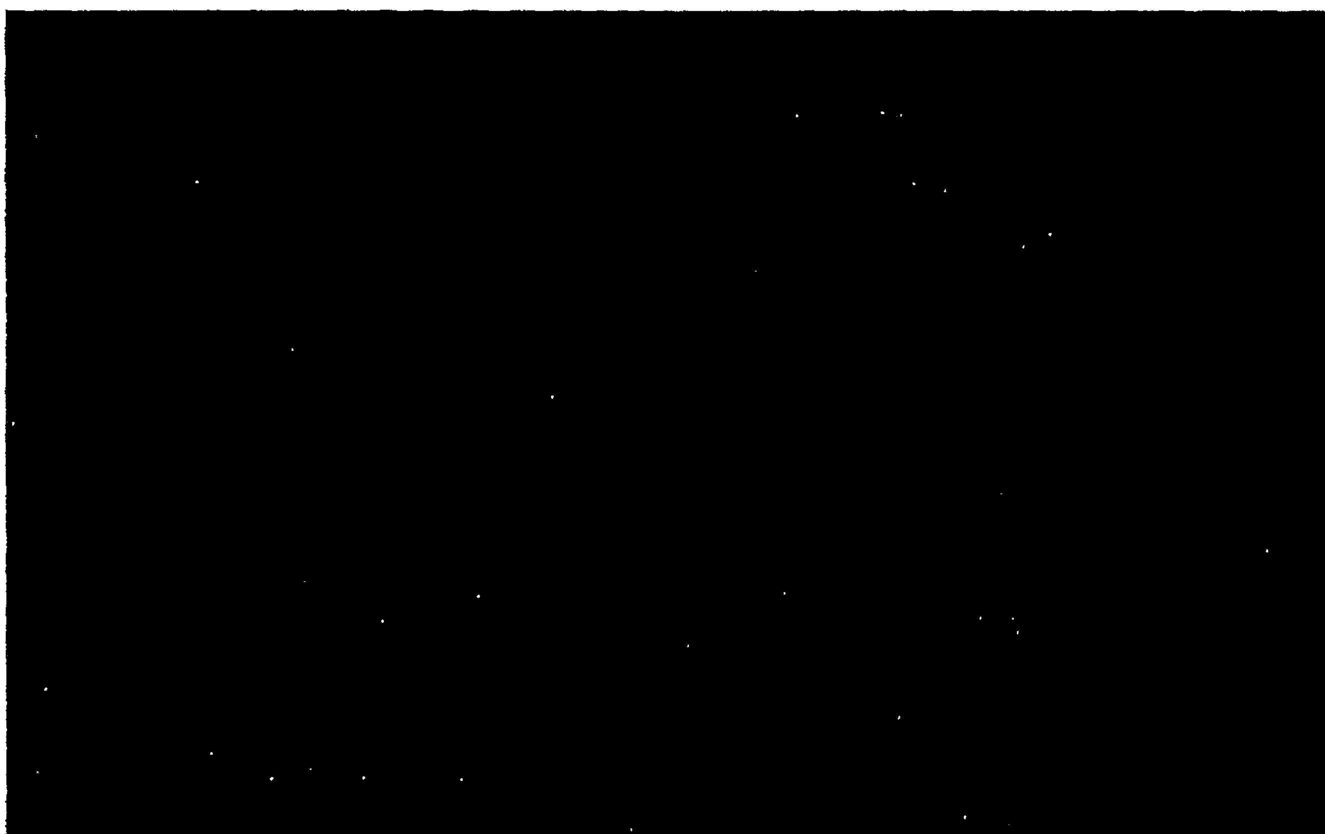
Annual Report & Accounts 1999

Inchcape



The restructuring and divestment programme

Business stream	Action
Bottling Russia	Sold to Coca-Cola Company in October 1998
Marketing Asia Pacific	Sold to Li & Fung Distribution in January 1999
Bottling South America	Sold to Embotelladora Arica SA in February 1999
Shipping	Sold to Electra Fleming in February 1999
Marketing Middle East	Sold to Cupola Investments Limited in April 1999
Office Automation	Sold to Ricoh Hong Kong, Ltd in August 1999

Our mission is to be a world leader in automotive services. We will offer value, choice, convenience, quality and dependability to our customers; excellence of service to our principals and partners; and enhanced value to our stakeholders.

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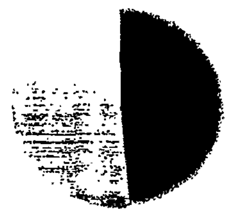
- Transformation into an international automotive group
- Enhancing position as an industry leader through e-commerce and other customer-focused services
- Continuing operating profit £105.6m[1]

GROUP FINANCIAL HIGHLIGHTS	1999	1998
TURNOVER (INCL ASSOCIATES AND JOINT VENTURES)	£4450.0m	£5506.4m
HEADLINE PROFIT BEFORE TAXATION[2]	£85.3m	£106.1m
HEADLINE EARNINGS PER SHARE[3]	60.0p	50.2p
DIVIDENDS PER SHARE[3]	21.0p	67.2p
SPECIAL DIVIDEND[3]	600.0p	–

1 Pre-central costs.
2 Headline profit and earnings per share are defined in note 2e of the Financial Statements.
3 Adjusted for share consolidation.

GEOGRAPHY CONTINUING TURNOVER

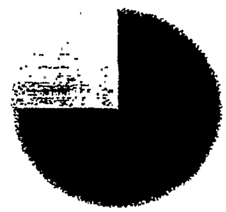
	%
Europe	66.6
Asia	17.6
Other	15.8



GEOGRAPHY CONTINUING OPERATING PROFIT*

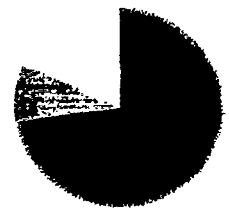
	%
Europe	48.7
Asia	40.2
Other	11.1

* pre-central costs



BUSINESS SEGMENT CONTINUING TURNOVER

	%
Import & Distribution	75.1
Retail	21.4
Financial Services	3.5



BUSINESS SEGMENT CONTINUING OPERATING PROFIT*

	%
Import & Distribution	72.8
Retail	9.1
Financial Services	18.1

* pre-central costs

UK/EUROPE

In the UK we import and distribute Ferrari and Maserati, as well as Toyota, Lexus and Mazda. We also have over 50 stand-alone retail dealerships. Our MEVC and Kenning Leaseline contract hire/leasing businesses manage around 47,000 vehicles. We represent Toyota and Lexus in Greece and Bulgaria; Toyota, Lexus and Ferrari in Belgium and Luxembourg; and Mazda in France, Finland and the Baltics.

FAR EAST

In Hong Kong we run integrated import, distribution and retail operations for Toyota, Lexus, Mazda, Peugeot, Jaguar and Rolls-Royce. We also represent Toyota and Lexus in Saipan and Guam. Inchroy provides a range of financial services products to the Hong Kong market.

SOUTH EAST ASIA

We run integrated import, distribution and retail operations for Toyota and Lexus in Singapore and Brunei. In Singapore we also represent Suzuki. IRB in Brunei provides financial services in that market.

AUSTRALASIA

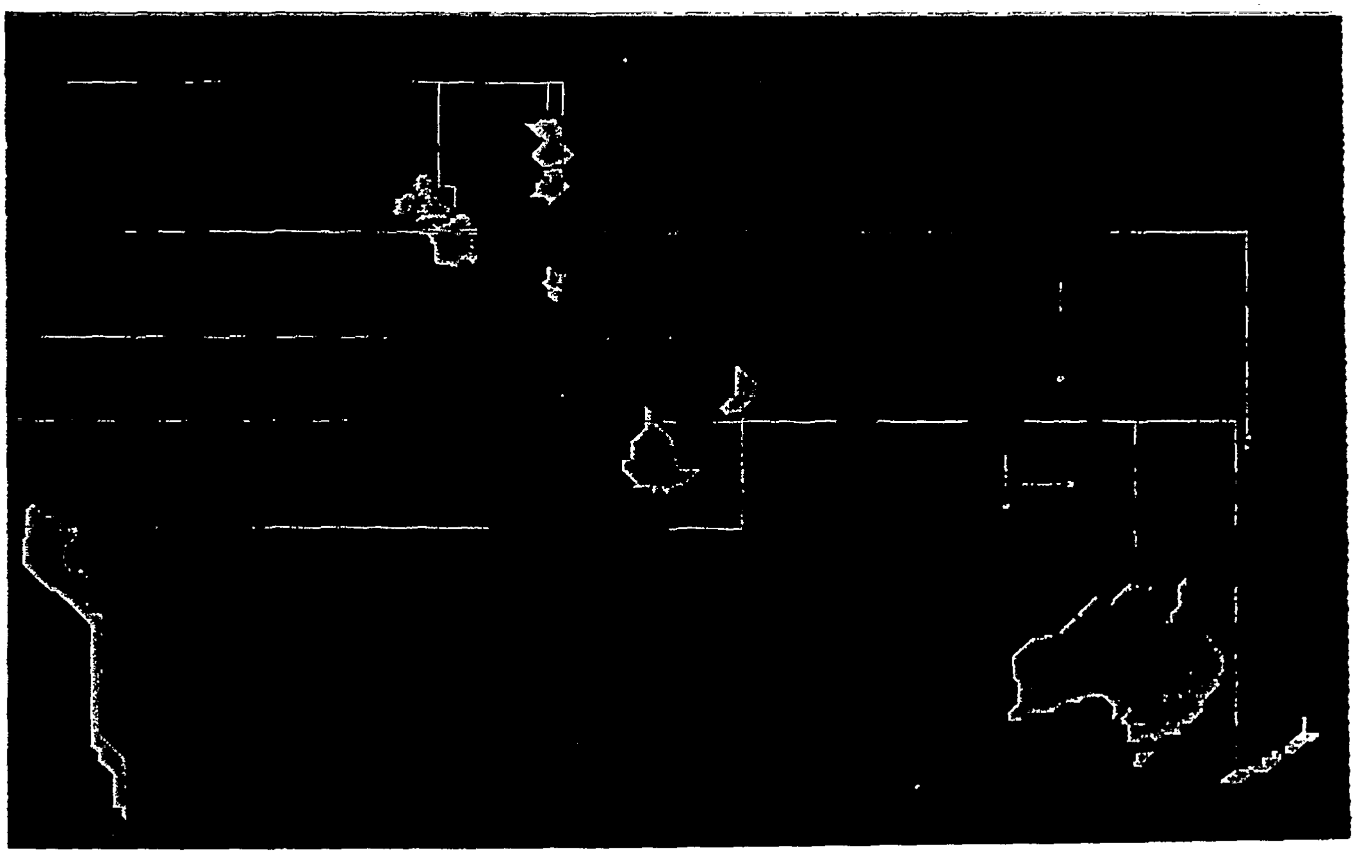
In Australia we represent Subaru, Jaguar, Peugeot and Volkswagen. We also have retail operations in Sydney representing Jaguar, Peugeot and Volkswagen. In New Zealand we represent Subaru and Peugeot.

REST OF WORLD

We import and retail BMW, Rover and Land Rover in Chile and Peru. We represent Ford in Ecuador and Peru, Toyota in Ethiopia and Mazda in Oman. We also distribute Ferrari to a number of countries in the Middle East.

A leader in international automotive retail and distribution

As of December 1999 Inchcape had operations in more than 20 markets, representing 12 major car manufacturers. Our total sales volume was nearly 360,000 units. Toyota (GB) and MCL Group accounted for over 115,000 units, whilst our stand-alone retail operations sold 51,000 vehicles.



Chairman's Statement

1999 signalled the beginning of a new era for Inchcape with our transformation from a diverse distribution company into an international automotive group. Difficult trading conditions in several of our key markets, not least the United Kingdom, and a changing industry environment made the year all the more challenging.

The disposal programme that was set in motion in March 1998 was substantially completed in line with our original timetable and resulted in £529.3m of cash being returned to shareholders.

Meanwhile the emergence of Inchcape as a pure automotive group has brought with it a stronger focus in the business and greater clarity for shareholders. In addition we are establishing ourselves as a market leader in automotive e-commerce.

THE DISPOSAL PROGRAMME

The disposal programme was largely completed by 30 June. On 9 July we paid a special dividend of 100p per share – equivalent to 600p per share following the one for six share consolidation on 12 July.

In addition to those disposals outlined in the 1999 Interim Report on 16 August we announced the sale of our 50% interest in Inchcape NRG, the Asia Pacific office automation business, to Ricoh Hong Kong, Ltd for US$50m (c. £30m). During 1999 this business contributed £3.3m to Group operating profit. The sale of Inchcape NRG and the subsequent agreement to dispose of Timberland have completed the programme.

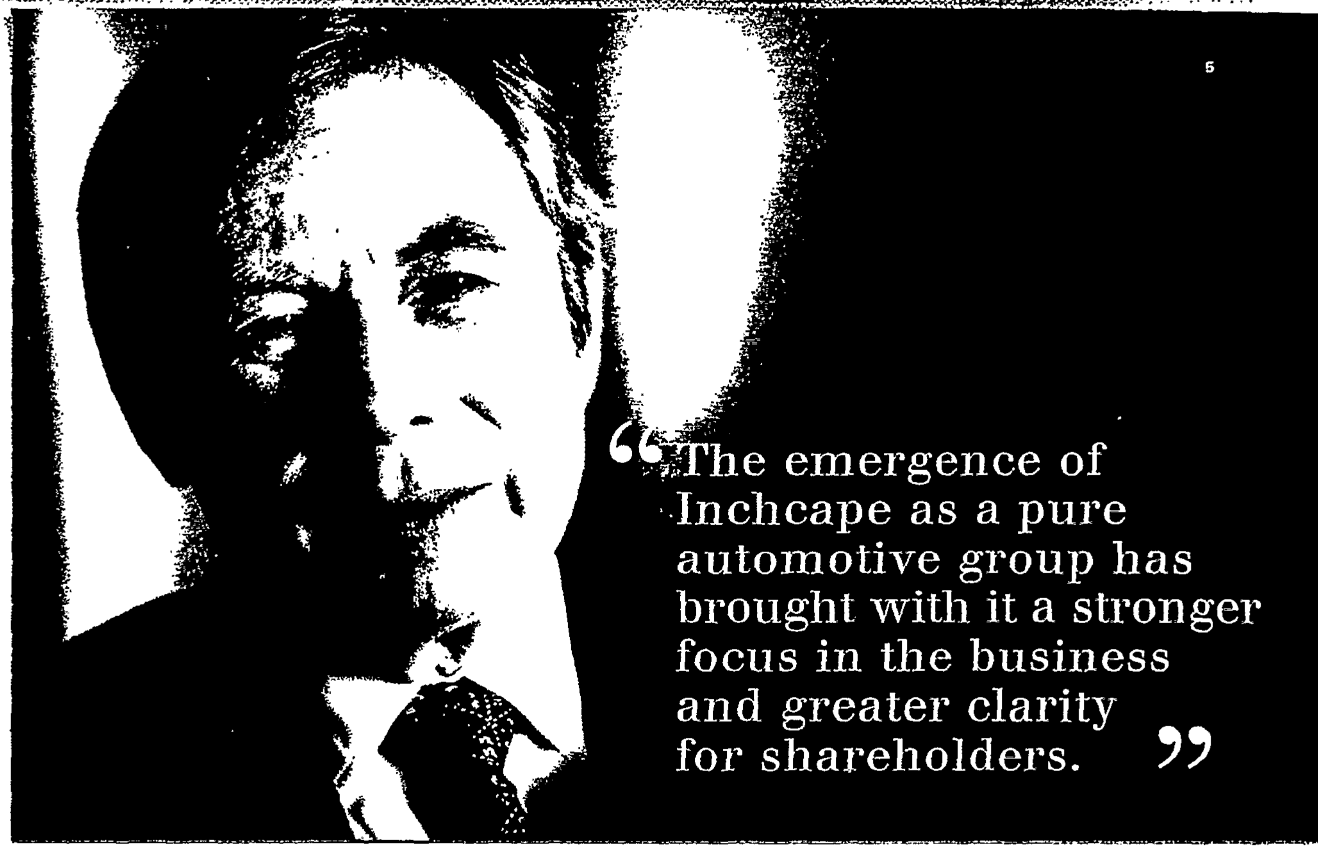
STRATEGY UPDATE

We are now able to concentrate management attention solely on the Motors operations. This enables us to build a business that is highly responsive to the changing nature of the international automotive environment and, in particular, the increasing importance of e-commerce, which is redefining the whole area of customer relationship management.

The Group will focus its efforts on maximising the opportunities in our major markets with our key principals. We will continue to assess the performance and longer-term potential of all of our operations, with a view to expansion or exiting those businesses that do not fit our future strategy or meet our financial hurdles.

1999 REVIEW AND PROSPECTS

Headline profit before tax fell from £106.1m to £85.3m and Headline earnings per share, due to a substantially



CHAIRMAN LORD MARSHALL

lower tax charge, rose from 50.2p to 60.0p. After exceptional items, principally relating to the disposal programme, profit before tax is £299.3m and earnings per share is 302.4p.

ONGOING BUSINESSES

Continuing operating profit pre-central costs fell by 16% to £105.6m from £125.4m.

Import & Distribution – This is our largest business segment, accounting for operating profits of £76.9m in 1999. Lower contributions from our two UK associate companies, Toyota (GB) and MCL Group, were the most significant factors in the 23% decline experienced in this segment. However there were improved contributions from Continental Europe, particularly Greece, and South East Asia, fuelled by the record car market in Singapore. Hong Kong remained difficult in the first half of the year, which impacted on profitability, but showed far more encouraging signs in the second half. Australia had a good year overall, but was not able to match the strong result achieved in 1998. South American markets were very poor last year.

E-commerce – Recognising that e-commerce would have a significant impact on automotive distribution, we invested in Autobytel.com of the US in 1997. At the end of April 1999 we launched our wholly owned subsidiary, Autobytel UK, to develop the brand in the United Kingdom. The consumer reaction in the UK to this new retailing channel has been very encouraging with 1.8m unique visitors to the site since launch. On 6 January 2000 we expanded our relationship by taking a 7.5% equity interest in the newly established Autobytel Europe.

Retail – The completion of the UK property refurbishment programme is reflected in the improved profits generated in the second half of the year, which were well up on the second half of 1998. For the full year Retail achieved operating profits of £9.6m, compared with £9.2m in 1998. The extensive building work over a two-year period has caused considerable disruption to normal business. With the end of the disruption factor and the excellent retail facilities we now have, we expect to see further benefits in the coming year. However the new car pricing issue continues to have a negative impact on consumer sentiment in the UK.

Financial Services – The Financial Services business, which is a key component of our customer-focused strategy, achieved strong growth in 1999 with operating profits up 14% to £19.1m from £16.7m in 1998. The recovery in profitability of our Asian businesses contributed significantly to this growth.

EXCEPTIONAL ITEMS

The £214.0m of exceptional items are predominantly related to the disposal programme.

INCHCAPE EMPLOYEES

On behalf of the Board I thank both current and former employees of Inchcape for all their hard work since March 1998 to complete the disposal programme. The new team is working well together and I am confident they will be successful in meeting the fresh challenges ahead.

BOARD CHANGES

Alan Ferguson was appointed Group Finance Director on 9 March 1999, taking over from Les Cullen. On 1 July 1999 Peter Johnson succeeded Philip Cushing as Group Chief Executive. On the same day Trevor Taylor became executive Deputy Chairman.

PROSPECTS

In the year ahead we anticipate that the Asian markets will continue to improve as consumer demand grows and that South American markets will start a slow recovery. Further growth is expected in Continental Europe, whilst in the UK we hope that the publication of the Competition Commission's report will help end the current uncertainty in the market and lead to a swift recovery in sales.

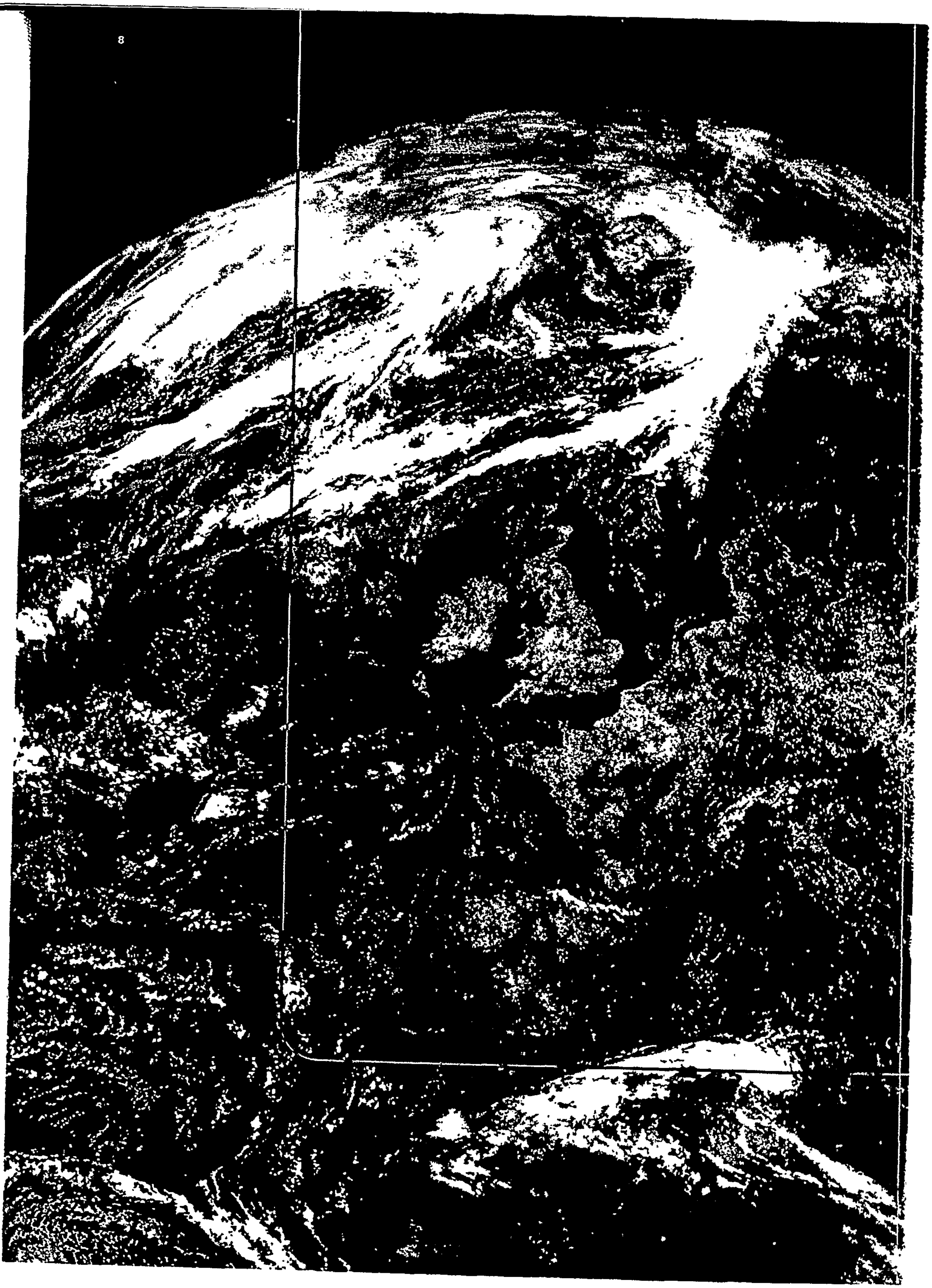
DIVIDEND

The Board recommends that a final ordinary dividend of 14.0p (1998 – 39.6p) should be paid, giving a total ordinary dividend for the year of 21.0p (1998 – 67.2p). The dividend is 2.9 times covered by Headline earnings per share.

LORD MARSHALL OF KNIGHTSBRIDGE

6 MARCH 2000

Inchcape has embarked on an exciting journey into the future. The past year has seen us transformed into an international automotive group and we are now entering a challenging new era. With our strong international business portfolio, our depth of experience and expertise and our drive into e-commerce and other customer-focused services, we are confident that we will further strengthen our position as a leader in automotive services.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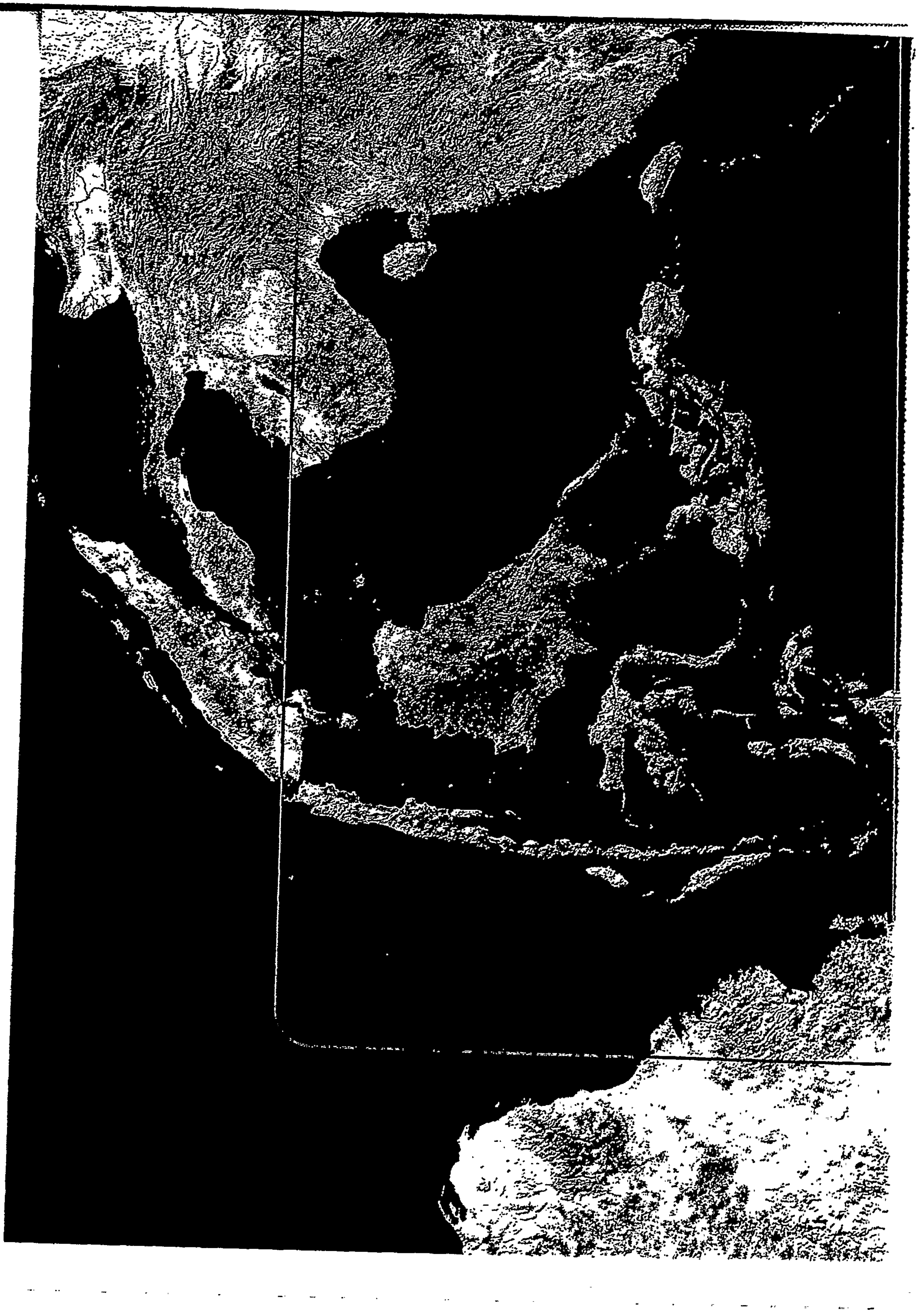
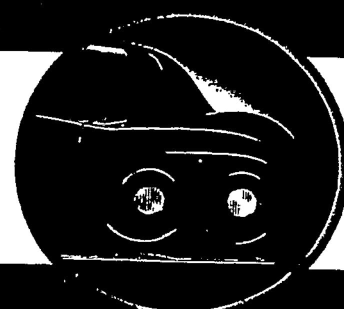
A world leader in automotive import and distribution, Inchcape provides manufacturers with quality representation and helps build their brands in more than 20 international markets. We are responsible for marketing, sales, customer service and dealer management as well as physical distribution.

Our biggest single relationship is with Toyota, who we represent in 12 markets, including the UK through our 49% stake in Toyota (GB) Ltd, Belgium, Greece, Hong Kong and Singapore. The Lexus marque is increasingly competing head on with the premium European brands. The launch of the IS 200 is enabling Lexus to establish a strong presence in the compact executive segment.

Australia is Subaru's second largest export market after the US. Inchcape's success in building the brand in Australia led to the signing of a 10-year exclusive distribution agreement in May 1999. Subaru has continued to outperform the market, volumes rising 23% in 1999 in a market that fell 2.7%.



Expansion of our distribution businesses into retail is an important element of our customer-focused strategy. In a number of 'city markets' we have developed a commanding retail presence for the brands we distribute and have benefited from economies and efficiencies of scale. These integrated markets include Hong Kong, Singapore, Brunei, Helsinki, Santiago, Lima and most recently, Sydney.



Hong Kong is one of our longest established integrated retail markets. Inchcape businesses command around 40% of the total passenger car market, and, in keeping with their leadership position, are setting ever higher standards in vehicle logistics, sales and after-sales service. Our Toyota and Mazda operations are acknowledged by their principals as world class.

Inchcape is the world's largest independent distributor of Ferrari, who we represent in the UK, Belgium and the Middle East. Additionally we represent the revitalised Maserati marque in the UK and the Middle East. We sold over 1,100 cars for Ferrari and Maserati in 1999. A significant proportion of these sales are through our Ferrari/Maserati dealership in the UK and our Belgian Ferrari dealership.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One of the UK's leading dealer groups, Inchcape Motors Retail (IMR) is making significant investments in technology to improve operating efficiencies, reduce costs and provide ever higher levels of customer service. The introduction of industry leading IT systems and a fully web-enabled central communications centre has enabled us to offer greater value and a more personal service, thus enhancing the overall customer experience.

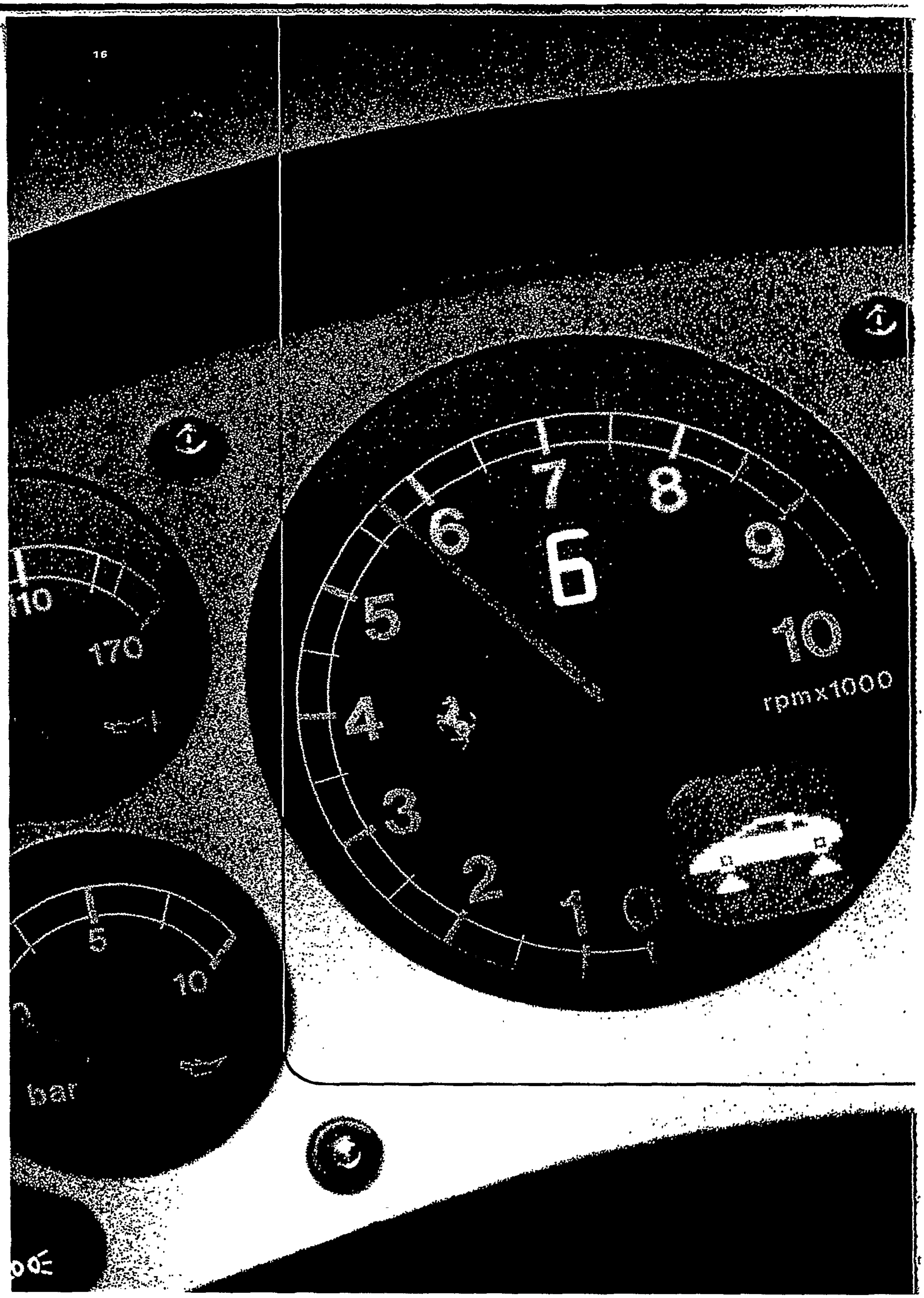
We have developed one of our largest 'clusters' of retail dealerships in Guildford. The six businesses in the town are Toyota, Lexus, Jaguar, Rover, Land Rover and Renault. We benefit from cost efficiencies generated by the centralisation of back office functions, whilst keeping the individuality of the different marques.

IMR has undergone radical change over the past 18 months, with 47 of our 56 dealerships being extensively refurbished. The quality of our network, innovative approach and business philosophy has been acknowledged by the Institute of Transport Management which made IMR 'UK Automotive Retailer of the Year, 1999/2000'.

Choice and flexibility are the cornerstones of our international Financial Services businesses. We offer customers a broad range of financial products and services, including financing for car purchases, personal leasing plans, insurance and extended warranties. Our UK leasing and fleet management businesses, MEVC and Kenning Leaseline, are important contributors to this segment.

Tefin and British Providence, our financial services operations in Greece, are both leaders in their field. Offering respectively, finance and insurance products, initially to customers of Toyota, the spread of the business is broadening to encompass customers of all marques.

Inchcape's focus on developing businesses with a strong direct customer relationship has underlined the future potential of our UK leasing and fleet management operations. Personal leasing is just one of the areas where Inchcape has an opportunity to significantly broaden its customer base with new, innovative products.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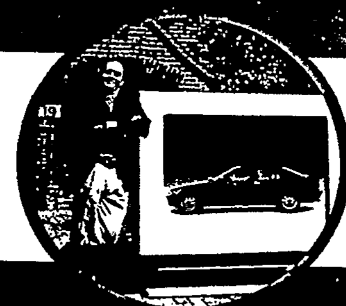
Inchcape is fully embracing e-commerce and the significant changes it is bringing to the automotive industry. The Internet is a fast growing channel for marketing and selling cars and we are establishing a market leading position. We are developing our range of online services further to include customer to customer auctions and the sale of used cars direct to the public.



We have joined forces with Autobytel.com, the world's premier online automotive purchasing service, in a strategic partnership that saw Inchcape launch Autobytel UK in April 1999. Since launch it has attracted 1.8m unique visitors and generated over 22,000 purchase requests.

We have taken a strategic stake in Autobytel Europe, which aims to launch websites tailored to individual markets in France, Germany and other countries during 2000. Internationally, in our traditional businesses, we are exploring ways to utilise e-commerce to enhance customer communications and service.

The way forward for Inchcape will be determined by how well we respond to the significant changes occurring in our industry. We are committed to be at the forefront of these developments, and are pursuing industry leading initiatives in our established businesses as well as in entirely new areas of business. Our broad international experience allied to our expertise in customer service and fulfilment will be major advantages as we continue to implement our customer-focused strategy.

Chief Executive's Review

GROUP CHIEF EXECUTIVE PETER JOHNSON

Our transformation into a focused automotive business has coincided with a period of rapid evolution for the industry as a whole. We are determined to remain at the forefront of these important developments.

Consolidation amongst the world's automotive manufacturers will continue as they seek global reach and competitive advantage. At the same time major manufacturers are moving down the supply chain, trying to take cost out of the distribution process and establish a direct interface with the customer. For their part consumers are more knowledgeable and more demanding than ever. They want convenience, greater choice and higher levels of service. Meanwhile technology and innovation are advancing apace, bringing with them exciting new communication and delivery channels. All of these developments are changing the structure of the industry and putting the traditional channels of distribution under pressure.

Inchcape has the strength and ability to meet these challenges. We are an acknowledged leader in international automotive distribution. Our name is highly respected within the automotive industry. We have excellent relationships with leading manufacturers and a depth of international experience and expertise that is second to none. We recognise the far-reaching implications of the consumer-led change now occurring within our industry and are responding vigorously with a pro-active, customer-focused strategy. We know that offering excellent service alongside total customer choice will be key to our future success.

In our traditional Import & Distribution businesses we are increasingly developing a strong retail presence and broadening the range of products and services we offer. Classically we have done this in Hong Kong and Singapore, but we are also starting to apply the model to major cities in countries such as Australia and Greece.

At the same time we continue to explore and develop other channels and services that will offer the consumer new ways to fulfil and finance their personal transportation requirements. We are establishing ourselves as a leader in automotive e-commerce through our involvement with Autobytel in the US, the UK and Continental Europe. We continue to grow our Financial Services businesses by introducing a wider range of personal finance and leasing schemes tailored to meet the needs of individual customers.

We are seeking quality and scale both in the businesses we operate and the earnings they generate. That means developing larger businesses in a smaller number of international markets and building stronger relationships with fewer manufacturers. In terms of geography the five major contributors to Inchcape are our operations in the UK, Greece, Australia, Singapore and Hong Kong. With regard to manufacturers our key relationships are with Toyota, Ferrari, Subaru, Jaguar, Mazda and BMW.

Our focus on quality and scale is also reflected in our UK retail operations where we have recently completed a major refurbishment of our network. By reducing both the number of dealerships and the number of towns and cities where we are represented we have created a better balance between prestige and volume marques.

Additionally by developing clusters of dealerships in target territories we are achieving significant back-office economies. We have invested in industry leading systems, which will not only bring further cost savings, but also enable us to be more responsive to our customers' needs.

During 1999 the media in the UK has been consumed by the debate on new car pricing and speculation about the recommendations of the Competition Commission inquiry into the issue. This has led to market uncertainty. There are several reasons why new car prices are higher in the UK than other European markets, including the differing tax environments in Europe, the strong pound and the distorting effects on the UK market of fleet discounts.

Nevertheless in our view it is nonsensical that British consumers are sourcing vehicles from Continental Europe. It is essential that the industry and government tackle this issue with both the diligence and urgency the consumer deserves.

The UK pricing issue has also sparked a debate on the broader question of European Block Exemption and speculation as to whether or not it will be renewed in 2002. There are concerns about the impact on motor distributors and retailers if Block Exemption is not renewed or is renewed in a diluted form. Changes in Block Exemption will have an impact. At Inchcape, with our strategy of developing alternative distribution channels whilst retaining key elements of the more traditional channels and a strong retail presence, we believe we are well placed to grasp the opportunities that will come our way whatever the outcome of the Block Exemption review.

1999 also saw encouraging signs of recovery in Asia, with good growth throughout the year in Singapore and a more positive second half in Hong Kong. The South American markets, which had fallen dramatically since late 1998, began to bottom out. There was growth in Continental Europe and, through our Toyota operation in Greece, we expanded our coverage into the Balkans.

The road ahead is a challenging one. I am confident that Inchcape will not only respond well to the changing nature of our industry but will also be a leader of that change. Our international business portfolio will provide the strength of earnings to drive us forward, whilst enabling us to explore many of the exciting new opportunities the evolution in the industry will bring.

Peter Johnson

PETER JOHNSON

6 MARCH 2000

Operating Review

The major markets in which we operate experienced mixed fortunes in 1999. In Continental Europe, Greece in particular showed strong growth, whilst in Asia we are starting to see encouraging signs of recovery. Meanwhile in the UK the pricing issue and the Competition Commission inquiry led to uncertainty as consumers waited to see the impact on new car prices.

Operating profit for our continuing Motors businesses before exceptionals and central costs declined by 16% to £105.6m (1998 – £125.4m). Of this decline 82% arose in our UK associate companies. The impact of exchange rate movements generated a positive contribution of £1.3m.

IMPORT & DISTRIBUTION

Passenger car sales in the UK were down 2.2% in 1999 compared with 1998 but still reached almost 2.2 million units, the third largest ever volume. Inchcape's total sales during the year mirrored the market trends with volumes down 2.2% to a little over 150,000 vehicles. A strong pound and severe price competition created a difficult trading environment for our UK businesses.

Mazda importer MCL saw volumes decline 16.6% to around 26,000 units. Toyota (GB) increased market share to nearly 3.8% and volumes by 0.8% to over 91,000 vehicles. The launch of the Yaris brought Toyota into a market niche where its presence has historically been weak, but high marketing spend – including launch costs for the Yaris and Lexus IS 200 – further impacted profitability. The separation of the Lexus and Toyota marques at retail level also involved significant additional marketing support.

Our Ferrari business goes from strength to strength with a further increase in profitability in 1999. Inchcape is now the world's largest independent Ferrari distributor. Our performance in the UK has been further enhanced by the development of the Maserati franchise, which will bring further opportunities for growth in 2000 and beyond.

As a result of the run out of the Grand Cherokee and Neon models in 1999, Chrysler Jeep volumes were down 16.4% to just over 13,500 vehicles. At the end of the year this franchise was taken back by the manufacturer as part of the Daimler-Chrysler merger. The Daihatsu franchise lost money for the second consecutive year. It was sold on 29 February 2000. Both these businesses are shown as discontinued operations.

Inchcape's interest in Autobytel is included in Import & Distribution. We launched the Autobytel service in the UK at the end of April 1999 and have been greatly

L-R ALAN FERGUSON, GROUP FINANCE DIRECTOR, PETER JOHNSON, GROUP CHIEF EXECUTIVE, AND TREVOR TAYLOR, EXECUTIVE DEPUTY CHAIRMAN.

encouraged by the consumer response. Marketing expenditure and other start up costs saw a net loss of £4.4m for Autobytel UK in 1999, which has been partially offset by a write-back of a £3.0m provision for our investment in Autobytel.com of the US (originally provided for in 1997). We are looking to double our investment in this business during 2000 to further its market leading position and to introduce additional products to our fast growing customer database.

In *France* Mazda had a successful year in terms of market share gains although profits were flat. The French market as a whole rose by 10.2% and Mazda volumes rose by 11.0% to nearly 9,000 vehicles.

Mazda volumes in *Finland* declined in a rising market. Our sales fell 8.7% to 4,300 units whilst the market as a whole rose by 7.7%. The fall was due primarily to severe price competition from European manufacturers. The resulting decline in profitability was partially offset by an increased contribution from the Baltic countries as their economies recovered.

In *Belgium* the market grew strongly with total registrations up 9.5% during the year. Toyota volumes declined by 8.3%, generating a market share of 4.3%. Profitability held steady. The continued absence of appropriate diesel models has hindered the volume growth of the franchise however the new diesel Corolla allied to other new models being launched in 2000 should improve market penetration.

The market in *Greece* grew by 43.6% stimulated by a change in the tax regime at the end of 1998. Toyota Hellas had a very successful year, boosting volumes by 38.6%, maintaining its number one position with a market share of 11.8% and increasing profitability. For the third consecutive year Toyota Hellas won Toyota's prestigious 'Triple Crown' award for leadership in the passenger car and light commercial vehicle segments and the market overall.

Overall Asia is starting to show signs of recovery although there are contrasts between markets. The *Hong Kong* market continued to be difficult in the first half of the year and profits declined but there were much more positive signs in the second half with volumes up 4.7% compared with the last six months of 1998. Inchcape maintained its dominant position with a market share of 42.6%. Our Toyota business, Crown Motors, was again the clear market leader with a market share of 28.3% and won Toyota's 'Triple Crown' award for the eighth consecutive year. Mazda also performed well, growing market share to 12.3%, an all-time record and Mazda's highest market share anywhere in the world. Sales in the luxury car market have proved very challenging. However the Jaguar S-type has been well received.

Stimulated by the release of more Certificates of Entitlement (COEs), the *Singapore* market has seen a recovery with volumes increasing 30.6%. Borneo Motors, our Toyota business, exceeded this with vehicle sales up 35.8% to 10,600 units. Competition has been intense with the price of the most popular category of COEs rising by nearly 50%. This has resulted in margin pressure but nonetheless profits have grown.

The *Brunei* market remains weak with registrations down 16.5%. However Toyota volumes declined by only 10.5% thus further strengthening our market leadership position with a share of 24.3%. Profitability has improved in this difficult market.

In *Australia* the strong market growth of 1998 was not repeated and volumes fell by 2.7%. By contrast Subaru continued to grow strongly with sales up 23.1% to 25,100 vehicles. However profits could not match the particularly strong result achieved by this franchise in 1998.

In May 1999 we signed a landmark 10-year contract with Fuji Heavy Industries for the distribution of Subaru in Australia.

Underlining the Group's customer-focused strategy Inchcape announced an investment of £10.2m in November to acquire two of Sydney's leading dealership groups. Sydney accounts for around 40% of Australian automotive sales and this investment gives Inchcape a dominant position in retail for Jaguar and Volkswagen in this important city market.

Our Peugeot joint venture in *Japan* was sold to the manufacturer in February 2000 and so is shown in discontinued operations. Although the business has steadily built market share, to make a more significant impact in Japan requires a major investment in marketing. It was agreed with Peugeot that it would be more appropriate for them to take full ownership.

The *Saipan* and *Guam* markets have yet to show any signs of recovery from the continued slump in tourism. Volumes were down 42.5% in Guam and 39.0% in Saipan, which impacted on profitability but Toyota has maintained market leadership. Our Toyota business in *Ethiopia* also performed well, gaining market share and improving its contribution to the Group.

In South America the economic conditions continue to be extremely challenging. *Chile* and *Peru*, Inchcape's major markets in the region, were down on average 38.4% with Inchcape volumes down an average of 42.2%. Our stock reduction programme is largely complete and our losses in the region have been curtailed.

RETAIL

The refurbishment of our UK retail operations was materially completed in the second half of 1999 and the benefits are already showing through in terms of improved profitability and the quality of our facilities. The major modernisation programme spanned two years and involved 47 of our 56 dealerships. In addition we have invested in industry leading IT systems to further improve customer service and management efficiencies throughout the network. Despite consumer uncertainty over the UK pricing issue and the Competition Commission inquiry later in the year, Retail operating profits showed a small improvement over 1998. This revitalised business is expected to make a much greater contribution to the Group in the future.

FINANCIAL SERVICES

Our Financial Services business saw strong growth in 1999 with operating profits up 14%, largely as a result of improved contributions from the Asian operations.

The UK leasing businesses, MEVC and Kenning Leaseline, have both been affected by the decline in residual prices of cars. However Inchcape's conservative approach to residual value setting and a balanced fleet by marque and model has helped mitigate the impact and the businesses remain profitable.

CENTRAL COSTS

During the year the Group achieved a significant reduction in central costs from £24.0m to £17.8m. The first half included non-recurring costs of £3.5m, which were a result of the divestment programme.

DISCONTINUED BUSINESSES

As a result of the divestment programme Inchcape has focused its business on automotive operations. The Marketing, Bottling South America, Office Automation and Shipping divisions are now shown as discontinued operations as are those Motors businesses detailed as discontinued above.

NEW DEVELOPMENTS

In line with our customer-focused strategy we are looking for opportunities to develop stronger direct customer relationships both within our traditional distribution businesses as well as from new business initiatives. We have recognised the enormous impact technology and e-commerce in particular will have on our industry and are establishing ourselves at the forefront of automotive e-commerce, principally through our growing relationship with Autobytel.com of the US. Following the launch of Autobytel UK in April 1999 we announced on 6 January 2000 that we were investing US$10.0m for a 7.3% equity interest in Autobytel Europe. The new company will license, invest in and offer joint services to national operating companies to help them implement the Autobytel.com service and develop the brand in their respective markets.

Financial Review

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

RESTRUCTURING PROGRAMME

In 1998 the Group announced a fundamental restructuring which, when complete, would result in the continuing businesses being a focused Motors group. The majority of these transactions have been completed during 1999 and include the disposals of Bottling South America, Marketing, Shipping and Office Automation (Bottling Russia disposal in 1998).

OPERATING PROFIT

1999 operating profit was £101.0m of which £13.2m related to discontinued businesses. Of the discontinued operating profit £5.7m relates to Motors businesses, mainly Chrysler Jeep Imports UK. The continuing operating profit of £87.8m was £13.6m lower than 1998. This decrease principally results from the lower contribution of our UK associate companies.

Continuing operating profit includes some one off items that require explanation in order to understand the the true underlying performance of the continuing Group. Import & Distribution in the UK benefited in the first half of 1999 from a £3.0m provision release previously held against the investment in Autobytel.com. Also within this business segment, but within Australia, in the second half of 1999 we incurred £3.0m of costs in terminating existing retail dealers within the Sydney region. This was a consequence of our expansion into retail activities within 'city markets'. Finally central costs in the first half of 1999 included £3.5m of operating costs that will not be repeated.

DISPOSALS AND DISCONTINUED ACTIVITIES

The financial results of disposed operations (including relevant Motors operations) have been reclassified as discontinued within the Financial Statements. The principal Motors operations classified as discontinued are Chrysler Jeep Imports UK and Daihatsu (UK). With regard to the former, as a result of the merger between Daimler-Benz and Chrysler, the business was transferred back to the manufacturer on 31 December 1999. Daihatsu (UK) was sold on 29 February 2000 to I.M. Group Ltd.

The exceptional items contributed a profit of £214.0m after charging previously written off goodwill of £71.1m. The disposal of Bottling South America contributed an exceptional profit of £279.0m after charging previously written off goodwill of £14.4m. The disposal of the Marketing business contributed an exceptional loss of £10.7m after charging previously written off goodwill of £23.9m. The disposal of the Shipping business contributed an exceptional loss of £22.8m after charging previously written off goodwill of £15.6m. The transfer of the Chrysler Jeep Imports UK business gave rise to a £14.8m loss after charging previously written off goodwill of £13.0m.

The 600p per share special dividend (after adjusting for the one for six share consolidation) paid on 9 July 1999 effectively marked the end of the non-Motors disposal programme with Office Automation being disposed of shortly thereafter in August 1999.

POST BALANCE SHEET EVENTS

On 6 January 2000 the Group announced a US$10.0m investment in Autobytel Europe representing 7.3% of the equity in that business.

The Group will be exiting its Volkswagen Australia Import & Distribution business on 31 December 2000, which will be transferred back to Volkswagen. Since the year end the Group has also concluded the disposal of Daihatsu (UK) and its 50% holding in Inchcape Peugeot Japan. During 1999 these three businesses contributed less than £1.0m to Group operating profit. In addition the Group has disposed of the majority of its Timberland business.

FINANCIAL REPORTING AND ACCOUNTING STANDARDS

The Group has adopted FRS12 'Provisions, Contingent Liabilities and Contingent Assets', FRS 13 'Derivatives and Other Financial Instruments: Disclosures', FRS15 'Tangible Fixed Assets' and FRS16 'Current Tax'. These standards have not had a material impact on the Group results or net assets. During 1998 the Group adopted FRS14 'Earnings Per Share'.

The Directors have reviewed the treatment of interest on the Group's cash pooling arrangements and on interest rate swaps. The cash flows were previously shown gross but are now shown net to better reflect the underlying transactions and to aid comparability with FRS13 disclosures.

The effect of the restatement, excluding interest of joint ventures and associates, is as follows:

	INTEREST RECEIVABLE	INTEREST PAYABLE	INTEREST NET
	£M	£M	£M
AS REPORTED IN 1998	64.7	(93.4)	(28.7)
RESTATED	30.0	(58.7)	(28.7)

Central cost 1998 comparatives have been restated to £24.0m from the previously reported £15.5m to include £8.5m previously allocated to the Motors segment. This method now better reflects the manner in which the Group manages such costs.

CASH FLOW

	£M	£M
NET DEBT – 1 JANUARY 1999		(143.4)
OPERATING PROFIT	69.1	
DEPRECIATION AND AMORTISATION	33.9	
DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES	17.8	
WORKING CAPITAL	6.9	
NET CAPITAL EXPENDITURE	(34.3)	
ACQUISITIONS AND DISPOSALS	672.3	
PAYMENTS IN RESPECT OF EXCEPTIONAL OPERATING EXPENSES AND TERMINATIONS	(36.4)	
OTHER ITEMS	1.6	
INTEREST AND MINORITIES	(15.7)	
TAX	(17.6)	
DIVIDENDS PAID TO SHAREHOLDERS	(570.5)	
		127.1
FOREIGN EXCHANGE		(7.3)
NET CASH SOLD WITH DISPOSALS		(125.4)
NET DEBT – 31 DECEMBER 1999		(149.0)

Of the acquisitions and disposal proceeds total of £672.3m, £10.2m relates to the purchase of business assets of two retail businesses in Australia. Disposal cash proceeds totalled £682.5m, £557.1m net after taking account of net cash held in the businesses at disposal. This principally covered the special dividend of £529.3m paid on 9 July, representing the return to shareholders from the disposal programme.

Dividends from joint ventures and associates of £17.8m includes £8.3m in relation to discontinued businesses.

Gross capital expenditure in respect of fixed assets totalled £73.9m with £33.9m of depreciation and amortisation and disposal proceeds of £39.6m. Discontinued businesses contributed £10.8m to gross capital expenditure and £9.0m to depreciation. Disposal proceeds are materially attributable to continuing businesses. With regard to continuing businesses gross capital expenditure included £24.2m in relation to UK Retail, substantially completing the refurbishment programme, and £21.8m in relation to leased and rented vehicles.

The Group change in net debt over the period was £5.6m taking the net debt position at 31 December 1999 to £149.0m compared to an opening position of £143.4m.

INTEREST

Net interest decreased from £29.1m in 1998 to £15.7m in 1999. Of the 1999 charge £2.8m (1998 – £0.4m) relates to associates and joint ventures. The 1998 charge contained the impact of two items that were one off in nature to the value of £3.7m (£0.9m of facility fees and £2.8m of cost for the closure for an interest rate swap). Excluding these items the 1998 net interest charge would have been £25.4m. The balance of the reduction, £9.7m, is principally due to the disposal of businesses contributing £8.3m to the 1998 interest charge, lower levels of gross debt within the Group over the period and the one off benefit of the disposal proceeds received late in the first half of 1999 and not paid out as the special dividend until 9 July 1999.

TAXATION

The tax on Headline profit decreased to 31% in 1999 from an abnormally high rate in 1998 of 52%, which mainly arose due to unrelieved losses. The impact of the Group's restructuring during the year has not materially affected the 1999 Headline tax rate.

The 1999 Headline tax rate has benefited from a one off change in the tax treatment of provisions in the UK. Without this benefit the 1999 Motors underlying Headline tax rate would be around 34%.

MINORITY INTEREST

The charge for 1999 of £5.4m has reduced from the 1998 charge of £6.5m. This reflects the lower contribution relating to discontinued businesses. Of the 1999 charge £6.0m relates to continuing business. The two main constituents are Inchcape Motors Limited in Singapore and Subaru (Australia) Pty Limited in Australia. In relation to the latter, during 1999, the Group signed a ten-year Import & Distribution agreement with Fuji Heavy Industries (FHI), the manufacturer of Subaru vehicles. As part of the agreement FHI took an 8.0% equity stake in Subaru (Australia) Pty Limited.

TREASURY POLICIES AND ACTIVITIES

Group Treasury is responsible for managing the key financial risks of the Group encompassing funding, foreign exchange and interest rate risk. Treasury activities are conducted under Board approved policies and authorities which expressly forbid speculative transactions. The treasury function is subject to regular internal audit.

The use of derivative instruments is restricted to forward foreign exchange contracts, foreign currency and interest rate swaps, forward rate agreements and currency options. Foreign currency swaps are used to hedge cross border Group loans. Interest rate fluctuations are managed by the use of swaps and forward rate agreements which change the mix of fixed and floating rate borrowings. Forward foreign exchange contracts and foreign currency options protect the Group from adverse changes in exchange rates from date of order to the date on which payments are made to suppliers.

BORROWING FACILITIES

The Group's principal committed borrowing facilities are a £250m standby revolving credit facility and a US private placement for US$172m which was swapped to sterling in 1998.

The US private placement comprises two tranches of loan notes for US$100m and US$72m. These loan notes have interest rates of 6.93% and 7.09% and maturity dates of May 2000 and May 2002 respectively. Negotiations are well advanced to refinance the loan notes maturing in May this year.

The standby revolving credit facility, maturing in March 2003, was reduced from £400m to £250m on 14 April 1999. Standby committed bilateral revolving credit facilities for £105m were cancelled shortly afterwards. These reductions reflect the lower forecast borrowing requirement for the Group after the effective completion of the disposal programme.

In addition to the committed facilities the Group has access to significant uncommitted borrowing facilities provided by the Group's relationship banks. These facilities are used for liquidity management on a daily basis.

CASH AND DEBT

The Group held significant cash balances during the latter part of the first half of the year following the disposal of non-core assets. On 9 July 1999 this cash was returned to shareholders with the payment of a special dividend of £529.3m.

Although for cash management purposes the Group lends cross border, cash and debt balances are held locally for operational purposes. Net debt of £149.0m at 31 December 1999 comprised a number of cash and debt balances. They are summarised as follows:

	DEBT £M	CASH £M	NET £M
AUSTRALIAN DOLLAR	(0.8)	1.5	0.7
EURO	(7.7)	12.7	5.0
GREEK DRACHMA	(84.8)	13.0	(71.8)
HONG KONG DOLLAR	–	3.8	3.8
SINGAPORE DOLLAR	(60.3)	38.6	(21.7)
US DOLLAR	(5.1)	10.4	5.3
OTHER	(14.1)	15.4	1.3
TOTAL – OTHER THAN STERLING	(172.8)	95.4	(77.4)
STERLING	(15.4)	47.1	31.7
SWAPPED US LOAN NOTES	(103.3)	–	(103.3)
TOTAL – STERLING	(118.7)	47.1	(71.6)
TOTAL	(291.5)	142.5	(149.0)

The Group has significant borrowings in sterling, Greek drachma and Singapore dollars. Sterling debt includes £103.3m which represents the swapped US$172m loan notes. Trade finance totalling £73.7m supports working capital requirements in Greece. Customer deposits in the Brunei finance company of approximately £59.0m are included within Singapore debt.

The sterling cash balance includes the initial sale proceeds of £36.1m for Chrysler Jeep Imports UK received shortly before the year end. Cash is held locally in Singapore to support purchases of Certificates of Entitlement required for new car sales. In addition cash held for regulatory requirements in the Brunei finance company is included within Singapore cash.

To manage credit risk cash deposits are placed within agreed counterparty limits with relationship banks that have a strong credit rating.

EFFECTIVE INTEREST RATES

The Group operates an interest rate policy designed to minimise net interest expense and protect the Group from material adverse movements in interest rates. The balance of fixed and floating rate debt is adjusted from time to time to take account of changes in the interest rate environment.

At the year end the Group's principal gross borrowings were either at floating rates or fixed for periods less than one year. The hedging of the Group's interest rate exposures will be considered in conjunction with the refinancing of the maturing US loan notes.

BALANCE SHEET TRANSLATION

Following the Asian currency crisis, which started in 1997, the Group adopted a policy of not hedging the risk in translating the profit and loss account and balance sheet into sterling.

Since the adoption of this policy translation exposure has been managed where possible by financing working capital requirements through local currency debt and by maximising remittances of overseas earnings.

The percentages of net assets by currency at 31 December 1999 for the Group are set out below:

NET ASSETS BY CURRENCY	%
STERLING	(35.2)
EURO	59.5
GREEK DRACHMA	2.7
US DOLLAR	15.3
AUSTRALIAN DOLLAR	8.0
ASIAN CURRENCIES	40.7
OTHER	9.0
	100.0

Following the disposal of non-core activities the principal net assets of the Group have been denominated in currencies in Asia and the Euro zone. The Euro zone amounts include a high proportion of net assets in Dutch guilders at the year end.

Moving forward as a Motors only business the Group's net asset position is to be reviewed in conjunction with the refinancing of the US loan notes. The Group net asset hedging strategy will be looked at as part of this process.

FOREIGN CURRENCY TRANSACTION EXPOSURE

The Group has transactional currency exposure arising from sales or purchases by an operating unit in currencies other than the unit's functional currency. Group policy is to hedge all transaction exposures as soon as they are committed, mainly by using the forward foreign exchange market. Over recent years the Group has negotiated local currency billing with many of its principals. This has had the effect of transferring the direct transaction exposure back to the principal and so relatively few businesses are still billed in foreign currency.

Pre-transaction exposures are monitored and cover taken when appropriate. In evaluating the level of cover management consider a number of factors relating to prevailing and future expected exchange rates, the position of the manufacturer and also the competitive position of the business in the local market place.

FOREIGN CURRENCY EARNINGS EXPOSURE

Had the average sterling rates in 1998 continued into 1999 the Group's operating profit for the continuing businesses would have been £1.3m lower. Headline profit before tax would have been £1.9m lower.

Board of Directors

Lord Marshall of Knightsbridge *1,2,3* Chairman*
Age 66. Joined the Inchcape Board in November 1995 and was appointed non-executive Chairman on 1 January 1996. Lord Marshall is Chairman of British Airways Plc, having been Deputy Chairman and Chief Executive previously. He is Chairman of Invensys plc, Deputy Chairman of British Telecommunications plc and a non-executive Director of HSBC Holdings plc and the New York Stock Exchange. He was President of the Confederation of British Industry from May 1996 until July 1998 and he was appointed Chairman of the Royal Institute of International Affairs (Chatham House) in September 1999. In June 1998 he was created a Life Peer, having been made a Knight Bachelor in 1987.

Peter Johnson *3 Group Chief Executive*
Age 52. 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 previously with the Rover Group, Applied Chemicals and the Marshall Group.

Trevor Taylor *Executive Deputy Chairman and Chief Executive, Inchcape Toyota Division*
Age 62. Joined the Group in 1987 as Deputy Managing Director of Toyota (GB), becoming Chief Executive in April 1993 and Chief Executive of Inchcape Toyota Division in 1995. He joined the Inchcape Board in January 1998 and resigned his executive role with Toyota (GB) to become a non-executive Director. He was previously with Ford Motor Company and the Rover Group. Appointed executive Deputy Chairman on 1 July 1999.

Alan Ferguson *Group Finance Director*
Age 42. Previously with KPMG with whom he qualified as a Chartered Accountant in 1982. Joined Inchcape plc in 1983 and 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.

Tony Alexander *1, 2, 3* Senior independent non-executive Director*
Age 61. Joined the Inchcape Board in January 1993. Formerly a Director and Chief Operating Officer UK of Hanson plc, he is now Vice Chairman of Imperial Tobacco Group plc. He is also a non-executive Director of Cookson Group plc, Laporte plc and Misys plc.

Dr Raymond Ch'ien *Non-executive Director*
Age 48. Joined the Inchcape Board in July 1997 and became Chairman of Inchcape Greater China in 1999. Raymond Ch'ien is a member of the Executive Council of the Hong Kong Special Administrative Region, Chairman of the Hong Kong Industrial Technology Centre Corporation and the Hong Kong/Japan Business Co-operation Committee and a member of the Economic Advisory Committee to the Financial Secretary of the Hong Kong SAR. He is also Chairman of HSBC Private Equity (Asia) Limited, Chairman of China.com Corporation and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and HSBC Holdings plc.

Hugh Norton *1, 2, 3* Non-executive Director*
Age 63. Joined the Inchcape Board in January 1995. He is a non-executive Director of Standard Chartered plc and of LASMO plc.

Simon Robertson *1, 3* Non-executive Director*
Age 59. Joined the Inchcape Board in May 1996. He was formerly Chairman of Kleinwort Benson Group plc. He is currently President of Goldman Sachs Europe Limited and Managing Director of Goldman Sachs International. He is also a non-executive Director of Invensys plc, the London Stock Exchange and Berry Bros & Rudd Ltd.

Liam Strong *1, 2* Non-executive Director*
Age 55. Joined the Inchcape Board in January 1993. Formerly Chief Executive of Sears plc, he is currently Chief Executive of MCI WorldCom International.

*Notes: 1 Member of the Audit Committee. 2 Member of the Remuneration Committee. 3 Member of the Nomination Committee. * Independent.*
Tony Alexander is Chairman of the Audit Committee, Hugh Norton is Chairman of the Remuneration Committee and Lord Marshall is Chairman of the Nomination Committee.

L-R: LORD MARSHALL, PETER JOHNSON, TREVOR TAYLOR, TONY ALEXANDER, ALAN FERGUSON, HUGH NORTON, LIAM STRONG, DR RAYMOND CH'IEN, SIMON ROBERTSON.

Inchcape in the Community

As an international company operating across many different countries and cultures, Inchcape has established a corporate citizenship programme with the primary aim of putting something back into the communities from which we earn our living. The programme mirrors our business philosophy in that it combines global reach with strong local initiatives and implementation. At Group level we concentrate funding on one international charity and this programme is supplemented in local markets by a variety of sponsorships, donations and fund-raising activities by individual businesses. Where possible we seek to involve our employees and business partners in community activities.

The Inchcape Initiative, our partnership with the youth development charity Raleigh International, is the Group's flagship international programme. Between 1996 and 2000 Inchcape will have invested a total of £1.25m in the charity. Our support enables Raleigh International to involve young people from around the world on challenging expeditions in which they undertake important community and environmental projects in rural communities. For Inchcape the programme helps to strengthen our links with many of the local communities in which we operate and generates considerable goodwill in the host countries. In addition a number of places are available on each Inchcape Initiative expedition for our own staff, who can also benefit from this valuable personal development experience.

Successful expeditions have already taken place to Chile in 1996, Malaysia in 1997, China in 1998 and Oman in 1999, Raleigh's first operation in Arabia. More than 100 young people from 23 different countries took part in the Oman expedition, which included projects to help protect endangered species and to repair irrigation systems. Our business in Oman, Towell Auto Centre, contributed significantly to the expedition's success. The fifth Inchcape Initiative expedition will take place between September and November 2000 in Brunei.

Around the world our companies are active in supporting their local communities. In the UK, Inchcape is a regular contributor to 'Ben', the automotive industry benevolent fund. The Inchcape scholarship programme at the University of Hong Kong promotes mutual understanding through a series of international student exchanges. Crown Motors in Hong Kong sponsors the Toyota Classics, a classical music concert which in 1999 raised money for the Save the Children Fund; and the Toyota Technical Education Programme, which provides students with work experience and foundation skills for a career in the motor industry.

As part of a multinational initiative Toyota Hellas in Greece supports a number of humanitarian aid projects. This Inchcape company also seeks and promotes young, talented rally drivers by co-supporting the 'Be a Champion' programme, the winner of which takes part in the annual Greek Rally Championship.

Inchcape Motors Australia supports a number of worthy causes including local schools and hospitals, an organisation for the disabled and a children's safety programme, while Subaru New Zealand supports a regional lifesaving organisation. Atkins Kroll, our operation in Guam, provided transport for the South Pacific Games in 1999 and was the major sponsor for a series of conferences addressing the island's health issues.

In the UK Inchcape and its subsidiaries have given money during the year for charitable purposes amounting to £339,000 (1998 – £286,000). Total charitable donations made by the Group worldwide during the year were £400,000 (1998 – £537,000).

Environment, Health and Safety

POLICY

Inchcape is committed to pursuing sound environment, health and safety management policies and practices across our business. We recognise that, by providing customers with access to leading products and services, we can support the achievement of environment, health and safety standards in both developed and emerging markets.

It is the policy of Inchcape that we will:

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

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

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

A cornerstone of our approach are the Environment, Health and Safety Focus Groups at business unit level. These Groups are responsible for improving environmental, health and safety performance through the monitoring and development of local standards and staff training.

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

The Group Risk Manager visited 12 countries in which Inchcape operates and 39 sites during the year, attending a number of Focus Group meetings and performing site inspections.

THE FUTURE

It is our policy to continually re-evaluate our Environment, Health and Safety Policy and objectives to ensure that they reflect the changing focus of our business. Monitoring of our procedures will be enhanced through an increased number of assessments being undertaken by the Group Risk Manager and Internal Audit.

Directors' Report

BUSINESS ACTIVITIES

A review of the activities of the Group, likely future developments and important events occurring since the end of the year is given on pages 19 to 29 and in note 15 on page 80.

RESULTS AND DIVIDEND

The Group's results are shown on page 48. The Board has recommended a final dividend of 14p per share. If approved at the Annual General Meeting, the final dividend will be paid on 16 June 2000 to shareholders registered in the books of the Company at the close of business on 26 May 2000.

SHARE CAPITAL

On 12 July 1999, following payment of the special dividend, the share capital of the Company was consolidated and one new share of 150p each was issued to replace every six shares of 25p held.

DIRECTORS

Simon Robertson, Trevor Taylor and Raymond Ch'ien retire by rotation and offer themselves for re-election in accordance with the Articles of Association.

Following the successful Group restructuring, Philip Cushing and Les Cullen left the Board on 30 June 1999.

The names of the Directors plus brief biographical details are given on page 30. Except as stated above, they all held office throughout the year.

CORPORATE GOVERNANCE

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

In September 1999 Internal Control: Guidance for Directors on the Combined Code drafted by the ICAEW Internal Control Working Party was published. Relevant changes to the Listing Rules were made by the London Stock Exchange following which the Directors have reviewed the new requirements and considered the implications of the changes on the Group's governance practices. Set out below is an explanation of the way in which the Company applies the principles of the Combined Code.

THE BOARD

The roles of the Chairman and the Chief Executive are separate. In addition to the Chairman, who is non-executive, the Board includes five other non-executive Directors who bring a wide diversity of experience and expertise. The Chairman and four of these non-executive Directors are also independent of the management of Inchcape and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Raymond Ch'ien, the remaining non-executive Director, is not regarded as independent because he has a service contract with Crown Motors Limited, a subsidiary of the Company in Hong Kong. Tony Alexander is the senior independent non-executive Director.

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

The Board is responsible for leading and controlling the Group and 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. In 1999 the Board had nine scheduled meetings and a number of ad hoc meetings to deal with particular matters. In addition a Board strategy review was held. There is a procedure for Directors to take independent professional advice at the Company's expense where relevant to the execution of their duties. The Board has a schedule of matters required to be brought to it for its decision. The Board considers that it has been supplied with sufficient timely and accurate information to enable it to discharge its duties. Newly appointed Directors who have not previously held listed company Board appointments receive appropriate external training. A briefing process has been developed for newly appointed non-executive Directors to ensure they are fully apprised of the Group's activities and strategic direction. Training is available subsequently should either the Company or a Director feel it necessary.

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

BOARD COMMITTEES

The Board has three principal Committees all with defined written terms of reference. Membership of each of the Board Committees is indicated on page 30. The Chairmen of these Committees are expected to be available to answer questions at the Company's Annual General Meeting on 10 May 2000.

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

The Remuneration Committee is responsible for remuneration issues regarding executive Directors and senior management within the framework recommended by the Committee and approved by the Board as described in the Board Report on Remuneration. More details are given on pages 38 to 45.

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

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

In addition to the above the Board has two special Committees each consisting of the Group Chief Executive or the Group Finance Director together with the Chairman or another non-executive Director. They operated, within terms of reference set by the Board, to negotiate the final terms of the disposal of non-Motors businesses and to determine appropriate Group restructuring, in order to effect the strategic divestment programme. These two Committees are required to report to the Board on all actions approved and to provide it with appropriate documentation on the transactions concerned.

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

INTERNAL CONTROL

The Board of Directors has overall responsibility for establishing key procedures designed to achieve a sound system of internal control and for reviewing its effectiveness. Such systems can provide only reasonable and not absolute assurance against any material misstatement or loss and cannot eliminate business risk. The Board has recently extended the responsibilities of the Audit Committee to monitoring all internal controls, not just financial. In addition it has entrusted executive management with responsibility for the implementation of the systems of internal control.

During the year executive management established a Risk Committee. The Risk Committee is chaired by the Group Chief Executive and includes, inter-alia, the Group Finance Director, Group Company Secretary, Group Audit Director and the Group Risk Manager, with representatives from each operating division attending at least one meeting each year. The Risk Committee meets quarterly to consider what changes to risk management and control processes should be recommended. Its review covers matters such as responses to significant risks identified, output from monitoring processes, including internal audit reports, and changes made to the internal control system. It also follows up on areas which require improvement and reports every six months to the Audit Committee or more frequently if required. The Group Chief Executive also reports to the Board, on behalf of executive management, significant changes in the business and the external environment which affect key risks. The Group Finance Director provides the Board with monthly financial information which includes key performance and risk indicators.

FINANCIAL CONTROL

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

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

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

Operating unit controls – the overall financial control framework for the Group is detailed in the Group Finance and Information Systems manuals. Compliance is regularly assessed through the audit process and through a process of self certification and internal control questionnaires which requires business units and divisional management to assess annually the quality of key control elements in their area.

Risk Management – risk assessments at business unit, divisional and corporate level are formally updated twice a year in order to identify the significant risks to which the Group is exposed and to define the appropriate steps to mitigate, transfer or eliminate them. In addition, internal audit reviews financial, commercial and systems developments in the Group's business units to ensure appropriate audit focus in the major risk areas.

Investment appraisal – the Group has clearly defined policies for capital expenditure. These include annual budgets and detailed appraisal and review procedures.

Going concern – after making enquiries the Directors have a reasonable expectation that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

The Directors have adopted the transitional approach to disclosure set out in the letter from the London Stock Exchange to all UK listed companies dated 27 September 1999.

The Directors confirm that they have established procedures to implement the requirements of Internal Control: Guidance for Directors on the Combined Code such that they can comply for the financial year ending 31 December 2000. As a consequence of adopting the transitional arrangement, the Directors have reported on provision D.2.1. of the Combined Code pursuant to the existing guidance on internal financial control and financial reporting issued by the Rutteman Working Group in 1994 in accordance with the Listing Rules.

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

Other than in relation to the matter set out below, the Company was in compliance with the Combined Code throughout the year.

As explained in the Board Report on Remuneration, on 1 January 2000 Peter Johnson's notice period under his service contract was reduced from two years to one year.

TRANSACTIONS WITH DIRECTORS

No transaction, arrangement or agreement required to be disclosed in terms of the Companies Act 1985 was outstanding at 31 December 1999, or occurred during the year for any Director and/or connected person (1998 – none).

CREDITOR PAYMENT POLICY

The Company is responsible for agreeing the terms and conditions including terms of payment under which business transactions with the Group's suppliers are conducted. While the Company does not follow any single external code or standard, in line with Inchcape Group policy, payments to suppliers are made in accordance with the agreed terms, provided that the supplier is also complying with all relevant terms and conditions. The number of days purchases outstanding at 31 December 1999 in respect of our UK businesses is calculated at 38 days (1998 – 43 days).

YEAR 2000

The Group wide Year 2000 programme, which ran from mid 1997, was successfully completed by December 1999.

No Group business experienced any significant disruption and only a small number of Group businesses experienced minor problems, all of which were promptly resolved. The costs incurred in achieving Year 2000 compliance were broadly in line with plans and amounted to £2.4m in 1999 (£14.6m prior to 1999), of which £0.5m has been capitalised in accordance with the Group's policy for such expenditure (£7.4m prior to 1999). The total cost of the programme was £17.0m.

The Group continues to monitor its business systems in order to ensure that date anomalies do not cause any disruption. All such date anomalies were considered and tested during the Year 2000 programme, therefore no disruption is expected and no further cost expenditure is planned for 2000.

EMU

The introduction of the Euro in January 1999 has not had a material effect on the operation of businesses in Continental Europe. We continue to monitor the situation and exchange best practice between business units in countries expected to participate in European Monetary Union at later dates.

CHARITABLE AND POLITICAL DONATIONS

A description of the Group's charitable involvement and a note of donations made is shown on page 32. No political donations were made in the year (1998 - none).

ENVIRONMENT

The Group's policy on Environment, Health and Safety is shown on page 33.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11.00am on Wednesday, 10 May 2000 at The Conference Forum, The Marsh Centre, London, E1 8DX. The notice convening the meeting and an explanation of the special business to be put to the meeting accompanies these Accounts.

The special business will include proposals to renew the existing authorities for Directors to allot securities in the Company and for the Company to purchase its own shares. The Company currently has authority to purchase up to 8,833,491 shares.

PricewaterhouseCoopers have expressed their willingness to continue as auditors and their reappointment is proposed in accordance with Section 385 of the Companies Act 1985. It is also proposed that the Directors be given authority to set the auditors' remuneration.

Board Report on Remuneration

The members of the Remuneration Committee are Hugh Norton (Chairman), Lord Marshall, Tony Alexander and Liam Strong. They are all non-executive and independent of the management of Inchcape.

Hugh Norton acted as Chairman of the Committee, and all of the other members served on it, for the whole of 1999. The Committee has formal Terms of Reference which were reviewed and amended by the Board during the year. It is responsible for recommending to the Board, within agreed terms of reference, the Company's framework or broad policy on executive remuneration and its cost and to determine specific remuneration packages and terms of employment for executive Directors and certain other senior executives including pension rights and any compensation matters. This includes agreeing performance incentive arrangements and approving all Share Option allocations or allocations under any long-term incentive arrangements.

The Committee has an annual meeting to review in advance compensation for executive Directors, and certain other senior executives, for the annual salary review on 1 April each year, in addition to ad hoc meetings as required. The Committee met 6 times during 1999. The Group Chief Executive and the Group Human Resources Director are invited to attend meetings when their input is required. No one attends any discussion regarding his or her own remuneration.

Throughout 1999 the Company complied with the provisions of Schedule A of the Combined Code on Corporate Governance relating to the design of performance related remunerations. In preparing this report the Board has followed the provisions of Schedule B of the Combined Code.

REMUNERATION POLICY

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

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

The Remuneration Committee has access to three major surveys, regularly carried out by leading remuneration consultants, as well as to the services of an independent adviser, as it may require. These external sources of data and advice, together with consideration of the levels of pay increases for other employees and the principles outlined above, provide a framework for the decision making process.

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

BASE SALARY

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

ANNUAL BONUS

The annual bonus plan for executive Directors is reviewed every year to ensure that targets are both stretching and business growth driven. In 1999 Peter Johnson, Trevor Taylor and Alan Ferguson participated in a bonus plan which yielded a bonus of 30% of base salary for on-target performance, with a maximum bonus of 60% of base salary at 115% of target. The plan was based on profit and working capital targets. The bonuses paid under this plan for 1999 are shown in note 1 on page 42. In 2000 the executive Directors will participate in a similar target driven bonus plan. Bonus payments for Peter Johnson and Alan Ferguson are non-pensionable. For Trevor Taylor, 70% of bonus is pensionable since he remains a member of the Toyota (GB) pension scheme that is based on 'P60' earnings i.e. base salary plus a portion of bonus.

LONG TERM INCENTIVES

Following approval by shareholders at the 1999 Annual General Meeting, the Company introduced two new share plans to replace the two executive share option schemes and the Long Term Incentive Plan which had operated until then. The previous share option schemes were discontinued in 1999 and participation in the new plans was conditional on the Company receiving a waiver from eligible executives in respect of previous option schemes and the Long Term Incentive Plan. In 1999, no options were granted under the previous option schemes nor were any awards made under the Long Term Incentive Plan. This Plan has also been discontinued.

EXECUTIVE SHARE OPTIONS

The first new plan is the Inchcape 1999 Share Option Plan. Under this Plan, share options have been granted to senior managers throughout the Group. In 1999, the grant of options has been extended to cover some 270 participants across the world.

As with previous option schemes, the exercise of each option granted under the Plan will be subject to a performance target that respects guidelines outlined by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). These guidelines imply that the objective of any performance target should be a significant and sustained improvement in the underlying financial performance of the Company. The Remuneration Committee has established performance conditions for the exercise at the first grant of options under the new Plan whereby growth in Company earnings per share over a three year period must exceed the increase in the Retail Prices Index over the same period by at least 9%. This represents a considerably more demanding criterion than applied to previous schemes.

Details of share options granted to executive Directors in 1999 are shown in note 3 on page 44.

Special arrangements for options were put in place for Raymond Ch'ien in 1997 as part of the terms and conditions under which he was appointed Chairman of Inchcape Pacific Limited. During the year his service contract was transferred to Crown Motors Limited following the disposal of Inchcape Pacific Limited as part of the sale of our Asia-Pacific Marketing business.

In fulfilment of his special arrangements, Crown Motors Limited granted Raymond Ch'ien an option over 64,432 shares of 150p each in Inchcape plc at an option price of £3.88 per share. This grant was made during the year under equivalent terms to those of the new Inchcape 1999 Share Option Plan. Accordingly, the option will be exercisable between three and ten years after grant, subject to the performance conditions pertaining to the new Inchcape 1999 Share Option Plan as described above.

INCHCAPE DEFERRED BONUS PLAN

The second new plan is the Deferred Bonus Plan. This is a voluntary plan that has been introduced for the first time for the bonus payment for 1999 performance. The award of the bonus itself is subject to demanding performance criteria, agreed annually by the Remuneration Committee. Under the terms of this plan, executive Directors and certain senior executives may use a minimum of 10% and a maximum of 50% of any bonus award (after tax) to acquire shares in the Group. Subject to these shares being held in trust for three years and the participant remaining an employee of the Group, an award of matching shares will be made on a one for one basis.

RETIREMENT BENEFITS

The Group operates the Inchcape Group (UK) Pension Scheme (an approved final salary scheme) and the Inchcape Group UK Supplemental Scheme (a funded unapproved retirement benefit scheme for executives whose benefits are limited by the earnings cap introduced under the 1989 Finance Act). Both schemes are non-contributory.

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

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 member's pension.

Pensions in payment are guaranteed to increase in line with the lesser of 5% and the increase in the UK Retail Prices Index.

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

The Inchcape Group UK Supplemental Pension Scheme was established in April 1996 to provide for those executives whose base salary exceeds the salary cap for scheme pensions. This is a funded defined contribution scheme, established under a central trust, but with individual retirement accounts for participating executives.

Trevor Taylor remains a member of the Toyota (GB) pension scheme, of which he became a member after joining the Group as Deputy Managing Director of Toyota (GB) Ltd in 1987. Under the scheme he enjoys similar terms to the UK Scheme but 70% of his bonus is pensionable.

TAXABLE AND OTHER BENEFITS

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

CHAIRMAN

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

NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS

Neither the Chairman nor any of the non-executive Directors, including Simon Robertson who is proposed for re-election at the 2000 Annual General Meeting, are engaged on service contracts with the Company. With the exception of Raymond Ch'ien, neither they, nor the Chairman, are eligible for pension scheme membership, or participation in any of the Company's bonus, share option or other incentive schemes.

During the year Raymond Ch'ien, who is proposed for re-election at the 2000 Annual General Meeting, in his capacity as Chairman of Inchcape Pacific Limited, had a service contract with that company with a notice period of one year. Following the disposal of Inchcape Pacific Limited he became Chairman of Inchcape Greater China and his contract was transferred to Crown Motors Limited during the course of the year. He also has options over shares in the Company as shown in note 3 on page 44.

With effect from 1 January 2000 by agreement with the Company, Peter Johnson's notice period under his service contract was reduced from two years to one year. Trevor Taylor, who is proposed for re-election at the 2000 Annual General Meeting, and Alan Ferguson both have service contracts with a notice period of one year.

On 30 June 1999, the service contracts of Philip Cushing and Les Cullen expired. Revised contract terms had been agreed with them on 25 March 1998, the start of the re-structuring process. Under the terms of their revised contract terms, lump sum payments were made on termination, determined in part by success achieved in the restructuring process. A termination payment of £1,225,000 was paid to Philip Cushing and £584,000 to Les Cullen on completion of their contracts and consistent with the formula agreed on 25 March 1998. Philip Cushing and Les Cullen were the two most senior executives involved in the restructuring programme. After they had left the Board the Company entered into restrictive covenant deeds with each of them to protect the Group's business. By 30 June 1999 the Company had identified a number of areas relating to the restructuring programme where their ongoing involvement and support would be of importance to the Company. Accordingly, after they had left the Board, the Company entered into three month consultancy agreements with each of them. Amounts paid under these arrangements are shown in note 1 on page 42.

During 1999, the service contracts of Peter Johnson, Trevor Taylor and Alan Ferguson were amended to clarify entitlement to compensation if employment were to be terminated without proper notice by the Company within six months after a change of control. In those circumstances, the compensation payable would not exceed the value of twelve months' remuneration.

POLICY ON EXTERNAL APPOINTMENTS

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

Notes to the Board Report on Remuneration

Directors' emoluments

The total emoluments of the Directors were as follows:	1999 £'000	1998 £'000
Remuneration and non-executive Directors' fees	**1,681**	1,762
Bonus payments	**2,274**	165
Total	**3,955**	1,927

1 Individual emoluments for the year

The table below shows a breakdown of remuneration, including taxable and other benefits of each Director. Details of pension entitlements and options held are shown in notes 2 and 3 respectively on pages 43 and 44.

	Base Salary		Bonus		Taxable and Other benefits		Total remuneration	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Tony Alexander (f)	**28**	27	–	–	–	–	**28**	27
Raymond Ch'ien (a)	**161**	162	–	–	**7**	11	**168**	173
Alan Ferguson (appointed 1.1.99)	**175**	–	**105**	–	**17**	–	**297**	–
Peter Johnson (Highest paid Director)	**335**	267	**201**	89	**19**	43	**555**	399
Lord Marshall	**200**	200	–	–	**31**	37	**231**	237
Hugh Norton (b) (f)	**26**	27	–	–	–	–	**26**	27
Simon Robertson	**24**	22	–	–	–	–	**24**	22
Liam Strong	**22**	24	–	–	–	–	**22**	24
Trevor Taylor	**265**	225	**159**	76	**4**	4	**428**	305
Directors who left during the year:								
Les Cullen (left 30.6.99) (c) (d)	**138**	274	**584**	–	**7**	14	**729**	288
Philip Cushing (left 30.6.99) (c) (e)	**205**	404	**1,225**	–	**17**	21	**1,447**	425
Total	**1,579**	1,632	**2,274**	165	**102**	130	**3,955**	1,927

(a) The emoluments disclosed for Raymond Ch'ien include those in respect of his duties performed as Chairman of Inchcape Greater China, for Crown Motors Limited and our other companies in Greater China.

(b) In the year the Inchcape Group (UK) Pension Scheme paid the sum of £2,500 to Hugh Norton as the fee for chairing the Scheme's Trustee Board.

(c) The amount shown under bonus is the lump sum payment made on termination, in accordance with the revised contract terms agreed on 25 March 1998, which, inter alia, replaced all previous bonus arrangements.

(d) In accordance with an agreement reached with the Company on 9 July 1999, Les Cullen agreed to provide three months consultancy services to the Group following termination of his contract, for which he was paid the sum of £66,000. He was also paid £92,000 under a Restrictive Covenant Deed made between him and the Company on 9 July 1999.

(e) In accordance with an agreement reached with the Company on 7 July 1999, Philip Cushing agreed to provide three months consultancy services to the Group following termination of his contract, for which he was paid the sum of £100,000. He was also paid £135,000 under a Restrictive Covenant Deed made between him and the Company on 7 July 1999.

(f) The base salary details shown for Tony Alexander and Hugh Norton include fees of £2,750 for Chairing the Audit and Remuneration Committees respectively.

2 Directors' pension entitlements

(i) Company Contributions paid in year to or in respect of money purchase pension arrangements

	1999 £'000	1998 £'000
Les Cullen (left 30.6.99)	**55***	110*
Philip Cushing (left 30.6.99)	**80**	159
Peter Johnson (Highest paid Director)	**81**	72
Total	**216**	341

* Paid (subject to tax) direct to Les Cullen to allow him to make his own pension arrangements outside the Company plan (1998 – £61,200).

(ii) Accrued annual pension under defined benefit schemes	Age at 31.12.99	Years of service at 31.12.99	Increase in accrued pension during the year under defined benefit schemes(a) £'000	Transfer value of increase £'000	Accumulated total of accrued pension at 31.12.99 £'000	Accumulated total of accrued pension at 1.1.99 £'000
Philip Cushing* (left 30.6.99)	49	7	2*	28*	27*	25
Alan Ferguson (b)	41	16	18	211	65	46
Peter Johnson (Highest paid Director)	52	4	3	48	14	11
Trevor Taylor	62	12	7	125	120	112
Total			**30**	**412**	**226**	**194**

*All figures shown are at 30 June 1999, the date Philip Cushing left the Group.

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

(b) Alan Ferguson was appointed an Executive Director on 1 January 1999. In line with this appointment the basis of his pension was changed from 1/45th to 1/30th accrual for subsequent service.

3 Directors' share options

	Held at 1.1.99 (options over shares of 25p each)	Options granted during the year over shares of 150p each	Lapsed, cancelled or waived during the year (a)	Held at date left the Group or at 31.12.99 (options over shares of 150p each)	Option price (a)(g)	Price paid for option	When exercisable
Philip Cushing*	64,200(b)		10,700	Nil	£30.42	£1	May 1995-May 2002
	17,100(b)		2,850	Nil	£35.10	£1	June 1996-June 2003
	29,000(b)		4,833	Nil	£33.06	Nil	Apr 1997-Apr 2004
	203,700(b)		33,950	Nil	£19.14	Nil	May 1998-May 2005
	1,659(d)		276	Nil	£14.10	Nil	Aug 1999-Feb 2000
	4,140(d)		690	Nil	£15.00	Nil	Aug 2000-Feb 2001
Raymond Ch'ien	88,028(e)			14,671	£17.04	Nil	July 2000-July 2007
		64,432(e)		64,432	£3.88	Nil	Aug 2002-Aug2009
Alan Ferguson	17,934(b)		2,989	Nil	£21.78	£1	Nov 1994-Nov 2001
	11,300(b)		1,883	Nil	£30.42	£1	May 1995-May 2002
	7,600(b)		1,266	Nil	£35.10	£1	June 1996-June 2003
	7,800(b)		1,300	Nil	£33.06	Nil	Apr 1997-April 2004
	9,600(b)		1,600	Nil	£18.72	Nil	Apr 1998-April 2005
	11,100(b)		1,850	Nil	£18.84	Nil	Apr 1999-April 2006
	19,000(c)		3,166	Nil	£15.78	Nil	Apr 2000-Apr 2007
	1,380(d)		230	Nil	£15.00	Nil	Aug 2000-Feb 2001
		90,205(f)		90,205	£3.88	Nil	Sept 2002-Sept 2009
		2,980(d)		2,980	£3.25	Nil	Dec 2002-Jun 2003
Peter Johnson	192,300(b)		32,050	Nil	£18.72	Nil	Aug 1998-Apr 2005
(Highest paid Director)	4,314(d)		719	Nil	£13.56	Nil	Aug 2000-Feb 2001
		172,679(f)		172,679	£3.88	Nil	Sept 2002-Sept 2009
		2,980(d)		2,980	£3.25	Nil	Dec 2002-Jun 2003
Trevor Taylor	48,600(b)		8,100	Nil	£30.42	£1	May 1995-May 2002
	12,000(b)		2,000	Nil	£35.10	£1	June 1996-June 2003
	3,800(b)		633	Nil	£33.06	Nil	Apr 1997-Apr 2004
	4,140(d)		Nil	690	£15.00	Nil	Aug 2000-Feb 2001
	1,725(d)		Nil	287	£13.56	Nil	Aug 2000-Feb 2001
		136,596(f)		136,596	£3.88	Nil	Sept 2002-Sept 2009

* Philip Cushing left the Group on 30 June 1999. His options were exercisable within six months following the date of leaving in accordance with the Rules of the Scheme.

(a) On 12 July 1999 all options and option prices were adjusted consequent upon the share consolidation (the number of shares was divided by six and the exercise price was multiplied by six).

(b) Under the Inchcape Executive Share Option Scheme.

(c) Under the Inchcape International Executive Share Option Scheme.

(d) Under the Inchcape SAYE Share Option Scheme.

(e) The options held by Raymond Ch'ien at 1 January 1999 were granted to him under a Deed dated 1 July 1997 as a first tranche under special arrangements agreed in 1997 as part of the terms and conditions under which he was appointed Chairman of Inchcape Pacific Limited. During 1999 the obligation was transferred to Crown Motors Limited following the disposal of Inchcape Pacific Limited under the sale of our Asia-Pacific Marketing business. In fulfillment of the obligation to Raymond Ch'ien, Crown Motors Limited granted the second tranche of options under a deed, dated 12 August 1999.

(f) Under the Inchcape 1999 Share Option Plan.

(g) Option prices are determined in accordance with the Rules of the relevant Share Option Scheme and on an equivalent basis for the Deeds in favour of Raymond Ch'ien.

No options under any of the Company's share option schemes were exercised in the year.

Notes on share options

The table shows Directors' options over ordinary shares of 25p at 1 January 1999 and over ordinary shares of 150p at 31 December 1999. The mid-market price of shares of 150p each at 31 December 1999 was £2.75. The price range during 1999 was £0.595 (25p shares) to £4.08 (150p shares).

Options under the Inchcape Executive Share Option Scheme and the Inchcape International Executive Share Option Scheme have been waived as a pre-condition of receiving options under the Inchcape 1999 Share Option Plan. Options under the 1999 Plan are granted on a discretionary basis to full time senior executives based within, and outside, the UK including executive Directors of Inchcape plc. Such options are exercisable between three and ten years of grant.

Options may normally only be exercised if the performance target has been met. For the first grant of options under the Inchcape 1999 Share Option Plan, growth in Company earnings per share over a three year period must exceed the increase in the Retail Price Index over the same period by at least 9%.

The Inchcape SAYE Share Option Scheme is open to employees in the UK with at least 3 months service. Until and including 1995, participants made savings for a five-year period. For the 1996, 1997 and 1999 invitations, monthly savings are made for a three year period. At the end of the savings period options became exercisable within six months.

4 Awards under the Long Term Incentive Plan

The table below includes details of the Company's ordinary shares contingently awarded by way of notional increase for dividends during the year to Directors under the Long Term Incentive Plan. No awards were made during the year. The awards lapsed or waived represent all the shares which would have transferred to the Director in 2001 (1996 awards) and 2002 (1997 awards) provided the relevant performance criteria were fully met. Consequently, as at 31 December 1999, no awards were outstanding. No amounts have been expensed in the financial statements (1998 – £0.6m).

Director	Total at 1.1.99 (a)	Notional increase for dividends	Awards held 12.7.99 (adjusted for share consolidation) (b)	Awards lapsed or waived
Les Cullen (left 30.6.99)	88,234	155,641	40,645	(40,645)
Philip Cushing (left 30.6.99)	234,213	413,146	107,893	(107,893)
Peter Johnson	154,586	272,683	71,211	(71,211)
Trevor Taylor	128,820	227,235	59,342	(59,342)

(a) Includes notional increase for dividends in previous years.

(b) The total awards at 1 January 1999 plus the notional increase for dividends were adjusted consequent upon the share consolidation. The total number of shares contingently awarded at 12 July 1999 was divided by six.

Directors' Interests

The table below shows the interests other than options including family interests, on the dates indicated, in the shares of the Company and its subsidiaries, of the persons who were Directors at 31 December 1999. All the interests are beneficial.

	Ordinary shares fully paid of Inchcape plc		
	of 150p each	of 150p each	of 25p each
	31.12.99	12.7.99(a)	1.1.99
Tony Alexander	1,666	1,666	10,000
Raymond Ch'ien (c)	4,000	–	Nil
Alan Ferguson (b)	6,799	4,028	6,851
Peter Johnson (b)	24,404	3,916	23,496
Lord Marshall	3,743	3,743	22,462
Hugh Norton	500	500	3,000
Simon Robertson	1,000	1,000	6,000
Liam Strong	290	290	1,744
Trevor Taylor (b)	5,271	9,975	46,245

Notes:

(a) Interests held after the share consolidation on 12 July 1999. One new consolidated share with a nominal value of 150p was issued in replacement of every six ordinary shares with a nominal value of 25p each.

(b) The executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Inchcape Employee Trust and, as such, are deemed by the Companies Act 1985 to be interested in any shares held by the Trustees. At 31 December 1999, the Trustees' shareholding totalled 126,402 ordinary shares of 150p (1 January 1999 – 758,415 ordinary shares of 25p each).

(c) Raymond Ch'ien had a beneficial interest in respect of 50,000 fully paid ordinary shares of Singapore $0.50 each in Inchcape Marketing Services Ltd, Singapore at the date of that company's disposal (20 March 1999). This interest was disposed of on 9 June 1999.

On 18 February 2000 Alan Ferguson acquired one additional share upon automatic reinvestment by the plan manager of dividends, tax credits and interest in respect of shares held in the Inchcape Maxi ISA. Otherwise, there have been no changes in Directors' Interests between 1 January and 6 March 2000.

By order of the Board
Roy Williams
Secretary 6 March 2000

Directors' Responsibilities

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

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

The Directors are responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors to the Members of Inchcape plc

We have audited the financial statements on pages 48 to 81.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report. As described on page 46, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. 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 the information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 36 and 37 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
6 March 2000

Consolidated profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 1999

Notes		Continuing operations 1999 £m	Discontinued operations 1999 £m	Total 1999 £m	1998 £m
1a	**Turnover including share of joint ventures and associates**	3,678.8	771.2	4,450.0	5,506.4
	Less:				
1a	– share of joint ventures	(68.5)	(95.8)	(164.3)	(286.6)
1a	– share of associates	(761.6)	(61.6)	(823.2)	(962.8)
1a,2a	Group subsidiaries' turnover	2,848.7	613.8	3,462.5	4,257.0
2a	Cost of sales	(2,407.7)	(457.2)	(2,864.9)	(3,389.9)
	Gross profit	441.0	156.6	597.6	867.1
2a	Operating expenses	(380.3)	(155.2)	(535.5)	(798.9)
1b,2	Exceptional operating expenses	–	–	–	(131.3)
		(380.3)	(155.2)	(535.5)	(930.2)
2a	Utilisation of termination provisions	2.4	4.6	7.0	6.1
2a	**Operating profit (loss)**	63.1	6.0	69.1	(57.0)
1b	Share of profits of joint ventures	12.2	0.3	12.5	22.3
1b	Share of profits of associates	12.5	6.9	19.4	38.6
1b	**Total operating profit**	87.8	13.2	101.0	3.9
2d	Net profit on disposal of properties and investments	1.3	0.5	1.8	4.1
2d	Net profit (loss) including provisions on sale and termination of operations	0.9	90.1	91.0	(265.9)
2d	Utilisation of provision for net loss on sale of operations	–	126.4	126.4	–
		0.9	216.5	217.4	(265.9)
2d	Costs of fundamental reorganisation	–	(5.2)	(5.2)	(10.6)
	Profit (loss) on ordinary activities before interest	90.0	225.0	315.0	(268.5)
3h	Interest			(15.7)	(29.1)
2b,2e	**Profit (loss) on ordinary activities before taxation**			299.3	(297.6)
4a	Tax on profit (loss) on ordinary activities			(27.1)	(61.4)
	Profit (loss) on ordinary activities after taxation			272.2	(359.0)
13b	Minority interests			(5.4)	(6.5)
13d	**Profit (loss) for the financial year**			266.8	(365.5)
13a	Dividends			(547.9)	(59.4)
13f	**Retained (loss) for the financial year**			(281.1)	(424.9)
2e	Headline profit before tax (£m)			85.3	106.1
2e	Headline earnings per share (pence)*			60.0p	50.2p
	FRS 3 profit (loss) before tax (£m)			299.3	(297.6)
2e	Basic and diluted earnings (loss) per share (pence)*			302.4p	(414.3)p

* Comparatives have been adjusted for the one for six share consolidation – note 13e(ii).

Statement of total recognised gains and losses

FOR THE YEAR ENDED 31 DECEMBER 1999

Notes		1999 £m	1998 £m
13d	Profit (loss) for the financial year	**266.8**	(365.5)
	Effect of foreign exchange rate changes:		
	– results for the year	**(14.3)**	(0.5)
	– foreign currency net investments	**(9.9)**	9.5
13f	*Unrealised (deficit) on impairment of revalued properties*	**–**	*(10.0)*
	Total recognised gains (losses)	**242.6**	(366.5)

Note of historical cost profits and losses

FOR THE YEAR ENDED 31 DECEMBER 1999

		1999 £m	1998 £m
	Reported profit (loss) on ordinary activities before taxation	**299.3**	(297.6)
	Reversal of revaluation element of impairment of Marketing Asia Pacific property	**–**	34.2
13f	Realisation of property revaluation surpluses on disposal of properties	**0.6**	1.3
	Realisation of property revaluation surpluses on disposal of businesses	**4.6**	–
	Difference between the historical cost and the actual depreciation charge	**0.6**	1.5
	Historical cost profit (loss) on ordinary activities before taxation	**305.1**	*(260.6)*
	Historical cost (loss) after taxation, minority interests and dividends	**(275.3)**	(387.9)

Consolidated and Company balance sheets

AS AT 31 DECEMBER 1999

Notes		Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
	Fixed assets:				
6	Intangible assets	**4.7**	40.7	–	–
7	Tangible assets	**260.4**	450.9	–	–
8	Investments:				
	– subsidiaries	–	–	**871.8**	848.4
	– joint ventures: share of gross assets	**564.7**	579.2		
	share of gross liabilities	**(528.0)**	(533.1)		
	share of net assets	**36.7**	46.1	–	–
	– associates	**58.9**	112.3	–	–
	– other investments	**3.6**	11.1	**0.5**	1.0
		364.3	661.1	**872.3**	849.4
	Current assets:				
9a	Stocks	**573.5**	778.2	–	–
9b	Debtors:				
	– amounts due within one year	**219.6**	471.4	**35.0**	152.1
	– amounts due after more than one year	**80.3**	96.4	**196.4**	128.4
8b(ii)	Investments	**21.3**	16.2	–	–
3e	Cash at bank and in hand	**142.5**	252.3	**0.8**	–
		1,037.2	1,614.5	**232.2**	280.5
	Creditors – amounts falling due within one year:				
3e,9c	Borrowings	**(228.3)**	(271.8)	**(3.2)**	(1.2)
9c	Other	**(515.9)**	(926.6)	**(295.1)**	(194.6)
		(744.2)	(1,198.4)	**(298.3)**	(195.8)
	Net current assets (liabilities)	**293.0**	416.1	**(66.1)**	84.7
	Total assets less current liabilities	**657.3**	1,077.2	**806.2**	934.1
	Creditors – amounts falling due after more than one year:				
3e,10	Borrowings	**(63.2)**	(123.9)	–	–
10	Other	**(88.9)**	(100.8)	**(382.9)**	(9.9)
		(152.1)	(224.7)	**(382.9)**	(9.9)
11	**Provisions for liabilities and charges**	**(138.9)**	(162.0)	**(61.4)**	(40.8)
	Net assets	**366.3**	690.5	**361.9**	883.4
	Capital and reserves:				
13e,13f	Called-up share capital	**132.5**	132.5	**132.5**	132.5
13f	Share premium account	**106.9**	106.9	**106.9**	106.9
13f	Revaluation reserve	**37.6**	139.7	–	–
13f	Profit and loss account	**43.1**	175.2	**122.5**	644.0
	Equity shareholders' funds	**320.1**	554.3	**361.9**	883.4
	Minority interests	**46.2**	136.2	–	–
		366.3	690.5	**361.9**	883.4

The financial statements on pages 48 to 81 were approved by the Board of Directors on 6 March 2000 and were signed on its behalf by:

Directors
Peter Johnson
Alan Ferguson

Consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 1999

RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

Notes		1999 £m	1998 £m
	Operating profit before exceptional operating items	**69.1**	74.3
6,7	Amortisation and depreciation	**33.9**	54.2
2b	(Profit) on sale of tangible fixed assets other than property	**(0.2)**	–
	Decrease in stocks	**57.3**	35.8
	Decrease in debtors	**25.7**	77.5
	(Decrease) in creditors	**(76.1)**	(117.7)
	Payments in respect of exceptional operating items	**(2.7)**	(19.1)
	Payments in respect of termination of operations	**(33.7)**	(15.6)
	Other items	**2.0**	(8.2)
	Net cash inflow from operating activities	**75.3**	81.2

CONSOLIDATED CASH FLOW STATEMENT

Notes		1999 £m	1998 £m
	Net cash inflow from operating activities	**75.3**	81.2
	Dividends from joint ventures	**4.5**	23.5
	Dividends from associates	**13.3**	14.3
3i(iv)	Returns on investments and servicing of finance	**(15.7)**	(33.9)
	Taxation	**(17.6)**	(40.8)
7	Capital expenditure and financial investment	**(34.3)**	(89.3)
		25.5	(45.0)
14b(i)	Acquisitions and disposals	**626.0**	73.3
	Equity dividends paid	**(570.5)**	(59.4)
	Net cash inflow (outflow) before use of liquid resources and financing	**81.0**	(31.1)
3i(v)	Net cash (outflow) inflow from the management of liquid resources	**(25.6)**	3.1
3i(vi)	Net cash (outflow) from financing	**(50.7)**	(155.8)
3i(i)	**Net increase (decrease) in cash**	**4.7**	(183.8)

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

Notes		1999 £m	1998 £m
	Net increase (decrease) in cash	**4.7**	(183.8)
	Net cash outflow from increase in debt and lease financing	**50.7**	156.0
	Net cash outflow (inflow) from the management of liquid resources	**25.6**	(3.1)
	Change in net funds and debt resulting from cash flows	**81.0**	(30.9)
	Effect of foreign exchange rate changes on net debt	**(7.3)**	4.0
	Inception of finance lease contracts	**(0.2)**	(1.5)
	Net loans and finance leases of subsidiaries acquired and sold	**25.1**	(8.6)
	Liquid resources of subsidiaries sold	**(104.2)**	(10.4)
	Movement in net debt	**(5.6)**	(47.4)
	Net (debt) at 1 January	**(143.4)**	(96.0)
3i(i)	**Net (debt) at 31 December**	**(149.0)**	(143.4)

Accounting policies

a **Accounting convention** The financial statements have been prepared on the historical cost basis, modified to include the revaluation of certain tangible fixed assets, in accordance with applicable UK accounting standards which have been applied on a consistent basis for all Group operations. FRS's 12, 13, 15 and 16 have been adopted in these financial statements (FRS 14 was adopted in the 1998 financial statements).

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

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

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

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

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

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

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

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

Freehold buildings and long leasehold land and buildings	2%
Short leasehold land and buildings	term of lease
Plant, machinery and equipment	5% – 33.3%
Major computer software applications	33.3%

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

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

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

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

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

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

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

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

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

Notes to the accounts

1 Segmental analysis

a Turnover

(i) By activity:	Group subsidiaries 1999 £m	Group subsidiaries 1998 restated £m	Share of joint ventures 1999 £m	Share of joint ventures 1998 restated £m	Share of associates 1999 £m	Share of associates 1998 restated £m	Total 1999 £m	Total 1998 restated £m
Import & Distribution	**1,990.3**	1,900.3	**13.3**	16.5	**760.3**	813.7	**2,763.9**	2,730.5
Retail	**785.5**	847.0	**–**	–	**–**	–	**785.5**	847.0
Financial Services	**72.9**	64.7	**55.2**	53.9	**1.3**	1.1	**129.4**	119.7
Continuing	**2,848.7**	2,812.0	**68.5**	70.4	**761.6**	814.8	**3,678.8**	3,697.2
Discontinued	**613.8**	1,445.0	**95.8**	216.2	**61.6**	148.0	**771.2**	1,809.2
	3,462.5	4,257.0	**164.3**	286.6	**823.2**	962.8	**4,450.0**	5,506.4

(ii) By geographical market:								
Europe:								
– United Kingdom	**789.4**	826.6	**20.4**	18.1	**754.7**	811.7	**1,564.5**	1,656.4
– Continent	**879.4**	869.4	**5.6**	6.8	**1.3**	1.1	**886.3**	877.3
Australasia	**477.4**	414.0	**4.5**	2.5	**–**	–	**481.9**	416.5
Far East	**322.5**	366.8	**24.7**	26.5	**5.6**	2.0	**352.8**	395.3
South East Asia	**295.8**	227.8	**–**	–	**–**	–	**295.8**	227.8
Rest of World	**84.2**	107.4	**13.3**	16.5	**–**	–	**97.5**	123.9
Continuing	**2,848.7**	2,812.0	**68.5**	70.4	**761.6**	814.8	**3,678.8**	3,697.2
Discontinued	**613.8**	1,445.0	**95.8**	216.2	**61.6**	148.0	**771.2**	1,809.2
	3,462.5	4,257.0	**164.3**	286.6	**823.2**	962.8	**4,450.0**	5,506.4

Geographical analysis of turnover is by origin and is not significantly different to turnover by destination.

The analysis by geographical market of turnover, operating profit and net assets has been restated to better reflect continuing activities. Australasia is now shown separately and The Americas and Middle East are now included in Rest of World.

Activities discontinued in 1999 comprised primarily Bottling South America, Marketing, Shipping, Office Automation, Chrysler Jeep Imports UK and Daihatsu (UK). Activities discontinued in 1998 primarily consisted of Bottling Russia.

1 Segmental analysis continued

b Total operating profit

	Group subsidiaries		Share of joint ventures		Share of associates		Total	
	1999	1998 restated	1999	1998 restated	1999	1998 restated	1999	1998 restated
(i) By activity:	£m	£m	£m	£m	£m	£m	£m	£m
Import & Distribution	**66.2**	73.4	**0.8**	0.9	**9.9**	25.2	**76.9**	99.5
Retail	**9.6**	9.2	**–**	–	**–**	–	**9.6**	9.2
Financial Services	**5.1**	5.0	**11.4**	7.7	**2.6**	4.0	**19.1**	16.7
	80.9	87.6	**12.2**	8.6	**12.5**	29.2	**105.6**	126.4
Central costs*	**(17.8)**	(24.0)	**–**	–	**–**	–	**(17.8)**	(24.0)
Continuing	**63.1**	63.6	**12.2**	8.6	**12.5**	29.2	**87.8**	101.4
Discontinued	**6.0**	10.7	**0.3**	13.7	**6.9**	9.4	**13.2**	33.8
	69.1	74.3	**12.5**	22.3	**19.4**	38.6	**101.0**	135.2
Exceptional operating items – note 2d**	**–**	(131.3)	**–**	–	**–**	–	**–**	(131.3)
Total operating profit (loss)	**69.1**	(57.0)	**12.5**	22.3	**19.4**	38.6	**101.0**	3.9
(ii) By geographical market:								
Europe:								
– United Kingdom	**16.2**	15.8	**3.3**	1.9	**12.3**	28.6	**31.8**	46.3
– Continent	**17.4**	15.6	**2.0**	1.4	**0.2**	0.2	**19.6**	17.2
Australasia	**10.5**	14.7	**0.1**	(0.1)	**–**	–	**10.6**	14.6
Far East	**20.5**	23.6	**6.1**	4.6	**–**	0.4	**26.6**	28.6
South East Asia	**15.9**	13.1	**–**	–	**–**	–	**15.9**	13.1
Rest of World	**0.4**	4.8	**0.7**	0.8	**–**	–	**1.1**	5.6
	80.9	87.6	**12.2**	8.6	**12.5**	29.2	**105.6**	125.4
*Central costs**	**(17.8)**	(24.0)	**–**	–	**–**	–	**(17.8)**	(24.0)
Continuing	**63.1**	63.6	**12.2**	8.6	**12.5**	29.2	**87.8**	101.4
Discontinued	**6.0**	10.7	**0.3**	13.7	**6.9**	9.4	**13.2**	33.8
	69.1	74.3	**12.5**	22.3	**19.4**	38.6	**101.0**	135.2

* Previously certain costs had been allocated to segmental operating profit. These costs are no longer allocated and accordingly central costs comparatives have been restated to reflect the manner in which central costs are managed. Included in the 1999 central costs is an amount of £3.5m relating to one off expenses.

** The operating exceptional items in 1998 comprised £131.3m. Of this amount, £124.7m relates to a charge for total and permanent impairment of historic goodwill relating to certain European Motors operations. Geographically, £24.9m relates to the UK and £99.8m to Continental Europe.

1 Segmental analysis continued

c **Net assets**

	Group subsidiaries		Share of joint ventures		Share of associates		Total	
	1999	1998 restated	1999	1998 restated	1999	1998 restated	1999	1998 restated
(i) **By activity:**	£m	£m	£m	£m	£m	£m	£m	£m
Import & Distribution	**287.8**	292.6	**(1.1)**	(1.2)	**41.7**	39.8	**328.4**	331.2
Retail	**129.8**	119.5	**–**	–	**–**	–	**129.8**	119.5
Financial Services	**18.2**	19.0	**40.5**	33.4	**17.2**	20.4	**75.9**	72.8
Continuing	**435.8**	431.1	**39.4**	32.2	**58.9**	60.2	**534.1**	523.5
Discontinued	**0.6**	317.2	**(2.7)**	13.9	**–**	52.1	**(2.1)**	383.2
	436.4	748.3	**36.7**	46.1	**58.9**	112.3	**532.0**	906.7
Net debt*	**(87.4)**	(116.5)	**–**	–	**–**	–	**(87.4)**	(116.5)
Other unallocated assets and liabilities	**(78.3)**	(99.7)	**–**	–	**–**	–	**(78.3)**	(99.7)
	270.7	532.1	**36.7**	46.1	**58.9**	112.3	**366.3**	690.5
(ii) **By geographical market:**								
Europe:								
– United Kingdom	**116.8**	102.6	**3.9**	2.4	**55.2**	56.6	**175.9**	161.6
– Continent	**149.5**	151.5	**6.0**	6.1	**1.1**	1.1	**156.6**	158.7
Australasia	**1.4**	(13.4)	**0.1**	–	**–**	–	**1.5**	(13.4)
Far East	**74.0**	83.9	**30.9**	24.9	**2.6**	2.6	**107.5**	111.4
South East Asia	**53.4**	54.6	**–**	–	**–**	–	**53.4**	54.6
Rest of World	**40.7**	51.9	**(1.5)**	(1.2)	**–**	(0.1)	**39.2**	50.6
Continuing	**435.8**	431.1	**39.4**	32.2	**58.9**	60.2	**534.1**	523.5
Discontinued	**0.6**	317.2	**(2.7)**	13.9	**–**	52.1	**(2.1)**	383.2
Net debt*	**(87.4)**	(116.5)	**–**	–	**–**	–	**(87.4)**	(116.5)
Other unallocated assets and liabilities	**(78.3)**	(99.7)	**–**	–	**–**	–	**(78.3)**	(99.7)
	270.7	532.1	**36.7**	46.1	**58.9**	112.3	**366.3**	690.5

* Reconciled to debt as follows:

	1999	1998
Net debt as above	**(87.4)**	(116.5)
Motors Financial Services debt in respect of consumer financing	**(61.6)**	(58.2)
Shipping cash in respect of principal funds	**–**	31.3
Net debt as reported – note 3e	**(149.0)**	(143.4)

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

1 **Segmental analysis** *continued*

d **Average number of employees**

	Group subsidiaries		Joint ventures		Associates		Total	
	1999	1998 restated	1999	1998 restated	1999	1998 restated	1999	1998 restated
Import & Distribution	**5,652**	5,599	**283**	289	**1,492**	1,431	**7,427**	7,319
Retail	**3,384**	3,834	**–**	–	**–**	–	**3,384**	3,834
Financial Services	**331**	351	**209**	207	**10**	13	**550**	571
Total operational	**9,367**	9,784	**492**	496	**1,502**	1,444	**11,361**	11,724
Corporate	**122**	164	**–**	–	**–**	–	**122**	164
Continuing	**9,489**	9,948	**492**	496	**1,502**	1,444	**11,483**	11,888
Discontinued	**2,856**	15,193	**1,729**	4,973	**2,394**	6,652	**6,979**	26,818
	12,345	25,141	**2,221**	5,469	**3,896**	8,096	**18,462**	38,706

2 Profit and loss

a **Analysis of operating profit (loss)**

	Continuing operations 1999 £m	Discontinued operations 1999 £m	Total 1999 £m	Continuing operations 1998 restated £m	Discontinued operations 1998 restated £m	Total 1998 restated £m
Turnover	**2,848.7**	**613.8**	**3,462.5**	2,812.0	1,445.0	4,257.0
Cost of sales	**(2,407.7)**	**(457.2)**	**(2,864.9)**	(2,358.6)	(1,031.3)	(3,389.9)
Gross profit	**441.0**	**156.6**	**597.6**	453.4	413.7	867.1
Distribution costs	**(203.8)**	**(82.7)**	**(286.5)**	(206.5)	(172.2)	(378.7)
Administrative expenses	**(178.4)**	**(73.0)**	**(251.4)**	(189.3)	(234.1)	(423.4)
Exceptional administrative expenses – note 2d	**–**	**–**	**–**	(124.7)	(6.6)	(131.3)
	(178.4)	**(73.0)**	**(251.4)**	(314.0)	(240.7)	(554.7)
Other operating income	**1.9**	**0.5**	**2.4**	1.1	2.1	3.2
Utilisation of termination provisions	**2.4**	**4.6**	**7.0**	4.9	1.2	6.1
Operating profit (loss)	**63.1**	**6.0**	**69.1**	(61.1)	4.1	(57.0)

In 1998 certain items of income were classified as other operating income totalling £8.0m. This income has been reallocated to administrative expenses to better reflect its relationship with the underlying transaction cost.

b **Supplemental information**

	1999 £m	1998 £m
Profit (loss) on ordinary activities before taxation is stated after the following charges (credits):		
Wages and salaries	**211.7**	306.0
Social security costs	**20.4**	27.8
Other pension costs	**8.8**	13.1
Total employment costs of the Company and its subsidiaries	**240.9**	346.9
Amortisation of intangible fixed assets – goodwill	**1.0**	1.2
Depreciation of tangible fixed assets:		
Continuing:		
– owned	**23.8**	26.8
– held under finance leases	**0.1**	0.2
Discontinued:		
– owned	**9.0**	25.8
– held under finance leases	**–**	0.2
(Profit) on sale of tangible fixed assets other than property	**(0.2)**	–
Hire of plant, machinery and equipment	**2.2**	5.2
Other operating lease rentals:		
– payable	**26.7**	47.1
– receivable (1998 restated – note 2a)	**(1.4)**	(0.7)
Auditors' remuneration:		
Statutory audit (Company: £0.1m, 1998 – £0.1m)	**1.4**	2.4
UK non-audit fees:		
– due diligence and other audit-related work	**4.1**	2.0
– tax advice	**0.2**	0.2
– management consultancy services and financial advisory services	**1.0**	0.3
Total PricewaterhouseCoopers fees	**6.7**	4.9
Audit fees and expenses – firms other than PricewaterhouseCoopers	**0.2**	0.2

PricewaterhouseCoopers have been substantially involved in the divestment process because of their prior knowledge of the Group. UK non-audit fees in 1998, paid to PricewaterhouseCoopers and its associates (being the predecessor partnerships of Price Waterhouse and Coopers & Lybrand) were £2.5m of which £0.3m related to work done by Coopers & Lybrand, the previous auditors, and its associates.

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

2 Profit and loss continued

c Directors

Information on Directors' emoluments and interests, which form part of these audited financial statements, are given on pages 42 to 45.

d Exceptional items

Exceptional items	1999 £m	1998 £m
Exceptional operating expenses:		
Goodwill write off	–	(124.7)
Other exceptional operating expenses	–	(6.6)
Total exceptional operating expenses	–	(131.3)
Net profit on disposal of properties and investments	**1.8**	4.1
Net profit (loss) including provisions on the sale and termination of operations:		
Sale of:		
– Bottling South America (includes goodwill written off: £14.4m)	**279.0**	–
– Bottling Russia	**(2.7)**	(43.2)
– Marketing (includes goodwill written off: £23.9m, 1998 – £48.8m)	**(137.1)**	(189.1)
– Marketing utilisation of provision for net loss on sale of operations	**126.4**	–
	(10.7)	(189.1)
– Shipping (includes goodwill written off: £15.6m)	**(22.8)**	–
Motors sales and terminations (includes goodwill written off: £13.0m, 1998 – £13.7m)	**(14.2)**	(29.1)
Sale of 26% interest in Toyota (GB)	–	18.0
Other (includes goodwill written off: £4.2m, 1998 – £2.5m)	**(11.2)**	(22.5)
Total net profit (loss) on the sale and termination of operations	**217.4**	(265.9)
Costs of fundamental reorganisation	**(5.2)**	(10.6)
Total exceptional items – note 2e	**214.0**	(403.7)

During 1999 the Group has undergone a fundamental restructuring precipitated by the disposal of the following businesses: Bottling South America, Marketing, Shipping and Office Automation (during 1998 Bottling Russia was also disposed of). The financial impact of the fundamental restructuring is summarised above. In the case of Bottling South America the profit has increased from that envisaged in note 15 to the 1998 financial statements. In the cases of Marketing and Shipping losses have arisen. These differences arise from changes from contract terms, revisions to accounting estimates, adjustments to provisions made to cover certain terms in the sale contracts and foreign exchange movements. In addition, the Group has given normal commercial warranties and indemnities in respect of these disposals (note 11).

Motors sales and terminations in 1999 comprise primarily the sale of the Chrysler Jeep Imports UK business which includes £13.0m goodwill written off. The 1998 Motors sales and terminations include a number of exits from both Import & Distribution and Retail businesses, primarily in Europe.

Other sales and terminations include a number of withdrawals from other businesses and costs arising on earlier disposals.

The 1998 exceptional operating charge of £124.7m relates to the total and permanent impairment of historic goodwill relating to certain European Motors operations predominantly purchased through the TKM acquisition in 1992.

Goodwill written off included above of £71.1m (1998 – £189.7m) had been charged against reserves in previous years (note 13f(i)).

2 Profit and loss continued

e Earnings per ordinary share

	Headline		FRS3	
	1999 £m	1998 restated £m	1999 £m	1998 restated £m
Headline profit before tax	**85.3**	106.1	**85.3**	106.1
Exceptional items – note 2d	**–**	–	**214.0**	(403.7)
Profit (loss) before tax	**85.3**	106.1	**299.3**	(297.6)
Taxation – note 4a	**(26.8)**	(55.2)	**(27.1)**	(61.4)
Minority interests	**(5.6)**	(6.6)	**(5.4)**	(6.5)
Earnings (loss)	**52.9**	44.3	**266.8**	(365.5)
Headline earnings per share	**60.0p**	50.2p		
Basic and diluted earnings (loss) per share			**302.4p**	(414.3)p

The weighted average number of fully paid shares in issue during the year (restated for share consolidation – note 13e(ii)), excluding those held by the Inchcape Employee Trust (note 8a(ii)), was 88,225,026 (1998 restated – 88,217,806).

The diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares for the dilution arising from the exercise of share options where the exercise price is less than the average market price of the Company's ordinary shares during the period. The adjusted weighted average number of ordinary shares was 88,228,664 (1998 restated – 88,217,806).

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

3 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 policies section of the Financial Review covering Borrowing Facilities, Effective Interest Rates, Balance Sheet Translation and Foreign Currency Transaction Exposure on pages 27 to 29.

For the purpose of the disclosures which follow in this note (except for currency risk disclosures in note 3b), 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 on page 61. Due to the change in shape of the Group since 1998 it is not practicable or meaningful to provide comparatives. Therefore none have been provided as permitted by FRS 13 for the first accounting period during which the standard is adopted.

a Interest rate management

The interest rate profile of the financial liabilities of the Group at 31 December 1999, after taking account of interest rate swaps and cross currency interest rate swaps, is set out in the table below:

					Fixed rate financial liabilities	
Currency	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m	Weighted average interest rate %	Weighted average period for which rate is fixed months
Sterling	118.5	–	87.4	205.9	–	–
US dollar	1.5	–	4.5	6.0	–	–
Greek drachma	84.8	–	3.5	88.3	–	–
Singapore dollar	50.0	10.3	–	60.3	6.6	23
Other	20.7	1.7	2.6	25.0	11.0	84
	275.5	12.0	98.0	385.5	7.2	32

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 Greece and Singapore equivalents). Trade finance is included in the Greek drachma floating rate financial liabilities at an interest rate fixed for less than or equal to one year. The financial liabilities on which no interest is paid comprises mainly £84.5m of residual buy-back commitments whose weighted average period to maturity is 22 months, and £6.4m of vacant leasehold property provisions which have a weighted average period to maturity of 16 years (note 11).

The interest rate profile of the financial assets of the Group at 31 December 1999 is set out in the table below:

					Fixed rate financial assets	
Currency	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is paid £m	Total £m	Weighted average interest rate %	Weighted average period for which rate is fixed months
Sterling	47.0	0.4	3.5	50.9	10.0	24
US dollar	6.1	1.2	20.1	27.4	13.0	30
Greek drachma	12.3	8.4	0.9	21.6	6.6	101
Singapore dollar	30.8	59.7	7.8	98.3	15.6	41
Other	31.6	3.6	7.3	42.5	10.4	167
	127.8	73.3	39.6	240.7	14.2	54

Interest payments on floating rate financial assets are determined by reference to short-term benchmark rates applicable in the relevant currency or market (primarily LIBOR and the Greece and Singapore equivalents). The financial assets on which no interest is paid comprises mainly listed investments (note 8b) excluding ESOP shares carried at £0.5m, and certain short-term bank deposits.

3 Financial instruments continued

b Exchange risk management

The table below shows the Group's currency exposures at 31 December 1999 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) in £m		
Functional currency of the operating company	US dollar	Other	Total
Sterling	1.4	(0.5)	0.9
Greek drachma	–	(0.5)	(0.5)
Peruvian sol	1.7	–	1.7
Other	0.5	1.5	2.0
	3.6	0.5	4.1

The amounts in the table above are shown after taking account of cross currency swaps, forward contracts and other derivatives entered into to manage these currency exposures.

The US dollar exposure of £3.6m principally relates to US dollars held in bank accounts by UK businesses and US dollar trade receivables within the Peruvian businesses. Within Peru, the majority of sales are in US dollars. The purchase of cars within Peru is also in US dollars, but is hedged by a forward exchange contract. Other exposures are principally minor unhedged transactions which are settled within a short time period which minimises exchange rate risk and the need to hedge the exposure.

c Fair value

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

Assets (liabilities)	Book value £m	Fair value £m
Financial instruments held or issued to finance the Group's operations		
Trade investments	3.1	5.3
Cash deposits	142.5	142.5
Current asset investments	21.3	22.7
Net investment in finance lease receivables	59.9	59.9
Other financial assets	13.9	13.9
Short term borrowings and current portion of long term borrowings	(228.3)	(228.3)
Long-term borrowings	(63.2)	(63.2)
Long-term trade and other creditors	(87.5)	(78.9)
Other financial liabilities	(6.5)	(6.5)
Derivative financial instruments held to manage interest rate and currency exposure		
Interest rate swaps – assets	–	0.2
Cross currency swaps – assets	–	2.1
– (liabilities)	–	(0.5)
Forward foreign exchange contracts and currency options	–	7.2

Trade investments and current asset investments

Trade investments above exclude ESOP shares carried at £0.5m. The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

Long-term trade and other creditors

Long-term trade and other creditors principally relate to vehicle buy-back commitments whose average period to maturity is 22 months. In substance the vehicles remain the assets of the Group and have been included in stock at the guaranteed repurchase price, with the corresponding liability within trade creditors. The asset side of this transaction is not recorded in the above table because it does not qualify as a financial asset as defined by FRS 13.

Interest rate and cross currency swaps

The fair value of interest rate and cross currency swaps is the estimated amount which the Group would expect to pay or receive were it to terminate the swaps at the balance sheet date. This is based on quotations from counterparties. The nominal value of the interest rate and currency swaps at 31 December 1999 was £154.7m.

Forward foreign exchange contracts and currency options

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

At 31 December 1999 the Group had notional amounts outstanding of £410.1m for forward foreign exchange contracts, and £30.1m for foreign currency options.

3 Financial instruments continued

d 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 underlying asset or liability are as follows:

Unrecognised gains and losses on hedges	Gains £m	(Losses) £m	Net gains (losses) £m
Gains and losses arising before 1 January 1999 that were not recognised in 1999	2.4	(0.5)	1.9
Gains and losses arising in 1999 that were not recognised in that year	10.8	(3.7)	7.1
Gains and losses on hedges at 31 December 1999	13.2	(4.2)	9.0
Of which:			
Expected to be recognised in 2000	13.2	(3.7)	9.5
Expected to be recognised in 2001 or later	–	(0.5)	(0.5)

The majority of the unrecognised gains and losses above arise from forward foreign exchange contracts and currency options.

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

The Group has undertaken a major restructuring since 1998, and so it is not possible to calculate the amount of gains and losses recognised in 1999 that were attributable to gains and losses which arose prior to 1 January 1999, but were unrealised at 31 December 1998.

3 Financial instruments continued

e Maturity of net borrowings	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Borrowings and finance leases:				
Repayable within one year:				
Bank loans and overdrafts	**32.3**	160.3	**3.2**	–
Other loans	**195.8**	110.3	**–**	1.2
Finance leases	**0.2**	1.2	**–**	–
	228.3	271.8	**3.2**	1.2
Repayable over one year and up to two years:				
Bank loans	**5.3**	5.8	**–**	–
Other loans	**10.3**	59.7	**–**	–
Finance leases	**0.2**	0.9	**–**	–
	15.8	66.4	**–**	–
Repayable over two years and up to five years:				
Bank loans	**2.4**	8.5	**–**	–
Other loans	**43.5**	43.5	**–**	–
Finance leases	**0.5**	2.4	**–**	–
	46.4	54.4	**–**	–
Repayable beyond five years:				
Finance leases	**1.0**	3.1	**–**	–
	1.0	3.1	**–**	–
Total borrowings and finance leases	**291.5**	395.7	**3.2**	1.2
Cash and deposits	**(142.5)**	(252.3)	**(0.8)**	–
Net borrowings	**149.0**	143.4	**2.4**	1.2

A US private placement was made in May 1995, consisting of US$100m (£59.7m; 1998 – £59.7m) of 6.93% loan notes, due May 2000 and US$72m (£43.5m; 1998 – £43.5m) of 7.09% loan notes, due May 2002.

Other loans are at various rates of interest, linked to interbank market rates. Net obligations under finance leases are at various local prevailing rates of interest.

Of the total Group borrowings, £4.8m is secured (1998 – £7.4m). The Company's borrowings are unsecured.

3 Financial instruments continued

f Maturity of financial liabilities	Borrowings and finance leases £m	Other financial liabilities £m	Total £m
Repayable within one year	**228.3**	**–**	**228.3**
Repayable over one year and up to two years	**15.8**	**55.9**	**71.7**
Repayable over two years and up to five years	**46.4**	**34.5**	**80.9**
Repayable beyond five years	**1.0**	**3.6**	**4.6**
Total financial liabilities	**291.5**	**94.0**	**385.5**

g Facilities

The Group has committed stand-by credit facilities available to it. The undrawn committed facilities available at 31 December, in respect of which all conditions precedent have been met at that date, were as follows:

	1999 £m	1998 £m
Expiring in over one year and up to two years	**–**	105.0
Expiring in more than two years	**250.0**	400.0
	250.0	505.0

The £400.0m revolving credit facility and the £105.0m of bilateral facilities were reduced to £250.0m during the year to reflect the ongoing requirements of the Group.

3 Financial instruments continued

h Interest

Interest	1999 £m	1998 restated £m
Interest payable and other charges:		
On bank loans, overdrafts and other loans falling due within five years	**30.2**	47.1
On finance leases mainly repayable within five years	**0.6**	0.7
Cost of swapping fixed rate US$ borrowings into floating rate sterling on sale of Bottling Russia	**–**	2.8
Other interest	**8.6**	13.4
	39.4	64.0
Less amounts included in cost of sales for Motors Financial Services subsidiaries	**(4.5)**	(5.3)
	34.9	58.7
Interest receivable	**(34.3)**	(45.0)
Less amounts included in:		
– Motors Financial Services subsidiaries' turnover	**12.0**	13.5
– Shipping subsidiaries' interest on principal funds included in other operating income	**0.3**	1.5
	(22.0)	(30.0)
The Company and its subsidiaries	**12.9**	28.7
Share of joint ventures' net interest	**0.7**	1.5
Share of associates' net interest	**2.1**	(1.1)
	15.7	29.1

The Directors have reviewed the treatment of interest on the Group's cash pooling arrangements and on interest rate swaps. The cash flows for these were previously shown gross, but are now shown net to better reflect the underlying nature of the transaction and to aid comparability with the FRS 13 disclosures. The prior year figures have been restated to a similar basis, reducing both interest received and paid by £34.7m.

i Cash flow

(i) Analysis of net (debt)	At 1 January 1999 £m	Cash flow £m	Acquisitions and disposals (excluding cash and overdrafts) £m	Other non-cash movements £m	Exchange movement £m	At 31 December 1999 £m
Cash in hand and at bank	125.7	(14.3)			(16.3)	95.1
Overdrafts	(27.8)	19.0			(0.5)	(9.3)
		4.7				
Debt due within one year	(242.8)	(10.0)	24.6		9.4	(218.8)
Debt due after one year	(117.5)	56.0	–		–	(61.5)
Finance leases	(7.6)	4.7	0.5	(0.2)	0.7	(1.9)
		50.7	25.1			
Liquid resources	126.6	25.6	(104.2)		(0.6)	47.4
Net (debt) funds	(143.4)	81.0	(79.1)	(0.2)	(7.3)	(149.0)

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

(ii) Cash and deposits	1999 £m	1998 £m
Cash at bank and in hand	**95.1**	125.7
Liquid resources	**47.4**	126.6
Cash and deposits as per balance sheet	**142.5**	252.3

3 Financial instruments continued

i Cash flow continued

(iii) Borrowings – amounts repayable within one year	1999 £m	1998 £m
Bank loans repayable within one year	23.0	132.5
Loans other than from banks	195.8	110.3
Debt due within one year	218.8	242.8
Finance leases	0.2	1.2
Bank overdrafts	9.3	27.8
Borrowings – amounts repayable within one year as per balance sheet	228.3	271.8

(iv) Returns on investments and servicing of finance	1999 £m	1998 restated £m
Interest received	23.6	33.6
Interest paid	(37.4)	(58.9)
Dividends received from other fixed asset investments	–	0.2
Dividends paid to minority interests	(1.9)	(8.8)
	(15.7)	(33.9)

Comparatives have been restated as explained in note 3h

(v) Management of liquid resources	1999 £m	1998 £m
(Increase) decrease in liquid resources	(25.6)	3.1

(vi) Net cash (outflow) from financing	1999 £m	1998 £m
Issue of ordinary share capital	–	0.2
(Decrease) in debt – note 3i(i)	*(46.0)*	(154.7)
Capital element of finance lease rental payments	(4.7)	(1.3)
	(50.7)	(155.8)

j Operating lease commitments

	Property leases		Other operating leases	
	1999 £m	1998 £m	1999 £m	1998 £m
Operating lease rentals payable in the next year in respect of commitments expiring:				
– within one year	5.1	11.3	0.7	1.9
– in two to five years	11.1	22.3	1.3	2.2
– after five years	6.4	11.5	–	0.1
	22.6	45.1	2.0	4.2

4 Taxation

a

Current taxation	1999 £m	1998 £m
United Kingdom corporation tax at 30% (1998 – 31%)	**0.9**	16.8
Double taxation relief	**(0.4)**	(17.4)
	0.5	(0.6)
Advance corporation tax written back	**(1.4)**	(17.0)
	(0.9)	(17.6)
Overseas taxes	**24.2**	39.7
Deferred taxation	**0.7**	27.9
	24.0	50.0
Adjustments to prior year liabilities:		
– UK	**(2.9)**	(2.3)
– overseas	**(0.2)**	0.3
The Company and its subsidiaries	**20.9**	48.0
Share of joint ventures' taxation	**2.8**	2.7
Share of associates' taxation	**3.4**	10.7
	27.1	61.4

The tax charge includes £0.3m in respect of exceptional items (1998 – £6.2m).

The tax rate in 1999 benefited by approximately three percentage points due to a one off change in the UK tax treatment of provisions.

b

Deferred taxation liability (asset)	1999 £m	1998 £m
Balance at 1 January	**7.9**	(3.8)
Charged to profit and loss account	**0.7**	27.9
Advance corporation tax written back	**–**	(17.0)
Subsidiaries sold	**(2.0)**	0.8
Balance at 31 December	**6.6**	7.9

The potential amount of deferred tax liability on timing differences and the amount which has been provided in the accounts comprise:

	Potential		Recognised	
	1999 £m	1998 £m	1999 £m	1998 £m
Excess capital allowances	**0.9**	6.4	**2.2**	1.7
Revalued assets	**7.2**	11.2	**–**	–
Tax effect of losses carried forward	**(1.8)**	(5.1)	**–**	–
Other timing differences (Company: potential and recognised £5.0m, 1998 – £5.0m)	**2.0**	(7.3)	**4.4**	6.2
	8.3	5.2	**6.6**	7.9

Advance corporation tax written off to date amounts to £9.5m (1998 – £10.9m) and is available for offset against future UK corporation tax liabilities subject to the restrictions of the 'shadow' ACT regulations.

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

5 Pensions and other post-retirement benefits

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

Pensions – UK schemes

The pension costs for the main defined benefit schemes operated in the UK were determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method. The actuarial assumptions used for funding are in line with SSAP 24.

Actuarial valuations for these schemes were carried out during 1997 using, in the main, per annum long-term assumptions of investment return of 8.5-10.0%, salary increase of 6.0-7.5%, dividend growth of 4.5-5.0% and pension increase of 4.5-5.0%. The actuarial valuations of the total assets covered 112% of benefits that had accrued to members. The market value of the assets held by the Group's UK schemes at March/April 1997 was £413.2m.

Pensions – Overseas schemes

The assets of all overseas schemes had a market value of £150.0m based on the latest actuarial valuations carried out during 1997. The actuarial assumptions used for overseas schemes were consistent with local practice. The actuarial valuations of the total assets covered 95% of the benefits that had accrued to members. Subsequent to the date of the actuarial valuations certain overseas subsidiaries have been disposed of.

Pension cost

The pension cost charged for 1999 was £8.8m (1998 – £13.1m) of which £7.4m (1998 – £10.4m) relates to schemes of a defined benefit nature and £1.4m (1998 – £2.7m) represents the amount attributable to defined contribution schemes. A provision of £2.5m (1998 – £6.7m) 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 £2.2m (1998 – £1.5m).

An amount of £nil (1998 – £2.7m) was charged to non-operating exceptional items in respect of disposals and terminations.

6 Fixed assets – intangible assets

	Goodwill £m	Acquired brands £m	Total £m
Cost at 1 January 1999	**22.7**	**19.2**	**41.9**
Effect of foreign exchange rate changes	**–**	**(0.6)**	**(0.6)**
Acquisitions – note 14a	**2.3**	**–**	**2.3**
Subsidiaries sold	**(18.1)**	**(18.6)**	**(36.7)**
Cost at 31 December 1999	**6.9**	**–**	**6.9**
Amortisation at 1 January 1999	**(1.2)**	**–**	**(1.2)**
Provided for the year	**(1.0)**	**–**	**(1.0)**
Amortisation at 31 December 1999	**(2.2)**	**–**	**(2.2)**
Book value at 31 December 1999	**4.7**	**–**	**4.7**
Book value at 31 December 1998	21.5	19.2	40.7

Of the £6.9m historical cost goodwill, £2.8m relates to Ferrari Belgium which is being amortised over a ten year period.

7 Fixed assets – tangible assets

	Freehold and leasehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost or valuation at 1 January 1999	347.2	353.1	700.3
Effect of foreign exchange rate changes	(0.8)	(4.7)	(5.5)
Subsidiaries acquired	6.3	0.3	6.6
Subsidiaries sold	(142.8)	(213.2)	(356.0)
Additions	22.6	49.7	72.3
Disposals	(16.1)	(40.2)	(56.3)
Other movements	(6.4)	(0.2)	(6.6)
Cost or valuation at 31 December 1999	210.0	144.8	354.8
Analysed:			
Valuation 1996	159.6	–	159.6
Cost	50.4	144.8	195.2
	210.0	144.8	354.8
Depreciation at 1 January 1999	(54.8)	(194.6)	(249.4)
Effect of foreign exchange rate changes	(0.1)	2.6	2.5
Subsidiaries sold	42.9	112.9	155.8
Provided for the year	(5.1)	(27.8)	(32.9)
Disposals	4.2	25.1	29.3
Other movements	0.9	(0.6)	0.3
Depreciation at 31 December 1999	(12.0)	(82.4)	(94.4)
Book value at 31 December 1999	198.0	62.4	260.4
Book value at 31 December 1998	292.4	158.5	450.9

Land and buildings were 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. In accordance with the transitional arrangements of FRS 15, the 1996 revaluation of freehold and leasehold land and buildings has not been updated.

	1999 £m	1998 £m
Book value of land and buildings analysed between:		
– freehold	124.9	177.4
– leasehold with over 50 years unexpired	38.0	48.5
– short leasehold	35.1	66.5
	198.0	292.4
Historic cost value of land and buildings analysed between:		
– cost	193.5	292.4
– less depreciation	(22.0)	(53.2)
	171.5	239.2
The book value of tangible fixed assets held for rental under operating leases amounted to:		
– cost	17.9	13.4
– less depreciation	(3.6)	(0.5)
	14.3	12.9

The book value of tangible fixed assets includes £2.3m (1998 – £10.8m) in respect of assets held under finance leases.

7 Fixed assets – tangible assets continued

	1999 £m	1998 £m
Capital expenditure and financial investment – cash flow		
Expenditure on tangible fixed assets and investments	**(74.1)**	(113.5)
Inception of finance leases	**0.2**	1.5
(Decrease) in creditors	**–**	(1.1)
Cash outflow on purchase of tangible fixed assets	**(73.9)**	(113.1)
Sale of tangible fixed assets and investments	**36.6**	26.4
Decrease (increase) in debtors	**3.0**	(2.6)
	(34.3)	(89.3)

8 Fixed assets – investments

a Movement in book value

(i) **Group**	*Shares in joint* ventures and associates £m	*Loans to joint* ventures and associates £m	Own shares £m	Other investments £m	Total £m
Cost less provisions at 1 January 1999	**112.0**	**1.3**	**1.1**	**10.0**	**124.4**
Effect of foreign exchange rate changes	**0.6**	**(0.1)**	**–**	**(0.8)**	**(0.3)**
Additions	**1.4**	**–**	**–**	**0.6**	**2.0**
Provisions for impairment	**–**	**–**	**(0.6)**	**3.0**	**2.4**
Disposals	**(52.7)**	**(1.2)**	**–**	**(9.7)**	**(63.6)**
Cost less provisions at 31 December 1999	**61.3**	**–**	**0.5**	**3.1**	**64.9**
Share of post acquisition reserves:					
Balance at 1 January 1999	**61.0**				**61.0**
Effect of foreign exchange rate changes	**(0.1)**				**(0.1)**
Disposals	**(28.0)**				**(28.0)**
Retained profit for the financial year – note 13d	**6.5**				**6.5**
Balance at 31 December 1999	**39.4**				**39.4**
Adjustment to cost in respect of net goodwill:					
Balance at 1 January 1999	**(15.9)**				**(15.9)**
Effect of foreign exchange rate changes	**(0.3)**				**(0.3)**
Eliminated on disposal	**11.1**				**11.1**
Balance at 31 December 1999	**(5.1)**				**(5.1)**
Book value at 31 December 1999	**95.6**	**–**	**0.5**	**3.1**	**99.2**
Book value at 31 December 1998	157.1	1.3	1.1	10.0	169.5

8 Fixed assets – investments continued

a Movement in book value continued

(ii) Company	Own shares £m	Shares in subsidiaries £m	Total £m
At 1 January 1999	**1.0**	**848.4**	**849.4**
Effect of foreign exchange rate changes	**–**	**(0.2)**	**(0.2)**
Additions arising from reorganisation of Group companies	**–**	**379.6**	**379.6**
Provisions for impairment in the year	**(0.5)**	**(1.7)**	**(2.2)**
Disposals	**–**	**(354.3)**	**(354.3)**
At 31 December 1999	**0.5**	**871.8**	**872.3**

Continuing Group

The share of post acquisition reserves of joint ventures and associates attributable to the Group after minority interests as at 31 December 1999 is £39.4m (1998 – £59.7m).

Own shares at cost are held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include employees and former employees of the Group and their dependants. The total number of shares held by the Inchcape Employee Trust at 31 December 1999 was 126,402. Their market value at 31 December 1999 and 3 March 2000 was £0.3m.

Transactions with joint ventures and associates include vehicle purchases and net interest paid on stock financing totalling £52.7m (1998 restated – £65.5m), with £2.7m outstanding at 31 December 1999 (£1.9m restated at 31 December 1998) and vehicle sales and rental income totalling £277.3m (1998 – £324.8m), with £17.8m outstanding at 31 December 1999 (£19.1m restated at 31 December 1998). Debt factored through an associate amounted to £67.0m (1998 – £56.1m) of which £0.2m is outstanding at 31 December 1999 (£1.9m at 31 December 1998). Property sold to an associate amounted to £nil (1998 – £1.0m) of which none is outstanding at 31 December 1999 (£nil at 31 December 1998). Management fees and expenses received from joint ventures and associates amounted to £2.0m (1998 – £1.6m), with £0.6m outstanding at 31 December 1999 (£0.5m at 31 December 1998).

Discontinued Group

Transactions with joint ventures and associates within the Marketing activity include sales, rental income and net interest totalling £0.8m (1998 – £3.0m), with £nil outstanding at 31 December 1999 (£0.9m at 31 December 1998) and management service and agency fees totalling £0.4m (1998 – £1.4m), with £nil outstanding at 31 December 1999 (£0.4m at 31 December 1998). In addition, net loans due from Marketing joint ventures and associates totalled £nil at 31 December 1999 (£2.1m at 31 December 1998).

b Listed fixed and current asset investments

	Associates		Other fixed asset investments	
(i) Fixed asset investments	1999 £m	1998 £m	1999 £m	1998 £m
Book value	**–**	7.6	**3.5**	6.7
Market value	**–**	25.8	**5.3**	5.8

(ii) Current asset investments	1999 £m	1998 £m
Book value	**21.3**	16.2
Market value	**17.7**	15.4

Although book value in 1999 is greater than market value, the Directors do not consider this an impairment issue. The asset is recoverable under contractual terms and consequently its fair value (note 3c) is greater than its book value.

8 Fixed assets – investments continued

c Group share of net assets of joint ventures and associates

	Joint ventures		Associates		Total	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Fixed assets	**10.5**	31.4	**49.5**	74.7	**60.0**	106.1
Current assets	**554.2**	547.8	**285.6**	361.7	**839.8**	909.5
Group share of gross assets	**564.7**	579.2	**335.1**	436.4	**899.8**	1,015.6
Liabilities due within one year	**(313.1)**	(393.9)	**(261.8)**	(316.3)	**(574.9)**	(710.2)
Liabilities due after more than one year	**(214.9)**	(139.2)	**(14.4)**	(7.8)	**(229.3)**	(147.0)
Group share of gross liabilities	**(528.0)**	(533.1)	**(276.2)**	(324.1)	**(804.2)**	(857.2)
Group share of net assets	**36.7**	46.1	**58.9**	112.3	**95.6**	158.4

d Group share of results of significant associates

	Toyota (GB)		MCL*	
	1999 £m	1998 £m	1999 £m	1998 £m
Turnover	**569.2**	611.7	**184.8**	199.3
Profit before taxation	**5.0**	15.9	**5.2**	13.6
Taxation	**(1.6)**	(4.9)	**(1.6)**	(4.8)
Profit after taxation	**3.4**	11.0	**3.6**	8.8
Fixed assets	**32.7**	25.4	**15.0**	15.0
Current assets	**211.0**	220.2	**49.7**	43.6
Liabilities due within one year	**(203.8)**	(217.6)	**(38.8)**	(29.5)
Liabilities due after more than one year	**(10.3)**	(0.2)	**(0.4)**	(0.8)
Net assets	**29.6**	27.8	**25.5**	28.3

* Combined results of MCL Group Ltd and Automotive Group Ltd.

9 Net current assets

a Stocks

	1999 £m	1998 £m
Raw materials and work in progress	**1.5**	34.7
Finished goods and merchandise	**572.0**	743.5
	573.5	778.2

In 1999 there is no material difference between replacement cost and amounts stated above. In 1998 there was a material difference between replacement cost and the amounts stated above due to a £38.1m Marketing Asia Pacific provision for impairment.

Certain Motors subsidiaries have an obligation to repurchase at a guaranteed residual value certain vehicles which have been legally sold for leasing contracts. Although the credit risk is passed to the finance house, in substance these vehicles remain as assets of the Group and have been included in stock at the guaranteed repurchase price, with the corresponding liability included within trade creditors. Stock includes £134.9m (1998 – £140.9m) of such vehicles.

Vehicles held on consignment which are in substance assets of the Group amount to £46.3m (1998 – £40.6m), and have been included in finished goods stock with the corresponding interest bearing 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.

b Debtors

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Amounts due within one year:				
Trade debtors subject to limited recourse financing	**3.1**	4.1	–	–
less: non-returnable amounts received	**(2.8)**	(3.6)	–	–
	0.3	0.5	–	–
Other trade debtors	**123.9**	318.9	–	–
Net investment in finance leases and hire purchase contracts	**18.0**	19.4	–	–
Amounts owed by: – subsidiaries	–	–	**31.0**	131.0
– joint ventures and associates	**4.6**	7.9	–	–
Advance corporation tax recoverable	**2.7**	16.4	**2.7**	16.4
Other debtors	**49.0**	56.8	**1.3**	–
Prepayments and accrued income	**21.1**	51.5	–	4.7
	219.6	471.4	**35.0**	152.1
Amounts due after more than one year:				
Trade debtors subject to limited recourse financing	**28.1**	36.8	–	–
less: non-returnable amounts received	**(25.1)**	(32.5)	–	–
	3.0	4.3	–	–
Net investment in finance leases and hire purchase contracts	**59.9**	63.5	–	–
Amounts owed by: – subsidiaries	–	–	**196.4**	128.4
– joint ventures and associates	–	0.3	–	–
Trade and other debtors	**17.4**	28.3	–	–
	80.3	96.4	**196.4**	128.4
Total debtors	**299.9**	567.8	**231.4**	280.5

Trade debtors subject to limited recourse financing represent hire purchase debtors discounted with banks, so that the majority of cash received by the Group on discounting is not returnable, which carry interest at variable rates. 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.

9 Net current assets continued

b Debtors continued

Net investment in finance leases and hire purchase contracts comprises:	1999 £m	1998 £m
Total amounts receivable	**100.9**	107.3
Less: interest allocated to future periods	**(23.0)**	(24.4)
	77.9	82.9

Rentals receivable during the year under finance leases and hire purchase contracts amounted to £32.6m (1998 – £41.8m).

The cost of assets acquired during the year for onwards finance leasing was £22.1m (1998 – £26.0m).

c

Creditors – amounts falling due within one year:	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Borrowings and finance leases – note 3e	**228.3**	271.8	**3.2**	1.2
Other:				
Payments received on account	**13.1**	46.3	**–**	–
Other trade creditors	**350.2**	631.9	**–**	–
Amounts owed to: – subsidiaries	**–**	–	**280.3**	152.3
– joint ventures and associates	**2.5**	2.5	**–**	–
Corporate taxation	**15.7**	27.7	**1.2**	0.7
Advance corporation tax	**–**	6.1	**–**	6.1
Other taxation and social security	**17.3**	24.5	**–**	–
Proposed final dividend	**12.4**	35.0	**12.4**	35.0
Dividends payable to minorities	**1.0**	0.2	**–**	–
Other creditors	**20.1**	18.9	**0.9**	0.3
Accruals and deferred income	**83.6**	133.5	**0.3**	0.2
	515.9	926.6	**295.1**	194.6
Total creditors falling due within one year	**744.2**	1,198.4	**298.3**	195.8

10 Creditors – amounts falling due after one year:

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Finance leases	**1.7**	6.4	**–**	–
Other borrowings	**61.5**	117.5	**–**	–
Total borrowings and finance leases – note 3e	**63.2**	123.9	**–**	–
Amounts owed to subsidiaries	**–**	–	**382.9**	9.9
Corporate taxation	**1.4**	1.6	**–**	–
Trade and other creditors	**87.5**	99.2	**–**	–
Total creditors falling due after more than one year	**152.1**	224.7	**382.9**	9.9

11 Provisions for liabilities and charges

	Group							Company
	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	Termination and other £m
Balance at 1 January 1999*	10.8	33.2	28.6	54.2	7.7	19.6	154.1	35.8
Effect of foreign exchange rate changes	(0.2)	(0.5)	(1.3)	0.1	–	(0.3)	(2.2)	–
Charged to profit and loss account	8.9	18.4	9.8	38.7	0.4	4.5	80.7	30.2
Unused amounts reversed to profit and loss account	–	(5.0)	(1.9)	(3.4)	–	(2.4)	(12.7)	(9.3)
Reclassifications	–	10.6	–	–	–	(4.3)	6.3	–
Utilised during the year:								
– Cash	(8.5)	(10.9)	(13.6)	(16.7)	(0.6)	(6.9)	(57.2)	(4.3)
– Other	(0.7)	(2.8)	(6.1)	(0.6)	–	(5.3)	(15.5)	4.0
Subsidiaries sold	(5.1)	(4.6)	–	(13.3)	–	1.8	(21.2)	–
Balance at 31 December 1999	5.2	38.4	15.5	59.0	7.5	6.7	132.3	56.4
Deferred taxation – note 4b							6.6	5.0
Balance at 31 December 1999							138.9	61.4

* Reconciliation to balance sheet:

	Group £m	Company £m
Provision analysis as at 1 January 1999	154.1	35.8
Deferred taxation as at 1 January 1999 – note 4b	7.9	5.0
Total provisions as at 1 January 1999	162.0	40.8

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 estimated cost of labour and parts based on historic claims experience and expected future trends.

Motors business exits – the ongoing Group is committed to a number of terminations and exits. These existing terminations and exits are forecast to 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. Any detailed disclosure of these issues could seriously prejudice negotiations. Accordingly, no information is given in regard to the likely timing or cash impact as normally required under FRS 12. Attention is drawn to note 12, which refers to two of these issues.

Vacant leasehold – the Group is committed to certain leasehold premises that it no longer has a commercial use for. These are principally located in the UK. Provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant arrangements (note 3a). In determining the provision, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates. The amortisation of discount of £0.1m has been included in the charge to profit and loss account.

Other – relates to provisions for claims and other items in the normal course of business.

12 Guarantees and contingent liabilities

	Group		Company	
	1999	1998	1999	1998 restated
	£m	£m	£m	£m
Guarantees of joint ventures' and associates' borrowings	**4.0**	14.9	**–**	–
Guarantees of various subsidiaries' borrowings (against which £112.0m has been drawn, 1998 restated – £117.0m)	**–**	–	**362.0**	622.0
Other guarantees, performance bonds and contingent liabilities	**5.9**	65.3	**–**	–

Commitments for capital expenditure entered into and not provided for in these accounts are estimated at £3.0m (1998 – £21.9m).

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

The Group also has, in the ordinary course of business, commitments under foreign exchange and interest rate instruments relating to the hedging of transactions, overseas earnings and interest exposures – note 3.

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

Inchcape Shipping Services (Shipbroking) Limited ("ISS(S)") has been served with two writs alleging that ISS(S) provided ship valuations negligently on the basis of which the plaintiff alleges they made certain secured loans. The claims in aggregate amount to US$18m. The basis of the quantum of the claims remains unclear and the claims are being defended strenuously.

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

In addition to the above, there were at 31 December 1999 other contingent liabilities arising in the ordinary course of business, including those in respect of disposed businesses. These are not expected to give rise to any significant loss.

13 Dividends, minority interests and equity

a **Dividends**	Per Share 1999 pence	Per Share 1998 pence	1999 £m	1998 £m
Special – paid 9 July 1999	**600.0***	–	**529.3**	–
Interim – paid 23 September 1999 (1998 paid – 26 November 1998)	**7.0**	27.6*	**6.2**	24.4
Final – proposed – payable 16 June 2000 (1998 paid – 9 June 1999)	**14.0**	39.6*	**12.4**	35.0
	621.0	67.2	**547.9**	59.4

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 26 May 2000.

Dividends above exclude £0.8m (1998 – £0.1m) payable on shares held by the Inchcape Employee Trust – note 8a.

* Adjusted for share consolidation – note 13e(ii).

b **Minority interests**	1999 £m	1998 £m
Paid or payable as dividends	**2.7**	1.2
Net retained profit for the year	**2.7**	5.3
	5.4	6.5

c **Substantial shareholdings**

The following notification of substantial interests in the Company's issued ordinary share capital had been received by 6 March 2000 under the provisions of the Companies Act 1985:

Franklin Resources, Inc	11.00%
I.M. Group Limited	9.05%
Fidelity International Limited	5.45%
Toyota Motor Corporation	4.76%
Prudential Portfolio Managers Limited	4.21%
Morgan Stanley Securities Limited	3.01%

d **Profit (loss) for the financial year**	1999 £m	1998 £m
Dealt with in the accounts of:		
The Company	**26.4**	272.3
Subsidiaries	**233.9**	(649.8)
Joint ventures and associates – note 8a	**6.5**	12.0
	266.8	(365.5)

e **Share capital**	Authorised 1999 £m	Authorised 1998 £m	Allotted, called-up and fully paid 1999 £m	Allotted, called-up and fully paid 1998 £m
(i) **Summary**				
Ordinary shares – authorised 131,000,000 ordinary shares of 150p each (1998 – 786,000,000 ordinary shares of 25p each) and allotted, called up and fully paid 88,351,428 ordinary shares of 150p each (1998 – 530,108,568 ordinary shares of 25p each).	**196.5**	196.5	**132.5**	132.5

(ii) **Share consolidation**

On 12 July 1999, one new consolidated share with a nominal value of 150p was issued in replacement of every six ordinary shares, each with a nominal value of 25p.

13 Dividends, minority interests and equity continued

e Share capital continued

(iii) At 31 December 1999, options to subscribe for ordinary shares of 150p each in the Company under the following schemes were outstanding as follows:

Ordinary Shares of 150p Each	Exercisable Until	Option Price	Ordinary Shares of 150p Each	Exercisable Until	Option Price
The Inchcape 1999 Share Option Plan			**The Inchcape SAYE Share Option Scheme**		
– Part I (UK)			3,762	1 January 2000	£26.46*
645,244	7 September 2009	£3.88	21,130	1 February 2000	£14.10*
2,770	21 September 2009	£3.61	5,981	1 June 2000	£20.58*
– Part I (Overseas)			23,952	1 February 2001	£15.00*
742,227	7 September 2009	£3.88	30,423	1 February 2001	£13.56*
– Part II (UK)			248,930	1 June 2003	£3.25
559,209	7 September 2009	£3.88			
8,310	21 September 2009	£3.61			

* Consequent upon the consolidation of Inchcape ordinary shares on 12 July 1999, options under the Inchcape SAYE Share Option Scheme were adjusted by increasing the option price by a factor of six and dividing the number of shares by six.

During the year no shares in Inchcape plc were issued under any of the share option schemes. All options under the Inchcape Executive Share Options Scheme and the Inchcape International Share Options Scheme had lapsed or been waived at 31 December 1999.

f Movements in shareholders' funds

(i) Group

	Share capital 1999 £m	Share premium account 1999 £m	Revaluation reserve 1999 £m	Profit and loss account 1999 £m	Total 1999 £m	Total 1998 £m
Profit (loss) for the financial year	–	–	–	266.8	266.8	(365.5)
Dividends – note 13a	–	–	–	(547.9)	(547.9)	(59.4)
Retained (loss) for financial year	–	–	–	(281.1)	(281.1)	(424.9)
Effect of foreign exchange rate changes	–	–	(0.2)	(24.0)	(24.2)	9.0
New share capital issued	–	–	–	–	–	0.2
Goodwill on disposals and written off	–	–	–	71.1	71.1	189.7
Deficit on impairment of revalued properties	–	–	–	–	–	(10.0)
Transfers on realisation of property surpluses	–	–	(0.6)	0.6	–	–
Other transfers	–	–	1.3	(1.3)	–	–
Subsidiaries sold	–	–	(102.6)	102.6	–	–
Net change in shareholders' funds	–	–	(102.1)	(132.1)	(234.2)	(236.0)
Balance at 1 January	132.5	106.9	139.7	175.2	554.3	790.3
Balance at 31 December	132.5	106.9	37.6	43.1	320.1	554.3

Revaluation reserve includes other non distributable reserves of £8.0m (1998 – £71.3m). Net foreign exchange gains on borrowings reported in reserves amount to £0.2m in 1999 (1998 – losses of £0.1m).

Goodwill contained within the profit and loss account reserve comprises:

	£m
Balance at 1 January 1999	226.5
Effect of foreign exchange rate changes	1.1
Goodwill on disposals – note 2d	(71.1)
Balance at 31 December 1999	156.5

13 Dividends, minority interests and equity continued

f Movements in shareholders' funds continued

(ii) Company	Share capital 1999 £m	Share premium account 1999 £m	Profit and loss account 1999 £m	Total 1999 £m	Total 1998 £m
Retained (loss) profit for the year	–	–	(521.5)	(521.5)	212.9
New share capital issued	–	–	–	–	0.2
Net change in shareholders' funds	–	–	(521.5)	(521.5)	213.1
Balance at 1 January	132.5	106.9	644.0	883.4	670.3
Balance at 31 December	132.5	106.9	122.5	361.9	883.4

14 Acquisitions and disposals

a Goodwill arising on acquisitions	Book and fair value to the Group 1999 £m
Assets and liabilities acquired	
Fixed assets	6.6
Stocks	3.8
Other creditors and provisions	(2.5)
	7.9
Fair value of consideration	10.2
Goodwill – note 6	2.3

In November 1999 the Group acquired certain assets and liabilities from the Denlo Group and Chatswood Classic Cars (both of Australia). No access was given to accounting records of the vendors and values paid reflected fair market values for principally land and buildings and motor vehicles. Therefore no fair value adjustments were required.

Goodwill is being amortised over the five year life of the contracts signed between the importer and distributor of the vehicles and the retailer of the vehicles.

b Cash flow

(i) Net cash inflow (outflow) from acquisitions and disposals	1999 £m	1998 £m
Purchase of subsidiaries – note 14b(ii)	(10.2)	(14.9)
Purchase of joint ventures, associates and other investments	–	(1.8)
Sale of subsidiaries – note 14b(ii)	608.0	84.8
Sale of joint ventures and associates	28.2	5.2
	626.0	73.3

14 Acquisitions and disposals continued

b Cash flow continued

(ii) Net assets acquired (disposed of) on acquisition (sale) of subsidiaries	Acquisitions 1999 £m	Disposals 1999 £m	Acquisitions 1998 £m	Disposals 1998 £m
Fixed assets and fixed asset investments (including Group share of joint ventures' and associates' net assets)	**6.6**	**(288.4)**	41.6	(121.8)
Stocks	**3.8**	**(137.0)**	8.5	(376.0)
Debtors	**–**	**(238.3)**	5.4	(73.7)
Cash less bank overdrafts	**–**	**(46.3)**	(3.6)	13.2
Liquid resources	**–**	**(104.2)**	–	(10.4)
Loans and finance leases	**–**	**25.1**	(9.7)	1.1
Other creditors and provisions	**(2.5)**	**342.6**	(11.7)	408.4
Minority shareholders' interests	**–**	**93.3**	7.3	11.4
Goodwill	**2.3**	**(67.1)**	22.7	(1.0)
(Profit) loss on disposal	**–**	**(251.3)**	–	23.9
Net consideration payable (receivable)	**10.2**	**(671.6)**	60.5	(124.9)
Satisfied by:				
Cash paid (received)	**10.2**	**(650.8)**	12.3	(72.0)
Transfer to associates	**–**	**–**	22.4	(22.4)
Shares issued in subsidiary companies	**–**	**–**	23.9	–
Non cash consideration	**–**	**(13.2)**	1.9	(0.5)
Deferred consideration (receivable)	**–**	**(7.6)**	–	(30.0)
	10.2	**(671.6)**	60.5	(124.9)

Acquisitions of subsidiaries during the year had no material effect upon the Group's net operating cash flows, interest paid, taxation or capital expenditure.

Subsidiaries sold during the year absorbed £9.0m of the Group's net operating cash flows, received £6.7m in respect of net returns on investments and servicing of finance, paid £3.1m in respect of taxation and incurred £9.8m for capital expenditure.

Analysis of the net inflow of cash in respect of the sale of subsidiaries	£m
Cash consideration received (including receipts from purchasers outstanding at 31 December 1998)	**654.3**
Net (cash) of subsidiaries sold	**(46.3)**
Net inflow of cash in respect of the sale of subsidiaries	**608.0**

Analysis of the net outflow of cash in respect of the purchase of subsidiaries	£m
Cash consideration paid in respect of the purchase of subsidiaries	**10.2**

15 Post balance sheet events

On 6 January 2000 the Group announced that as part of its strategic drive into e-commerce services it has made a significant investment of US$10m for a 7.3% equity interest in Autobytel Europe. The Group already owns 100% of Autobytel UK and maintains a 3% equity interest in Autobytel.com (NASDAQ: ABTL).

On 18 January 2000 the Group was informed by Volkswagen that under the terms of the contract, the Volkswagen Australia Import & Distribution business would be transferred back to the manufacturer on 31 December 2000. No material profit or loss is anticipated to arise from the disposal.

On 3 February 2000 the Group concluded the disposal of its 50% holding in Inchcape Peugeot Japan. A small profit (less than 1% of Group net assets) will be recognised in 2000. There was no goodwill on disposal and the business has been classified as discontinued.

On 18 February 2000 the Group concluded the disposal of the majority of its Timberland business. The remainder will be sold or closed in the first half of 2000. No profit or loss will arise on this transaction as an impairment provision was made in 1998 as part of the Marketing Asia Pacific impairment provision, part of which was utilised in 1999.

On 29 February 2000 the Group announced the disposal of Daihatsu (UK) to I.M. Group Ltd, and a small loss on disposal (less than 1% of Group net assets) has been recognised in these financial statements. There was no goodwill on disposal and the business has been classified as discontinued.

16 Principal subsidiaries, joint ventures and associates

a Principal subsidiaries

Company	Country/Region	Shareholding	Description
Inchcape Automotive Australia Pty Ltd	Australia	100%	Import & Distribution
Subaru (Australia) Pty Ltd	Australia	92%	Import & Distribution
Toyota Belgium NV/SA	Belgium	100%	Import & Distribution
Williamson Balfour SA	Chile	100%	Holding company
The Motor & Engineering Company of Ethiopia Ltd S.C.	Ethiopia	94%	Import & Distribution
Toyota Hellas SA	Greece	100%	Import & Distribution
Crown Motors Ltd	Hong Kong	100%	Import & Distribution
Mazda Motors (Hong Kong) Ltd	Hong Kong	100%	Import & Distribution
Borneo Motors (Singapore) Pte Ltd	Singapore	63%	Import & Distribution
Inchcape Motors Ltd	Singapore	63%	Publicly quoted holding company
IRB Finance Berhad	Singapore	44%	Financial Services
Autobytel Ltd	United Kingdom	100%	Import & Distribution
Inchcape Automotive Ltd*	United Kingdom	100%	Holding company
Inchcape Overseas Ltd*	United Kingdom	100%	Holding company
Kenning Leaseline Ltd	United Kingdom	100%	Financial Services
Mann Egerton Vehicle Contracts Ltd	United Kingdom	100%	Financial Services
Maranello Concessionaires Ltd	United Kingdom	100%	Import & Distribution
Wadham Kenning Motors Group Ltd	United Kingdom	100%	Retail

* Owned by Inchcape plc directly

b Principal joint ventures and associates

Company	Country/Region	Shareholding	Description
Inchcape Finance SA	France	49%	Financial Services
Inchroy Credit Corporation Ltd	Hong Kong	50%	Financial Services
Automotive Group Ltd	United Kingdom	40%	Import & Distribution
CJ Financial Services Ltd	United Kingdom	50%	Financial Services
Inchcape Financial Services Ltd	United Kingdom	49%	Financial Services
MCL Group Ltd	United Kingdom	40%	Import & Distribution
Toyota (GB) PLC	United Kingdom	49%	Import & Distribution

Only those companies that principally affect profit or assets are included. IRB Finance Berhad is consolidated as a subsidiary through the Group's control of the Board. All shareholdings represent the ultimate interest of the Group in the respective company's ordinary shares, except for Inchroy Credit Corporation Ltd, where the Group holds 50% of the company's non voting deferred shares.

17 Foreign currency translation

The main exchange rates used for translation purposes are as follows:	Average rates 1999	Average rates 1998	Year end rates 31.12.99	Year end rates 31.12.98
Australian dollar	**2.53**	2.63	**2.46**	2.71
Belgian franc	**60.9**	60.4	**64.9**	57.2
Chilean peso	**823**	763	**854**	787
Dutch guilder	**3.33**	3.30	**3.54**	3.12
French franc	**9.91**	9.82	**10.55**	9.29
Greek drachma	**493**	492	**531**	466
Hong Kong dollar	**12.55**	12.85	**12.53**	12.89
Peruvian sol	**5.46**	4.86	**5.66**	5.25
Singapore dollar	**2.74**	2.77	**2.69**	2.75
US dollar	**1.62**	1.66	**1.61**	1.66

Five-Year Record

Profit and loss account	1999 £m	1998 restated £m	1997 restated £m	1996 restated £m	1995 restated £m
Turnover:					
Group subsidiaries	**3,462.5**	4,257.0	5,931.4	6,263.2	6,295.9
Share of joint ventures and associates	**987.5**	1,249.4	719.5	704.6	598.8
Group plus share of joint ventures and associates	**4,450.0**	5,506.4	6,650.9	6,967.8	6,894.7
Total operating profit before exceptional operating items					
– continuing operations	**87.8**	101.4	127.8	103.0	84.0
– discontinued operations	**13.2**	33.8	61.8	104.8	121.2
	101.0	135.2	189.6	207.8	205.2
Interest	**(15.7)**	(29.1)	(5.5)	(42.7)	(58.4)
Headline profit before taxation	**85.3**	106.1	184.1	165.1	146.8
Exceptional operating items	**–**	(131.3)	(40.6)	–	(65.2)
Profit on sale of properties and investments	**1.8**	4.1	3.8	9.2	17.7
Net profit (loss) including provisions on the sale and termination of operations	**217.4**	(265.9)	(57.7)	(67.3)	(81.9)
Exceptional costs of a fundamental reorganisation	**(5.2)**	(10.6)	–	–	–
Profit (loss) before taxation	**299.3**	(297.6)	89.6	107.0	17.4
Taxation	**(27.1)**	(61.4)	(64.8)	(71.0)	(49.6)
Profit (loss) after taxation	**272.2**	(359.0)	24.8	36.0	(32.2)
Minority interests	**(5.4)**	(6.5)	(17.0)	(13.5)	(11.8)
Profit (loss) for the financial year	**266.8**	(365.5)	7.8	22.5	(44.0)
Dividends*	**(547.9)**	(59.4)	(58.3)	(61.1)	(60.8)
Retained (loss) for the financial year	**(281.1)**	(424.9)	(50.5)	(38.6)	(104.8)
Earnings (loss) per ordinary share:					
Headline	**60.0p**	50.2p	115.8p	103.2p	84.0p
Basic	**302.4p**	(414.3)p	9.0p	25.8p	(49.8)p
Dividends per ordinary share**	**621.0p**	67.2p	66.0p	63.0p	60.0p
Balance sheet					
Fixed assets	**364.3**	661.1	738.6	693.5	753.1
Other assets less liabilities other than (borrowings) cash	**151.0**	172.8	280.2	319.1	219.8
	515.3	833.9	1,018.8	1,012.6	972.9
Net (borrowings) cash	**(149.0)**	(143.4)	(96.0)	2.6	(311.4)
Net assets	**366.3**	690.5	922.8	1,015.2	661.5
Shareholders' funds	**320.1**	554.3	790.3	886.8	543.0
Minority interests	**46.2**	136.2	132.5	128.4	118.5
	366.3	690.5	922.8	1,015.2	661.5

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

** Before Foreign Income Dividend enhancement.

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PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors

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Warburg Dillon Read

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The following executives are responsible for staff functions:

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Head of Tax
Amanda Catterall

Group Financial Controller
Paul Wallwork

Group Audit and Risk Management
Tim Trounce

Business Development
Dale Butcher

Human Resources
Alan Schofield

Information Systems
Peter Wilson

Group Communications
Stephen Clark

Investor Relations
Bridget Gander

Group Company Secretary
Roy Williams

Inchcape PEPs
On 6 April 1999 Individual Savings Accounts replaced PEPs as the vehicle for tax-exempt individual savings. Further savings to the Inchcape PEPs are not allowed but existing PEPs may be retained indefinitely. The management of the Inchcape PEPs has transferred to The Share Centre, who can be contacted at PO Box 1000, Tring, Herts. HP23 4JR, tel. no. 01442 890 800, as Bradford & Bingley, the previous PEP managers, have decided to withdraw from the PEPs market.

Inchcape ISA
With effect from 6 April 1999 Inchcape established a Corporate Individual Savings Account (ISA). This is managed by HSBC Trust Company (UK) Limited who may be contacted for full details at Corporate PEPs and ISA Centre, 2nd Floor, Ridgeland House, 165 Dyke Road, Hove, East Sussex BN3 1UN, tel. no. 01273 363 050.

Financial Calendar

Ex-dividend date for 1999 final dividend
22 May 2000

Record date for 1999 final dividend
26 May 2000

Annual General Meeting
10 May 2000

Final 1999 ordinary dividend payable
16 June 2000

Announcement of 2000 half-year results
9 August 2000

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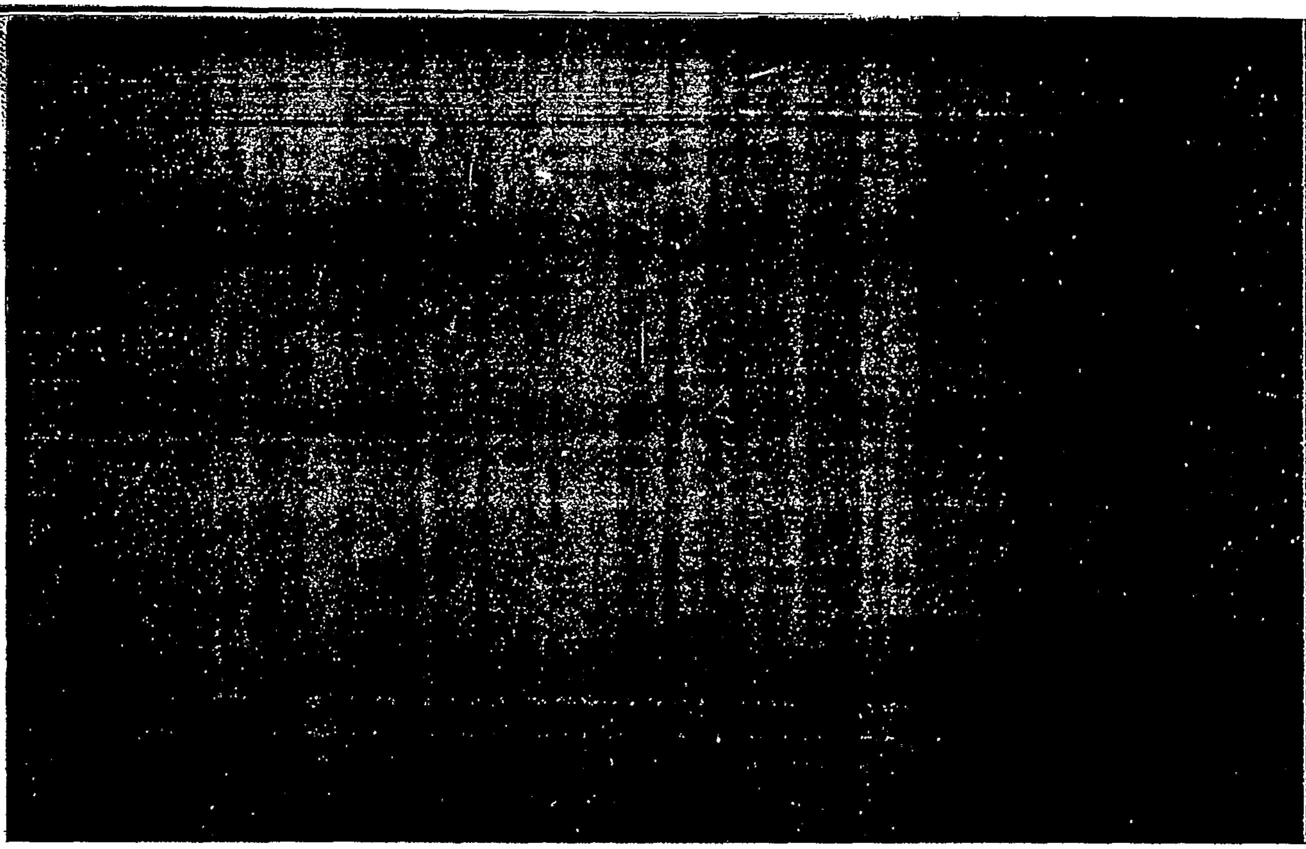

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