 2002 were £3.5m. Peugeot in Australia/New Zealand, IRB in Brunei, and numerous businesses in Latin America contributed to this. The disposal programme is now substantially complete.

PETER JOHNSON
GROUP CHIEF EXECUTIVE
4 MARCH 2002

UNITED KINGDOM

Over the last three years Inchcape in the UK has been transformed from a business reliant on pure Import and Distribution to one focused on the retail customer, offering a choice of products and channels to market. We are also developing a choice of motoring solutions to the corporate customer through our Business Services activities.

Our UK products and channels to market include;

UK Retail – Our strategy with our selected specialist manufacturer partners, BMW, Toyota/Lexus, PAG and VW/Audi, is to provide industry leading levels of customer service and to represent between 5.0% to 10.0% of our selected partners national sales volumes.

Possible changes arising from the revised Block Exemption rules (see Chief Executive's Review for further information) are unlikely to result in fundamental changes in the selling and servicing of specialist cars.

Leasing and Fleet Solutions – Both offer potential growth in today's market. The personal leasing option should develop as companies move away from the provision of company cars to offer the alternate of 'cash for cars' and as individuals require more flexible motability solutions. Corporate fleets are increasingly turning to specialist fleet management companies to reduce their operating costs. Inchcape is the third largest fleet management company in the UK.

Autobytel UK – Whilst the growth of transactions over the internet has been slower to take off than in the USA the market is growing. This sales channel is an important part of our broad retail offering.

AA BuyaCar – Inchcape owns 30.0% of this venture. We source all the products and provide the retail expertise and a full logistics service. Supporting new market entrants is a further option now available to Inchcape through its growing Business Services expertise.

OPERATING PROFITS

2001
£13.7m

2000
£0.7m

Inchcape:

FERRARI/MASERATI

Our relationship with Ferrari S.p.A continues to flourish. We currently Import and Distribute Ferrari/Maserati products in the UK, Belgium and Middle East. In addition we retail some 24.0% of these cars in the UK and some 71.0% in Belgium. In total we handle over 14.0% of Ferrari/Maserati's annual production.

We are able to capitalise on the strength of the brand names generating incremental profits through activities such as Classic Parts for Ferrari, for which we have global responsibility, Club Fiorano, an exclusive and limited club for Ferrari owners, and Maranello Financial Services. These activities represent an increasingly important contribution to our profits.

We are encouraged by our early success in relaunching the Maserati brand in the UK and remain excited by the new product pipeline.

UK BUSINESS SERVICES

Our strategy of creating a scale business in logistics and refurbishment took a major step forward following the completion of the Eurofleet acquisition in December 2001.

Our Business Services division encompasses Eurofleet, Inchcape Fleet Management and AutoCascade, our 50/50 pan European remarketing venture with Avis Europe plc.

Eurofleet provides specialist expertise in the fields of vehicle preparation, refurbishment and transport logistics to both vehicle manufacturers and rental and fleet operators. It is one of the UK's leading companies in this area.

Inchcape Fleet Management has recently been set up to offer a totally integrated fleet management, refurbishment and remarketing service principally to vehicle manufacturers. This business has been awarded the contract for handling the remarketing and fleet management activities for Fiat UK's entire fleet of nearly new and used vehicles.

AutoCascade electronically re-markets vehicles to franchise dealers via a web enabled dealer stock locator and electronic auctions. In addition it will facilitate the sale of vehicles not purchased by the franchise dealers, via other channels to market. This should ensure a higher margin retention for the vehicle manufacturer.

Business Services represents a significant growth opportunity for Inchcape over the next two years. The building blocks are in place to support growth in the UK and we are now starting to focus on the major markets in Continental Europe as manufacturers seek pan European solutions.

As an international automotive services group, we provide quality representation for our global automotive partners, high levels of customer service, a choice of sales channels for our retail customers and a range of business services to the corporate customer. Our core markets are the UK, Greece, Belgium, Australia, Hong Kong and Singapore. The Group's activities include Import and Distribution allied to exclusive Retail, stand alone Retail of new and used cars and Financial Services, including consumer and dealer finance, insurance and leasing. In addition, recent investments have broadened our competencies in Business Services including refurbishment, logistics and re-marketing and automotive E-commerce. Our key global manufacturer partners are Toyota, Subaru, Ferrari and the Premier Automotive Group (PAG) of Ford especially Jaguar and Land Rover. Our key UK Retail partners are BMW, Toyota/Lexus, PAG and VW/Audi.

Driving future growth

Our activities centre around six markets where we have developed scale businesses, which have good growth prospects and strong cash generative abilities. We have focused on areas of the automotive industry where we can add value by taking costs out of existing processes or providing more efficient service levels to corporate and retail customers. We have expanded our Distribution businesses into Retail thus broadening our earnings base and reducing the overall cost of the distribution chain. We are increasingly providing business services solutions to the automotive manufacturers and major fleet operators. Our UK Retail business has focused on selected luxury and specialist marques where margins have been consistently better and where our core retailing skills lie.

The Group had net cash of £17.5m at 31 December 2001 compared to net debt of £69.1m at 31 December 2000 despite returning £45.0m to shareholders.

ALAN FERGUSON, GROUP FINANCE DIRECTOR

The trading results of the businesses are explained in the Chairman's Statement and the Chief Executive's Review. This Review gives further information on accounting and financial matters.

FINANCIAL REPORTING AND ACCOUNTING STANDARDS

During the year the Group has adopted FRS 18 "Accounting Policies". The Group's accounting policies were already consistent with this standard and accordingly no changes in reporting have arisen.

FRS 17 "Retirement Benefits" and FRS 19 "Deferred Tax" were issued in December 2000. FRS 17 replaces SSAP 24 "Accounting for Pension Costs" and changes existing accounting and disclosure requirements for defined benefit pension schemes. Although transitional rules apply, when fully implemented the principal changes will be the inclusion of pension scheme surpluses or deficits on the balance sheet, analysis of the pension charge between operating profit and net interest, and the reporting of actuarial gains and losses in the Statement of Total Recognised Gains and Losses. Set out in Note 3b of the Financial Statements is the pension disclosure required under the FRS 17 transitional rules for the year ended 31 December 2001. This shows the Group has a net pension asset of £5.7m at 31 December 2001.

FRS 19 replaces SSAP 15 "Accounting for Deferred Tax" and prescribes significant changes to the existing accounting and disclosure for deferred tax. In line with the standard, FRS 19 will be adopted for the first time in the Group accounts for the year ending 31 December 2002. The main change is that deferred tax must be recognised on a full provision basis in the Group's accounts, as opposed to the partial provision method presently adopted by the Group. On implementation of FRS 19, a prior year adjustment will be made to reflect the change in basis of accounting. The impact of this on net assets and the ongoing tax rate is unlikely to be significant.

RESULTS

Operating Profit

2001 operating profit was £101.8m of which £3.5m related to discontinued businesses. Continuing operating profit of £98.3m was £17.0m higher than 2000. The acquisition of Bates Motor Group Ltd (Bates Group) in August 2001 and the 49.0% of Eurofleet Limited (Eurofleet) in December 2000 contributed £4.1m of operating profit in 2001, before charging goodwill amortisation of £1.2m. Operating profit for 2000 included a £7.0m one-off provision to cover future losses anticipated on residual value buyback guarantees in our UK Leasing business.

Exceptional Items

As set out in Note 4 of the Financial Statements, the aggregate net exceptional loss for the period is £36.9m (2000 – £0.7m). This is mainly attributable to historic goodwill being written off on the sale of the Mazda UK Import and Distribution business by our 40.0% associate, MCL Group Ltd (£24.5m), the restructuring of Seaking, a UK pre-delivery and inspection company (£5.3m), and the sale of some UK Retail dealerships (£5.8m).

Net Interest

The net interest charge for the year was £3.9m (2000 – £16.0m). This is split between subsidiary net interest of £2.5m (2000 – £11.2m) and joint ventures and associates of £1.4m (2000 – £4.8m).

The subsidiary net interest charge benefited from the proceeds of the disposal programme in 2000 and early 2001, a lower interest rate environment and strong operational cash flows. This was aided by a £1.7m one-off reduction in interest due to the change in method of funding stock in Greece. This was partly offset by the impact of a £45.0m share buyback, which was completed in the first half of the year. The decrease in the joint ventures and associates charge is primarily driven by the sale of Toyota (GB) in mid 2000.

Taxation

The Headline tax rate for the year was 29.4% (2000 – 31.0%). The rate benefited from substantial profits being earned in Hong Kong, a low tax jurisdiction, although this was offset by unrelieved tax losses in the UK, albeit at a lower level than last year.

Although the geographical mix of profits is likely to be less favourable in 2002, this should be offset by a much more favourable UK tax position partly resulting from the acquisitions of the Bates Group and Eurofleet.

Minority Interest

Profit attributable to minorities has increased to £8.3m from £7.6m in 2000. However, this year's charge included a £1.5m exceptional profit on the sale of IRB, the Financial Services subsidiary in Brunei.

CASH FLOW

The Group had net cash of £17.5m at 31 December 2001 compared to net debt of £69.1m at 31 December 2000 despite returning £45.0m to shareholders.

Cash generated from operating activities was £188.5m. Working capital falling by £64.9m was a major factor in this. However, £38.6m of the fall arose from a change in the method of financing the Greek stock from debt to supplier related credit. Capital expenditure less disposal proceeds was £17.6m, which was £9.0m less than the depreciation charge, aided by the sale of surplus properties.

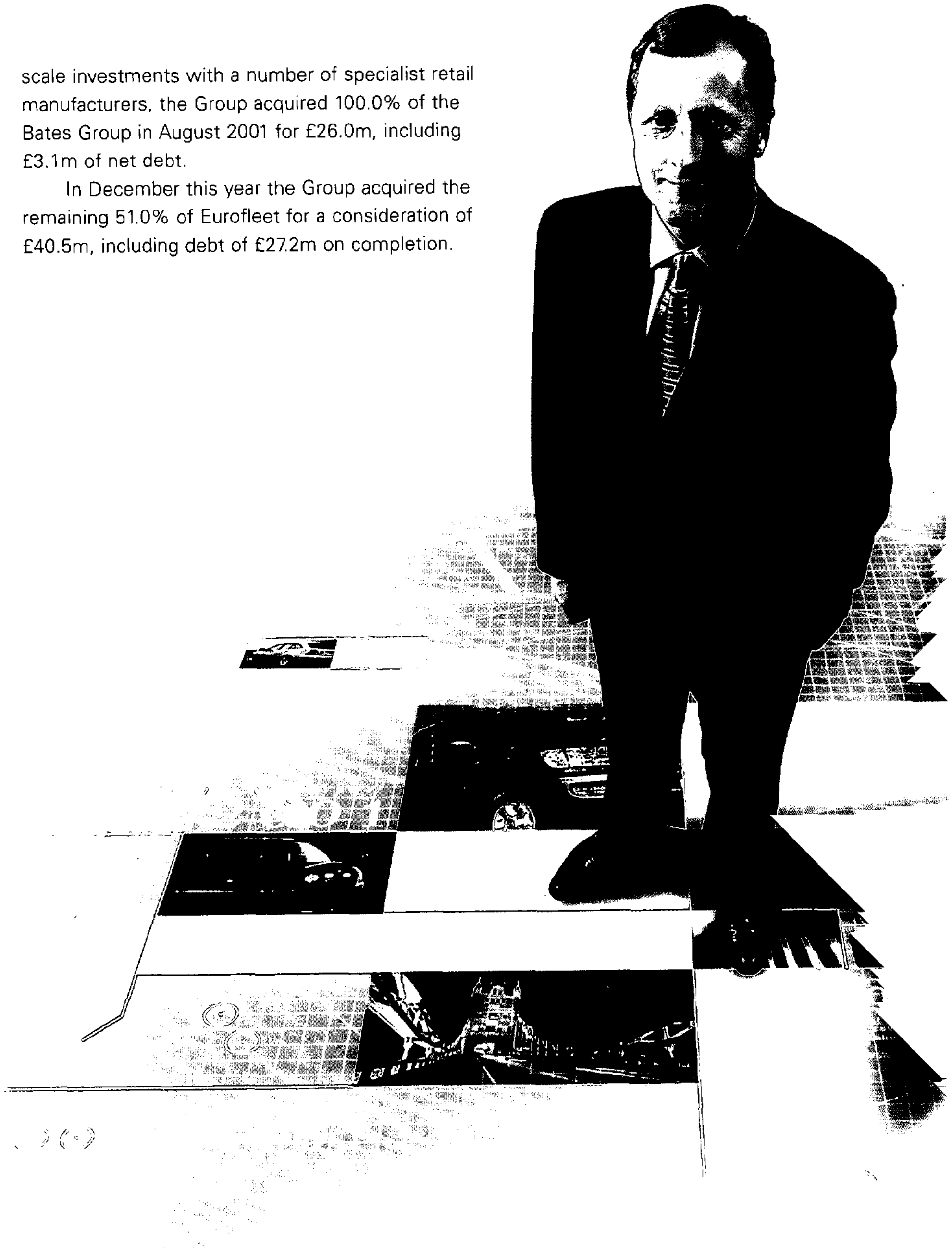
Disposals

The Group has almost completed its programme to dispose of its non-core businesses. During the year we sold IRB, Mazda France and sold, closed or transferred 13 other non-core businesses generating in aggregate £90.1m of cash.

Acquisitions

During the year, the Group spent £81.9m on acquisitions. In line with our intentions to develop scale investments with a number of specialist retail manufacturers, the Group acquired 100.0% of the Bates Group in August 2001 for £26.0m, including £3.1m of net debt.

In December this year the Group acquired the remaining 51.0% of Eurofleet for a consideration of £40.5m, including debt of £27.2m on completion.



In addition further consideration could be payable under an earn-out formula based on EBIT (earnings before interest and tax) growth. If compound EBIT growth is less than 11.6% per annum, no further consideration is payable. The theoretical maximum earn-out payment could amount to £27.5m, however this would require a compound annual growth rate of 32.8% based on EBIT, with no increase in capital employed to 2004. The additional consideration payable could be in the region of £14.0m to £22.0m, based on challenging EBIT growth rate assumptions. For the purposes of FRS 10 it has been assumed that £21.8m deferred consideration is payable.

TREASURY MANAGEMENT AND POLICY

The centralised Group Treasury function is responsible for managing the key financial risks of the Group encompassing funding and liquidity risk, interest rate risk, counterparty risk and currency risk. Group Treasury operates under Board approved objectives and policies, which expressly forbid speculative transactions. The treasury function is subject to regular internal audit.

Funding and Liquidity Risk

Group policy is to ensure that the funding requirements forecast by the Group can be met within available committed facilities.

The Group's principal committed facilities at 31 December 2001 are a £200.0m standby revolving credit facility, maturing in March 2003 and a US private placement for US$72.0m maturing on 31 May 2002. Negotiations are well underway regarding the refinancing of the Group facilities later this year.

Loan notes totalling £26.8m were issued during the year. Notes for £13.9m were issued on 31 August following the acquisition of 100.0% of the share capital of Bates Group. A further £12.9m of notes were issued on 11 December following the acquisition of the remaining 51.0% interest in Eurofleet. The £39.1m of notes outstanding at the year end also include notes issued in 2000 for the initial 49.0% interest in Eurofleet. Notes mature during 2002 through to November 2005.

Reflecting the Group's lower forecast borrowing requirements, the standby revolving credit facility was reduced from £250.0m to £200.0m during the year. In addition, a £30.0m term loan facility was reduced to £15.0m in September and was subsequently fully repaid during December 2001.

In addition to the committed facilities the Group has significant uncommitted borrowing lines made available by relationship banks. These facilities are used for liquidity management purposes.

The Group's cash and debt balances at the year end are set out below:

£m	Debt	Cash	Net
Euro	(6.2)	27.9	21.7
Hong Kong Dollar	–	17.4	17.4
Singapore Dollar	(0.7)	41.2	40.5
Australian Dollar	–	5.2	5.2
Other	(2.8)	18.4	15.6
Total (other than Sterling)	(9.7)	110.1	100.4
Sterling	(52.3)	12.9	(39.4)
Swapped US Loan Notes	(43.5)	–	(43.5)
Total Sterling	(95.8)	12.9	(82.9)
Total	(105.5)	123.0	17.5

The Group's only significant borrowings are in sterling, as noted above. Cash is held locally in Hong Kong for working capital purposes, whilst deposits are held in Singapore, in part, to support the significant requirement to purchase Certificates of Entitlement needed for new car sales.

Interest Rate Risk

The objective of the Group's interest rate policy is the minimisation of net interest expense and the protection of the Group from material adverse movements in interest rates. To achieve these objectives our policy is to adjust the balance of fixed and floating rate debt in the light of expectations for future interest rate movements. At the year end the Group's principal borrowings were at floating rates reflecting both the cash surplus and the expected continuance of a benign interest rate environment.

The Board has approved the use of interest rate swaps, forward rate agreements and options for interest rate hedging activities. The Group continues to pay a floating sterling interest rate on the $72.0m US private placement swapped in 1998.

Counterparty Risk

Cash deposits and other financial instruments result in credit risk on the amount due from counterparties.

Limits are in place, which reduce credit risk by stipulating the aggregate amount and duration of exposure to any one counterparty dependent upon the applicable credit rating. Credit ratings and the appropriate limits are reviewed regularly.

Currency Risk

The Group faces currency risk on its net assets and earnings, a significant proportion of which are in currencies other than sterling. On translation into sterling, currency movements can affect the Group balance sheet and profit and loss account. Group policy is to minimise balance sheet translation exposures, where fiscally efficient, by financing working capital requirements in local currency and maximising the permanent remittance of overseas earnings into sterling.

Had the average sterling rates in 2000 continued into 2001, the Group's operating profit for the continuing businesses would have been £2.2m lower. Headline profit before tax would also have been £2.2m lower. This effect arose primarily as a result of the strengthening of the Hong Kong dollar partially offset by the weakening of the Australian dollar. Principal exchange rates are listed in Note 30 of the Financial Statements.

The percentages of net assets by currency at 31 December 2001 for the Group are set out below:

NET ASSETS BY CURRENCY	%
Sterling	16.8
Euro	25.0
Hong Kong Dollar	28.4
Singapore Dollar	20.3
Other	9.5
Total	100.0

The Group has transactional currency exposures where sales or purchases by an operating unit are in currencies other than in that unit's reporting currency. In many of our businesses, to remove this exposure, local currency billing arrangements have been put in place with the principals. For those businesses that continue to be billed in foreign currency, Group policy is that committed transaction exposures are hedged into the business's reporting currency. Where possible, foreign exchange exposures will be matched internally before hedging externally. Hedging instruments are approved by the Board and are restricted to forward foreign exchange contracts, currency options and foreign exchange currency swaps. Foreign exchange currency swaps are also used to hedge transaction exposures arising on cross border Group loans.

POST BALANCE SHEET EVENTS

On 7 February 2002 the Group announced a pre-conditional voluntary cash offer at S$2.30 per share, to acquire the minority holding in Inchcape Motors Limited (IML), our quoted Singaporean subsidiary. The pre-condition was that IML's Independent Directors recommend by 28 February 2002 that IML's shareholders should accept the offer. This pre-condition has been satisfied and on 28 February 2002 the Group announced that the voluntary conditional cash offer will be made. This valued the c. 36.7% minority share at c. £53.2m.

ALAN FERGUSON
GROUP FINANCE DIRECTOR
4 MARCH 2002

Inchcape is an international company operating across many countries and cultures. We believe in supporting the communities in which we work by sponsoring their local initiatives.

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There are many examples of such schemes in the UK. A number of our UK businesses support the BEN charity, the motor industry benevolent fund. One example of this is Inchcape's Ferrari business, which has donated money to the Lynwood Residential Home for a tranquillity room. This provides sensory stimulation to residents with severe or profound disabilities. Employees have also contributed individually towards BEN through Give as You Earn.

Employees at Inchcape Vauxhall St. Ives have been generating funds for Great Ormond Street Hospital and other prominent charities by taking part in their 'Beaujolais Run'. The object of the charity challenge is to drive back from the Beaujolais region of France, in the minimum number of miles, having passed through designated checkpoints. Funds are raised through sponsorship, competitions and a raffle at the St. Ives Christmas Concert.

HA Fox Guildford supported the 'Disability Challengers' charity in 2001. The dealership donated one pound to the charity each time a service department customer questionnaire was returned. Since this initiative commenced, the dealership has noticed a 50.0% increase in questionnaires returned.

Since 2000 Toyota Belgium has been supporting the 'United Fund for Belgium'. This organisation aims to help businesses allocate resources to projects and institutions that are performing charitable work throughout the country. In 2001 Toyota Belgium donated 32 Toyota vehicles for use to such charities.

In Asia significant resources have been devoted to supporting the community through recreational, cultural, and local charity sponsorship. In 2001 the Toyota Motor Corporation, in conjunction with Toyota dealers across Asia, held the twelfth Annual Toyota Classics. The London Symphony Orchestra toured Asia and performed concerts supported by our Hong Kong business, Crown Motors and our Singapore business, Borneo Motors. All the proceeds from these concerts are donated to charities chosen by the businesses.

In conjunction with the University of Hong Kong, Inchcape also runs a scholarship programme promoting mutual understanding through a series of international student exchanges.

In 2001 Inchcape was proud to receive acknowledgement for its commitment to local communities and employees when our Hong Kong business, Crown Motors, was recognised as one of the Twenty Best Employers in Asia. In a prestigious Asian Wall Street Journal survey, Crown Motors came second in the top ten employers in Hong Kong. The survey was based on criteria such as recruitment, training, and the retention of qualified employees.

Toyota Hellas was the official sponsor of the 2001 '4T-Safetrack', the Greek Centre for Safe Driving, which offers driving seminars to local people wishing to improve their driving skills. In addition Toyota Hellas has been working in co-operation with the biggest selling Greek automotive magazine to enable a number of young talented drivers to participate in the Greek Rally Sponsorship Championship.

Inchcape Motors Australia contributes to a number of worthy causes. These include the 'Starlight Children's Foundation', which grants wishes to seriously ill children between the ages of four and eighteen, and the 'Mission Australia', which empowers the young, those with special needs, and the elderly, to take control of their lives through employment and community service.

Inchcape is committed to pursuing sound environment, health and safety management policies and practices throughout our business.

Inchcape is committed to pursuing sound environment, health and safety management policies and practices throughout our business.

We recognise that, by providing customers with access to leading products and services, we can support the achievement of environment, health and safety standards in both developed and emerging markets.

It is the policy of Inchcape that we will:

- consider environment, health and safety issues within existing and future business activities through implementation of appropriate policies and procedures;
- monitor and manage the environment, health and safety impacts, risks and opportunities for our businesses for the benefit of employees, customers, principals and local communities in which we operate;
- promote awareness of the Environment, Health and Safety Policy amongst employees, customers and principals;
- regularly review implementation of the Environment, Health and Safety Policy across our businesses to assess performance and set practical targets for improvement; and
- report as appropriate on the status of the environment, health and safety performance within the businesses.

Implementation of the Policy is the responsibility of the management within each Group business, supported and monitored by the Group Board.

Common standards are applied to a wide range of environment, health and safety matters. Whilst compliance with local statutory requirements is a minimum standard, in some countries where we operate, local standards are below international good practice. In these countries it is our policy to follow UK good practice.

A key element of our approach is the operation of Environment, Health and Safety Focus Groups at business unit level. These Groups are responsible for improving the environment, health and safety performance through the development of local standards and staff training. They are also responsible for monitoring environment, health and safety performance.

Our businesses carry out detailed half-yearly inspections. Copies of these inspection reports and related action plans are forwarded to the Group Risk Manager who reports significant issues to the Group's Risk Committee.

The Group Risk Manager visited 68 of our sites during the year, carrying out environment, health and safety awareness training, attending a number of Focus Group meetings and performing site inspections.

1. SIR JOHN EGAN (A) (B) (C)*
Chairman
Age 62. Appointed non-executive Chairman on 15 June 2000. Sir John is Chairman of Harrison Lovegrove Company Limited and Chairman of Qinetiq plc. He is also Deputy President of the Confederation of British Industry. He was Chairman of MEPC from 1 August 1998 to 3 August 2000. He was previously Chief Executive of BAA from 1990 to 1999 and was Chairman and Chief Executive of Jaguar plc prior to joining BAA.

2. PETER JOHNSON (C)
Group Chief Executive
Age 54. Joined the Group in 1995 as Chief Executive of Inchcape Motors Retail and became Chief Executive of Inchcape Motors International in 1996. He joined the Inchcape Board in January 1998 before becoming Group Chief Executive on 1 July 1999. He is Vice President of the Institute of the Motor Industry and was previously Sales and Marketing Director of the Rover Group and Chief Executive of the Marshall Group.

3. ALAN FERGUSON
Group Finance Director
Age 44. Joined Inchcape plc in 1983 having qualified as a Chartered Accountant with KPMG in 1982. He occupied several positions with various Group businesses before being appointed Finance Director of Inchcape Motors International in 1995. He was appointed to the Board as an executive Director on 1 January 1999 and became Group Finance Director on 9 March 1999.

4. TREVOR TAYLOR

Non-executive Deputy Chairman and non-executive Director

Age 64. Joined the Group in 1987 as Deputy Managing Director of Toyota (GB), becoming Chief Executive in April 1993 and Chief Executive of Inchcape Toyota Division in 1995. He joined the Inchcape Board in January 1998 and resigned his executive role with Toyota (GB) to become a non-executive Director. He was appointed executive Deputy Chairman on 1 July 1999 and became a non-executive Director and non-executive Deputy Chairman on 1 February 2001, having relinquished his executive responsibilities. He was previously with Ford Motor Company and the Rover Group.

5. TONY ALEXANDER (A) (B) (C)*

Senior independent non-executive Director

Age 63. Joined the Inchcape Board in January 1993. Formerly a Director and Chief Operating Officer UK of Hanson plc, he is now Vice Chairman of Imperial Tobacco Group plc. He is also a non-executive Director of Cookson Group plc and Misys plc.

6. HUGH NORTON (A) (B) (C)*

Non-executive Director

Age 65. Joined the Inchcape Board in January 1995. He was formerly a Managing Director of the British Petroleum Company plc. He is a non-executive Director of Standard Chartered plc.

7. SIMON ROBERTSON (A) (B) (C)*

Non-executive Director

Age 61. Joined the Inchcape Board in May 1996. He was formerly Chairman of Kleinwort Benson Group plc. He is currently President of Goldman Sachs Europe Limited and Managing Director of Goldman Sachs International. He is also non-executive Director of Invensys plc and Berry Bros & Rudd Limited.

8. DR RAYMOND CH'IEN

Non-executive Director

Age 50. Joined the Inchcape Board in July 1997. Raymond Ch'ien is a member of the Executive Council of the Hong Kong Special Administrative Region, Chairman of the Hong Kong/Japan Business Co-operation Committee and the Advisory Committee on Corruption of the Independent Commission Against Corruption. He is also Chairman of HSBC Private Equity (Asia) Limited, Executive Chairman of chinadotcom corporation as well as Chairman of its subsidiary, hongkong.com corporation, and is a non-executive Director of the Hongkong and Shanghai Banking Corporation Limited, HSBC Holdings plc, Inmarsat Ventures plc and the MTR Corporation Limited.

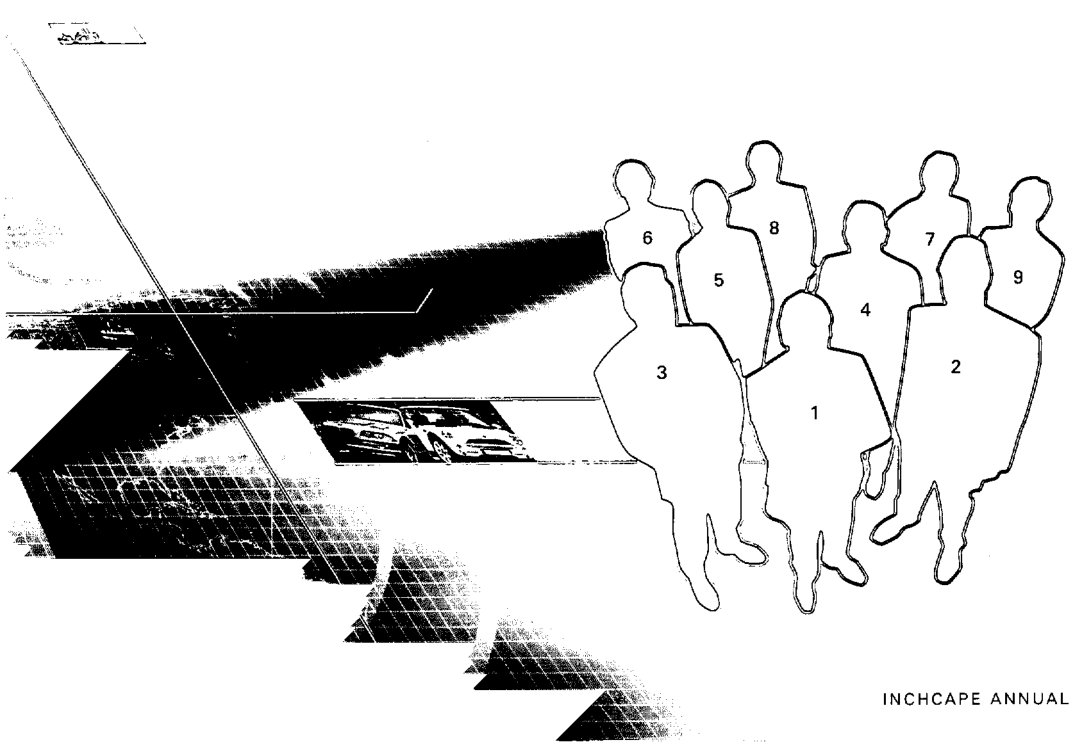
9. KEN HANNA (A) (B)*

Non-executive Director

Age 48. Joined the Inchcape Board in September 2001. Ken Hanna is a Partner of Compass Partners International Limited. He joined Compass Partners in 1999, prior to which he was Group Finance Director of Dalgety (now PIC International plc), becoming Chief Executive in 1997.

Notes:
(A) Member of the Audit Committee
(B) Member of the Remuneration Committee
(C) Member of the Nomination Committee
*Independent

Tony Alexander is Chairman of the Audit Committee, Hugh Norton is Chairman of the Remuneration Committee and Sir John Egan is Chairman of the Nomination Committee.



BUSINESS ACTIVITIES

A review of the activities of the Group, likely future developments and important events occurring since the end of the year is given on pages 5 to 13 and in note 28 on page 66.

RESULTS AND DIVIDEND

The Group's results are shown on page 30.
The Board has recommended a final dividend of 18.2p per share. If approved at the Annual General Meeting, the final dividend will be paid on 17 June 2002 to shareholders registered in the books of the Company at the close of business on 24 May 2002.

AUTHORITY TO PURCHASE SHARES

Between 26 March 2001 and 15 May 2001, the Company purchased for cancellation 7,102,500 ordinary shares (representing 8.7% of the Company's issued share capital on 15 May 2001) pursuant to the authority granted at the Company's 2000 Annual General Meeting held on 10 May 2000, at a cost of some £26.7m as part of its announced intention to return up to £45.0m to shareholders.

At the Company's 2001 Annual General Meeting held on 15 May 2001, the Company was authorised to make market purchases of up to 12,329,122 ordinary shares (representing approximately 14.99% of its issued share capital). Pursuant to that authority, the Company purchased for cancellation a further 3,830,000 ordinary shares (representing 4.9% of the company's issued share capital on 28 June 2001, the date of the last share purchase) at a cost of some £18.3m to complete its announced return of up to £45.0m to shareholders. The nominal value of total shares purchased for cancellation is £16.4m. Following these purchases, the authority granted in 2001 now covers a total of 8,499,122 ordinary shares (representing 11.0% of the Company's issued share capital on 31 December 2001). All purchases were made through the market.

The authority to purchase shares is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2002 to renew the authority for a further year.

SHARES ISSUED

During the year the Company allotted new ordinary shares of 150p each as follows:

Shares allotted to satisfy Executive Share Option Exercises	49,759
Shares allotted to satisfy Savings Related Share Option Exercises	4,538

SUBSTANTIAL SHAREHOLDINGS

The following notifications of substantial interests in the Company's issued ordinary share capital had been received by 4 March 2002 under the provisions of the Companies Act 1985:

Barclays plc	11.00%*
Fidelity International Limited	4.49%
Toyota Motor Corporation	5.43%**
Standard Life Investments	3.06%

* Of the total holding, 5.99% is held beneficially and 5.01% is held as nominee.
** The percentage has increased solely as a result of the share buyback.

DIRECTORS

The names of the Directors, plus brief biographical details including those directors offering themselves for election or re-election, are given on page 16 and 17. Except as stated below, they all held office throughout the year.

Ken Hanna was appointed to the Board on 27 September 2001 as a non-executive Director. In accordance with the Articles of Association of the Company, he will retire at the forthcoming Annual General Meeting and offers himself for election.

Tony Alexander and Alan Ferguson retire by rotation at the forthcoming Annual General Meeting. Alan Ferguson offers himself for re-election in accordance with the Articles of Association. As announced on 4 March 2002, Tony Alexander will retire from the Board at the conclusion of the Company's Annual General Meeting on 16 May 2002. Accordingly he does not offer himself for re-election.

Trevor Taylor relinquished his executive responsibilities with the Company on 31 January 2001, remaining on the Board and becoming a non-executive Director of the Company and non-executive Deputy Chairman with effect from 1 February 2001.

DIRECTORS' INTERESTS

The table below shows the interests, other than options, including family interests, on the dates indicated, in the shares of the Company and its subsidiaries, of the persons who were Directors at 31 December 2001. All the interests are beneficial.

Details of options held by Directors, including under the Inchcape 1999 Share Option Plan and the Inchcape SAYE Share Option Scheme, together with details of awards under the Inchcape Deferred Bonus Plan, are shown in notes 3 and 4 respectively on pages 26 and 27.

Ordinary shares of 150p each	31.12.01	1.1.01
Tony Alexander	1,666	1,666
Raymond Ch'ien	4,000	4,000
Sir John Egan	17,000	17,000
Alan Ferguson (b)	27,643	18,233
Ken Hanna (a)	2,000	–
Peter Johnson (b)	63,894	45,561
Hugh Norton	500	500
Simon Robertson	1,000	1,000
Trevor Taylor	8,771	8,771

Notes:
(a) Acquired by Ken Hanna on 4 October 2001.
(b) The executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Inchcape Employee Trust and, as such, are deemed by the Companies Act 1985 to be interested in any shares held by the Trustees. At 31 December 2001, the Trustees' shareholding totalled 1,271,804 ordinary shares of 150p each (1 January 2001 – 1,301,074 ordinary shares of 150p each).

There have been no changes in Directors' interests between 1 January 2002 and 4 March 2002.

CORPORATE GOVERNANCE

The Listing Rules of the Financial Services Authority require listed companies to disclose, in relation to Section 1 of the Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting period.

Set out below is an explanation of the way in which the Company applies the principles of the Combined Code.

THE BOARD

The Chairman is non-executive and his role is separate from that of the Chief Executive. In addition to the Chairman, the Board includes a number of other non-executive Directors who bring a wide diversity of experience and expertise. Currently the Board has seven non-executive Directors of which five, including the Chairman, are considered to be independent of the management of Inchcape and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Tony Alexander is the senior independent non-executive Director. As already announced, he will be retiring from the Board at the conclusion of the Annual General Meeting of the Company on 16 May 2002. Simon Robertson will succeed him as the senior independent non-executive Director. Trevor Taylor relinquished his executive responsibilities effective 31 January 2001. He remains on the Board as a non-executive Director and non-executive Deputy Chairman but he is not regarded as independent of the management of Inchcape because he is a former executive Director and he has a service contract with a subsidiary of the Company for an average one day per week. Raymond Ch'ien is also not regarded as independent because until 31 October 2001 he had a service contract with Crown Motors Limited, a subsidiary of the Company in Hong Kong.

Non-executive Directors are usually appointed for an initial period of three years, which may be extended by agreement with the Board. All Directors currently on the Board have submitted themselves for election or re-election as applicable in accordance with the Company's Articles of Association within the last three years and the Board satisfies itself to this effect each year.

The Board is responsible for leading and controlling the Group and monitoring executive management. It meets regularly to deal with strategy and policy issues, to review the Group's financial performance and to examine significant acquisitions and disposals and major operational capital expenditure. All Directors bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. In 2001 the Board had nine scheduled meetings and a number of ad hoc meetings to deal with particular matters. In addition, a Board strategy review meeting was held. There is a procedure for Directors to take independent professional advice at the Company's expense where relevant to the execution of their duties. The Board has a schedule of matters required to be brought to it for its decision. The Board considers that it has been supplied with sufficient timely and accurate information to enable it to discharge its duties. Newly appointed Directors who have not previously held listed company board appointments receive appropriate external training. A briefing process has been developed for newly appointed non-executive Directors to ensure that they are fully apprised of the Group's activities and strategic direction. Training is available subsequently should either the Company or a Director feel it necessary. All members of the Board have access to the services and advice of the Group Company Secretary.

BOARD COMMITTEES

The Board has three principal Committees all with defined written terms of reference. Membership of each of the Board Committees is indicated on pages 16 and 17. The Chairmen of these Committees are expected to be available to answer questions at the Company's Annual General Meeting on 16 May 2002.

The Audit Committee is responsible for reviewing a wide range of financial matters including the interim and year-end accounts, litigation reports, matters relating to the external audit, Corporate Governance matters, the preservation and promotion of good ethical practices and monitoring the Group's internal controls. The Group Chief Executive, the Group Finance Director, the Director of Audit and Risk Management and the external auditors attend the meetings of the Committee. The non-executive Directors on the Committee also have the opportunity at each meeting to review any issues with the external auditors in the absence of executive management. Part of the Committee's responsibility in relation to external auditors is to review the nature and the extent of non-audit services provided.

The Remuneration Committee is responsible for remuneration issues regarding executive Directors and certain other senior management within the framework recommended by the Committee and approved by the Board as described in the Board Report on Remuneration. More details are given on pages 22 to 27.

The Nomination Committee is responsible for making recommendations to the Board on selection and nomination of Directors and their election or re-election at the Annual General Meeting and does so in accordance with agreed procedures.

The Audit Committee meets at least twice a year and the Remuneration Committee and the Nomination Committee meet at least once a year. In addition, the Committees hold ad hoc meetings when required.

The Company encourages two-way communication with its institutional and private investors and responds quickly to all queries received verbally or in writing. The preliminary and interim results are presented publicly to analysts and other meetings with shareholders are arranged as appropriate.

INTERNAL CONTROL

The Board of Directors has overall responsibility for establishing key procedures designed to achieve a sound system of internal control and for reviewing its effectiveness. Such systems can provide only reasonable and not absolute assurance against any material mis-statement or loss and cannot eliminate business risk. It is the responsibility of the Audit Committee to monitor internal controls, with its Chairman reporting the results of such reviews to the Board. In addition, the Board has entrusted executive management with responsibility for the implementation of the systems of internal control.

The Group operates a Risk Committee, which is chaired by the Group Chief Executive and includes inter-alia, the Group Finance Director, Group Company Secretary, Director of Audit and Risk Management and the Group Risk Manager. The Risk Committee meets quarterly to consider what changes to risk management and control processes should be recommended. Its review covers matters such as responses to significant risks identified, output from monitoring processes, including internal audit reports, and changes made to the internal control system. It also follows up on areas that require improvement and reports every six months to the Audit Committee or more frequently if required.

The Group Chief Executive also reports, on behalf of executive management, significant changes in the business and the external environment that affect key risks to the Board. The Group Finance Director provides the Board with monthly financial information, which includes key performance and risk indicators.

The Group's key internal control and monitoring procedures include the following:

Financial reporting – there is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reviewed and reported against budget and revised forecasts at each of the Board's scheduled meetings.

Monitoring systems – the Audit Committee receives reports arising from internal audit's examination and evaluation of the adequacy and effectiveness of the Group's systems of internal control. The internal audit group works closely with management and the external auditors and significant issues are reported to the Committee.

Operating unit controls – the overall control framework for the Group is detailed in the Group Finance and Information Systems manuals and supplemented by Risk Management policies. Compliance with Group policies and the effectiveness of internal controls are regularly assessed through the audit process and through a process of self-certification, which requires business unit management to assess annually the quality of internal controls in their businesses.

Risk management – the Group's management operates a risk management process, which identifies the key risks facing each business unit twice a year. A risk register, which identifies the key risks, the impact should they occur, and actions being taken to manage those risks to the desired level, is produced for each business unit. In addition, actions to be taken in the event that such risks crystallise and proposed improvements to the way they are managed are also included. This information is passed up the organisation on a filter basis, culminating in the production of a Group Risk Register, which is approved by the Risk Committee and provided to and discussed with the Audit Committee. In addition, internal audit continuously reviews financial, commercial and systems developments in the Group's business units to ensure appropriate audit focus in the major risk areas.
Investment appraisal – the Group has clearly defined policies for capital expenditure. These include annual budgets and detailed appraisal and review procedures.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Company, and the Group as a whole, 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 accounts.

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

The Company was in compliance throughout the year ended 31 December 2001 with the Code provisions set out in section 1 of the Combined Code appended to the Financial Services Authority Listing Rules.

The Board has reviewed the effectiveness of systems of internal control in operation during the financial year through the processes set out above.

TRANSACTIONS WITH DIRECTORS

No transaction, arrangement or agreement required to be disclosed in terms of the Companies Act 1985 was outstanding at 31 December 2001, or occurred during the year for any Director and/or connected person (2000 – none).

CREDITOR PAYMENT POLICY

The Company is responsible for agreeing the terms and conditions including terms of payment under which business transactions with the Group's suppliers are conducted. While the Company does not follow any single external code or standard, in line with Inchcape Group policy, payments to suppliers are made in accordance with agreed terms and conditions. The number of days purchases outstanding at 31 December 2001 in respect of our UK businesses is calculated at 51 days (2000 – 44 days).

CHARITABLE AND POLITICAL DONATIONS

In the UK Inchcape and its subsidiaries have donated funds throughout the year totalling £0.1m (2000 £0.1m). Total charitable donations made by the Group world-wide during the year were £0.1m (2000 £0.2m). No political donations were made in the year (2000 – none).

EMPLOYMENT POLICY

Inchcape recognises the value of its employees. The Group's success depends upon their quality, motivation and commitment. Inchcape attracts and retains high quality staff through effective policies and practice. It is also committed to equal opportunity and non-discrimination, on the grounds of disability, sex, marital status, race, colour or creed. Furthermore, the Group is dedicated to facilitating employees' personal development in every country, and at every level.

Inchcape also understands the importance of its employees being well informed regarding the business and issues affecting them, and therefore has formal and informal systems in place to ensure effective communication.

ENVIRONMENT

The Group's policy on Environment, Health and Safety is shown on page 15.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11.00am on Thursday, 16 May 2002 at The Royal Automobile Club, 89-91 Pall Mall, London SW1Y 5HS. The notice convening the meeting and the resolutions to be put to the meeting, together with explanatory notes, are given in the circular to all shareholders which accompanies these Accounts.

PricewaterhouseCoopers have expressed their willingness to continue as auditors and resolutions to re-appoint them and to authorise the Directors to determine their remuneration, will be proposed at the Annual General Meeting.

By order of the Board
Roy Williams
Secretary
4 March 2002

The members of the Remuneration Committee are Hugh Norton (Chairman), Sir John Egan, Tony Alexander, Simon Robertson and Ken Hanna. They are all non-executive and independent of the management of Inchcape.

Hugh Norton, Chairman of the Committee, Tony Alexander, Sir John Egan and Simon Robertson served on the Committee throughout the year. Ken Hanna was appointed to the Committee on 27 September 2001.

The Committee has formal Terms of Reference. It is responsible for recommending to the Board the Company's framework or broad policy on executive remuneration and its cost. It is also responsible for determining specific remuneration packages and terms of employment for executive Directors and certain other senior executives, including pension rights and any compensation matters. This includes agreeing performance incentive arrangements and approving executive share option allocations or allocations under any long-term incentive arrangements.

The Committee has an annual meeting to review compensation for executive Directors, and certain other senior executives, in advance of the annual salary review on 1 April. The Committee had two scheduled meetings in 2001 and other ad hoc meetings as required. The Group Chief Executive and the Group Human Resources Manager were invited to attend meetings when their input was required. No one attends any discussion regarding his or her own remuneration.

Throughout 2001 the Company complied with the provisions of Schedule A of the Combined Code relating to the design of performance related remuneration. In preparing this report the Board has followed the provisions of Schedule B of the Combined Code.

REMUNERATION POLICY

When considering the remuneration packages of executive Directors, the Remuneration Committee follows the framework it has recommended and the Board has approved, as set out in this report. Its key features are:

- the packages should be competitive when compared with those in organisations of similar size, complexity and type;
- there should be a clear link between the level of remuneration and the performance of the Group and the individual, to the extent that performance related elements should form a significant part of executives' total remuneration package;
- the interests of the shareholders should be safeguarded and the remuneration package of executives should be aligned with shareholders' interests;
- the package as a whole should be easy to understand and motivating for the individual; and
- the composition of the package should reflect best practice among comparable companies.

The Remuneration Committee consults the Chief Executive on their proposals as appropriate. It has access to a number of major surveys regularly carried out by leading remuneration consultants. The Committee has access to professional advisers within the Company and is also authorised by the Board to obtain the services of external independent advisers, as it may require. These internal and external sources of data and advice, together with consideration of the levels of pay increases for other employees and the principles outlined above, provide a framework for the decision making process.

The remuneration packages for the executive Directors are made up of the following elements:

BASE SALARY

This is based on the level of responsibility, experience, individual performance and salary levels in comparable companies.

ANNUAL BONUS

The annual bonus plan for executive Directors is reviewed every year to ensure that targets are both stretching and business growth driven. In 2001

Peter Johnson and Alan Ferguson participated in a bonus plan based on profit before tax which yielded a bonus of 60.0% of base salary at 110.0% of target. The bonuses paid under this plan for 2001 are shown in note 1 on page 25. In 2002 the executive Directors will participate in another target driven bonus plan, also based on profit before tax. This is designed to yield 30.0% of base salary for an on-target performance and a maximum of 70.0% of base salary at 125.0% of target. Bonus payments are non-pensionable.

EXECUTIVE SHARE OPTIONS

The Inchcape 1999 Share Option Plan was approved by shareholders in 1999. Under the plan, share options have been granted to executive Directors and senior managers throughout the Group. The 2001 grant of options covered over 320 participants across the world.

As with previous option grants, the exercise of each option granted under the Plan will be subject to a performance target that respects guidelines outlined by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). These guidelines imply that the objective of any performance target should be significant and sustained improvement in the underlying financial performance of the Company. The Remuneration Committee has established performance criteria for the exercise of options granted under the Plan in 2001 whereby growth in Company earnings per share over a three-year period must exceed the increase in the Retail Prices Index over the same period by 3.0% per annum.

Details of share options granted to executive Directors in 2001 are shown in note 3 on page 26.

Special arrangements for options were put in place for Raymond Ch'ien in 1997, as part of the terms and conditions under which he was appointed Chairman of Inchcape Pacific Limited. Details are shown in note 3 on page 26.

DEFERRED BONUS PLAN

The Deferred Bonus Plan was approved by shareholders in 1999. It is a voluntary plan available to executive Directors and certain other senior executives. Under the terms of this plan, participants may use a minimum of 10.0% and a maximum of 50.0% of any bonus award (after tax) to acquire shares in the Group. The award of the bonus itself is subject to performance targets, agreed annually by the Remuneration Committee. Subject to these shares being held in trust for three years and the participant remaining an employee of the Group, the participant will become entitled to awarded shares to an amount equal to the gross amount of the bonus used to acquire shares in the Company. Details of awards made to executive Directors in 2001 under the Deferred Bonus Plan are shown in note 4 on page 27.

SAYE SHARE OPTION SCHEME

The Inchcape SAYE Share Option Scheme was approved by shareholders in 1994. It is open to employees in the UK with at least 3 months' service. Participants make monthly savings for a three year period. At the end of the savings period options become exercisable within six months.

RETIREMENT BENEFITS

The Inchcape Group (UK) Pension Scheme provides benefits for executive Directors and senior executives at the normal retirement age of 60, equal to a maximum of two-thirds of final base salary, subject to completion of 20 years' service. The scheme is non-contributory.

Pensions in payment are guaranteed to increase in line with the lesser of 5.0% and the increase in the UK Retail Prices Index.

A lump sum benefit of four times base salary is provided on death in service, along with a spouse's pension of two-thirds of the member's pension. Childrens' pensions may also be payable, up to one-third of members' pension.

In the case of executive Directors and senior executives appointed after 1 June 1989 the benefits under the Inchcape Group (UK) Pension Scheme are in respect of capped base salary. For those executive Directors and senior executives whose base salary is capped, a separate life assurance arrangement exists to supplement the approved life cover to a total lump sum benefit of four times base salary on death in service.

The Inchcape Group UK Supplemental Pension Scheme (a funded unapproved contribution scheme) was established under a central trust in 1996, with individual retirement accounts for participating executives, to provide for those executives whose base salary exceeded the permitted maximum salary cap. Executives were able to decline membership and accept a monthly cash supplement equal to the employer contribution foregone. The Scheme is now closed and there are no longer any contributions payable to it. Executives are paid a monthly cash supplement equal to the employer contribution rates which were payable to the Scheme.

TAXABLE AND OTHER BENEFITS

These include such items as company car and medical and life assurance premiums. They are in line with the Remuneration Policy framework outlined above. These benefits are non-pensionable.

CHAIRMAN

The Chairman's remuneration is dealt with by the other non-executive Directors.

NON-EXECUTIVE DIRECTORS

Non-executive Directors' fees are determined by the Board, within the restrictions contained in the Articles of Association, the non-executive Directors taking no part in the discussion or decision.

SERVICE CONTRACTS

Sir John Egan's appointment is for an initial period of two years from 15 June 2000. He has agreed to extend his appointment for a further two years.

On 15 March 2001 Trevor Taylor entered into a service contract with Inchcape Management (Services) Limited, a subsidiary of the Company, for an average of one day per week, with a notice period of six months. Raymond Ch'ien's service contract with Crown Motors Limited, a subsidiary of the Company in Hong Kong, was terminated on 31 October 2001. None of the non-executive Directors, including Ken Hanna who is proposed for election, are engaged on service contracts with the Company.

Peter Johnson and Alan Ferguson have service contracts with a notice period of one year. As mentioned above, Alan Ferguson is proposed for re-election at the 2002 Annual General Meeting. Their contracts include entitlements to compensation if their employment is terminated without proper notice by the Company within six months of a change of control. In those circumstances, the compensation payable would not exceed the value of twelve months' remuneration.

It is the normal policy of the Company in the event of termination to seek fair mitigation of contractual rights. Within legal constraints, the Committee tailors its approach, in cases of early termination, to the circumstances of each individual case.

Since 1 February 2001 Trevor Taylor has been a retired member of the Toyota (GB) pension scheme. During the year, Trevor Taylor exercised options and others lapsed. Details are shown in note 3 on page 26. As at 31 December 2001 he had no remaining options. Raymond Ch'ien has options over shares in the Company as shown on note 3 on page 26. Otherwise, neither the Chairman nor any of the non-executive Directors are eligible for pension scheme membership or participation in any of the Company's bonus, share option or other incentive schemes.

POLICY ON EXTERNAL APPOINTMENTS

Inchcape recognises that its Directors may well be invited to become non-executive Directors of other companies, and that this additional experience is likely to benefit the Company. Executive Directors are, therefore, allowed to accept one non-executive appointment (two in the case of the Group Chief Executive) as long as these are not likely to lead to conflicts of interest. Any fees received for these duties may be retained by the executive Director.

DIRECTORS' EMOLUMENTS

The total emoluments of the Directors were as follows:

	2001 £'000	2000 restated £'000
Remuneration and non-executive Directors' fees	**1,366**	1,320
Bonus payments	**398**	463
Total	**1,764**	1,783

1. INDIVIDUAL EMOLUMENTS FOR THE YEAR

The table below shows a breakdown of remuneration, including taxable and other benefits of each Director. Details of pension entitlements and options held are shown in notes 2 and 3 on pages 26 and 27.

	Base Salary/fees		Bonus		Taxable and other benefits		Company contributions paid in year in respect of pension arrangements		Total remuneration	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 restated £'000	2001 £'000	2000 restated £'000
Tony Alexander (c)	**31**	28	–	–	–	–	–	–	**31**	28
Raymond Ch'ien (a)	**154**	173	–	–	**6**	7	–	–	**160**	180
Sir John Egan	**128**	68	–	–	**12**	1	–	–	**140**	69
Alan Ferguson	**223**	195	**138**	120	**20**	18	–	–	**381**	333
Kenneth Hanna (appointed 27 September 2001)	**6**	–	–	–	–	–	–	–	**6**	–
Peter Johnson (d) (highest paid director)	**424**	385	**260**	240	**24**	27	**132**	116	**840**	768
Hugh Norton (b) (c)	**31**	28	–	–	–	–	–	–	**31**	28
Simon Robertson	**27**	24	–	–	–	–	–	–	**27**	24
Trevor Taylor (e)	**143**	246	–	103	**5**	4	–	–	**148**	353
Total	**1,167**	1,147	**398**	463	**67**	57	**132**	116	**1,764**	1,783

(a) The emoluments shown for Raymond Ch'ien include those in respect of his duties performed as Chairman of Inchcape Greater China and for Crown Motors Limited until 31 October 2001.

(b) In the year the Inchcape Group (UK) Pension Scheme paid the sum of £3,000 to Hugh Norton as the fee for chairing the Scheme's Trustee Board.

(c) The base salary/fees details shown for Tony Alexander and Hugh Norton include fees of £4,250 to each of them for chairing the Audit and Remuneration Committees respectively.

(d) The payment of £132,000 (2000: £116,000) was paid directly to Peter Johnson to allow him to make his own pension arrangements outside the Company's plans.

No Directors waived emoluments in respect of the year ended 31 December 2001 (2000 – none).

The 2000 numbers have been restated to reflect more accurately the nature of payments made in respect of pension arrangements.

(e) Trevor Taylor was an executive Director until he relinquished his executive responsibilities on 31 January 2001. On 15 March 2001 he entered into a service contract with Inchcape Management (Services) Ltd, a subsidiary of the Company, for an average of one day per week. The table includes his remuneration under that contract.

2. DIRECTORS' PENSION ENTITLEMENTS

	Accrued annual pension under defined benefit schemes			
	Increase in accrued pension during the year £'000	Transfer value of increase £'000	Accumulated total of accrued pension at 31.12.01 £'000	Accumulated total of accrued pension at 1.1.01 £'000
Alan Ferguson	19	198	98	79
Peter Johnson (highest paid Director)	4	53	22	18
Trevor Taylor	1	4	166	165
Total	**24**	**255**	**286**	**262**

The increase in accrued pension during the year excludes the effects of inflation.

3. DIRECTORS' SHARE OPTIONS

	Held at 31.12.01	Granted during the year	Lapsed, cancelled or waived during the year	Exercised	Held at 1.1.01	Exercise price (d)	When exercisable
Raymond Ch'ien	14,671 (c)	–	–	–	14,671	£17.04	July 2000-July 2007
	64,432 (c)	–	–	–	64,432	£3.88	Aug 2002-Aug2009
Alan Ferguson	90,205 (a)	–	–	–	90,205	£3.88	Sept 2002-Sept 2009
	2,980 (b)	–	–	–	2,980	£3.25	Dec 2002-Jun 2003
	70,422 (a)	–	–	–	70,422	£2.84	Aug 2003-Aug 2010
	52,083 (a)	52,083	–	–	–	£3.84	Mar 2004-Mar 2011
Peter Johnson (highest paid Director)	172,679 (a)	–	–	–	172,679	£3.88	Sept 2002-Sept 2009
	2,980(b)	–	–	–	2,980	£3.25	Dec 2002-Jun 2003
	140,845 (a)	–	–	–	140,845	£2.84	Aug 2003-Aug 2010
	104,166 (a)	104,166	–	–	–	£3.84	Mar 2004-Mar 2011
Trevor Taylor	–	–	690(b)	–	690	£15.00	Aug 2000-Feb 2001
	–	–	287(b)	–	287	£13.56	Aug 2000-Feb 2001
	–	–	–	136,596 (e)	136,596	£3.88	Sept 2002-Sept 2009

(a) Under the Inchcape 1999 Share Option Plan.

(b) Under the Inchcape SAYE Share Option Scheme.

(c) The options held by Raymond Ch'ien were granted to him under Deeds dated 1 July 1997 and 12 August 1999. These options were granted under special arrangements agreed in 1997 as part of the terms and conditions under which he was appointed Chairman of Inchcape Pacific Limited. During 1999 the obligation was transferred to Crown Motors Limited following the disposal of Inchcape Pacific Limited as part of the sale of the Asia Pacific Marketing business. The tranche granted in 1997 is normally exercisable between three and ten years of grant. The second tranche, granted in 1999, is under equivalent terms to those of the Inchcape 1999 Share Option Plan. Raymond Ch'ien's service contract with Crown Motors was terminated on 31 October 2001. In accordance with the terms of the Deeds, his options are exercisable within 12 months of such termination.

(d) Exercise prices are determined in accordance with the Rules of the relevant share option scheme and on an equivalent basis for the Deeds in favour of Raymond Ch'ien.

(e) Having relinquished his executive responsibilities on 31 January 2001, Trevor Taylor's options under the 1999 Share Option Plan became exercisable within 12 months of that date under the rules of the Plan. He exercised his options over 136,596 shares on 22 May 2001. He made a gain of £102,447 on the exercise of those options. On the day of exercise the mid market price of the shares was 467p.

Notes on share options

All options were granted for nil consideration.

The table shows Directors' options over ordinary shares of 150p at 1 January 2001 and 31 December 2001. The mid-market price of the shares at 31 December 2001 was 606p. The price range during 2001 was 275p to 615p.

Options under the Inchcape 1999 Share Option Plan are granted on a discretionary basis to full time senior executives based within and outside the UK including executive Directors of Inchcape plc. Such options are normally exercisable between three and ten years of grant.

Options may normally only be exercised if the performance target has been met. For options granted in 1999, 2000 and 2001 under the Inchcape 1999 Share Option Plan, growth in Company earnings per share over a three-year period must exceed the increase in the Retail Prices Index over the same period by 3.0% per annum.

The Inchcape SAYE Share Option Scheme is open to employees in the UK with at least 3 months' service. Participants make monthly savings for a three-year period. At the end of the savings period options became exercisable within six months.

4. DEFERRED BONUS PLAN

The number of ordinary shares awarded to executive Directors under the Deferred Bonus Plan are:

	Awarded shares 31.12.01	Shares awarded during the year	Awarded shares 1.1.01
Peter Johnson	66,032	30,769	35,263
Alan Ferguson	33,805	15,384	18,421

(a) No awards vested in the year (2000 – none).

(b) The executive will become entitled to the awarded shares if he remains employed by the Group for three years and retains the shares purchased with his bonus throughout that period. The awards made in 2000 will normally vest in 2003 and those made in 2001 will normally vest in 2004. Special rules apply on termination of employment and on a change of control.

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

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

The Directors are responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INCHCAPE PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, the related notes, the notes to the board report on remuneration and the accounting policies set out in the statement of accounting policies.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the 2001 Highlights, the Chairman's Statement, This is Inchcape, the Chief Executive's Review, the Financial Review, Inchcape in the Community, Environment, Health and Safety, Board of Directors, the Directors' Report, the Board Report on Remuneration, the Five Year Record and Company Details.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
4 March 2002

Notes		Continuing operations 2001 £m	Discontinued operations 2001 £m	Total 2001 £m	2000 £m
1a	**Turnover including share of joint ventures and associates**	**3,228.3**	**91.2**	**3,319.5**	3,717.4
	Less:				
1a	– share of joint ventures	**(40.8)**	**(0.6)**	**(41.4)**	(61.1)
1a	– share of associates	**(161.0)**	**(4.1)**	**(165.1)**	(570.2)
1a,2a	Group subsidiaries' turnover	**3,026.5**	**86.5**	**3,113.0**	3,086.1
2a	Cost of sales	**(2,573.4)**	**(75.2)**	**(2,648.6)**	(2,607.3)
	Gross profit	**453.1**	**11.3**	**464.4**	478.8
2a	Net operating expenses	**(369.3)**	**(7.8)**	**(377.1)**	(406.8)
2a	**Operating profit**	**83.8**	**3.5**	**87.3**	72.0
1b	Share of profits of joint ventures	**11.6**	**0.1**	**11.7**	13.2
1b	Share of profits (losses) of associates	**2.9**	**(0.1)**	**2.8**	4.9
1b	**Total operating profit**	**98.3**	**3.5**	**101.8**	90.1
4	Net (loss) profit on sale of properties and investments	**(1.7)**	**1.1**	**(0.6)**	(0.4)
4	Net (loss) profit including provisions on sale and termination of operations	**(41.0)**	**4.7**	**(36.3)**	(18.5)
4	Utilisation of provision for net loss on sale of operations	**–**	**–**	**–**	18.2
		(41.0)	**4.7**	**(36.3)**	(0.3)
	Profit on ordinary activities before interest	**55.6**	**9.3**	**64.9**	89.4
5	Net interest			**(3.9)**	(16.0)
2b,8	**Profit on ordinary activities before taxation**			**61.0**	73.4
6	Tax on profit on ordinary activities			**(28.7)**	(18.2)
	Profit on ordinary activities after taxation			**32.3**	55.2
7	Minority interests			**(8.3)**	(7.6)
23b	**Profit for the financial year**			**24.0**	47.6
9	Dividends			**(19.5)**	(19.2)
23a	**Retained profit for the financial year**			**4.5**	28.4
8	Headline profit before tax (£m)			**97.9**	74.1
8	Headline earnings per share (pence)			**78.2p**	49.3p
8	FRS 3 profit before tax (£m)			**61.0**	73.4
8	Basic earnings per share (pence)			**30.1p**	54.2p
8	Diluted earnings per share (pence)			**29.7p**	54.2p

Notes		2001 £m	2000 £m
23b	Profit for the financial year	**24.0**	47.6
	Effect of foreign exchange rate changes:		
	– results for the year	**(1.0)**	0.8
	– foreign currency net investments	**(3.2)**	10.3
23a	Unrealised deficit on impairment of revalued properties	**(0.2)**	(0.3)
	Total recognised gains	**19.6**	58.4

NOTE OF HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2001

		2001 £m	2000 £m
	Reported profit on ordinary activities before taxation	**61.0**	73.4
23a	Realisation of property revaluation (deficits) surpluses	**(1.3)**	1.5
	Difference between the historical cost and the actual depreciation charge	**1.0**	0.6
	Historical cost profit on ordinary activities before taxation	**60.7**	75.5
	Historical cost profit after taxation, minority interests and dividends	**4.2**	30.5

Notes		Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
	Fixed assets:				
10	Intangible assets	**76.2**	3.7	**–**	–
11	Tangible assets	**251.1**	244.5	**–**	–
12	Investments:				
	– subsidiaries	**–**	–	**1,027.7**	843.9
	– joint ventures: share of gross assets	**443.2**	534.5		
	share of gross liabilities	**(392.0)**	(479.2)		
	share of net assets	**51.2**	55.3	**–**	–
	– associates	**29.0**	43.5	**–**	13.0
	– other investments	**4.0**	12.9	**3.4**	3.6
		411.5	359.9	**1,031.1**	860.5
	Current assets:				
13	Stocks	**519.7**	530.1	**–**	–
14	Debtors:				
	– amounts due within one year	**202.2**	255.4	**4.1**	2.8
	– amounts due after more than one year	**13.4**	68.0	**184.3**	45.7
15	Investments	**14.2**	10.4	**–**	–
24b	Cash at bank and in hand	**123.0**	166.4	**41.2**	0.2
		872.5	1,030.3	**229.6**	48.7
	Creditors – amounts falling due within one year:				
16a	Borrowings	**(83.1)**	(138.6)	**(19.1)**	(9.0)
16b	Other	**(582.7)**	(566.5)	**(370.2)**	(318.3)
		(665.8)	(705.1)	**(389.3)**	(327.3)
	Net current assets (liabilities)	**206.7**	325.2	**(159.7)**	(278.6)
	Total assets less current liabilities	**618.2**	685.1	**871.4**	581.9
	Creditors – amounts falling due after more than one year:				
17a	Borrowings	**(22.4)**	(96.9)	**(20.2)**	(12.3)
17b	Other	**(81.6)**	(61.8)	**(344.3)**	(184.7)
		(104.0)	(158.7)	**(364.5)**	(197.0)
19	**Provisions for liabilities and charges**	**(111.4)**	(113.9)	**(49.5)**	(51.1)
	Net assets	**402.8**	412.5	**457.4**	333.8
	Capital and reserves:				
22a,23a	Called-up share capital	**116.2**	132.5	**116.2**	132.5
23a	Share premium account	**107.0**	106.9	**107.0**	106.9
23a	Revaluation reserve	**36.1**	37.2	**–**	–
23a	Capital redemption reserve	**16.4**	–	**16.4**	–
23a	Profit and loss account	**81.3**	88.7	**217.8**	94.4
	Equity shareholders' funds	**357.0**	365.3	**457.4**	333.8
	Minority interests	**45.8**	47.2	**–**	–
		402.8	412.5	**457.4**	333.8

The financial statements on pages 30 to 67 were approved by the Board of Directors on 4 March 2002 and were signed on its behalf by:

Directors
Peter Johnson
Alan Ferguson

RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

Notes		2001 £m	2000 £m
	Operating profit	**87.3**	72.0
10	Amortisation	**0.9**	0.9
11	Depreciation	**26.6**	24.8
2b(i)	(Profit) loss on sale of tangible fixed assets other than property	**(0.4)**	1.2
	Decrease in stocks	**6.1**	14.8
	Decrease (increase) in debtors	**44.4**	(44.9)
	Increase in creditors	**14.4**	28.1
	Payments in respect of exceptional operating items	**–**	(1.3)
	Payments in respect of termination of operations	**(2.2)**	(1.1)
	Other items	**11.4**	(4.0)
	Net cash inflow from operating activities	**188.5**	90.5

CONSOLIDATED CASH FLOW STATEMENT

Notes		2001 £m	2000 £m
	Net cash inflow from operating activities	**188.5**	90.5
	Dividends from joint ventures	**7.2**	5.9
	Dividends from associates	**3.5**	3.1
25a	Returns on investments and servicing of finance	**(6.7)**	(14.8)
	Taxation	**(28.4)**	(12.4)
25b	Capital expenditure and financial investment	**(17.6)**	(21.1)
		146.5	51.2
25c,d	Acquisitions and disposals	**6.6**	48.2
	Equity dividends paid	**(18.4)**	(18.8)
	Net cash inflow before use of liquid resources and financing	**134.7**	80.6
	Net cash inflow (outflow) from the management of liquid resources	**53.5**	(88.1)
25e	Net cash outflow from financing *	**(169.3)**	(49.1)
24a	**Net increase (decrease) in cash**	**18.9**	(56.6)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS AND DEBT

Notes		2001 £m	2000 £m
	Net increase (decrease) in cash	**18.9**	(56.6)
	Net cash outflow from increase in debt and lease financing	**124.2**	49.1
	Net cash (inflow) outflow from the management of liquid resources	**(53.5)**	88.1
	Change in net funds and debt resulting from cash flows	**89.6**	80.6
	Effect of foreign exchange rate changes on net debt	**(4.6)**	(1.4)
25d	Net loans and finance leases relating to acquisitions and disposals	**13.0**	1.0
25d	Liquid resources of businesses sold	**(11.4)**	(0.3)
	Movement in net funds (debt)	**86.6**	79.9
	Net debt at 1 January	**(69.1)**	(149.0)
24a	**Net funds (debt) at 31 December**	**17.5**	(69.1)

* Net cash outflow from financing includes £45.3m relating to the share buyback programme.

a **Accounting convention** The financial statements have been prepared on the historical cost basis, modified to include the revaluation of certain tangible fixed assets, in accordance with applicable UK accounting standards which have been applied on a consistent basis for all Group operations.

b **Basis of consolidation** The results of businesses acquired or sold are included in the profit and loss account from, or up to, the date control passes. All undertakings over which the Group exercises control or has a dominant influence are consolidated as subsidiary undertakings ("subsidiaries").

Associates are accounted for by the equity method and joint ventures by the gross equity method.

Historic goodwill arising on acquisitions made before the adoption of FRS 10 in 1998 has been charged to the profit and loss reserve. On disposal, or in the event of identification of total and permanent impairment, a charge is taken to the profit and loss account. Goodwill arising on acquisitions made from 1998 onwards is capitalised and is normally amortised over its separately evaluated useful life of up to 20 years. In exceptional circumstances the goodwill may be carried forward unamortised subject to annual impairment tests.

c **Turnover and cost of sales** Turnover is the total amount receivable for goods sold and services provided including Financial Services interest and leasing income. It excludes sales related taxes and intra-Group transactions. Correspondingly, interest expense in respect of Financial Services is treated as cost of sales.

d **Foreign currencies** The results and cash flows of overseas operations are translated into sterling at the average for the year of the month end rates of exchange, except when results are adjusted for the impact of hyper-inflation by using an alternative functional currency. Assets and liabilities in foreign currencies are translated into sterling at closing rates of exchange except where rates are fixed by contract.

The difference between the profit and loss account translated at average and at closing rates of exchange is included as a reserve movement in the statement of total recognised gains and losses. Exchange differences arising from the retranslation to closing rates of exchange of intra-Group dividends, opening net assets, long term foreign currency borrowings used to finance foreign currency investments, and foreign currency borrowings and instruments that provide a hedge against net assets are also reflected as a reserve movement. All other exchange differences are dealt with in the profit and loss account.

e **Financial instruments** are used to manage the Group's exposure to fluctuations in interest rates and foreign currency exchange rates. Instruments accounted for as hedges are designated as a hedge at the inception of contracts. Interest differentials on derivative instruments and amounts receivable and payable on interest rate instruments are recognised as adjustments to interest expense over the period of the contracts. Gains and losses on foreign currency hedges are recognised on maturity of the underlying transaction. Currency swap agreements are retranslated at the rates ruling in the agreements, with resulting gains and losses being offset against foreign exchange gains or losses on the related borrowing. Gains and losses arising on hedging instruments which are cancelled due to the termination of underlying exposure are taken to the profit and loss account immediately.

f **Tangible fixed assets** are stated at cost or valuation less depreciation, which is provided, except for freehold land, on a straight line basis over their estimated useful lives, mainly at the following annual rates:

Freehold buildings and long leasehold land and buildings	2.0%
Short leasehold land and buildings	term of lease
Plant, machinery and equipment	5.0% – 33.3%
Major computer software applications	33.3%

Land and buildings were last revalued in 1996 on an open market existing use basis by local firms of professionally qualified surveyors in accordance with the Group's prior policy of triennial valuation. Following the implementation of FRS 15 the Group has adopted a policy of not revaluing fixed assets. The carrying amounts of tangible fixed assets previously revalued have been retained at their book amounts in accordance with the transitional arrangements, and are subject to impairment tests when necessary. Diminution in value of individual properties below cost is charged to the profit and loss account.

Fixed asset investments are stated at cost, less provisions for impairment.

g **Vacant leasehold property** is provided to the extent of the value of the estimated future net cost.

h **Stocks and work in progress** are valued at the lower of cost and net realisable value. Cost comprises expenditure incurred in bringing stocks and work in progress to their present location and condition.

i **Leases** As lessee – assets held under finance leases are treated as if they had been purchased at the present value of the minimum lease payments. This cost is included under tangible fixed assets and depreciation is provided over the shorter of the lease term and the estimated useful life. The corresponding obligations under these leases are included within borrowings. The finance charge element of rentals payable is charged to the profit and loss account to produce a constant rate of interest. Rental payments arising from operating leases are charged on a straight line basis.

As lessor – the net investment in finance leases and hire purchase contracts is included under debtors and represents the total amount outstanding under lease agreements and hire purchase contracts less unearned income. Finance lease and hire purchase income is allocated to accounting periods to give a constant periodic rate of return on the net cash investment. Rentals receivable from operating leases are credited to the profit and loss account on a straight line basis.

j **Deferred taxation** is provided using the liability method at current taxation rates on timing differences to the extent that it is probable that a liability or asset will crystallise.

k **Trade finance** provided by manufacturers, suppliers or related finance houses is treated as a creditor and the cost of such credit is included in cost of sales.

l **Post-retirement benefits** Liabilities under defined contribution pension schemes are charged when incurred. The Group has a number of defined benefit pension schemes for which contributions are based on triennial actuarial valuations. Pension charges in the profit and loss account are calculated at a substantially level percentage of current and expected future pensionable payroll, with variations from regular cost spread over the expected remaining service lives of employees. Other post-retirement benefits are accounted for on a similar basis to defined benefit pension schemes.

1 SEGMENTAL ANALYSIS

a Turnover

	Group subsidiaries		Share of joint ventures		Share of associates		Total	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
(i) By geographical market:								
UK	**904.7**	797.7	**10.2**	16.2	**159.3**	195.0	**1,074.2**	1,008.9
Greece/Belgium	**595.0**	560.1	**5.0**	3.8	**1.7**	1.5	**601.7**	565.4
Australia/New Zealand	**408.8**	403.5	**8.2**	6.9	**–**	–	**417.0**	410.4
Hong Kong	**420.5**	335.9	**17.4**	20.0	**–**	–	**437.9**	355.9
Singapore/Brunei	**427.5**	378.6	**–**	–	**–**	–	**427.5**	378.6
Other	**270.0**	252.6	**–**	(0.1)	**–**	–	**270.0**	252.5
Continuing	**3,026.5**	2,728.4	**40.8**	46.8	**161.0**	196.5	**3,228.3**	2,971.7
Discontinued	**86.5**	357.7	**0.6**	14.3	**4.1**	373.7	**91.2**	745.7
	3,113.0	3,086.1	**41.4**	61.1	**165.1**	570.2	**3,319.5**	3,717.4
(ii) By activity:								
Import, Distribution & Retail	**2,261.5**	2,042.0	**–**	–	**157.1**	195.0	**2,418.6**	2,237.0
UK Retail	**711.7**	621.5	**–**	–	**–**	–	**711.7**	621.5
Financial Services	**52.5**	63.8	**40.8**	46.8	**3.9**	1.5	**97.2**	112.1
E-commerce	**0.8**	1.1	**–**	–	**–**	–	**0.8**	1.1
Continuing	**3,026.5**	2,728.4	**40.8**	46.8	**161.0**	196.5	**3,228.3**	2,971.7
Discontinued	**86.5**	357.7	**0.6**	14.3	**4.1**	373.7	**91.2**	745.7
	3,113.0	3,086.1	**41.4**	61.1	**165.1**	570.2	**3,319.5**	3,717.4

Activities treated as discontinued in 2001 were IRB Finance Berhad, Inchcape France Finance, Jaguar Australia, Peugeot Australia, Peugeot New Zealand, Ford Peru and Ford Ecuador.

Activities treated as discontinued in 2000 were Toyota (GB), Mazda France, Volkswagen Australia, activities in China and two agricultural and industrial vehicle activities in Latin America.

Geographical analysis of turnover is by origin and is not significantly different to turnover by destination. Turnover between segments is not material.

1 SEGMENTAL ANALYSIS CONTINUED

b Total operating profit

	Group subsidiaries		Share of joint ventures		Share of associates		Total	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
(i) By geographical market:								
UK	**10.5**	(6.2)	**0.7**	3.4	**2.5**	3.5	**13.7**	0.7
Greece/Belgium	**9.4**	15.4	**2.9**	2.0	**0.4**	0.3	**12.7**	17.7
Australia/New Zealand	**12.3**	8.3	**0.5**	0.4	**–**	–	**12.8**	8.7
Hong Kong	**41.4**	34.0	**7.5**	6.7	**–**	–	**48.9**	40.7
Singapore/Brunei	**19.2**	21.9	**–**	–	**–**	–	**19.2**	21.9
Other	**5.9**	7.9	**–**	–	**–**	–	**5.9**	7.9
	98.7	81.3	**11.6**	12.5	**2.9**	3.8	**113.2**	97.6
Central costs	**(14.9)**	(16.3)	**–**	–	**–**	–	**(14.9)**	(16.3)
Continuing	**83.8**	65.0	**11.6**	12.5	**2.9**	3.8	**98.3**	81.3
Discontinued	**3.5**	7.0	**0.1**	0.7	**(0.1)**	1.1	**3.5**	8.8
	87.3	72.0	**11.7**	13.2	**2.8**	4.9	**101.8**	90.1
(ii) By activity:								
Import, Distribution & Retail	**94.0**	85.8	**(0.2)**	–	**1.5**	1.9	**95.3**	87.7
UK Retail	**12.2**	8.8	**–**	–	**–**	–	**12.2**	8.8
Financial Services	**(0.8)**	(5.4)	**11.8**	12.5	**1.4**	1.9	**12.4**	9.0
E-commerce	**(6.7)**	(7.9)	**–**	–	**–**	–	**(6.7)**	(7.9)
	98.7	81.3	**11.6**	12.5	**2.9**	3.8	**113.2**	97.6
Central costs	**(14.9)**	(16.3)	**–**	–	**–**	–	**(14.9)**	(16.3)
Continuing	**83.8**	65.0	**11.6**	12.5	**2.9**	3.8	**98.3**	81.3
Discontinued	**3.5**	7.0	**0.1**	0.7	**(0.1)**	1.1	**3.5**	8.8
	87.3	72.0	**11.7**	13.2	**2.8**	4.9	**101.8**	90.1

1 SEGMENTAL ANALYSIS CONTINUED

c Net assets

	Group subsidiaries		Share of joint ventures		Share of associates		Total	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
(i) By geographical market:								
UK	**242.8**	120.6	**3.8**	6.5	**27.4**	41.8	**274.0**	168.9
Greece/Belgium	**46.2**	123.4	**7.4**	6.8	**1.4**	1.3	**55.0**	131.5
Australia/New Zealand	**(16.3)**	(11.1)	**0.5**	4.0	**–**	–	**(15.8)**	(7.1)
Hong Kong	**37.5**	39.4	**39.5**	34.9	**–**	–	**77.0**	74.3
Singapore/Brunei	**47.3**	66.7	**–**	–	**–**	–	**47.3**	66.7
Other	**60.7**	53.6	**–**	–	**–**	–	**60.7**	53.6
Continuing	**418.2**	392.6	**51.2**	52.2	**28.8**	43.1	**498.2**	487.9
Discontinued	**(0.9)**	33.1	**–**	3.1	**0.2**	0.4	**(0.7)**	36.6
	417.3	425.7	**51.2**	55.3	**29.0**	43.5	**497.5**	524.5
Net cash (debt) *	**17.5**	(16.8)	**–**	–	**–**	–	**17.5**	(16.8)
Other unallocated assets and liabilities **	**(112.2)**	(95.2)	**–**	–	**–**	–	**(112.2)**	(95.2)
	322.6	313.7	**51.2**	55.3	**29.0**	43.5	**402.8**	412.5
(ii) By activity:								
Import, Distribution & Retail	**283.0**	287.5	**0.8**	–	**21.9**	36.6	**305.7**	324.1
UK Retail	**118.4**	108.4	**–**	–	**–**	–	**118.4**	108.4
Financial Services	**17.9**	(2.2)	**50.4**	52.2	**6.9**	6.5	**75.2**	56.5
E-commerce	**(1.1)**	(1.1)	**–**	–	**–**	–	**(1.1)**	(1.1)
Continuing	**418.2**	392.6	**51.2**	52.2	**28.8**	43.1	**498.2**	487.9
Discontinued	**(0.9)**	33.1	**–**	3.1	**0.2**	0.4	**(0.7)**	36.6
	417.3	425.7	**51.2**	55.3	**29.0**	43.5	**497.5**	524.5
Net cash (debt) *	**17.5**	(16.8)	**–**	–	**–**	–	**17.5**	(16.8)
Other unallocated assets and liabilities **	**(112.2)**	(95.2)	**–**	–	**–**	–	**(112.2)**	(95.2)
	322.6	313.7	**51.2**	55.3	**29.0**	43.5	**402.8**	412.5

* Reconciled to debt as follows:

	2001	2000
Net cash (debt) as above	**17.5**	(16.8)
Financial Services debt in respect of consumer financing	**–**	(52.3)
Net cash (debt) as reported (note 24a)	**17.5**	(69.1)

** Other unallocated assets and liabilities include central provisions, taxation, dividends and assets not directly related to operating activity.

1 SEGMENTAL ANALYSIS CONTINUED

d **Average number of employees**	Group subsidiaries		Joint ventures		Associates		Total	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
Import, Distribution & Retail	**4,976**	5,191	**–**	–	**1,222**	617	**6,198**	5,808
UK Retail	**2,559**	2,353	**–**	–	**–**	–	**2,559**	2,353
Financial Services	**279**	270	**200**	205	**16**	13	**495**	488
E-commerce	**35**	40	**–**	–	**–**	–	**35**	40
Total operational	**7,849**	7,854	**200**	205	**1,238**	630	**9,287**	8,689
Corporate	**57**	69	**–**	–	**–**	–	**57**	69
Continuing	**7,906**	7,923	**200**	205	**1,238**	630	**9,344**	8,758
Discontinued	**211**	1,270	**–**	233	**20**	682	**231**	2,185
	8,117	9,193	**200**	438	**1,258**	1,312	**9,575**	10,943

2 OPERATING PROFIT

a **Analysis of operating profit**	Continuing operations 2001 £m	Discontinued operations 2001 £m	Total 2001 £m	Continuing operations 2000 £m	Discontinued operations 2000 £m	Total 2000 £m
Turnover	**3,026.5**	**86.5**	**3,113.0**	2,728.4	357.7	3,086.1
Cost of sales	**(2,573.4)**	**(75.2)**	**(2,648.6)**	(2,306.0)	(301.3)	(2,607.3)
Gross profit	**453.1**	**11.3**	**464.4**	422.4	56.4	478.8
Distribution costs	**(207.1)**	**(3.8)**	**(210.9)**	(203.7)	(26.1)	(229.8)
Administrative expenses	**(164.9)**	**(7.0)**	**(171.9)**	(155.3)	(24.3)	(179.6)
Other operating income	**0.8**	**0.2**	**1.0**	1.0	0.3	1.3
Utilisation of termination provisions	**1.9**	**2.8**	**4.7**	0.6	0.7	1.3
Operating profit	**83.8**	**3.5**	**87.3**	65.0	7.0	72.0

b **Supplemental information**	2001 £m	2000 £m
Profit on ordinary activities before taxation is stated after the following charges (credits):		
(i) Amortisation of goodwill – subsidiaries	**0.9**	0.9
Amortisation of goodwill – associates	**0.9**	–
Depreciation of owned tangible fixed assets	**26.6**	24.8
(Profit) loss on sale of tangible fixed assets other than property	**(0.4)**	1.2
Hire of plant, machinery and equipment	**1.5**	1.1
Other operating lease rentals payable	**20.0**	18.0
Auditors' remuneration:		
UK statutory audit (Company: £0.1m, 2000 – £0.1m)	**0.7**	0.6
Overseas statutory audit	**0.5**	0.5
UK non-audit fees:		
– Due diligence and other audit-related work	**0.2**	0.2
– Tax advice	–	0.2
– Financial advisory services	–	0.8
Overseas non-audit fees	**0.3**	0.4
Total PricewaterhouseCoopers audit and non-audit fees	**1.7**	2.7
Audit fees and expenses – firms other than PricewaterhouseCoopers	**0.1**	0.1

As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented for the Company.

(ii) Staff costs:		
Wages and salaries	**167.1**	168.2
Social security costs	**16.7**	16.9
Other pension costs	**6.1**	4.6
Total employment costs of the Company and its subsidiaries	**189.9**	189.7

Information on Directors' emoluments and interests, which forms part of these audited financial statements, is given in the notes to the Board Report on Remuneration.

3 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

a The Group operates pension schemes for its employees in a number of subsidiaries. Schemes are mainly of the defined benefit type with assets held under trust in separately administered accounts. Some overseas employees are covered by defined contribution schemes which are principally linked to local statutory arrangements. The Group also has some unfunded arrangements in the UK, the costs of which are included in the pension cost figures below. The Group has no health and medical plans providing post-retirement benefits for current employees but does have a liability in respect of past employees under schemes which have been closed to new entrants.

PENSIONS – UK SCHEMES

The UK consists of three main defined benefit schemes. All three schemes' pension costs were determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method.

These are considered below.

Open Schemes

(i) Inchcape Group (UK) Pension Scheme
The latest actuarial valuation for this scheme was carried out at 31 March 2000 on a market-related basis.

The main assumptions are investment return of 5.0%, salary increase of 4.5% and pension increase of 2.5%. The market-related value of the assets covered 125.6% of the benefits that had accrued to members after allowing for expected future salary increases. The market value of the assets at the date of the valuation was £179.8m.

As a result of the financial strength of the scheme, the actuary has recommended that contributions be suspended for the forseeable future. A pension cost of £nil has been charged from the date of the valuation.

(ii) Inchcape Motors Pension Scheme
The latest actuarial valuation for this scheme was carried out at 5 April 2000 on a market-related basis.

The main assumptions are weighted average investment return of 5.7%, salary increase of 4.5% and pension increase of 2.5%. The market value of the assets covered 120.5% of the benefits that had accrued to members after allowing for expected future salary increases. The market value of the assets at the date of the valuation was £114.2m.

Closed Scheme

TKM Group Pension Scheme
The latest actuarial valuation for this closed scheme was carried out at 5 April 2001. The Group has no obligation to fund this scheme except to the extent required under the Minimum Funding Requirement (MFR). As at 5 April 2001, the assets covered 117.0% of the MFR.

The main assumptions are investment return of 5.5%, gilt yield of 2.6% and pension increase of 2.6%. The actuarial valuation of the assets covered 111.3% of the benefits that had accrued to members. The market value of the assets at the date of the valuation was £239.3m.

PENSIONS – OVERSEAS SCHEMES

The assets of all overseas schemes had a market value of £109.3m based on the latest actuarial valuations. This included £81.1m of assets held in the Inchcape Group Overseas Scheme managed from Guernsey. In note 3b, in line with FRS 17, this scheme is included in the UK segment. The actuarial assumptions used for overseas schemes were consistent with local practice. The actuarial valuations of the total assets covered 100.7% of the benefits that had accrued to members.

PENSION COST

The pension cost charged for 2001 was £6.1m (2000 – £4.6m) of which £4.3m (2000 – £3.3m) relates to schemes of a defined benefit nature and £1.8m (2000 – £1.3m) represents the amount attributable to defined contribution schemes. A provision of £3.8m (2000 – £2.0m) is included in provisions for liabilities and charges, being the excess of the pension cost charge over the amount funded. Outstanding contributions to defined contribution schemes are £0.5m (2000 – £0.3m).

3 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

b Disclosures under FRS 17 for the year ended 31 December 2001

The Group continues to report pension costs in accordance with SSAP 24. However, the Group is following the transitional arrangements under which additional disclosure on retirement benefits is required in the Notes to the Financial Statements under FRS 17. These disclosures are set out below.

The principal retirement and defined benefit schemes operated by the Group are in the UK and Hong Kong. The most recent actuarial valuations of these schemes have been updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2001. Scheme assets are stated at their market value at 31 December 2001.

(i) Weighted average assumptions used by the actuaries:

	UK %	Hong Kong %
Rate of increase in salaries	**4.5**	**5.8**
Rate of increase in pensions	**2.5**	**–**
Discount rate	**5.8**	**6.3**
Inflation assumption	**2.5**	**–**

The rate of increase in healthcare cost is 4.5% p.a. but with higher increases in the first ten years.

(ii) The assets in the scheme and the expected rate of return were:

Long term rate of return expected at 31 December 2001	Equities %	Bonds %	Other %	Total %
UK	**7.5**	**5.0**	**4.9**	**6.3**
Hong Kong	**8.5**	**4.5**	**–**	**7.3**

Value at 31 December 2001	**Equities £m**	**Bonds £m**	**Other £m**	**Total £m**
UK	**166.1**	**147.6**	**15.0**	**328.7**
Hong Kong	**10.9**	**4.7**	**–**	**15.6**
Total	**177.0**	**152.3**	**15.0**	**344.3**

(iii) Net Pension Asset

	UK £m	Hong Kong £m	Total £m
Total market value of assets	**328.7**	**15.6**	**344.3**
Present value of scheme liabilities	**(319.2)**	**(20.1)**	**(339.3)**
Surplus (deficit) in the schemes	**9.5**	**(4.5)**	**5.0**
Related deferred tax asset	**–**	**0.7**	**0.7**
Net pension asset (liability)	**9.5**	**(3.8)**	**5.7**

In addition to the above, the Group sponsors the TKM Group Pension Scheme which is a defined benefit scheme covering pensioners and deferred pensioners (there are no active members). As at 5 April 2001, scheme assets were £239.7m. The Group has no obligation to fund this scheme except to the extent required under the Minimum Funding Requirement (MFR) and as at 5 April 2001 the assets covered 117.0% of the MFR. The Group believes that the surplus in this scheme is irrecoverable and hence the Group balance sheet includes no pension asset or liability for this scheme and no amount is recognised in the profit and loss account for this scheme.

3 PENSIONS AND OTHER POST-RETIREMENT BENEFITS CONTINUED

(iv) If the above amounts had been recognised in the financial statements, the Group's balance sheet at 31 December 2001 would be as follows:

Net Assets	At 31.12.01 £m
Net assets	402.8
SSAP 24 pension provision excluding defined contribution provision	6.6
Net assets excluding SSAP 24 pension provision	409.4
Pension asset	345.0
Pension liability	(339.3)
Net assets including pension asset	415.1
Reserves	
Profit and loss account	81.3
SSAP 24 pension provision excluding defined contribution provision	6.6
Profit and loss account excluding SSAP 24 pension provision	87.9
Pension reserve	5.7
Profit and loss account	93.6

4 EXCEPTIONAL ITEMS

	2001 £m	2000 £m
Net loss on sale of properties and investments	**(0.6)**	(0.4)
Net (loss) profit including provisions on sale and termination of operations:		
– MCL – UK (goodwill written off £24.5m)	**(24.5)**	–
– Seaking Automotive Ltd – UK (includes goodwill written off £5.3m)	**(7.9)**	–
– UK Retail dealerships (includes goodwill written off £5.8m)	**(6.7)**	–
– IRB Finance Berhad – Brunei	**3.9**	–
– Toyota (GB) – UK	**–**	14.0
– Nanjing Hong Kong Changjiang – China (2000 includes goodwill written off £0.9m)	**–**	(6.2)
– Towell Auto Centre – Oman (2000 includes goodwill written off £5.1m)	**–**	(3.0)
– John Deere – Peru	**–**	(3.1)
– Other (2001 includes goodwill written off £1.1m)	**(1.1)**	(2.0)
Total net loss including provisions on sale and termination of operations	**(36.3)**	(0.3)
Total exceptional items (note 8)	**(36.9)**	(0.7)

During 2001 the Group has disposed of various businesses. The principal profits and losses on those transactions are noted above and in the Financial Review.

Goodwill written off included above of £36.7m (2000 – £6.0m) had been charged against reserves in previous years (note 23a).

5 NET INTEREST

	2001 £m	2000 £m
Interest payable and other charges:		
On bank loans, overdrafts and other loans falling due within five years	**10.7**	23.1
On finance leases mainly repayable within five years	**–**	0.1
Other interest	**2.5**	7.6
	13.2	30.8
Less amounts included in cost of sales for Financial Services subsidiaries	**(0.6)**	(3.8)
	12.6	27.0
Interest receivable:		
Bank and other interest	**(11.9)**	(26.9)
Less amounts included in turnover for Financial Services subsidiaries	**1.8**	11.1
	(10.1)	(15.8)
The Company and its subsidiaries	**2.5**	11.2
Share of joint ventures' net interest	**0.1**	0.4
Share of associates' net interest	**1.3**	4.4
	3.9	16.0

6 TAXATION

Current taxation	2001 £m	2000 £m
United Kingdom corporation tax at 30.0% (2000 – 30.0%)	**1.5**	8.9
Double taxation relief	**(2.2)**	(10.0)
	(0.7)	(1.1)
Advance corporation tax written off	**–**	0.2
	(0.7)	(0.9)
Overseas taxes	**27.3**	27.7
Deferred taxation	**(2.3)**	(6.7)
	24.3	20.1
Adjustments to prior year liabilities:		
– UK	**(0.5)**	(2.4)
– overseas	**0.9**	(2.1)
The Company and its subsidiaries	**24.7**	15.6
Share of joint ventures' taxation	**2.9**	2.5
Share of associates' taxation	**1.1**	0.1
	28.7	18.2

The tax rate has been increased due to FRS 3 exceptional losses for which no tax credit is available (2000 – tax charge reduced by £5.0m in respect of FRS 3 exceptional items).

7 MINORITY INTERESTS

	2001 £m	2000 £m
Paid or payable as dividends	**3.0**	3.2
Net retained profit for the year	**5.3**	4.4
	8.3	7.6

8 EARNINGS PER ORDINARY SHARE

	Headline 2001 £m	Headline 2000 £m	FRS 3 2001 £m	FRS 3 2000 £m
Headline profit before tax	**97.9**	74.1	**97.9**	74.1
Exceptional items (note 4)	**–**	–	**(36.9)**	(0.7)
Profit before tax	**97.9**	74.1	**61.0**	73.4
Taxation (note 6)	**(28.7)**	(23.2)	**(28.7)**	(18.2)
Minority interests	**(6.8)**	(7.6)	**(8.3)**	(7.6)
Earnings	**62.4**	43.3	**24.0**	47.6
Headline earnings per share	**78.2p**	49.3p		
Basic earnings per share			**30.1p**	54.2p
Diluted earnings per share			**29.7p**	54.2p

	2001 number	2000 number
Weighted average number of fully paid ordinary shares in issue during the year, less those held by the Inchcape Employee Trust	**79,816,472**	87,776,386
Dilutive effect of potential ordinary shares	**968,310**	49,111
Adjusted weighted average number of fully paid ordinary shares in issue during the year	**80,784,782**	87,825,497

Headline profit before tax and earnings (before exceptional items and after the utilisation of termination provisions) are adopted in that they provide a fair representation of underlying performance.

Headline and basic earnings per share are calculated by dividing the respective headline and FRS 3 earnings (as outlined above) for the year by the weighted average number of fully paid ordinary shares in issue during the year, less those shares held by the Inchcape Employee Trust (note 12a).

Diluted earnings per share is calculated as per headline and basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares.

9 DIVIDENDS

	2001 pence	2000 pence	2001 £m	2000 £m
Interim – paid 17 September 2001 (2000 paid – 21 September 2000)	**8.8**	7.3	**5.6**	6.4
Final – proposed – payable 17 June 2002 (2000 paid – 15 June 2001)	**18.2**	14.7	**13.9**	12.8
	27.0	22.0	**19.5**	19.2

If approved at the Annual General Meeting the final ordinary dividend will be paid to ordinary shareholders registered in the books of the Company at the close of business on 24 May 2002.

Dividends above exclude £0.3m (2000 – £0.2m) payable on shares held by the Inchcape Employee Trust (note 12a).

The 2001 dividend charge of £19.5m is net of a £1.1m benefit resulting from a lower 2000 final dividend charge than was accrued in the 2000 financial statements. This benefit was due to the share buyback programme reducing the number of shares on the register at the record date.

10 FIXED ASSETS – INTANGIBLE ASSETS

	Goodwill £m
Cost at 1 January 2001	**6.6**
Effect of foreign exchange rate changes	**(0.2)**
Additions	**73.6**
Cost at 31 December 2001	**80.0**
Amortisation at 1 January 2001	**(2.9)**
Provided for the year	**(0.9)**
Amortisation at 31 December 2001	**(3.8)**
Book value at 31 December 2001	**76.2**
Book value at 31 December 2000	3.7

Of the £6.6m historical cost goodwill brought forward, £2.8m relates to Ferrari Belgium and £1.8m to Australia Retail. These are being amortised over ten and five years respectively.

The additions to goodwill arise mainly from the acquisitions of Bates Motor Group Ltd and Eurofleet Ltd, as set out in note 26a. Goodwill on these acquisitions of £16.1m and £56.1m respectively is being amortised evenly over twenty years, the anticipated useful economic life of each acquisition.

11 FIXED ASSETS – TANGIBLE ASSETS

	Freehold and leasehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost or valuation at 1 January 2001	**205.2**	**132.1**	**337.3**
Effect of foreign exchange rate changes	**(1.8)**	**(0.8)**	**(2.6)**
Businesses acquired	**21.7**	**10.3**	**32.0**
Businesses sold	**(6.1)**	**(8.3)**	**(14.4)**
Additions	**13.4**	**34.7**	**48.1**
Disposals	**(7.5)**	**(25.5)**	**(33.0)**
Deficit on impairment of revalued properties	**(0.1)**	**–**	**(0.1)**
Transfer to current assets	**(10.7)**	**(1.6)**	**(12.3)**
Cost or valuation at 31 December 2001	**214.1**	**140.9**	**355.0**
Analysed:			
Valuation 1996	**117.9**	**–**	**117.9**
Cost	**96.2**	**140.9**	**237.1**
	214.1	**140.9**	**355.0**
Depreciation at 1 January 2001	**(16.3)**	**(76.5)**	**(92.8)**
Effect of foreign exchange rate changes	**0.2**	**0.4**	**0.6**
Businesses acquired	**(1.1)**	**(3.3)**	**(4.4)**
Businesses sold	**0.7**	**6.2**	**6.9**
Provided in the year	**(4.7)**	**(21.9)**	**(26.6)**
Disposals	**0.7**	**10.7**	**11.4**
Transfer to current assets	**0.5**	**0.5**	**1.0**
Depreciation at 31 December 2001	**(20.0)**	**(83.9)**	**(103.9)**
Book value at 31 December 2001	**194.1**	**57.0**	**251.1**
Book value at 31 December 2000	188.9	55.6	244.5

	2001 £m	2000 £m
Book value of land and buildings analysed between:		
– freehold	**117.5**	109.1
– leasehold with over fifty years unexpired	**43.5**	38.3
– short leasehold	**33.1**	41.5
	194.1	188.9
Historic cost value of land and buildings analysed between:		
– cost	**197.1**	193.8
– less depreciation	**(26.9)**	(29.2)
	170.2	164.6
The book value of tangible fixed assets held for rental under operating leases amounted to:		
– cost	**22.2**	28.9
– less depreciation	**(6.5)**	(9.5)
	15.7	19.4

The book value of tangible fixed assets includes £1.0m (2000 – £0.8m) in respect of assets held under finance leases.

12 FIXED ASSETS – INVESTMENTS

a Movement in book value

(i) **Group**	Shares in joint ventures and associates **£m**	Loans to (from) joint ventures and associates **£m**	Own shares **£m**	Other investments **£m**	Total **£m**
Cost less provisions at 1 January 2001	**70.0**	**3.7**	**3.6**	**9.3**	**86.6**
Effect of foreign exchange rate changes	**0.2**	**(0.1)**	**–**	**(0.1)**	**–**
Additions					
– cost less provisions	**2.4**	**(1.8)**	**1.2**	**–**	**1.8**
– goodwill capitalised	**1.2**	**–**	**–**	**–**	**1.2**
Provided/Utilised	**–**	**–**	**(0.4)**	**(2.5)**	**(2.9)**
Disposals	**(40.3)**	**(3.6)**	**(1.0)**	**–**	**(44.9)**
Transfer to current asset investments	**–**	**–**	**–**	**(6.1)**	**(6.1)**
Cost less provisions at 31 December 2001					
– cost less provisions	**32.3**	**(1.8)**	**3.4**	**0.6**	**34.5**
– goodwill capitalised	**1.2**	**–**	**–**	**–**	**1.2**
	33.5	**(1.8)**	**3.4**	**0.6**	**35.7**
Share of post acquisition reserves:					
Balance at 1 January 2001	**54.3**				**54.3**
Effect of foreign exchange rate changes	**0.7**				**0.7**
Disposals	**(0.5)**				**(0.5)**
Retained profit for the financial year	**(1.2)**				**(1.2)**
Balance at 31 December 2001	**53.3**				**53.3**
Adjustment to cost in respect of net goodwill, previously written off to reserves:					
Goodwill at 1 January 2001	**(29.2)**				**(29.2)**
Effect of foreign exchange rate changes	**(0.1)**				**(0.1)**
Eliminated on disposal	**24.5**				**24.5**
Balance at 31 December 2001	**(4.8)**				**(4.8)**
31 December 2001					
– book value at 31 December 2001	**80.8**	**(1.8)**	**3.4**	**0.6**	**83.0**
– goodwill capitalised	**1.2**	**–**	**–**	**–**	**1.2**
	82.0	**(1.8)**	**3.4**	**0.6**	**84.2**
31 December 2000					
– book value at 31 December 2000	77.2	3.7	3.6	9.3	93.8
– goodwill capitalised	17.9	–	–	–	17.9
	95.1	3.7	3.6	9.3	111.7

12 FIXED ASSETS – INVESTMENTS CONTINUED

a Movement in book value continued

(ii) Company	Associates £m	Own shares £m	Shares in subsidiaries £m	Total £m
At 1 January 2001	**13.0**	**3.6**	**843.9**	**860.5**
Additions	**–**	**1.2**	**63.8**	**65.0**
Utilised	**–**	**(0.4)**	**–**	**(0.4)**
Provision reversal	**–**	**–**	**120.0**	**120.0**
Disposals	**(13.0)**	**(1.0)**	**–**	**(14.0)**
At 31 December 2001	**–**	**3.4**	**1,027.7**	**1,031.1**

Own shares at cost are held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include employees and former employees of the Group and their dependants. The total number of shares held by the Inchcape Employee Trust at 31 December 2001 was 1,271,804 (2000 – 1,301,074). Their market value at 31 December 2001 was £7.7m and at 1 March 2002 was £8.9m (31 December 2000 – £3.6m, 3 March 2001 – £5.2m).

b Listed fixed asset investments

	Other fixed asset investments	
	2001 £m	2000 £m
Book value	**3.9**	6.6
Market value	**8.3**	4.2

c Group share of net assets of joint ventures and associates

	Joint ventures		Associates		Total	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Fixed assets	**11.7**	12.2	**15.9**	21.3	**27.6**	33.5
Current assets	**430.5**	522.3	**83.5**	84.6	**514.0**	606.9
Goodwill capitalised	**1.0**	–	**0.2**	17.9	**1.2**	17.9
Group share of gross assets	**443.2**	534.5	**99.6**	123.8	**542.8**	658.3
Liabilities due within one year	**(261.5)**	(291.6)	**(63.2)**	(67.6)	**(324.7)**	(359.2)
Liabilities due after more than one year	**(130.5)**	(187.6)	**(7.4)**	(12.7)	**(137.9)**	(200.3)
Group share of gross liabilities	**(392.0)**	(479.2)	**(70.6)**	(80.3)	**(462.6)**	(559.5)
Group share of net assets	**51.2**	55.3	**29.0**	43.5	**80.2**	98.8

In 2000 the £17.9m goodwill related to the 49.0% equity interest acquisition of Eurofleet Ltd. In December 2001 the Group acquired the remaining 51.0% equity in the company and it has therefore been accounted for as a subsidiary at 31 December 2001.

12 FIXED ASSETS – INVESTMENTS CONTINUED

d **Group transactions and amounts outstanding with joint ventures and associates**

	Transaction		Amounts outstanding	
	2001 £m	2000 restated £m	**2001 £m**	2000 restated £m
Vehicles purchased from joint ventures and associates	**87.5**	61.9	**12.1**	12.2
Vehicles sold to joint ventures and associates	**487.7**	533.1	**3.7**	16.6
Other income paid and received (net)	**13.2**	7.8	**16.7**	17.0
Debt factored through associates	**14.6**	61.9	**–**	0.5

13 STOCKS

	2001 £m	2000 £m
Raw materials and work in progress	**2.3**	1.4
Finished goods and merchandise	**517.4**	528.7
	519.7	530.1

Certain subsidiaries have an obligation to repurchase, at a guaranteed residual value, certain vehicles which have been legally sold for leasing contracts. Although the credit risk is passed to the finance house, in substance these vehicles remain as assets of the Group. They have been included in stock at the guaranteed repurchase price less appropriate provisions where the anticipated realisable value is lower. The corresponding cross guaranteed repurchase price liability is included within trade creditors. Stock includes £93.8m (2000 – £110.1m) of such vehicles.

Vehicles held on consignment which are in substance assets of the Group amount to £37.0m (2000 – £29.0m). These have been included in finished goods stock with the corresponding liability included within trade creditors. Payment becomes due when title passes to the Group, which is generally the earlier of six months from delivery or date of sale.

14 DEBTORS

a Total debtors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts due within one year:				
Trade debtors subject to limited recourse financing	**1.3**	2.2	**–**	–
less: non-returnable amounts received	**(1.2)**	(2.0)	**–**	–
	0.1	0.2	**–**	–
Other trade debtors	**122.0**	144.4	**–**	–
Net investment in finance leases and hire purchase contracts	**0.2**	17.2	**–**	–
Amounts owed by: – subsidiaries	**–**	–	**0.3**	–
– joint ventures and associates	**11.9**	22.4	**–**	–
Advance corporation tax recoverable	**0.2**	0.2	**0.2**	0.2
Corporation tax recoverable	**4.9**	3.2	**3.4**	2.1
Other debtors	**47.0**	54.3	**0.2**	0.5
Prepayments and accrued income	**15.9**	13.5	**–**	–
	202.2	255.4	**4.1**	2.8
Amounts due after more than one year:				
Trade debtors subject to limited recourse financing	**12.0**	20.2	**–**	–
less: non-returnable amounts received	**(10.8)**	(18.0)	**–**	–
	1.2	2.2	**–**	–
Net investment in finance leases and hire purchase contracts	**–**	53.6	**–**	–
Amounts owed by: – subsidiaries	**–**	–	**184.3**	45.7
– joint ventures and associates	**8.3**	7.6	**–**	–
Deferred tax asset	**1.4**	–	**–**	–
Trade and other debtors	**2.5**	4.6	**–**	–
	13.4	68.0	**184.3**	45.7
Total debtors	**215.6**	323.4	**188.4**	48.5

Trade debtors subject to limited recourse financing represent hire purchase debtors discounted with banks that carry interest at variable rates. The majority of cash received by the Group on discounting is not returnable. The returnable element of the proceeds is recorded as bank loans and overdrafts due within and after one year as appropriate. It has been agreed with the banks that the Group is not required to make good any losses over and above the agreed recourse limit.

Net investment in finance leases and hire purchase contracts comprises:	2001 £m	2000 £m
Total amounts receivable	**0.2**	90.6
Less: interest allocated to future periods	**–**	(19.8)
	0.2	70.8

Rentals receivable during the year under finance lease and hire purchase contracts amounted to £nil (2000 – £33.4m).

The cost of assets acquired during the year for onwards finance leasing was £nil (2000 – £18.1m).

14 DEBTORS CONTINUED

b **Deferred taxation asset (liability)**

		Group	
(i)	**Deferred taxation assets (liabilities) recognised in the accounts**	**2001 £m**	2000 £m
	Excess capital allowances	**(1.2)**	(1.5)
	Revalued assets	**(0.5)**	(0.3)
	Tax effect of losses carried forward	**0.5**	0.3
	Other timing differences	**2.6**	1.4
		1.4	(0.1)

In 2000 the deferred tax balance was a liability and was reported within provisions for liabilities and charges (note 19).

(ii)	**Total potential deferred taxation (liabilites) assets**		
	Excess capital allowances	**(0.1)**	0.1
	Revalued assets	**(0.7)**	(0.6)
	Tax effect of losses carried forward	**0.5**	0.3
	Other timing differences	**(1.8)**	(1.5)
		(2.1)	(1.7)

Advance corporation tax written off to date amounts to £9.7m (2000 – £9.7m) and is available for offset against future UK corporation tax liabilities subject to the restrictions of the 'shadow' ACT regulations.

Except for deferred tax on accrued overseas dividends, no account has been taken of taxation which would be payable if profits of overseas operations were distributed, as there is currently no intention to remit such profits.

15 CURRENT ASSET INVESTMENTS

	2001 £m	2000 £m
Book value	**14.2**	10.4
Market value	**14.7**	10.8

16 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

a Borrowings

	Group		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Bank loans	**14.2**	49.5	**–**	–
Other loans	**62.7**	86.7	**19.1**	–
Debt due within one year	**76.9**	136.2	**19.1**	–
Finance leases	**0.3**	0.1	**–**	–
Bank overdrafts	**5.9**	2.3	**–**	9.0
Borrowings – amounts falling due within one year	**83.1**	138.6	**19.1**	9.0

b Other

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Payments received on account	**23.5**	25.5	**–**	–
Other trade creditors	**390.6**	392.3	**0.3**	–
Amounts owed to: – subsidiaries	**–**	–	**349.0**	298.5
– joint ventures and associates	**12.6**	1.8	**–**	–
Corporate taxation	**26.8**	27.1	**6.1**	6.2
Other taxation and social security	**8.8**	9.8	**0.1**	–
Proposed final dividend	**13.9**	12.8	**13.9**	12.8
Dividends payable to minorities	**1.8**	1.9	**–**	–
Other creditors	**18.3**	27.4	**0.5**	0.6
Accruals and deferred income	**86.4**	67.9	**0.3**	0.2
Other creditors – amounts falling due within one year	**582.7**	566.5	**370.2**	318.3
Total creditors falling due within one year	**665.8**	705.1	**389.3**	327.3

17 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

a (i) **Borrowings**

	Group		Company	
	2001	2000	**2001**	2000
	£m	£m	**£m**	£m
Bank loans	**0.6**	32.2	**–**	–
Other loans	**20.8**	64.2	**20.2**	12.3
Finance leases	**1.0**	0.5	**–**	–
Borrowings – amounts falling due after more than one year	**22.4**	96.9	**20.2**	12.3

(ii) **Maturity of borrowings**

Repayable over one year and up to two years:				
Bank loans	**0.1**	30.5	**–**	–
Other loans	**0.1**	51.9	**–**	–
Finance leases	**0.7**	0.1	**–**	–
	0.9	82.5	**–**	–
Repayable over two years and up to five years:				
Bank loans	**0.5**	1.7	**–**	–
Other loans	**20.7**	12.3	**20.2**	12.3
Finance leases	**0.3**	0.2	**–**	–
	21.5	14.2	**20.2**	12.3
Repayable beyond five years:				
Finance leases	**–**	0.2	**–**	–
Borrowings – amounts falling due after more than one year	**22.4**	96.9	**20.2**	12.3

b **Other**

Amounts owed to subsidiaries	**–**	–	**322.5**	184.7
Trade creditors	**59.8**	61.8	**–**	–
Deferred consideration (note 26b)	**21.8**	–	**21.8**	–
Other creditors – amounts falling due after more than one year	**81.6**	61.8	**344.3**	184.7
Total creditors falling due after more than one year	**104.0**	158.7	**364.5**	197.0

18 BORROWINGS AND FACILITIES

a **Borrowings**

UK 7.09% loan notes totalling US$72.0m (£43.5m) were outstanding at the end of the year. These loan notes mature in May 2002.

Loan notes totalling £39.1m, maturing during 2002 through to November 2005, are at various rates of interest, linked to LIBOR. Net obligations under finance lease are at various local prevailing rates of interest.

A £30.0m floating rate term loan linked to LIBOR with a maturity date of September 2002 was reduced to £15.0m on 6 September 2001 and was subsequently repaid on 6 December 2001.

Of the total Group borrowings £1.8m is secured (2000 – £3.5m). The Company's borrowings are unsecured.

b **Facilities**

The Group has available a committed stand-by revolving credit facility with a maturity of March 2003. The facility, which was undrawn during the year, was reduced from £250.0m to £200.0m in June 2001 reflecting the Group's lower forecast borrowing requirements. Negotiations are well underway regarding the refinancing of this facility later this year.

19 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Pensions and other post – retirement benefits (note 3) £m	Product warranty £m	Motors business exits £m	Non-Motors business exits £m	Vacant leasehold £m	Deferred tax £m	Total £m
Balance at 1 January 2001	**5.0**	**38.7**	**9.7**	**54.0**	**6.4**	**0.1**	**113.9**
Effect of foreign exchange rate changes	**(0.1)**	**(0.4)**	**0.1**	**(0.1)**	**–**	**0.2**	**(0.3)**
Charged to profit and loss account	**6.1**	**19.0**	**8.1**	**0.2**	**1.4**	**(2.3)**	**32.5**
Unused amounts reversed to profit and loss account	**–**	**(3.4)**	**(2.4)**	**(0.7)**	**(0.1)**	**–**	**(6.6)**
Reclassification (to) from other trade creditors	**–**	**(1.4)**	**0.2**	**0.3**	**–**	**–**	**(0.9)**
Transfer to debtors	**–**	**–**	**–**	**–**	**–**	**1.4**	**1.4**
Utilised during the year:							
– Cash	**(3.9)**	**(10.9)**	**(4.8)**	**(4.1)**	**(0.8)**	**–**	**(24.5)**
– Other	**–**	**–**	**(4.7)**	**–**	**–**	**–**	**(4.7)**
Subsidiaries acquired	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**
Balance at 31 December 2001	**7.1**	**41.6**	**6.2**	**49.6**	**6.9**	**–**	**111.4**

Company	Motors & Non-Motors business exits £m
Balance at 1 January 2001	**51.1**
Unused amounts reversed to profit and loss account	**(0.3)**
Utilised during the year:	
– Cash	**(1.3)**
Balance at 31 December 2001	**49.5**

Product warranty – certain Group companies provide self insured extended warranties beyond those provided by the manufacturer. The warranty periods covered are up to six years and or specific mileage limits. Provision is made for the expected cost of labour and parts based on historic claims experience and expected future trends, and these are reviewed regularly.

Motors business exits – during 2001, the Group became committed to business exits and terminations which resulted in the charge of £8.1m (2000 – £6.3m) to the profit and loss account. This included the Seaking and UK dealership exits shown in note 4. These business exits will be completed over the next two years and will be broadly cash neutral.

Non-Motors business exits – provision has been made for warranties, indemnities and other litigation issues in relation to these exits, based on expected outcomes. Any detailed disclosure of these issues could seriously prejudice negotiations. Accordingly, no information is given in regard to the likely timing or cash impact as normally required under FRS 12. Attention is drawn to note 20, which refers to two of these issues.

Vacant leasehold – the Group is committed to certain leasehold premises that it no longer has a commercial use for. These are principally located in the UK. Provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant arrangements (note 27a(i)). In determining the provision, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates. The charge for amortisation of discount of £0.2m has been included in the charge to profit and loss account.

20 GUARANTEES AND CONTINGENT LIABILITIES

	Group		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Guarantees of joint ventures' and associates' borrowings	**0.5**	0.5	**–**	–
Guarantees of various subsidiaries' borrowings (against which £43.5m has been drawn, 2000 – £77.9m)	**–**	–	**243.5**	327.9
Other guarantees, performance bonds and contingent liabilities	**20.7**	20.9	**14.8**	14.8

Commitments for capital expenditure entered into and not provided for in these accounts are estimated at £3.1m (2000 – £3.1m).

Joint ventures and associates that form part of Financial Services are financed by borrowings without recourse to any other Group company, except as above.

The Group also has, in the ordinary course of business, commitments under foreign exchange and interest rate instruments relating to the hedging of transactions, overseas earnings and interest exposures (note 27e).

Certain claims have been notified by Intertek Testing Services Limited ("ITS") against the Group under warranties given in connection with the sale of Inchcape Testing Services in 1996. The claims by ITS relate principally to discrepancies which have been discovered in testing data provided to clients by various laboratories in the United States. These matters have been under criminal and civil investigation by the US Department of Justice and the US Environmental Protection Agency. ITS may commence proceedings to recover costs which are alleged to arise from the discovery of the discrepancies, including liabilities to third parties, in repeating work for, or refunding fees to, customers, in investigating the data discrepancies and in dealing with governmental authorities. As yet insufficient information has been provided to enable the merits or value of any claims to be assessed fully. In the meantime, Inchcape intends to resist the claims vigorously and any proceedings that may be brought.

Aon Corporation has made certain claims under an indemnity given in connection with the sale of Bain Hogg Limited in 1996 relating to liabilities in respect of advice given on the sale of pensions and related products, opt-outs and transfers by Bain Hogg Financial Services Limited and Gardner Mountain Financial Services Limited. Aon may seek to make further claims in respect of such advice and related costs. On the information currently available to the Company, it is not possible to assess fully the merits or value of claims under this indemnity. The Directors have taken legal advice and are pursuing all options open to them to defend or minimise the claims.

In addition to the above, there were at 31 December 2001 other contingent liabilities arising in the ordinary course of business, including those in respect of disposed businesses.

The Directors have reviewed these matters, including those set out above, and have made certain provisions. Having done so, the Directors consider, based on the information currently available, that they will not have a material impact on the financial position of the Group.

In September 2000, the European Parliament passed Directive 2000/53/EC which deals with the collection and disposal of cars at the end of their life. The Directive includes a retrospective liability for cars put on the road prior to 2002. Member states are required to enact legislation by 21 April 2002 although, to date, none of the member states which are core markets for the Group (UK, Belgium and Greece) have done so. Therefore, there are a number of uncertainties surrounding the legislation in those markets and it is unclear at present what financial effect, if any, it will have on the Group.

21 OPERATING LEASE COMMITMENTS

	Property leases		Other operating leases	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Operating lease rentals payable in the next year in respect of commitments expiring:				
– within one year	**5.0**	2.5	**0.3**	0.8
– in two to five years	**9.4**	9.4	**2.5**	1.1
– after five years	**4.9**	6.5	**0.7**	–
	19.3	18.4	**3.5**	1.9

22 SHARE CAPITAL

a Summary

	Authorised		Allotted, called-up and fully paid	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Ordinary shares – authorised 131,000,000 ordinary shares of 150p each (2000 – 131,000,000 ordinary shares of 150p each) and allotted, called-up and fully paid 77,473,225 ordinary shares of 150p each (2000 – 88,351,428 ordinary shares of 150p each).	**196.5**	196.5	**116.2**	132.5

During the year, the Company returned funds to shareholders by making on-market purchases of 10,932,500 of its own ordinary shares of 150p each. These shares were then cancelled. The average price paid was £4.12 per share, and costs and stamp duty of £0.3m were incurred. See note 23a(i).

b Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the company at 4 March 2002 under the provisions of the Companies Act 1985 have been disclosed in the Substantial Shareholdings section of the Directors' Report.

c Share options

At 31 December 2001, options to subscribe for ordinary shares of 150p each in the Company under the following schemes were outstanding as follows:

Ordinary Shares of 150p each	Exercisable until	Option Price	Ordinary Shares of 150p each	Exercisable until	Option Price
The Inchcape 1999 Share Option Plan			**The Inchcape SAYE Share Option Scheme**		
– approved (Part II – UK)			129,442	1 June 2003	£3.25
386,550	7 September 2009	£3.88	279,190	1 May 2004	£2.38
8,310	21 September 2009	£3.61	115,569	1 December 2004	£3.08
218,263	9 August 2010	£2.84			
141,918	21 March 2011	£3.84			
5,330	20 September 2011	£4.69			
– unapproved (Part I – UK)					
524,631	7 September 2009	£3.88			
2,770	21 September 2009	£3.61			
33,707	13 March 2010	£2.67			
455,538	9 August 2010	£2.84			
388,987	21 March 2011	£3.84			
– unapproved overseas (Part I – Overseas)					
484,508	7 September 2009	£3.88			
423,223	9 August 2010	£2.84			
323,288	21 March 2011	£3.84			
5,330	20 September 2011	£4.69			

During the year, a total of 54,297 (2000 – nil) Inchcape plc shares was issued under the various share option schemes.

The Group has taken advantage of the exemption in UITF Abstract 17 "Employee Share Schemes" not to apply the Abstract to the Inchcape SAYE Share Option Scheme.

23 RESERVES

a Movements in shareholders' funds

(i) Group

	Share capital 2001 £m	Share premium account 2001 £m	Revaluation reserve 2001 £m	Capital redemption reserve 2001 £m	Profit and loss account* 2001 £m	Total 2001 £m	Total 2000 £m
Profit for the financial year	–	–	–	–	**24.0**	**24.0**	47.6
Dividends (note 9)	–	–	–	–	**(19.5)**	**(19.5)**	(19.2)
Retained profit for the financial year	–	–	–	–	**4.5**	**4.5**	28.4
Effect of foreign exchange rate changes	–	–	**(0.2)**	–	**(4.0)**	**(4.2)**	11.1
Shares repurchased	**(16.4)**	–	–	**16.4**	**(45.3)**	**(45.3)**	–
Shares issued during the year under share option schemes	**0.1**	**0.1**	–	–	–	**0.2**	–
Goodwill on disposals previously written off	–	–	–	–	**36.7**	**36.7**	6.0
Deficit on impairment of revalued properties	–	–	**(0.2)**	–	–	**(0.2)**	(0.3)
Transfers on realisation of property deficits	–	–	**1.3**	–	**(1.3)**	–	–
Subsidiaries sold	–	–	**(2.0)**	–	**2.0**	–	–
Net change in shareholders' funds	**(16.3)**	**0.1**	**(1.1)**	**16.4**	**(7.4)**	**(8.3)**	45.2
Balance at 1 January	**132.5**	**106.9**	**37.2**	–	**88.7**	**365.3**	320.1
Balance at 31 December	**116.2**	**107.0**	**36.1**	**16.4**	**81.3**	**357.0**	365.3

Revaluation reserve includes other non distributable reserves of £5.2m (2000 – £7.6m). Net foreign exchange gains on borrowings reported in reserves amount to £0.3m in 2001 (2000 – £0.3m).

* Goodwill contained within the profit and loss account reserve comprises:	£m
Balance at 1 January 2001	**151.6**
Effect of foreign exchange rate changes	**(0.2)**
Goodwill on disposals (notes 4 and 26)	**(36.7)**
Balance at 31 December 2001	**114.7**

(ii) Company

	Share capital 2001 £m	Share premium account 2001 £m	Capital redemption reserve 2001 £m	Profit and loss account 2001 £m	Total 2001 £m	Total 2000 £m
Shares repurchased	**(16.4)**	–	**16.4**	**(45.3)**	**(45.3)**	–
Shares issued during the year under share option schemes	**0.1**	**0.1**	–	–	**0.2**	–
Retained profit (loss) for the year and net change in shareholders' funds	–	–	–	**168.7**	**168.7**	(28.1)
Net change in shareholders' funds	**(16.3)**	**0.1**	**16.4**	**123.4**	**123.6**	(28.1)
Balance at 1 January	**132.5**	**106.9**	–	**94.4**	**333.8**	361.9
Balance at 31 December	**116.2**	**107.0**	**16.4**	**217.8**	**457.4**	333.8

b Profit (loss) for the financial year

	2001 £m	2000 £m
Dealt with in the accounts of:		
The Company	**(6.8)**	(8.9)
Subsidiaries	**21.3**	45.8
Joint ventures and associates	**9.5**	10.7
	24.0	47.6

24 ANALYSIS OF CASH AND DEBT

a **Analysis of net funds (debt)**	At 1 January 2001 £m	Cash flow £m	Acquisitions and disposals (excluding cash and overdrafts)* £m	Exchange movement £m	At 31 December 2001 £m
Cash in hand and at bank	**29.7**	**22.5**		**(0.4)**	**51.8**
Overdrafts	**(2.3)**	**(3.6)**		**–**	**(5.9)**
		18.9			
Debt due within one year	**(136.2)**	**33.1**	**25.7**	**0.5**	**(76.9)**
Debt due after one year	**(96.4)**	**91.0**	**(11.9)**	**(4.1)**	**(21.4)**
Finance leases	**(0.6)**	**0.1**	**(0.8)**	**–**	**(1.3)**
		124.2	**13.0**		
Liquid resources	**136.7**	**(53.5)**	**(11.4)**	**(0.6)**	**71.2**
Net funds (debt)	**(69.1)**	**89.6**	**1.6**	**(4.6)**	**17.5**

Liquid resources are principally term deposits at bank which are not available for immediate withdrawal without penalty.

* Includes £13.9m non-cash loan notes payable within one year and £12.9m payable after one year in consideration for acquisitions (note 26a).

b **Cash and deposits**	Group		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Cash at bank and in hand	**51.8**	29.7	**41.2**	–
Liquid resources	**71.2**	136.7	**–**	0.2
Cash and deposits as per balance sheet	**123.0**	166.4	**41.2**	0.2

25 ANALYSIS OF CASH FLOW DISCLOSURES IN THE CONSOLIDATED CASH FLOW STATEMENT

a	Returns on investments and servicing of finance	2001 £m	2000 £m
	Interest received	**10.2**	16.1
	Interest paid	**(13.8)**	(28.5)
	Dividends paid to minority interests	**(3.1)**	(2.4)
		(6.7)	(14.8)

b	Capital expenditure and financial investment		
	Expenditure on tangible fixed assets and investments	**(48.1)**	(42.6)
	Sale of tangible fixed assets and investments	**23.7**	18.0
	Decrease in debtors	**6.8**	3.5
		(17.6)	(21.1)

c	Net cash inflow (outflow) from acquisitions and disposals		
	Acquisitions:		
	Cash paid for businesses acquired (note 26b)	**(21.4)**	–
	Net cash of businesses acquired (note 26b)	**0.6**	–
	Net outflow of cash in respect of the acquisition of businesses	**(20.8)**	–
	Cash paid for prior year acquisitions	**(0.5)**	–
	Cash paid for joint ventures, associates and other investments	**(3.0)**	(22.1)
		(24.3)	(22.1)
	Disposals:		
	Cash received for businesses sold (note 26b)	**35.8**	24.9
	Net cash of businesses sold (note 26b)	**(8.3)**	(5.0)
	Net inflow of cash in respect of the sale of businesses	**27.5**	19.9
	Capital injection to joint ventures and associates prior to disposal	**–**	(2.2)
	Cash received for joint ventures and associates sold	**0.1**	44.2
	Cash received from prior year disposals	**8.9**	20.2
	Cash paid for prior year disposals	**(5.6)**	(11.8)
		30.9	70.3
	Net cash inflow	**6.6**	48.2

d	Net funds from acquisitions and disposals	Acquisitions 2001 £m	Disposals 2001 £m	Total 2001 £m	Total 2000 £m
	Net cash (outflow) inflow from acquisitions and disposals	**(24.3)**	**30.9**	**6.6**	48.2
	Net loans and finance leases relating to acquisitions and disposals	**(57.6)**	**70.6**	**13.0**	1.0
	Liquid resources of businesses sold	**–**	**(11.4)**	**(11.4)**	(0.3)
		(81.9)	**90.1**	**8.2**	48.9

e	Net cash (outflow) from financing		
	Share buyback programme	**(45.3)**	–
	Issue of ordinary share capital	**0.2**	–
	Decrease in debt (note 24a)	**(124.1)**	(47.7)
	Capital element of finance lease rental payments (note 24a)	**(0.1)**	(1.4)
		(169.3)	(49.1)

26 ACQUISITIONS AND DISPOSALS

a The Group made two major acquisitions during the year. Details of these acquisitions are set out below.

(i) On 31 August 2001 the Group acquired the entire share capital of the Bates Motor Group Ltd, a company comprising ten motor dealerships in the UK. The properties of these dealerships were also acquired. As intended, post acquisition, three of these dealerships were sold for £2.2m. The total consideration of £22.9m, including acquisition expenses of £0.6m, was settled in cash and loan notes. The loan notes are redeemable after 31 August 2002.

Bates Motor Group Ltd	Book value at acquisition £m	Revaluation £m	Provisional fair value at acquisition £m
Tangible fixed assets	**9.1**	**0.2**	**9.3**
Stocks	**21.4**	–	**21.4**
Debtors	**4.6**	–	**4.6**
Creditors and provisions	**(25.4)**	–	**(25.4)**
Loans and overdraft net of cash	**(3.1)**	–	**(3.1)**
Net assets acquired	**6.6**	**0.2**	**6.8**
Goodwill			**16.1**
Consideration			**22.9**
Consideration satisfied by:			
Loan notes issued			**13.9**
Cash			**9.0**
			22.9

The fair value adjustment relates to the revaluation of properties to reflect anticipated market values. If necessary, the fair value adjustments and goodwill will be adjusted during 2002.

(ii) On 11 December 2001 the Group acquired the remaining 51.0% of the share capital of Eurofleet Ltd, a UK company providing automotive refurbishment and logistics services. The Group had acquired a 49.0% equity interest in this company in December 2000.

The consideration was settled by the issue of loan notes of £12.9m repayable between November 2002 and November 2005. Professional fees of £0.4m were paid. In addition, further consideration could be payable calculated under an earn-out formula based on EBIT growth, adjusted to take account of any increase in the capital employed in the business to 2005. If compound EBIT growth is less than 11.6% p.a., no further consideration will be payable, whilst the earn-out formula is capped at compound EBIT growth rates of 32.8% p.a. The theoretical maximum earn-out payment could amount to £27.5m, however this would require 32.8% p.a. compound annual growth in EBIT with no increase in capital employed, to 2004. The additional consideration payable could be in the range of £14.0m to £22.0m, based on challenging EBIT growth rate assumptions. For the purposes of FRS 10, it has been assumed that £21.8m deferred consideration is payable.

Eurofleet Ltd	Book value at acquisition £m	Consistency of accounting policies £m	Revaluations £m	Provisional fair value at acquisition £m
Intangible fixed assets	**11.7**	**(11.7)**	–	–
Tangible fixed assets	**13.0**	–	–	**13.0**
Investment in joint venture	**0.1**	**0.1**	–	**0.2**
Stocks	**0.4**	–	–	**0.4**
Debtors	**11.3**	–	**(0.1)**	**11.2**
Creditors and provisions	**(5.1)**	–	**(0.4)**	**(5.5)**
Loans and overdraft net of cash	**(27.2)**	–	–	**(27.2)**
Net assets acquired	**4.2**	**(11.6)**	**(0.5)**	**(7.9)**
Goodwill				**56.1**
Consideration				**48.2**
Consideration satisfied by:				
Loan notes issued				**12.9**
Cash				**0.4**
Transfer from associates				**13.1**
Deferred consideration				**21.8**
				48.2

The fair value adjustments relate to the elimination of acquired intangibles, equity accounting for an associate, and the revaluation of current assets and liabilities to fair values. The fair value adjustments contain some provisional amounts which will be amended if necessary during 2002.

26 ACQUISITIONS AND DISPOSALS CONTINUED

a (iii) The results for the period from the end of the preceding financial year until the date of acquisition for each acquired entity were as follows:

	Bates Motor Group Ltd 1 January to 31 August 2001* £m	Eurofleet Ltd 1 January to 31 December 2001 £m
Turnover	**95.8**	**47.3**
Operating profit	**1.9**	**5.1**
Profit before taxation	**1.8**	**2.9**
Taxation	**(0.3)**	**(0.9)**
Profit after taxation	**1.5**	**2.0**

* These results exclude a £0.6m rent charge on properties held in a separate company. As part of the overall deal, Inchcape purchased these properties from this company.

The businesses acquired in the period to 31 December 2001 accounted for an outflow of £4.7m to the Group's net operating cash flows, paid £0.1m in respect of net returns on investments and servicing of finance, paid £0.3m in respect of taxation and paid £0.2m in respect of capital expenditure.

b **Net assets acquired (disposed of) on acquisition (disposal) of businesses**

	Acquisitions **2001** **£m**	Disposals **2001** **£m**	Disposals 2000 £m
Fixed assets and fixed asset investments (including Group share of joint ventures' and associates' net assets)	**27.7**	**(6.2)**	(21.0)
Stocks	**28.8**	**(22.6)**	(31.8)
Debtors	**15.7**	**(76.9)**	(16.7)
Cash less bank overdrafts (note 25c)	**0.6**	**(8.3)**	(5.0)
Liquid resources	**–**	**(11.4)**	(0.3)
Loans and finance leases	**(30.8)**	**70.6**	1.0
Other creditors and provisions	**(32.4)**	**16.3**	31.9
Minority shareholders' interests	**0.1**	**4.9**	5.3
Goodwill	**60.6**	**(6.9)**	(0.9)
(Profit) loss on disposal	**(0.3)**	**3.9**	10.8
Net consideration payable (receivable)	**70.0**	**(36.6)**	(26.7)
Satisfied by:			
Cash paid (received) (note 25c)	**21.4**	**(35.8)**	(24.9)
Loan notes payable	**26.8**	**–**	–
Deferred consideration payable (receivable) (note 17b)	**21.8**	**(0.8)**	(1.8)
	70.0	**(36.6)**	(26.7)

Businesses sold during the year absorbed £2.7m (2000 – £5.7m absorbed) of the Group's net operating cash flows, received £1.2m (2000 – £nil) in respect of net returns on investments and servicing of finance, received £1.5m (2000 – £0.9m received) in respect of taxation and received £2.5m (2000 – £1.2m incurred) from net capital expenditure.

27 FINANCIAL INSTRUMENTS

An outline of the objectives, policies and strategies pursued by the Group in relation to financial instruments is set out in the Treasury Management and Policy section of the Financial Review.

For the purpose of the disclosures which follow in this note (except for currency risk disclosures in note 27b), short term debtors and creditors which arise directly from the Group's operations have been excluded as permitted under FRS 13. The disclosures therefore focus on those financial instruments which play a significant medium to long term role in the financial risk profile of the Group. An analysis of the carrying value of these financial assets and liabilities is given in the fair value table in note 27c.

The 2000 comparatives have been restated to reflect the change in currency mix of the Group's financial assets and liabilities.

a Interest rate management

(i) The interest rate profile of the financial liabilities of the Group, after taking account of a cross currency swap, is set out in the table below:

As at 31 December 2001

Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Fixed rate: Weighted average interest rate %	Fixed rate: Weighted average period for which rate is fixed months
Sterling	**94.9**	**0.9**	**79.3**	**175.1**	**8.0**	**43**
Euro	**5.7**	**0.4**	**7.8**	**13.9**	**6.0**	**61**
Singapore and Brunei dollar	**0.7**	**–**	**–**	**0.7**	**–**	**–**
Other	**1.4**	**–**	**1.8**	**3.2**	**–**	**–**
	102.7	**1.3**	**88.9**	**192.9**	**7.3**	**49**

As at 31 December 2000 – restated

Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Fixed rate: Weighted average interest rate %	Fixed rate: Weighted average period for which rate is fixed months
Sterling	89.8	–	59.8	149.6	–	–
Euro	78.3	0.5	6.8	85.6	10.9	52
Singapore and Brunei dollar	46.6	8.4	–	55.0	4.4	23
Other	9.5	–	3.3	12.8	–	–
	224.2	8.9	69.9	303.0	4.8	25

Interest payments on floating rate financial liabilities are determined by reference to short term benchmark rates applicable in the relevant currency or market (primarily LIBOR and the Euro, Singapore and Brunei equivalents).

Trade finance for our Greek business, included in the Euro floating rate liabilities at 31 December 2000, was replaced during the year with supplier related finance. As a short term creditor this supplier related finance is excluded from the profile of interest rate liabilities, as permitted under FRS 13, at 31 December 2001.

The disposal of IRB Finance Berhad, the Group's financial services subsidiary in Brunei, was completed in March 2001. Customer deposits with the bank, classified as fixed and floating rate liabilities at December 2000 are reduced accordingly at 31 December 2001.

The financial liabilities on which no interest is paid comprises mainly £59.3m (2000 – £59.6m) of residual buyback commitments whose weighted average period to maturity is 19 months (2000 – 24 months), £21.8m (2000 – £nil) of deferred consideration which could be payable in relation to the acquisition of Eurofleet and £4.8m (2000 – £5.4m) of vacant leasehold property provisions which have a weighted average period to maturity of 7 years (2000 – 8 years) (note 19).

27 FINANCIAL INSTRUMENTS CONTINUED

a **Interest rate management** continued

(ii) The interest rate profile of the financial assets of the Group at 31 December 2001 is set out in the table below:

As at 31 December 2001

Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Fixed rate: Weighted average interest rate %	Fixed rate: Weighted average period for which rate is fixed months
Sterling	**12.3**	**–**	**9.7**	**22.0**	**–**	**–**
Euro	**25.9**	**10.7**	**6.1**	**42.7**	**6.4**	**60**
Singapore and Brunei dollar	**41.2**	**–**	**0.1**	**41.3**	**–**	**–**
Hong Kong dollar	**17.5**	**–**	**1.1**	**18.6**	**–**	**–**
Other	**20.6**	**–**	**4.2**	**24.8**	**–**	**–**
	117.5	**10.7**	**21.2**	**149.4**	**6.4**	**60**

As at 31 December 2000 – restated

Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Fixed rate: Weighted average interest rate %	Fixed rate: Weighted average period for which rate is fixed months
Sterling	61.7	–	3.0	64.7	–	–
Euro	10.9	11.1	9.3	31.3	6.1	86
Singapore and Brunei dollar	38.2	53.5	4.7	96.4	13.4	40
Hong Kong dollar	31.0	–	1.6	32.6	–	–
Other	16.0	1.4	4.0	21.4	7.3	25
	157.8	66.0	22.6	246.4	12.0	47

Interest payments on floating rate financial assets are determined by reference to short term benchmark rates applicable in the relevant currency or market (primarily LIBOR and the Euro, Singapore and Brunei equivalents).

The Group utilised £30.0m of surplus cash during the year to pay down term debt with floating rate assets reducing accordingly.

The disposal of IRB Finance Berhad, the Group's financial services subsidiary in Brunei, was completed in March 2001. As a result, customer advances classified as fixed rate assets in December 2000 are not present at 31 December 2001.

The financial assets on which no interest is paid comprises mainly investments (notes 12b and 15) excluding ESOP shares carried at £3.4m (2000 – £3.6m), and certain short term bank deposits.

b **Exchange risk management**

The table below shows the Group's currency exposures at 31 December 2001 on transactions that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved.

	2001 Net foreign currency monetary assets (liabilities)			2000 Net foreign currency monetary assets (liabilities)		
Functional currency of the operating company	**US dollar £m**	**Other £m**	**Total £m**	US dollar £m	Other £m	Total £m
Sterling	**0.1**	**0.1**	**0.2**	0.2	(0.1)	0.1
Peruvian sol	**1.1**	**–**	**1.1**	2.6	–	2.6
Chilean peso	**(1.6)**	**–**	**(1.6)**	–	–	–
Other	**0.4**	**1.0**	**1.4**	0.1	(0.8)	(0.7)
	–	**1.1**	**1.1**	2.9	(0.9)	2.0

The amounts shown in the table above are shown after taking account of forward contracts entered into to manage these currency exposures.

The US dollar exposures in aggregate of £nil in 2001 (2000 – £2.9m) principally relate to US dollars held in bank accounts by UK businesses and US dollar trade receivables/(payables) within the Peruvian and Chilean businesses. Within both Peru and Chile, the majority of sales are in US dollars. The purchase of cars within Peru and Chile is also in US dollars, but is hedged by forward foreign exchange contracts. Other exposures are principally minor unhedged transactions which are settled within a short time period which minimises exchange rate risk and the need to hedge the exposure.

27 FINANCIAL INSTRUMENTS CONTINUED

c Fair value

The estimated fair value of the Group's financial instruments is summarised below:

Assets (liabilities)	2001 Book value £m	2001 Fair value £m	2000 Book value £m	2000 Fair value £m
Financial instruments held or issued to finance the Group's operations				
Trade investments	**0.6**	**0.5**	9.3	6.9
Cash deposits	**123.0**	**123.0**	166.4	166.4
Current asset investments	**14.2**	**14.7**	10.4	10.8
Net investment in finance lease receivables	**–**	**–**	53.6	53.6
Other financial assets	**11.6**	**11.6**	6.7	6.7
	149.4	**149.8**	246.4	244.4
Short term borrowings and current portion of long term borrowings	**(83.1)**	**(83.1)**	(138.6)	(138.6)
Long term borrowings	**(22.4)**	**(22.4)**	(96.9)	(96.9)
Long term trade and other creditors	**(81.6)**	**(77.7)**	(61.8)	(58.9)
Other financial liabilities	**(5.8)**	**(5.8)**	(5.7)	(5.7)
	(192.9)	**(189.0)**	(303.0)	(300.1)
Derivative financial instruments held to manage interest rate and currency exposure				
Cross currency swap – asset	**–**	**6.9**	–	4.4
Forward foreign exchange contracts – liability	**–**	**(12.3)**	–	(7.2)

Trade investments and current asset investments

Trade investments above exclude ESOP shares carried at £3.4m (2000 – £3.6m). The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

Long term trade and other creditors

Long term trade and other creditors book value of £81.6m (2000 – £61.8m) principally relates to both vehicle buyback commitments of £59.3m (2000 – £59.6m) whose average period to maturity is 19 months (2000 – 24 months) and deferred consideration of £21.8m (2000 – £nil) which could be payable. In substance the vehicles remain the assets of the Group and have been included in stock at the guaranteed repurchase price less appropriate provisions where realisable value is lower, with the corresponding cross guaranteed repurchase price liability within trade creditors. The asset side of this transaction is not recorded in the above table because it does not qualify as a financial asset as defined by FRS 13.

Cross currency swap

The Group held a cross currency swap at 31 December 2001 and 31 December 2000, which hedged the US$72.0m loan notes maturing in May 2002. The fair value of the swap is the estimated amount which the Group would expect to pay or receive were it to terminate the swap at the balance sheet date. This is based on a quotation from the counterparty. The nominal value of the swap at 31 December 2001 was £43.5m (2000 – £43.5m).

Forward foreign exchange contracts

The fair value of the contracts is the estimated amount which the Group would expect to pay or receive on the termination of the positions.

At 31 December 2001 the Group had nominal amounts outstanding of £276.5m (2000 – £346.1m) for these contracts, used principally to hedge future purchases in foreign currency.

27 FINANCIAL INSTRUMENTS CONTINUED

d Maturity of financial liabilities

	2001			2000		
	Borrowings and finance leases £m	**Other financial liabilities £m**	**Total £m**	Borrowings and finance leases £m	Other financial liabilities £m	Total £m
Repayable within one year	**83.1**	**–**	**83.1**	138.6	–	138.6
Repayable over one year and up to two years	**0.9**	**52.2**	**53.1**	82.5	32.7	115.2
Repayable over two years and up to five years	**21.5**	**32.7**	**54.2**	14.2	31.7	45.9
Repayable beyond five years	**–**	**2.5**	**2.5**	0.2	3.1	3.3
Total financial liabilities	**105.5**	**87.4**	**192.9**	235.5	67.5	303.0

e Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movement therein are as follows:

Unrecognised gains and losses on hedges	Gains £m	(Losses) £m	Net gains (losses) £m
Unrecognised gains and losses on hedges at 1 January 2001	**11.5**	**(14.3)**	**(2.8)**
Gains and losses arising before 1 January 2001 that were recognised in 2001	**(7.1)**	**14.3**	**7.2**
Gains and losses arising before 1 January 2001 that were not recognised in 2001	**4.4**	**–**	**4.4**
Gains and losses arising in 2001 that were not recognised in that year	**5.9**	**(15.7)**	**(9.8)**
Unrecognised gains and losses on hedges at 31 December 2001	**10.3**	**(15.7)**	**(5.4)**
Of which:			
Expected to be recognised in 2002	**10.3**	**(15.7)**	**(5.4)**

In certain countries Inchcape purchases motor vehicles in a different currency to that of the country itself. Forward purchase commitments are hedged leading to unrecognised gains and losses. However, these amounts are not indicative of future profitability as the rate achieved through these contracts is only one of the factors which will drive our Import, Distribution & Retail gross profits in these countries.

28 POST BALANCE SHEET EVENTS

On 7 February 2002, the Group announced a pre-conditional voluntary cash offer to acquire the minority holding in Inchcape Motors Limited (IML), our quoted Singaporean subsidiary. The pre-condition was that the Independent Directors of IML recommend, by 28 February 2002, that the shareholders of IML should accept the offer. This pre-condition has been satisfied and on 28 February 2002 the Group announced that the voluntary conditional cash offer of S$2.30 per share will be made.

The offer, which is being made by our wholly owned subsidiary, Inchcape Special Investments BV, values IML at c.£144.8m and the c.36.7% minority share at c.£53.2m. IML announced its 2001 preliminary results on 25 February 2002, disclosing profit before tax of £25.0m (S$65.1m) and net assets at 31 December 2001 of £117.2m (S$304.6m).

29 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AT 31 DECEMBER 2001

a Principal subsidiaries

Company	Country	Shareholding	Description
Inchcape Automotive Australia Pty Ltd	Australia	100%	Import, Distribution & Retail
Subaru (Australia) Pty Ltd	Australia	90%	Import & Distribution
Toyota Belgium NV/SA	Belgium	100%	Import, Distribution & Retail
The Motor & Engineering Company of Ethiopia Ltd S.C.	Ethiopia	94%	Import, Distribution & Retail
Toyota Hellas SA	Greece	100%	Import, Distribution & Retail
Crown Motors Ltd	Hong Kong	100%	Import, Distribution & Retail
Mazda Motors (Hong Kong) Ltd	Hong Kong	100%	Import, Distribution & Retail
Borneo Motors (Singapore) Pte Ltd	Singapore	63%	Import, Distribution & Retail
Inchcape Motors Ltd	Singapore	63%	Publicly quoted holding company
Autobytel Ltd	United Kingdom	100%	E-commerce
Bates Motor Group Ltd*	United Kingdom	100%	UK Retail
Eurofleet Ltd*	United Kingdom	100%	Vehicle logistics and refurbishments**
Inchcape Automotive Ltd*	United Kingdom	100%	Holding company
Inchcape Fleet Solutions Ltd	United Kingdom	100%	Financial Services – Fleet management
Inchcape Overseas Ltd*	United Kingdom	100%	Holding company
Inchcape Retail Ltd	United Kingdom	100%	UK Retail
Inchcape Vehicle Contracts Ltd	United Kingdom	100%	Financial Services – Contract hire
Maranello Concessionaires Ltd	United Kingdom	100%	Import, Distribution & Retail

* Owned by Inchcape plc directly

** Included within Import, Distribution & Retail for segmental analysis.

b Principal joint ventures and associates

Company	Country	Shareholding	Description
Inchroy Credit Corporation Ltd	Hong Kong	50%	Financial Services
Automotive Group Ltd	United Kingdom	40%	Import & Distribution
Inchcape Financial Services Ltd	United Kingdom	49%	Financial Services
MCL Group Ltd	United Kingdom	40%	Import & Distribution

Only those companies that principally affect profit or assets are included. All shareholdings represent the ultimate interest of the Group in the respective Company's ordinary shares, except for Inchroy Credit Corporation Ltd, where the Group holds 50% of the company's non voting deferred shares

30 FOREIGN CURRENCY TRANSLATION

The main exchange rates used for translation purposes are as follows:

	Average rates		Year end rates	
	2001	2000	**31.12.01**	31.12.00
Australian dollar	**2.80**	2.62	**2.84**	2.69
Euro	**1.61**	1.65	**1.63**	1.59
Hong Kong dollar	**11.22**	11.84	**11.35**	11.65
Singapore dollar	**2.58**	2.62	**2.69**	2.59
US dollar	**1.44**	1.52	**1.46**	1.49

Profit and loss account	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Turnover:					
Group subsidiaries	**3,113.0**	3,086.1	3,462.5	4,257.0	5,931.4
Share of joint ventures and associates	**206.5**	631.3	987.5	1,249.4	719.5
Group plus share of joint ventures and associates	**3,319.5**	3,717.4	4,450.0	5,506.4	6,650.9
Total operating profit before exceptional operating items					
– continuing operations	**98.3**	81.3	80.7	79.9	98.8
– discontinued operations	**3.5**	8.8	20.3	55.3	90.8
	101.8	90.1	101.0	135.2	189.6
Net interest	**(3.9)**	(16.0)	(15.7)	(29.1)	(5.5)
Headline profit before taxation	**97.9**	74.1	85.3	106.1	184.1
Exceptional operating items	–	–	–	(131.3)	(40.6)
(Loss) profit on sale of properties and investments	**(0.6)**	(0.4)	1.8	4.1	3.8
Net (loss) profit including provisions on sale and termination of operations	**(36.3)**	(0.3)	217.4	(265.9)	(57.7)
Exceptional costs of a fundamental reorganisation	–	–	(5.2)	(10.6)	–
Profit (loss) before taxation	**61.0**	73.4	299.3	(297.6)	89.6
Taxation	**(28.7)**	(18.2)	(27.1)	(61.4)	(64.8)
Profit (loss) after taxation	**32.3**	55.2	272.2	(359.0)	24.8
Minority interests	**(8.3)**	(7.6)	(5.4)	(6.5)	(17.0)
Profit (loss) for the financial year	**24.0**	47.6	266.8	(365.5)	7.8
Dividends*	**(19.5)**	(19.2)	(547.9)	(59.4)	(58.3)
Retained profit (loss) for the financial year	**4.5**	28.4	(281.1)	(424.9)	(50.5)
Earnings (loss) per ordinary share:					
Headline	**78.2p**	49.3p	60.0p	50.2p	115.8p
Basic	**30.1p**	54.2p	302.4p	(414.3)p	9.0p
Dividends per ordinary share – ordinary **	**27.0p**	22.0p	21.0p	67.2p	66.0p
Dividends per ordinary share – special	–	–	600.0p	–	–

Balance sheet	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Fixed assets	**411.5**	359.9	364.3	661.1	738.6
Other assets less liabilities other than cash (borrowings)	**(26.2)**	121.7	151.0	172.8	280.2
	385.3	481.6	515.3	833.9	1,018.8
Net cash (borrowings)	**17.5**	(69.1)	(149.0)	(143.4)	(96.0)
Net assets	**402.8**	412.5	366.3	690.5	922.8
Shareholders' funds	**357.0**	365.3	320.1	554.3	790.3
Minority interests	**45.8**	47.2	46.2	136.2	132.5
	402.8	412.5	366.3	690.5	922.8

* 1999 includes a special dividend of £529.3m (600p per ordinary share after adjusting for the share consolidation).

** Before Foreign Income Dividend enhancement.

REGISTERED OFFICE

Inchcape plc
22a St. James's Square
London SW1Y 5LP
Tel: (44) 20 7546 0022
Fax: (44) 20 7546 0010

Registrar
Computershare Services PLC
Registrar's Department
PO Box No 82
Bristol BS99 7NH
Tel: (44) 870 702 0002

Solicitors
Slaughter and May

Auditors
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

Stockbrokers
UBS Warburgs

SENIOR EXECUTIVES

Group Chief Executive
Peter Johnson
Tel: (44) 20 7546 0022
Fax: (44) 20 7546 0010

Finance Director
Alan Ferguson
Tel: (44) 20 7546 0022
Fax: (44) 20 7546 0010

The following executives are responsible for our key market areas:

Australia
Trevor Amery
Tel: (612) 9828 9199
Fax: (612) 9725 2240

Belgium/Greece
Martin Taylor
Tel: (32) 2 386 7211
Fax: (32) 2 386 7540

Ferrari/Maserati
Richard Mackay
Tel: (44) 1784 436222
Fax: (44) 1784 436303

Hong Kong/Singapore
William Tsui
Tel: (852) 2562 2226
Fax: (852) 2811 1060

Inchcape Business Services – Continental Europe
Chris Franklin
Tel: (44) 207 546 0022
Fax: (44) 207 546 0010

Inchcape Business Services – UK
Robert Wilkinson
Tel: (44) 1832 735999
Fax: (44) 1832 737035

Inchcape UK
Robert Hazelwood
Tel: (44) 1923 221 144
Fax: (44) 1923 800 622

The following executives are responsible for staff functions:

Audit and Risk Management
Tim Trounce

Business Development
Dale Butcher

Company Secretariat
Roy Williams

Financial Control and Taxation
Amanda Brooks

Human Resources
Sarah Ditchfield

Information Systems
Peter Wilson

Investor Relations and External Communications
Emma Woollaston

Treasury
Chris Parker

INCHCAPE PEPS

Individual Savings Accounts have replaced PEPs as the vehicle for tax-exempt individual savings. Existing PEPs may be retained indefinitely. Inchcape PEPs are managed by The Share Centre, who can be contacted at PO Box 2000, Oxford House, Oxford Road, Aylesbury, Bucks. HP21 8ZB. Tel: 01296 414144.

INCHCAPE ISA

Inchcape has established a Corporate Individual Savings Account (ISA). This is managed by HSBC Trust Company (UK) Limited who may be contacted for full details at Corporate PEPs and ISA Centre, 2nd Floor, Ridgeland House, 165 Dyke Road, Hove, East Sussex BN3 1UN. Tel: 01273 363 050.

FINANCIAL CALENDAR

Ex-dividend date for 2001 final dividend
22 May 2002

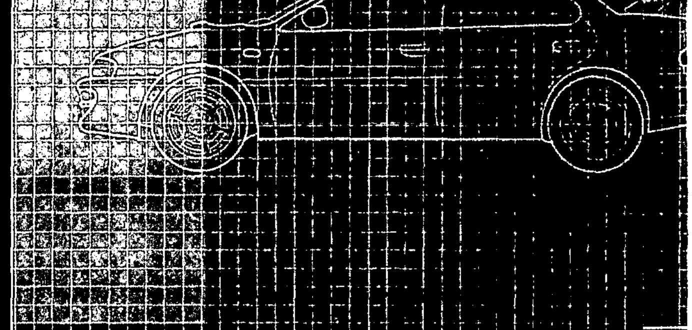
Record date for 2001 final dividend
24 May 2002

Annual General Meeting
16 May 2002

Final 2001 ordinary dividend payable
17 June 2002

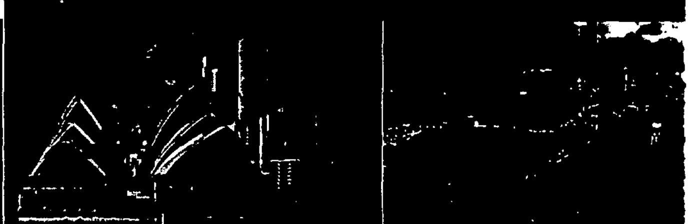
Announcement of 2002 half-year results
5 August 2002

Published by Black Sun Plc +44(0)20 7736 0011.
Board photography by Neil Wilson.
Printed by First Impression.



Inchcape plc
Registered number 609782
22a St James's Square
London SW1Y 5LP
Telephone +44 20 7546 0022
Facsimile +44 20 7546 0010
Website www.inchcape.com

Inchcape



Inchcape

Inchcape plc

Notice of Annual General Meeting

This document is important and requires your immediate attention.

If you are in any doubt about the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other authorised independent professional adviser duly authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all your ordinary shares in Inchcape plc you should pass this letter and all other documents enclosed with it to the stockbrokers, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice of the Annual General Meeting of Inchcape plc to be held at 11.00am on Thursday 16 May 2002 at the Royal Automobile Club, 89-91 Pall Mall, London SW1Y 5HS is set out on pages 8 and 9 of this document. The accompanying Form of Proxy for use in connection with the meeting should be completed and returned, in accordance with the instructions printed thereon, as soon as possible but, in any event, so as to arrive by no later than 11.00am on Tuesday 14 May 2002.

Inchcape

Inchcape plc
22a St. James's Square
London
SW1Y 5LP

Directors:
Sir John Egan *(Chairman)* *
Peter Johnson *(Group Chief Executive)*
Alan Ferguson *(Group Finance Director)*
Trevor Taylor *(Deputy Chairman)* *
Tony Alexander*
Hugh Norton*
Simon Robertson*
Dr Raymond Ch'ien*
Ken Hanna*

**Non-executive*

12 April 2002

To the holders of ordinary shares and, for information only, to holders of share options

Dear Shareholder

1. Notice of Annual General Meeting

The Notice of Annual General Meeting of Inchcape plc ("Inchcape" or the "Company") is set out on pages 8 and 9 of this document. The purpose of this letter is to give details of the items of business to be transacted at the 2002 Annual General Meeting.

2. Resolutions 1 to 6

Resolutions 1 to 6 deal with the Ordinary Business of the Meeting. They are in respect of the 2001 Report and Accounts (Resolution 1); declaration of dividend (Resolution 2); election and re-election of Directors (Resolutions 3 and 4); and re-appointment of Auditors and Auditors' remuneration (Resolutions 5 and 6). All these Resolutions will be proposed as Ordinary Resolutions.

3. Resolutions 7 to 10

Resolutions 7 to 10 deal with the Special Business of the meeting. Resolutions 7 to 9 are in respect of the Directors' authority to issue shares (Resolution 7); authority to dis-apply pre-emption rights (Resolution 8); and authority for the Company to make market purchases of its own shares (Resolution 9). An explanation of each of these resolutions is set out on pages 4 and 5 of this document. Resolution 7 will be proposed as an Ordinary Resolution and Resolutions 8 and 9 as Special Resolutions.

Resolution 10 is for the adoption of modernised Articles of Association and will be proposed as a Special Resolution. The Company's current Articles of Association (the "Articles") were adopted in 1994. Since that date, there have been a number of changes to company law and practice and to the listing rules of the United Kingdom Listing Authority which apply to publicly quoted companies. Of particular significance has been the introduction of CREST (the electronic system for buying and selling shares and other securities).

While many of the differences between the current Articles and the proposed new Articles (the "New Articles") are of a minor, technical or drafting nature, there are certain substantive changes relating, mainly, to the issues mentioned below.

Uncertificated Shares

The 1995 Uncertificated Securities Regulations were updated in 2001 and the New Articles are consistent with uncertificated holdings and transfers under those Regulations.

Electronic Communications

The Companies Act 1985 (Electronic Communications) Order 2000 (the "Order") came into force on 22nd December, 2000. The Order has removed the legal obstacles to companies communicating electronically with Companies House, so companies no longer have to rely on information being sent by post or delivered by hand. It has also enabled companies to publish annual reports, accounts and other information on a web site and communicate with shareholders, including sending notices and appointing proxies, through electronic communications.

In light of the changes which have occurred, the Board has decided that it would be appropriate for the Company to modernise the Articles to reflect current law and best practice and to bring the Articles into line with the articles of other listed companies. A detailed review of the Articles has been completed and we have concluded that this modernisation will be best achieved by the adoption of an entirely new set of Articles.

Further details of the proposed New Articles are given in the Explanatory Notes and in the Appendix to this Circular.

4. Recommendation

Your Directors consider that the proposals set out above are in the best interests of the Company and its shareholders as a whole and, accordingly, recommend you to give them your support by voting in favour of the Resolutions set out in the Notice of Annual General Meeting on pages 8 and 9 as your Directors intend to do in respect of their own beneficial shareholdings, totalling 152,400 ordinary shares representing 0.2% of the present issued ordinary share capital of the Company.

5. Action to be taken

Shareholders will find enclosed a Form of Proxy for use in respect of the Annual General Meeting. If you are not intending to attend the Annual General Meeting in person, please complete and return this, indicating how you wish your votes to be cast on each of the Resolutions. To be effective, the Form of Proxy should be completed in accordance with the instructions contained therein and returned as soon as possible, but in any event so as to reach the Company's Registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3ZZ by no later than 11.00am on Tuesday 14 May 2002.

Yours sincerely

John Egan

Sir John Egan
Chairman

Registered in England
No. 609782
Registered Office
as address

Inchcape

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Resolution 1 – Accounts

English company law requires the Directors to present the audited accounts of the Company to a general meeting of shareholders.

Resolution 2 – Dividend

A final dividend can only be paid after it has been approved by shareholders. The Directors are recommending a final dividend of 18.2p per ordinary share, payable on 17 June 2002 to shareholders on the register on 24 May 2002.

Resolution 3 – Election of Ken Hanna

Under the Articles of Association of the Company, Directors appointed during the year hold office until the next following Annual General Meeting and they may then offer themselves for election. Ken Hanna was appointed on 27 September 2001. Accordingly, he retires under the Articles and offers himself for election. His biographical details are shown on page 17 of the Company's 2001 Annual Report and Accounts. Ken Hanna is a member of the Remuneration Committee and the Audit Committee and it is intended that he succeed Tony Alexander as Chairman of the Audit Committee.

Resolution 4 – Re-election of Directors retiring by rotation

The Company's Articles of Association require the number nearest to but not exceeding one third of the Directors (excluding Directors appointed since the last Annual General Meeting) to retire each year and provide that they may offer themselves for re-election. This year, Alan Ferguson retires by rotation and offers himself for re-election. His biographical details are shown on page 16 of the Company's 2001 Annual Report and Accounts.

Tony Alexander also retires by rotation but he does not offer himself for re-election as he is retiring at the conclusion of the 2002 Annual General Meeting.

Resolution 5 – Re-appointment of Auditors

The Company's independent auditors must be appointed each year at the Annual General Meeting. The Directors have recommended retaining PricewaterhouseCoopers.

Resolution 6 – Auditors' Remuneration

This resolution, in accordance with normal practice, authorises the Directors to determine the Auditors' remuneration.

Resolution 7 – Issues of shares by the Directors

Resolution 7 is to renew the Directors' authority to issue the authorised but unissued capital of the Company. The authority is over shares up to an aggregate nominal value of £38,741,238 (25,827,492 ordinary shares of 150 pence each), being approximately one-third of the total ordinary share capital in issue at 4 April 2002. The Directors have no present intention of exercising this authority except for issues of shares under the Company's share option schemes.

Resolution 8 – Disapplication of pre-emption

Resolution 8 is to renew the Directors' authority to issue a limited number of shares for cash without first offering them to existing shareholders. This resolution disapplies the pre-emption provisions of Section 89 of the Companies Act 1985. The authority is limited to shares to an aggregate nominal value of £5,817,001 (3,878,000 ordinary shares of 150 pence each) which represents approximately 5% of the Company's issued ordinary share capital at 4 April 2002. In relation to the exercise of this authority, the Directors will have regard to the guidelines published by the investment committees of the Association of British Insurers and the National Association of Pension Funds.

Resolution 9 – Purchase of own shares by the Company

Resolution 9 is to renew authority for the Company to buy its own shares in the market. The resolution limits the number of shares which could be purchased to approximately 10% of the total issued ordinary share capital at 4 April 2002, being the latest practicable date prior to the date of the notice of the Annual General Meeting, and sets minimum and maximum prices. The authority would only be exercised if the Directors believe that market conditions made it advantageous to do so. The effect of any such purchases would be to reduce the number of shares in issue and the Directors would accordingly only make such purchases if this would result in an increase in earnings per share and be in the best interests of shareholders generally.

Options to subscribe for up to 2,308,168 equity shares in the Company were outstanding on 4 April 2002, representing 2.98% of the issued share capital at that time. If the full authority to buy back shares is used then such options will represent 3.31% of the issued share capital of the Company at that date.

The authorities sought by resolutions 7, 8 and 9 are to replace the existing powers of the Directors, which will expire at the conclusion of the Annual General Meeting. The authorities sought will expire at the conclusion of the Annual General Meeting to be held in 2003.

Resolution 10

As explained in the Chairman's letter, it is intended to adopt modernised Articles of Association. Details of the proposed New Articles are given in the Appendix to this Circular.

Inchcape

Appendix

The following is a summary of the proposed New Articles. Where the proposed amendments to the current Articles are of a minor, technical or drafting nature, these have not been listed below.

1. **Borrowing Powers**

   Article 1(B) reflects current law and practice. The terminology used reflects that used in legislation. The revised definition of "adjusted capital and reserves" has been simplified and the "borrowings" definition has been amended to make clear what borrowings should be included or excluded in calculating what the Company's current borrowings are. A currency conversion mechanism has also been included.

2. **Directors' Fees**

   Article 1(E) has been amended to increase the limit on Directors' fees from the level of £175,000 set in 1994, to £250,000.

3. **Age of Directors**

   Article 1(F) states that in the event that a director over the age of 70 is proposed for election or re-election, the notice proposing his election or re-election should state his age but that any accidental omission to state the director's age would not invalidate the proceedings or the election or re-election of the director.

4. **Transfer**

   Article 34 provides for the transfer of uncertificated shares through CREST.

5. **Length of Notice**

   Article 51 facilitates the use of electronic communications. The Company can send documents to shareholders by email (provided addresses have been specified for this purpose) and can publish documents on a web site in lieu of sending them by post to shareholders.

6. **Postponement of General Meetings**

   Article 53 enables the Board to postpone general meetings in exceptional circumstances.

7. **Entitlement to Attend and Speak**

   Article 57 allows the Chairman to invite anyone who would not otherwise be entitled to be present to attend and speak at general meetings if he considers that this will help with the business of the meeting.

8. **Orderly Conduct**

   Article 59 allows the Chairman to take such action as he considers appropriate to promote orderly conduct of the business at a general meeting.

9. **Execution of Proxies**

   Article 72 enables proxy appointments to be communicated electronically.

10. Receipt of Proxies

Article 73 describes the procedure relating to the receipt of proxies should the appointment of a proxy be effected by means of an electronic communication. The Article also establishes a system for the Company in dealing with the case where two conflicting proxies are lodged in respect of the same shares.

11. Maximum Validity of Proxy

Article 74 makes clear that the appointment of a proxy remains valid for an adjourned meeting or a poll which takes place more than 12 months after the meeting for which the proxy was originally given.

12. Cancellation of Proxy's Authority

Article 76 enables the removal of a proxy to be communicated electronically.

13. Identity of Directors to Retire

Article 82 makes clear, in line with Combined Code requirements, that every Director shall retire by rotation every three years. The Article also provides for the annual retirement of directors over the age of 70.

14. Provision for Employees

Article 97 enables the Board to make provisions for the benefit of current and former employees of the Company or its subsidiaries in connection with a cessation or transfer of business.

15. Pensions and Gratuities for Directors

Article 98 states that pensions or other retirement benefits may not be awarded from the Company to non-executive Directors.

16. Calculation and Currency of Dividends

Article 113 permits dividends to be declared and paid in any currency. This is to give the Company greater flexibility for the future and it is not the current intention of the Company to pay dividends in a foreign currency.

17. Scrip Dividends

Article 120 is in line with the UK Listing Authority's requirement that the power conferred on the Directors to issue scrip dividends should not be indefinite and, accordingly, provides for a five-year time limit.

18. Summary Financial Statements

Article 126 allows financial statements to be sent electronically to shareholders.

19. Service of Notices

Article 127 expressly permits notices to be sent by means of electronic communication.

20. Indemnity of Officers

Article 135 extends to former Directors and officers of the Company and no longer permits the Company to indemnify the Auditors.

Inchcape

NOTICE OF ANNUAL GENERAL MEETING OF INCHCAPE PLC

THE FORTY-FOURTH Annual General Meeting of the Company will be held at the Royal Automobile Club, 89-91 Pall Mall, London SW1Y 5HS on Thursday 16 May 2002 at 11.00am for the following purposes:

1. To receive the statement of accounts for the financial year ended 31 December 2001 and the Directors' and Auditors' reports thereon.

2. To declare a final dividend.

3. To elect Ken Hanna as a Director.

4. To re-elect Alan Ferguson as a Director.

5. To re-appoint the Auditors.

6. To authorise the Directors to determine the Auditors' remuneration.

As special business, to consider and, if thought fit, to pass the following resolutions. Resolution 7 will be proposed as an ordinary resolution and resolutions 8, 9 and 10 as special resolutions.

7. "THAT the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal value of £38,741,238 which authority shall (unless previously revoked or varied by the Company in general meeting) expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired."
8. "THAT 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 the authority conferred by resolution 7 above as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, provided that this power shall be limited:
   (a) to the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of ordinary shareholders on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

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(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £5,817,001,

and shall (unless previously revoked or varied by the Company in general meeting) expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

9. "THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (as defined in Section 163(3) of the Companies Act 1985) of its ordinary shares of 150 pence each provided that:

(a) the maximum number of ordinary shares, which may be acquired, is 7,756,003;

(b) the minimum price which may be paid for any such share is 150 pence; and

(c) the maximum price which may be paid for any such share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is contracted to take place.

This authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make a contract of purchase which would or might be executed wholly or partly after such expiry and may purchase shares in accordance with such contract as if the authority conferred hereby had not expired."

10. "THAT the regulations set forth in the printed document produced to the meeting and for the purposes of identification signed by the Chairman are hereby approved and adopted as the Articles of Association of the Company, in substitution for, and to the exclusion of, all existing Articles thereof."

BY ORDER OF THE BOARD

R C Williams
Secretary
22a St James's Square
London SW1Y 5LP

12 April 2002

NOTES

1. **Proxy**
   A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. The instrument appointing a proxy (enclosed) must be delivered at the office of the Company's Registrars not later than forty-eight hours before the time appointed for holding the meeting. Return of a completed form of proxy will not preclude a member from attending and voting in person.

2. **Entitlement to vote**
   The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company at 11.00am on 14 May 2002 (or, in the event that this meeting is adjourned, in the register of members forty-eight hours before the time of any adjourned meeting), shall be entitled to attend or to vote at this meeting in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after 11.00am on 14 May 2002 (or, in the event that this meeting is adjourned, forty-eight hours before the time of any adjourned meeting), shall be disregarded in determining the rights of any person to attend or vote at the meeting.

3. **Documents available for inspection**
   The register of Directors' interests and copies of the Directors' service contracts with the Company or its subsidiaries will be available for inspection at the registered office of the Company during normal business hours and on the date of the Annual General Meeting at The Royal Automobile Club, 89-91 Pall Mall, London SW1Y 5HS from 10.45am until the conclusion of the meeting.

   Copies of the proposed Articles of Association, together with a copy of those it is proposed they replace, will be available for inspection at the registered office of the Company and at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY during normal business hours and on the date of the Annual General Meeting at the place of the Annual General Meeting from 10.45am until the conclusion of the meeting.

Listing Rules

In accordance with the requirements of the Listing Rules of the UK Listing Authority, the following information is disclosed:

1. The following notifications of substantial interests in the Company's issued ordinary share capital had been received by 4 April 2002 under the provisions of the Companies Act 1985:

Barclays plc	12%*
Toyota Motor Corporation	5.42%
Standard Life Investments	5.40%
Fidelity International Limited	4.49%

* of the total holding, 6.51% is held beneficially and 5.49% is held as nominee.

2. The following changes in Directors' interests in the shares of the Company and its subsidiaries have taken place between 1 January and 4 April 2002:

On 5 March 2002 Raymond Ch'ien exercised an option over 64,432 shares. Following the exercise he sold 42,432 shares, and retained the remaining 22,000 shares. He made a gain of £139,601 on the shares sold. On the day of exercise the mid-market price of the shares was 722p.

On 14 March 2002, Alan Ferguson purchased 3,926 Deposited Shares at a price of 693p per share under the terms of the Deferred Bonus Plan ("the Plan"). In accordance with the rules of the Plan, 6,543 Awarded Shares were granted to him on that date.

On 18 March 2002, options under the Inchcape 1999 Share Option Plan were granted at an exercise price of 685p as follows:

Alan Ferguson	- an option over 33,576 Ordinary Shares of 150p each
Peter Johnson	- an option over 63,065 Ordinary Shares of 150p each

The options are exercisable between March 2005 and March 2012. In normal circumstances they are exercisable only if the performance target has been met.

The Trustees of the Inchcape Employee Trust have acquired ordinary shares of 150p as shown below:

Date of Acquisition	**No. of Shares Acquired**
14 March 2002	10,615
25 March 2002	100,000
26 March 2002	100,000
27 March 2002	150,000
28 March 2002	150,000

The Trustees' shareholding at 4 April 2002 totalled 1,790,484 (1 January 2002 - 1,271,804). The executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Trust and, as such, are deemed by the Companies Act 1985 to be interested in any shares held by the Trustees.

Inchcape

Annual General Meeting
16 May 2002

The Royal Automobile Club has By-Laws regarding dress regulations for its Pall Mall Clubhouse a summary of which is set out below. The RAC has asked us to draw your attention to these By-Laws and to request, if you intend to attend the Meeting, that you observe their regulations.

ROYAL AUTOMOBILE CLUB – DRESS REGULATIONS
PALL MALL CLUBHOUSE

1. *Gentlemen are required to wear tailored business suits, or tailored jackets and trousers, together with a collared shirt and tie at all times and in all areas of the Clubhouse. Cravats are not permitted.*

2. *Ladies are expected to dress with commensurate formality according to the occasion and within the spirit of these rules.*

3. *For both ladies and gentlemen, blue denim clothing; loose baggy jumpers; sweatshirts; T-shirts; tracksuits; leisuresuits; shorts; leggings; combat-style or jeans-style trousers or training shoes may not be worn at any time, or in any areas of the Clubhouse.*

4. *All dress regulations apply equally to children of either sex.*

5. *The dress regulations do not apply to any person wearing their national dress or the uniform or costume appropriate to their office or vocation.*

6. *Members and guests are required to remove outer street garments before entering the public rooms of the Clubhouse and should deposit their hats, coats, briefcases, parcels, shopping bags, etc., in the cloakroom. Ladies may continue to wear their hats indoors, and naturally may retain their handbags. Any items left unattended may be removed to the cloakroom.*