Inchcape

International Automotive Services Group

Annual report and accounts 2002

Contents

An international automotive services group

Inchcape, as an international automotive services group, provides quality representation for its selected manufacturer partners, a choice of channels to market and products for its retail customers and a range of business services for its corporate customers. Operations are focused on the UK, Greece, Belgium, Australia, Hong Kong and Singapore. Inchcape's activities include exclusive Import, Distribution and Retail, Business Services, automotive E-commerce and Financial Services.

Partnering

Our key manufacturer partners are Toyota/Lexus, Subaru, Ferrari/Maserati, BMW and the Premier Automotive Group of Ford.

Far reaching

United Kingdom

Inchcape offers a choice of products and channels to market and increasingly a range of Business Services, including logistics, refurbishment and re-marketing, to corporate customers. In UK Retail we are becoming more aligned to a number of selected specialist manufacturers including BMW, Toyota/Lexus, the Premier Automotive Group of Ford (PAG), Mercedes-Benz and Audi. In Business Services we refurbish c. 90,000 nearly new cars per annum and carry out over 500,000 transport movements on behalf of our customers.

Greece

Inchcape has been the Importer and Distributor in Greece for Toyota since 1987, now selling around 30,000 units per annum. We also provide a range of financial products to the Toyota retail customer through our relationship with EFG Eurobank Ergasias, one of the leading banks in Greece. In addition we retail Toyota/Lexus vehicles in Athens and Salonica. We are in the process of expanding our Retail reach.

Our Greek operation also holds the Toyota distribution rights for Bulgaria, Romania and Macedonia.

Belgium

Our Import and Distribution business in Belgium for Toyota/Lexus has been part of the Group since 1979. We sell over 25,000 cars per annum through a mainly independent network of some 130 dealerships. The Belgian market is dominated by diesel products, which represent c. 64.0% of the market. We also import and retail Ferrari/Maserati vehicles in Belgium.

Australia

We have been the Subaru Importer and Distributor in Australia for over ten years and are now also the sole retailer for Subaru in Melbourne, a territory which represents some 20.0% of the Australian market. Our facilities include our flagship site at Subaru Docklands where the brand experience is fully demonstrated. This is the world's largest Subaru dealership.

In Sydney we exclusively retail VW and Jaguar through six dealerships and have long term contracts with those manufacturers. We also represent Volvo and Subaru in the greater Sydney area. In total this business sells over 5,000 new and used cars per annum.

Hong Kong

In Hong Kong we are the exclusive Importer and Retailer for Toyota/Lexus, Hino, Jaguar, Mazda and Peugeot. Combined, these franchises regularly achieve over 40.0% of the market. Our Crown Motors business has held the Toyota franchise since 1966 and Toyota has been market leader for over twelve years.

We also own 50.0% of Inchroy, a joint venture with Bank of America, a market leader in the provision of automotive financial services.

We were awarded the Daihatsu franchise for this market with effect from January 2003.

Singapore

We exclusively Import and Retail for Toyota/Lexus and Suzuki in Singapore. Inchcape's market share in this territory comfortably exceeds 20.0%. We have held the Toyota franchise since 1967. In this market we have to purchase, on the customers behalf, a Certificate of Entitlement (COE) from the Government in order to buy a new vehicle. Automotive retailers have to bid for them on a fortnightly basis.

This is Inchcape

Focused

Import, distribution and retail

In all of our markets we import and distribute vehicles on behalf of our key manufacturer partners. We are responsible for the retail network, model range, specification, price positioning, marketing strategy and the provision of an aftersales infrastructure.

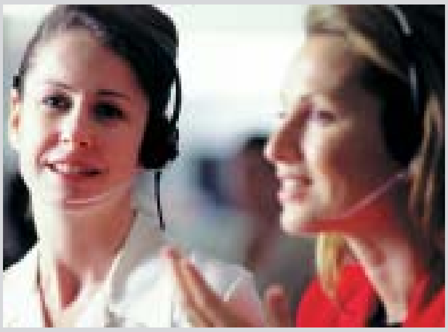
In markets such as Hong Kong and Singapore, we also exclusively retail all the vehicles we import thus removing the distinction between the importer and retailer. Whilst this unified approach is best suited to city state markets it is also applicable in markets like Greece and Australia, as the local market size and structure of cities like Athens and Melbourne supports such a model. This results in a lower cost base, more effective marketing spend and a shorter order to delivery cycle. The business can also offer customers a wider choice of used cars and take advantage of back office synergies.

UK Retail

The structure of the UK retail industry is changing, driven by the need to have a more efficient supply chain and recent European Block Exemption legislation.

The new model will benefit from greater focus on fewer brands with more geographic concentration. We aim to represent between 5.0% and 10.0% of our Original Equipment Manufacturer (OEM) partners' national sales volumes in concentrated market areas.

Financial services



This business segment encompasses financial services joint ventures, which provide retail finance to our customers as well as our UK Leasing and Fleet Solutions businesses. Through these businesses we offer corporate customers a choice of contract hire, fleet management or personal leasing arrangements.

Business services*

Our strategy is to create a scale business in logistics and refurbishment.

Eurofleet provides specialist expertise in vehicle preparation, refurbishment and transport logistics to vehicle manufacturers and rental and fleet operators.

Through two businesses set up in 2002 we offer fleet management and re-marketing services principally to vehicle manufacturers.

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

*Included within Import, distribution and retail segment

Performance

+13.1%

Operating profit before goodwill amortisation (see note 1b) rose by 13.1% to £117.2m

Profits rose in the UK, Greece, Belgium, Australia and Singapore.

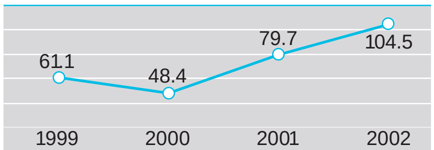
+31.1%

Headline (before goodwill amortisation and exceptional items) earnings per share* rose by 31.1% to 104.5p

Strong profit growth, aided by a reduced tax rate and a lower minority interest charge, contributed to this excellent performance. The lower minority charge results from the purchase of the minority holding in Inchcape Motors Ltd, Singapore.

Since 1999 Headline earnings per share have risen by 71.0%.

*See note 9.



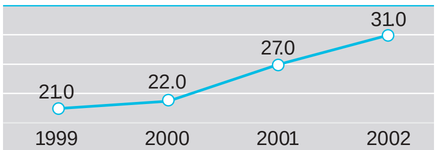
Headline earnings per share (p)

104.5p

+14.8%

Dividend per share rose by 14.8% to 31.0p

This year the dividend has increased from 27.0p to 31.0p. Since becoming a pure automotive services group in 1999 the ordinary dividend has risen over 47.0% from 21.0p per share to 31.0p.



Ordinary dividend per share price (p)

31.0p

Chairman's statement from Sir John Egan

"Inchcape has again produced an outstanding set of results… All this is testament to the quality of our businesses in our six core markets where we have strong manufacturer partnerships and excellent market positions."

Inchcape has again produced an outstanding set of results. Despite challenging conditions in some of our core markets, operating profit before goodwill amortisation (see note 1b) rose by 13.1% whilst Headline profit before tax (before goodwill amortisation and exceptional items) was up 12.4% (see note 9). Headline earnings per share, of 104.5p, increased by 31.1% compared to 2001. Operating cash flow in 2002 was strong at £163.9m and the Group remained ungeared at the year end.

All this is testament to the quality of our businesses in our six core markets where we have strong manufacturer partnerships and excellent market positions. The results support the strategic steps taken over the last three years to focus on these businesses and relationships. Furthermore our confidence that, overall, the Group will be further strengthened following the recent changes to the European Block Exemption legislation supports our strategy going forward.

Acquisitions and disposals

During the year £89.7m was spent on acquisitions and settling claims mainly arising from the sale of Intertek Testing Services Ltd (£14.9m). The largest acquisition was the purchase of the minority holding (c. 36.7%) in our quoted Singaporean subsidiary, Inchcape Motors Ltd (IML), in May 2002 (£63.1m). The company was delisted on 3 July 2002. The acquisition of a number of dealerships in the UK made up the balance and included a Mercedes-Benz market area, covering Oxford, Stratford-upon-Avon, Coventry and Banbury.

No disposals of any significance were made in the period although there are still certain non-core businesses to be sold within our portfolio.

Financial performance

Operating profit rose 9.6% whilst operating profit before goodwill amortisation, of £5.6m, rose by 13.1% to £117.2m. Headline profit before tax was £112.1m, up 12.4% on last year, with Headline earnings per share rising 31.1% to 104.5p. Profit before tax was £108.6m.

Operating cash flow in the period was £163.9m. Despite spending £89.7m on acquisitions and settling claims, there was a cash outflow of only £0.9m. Year end net cash was £16.6m.

Balance sheet strength

We became a pure automotive services group in 1999 and since then our business has demonstrated strong cash flow characteristics resulting in an ungeared balance sheet. This is despite an increasing dividend, the return of £45.0m to our shareholders through a share buy back in 2001 and continued investment in our businesses.

The Group is therefore well placed to fund its strategic development programme, which will focus on further growth with our key partners. Although broadly based the programme will encompass continued investment in our Retail activities in the UK, Greece and Australia and further expansion of Business Services in the UK and, ultimately, Continental Europe. At a later stage we envisage investing in China with our key manufacturer partners.

Given these intentions, a further return of capital to shareholders is not currently considered appropriate. However, the Board's policy in this regard remains clear and consistent; if available funds are not required for investment purposes we will make additional returns of capital to shareholders.

Dividend

The Board follows a progressive dividend policy and since becoming a pure automotive services group in 1999 the dividend has been increased each year. The Board therefore recommends the payment of a final ordinary dividend of 21.0p (2001 – 18.2p) giving a total dividend for the year of 31.0p (2001 – 27.0p). This is an increase of 14.8% and means that the ordinary dividend has risen over 47.0% since 1999. The dividend is covered 3.4 times by Headline earnings per share.

Inchcape management and employees

I would like to congratulate the management team on delivering yet another set of impressive results in what are challenging times for the world economy.

On behalf of the Board I must also thank the employees of Inchcape for all their efforts and loyalty throughout the year. Their contribution to the changes that have taken place at Inchcape should not be underestimated.

Board changes

I am delighted to welcome Graeme Potts to Inchcape. He joined the Board on 10 September 2002 as Managing Director for Inchcape UK and Europe having previously held the positions of Group Managing Director of RAC Motoring Services and, prior to that, Chief Executive of Reg Vardy plc. Graeme brings with him a wealth of motor retail and business services experience from which the Group will undoubtedly benefit.

Current trading and prospects

The UK car market for 2003 is forecast at 2.38m units, a reduction from 2002 but still the third highest market ever recorded. In UK Retail we will see the benefits of the full year operation of our new Mercedes-Benz market area. Business Services should continue the gradual improvement seen in the second half of 2002. A cost reduction programme, undertaken during the last year, will result in improved performances from our Leasing and alternate channels to market businesses. Overall the recovery seen in 2002 in the UK is expected to continue despite our estimate that the 2003 pension charge will increase by around £3.0m to £4.0m.

In Greece and Belgium our Toyota businesses will benefit from improved supply of the new Corolla, the launch of the new Avensis and the much improved diesel variants in Belgium, which should offset the projected market declines.

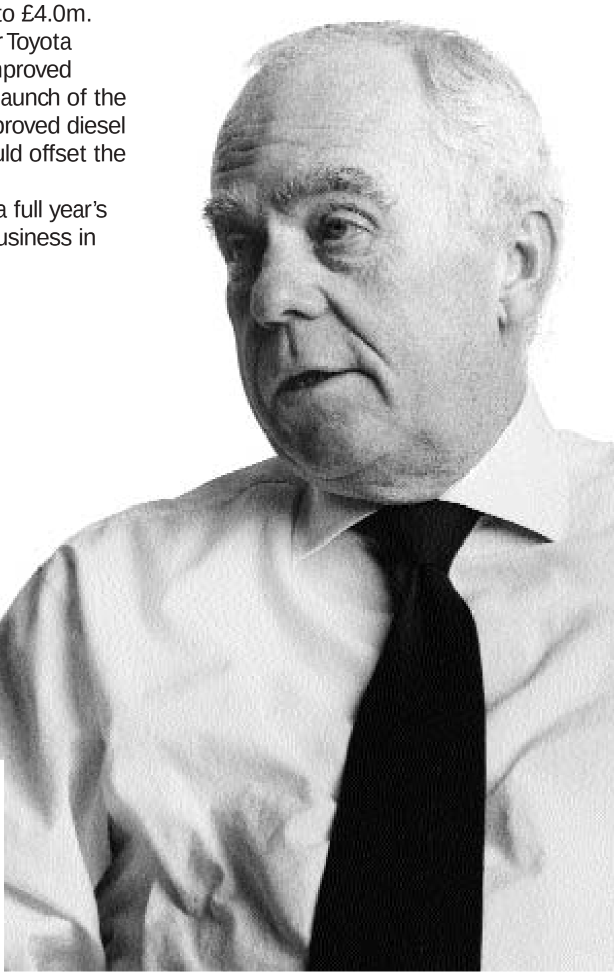
Australia will benefit from a full year's contribution from our Subaru business in Melbourne.

Recovery in the Hong Kong market is not expected in the short term, however, our actions to reduce costs during 2002 should result in yet another robust performance from this business.

The market should continue to grow in Singapore helping offset any margin pressure from competitors' new product introductions.

The excellent strategic progress made in recent years, the strength of our OEM partnerships and the robust operational base that has been established demonstrate that this is a high quality cash generative business. We are well placed to exploit changes arising in our industry and 2003 should show further progress for Inchcape.

Sir John Egan
Chairman
3 March 2003



Achievement

Group financial performance

With an increase in Headline profit before tax (before goodwill amortisation and exceptional items) of 12.4% and Headline earnings per share up 31.1%, this year's result has yet again been outstanding.

Our performance over the last three years has seen us win the 'European Automotive Shareholder Value Award' presented by PricewaterhouseCoopers, in conjunction with Automotive News Europe.

This award recognises the highest total shareholder return for automotive vehicle retail distributors over a three year period.

Investing in the brands

Sustaining excellent performances and strong market positions requires investment and in the year the Group invested in new facilities in Greece, Australia, Singapore and the UK. These investments will help enhance the quality of our businesses and drive growth for the future.

Manufacturer relationships

The strength of our manufacturer relationships is very important to the Group. During the year we enhanced our relationship with Toyota by taking full ownership of IML in Singapore. We also expanded our relationship with Mercedes-Benz in the UK through the award of a large market area and in Australia we completed the development of our Melbourne project, Subaru Docklands.

Our relationships have longevity and strength and this gives us the confidence that, overall, the Group will benefit from the recent changes to European Block Exemption.

Market success

In Hong Kong, Singapore and Greece we achieved overall market leadership in 2002. As a result these businesses were awarded the prestigious 'Toyota Triple Crown Award'. This accolade is presented for overall market leadership and leadership in the passenger car and light commercial vehicle segments.

Crown Motors, our exclusive Toyota/Lexus retailer in Hong Kong, has won this award for eleven consecutive years and is the only company in the world to have done so.

Chief Executive's review from Peter Johnson

"The revised European Block Exemption legislation has turned out much as predicted and the opportunities for large, well financed groups to invest further with their chosen OEM partners are considerable."

We have had another successful year and have come a long way since Inchcape became a pure automotive services group in mid 1999.

Our overseas businesses now have many common characteristics; long term stable relationships with quality Original Equipment Manufacturer (OEM) partners, market leading sales performances and outstanding aftersales returns delivered by the highest quality management.

In addition the success of our integrated Distribution and Retail business model in Hong Kong and Singapore has provided a template for our investments in Greece and Australia.

It is in the UK market where Inchcape now has both its greatest challenges and opportunities. Much of our earlier investment in Retail, Business Services and alternative sales channels will start to deliver growth allied to improved margins. Graeme Potts' arrival has strengthened our UK management team. Our balance sheet strength will allow us to act rapidly should suitable growth opportunities arise in either Retail or Business Services.

Changes in the European Block Exemption legislation have required all OEMs to terminate their existing agreements with distributors and dealers. The revised legislation has turned out much as we predicted and the opportunities for large, well financed groups to invest further with their chosen OEM partners are considerable. Many OEMs have used the revised legislation to revisit existing agreements with their current retail partners and most now see fewer but much larger scale relationships as the way forward. We are in discussion with our key OEM partners in the UK and envisage a positive outcome, overall, for the Group.

Our investment in logistics, re-marketing and refurbishment through the acquisition of Eurofleet Ltd is an important strategic move. OEMs are constantly seeking, from well funded and professionally managed companies, new and innovative ways to drive cost out of the supply chain. Our Business Services operations can successfully address this need.

We remain confident of leveraging the Business Services infrastructure into Continental European markets within the next two years. We see particular opportunities for our integrated logistics and re-marketing service in France and Germany, as OEMs continue to seek pan European solutions and partners.

As the problems of over capacity and inadequate returns continue to affect the OEMs, the key to gaining a competitive advantage will arise not only from delivering lower costs through greater efficiency, but increasingly through ever higher levels of customer satisfaction driven by brand strength, excellent products and outstanding levels of service. It is here Inchcape offers an unrivalled track record to its OEM partners.

OEM relationships across all our marques have been an important factor in our success. Our most extensive relationship is with Toyota with whom we continue to grow. In 2002 we achieved market leadership in all markets where we represent the brand, with the exception of Belgium where we increased market share from 3.9% to 5.1%.

Toyota's new model programme continues to gather pace and following the successful launch in Europe of the Corolla, the new Avensis will be launched in mid 2003.

We strengthened our partnership in 2002 by further investing in the Toyota brand with a complete refurbishment of our facilities in Singapore, which will result in a significant increase in our aftersales capacity. In the UK we continue to invest and remain the largest Toyota/Lexus dealer. In Greece we moved into new retail premises in Athens and have further invested in Salonica, the second largest market.

We continue to look at expanding from our core markets into adjacent territories. As an example, we have recently invested in new Toyota sales and service facilities in Sofia, Bulgaria. We are also examining opportunities in China, a country which will ultimately be the largest single growth market in Asia.

Maintaining and enhancing brand strength through investment has been a key focus of our strategy across the whole Group. In 2002 we made a significant investment in our Subaru relationship with our new state-of-the-art facility in Melbourne, which is expected to retail in excess of 5,000 new and used vehicles in 2003. Our 3.4% market share is the highest for the Subaru brand in any major market outside Japan.

Our strategy with Ferrari/Maserati is to extend our Retail reach. In the year we opened a new service workshop in Surrey doubling capacity.

In the UK our key retail partners are BMW and Toyota/Lexus and we will seek further growth with these manufacturers. In addition our relationship with the Premier Automotive Group of Ford is set to expand. We aim to represent between 5.0% and 10.0% of our key partners' national sales volumes.

We will further leverage our OEM relationships and the drive into Retail and Business Services will be accelerated with special emphasis on UK market opportunities. I look to the future with confidence. There are challenges ahead but we have built a strong platform and will continue to move forward.

Peter Johnson
Group Chief Executive
3 March 2003

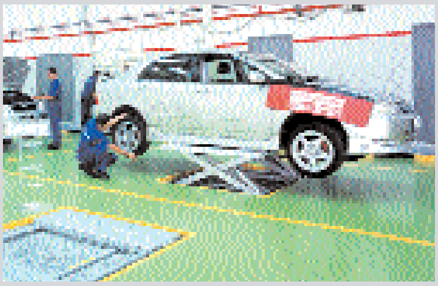
Investment

Ferrari investment in the UK

During 2002 we opened the largest Ferrari/Maserati service centre in the world. This all-new, purpose-built facility in Surrey is dedicated to providing outstanding service to owners of both contemporary models as well as classic Ferraris and Maseratis. It is the only authorised service point in the UK equipped to service the F40, F50 and the brand new Enzo model.

New service centre in Singapore

The provision of excellent aftersales is critical for customer satisfaction and is an important driver of profits in Singapore. During the year we invested £0.9m in a new service centre increasing the number of service bays by 30 to 202, an increase of over 17.0%.



Retail investment in Greece

As part of the ongoing redevelopment of our Retail business in Greece, which includes further upgrading and improving the services offered to our customers, Toyota Hellas in Athens has consolidated their three small dealerships into a single prime site located on one of the most prestigious roads in the city.

Since opening in August 2002 the business, which incorporates the Lexus franchise, has seen an increase in both showroom visits and customer orders.

Operational review

This section provides a summary of the performance of our core markets. Group operating profit before goodwill amortisation, of £5.6m, rose by £13.6m to £117.2m. Profits increased in the UK, Greece, Belgium, Australia and Singapore.

2001 103.6

2002 117.2

Operating profit before goodwill amortisation £m

£117.2m

	2002	2001
Operating profit	**111.6**	101.8
Goodwill amortisation	**5.6**	1.8
Operating profit before goodwill amortisation	**117.2**	103.6

We operate in the following core markets:

- United Kingdom
- Greece
- Belgium
- Singapore
- Hong Kong
- Australia

United Kingdom

2001 14.9

2002 18.6

Operating profit before goodwill amortisation £m

£18.6m

	2002	2001
Operating profit	**14.3**	13.7
Goodwill amortisation	**4.3**	1.2
Operating profit before goodwill amortisation	**18.6**	14.9

Contribution to Group turnover

36.4%

Key manufacturing partners

The new car market in the UK reached a record level in 2002 for the second consecutive year, increasing by 4.3% to 2.6m units, fuelled by low interest rates and new vehicle price reductions. Inchcape's new car retail volumes performed ahead of the market growing 13.5%. BMW, Toyota/Lexus, the Premier Automotive Group of Ford (PAG), Mercedes-Benz and Audi, our key Original Equipment Manufacturer (OEM) partners, all performed well.

Retail profits grew by 7.2% in 2002. The full year effect of the acquisition of the Bates Motor Group Ltd in September last year was a significant factor in this. In total, profits from our acquisitions more than offset the impact of any loss of profits from dealerships disposed of in the period. Financial Services' profits (included in the Financial Services' results) of £0.5m were generated by our UK Retail operations.

Our Leasing business experienced a disappointing year. We have, however, restructured the business at a cost of £1.6m integrating our operations with Inchcape Fleet Solutions. This amalgamation will generate significant economies of scale and will achieve a payback in under two years.

In Business Services, Eurofleet's turnover increased 10.9% in a difficult market. Margins suffered as a result of a very competitive daily rental sector and higher costs, such as insurance.

However, we remain confident that this business is capable of both top line revenue growth and improved margins. In particular our range of new products and services continue to develop well. Our 'Inspect and Collect' business showed rapid growth as leasing companies took advantage of our new systems, which enabled them to charge immediately and accurately their customers for damage done to vehicles.

Our Fleet Management and Re-marketing businesses commenced trading in January 2002 incurring start-up losses in line with expectations.

Losses in Autobytel UK fell significantly in the period and for the forseeable future this business is expected to operate at close to breakeven. A new contract was signed with Autobytel.com in the period, extending our agreement through to 2027.

In December 2001 we launched a new venture with the AA to sell new and used cars direct to the public. We have recently refocused the business on AA customers and reduced costs by sharing back office functions with Autobytel UK. We expect the business to breakeven in 2003.

Investment in prior years in the Maserati brand is now beginning to bear fruit. The launch of the Maserati Coupé and Spyder Convertible, and the continued strong performance by Ferrari, increased profitability by 14.5% during the year.

Business services innovation – 'Inspect and Collect'

Innovative services such as 'Inspect and Collect' enable our Business Services operation, Eurofleet, to broaden its revenue base. Our qualified inspectors examine a vehicle and via a hand held terminal immediately report the information back to a central database. This allows leasing companies to bill accurately their customers for damage done to their vehicles.

Mercedes-Benz market area awarded

In June 2002 we were awarded a significant Mercedes-Benz market area covering Oxford, Stratford-upon-Avon, Coventry and Banbury. This was part of their Market Area Concept strategy whereby a number of selected partners represent the brand in 'super' territories up to six times larger than a conventional dealership territory. We have already invested £5.9m in this market area and look to increase this to c. £10.0m partly as a result of the development of a purpose built facility in Oxford.

Greece/Belgium

2001 13.0

2002 19.8

Operating profit before goodwill amortisation £m

£19.8m

	2002	2001
Operating profit	**19.5**	12.7
Goodwill amortisation	**0.3**	0.3
Operating profit before goodwill amortisation	**19.8**	13.0

Contribution to Group turnover

20.0%

Key manufacturing partners

In Belgium the total car market declined by 6.0% despite the boost of the 2002 Brussels Motor Show. Toyota, however, increased sales by 23.3% thus significantly improving its market share as it benefited from the successful launch of the new Corolla and the introduction of new diesel variants on the Yaris and RAV4. In the diesel sector Toyota's market share rose from 2.3% to 4.0%. Profits increased by £3.4m on last year despite a one off charge of £4.4m to cover the cost of implementing new European Block Exemption contracts throughout the dealer network.

The new Corolla was also well received in Greece. Despite a 4.5% fall in the market Toyota increased its share to 9.7% and achieved market leadership, an excellent performance in a challenging market. Unit sales were up 4.7% and this, together with the continued strong performance in our ancillary businesses, resulted in an increased level of profitability. We continue to invest in our Balkans businesses, which are moving into profit as sales volumes grow.

New showroom and service facilities in Bulgaria

Our Toyota operation in Bulgaria moved into new premises. The 3,800 square metre facility is located on the main highway in Sofia thus providing superb visibility and access for this developing business, which retails c. 700 units per annum. These new, modern premises include a showroom, with a capacity for twelve cars, and a service centre with fifteen work bays.

New Corolla launch in Europe

The new Corolla was launched in Greece and Belgium in January 2002 and was showcased at the Brussels Motor Show. It was a success in both markets, particularly in Belgium where new diesel derivatives increased market appeal.

"Subaru Australia had yet another excellent year... This was our sixth consecutive year of record sales."

Australia/New Zealand

2001 13.1

2002 17.9

Operating profit before goodwill amortisation £m

£17.9m

	2002	2001
Operating profit	**17.4**	12.8
Goodwill amortisation	**0.5**	0.3
Operating profit before goodwill amortisation	**17.9**	13.1

Contribution to Group turnover

13.1%

Key manufacturing partners

SUBARU JAGUAR VOLVO VOLKSWAGEN

Subaru Australia had yet another excellent year. The market increased by some 6.7% whilst Subaru achieved a sales record of 28,112 units. This was our sixth consecutive year of record sales while our market share of 3.4% was the largest of any major market outside Japan. This sales performance, allied to improved margins, resulted in strong profit growth.

During 2002 the Subaru Melbourne project was effectively completed and we are now the sole retailer of Subaru products in Melbourne, an area which represents some 20.0% of the Australian market. In addition to the state-of-the-art Docklands facility, we operate through three full sales and service dealerships and two service-only sites. We retailed over 2,000 new and used cars in the year and this should rise to in excess of 5,000 in 2003 when the full profit impact of this major new investment will begin to be seen.

In Sydney our Retail operations failed to improve their returns. VW, one of our OEM partners in the market, suffered a 12.5% national volume decline. This was partially offset by our other key franchise, Jaguar, which benefited from the launch of the X-Type.

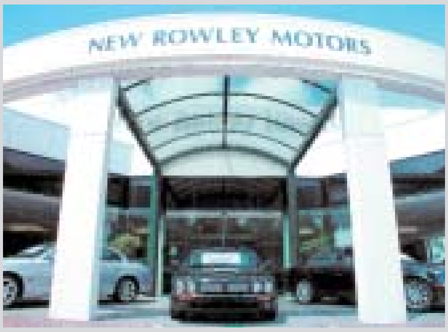
In New Zealand our Subaru market share and profits improved marginally.

Subaru Docklands development

In May 2002 we opened our flagship site, Subaru Docklands, the largest Subaru dealership in the world. The 22,000 square metre site in Melbourne, a city that represents some 20.0% of the Australian market, features exciting driving related activities designed to demonstrate Subaru's unique All-Wheel Drive appeal. Much is expected from this substantial new business, which will ultimately sell over 6,000 new and used cars per annum.

Sydney Retail growth

We are continuing the development of our Sydney Retail business with an ongoing dealership refurbishment programme. We exclusively Retail VW and Jaguar in Sydney, and also represent Volvo and Subaru. With these marques combined, our Sydney Retail business sold over 5,000 new and used cars in 2002, an increase of 17.6% from 2001.



Hong Kong

2001 48.9

2002 31.3

Operating profit before goodwill amortisation £m

£31.3m

	2002	2001
Operating profit	31.3	48.9
Goodwill amortisation	–	–
Operating profit before goodwill amortisation	31.3	48.9

Contribution to Group turnover

8.6%

Key manufacturing partners

TOYOTA JAGUAR PEUGEOT LEXUS MAZDA DAIHATSU HINO

Award of Daihatsu franchise

Our business in Hong Kong, Crown Motors Ltd, expanded their operations in January 2003 to become the exclusive distributor of Daihatsu in Hong Kong. This is in addition to their current Toyota/Lexus and Hino representation. With a total of three showrooms, this business will eventually sell in excess of 1,000 vehicles per year.

The Hong Kong market, excluding taxis, fell by 8.9% to 31,693 units, its lowest level for over twelve years. The taxi market fell significantly as the programme to change the taxi fleet from diesel to liquefied petroleum gas (LPG) neared completion.

However, our operating profit was still an impressive £31.3m and our trading margin remains over 10.0%. This resilient performance was primarily driven by our Toyota/Lexus business, which (excluding taxis) increased market share from 26.0% to 28.4%. Margins held up well considering the economic conditions, and aftersales continue to be an important profit generator.

The Mazda franchise, which had a difficult year, will benefit from the introduction of its new volume product, the Mazda 3, scheduled for late 2003. Actions have been taken to reduce the cost base of this business by further integrating back office activities across all our franchises and this will bring benefits in 2003.

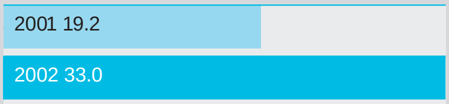
Profits from our Financial Services joint venture, Inchroy, fell primarily as a result of tighter interest rate spreads, but still contributed some £6.2m.

Lexus Club success

The Lexus Club was established in Hong Kong three years ago and is an exclusive free-membership club for Lexus owners. With currently more than 1,500 members, the Lexus Club provides a broad range of activities throughout the year including the highly popular ‘Lexus Golf Days’ and is strongly focused on customer retention programmes.

"In market share terms Toyota/Lexus had an excellent year increasing penetration from 21.3% to 26.7%"

Singapore/Brunei



Operating profit before goodwill amortisation £m

£33.0m

	2002	2001
Operating profit	**32.5**	19.2
Goodwill amortisation	**0.5**	–
Operating profit before goodwill amortisation	**33.0**	19.2

Contribution to Group turnover

13.8%

Key manufacturing partners

TOYOTA

LEXUS

SUZUKI

Singapore achieved a truly exceptional result, with profits rising by 61.9%. This was driven by a number of factors.

The market was down by 10.0% but this was less than expected due to the release of additional Certificates of Entitlement (COE) in the fourth quarter of 2002. Significantly, however, a change in the COE bidding system improved the transparency of the process allowing us to manage to a greater extent the cost of acquiring COEs, resulting in much improved gross margins.

In market share terms Toyota/Lexus had an excellent year increasing penetration from 21.3% to 26.7%, which resulted in Toyota regaining market leadership. The proportion of cars sold over 1.6 litres, where the margins are better, has risen from 10.2% to 31.6% and the success of the new Toyota Camry has been key to this.

In 2002 our main Toyota/Lexus showroom was renovated and we opened a new service centre increasing our aftersales capacity by over 17.0%.

In Brunei tax cuts resulted in the market more than doubling. Our Toyota business increased market share to 21.7%, and we retained market leadership whilst increasing profits significantly.

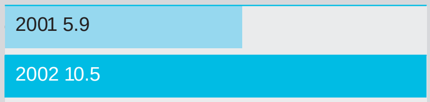
Toyota Triple Crown Award

The award is presented to the business that achieves leadership in the passenger car and light commercial vehicle segments, and overall market leadership in the markets where Toyota is present. Following a year of outstanding results, our operation in Singapore, Borneo Motors, was awarded this honour. This was of particular significance for Inchcape in 2002 as our businesses in Greece and Hong Kong also received this accolade.

The impact of the new Camry

An important factor in the excellent performance of Singapore was the success of the new Camry. A new model with a wider range of derivatives was launched at the beginning of 2002. This allied to competitive pricing and effective marketing programmes enabled the new model to be received with exceptional success. Sales increased to almost 3,000 units in 2002.

Other



Operating profit before goodwill amortisation £m

£10.5m

	2002	2001
Operating profit	**10.5**	5.9
Goodwill amortisation	**–**	–
Operating profit before goodwill amortisation	**10.5**	5.9

Contribution to Group turnover

8.1%

Operating profits in our Toyota business in Ethiopia were higher than last year. Mazda Finland returned to profit whilst BMW in Chile and Peru again made encouraging contributions.

In 2001 we provided £2.5m against our investment in the US listed Autobytel.com.

Central costs

£(13.9)m 2002, £(14.9)m 2001

Central costs benefited from headcount reductions in 2001. However, costs were higher than expected due to the need to make a provision of £2.9m relating to an empty leasehold property. We are, however, taking steps to recover the costs being incurred. Any further disclosure could prejudice these actions.

Discontinued businesses

£nil 2002, £3.5m 2001

There were no discontinued businesses in 2002. The £3.5m of profits generated in 2001 primarily related to IRB in Brunei and Peugeot in Australia/New Zealand.

Financial review from Alan Ferguson

"The Group's operating profit before goodwill amortisation has increased from £103.6m in 2001 to £117.2m in 2002."

The trading results of the businesses are explained in the Chairman's statement and the Operational review. This review gives further information on accounting and financial matters.

Financial reporting and accounting standards

The principal accounting policies used by the Group are shown on pages 38 and 39 of the Financial statements.

The Group has adopted FRS 19 Deferred Tax with effect from 1 January 2002. Deferred tax is now stated on a full provision basis. A prior period adjustment reducing the net assets by £4.2m has been made to reflect the change in basis of accounting. The comparatives in the profit and loss account and balance sheet have been restated accordingly.

Results

The Group's operating profit before goodwill amortisation has increased from £103.6m in 2001 to £117.2m in 2002. The 2001 operating profit included £3.5m relating to discontinued businesses, and therefore the underlying continuing operating profit in 2002 has shown strong growth from £100.1m to £117.2m. This reflected a combination of growth in existing operations, particularly Singapore, a full year's contribution from the Bates Motor Group Ltd (Bates Group) and Eurofleet Ltd (Eurofleet) acquisitions, partially offset by a reduction in Hong Kong due to much reduced taxi sales.

Pensions The Accounting Standards Board has extended the transitional arrangements for the implementation of FRS 17 Retirement Benefits. The Group has continued to account for the cost of its defined benefit pension scheme, in the profit and loss account, under SSAP 24 Accounting for Pension Costs whilst disclosing FRS 17 information in note 4b of the Financial statements.

The Group operates a number of defined benefit schemes, principally in the UK and Hong Kong. The latest actuarial valuation of the UK schemes was at 31 March 2000 and showed material surplus assets over liabilities. In accordance with SSAP 24 this surplus is currently being amortised over the members' estimated remaining working life reducing the Group's pension cost.

All pension and post retirement health care plans have been actuarially reviewed at 31 December 2002 under the FRS 17 methodology. This shows a net deficit of £53.2m compared to a net surplus of £5.7m at 31 December 2001. This reflects the poor performance of equity markets during the year and lower bond rates, which increases the quantum of the pension liability.

A triennial valuation of the Group's UK defined benefit schemes will be undertaken in April 2003 upon which a revised SSAP 24 charge will be determined for the next three years. As a result of the reduction in the schemes' net assets we estimate the 2003 pension charge to increase by around £3.0m to £4.0m.

Exceptional items The aggregate net exceptional profit for the period was £2.1m. This included a £0.8m profit on the disposal of our 50.0% share of Inchcape Financial Services Australia and a £3.0m provision release due to settling a number of claims arising from businesses sold prior to Inchcape becoming a pure automotive services group. This was partially offset by a £1.4m charge on the exit of some of our UK Retail dealerships.

Net interest The net interest charge for the year increased from £3.9m in 2001 to £5.1m in 2002. Of this, the subsidiary interest charge increased from £2.5m in 2001 to £5.3m in 2002. This is as a result of the full year effect of the acquisitions of the Bates Group and Eurofleet made in 2001, as well as the cost of funding the acquisition of the minority shareholding in Inchcape Motors Ltd (IML).

Joint venture and associates' interest improved from a £1.4m charge in 2001 to an income of £0.2m in 2002. This is due to the acquisition in late 2001 of the remaining shares in Eurofleet, previously a 49.0% associate, and the sale of a number of businesses by MCL Group Ltd, our 40.0% associate, during 2001 and 2002.

Taxation Following the adoption of FRS 19, the Headline tax rate (before goodwill amortisation and exceptional items) for the year ended 31 December 2001 has been restated on a full provision basis from 28.8% to 29.4%. Further information on the restatement can be found in note 2 of the Financial statements.

The Headline tax rate for the year decreased from 29.4% in 2001 to 26.0% in 2002. The rate benefited from a reduction in several statutory overseas' tax rates, lower unrelieved tax losses in the UK, partly as a result of the acquisition of the Bates Group and Eurofleet, and a one off benefit of 1.3% arising from the agreement of prior year overseas tax computations.

Minority interest Profit attributable to minorities has decreased to £3.4m from £8.3m in 2001. This is due to the non-recurrence of a £1.5m exceptional profit on the sale of IRB, the Financial Services subsidiary in Brunei in 2001 and the acquisition of the minority shares in IML in May 2002. Prior to May IML contributed £1.5m to the minority interest charge.

Exchange rates Had the average rates in 2001 continued into 2002, both the Group's operating profit before goodwill amortisation and Headline profit before tax would have been £2.9m higher. This effect arose primarily as a result of the weakening of the Singapore dollar and Hong Kong dollar partially offset by the strengthening of the Euro and Australian dollar. Principal exchange rates are listed in note 30 of the Financial statements.

Cash flow

The Group continues to manage its working capital tightly and the cash generated from operating activities was £163.9m, over 140.0% of operating profit.

The Group had net cash of £16.6m at 31 December 2002 compared to £17.5m at 31 December 2001. This is despite spending £89.7m on both acquisitions and the settlement of claims mainly arising from the sale of Intertek Testing Services Ltd (£14.9m).

Acquisitions and disposals

The largest acquisition in the year was the purchase in May 2002 of the c. 36.7% minority stake in IML for £63.1m including costs. The Group continues to invest in its specialist UK Retail business and in June the Group signed an agreement with Mercedes-Benz to represent the brand in Oxford, Stratford-upon-Avon, Coventry and Banbury. Investment in this market area to date has been £5.9m.

In light of adverse changes in the Australian tax treatment of foreign owned financial services companies, the Group disposed of its 50.0% interest in Inchcape Financial Services Australia and has entered into new commission based arrangements with a local financial services provider.

Capital expenditure

Capital expenditure less disposal proceeds was £23.6m. This was £4.2m lower than the depreciation charge primarily as a result of increased receipts from property disposals in the UK.

Treasury management and policy

The centralised Group Treasury function manages 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 facility is a five year £250.0m revolving credit facility, which was put in place in July 2002 with a syndicate of banks. This facility replaces a £200.0m committed revolving credit facility, which had a maturity date of March 2003, and a US private placement for US$72.0m (£43.5m), which matured on 31 May 2002.

Loan notes totalling £19.3m were redeemed during the year. Notes issued in December 2000/2001 on the Eurofleet acquisition, totalling £5.4m, were redeemed in four tranches between March and December 2002. A further £13.9m of notes put in place for the Bates Group acquisition in August 2001 were redeemed in September 2002. At the year end Eurofleet notes totalling £20.5m were outstanding, maturing between 2003 and 2005.

In addition to the committed facilities the Group has available 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:

Cash and debt balances

£m	Debt	Cash	Net
Euro	(3.2)	24.5	21.3
Hong Kong dollar	(0.1)	4.4	4.3
Singapore dollar	(0.1)	40.6	40.5
Australian dollar	–	3.2	3.2
Other	(2.3)	19.4	17.1
Total (other than sterling)	(5.7)	92.1	86.4
Total sterling	(80.9)	11.1	(69.8)
Total	(86.6)	103.2	16.6

The Group's principal borrowings are in sterling. In addition to the £20.5m Eurofleet notes, a further £40.0m was drawn on the committed £250.0m revolving credit facility.

The principal cash deposits at the year end were in Singapore where cash is held locally to support the requirement for the purchase of Certificates of Entitlement required for new car sales.

Interest rate risk

The Group's interest rate policy has the objectives of minimising net interest expense and the protection of the Group from material adverse movements in interest rates. To achieve these objectives the policy throughout 2002 has been to maintain the Group's principal borrowings at floating rates reflecting both the low level of gross debt 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 manage its working capital tightly and the cash generated from operating activities was £163.9m, over 140.0% of operating profit."

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 remittances of overseas earnings into sterling.

The percentages of net assets by currency at 31 December 2002 for the Group are set out below:

Net assets by currency

	%
Sterling	23.8
Euro	17.7
Hong Kong dollar	23.2
Singapore dollar	22.5
Other	12.8
Total	100.0

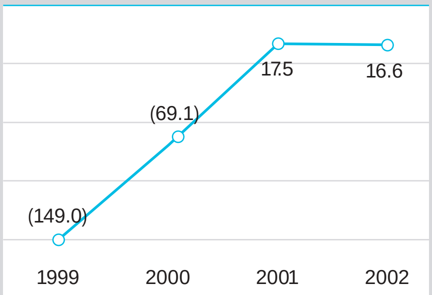
The Group has transactional currency exposures mainly where purchases by an operating unit are in currencies other than in that unit's reporting currency. In many of our businesses, to remove this exposure, local currency billing arrangements have been put in place with our principals. For those businesses that continue to be billed in foreign currency, Group policy is that committed transaction exposures are hedged into the businesses' reporting currency. Where possible foreign exchange exposures will be matched internally before being hedged 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.

Alan Ferguson
Group Finance Director
3 March 2003

Progress

Cash generation

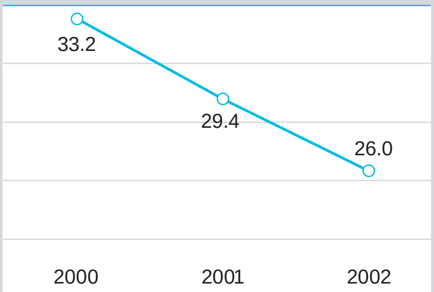
Since becoming a pure automotive services group, we have moved from a net debt position of £149.0m to a net cash position of £16.6m. This is after returning c. £105.0m to shareholders and spending c. £150.0m on acquisitions.



Net (debt)/cash £m

Group Headline tax rate

There has been a marked improvement in the Group's Headline tax rate since becoming a pure automotive services group. The 1999 comparative is excluded as it is distorted by the tax rate of businesses sold.



Group Headline tax rate %
Percentages restated in accordance with FRS 19

Inchcape in the community

"As a company with extensive international interests, Inchcape firmly believes in supporting the many different communities and cultures that our colleagues and businesses operate within."

As a company with extensive international interests, Inchcape firmly believes in supporting the many different communities and cultures that our colleagues and businesses operate within. This is achieved by promoting schemes at a local level for local people.

We encourage our employees to involve themselves in the issues, which affect their local environment, and this provides their community with much needed funds and assistance and encourages a feeling of involvement for all our staff.

At Head Office level we maintain that philosophy by donating to one nominated charity each year. In 2002 we supported 'Youth At Risk', a charity that over the last decade has worked with hundreds of young and underprivileged people in different regions throughout the UK. Through various staff events, such as charity fun runs, organised during the year we have generated interest and support for the cause.

Our other UK based businesses have also taken part in many fundraising events in order to support a diverse number of charities and employees have contributed their personal time and energy to many local initiatives. For example Inchcape Fleet Solutions took part in the 'Network BEN' yachting challenge. BEN is the motor industry benevolent fund, a charity that has been continually supported by Inchcape throughout the UK. All the profits from the day's challenge including racing and leisure sailing of three Inchcape sponsored yachts were donated to BEN.

Inchcape Motors Australia has committed a significant amount of resources to supporting local charities including their continual support for the Starlight Foundation, a charity that looks to brighten the lives of seriously ill children in Australia.

Fundraising activities for the Foundation included a charity auction, which donated a range of prizes, at the launch for the Subaru Impreza in Sydney. This event raised a total of c. £7,000 for the Foundation. At the Subaru 2002 Golf Day another auction was held, which raised £7,220.

BEN, the motors industry benevolent fund, which supports past and present employees of the industry in times of need

Ben

'Youth at Risk', the charity supported by Inchcape head office in 2002, which works with underprivileged young adults in the UK

Youth AT RISK

A cheque was presented to (left to right) John Budge, Chairman of the Hong Chi Association, at the Toyota Classics concert by Betty Tung, first lady of Hong Kong, Yoshio Uesaka, Executive Vice President of the Toyota Motor Corporation and William San, Deputy Managing Director of Crown Motors Ltd

The Cadaques Orchestra, featured here, was the first Spanish orchestra to take part in the Toyota Classics, which have been running for a total of thirteen years

Our businesses in Hong Kong and Singapore contributed considerably to local causes in 2002. Crown Motors Ltd (CML), Hong Kong, and Borneo Motors, Singapore, came together for the thirteenth Toyota Classics, an event aimed to promote the arts and cultural exchanges throughout Asia. In total over £34,000 was raised for the Hong Chi Association, a charity that enables mentally handicapped people to enjoy more fulfilling lives, and c. £15,000 was raised for 'Beyond Social Services' in Singapore, a social support programme for families, children and the elderly.

CML has created a community spirit amongst their staff by actively promoting fundraising and cultural awareness. At the first ever Lexus Charity Golf day funds were raised for the Chinese Literacy Foundation, which aims to provide educational opportunities for children in very poor areas of rural China.

Our colleagues in Belgium, together with Toyota, subsidised the purchase of 38 vehicles by the United Fund for Belgium. This is a local charity, which aims to improve the quality of life for underprivileged and handicapped people in the country.

Toyota Hellas in Greece encouraged staff to become involved in a number of community projects. These included a fundraising effort for children with special needs, which involved the construction of a new building to house workshops for these children. Toyota Hellas also donated a new Yaris to this cause.

Inchcape and its UK subsidiaries donated £0.1m (2001 – £0.1m) during the year to charitable causes. Total charitable donations made by the Group world-wide during 2002 amounted to £0.2m (2001 – £0.1m).

Caring

The drive to raise money in the UK

Our staff at an Inchcape Retail dealership in the UK won the Beaujolais Run, a driving event, in 2002 for the third consecutive year. The course begins at the Brands Hatch circuit and finishes in Macon, the heart of the Beaujolais region in France, and requires competitors to drive the least amount of miles possible between the two destinations. The money raised, through drivers sponsorship, amounted to over £4,000 and was donated to both the Great Ormond Street Children's Hospital and Breast Cancer Care.

Hong Kong promote environmental awareness

Our Crown Motors business in Hong Kong organised an event, which combined fundraising with the promotion of environmental improvement. In conjunction with a local environmental group, Eco Action, a dolphin watch boat trip was organised to see the magnificent Chinese white dolphins in their natural habitat. The trip allowed guests to hear about 'green' practices at Crown Motors whilst learning about the issues affecting the local marine conservation and what can be done to preserve local cultural heritage.

Environment, health and safety

"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 drive to improve our environment. We have also sought to increase levels of health and safety standards in the workplace.

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, and compliance with local statutory requirements is the minimum standard we will accept. Where local standards are below international good practice 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.

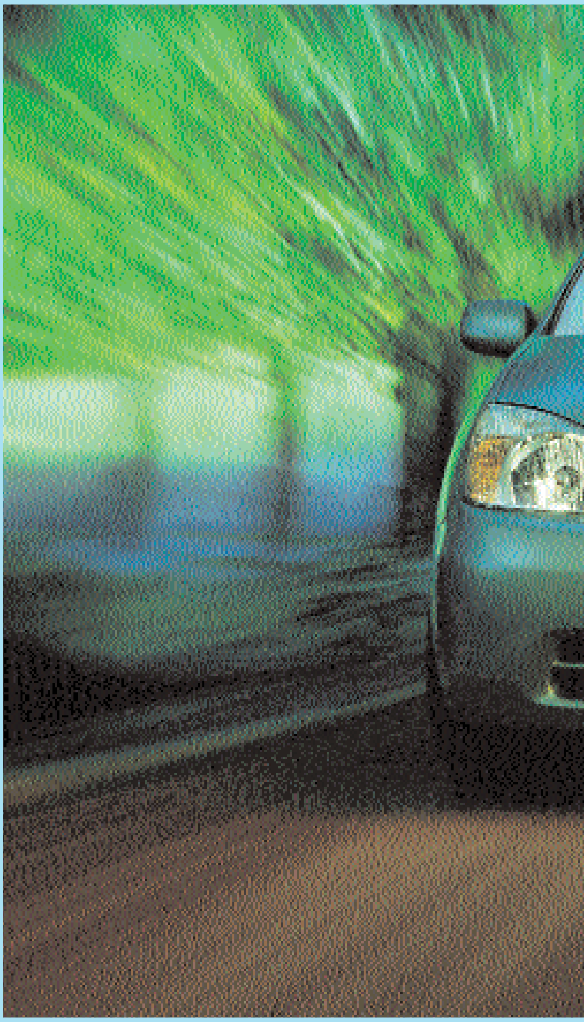
The Group Risk Manager visited 117 of our sites during the year, carrying out environment, health and safety awareness training, attending a number of Focus Group meetings and performing site inspections.

Working with our partners

In an effort to further promote the environmental achievements of Toyota, our colleagues at Toyota Hellas undertook a series of activities during the launch of the Prius. These were aimed at creating awareness within the public and media regarding the Prius' technology, which seeks to limit the effects of vehicle pollution in urban areas.

The promotion of the Prius as a brand that cares for the environment helped achieve concessions from the Greek Government, which in turn created incentives for the Greek consumer to purchase a Prius instead of a 'conventional' car.

In conjunction with this theme, Toyota Hellas was the major sponsor of three conferences on environmentally friendly vehicles in collaboration with the University of Economics of Athens during 2002.



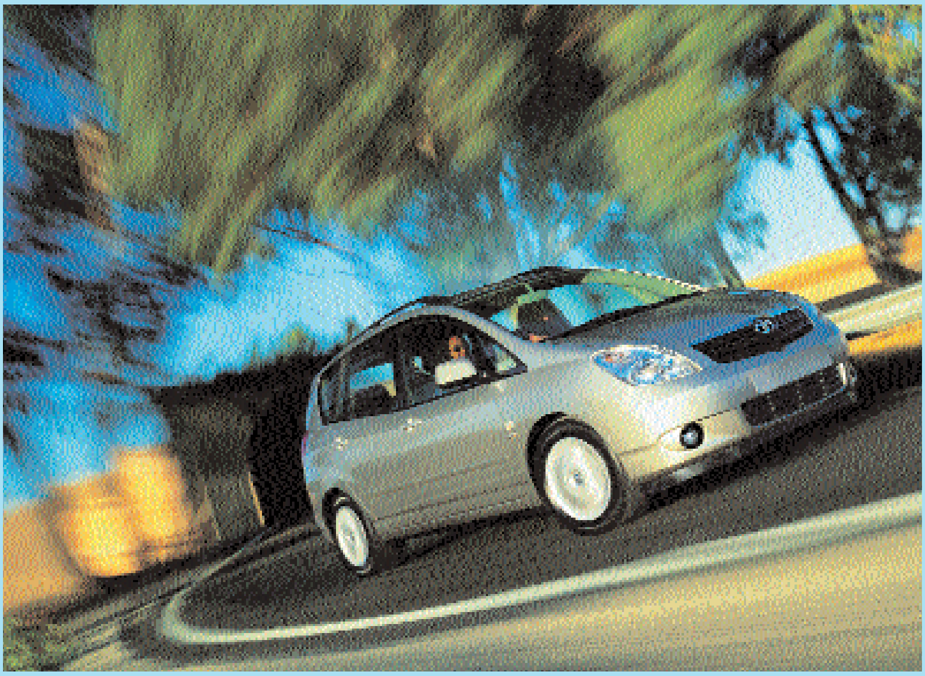
Monitoring and compliance

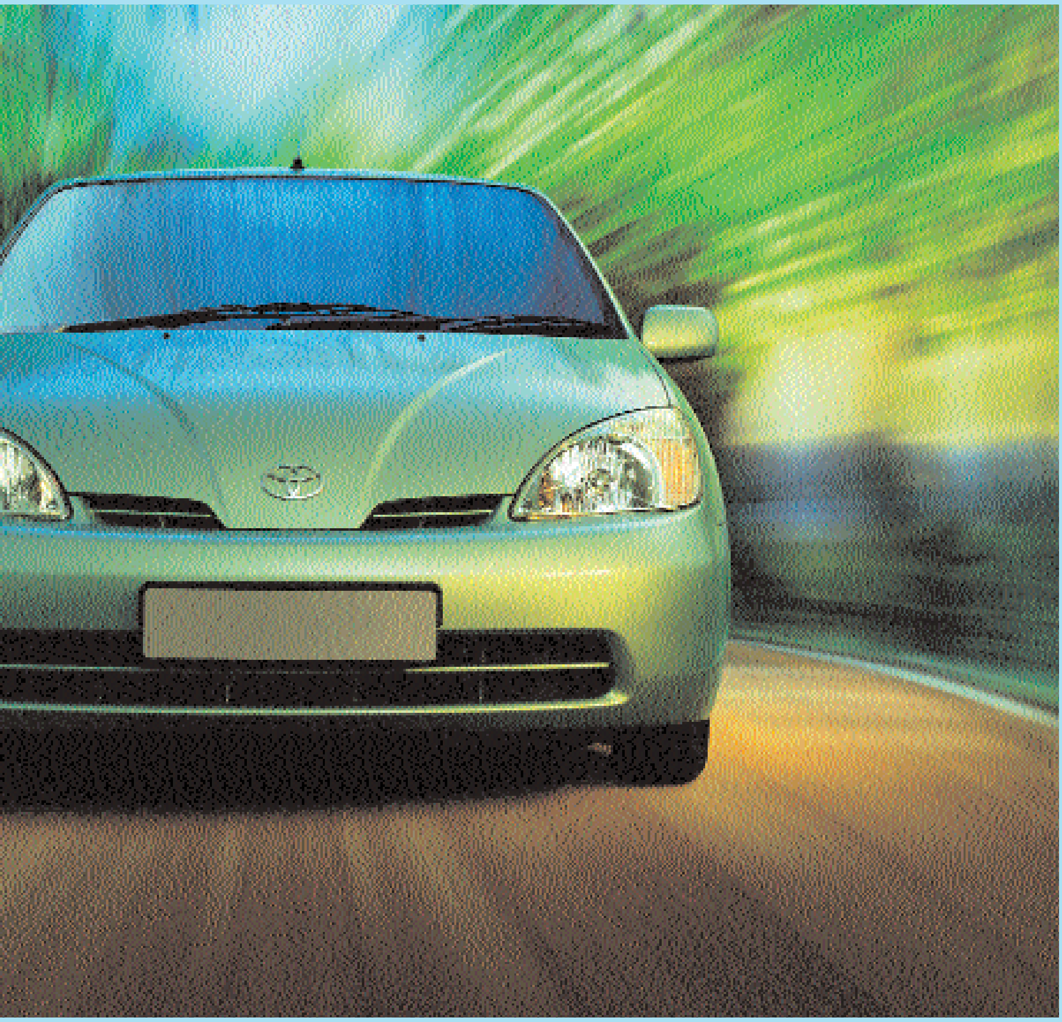
During the year our Retail businesses across the UK installed a web based management system to enhance the control of their health and safety standards. This system provides senior management with the latest legislation on environment, health and safety matters and helps them monitor their compliance. The system is also able to record the health and safety performances of individual sites.

Environmental research

Toyota Hellas, our Import and Distribution business in Greece, sponsored an environmental research project at the Aristotelion University of Thessaloniki. The project investigated the impact that combinations of plants and trees can have on sound pollution on different types of roads. The overall aim was to identify new ways of improving the quality of life for people living and working in large, noisy cities.

As a result of this research, the Government now permits hybrid and electric vehicles to circulate free of road tax in an effort to encourage transport in the city that is friendlier to the environment.





Award winning technology

During the year Inchcape Fleet Solutions, our fleet management business in the UK, received a 'Green Apple' Environment Award, from the 'Green Organisation', for its 'CO_2 Driver' online tool. This technology provides clients with data enabling them to actively manage CO_2 emissions from their fleet as well as helping them to select more environmentally friendly vehicles.

The Green Organisation is an independent, non-profit environmental group dedicated to rewarding and promoting environmental best paractice.

The Green Apple Awards 2002

Board of Directors

Notes:
(a) Member of the Audit Committee.
(b) Member of the Remuneration Committee.
(c) Member of the Nomination Committee.
* Independent.

Ken Hanna is Chairman of the Audit Committee.

Hugh Norton is Chairman of the Remuneration Committee.

Sir John Egan is Chairman of the Nomination Committee.

1 **Sir John Egan** (a) (b) (c) *
Chairman

Age 63. Appointed Non-executive Chairman on 15 June 2000. Sir John is Chairman of Harrison Lovegrove & Co. Limited. He became President of the Confederation of British Industry in May 2002, having formerly been Deputy President. He was Chairman of MEPC from 1 August 1998 to 3 August 2000 and of QinetiQ Group plc from December 2000 to May 2002. 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 55. 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 was appointed as a Non-executive Director of Wates Group Ltd in September 2002 and is a Vice President of the Institute of the Motor Industry. He was previously Sales and Marketing Director of the Rover Group and Chief Executive of the Marshall Group.

3 **Alan Ferguson**
Group Finance Director

Age 45. Joined the Group 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 **Graeme Potts**
Managing Director, Inchcape UK and Europe

Age 45. Joined the Inchcape Board on 10 September 2002. He was Chief Executive of Reg Vardy plc from 1996 to 1999. He was Group Managing Director of RAC Motoring Services and a Director of Lex Service Plc (now RAC plc) from 1999 to 2002.

5 **Trevor Taylor**
Non-executive Deputy Chairman and Non-executive Director

Age 65. Joined the Group in 1987 as Deputy Managing Director of Toyota (GB), becoming Chief Executive in 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.

6 **Hugh Norton** (a) (b) (c) *
Non-executive Director

Age 66. 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) *
Senior independent Non-executive Director

Age 62. 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 a Non-executive Director of Invensys plc and Berry Bros. & Rudd Limited.

8 **Raymond Ch'ien**
Non-executive Director

Age 51. Joined the Inchcape Board in July 1997. Raymond Ch'ien is 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 china.com 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. He was a member of the Executive Council of the Hong Kong Special Administrative Region from 1997 to 2002.

9 **Ken Hanna** (a) (b) *
Non-executive Director

Age 49. Joined the Inchcape Board in September 2001. Ken Hanna is a Chartered Accountant. He is a Partner of Compass Partners International Limited, which he joined in 1999. Prior to this he was Group Finance Director of Dalgety (now Sygen Group plc), and Chief Executive from 1997 to 1999. He has previous experience with Guinness plc (now Diageo plc), Avis Europe and Black & Decker.

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Company details

Registered office
Inchcape plc
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Fax: +44 (0) 20 7546 0010

Advisors

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Share Registrars
Computershare Services PLC
Registrar's Department
PO Box No 82
Bristol BS99 7NH
Tel: +44 (0) 870 702 0002

Solicitors
Slaughter and May

Stockbrokers
UBS

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 Ltd, who can be contacted at PO Box 2000, Oxford House, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Tel: +44 (0) 1296 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 the Corporate PEP and ISA Centre, 5th Floor, City Plaza, 2 Pinfold Street, Sheffield S1 2QZ. Tel: +44 (0) 845 745 6123.

Financial calendar

Annual General Meeting
15 May 2003

Ex-dividend date for 2002 final dividend
21 May 2003

Record date for 2002 final dividend
23 May 2003

Final 2002 ordinary dividend payable
16 June 2003

Announcement of 2003 interim results
4 August 2003

Senior executives

Group Chief Executive
Peter Johnson
Tel: +44 (0) 20 7546 0022
Fax: +44 (0) 20 7546 0010

Group Finance Director
Alan Ferguson
Tel: +44 (0) 20 7546 0022
Fax: +44 (0) 20 7546 0010

Managing Director, Inchcape UK and Europe
Graeme Potts
Tel: +44 (0) 20 7546 0022
Fax: +44 (0) 20 7546 0010

The following executives are responsible for our key market areas:

Australia
Trevor Amery
Tel: +61 2 9828 9199
Fax: +61 2 9828 9120

Belgium/Greece
Martin Taylor
Tel: +32 2 386 72 11
Fax: +32 2 386 75 40

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

The following executives are responsible for our key businesses in the UK:

Inchcape UK
Robert Hazelwood
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Fax: +44 (0) 1923 800 622

Inchcape Business Services – UK
Robert Wilkinson
Tel: +44 (0) 1832 735999
Fax: +44 (0) 1832 737035

Ferrari/Maserati
Richard Mackay
Tel: +44 (0) 1784 436222
Fax: +44 (0) 1784 436303

The following executives have functional responsibilities at Group level:

Audit and Risk Management
Tim Trounce

Business Development
Dale Butcher

Company Secretariat
Roy Williams

Financial Control and Taxation
Amanda Brooks

Human Resources
Nick Smith

Information Systems
Peter Wilson

Investor Relations and External Communications
Emma Woollaston

Treasury
Chris Parker

Designed and produced by Radley Yeldar (London)

Directors' report

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 2 to 15.

Results and dividends

The Group's audited financial statements for the year ended 31 December 2002 are shown on pages 34 to 37. The Board has recommended a final ordinary dividend of 21.0p per ordinary share. If approved at the Annual General Meeting, the final ordinary dividend will be paid on 16 June 2003 to shareholders registered in the books of the Company at the close of business on 23 May 2003. Together with the interim ordinary dividend of 10.0p per ordinary share paid on 16 September 2002, this makes a total ordinary dividend for the year of 31.0p (2001 – 27.0p).

Share allotments

During the year the Company allotted new ordinary shares of 150.0p each as follows:

Ordinary shares allotted to satisfy Executive Share Option Exercises	159,313
Ordinary shares allotted to satisfy Savings Related Share Option Exercises	93,592

Substantial shareholdings

The following notifications of substantial interests in the Company's issued ordinary share capital had been received by 3 March 2003 under the provisions of the Companies Act 1985:

Holding	Total %
Fidelity Investments	8.38
Barclays plc	7.30*
Standard Life Investments	6.82
Toyota Motor Corporation	5.41
Legal and General Group Plc	3.54

*Of the total holding 3.73% is held beneficially and 3.57% is held as nominee.

Directors

The names of the Directors, plus brief biographical details, including those Directors offering themselves for election or re-election, are given on pages 20 and 21. They all held office throughout the year, except Graeme Potts who was appointed to the Board as an Executive Director on 10 September 2002.

In accordance with the Articles of Association of the Company: Graeme Potts will retire at the forthcoming Annual General Meeting and offers himself for election; and Trevor Taylor, Simon Robertson and Raymond Ch'ien retire by rotation at the forthcoming Annual General Meeting and offer themselves for re-election.

Directors' interests

The table below shows the beneficial interests, other than share options, including family interests, on the dates indicated, in the ordinary shares of the Company and its subsidiaries, of the persons who were Directors at 31 December 2002.

	Ordinary shares of 150.0p each	
	31 December 2002	1 January 2002 (or date of appointment, if later)
Sir John Egan	**23,500**	17,000
Peter Johnson (b)	**74,608**	63,894
Alan Ferguson (b)	**33,738**	27,643
Graeme Potts (a) (b)	**6,000**	Nil
Trevor Taylor	**3,000**	8,771
Hugh Norton	**500**	500
Simon Robertson	**1,000**	1,000
Raymond Ch'ien	**20,000**	4,000
Ken Hanna	**2,000**	2,000

Notes:
(a) Acquired by Graeme Potts on 24 October 2002.
(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 Trust. At 31 December 2002, the Trust's shareholding totalled 1,118,247 ordinary shares of 150.0p each (1 January 2002 – 1,271,804 ordinary shares of 150.0p each).

Between 1 January 2003 and 3 March 2003 the Trustees of the Inchcape Employee Trust have made the following transfers of ordinary shares to option holders to satisfy exercises of options under the Inchcape 1999 Share Option Plan. None of the transfers by the Trustees related to exercises of share options by Executive Directors.

Date	Ordinary shares of 150.0p each transferred
15 January 2003	3,306
21 January 2003	2,919
4 February 2003	1,458

Details of share 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 note 3 on pages 31 and 32.

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.

As regards compliance going forward, the Board has noted that the Higgs Report and the Smith Report on corporate governance were published on 20 January 2003. The Board has also noted that the reports are subject to a final consultation process which is not due to be completed until April 2003, with a revised Combined Code intended to take effect from July 2003. The Board will continue to monitor its obligations during the year as well as those of the Company in light of these developments.

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 Group 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 six Non-executive Directors of which four, 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. Simon Robertson is the senior independent Non-executive Director. Trevor Taylor is Non-executive Deputy Chairman and a Non-executive Director. He is not regarded as independent of the management of Inchcape because he is a former Executive Director and, until 31 May 2002, he had 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 he previously had a service contract with Crown Motors Ltd, 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) within the last three years, as required by the Company's Articles of Association, with the exception of Graeme Potts who was appointed to the Board since the last Annual General Meeting.

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 2002 the Board had eight 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.

Auditors independence

The Company has reviewed its relationships with its auditors, PricewaterhouseCoopers LLP, and concluded that there are sufficient controls and processes in place to ensure the required level of independence.

Board committees

The Board has three principal Committees, all with written terms of reference. Membership of each of the Board Committees is indicated on pages 20 and 21. The Chairmen of these Committees are expected to be available to answer questions at the Company's Annual General Meeting on 15 May 2003.

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 executives 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 26 to 32.

The Nomination Committee is responsible for making recommendations to the Board on selection and nomination of Directors and their election or re-election (as applicable) at Annual General Meetings.

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.

Communication with shareholders

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.

Remuneration report

The Company's policy on executive remuneration with details of the Executive Directors' salaries, annual bonuses, long term incentives and pensions, and fees for Non-executive Directors appears in the Remuneration Report on pages 26 to 32.

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, Treasury Director, 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 2002 with the 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 2002, or occurred during the year for any Director and/or connected person (2001 – 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 as at 31 December 2002 in respect of our UK businesses, calculated by reference to the amount owed to trade creditors at the year end as a proportion of the amounts invoiced by suppliers during the year, was 49 days (2001 – 51 days).

Corporate social responsibility

The Company has established a Corporate Social Responsibility (CSR) Committee. This Committee is chaired by the Group Chief Executive, who has responsibility for CSR at Board level, and includes the Group Finance Director, the Group Company Secretary, the Director of Audit and Risk Management, the Human Resources Director and the Investor Relations Manager.

The Company's report on key CSR areas is shown on pages 16 and 17, 'Inchcape in the community', and on pages 18 and 19, 'Environment, health and safety'. The Company is conscious of the importance of CSR and the Committee is looking at further ways in which it may take forward the CSR programme, having particular regard to the ABI guidelines which provide useful guidance in this respect.

Charitable and political donations

In the UK, Inchcape and its subsidiaries have donated funds throughout the year totalling £0.1m (2001 – £0.1m). Total charitable donations made by the Group world-wide during the year were £0.2m (2001 – £0.1m). No political donations were made in the year (2001 – none).

Employment policy

Inchcape recognises that our success depends on the quality, motivation and commitment of our employees in every country we operate in and at every level of the organisation.

The Group's employment policies and practices are designed to support these goals.

Inchcape is proud of our values, which are central to the way we work and which underpin our dealings with customers, our principals and our employees. They are:

Service We constantly seek to enhance our service standards for our customers and for the companies we represent.

Teamwork We work as a team within our individual businesses, across the Group as a whole and with our principals and partners.

Innovation We strive to remain at the forefront of our industry by anticipating market changes and developing new products and services.

Respect We respect all our stakeholders: our customers, principals, partners, employees, shareholders and we work hard to earn their respect.

Results We set ourselves challenging targets and endeavour to surpass them.

We are dedicated to facilitating our employees' development in every country and have established the Inchcape University, a virtual university that all employees can access.

We communicate extensively with our employees regarding the business and issues affecting them and have a number of formal and informal channels to do this.

We are committed to providing a workplace free of discrimination that gives equal opportunity to all our employees.

Environment

The Group's policy on environment, health and safety is shown on pages 18 and 19.

Annual General Meeting

The Annual General Meeting will be held at 11.00am on Thursday, 15 May 2003 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 the explanatory notes, are given in the circular to all shareholders which accompanies these Accounts.

The business of the meeting will include proposals to renew: (i) existing authorities for Directors to allot securities in the Company; and (ii) the Company's authority to purchase up to 10.0% of its own shares (the Company currently has authority to purchase up to 7,756,003 ordinary shares, approximately 10.0% of its issued capital).

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 27 February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

R.C. Williams

Roy Williams
Group Company Secretary
3 March 2003

Board report on remuneration

Introduction

The Remuneration Committee (the Committee) has formal Terms of Reference. It is responsible for recommending to the Board the Company's policy on executive remuneration. It is also responsible for determining specific remuneration packages and terms of employment, including pension rights, for Executive Directors and certain other senior executives. This includes agreeing performance incentive arrangements and approving allocations under any long term incentive arrangements, including executive share options.

The current remuneration policy (as described below) was explained in a circular to shareholders in 1999 in advance of that year's Annual General Meeting, with a threefold aim:

• to recognise the fresh start which the Group was making as a motors only group;

• to encourage executives of the restructured Group to deliver long term shareholder value; and

• to offer executives the opportunity of sharing in the success for which they are responsible.

Additionally, the Board stated its intention to review this policy after five years, to ensure that it continued to meet its aims and to reflect best practice.

Shareholders were consulted in advance and the Company's proposals were approved at the 1999 Annual General Meeting.

The Committee's view is that the policy continues to meet its aim but, going forward recent corporate governance developments need to be fully considered and reflected in the policy as appropriate. Accordingly, and one year ahead of the original commitment, the Committee has commissioned a review of the policy, including the structure and design of each element of the remuneration package, to take place during 2003. The new policy will be set out in the Directors' Remuneration Report for 2003 and a resolution to approve that Report will be put to shareholders at the 2004 Annual General Meeting.

Committee operation

The members of the Committee during 2002 were 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. Tony Alexander retired from the Committee on 16 May 2002. The remaining members served on the Committee throughout the year.

The Committee has an annual meeting to review the compensation arrangements for each Executive Director and certain other senior executives, in advance of the annual salary review on 1 April. During 2002 the Committee held two scheduled meetings and other ad hoc meetings as necessary.

The Committee has authority from the Board to obtain the services of external independent advisers, as it may require. In 2002, the Committee received advice from the following remuneration and benefits consultancies: Hay Group, Monks Partnership and Towers Perrin. Monks and Towers Perrin also provided advice on retirement benefits. Towers Perrin were appointed as formal advisers to the Committee in December 2002. During the year, the Committee has been advised internally by the Group Chief Executive, Peter Johnson, the Group Company Secretary, Roy Williams, and the Group Human Resources Manager, Sarah Ditchfield. No executive attended when his or her own remuneration was discussed.

These external and internal sources of advice and data, together with consideration of the levels of pay increases for other employees and the policy outlined below, provide a framework for the decision making process.

Throughout 2002 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. The contents of this report also comply with the Directors' Remuneration Report Regulations 2002.

Remuneration policy

The Committee's policy, as approved by the Board, is underpinned by the following principles:

- 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 by aligning the remuneration package of executives 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 Committee believes that performance related elements should form a significant part of executives' total remuneration package. The remuneration packages for the Executive Directors are made up of both fixed and variable elements as described below. In broad terms, if the Group meets its target levels of performance, the expected value of the variable elements will account for approximately 40.0% of the Executive Directors' total remuneration and, if the Group achieves outstanding results, approximately 65.0%. If target performance levels are not met, then no pay out would be made under the incentive plans. Total remuneration for these purposes comprises base salary, annual bonus and long term incentives.

The remuneration packages of 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

During 2002, the Executive Directors participated in a bonus plan based on profit before tax, which yielded a bonus of 30.0% of base salary at target and higher payments for performance above target to a maximum of 70.0% of base salary. The bonuses paid under this plan for 2002 are shown in the table on page 30. In 2003 Peter Johnson and Alan Ferguson will participate in another target driven bonus plan, also based on profit before tax, which will have the same reward potential as under the 2002 arrangements described above. Graeme Potts received a one off bonus payment of £100,000, under the contractual agreement made when he joined the Company. For 2003, his bonus will be based on the profit before tax performance of the businesses for which he is responsible. 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 are granted to Executive Directors and certain other senior executives throughout the Group. The 2002 grant of options covered 247 participants across the world.

As with previous option grants, the exercise of each option granted under the Plan in 2003 will be subject to a performance target whereby growth in Company earnings per share (EPS) over a three year period must exceed the increase in the UK Retail Price Index over the same period by 3.0% per annum. The Committee has chosen this target to ensure that Executive Directors only receive rewards if there is significant and sustained improvement in the underlying financial performance of the Company as reflected in the share price. EPS will normally be the earnings per ordinary share before goodwill amortisation and exceptional items as shown in the Company's reported accounts as this provides an independently verifiable measure. In exceptional circumstances the Committee has the right to adjust the published EPS, as it considers appropriate.

Details of share options granted to Executive Directors in 2002 are shown in note 3 on pages 31 and 32.

Deferred Bonus Plan

The Inchcape Deferred Bonus Plan was approved by shareholders in 1999. It is a voluntary plan available to Executive Directors and certain other senior executives. The purpose of the Deferred Bonus Plan is to give participants a share linked reward that is related to the participant's commitment to maintaining a shareholding in the Company. It is therefore used by the Group both as a retention tool and a vehicle to build executive shareholding. As a result of this, there are no performance conditions applying to the awarded shares under the Plan. However, the award of the bonus itself is subject to performance targets, agreed annually by the Remuneration Committee.

Under the terms of the Deferred Bonus Plan, participants may use a minimum of 10.0% and a maximum of 50.0% of any bonus award (after tax) to acquire ordinary shares in the Group. Subject to the participant's 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 ordinary shares in the Company.

Details of awards made to Executive Directors in 2002 under the Deferred Bonus Plan are shown in note 3 on page 32.

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 three months' service. Participants make monthly savings for a three year period. At the end of the savings period share options become exercisable within a six month period.

Retirement benefits

The Inchcape Group (UK) Pension Scheme provides benefits for Executive Directors and certain other 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 Price 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. Children's pensions may also be payable, up to one-third of the member's pension.

In the case of Executive Directors and certain other 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 certain other senior executives whose base salary is capped, a separate life assurance 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 was closed in 2001 and there are no longer any contributions payable to it.

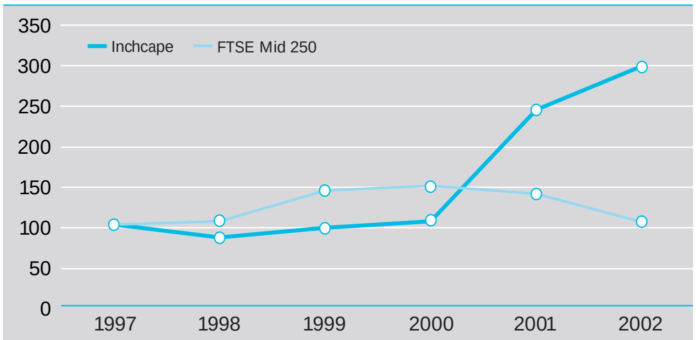
Executives, whose base salary is capped, are paid a monthly cash supplement. The two Directors who received such supplements in the year are Peter Johnson and Graeme Potts. Details of the amounts paid are shown in note 1 on page 30.

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.

Performance graph

The following graph illustrates the Group's total shareholder return over a five year period, relative to the performance of the total return index of the FTSE mid-250 group of companies. Total shareholder return is essentially share price growth plus reinvested dividends. The FTSE mid-250 has been chosen as the most suitable comparator as it is the general market index to which the Inchcape Group belongs and comprises companies of a similar size and complexity.



Performance graph

Chairman and other Non-executive Directors

The Chairman's fees are determined by the other Non-executive Directors following recommendation from the senior independent Non-executive Director. The remuneration for Non-executive Directors consists of fees for their services in connection with Board and Board committee meetings. Non-executive Directors' fees are determined by the Board, within the restrictions contained in the Articles of Association. Neither the Chairman nor the Non-executive Directors take part in the discussion or decision as to their fees.

Fees are reviewed annually, with the Board taking advice from Towers Perrin on best practice and competitive levels, taking into account the individual's responsibilities and time commitment.

It is the policy of the Company, that neither the Chairman nor any of the other Non-executive Directors are eligible for pension scheme membership or participation in any of the Company's bonus, share option or other incentive schemes.

Service contracts

It is the policy of the Company for Executive Directors to have service contracts with a notice period of one year or less, in line with best practice. Further, in the event of termination, the Company will seek fair mitigation of contractual rights. Within legal constraints, the Remuneration Committee tailors its approach, in cases of early termination, to the circumstances of each individual case.

Each of the Executive Directors have service contracts with a notice period of one year, details of which are as follows:

Name	Date of contract	Unexpired term
Peter Johnson	1 January 1998	To normal retirement age
Alan Ferguson	1 January 1999	To normal retirement age
Graeme Potts	10 September 2002	To normal retirement age

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.

None of the Non-executive Directors are engaged on a service contract with the Company.

Sir John Egan's appointment was for an initial period of two years from 1 June 2000 and has now been extended by agreement with him until 31 May 2004.

Policy on external appointments

Inchcape recognises that its Executive 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.

Notes to the Board report on remuneration

The following are auditable disclosures in accordance with Schedule 7A Part III of the Companies Act 1985.

Directors' emoluments

The total emoluments of the Directors were as follows:

	2002 £'000	2001 £'000
Remuneration and Non-executive Directors' fees	**1,429.5**	1,365.3
Bonus payments	**562.0**	398.0
Total	**1,991.5**	1,763.3

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 share options held are shown in notes 2 and 3 on pages 31 and 32.

	Base salary/fees		Bonus		Taxable and other benefits		Total remuneration excluding Company contributions paid in year in respect of pension arrangements		Company contributions paid in year in respect of pension arrangements		Total remuneration	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Sir John Egan	**132.5**	128.2	**–**	–	**16.0**	12.1	**148.5**	140.3	**–**	–	**148.5**	140.3
Peter Johnson (d) (highest paid director)	**460.5**	424.0	**282.0**	260.0	**25.0**	23.7	**767.5**	707.7	**145.5**	131.8	**913.0**	839.5
Alan Ferguson	**265.0**	222.5	**180.0**	138.0	**17.6**	20.3	**462.6**	380.8	**–**	–	**462.6**	380.8
Graeme Potts (e) (appointed 10 September 2002)	**100.8**	–	**100.0**	–	**9.5**	–	**210.3**	–	**21.2**	–	**231.5**	–
Trevor Taylor (f)	**72.4**	143.1	**–**	–	**7.9**	4.9	**80.3**	148.0	**–**	–	**80.3**	148.0
Hugh Norton (b) (c)	**36.0**	30.8	**–**	–	**–**	–	**36.0**	30.8	**–**	–	**36.0**	30.8
Simon Robertson	**33.0**	27.0	**–**	–	**–**	–	**33.0**	27.0	**–**	–	**33.0**	27.0
Raymond Ch'ien (a)	**26.0**	153.8	**–**	–	**14.6**	6.1	**40.6**	159.9	**–**	–	**40.6**	159.9
Ken Hanna (c)	**30.9**	6.2	**–**	–	**–**	–	**30.9**	6.2	**–**	–	**30.9**	6.2
Tony Alexander (c) (retired 16 May 2002)	**15.1**	30.8	**–**	–	**–**	–	**15.1**	30.8	**–**	–	**15.1**	30.8
Total	**1,172.2**	1,166.4	**562.0**	398.0	**90.6**	67.1	**1,824.8**	1,631.5	**166.7**	131.8	**1,991.5**	1,763.3

(a) The emoluments shown for Raymond Ch'ien include those in respect of services provided in Greater China.

(b) In the year the Inchcape Group (UK) Pension Scheme paid the sum of £2,250 to Hugh Norton as the fee for chairing the Scheme's Trustee Board.

(c) The fees details shown include a fee of £5,000 to Hugh Norton for chairing the Remuneration Committee and a fee of £2,100 and £2,900 respectively to Tony Alexander and Ken Hanna for chairing the Audit Committee. Ken Hanna was appointed Chairman of the Audit Committee upon Tony Alexander's retirement on 16 May 2002.

(d) The payment of £145,500 (2001 – £131,800) was paid directly to Peter Johnson to allow him to make his own pension arrangements outside the Company's plans.

(e) The payment of £21,200 (2001 – nil) was paid directly to Graeme Potts to allow him to make his own pension arrangements outside the Company's plans.

(f) Until 31 May 2002 Trevor Taylor had 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. Since 1 February 2001, Trevor Taylor has been a retired member of the Toyota (GB) Pension Scheme, which is unrelated to the Company.

No Directors waived emoluments in respect of the year ended 31 December 2002 (2001 – none).

Non-cash emoluments comprise items such as company car, medical care and life assurance premiums.

2 Directors' pension entitlements

Accrued annual pension under defined benefit schemes

	Increase in accrued pension during the year £'000	Increase in accrued pension during the year net of inflation £'000	Accumulated total of accrued pension at 31.12.02 £'000	Accumulated total of accrued pension at 1.1.02 £'000	Transfer value of accrued benefits at 31.12.02 (a)	Transfer value of accrued benefits at 1.1.02 (b)	Difference in transfer value (a) – (b)
Peter Johnson (highest paid Director)	3.6	3.0	25.1	21.5	342.7	291.4	51.3
Alan Ferguson	27.6	24.7	125.6	98.0	1,328.9	984.0	344.9
Graeme Potts	0.8	0.8	0.8	–	6.3	–	6.3
Total	32.0	28.5	151.5	119.5	1,677.9	1,275.4	402.5

The transfer value has been calculated in accordance with Retirement Benefits Schemes Transfer Values (GN 11), 6 April 2001.

3 Directors' share options

	Held at 31.12.02	Granted during the year	Exercised during the year	Lapsed during the year	Held at 1.1.02 (or date of appointment, if later)	Exercise price (d)	Exercisable between
Peter Johnson (highest paid Director)	172,679 (a)	–	–	–	172,679 (a)	£3.88	Sep 2002 – Sep 2009
	2,980 (b)	–	–	–	2,980 (b)	£3.25	Dec 2002 – Jun 2003
	140,845 (a)	–	–	–	140,845 (a)	£2.84	Aug 2003 – Aug 2010
	104,166 (a)	–	–	–	104,166 (a)	£3.84	Mar 2004 – Mar 2011
	63,065 (a)	63,065 (a)	–	–	–	£6.85	Mar 2005 – Mar 2012
Alan Ferguson	90,205 (a)	–	–	–	90,205 (a)	£3.88	Sep 2002 – Sep 2009
	2,980 (b)	–	–	–	2,980 (b)	£3.25	Dec 2002 – Jun 2003
	70,422 (a)	–	–	–	70,422 (a)	£2.84	Aug 2003 – Aug 2010
	52,083 (a)	–	–	–	52,083 (a)	£3.84	Mar 2004 – Mar 2011
	33,576 (a)	33,576 (a)	–	–	–	£6.85	Mar 2005 – Mar 2012
Graeme Potts	97,014 (a)	97,014 (a)	–	–	–	£6.70	Oct 2005 – Oct 2012
Raymond Ch'ien	–	–	–	14,671 (c)	14,671 (c)	£17.04	Jul 2000 – Jul 2007
	–	–	64,432 (c)	–	64,432 (c)	£3.88	Aug 2002 – Aug 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 at 1 January 2002 were granted to him under special arrangements by Deeds dated 1 July 1997 and 12 August 1999, as part of the terms and conditions under which he was appointed Chairman of Inchcape Pacific Ltd. During 1999 the obligation was transferred to Crown Motors Ltd following the disposal of Inchcape Pacific Ltd as part of the sale of the Asia Pacific Marketing business. Raymond Ch'ien's service contract with Crown Motors Ltd was terminated on 31 October 2001. In accordance with the terms of the Deeds, his options were exercisable within 12 months of such termination. He exercised his option over 64,432 ordinary shares on 5 March 2002. On the day of exercise the mid-market price of the ordinary shares was 722.0p. His remaining option over 14,671 ordinary shares lapsed on 31 October 2002.

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

Notes on share options:

(i) All options were granted for nil consideration.

(ii) The table shows Directors' options over ordinary shares of 150.0p at 1 January 2002 and 31 December 2002. The mid-market price of the shares at 31 December 2002 was 714.25p. The price range during 2002 was 876.5p to 593.5p.

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

(iv) Options may normally only be exercised if the performance target has been met. For all options granted under the Inchcape 1999 Share Option Plan, growth in the Company's earnings per share over a three year period must exceed the increase on the UK Retail Price Index over the same period by 3.0% per annum.

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

(vi) No options were cancelled or waived during the year.

Deferred bonus awards

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

	Awarded ordinary shares 31.12.02	Ordinary shares awarded during the year	Awarded ordinary shares 1.1.02	Market value of shares awarded	Exercise period
Peter Johnson	35,263	–	35,263	285.0p	Sep 2003 – Mar 2004
	30,769	–	30,769	390.0p	Apr 2004 – Oct 2004
	14,677	14,677	–	724.0p	Apr 2005 – Oct 2005
	3,222	3,222	–	724.0p	Apr 2005 – Oct 2005
Alan Ferguson	18,421	–	18,421	285.0p	Sep 2003 – Mar 2004
	15,384	–	15,384	390.0p	Apr 2004 – Oct 2004
	6,543	6,543	–	698.0p	Mar 2005 – Sep 2005
	3,222	3,222	–	724.0p	Apr 2005 – Oct 2005

(i) No awards vested in the year (2001 – none).

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

By order of the Board

Hugh Norton
Chairman of the Remuneration Committee
3 March 2003

Directors' responsibilities

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.

Report of the Auditors

Independent Auditors' report to the members of Inchcape plc

We have audited the financial statements which comprise the 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, and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part III of Schedule 7A to the Companies Act 1985 contained in the Board report on remuneration ('the auditable part').

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report, the Board report on remuneration 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 and the auditable part of the Board report on remuneration in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Board report on remuneration have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions 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 Contents, This is Inchcape, the Chairman's statement, the Chief Executive's review, the Operational review, the Financial review, Inchcape in the community, Environment, health and safety, Board of Directors, the Directors' report, the unaudited part of 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 of the Financial Services Authority, 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 and the auditable part of the Board report on remuneration. 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 and the auditable part of the Board report on remuneration 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 2002 and of its profit and the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Board report on remuneration required by Part III of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
3 March 2003

Consolidated profit and loss account

For the year ended 31 December 2002

Notes		2002 £m	2001 restated £m
1a	**Turnover including share of joint ventures and associates**	**3,517.0**	3,319.5
	Less:		
1a	– share of joint ventures	**(30.4)**	(41.4)
1a	– share of associates	**(72.8)**	(165.1)
1a	Group subsidiaries' turnover	**3,413.8**	3,113.0
	Cost of sales	**(2,901.7)**	(2,648.6)
	Gross profit	**512.1**	464.4
3a	Net operating expenses	**(410.2)**	(377.1)
	Operating profit	**101.9**	87.3
1b	Share of profits of joint ventures	**9.1**	11.7
1b	Share of profits of associates	**0.6**	2.8
1b	**Total operating profit**	**111.6**	101.8
5	Net profit (loss) on sale of properties and investments	**0.9**	(0.6)
5	Net profit (loss) including provisions on sale and termination of operations	**1.2**	(36.3)
	Profit on ordinary activities before interest	**113.7**	64.9
6	Net interest	**(5.1)**	(3.9)
3b,9	**Profit on ordinary activities before taxation**	**108.6**	61.0
7	Tax on profit on ordinary activities	**(28.9)**	(29.3)
	Profit on ordinary activities after taxation	**79.7**	31.7
8	Minority interests	**(3.4)**	(8.3)
24b	**Profit for the financial year**	**76.3**	23.4
10	Dividends	**(23.6)**	(19.5)
24a	**Retained profit for the financial year**	**52.7**	3.9

9	Profit before tax (£m)	**108.6**	61.0
9	Basic earnings per share (pence)	**100.1p**	29.3p
9	Diluted earnings per share (pence)	**97.9p**	29.0p
	Headline (before goodwill amortisation £5.6m (2001 – £1.8m) and exceptional items):		
9	– profit before tax (£m)	**112.1**	99.7
9	– earnings per share (pence)	**104.5p**	79.7p

Statement of total recognised gains and losses

For the year ended 31 December 2002

Notes		2002 £m	2001 restated £m
24b	Profit for the financial year	**76.3**	23.4
	Effect of foreign exchange rate changes:		
	– results for the year	**(3.4)**	(1.0)
	– foreign currency net investments: subsidiaries	**(7.3)**	(3.6)
	joint ventures and associates	**(3.2)**	0.4
24a	Unrealised deficit on impairment of revalued properties	**–**	(0.2)
	Total recognised gains relating to the year	**62.4**	19.0
	Prior period adjustment (note 2):		
	– subsidiaries	**(2.5)**	
	– joint ventures	**(1.7)**	
	Total recognised gains since last annual report	**58.2**	

Note of historical cost profits and losses

For the year ended 31 December 2002

Notes		2002 £m	2001 restated £m
	Reported profit on ordinary activities before taxation	**108.6**	61.0
24a	Realisation of property revaluation surpluses (deficits)	**0.2**	(1.3)
	Difference between the historical cost and the actual depreciation charge	**0.7**	1.0
	Historical cost profit on ordinary activities before taxation	**109.5**	60.7
	Historical cost profit after taxation, minority interests and dividends	**53.6**	3.6

Consolidated and company balance sheets

As at 31 December 2002

Notes		Group 2002 £m	Group 2001 restated £m	Company 2002 £m	Company 2001 £m
	Fixed assets:				
11	Intangible assets	**82.9**	76.2	**–**	–
12	Tangible assets	**258.1**	251.1	**–**	–
13	Investments:				
	– subsidiaries	**–**	–	**1,020.5**	1,027.7
	– joint ventures: share of gross assets	**319.2**	443.2		
	share of gross liabilities	**(271.6)**	(393.7)		
	share of net assets	**47.6**	49.5	**–**	–
	– associates	**26.2**	29.0	**–**	–
	– other investments	**6.3**	4.0	**5.5**	3.4
		421.1	409.8	**1,026.0**	1,031.1
	Current assets:				
14	Stocks	**501.8**	519.7	**–**	–
15	Debtors:				
	– amounts due within one year	**190.4**	202.2	**1.8**	4.1
	– amounts due after more than one year	**14.5**	12.0	**193.7**	184.3
16	Investments	**11.4**	14.2	**–**	–
25b	Cash at bank and in hand	**103.2**	123.0	**18.5**	41.2
		821.3	871.1	**214.0**	229.6
	Creditors – amounts falling due within one year:				
17a	Borrowings	**(44.6)**	(83.1)	**(20.1)**	(19.1)
17b	Other	**(596.5)**	(582.7)	**(399.5)**	(370.2)
		(641.1)	(665.8)	**(419.6)**	(389.3)
	Net current assets (liabilities)	**180.2**	205.3	**(205.6)**	(159.7)
	Total assets less current liabilities	**601.3**	615.1	**820.4**	871.4
	Creditors – amounts falling due after more than one year:				
18a	Borrowings	**(42.0)**	(22.4)	**(0.4)**	(20.2)
18b	Other	**(66.3)**	(81.6)	**(343.9)**	(344.3)
		(108.3)	(104.0)	**(344.3)**	(364.5)
20	**Provisions for liabilities and charges**	**(94.5)**	(112.5)	**(28.3)**	(49.5)
	Net assets	**398.5**	398.6	**447.8**	457.4
	Capital and reserves:				
23a,24a	Called-up share capital	**116.6**	116.2	**116.6**	116.2
24a	Share premium account	**107.5**	107.0	**107.5**	107.0
24a	Revaluation reserve	**30.4**	36.1	**–**	–
24a	Capital redemption reserve	**16.4**	16.4	**16.4**	16.4
24a	Profit and loss account	**121.8**	77.0	**207.3**	217.8
	Equity shareholders' funds	**392.7**	352.7	**447.8**	457.4
	Minority interests	**5.8**	45.9	**–**	–
		398.5	398.6	**447.8**	457.4

The financial statements on pages 34 to 71 were approved by the Board of Directors on 3 March 2003 and were signed on its behalf by:

Peter Johnson Director **Alan Ferguson** Director

Consolidated cash flow statement

For the year ended 31 December 2002

Reconciliation of operating profit to operating cash flows

Notes		2002 £m	2001 £m
	Operating profit	**101.9**	87.3
3b(i)	Amortisation	**5.0**	0.9
12	Depreciation	**27.8**	26.6
3b(i)	Loss (profit) on sale of tangible fixed assets other than property	**1.6**	(0.4)
	Decrease in stocks	**25.9**	6.1
	Decrease in debtors	**2.5**	44.4
	Increase in creditors	**3.6**	14.4
	Payments in respect of termination of operations	**(2.4)**	(2.2)
	Other items	**(2.0)**	11.4
	Net cash inflow from operating activities	**163.9**	188.5

Consolidated cash flow statement

Notes		2002 £m	2001 £m
	Net cash inflow from operating activities	**163.9**	188.5
	Dividends from joint ventures	**5.5**	7.2
	Dividends from associates	**3.4**	3.5
26a	Returns on investments and servicing of finance	**(6.7)**	(6.7)
	Taxation	**(26.2)**	(28.4)
26b	Capital expenditure and financial investment	**(23.6)**	(17.6)
		116.3	146.5
26c,d	Acquisitions and disposals	**(89.7)**	6.6
	Equity dividends paid	**(21.4)**	(18.4)
	Net cash inflow before use of liquid resources and financing	**5.2**	134.7
	Net cash inflow from the management of liquid resources	**1.6**	53.5
26e	Net cash outflow from financing	**(15.6)**	(169.3)
25a	**Net (decrease) increase in cash**	**(8.8)**	18.9

Reconciliation of net cash flow to movement in net cash (debt)

Notes		2002 £m	2001 £m
	Net (decrease) increase in cash	**(8.8)**	18.9
	Net cash outflow from increase in debt and lease financing	**16.5**	124.2
	Net cash inflow from the management of liquid resources	**(1.6)**	(53.5)
	Change in net cash resulting from cash flows	**6.1**	89.6
	Effect of foreign exchange rate changes on cash and debt	**(7.0)**	(4.6)
26d	Net loans and finance leases relating to acquisitions and disposals	**–**	13.0
26d	Liquid resources of businesses sold	**–**	(11.4)
	Movement in net cash	**(0.9)**	86.6
	Net cash (debt) at 1 January	**17.5**	(69.1)
25a	**Net cash at 31 December**	**16.6**	17.5

Accounting policies

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. FRS 19 Deferred Tax has been adopted in full with effect from 1 January 2002 and prior period comparatives have been restated accordingly.

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.

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

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 Goodwill

Goodwill is calculated as the surplus of cost over fair value attributed to the separately identifiable net assets (excluding goodwill) of subsidiary, joint venture or associated undertakings acquired.

Goodwill arising on acquisitions made after the adoption of FRS 10 in 1998 is capitalised and is normally amortised on a straight line basis over its separately evaluated useful life of up to twenty years. In exceptional circumstances the goodwill may be carried forward unamortised subject to annual impairment tests.

Historic goodwill arising on acquisitions made before 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.

g Tangible fixed assets

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.

h **Vacant leasehold property**

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

i **Stocks and work in progress**

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.

j **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.

k **Deferred taxation**

Deferred taxation is provided in full (without discounting) based on current tax rates and law, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax in future except as otherwise required by FRS 19. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding commitment to sell the asset.

l **Trade finance**

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.

m **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.

Notes to the accounts

1 Segmental analysis

a Turnover	Group subsidiaries 2002 £m	Group subsidiaries 2001 £m	Share of joint ventures 2002 £m	Share of joint ventures 2001 £m	Share of associates 2002 £m	Share of associates 2001 £m	Total 2002 £m	Total 2001 £m
(i) **By geographical market:**								
UK	**1,201.9**	904.7	**6.3**	10.2	**70.9**	159.3	**1,279.1**	1,074.2
Greece/Belgium	**697.2**	595.0	**5.1**	5.0	**1.9**	1.7	**704.2**	601.7
Australia/New Zealand	**455.3**	408.8	**6.5**	8.2	**–**	–	**461.8**	417.0
Hong Kong	**289.7**	423.1	**12.5**	17.4	**–**	–	**302.2**	440.5
Singapore/Brunei	**486.1**	427.5	**–**	–	**–**	–	**486.1**	427.5
Other	**283.6**	267.4	**–**	–	**–**	–	**283.6**	267.4
Continuing	**3,413.8**	3,026.5	**30.4**	40.8	**72.8**	161.0	**3,517.0**	3,228.3
Discontinued	**–**	86.5	**–**	0.6	**–**	4.1	**–**	91.2
	3,413.8	3,113.0	**30.4**	41.4	**72.8**	165.1	**3,517.0**	3,319.5
(ii) **By activity:**								
Import, Distribution and Retail	**2,421.1**	2,261.5	**2.1**	–	**68.7**	157.1	**2,491.9**	2,418.6
UK Retail	**929.3**	711.7	**–**	–	**–**	–	**929.3**	711.7
Financial Services	**62.2**	52.5	**28.3**	40.8	**4.1**	3.9	**94.6**	97.2
E-commerce	**1.2**	0.8	**–**	–	**–**	–	**1.2**	0.8
Continuing	**3,413.8**	3,026.5	**30.4**	40.8	**72.8**	161.0	**3,517.0**	3,228.3
Discontinued	**–**	86.5	**–**	0.6	**–**	4.1	**–**	91.2
	3,413.8	3,113.0	**30.4**	41.4	**72.8**	165.1	**3,517.0**	3,319.5

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

1 Segmental analysis continued

b	Total operating profit	Group subsidiaries 2002 £m	Group subsidiaries 2001 £m	Share of joint ventures 2002 £m	Share of joint ventures 2001 £m	Share of associates 2002 £m	Share of associates 2001 £m	Total 2002 £m	Total 2001 £m
(i)	**By geographical market:**								
	UK	**14.5**	10.5	**(0.4)**	0.7	**0.2**	2.5	**14.3**	13.7
	Greece/Belgium	**16.4**	9.4	**2.7**	2.9	**0.4**	0.4	**19.5**	12.7
	Australia/New Zealand	**16.8**	12.3	**0.6**	0.5	**–**	–	**17.4**	12.8
	Hong Kong	**25.1**	41.4	**6.2**	7.5	**–**	–	**31.3**	48.9
	Singapore/Brunei	**32.5**	19.2	**–**	–	**–**	–	**32.5**	19.2
	Other	**10.5**	5.9	**–**	–	**–**	–	**10.5**	5.9
		115.8	98.7	**9.1**	11.6	**0.6**	2.9	**125.5**	113.2
	Central costs	**(13.9)**	(14.9)	**–**	–	**–**	–	**(13.9)**	(14.9)
	Continuing	**101.9**	83.8	**9.1**	11.6	**0.6**	2.9	**111.6**	98.3
	Discontinued	**–**	3.5	**–**	0.1	**–**	(0.1)	**–**	3.5
		101.9	87.3	**9.1**	11.7	**0.6**	2.8	**111.6**	101.8
(ii)	**By activity:**								
	Import, Distribution and Retail	**106.1**	94.0	**(0.8)**	(0.2)	**(0.8)**	1.5	**104.5**	95.3
	UK Retail	**12.5**	12.2	**–**	–	**–**	–	**12.5**	12.2
	Financial Services	**(1.8)**	(0.8)	**9.9**	11.8	**1.4**	1.4	**9.5**	12.4
	E-commerce	**(1.0)**	(6.7)	**–**	–	**–**	–	**(1.0)**	(6.7)
		115.8	98.7	**9.1**	11.6	**0.6**	2.9	**125.5**	113.2
	Central costs	**(13.9)**	(14.9)	**–**	–	**–**	–	**(13.9)**	(14.9)
	Continuing	**101.9**	83.8	**9.1**	11.6	**0.6**	2.9	**111.6**	98.3
	Discontinued	**–**	3.5	**–**	0.1	**–**	(0.1)	**–**	3.5
		101.9	87.3	**9.1**	11.7	**0.6**	2.8	**111.6**	101.8
(iii)	**Operating profit before goodwill amortisation:**								
	Operating profit	**101.9**	87.3	**9.1**	11.7	**0.6**	2.8	**111.6**	101.8
	Goodwill amortisation (note 3)	**5.0**	0.9	**0.3**	–	**0.3**	0.9	**5.6**	1.8
		106.9	88.2	**9.4**	11.7	**0.9**	3.7	**117.2**	103.6

Of the £5.0m subsidiaries' goodwill amortisation, £3.7m (2001 – £0.3m) relates to the UK, £0.3m (2001 – £0.3m) to Greece/Belgium, £0.5m (2001 – £0.3m) to Australia/New Zealand and £0.5m (2001 – £nil) to Singapore/Brunei.

The £0.3m (2001 – £nil) joint ventures' and £0.3m (2001 – £0.9m) associates' goodwill amortisation fall under the UK segment.

Goodwill amortisation with the exception of £0.9m (2001 – £0.3m) in UK Retail, relates entirely to Import, Distribution and Retail.

Note 5 provides a split of the exceptional profit (loss) by country.

1 **Segmental analysis** continued

c Net assets

	Group subsidiaries		Share of joint ventures		Share of associates		Total	
	2002 £m	2001 restated £m	**2002 £m**	2001 restated £m	**2002 £m**	2001 £m	**2002 £m**	2001 restated £m
(i) By geographical market:								
UK	**238.2**	242.8	**4.6**	3.8	**24.2**	27.4	**267.0**	274.0
Greece/Belgium	**20.1**	46.2	**7.0**	7.5	**2.0**	1.4	**29.1**	55.1
Australia/New Zealand	**1.5**	(16.3)	**–**	0.5	**–**	–	**1.5**	(15.8)
Hong Kong	**28.9**	37.5	**36.0**	37.7	**–**	–	**64.9**	75.2
Singapore/Brunei	**57.9**	47.3	**–**	–	**–**	–	**57.9**	47.3
Other	**56.7**	60.7	**–**	–	**–**	–	**56.7**	60.7
Continuing	**403.3**	418.2	**47.6**	49.5	**26.2**	28.8	**477.1**	496.5
Discontinued	**–**	(0.9)	**–**	–	**–**	0.2	**–**	(0.7)
	403.3	417.3	**47.6**	49.5	**26.2**	29.0	**477.1**	495.8
Net cash	**16.6**	17.5	**–**	–	**–**	–	**16.6**	17.5
Other unallocated assets and liabilities*	**(95.2)**	(114.7)	**–**	–	**–**	–	**(95.2)**	(114.7)
	324.7	320.1	**47.6**	49.5	**26.2**	29.0	**398.5**	398.6
(ii) By activity:								
Import, Distribution and Retail	**252.9**	283.0	**1.2**	0.8	**19.2**	21.9	**273.3**	305.7
UK Retail	**141.5**	118.4	**–**	–	**–**	–	**141.5**	118.4
Financial Services	**9.4**	17.9	**46.4**	48.7	**7.0**	6.9	**62.8**	73.5
E-commerce	**(0.5)**	(1.1)	**–**	–	**–**	–	**(0.5)**	(1.1)
Continuing	**403.3**	418.2	**47.6**	49.5	**26.2**	28.8	**477.1**	496.5
Discontinued	**–**	(0.9)	**–**	–	**–**	0.2	**–**	(0.7)
	403.3	417.3	**47.6**	49.5	**26.2**	29.0	**477.1**	495.8
Net cash	**16.6**	17.5	**–**	–	**–**	–	**16.6**	17.5
Other unallocated assets and liabilities*	**(95.2)**	(114.7)	**–**	–	**–**	–	**(95.2)**	(114.7)
	324.7	320.1	**47.6**	49.5	**26.2**	29.0	**398.5**	398.6

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

1 Segmental analysis continued

		Group subsidiaries		Joint ventures		Associates		Total	
d	**Average number of employees**	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	Import, Distribution and Retail	**6,007**	4,976	**63**	–	**614**	1,222	**6,684**	6,198
	UK Retail	**2,841**	2,559	**–**	–	**–**	–	**2,841**	2,559
	Financial Services	**258**	279	**185**	200	**16**	16	**459**	495
	E-commerce	**32**	35	**–**	–	**–**	–	**32**	35
	Total operational	**9,138**	7,849	**248**	200	**630**	1,238	**10,016**	9,287
	Corporate	**51**	57	**–**	–	**–**	–	**51**	57
	Continuing	**9,189**	7,906	**248**	200	**630**	1,238	**10,067**	9,344
	Discontinued	**–**	211	**–**	–	**–**	20	**–**	231
		9,189	8,117	**248**	200	**630**	1,258	**10,067**	9,575

2 Prior period adjustment

The adoption of FRS 19 Deferred Tax has resulted in a change in the method of accounting for deferred tax, from a partial to a full provision basis. This change in accounting policy has been reflected in the accounts as a prior period adjustment in accordance with FRS 18 Accounting Policies, and has required both the profit and loss account and balance sheet comparatives to be restated. The effect of the restatement on the prior year balance sheet is shown below:

	2001 £m
Decrease in share of joint ventures' post acquisition reserves (note 13a)	1.7
Decrease in deferred tax asset (note 15b)	1.4
Increase in deferred tax provision (note 20)	1.1
	2.5
Decrease in net assets	4.2
Profit and loss reserve at 1 January 2001	3.7
Profit and loss account for year ending 31 December 2001	0.6
	4.3
Minority interest	(0.1)
	4.2

The effect on the current year taxation charge is a decrease of £0.3m and on the comparative taxation charge an increase of £0.6m.

3 Net operating expenses

a	**Analysis of net operating expenses**	**2002 £m**	2001 £m
	Distribution costs	**(223.1)**	(210.9)
	Administrative expenses (including goodwill amortisation)	**(190.4)**	(171.9)
	Other operating income	**1.0**	1.0
	Utilisation of termination provisions	**2.3**	4.7
	Net operating expenses	**(410.2)**	(377.1)

b	**Profit on ordinary activities before taxation is stated after the following charges (credits):**		
(i)	Amortisation of goodwill – subsidiaries	**5.0**	0.9
	Amortisation of goodwill – joint ventures and associates	**0.6**	0.9
	Depreciation of tangible fixed assets	**27.8**	26.6
	Loss (profit) on sale of tangible fixed assets other than property	**1.6**	(0.4)
	Hire of plant, machinery and equipment	**1.6**	1.5
	Other operating lease rentals payable	**21.7**	20.0
	Auditors' remuneration:		
	UK statutory audit (Company: £0.1m; 2001 – £0.1m)	**0.7**	0.7
	Overseas statutory audit	**0.6**	0.5
	Non-audit fees*:		
	– tax advice (UK: £0.2m; 2001 – £nil)	**0.6**	0.2
	– due diligence and other audit-related work (UK: £nil; 2001 – £0.2m)	**–**	0.2
	– other services	**0.2**	0.1
	Total PricewaterhouseCoopers LLP audit and non-audit fees	**2.1**	1.7
	Audit fees and expenses – firms other than PricewaterhouseCoopers LLP	**0.1**	0.1

* Not included in the above is £0.2m of tax services, which have been capitalised as part of the cost of the acquisition of Inchcape Motors Limited.

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

(ii)	Staff costs	**2002 £m**	2001 £m
	Wages and salaries	**189.3**	167.1
	Social security costs	**18.6**	16.7
	Other pension costs	**7.3**	6.1
	Total employment costs of the Company and its subsidiaries	**215.2**	189.9

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 ('the auditable part').

4 Pensions and other post-retirement benefits

a The Group operates pension schemes for its employees in a number of subsidiaries. In the UK and Hong Kong, 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 sixty 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 recommended that contributions be suspended for the foreseeable 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. The scheme has a prudent investment strategy and at 5 April 2002 the market value of the net assets was £232.3m. At that date, the scheme had only 18.6% invested in equities and since then the scheme has switched further into bonds.

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 4b, 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 2002 was £7.3m (2001 – £6.1m) of which £5.7m (2001 – £4.3m) relates to schemes of a defined benefit nature and £1.6m (2001 – £1.8m) represents the amount attributable to defined contribution schemes. A provision of £4.9m (2001 – £3.8m) 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 £0.3m (2001 – £0.5m).

A triennial valuation of the Group's UK defined benefit schemes will be undertaken in April 2003 upon which a revised SSAP 24 charge will be determined for the next three years. Current estimates are that the 2003 pension charge will increase by £3.0m to £4.0m.

4 Pensions and other post-retirement benefits continued

b Disclosures under FRS 17 for the year ended 31 December 2002

The Group continues to report pension costs in accordance with SSAP 24. However, the Group is following the extended 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 2002. Scheme assets are stated at their market value at 31 December 2002.

(i) Weighted average assumptions used by the actuaries:

	UK **2002** **%**	Hong Kong **2002** **%**	UK 2001 %	Hong Kong 2001 %
Rate of increase in salaries	**4.5**	**5.0**	4.5	5.8
Rate of increase in pensions	**2.5**	**–**	2.5	–
Discount rate	**5.5**	**5.5**	5.8	6.3
Inflation assumption	**2.5**	**–**	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 schemes and the expected rate of return were:

Long term rate of return expected at year end	UK **2002** **%**	Hong Kong **2002** **%**	UK 2001 %	Hong Kong 2001 %
Equities	**7.5**	**7.5**	7.5	8.5
Bonds	**4.6**	**–**	5.0	4.5
Other	**4.0**	**2.5**	4.9	–
Total	**6.0**	**6.2**	6.3	7.3

Value at year end	UK **2002** **£m**	Hong Kong **2002** **£m**	Total **2002** **£m**	UK 2001 £m	Hong Kong 2001 £m	Total 2001 £m
Equities	**143.9**	**9.2**	**153.1**	166.1	10.9	177.0
Bonds	**140.4**	**–**	**140.4**	147.6	4.7	152.3
Other	**15.6**	**3.2**	**18.8**	15.0	–	15.0
Total	**299.9**	**12.4**	**312.3**	328.7	15.6	344.3

(iii) Net pension (liability) asset

	UK **2002** **£m**	Hong Kong **2002** **£m**	Total **2002** **£m**	UK 2001 £m	Hong Kong 2001 £m	Total 2001 £m
Total market value of pension assets	**299.9**	**12.4**	**312.3**	328.7	15.6	344.3
Present value of pension liabilities	**(346.9)**	**(19.8)**	**(366.7)**	(319.2)	(20.1)	(339.3)
(Deficit) surplus in pensions	**(47.0)**	**(7.4)**	**(54.4)**	9.5	(4.5)	5.0
Related deferred tax asset	**–**	**1.2**	**1.2**	–	0.7	0.7
Net pension (liability) asset	**(47.0)**	**(6.2)**	**(53.2)**	9.5	(3.8)	5.7

4 Pensions and other post-retirement benefits continued

b Disclosures under FRS 17 for the year ended 31 December 2002 continued

(iv) Analysis of the amount that would have been charged to operating profit

	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Current year service cost	6.4	1.8	8.2

(v) Analysis of amounts that would have been included in net interest

	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Expected return on pension assets	20.3	1.1	21.4
Interest expense on pension liabilities	(18.3)	(1.2)	(19.5)
Net interest income (expense) in respect of pensions	2.0	(0.1)	1.9

(vi) Analysis of amounts that would have been recognised in the statement of total recognised gains and losses

	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Actual return less expected return on pension assets	(39.3)	(3.9)	(43.2)
Experience (losses) gains arising on pension liabilities	(1.2)	1.1	(0.1)
Changes in assumptions underlying the present value of pension liabilities	(14.0)	(0.5)	(14.5)
Actuarial loss recognised in the statement of total recognised gains and losses	(54.5)	(3.3)	(57.8)

(vii) Movement in surplus (deficit) in the year

	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Surplus (deficit) in pensions at 1 January 2002	9.5	(4.5)	5.0
Effect of foreign exchange rate changes	–	0.6	0.6
Current year service cost	(6.4)	(1.8)	(8.2)
Contributions	2.9	1.7	4.6
Other finance income	0.5	–	0.5
Other expenses	(1.0)	–	(1.0)
Net interest income (expense) in respect of pensions	2.0	(0.1)	1.9
Actuarial loss recognised in the statement of total recognised gains and losses	(54.5)	(3.3)	(57.8)
Deficit in pensions at 31 December 2002	(47.0)	(7.4)	(54.4)

4 Pensions and other post-retirement benefits continued

b Disclosures under FRS 17 for the year ended 31 December 2002 continued

(viii) Details of experience gains and losses

	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Actual return less expected return on pension assets	**(39.3)**	**(3.9)**	**(43.2)**
Total market value of pension assets	**299.9**	**12.4**	**312.3**
Percentage of pension assets	**(13.1)%**	**(31.5)%**	**(13.8)%**

	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Experience (losses) gains arising on pension liabilities	**(1.2)**	**1.1**	**(0.1)**
Present value of pension liabilities	**346.9**	**19.8**	**366.7**
Percentage of present value of pension liabilities	**(0.3)%**	**5.6%**	**–**

	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Actuarial loss recognised in the statement of total recognised gains and losses	**(54.5)**	**(3.3)**	**(57.8)**
Present value of pension liabilities	**346.9**	**19.8**	**366.7**
Percentage of present value of pension liabilities	**(15.7)%**	**(16.7)%**	**(15.8)%**

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, the scheme's net assets were £239.7m. The scheme has a prudent investment strategy and at 5 April 2002 the market value of the net assets was £232.3m. At that date, the scheme had only 18.6% invested in equities and since then the scheme has switched further into bonds.

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.

(ix) If the above amounts had been recognised in the financial statements, the Group's balance sheet at 31 December 2002 would be as follows:

Net assets	**2002 £m**	2001 restated £m
Net assets	**398.5**	398.6
SSAP 24 pension provision excluding defined contribution provision	**7.6**	6.6
Net assets excluding SSAP 24 pension provision	**406.1**	405.2
Pension asset	**–**	30.3
Pension liability	**(53.2)**	(24.6)
Net assets including pension asset (liability)	**352.9**	410.9
Reserves		
Profit and loss account	**121.8**	77.0
SSAP 24 pension provision excluding defined contribution provision	**7.6**	6.6
Profit and loss account excluding SSAP 24 pension provision	**129.4**	83.6
Pension reserve	**(53.2)**	5.7
Profit and loss account	**76.2**	89.3

5 Exceptional items

	2002 £m	2001 £m
Net profit (loss) on sale of properties and investments	**0.9**	(0.6)
Net profit (loss) including provisions on sale and termination of operations:		
– UK Retail dealerships (2001 includes goodwill written off £5.8m)	**(1.4)**	(6.7)
– IFS Australia	**0.8**	–
– Provision release arising from settlement of warranties/indemnities	**3.0**	–
– MCL – UK (2001 goodwill written off £24.5m)	**–**	(24.5)
– Seaking Automotive Ltd – UK (2001 includes goodwill written off £5.3m)	**–**	(7.9)
– IRB Finance Berhad – Brunei	**–**	3.9
– Other (2002 includes goodwill written off £0.3m; 2001 – £1.1m)	**(1.2)**	(1.1)
Total net profit (loss) including provisions on sale and termination of operations	**1.2**	(36.3)
Total exceptional items (note 9)	**2.1**	(36.9)

Goodwill written off included above of £0.3m (2001 – £36.7m) had been charged against reserves in previous years (note 24a(i)).

6 Net interest

	2002 £m	2001 £m
Interest payable and other charges relating to the Company and its subsidiaries:		
Bank loans and overdrafts falling due within five years	**6.6**	6.0
Loan notes falling due within five years	**2.7**	4.7
Other interest	**2.2**	2.5
	11.5	13.2
Less amounts included in cost of sales for Financial Services subsidiaries	–	(0.6)
	11.5	12.6
Interest receivable relating to the Company and its subsidiaries:		
Bank and other interest	**(6.2)**	(11.9)
Less amounts included in turnover for Financial Services subsidiaries	**–**	1.8
	(6.2)	(10.1)
Net interest relating to the Company and its subsidiaries	**5.3**	2.5
Share of joint ventures' net interest	**–**	0.1
Share of associates' net interest	**(0.2)**	1.3
	5.1	3.9

7 Taxation

a	**Analysis of tax charge for the year**	**2002 £m**	2001 restated £m
	Current tax:		
	– UK corporation tax at 30.0% (2001 – 30.0%)	**5.5**	1.5
	– double tax relief	**(5.8)**	(2.2)
		(0.3)	(0.7)
	Overseas tax	**30.9**	27.3
		30.6	26.6
	Adjustments to prior year liabilities:		
	– UK	**(1.5)**	(0.5)
	– overseas	**0.6**	0.9
	The Company and its subsidiaries' current tax	**29.7**	27.0
	Share of joint ventures' current tax	**3.2**	3.3
	Share of associates' current tax	**0.6**	1.1
	Total current tax charge	**33.5**	31.4
	The Company and its subsidiaries' deferred tax	**(3.9)**	(2.3)
	Share of joint ventures' deferred tax	**(0.7)**	0.2
	Total deferred tax	**(4.6)**	(2.1)
	Tax on profit on ordinary activities	**28.9**	29.3

The adoption of FRS 19 has resulted in a decrease of £0.3m in the tax charge to 31 December 2002 (2001 – £0.6m increase).

Tax on Headline profit amounts to £29.1m (2001 – £29.3m) which is before tax relief of £0.2m (2001 – £nil) on goodwill amortisation (note 9). There is no tax on exceptional items (2001 – £nil).

The deferred tax credit has arisen from the origination and reversal of timing differences.

b **Factors affecting the tax charge for the period**

The effective tax rate for the year of 30.8% (2001 – 51.5%) is higher than the standard rate of tax. In 2001 the rate was increased significantly by £36.7m of non-tax deductible goodwill in exceptional items. The standard rate comprises the average rates of tax payable across the Group, weighted in proportion to accounting profits.

	2002 £m	2001 £m
Profit on ordinary activities before taxation	**108.6**	61.0
Profit on ordinary activities multiplied by standard rate of tax 25.1% (2001 – 16.1%)	**27.3**	9.8
Effects of:		
– untaxed FRS 3 provision (releases) charges	**(0.9)**	11.0
– non-deductible goodwill	**1.5**	0.5
– untaxed profits	**(1.4)**	(1.0)
– losses brought forward utilised in year	**(0.7)**	(1.2)
– unrelieved losses	**2.7**	3.1
– permanent disallowable items	**4.0**	3.6
– prior year items	**(0.9)**	0.4
– short term timing differences	**1.0**	1.4
– accelerated capital allowances	**–**	3.9
– other items	**0.9**	(0.1)
Total current tax charge	**33.5**	31.4

7 Taxation continued

c Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of c. £26.0m that may improve the rate in future years. The majority of these relate to losses, mainly arising in the UK with a smaller proportion relating to accelerated capital allowances and other short term timing differences. These assets are not recognised because they arise in statutory entities that are currently not forecast to make taxable profits. There are further potential deferred tax assets, relating to losses, of c. £20.0m that are not recognised and are not considered to have any impact on the future tax charge because the possibility of accessing them is considered so remote. The assets mentioned in this paragraph will only become recognisable if the statutory entities which hold them begin to generate sufficient taxable profits.

There are also losses in Belgium for which an asset of £0.7m has been recognised, based on current forecast profits. The remaining asset of £2.5m has not been recognised but should it be demonstrated that sufficient taxable profits are likely to be generated in the relevant company, then the asset will be increased.

No deferred tax has been recognised for deferred tax on gains recognised in revaluing properties to market value. The total amount not recognised is £14m. Such tax would become payable only if the properties were sold without it being possible to claim rollover relief. At present, it is not envisaged that any tax will become payable in the foreseeable future.

8 Minority interests

	2002 £m	2001 £m
Paid or payable as dividends	**0.7**	3.0
Proposed dividends unpaid – Inchcape Motors Limited	**(1.7)**	–
Net retained profit for the year	**4.4**	5.3
	3.4	8.3

The 2002 minority interest charge is net of a £1.7m (2001 – £nil) benefit resulting from a lower 2001 final dividend charge than was accrued in the 2001 financial statements. This benefit was due to the minority shareholding being acquired before the final dividend was approved.

9 Earnings per ordinary share

	Headline		FRS 3	
	2002 £m	2001 restated £m	**2002 £m**	2001 restated £m
Headline profit before tax	**112.1**	99.7	**112.1**	99.7
Goodwill amortisation (note 3)	**–**	–	**(5.6)**	(1.8)
Exceptional items (note 5)	**–**	–	**2.1**	(36.9)
Profit before tax	**112.1**	99.7	**108.6**	61.0
Taxation (note 7)	**(29.1)**	(29.3)	**(28.9)**	(29.3)
Minority interests (note 8)	**(3.4)**	(6.8)	**(3.4)**	(8.3)
Earnings	**79.6**	63.6	**76.3**	23.4
Headline earnings per share	**104.5p**	79.7p		
Basic earnings per share			**100.1p**	29.3p
Diluted earnings per share			**97.9p**	29.0p

	2002 number	2001 number
Weighted average number of fully paid ordinary shares in issue during the year, less those held by the Inchcape Employee Trust	**76,195,345**	79,816,472
Dilutive effect of potential ordinary shares	**1,754,558**	968,310
Adjusted weighted average number of fully paid ordinary shares in issue during the year	**77,949,903**	80,784,782

9 Earnings per ordinary share continued

Headline profit before tax and earnings (before goodwill amortisation and exceptional items) 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 13a(ii)).

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.

10 Dividends

	2002 pence	2001 pence	**2002 £m**	2001 £m
Interim – paid 16 September 2002 (2001 – paid 17 September 2001)	**10.0**	8.8	**7.5**	5.6
Final – proposed – payable 16 June 2003 (2001 – paid 17 June 2002)	**21.0**	18.2	**16.1**	13.9
	31.0	27.0	**23.6**	19.5

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 23 May 2003.

Dividends above exclude £0.4m (2001 – £0.3m) payable on shares held by the Inchcape Employee Trust (note 13a(ii)).

11 Fixed assets – intangible assets

	Goodwill **£m**
Cost at 1 January 2002	**80.0**
Effect of foreign exchange rate changes	**(0.8)**
Additions	**20.3**
Adjustment relating to prior year acquisition	**(7.7)**
Cost at 31 December 2002	**91.8**
Amortisation at 1 January 2002	**(3.8)**
Effect of foreign exchange rate changes	**(0.1)**
Provided for the year	**(5.0)**
Amortisation at 31 December 2002	**(8.9)**
Book value at 31 December 2002	**82.9**
Book value at 31 December 2001	76.2

The historical cost goodwill brought forward comprises Eurofleet £56.1m and Bates Group £16.1m in the UK, Ferrari Belgium £2.8m, Maserati Belgium £0.9m, Australia Retail £2.8m and other small amounts totalling £1.3m.

Additions to goodwill arise mainly from the acquisition of the minority interest in Inchcape Motors Limited, as set out in note 27a.

Goodwill relating to Ferrari Belgium and Australia Retail is being amortised over periods ranging from five to ten years. All other goodwill is being predominantly amortised over twenty years. These periods are the periods over which the Directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets.

The adjustment relating to the prior year acquisition refers to the acquisition of Eurofleet in 2001. The Group then assumed the additional consideration payable for Eurofleet would be in the range of £14.0m to £22.0m based on challenging EBIT growth assumptions. In valuing the goodwill at 31 December 2001, it was assumed that £21.8m deferred consideration was payable. Following this year's performance, the Group now considers that the deferred consideration will be up to £14.3m. Accordingly, goodwill has been reduced by £7.5m in 2002. In addition, the provisional fair values of Eurofleet assets and liabilities at the acquisition date have been revisited and goodwill has been reduced by £0.2m accordingly.

12 Fixed assets – tangible assets

	Freehold and leasehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost or valuation at 1 January 2002	**214.1**	**140.9**	**355.0**
Effect of foreign exchange rate changes	**(4.6)**	**(1.1)**	**(5.7)**
Businesses acquired	**3.3**	**1.6**	**4.9**
Additions	**11.2**	**44.9**	**56.1**
Disposals	**(2.0)**	**(34.7)**	**(36.7)**
Transfer to current assets	**(0.6)**	**–**	**(0.6)**
Cost or valuation at 31 December 2002	**221.4**	**151.6**	**373.0**
Analysed:			
– valuation 1996	**112.4**	**–**	**112.4**
– cost	**109.0**	**151.6**	**260.6**
	221.4	**151.6**	**373.0**
Depreciation at 1 January 2002	**(20.0)**	**(83.9)**	**(103.9)**
Effect of foreign exchange rate changes	**0.4**	**0.4**	**0.8**
Provided in the year	**(5.1)**	**(22.7)**	**(27.8)**
Disposals	**0.7**	**15.3**	**16.0**
Depreciation at 31 December 2002	**(24.0)**	**(90.9)**	**(114.9)**
Book value at 31 December 2002	**197.4**	**60.7**	**258.1**
Book value at 31 December 2001	194.1	57.0	251.1

	2002 £m	2001 £m
Book value of land and buildings analysed between:		
– freehold	**125.0**	117.5
– leasehold with over fifty years unexpired	**42.4**	43.5
– short leasehold	**30.0**	33.1
	197.4	194.1
Historic cost value of land and buildings analysed between:		
– cost	**205.6**	197.1
– less depreciation	**(29.8)**	(26.9)
	175.8	170.2

The book value of tangible fixed assets includes £0.9m (2001 – £1.0m) in respect of assets held under finance leases.

13 Fixed assets – investments

a Movement in book value

(i) **Group**	Shares in joint ventures and associates restated £m	Loans from joint ventures and associates £m	Own shares £m	Other investments £m	Total restated £m
Cost less provisions at 1 January 2002:					
– 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**
Effect of foreign exchange rate changes	**(0.4)**	**–**	**–**	**–**	**(0.4)**
Additions	**0.2**	**–**	**4.7**	**0.2**	**5.1**
(Disposals)/loan repayments	**(2.1)**	**1.8**	**(2.6)**	**–**	**(2.9)**
Goodwill amortisation	**(0.6)**	**–**	**–**	**–**	**(0.6)**
Cost less provisions at 31 December 2002:					
– cost less provisions	**30.0**	**–**	**5.5**	**0.8**	**36.3**
– goodwill capitalised	**0.6**	**–**	**–**	**–**	**0.6**
	30.6	**–**	**5.5**	**0.8**	**36.9**
Share of post acquisition reserves:					
Balance at 1 January 2002	**53.3**				**53.3**
Prior period adjustment (note 2)	**(1.7)**				**(1.7)**
Restated balance at 1 January 2002	**51.6**				**51.6**
Effect of foreign exchange rate changes	**(3.2)**				**(3.2)**
Disposals	**0.7**				**0.7**
Retained profit for the financial year	**(1.5)**				**(1.5)**
Balance at 31 December 2002	**47.6**				**47.6**
Adjustment to cost in respect of goodwill, previously written off to reserves:					
Goodwill at 1 January 2002	**(4.8)**				**(4.8)**
Effect of foreign exchange rate changes	**0.4**				**0.4**
Balance at 31 December 2002	**(4.4)**				**(4.4)**
31 December 2002					
– book value at 31 December 2002	**73.2**	**–**	**5.5**	**0.8**	**79.5**
– goodwill capitalised	**0.6**	**–**	**–**	**–**	**0.6**
	73.8	**–**	**5.5**	**0.8**	**80.1**
31 December 2001					
– book value at 31 December 2001	79.1	(1.8)	3.4	0.6	81.3
– goodwill capitalised	1.2	–	–	–	1.2
	80.3	(1.8)	3.4	0.6	82.5

13 Fixed assets – investments continued

a Movement in book value continued

(ii) Company	Own shares £m	Shares in subsidiaries £m	Total £m
At 1 January 2002	**3.4**	**1,027.7**	**1,031.1**
Additions	**4.7**	**–**	**4.7**
Adjustment relating to prior year acquisition	**–**	**(7.2)**	**(7.2)**
Disposals	**(2.6)**	**–**	**(2.6)**
At 31 December 2002	**5.5**	**1,020.5**	**1,026.0**

Own ordinary 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 ordinary shares held by the Inchcape Employee Trust at 31 December 2002 was 1,118,247 (2001 – 1,271,804). Their market value at both 31 December 2002 and 28 February 2003 was £8.0m (31 December 2001 – £7.7m, 1 March 2002 – £8.9m).

b Listed fixed asset investments

	Other fixed asset investments	
	2002 £m	2001 £m
Book value	**6.0**	3.9
Market value	**8.7**	8.3

c Group share of net assets of joint ventures and associates

	Joint ventures		Associates		Total	
	2002 £m	2001 restated £m	**2002 £m**	2001 £m	**2002 £m**	2001 restated £m
Fixed assets	**8.7**	11.7	**13.4**	15.9	**22.1**	27.6
Current assets	**309.9**	430.5	**69.1**	83.5	**379.0**	514.0
Goodwill capitalised	**0.6**	1.0	**–**	0.2	**0.6**	1.2
Group share of gross assets	**319.2**	443.2	**82.5**	99.6	**401.7**	542.8
Liabilities due within one year	**(226.1)**	(261.5)	**(54.3)**	(63.2)	**(280.4)**	(324.7)
Liabilities due after more than one year	**(45.5)**	(132.2)	**(2.0)**	(7.4)	**(47.5)**	(139.6)
Group share of gross liabilities	**(271.6)**	(393.7)	**(56.3)**	(70.6)	**(327.9)**	(464.3)
Group share of net assets	**47.6**	49.5	**26.2**	29.0	**73.8**	78.5

d Group transactions and amounts outstanding with joint ventures and associates

	Transaction		Amounts outstanding	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Vehicles purchased from joint ventures and associates	**72.6**	87.5	**1.6**	12.1
Vehicles sold to joint ventures and associates	**382.4**	487.7	**0.6**	3.7
Other income paid	**1.3**	1.8	**0.1**	0.2
Other income received	**16.2**	15.0	**17.4**	16.9
Debt factored through associates	**–**	14.6	**–**	–

14 Stocks

	2002 £m	2001 £m
Raw materials and work in progress	**1.5**	2.3
Finished goods and merchandise	**500.3**	517.4
	501.8	519.7

Certain subsidiaries have an obligation to repurchase, at a guaranteed residual value, 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 liability is included within trade creditors. Stock includes £77.1m (2001 – £93.8m) of such vehicles.

Vehicles held on consignment which are in substance assets of the Group amount to £40.1m (2001 – £37.0m). 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. Associated stocking interest of £2.2m (2001 – £1.8m) is charged before arriving at operating profit.

15 Debtors

a Total debtors

	Group		Company	
	2002 £m	2001 restated £m	**2002 £m**	2001 £m
Amounts due within one year				
Trade debtors subject to limited recourse financing	**0.7**	1.3	**–**	–
Less non-returnable amounts received	**(0.7)**	(1.2)	**–**	–
	–	0.1	**–**	–
Other trade debtors	**126.1**	122.0	**–**	–
Amounts owed by: – group undertakings	**–**	–	**0.7**	0.3
– joint ventures and associates	**10.1**	11.9	**–**	–
Other debtors	**27.8**	47.2	**0.1**	0.2
Advance corporation tax recoverable	**0.2**	0.2	**0.2**	0.2
Corporation tax recoverable	**4.2**	4.9	**0.8**	3.4
Prepayments and accrued income	**22.0**	15.9	**–**	–
	190.4	202.2	**1.8**	4.1
Amounts due after more than one year				
Trade debtors subject to limited recourse financing	**6.7**	12.0	**–**	–
Less non-returnable amounts received	**(6.0)**	(10.8)	**–**	–
	0.7	1.2	**–**	–
Other trade debtors	**–**	0.3	**–**	–
Amounts owed by: – group undertakings	**–**	–	**193.7**	184.3
– joint ventures and associates	**8.0**	8.3	**–**	–
Other debtors	**1.8**	2.0	**–**	–
Deferred tax asset	**3.0**	–	**–**	–
Prepayments and accrued income	**1.0**	0.2	**–**	–
	14.5	12.0	**193.7**	184.3
Total debtors	**204.9**	214.2	**195.5**	188.4

15 Debtors continued

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.

Advance corporation tax (ACT) written off to date amounts to £9.7m (2001 – £9.7m) and is available for offset against future UK corporation tax liabilities subject to the restrictions of the shadow ACT regulations.

b Deferred taxation asset (liability)

	2002 £m	2001 restated £m
Excess capital allowances	**1.0**	(0.1)
Other timing differences	**2.0**	(1.0)
	3.0	(1.1)

The 2001 restated deferred tax liability is reported in note 20.

	2002 £m
Balance at 1 January 2002	**1.4**
Prior period adjustment (note 2)	**(1.4)**
Restated balance at 1 January 2002	**–**
Transfer from deferred tax provision (note 20)	**(1.1)**
Effect of foreign exchange rate changes	**0.2**
Charged to profit and loss account	**3.9**
Balance at 31 December 2002	**3.0**

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.

16 Current asset investments

	2002 £m	2001 £m
Book value	**11.4**	14.2
Market value	**12.2**	14.7

17 Creditors – amounts falling due within one year

		Group		Company	
a	**Borrowings**	**2002 £m**	2001 £m	**2002 £m**	2001 £m
	Bank loans	**20.9**	14.2	**–**	–
	Other loans	**20.1**	62.7	**20.1**	19.1
	Debt due within one year	**41.0**	76.9	**20.1**	19.1
	Finance leases	**0.1**	0.3	**–**	–
	Bank overdrafts	**3.5**	5.9	**–**	–
	Borrowings – amounts falling due within one year	**44.6**	83.1	**20.1**	19.1

			Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
b	**Other**					
	Trade creditors:	– payments received on account	**28.8**	23.5	**–**	–
		– other	**408.4**	390.6	**–**	0.3
	Amounts owed to:	– group undertakings	**–**	–	**377.3**	349.0
		– joint ventures and associates	**1.6**	12.6	**–**	–
	Corporate taxation		**29.4**	26.8	**5.3**	6.1
	Other taxation and social security payable		**13.3**	8.8	**0.3**	0.1
	Other creditors		**13.2**	18.3	**–**	0.5
	Accruals and deferred income		**85.5**	86.4	**0.5**	0.3
	Dividends payable:	– proposed final	**16.1**	13.9	**16.1**	13.9
		– to minorities	**0.2**	1.8	**–**	–
	Other creditors – amounts falling due within one year		**596.5**	582.7	**399.5**	370.2
	Total creditors falling due within one year		**641.1**	665.8	**419.6**	389.3

18 Creditors – amounts falling due after more than one year

		Group		Company	
		2002	2001	**2002**	2001
a (i)	**Borrowings**	**£m**	£m	**£m**	£m
	Bank loans	**40.6**	0.6	**–**	–
	Other loans	**0.4**	20.8	**0.4**	20.2
	Finance leases	**1.0**	1.0	**–**	–
	Borrowings – amounts falling due after more than one year	**42.0**	22.4	**0.4**	20.2
(ii)	**Maturity of borrowings**				
	Repayable over one year and up to two years:				
	Bank loans	**0.1**	0.1	**–**	–
	Other loans	**0.2**	0.1	**0.2**	–
	Finance leases	**0.7**	0.7	**–**	–
		1.0	0.9	**0.2**	–
	Repayable over two years and up to five years:				
	Bank loans	**40.5**	0.5	**–**	–
	Other loans	**0.2**	20.7	**0.2**	20.2
	Finance leases	**0.3**	0.3	**–**	–
		41.0	21.5	**0.2**	20.2
	Borrowings – amounts falling due after more than one year	**42.0**	22.4	**0.4**	20.2
b	**Other**				
	Trade creditors	**52.0**	59.8	**1.6**	–
	Amounts owed to group undertakings	**–**	–	**328.0**	322.5
	Deferred consideration (note 11)	**14.3**	21.8	**14.3**	21.8
	Other creditors – amounts falling due after more than one year	**66.3**	81.6	**343.9**	344.3
	Total creditors falling due after more than one year	**108.3**	104.0	**344.3**	364.5

19 Facilities and borrowings

a Facilities

On 30 July 2002 the Group entered into a five year £250.0m committed revolving credit facility with a syndicate of banks. This facility replaced a £200.0m stand-by revolving credit facility which had a maturity date of March 2003.

In addition the Group has available a number of uncommitted money market lines provided by relationship banks, which provide additional flexibility in managing the Group's liquidity.

b Borrowings

At 31 December 2002 £40.0m was drawn on the committed revolving credit facility at an interest rate of 4.9%. Although the bank loan is repayable within twelve months of the balance sheet date, as the amount is drawn under a five year committed facility it is classified in the table above as repayable between two and five years on the basis of the facility's expiry date in July 2007.

UK 7.09% loan notes totalling US$72.0m (£43.5m) were repaid on 31 May 2002. Loan notes relating to the Eurofleet and Bates Group acquisitions were repaid in 2002, totalling £5.4m and £13.9m respectively.

Loan notes totalling £20.5m, maturing during 2003 through to 2005, are at various rates of interest, linked to LIBOR. Net obligations under finance leases are at various local prevailing rates of interest.

Of the total Group borrowings £nil (2001 – £1.8m) is secured. The Company's borrowings are unsecured.

20 Provisions for liabilities and charges

Group	Pensions and other post–retirement benefits (note 4) £m	Product warranty £m	Motors business exits £m	Non-motors business exits £m	Vacant leasehold £m	Other £m	Deferred tax restated £m	Total restated £m
Balance at 1 January 2002	7.1	41.6	6.2	49.6	6.9	–	–	111.4
Prior period adjustment (note 2)	–	–	–	–	–	–	1.1	1.1
Restated balance at 1 January 2002	7.1	41.6	6.2	49.6	6.9	–	1.1	112.5
Transfer to debtors (note 15b)	–	–	–	–	–	–	(1.1)	(1.1)
Effect of foreign exchange rate changes	0.1	(0.6)	–	0.2	–	0.2	–	(0.1)
Charged to profit and loss account	7.3	17.7	2.4	–	3.3	4.4	–	35.1
Unused amounts reversed to profit and loss account	–	(4.8)	(1.1)	(3.3)	(0.4)	–	–	(9.6)
Utilised during the year:								
– cash	(6.6)	(13.3)	(1.6)	(16.8)	(1.7)	–	–	(40.0)
– other	–	–	(2.3)	–	–	–	–	(2.3)
Balance at 31 December 2002	7.9	40.6	3.6	29.7	8.1	4.6	–	94.5

Company	Motors and Non-motors business exits £m
Balance at 1 January 2002	49.5
Unused amounts reversed to profit and loss account	(4.4)
Utilised during the year:	
– cash	(16.8)
Balance at 31 December 2002	28.3

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. These assumptions are reviewed regularly.

Motors business exits
During 2002, the Group became committed to business exits and terminations which resulted in the charge of £2.4m (2001 – £8.1m) to the profit and loss account. These included the UK Retail dealership exits shown in note 5. 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. During the year the Company reached an agreement with Intertek Testing Services (ITS) in relation to claims arising from the sale of ITS in 1996. Under this agreement the Company paid ITS £14.9m (US$22.75m) in full and final settlement of all claims, including any that may arise in the future. This payment was fully provided for in prior years.

Any detailed disclosure of the remaining outstanding claims could seriously prejudice negotiations. Accordingly, no information is given in regard to the likely timing or cash impact as normally required under FRS 12. These are however referred to in note 21.

Vacant leasehold
The Group is committed to certain leasehold premises for which it no longer has a commercial use. These are principally located in the UK. Provision has been made to the extent of the estimated future net cost. This includes taking into account existing sub-tenant arrangements. 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 (2001 – £0.2m) has been included in the charge to profit and loss account. The commitments relating to these provisions have not been disclosed within note 22.

20 Provisions for liabilities and charges continued

Other
During 2002 the Group became committed to the cost of implementing new European Block Exemption contracts throughout the dealer network in Belgium. The cost is estimated at £4.4m and it is expected to be predominantly settled during 2003/4.

Deferred tax
The FRS 19 prior period adjustment of £2.5m has resulted in a restated deferred tax liability of £11m. Movements in deferred tax in 2002 have resulted in a deferred tax asset at 31 December 2002.

21 Guarantees and contingent liabilities

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Guarantees of joint ventures' and associates' borrowings	**0.4**	0.5	**–**	–
Guarantees of various subsidiaries' borrowings (against which £40.0m has been drawn, 2001 – £43.5m)	**–**	–	**250.0**	243.5
Other guarantees, performance bonds and contingent liabilities	**5.1**	20.7	**0.2**	14.8

Commitments for capital expenditure entered into and not provided for in these accounts are estimated at £3.7m (2001 – £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 instruments relating to the hedging of transactional exposures (note 28e).

Aon Corporation (Aon) 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 2002 other contingent liabilities arising in the ordinary course of business, including those in respect of disposed businesses.

The Directors have reviewed the above matters 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 vehicles at the end of their life. The Directive includes a retrospective liability for vehicles put on the road prior to July 2002. Member states were required to enact legislation by 21 April 2002. To date, only Belgium has enacted legislation, although how this will work in practice is not yet clear. None of the other member states which are core markets for the Group have enacted legislation. Therefore, there are still a number of uncertainties surrounding the implementation of the Directive in our markets and it is unclear at present what financial effect, if any, it will have on the Group.

22 Operating lease commitments

	Property leases		Other operating leases	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Operating lease rentals payable in the next year in respect of commitments expiring:				
– within one year	**3.4**	5.0	**1.1**	0.3
– in two to five years	**9.0**	9.4	**2.5**	2.5
– after five years	**5.0**	4.9	**0.4**	0.7
	17.4	19.3	**4.0**	3.5

23 Share capital

a Summary

	Authorised		Alloted, called-up and fully paid	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Ordinary shares – authorised 131,000,000 ordinary shares of 150.0p each (2001 – 131,000,000 ordinary shares of 150.0p each) and allotted, called-up and fully paid 77,726,130 ordinary shares of 150.0p each (2001 – 77,473,225 ordinary shares of 150.0p each)	**196.5**	196.5	**116.6**	116.2

b Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 3 March 2003 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 2002, options to acquire ordinary shares of 150.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Ordinary shares of 150.0p each	Exercisable until	Option price	Ordinary shares of 150.0p each	Exercisable until	Option price
The Inchcape 1999 Share Option Plan – approved (Part II – UK)			**The Inchcape SAYE Share Option Scheme**		
101,657	7 September 2009	£3.88	29,074	1 June 2003	£3.25
174,259	9 August 2010	£2.84	240,542	1 May 2004	£2.38
119,784	21 March 2011	£3.84	98,824	1 December 2004	£3.08
91,154	17 March 2012	£6.85	262,393	1 December 2005	£5.54
4,477	15 October 2012	£6.70			
– unapproved (Part I – UK)					
284,147	7 September 2009	£3.88			
411,525	9 August 2010	£2.84			
359,040	21 March 2011	£3.84			
279,104	17 March 2012	£6.85			
92,537	15 October 2012	£6.70			
– unapproved overseas (Part I – Overseas)					
146,899	7 September 2009	£3.88			
328,167	9 August 2010	£2.84			
281,624	21 March 2011	£3.84			
5,330	20 September 2011	£4.69			
192,406	17 March 2012	£6.85			

During the year, a total of 252,905 (2001 – 54,297) ordinary 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.

24 Reserves

a Movements in shareholders' funds

(i) **Group**

	Share capital 2002 £m	Share premium account 2002 £m	Revaluation reserve 2002 £m	Capital redemption reserve 2002 £m	Profit and loss account* 2002 £m	Total 2002 £m	Total 2001 restated £m
Profit for the financial year	–	–	–	–	**76.3**	**76.3**	23.4
Dividends (note 10)	–	–	–	–	**(23.6)**	**(23.6)**	(19.5)
Retained profit for the financial year	–	–	–	–	**52.7**	**52.7**	3.9
Effect of foreign exchange rate changes	–	–	**(3.4)**	–	**(10.5)**	**(13.9)**	(4.2)
Shares repurchased	–	–	–	–	–	–	(45.3)
Shares issued during the year under share option schemes	**0.4**	**0.5**	–	–	–	**0.9**	0.2
Goodwill on disposals previously written off	–	–	–	–	**0.3**	**0.3**	36.7
Deficit on impairment of revalued properties	–	–	–	–	–	–	(0.2)
Transfer from revaluation reserve to profit and loss account	–	–	**(2.1)**	–	**2.1**	–	–
Transfers on realisation of property surpluses	–	–	**(0.2)**	–	**0.2**	–	–
Net change in shareholders' funds	**0.4**	**0.5**	**(5.7)**	–	**44.8**	**40.0**	(8.9)
Balance at 1 January (2001 – originally £365.3m before deducting prior period adjustment of £3.7m, note 2)	**116.2**	**107.0**	**36.1**	**16.4**	**77.0**	**352.7**	361.6
Balance at 31 December	**116.6**	**107.5**	**30.4**	**16.4**	**121.8**	**392.7**	352.7

Revaluation reserve includes other non-distributable reserves of £3.2m (2001 – £5.2m). Net foreign exchange gains on borrowings reported in reserves amount to £0.1m in 2002 (2001 – £0.3m).

* Goodwill contained within the profit and loss account reserve comprises:	**£m**
Balance at 1 January 2002	**114.7**
Goodwill on disposals (note 5)	**(0.3)**
Balance at 31 December 2002	**114.4**

(ii) **Company**

	Share capital 2002 £m	Share premium account 2002 £m	Capital redemption reserve 2002 £m	Profit and loss account 2002 £m	Total 2002 £m	Total 2001 £m
Shares repurchased	–	–	–	–	–	(45.3)
Shares issued during the year under share option schemes	**0.4**	**0.5**	–	–	**0.9**	0.2
Retained (loss) profit for the year and net change in shareholders' funds	–	–	–	**(10.5)**	**(10.5)**	168.7
Net change in shareholders' funds	**0.4**	**0.5**	–	**(10.5)**	**(9.6)**	123.6
Balance at 1 January	**116.2**	**107.0**	**16.4**	**217.8**	**457.4**	333.8
Balance at 31 December	**116.6**	**107.5**	**16.4**	**207.3**	**447.8**	457.4

24 Reserves continued

b Profit (loss) for the financial year

	2002 £m	2001 restated £m
Dealt with in the accounts of:		
– the Company	**(1.5)**	(6.8)
– subsidiaries	**71.0**	21.3
– joint ventures and associates	**6.8**	8.9
	76.3	23.4

25 Analysis of changes in net funds and debt

a **Analysis of net funds**	At 1 January 2002 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	At 31 December 2002 £m
Cash in hand, at bank	**51.8**	**(10.5)**	**–**	**(5.5)**	**35.8**
Overdrafts	**(5.9)**	**1.7**	**–**	**0.7**	**(3.5)**
		(8.8)			
Debt due within one year	**(76.9)**	**55.5**	**(19.6)**	**–**	**(41.0)**
Debt due after one year	**(21.4)**	**(39.3)**	**19.6**	**0.1**	**(41.0)**
Finance leases	**(1.3)**	**0.3**	**–**	**(0.1)**	**(1.1)**
		16.5			
Liquid resources	**71.2**	**(1.6)**	**–**	**(2.2)**	**67.4**
Net funds	**17.5**	**6.1**	**–**	**(7.0)**	**16.6**

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

	Group		Company	
b **Cash at bank and in hand**	**2002 £m**	2001 £m	**2002 £m**	2001 £m
Cash in hand, at bank	**35.8**	51.8	**18.5**	41.2
Liquid resources	**67.4**	71.2	**–**	–
Cash at bank and in hand	**103.2**	123.0	**18.5**	41.2

26 Analysis of cash flow disclosures in the consolidated cash flow statement

a	Returns on investments and servicing of finance	2002 £m	2001 £m
	Interest received	**6.3**	10.2
	Interest paid	**(12.3)**	(13.8)
	Dividends paid to minority interests	**(0.7)**	(3.1)
		(6.7)	(6.7)

b	Capital expenditure and financial investment	2002 £m	2001 £m
	Expenditure on tangible fixed assets and investments	**(56.3)**	(48.1)
	Sale of tangible fixed assets and investments	**23.9**	23.7
	Decrease in debtors	**9.0**	6.8
	Capital injection to associate	**(0.2)**	–
		(23.6)	(17.6)

c	Net cash (outflow) inflow from acquisitions and disposals	2002 £m	2001 £m
	Acquisitions:		
	Cash paid for businesses acquired (note 27b)	**(73.1)**	(21.4)
	Net (bank overdrafts) cash of businesses acquired (note 27b)	**(0.1)**	0.6
	Net outflow of cash in respect of the acquisition of businesses	**(73.2)**	(20.8)
	Cash paid for prior year acquisitions	**(0.7)**	(0.5)
	Cash paid for joint ventures and associates	**(0.7)**	(3.0)
		(74.6)	(24.3)
	Disposals:		
	Cash received for businesses sold (note 27b)	**–**	35.8
	Net cash of businesses sold (note 27b)	**–**	(8.3)
	Net inflow of cash in respect of the sale of businesses	**–**	27.5
	Cash received for joint ventures and associates sold	**2.1**	0.1
	Cash received from prior year disposals	**0.6**	8.9
	Cash paid for prior year disposals (includes £14.9m ITS settlement (note 20))	**(17.8)**	(5.6)
		(15.1)	30.9
	Net cash (outflow) inflow	**(89.7)**	6.6

d	Net funds from acquisitions and disposals	Acquisitions **2002 £m**	Disposals **2002 £m**	Total **2002 £m**	Total 2001 £m
	Net cash (outflow) inflow from acquisitions and disposals	**(74.6)**	**(15.1)**	**(89.7)**	6.6
	Net loans and finance leases relating to acquisitions and disposals	**–**	**–**	**–**	13.0
	Liquid resources of businesses sold	**–**	**–**	**–**	(11.4)
		(74.6)	**(15.1)**	**(89.7)**	8.2

e	Net cash (outflow) from financing	2002 £m	2001 £m
	Share buy back programme	**–**	(45.3)
	Issue of ordinary share capital	**0.9**	0.2
	Decrease in debt (note 25a)	**(16.2)**	(124.1)
	Capital element of finance lease rental payments (note 25a)	**(0.3)**	(0.1)
		(15.6)	(169.3)

27 Acquisitions and disposals

a During 2002 the Group purchased the minority holding (c. 36.7%) in its quoted Singaporean subsidiary, Inchcape Motors Limited. The minority interest share of profit before tax from the end of the preceding financial year to date of acquisition, before exceptional items, amounted to £1.5m. The minority share of net assets at the date of acquisition totalled £46.3m, which included cash and cash equivalents of £32.5m. The purchase price was £63.1m (including costs of £1.1m) and goodwill arising on the acquisition of the minority interest amounted to £16.8m. This goodwill is being amortised evenly over twenty years, the period over which the Directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets. There was no difference between the provisional fair value and net book value of the assets acquired and therefore no fair value adjustments were made. If necessary, the fair value of assets and goodwill will be adjusted during 2003.

The Group acquired a number of other businesses during the year. Details of the provisional fair values of the total net assets acquired by the Group during 2002 are set out below.

b **Net assets acquired (disposed of) on acquisition (disposal) of businesses**	Acquisitions **2002** **£m**	Acquisitions 2001 £m	Disposals 2001 £m
Fixed assets and fixed asset investments (including Group share of joint ventures' and associates' net assets)	**4.4**	27.7	(6.2)
Stocks	**4.5**	28.8	(22.6)
Debtors	**0.1**	15.7	(76.9)
(Bank overdrafts) less cash (note 26c)	**(0.1)**	0.6	(8.3)
Liquid resources	**–**	–	(11.4)
Loans and finance leases	**–**	(30.8)	70.6
Other creditors and provisions	**(1.6)**	(32.4)	16.3
Minority shareholders' interests	**45.5**	0.1	4.9
Goodwill	**20.3**	60.6	(6.9)
(Profit) loss on disposal	**–**	(0.3)	3.9
Net consideration payable (receivable)	**73.1**	70.0	(36.6)
Satisfied by			
Cash paid (received) (note 26c)	**73.1**	21.4	(35.8)
Loan notes payable	**–**	26.8	–
Deferred consideration payable (receivable)	**–**	21.8	(0.8)
	73.1	70.0	(36.6)

28 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 28b), 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 28c.

a Interest rate management

(i) The interest rate profile of the financial liabilities of the Group is set out in the table below:

As at 31 December 2002					Fixed rate	
Currency	Floating rate **£m**	Fixed rate **£m**	On which no interest is paid **£m**	Total **£m**	Weighted average interest rate **%**	Weighted average period for which rate is fixed **months**
Sterling	**80.2**	**0.6**	**65.2**	**146.0**	**8.0**	**31**
Euro	**2.9**	**0.4**	**8.2**	**11.5**	**6.0**	**49**
Singapore dollar	**0.1**	**–**	**–**	**0.1**	**–**	**–**
Other	**1.7**	**–**	**0.9**	**2.6**	**–**	**–**
	84.9	**1.0**	**74.3**	**160.2**	**7.2**	**38**

As at 31 December 2001					Fixed rate	
Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Weighted average interest 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 dollar	0.7	–	–	0.7	–	–
Other	1.4	–	1.8	3.2	–	–
	102.7	1.3	88.9	192.9	7.3	49

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).

The financial liabilities on which no interest is paid comprise mainly £50.2m (2001 – £59.3m) of residual buy back commitments whose weighted average period to maturity is twenty-five months (2001 – nineteen months), £14.3m (2001 – £21.8m) of deferred consideration which could be payable in relation to the acquisition of Eurofleet and £6.3m (2001 – £4.8m) of vacant leasehold property provisions which have a weighted average period to maturity of six years (2001 – seven years) (note 20).

28 Financial instruments continued

a Interest rate management continued

(ii) The interest rate profile of the financial assets of the Group at 31 December 2002 is set out in the table below:

As at 31 December 2002					Fixed rate	
Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Weighted average interest rate %	Weighted average period for which rate is fixed months
Sterling	**11.1**	**–**	**8.7**	**19.8**	**–**	**–**
Euro	**22.8**	**11.4**	**2.2**	**36.4**	**6.4**	**59**
Singapore dollar	**38.1**	**–**	**2.7**	**40.8**	**–**	**–**
Hong Kong dollar	**4.4**	**–**	**1.4**	**5.8**	**–**	**–**
Other	**19.3**	**–**	**3.7**	**23.0**	**–**	**–**
	95.7	**11.4**	**18.7**	**125.8**	**6.4**	**59**

As at 31 December 2001					Fixed rate	
Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Weighted average interest 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 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

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 and Singapore equivalents).

The financial assets on which no interest is paid comprise mainly £7.9m (2001 – £8.3m) of rental income due on contracts in progress in UK Leasing businesses and certain short term bank deposits.

28 Financial instruments continued

b Exchange risk management

The table below shows the Group's currency exposures at 31 December 2002 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.

	Net foreign currency monetary assets (liabilities)			Net foreign currency monetary assets (liabilities)		
Functional currency of the operating company	US dollar **2002** **£m**	Other **2002** **£m**	Total **2002** **£m**	US dollar 2001 £m	Other 2001 £m	Total 2001 £m
Sterling	**0.1**	**(0.3)**	**(0.2)**	0.1	0.1	0.2
Peruvian sol	**–**	**–**	**–**	1.1	–	1.1
Chilean peso	**(0.4)**	**–**	**(0.4)**	(1.6)	–	(1.6)
Other	**0.2**	**0.4**	**0.6**	0.4	1.0	1.4
	(0.1)	**0.1**	**–**	–	1.1	1.1

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

The US dollar exposures in aggregate of £0.1m in 2002 (2001 – £nil) principally relate to US dollars held in bank accounts by UK businesses and US dollar trade receivables/(payables) within the Chilean businesses. Within Chile, the majority of sales are in US dollars. The purchase of cars within Chile is in euros, 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.

c Fair values

The estimated fair values of the Group's financial instruments are summarised below:

Assets (liabilities)	Book value **2002** **£m**	Fair value **2002** **£m**	Book value 2001 £m	Fair value 2001 £m
Financial instruments held or issued to finance the Group's operations				
Trade investments	**0.8**	**0.9**	0.6	0.5
Cash deposits	**103.2**	**103.2**	123.0	123.0
Current asset investments	**11.4**	**12.2**	14.2	14.7
Other financial assets	**10.4**	**10.3**	11.6	11.6
	125.8	**126.6**	149.4	149.8
Short term borrowings and current portion of long term borrowings	**(44.6)**	**(44.6)**	(83.1)	(83.1)
Long term borrowings	**(42.0)**	**(42.0)**	(22.4)	(22.4)
Long term trade and other creditors	**(66.3)**	**(63.2)**	(81.6)	(77.7)
Other financial liabilities	**(7.3)**	**(7.3)**	(5.8)	(5.8)
	(160.2)	**(157.1)**	(192.9)	(189.0)
Derivative financial instruments held to manage interest rate and currency exposure				
Cross currency swap – asset	**–**	**–**	–	6.9
Forward foreign exchange contracts – liability	**–**	**(0.2)**	–	(12.3)

Trade investments and current asset investments

Trade investments above exclude the ordinary shares held by the Inchcape Employee Trust carried at £5.5m (2001 – £3.4m). The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

28 Financial instruments continued

c Fair values continued

Long term trade and other creditors

Long term trade and other creditors book value of £66.3m (2001 – £81.6m) principally relates to both vehicle buy back commitments of £50.2m (2001 – £59.3m) whose average period to maturity is twenty-five months (2001 – nineteen months). 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 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. The other significant item is deferred consideration of £14.3m (2001 – £21.8m) which could be payable.

Cross currency swap

The Group held a cross currency swap at 31 December 2001 which hedged the US$72.0m loan notes. This swap matured in May 2002 and the proceeds were used to repay the US$72.0m loan notes.

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 2002 the Group had nominal amounts outstanding of £305.6m (2001 – £276.5m) for these contracts, used principally to hedge future purchases in foreign currency.

d **Maturity of financial liabilities**	Borrowings and finance leases **2002** **£m**	Other financial liabilities **2002** **£m**	Total **2002** **£m**	Borrowings and finance leases 2001 £m	Other financial liabilities 2001 £m	Total 2001 £m
Repayable within one year	**44.6**	**–**	**44.6**	83.1	–	83.1
Repayable over one year and up to two years	**1.0**	**45.4**	**46.4**	0.9	52.2	53.1
Repayable over two years and up to five years	**41.0**	**26.1**	**67.1**	21.5	32.7	54.2
Repayable beyond five years	**–**	**2.1**	**2.1**	–	2.5	2.5
Total financial liabilities	**86.6**	**73.6**	**160.2**	105.5	87.4	192.9

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 movements 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 2002	**10.3**	**(15.7)**	**(5.4)**
Gains and losses arising before 1 January 2002 that were recognised in 2002	**(10.3)**	**15.7**	**5.4**
Gains and losses arising before 1 January 2002 that were not recognised in 2002	**–**	**–**	**–**
Gains and losses arising in 2002 that were not recognised in that year	**3.7**	**(3.9)**	**(0.2)**
Unrecognised gains and losses on hedges at 31 December 2002	**3.7**	**(3.9)**	**(0.2)**
Expected to be recognised in 2003	**3.7**	**(3.9)**	**(0.2)**

In certain countries the Group purchases motor vehicles in a different currency from 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 and Retail gross profits in these countries.

29 Principal subsidiaries, joint ventures and associates at 31 December 2002

a Principal subsidiaries

Company	Country	Shareholding	Description
Inchcape Automotive Australia Pty Ltd	Australia	100%	Import, Distribution and Retail
Subaru (Australia) Pty Ltd	Australia	90%	Import and Distribution
Toyota Belgium NV/SA	Belgium	100%	Import, Distribution and Retail
The Motor & Engineering Company of Ethiopia Ltd S.C.	Ethiopia	94%	Import, Distribution and Retail
Toyota Hellas SA	Greece	100%	Import, Distribution and Retail
Crown Motors Ltd	Hong Kong	100%	Import, Distribution and Retail
Mazda Motors (Hong Kong) Ltd	Hong Kong	100%	Import, Distribution and Retail
Borneo Motors (Singapore) Pte Ltd	Singapore	100%	Import, Distribution and Retail
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
Inchcape Retail Ltd	United Kingdom	100%	UK Retail
Maranello Concessionaires Ltd	United Kingdom	100%	Import, Distribution and Retail

* Owned by Inchcape plc directly

** Included within Import, Distribution and 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 and Distribution
MCL Group Ltd	United Kingdom	40%	Import and 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	
	2002	2001	**31 December 2002**	31 December 2001
Australian dollar	**2.77**	2.80	**2.86**	2.84
Euro	**1.59**	1.61	**1.53**	1.63
Hong Kong dollar	**11.71**	11.22	**12.55**	11.35
Singapore dollar	**2.69**	2.58	**2.79**	2.69

Five year record

Profit and loss account	**2002** **£m**	2001 restated £m	2000 restated £m	1999 £m	1998 £m
Turnover					
Group subsidiaries	**3,413.8**	3,113.0	3,086.1	3,462.5	4,257.0
Share of joint ventures and associates	**103.2**	206.5	631.3	987.5	1,249.4
Group plus share of joint ventures and associates	**3,517.0**	3,319.5	3,717.4	4,450.0	5,506.4
Total operating profit before exceptional operating items:					
– continuing operations	**111.6**	98.3	81.3	80.7	79.9
– discontinued operations	**–**	3.5	8.8	20.3	55.3
	111.6	101.8	90.1	101.0	135.2
Exceptional operating items	**–**	–	–	–	(131.3)
Profit (loss) on sale of properties and investments	**0.9**	(0.6)	(0.4)	1.8	4.1
Net profit (loss) including provisions on sale and termination of operations	**1.2**	(36.3)	(0.3)	217.4	(265.9)
Exceptional costs of a fundamental reorganisation	**–**	–	–	(5.2)	(10.6)
Profit (loss) on ordinary activities before interest	**113.7**	64.9	89.4	315.0	(268.5)
Net interest	**(5.1)**	(3.9)	(16.0)	(15.7)	(29.1)
Profit (loss) before taxation	**108.6**	61.0	73.4	299.3	(297.6)
Taxation	**(28.9)**	(29.3)	(19.9)	(27.1)	(61.4)
Profit (loss) after taxation	**79.7**	31.7	53.5	272.2	(359.0)
Minority interests	**(3.4)**	(8.3)	(7.6)	(5.4)	(6.5)
Profit (loss) for the financial year	**76.3**	23.4	45.9	266.8	(365.5)
Dividends*	**(23.6)**	(19.5)	(19.2)	(547.9)	(59.4)
Retained profit (loss) for the financial year	**52.7**	3.9	26.7	(281.1)	(424.9)
Basic:					
– profit before tax (£m)	**108.6**	61.0	73.4	299.3	(297.6)
– earnings per share (pence)	**100.1p**	29.3p	52.3p	302.4p	(414.3)p
Headline (before goodwill amortisation and exceptional items):					
– profit before tax (£m)	**112.1**	99.7	75.0	86.3	107.3
– earnings per share (pence)	**104.5p**	79.7p	48.4p	61.1p	51.6p
Dividends per ordinary share – ordinary**	**31.0p**	27.0p	22.0p	21.0p	67.2p
Dividends per ordinary share – special	**–**	–	–	600.0p	–
Balance sheet					
Fixed assets	**421.1**	409.8	359.9	364.3	661.1
Other (liabilities) less assets other than cash (borrowings)	**(39.2)**	(28.7)	118.1	151.0	172.8
	381.9	381.1	478.0	515.3	833.9
Net cash (borrowings)	**16.6**	17.5	(69.1)	(149.0)	(143.4)
Net assets	**398.5**	398.6	408.9	366.3	690.5
Equity shareholders' funds	**392.7**	352.7	361.6	320.1	554.3
Minority interests	**5.8**	45.9	47.3	46.2	136.2
	398.5	398.6	408.9	366.3	690.5

* 1999 includes a special dividend of £529.3m (600.0p per ordinary share after adjusting for the share consolidation)

** 1998 is before Foreign Income Dividend enhancement

The adoption of FRS 19 Deferred Tax has resulted in a restatement to the 2001 and 2000 results and balance sheets (note 2). Due to the divestments in 1999, information is not available to restate 1999 and 1998.

Company details

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Solicitors
Slaughter and May

Stockbrokers
UBS

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 Ltd, who can be contacted at PO Box 2000, Oxford House, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Tel: +44 (0) 1296 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 the Corporate PEP and ISA Centre, 5th Floor, City Plaza, 2 Pinfold Street, Sheffield S1 2QZ. Tel: +44 (0) 845 745 6123.

Financial calendar

Annual General Meeting
15 May 2003

Ex-dividend date for 2002 final dividend
21 May 2003

Record date for 2002 final dividend
23 May 2003

Final 2002 ordinary dividend payable
16 June 2003

Announcement of 2003 interim results
4 August 2003

Senior executives

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Ferrari/Maserati
Richard Mackay
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The following executives have functional responsibilities at Group level:

Audit and Risk Management
Tim Trounce

Business Development
Dale Butcher

Company Secretariat
Roy Williams

Financial Control and Taxation
Amanda Brooks

Human Resources
Nick Smith

Information Systems
Peter Wilson

Investor Relations and External Communications
Emma Woollaston

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