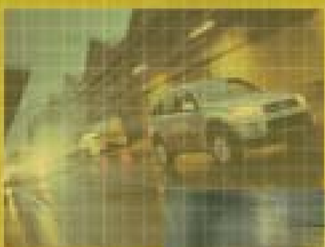
Annual report and accounts 2003

Inchcape

International Automotive Services Group



Focused

An international automotive services group

Inchcape, 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.

Import, Distribution and Retail

In all our markets we import and distribute vehicles on behalf of our key manufacturer partners. This means we are responsible for the retail network, model range and 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 to Greece and Australia as the local market size and structure of cities like Athens and Melbourne support such a model. The results are a lower cost base, more effective marketing spend and a shorter order to delivery cycle. The business is also able to offer customers a wider choice of used cars, and can take advantage of back office synergies.

UK Retail

The structure of the UK retail industry is undergoing a significant amount of change following the revised European Block Exemption legislation, introduced in October 2003. New regulations have created a more balanced relationship between manufacturers and large scale retailers, such as Inchcape, with the retailer now having far greater freedom of choice on the location and number of dealerships in its portfolio.

Whilst the full impact of Block Exemption is still to be seen, we envisage that consolidation within the UK retail sector will offer significant growth opportunities for Inchcape.

Strong partnerships

Operating in a number of our markets, our key manufacturer partners are Toyota/Lexus, Subaru, Ferrari/Maserati, BMW, the Premier Automotive Group of Ford (PAG), Mazda and Volkswagen.

International presence

United Kingdom

Inchcape offers a choice of products and channels to market and a range of Business Services, including logistics, refurbishment and remarketing, to corporate customers. In Business Services we refurbish c. 80,000 nearly new cars per annum and carry out over 470,000 transport movements on behalf of our customers.

Inchcape Fleet Solutions offers management and leasing services to corporate customers.

In UK Retail we are aligned to a number of selected manufacturers including Toyota/Lexus, BMW, PAG, Mercedes-Benz and Volkswagen. We aim to represent between 5.0% and 10.0% of our key partners' national sales volumes and our strategy for achieving this is to develop a large scale, geographically focused portfolio of businesses, many in contiguous territories, which will provide a high quality platform from which to expand in the future.

We also import and distribute Ferrari/Maserati products in the UK. Our associated Retail business, Maranello Sales, accounts for c. 19.0% of Ferrari/Maserati total UK sales.

Increasingly, our businesses in the UK are utilising and benefiting from each others service offering. For example, Inchcape Automotive manages the defleet programme for Inchcape Fleet Solutions.

Greece

Inchcape has been the Importer and Distributor in Greece for Toyota since 1987 and now sells c. 28,000 units per annum. As the Distributor we are responsible for the independent retail network of some seventy five dealerships. We determine the model range and specification, price positioning and marketing strategy as well as ensuring the provision of an aftersales network, which is an important contributor to an importer's total gross profit.

We retail Toyota/Lexus vehicles exclusively in Salonica, and are in the process of expanding our Retail reach in Athens. We also provide a range of financial and insurance products to the Toyota retail customer through our relationship with EFG Eurobank Ergasias, one of the leading banks in Greece.

Our Greek business, Toyota Hellas, won the Toyota Triple Crown Award again in 2003. This accolade is presented to a business that achieves leadership in the passenger and light commercial vehicle segments, and overall market leadership in the markets where Toyota is present.

Our successful Greek operation has provided the platform for us to invest in the Balkans. We currently hold the Toyota distribution rights for Bulgaria, Romania and Macedonia and in 2003 we were responsible for the Import and Distribution of over 3,000 units, of which 1,400 were retailed by our dealerships in these territories.

Financial Services

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

Business Services*

Our strategy is to create a scale business in logistics and refurbishment, and we are already making progress in this area through Inchcape Automotive, which provides specialist expertise in vehicle preparation, refurbishment and transport logistics to vehicle manufacturers and rental and fleet operators. We also offer fleet management and remarketing services.

Business Services is a growth opportunity for Inchcape and once we have established a scale platform in the UK, we will look to expand our service offering into the major markets of Continental Europe.

*Included within Import, Distribution and Retail segment.

Belgium

Our Import and Distribution business in Belgium for Toyota/Lexus has been part of the Group since 1979 and we now sell over 26,000 cars per annum through a mainly independent network of some 120 dealerships.

The car parc in Belgium is dominated by diesel products, which account for c. 70.0% of the market. Our business is seeing the benefits of much improved diesel variants, such as the Yaris and RAV4, which have been introduced by Toyota.

An important event in the Belgian market is the Brussels Motor Show, which is held bi-annually and is popular with retailers and private buyers alike.

Australia

Inchcape has been the Subaru Importer and Distributor in Australia since 1973. Our current market share of 3.3% is the largest share for a major Subaru market outside Japan. We are also the sole Retailer for Subaru in Melbourne, a territory that represents some 16.0% of the Australian market. Our Retail facilities include our flagship site, Subaru Docklands, where the brand can be fully experienced through a variety of interactive driving activities. This is the world's largest Subaru dealership, and we currently sell around 5,000 new and used cars per annum in this market.

We Retail Volkswagen, Jaguar, Volvo and Subaru in the greater Sydney area. In total, these businesses sell over 5,000 new and used cars per annum.

AutoNexus, our Business Services operation in Australia, provides a range of supply chain management solutions for both vehicles and parts. These solutions encompass physical storage and distribution, inventory management and supply chain strategic planning. In 2003 the business handled 42,000 vehicles.

Hong Kong

In Hong Kong we are the exclusive Importer and Retailer for Toyota/Lexus, Hino, Jaguar, Mazda and Daihatsu. When combined, these franchises regularly achieve around 40.0% of the market. Whilst all customer facing activities are franchise specific, we benefit from the centralisation of back office functions such as pre-delivery inspection.

Our business, Crown Motors, has held the Toyota franchise since 1966 and has won the Toyota Triple Crown Award for a record twelve times, the only company in the world to have done so.

Income from finance, insurance and aftersales, including service and parts, are important contributors to our underlying profitability in this market.

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

Singapore

We exclusively Import and Retail for Toyota/Lexus and Suzuki in Singapore, and we have held the Toyota franchise since 1967. In total, these businesses sold over 27,000 units in 2003 with a combined market share of over 31.0%.

In this market a Certificate of Entitlement from the Government is required in order to buy a new vehicle. Automotive retailers, such as Inchcape, have to bid online for them on behalf of the customers on a fortnightly basis.

We have recently refurbished a number of our showrooms and expanded our service centres in Singapore in order to strengthen the brand position and to meet increasing demands for sales and aftersales.

Income from finance, insurance and aftersales, including service and parts, are important contributors to our underlying profitability in this market.

Performance

Inchcape has once more produced a very strong set of results. The benefits of our international spread, across six core markets, are clearly demonstrated by a 20.1% growth in operating profit before goodwill amortisation and exceptional items (see note 1b). This performance is the result of outstanding profit growth in Singapore, solid performances in Greece, Belgium and Australia, and an improved performance from our UK business. Hong Kong suffered a decline in profits as a result of exceptionally difficult conditions, which significantly affected the new car market.

Headline profit before tax, goodwill amortisation and exceptional items was up 21.1% with Headline earnings per share of 132.4p rising 26.7% (see note 10). Operating cash flow in the year was £150.8m, representing some 116.0% of subsidiaries operating profit before goodwill amortisation and exceptional items.

This excellent financial result is especially pleasing as it is accompanied by an impressive operational performance in our core markets. We remain market leader and increased market share for Toyota in Hong Kong, Singapore and Greece. For the eighth consecutive year, Subaru in Australia recorded year on year growth in sales.

In the UK the new Block Exemption legislation is now in force. There are already signs that this has resulted in large UK dealer groups having much more control over the size, shape and security of their dealership networks.

Acquisitions and disposals

Our primary focus during 2003 was the restructuring of our UK Retail network in the run up to the new Block Exemption legislation, which came into effect on 1 October 2003. The most significant transactions related to the BMW franchise, where we purchased six dealerships, building the largest contiguous territory in the country stretching from Tunbridge Wells in the east through to Thames Ditton in the west. As part of this restructuring we disposed of four BMW outlets.

In addition we acquired, or opened, seven dealerships in the year with other manufacturer partners. UK Retail now has a strong base from which it will continue the development of scale relationships with selected manufacturers, as part of our strategy to build large contiguous territories.

Total spend on acquisitions in the period was £22.1m, of which £21.0m related to UK Retail. Cash inflow from disposals totalled £21.6m, of which £15.7m related to UK Retail.

Financial performance

Turnover of £3.9bn was up by 9.6% over 2002. Operating profit in the year was £150.6m. This includes a VAT refund of £15.3m, which was treated as an exceptional item. Excluding this and the goodwill amortisation charge of £5.5m, underlying operating profit rose by 20.1% to £140.8m.

Headline profit before tax was up 21.1% on last year at £135.8m. Headline earnings per share rose by 26.7% to 132.4p although this benefited from a one off tax credit, which positively impacted Headline earnings per share by 5.2p.

The VAT refund also included £22.2m of interest income and this is shown in the interest line. Profit before tax, including £37.5m in relation to the VAT refund, was £168.3m.

Net cash inflow in the year was £62.5m. As a result the year end net cash position improved to £79.1m.

Balance sheet strength

The ability of our businesses to generate high levels of free cash flow has provided the Group with a very strong platform for the future. This, coupled with disposal proceeds, has enabled us to return c. £130.0m to shareholders since mid 1999 through dividends and a share buy back programme. This is after significant investment on acquisitions, and organic growth in areas such as Subaru Retail in Melbourne, Toyota Retail in Greece, and the Balkans.

Our strategic development plans remain on track and encompass further expansion of our Retail activities in Greece and Australia. We continue to examine the Chinese market, where the retailing sector will undergo significant change as the market expands. Our initial entry requirement for this market is to secure the right partnership with a local company.

In the UK the new Block Exemption legislation is encouraging consolidation and we intend to expand our Retail dealership network by enhancing, or establishing, contiguous territories with selected manufacturers. There are many opportunities available to us and we will pursue those, which we believe will add most value to the Group.

Financial update

Reconciliation of profit before tax to Headline profit before tax

Headline profit before tax £m

£135.8m

	2003	2002
Profit before tax	**168.3**	108.6
VAT exceptional income	**(37.5)**	–
Exceptional items	**(0.5)**	(2.1)
Goodwill amortisation	**5.5**	5.6
Headline profit before tax	**135.8**	112.1

Operating profit margins before goodwill amortisation and VAT exceptional income

Margins have increased from 2.4% in 2000, our first full year as a pure automotive services group, to 3.7% in 2003.

Operating profit margins %

> "Inchcape has once more produced a very strong set of results. The benefits of our international spread, across six core markets, are clearly demonstrated by a 20.1% growth in operating profit before goodwill amortisation and exceptional items."

Sir John Egan Chairman

In Business Services we will be concentrating our management efforts on improving the margins in our UK business before expanding into Continental Europe.

Given this, a further return of capital to shareholders is not considered appropriate at this stage. However, if available funds are not required for investment purposes we will make additional returns of capital to shareholders.

Dividend

Since becoming a pure automotive services group in mid 1999 the Board's progressive dividend policy has resulted in an increase each year. Therefore the Board recommends the payment of a final ordinary dividend for the year of 26.0p (2002 – 21.0p). This gives a total dividend for the year of 38.0p (2002 – 31.0p), which is an increase of 22.6%. The dividend is covered 3.5 times (2002 – 3.4 times) by Headline earnings per share.

Inchcape management and employees

The management team has had another successful year and I would like to congratulate them on once again delivering growth in shareholder value.

On behalf of the Board I would like to thank all our colleagues for their dedication, effort and loyalty. The recent success of Inchcape is in no small part down to them.

Board changes

I am delighted that Michael Wemms joined the Board on 29 January 2004. Michael brings with him a wealth of retail experience from his time at Tesco plc where he was an Executive Director from 1989 to 2000. The Group will undoubtedly benefit from this experience as it extends its Retail operations.

However, I am sorry to announce that Hugh Norton will retire from the Board at our Annual General Meeting in May 2004. Hugh has added significant value to the Group since he joined the Board in January 1995. I would particularly like to thank him for his contribution as Chairman of the Remuneration Committee. I would also like to thank Michael Wemms for agreeing to take on this role.

Current trading and prospects

The UK market is expected to remain strong although marginally down on 2003, which was a record year. In UK Retail the dealership network and management changes implemented in 2003 should start to drive profits and margins forward. In Business Services we expect to see a recovery based on actions taken in 2003 and the broader customer offering we now have, which are already bringing in new business. Inchcape Fleet Solutions should continue to grow as a result of recently awarded fleet management contracts. Overall the UK is expected to raise profits in the year continuing the trend started in 2001.

In Greece and Belgium the markets should show a slight improvement due to the Olympic Games in Athens, and the Brussels Motor Show.

Australia is benefiting from the successful launch in October 2003 of the new Liberty and Outback models.

The Hong Kong market is showing signs of recovery and we expect this to continue. This should result in improved profitability.

In Singapore it is currently forecast that the Government will issue fewer Certificates of Entitlement this year and so the market could be up to 10.0% lower.

This excellent set of results has maintained our recent record of reporting profit growth and strong cash generation, and we are well placed to continue this in 2004 despite the current weakness of the US dollar. We will also be investing further in our core markets to take advantage of the significant growth opportunities available to the Group.

Sir John Egan Chairman
1 March 2004

+26.7%

Headline (before goodwill amortisation and exceptional items) earnings per share (EPS) rose by 26.7% to 132.4p

Headline EPS has risen by more than 170.0% since 2000, with significant growth achieved in 2003.

Headline earnings per share pence

+22.6%

Dividend per share rose by 22.6% to 38.0p

This year the dividend has increased from 31.0p to 38.0p. Since becoming a pure automotive services group in mid 1999 the ordinary dividend has risen over 72.0% from 22.0p per share to 38.0p.

Ordinary dividend per share pence

Forward looking

Our strategy remains to grow with selected partners, wherever possible, in contiguous scale territories, providing above average market returns through much improved facility utilisation. Much progress has been made in developing this strategy in almost all of our core markets.

In Hong Kong, against a very difficult market backdrop, we completed the consolidation of our back office facilities and personnel, and exited non-core businesses. We were also awarded the Daihatsu franchise and, as a result, are the only company in Asia to represent Toyota across their full range of marques.

In Singapore we completely refurbished our Ubi facility and continued the expansion of our aftersales facilities. The recent growth in the Toyota/Lexus car parc has been driven by an increase in the market, and through our improved sales penetration. This growth should ensure that the step change in our margins is maintained in this key market.

In Australia we have stepped up our drive to improve earnings from our Retail investments and, in Melbourne, our Subaru Docklands business is progressing particularly well. The facilities were completed on time, sales are on plan and the business is achieving its financial targets. These early results are extremely encouraging and support our strategy of driving improved returns and margins, by re-engineering our facilities and processes through single franchise contiguous territories of scale.

Our investments in Sydney Retail have not performed as well. We are currently considering both the franchise mix and level of any future investment, and this will lead to a reconfiguration of our Retail operations. We are actively planning to take on one of the scale contiguous Subaru territories as part of our revised Subaru Sydney franchise strategy.

Our fledgling Australian Business Services company, AutoNexus, has made progress by improving returns on existing contracts and developing new opportunities. Further facility investment is likely as this company continues along its growth path.

In Greece we have completed our Retail investments in Salonica, which accounts for c.11.0% of the Greek car market, resulting in a single contiguous territory for Toyota with a sales potential approaching 3,000 units. We have re-modelled the facility plan around two new dealerships.

We are currently finalising the Retail franchise strategy for Athens, which accounts for c. 50.0% of the Greek market, and this will see our Retail operations gradually taking a more significant role in the city.

Our operations in the Balkans, especially Romania and Bulgaria, have shown pleasing growth in both sales and profits. We have facility upgrades in place for both markets as our sales volumes and earnings continue to increase through market growth and our improved sales penetration. We are considering taking additional franchises in these markets, which we will manage through our existing infrastructure.

Strategic initiatives

Left:

BMW contiguous territory

As a result of the implementation of the revised European Block Exemption legislation in October 2003, many of our manufacturer partners revisited the existing Retail agreements they had in place for the UK.

Our strategy has consistently been to build scale contiguous territories with our selected manufacturer partners. We were therefore delighted when, in August 2003, we were able to increase our BMW representation to seven dealerships, which now form part of the largest contiguous territory in the UK.

Our dealerships are located in an affluent area of southern England, extending from Tunbridge Wells in the east through to Thames Ditton in the west. In total this territory represents some 4.0% of the national sales volumes for both BMW and MINI, and helps position Inchcape as the UK's second largest BMW retailer.

This contiguous territory will benefit significantly from the recent development of our Brooklands centre, which carries out pre-delivery inspection for our Retail business, in the south east.

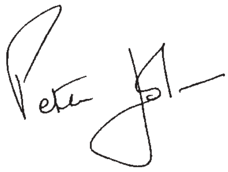
"The ability of the dealer groups to invest with their chosen manufacturer partners in locations they find attractive will change the retail landscape in the UK."
Peter Johnson Group Chief Executive

In Belgium we have consolidated our Retail investments, opening new facilities in Luxembourg and rationalising our dealership in Brussels. This should result in much improved Retail earnings in this market.

Finland had a much improved 2003. A combination of new product from Mazda and a growing market, allied to improved Retail management, resulted in sales and profits substantially increasing. Opportunities to expand through Retail in Finland and the Baltics are under consideration.

With the implementation of the new Block Exemption legislation in Europe in October 2003, we now have the opportunity to apply this strategy to our UK Retail investments. The ability of the dealer groups to invest with their chosen manufacturer partners in locations they find attractive will change the retail landscape in the UK. Inchcape has consistently stated its desire to build large, contiguous, geographically specific territories with its core partners. Positive conclusions to our discussions have already been reached with Toyota/Lexus, BMW, the Premier Automotive Group of Ford, Mercedes-Benz and Volkswagen. Territory consolidation has occurred with Ford and is currently taking place with Vauxhall. With regards to our Ferrari/Maserati business in the UK, talks are currently ongoing.

The opportunity for UK Retail to improve the returns on its current portfolio is clear, and investments have been made in new facilities and management to deliver this in 2004. However, considering the strength of our balance sheet, we are also extremely well placed to continue playing an active role in the consolidation within the industry over the coming years.



Peter Johnson Group Chief Executive
1 March 2004

Left:
Brooklands development
Brooklands, in Surrey, is our latest Inchcape Retail development. The facility, which covers 2.75 acres, has been built to undertake Retail pre-delivery inspection for all our dealerships in the surrounding area. Vehicles, upon completion, will be delivered straight to those dealerships for immediate handover to our customers.

Once fully operational the site will process 12,500 units per annum, which equates to over fifty vehicles per day. Ultimately Brooklands could employ c. 200 staff working shift patterns to keep the operation running twenty four hours a day, seven days a week.

The business will also carry out used car preparation and minor repairs whilst doubling up as a training and development centre for our local dealerships.

The business processes being employed have been developed in line with the high standards set by similar facilities in our markets in Hong Kong and Australia. Brooklands will help decongest our dealerships thus allowing them to devote more of their resources to our Retail customers, which should improve customer satisfaction and our financial performance.

This section provides a summary of the performance in our core markets. Group operating profit, before goodwill amortisation of £5.5m and exceptional items of £15.3m, rose by £23.6m to £140.8m. Profits increased in the UK, Greece, Belgium, Australia and Singapore.

2002	117.2
2003	140.8

Operating profit before goodwill amortisation and exceptional items £m

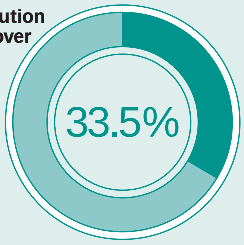
+20.1%

	2003	2002
Operating profit	**150.6**	111.6
Goodwill amortisation	**5.5**	5.6
VAT exceptional income	**(15.3)**	–
Operating profit before goodwill amortisation and exceptional items	**140.8**	117.2

United Kingdom

"UK Retail has a new management structure and is implementing improved business processes."

Graeme Potts Managing Director



Operating profit before goodwill amortisation £m

+12.4%

	2003	2002
Operating profit	**17.1**	14.3
Goodwill amortisation	**3.8**	4.3
Operating profit before goodwill amortisation	**20.9**	18.6

Key manufacturing partners

The new car market has continued to benefit from strong corporate and private demand. It increased by 0.6% over 2002 to almost 2.6m units, and was the fourth successive year of record sales. Our registrations grew by 15.7% in the year, on a like for like basis, for our core partners Toyota/Lexus, BMW, the Premier Automotive Group of Ford, Volkswagen and Mercedes-Benz.

UK Retail has a new management structure and is implementing improved business processes. These factors have already resulted in stronger new car sales, used car sales, finance penetration and aftersales earnings. UK Retail profits and related Financial Services' profits (included within Financial Services), before goodwill amortisation, rose from £14.0m in 2002 to £15.3m in 2003. This is despite a £1.0m charge for management restructuring in 2003. After adjusting for this one off charge, the resulting operating profit margin has strengthened to 1.6% in 2003.

This improved trading performance was driven by strong organic growth from our Toyota and Volkswagen businesses, whilst our new Mercedes-Benz market area performed well. However this encouraging growth was partly offset by higher overheads in the areas of national insurance, pension costs and insurance. BMW also suffered margin erosion partly due to model run outs and the disturbance associated with the network restructuring in and around London.

Our Ferrari Distribution business had a reasonable year whilst Maserati Distribution suffered from margin and volume pressure. Our associated Retail business, Maranello Sales, also had a challenging year partly due to a major fire at our Egham workshop in the second half.

Inchcape Automotive, our Business Services operation, suffered from a weak daily rental market, which impacted on volumes, margins and profitability. However, our broader product offering is starting to increase business from a wider customer base. The acquisition of the remaining 50.0% of shares in AutoCascade, our electronic remarketing operation, in December 2003 allows us to fully integrate this business with Inchcape Automotive.

Inchcape Fleet Solutions enjoyed a strong 2003, benefiting in part from the economies of scale arising from the amalgamation of our contract hire and fleet management businesses in late 2002. Margins in our contract hire operations have improved and the business won sizeable new fleet management contracts in late 2003, which augurs well for 2004.

Below:

Key contracts for IFS

A critical success factor for Inchcape Fleet Solutions (IFS), our fleet management business in the UK, has been its ability to develop client extranet sites quickly and efficiently. These are built to fit seamlessly alongside the customers' own systems thus streamlining the fleet management process by providing online information such as quotations and reports. This ultimately saves the customer both time and money.

This approach has helped attract a number of key blue chip clients. Recent contracts won, which total a fleet size in excess of 3,000 units, include Prudential, Sanofi-Synthelabo and Vodafone UK.

Right:

Toyota market area growth

The development of market areas in the UK fits with Inchcape's strategy of growing its representation with selected manufacturer partners in contiguous territories.

One example where we have been particularly successful in doing this is with Toyota. We currently have three market areas with Toyota in the UK located in west Surrey, Oxfordshire and Derbyshire.

In 2003 we carried out a number of infill acquisitions in order to grow these market areas further. For Derbyshire we acquired West Bridgford, which complements our dealerships in Derby and Nottingham. We purchased Aylesbury as an adjoining territory to Oxfordshire, and for west Surrey we acquired a dealership in Farnham and are currently building a new site in Basingstoke.

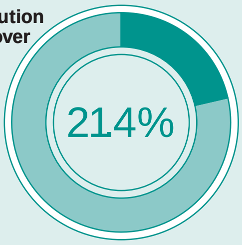
Our representation for this marque now consists of ten dealerships and represents some 7.0% of their national sales volumes.

Greece/Belgium

"In Greece our Toyota volumes rose in the year despite a decline in the market of 4.1%. Consequently market share increased from 9.7% to 10.2%."

Martin Taylor Managing Director

Contribution to turnover



2002 19.8

2003 32.7

Operating profit before goodwill amortisation £m

+65.2%

	2003	2002
Operating profit	**32.3**	19.5
Goodwill amortisation	**0.4**	0.3
Operating profit before goodwill amortisation	**32.7**	19.8

Key manufacturing partners

TOYOTA

LEXUS

In Belgium the market reduced by 1.3%, partly due to the lack of a Brussels Motor Show in 2003. However, we maintained our Toyota market share at 5.1%.

Encouragingly, in a car market dominated by diesel products (at c. 68.0%), we sold more Toyota diesel cars (at c. 57.0% of our total sales) than petrol for the first time in 2003. This is a significant achievement considering diesel sales accounted for only c. 35.0% of our total Toyota sales two years ago.

Underlying profit increased by 13.4% in spite of the reduction in volumes. This was after adjusting for the effect of last year's provision to cover Block Exemption changes. A richer mix of sales, primarily with Landcruiser and RAV4, and better margins drove this improvement.

In Greece our Toyota volumes rose in the year despite a decline in the market of 4.1%. Consequently market share increased from 9.7% to 10.2%. Our Toyota/Lexus business was awarded the Toyota Triple Crown Award once again for achieving overall market leadership, and leadership in the passenger and light commercial vehicle segments.

Both volumes and profitability in our Balkans businesses have grown at an improved level. Our volumes exceeded 3,400 units in the year and were up over 56.0% on last year. These successes provide the platform for further investments in these markets.

As a result, the increase in underlying profits, in Greece and the Balkans, on 2002 was an excellent 22.3%. This excludes a £2.5m one off profit realised through the sale of our Greek Financial Services loan book.

Above:

New showroom in Luxembourg

In December 2003 Inchcape's Retail business in Luxembourg, Grand Garage du Luxembourg (GGL), was relocated to newly constructed premises. The site with a total area of 7,000 square metres accommodates separate showrooms for the Toyota/Lexus franchises, and represents an investment of c. £2.1m.

This development will ensure our customers receive the highest standards of customer service. GGL is now expected to sell c. 1,800 units per annum.

Right:

Further development with Toyota

Further strengthening our relationship with Toyota in Greece, we have recently invested in two integrated Toyota retail facilities in the city of Salonica. Salonica represents some 11.0% of the Greek market and we are now the exclusive Retailer for that territory.

The first facility, Toyota Thermis, situated on a 10,000 square metre plot in the heart of the city's shopping district, will offer a wide range of Toyota products and services. The second, Toyota Axios, is situated on the opposite side of the city with easy access from all parts of town. Trading in Toyota Thermis started in September 2003 and Toyota Axios will commence operations in the first quarter of 2004.

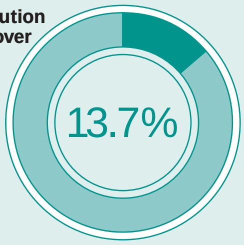
In setting the retail standards and processes employed in these developments we have used our experiences from our successful Subaru business in Melbourne, Australia, to ensure that we offer the highest standards of service to our customers.

Australia/New Zealand

"Australia experienced yet another year of profit growth driven by our Subaru Distribution business, which set a new sales record of 29,829 vehicles."

Trevor Amery Managing Director

Contribution to turnover



Operating profit before goodwill amortisation £m

+21.2%

	2003	2002
Operating profit	**21.2**	17.4
Goodwill amortisation	**0.5**	0.5
Operating profit before goodwill amortisation	**21.7**	17.9

Key manufacturing partners

SUBARU JAGUAR VOLVO VOLKSWAGEN

Australia experienced yet another year of profit growth driven by our Subaru Distribution business, which set a new sales record of 29,829 vehicles. This is the eighth consecutive year of sales growth, and arose from strong performances across the model range. The Forester set new records and Impreza had its strongest year since 1999, just eight units short of an all time record. The new Liberty and Outback models launched in October have also been well received. Market share was 3.3%, in a record market of just over 900,000 units. This sales growth supported by higher margins resulted in improved profitability.

Our Subaru Melbourne Retail business, which only started trading in May 2002, met all its targets. Total vehicle sales were c. 5,000 units, operating margins were close to 3.0% and the return on investment was over 20.0%. We continue to expand this business with additional satellite facilities opening in 2004, which will help drive improved used car and aftersales penetration.

Sydney Retail had a disappointing year essentially due to poor performances from our Jaguar and Volvo dealerships. In a market up over 10.0%, Jaguar and Volvo national sales' volumes declined. We will restructure these businesses in 2004.

AutoNexus, our developing Business Services operation, made pleasing progress in the year generating an operating margin of over 16.0%.

Operating margins in total increased from 3.9% to 4.1% reflecting in part the increasing integration of the Subaru Distribution business with Retail.

Left:

Liberty and Outback record breaking success

We are hopeful that the launch of the new Liberty and Outback models in October 2003 will prove to be the most successful in Subaru's thirty year history in the market. The launch was held in Queenstown, New Zealand, and was attended by 280 dealer representatives and Subaru delegates plus thirty five members of the motoring press.

Over 1,200 new Liberty and Outback models were sold in the first month of sales and demand has remained strong.

Below left:

AutoNexus – A focused automotive logistics service provider

AutoNexus was established to take advantage of the growing trend of outsourcing logistics, by specialist importers.

Employing 140 staff, AutoNexus provides a range of supply chain management solutions for both vehicles and parts. These solutions encompass physical storage and distribution, inventory management and supply chain strategic planning.

In 2003 the business handled 42,000 vehicles on behalf of its clients which, in addition to Subaru Australia, include Peugeot, SsangYong, SEAT, Jaguar and Unipart. AutoNexus also provides services to retail customers including Subaru Melbourne and a growing number of independent dealers.

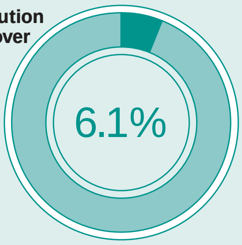
Managing its activities from facilities in Sydney, Melbourne, Brisbane and Perth, AutoNexus has plans underway to expand its capacity further.

Hong Kong

"In this difficult market, Toyota/Lexus increased its share and Crown Motors was awarded the Toyota Triple Crown for the twelfth consecutive year."

William Tsui Managing Director

Contribution to turnover



2002	31.3
2003	22.6

Operating profit before goodwill amortisation £m

-27.8%

	2003	2002
Operating profit	**22.6**	31.3
Goodwill amortisation	**–**	–
Operating profit before goodwill amortisation	**22.6**	31.3

Key manufacturing partners

TOYOTA, JAGUAR, LEXUS, HINO, DAIHATSU, mazda

Despite very difficult market conditions, our Hong Kong business delivered profits of £22.6m and operating margins of 9.7% demonstrating the exceptional qualities of this business.

The Hong Kong market, excluding taxis, finished the year at c. 25,000 units, or 22.0% down on last year. This is the lowest level for over twenty years and is some 23.0% below the average for the last five years. However, the market has shown signs of recovery with quarter four of 2003 being just 8.1% down on the same period in 2002.

The taxi market fell to just over 1,000 units and this is not expected to change significantly until around 2006.

In this difficult market, Toyota/Lexus increased its share from 28.4% to c. 31.0% and Crown Motors was awarded the Toyota Triple Crown for the twelfth consecutive year. They are the only Toyota distributor to achieve this.

Mazda had a difficult year awaiting the introduction of the new Mazda3, which was launched in January 2004. Jaguar performed in line with the market. We exited the Peugeot franchise at the end of the year.

At Inchroy, our financial services joint venture, profits fell to £4.6m due to interest rate margins being squeezed and a depressed car market.

Left:

Lexus RX300 launch success

In March 2003 Crown Motors launched the new Lexus RX300 at the New World Plaza in Tsimshatsui, one of the most popular and largest shopping malls in Hong Kong. The launch was the high spot of a two day motor show arranged by Crown Motors.

The official launch party hosted over 200 guests including our Lexus Club customers, business partners and local media.

Over the two days more than 5,000 people visited the motor show with many coming especially to see the Lexus RX300 display.

Below:

Ubi refurbishment complete

Inchcape's commitment to investing in its showrooms and service centres is driven by our increase in market share and, importantly, in order to meet the ever increasing demands of our customers. In 2003 our site in Ubi, Singapore, was rebuilt and the entire facility upgraded.

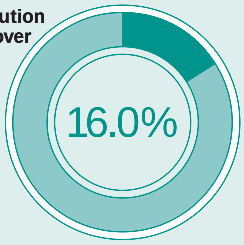
This work has resulted in a very attractive new showroom and a service centre that has been significantly expanded with the number of car service bays increased from twenty nine to thirty five.

The facility includes a sophisticated glass and metal themed showroom, plasma TV screens and interactive cyber stations that allow the customer to access the world of Borneo Motors.

Singapore/Brunei

"The driver behind a profit increase of £14.7m, or 44.5%, was an excellent performance from our Toyota/Lexus business in Singapore, which also received the Toyota Triple Crown Award in 2003." **William Tsui** Managing Director

Contribution to turnover



2002 33.0

2003 47.7

Operating profit before goodwill amortisation £m

+44.5%

	2003	2002
Operating profit	**46.9**	32.5
Goodwill amortisation	**0.8**	0.5
Operating profit before goodwill amortisation	**47.7**	33.0

Key manufacturing partners

The driver behind a profit increase of £14.7m, or 44.5%, was an excellent performance from our Toyota/Lexus business in Singapore, which also received the Toyota Triple Crown Award in 2003.

Toyota/Lexus increased market share from 26.7% to 30.1%. This allied to a market that rose by 28.0% resulted in sales of over 26,000 units, a 44.3% increase on 2002. The market increased as the Government issued more Certificates of Entitlement in the year. This was partly due to the higher number of cars scrapped in the year but also attributable to a partial rebalancing by the Government between taxing car usage, as opposed to taxing initial car registrations.

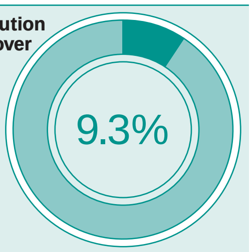
Growth in aftersales has been facilitated by recent investments, which have increased capacity, and the larger Toyota/Lexus car parc, which has increased by 45.0% since the end of 1999.

In Brunei, market share increased to 25.8% and profits grew marginally.

In total operating margins grew from 6.8% to 7.8%, showing the benefits of an integrated import and retail business model in a city state environment.

Other

Contribution to turnover



2002 10.5

2003 12.8

Operating profit before goodwill amortisation £m

+21.9%

	2003	2002
Operating profit	**12.8**	10.5
Goodwill amortisation	**–**	–
Operating profit before goodwill amortisation	**12.8**	10.5

Key manufacturing partners

Finland had a very good year, building on its strong second half in 2002. The market was up 26.0% in 2003, driven in part by car tax changes introduced at the start of the year. Mazda increased market share from 1.7% to 3.1%, aided by the success of the Mazda6. The brand also performed well in the Baltics, especially in Estonia where it achieved a market share of 9.3%. These volume increases drove profitability up strongly.

In Guam sales increased as customers replaced cars damaged in the typhoons in late 2002, although operating profits fell to more normal levels in the second half of the year.

In Ethiopia the market was depressed by poor economic conditions and tax changes. As a result profits fell.

Central costs

2003 – £(17.6)m 2002 – £(13.9)m

Central costs benefited from one off income of £2.4m relating to the liquidation of a closed overseas pension scheme. However, this was more than offset by one off costs, of £2.9m, relating to the exit of the lease on a property. We are taking action to recover losses associated with this exit. Underlying costs have risen due to pension, national insurance and project development costs.

VAT exceptional income

2003 – £15.3m 2002 – £nil

Following an announcement by HM Customs and Excise, we submitted claims for overpaid VAT, from 1973 to 1994, in mid 2003. HM Customs and Excise paid some small claims in 2003, and in early 2004 agreed the vast majority of the remaining claims. Net VAT recovered totalled £15.3m, after fees, and has been treated as exceptional operating income in 2003.

Progress

The trading performance of the businesses is explained in the Operational review. This review gives information on financial matters.

Financial reporting and accounting standards

No new Financial Reporting Standards were issued during the year. The codification of the best practice rules for revenue recognition, amending FRS 5 Reporting the Substance of the Transactions issued in November 2003, had no impact on the Group's turnover.

The principal accounting policies applied by the Group are shown on pages 42 and 43 of the Financial statements.

The Group has set up a steering committee and is well underway in assessing the impact of reporting under International Financial Reporting Standards. The first Annual report and accounts this will apply to is for the year ending 31 December 2005.

Results

Turnover increased by 9.6% to £3,855.2m, for 2003. However operating profit before goodwill amortisation and exceptional items rose strongly, by 20.1% in the year, from £117.2m in 2002 to £140.8m in 2003. The resultant operating margins strengthened from 3.3% in 2002 to 3.7% in 2003.

Our operation in Singapore delivered an excellent trading performance in the year aided by a larger vehicle market and higher market penetration. This allied to improved results in the UK, Greece, Australia and also Belgium, which benefited from the non-recurrence of the £4.4m dealer network reorganisation provision made in 2002, more than compensated for a decline in Hong Kong profits.

Pensions

The Group continues to account for retirement benefits in accordance with SSAP 24 Accounting for Pension Costs and provides additional disclosure as required by FRS 17 Retirement Benefits.

During the year triennial valuations were completed for the Group's major pension funds. As for most companies weak equity market conditions and changes in demographic assumptions have eroded the surplus of our UK pension funds since the last valuations in 2000. As at April 2003, these funds had net deficits totalling £16.5m, as set out in note 5. Since then an improvement in equity markets has reduced these deficits. This, together with increasing contributions, is forecast to address the funding of these deficits in the medium term. As expected, at the beginning of 2003, the SSAP 24 pension charge has increased by £2.0m to £9.3m in 2003.

Exceptional VAT item

In line with others in our industry peer group, in mid 2003 we submitted claims for the recovery of overpaid VAT for the period 1973 to 1994. HM Customs and Excise paid some small claims in 2003 and in early 2004 they agreed the vast majority of the remaining claims.

The £15.3m net VAT recovery, after fees, has been treated as exceptional operating income in 2003, whilst the £22.2m associated interest is included within net interest income.

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 £79.1m.

This is after returning c. £130.0m to shareholders and spending c. £150.0m on acquisitions.

Net (debt)/cash £m

“The £15.3m net VAT recovery, after fees, has been treated as exceptional operating income in 2003, whilst the £22.2m associated interest is included within net interest income.”

Alan Ferguson Group Finance Director

Other exceptional items
The aggregate net exceptional profit for the period was £0.5m. The reorganisation of our UK Retail dealership network, following the new Block Exemption legislation, resulted in a £4.6m loss. In total twelve dealerships were sold, closed or exchanged for other facilities. This loss was more than offset by the release of litigation provisions relating to non-motors disposals.

Net interest
The net interest income for the year of £17.2m benefited from £22.2m of one off interest income relating to the Group’s VAT reclaim. Excluding this, the underlying interest charge from operations was £5.0m (2002 – £5.1m). The Group continues to be impacted by significant cash balances in countries with low interest rates whilst the core Group debt is in the UK, which has a higher interest rate.

Taxation
The 2003 Headline tax rate before goodwill amortisation and exceptionals (see note 10) is only 23.4%, compared to 26.0% in 2002. This was positively impacted by 2.9%, as a favourable court ruling in the UK allowed us to release a provision made in the 1990s relating to a tax efficient financing structure. The underlying rate therefore was 26.3%. We anticipate the tax rate in 2004 will be slightly above the Group’s underlying tax rate in 2003.

We have received advice indicating that there are good grounds for some or all of the VAT recovery, and associated interest, not to be subject to corporation tax. However, we understand that the Inland Revenue will challenge this. A provision of £7.5m has been made in this respect.

Minority interest
Profit attributable to minorities has decreased to £2.0m in 2003 from £3.4m in 2002. This is due to the acquisition of the minority shares in Inchcape Motors Limited (IML) in Singapore in May 2002, prior to this IML contributed £1.5m to the minority interest charge.

Exchange rates
Had the exchange rates in 2002 continued in 2003 the Headline profit before tax would have been £0.7m higher. This effect primarily arose as a result of the weakening of the Singapore dollar and Hong Kong dollar, partially offset by a strengthening of the euro and Australian dollar. Principal exchange rates are listed in note 32.

Cash flow
The Group’s working capital is £35.6m, which is similar to last year, due to tight management control, and is despite a 9.6% increase in turnover in 2003.

The Group continues to be extremely cash generative with cash from operating activities in 2003 of £150.8m, which is some 116.0% of subsidiaries operating profit before goodwill amortisation and exceptional items. This resulted in the Group’s net cash position of £16.6m at 31 December 2002 increasing to £79.1m at 31 December 2003.

It should be noted that only £2.9m of the VAT refund, including interest, was received in 2003.

Group Headline tax rate

There has been a marked improvement in the Group’s Headline tax rate before goodwill amortisation and exceptionals (see note 10).

The tax rate in 2003 was positively impacted by 2.9% as a favourable court ruling resulted in the release of a provision.

Group Headline tax rate %

Acquisitions and disposals

Certain manufacturers in the UK have used Block Exemption to restructure their network and form larger scale relationships with key retail partners. With BMW, we were awarded the largest BMW territory in the country to the west and south of London. To secure this we purchased two dealerships from William Jacks PLC and acquired L&C Holdings Limited, which owns four BMW dealerships to the south of London. In gaining this territory, we also sold four BMW dealerships in Essex and south London. These BMW acquisitions and disposals have, in aggregate, resulted in a cash outflow in 2003 of £7.5m.

The Group has exited from the Audi marque in its UK Retail operations generating £2.7m in net cash.

Capital expenditure

Capital expenditure less disposal proceeds was £33.6m, £7.0m greater than the depreciation charge. This incremental investment was primarily in UK Retail for the development of new dealership premises.

Treasury management and policy

The centralised Treasury department manages the key financial risks of the Group encompassing funding and liquidity risk, interest rate risk, counterparty risk and currency risk. Group Treasury operates as a service centre under Board approved objectives and policies. Speculative transactions are expressly forbidden. 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 put in place in July 2002 with a syndicate of quality banks.

Liabilities in respect of loan notes totalling £20.1m were discharged between April and October 2003. These notes were issued in December 2000/2001 following the acquisition of Eurofleet Limited, now known as Inchcape Automotive. At the year end notes totalling £0.4m were outstanding.

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. At the year end £11.3m of these facilities were utilised.

Cross border Group loans are made to maximise use of funds and to minimise the Group's net interest expense. The resultant cash and debt balances are set out in the table at the bottom of this page.

The principal cash deposits at the year end were in euros and Singapore dollars. Cash is held locally ahead of payments to trade creditors. In Singapore, cash deposits also support the significant requirement for Certificates of Entitlement required for new car sales.

Cash and debt balances

£m	Debt	Cash	Net
Euro	(2.8)	37.2	34.4
Hong Kong dollar	–	2.1	2.1
Singapore dollar	–	20.9	20.9
Australian dollar	–	7.3	7.3
Other	(1.3)	24.3	23.0
Total (other than sterling)	(4.1)	91.8	87.7
Total sterling	(19.7)	11.1	(8.6)
Total	(23.8)	102.9	79.1

"With BMW, we were awarded the largest BMW territory in the country to the west and south of London."

Alan Ferguson Group Finance Director

Interest rate risk
Interest rate policy has the objective of minimising net interest expense and the protection of the Group from material adverse movements in interest rates. Throughout 2003 the Group borrowed at floating rates only. This approach reflects the continuing benign interest rate environment and the low level of gross debt.

Should interest rate hedging activities be deemed appropriate in the future the Board has approved the use of interest rate swaps, forward rate agreements and options.

Counterparty risk
The amount due from counterparties arising from cash deposits and the use of financial instruments creates credit risk. 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. The main exchange rates used for translation are set out in the table at the bottom of this page. 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 Group has transactional currency exposures where sales or purchases by an operating unit are in currencies other than in that unit's reporting currency. For a significant proportion of the Group these exposures are removed, as trading is denominated in the relevant local currency. In particular, local billing arrangements are in place for many businesses with our principals.

For those businesses that continue to be billed in foreign currency Group policy is that committed transactional exposures are hedged into the business's reporting currency. If possible foreign exchange exposures will be matched internally before hedging externally.

Hedging instruments are approved by the Board and are restricted to forward foreign exchange contracts, currency options and foreign exchange currency swaps. Foreign exchange currency swaps are also used to hedge transaction exposures arising on cross border Group loans.

Alan Ferguson Group Finance Director
1 March 2004

Foreign currency translation

	Average rates		Year end rates	
	2003	2002	**31 December 2003**	31 December 2002
Australian dollar	**2.53**	2.77	**2.38**	2.86
Euro	**1.45**	1.59	**1.42**	1.53
Hong Kong dollar	**12.75**	11.71	**13.90**	12.55
Singapore dollar	**2.86**	2.69	**3.04**	2.79

Inchcape in the community

Corporate social responsibility

Inchcape established a Corporate Social Responsibility (CSR) Committee in 2002. 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 Group Human Resources Director and the Investor Relations Manager.

The Company is conscious of the importance of CSR and committed to looking at further ways in which it may take its CSR programme forward.

This section outlines what CSR is to Inchcape; fundraising and sponsorship, environment, health and safety issues, and our employment policy and values.

Inchcape in the community

Inchcape is proud to be associated with a number of markets and famous brands around the world, and is dedicated to putting something back into the countries in which we operate. Our international spread brings with it a mix of cultures and nationalities, which enrich our Company as a whole and we encourage our businesses to get involved with community projects and initiatives at a local level.

Inchcape's involvement in good causes is not merely a financial commitment. Our staff around the world pledge their own time and efforts to many worthy organisations in order to make a difference to the community they live and work in.

UK Inchcape in the UK has been a firm supporter of BEN, the motor industry benevolent fund, for many years and in 2003 pledged c. £47,000 to the charity. This money was raised through a series of staff initiatives.

Other fundraising activities included the events arranged by staff at our Jaguar and Land Rover dealerships in Guildford. They raised £6,250 for the Macmillan Breast Cancer Care charity by organising five-a-side football, a charity auction and a day of intense driving activities at the Millbrook racing circuit in Bedfordshire.

Elsewhere within our UK businesses a group of employees took part in an extraordinary fundraising event, the 'Three Peaks Challenge'. This event was in support of the charity, Care International, which works with poor communities around the world enabling people to overcome poverty. The aim of the 'Three Peaks Challenge' was to raise funds through sponsorship to climb the three highest mountains in England, Scotland and Wales (Scafell Pike, Ben Nevis and Snowdon respectively) in just twenty four hours. The Inchcape team took on the challenge and raised over £5,000 for the global charity, an astonishing amount for such a small team.

Our Head Office, based in the UK, selects a charity for sponsorship on an annual basis, through nominations received from staff. In 2003 we chose St Clare's Hospice, a small non-religious charity, which cares for people and their families who are affected by life threatening illnesses such as cancer. Over the twelve month period a number of fundraising events were arranged including a staff quiz night, and Easter and Christmas raffles. Colleagues are also asked to contribute to the charity if participating in 'dress down Fridays', when they can come to work in casual wear. In total the office managed to raise almost

Below:
Pocket money for all!
Staff in Singapore organised the Toyota Camry charity golf challenge in August 2003.

The event was arranged to raise funds for 'The School Pocket Money Fund'.

A cheque for the final amount, which totalled almost £10,000, was presented to Peter Khoo, Chairman of the School Pocket Money Fund, by William Tsui, Chairman and Chief Executive of Inchcape Asia Pacific, and Mark Choong, Managing Director of Inchcape Borneo Motors.

From left to right:
Mark Choong, William Tsui and Peter Khoo

Above:
Three Peaks Challenge
Inchcape employees from the UK took part in the 'Three Peaks Challenge', in support of Care International.

"Inchcape is proud to be associated with a number of markets and famous brands around the world, and is dedicated to putting something back into the countries in which we operate."

£3,000 in 2003 for St Clare's. This amount is sure to make a difference to an organisation, which has to rely on the support of local people and businesses for three quarters of their funding.

Greece Toyota Hellas, our business in Greece, has contributed to a number of local initiatives in 2003. Events organised include 'The Love Fair', at which a Toyota Yaris was donated to the auction. The Fair is held to raise funds for the construction of workshops for local children with special needs. They also arranged a series of social events, in partnership with the Municipality of Elefsis, which were designed to promote and support the cultural development of citizens in the local area providing c. £2,500 in sponsorship money.

Belgium Our colleagues continued their support for the United Fund for Belgium. This local charity aims to improve the quality of life for underprivileged children and handicapped people. To assist the organisation with their transport requirements, our Toyota business subsidised their purchase of twenty nine cars.

Australia Inchcape Motors Australia (IMA) continued to raise funds for the Starlight Foundation, a charity that enhances the lives of critically ill children in Australia. IMA has been supporting the Foundation since July 2000 and to date has donated c. £37,000. A major event in their fundraising calendar is the annual Subaru golf day, which is attended by guests and staff. In 2003, IMA staff were delighted when they managed to raise c. £10,000 from this event alone.

Hong Kong For our colleagues in Hong Kong and Singapore, 2003 was a particularly difficult year due to the devastating effects of the Severe Acute Respiratory Syndrome (SARS) virus. Times of crisis, such as this, bring home the importance of community support and assistance. In response to SARS, Crown Motors, our business in Hong Kong supported a local initiative called 'Project Shield'. This initiative provided protective medical wear for employees in hospitals and clinics, and in total Crown Motors donated c. £7,500.

Singapore Borneo Motors, our business in Singapore, organised a fundraising campaign to collect donations for healthcare workers affected by SARS. The fund was appropriately named 'Courage' and provided encouragement and support to the healthcare workers who suffered in the battle against SARS. Altogether, our colleagues in Singapore raised c. £12,000 for this appeal.

In addition to the 'Courage' campaign fundraising our staff also organised the first Toyota Camry charity golf challenge, which was held in August 2003 to help raise funds for 'The School Pocket Money Fund'. This fund aims to alleviate the financial burden of educational costs. The event was attended by 140 local Toyota Camry owners and raised almost £10,000.

Charitable and political donations In the UK, Inchcape and its subsidiaries have donated funds throughout the year totaling £0.1m (2002 – £0.1m). Total charitable donations made by the Group worldwide during the year were £0.2m (2002 – £0.2m). These figures exclude any personal contributions from our colleagues.

No political donations were made in 2003 (2002 – nil).

Above:
Further Starlight success
Inchcape Motors Australia have been supporting the Starlight Foundation since July 2000, and to date have donated c. £37,000.

Below right:
The 'Great Ethiopian Run' of 2003
In November 2003 our colleagues, from Moenco S.C. (our Toyota Distribution business in Ethiopia) took part in the 'Great Ethiopian Run'. The event attracted a total of 18,000 participants who ran the 10.0km course around the country's capital, Addis Ababa. There was a separate competition in the Run for elite athletes from Kenya and Ethiopia, which was branded the 'Toyota Team Challenge'.

As well as engaging in employee participation, Moenco S.C. was also one of the main sponsors of Africa's biggest road race. In total, 128 of our colleagues participated in the Run with many of our colleagues providing assistance by distributing race packs before the event and handing out medals at the end. The trophies for the winners of the Toyota Team Challenge competition were also presented by our business.

Environment, health and safety

Inchcape is committed to pursuing sound environment, health and safety (EHS) management policies and practices throughout our businesses worldwide.

We recognise that by providing customers with access to leading products and services, we can support the drive to improve our environment. We are also continuously looking to increase the levels of health and safety standards in the workplace.

It is therefore Inchcape's policy to:

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

Implementation of the Policy is the responsibility of the management within each Group business and is supported and monitored by the Group Board. Common standards are applied to a wide range of EHS 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 EHS performance through the development of local standards and staff training. They are also responsible for monitoring EHS 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.

In addition, the Group Risk Manager visited over half our sites in 2003 carrying out EHS awareness training, meeting with the Focus Groups and performing site inspections. Each visit is concluded with a meeting with the Chief Executive of that business, and action plans are then agreed and reported upon.

The Green Apple Awards 2003

Above:

Managing CO_2 emissions

In 2003 Inchcape Fleet Solutions once again received a Green Apple Award from the Green Organisation for its 'CO_2 Driver' online tool. After winning the award in 2002, the tool was enhanced further in 2003 to better manage CO_2 emissions from fleets.

Recent analysis of replacement cars purchased by Inchcape Fleet Solutions for their customers indicate that, assuming the same mileage, the replacement vehicles have significantly lower emissions.

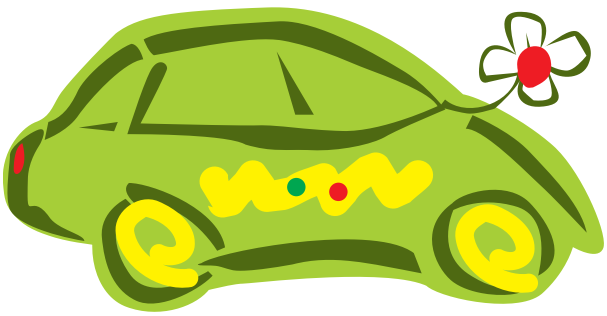
Right:

Hybrid technology at work

Our Greek business, Toyota Hellas, has provided financial assistance to a local ongoing project in Athens, which unites young people with the environment.

The programme, which began in September 2003, has joined together ten municipalities of the greater Athens area. Three teams, consisting of four pupils from each of the eleven participating schools, study a specific local environmental issue and then design, develop and present eco-friendly solutions to combat the issue. This information is then presented to various business partners in Greece, including the Ministry of Education, for discussion.

In total the funding for the programme, which has been provided by Toyota Hellas, amounts to c. £24,000.



“Inchcape is committed to pursuing sound environment, health and safety (EHS) management policies and practices throughout our businesses worldwide.”

Initiatives and investments

In 2003 we made investments in a number of our businesses, across our core markets, to improve and promote EHS initiatives.

Online control Our UK Retail business uses a web based EHS management system, which is designed to enhance the control of EHS standards. The software provides checklists, risk assessments, bulletins and links to EHS websites and also helps us monitor and manage EHS impacts, risks and opportunities.

This process is supplemented by site reviews, which were undertaken by the UK Retail Risk Manager. In 2003 sixty five such reviews were completed, providing an independent insight into the way individual sites manage their EHS standards with the Retail Risk Manager offering advice for further improvement, if necessary, and helping spread best practice.

Investing in the latest technology Inchcape Automotive, our Business Services operation, made a significant investment in 2003 in the latest car transporter equipment, spending c. £4.0m on forty five new transporters. The tractor units for this fleet are equipped with automatic engine shutdown, during standing times, and new engine and gearbox technology, leading to reduced fuel consumption per vehicle transported.

In addition, Inchcape Automotive have introduced monitors for each of the transporters, which record all vehicle activity and therefore enable us to identify, manage and improve fuel economy further. Continued investment in the transporter fleet is planned for 2004 and should provide further efficiencies and associated environmental benefits.

Commitment to a safe working environment In 2003 Inchcape Motors Australia (IMA) developed a strategic plan for an enhanced occupational health and safety (OHS) management programme. IMA wanted this plan to include a national compliance scheme for its businesses, determining key OHS benchmarks. Good progress has already been made with the design of an enhanced OHS policy, with key areas of exposure across the different businesses being identified as a result.

Further investment in OHS has been made through the appointment and training of health and safety representatives, the standardisation of OHS noticeboards and workplace assessments, which were undertaken by external professionals. In addition, IMA senior management have attended OHS awareness briefings throughout the year .

Further development of the OHS policy is expected in 2004 with a particular focus on enhanced procedures for safe working and a standardisation of injury management processes.

Left:

Improving air quality

Crown Motors, our business in Hong Kong, has now replaced the entire Toyota fleet of some 18,000 taxis to Liquid Petroleum Gas (LPG) vehicles. This will help improve the air quality in Hong Kong, for its inhabitants.

Crown Motors has a very high share of both the taxi and minibus market in Hong Kong and, having completed the taxi conversion process, are now involved in a similar, but longer term, programme for mini buses. This will have a further positive impact on the environment.

Working for Inchcape

We want all our colleagues at Inchcape to be proud of who they work for and to take pride in their contribution to the Company. We have therefore built a clear set of statements defining what it means to work for Inchcape. These statements outline our values, learning and development, communication and our employment policy.

Our values

Inchcape recognises that its success depends on maintaining the quality, motivation and commitment of its employees in every market it operates in and at every level of the Company. The Group's employment policies and practices are therefore purposely designed to support and achieve this goal.

Underpinning this commitment are the Inchcape values. We are very proud of our values, which are central to the way we work, and they remain fundamental to our relationship with customers, principals and employees. They are as follows:

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, colleagues, shareholders and we work hard to earn their respect.

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

Our values are introduced to all our new colleagues upon joining Inchcape and are regularly reinforced through all employee communications. Appraisals are largely based on the five principles and individuals are asked to provide examples of how they have demonstrated the values in their work.

Learning and development

We are dedicated to facilitating the advancement of our colleagues in every market we operate in, and consequently we have a number of development schemes, for all levels of staff, in operation across the Company.

One such programme is the Inchcape 'university'. This is a virtual university, which all our colleagues can access via the Group intranet. Once online, employees can find information on courses run with affiliated institutions, download their personal development plan and discover how to apply for financial assistance with professional training.

Reinforcing this commitment to our people's development, Group Chief Executive, Peter Johnson has been appointed as Chairman of the Automotive Skills Council in the UK. This body oversees the development of training and development programmes for the automotive sector in the UK, and is part of the UK Government's initiative to improve sector skills across all UK industries.

The Mount Eliza Business School partnership Our business in Australia has had a partnership with the Mount Eliza Business School since 2002, when they initially started working together to identify management and leadership development needs in senior employees across the business.

This work resulted in the development of the 'Entrepreneurial Leader Programme', an initiative designed to educate managers on a number of topics whilst building their leadership and mentoring skills. Participating employees join the programme, which is residential, for four two day workshops, which are focused on themes of customer focus and excellence, understanding and managing, leadership and high performance, best practice and benchmarking, negotiation, change and the future.

Right:

Apprentice with a bright future

Crown Motors' mechanical apprentice, Ng Kwok Wai, has a lot of reasons to believe he's got a bright future. Mr Ng, who is just twenty years of age, is the grand champion of the 2003 Best Apprentice Competition, which is held by the Automobile Training Board of Hong Kong's Vocational Training Council. Competing against over ninety final year registered vehicle apprentices, who were nominated by fifteen different companies, he demonstrated an outstanding performance that won him the coveted top prize in the annual skills competition. Mr Ng, pictured with Ted Lau, Director of Service (on left), and Wilson Lau, Lexus Service Manager (on right), has been with Crown Motors for three and a half years and completed his apprenticeship in February 2004. He says that winning the competition was quite unexpected and comments; "I would really like to thank my supervisor who allowed me the time to study and my colleagues who have all been very supportive."

Right:

Pleasing the customer

At our business in Singapore, Borneo Motors, all service engineers and engineering assistants participate in the Service Engineer/Engineering Assistant Programme, which has been designed to deliver ultimate customer satisfaction. Offering classroom and practical training in customer relations and vehicle technical knowledge, the programme has been running for over three years and ensures technicians are competent and confident in providing customer service. Every new sales engineer must attend a mandatory two week orientation and training course before working in a dealership. There are currently two current customer service training programmes, entitled 'The Art of Wow' and 'Optimising Performance Through Coaching', offering advanced training for employees in direct customer relations' positions. By first developing a customer mindset, the course then equips them with the communications skills required to ensure customer satisfaction.

"Inchcape's employment philosophy is simple; we want to attract, motivate and retain the best people for our business."

Individuals are then required to complete a work based project as part of the process, which is presented to senior management. The results so far have been significant and approximately sixty managers, including the Chief Executive and Finance Director, have completed the course to date. A new intake for the programme is planned for 2004.

Communication

Inchcape is always looking for ways in which it can improve communication with employees across the Group, regarding the business and issues affecting them.

We currently have a number of formal and informal channels to do this but one of the most effective methods is our worldwide intranet system, the Pulse. The latest version of the intranet was launched in February 2004, and has a number of improved services for staff. Dedicated areas for employees to access details of benefits and advantages available to them have proved particularly popular. In addition the real time share price data is useful for those members of staff who hold shares in the Company.

Bridging the language gap Being an international Company, which operates across six core markets, language skills can prove to be particularly valuable and are an important asset for the majority of our colleagues.

This is even more so in our Belgium businesses where three different languages; Flemish, French and English, are spoken. To help colleagues perfect these languages, Toyota Belgium has employed a variety of internal and external training programmes. These initiatives enable staff to improve their language and associated computer skills either online or on a one to one basis.

UK wide induction As we employ over c. 5,000 members of staff in the UK alone, the induction process to Inchcape is very important. All our colleagues in the UK are invited to attend a UK Group one day orientation event within two months of joining the Company. This is in addition to their local induction. The event is based at the National Motor Museum at Gaydon, Warwickshire, and is designed to give employees a thorough overview of the Group, providing details on the constituent parts of the UK business, an insight into the overall automotive market and a feel for the culture and style of the business.

Employees then have an opportunity to mix with their new colleagues, before ending the day on a fun note with a tour of the Museum and use of the Land Rover 4x4 track.

Employment policy

Inchcape's employment philosophy is simple; we want to attract, motivate and retain the best people for our business.

Our remuneration and benefits policies have been designed to do this, and the framework for these are overseen by the Board Remuneration Committee. The Committee regularly reviews our policies in the context of market best practice and consults, where appropriate, with our major shareholders on remuneration for the senior executive team.

We offer a range of attractive share based incentive schemes and, at 31 December 2003, c. 1,100 of our colleagues were shareholders in the Company.

Inchcape carefully observes best practices in employment policy and legislation and is committed to providing a workplace free of discrimination that gives equal opportunities to all our employees. All vacancies are made available to internal candidates first, via the intranet, so as to encourage career opportunities and advancement for our colleagues. We also consult extensively with our colleagues via employee opinion surveys.

Colleagues

We employ c. 10,000 members of staff within the Group worldwide.

On average the geographic distribution of our colleagues worldwide in 2003 was as follows:

Market	% of employees
UK	50.2
Greece/Belgium	9.7
Australia/New Zealand	7.5
Hong Kong	13.3
Singapore/Brunei	7.3
Other	12.0
Total	100.0

On average the distribution of male and female colleagues, in our core markets, in 2003 was as follows:

Market	% Male	% Female
UK	74.0	26.0
Greece/Belgium	70.0	30.0
Australia/New Zealand	72.0	28.0
Hong Kong	81.0	19.0
Singapore/Brunei	74.0	26.0

Board of Directors

Notes:

(a) Members of the Audit Committee
Dates of Appointment/Resignation:
Ken Hanna (Member – 27 September 2001) Chairman – 16 May 2002
Sir John Egan – 15 June 2000/29 January 2004
Hugh Norton – 24 January 1995
Simon Robertson – 25 June 1996
Michael Wemms – 29 January 2004

(b) Members of the Remuneration Committee
Dates of Appointment/Resignation:
Hugh Norton (Member – 24 January 1995) Chairman – 8 August 1998
Sir John Egan – 15 June 2000/29 January 2004
Ken Hanna – 27 September 2001
Simon Robertson – 3 August 2000
Michael Wemms – 29 January 2004

Non-executive Chairman

Sir John Egan (a) (b) (c) * Chairman
Age 64. 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.

Executive Directors

Peter Johnson (c) Group Chief Executive
Age 56. 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 Director and Chairman of Automotive Skills Limited, on 14 October 2003. He is a Vice President of the Institute of the Motor Industry and was previously Sales and Marketing Director of the Rover Group, and Chief Executive of the Marshall Group.

Non-executive Directors

Trevor Taylor Non-executive Deputy Chairman and Non-executive Director
Age 66. 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. Previously he has held positions with Ford Motor Company and the Rover Group.

Hugh Norton (a) (b) (c) * Non-executive Director
Age 67. 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 and was appointed as a Trustee of SHELTER, The National Campaign for Homeless People Limited, on 3 November 2003.

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

(c) Members of the Nomination Committee
Dates of Appointment/Resignation:
Sir John Egan Chairman – 15 June 2000
Ken Hanna – 26 February 2004
Peter Johnson – 1 July 1999
Hugh Norton – 1 July 1999
Simon Robertson – 25 June 1996

* Independent under the 1998 Combined Code

Alan Ferguson Group Finance Director
Age 46. 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.

Graeme Potts Managing Director, Inchcape UK and Europe
Age 46. 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.

Raymond Ch'ien Non-executive Director
Age 52. Joined the Inchcape Board in July 1997. Raymond Ch'ien is Executive Chairman of chinadotcom corporation as well as Executive Chairman of chinadotcom Mobile Interactive Corporation and Chairman of hongkong.com Corporation, both subsidiaries of chinadotcom corporation.

He is Chairman of MTR Corporation Limited, Non-executive Chairman of HSBC Private Equity (Asia) Limited, a Non-executive Director of HSBC Holdings plc, the Hong Kong and Shanghai Banking Corporation Limited, Convenience Retail Asia Limited, VTech Holdings Ltd and The Wharf (Holdings) Limited. He is Chairman of the Hong Kong/Japan Business Co-operation Comimittee and the Advisory Committee on Corruption of the Independent Commission Against Corruption. He was a member of the Executive Council of the Hong Kong Special Administrative Region from 1997 to 2002, and a Non-executive Director of Inmarsat Ventures plc from September 2001 to July 2003.

Ken Hanna (a) (b) (c) * Non-executive Director
Age 50. 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. He was appointed as Chief Financial Officer designate of Cadbury Schweppes plc, effective as of 1 March 2004 and will become an Executive Director and Chief Financial Officer in April 2004. 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.

Michael Wemms (a) (b) * Non-executive Director
Age 64. Joined the Inchcape Board in January 2004. Michael Wemms was an Executive Board Director for Tesco plc between 1989 and 2000. During that time he held the positions of Personnel Director and, from 1992, Retail Operations Director where he was responsible for all store operations. He is Chairman of House of Fraser plc and a Non-executive of Coles Myer Limited.

Directors' report

The Directors present the Annual report and accounts and audited financial statements for the year ended 31 December 2003. For the purposes of this report 'Company' means Inchcape plc and 'Group' means the Company and its subsidiary and associated undertakings.

Business activities

A review of the business activities of the Group and 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 2003 are shown on pages 38 to 75. The Board recommends a final ordinary dividend of 26.0p per ordinary share. If approved at the Annual General Meeting (AGM), the final ordinary dividend will be paid on 17 June 2004 to shareholders registered in the books of the Company at the close of business on 21 May 2004. Together with the interim ordinary dividend of 12.0p per ordinary share, paid on 15 September 2003, this makes a total ordinary dividend for the year of 38.0p (2002 – 31.0p).

Share allotments

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

Ordinary shares allotted to satisfy Executive Share Option Exercises	913,493
Ordinary shares allotted to satisfy Savings Related Share Option Exercises	253,614

Substantial shareholdings

As at 1 March 2004, the following notifications of substantial interests in the Company's issued ordinary share capital had been received pursuant to the provisions of the Companies Act 1985:

Holding	Total %
Standard Life Investments	5.47
Fidelity Investments	5.40
Toyota Motor Corporation	5.33
Legal and General Investment Management	3.43
Aviva Plc	3.26

Directors

The names of the Directors, plus brief biographical details, including those Directors offering themselves for election or re-election, are given on pages 22 and 23. They all held office throughout the year other than Michael Wemms who was appointed to the Board on 29 January 2004 as a Non-executive Director. In accordance with the Articles of Association of the Company, Michael Wemms will retire at the forthcoming AGM and offer himself for election.

Sir John Egan, Peter Johnson and Hugh Norton retire by rotation at the forthcoming AGM. Sir John Egan and Peter Johnson offer themselves for re-election in accordance with the Articles of Association. Hugh Norton will retire from the Board at the conclusion of the Company's AGM on 13 May 2004. Accordingly he does not offer himself 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 of the persons who were Directors at 31 December 2003.

	Ordinary shares of 150.0p each	
	31 December 2003	1 January 2003
Sir John Egan	**23,500**	23,500
Peter Johnson (b)	**64,894**	74,608
Alan Ferguson (b)	**40,952**	33,738
Graeme Potts (b)	**9,982**	6,000
Trevor Taylor	**3,000**	3,000
Hugh Norton	**1,500**	500
Simon Robertson	**1,000**	1,000
Raymond Ch'ien	**20,000**	20,000
Ken Hanna	**2,000**	2,000

Notes:
(a) Michael Wemms was appointed a Director on 29 January 2004; he held no interest in the shares of the Company on that date.
(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 2003, the Trust's shareholding totalled 893,811 ordinary shares of 150.0p each (1 January 2003 –1,118,247 ordinary shares of 150.0p each).
(c) No Director had any beneficial interest in the subsidiaries of the Company.

Between 1 January 2004 and 1 March 2004 the Trustees of the Inchcape Employee Trust 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
21 January 2004	1,385
26 January 2004	2,041
28 January 2004	2,280
30 January 2004	656
10 February 2004	722

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 33 and 34.

Transactions with Directors

No transaction, arrangement or agreement required to be disclosed in terms of the Companies Act 1985 was outstanding at 31 December 2003, or occurred during the year for any Director and/or connected person (2002 – none).

Creditor payment policy

The Company has no trade creditors (2002 – nil). The Group is responsible for agreeing the terms and conditions including terms of payment under which business transactions with the Group's suppliers are conducted. Whilst the Group 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 2003 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 fifty days (2002 – forty nine days).

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.

Charitable and political donations

The Group's policy on charitable and political donations, including the amounts, is shown on pages 16 and 17.

Environment

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

Post balance sheet events

See note 30 on page 75.

Annual General Meeting

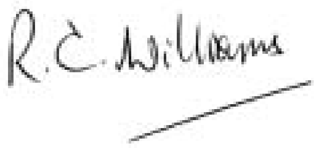
The AGM will be held at 11.00am on Thursday 13 May 2004 at The Royal Automobile Club, 89 - 91 Pall Mall, London SW1Y 5HS. The notice convening the meeting and the resolutions to be put to the meeting, together with the explanatory notes, are given in the Circular to all shareholders which accompanies the Annual report and 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 7,776,920 ordinary shares, approximately 9.9% of its current issued capital). This authority will include the purchase of shares into treasury.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution to reappoint them as auditors will be proposed at the AGM.

By order of the Board



Roy Williams Group Company Secretary
1 March 2004

Corporate governance report

The Listing Rules of the Financial Services Authority require listed companies to disclose, in relation to Section 1 of the Combined Code 1998 (the Code), how they have applied its principles and whether they have complied with its provisions throughout the accounting period.

This statement, together with the report on Directors' remuneration on pages 28 to 34, explains how the Company has applied the principles and complied with the provisions set out in the Code.

The Company is aware of the requirements introduced in the new Combined Code (the New Code), which applies for reporting years beginning on or after 1 November 2003. Some measures have already been taken, including changes in the membership of the Audit, Remuneration and Nomination Committees and the adoption of: new terms of reference for those Committees; terms and conditions for the appointment of Non-executive Directors; and the schedule of matters reserved for decision by the Board, all of which have been revised in light of the New Code. Where appropriate, these documents are available on the Company's website. The Company will continue to review its compliance throughout 2004.

The Board

The role of the Chairman is separate from that of the Group Chief Executive. The Chairman is responsible for creating the conditions to achieve overall Board, and individual Director's, effectiveness whereas the Group Chief Executive is responsible for the operational implementation of the strategy and policies agreed by the Board.

Currently the Board has seven Non-executive Directors who bring to the Group a wide diversity of experience and expertise. Five of the Non-executive Directors including the Chairman are considered by the Board, in accordance with the Code, to be independent of the management of the Group 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 the Non-executive Deputy Chairman and a Non-executive Director. Trevor Taylor is not regarded as independent of the management of the Group because he was formerly an Executive Director. Raymond Ch'ien is a Non-executive Director and is also not regarded as independent because he previously had a service contract with Crown Motors Ltd, a subsidiary of the Company incorporated in Hong Kong.

Non-executive Directors have been appointed for an initial period of three years, which may be extended by agreement with the Board. With the exception of Michael Wemms, 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. Michael Wemms was appointed to the Board since the 2003 AGM and he will be seeking election at the 2004 AGM.

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 2003 the Board had nine scheduled meetings, and a number of ad hoc meetings to deal with particular matters. In addition, the Board held a strategy review meeting. 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 formal 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 Directors to ensure that they are properly apprised of the Group's activities and strategic direction. In addition the Company is developing a programme, which covers generic induction for new Board members and arrangements for individual coaching and annual best practice updates for the whole of the Board where appropriate. These arrangements will continue to be provided by a combination of internal and external resources.

The Company has retained the services of an independent external adviser, Towers Perrin, to develop a performance evaluation programme for the Board and its Committees. The programme will be operational during 2004.

All members of the Board have access to the services and advice of the Group Company Secretary.

Board committees

The Board has three principal committees, all with written terms of reference. The Group Company Secretary serves as Secretary to all three Committees. The Chairmen of these Committees are expected to be available to answer questions at the AGM.

Audit Committee

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. Part of the Committee's responsibility in relation to external auditors is to review the nature of their independence and the extent of the non-audit services that they provide.

The members of the Committee during 2003 were Ken Hanna (Chairman), Sir John Egan, Hugh Norton and Simon Robertson. They are all Non-executive Directors and are regarded as independent of the management of the Company in accordance with the Code. The dates of their respective appointments are given on page 22. All members served on the Committee throughout the year.

The participation of Sir John Egan on the Committee has been reviewed in light of the provisions of the New Code. While Sir John will continue to attend meetings, he ceased to be a member of the Committee with effect from 29 January 2004. Michael Wemms, who joined the Board on 29 January 2004, was appointed as a member of the Committee on that date.

In light of Ken Hanna's qualifications as a Chartered Accountant and his experience with Coopers & Lybrand and Compass Partners, the Board has determined that he has recent and relevant financial experience.

The Committee held three scheduled meetings during the year, an additional meeting having been introduced in light of the New Code.

The Group Chief Executive, the Group Finance Director, the Director of Audit and Risk Management and the external auditors also attend meetings of the Committee. The Non-executive Directors on the Committee have the opportunity at each meeting to review any issues with the external auditors and with the Director of Audit and Risk Management without any other members of the executive management being present. Attendance of non-members is at the discretion and by invitation of the Committee Chairman.

Remuneration Committee

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. More details are given in the Board report on remuneration on pages 28 to 34.

Nomination Committee

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

The members of the Committee are Sir John Egan (Chairman), Peter Johnson, Ken Hanna, appointed on 26 February 2004, Hugh Norton and Simon Robertson. Other than Ken Hanna, all members served throughout the year.

In identifying suitable candidates, the Committee sets objective criteria and uses external advisers to facilitate the search process. Candidates from a wide range of backgrounds are then considered on merit against those criteria. The Committee also satisfies itself that the selected candidate has enough time available to devote to the appointment.

The Committee held two ad hoc meetings during the year to consider the election and re-election of Directors to the Board at the 2003 AGM, and to consider the appointment of Michael Wemms as a Non-executive Director in accordance with the processes explained above.

Communication with shareholders

The Company encourages two way communication with its institutional and private investors and responds promptly 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.

The Company has an established Investor Relations programme in the course of which the Group Chief Executive and the Group Finance Director have regular meetings with major shareholders to update them on the Company's progress and to discuss any issues that investors may have. Any issues arising at such meetings are reported and considered by the Board. In addition, the Company's stockbrokers, UBS, obtain shareholder feedback on a confidential basis from major investors following the meetings and this is reported in summary and considered at Board meetings.

The Chairman wrote to major shareholders during the year advising them that he, the senior independent Non-executive Director and the rest of the Board are available to meet shareholders.

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 the Non-executive Directors appears in the Board report on remuneration on pages 28 to 34.

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 a system 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 and review 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 implementing internal control procedures.

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 that have been identified, output from monitoring processes, including internal audit reports, and changes to be made to the internal control system. It also follows up on areas that require improvement and reports back to the Audit Committee every six months, or more frequently if required.

The Group Chief Executive also reports to the Board, on behalf of executive management, significant changes in the Group's business and the external environment in which it operates. In addition, 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 the budget and, where appropriate, revised forecasts at each of the Board's scheduled meetings.

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

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

Auditor's independence

The Company, through its Audit Committee, has reviewed a report from its auditors, PricewaterhouseCoopers LLP (PwC), confirming, in their professional judgement, their independence. The review included the audit, audit related, tax and consulting services provided by PwC, and compliance with the Group policy introduced in 2002 which prescribes the types of engagements for which external auditors may be used. The Company concluded that there are sufficient controls and processes in place to ensure the required level of independence.

Statement of compliance with the Combined Code

The Company was in compliance throughout the year ended 31 December 2003 with the provisions set out in Section 1 of the 1998 Combined Code.

Board report on remuneration

Introduction

The Remuneration Committee (the Committee) has formal Terms of Reference (revised to comply with the new Combined Code). 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.

In 1999, at the time Inchcape became a pure automotive services group, the Committee agreed to review its remuneration policy and practice in 2004. The Committee decided to undertake this review in 2003, a year early, because it believed that it was important for the Company's remuneration policy to continue to support its business strategy and to allow the Company to motivate and retain its executive team and, where necessary, recruit executives of high quality. The changes that are proposed following this review are described in detail under each element of remuneration in the body of this report and also in the Circular to shareholders. Resolutions to approve this report, amendments to the rules of the long term incentive plans and the SAYE Share Option Scheme and the extension of the SAYE scheme for a further period will be put to shareholders at the 2004 Annual General Meeting (AGM).

Throughout 2003 the Company complied with the provisions of Schedule A of the 1998 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 1998 Combined Code. The Company is aware of the requirements introduced in the new Combined Code and will review its compliance throughout 2004, with additional disclosures being made in its next Annual report and accounts. The contents of this report also comply with the Directors' Remuneration Report Regulations 2002.

Committee operation

The members of the Committee during 2003 were Hugh Norton (Chairman), Sir John Egan, Simon Robertson and Ken Hanna. They are all Non-executive and regarded as independent of the management of the Company in accordance with the 1998 Combined Code. All members served on the Committee throughout the year. The participation of Sir John Egan on the Committee has been reviewed in light of provisions in the new Combined Code. While Sir John Egan will continue to attend meetings, he ceased to be a member of the Committee with effect from 29 January 2004. Michael Wemms, who joined the Board on 29 January 2004, was appointed as a member of the Committee on that date. He will succeed Hugh Norton as Chairman of the Committee upon Hugh Norton's retirement at the conclusion of the 2004 AGM.

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 2003, 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.

Towers Perrin provided advice to the Committee throughout 2003, having been appointed as advisers in December 2002. Towers Perrin did not provide any other consulting services to the Company of a material nature. During the year, the Committee has been advised internally by Peter Johnson, Group Chief Executive, Roy Williams, Group Company Secretary and Nick Smith, Group Human Resources Director. No executive attended any Remuneration Committee meeting where his 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 remuneration policy outlined below, provide a framework for the decision making process.

Remuneration policy

In reviewing its remuneration policy and practice in 2003, the Committee was guided by the following principles:

- the package should be competitive (i.e. at or around median) 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 the 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, and subject to shareholder approval of the changes to the long term incentive plans, if the Group meets its target levels of performance, the expected value of the variable elements will account for approximately 45.0% – 50.0% of the Executive Directors' total remuneration and, if the Group achieves outstanding results, approximately 60.0% – 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

Base salaries are set by the Committee, taking into account the individual's level of responsibility, experience, and performance, along with salary levels in comparable companies. In the course of the review of its remuneration arrangements in 2003, the Committee updated its comparator group, which is now made up of twenty five general industry companies, almost all being companies in the FTSE mid 250 index. Those companies were chosen because they are of a similar size and complexity (measured in terms of revenues, market capitalisation, employee numbers and international scope) as the Company.

Base salary is the only element of remuneration which is pensionable.

Annual bonus

During 2003 the Executive Directors participated in a bonus plan based solely on profit before tax, which yields a bonus of 30.0% of base salary if target performance is achieved and higher payments for performance above target to a maximum of 70.0% of base salary. Peter Johnson and Alan Ferguson received a bonus of 60.0% of their salaries, as the Group significantly exceeded its targets. Graeme Potts received a target bonus based on the performance of the businesses he is responsible for. The actual bonuses paid for 2003 are shown in the table on page 32. The Committee reviewed the level and structure of the bonus plan for its Executive Directors as part of the 2003 review. As a result, it intends to make the following changes to the bonus plan:

- in order to remain competitive with peer companies, the Chief Executive's target bonus will change to 40.0% of base salary for 2004 (with a corresponding maximum of 90.0% of base salary). No change in target or maximum levels is proposed for the other Executive Directors;

- the Committee is keen to develop and introduce an additional quantifiable performance measure for the Executive Directors to supplement profit before tax. A suitable measure is being developed and tested in 2004, for probable introduction in 2005; and

- in 2004 measurement of the bonus of the Managing Director, Inchcape UK and Europe, will be against Group performance alone.

Executive share options

The Inchcape 1999 Share Option Plan (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 2003 grant of share options covered 252 participants across the world. Details of share options granted to Executive Directors in 2003 are shown in note 3 on pages 33 and 34.

The Committee concluded during the 2003 remuneration review that share options remain the most appropriate primary long term incentive vehicle for the Company due to its continued focus on growth. However, changes to the operation of the performance condition are proposed to ensure that the operation of the Plan is in line with current best practice.

The exercise of each share option previously granted under the Plan was subject to a performance target, whereby growth in Company earnings per share (EPS) over a three year period had to exceed the increase in the UK Retail Price Index (RPI) over the same period by 3.0% per annum. The Committee proposes that options granted after the 2004 AGM and beyond will vest according to a sliding scale: 25.0% of the award will vest if EPS growth of RPI + 3.0% per annum is achieved over the initial three year period, with all of the award vesting if EPS growth is RPI + 8.0% per annum. Awards will vest on a stepped line basis between these two points. None of the award will vest if EPS growth is less than RPI + 3.0% per annum. There will be no re-testing.

The Committee believes that these EPS targets are significantly more demanding than previously, and has taken into account both external and internal earnings expectations of performance. The Committee has retained EPS as the performance measure to ensure that Executive Directors only receive rewards if there is significant and sustained improvement in the underlying financial performance of the Company. EPS will continue to be the Headline earnings per ordinary share 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. If this were to be the case, any adjustment would be disclosed in this report.

Following the review in 2003 the Committee intends to make annual grants of two times base salary, with the Committee taking into account the Executive Director's and the Company's performance. This increase in grant level is necessary to bring the Company's long term incentive provision in line with the market. Grants in excess of the two times limit may be required in the future in the event of new hires or developments in market practice. Therefore the Committee also proposes, subject to shareholder approval, to increase the maximum allowable annual grant level in the Plan rules to four times base salary to give it flexibility in the future.

The combined effect of the changes to the design of the Plan described above is to ensure that the Plan is significantly more performance linked in the future than previously.

Board report on remuneration continued

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. Details of awards made to Executive Directors in 2003 under the Deferred Bonus Plan are shown in note 3 on page 34.

The Committee has reviewed the operation of the Deferred Bonus Plan and proposes that from 2004 participants may invest a minimum of 10.0% and a new maximum of 75.0% of any bonus award (after tax) to acquire ordinary shares in the Company. In addition, to comply with current best practice and to align Executive Directors' rewards under the Deferred Bonus Plan to shareholders' interests, the Committee proposes introducing a performance condition attaching to the vesting of matching shares. That test will be EPS growth of RPI + 3.0% per annum, with no re-testing and will apply from 2004. EPS has been chosen because the Committee believes the key to Inchcape delivering value to shareholders is through continued strong earnings growth over the long term. EPS will be measured in the same manner as for the Share Option Plan. Subject to that performance condition being met, the participant's shares being held in trust for three years and the participant remaining an employee of the Group, he or she will become entitled to be awarded shares to an amount equal to the gross amount of the bonus used to acquire ordinary shares in the Company.

Executive Share Ownership

To emphasise the importance the Committee places on executive share ownership, Executive Directors are expected to hold a fixed number of shares equivalent to one times base salary. They have up to five years from 2004, or date of first grant as an Executive Director (if later), to reach this shareholding target.

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. Shareholder approval is sought to extending the Scheme for another ten years along with some minor amendments to its terms. Details of the amendments are described in the Circular to shareholders.

Retirement benefits

The Inchcape Group (UK) Pension Scheme provides benefits for Executive Directors and certain other senior executives at the normal retirement age of sixty, equal to a maximum of two thirds of final base salary, subject to completion of twenty 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 RPI.

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.

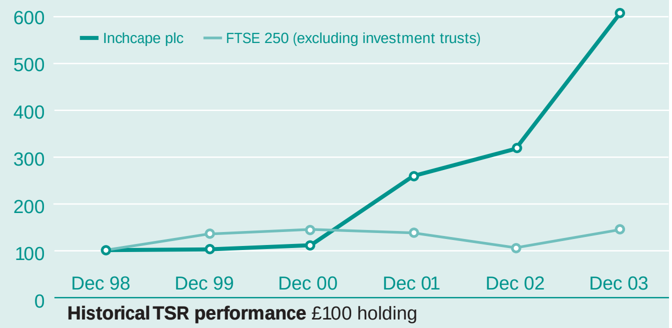
Executives whose base salary is capped are paid a monthly cash supplement. The two Executive Directors who received such supplements in the year are Peter Johnson and Graeme Potts. Details of the amounts paid are shown in note 1 on page 32. Peter Johnson's cash supplement was increased from 40.0% to 50.0% of salary during 2003. This increase moves his long term pension provision closer to a market competitive level, bearing in mind that his defined benefit pension provision is capped.

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 (TSR) over a five year period, relative to the performance of the total return index of the FTSE mid 250 group of companies. TSR 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 in which Inchcape plc belongs.



Historical TSR performance £100 holding
Growth in the value of a hypothetical £100 holding over five years
FTSE 250 excluding investment trusts comparison based on thirty trading day average values

Chairman's remuneration

During the year the Chairman's remuneration was determined by the other Non-executive Directors following a recommendation from the senior independent Non-executive Director.

From 2004, in accordance with the new terms of reference for the Remuneration Committee, the Chairman's remuneration will be determined by the Committee.

Fees are reviewed annually with the Non-executive Directors (from 2004, the Remuneration Committee) 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 the Chairman is not eligible for pension scheme membership or participation in any of the Company's bonus, share option or other incentive schemes.

The Chairman does not take part in any discussion or decision as to his remuneration.

Non-executive Directors' remuneration

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. The Non-executive Directors do not 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 the Non-executive Directors are not 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

Normal retirement age is sixty. 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.

Sir John Egan's appointment, which was due to expire on 31 May 2004, has been extended by agreement with him for a further two years.

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

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:

	2003 £'000	2002 £'000
Remuneration and Non-executive Directors' fees	**1,891.1**	1,429.5
Bonus payments	**642.0**	562.0
Total	**2,533.1**	1,991.5

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 33 and 34.

	Base salary/fees		Bonus (g)		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	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000
Sir John Egan	**140.0**	132.5	**–**	–	**18.7**	16.0	**158.7**	148.5	**–**	–	**158.7**	148.5
Peter Johnson (d) (highest paid Director)	**522.5**	460.5	**348.0**	282.0	**26.4**	25.0	**896.9**	767.5	**214.4**	145.5	**1,111.3**	913.0
Alan Ferguson	**315.0**	265.0	**192.0**	180.0	**17.2**	17.6	**524.2**	462.6	**–**	–	**524.2**	462.6
Graeme Potts (e)	**334.1**	100.8	**102.0**	100.0	**23.5**	9.5	**459.6**	210.3	**71.3**	21.2	**530.9**	231.5
Trevor Taylor (f)	**29.0**	72.4	**–**	–	**–**	7.9	**29.0**	80.3	**–**	–	**29.0**	80.3
Hugh Norton (b) (c)	**54.6**	36.0	**–**	–	**–**	–	**54.6**	36.0	**–**	–	**54.6**	36.0
Simon Robertson	**39.0**	33.0	**–**	–	**–**	–	**39.0**	33.0	**–**	–	**39.0**	33.0
Raymond Ch'ien (a)	**29.0**	26.0	**–**	–	**14.3**	14.6	**43.3**	40.6	**–**	–	**43.3**	40.6
Ken Hanna (c)	**42.1**	30.9	**–**	–	**–**	–	**42.1**	30.9	**–**	–	**42.1**	30.9
Tony Alexander (retired 16 May 2002)	**–**	15.1	**–**	–	**–**	–	**–**	15.1	**–**	–	**–**	15.1
Total	**1,505.3**	1,172.2	**642.0**	562.0	**100.1**	90.6	**2,247.4**	1,824.8	**285.7**	166.7	**2.533.1**	1,991.5

(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 £3,000 to Hugh Norton as the fee for chairing the Scheme's Trustee Board.

(c) The fees details shown include fees of £5,000 to Hugh Norton and Ken Hanna for chairing the Remuneration Committee and Audit Committee respectively.

(d) The payment of £214,405 (2002 – £145,500) was paid directly to Peter Johnson to allow him to make his own pension arrangements outside the Company's plans.

(e) The payment of £71,310 (2002 – £21,200) 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.

(g) Executive Directors may elect to invest up to 50.0% of their annual bonus in the Deferred Bonus Plan. The invested monies are grossed up by the Company to remove the effect of tax on that portion of the executive's bonus and the grossed up amount is used by the Company to purchase ordinary shares, which are held in trust for the executive. Provided the executive remains employed by the Group for three years, the shares and an equal number of matching shares (Awarded shares) will vest and the executive may exercise his rights under the Plan at any time during the six month exercise period. Details of Awarded shares are set out in the deferred bonus awards table on page 34. Proposed changes to the Deferred Bonus Plan are discussed on page 30.

No Directors waived emoluments in respect of the year ended 31 December 2003 (2002 – 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 31.12.03 £'000	Transfer value of the increase in accrued benefit net of inflation 01.01.03 £'000	Transfer value of accrued benefits at 31.12.03 (a) £'000	Transfer value of accrued benefits at 01.01.03 (b) £'000	Difference in transfer value (a) – (b) £'000
Peter Johnson (highest paid Director)	3.8	3.1	29.0	47.1	449.6	342.7	106.9
Alan Ferguson	34.2	30.7	159.8	360.7	1,877.2	1,328.9	548.3
Graeme Potts	3.3	3.3	4.1	29.1	36.6	6.3	30.3
Total	41.3	37.1	192.9	436.9	2,363.4	1,677.9	685.5

The transfer value has been calculated in accordance with Retirement Benefits Schemes Transfer Values (GN 11), 6 April 2002.

No Directors made any contribution to their pension in respect of the above during the year.

3 Directors' share options

	Held at 31.12.03	Granted during the year	Exercised during the year	Held at 01.01.03 (or date of appointment, if later)	Exercise price (g)	Exercisable between
Peter Johnson (highest paid Director)	–	–	172,679 (c)	172,679 (a)	388.0p	Sep 2002 – Sep 2009
	–	–	2,980 (d)	2,980 (b)	325.0p	Dec 2002 – Jun 2003
	–	–	140,845 (e)	140,845 (a)	284.0p	Aug 2003 – Aug 2010
	104,166 (a)	–	–	104,166 (a)	384.0p	Mar 2004 – Mar 2011
	63,065 (a)	–	–	63,065 (a)	685.0p	Mar 2005 – Mar 2012
	61,679 (a)	61,679 (a)	–	–	762.0p	Mar 2006 – Mar 2013
	1,549 (b)	1,549 (b)	–	–	610.0p	Jun 2006 – Dec 2006
Alan Ferguson	–	–	90,205 (c)	90,205 (a)	388.0p	Sep 2002 – Sep 2009
	–	–	2,980 (d)	2,980 (b)	325.0p	Dec 2002 – Jun 2003
	35,000 (a)	–	35,422 (f)	70,422 (a)	284.0p	Aug 2003 – Aug 2010
	52,083 (a)	–	–	52,083 (a)	384.0p	Mar 2004 – Mar 2011
	33,576 (a)	–	–	33,576 (a)	685.0p	Mar 2005 – Mar 2012
	39,370 (a)	39,370 (a)	–	–	762.0p	Mar 2006 – Mar 2013
	1,549 (b)	1,549 (b)	–	–	610.0p	Jun 2006 – Dec 2006
Graeme Potts	97,014 (a)	–	–	97,014 (a)	670.0p	Oct 2005 – Oct 2012
	42,650 (a)	42,650 (a)	–	–	762.0p	Mar 2006 – Mar 2013
	1,549 (b)	1,549 (b)	–	–	610.0p	Jun 2006 – Dec 2006

(a) Under the Inchcape 1999 Share Option Plan.

(b) Under the Inchcape SAYE Share Option Scheme.

(c) Mr Johnson and Mr Ferguson exercised their options over 172,679 and 90,205 ordinary shares, respectively, on 5 March 2003. On the day of exercise the mid market price of the ordinary shares was 745.5p. Gains of £617,327 and £322,483 respectively were made upon the exercising of these options.

(d) Mr Johnson and Mr Ferguson exercised their options over 2,980 and 2,980 ordinary shares, respectively, on 8 April 2003. On the day of exercise the mid market price of the ordinary shares was 740.0p. A gain of £12,367 was made upon the exercising of each of these options.

(e) Mr Johnson exercised his option over 140,845 ordinary shares on 15 December 2003. On the day of exercise the mid market price of the ordinary shares was 1295.0p. A gain of £1,423,943 was made upon the exercising of this option.

(f) Mr Ferguson exercised part of his option over 35,422 ordinary shares on 15 December 2003. On the day of exercise the mid market price of the ordinary shares was 1295.0p. A gain of £358,116 was made upon the exercising of this option.

(g) Exercise prices are determined in accordance with the rules of the relevant share option scheme.

Notes to the Board report on remuneration continued

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 2003 and 31 December 2003. The mid market price of the shares at 31 December 2003 was 1302.0p. The price range during 2003 was 665.0p to 1386.0p.

(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 in 1999, 2000, 2001, 2002 and 2003 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.

Deferred bonus awards

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

	Awarded ordinary shares 31.12.03	Ordinary shares exercised during the year	Ordinary shares awarded during the year	Awarded ordinary shares 01.01.03	Market value of shares awarded	Exercise period
Peter Johnson	–	35,263 (a)	–	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
	18,850	–	18,850	–	748.0p	Apr 2006 – Oct 2006
Alan Ferguson	–	18,421 (a)	–	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
	5,553	–	5,553	–	750.0p	Mar 2006 – Sep 2006
	6,461	–	6,461	–	748.0p	Apr 2006 – Oct 2006
Graeme Potts	6,684	–	6,684	–	748.0p	Apr 2006 – Oct 2006

(a) Mr Johnson and Mr Ferguson exercised the awards granted to them on 8 September 2000, of 35,263 and 18,421 ordinary shares respectively, on 15 December 2003. On the day of exercise the mid market price of the ordinary shares was 1295.0p.

(b) The executive will become entitled to the awarded shares if he remains employed by the Inchcape Group for three years and retains the 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
1 March 2004

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 and the Group 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

* These pages do not form part of the audited Financial statements.

Independent Auditors' report to the members of Inchcape plc
We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, the related notes, and the 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 and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Board report on remuneration.

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, the Corporate social responsibility report, Inchcape in the community, Environment, health and safety, Working for Inchcape, the Corporate governance report, Board of Directors, the Directors' report, the unaudited part of the Board report on remuneration, Directors' responsibilities, 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, issued in June 1998, 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 2003 and of 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
1 March 2004

Consolidated profit and loss account

For the year ended 31 December 2003

Notes		Before VAT exceptional **2003** **£m**	VAT exceptional **2003** **£m**	Total **2003** **£m**	2002 £m
1a	**Turnover including share of joint ventures and associates**	**3,855.2**	**–**	**3,855.2**	3,517.0
	Less:				
1a	– share of joint ventures	**(20.0)**	**–**	**(20.0)**	(30.4)
1a	– share of associates	**(42.0)**	**–**	**(42.0)**	(72.8)
1a	Group turnover	**3,793.2**	**–**	**3,793.2**	3,413.8
	Cost of sales	**(3,223.3)**	**–**	**(3,223.3)**	(2,901.7)
	Gross profit	**569.9**	**–**	**569.9**	512.1
3,4a	Net operating expenses	**(445.5)**	**15.3**	**(430.2)**	(410.2)
	Operating profit	**124.4**	**15.3**	**139.7**	101.9
1b	Share of profits of joint ventures	**10.0**	**–**	**10.0**	9.1
1b	Share of profits of associates	**0.9**	**–**	**0.9**	0.6
1b	**Total operating profit**	**135.3**	**15.3**	**150.6**	111.6
6	Net profit on sale of properties and investments	**0.9**	**–**	**0.9**	0.9
6	Net (loss) profit including provisions on sale and termination of operations	**(0.4)**	**–**	**(0.4)**	1.2
	Profit on ordinary activities before interest	**135.8**	**15.3**	**151.1**	113.7
7	Net interest	**(5.0)**	**22.2**	**17.2**	(5.1)
4b,10	**Profit on ordinary activities before taxation**	**130.8**	**37.5**	**168.3**	108.6
8	Tax on profit on ordinary activities	**(31.8)**	**(7.5)**	**(39.3)**	(28.9)
	Profit on ordinary activities after taxation	**99.0**	**30.0**	**129.0**	79.7
9	Minority interests	**(2.0)**	**–**	**(2.0)**	(3.4)
25a	**Profit for the financial year**	**97.0**	**30.0**	**127.0**	76.3
11	Dividends	**(29.6)**	**–**	**(29.6)**	(23.6)
25a	**Retained profit for the financial year**	**67.4**	**30.0**	**97.4**	52.7

10	Profit before tax (£m)			**168.3**	108.6
10	Basic earnings per share (pence)			**164.8p**	100.1p
10	Diluted earnings per share (pence)			**162.1p**	97.9p
	Headline (before goodwill amortisation £5.5m (2002 – £5.6m) and exceptional items):				
10	– profit before tax (£m)	**135.8**			112.1
10	– earnings per share (pence)	**132.4p**			104.5p

Statement of total recognised gains and losses

For the year ended 31 December 2003

Notes		2003 £m	2002 £m
25a	Profit for the financial year	**127.0**	76.3
	Effect of foreign exchange rate changes:		
	– results for the year	**(2.9)**	(3.4)
	– foreign currency net investments: subsidiaries	**(4.6)**	(7.3)
	joint ventures and associates	**(2.9)**	(3.2)
	Total recognised gains relating to the year	**116.6**	62.4
	Prior period adjustment (note 2):		
	– subsidiaries	**–**	(2.5)
	– joint ventures	**–**	(1.7)
	Total recognised gains since last annual report	**116.6**	58.2

Note of historical cost profits and losses

For the year ended 31 December 2003

Notes		2003 £m	2002 £m
	Reported profit on ordinary activities before taxation	**168.3**	108.6
	Realisation of property revaluation surpluses	**–**	0.2
	Difference between the historical cost and the actual depreciation charge	**0.6**	0.7
	Historical cost profit on ordinary activities before taxation	**168.9**	109.5
	Historical cost profit after taxation, minority interests and dividends	**98.0**	53.6

Consolidated and company balance sheets

As at 31 December 2003

Notes		Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
	Fixed assets:				
12	Intangible assets	**60.9**	82.9	**–**	–
13	Tangible assets	**272.9**	258.1	**–**	–
14	Investments:				
	– subsidiaries	**–**	–	**1,186.2**	1,020.5
	– joint ventures: share of gross assets	**257.1**	319.2		
	share of gross liabilities	**(216.7)**	(271.6)		
	share of net assets	**40.4**	47.6	**–**	–
	– associates	**26.2**	26.2	**–**	–
	– other investments	**7.2**	6.3	**6.4**	5.5
		407.6	421.1	**1,192.6**	1,026.0
	Current assets:				
15	Stocks	**597.8**	501.8	**–**	–
16	Debtors:				
	– amounts due within one year	**235.0**	190.4	**2.0**	1.8
	– amounts due after more than one year	**11.3**	14.5	**202.6**	193.7
17	Investments	**13.8**	11.4	**–**	–
26b	Cash at bank and in hand	**102.9**	103.2	**21.7**	18.5
		960.8	821.3	**226.3**	214.0
	Creditors – amounts falling due within one year:				
18a	Borrowings	**(23.2)**	(44.6)	**(0.4)**	(20.1)
18b	Other	**(709.4)**	(596.5)	**(26.0)**	(399.5)
		(732.6)	(641.1)	**(26.4)**	(419.6)
	Net current assets (liabilities)	**228.2**	180.2	**199.9**	(205.6)
	Total assets less current liabilities	**635.8**	601.3	**1,392.5**	820.4
	Creditors – amounts falling due after more than one year:				
19a	Borrowings	**(0.6)**	(42.0)	**–**	(0.4)
19b	Other	**(58.5)**	(66.3)	**(757.5)**	(343.9)
		(59.1)	(108.3)	**(757.5)**	(344.3)
21	**Provisions for liabilities and charges**	**(87.0)**	(94.5)	**(25.1)**	(28.3)
	Net assets	**489.7**	398.5	**609.9**	447.8
	Capital and reserves:				
24a,25a	Called-up share capital	**118.4**	116.6	**118.4**	116.6
25a	Share premium account	**109.1**	107.5	**109.1**	107.5
25a	Revaluation reserve	**29.1**	30.4	**–**	–
25a	Capital redemption reserve	**16.4**	16.4	**16.4**	16.4
25a	Profit and loss account	**210.1**	121.8	**366.0**	207.3
	Equity shareholders' funds	**483.1**	392.7	**609.9**	447.8
	Minority interests	**6.6**	5.8	**–**	–
		489.7	398.5	**609.9**	447.8

The financial statements on pages 38 to 75 were approved by the Board of Directors on 1 March 2004 and were signed on its behalf by:

Peter Johnson Director **Alan Ferguson** Director

Consolidated cash flow statement

For the year ended 31 December 2003

Reconciliation of operating profit to operating cash flows

Notes		2003 £m	2002 £m
	Operating profit	**139.7**	101.9
4b(i)	Amortisation	**5.2**	5.0
13	Depreciation	**26.6**	27.8
4b(i)	Loss on sale of tangible fixed assets other than property	**1.7**	1.6
	(Increase) decrease in stocks	**(75.2)**	25.9
	(Increase) decrease in trade debtors	**(4.0)**	2.5
	Increase in trade creditors	**78.9**	3.6
	Payments in respect of termination of operations	**(3.1)**	(2.4)
	Other items*	**(19.0)**	(2.0)
	Net cash inflow from operating activities	**150.8**	163.9

Consolidated cash flow statement

Notes		2003 £m	2002 £m
	Net cash inflow from operating activities	**150.8**	163.9
	Dividends from joint ventures	**4.3**	5.5
	Dividends from associates	**1.9**	3.4
27a	Returns on investments and servicing of finance	**(1.6)**	(6.7)
	Taxation	**(28.5)**	(26.2)
27b	Capital expenditure and financial investment	**(33.6)**	(23.6)
		93.3	116.3
27c	Acquisitions and disposals	**(0.5)**	(89.7)
	Equity dividends paid	**(25.4)**	(21.4)
	Net cash inflow before use of liquid resources and financing	**67.4**	5.2
	Net cash inflow from the management of liquid resources	**6.7**	1.6
27d	Net cash outflow from financing	**(63.8)**	(15.6)
26a	**Net increase (decrease) in cash**	**10.3**	(8.8)

Reconciliation of net cash flow to movement in net cash

Notes		2003 £m	2002 £m
	Net increase (decrease) in cash	**10.3**	(8.8)
26a	Net cash outflow from decrease in debt and lease financing	**67.2**	16.5
26a	Net cash inflow from the management of liquid resources	**(6.7)**	(1.6)
	Change in net cash resulting from cash flows	**70.8**	6.1
26a	Effect of foreign exchange rate changes on cash and debt	**(8.3)**	(7.0)
	Movement in net cash	**62.5**	(0.9)
	Net cash at 1 January	**16.6**	17.5
26a	**Net cash at 31 December**	**79.1**	16.6

* 2003 includes £14.3m of the VAT exceptional (note 3).

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 the Companies Act 1985 and applicable UK accounting standards which have been applied on a consistent basis for all Group operations.

b Basis of consolidation

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

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

c Turnover and cost of sales

Turnover is the total amount receivable for goods sold and services provided and is recognised when legal title to the vehicle passes to the customer. In practice this means that revenue is recognised when the vehicles are invoiced and physically dispatched or when the service has been undertaken.

Financial services interest and leasing income are included within turnover. Correspondingly, interest expense in respect of financial services is treated as cost of sales.

Turnover is net of any discounts provided for goods and services sold and excludes sales related taxes and intra Group transactions.

Cost of sales includes the expense relating to the estimated cost of self-insured warranties offered to customers.

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.

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 hyperinflation 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.

Historical 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 **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 2003 £m	Group subsidiaries 2002 £m	Share of joint ventures 2003 £m	Share of joint ventures 2002 £m	Share of associates 2003 £m	Share of associates 2002 £m	Total 2003 £m	Total 2002 £m
(i) By geographical market:								
UK	**1,244.8**	1,201.9	**7.7**	6.3	**40.0**	70.9	**1,292.5**	1,279.1
Greece/Belgium	**820.5**	697.2	**2.9**	5.1	**2.0**	1.9	**825.4**	704.2
Australia/New Zealand	**529.3**	455.3	**–**	6.5	**–**	–	**529.3**	461.8
Hong Kong	**224.3**	289.7	**9.4**	12.5	**–**	–	**233.7**	302.2
Singapore/Brunei	**614.3**	486.1	**–**	–	**–**	–	**614.3**	486.1
Other	**360.0**	283.6	**–**	–	**–**	–	**360.0**	283.6
	3,793.2	3,413.8	**20.0**	30.4	**42.0**	72.8	**3,855.2**	3,517.0
(ii) By activity:								
Import, Distribution and Retail	**2,753.5**	2,421.1	**1.1**	2.1	**38.0**	68.7	**2,792.6**	2,491.9
UK Retail	**989.5**	929.3	**–**	–	**–**	–	**989.5**	929.3
Financial Services	**50.0**	62.2	**18.9**	28.3	**4.0**	4.1	**72.9**	94.6
E-commerce	**0.2**	1.2	**–**	–	**–**	–	**0.2**	1.2
	3,793.2	3,413.8	**20.0**	30.4	**42.0**	72.8	**3,855.2**	3,517.0

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

		Group subsidiaries		Share of joint ventures		Share of associates		Total	
b	**Total operating profit**	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
(i)	**By geographical market:**								
	UK	**15.5**	14.5	**1.2**	(0.4)	**0.4**	0.2	**17.1**	14.3
	Greece/Belgium	**27.6**	16.4	**4.2**	2.7	**0.5**	0.4	**32.3**	19.5
	Australia/New Zealand	**21.2**	16.8	**–**	0.6	**–**	–	**21.2**	17.4
	Hong Kong	**18.0**	25.1	**4.6**	6.2	**–**	–	**22.6**	31.3
	Singapore/Brunei	**46.9**	32.5	**–**	–	**–**	–	**46.9**	32.5
	Other	**12.8**	10.5	**–**	–	**–**	–	**12.8**	10.5
		142.0	115.8	**10.0**	9.1	**0.9**	0.6	**152.9**	125.5
	Central costs	**(17.6)**	(13.9)	**–**	–	**–**	–	**(17.6)**	(13.9)
	VAT exceptional (note 3)	**15.3**	–	**–**	–	**–**	–	**15.3**	–
		139.7	101.9	**10.0**	9.1	**0.9**	0.6	**150.6**	111.6
(ii)	**By activity:**								
	Import, Distribution and Retail	**125.0**	106.1	**(0.7)**	(0.8)	**(0.9)**	(0.8)	**123.4**	104.5
	UK Retail	**12.8**	12.5	**–**	–	**–**	–	**12.8**	12.5
	Financial Services	**4.9**	(1.8)	**10.7**	9.9	**1.8**	1.4	**17.4**	9.5
	E-commerce	**(0.7)**	(1.0)	**–**	–	**–**	–	**(0.7)**	(1.0)
		142.0	115.8	**10.0**	9.1	**0.9**	0.6	**152.9**	125.5
	Central costs	**(17.6)**	(13.9)	**–**	–	**–**	–	**(17.6)**	(13.9)
	VAT exceptional (note 3)	**15.3**	–	**–**	–	**–**	–	**15.3**	–
		139.7	101.9	**10.0**	9.1	**0.9**	0.6	**150.6**	111.6
(iii)	**Operating profit before VAT exceptional and goodwill amortisation:**								
	Operating profit	**139.7**	101.9	**10.0**	9.1	**0.9**	0.6	**150.6**	111.6
	VAT exceptional (note 3)	**(15.3)**	–	**–**	–	**–**	–	**(15.3)**	–
	Goodwill amortisation (note 4)	**5.2**	5.0	**0.3**	0.3	**–**	0.3	**5.5**	5.6
		129.6	106.9	**10.3**	9.4	**0.9**	0.9	**140.8**	117.2

Of the £5.2m subsidiaries' goodwill amortisation, £3.5m (2002 – £3.7m) relates to the UK, £0.4m (2002 – £0.3m) to Greece/Belgium, £0.5m (2002 – £0.5m) to Australia/New Zealand and £0.8m (2002 – £0.5m) to Singapore/Brunei.

The £0.3m (2002 – £0.3m) joint ventures' and £nil (2002 – £0.3m) associates' goodwill amortisation fall under the UK segment.

Goodwill amortisation with the exception of £1.1m (2002 – £0.9m) in UK Retail, relates entirely to Import, Distribution and Retail.

Note 6 provides a split of the exceptional profit (loss) by country.

1 Segmental analysis continued

c Net assets (liabilities)

	Group subsidiaries 2003 £m	Group subsidiaries 2002 £m	Share of joint ventures 2003 £m	Share of joint ventures 2002 £m	Share of associates 2003 £m	Share of associates 2002 £m	Total 2003 £m	Total 2002 £m
(i) By geographical market:								
UK	**241.1**	238.2	**4.2**	4.6	**23.9**	24.2	**269.2**	267.0
Greece/Belgium	**4.8**	20.1	**2.7**	7.0	**2.3**	2.0	**9.8**	29.1
Australia/New Zealand	**(0.7)**	1.5	**–**	–	**–**	–	**(0.7)**	1.5
Hong Kong	**27.6**	28.9	**33.5**	36.0	**–**	–	**61.1**	64.9
Singapore/Brunei	**58.3**	57.9	**–**	–	**–**	–	**58.3**	57.9
Other	**69.8**	56.7	**–**	–	**–**	–	**69.8**	56.7
	400.9	403.3	**40.4**	47.6	**26.2**	26.2	**467.5**	477.1
Net cash	**79.1**	16.6	**–**	–	**–**	–	**79.1**	16.6
Other unallocated assets and liabilities*	**(56.9)**	(95.2)	**–**	–	**–**	–	**(56.9)**	(95.2)
	423.1	324.7	**40.4**	47.6	**26.2**	26.2	**489.7**	398.5
(ii) By activity:								
Import, Distribution and Retail	**240.8**	252.9	**0.3**	1.2	**18.4**	19.2	**259.5**	273.3
UK Retail	**149.7**	141.5	**–**	–	**–**	–	**149.7**	141.5
Financial Services	**10.3**	9.4	**40.1**	46.4	**7.8**	7.0	**58.2**	62.8
E-commerce	**0.1**	(0.5)	**–**	–	**–**	–	**0.1**	(0.5)
	400.9	403.3	**40.4**	47.6	**26.2**	26.2	**467.5**	477.1
Net cash	**79.1**	16.6	**–**	–	**–**	–	**79.1**	16.6
Other unallocated assets and liabilities*	**(56.9)**	(95.2)	**–**	–	**–**	–	**(56.9)**	(95.2)
	423.1	324.7	**40.4**	47.6	**26.2**	26.2	**489.7**	398.5

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

d Average number of employees

	Group subsidiaries 2003	Group subsidiaries 2002	Share of joint ventures 2003	Share of joint ventures 2002	Share of associates 2003	Share of associates 2002	Total 2003	Total 2002
Import, Distribution and Retail	**6,023**	6,007	**40**	63	**553**	614	**6,616**	6,684
UK Retail	**2,986**	2,841	**–**	–	**–**	–	**2,986**	2,841
Financial Services	**230**	258	**158**	185	**17**	16	**405**	459
E-commerce	**15**	32	**–**	–	**–**	–	**15**	32
Total operational	**9,254**	9,138	**198**	248	**570**	630	**10,022**	10,016
Corporate	**60**	51	**–**	–	**–**	–	**60**	51
	9,314	9,189	**198**	248	**570**	630	**10,082**	10,067

2 Prior period adjustment

The prior period adjustment in 2002 was as a result of the adoption of FRS 19 Deferred Tax. The Group's net assets were reduced by £4.2m in the year ended 31 December 2002. There were no prior period adjustments for the year ended 31 December 2003.

3 VAT exceptional

Following an announcement by HM Customs and Excise, we submitted claims for overpaid VAT relating to the period from 1973 to 1994. HM Customs and Excise paid some small claims in 2003 and in February 2004 agreed the vast majority of the remaining claims.

Net VAT recovered of £15.3m, after fees, has been treated as operating exceptional income in 2003. This has been reported as VAT exceptional for segmental purposes (note 1b). The £22.2m in associated interest is included as exceptional interest income.

We have received legal advice indicating that there are good grounds for some or all of the VAT recovery and associated interest not to be subject to corporation tax. However, we understand that the Inland Revenue will challenge this treatment. A provision of £7.5m has been made in this respect.

4 Operating profit

a	**Analysis of net operating expenses**	**2003 £m**	2002 £m
	Distribution costs	**(241.6)**	(223.1)
	Administrative expenses (including goodwill amortisation)	**(207.9)**	(190.4)
	Other operating income (including VAT exceptional of £15.3m)	**18.7**	1.0
	Utilisation of termination provisions	**0.6**	2.3
	Net operating expenses	**(430.2)**	(410.2)

b	**Profit on ordinary activities before taxation is stated after the following charges:**		
(i)	Amortisation of goodwill – subsidiaries	**5.2**	5.0
	Amortisation of goodwill – joint ventures and associates	**0.3**	0.6
	Depreciation of tangible fixed assets	**26.6**	27.8
	Loss on sale of tangible fixed assets other than property	**1.7**	1.6
	Hire of plant, machinery and equipment	**1.6**	1.6
	Other operating lease rentals payable	**22.5**	21.7
	Auditors' remuneration:		
	UK statutory audit (Company: £0.1m; 2002 – £0.1m)	**0.7**	0.7
	Overseas statutory audit	**0.6**	0.6
	Non-audit fees:		
	– tax advice (UK: £0.2m; 2002 – £0.2m)	**0.6**	0.6
	– due diligence and other audit-related work (UK: £nil; 2002 – £nil)	**0.2**	–
	– other services	**–**	0.2
	Total PricewaterhouseCoopers LLP audit and non-audit fees	**2.1**	2.1
	Audit fees and expenses – firms other than PricewaterhouseCoopers LLP	**0.1**	0.1

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

(ii)	Staff costs		
	Wages and salaries	**200.9**	189.3
	Social security costs	**22.2**	18.6
	Other pension costs	**9.3**	7.3
	Total employment costs of the Company and its subsidiaries	**232.4**	215.2

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).

5 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 fifty three 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 2003 on a market related basis.

The main assumptions are weighted average investment return of 6.1%, salary increase of 4.5% and pension increase of 2.5%. The market related value of the assets covered 101.4% 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 £120.9m, and the surplus was £1.9m. The Trustees' triennial valuation of the Inchcape Group (UK) Pension Scheme applies a more conservative discount rate than that used by the Group for SSAP 24 purposes. The Group's valuation is based on the best estimate of the long term return achievable on each of the scheme's investments, in accordance with advice from an independent actuary. This does not impact the future cash contributions to the scheme.

(ii) *Inchcape Motors Pension Scheme*

The latest actuarial valuation for this scheme was carried out at 5 April 2003 on a market related basis.

The main assumptions are weighted average investment return of 6.8%, salary increase of 4.5% and pension increase of 2.5%. The market value of the assets covered 90.7% 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 £89.1m, and the deficit was £9.6m.

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 2003 the market value of the net assets was £235.7m (2002 – £232.3m). At 5 April 2003, the scheme had only 0.9% invested in equities.

5 Pensions and other post-retirement benefits continued

a Pensions – Overseas schemes

The assets of all overseas schemes had a market value of £98.5m based on the latest actuarial valuations. This included £80.8m of assets held in the Inchcape Group Overseas Scheme managed from Guernsey. In note 5b, 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 91.8% of the benefits that had accrued to members. The net deficit at the time of the valuations totalled £8.8m.

Pension cost

The pension cost charged for 2003 was £9.3m (2002 – £7.3m) of which £7.5m (2002 – £5.7m) relates to schemes of a defined benefit nature and £1.8m (2002 – £1.6m) represents the amount attributable to defined contribution schemes. A provision of £4.5m (2002 – £4.9m) 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 £0.2m (2002 – £0.3m).

b Disclosures under FRS 17 for the year ended 31 December 2003

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 2003. Scheme assets are stated at their market value at 31 December 2003.

(i) Weighted average assumptions used by the actuaries:

	UK **2003** **%**	Hong Kong **2003** **%**	UK 2002 %	Hong Kong 2002 %	UK 2001 %	Hong Kong 2001 %
Rate of increase in salaries	**4.5**	**5.0**	4.5	5.0	4.5	5.8
Rate of increase in pensions	**2.5**	**–**	2.5	–	2.5	–
Discount rate	**5.4**	**4.9**	5.5	5.5	5.8	6.3
Inflation assumption	**2.5**	**2.0**	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.

5 Pensions and other post-retirement benefits continued

b Disclosures under FRS 17 for the year ended 31 December 2003 continued

(ii) The values of assets in the schemes and the expected long term rate of return were:

UK	2003 %	2003 £m	2002 %	2002 £m	2001 %	2001 £m
Equities	**7.5**	**162.2**	7.5	143.9	7.5	166.1
Bonds	**4.8**	**155.9**	4.6	140.4	5.0	147.6
Other	**4.6**	**16.1**	4.0	15.6	4.9	15.0
Total	**6.1**	**334.2**	6.0	299.9	6.3	328.7
Present value of pension liabilities		**(376.7)**		(346.9)		(319.2)
Net pension (liability) asset		**(42.5)**		(47.0)		9.5

Hong Kong	2003 %	2003 £m	2002 %	2002 £m	2001 %	2001 £m
Equities	**7.5**	**10.2**	7.5	9.2	8.5	10.9
Bonds	**4.0**	**3.0**	–	–	4.5	4.7
Other	**2.5**	**0.3**	2.5	3.2	–	–
Total	**6.6**	**13.5**	6.2	12.4	7.3	15.6
Present value of pension liabilities		**(15.8)**		(19.8)		(20.1)
Deficit in pensions		**(2.3)**		(7.4)		(4.5)
Related deferred tax asset		**–**		1.2		0.7
Net pension liability		**(2.3)**		(6.2)		(3.8)

Total	2003 £m	2002 £m	2001 £m
Equities	**172.4**	153.1	177.0
Bonds	**158.9**	140.4	152.3
Other	**16.4**	18.8	15.0
Total	**347.7**	312.3	344.3
Present value of pension liabilities	**(392.5)**	(366.7)	(339.3)
(Deficit) surplus in pensions	**(44.8)**	(54.4)	5.0
Related deferred tax asset	**–**	1.2	0.7
Net pension (liability) asset	**(44.8)**	(53.2)	5.7

5 Pensions and other post-retirement benefits continued

b Disclosures under FRS 17 for the year ended 31 December 2003 continued

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

	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Current year service cost	6.5	1.6	8.1	6.4	1.8	8.2
Past service cost	0.6	–	0.6	–	–	–
Total operating charge	7.1	1.6	8.7	6.4	1.8	8.2

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

	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Expected return on pension assets	17.7	0.7	18.4	20.3	1.1	21.4
Interest expense on pension liabilities	(18.9)	(1.0)	(19.9)	(18.3)	(1.2)	(19.5)
Net interest (expense) income in respect of pensions	(1.2)	(0.3)	(1.5)	2.0	(0.1)	1.9

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

	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Actual return less expected return on pension assets	21.9	3.1	25.0	(39.3)	(3.9)	(43.2)
Experience gains (losses) arising on pension liabilities	1.6	2.3	3.9	(1.2)	1.1	(0.1)
Changes in assumptions underlying the present value of pension liabilities	(17.1)	–	(17.1)	(14.0)	(0.5)	(14.5)
Actuarial gain (loss) recognised in the statement of total recognised gains and losses	6.4	5.4	11.8	(54.5)	(3.3)	(57.8)

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

	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
(Deficit) surplus in pensions at 1 January	(47.0)	(7.4)	(54.4)	9.5	(4.5)	5.0
Effect of foreign exchange rate changes	–	0.2	0.2	–	0.6	0.6
Current year service cost	(6.5)	(1.6)	(8.1)	(6.4)	(1.8)	(8.2)
Contributions	7.0	1.4	8.4	2.9	1.7	4.6
Other finance income	0.1	–	0.1	0.5	–	0.5
Other expenses	(0.7)	–	(0.7)	(1.0)	–	(1.0)
Past service costs	(0.6)	–	(0.6)	–	–	–
Net interest (expense) income in respect of pensions	(1.2)	(0.3)	(1.5)	2.0	(0.1)	1.9
Actuarial gain (loss) recognised in the statement of total recognised gains and losses	6.4	5.4	11.8	(54.5)	(3.3)	(57.8)
Deficit in pensions at 31 December	**(42.5)**	**(2.3)**	**(44.8)**	(47.0)	(7.4)	(54.4)

5 Pensions and other post-retirement benefits continued

b Disclosures under FRS 17 for the year ended 31 December 2003 continued

(vii) Details of experience gains and losses

	UK **2003** **£m**	Hong Kong **2003** **£m**	Total **2003** **£m**	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Actual return less expected return on pension assets	**21.9**	**3.1**	**25.0**	(39.3)	(3.9)	(43.2)
Total market value of pension assets	**334.2**	**13.5**	**347.7**	299.9	12.4	312.3
Percentage of pension assets	**6.6%**	**23.0%**	**7.2%**	(13.1)%	(31.5)%	(13.8)%

	UK **2003** **£m**	Hong Kong **2003** **£m**	Total **2003** **£m**	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Experience gains (losses) arising on pension liabilities	**1.6**	**2.3**	**3.9**	(1.2)	1.1	(0.1)
Present value of pension liabilities	**376.7**	**15.8**	**392.5**	346.9	19.8	366.7
Percentage of present value of pension liabilities	**0.4%**	**14.6%**	**1.0%**	(0.3)%	5.6%	–

	UK **2003** **£m**	Hong Kong **2003** **£m**	Total **2003** **£m**	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Actuarial gain (loss) recognised in the statement of total recognised gains and losses	**6.4**	**5.4**	**11.8**	(54.5)	(3.3)	(57.8)
Present value of pension liabilities	**376.7**	**15.8**	**392.5**	346.9	19.8	366.7
Percentage of present value of pension liabilities	**1.7%**	**34.2%**	**3.0%**	(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 2003 the market value of the net assets was £235.7m (2002 – £232.3m). At 5 April 2003, the scheme had only 0.9% invested in equities.

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.

(viii) If the amounts above had been recognised in the financial statements, the Group's balance sheet at 31 December 2003 would be as follows:

Net assets	**2003** **£m**	2002 £m
Net assets	**489.7**	398.5
SSAP 24 pension provision excluding defined contribution provision	**7.3**	7.6
Net assets excluding SSAP 24 pension provision	**497.0**	406.1
Pension liability	**(44.8)**	(53.2)
Net assets including pension liability	**452.2**	352.9
Reserves		
Profit and loss account	**210.1**	121.8
SSAP 24 pension provision excluding defined contribution provision	**7.3**	7.6
Profit and loss account excluding SSAP 24 pension provision	**217.4**	129.4
Pension reserve	**(44.8)**	(53.2)
Profit and loss account	**172.6**	76.2

6 Exceptional items charged after operating profit

	2003 £m	2002 £m
Net profit on sale of properties and investments	**0.9**	0.9
Net (loss) profit including provisions on sale and termination of operations:		
– UK Retail dealerships	**(4.6)**	(1.4)
– IFS Australia	**–**	0.8
– Provision release arising from central warranties/indemnities (note 21)	**4.0**	3.0
– Other (2002 includes goodwill written off £0.3m)	**0.2**	(1.2)
Total net (loss) profit including provisions on sale and termination of operations	**(0.4)**	1.2
Total exceptional items charged after operating profit	**0.5**	2.1

Goodwill written off included above of £nil (2002 – £0.3m) had been charged against reserves in previous years (note 25a).

7 Net interest

	2003 £m	2002 £m
Interest payable and other charges relating to the Company and its subsidiaries:		
Bank loans and overdrafts falling due within five years	**5.9**	6.6
Loan notes falling due within five years	**2.1**	2.7
Other interest	**4.8**	2.2
	12.8	11.5
Interest receivable relating to the Company and its subsidiaries:		
Bank and other interest	**(7.6)**	(6.2)
VAT exceptional (note 3)	**(22.2)**	–
	(29.8)	(6.2)
Net interest relating to the Company and its subsidiaries	**(17.0)**	5.3
Share of associates' net interest	**(0.2)**	(0.2)
	(17.2)	5.1

8 Taxation

a **Analysis of tax charge for the year**	Headline **2003** **£m**	VAT exceptional **2003** **£m**	Total **2003** **£m**	2002 £m
Current tax:				
– UK corporation tax at 30.0% (2002 – 30.0%)	**9.5**	**2.6**	**12.1**	5.5
– double tax relief	**(10.0)**	**–**	**(10.0)**	(5.8)
	(0.5)	**2.6**	**2.1**	(0.3)
Overseas tax	**37.5**	**–**	**37.5**	30.9
	37.0	**2.6**	**39.6**	30.6
Adjustments to prior year liabilities:				
– UK	**(3.3)**	**–**	**(3.3)**	(1.5)
– overseas	**(0.7)**	**–**	**(0.7)**	0.6
The Company and its subsidiaries' current tax	**33.0**	**2.6**	**35.6**	29.7
Share of joint ventures' current tax	**2.8**	**–**	**2.8**	3.2
Share of associates' current tax	**(0.2)**	**–**	**(0.2)**	0.6
Total current tax charge	**35.6**	**2.6**	**38.2**	33.5
The Company and its subsidiaries' deferred tax	**(3.3)**	**4.9**	**1.6**	(3.9)
Share of joint ventures' deferred tax	**(0.5)**	**–**	**(0.5)**	(0.7)
Total deferred tax	**(3.8)**	**4.9**	**1.1**	(4.6)
Tax on profit on ordinary activities	**31.8**	**7.5**	**39.3**	28.9

Tax on Headline profit (note 10) amounts to £31.8m (2002 – £29.1m) which is before tax relief of £nil (2002 – £0.2m) on goodwill amortisation (note 10). There is tax on the VAT exceptional income and associated interest of £7.5m (2002 – £nil). There is no tax on other exceptional items (2002 – £nil).

Of the Headline deferred tax credit £3.5m (2002 - £4.6m) has arisen from the origination and reversal of timing differences. A credit of £0.3m (2002 – £nil) has arisen due to adjustments to the estimated recoverable amount of deferred tax arising in prior years. All of the deferred tax charge on the VAT exceptional has arisen from the origination of timing differences.

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

The effective tax rate for the year of 22.7% (2002 – 30.8%) is lower than the standard rate of tax. The standard rate comprises the average rates of tax payable across the Group, weighted in proportion to accounting profits.

	2003 **£m**	2002 £m
Profit on ordinary activities before taxation	**168.3**	108.6
Profit on ordinary activities multiplied by standard rate of tax 26.2% (2002 – 25.1%)	**44.1**	27.3
Effects of:		
– untaxed FRS 3 provision releases	**(1.2)**	(0.9)
– non-deductible goodwill	**1.4**	1.5
– untaxed profits	**(0.5)**	(1.4)
– losses brought forward utilised in year	**(4.4)**	(0.7)
– unrelieved losses	**2.3**	2.7
– permanent disallowable items	**5.5**	4.0
– prior year items	**(4.0)**	(0.9)
– short term timing differences	**(3.9)**	1.0
– accelerated capital allowances	**(1.0)**	–
– other items	**(0.1)**	0.9
Total current tax charge	**38.2**	33.5

8 Taxation continued

c Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of c. £21.0m (2002 – £26.0m) that may improve the tax 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. £17.0m (2002 – £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 £1.6m (2002 – £0.7m) has been recognised, based on current forecast profits. The remaining asset of £1.1m (2002 – £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.

9 Minority interests

	2003 £m	2002 £m
Paid or payable as dividends	**1.1**	0.7
Proposed dividends unpaid – Inchcape Motors Limited	**–**	(1.7)
Net retained profit for the year	**0.9**	4.4
	2.0	3.4

The 2002 minority interest charge is net of a £1.7m 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.

10 Earnings per ordinary share

	Headline		Basic	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Headline profit before tax	**135.8**	112.1	**135.8**	112.1
Goodwill amortisation (note 4)	**–**	–	**(5.5)**	(5.6)
VAT exceptional (note 3)	**–**	–	**37.5**	–
Exceptional items (note 6)	**–**	–	**0.5**	2.1
Profit before tax	**135.8**	112.1	**168.3**	108.6
Taxation (note 8)	**(31.8)**	(29.1)	**(39.3)**	(28.9)
Minority interests (note 9)	**(2.0)**	(3.4)	**(2.0)**	(3.4)
Earnings	**102.0**	79.6	**127.0**	76.3
Headline earnings per share	**132.4p**	104.5p		
Basic earnings per share			**164.8p**	100.1p
Diluted earnings per share			**162.1p**	97.9p

	2003 number	2002 number
Weighted average number of fully paid ordinary shares in issue during the year, less those held by the Inchcape Employee Trust	**77,049,311**	76,195,345
Dilutive effect of potential ordinary shares	**1,276,038**	1,754,558
Adjusted weighted average number of fully paid ordinary shares in issue during the year	**78,325,349**	77,949,903

10 Earnings per ordinary share continued

Headline profit before tax and earnings (before goodwill amortisation and exceptional items) are adopted in that they assist the reader in understanding the underlying peformance.

Headline and basic earnings per share are calculated by dividing the respective Headline and basic 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 14a(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. Dilutive potential ordinary shares comprise share options and deferred bonus awards.

11 Dividends

	2003 pence	2002 pence	**2003 £m**	2002 £m
Interim – paid 15 September 2003 (2002 – paid 16 September 2002)	**12.0**	10.0	**9.3**	7.5
Final – proposed – payable 17 June 2004 (2002 – paid 16 June 2003)	**26.0**	21.0	**20.3**	16.1
	38.0	31.0	**29.6**	23.6

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 21 May 2004.

Dividends above exclude £0.4m (2002 – £0.4m) payable on shares held by the Inchcape Employee Trust (note 14a(ii)).

The 2003 interim dividend charge of £9.3m is £0.1m higher than was accrued in the 2003 Interim report. This is due to the issue of new shares between the date of the Interim report and the record date.

12 Fixed assets – intangible assets

	Goodwill **£m**
Cost at 1 January 2003	**91.8**
Effect of foreign exchange rate changes	**(0.5)**
Additions	**10.5**
Disposals	**(16.1)**
UITF 31 swap of assets (note 28)	**2.3**
Adjustment relating to previous acquisition	**(14.3)**
Cost at 31 December 2003	**73.7**
Amortisation at 1 January 2003	**(8.9)**
Effect of foreign exchange rate changes	**(0.4)**
Disposals	**1.7**
Provided for the year	**(5.2)**
Amortisation at 31 December 2003	**(12.8)**
Book value at 31 December 2003	**60.9**
Book value at 31 December 2002	82.9

Goodwill relating to Ferrari Belgium, Australia Retail, and some UK Retail dealerships is being amortised over periods ranging from two 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.

Disposal of goodwill arises solely from the sale of the Bates Motor Group businesses (BMW and Audi) and the additions arise mainly from the acquisition of L&C Holdings Limited and two businesses from a subsidiary of William Jacks PLC, as set out in note 28a.

The adjustment relating to the previous acquisition refers to the acquisition of Inchcape Automotive Limited (formerly Eurofleet Limited). At 31 December 2002, it was assumed that deferred consideration of up to £14.3m could be payable, based on challenging EBIT growth assumptions. Following this year's performance, the Group now considers that no deferred consideration will be payable. Accordingly, goodwill has been reduced by £14.3m in 2003.

13 Fixed assets – tangible assets

	Freehold and leasehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost or valuation at 1 January 2003	**221.4**	**151.6**	**373.0**
Effect of foreign exchange rate changes	**0.7**	**1.8**	**2.5**
Businesses acquired	**10.3**	**1.9**	**12.2**
Businesses sold	**(6.2)**	**(1.9)**	**(8.1)**
Additions	**14.4**	**40.7**	**55.1**
Disposals	**(3.6)**	**(31.5)**	**(35.1)**
Reclassification	**(1.8)**	**1.8**	**–**
Cost or valuation at 31 December 2003	**235.2**	**164.4**	**399.6**
Analysed:			
– valuation 1996	**109.2**	**–**	**109.2**
– cost	**126.0**	**164.4**	**290.4**
	235.2	**164.4**	**399.6**
Depreciation at 1 January 2003	**(24.0)**	**(90.9)**	**(114.9)**
Effect of foreign exchange rate changes	**0.3**	**(0.8)**	**(0.5)**
Businesses sold	**0.4**	**1.2**	**1.6**
Provided in the year	**(4.4)**	**(22.2)**	**(26.6)**
Disposals	**1.0**	**12.7**	**13.7**
Reclassification	**(0.8)**	**0.8**	**–**
Depreciation at 31 December 2003	**(27.5)**	**(99.2)**	**(126.7)**
Book value at 31 December 2003	**207.7**	**65.2**	**272.9**
Book value at 31 December 2002	197.4	60.7	258.1

	2003 £m	2002 £m
Book value of land and buildings analysed between:		
– freehold	**141.8**	125.0
– leasehold with over fifty years unexpired	**24.1**	42.4
– short leasehold	**41.8**	30.0
	207.7	197.4
Historical cost value of land and buildings analysed between:		
– cost	**218.2**	205.6
– less depreciation	**(29.7)**	(29.8)
	188.5	175.8

The book value of tangible fixed assets includes £0.9m (2002 – £0.9m) in respect of assets held under finance leases.

14 Fixed assets – investments

a Movement in book value

(i) **Group**	Shares in joint ventures and associates **£m**	Own shares **£m**	Other investments **£m**	Total **£m**
Cost less provisions at 1 January 2003:				
– 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**
Effect of foreign exchange rate changes	**(0.1)**	**–**	**–**	**(0.1)**
Additions	**0.1**	**3.6**	**–**	**3.7**
Disposals (including £0.3m goodwill)	**(5.6)**	**(2.7)**	**–**	**(8.3)**
Goodwill amortisation	**(0.3)**	**–**	**–**	**(0.3)**
Balance at 31 December 2003	**24.7**	**6.4**	**0.8**	**31.9**
Share of post acquisition reserves:				
Balance at 1 January 2003	**47.6**			**47.6**
Effect of foreign exchange rate changes	**(3.2)**			**(3.2)**
Disposals	**(1.9)**			**(1.9)**
Retained profit for the financial year	**3.4**			**3.4**
Balance at 31 December 2003	**45.9**			**45.9**
Adjustment to cost in respect of goodwill, previously written off to reserves:				
Balance at 1 January 2003	**(4.4)**			**(4.4)**
Effect of foreign exchange rate changes	**0.4**			**0.4**
Balance at 31 December 2003	**(4.0)**			**(4.0)**
Book value at 31 December 2003	**66.6**	**6.4**	**0.8**	**73.8**
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

14 Fixed assets – investments continued

a Movement in book value continued

(ii) Company	Own shares £m	Shares in subsidiaries £m	Total £m
Balance at 1 January 2003	**5.5**	**1,020.5**	**1,026.0**
Additions	**3.6**	**–**	**3.6**
Provision reversal	**–**	**180.0**	**180.0**
Adjustment relating to previous acquisition (note 12)	**–**	**(14.3)**	**(14.3)**
Disposals	**(2.7)**	**–**	**(2.7)**
Balance at 31 December 2003	**6.4**	**1,186.2**	**1,192.6**

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 2003 was 893,811 (2002 – 1,118,247). Their market value at 31 December 2003 was £11.6m and at 27 February 2004 was £13.6m (31 December 2002 – £8.0m, 28 February 2003 – £8.0m).

b Listed fixed asset investments

	Other fixed asset investments	
	2003 £m	2002 £m
Book value	**6.9**	6.0
Market value	**13.5**	8.7

c Group share of net assets of joint ventures and associates

	Joint ventures		Associates		Total	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Fixed assets	**4.6**	8.7	**15.9**	13.4	**20.5**	22.1
Current assets	**252.5**	309.9	**59.7**	69.1	**312.2**	379.0
Goodwill capitalised	**–**	0.6	**–**	–	**–**	0.6
Group share of gross assets	**257.1**	319.2	**75.6**	82.5	**332.7**	401.7
Liabilities due within one year	**(128.2)**	(226.1)	**(38.7)**	(54.3)	**(166.9)**	(280.4)
Liabilities due after more than one year	**(88.5)**	(45.5)	**(10.7)**	(2.0)	**(99.2)**	(47.5)
Group share of gross liabilities	**(216.7)**	(271.6)	**(49.4)**	(56.3)	**(266.1)**	(327.9)
Group share of net assets	**40.4**	47.6	**26.2**	26.2	**66.6**	73.8

d Group transactions and amounts outstanding with joint ventures and associates

	Transaction		Amounts outstanding	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Vehicles purchased from joint ventures and associates	**49.8**	72.6	**1.7**	1.6
Vehicles sold to joint ventures and associates	**377.9**	382.4	**0.3**	0.6
Other income paid	**1.4**	1.3	**0.3**	0.1
Other income received	**13.4**	16.2	**15.6**	17.4

All the above transactions arise in the ordinary course of business and are therefore on an arm's length basis.

15 Stocks

	2003 £m	2002 £m
Raw materials and work in progress	**1.8**	1.5
Finished goods and merchandise	**596.0**	500.3
	597.8	501.8

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 £74.9m (2002 – £77.1m) of such vehicles.

Vehicles held on consignment which are in substance assets of the Group amount to £35.0m (2002 – £40.1m). 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 £2.4m (2002 – £2.2m) is charged before arriving at operating profit.

16 Debtors

a Total debtors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts due within one year				
Trade debtors subject to limited recourse financing	**0.8**	0.7	**–**	–
Less non-returnable amounts received	**(0.7)**	(0.7)	**–**	–
	0.1	–	**–**	–
Other trade debtors	**119.3**	126.1	**–**	–
Amounts owed by: – Group undertakings	**–**	–	**1.7**	0.7
– joint ventures and associates	**9.5**	10.1	**–**	–
Other debtors*	**78.8**	27.8	**–**	0.1
Advance corporation tax recoverable	**0.2**	0.2	**0.2**	0.2
Corporation tax recoverable	**0.3**	4.2	**0.1**	0.8
Prepayments and accrued income	**26.8**	22.0	**–**	–
	235.0	190.4	**2.0**	1.8
Amounts due after more than one year				
Trade debtors subject to limited recourse financing	**6.8**	6.7	**–**	–
Less non-returnable amounts received	**(6.1)**	(6.0)	**–**	–
	0.7	0.7	**–**	–
Amounts owed by: – Group undertakings	–	–	**202.6**	193.7
– joint ventures and associates	**6.4**	8.0	**–**	–
Other debtors	**1.7**	1.8	**–**	–
Deferred tax asset	**2.4**	3.0	**–**	–
Prepayments and accrued income	**0.1**	1.0	**–**	–
	11.3	14.5	**202.6**	193.7
Total debtors	**246.3**	204.9	**204.6**	195.5

* Increase in other debtors is principally due to the VAT exceptional (note 3).

16 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 (2002 – £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

	2003 £m	2002 £m
Excess unutilised capital allowances	**1.6**	1.0
Other timing differences	**0.8**	2.0
	2.4	3.0

	2003 £m
Balance at 1 January 2003	**3.0**
Effect of foreign exchange rate changes	**1.0**
Charged to profit and loss account	**(1.6)**
Balance at 31 December 2003	**2.4**

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.

17 Current asset investments

	2003 £m	2002 £m
Book value	**13.8**	11.4
Market value	**14.5**	12.2

18 Creditors – amounts falling due within one year

		Group		Company	
a	**Borrowings**	**2003 £m**	2002 £m	**2003 £m**	2002 £m
	Bank loans	**14.7**	20.9	**–**	–
	Other loans	**0.4**	20.1	**0.4**	20.1
	Debt due within one year	**15.1**	41.0	**0.4**	20.1
	Finance leases	**0.2**	0.1	**–**	–
	Bank overdrafts	**7.9**	3.5	**–**	–
	Borrowings – amounts falling due within one year	**23.2**	44.6	**0.4**	20.1

b	**Other**				
	Trade creditors: – payments received on account	**37.3**	28.8	**–**	–
	– other	**483.5**	408.4	**–**	–
	Amounts owed to: – Group undertakings*	**–**	–	**–**	377.3
	– joint ventures and associates	**2.0**	1.6	**–**	–
	Corporate taxation	**32.5**	29.4	**3.4**	5.3
	Other taxation and social security payable	**12.0**	13.3	**2.0**	0.3
	Other creditors	**12.0**	13.2	**–**	–
	Accruals and deferred income	**109.6**	85.5	**0.3**	0.5
	Dividends payable: – proposed final	**20.3**	16.1	**20.3**	16.1
	– to minorities	**0.2**	0.2	**–**	–
	Other creditors – amounts falling due within one year	**709.4**	596.5	**26.0**	399.5
	Total creditors falling due within one year	**732.6**	641.1	**26.4**	419.6

* During the year, the repayment terms of amounts owed to Group undertakings were changed to amounts falling due after more than one year (note 19).

19 Creditors – amounts falling due after more than one year

		Group		Company	
		2003 £m	2002 £m	**2003 £m**	2002 £m
a (i)	**Borrowings**				
	Bank loans	**0.5**	40.6	**–**	–
	Other loans	**–**	0.4	–	0.4
	Finance leases	**0.1**	1.0	**–**	–
	Borrowings – amounts falling due after more than one year	**0.6**	42.0	**–**	0.4
(ii)	**Maturity of borrowings**				
	Repayable over one year and up to two years:				
	Bank loans	**0.1**	0.1	**–**	–
	Other loans	**–**	0.2	**–**	0.2
	Finance leases	**0.1**	0.7	**–**	–
		0.2	1.0	**–**	0.2
	Repayable over two years and up to five years:				
	Bank loans	**0.4**	40.5	**–**	–
	Other loans	**–**	0.2	**–**	0.2
	Finance leases	**–**	0.3	**–**	–
		0.4	41.0	**–**	0.2
	Borrowings – amounts falling due after more than one year	**0.6**	42.0	**–**	0.4
b	**Other**				
	Trade creditors	**55.3**	50.4	**–**	–
	Other taxation and social security payable	**0.8**	–	**0.8**	–
	Other creditors	**2.0**	1.6	**2.0**	1.6
	Accruals and deferred income	**0.4**	–	**–**	–
	Amounts owed to Group undertakings (note 18)	**–**	–	**754.7**	328.0
	Deferred consideration (note 12)	**–**	14.3	**–**	14.3
	Other creditors – amounts falling due after more than one year	**58.5**	66.3	**757.5**	343.9
	Total creditors falling due after more than one year	**59.1**	108.3	**757.5**	344.3

20 Facilities and borrowings

a **Facilities**

The Group's principal committed facility is a syndicated five year £250.0m revolving credit facility put in place in July 2002. In addition, the relationship banks have made available uncommitted borrowing facilities, which are used for liquidity management purposes.

b **Borrowings**

The £40.0m drawn down on the committed revolving credit facility as at 31 December 2002 was repaid in full during 2003. The £40.0m was disclosed in last year's table as repayable over two and up to five years on the basis of the facility's expiry date in July 2007.

Liabilities in respect of loan notes totalling £20.1m were discharged between April 2003 and October 2003. These notes were issued in December 2000 and December 2001 following the acquisition of Inchcape Automotive Limited. At 31 December 2003 £0.4m of these notes, at various rates linked to LIBOR, were outstanding.

Net obligations under finance leases are at various local prevailing rates of interest.

As in 2002, the borrowings of the Group and the Company are unsecured.

21 Provisions for liabilities and charges

Group	Pensions and other post-retirement benefits (note 5) £m	Product warranty £m	Motors business exits £m	Non-motors business exits £m	Vacant leasehold £m	Other £m	Total £m
Balance at 1 January 2003	**7.9**	**40.6**	**3.6**	**29.7**	**8.1**	**4.6**	**94.5**
Effect of foreign exchange rate changes	**0.1**	**1.2**	**–**	**0.1**	**–**	**0.3**	**1.7**
Charged to profit and loss account	**9.3**	**12.3**	**3.0**	**–**	**3.6**	**1.8**	**30.0**
Unused amounts reversed to profit and loss account	**–**	**(4.4)**	**(0.2)**	**(3.8)**	**–**	**(1.6)**	**(10.0)**
Utilised during the year:							
– cash	**(9.8)**	**(9.1)**	**(3.4)**	**(0.4)**	**(6.4)**	**(0.1)**	**(29.2)**
Balance at 31 December 2003	**7.5**	**40.6**	**3.0**	**25.6**	**5.3**	**5.0**	**87.0**

Company	Non-motors business exits £m
Balance at 1 January 2003	**28.3**
Unused amounts reversed to profit and loss account	**(3.2)**
Balance at 31 December 2003	**25.1**

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 historical claims experience and expected future trends. These assumptions are reviewed regularly.

Motors business exits
During 2003, the Group became committed to business exits and terminations which resulted in the charge of £3.0m (2002 – £2.4m) to the profit and loss account. These included the UK Retail dealership exits shown in note 6. 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. These provisions arise from the exits of businesses prior to the transformation of the Group to a pure automotive services group. The exits were all completed by late 1999.

Any detailed disclosure of these 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. They are however referred to in note 22.

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 subtenant 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 the discount of £0.2m (2002 – £0.2m) has been included in the interest charge to profit and loss account. The commitments relating to these provisions have not been disclosed within note 23.

Other
The restructuring provision principally relates to the cost of implementing new European Block Exemption contracts throughout the dealer network in Belgium.

22 Guarantees and contingent liabilities

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Guarantees of joint ventures' and associates' borrowings	**0.4**	0.4	**–**	–
Guarantees of various subsidiaries' borrowings (against which £nil has been drawn, 2002 – £40.0m)	**–**	–	**250.0**	250.0
Other guarantees, performance bonds and contingent liabilities	**5.2**	5.1	**0.2**	0.2

Commitments for capital expenditure entered into and not provided for in these accounts are estimated at £0.3m (2002 – £3.7m).

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 Company is party to composite cross guarantees between banks and its fellow subsidiaries. The Company's contingent liability under these guarantees at 31 December 2003 was £21.7m (2002 – £18.5m).

The Group also has, in the ordinary course of business, commitments under foreign exchange instruments relating to the hedging of transactional exposures (note 29e).

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 2003 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. Belgium has enacted legislation. The other member states which are core markets for the Group are expected to do so in the near future. It is not yet clear, however, how the legislation will work in practice. Therefore, there are still a number of uncertainties surrounding the implementation of the Directive in our markets and whether it will give rise to a liability for the Group. The Directors have reviewed this matter and, based on the information currently available, consider that implementation of the Directive will not have a material impact on the financial position of the Group.

23 Operating lease commitments

	Property leases		Other operating leases	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Operating lease rentals payable in the next year in respect of commitments expiring:				
– within one year	**3.4**	3.4	**1.2**	1.1
– in two to five years	**9.3**	9.0	**1.7**	2.5
– after five years	**8.9**	5.0	**0.5**	0.4
	21.6	17.4	**3.4**	4.0

24 Share capital

a Summary

	Authorised		Alloted, called-up and fully paid	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Ordinary shares – authorised 131,000,000 ordinary shares of 150.0p each (2002 – 131,000,000 ordinary shares of 150.0p each) and allotted, called-up and fully paid 78,893,237 ordinary shares of 150.0p each (2002 – 77,726,130 ordinary shares of 150.0p each)	**196.5**	196.5	**118.4**	116.6

b Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 1 March 2004 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 2003, 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
The Inchcape 1999 Share Option Plan – approved (Part II – UK)		
14,628	7 September 2009	388.0p
15,842	9 August 2010	284.0p
83,328	21 March 2011	384.0p
70,735	17 March 2012	685.0p
4,477	15 October 2012	670.0p
132,459	19 March 2013	762.0p
2,688	7 August 2013	1116.0p
4,874	31 August 2013	1231.0p
– unapproved (Part I – UK)		
2,577	7 September 2009	388.0p
49,084	9 August 2010	284.0p
310,865	21 March 2011	384.0p
230,770	17 March 2012	685.0p
92,537	15 October 2012	670.0p
217,052	19 March 2013	762.0p
896	7 August 2013	1116.0p
2,436	31 August 2013	1231.0p
– unapproved overseas (Part I – Overseas)		
20,617	7 September 2009	388.0p
54,572	9 August 2010	284.0p
237,356	21 March 2011	384.0p
5,330	20 September 2011	469.0p
166,158	17 March 2012	685.0p
149,371	19 March 2013	762.0p
1,218	31 August 2013	1231.0p

Ordinary shares of 150.0p each	Exercisable until	Option price
The Inchcape SAYE Share Option Scheme		
19,940	1 May 2004	238.0p
83,592	1 December 2004	308.0p
203,769	1 December 2005	554.0p
204,759	1 December 2006	610.0p

During the year, 1,167,107 (2002 – 252,905) ordinary shares were 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.

25 Reserves

Movements in shareholders' funds

a **Group**	Share capital **2003** **£m**	Share premium account **2003** **£m**	Revaluation reserve **2003** **£m**	Capital redemption reserve **2003** **£m**	Profit and loss account* **2003** **£m**	Total **2003** **£m**	Total 2002 £m
Profit for the financial year	**–**	**–**	**–**	**–**	**127.0**	**127.0**	76.3
Dividends (note 11)	**–**	**–**	**–**	**–**	**(29.6)**	**(29.6)**	(23.6)
Retained profit for the financial year	**–**	**–**	**–**	**–**	**97.4**	**97.4**	52.7
Effect of foreign exchange rate changes	**–**	**–**	**(2.0)**	**–**	**(8.4)**	**(10.4)**	(13.9)
Shares issued during the year under share option schemes	**1.8**	**1.6**	**–**	**–**	**–**	**3.4**	0.9
Goodwill on disposals previously written off	**–**	**–**	**–**	**–**	**–**	**–**	0.3
Transfer from profit and loss account to revaluation reserve	**–**	**–**	**0.7**	**–**	**(0.7)**	**–**	–
Net change in shareholders' funds	**1.8**	**1.6**	**(1.3)**	**–**	**88.3**	**90.4**	40.0
Balance at 1 January	**116.6**	**107.5**	**30.4**	**16.4**	**121.8**	**392.7**	352.7
Balance at 31 December	**118.4**	**109.1**	**29.1**	**16.4**	**210.1**	**483.1**	392.7

Revaluation reserve includes other non-distributable reserves of £4.2m (2002 – £3.2m). Net foreign exchange gains on borrowings reported in reserves amount to £nil in 2003 (2002 – £0.1m).

* Goodwill of £114.4m (2002 – £114.4m) is contained within the profit and loss account reserve.

b **Company**	Share capital **2003** **£m**	Share premium account **2003** **£m**	Capital redemption reserve **2003** **£m**	Profit and loss account **2003** **£m**	Total **2003** **£m**	Total 2002 £m
Shares issued during the year under share option schemes	**1.8**	**1.6**	**–**	**–**	**3.4**	0.9
Retained profit (loss) for the year and net change in shareholders' funds	**–**	**–**	**–**	**158.7**	**158.7**	(10.5)
Net change in shareholders' funds	**1.8**	**1.6**	**–**	**158.7**	**162.1**	(9.6)
Balance at 1 January	**116.6**	**107.5**	**16.4**	**207.3**	**447.8**	457.4
Balance at 31 December	**118.4**	**109.1**	**16.4**	**366.0**	**609.9**	447.8

26 Analysis of changes in net funds and debt

a **Analysis of net funds**	**At 1 January 2003 £m**	Cash flow £m	Exchange movement £m	**At 31 December 2003 £m**
Cash in hand, at bank	**35.8**	**15.3**	**(6.5)**	**44.6**
Overdrafts	**(3.5)**	**(5.0)**	**0.6**	**(7.9)**
		10.3		
Debt due within one year	**(41.0)**	**26.1**	**(0.2)**	**(15.1)**
Debt due after one year	**(41.0)**	**40.4**	**0.1**	**(0.5)**
Finance leases	**(1.1)**	**0.7**	**0.1**	**(0.3)**
		67.2		
Liquid resources	**67.4**	**(6.7)**	**(2.4)**	**58.3**
Net funds	**16.6**	**70.8**	**(8.3)**	**79.1**

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**	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Cash in hand, at bank	**44.6**	35.8	**21.7**	18.5
Liquid resources	**58.3**	67.4	**–**	–
Cash at bank and in hand	**102.9**	103.2	**21.7**	18.5

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

a Returns on investments and servicing of finance	2003 £m	2002 £m
Interest received (2003 includes £1.4m of VAT exceptional – note 3)	**10.8**	6.3
Interest paid	**(11.3)**	(12.3)
Dividends paid to minority interests	**(1.1)**	(0.7)
	(1.6)	(6.7)

b Capital expenditure and financial investment		
Expenditure on tangible fixed assets and investments	**(55.1)**	(56.3)
Sale of tangible fixed assets and investments	**20.0**	23.9
Sale of current asset properties	**1.5**	9.0
Capital injection to associate	**–**	(0.2)
	(33.6)	(23.6)

c Net cash (outflow) inflow from acquisitions and disposals		
Acquisitions:		
Cash paid for businesses acquired (note 28b)	**(22.0)**	(73.1)
Net cash (bank overdrafts) of businesses acquired (note 28b)	**0.1**	(0.1)
Net outflow of cash in respect of the acquisition of businesses	**(21.9)**	(73.2)
Cash paid for prior year acquisitions	**(0.1)**	(0.7)
Cash paid for joint ventures and associates	**(0.1)**	(0.7)
	(22.1)	(74.6)
Disposals:		
Cash received for businesses sold (note 28b)	**16.1**	–
Cash received for joint ventures and associates sold	**7.1**	2.1
Cash received from prior year disposals	**–**	0.6
Cash paid for prior year disposals	**(1.6)**	(17.8)
	21.6	(15.1)
Net cash outflow	**(0.5)**	(89.7)

d Net cash (outflow) from financing		
Issue of ordinary share capital (note 25a)	**3.4**	0.9
Decrease in debt (note 26a)	**(66.5)**	(16.2)
Capital element of finance lease rental payments (note 26a)	**(0.7)**	(0.3)
	(63.8)	(15.6)

28 Acquisitions and disposals

a During 2003, the Group sold its Bates BMW businesses and in return acquired L&C Holdings Limited (comprising four BMW dealerships in the Surrey area) and two BMW businesses from a subsidiary of William Jacks PLC. The transaction has been accounted for in accordance with the principles of Urgent Issues Task Force Abstract 31 (UITF 31) Exchange of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate. This resulted in £2.3m of goodwill being carried forward to the new acquisition.

In addition the Group disposed of and acquired a number of other businesses during the year. Details of the total net assets disposed of and the provisional fair values of the total net assets acquired by the Group during 2003 are set out below.

b **Net assets acquired (disposed of) on acquisition (disposal) of businesses**	Acquisitions **2003** **£m**	Disposals **2003** **£m**	Acquisitions 2002 £m
Fixed assets and fixed asset investments (including Group share of joint ventures' and associates' net assets)	**12.2**	**(6.5)**	4.4
Stocks	**6.8**	**(4.3)**	4.5
Trade debtors	**2.7**	**–**	0.1
Cash less (bank overdrafts) (note 27c)	**0.1**	**–**	(0.1)
Trade creditors	**(9.2)**	**1.0**	–
Other creditors	**(0.6)**	**–**	(1.6)
Minority shareholders' interests	**0.1**	**–**	45.5
Goodwill	**10.1**	**(14.4)**	20.3
Net loss on disposal	**–**	**3.2**	–
Net consideration payable (receivable)	**22.2**	**(21.0)**	73.1
Satisfied by			
Cash paid (received) (note 27c)	**22.0**	**(16.1)**	73.1
Accrued costs	**–**	**0.8**	–
Deferred consideration	**0.2**	**(3.4)**	–
UITF 31 swap of assets	**–**	**(2.3)**	–
	22.2	**(21.0)**	73.1

The acquisition and disposal of businesses during the year had no material effect upon the Group's operating cash flows, returns on investment and servicing of finance, taxation or capital expenditure.

29 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 29b), 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 29c.

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 2003					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	**19.3**	**0.3**	**55.7**	**75.3**	**8.0**	**19**
Euro	**2.8**	**–**	**9.8**	**12.6**	**–**	**–**
Other	**0.6**	**–**	**1.3**	**1.9**	**–**	**–**
	22.7	**0.3**	**66.8**	**89.8**	**8.0**	**19**

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

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 £55.2m (2002 – £50.2m) of residual buy back commitments whose weighted average period to maturity is eighteen months (2002 – twenty five months) and £4.7m (2002 – £6.3m) of vacant leasehold property provisions which have a weighted average period to maturity of six years (2002 – six years) (note 21). The prior year included deferred consideration relating to Inchcape Automotive Limited of £14.3m which has been released in 2003 (note 12).

29 **Financial instruments** continued

a **Interest rate management** continued

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

As at 31 December 2003

Currency	Floating rate **£m**	Fixed rate **£m**	On which no interest is paid **£m**	Total **£m**	Fixed rate: Weighted average interest rate **%**	Fixed rate: Weighted average period for which rate is fixed **months**
Sterling	**11.1**	**–**	**7.1**	**18.2**	**–**	**–**
Euro	**36.1**	**13.8**	**1.5**	**51.4**	**5.8**	**49**
Singapore dollar	**19.6**	**–**	**1.5**	**21.1**	**–**	**–**
Hong Kong dollar	**2.1**	**–**	**1.2**	**3.3**	**–**	**–**
Other	**27.6**	**–**	**4.7**	**32.3**	**–**	**–**
	96.5	**13.8**	**16.0**	**126.3**	**5.8**	**49**

As at 31 December 2002

Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Fixed rate: Weighted average interest rate %	Fixed rate: Weighted average period for which rate is fixed months
Sterling	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

Interest receipts 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 £6.4m (2002 – £7.9m) of rental income due on contracts in progress in UK Leasing businesses and certain short term bank deposits.

29 Financial instruments continued

b Exchange risk management

The table below shows the Group's currency exposures at 31 December 2003 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 **2003** **£m**	Other **2003** **£m**	Total **2003** **£m**	US dollar 2002 £m	Other 2002 £m	Total 2002 £m
Sterling	**0.2**	**–**	**0.2**	0.1	(0.3)	(0.2)
Peruvian sol	**(0.3)**	**–**	**(0.3)**	–	–	–
Chilean peso	**(0.6)**	**–**	**(0.6)**	(0.4)	–	(0.4)
Other	**–**	**(0.4)**	**(0.4)**	0.2	0.4	0.6
	(0.7)	**(0.4)**	**(1.1)**	(0.1)	0.1	–

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 £0.7m in 2003 (2002 – £0.1m) principally relate to US dollars held in bank accounts by UK businesses and US dollar trade receivables/(payables) within the businesses in Peru and Chile, where the majority of sales are in US dollars. The purchase of these cars 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. This minimises exchange rate risk and the need to hedge the exposure.

c Fair values

Assets (liabilities)	Book value **2003** **£m**	Fair value **2003** **£m**	Book value 2002 £m	Fair value 2002 £m
Financial instruments held or issued to finance the Group's operations				
Trade investments	**0.8**	**2.2**	0.8	0.9
Cash deposits	**102.9**	**102.9**	103.2	103.2
Current asset investments	**13.8**	**14.5**	11.4	12.2
Other financial assets	**8.8**	**8.8**	10.4	10.3
	126.3	**128.4**	125.8	126.6
Short term borrowings and current portion of long term borrowings	**(23.2)**	**(23.2)**	(44.6)	(44.6)
Long term borrowings	**(0.6)**	**(0.6)**	(42.0)	(42.0)
Long term trade and other creditors	**(58.5)**	**(53.0)**	(66.3)	(63.2)
Other financial liabilities	**(7.5)**	**(7.5)**	(7.3)	(7.3)
	(89.8)	**(84.3)**	(160.2)	(157.1)
Derivative financial instruments held to manage interest rate and currency exposure				
Forward foreign exchange contracts – liability	**–**	**(14.4)**	–	(0.2)

Trade investments and current asset investments

Trade investments above exclude the ordinary shares held by the Inchcape Employee Trust carried at £6.4m (2002 – £5.5m). The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

29 Financial instruments continued

c Fair values continued

Long term trade and other creditors

Long term trade and other creditors book value of £58.5m (2002 – £66.3m) principally relates to vehicle buy back commitments of £55.2m (2002 – £50.2m) whose average period to maturity is eighteen months (2002 – twenty five 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 table above because it does not qualify as a financial asset as defined by FRS 13. The prior year included deferred consideration of £14.3m relating to Inchcape Automotive Limited which has been released in 2003 (note 12).

Forward foreign exchange contracts

The fair value of contracts of £14.4m represents the difference between the value of the outstanding contracts at their contracted rates, and a valuation calculated using the spot rates of exchange prevailing at 31 December 2003.

At 31 December 2003 the Group had nominal amounts outstanding of £417.1m (2002 – £305.6m) for these contracts, used principally to hedge future purchases in foreign currency.

d **Maturity of financial liabilities**	Borrowings and finance leases **2003 £m**	Other financial liabilities **2003 £m**	Total **2003 £m**	Borrowings and finance leases 2002 £m	Other financial liabilities 2002 £m	Total 2002 £m
Repayable within one year	**23.2**	**0.5**	**23.7**	44.6	–	44.6
Repayable over one year and up to two years	**0.2**	**31.9**	**32.1**	1.0	45.4	46.4
Repayable over two years and up to five years	**0.4**	**31.1**	**31.5**	41.0	26.1	67.1
Repayable beyond five years	**–**	**2.5**	**2.5**	–	2.1	2.1
Total financial liabilities	**23.8**	**66.0**	**89.8**	86.6	73.6	160.2

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 2003	**3.7**	**(3.9)**	**(0.2)**
Gains and losses arising before 1 January 2003 that were recognised in 2003	**(3.7)**	**3.9**	**0.2**
Gains and losses arising before 1 January 2003 that were not recognised in 2003	**–**	**–**	**–**
Gains and losses arising in 2003 that were not recognised in that year	**3.5**	**(17.9)**	**(14.4)**
Unrecognised gains and losses on hedges at 31 December 2003	**3.5**	**(17.9)**	**(14.4)**
Expected to be recognised in 2004	**3.5**	**(17.9)**	**(14.4)**

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. These amounts are not indicative of future profitability since 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.

30 Post balance sheet events

As set out in note 3, in 2003 the Group submitted a number of claims to HM Customs and Excise for overpaid VAT relating to the period 1973 to 1994.

The vast majority of these claims were agreed in early February 2004, and on 19 February 2004 the Group received £16.0m. The balance due of £21.1m is expected in early March 2004.

31 Principal subsidiaries, joint ventures and associates at 31 December 2003

a Principal subsidiaries

Company	Country	Shareholding	Description
Subaru (Aust) Pty Limited	Australia	90.0%	Import and Distribution
Toyota Belgium NV/SA	Belgium	100.0%	Import and Distribution
The Motor & Engineering Company of Ethiopia Ltd S.C.	Ethiopia	94.1%	Import, Distribution and Retail
Inchcape Motors Finland OY	Finland	100.0%	Import and Distribution
Toyota Hellas SA	Greece	100.0%	Import and Distribution
Crown Motors Limited	Hong Kong	100.0%	Import, Distribution and Retail
Borneo Motors (Singapore) Pte Ltd	Singapore	100.0%	Import, Distribution and Retail
Inchcape Automotive Limited (formerly Eurofleet Limited)*	United Kingdom	100.0%	Vehicle logistics and refurbishments**
Inchcape Finance plc*	United Kingdom	100.0%	Central treasury company
Inchcape Fleet Solutions Limited	United Kingdom	100.0%	Financial Services
Inchcape International Holdings Limited (formerly Inchcape Automotive Limited)*	United Kingdom	100.0%	Intermediate holding company
Inchcape Retail Limited	United Kingdom	100.0%	UK Retail
Maranello Concessionaires Limited	United Kingdom	100.0%	Import, Distribution and Retail
The Cooper Group Limited	United Kingdom	100.0%	UK Retail

b Principal joint ventures and associates

Company	Country	Shareholding	Description
Inchroy Credit Corporation Limited	Hong Kong	50.0%	Financial Services
Automotive Group Limited	United Kingdom	40.0%	Retail**
MCL Group Limited	United Kingdom	40.0%	Business Services**

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 Limited, where the Group holds 50.0% of the company's non-voting deferred shares.

* Owned by Inchcape plc directly

** Included within Import, Distribution and Retail for segmental analysis

32 Foreign currency translation

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

	Average rates		Year end rates	
	2003	2002	**31 December 2003**	31 December 2002
Australian dollar	**2.53**	2.77	**2.38**	2.86
Euro	**1.45**	1.59	**1.42**	1.53
Hong Kong dollar	**12.75**	11.71	**13.90**	12.55
Singapore dollar	**2.86**	2.69	**3.04**	2.79

Five year record

Profit and loss account	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Turnover					
Group subsidiaries	**3,793.2**	3,413.8	3,113.0	3,086.1	3,462.5
Share of joint ventures and associates	**62.0**	103.2	206.5	631.3	987.5
Group plus share of joint ventures and associates	**3,855.2**	3,517.0	3,319.5	3,717.4	4,450.0
Total operating profit before operating exceptional income:					
– continuing operations	**135.3**	111.6	98.3	81.3	80.7
– discontinued operations	**–**	–	3.5	8.8	20.3
	135.3	111.6	101.8	90.1	101.0
VAT exceptional (note 3)	**15.3**	–	–	–	–
Profit (loss) on sale of properties and investments	**0.9**	0.9	(0.6)	(0.4)	1.8
Net (loss) profit including provisions on sale and termination of operations	**(0.4)**	1.2	(36.3)	(0.3)	217.4
Exceptional costs of a fundamental reorganisation	**–**	–	–	–	(5.2)
Profit on ordinary activities before interest	**151.1**	113.7	64.9	89.4	315.0
Net interest	**(5.0)**	(5.1)	(3.9)	(16.0)	(15.7)
Interest on VAT exceptional (note 3)	**22.2**	–	–	–	–
Profit before taxation	**168.3**	108.6	61.0	73.4	299.3
Taxation	**(31.8)**	(28.9)	(29.3)	(19.9)	(27.1)
Taxation on VAT exceptional (note 3)	**(7.5)**	–	–	–	–
Profit after taxation	**129.0**	79.7	31.7	53.5	272.2
Minority interests	**(2.0)**	(3.4)	(8.3)	(7.6)	(5.4)
Profit for the financial year	**127.0**	76.3	23.4	45.9	266.8
Dividends*	**(29.6)**	(23.6)	(19.5)	(19.2)	(547.9)
Retained profit (loss) for the financial year	**97.4**	52.7	3.9	26.7	(281.1)

Basic:					
– profit before tax (£m)	**168.3**	108.6	61.0	73.4	299.3
– earnings per share (pence)	**164.8p**	100.1p	29.3p	52.3p	302.4p
Headline (before goodwill amortisation and exceptional items):					
– profit before tax (£m)	**135.8**	112.1	99.7	75.0	86.3
– earnings per share (pence)	**132.4p**	104.5p	79.7p	48.4p	61.1p
Dividends per ordinary share – ordinary	**38.0p**	31.0p	27.0p	22.0p	21.0p
Dividends per ordinary share – special	**–**	–	–	–	600.0p

Balance sheet					
Fixed assets	**407.6**	421.1	409.8	359.9	364.3
Other assets less (liabilities) other than cash (borrowings)	**3.0**	(39.2)	(28.7)	118.1	151.0
	410.6	381.9	381.1	478.0	515.3
Net cash (borrowings)	**79.1**	16.6	17.5	(69.1)	(149.0)
Net assets	**489.7**	398.5	398.6	408.9	366.3
Equity shareholders' funds	**483.1**	392.7	352.7	361.6	320.1
Minority interests	**6.6**	5.8	45.9	47.3	46.2
	489.7	398.5	398.6	408.9	366.3

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

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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
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Financial calendar

Annual General Meeting
13 May 2004

Ex-dividend date for 2003 final dividend
19 May 2004

Record date for 2003 final dividend
21 May 2004

Final 2003 ordinary dividend payable
17 June 2004

Announcement of 2004 interim results
2 August 2004

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The following executives have functional responsibilities at Group level:

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Tim Trounce

Business Development
Dale Butcher

Company Secretariat
Roy Williams

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Amanda Brooks

Human Resources
Nick Smith

Information Systems
Peter Wilson

Investor Relations and External Communications
Emma Woollaston

Treasury
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