Annual report and accounts 2004

Inchcape

International Automotive Services

International

Automotive

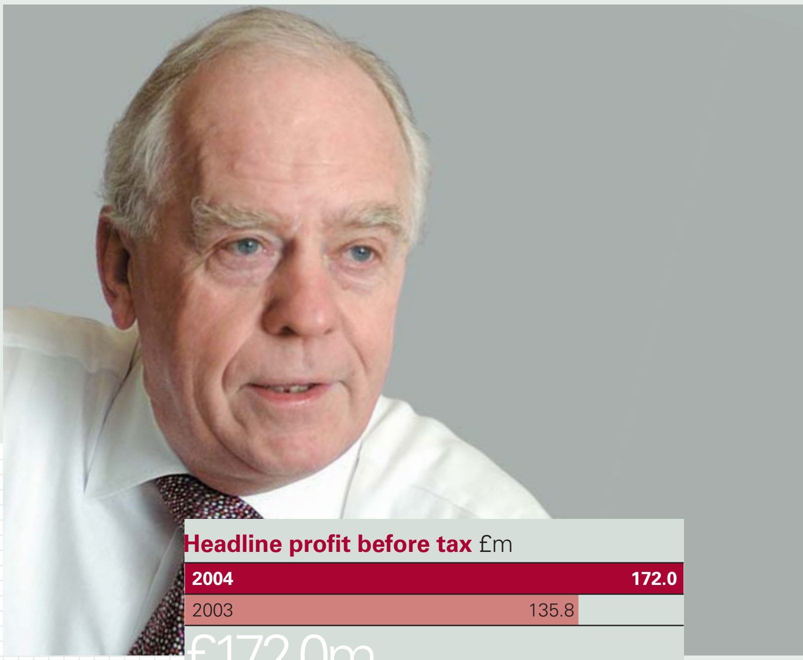
Services

Inchcape's core businesses are in the UK, Greece, Belgium, Australia, Hong Kong and Singapore. The Group also has operations in a number of other countries including Finland and Guam. In addition to expanding within our core markets we are looking to develop scale businesses in adjacent territories such as the Balkans and the Baltics.

Inchcape's activities include exclusive Import, Distribution and Retail, UK Retail, Financial Services, Business Services and automotive E-commerce. Our key manufacturer partners are Toyota/Lexus, Subaru, BMW, the Premier Automotive Group of Ford, Mazda, Mercedes-Benz and Volkswagen.

Inchcape offers a range of automotive services. We provide quality representation for our manufacturer partners, a choice of channels to market and products for our retail customers, and a range of business services for our corporate customers.

"A strong operating performance from all of our key markets underpins yet another set of excellent results."
Sir John Egan Chairman



Headline profit before tax £m

2004	**172.0**
2003	135.8

£172.0m

£m	2004	2003
Profit before tax	**155.3**	168.3
VAT exceptional income	**(6.0)**	(37.5)
Goodwill impairment	**9.4**	–
Other exceptional items	**7.8**	(0.5)
Goodwill amortisation	**5.5**	5.5
Headline profit before tax	**172.0**	135.8

A strong operating performance from all of our key markets underpins yet another set of excellent results. Operating profit before goodwill amortisation and exceptional items (see note 1b) rose 25.1% in the year, and has risen by an average 23.4% per annum since 2000, our first full year as a purely international automotive services group.

Operating cash flow in the year was £177.2m representing some 105.2% of subsidiaries' operating profit before goodwill amortisation and exceptional items. Cash generation is a key performance indicator for the Group and operating cash flow has averaged over £150.0m per year in the period 2000 to 2004.

Operationally we have again performed very well retaining market leadership in Hong Kong, Singapore and Greece with Toyota. In Australia, Subaru achieved year on year growth in volumes for the ninth consecutive year. In the UK our Retail business has significantly increased its operating margin in what was a more difficult market than 2003.

Acquisitions and disposals

In the UK, dealer consolidation is continuing and there are many quality businesses that would fit well within our portfolio. We continue to balance strategic fit, price, value and timing in our discussions with vendors. In 2004 we acquired five Mercedes-Benz dealerships in the East Midlands, which adjoin our existing Mercedes-Benz market area. This combination has created the largest independent Mercedes-Benz territory in the country. We have also increased our Toyota and Volkswagen representation in the year.

Outside the UK we are expanding our footprint in the fast growing markets of Eastern Europe. In Estonia we acquired two Mazda dealerships and as a result we are now the exclusive Importer and Retailer for Mazda in this 'city state' market. Over 1,260 Mazda vehicles were sold in Estonia in 2004 and the brand achieved a market share of 7.7%. We are also investing in new start up businesses and during the year entered the Polish market, where we set up BMW/MINI dealerships in Warsaw and Wroclaw.

Total spend on acquisitions was £25.1m of which £20.5m related to UK Retail. Cash inflow in relation to disposals totalled £23.7m of which £19.3m related to the sale of two 40.0% associates: MCL Group Limited (MCL) and Automotive Group Limited (AGL). These associates were not core businesses.

Financial performance

Turnover of £4.2bn was up by 8.2% over 2003. Operating profit before goodwill amortisation and exceptional items was £176.2m, which is 25.1% higher than 2003. After adjusting for the VAT recovery, which was £13.5m higher in 2003 than 2004, and goodwill, including the £9.4m impairment charge relating to Inchcape Automotive, total operating profit was £163.1m. This is 8.3% ahead of 2003.

Headline profit before tax was up 26.7% on 2003 at £172.0m despite an adverse currency effect of c. £9.0m. The increase on 2003 would have been 33.3% at constant exchange rates. Headline earnings per share rose by 21.9% to 161.4p.

Profit before tax of £155.3m was impacted by: the VAT exceptional income of £6.0m, the £9.4m goodwill impairment charge and other net exceptional losses of £7.8m. These exceptional losses mainly related to the sale of our MCL and AGL shareholdings and the exit from the Ferrari/Maserati distribution businesses in the UK and Belgium. These were partially offset by the release of litigation provisions relating to non-motors disposals.

Net cash movement in the year was £74.7m including £37.0m in relation to the VAT recovery. As a result the year end net cash position improved to £153.8m.

Balance sheet strength

Our businesses have consistently generated high levels of free cash flows enabling us to continue the investment in our core markets. This has helped drive the strong earnings growth, which has been delivered in recent years. It has also enabled increasing returns to be given to shareholders. Dividends have more than doubled over the last five years and with a £45.0m share buy back being completed in 2001, over £160.0m has been returned to shareholders since mid 1999.

A large amount of cash is generated in our international markets. This has resulted in a mismatch between cash held in those markets and debt in the UK, due to the difficulty of repatriating the cash in a fiscally efficient manner. This had an adverse effect on the Group's interest charge due to interest rate differentials. During late 2004 we permanently repatriated cash of c. £135.0m to the UK and created the ability to repatriate further amounts over the coming years. The associated tax cost is not material but the impact on the interest charge is positive and significant.

The cash position has also been strengthened this year by the sale of two UK associates and the VAT recovery of some £37.0m. In 2005 our cash flow has also benefited from the £6.0m VAT claim recognised in 2004.

As a result of all of this, we are extremely well placed to fund our strategic growth plans. These remain broadly based and encompass further expansion in UK Retail as we aim to represent between 5.0% to 10.0% of our chosen partners' national sales volumes.

Eastern Europe is also a major area of focus as we look to take advantage of fast growth rates in these developing markets. Discussions continue with several manufacturers regarding further investments in a number of countries in the region. Our experience in the Balkans illustrates the benefits of establishing an early footprint in those markets where we can invest in retail in the key capital cities.

We also have plans for further expansion of our Retail activities in Greece and Australia and remain committed to keeping a watching brief on markets such as China.

Given the strength of our cash position, which has benefited from the VAT recoveries and the disposal of UK associates, we have identified that we have funds available, which are not required for investment purposes. We therefore intend to return the approximate value of these one offs, £65.0m, to our shareholders through a share buy back programme, which may include buying shares into treasury. The Board has the powers to purchase up to 10.0% of the Company's capital and we intend to renew that authority at the forthcoming Annual General Meeting (AGM).

This return of surplus capital will still leave us with substantial financial capacity, which will enable us to deliver our stated strategy. Any additional return of capital would only arise if further funds became available, which are not required for investment purposes.

Dividend

The Board recommends the payment of a final ordinary dividend for the year of 35.0p (2003 – 26.0p). This gives a total dividend for the year of 50.0p, which is some 31.6% above the 2003 dividend of 38.0p. This substantial increase means that the dividend has risen by 127.3% since 2000, a clear demonstration of the Board's progressive dividend policy.

However, our record of significant dividend growth has not resulted in low levels of dividend cover. This year's cover is 3.2 times Headline earnings per share (2003 – 3.5 times), a more than comfortable level, which leaves us well placed to continue our progressive policy.

Inchcape management and employees

The continued success of the Group, whether measured by financial or operational criteria, is testament to the quality and efforts of all our colleagues around the world. Their hard work, dedication and commitment to delivering excellent customer satisfaction are critical to the success of the Group. On behalf of the Board I thank them for their contribution.

Board changes

I am delighted to welcome Will Samuel and David Scotland to the Board. Will, who joined the Board on 26 January 2005, having worked for Schroders for over twenty years, brings a wealth of city experience with him. David, who is Executive Director and President – World Wines of Allied Domecq PLC, has broad international experience, which includes managing operations in Eastern Europe. David joined the Board on 24 February 2005.

Trevor Taylor retired from the Board at the end of 2004. Trevor has made an enormous contribution to Inchcape since he joined the Group in 1987 as Deputy Managing Director of Toyota (GB). Simon Robertson will be retiring from the Board at our AGM in May 2005. Simon has added immense value to the Group since joining the Board in May 1996. During his time on the Board the Group has undergone significant change and Simon's wise counsel during that process has been invaluable.

Both Trevor and Simon will be missed. However I am very pleased that they have been replaced by people of the quality of Will and David.

We also announced today that I intend to step down from the Inchcape Board by the AGM in May 2006 and it is planned that Peter Johnson will succeed me as Non-executive Chairman.

The Board believes that this is the right decision for all our stakeholders and, indeed as part of our planning process, we consulted with a number of our largest institutional shareholders and manufacturer partners, and they were all supportive. The search for Peter's successor has now commenced and we will announce the appointment at the appropriate time.

Current trading prospects

The UK market is forecast to be slightly lower than 2004 but still a healthy 2.4 million units.

In UK Retail, however, the focus is as much on margin as volumes. Whilst there was margin pressure in mid to late 2004, due to over supply, UK Retail still managed to improve margins over 2003. In 2005 we are targeting further improvements in both margins and volumes. Inchcape Fleet Solutions should continue to grow its profitability whilst Inchcape Automotive will recover from its poor year in 2004.

In Greece and Belgium the markets are expected to be similar to last year. Better product availability and a slightly broader product range should help our performance in both markets. The Balkans is expected to continue showing strong growth.

In Australia the car market is expected to be similar in size to 2004, as is Subaru's market share. Retail operations in Melbourne should see continued growth and there will be a significant profit recovery in Sydney Retail.

The Hong Kong market is again expected to grow as it recovers from 2003, which was the worst car market in over twenty years. This should result in improved profitability.

In Singapore it is expected that the market will be strong again in 2005, albeit some 10.0% lower than the exceptional 2004. Aftersales revenues and profits will continue to benefit from the expanding Toyota car parc.

The interest charge will reflect the cash repatriation that took place in 2004 and the fact that more funds should be remitted during 2005. The effect on the charge will be positive and significant, and will only be partially offset by the impact of the share buy back programme.

The 2005 results will be reported under International Financial Reporting Standards. Whilst work is still continuing on some aspects of how the standards will be interpreted, we currently expect that the effect on earnings will be broadly neutral provided we achieve hedge effectiveness for our foreign exchange transactions. If we do not, IAS 39 will introduce some volatility into our profit and loss account. However the underlying economics of the business and the cash flows will not change. Net assets, however, will be reduced mainly due to the inclusion of the net pension deficit on the balance sheet.

The Group has again performed at a very high level in 2004. Our underlying performance will be strengthened as we invest further by taking advantage of the significant opportunities available to us. In 2005 we are well placed to continue with our record of profit growth and strong cash generation.

Sir John Egan Chairman
28 February 2005

Chief Executive's review

During 2004 we have continued with our established strategy of creating scale, highly integrated businesses, covering elements of distribution, retail and aftersales. This has resulted in above average returns and market leading positions for our manufacturer partners.

We have proven expertise in emerging markets, where our integrated management and access to capital is an advantage over local operators, allowing us to act quickly by establishing outstanding facilities in the core markets within the territory. We are confident that this strategy will continue to serve us well as we move into new emerging markets, develop our existing markets and possibly add to our core manufacturer partners.

In Hong Kong and Singapore our investments in aftersales facilities produced excellent returns from a growing vehicle parc. We continue to assess scale retail opportunities in mainland China, based on our strategic and investment criteria, whilst also looking at the potential of the indigenous Chinese manufacturers to whom we can provide proven distribution and retail skills.

In Australia, Subaru Melbourne continues to exceed our sales and financial expectations. We have restructured our Retail business in Sydney by rationalising our facilities and developing two of the five Subaru retail market areas in the city. Opportunities for further retail expansion in New South Wales are being explored. AutoNexus, our Business Services operation, was awarded a parts warehousing and logistics contract for Volkswagen and Audi and has moved into a modern state of the art facility.

In Greece the Athens region accounts for c. 50.0% of national sales volume. Our Retail development in the city is underway with a new sales and service facility at Stavros and a new showroom at Heraklion. These complement our existing operation at Syngrou. We will centralise our used car sales operations in Stavros and establish a new body and paint shop in a low cost location.

In Belgium we are looking to reconfigure the existing Toyota representation in Brussels expanding our own Retail presence. We are also encouraged by the renewed investment by Toyota in the Lexus brand where we are the exclusive Distributor and Retailer in Luxembourg and Greece, and the Distributor and dominant Retailer in Belgium.

"During 2004 we have continued with our established strategy of creating scale, highly integrated businesses, covering elements of distribution, retail and aftersales."
Peter Johnson Group Chief Executive

In the Balkans our Toyota sales for 2004 exceeded 5,000 units as we continue to benefit from double digit market growth and Toyota's increasing market share. Toyota is now market leader in Bulgaria for passenger cars, and is growing rapidly in Romania. We are in the process of building a flagship retail site for Toyota in Bucharest.

Growth opportunities are considerable in Eastern Europe, where the car ownership population is 221 per thousand compared to 602 per thousand in Western Europe. We are confident that our investments in the Balkans and our two new Retail developments with BMW/MINI in Poland, in Warsaw and Wroclaw, position us well to take advantage of further growth. We are actively pursuing other opportunities in Eastern Europe where our strategy of investing in scale, contiguous territories for distribution and retail can be implemented.

Our businesses in Finland and the Baltics continue to prosper and we were awarded the Land Rover distribution contract for these markets during 2004. This will enable us to consolidate back office distribution activities across Mazda, Jaguar and Land Rover. As part of this strategy we have acquired Estonia's two independent Mazda retailers, and will be investing in Land Rover and Jaguar retail facilities in this market.

In the UK we remain committed to growing our Retail business with our core partners, through the extension of existing territories and the acquisition of new ones. In 2004 we acquired our second Mercedes-Benz market area covering Mansfield, Nottingham, Derby, Leicester and Loughborough. This, combined with our existing businesses, now accounts for c. 5.0% of Mercedes-Benz passenger car sales in the UK. We continue to expand with BMW and Toyota and are considering further growth plans with our other core partners Lexus, Jaguar, Land Rover and Volkswagen.

The Group remains well placed to pursue its growth strategy across new and existing markets with its core partners.

Peter Johnson Group Chief Executive
28 February 2005

Expansion into Eastern Europe

In late 2004, Inchcape further expanded its footprint in Eastern Europe when it opened two BMW/MINI dealerships in Poland. The first showroom is in the capital city of Warsaw whilst the second is in Wroclaw, which is situated in the west of the country. These developments represent a total initial investment of c. £3.0m with sales of some 700 new and used cars expected by the end of 2005.

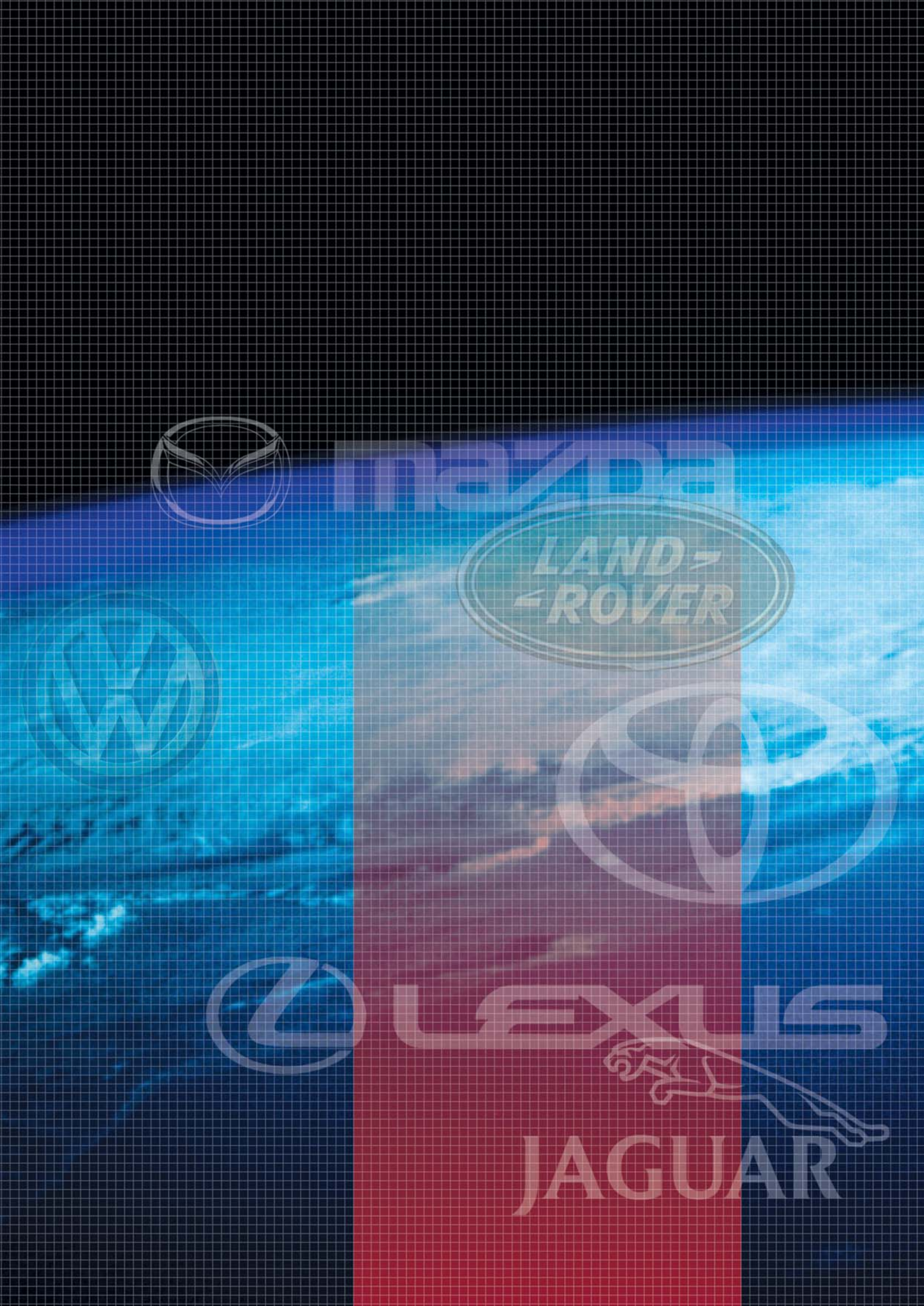
Inchcape is well positioned to expand this initial investment and is looking to further grow its relationship with BMW in order to create a scale business in Poland.

Continued success in the Baltics

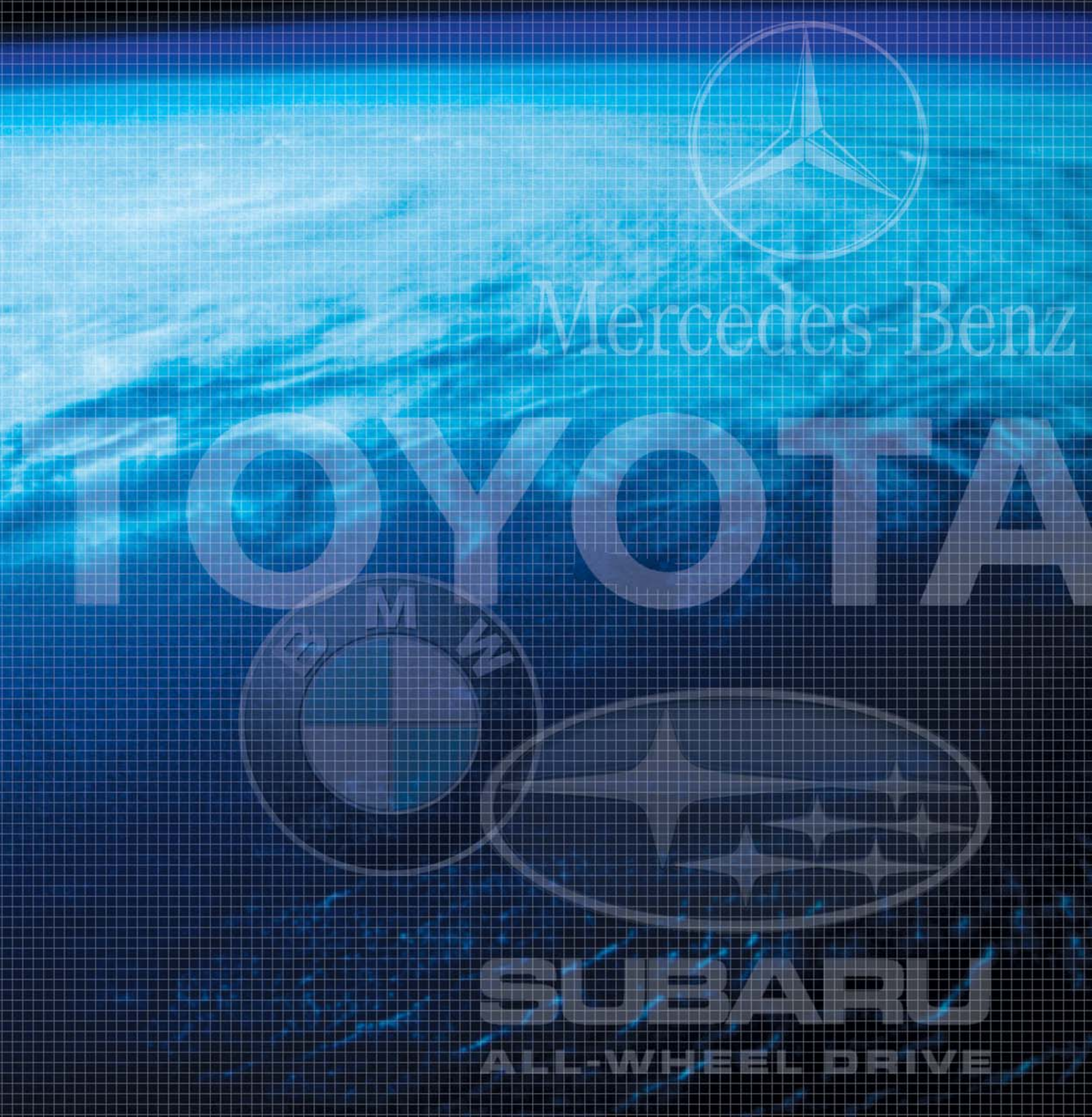
Inchcape has been awarded the Import and Distribution business for Land Rover in Finland, Estonia, Latvia and Lithuania. Trading commenced in these operations in late 2004 and this development complements our existing Mazda and Jaguar businesses in these markets.

In December 2004, Inchcape announced further progress in the Baltics with the acquisition of Estonia's two independent Mazda retailers and, as a result of this development, Inchcape is now the exclusive Importer and Retailer for Mazda in this 'city state' market. The total investment in this business was £4.1m.

From 1 March 2005 Inchcape will also become the sole Retailer for Jaguar and Land Rover in Estonia, further strengthening the vertically integrated business model in this market.


mazda
LAND ROVER
LEXUS
JAGUAR

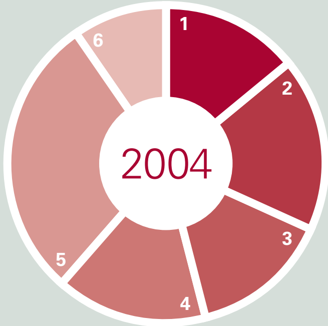
We have created long term partnerships with industry leading manufacturers, establishing strong market positions right across the globe.

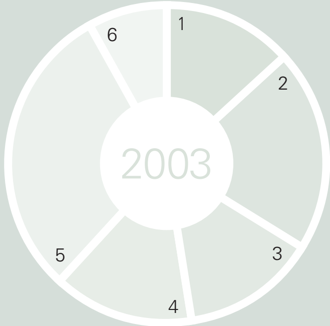


	2004			2003		
	Operating profit £m	**Goodwill amortisation £m**	**Operating profit before goodwill amortisation and exceptional items £m**	Operating profit £m	Goodwill amortisation £m	Operating profit before goodwill amortisation and exceptional items £m
United Kingdom	**23.1**	**4.0**	**27.1**	17.1	3.8	20.9
Greece/Belgium	**34.2**	**0.1**	**34.3**	32.3	0.4	32.7
Australia/New Zealand	**27.1**	**0.5**	**27.6**	21.2	0.5	21.7
Hong Kong	**29.8**	**–**	**29.8**	22.6	–	22.6
Singapore/Brunei	**55.4**	**0.7**	**56.1**	46.9	0.8	47.7
Other	**18.7**	**0.2**	**18.9**	12.8	–	12.8
Central costs	**(17.6)**	**–**	**(17.6)**	(17.6)	–	(17.6)
Total Group	**170.7**	**5.5**	**176.2**	135.3	5.5	140.8
Operating exceptional items	**(7.6)**		**–**	15.3		–
Operating profit	**163.1**		**176.2**	150.6		140.8

Operating profit by region before central costs, goodwill amortisation and exceptional items

1 **United Kingdom**
2 **Greece/Belgium**
3 **Australia/New Zealand**
4 **Hong Kong**
5 **Singapore/Brunei**
6 **Other**





Operating profit before goodwill amortisation and exceptional items has been defined as trading profit throughout the Operational review including the summary below.

Trading profit in 2004 was as follows:

Group
+25.1% to £176.2m

United Kingdom
+29.7% to £27.1m

Greece/Belgium
+4.9% to £34.3m

Australia/New Zealand
+27.2% to £27.6m

Hong Kong
+31.9% to £29.8m

Singapore/Brunei
+17.6% to £56.1m

Other
+47.7% to £18.9m

" UK Retail trading profits and related Financial Services profits, before stock holding interest, rose by 31.2% to £22.7m. The resultant trading profit margin of 2.1% is significantly higher than the 1.8% achieved in 2003, and moves us closer to our initial target of 2.5%."

Graeme Potts
Regional Managing Director

United Kingdom

The new car market ended the year slightly below the record achieved in 2003. Manufacturer registrations for the franchises represented by our UK Retail operations fell by 2.4% in the year. However our UK Retail dealerships achieved a 7.4% increase in new unit sales on a like for like basis. This was due to strong performances in particular from BMW/MINI, Jaguar and Vauxhall.

UK Retail trading profits and related Financial Services profits (included within Financial Services), before stock holding interest, rose by 31.2% to £22.7m. The resultant trading profit margin of 2.1% is significantly higher than the 1.8% achieved in 2003, and moves us closer to our initial target of 2.5%. This reflects our success at integrating new dealerships and achieving organic growth from existing dealerships through improved business processes. On a like for like basis dealership trading profits increased by 14.6%, mainly due to strong performances from BMW/MINI, Volkswagen and Toyota/Lexus. The growth was achieved through improved performances across all areas of the business. New car sales were up and there was also a 4.7% increase in used units, a 4.0% rise in service hours sold, increased finance and insurance income per unit, and improved finance penetration.

The integration of the BMW/MINI dealerships acquired in 2003 is going well and the benefits of the new larger contiguous territory and improved processes are being seen. Brooklands, the new pre-delivery inspection centre serving our dealerships to the south of London, opened in the year and will start to have a positive impact in 2005. The Mercedes-Benz dealerships acquired in June 2004 are performing well, in what has proven to be a difficult year for this marque, and have contributed positively in their first six months.

Inchcape Automotive has experienced a further difficult year. The car rental companies, which provide a substantial portion of our volumes, have experienced significant operational volatility causing inefficiencies within our business. This, allied to £2.1m of one off costs, has produced a disappointing result for the year. New management, business processes, a broadened customer base and revised contracts with our major customers augur well for the future profitability of this business.

At Inchcape Fleet Solutions the number of fleet management vehicles under contract has grown by over 37.0% during the year. This, coupled with improved disposal margins from contract hire vehicles, has resulted in a significant growth in profitability during the year.

On 1 October 2004, the Ferrari/Maserati UK import and distribution business was transferred to Ferrari Maserati UK Ltd, a Ferrari Maserati Group company. We are continuing to manage the spare parts and classic parts businesses, and retail Ferrari/Maserati from our three dealerships in the south east of England. Increased distribution volumes and reduced expenses resulted in an increase in trading profits prior to disposal. New and used vehicle sales in our Retail business increased in 2004 by 44.5%, mainly due to the acquisition of the St Albans and Sevenoaks dealerships during 2003.

'Insight' customer experience programme launched

Throughout 2004, our UK Retail business piloted a new customer centric initiative called 'Insight'. This programme examined the fundamental elements of car buying, the overall objective being to improve the experience for the customer.

A dedicated team was created for the ongoing project and nine 'moments of trust' were identified as being the key steps in the buying and servicing process. These 'moments' included first impressions when entering a showroom or car service area, and the service handover when time should be taken to explain to the customer all the work that has been undertaken.

By consistently delivering and improving these moments of trust, UK Retail aims to provide an outstanding customer experience. This programme will be implemented throughout our UK dealership network in 2005.

"Our operations in the Balkans continue to progress in the high growth markets in which they operate. Volumes grew by over 48.5% and trading profits rose by over £2.0m."

Martin Taylor
Regional Managing Director

Greece/Belgium

In Greece we achieved a 20.6% increase in trading profit after adjusting for the £2.5m profit realised on the sale of our Greek Financial Services loan book in 2003. Overall the market grew 13.6% on the prior year stimulated in part by the Olympics. The supply constraints experienced by our Toyota Distribution business in the first half of the year were also felt in the second half although they had eased by year end. As a result market share fell slightly to 9.6%. However volumes rose 7.1% and we retained overall market leadership. Increased volumes, a richer sales mix, coupled with a lower marketing cost per unit drove an increase in trading margins and profits.

We continue to invest in our Athens and Salonica Retail operations and opened two new Toyota dealerships in Athens during the year.

Our operations in the Balkans continue to progress in the high growth markets in which they operate. Volumes grew by over 48.5% and trading profits rose by over £2.0m. In Romania the market increased by 39.1%, whilst we achieved growth of 64.9% in unit sales, with Toyota's market share increasing to 3.5%. In Bulgaria, where Toyota leads the passenger car market, we achieved a market share of 8.6% in a market up 44.7%. We continue to invest in these markets, particularly Romania where we plan to open two additional dealerships in Bucharest within the next couple of years.

In Belgium trading profits fell slightly in a market which grew by 6.4% on the prior year, primarily as a result of the biennial Brussels Motor Show. Toyota supply constraints, which were more severe for diesel products, affected our market share, which fell to 4.9% from 5.1% last year. Lexus, whilst still an emerging brand in market share terms, increased unit sales by over 44.0% and the future product developments are very encouraging.

New flagship site in Athens

In October 2004 our business in Greece opened a new flagship Toyota dealership in the north east of the capital city. Athens alone represents c. 50.0% of the Greek passenger car market and, following a network reorganisation, Inchcape will become one of the major retailers in the city.

The new facility, which covers four floors, is expected to sell 1,500 new vehicles annually and houses the largest Toyota showroom in the city.

The site development will include nineteen service bays and a dealer training centre.

This is part of our strategy to increase our Retail presence significantly in Greece with Toyota, and in 2005 we expect to retail almost 20.0% of Toyota's national sales volumes.

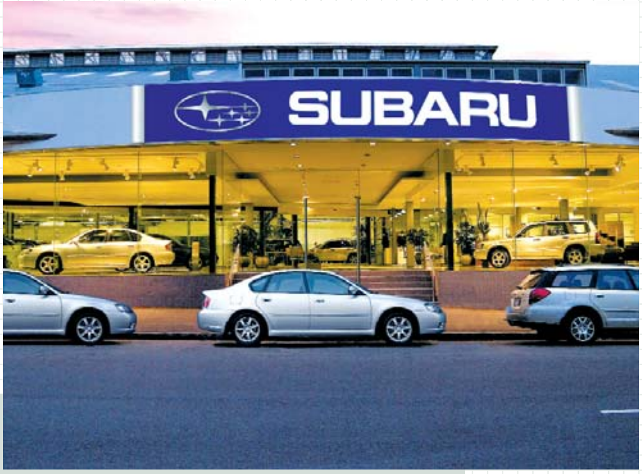
Australia/New Zealand

Our Subaru business in Australia benefited from the successful launch of the new Liberty and Outback models in October 2003 and the business established a new annual sales record of over 33,600 units in 2004. Subaru achieved year on year growth in volumes for the ninth consecutive year with an increase of 12.7% on 2003. Sales records were achieved for the Forester, Impreza and Outback models helping the marque to achieve a record full year market share of over 3.5%. This growth in units coupled with improved margins drove a significant year on year increase in trading profits.

Our Melbourne Retail business continued to perform well and retailed over 6,000 new and used vehicles, a growth of 23.0% on the prior year. We also opened a new satellite facility in 2004, which increased our sales and service capacity. The growth in volumes, associated finance income and increased aftersales activities, resulted in a 28.6% increase in trading profit, and a trading margin of almost 4.0%.

Our Sydney Retail business experienced a year of change in 2004. As a result of the continuing weak national sales volumes for Jaguar, Volvo and Volkswagen we re-engineered our network strategy and exited two underperforming dealerships. We also extended our Retail presence with Subaru, investing in two new dealerships. Whilst Sydney Retail was loss making in 2004, the restructuring significantly improved performance and in the last quarter it broke even.

Towards the end of the year our Business Services operation, AutoNexus, won a three year parts warehousing and logistics contract for Volkswagen and Audi.



Subaru expansion in Sydney

As part of our strategy to grow our Retail portfolio in Sydney and build on Subaru's image as a premium brand, Inchcape acquired two Subaru dealerships.

The first transaction involved purchasing the ongoing business of an independent Subaru dealer and we immediately relocated the dealership to premises in the prestigious Rushcutters Bay area of Sydney.

The second business, which is located in the Parramatta district of Sydney, will be relocated and refurbished during the first quarter of 2005 to bring the dealership in line with Subaru's national brand development programme.

Inchcape now owns three Subaru dealerships in greater Sydney and these combined with Subaru Melbourne, where we are the exclusive Retailer for this major city, will account for over 20.0% of Subaru's national sales throughput.

"Our Melbourne Retail business continued to perform well and retailed over 6,000 new and used vehicles, a growth of 23.0% on the prior year."

Trevor Amery
Regional Managing Director

Hong Kong

Our businesses in Hong Kong reported a 31.9% growth in trading profit, despite a currency translation loss of £3.4m arising from the weakening Hong Kong dollar. Excluding this, underlying trading profits increased by 46.9%. Trading profit margins grew to 12.1%.

Consumer confidence is now returning after the recent weak economic conditions and the impact of SARS in 2003. The automotive market is starting to recover, with the luxury segment improving at a faster rate than the total market. The market, excluding taxis, grew by 23.3% over last year but remains 3.9% down on 2002.

Crown Motors, our Toyota/Lexus business, increased its total market share to 35.5% and once again retained market leadership in a highly competitive market. The success of the newly launched Alphard model and a strong performance from Lexus led to a richer mix of sales. This, together with the higher volumes, increased aftersales activity and lower than expected warranty costs, drove an improvement in trading margins and profits.

The launch of the new Mazda3 in January 2004 helped our Mazda business to achieve an encouraging increase in units sold and a 3.6% market share.

Inchroy, our Financial Services joint venture, achieved a 6.5% increase in trading profit at constant exchange rates, driven by the recovery in the economy which more than compensated for the effects of a lower interest rate spread.

Singapore/Brunei

Trading profits from our Singapore and Brunei businesses increased by 17.6%. However, after adjusting for the currency translation loss of £4.5m arising from the weakening Singapore dollar, underlying trading profits increased by 27.0%.

Once again our Toyota/Lexus business in Singapore drove the increased trading profits in this region. Unit sales rose by 28.5%, helped by a market which increased 24.9%. The market continues to benefit from the fiscal incentive encouraging people to scrap or export their cars before the expiry of the Certificate of Entitlement, which lasts for ten years.

Market share for Toyota/Lexus increased to 30.9% in 2004. We retained market leadership for the third consecutive year, and were once again awarded the Toyota Triple Crown.

Recognising the recent growth in the Toyota vehicle parc we invested in our aftersales activities, either relocating or renovating our existing facilities to increase capacity and improve efficiency. Further investments are planned for 2005.

Unit sales, associated finance income and aftersales profits all rose resulting in an increase in trading profits despite pressure on new vehicle margins. The trading profit margin increased to 8.2%.

In Brunei, a 10.8% rise in unit sales plus increased income from aftersales drove a 14.1% increase in trading profits.

Crown Motors break records with their thirteenth Triple Crown Award

Our Toyota/Lexus business in Hong Kong, Crown Motors, has won the Toyota Triple Crown Award for a record breaking thirteenth consecutive year and is the only distributor ever to achieve this.

The award is presented annually to distributors who achieve leadership in the three key sectors of passenger vehicles, light commercial vehicles and overall market leadership in the countries where Toyota has operations.

In 2004, Crown Motors had a market share of 35.5%, which is up from 34.6% in 2003, thus further strengthening its market leading position in Hong Kong.

"In Singapore, market share for Toyota/Lexus increased to 30.9% in 2004. We retained market leadership for the third consecutive year, and were once again awarded the Toyota Triple Crown."

William Tsui
Regional Managing Director

Other

The improvement in trading profit was mainly driven by our French and Latin American operations. Improved management and business processes coupled with the launch of new diesel product have supported a return to profitability in our French Retail business, which represents Jaguar, Land Rover, Volkswagen and Audi.

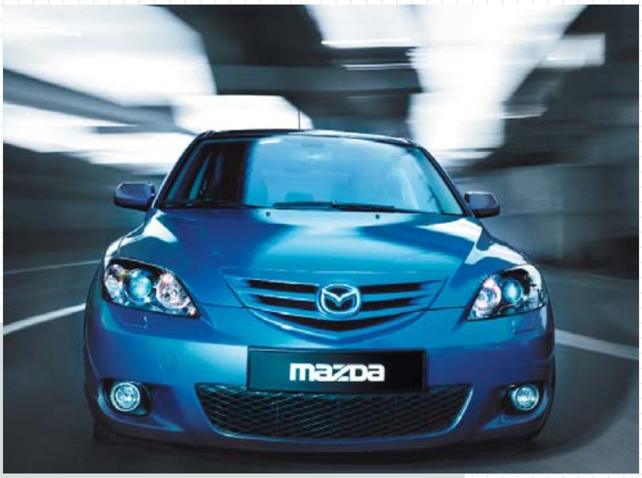
New vehicle volumes in BMW Chile increased 73.9%, helped by a higher market as a result of a reduction in the luxury car tax. This led to a significant improvement in trading margins and profits.

Our operations in Finland continued to perform well, despite a softening in the market after the strong start to the year. Mazda market share rose to 3.6%.

In Guam we increased trading profits and market share.

Central costs

In 2004 we recovered a net £0.6m relating to the settlement of various litigation issues. Excluding this recovery the underlying costs of £18.2m are £1.1m higher than the equivalent underlying figure of £17.1m for 2003. This increase is due to higher staff, pension and recruitment costs.



Finland achieve highest market share since 1995

In 2004 our Mazda Import and Distribution business in Finland recorded sales of some 5,000 units, of which almost 2,000 were achieved by our own Retail operation.

This strong level of sales resulted in an increased market share of 3.6%, up from 3.1% in 2003. This is the highest market share achieved since 1995 and compares to the European average for Mazda of 1.8%.

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

Financial reporting and accounting standards
The Financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP), and the principal accounting policies applied by the Group are shown on pages 46 to 47. The Group adopted UITF Abstract 38 Accounting for ESOP Trusts with effect from 1 January 2004. This requires that the value of the shares held by the ESOP Trust and the associated share scheme creditor are deducted from reserves. As a result a prior period adjustment of £4.1m has been made to reduce the net assets at 31 December 2003.

As part of the UK's convergence with International Financial Reporting Standards (IFRS) the Accounting Standards Board issued eight new standards during 2004. These standards have had no impact on the Group in 2004 and the Group will instead be transitioning to the equivalent standards under IFRS from 1 January 2005.

Transition to International Financial Reporting Standards
The European Union (EU) requires that all listed companies prepare their financial statements in accordance with EU approved IFRS for accounting periods commencing on or after 1 January 2005. The Group's Annual report and accounts for the year ending 31 December 2005 will therefore be prepared under IFRS, as will the Interim report for the six month period ending 30 June 2005.

Inchcape has undertaken a major project to assess the impact of these new standards on its accounts. Whilst there are still some issues to resolve we are confident that we have identified the areas where significant differences will arise between UK GAAP and IFRS. These are as follows:

Pensions Under IAS 19 Employee Benefits, the Group will recognise the net deficit of its defined benefit retirement schemes on the balance sheet. In addition, we intend to apply the proposed option whereby actuarial gains or losses can be recognised in full in the Statement of total recognised gains and losses (or its equivalent under IFRS).

IAS 19 is broadly similar to FRS 17 Retirement Benefits, for which the disclosures for the year ended 31 December 2004 are set out in note 5 to the Financial statements.

Goodwill Under IFRS, goodwill is tested at least annually for impairment rather than being subject to annual amortisation. Impaired goodwill is written off to the profit and loss account.

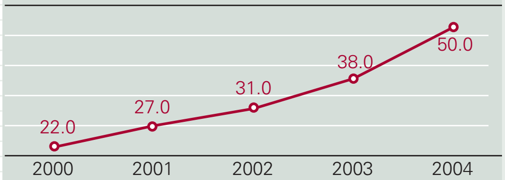
Goodwill previously written off to reserves is no longer recycled through the profit and loss account, as part of the profit or loss on disposal.

Property leases Under IFRS, leasehold land is generally treated as an operating lease. It is reclassified, at historic cost, from tangible fixed assets to prepayments, with a reversal of any associated revaluation.

Operating profit margins before goodwill amortisation and exceptional items %

Margins have increased from 2.4% in 2000, our first full year as a purely automotive services group, to 4.2% in 2004.

Ordinary dividend per share pence



This year the dividend has increased by 31.6% to 50.0p. Since 2000 the ordinary dividend has risen by 127.3% from 22.0p per share to 50.0p.

Cash generation: Net (debt)/cash £m

Since 1999 we have moved from a net debt position of £149.0m to a net cash position of £153.8m. This is after returning over £160.0m to shareholders.

Group Headline tax rate %

There has been a slight increase in the Group's Headline tax rate before goodwill amortisation and exceptional items. The years 2004 and 2003 benefited from some favourable one offs. The underlying rate is similar for both years at around 26.0%.

Stock holding interest Under IAS 2 Inventories, where stock is purchased using supplier financing, the stock holding cost will be reclassified from operating costs to the interest charge in the profit and loss account. For 2004 the stock holding cost was approximately £7.2m.

Contract hire Under IAS 18 Revenue, profits arising on the sale of vehicles, sourced from within the Group, for which a Group company retains a buy back commitment, are recognised over the term of the lease. These vehicles will be included in assets with the corresponding liability included in creditors.

Share-based payments Under IFRS 2 Share-based Payment, the fair value of all share-based payments will be expensed to the profit and loss account over the period to which the service relates. This will cover all share-based payments, including executive share options and SAYE schemes.

Financial instruments Under IAS 39 Financial Instruments: Recognition and Measurement, all derivatives should be measured at fair value. The Group has reviewed its hedge accounting practices and will endeavour to designate foreign exchange forward derivatives as cash flow hedges under IAS 39. From 1 January 2005, IAS 39 will be implemented by the Group and 2004 comparatives will not be restated on this basis.

Overall we expect the transition to IFRS to be broadly neutral on profit before tax and earnings, subject to the achievement of hedge effectiveness under IAS 39. Furthermore, cash flow and the underlying economics of the business will not change, although net assets will be reduced, mainly due to the inclusion of the net pension deficit on the balance sheet. Comparatives for 2004 under IFRS will be published on 12 May 2005.

Operating results

Turnover increased by 8.2% on 2003 to £4.2bn in 2004. Operating profit before goodwill amortisation and exceptional items rose by 25.1% from £140.8m in 2003 to £176.2m in 2004, reflecting a very strong trading performance in the year. The resultant operating margins strengthened from 3.7% in 2003 to 4.2% in 2004.

Once again our Toyota/Lexus business operating in Singapore delivered an excellent trading performance, stimulated by the sizeable increase in the vehicle market. Profits in our Hong Kong businesses also improved, boosted by the gradual recovery in the economy after the effects of SARS in 2003.

Organic growth and acquisitions helped profits from our UK business grow strongly, whilst a record market in Australia helped this region to achieve another increase in profitability. The growth in Greece/Belgium is affected by a one off profit of £2.5m in 2003 and, excluding this, operating profit from the region increased by 13.6%, despite product supply constraints.

Pensions

The Group continues to account for retirement benefits in accordance with SSAP 24 Accounting for Pension Costs and provides additional disclosure as required by FRS 17 Retirement Benefits. The FRS 17 net deficit on the Group's principal schemes has increased from £44.8m at 31 December 2003 to £57.0m at 31 December 2004. Higher equity prices have increased the value of investments held. However, this is more than offset by higher pension liabilities as, in the UK, the assumed long term inflation rate has increased to 2.7% and the discount rate has marginally reduced to 5.3%.

Exceptional VAT recovery and goodwill impairment

HM Customs and Excise have agreed a further element of the claims we submitted in mid 2003 for the recovery of overpaid VAT for the period 1973 to 1994. This resulted in a further net VAT recovery of £1.8m. Consistent with the recovery made in 2003, this has been treated as an operating exceptional item, with associated interest of £3.6m included in the net interest charge. An additional £0.6m of interest was recognised in the year relating to claims settled in early 2004.

A provision of £9.4m has been made against the carrying value of goodwill relating to Inchcape Automotive, reflecting the more difficult trading conditions experienced by that business. This has been treated as an operating exceptional item.

Other exceptional items

The other exceptional charge for the year was a net £7.8m. This principally comprised a £10.3m charge (including £5.0m of goodwill previously written off to reserves) relating to the exit from the Ferrari/Maserati import and distribution businesses, and a £6.8m loss on disposal (including £1.0m of goodwill previously written off to reserves) of the Group's 40.0% stakes in MCL Group Limited (MCL) and Automotive Group Limited (AGL) to Itochu Corporation, the 60.0% majority shareholder. These charges were partially offset by the release of litigation provisions relating to non-motors disposals.

Net interest

The net interest charge for the year was £nil, due to a £4.2m one off income relating to the Group's VAT recovery. Excluding this, the underlying interest charge was £4.2m (2003 – £5.0m). For a substantial part of the year, despite being in an overall net cash position, we suffered a mismatch between debt in the UK and cash held overseas in countries with low interest rates. The resultant adverse interest differential generated the net interest charge. In November 2004 approximately £135.0m of cash was repatriated to the UK and we also created the ability to remit more funds in a tax efficient manner over the next couple of years.

"Overall we expect the transition to IFRS to be broadly neutral on profit before tax and earnings, subject to the achievement of hedge effectiveness under IAS 39."

Alan Ferguson Group Finance Director

Taxation

The 2004 Headline tax rate is 24.6% compared to a rate of 23.4% in 2003. The tax rate in 2004 enjoyed a one off benefit of 1.3% due to the favourable settlement of Greek tax audits and the agreement of UK tax computations. Likewise, 2003 benefited from a one off provision release of 2.9% as a result of a favourable court ruling in the UK. The underlying rate at 25.9% in 2004 was similar to the prior year.

We anticipate the tax rate in 2005 will be broadly in line with the Group's underlying tax rate in 2004.

We are still in ongoing discussions with the Inland Revenue regarding the corporate tax treatment of the VAT recovery and associated interest. We have increased the provision from £7.5m to £8.0m in respect of the further recovery agreed.

Minority interest

Profit attributable to minorities has increased from £2.0m in 2003 to £3.2m in 2004. This is mainly due to increased profits in the Australian and Bulgarian businesses.

Exchange rates

Had the exchange rates in 2003 continued in 2004 Headline profit before tax would have been c. £9.0m higher. This effect primarily arose as a result of the weakening Singapore and Hong Kong dollars. Principal exchange rates are listed in the table opposite.

Cash flow

The Group continues to be highly cash generative with cash flow from operating activities in 2004 of £177.2m, including £15.5m VAT received. This was achieved despite an increase in working capital of £31.5m. This net increase reflects the higher levels of trading across the business and the impact of some timing differences at year end. We continue to focus on tight working capital management.

Overall the Group's net cash position has increased from £79.1m at 31 December 2003 to £153.8m at 31 December 2004.

Acquisitions and disposals

During the year the Group acquired five Mercedes-Benz dealerships for £24.4m including £6.7m debt. This acquisition increased the Group's total UK representation to eight sites, creating the largest independent contiguous territory for Mercedes-Benz in the UK.

As part of its expansion into Eastern Europe, the Group acquired Estonia's two independent Mazda retailers for £4.1m including £0.7m debt. We are now the exclusive Importer and Retailer for Mazda in this market.

In line with Ferrari's strategy to assume control of import and distribution throughout Europe, the Group has exited its Ferrari/Maserati import and distribution businesses in the UK and Belgium. However, we will continue to retail Ferrari and Maserati cars through Maranello Sales Limited. We also disposed of our stakes in MCL and AGL, two non-core businesses.

Capital expenditure

Capital expenditure less disposal proceeds was £34.8m, some £7.5m in excess of the depreciation charge. The additional investment principally arose in UK Retail as we invested in new dealership facilities, particularly those of BMW, Toyota and Mercedes-Benz. We are also progressively investing in our Toyota Retail operations in Athens, Greece.

Treasury management and policy

The centralised treasury department manages the key financial risks of the Group encompassing funding and liquidity risk, interest rate risk, counterparty risk and currency risk. The treasury department operates as a service centre under Board approved objectives and policies. Speculative transactions are expressly forbidden. The treasury function is subject to regular internal audit.

Funding and liquidity risk

Group policy is to ensure that the funding requirements forecast by the Group can be met within available committed facilities. The Group has available a £250.0m committed revolving credit facility with a maturity date of July 2007. This facility was not drawn at the year end.

Loan notes totalling £0.2m were redeemed in three tranches between March and June 2004. These notes were issued in December 2000/2001 following the acquisition of Inchcape Automotive Limited (formerly known as Eurofleet Ltd). A further £2.0m of loan notes were issued in June 2004 in relation to the acquisition of the Mercedes-Benz dealerships. At the year end loan notes totalling £2.2m were outstanding. Note maturities range from 30 November 2005 to 30 June 2006.

In addition to the committed facilities the Group has available uncommitted borrowing lines made available by relationship banks. These facilities are used for liquidity management purposes. At the year end these facilities were not utilised.

During November 2004 cash of approximately £135.0m was permanently repatriated to the UK from our overseas businesses in addition to normal dividend flows. We have also created the ability to repatriate further funds in 2005 and beyond.

Cross border Group loans are made to optimise the use of those funds still domiciled locally. Cash and debt balances after cross border loans are set out in the table opposite.

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

"During November 2004 cash of approximately £135.0m was permanently repatriated to the UK from our overseas businesses in addition to normal dividend flows. We have also created the ability to repatriate further funds in 2005 and beyond."

Alan Ferguson Group Finance Director

Interest rate risk

Our interest rate policy has the objective of minimising net interest expense and the protection of the Group from material adverse movements in interest rates. Throughout 2004 the Group has borrowed at floating rates only. This approach reflects the continuing benign interest rate environment and the low level of gross debt.

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

Counterparty risk

The amount due from counterparties arising from cash deposits and the use of financial instruments creates credit risk. Limits are in place which reduce credit risk by stipulating the aggregate amount and duration of exposure to any one counterparty dependent upon the applicable credit rating. Credit ratings and the appropriate limits are reviewed regularly.

Currency risk

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

The Group has transactional currency exposures where sales or purchases by an operating unit are in currencies other than in that unit's reporting currency. For a significant proportion of the Group these exposures are removed as trading is denominated in the relevant local currency. In particular, local billing arrangements are in place for many businesses with our principals. For those businesses that continue to be billed in foreign currency, Group policy is that committed transactional exposures are hedged into the reporting currency of that business. If possible, foreign exchange exposures will be matched internally before being hedged externally. Hedging instruments are approved by the Board and are restricted to forward foreign exchange contracts, currency options and foreign exchange currency swaps. Foreign exchange currency swaps are also used to hedge transaction exposures arising on cross border Group loans.

Alan Ferguson Group Finance Director
28 February 2005

Cash and debt balances after cross border loans

£m	Debt	Cash	Net
Euro	(0.5)	35.2	34.7
Hong Kong dollar	(3.8)	7.6	3.8
Singapore dollar	–	28.2	28.2
Australian dollar	–	5.7	5.7
Other	(2.0)	28.5	26.5
Total (other than sterling)	(6.3)	105.2	98.9
Total sterling	(11.1)	66.0	54.9
Total	(17.4)	171.2	153.8

Foreign currency translation

	Average rates		Year end rates	
	2004	2003	**2004**	2003
Euro	**1.47**	1.45	**1.41**	1.42
Hong Kong dollar	**14.22**	12.75	**14.92**	13.90
Singapore dollar	**3.09**	2.86	**3.13**	3.04
Australian dollar	**2.48**	2.53	**2.45**	2.38

We aim to ensure our impact on communities, the environment, health and safety and our employees is positive.

Inchcape in the community

Corporate social responsibility:
Inchcape established a Corporate Social Responsibility (CSR) Committee in 2002. This Committee is chaired by the Group Chief Executive, who has responsibility for CSR at Board level, and includes the Group Finance Director, the Group Company Secretary, the Director of Audit and Risk Management, the Group Human Resources Director and the Investor Relations Manager.

The Company remains focused on looking at further ways to take its CSR programme forward.

This section outlines our commitment to the environment in which we operate, health and safety issues, our employees, and values.

Inchcape in the community:
Inchcape's global spread means we encompass a broad range of people, cultures and lifestyles.

We actively encourage and assist our colleagues in supporting local fundraising projects in the markets in which they work. This section offers just a few examples, from around the world, where Inchcape and its colleagues have tried to make a difference.

United Kingdom Our Head Office annually selects and sponsors a charity for twelve months, and in 2004 our colleagues chose the Lymphoma Association. This is a charity that provides emotional support and information to people with lymphatic cancer and their families, carers and friends. The total raised amounted to over £2,400 and was achieved through a variety of fund raising activities including weekly dress down days, Easter and Christmas raffles and subsidised social events held throughout the year.

With the Olympic Games taking place in Greece, where we Import, Distribute and Retail for Toyota/Lexus, Inchcape was proud to donate £5,000 to the British Olympic Association. This sponsorship not only contributed financial support to the Olympic movement in Greece but also aided other services provided by the Association such as technical support and staff development.

Inchcape Fleet Solutions (IFS), our fleet management and leasing business, has made a real contribution to its local community in Portsmouth through a newly created Charitable Trust Fund, which was established in 2004. IFS has chosen to support the Waterside School, which works with children who have suffered emotional and behavioural problems. Through consistent fundraising initiatives, our colleagues have already managed to raise some £3,000.

Over Christmas 2004, staff at IFS elected to send electronic Christmas cards to customers and suppliers instead of printed ones. This saved the business c. £750, which was then donated to the New Born Baby Unit at St Mary's Hospital in Portsmouth. As part of an ongoing commitment to this cause, IFS is currently investigating how it can help with the cost of transporting babies, which need dedicated care, to local specialist units.

Elsewhere in the UK; one of our dealerships, Inchcape Ford Guildford, staged a Thunderbird's inspired event, which coincided with the film's release in the UK. The extravaganza attracted film fans, families and the local television station. Our colleagues and customers were able to view Lady Penelope's iconic six wheeled pink Thunderbird and, in total, raised over £1,300 for the Breakthrough Breast Cancer charity.

Colleagues working at our Business Services operation, Inchcape Automotive, donated over £5,000 to a variety of causes in 2004. Fundraising activities included a rather painful experience for some of our male colleagues who had to choose between having their legs waxed or shaving their heads for Children in Need. It proved worthwhile though as they raised c. £1,000 through this event alone.

Greece The main community focus in 2004 for Toyota Hellas, was understandably the Olympics. The year saw an exceptional amount of fundraising activity and sponsorship due to the impact the Games had on our colleagues, customers and environment.

Toyota Hellas jointly sponsored a unique exhibition, which sought to celebrate the birth of the Olympic Games in Greece. The presentation, entitled 'Tales of the Olympic Games', was staged at the Foundation of the Hellenic World in Athens and used modern technology to communicate the prestige and allure of the Games. As well as providing half the sponsorship funds for the event, Toyota Hellas also organised non-profit activities, such as guided tours of the exhibition, raising over £35,000 for the Games.

In line with its philosophy of supporting the cultural needs of the local community, our business in Greece also became involved in the extensive restoration programme in Athens. The programme involved supporting the Municipality of Athens in its aim to improve the backdrop of the city, in the run up to the Olympic Games, and Toyota Hellas contributed a further c. £110,000 to this project.

Belgium Toyota Belgium has enjoyed a long standing relationship with the United Fund for Belgium, a local charity that aims to improve the quality of life for handicapped people and underprivileged children. It has supported the cause for the last three years and, in 2004, donated c. £2,000 to the charity.

Toyota Belgium also helped a variety of other local causes in 2004, including the National Burns Unit. Over £2,000 was raised for the unit, through a charity golf event, and this money helped the hospital organise a 2004 Summer camp for severely burnt children.

"Many members of our staff throughout the Group have already contributed to the numerous Tsunami appeals, both personally and via their individual business unit, and are still actively raising funds."

Inchcape stirs up support for the Wooden Spoon Society

The Wooden Spoon Society, a national UK based charity, was set up over twenty years ago with the aim of assisting and benefiting children and young people with physical, mental and social disadvantages.

In order to raise funds the Society, which has its roots based in sport and in particular rugby, hosts a variety of events each year and charges for membership.

Inchcape UK has been a supporter of the Society since 2003, contributing some £10,000 per annum.

Inchcape colleagues play Father Christmas!

Over Christmas 2004 colleagues at our Toyota/Lexus dealership in Nottingham, UK, donated presents to seriously ill children being treated at the local Queen's Medical Centre.

Through the combined efforts of staff and the business, they were able to raise some £600 for a variety of gifts. These were then given to those children who were staying on the leukaemia ward at the Centre throughout the holiday period.

Athens restoration programme

A restoration programme took place prior to the Olympic Games, to improve the back drop of Athens. A series of sculptures were designed and erected including one (pictured to the right), which was funded by our business Toyota Hellas.

Aid for victims of the Tsunami

On 26 December 2004 an earthquake caused a terrible Tsunami to strike. In its aftermath there has been great devastation and loss of life not only for the people of South East Asia and Africa, but throughout the world.

The final death toll is expected to be well over 100,000 people but many more are still missing and millions have been displaced. Hundreds of thousands have lost their livelihoods in countries including Sri Lanka, Indonesia, Thailand, India, Maldives, Malaysia, Burma and Somalia.

This catastrophe prompted a staggering amount of people around the world to respond on a huge scale. Many members of our staff throughout the Group have already contributed to the numerous Tsunami appeals, both personally and via their individual business unit, and are still actively raising funds.

Further financial donations made by the Company will aim to provide long term support, such as reconstruction programmes, to help affected communities rebuild their lives. Inchcape is therefore currently exploring a number of projects with reputable charity organisations.

Australia Inchcape Motors Australia (IMA) has provided ongoing support for the Starlight Children's Foundation since 2000. This charity strives to improve the lives of seriously ill children and their families in Australia, and the highlight event in the fundraising calendar is the annual IMA Subaru golf day, which is attended by customers and staff.

At the 2004 golf day, IMA set an all time record by attracting some 130 visitors who raised c. £11,500. IMA was also able to bring a smile to the faces of many of the children by arranging for Petter Solberg, Subaru World Rally Team driver, to take some time out from the World Rally Championship and meet with them at the Randwick Children's Hospital in Sydney.

Hong Kong Crown Motors, in Hong Kong, has been a long standing supporter of the Toyota Classics concerts, which are biannual and feature orchestras from around the world. In 2004 some 2,000 people attended the concerts and through ticket sales alone, Crown Motors raised a staggering c. £36,000 for its nominated charity; the Special Unit for the Hong Kong Girl Guides Association. This organisation aims to provide a supportive and inspiring learning environment for young women with physical disabilities.

Crown Motors also organised the annual charity Lexus Club golf event, which provides much needed aid for the China Literacy Foundation. The Foundation supports the creation of educational facilities and opportunities for children in very poor areas of rural China. Some £4,000 was donated to the Foundation from the golf day and this money has helped to complete the construction of a school in rural Guizhou, the second poorest region in China. The school can now accommodate 100 pupils from local villages within the area and aims to provide comprehensive education to children that, otherwise, would not have such an opportunity.

Singapore Like our colleagues in Hong Kong, Borneo Motors also supports the Toyota Classics concerts and raised c. £32,000 for its chosen charity, the Children's Cancer Foundation, in 2004. This organisation works to improve the quality of life for children with cancer by enhancing their emotional, psychological and social well being.

Borneo Motors also organised a series of charity golf days throughout 2004 and raised money from registration fees, which were then donated to a different charity each time. One of the most successful days was the Lexus Club event, which raised c. £16,000 for the Society for the Physically Disabled.

Charitable and political donations

In the UK, Inchcape and its subsidiaries have donated funds throughout the year totalling £0.1m (2003 – £0.1m). Total charitable donations made by the Group worldwide during the year were £0.4m (2003 – £0.2m). These figures exclude personal contributions from our colleagues.

No political donations were made in 2004 (2003 – nil).

Environment, health and safety

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

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

It is therefore Inchcape's policy to:

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

Inchcape Fleet Solutions innovation

Our fleet management and leasing business in the UK, Inchcape Fleet Solutions (IFS), has developed a new online tool that allows employers to check whether their employees are safe to be driving on company business. The Driver Licence Verification Service (DLVS) is designed to improve efficiency and remove the administrative burden of carrying out the recommended driver licence checks.

Under current Health and Safety legislation, employers have a duty towards employees, who need to drive for company business, regardless of whether or not they are using a company car.

IFS has therefore developed the innovative DLVS, which operates alongside existing systems and enables IFS customers to have around the clock web access to their data and any associated reports. The simplicity of the process ensures that checks can be made easily and regularly with the results updated automatically for client reporting.

The system is so advanced it can even identify those drivers who, for example, may benefit from driver training. This in turn can lead to reduced associated costs for the company and, importantly, a lower accident rate.

Environmental education in Greece

Throughout 2004, Toyota Hellas, continued its sponsorship of an educational programme that originally began in 2003. The programme aims to educate young people about environmental matters whilst encouraging them to get involved with issues, such as pollution, affecting the larger cities in Greece including Athens, Thessalonki and Patras.

The scheme was split into two stages and the first, beginning in September 2004, was aimed at providing information to stimulate students' interest. At this point teams of five students were selected from each of the forty participating schools.

At the second stage a competition was launched and students were given three months to find a solution to a specific environmental problem. The winners of this competition will be rewarded with a trip to the UK in 2005.

In total Toyota Hellas has contributed over £45,000 to the programme, which reaches completion in June 2005 when the students' projects are finally assessed.

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

Implementation of the Policy is the responsibility of the management within each Group business and is supported and monitored by the Group Board. Common standards are applied to a wide range of EHS matters and compliance with local statutory requirements is the minimum standard we will accept. Where local standards are below international good practice, it is our policy to follow UK good practice.

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

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

In addition, the Group Risk Manager visited over half our sites in 2004 carrying out EHS awareness training, meeting with the Focus Groups and performing site inspections. Each visit is concluded with a meeting with the Chief Executive of that business, and action plans are then agreed and reported upon.

Initiatives and investments

In 2004 we made investments in a number of our businesses, across our core markets, to improve and promote EHS initiatives.

Reduce, reuse and recycle Our businesses in Greece and Belgium are working as part of a broader initiative of the Toyota Motor Corporation to reduce, reuse and recycle waste in facilities where, inter alia, Toyota cars are distributed and serviced.

Starting in 2004, our Greek business, Toyota Hellas, offers all its authorised repairers in the Athens area the cost free collection of used oils and lubricants, tyres, batteries, and plastic packaging. This service will be expanded in the coming years to cover the whole of Greece. In addition, a non-profit company, AMVH, in which Toyota Hellas supports by providing funding for c. 10.0% of its operating costs, will be appointing an authorised network of End of Life Vehicle (ELV) treatment centres. They will be fully compliant with European Union regulations and all car owners will be able to deliver their ELVs to them cost free. The first two centres have now been certified and have started offering their services.

In Belgium, we have signed a preferred partner agreement with a waste removal and treatment company. We will be working with this business to provide a comprehensive service to the Toyota dealer network, helping them comply with relevant legislation and encouraging them with discounted costs. Toyota Belgium has also entered into a ten year agreement for the zero cost collection and treatment of ELVs with Belgium Car Recycling, thus providing points to which ELVs can be taken. In 2005, we will be undertaking environmental audits of the dealer network.

Connected to a safer working environment Many of our businesses have introduced programmes to create safer working environments.

For example:

United Kingdom Retail has developed a personalised health and safety training programme, which will be rolled out in 2005, commencing with EHS co-ordinators and new starters, with all staff being given appropriate training by the end of the year;

Greece An external consultant has performed an EHS risk analysis audit for all our sites. Based on the findings, an EHS training programme was developed. Training, tailored to the risk profiles of individual roles, will be given to all staff;

Belgium An external training provider is developing an interactive one day EHS course tailored to the specific needs of our business and our employees, whether they be based in a dealership, a body shop or office. This training programme will be offered to all our staff and will take place in 2005;

Asia Pacific We have a programme, which provides all employees with EHS training. This commenced in 2004. Phase I, awareness training, has been completed in five of our businesses, including Crown Motors; the remainder will be completed in 2005;

In addition, 2004 also saw the creation of a safety management sub-committee in Hong Kong. This committee, which consists of frontline staff from our aftersales sites, is responsible for enhancing EHS management;

Australia Our business in Australia saw the initiation of its national Occupational, Health and Safety training programme. This included training on a diverse range of issues, such as forklift and chemical safety, and bomb threat/suspect package handling, as well as risk management training for managers and supervisors.

Working for Inchcape

We want all our colleagues at Inchcape to be proud of who they work for and to take pride in their contribution to the Group. We have therefore built a clear set of statements, which outline our values, highlight learning and development opportunities and define our employment policy.

Our values

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

Underpinning this commitment are the Inchcape values. These values are central to the way we work and are fundamental to our relationship with customers, principals and employees. They are as follows:

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

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

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

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

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

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

Learning and development

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

In 2004 our colleagues participated in c. 24,000 training days. The variety of courses attended ranged from leadership development to customer service training and technician skills.

Atkins Kroll, our Toyota business in Guam, sources its customer service training programme through the University of Guam. All customer facing staff are required to attend the course and this has contributed to our very high levels of customer satisfaction.

In the UK we have entered into an agreement with Loughborough University's Automotive Business School to create the Inchcape Retail Academy. The Academy will develop and train our workforce endorsing leading automotive retail skills. Initially, this will cover the UK and our developing Retail markets in Europe but we will extend the scheme in late 2005 to our other international business units.

Communication

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

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

Colleague Opinion Survey in the UK 2004 In February 2004 we surveyed our colleagues in our UK businesses, asking them for feedback on their jobs and how they felt about working for Inchcape. We have put a number of action plans in place and will review progress through a follow up survey in early 2005. This will now be an annual activity. A survey was also completed in our Belgian business in late 2004, where 70.0% of our colleagues completed the survey, and the results will be followed through in 2005.

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

Employment policy

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

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

We offer a range of attractive share based incentive schemes and, at 31 December 2004, c. 1,320 of our colleagues were shareholders in the Company, an increase of 20.0% over 2003.

Inchcape carefully observes best practices in employment policy and legislation and is committed to providing a workplace free of discrimination that gives equal opportunities to all our employees. In all our operating countries, we observe local employment law as a minimum standard, and Inchcape ensures that Group standards are met with regard to equal opportunities and non-discrimination.

We have in place a Business Ethics Policy, and in 2004 we introduced a Group Whistle Blowing Policy, as well as an Employee Assistance Programme which provides a confidential no cost advisory service twenty four hours a day to UK employees.

Vacancies are first made available to internal candidates, via the intranet, so as to encourage career opportunities and advancement for our colleagues.

Colleague numbers at 31 December 2004

Market	Numbers	%
UK	5,001	48.0
Greece/Belgium	983	9.4
Australia/New Zealand	783	7.5
Hong Kong	1,159	11.1
Singapore/Brunei	1,111	10.7
Other	1,383	13.3
Total	10,420	100.0

Overall split by gender

	Male		Female	
Market	Numbers	%	Numbers	%
UK	3,835	76.7	1,166	23.3
Greece/Belgium	692	70.4	291	29.6
Australia/New Zealand	555	70.9	228	29.1
Hong Kong	946	81.6	213	18.4
Singapore/Brunei	827	74.4	284	25.6

Managers

	Male		Female	
Market	Numbers	%	Numbers	%
UK	390	82.6	82	17.4
Greece/Belgium	158	80.6	38	19.4
Australia/New Zealand	134	91.8	12	8.2
Hong Kong	62	84.9	11	15.1
Singapore/Brunei	71	79.8	18	20.2

UK reward and recognition scheme

In early 2004 we introduced a reward and recognition scheme for staff in the UK. The objective behind this was to encourage our employees to recognise each other for 'exceptional' work and nominate their colleagues for an award. This scheme was designed in line with the UK's overall strategy to 'be the best' and nominations ranged from levels of customer service to overall team work.

Three levels of awards were designed; gold, silver and bronze. Gold award winners are invited to enjoy a celebratory event with the UK senior management team, as well as receiving a personal reward presented to them by Graeme Potts, Managing Director, Inchcape UK and Europe (pictured here on the left).

Over 400 employees in the UK received awards in 2004, demonstrating the excellent levels of commitment and professionalism of our staff.

High standards at Crown Motors

Crown Motors, our business in Hong Kong, is dedicated to maintaining and developing high levels of skill and service in its people, and so, in 2004, organised the first ever Inchcape Asia Pacific 'Regional Technicians' Skills Contest'.

Twenty five highly skilled contenders entered the competition from our businesses in Singapore, Guam, Brunei, Saipan, Hong Kong and Macau. Their goal was to complete mechanical service and body paint tasks in a specified time with the minimum amount of errors.

The winner, top technician Mr Che Chin Wa, was then chosen to represent Crown Motors at the annual Toyota 'Asian Technicians' Skills Grand Prix', which was held in the Philippines.

Competing against nine other top Toyota technicians from around the region, Mr Che excelled in the written and practical tests, which covered every aspect of Toyota technical service. Proving his own expertise and reflecting the high standards of skill delivered by our Crown Motors colleagues, Mr Che won the Silver Award.

The Kaizen philosophy

The Toyota Motor Corporation has long advocated the use of the Kaizen philosophy in its business practices around the world. 'Kaizen', which translates as 'continuous improvement', comes from the Japanese words 'Kai', meaning school, and 'Zen', meaning wisdom. This philosophy has been fundamental to the Japanese way of thinking for many decades and has also provided the foundation to numerous successful business ideas for Inchcape, particularly throughout our Asia Pacific businesses.

On 1 June 2004, a six month Kaizen programme was developed for our parts specialists at Borneo Motors in Singapore. The programme focused on improving job efficiency as well as the overall working environment. The objective was to equip our specialists with advanced inventory and warehousing knowledge.

Board of Directors

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(a) Members of the Audit Committee

Dates of Appointment/Resignation:

Ken Hanna (Chairman)
(Member – 27 September 2001)
Chairman – 16 May 2002

Sir John Egan
15 June 2000/29 January 2004

Hugh Norton
24 January 1995/13 May 2004

Simon Robertson
25 June 1996

Michael Wemms
29 January 2004

Will Samuel
26 January 2005

David Scotland
24 February 2005

(b) Members of the Remuneration Committee

Dates of Appointment/Resignation:

Michael Wemms (Chairman)
(Member – 29 January 2004)
Chairman – 13 May 2004

Hugh Norton
(Member – 24 January 1995/13 May 2004)
Chairman – 8 August 1998/13 May 2004

Sir John Egan
15 June 2000/29 January 2004

Ken Hanna
27 September 2001

Simon Robertson
3 August 2000

Will Samuel
26 January 2005

David Scotland
24 February 2005

(c) Members of the Nomination Committee

Dates of Appointment/Resignation:

Sir John Egan (Chairman)
Chairman – 15 June 2000

Ken Hanna
26 February 2004

Peter Johnson
1 July 1999

Hugh Norton
1 July 1999/13 May 2004

Simon Robertson
25 June 1996

Michael Wemms
29 July 2004

*Independent under the Combined Code

01 Sir John Egan (a) (b) (c) Chairman
Age 65. Appointed Non-executive Chairman in June 2000. Sir John became Chairman of Severn Trent Plc on 1 January 2005, having been appointed as a Non-executive Director on 1 October 2004. He is also Chairman of Harrison Lovegrove & Co. Limited. He was President of the Confederation of British Industry from May 2002 to July 2004. He was Chairman of MEPC from 1 August 1998 to 3 August 2000 and of QinetiQ Group plc from December 2000 to May 2002. He was Chief Executive of BAA from 1990 to 1999, and was Chairman and Chief Executive of Jaguar plc prior to joining BAA.

02 Peter Johnson (c) Group Chief Executive
Age 57. Joined the Group in 1995 as Chief Executive of Inchcape Motors Retail and became Chief Executive of Inchcape Motors International in 1996. He joined the Inchcape Board in January 1998 before becoming Group Chief Executive on 1 July 1999. He was appointed as a Non-executive Director of Wates Group Limited in September 2002 and Director and Chairman of Automotive Skills Limited in October 2003. He is a Vice President of the Institute of the Motor Industry and was previously Sales and Marketing Director of the Rover Group, and Chief Executive of the Marshall Group.

03 Alan Ferguson Group Finance Director
Age 47. Joined the Group in 1983 having qualified as a Chartered Accountant with KPMG in 1982. He occupied several positions with various Group businesses before being appointed Finance Director of Inchcape Motors International in 1995. He was appointed to the Board as an Executive Director in January 1999 and became Group Finance Director on 9 March 1999.

04 Graeme Potts Managing Director, Inchcape UK and Europe
Age 47. Joined the Inchcape Board in September 2002. He was Group Managing Director of RAC Motoring Services and a Director of Lex Service PLC (now RAC plc) from 1999 to 2002. He was Chief Executive of Reg Vardy plc from 1996 to 1999.

05 Trevor Taylor Non-executive Deputy Chairman and Non-executive Director
Age 67. Joined the Group in 1987 as Deputy Managing Director of Toyota (GB), becoming Chief Executive in 1993 and Chief Executive of Inchcape Toyota Division in 1995. He joined the Inchcape Board in January 1998 and resigned his executive role with Toyota (GB) to become a Non-executive Director. He was appointed Executive Deputy Chairman in July 1999 and became a Non-executive Director and Non-executive Deputy Chairman on 1 February 2001, having relinquished his executive responsibilities. Previously he has held positions with Ford Motor Company and the Rover Group. Trevor Taylor retired from the Board on 31 December 2004.

06 Simon Robertson (a) (b) (c) *
Senior Independent Non-executive Director
Age 63. Joined the Inchcape Board in May 1996. He became Non-executive Chairman of Rolls-Royce Group plc on 1 January 2005, having been appointed as a Non-executive Director in November 2004. He was formerly Chairman of Kleinwort Benson Group plc and a Non-executive Director of Invensys plc until January 2005. He is currently President of Goldman Sachs Europe Limited and Managing Director of Goldman Sachs International. He is also a Non-executive Director of Berry Bros. & Rudd Limited.

07 Raymond Ch'ien Non-executive Director
Age 53. Joined the Inchcape Board in July 1997. Raymond Ch'ien is Executive Chairman of chinadotcom corporation as well as Chairman of its subsidiary, hongkong.com Corporation. He is Non-executive Chairman of MTR Corporation Limited, Non-executive Chairman of HSBC Private Equity (Asia) Limited, a Non-executive Director of HSBC Holdings plc, the Hong Kong and Shanghai Banking Corporation Limited, Convenience Retail Asia Limited, VTech Holdings Ltd and The Wharf (Holdings) Limited.

08 Ken Hanna (a) (b) (c) * Non-executive Director
Age 51. Joined the Inchcape Board in September 2001. Ken Hanna is a Chartered Accountant. He is an Executive Director and Chief Financial Officer of Cadbury Schweppes plc. Prior to this he was a Partner of Compass Partners International and Group Finance Director and Chief Executive of Dalgety (now Sygen Group plc) from 1997 to 1999. He has previous experience with Guinness plc (now Diageo plc), Avis Europe and Black & Decker.

09 Michael Wemms (a) (b) (c) * Non-executive Director
Age 65. Joined the Inchcape Board in January 2004. Michael Wemms was appointed as Chairman of the British Retail Consortium in August 2004. He was an Executive Director of Tesco plc between 1989 and 2000. During that time he held the positions of Personnel Director and, from 1992, Retail Operations Director where he was responsible for all store operations. He is Chairman of House of Fraser plc and a Non-executive Director of Coles Myer Limited.

10 Will Samuel (a) (b) * Non-executive Director
Age 53. Joined the Inchcape Board in January 2005. Will Samuel is a Chartered Accountant. He is Vice Chairman of Lazard & Co. Ltd and a Non-executive Director of the Edinburgh Investment Trust plc. Prior to this he was a Director of Schroders plc, Co-Chief Executive Officer at Schroder Salomon Smith Barney (a division of Citigroup Inc.) and Vice Chairman, European Investment Bank of Citigroup Inc.

11 David Scotland (a) (b) * Non-executive Director
Age 57. Joined the Board of Inchcape in February 2005. David Scotland was appointed as a Director of Allied Domecq PLC in 1995 and President of Allied Domecq World Wines in 2002. He is also a Non-executive Director of Photo-Me International plc and Brixton plc.

Directors' report

The Directors present the Annual report and accounts and audited financial statements for the year ended 31 December 2004. For the purposes of this report 'Company' means Inchcape plc and 'Group' means the Company and its subsidiary and associated undertakings.

Business activities

A review of the business activities of the Group and likely future developments and important events occurring since the end of the year is given on pages 2 to 17.

Results and dividends

The Group's audited financial statements for the year ended 31 December 2004 are shown on pages 42 to 79. The Board recommends a final ordinary dividend of 35.0p per ordinary share. If approved at the Annual General Meeting (AGM), the final ordinary dividend will be paid on 16 June 2005 to shareholders registered in the books of the Company at the close of business on 20 May 2005. Together with the interim ordinary dividend of 15.0p per ordinary share, paid on 13 September 2004, this makes a total ordinary dividend for the year of 50.0p (2003 – 38.0p).

Share capital

Details of the changes to the Company's issued ordinary share capital are shown in note 24 on pages 70 and 71.

Substantial shareholdings

As at 28 February 2005, the following notifications of substantial interests in the Company's issued ordinary share capital had been received pursuant to the provisions of the Companies Act 1985:

Holding	Total %
Fidelity Investments	9.05
Toyota Motor Corporation	5.27
Standard Life Investments	4.89
Barclays PLC	4.38
Legal and General Investment Management	3.29

Directors

The names of the Directors, plus brief biographical details, including those Directors offering themselves for election or re-election, are given on page 27. They all held office throughout the year other than Michael Wemms, who was appointed to the Board on 29 January 2004 as a Non-executive Director. Trevor Taylor retired from the Board on 31 December 2004.

On 26 January 2005 and 24 February 2005 respectively, Will Samuel and David Scotland were appointed to the Board as Non-executive Directors. In accordance with the Articles of Association of the Company, they will retire at the 2005 AGM and offer themselves for election. Alan Ferguson and Ken Hanna will retire by rotation at the 2005 AGM and offer themselves for re-election in accordance with the Articles of Association.

Simon Robertson will retire from the Board at the conclusion of the 2005 AGM. Accordingly, he does not offer himself for re-election.

Directors' interests

The table below shows the beneficial interests, other than share options, including family interests, on the dates indicated, in the ordinary shares of the Company of the persons who were Directors at 31 December 2004.

	Ordinary shares of 150.0p each	
	31 December 2004	1 January 2004*
Sir John Egan	**23,500**	23,500
Peter Johnson (a)	**64,969**	64,894
Alan Ferguson (a)	**41,168**	40,952
Graeme Potts (a)	**15,847**	9,982
Trevor Taylor	**3,000**	3,000
Simon Robertson	**1,000**	1,000
Raymond Ch'ien	**20,000**	20,000
Ken Hanna	**2,000**	2,000
Michael Wemms	**500**	Nil

*(or date of appointment, if later)

Notes:
(a) 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 ordinary shares held by the Trust. At 31 December 2004, the Trust's shareholding totalled 733,793 ordinary shares (1 January 2004 – 893,811 ordinary shares).
(b) Will Samuel was appointed a Director on 26 January 2005, he held no interest in the ordinary shares of the Company on that date.
(c) David Scotland was appointed a Director on 24 February 2005, he held no interest in the ordinary shares of the Company on that date.
(d) No Director had any beneficial interest in the subsidiaries of the Company.

Between 1 January 2005 and 27 February 2005 the Trustees of the Inchcape Employee Trust (Trust) made the following transfers of ordinary shares to option holders to satisfy exercises of share options under the Inchcape 1999 Share Option Plan and awards under the Inchcape Deferred Bonus Plan. None of the transfers by the Trust related to exercises of share options or awards by Executive Directors.

Date	Ordinary Shares of150.0p each transferred
7 January 2005	523
18 January 2005	6,022
26 January 2005	2,230
28 January 2005	1,385
31 January 2005	24,949
8 February 2005	23,285

Details of share options held by Directors, including under the Inchcape 1999 Share Option Plan and the Inchcape SAYE Share Option Scheme, together with details of awards under the Inchcape Deferred Bonus Plan, are shown in note 3 on pages 38 and 39.

Transactions with Directors

No transaction, arrangement or agreement required to be disclosed in terms of the Companies Act 1985 was outstanding at 31 December 2004, or occurred during the year for any Director and/or connected person (2003 – none).

Creditor payment policy

The Company has no trade creditors (2003 – nil). The Group is responsible for agreeing the terms and conditions including terms of payment under which business transactions with the Group's suppliers are conducted. Whilst the Group does not follow any single external code or standard, in line with Inchcape Group policy, payments to suppliers are made in accordance with agreed terms and conditions.

Going concern

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

Charitable and political donations

The Group's policy on charitable and political donations, including the amounts, is shown on pages 20 and 21.

Environment

The Group's policy on environment, health and safety is shown on pages 22 and 23.

Post balance sheet events

There have been no post balance sheet events.

Annual General Meeting

The Annual General Meeting will be held at 11.00am on Thursday 12 May 2005 at The Royal Automobile Club, 89-91 Pall Mall, London SW1Y 5HS. The notice convening the meeting and the resolutions to be put to the meeting, together with the explanatory notes, are given in the Circular to all shareholders which accompanies the Annual report and accounts.

The business of the meeting will include proposals to renew:

(i) Existing authorities for Directors to allot securities in the Company; and

(ii) The Company's authority to purchase up to 10.0% of its own ordinary shares (the Company currently has authority to purchase up to 7,895,227 ordinary shares, approximately 9.9% of its current issued ordinary share capital). This authority will include the purchase of ordinary shares into treasury.

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

By order of the Board

R.C. Williams

Roy Williams Group Company Secretary
28 February 2005

The Board is committed to ensuring that high standards of corporate governance are maintained by the Company. The Board supports the main and supporting principles and the provisions of the Combined Code on Corporate Governance of the Financial Reporting Council (the Code) which came into effect for financial years beginning on or after 1 November 2003.

The Listing Rules of the Financial Services Authority require listed companies to disclose, in relation to Section 1 of the Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting period. This statement, together with the report on Directors' remuneration on pages 34 to 39, explains how the Company has applied the principles and complied with the provisions set out in the Code.

Following the publication of the Code in July 2003, the Board commenced a review of its corporate governance practices, policies and procedures in light of its provisions. This review was completed early in 2004, culminating in a number of changes which were implemented by the Board on 29 January 2004, its first meeting in the year. These included a revised schedule of matters specifically reserved for the Board's decision and new membership and terms of reference of the Board's three principal committees, the Audit Committee, the Nomination Committee and the Remuneration Committee. During the year the Board continued to keep corporate governance matters under review, monitoring policies and guidelines issued by the main institutional bodies, such as the Association of British Insurers and the National Association of Pension Funds, and adopting appropriate recommendations of relevant bodies such as the Institute of Chartered Secretaries and Administrators and the Institute of Chartered Accountants of England and Wales. This process is ongoing.

Directors

The Board The Board recognises its collective responsibility for leading and controlling the Group. It is responsible for setting the Group's strategic aims, ensuring that sufficient resources are available for the Group to meet its objectives and monitoring executive management. It is also responsible for setting the Company's values and standards in corporate governance matters. The Directors act in the best interests of the Company, cognisant of their duties to shareholders and also with consideration for other stakeholders.

The Board has a formal schedule of matters required to be brought to it for its decision. Such matters include: strategy and management; major investments, acquisitions and disposals; corporate and capital structure; financial budgeting, reporting and controls; monitoring internal controls; approval of major contracts; external corporate communications; Board membership and appointments; corporate governance; and Group policy in important areas.

There are clear written Terms of Reference for the responsibilities delegated to the principal committees. Through the Nomination Committee, the Board fulfils its role in nominating new Directors and succession planning. The Remuneration Committee determines appropriate levels of remuneration of the Chairman, the Executive Directors and senior executives. Through its Audit Committee, the Board discharges its responsibilities in respect of the integrity of financial information, on the financial, operational and compliance controls and on the systems of risk management. Below Board and principal committee level, there are clear limits on the authority that management committees and individuals have to make financial commitments.

The Board and its principal committees meet regularly during the year. In setting the timetable the Chairman and, in the case of the committees, the committee chairmen, with the support of the Group Company Secretary, ensure that sufficient regular meetings are scheduled and other meetings held as required in order for the Board and the committees to discharge their respective duties sufficiently. In 2004 the Board had eight regular meetings and one ad hoc meeting. In addition, the Board held a strategy review.

The names and biographical details of the Chairman, the Deputy Chairman, the Group Chief Executive, the Senior Independent Non-executive Director and the chairmen and members of the principal committees can be found on pages 26 and 27. In the few instances where a Director has not been able to attend a Board or committee meeting, this has been due to a prior commitment or for reason of illness. In such circumstances it has been the normal practice for his comments on the papers to be relayed to the chairman of the meeting in advance of the meeting, and for the chairman to communicate the Director's views at the meeting. Information regarding meetings of the Board, and the principal committees during the year, and Directors' attendance is given below.

Board	Scheduled	Ad-hoc
Number of meetings held	**8**	**1**
Sir John Egan (Chairman)	8	1
Ken Hanna	7	–
Simon Robertson	7	1
Michael Wemms	8	1
Hugh Norton (retired 13 May 2004)	4	–
Trevor Taylor (retired 31 December 2004)	7	–
Raymond Ch'ien	7	–
Peter Johnson	8	1
Alan Ferguson	8	1
Graeme Potts	8	–

Nomination Committee	Scheduled	Ad hoc
Number of meetings held	**2**	**4**
Sir John Egan (Chairman)	2	4
Hugh Norton (retired 13 May 2004)	1	2
Simon Robertson	1	4
Peter Johnson	2	4
Ken Hanna (appointed 26 February 2004)	1	2
Michael Wemms (appointed 29 July 2004)	1	2

Remuneration Committee	Scheduled	Ad hoc
Number of meetings held	**3**	**5**
Michael Wemms (appointed Chairman 13 May 2004)	3	5
Hugh Norton (Chairman) (retired 13 May 2004)	1	1
Simon Robertson	3	4
Ken Hanna	3	2

Audit Committee	Scheduled	Ad hoc
Number of meetings held	**3**	**0**
Ken Hanna (Chairman)	3	–
Hugh Norton (retired 13 May 2004)	1	–
Simon Robertson	2	–
Michael Wemms	3	–

The Chairman meets with the Non-executive Directors without the Executive Directors present as necessary. One meeting was held during the year. The Senior Independent Non-executive Director also meets the other Non-executive Directors without the Chairman present, as needed, including an annual appraisal of the Chairman's performance. One meeting was held during the year.

If any Director were to have any concerns regarding the running of the Company or a proposed action, these would be recorded in the Board minutes. If a Director were to resign over an unresolved issue, the Chairman would bring the issue to the attention of the Board. No such concerns or issues arose during the year.

For some years the Company has purchased insurance to cover its Directors against legal action taken against them in that capacity.

Chairman and Group Chief Executive The role of the Chairman is separate from that of the Group Chief Executive. Their respective roles and responsibilities have been set out in writing and agreed by the Board. The Chairman is responsible for creating the conditions to achieve overall Board and individual Directors' effectiveness, whereas the Group Chief Executive is responsible for the operational implementation of the strategy and policies agreed by the Board. Matters are referred to the Board as a whole and no one individual or small group of individuals has unfettered powers of decision.

Board balance and independence All Directors bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. In addition to the Chairman, the Board currently has six Non-executive Directors who bring to the Group a wide diversity of experience and expertise. Trevor Taylor, who retired from the Board on 31 December 2004, was not regarded as independent because he was formerly an Executive Director. Raymond Ch'ien is not regarded as independent because he previously had a service contract with Crown Motors Limited, a subsidiary of the Company incorporated in Hong Kong. The other Non-executive Directors, including the Chairman, are considered by the Board to be independent in accordance with the Code as being independent in character and judgement and having no relationships which are likely to affect, or could appear to affect, the Directors' judgement. However, since the Code does not treat the Chairman as being independent after appointment, the Board has decided that it should no longer count the Chairman as an independent Non-executive Director when considering compliance with the Code. Consequently the Chairman is no longer a member of the Audit Committee or the Remuneration Committee, although he does continue to attend these meetings by invitation. He continues to chair the Nomination Committee. Simon Robertson is the Senior Independent Non-executive Director and he is available to shareholders if they have concerns.

No-one, other than the committee chairman and members, is entitled to be present at meetings of any of the three principal committees, although others, including the Chairman, do attend by invitation of the relevant committee.

During the year less than half the Board, excluding the Chairman, comprised Independent Non-executive Directors. However, since 1 January 2005, following the retirement of Trevor Taylor, the Board has complied with the Code in this respect. The Board believes that the quality of individuals is more important than absolute numbers. Having regard to its succession planning, its priority is to recruit individuals of high calibre and with the right balance of skills, knowledge and experience required. It was, however, recognised that Board balance under the Code was an issue. With the retirement of Trevor Taylor and Simon Robertson in mind, the Board commenced the search for two new Independent Non-executive Directors. This process resulted in the Board being further strengthened by the appointment of Will Samuel and David Scotland.

Appointments to the Board The Code requires that there be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, which should be made on merit and against objective criteria. The main responsibility for Board appointments is delegated to the Nomination Committee. The processes and work of the Committee is set out in more detail on page 32. The processes described were followed in the recent search and appointment of Will Samuel and David Scotland as Non-executive Directors on 26 January 2005 and 24 February 2005 respectively.

Information and professional development Board and committee papers are generally distributed six days in advance of the meeting and the Board and its principal committees consider that this timing and the information which has been supplied is sufficient to enable them to discharge their respective duties.

In the case of urgent matters the policy adopted by the Board is to hold a telephone or video conference meeting in which as many Directors as possible can participate. Papers for such meetings are sent to all Directors as far as possible in advance of the meeting to enable them to communicate their views to the Chairman, another participating Director, or the Group Company Secretary before the meeting.

Newly appointed Directors who have not previously held listed company board appointments, receive appropriate external training. An induction process, which includes site visits, has been developed for newly appointed Directors to ensure that they are aware of their responsibilities and are properly apprised of the Group's activities and strategic direction. In addition, the Company has an induction and ongoing training programme, which covers generic induction for new Board members and arrangements for individual coaching and annual best practice updates for the whole of the Board where appropriate. These arrangements are designed to ensure that Directors' skills, knowledge and familiarity with the Company are kept up to date to enable them to fulfil their role both on the Board and on its committees. Ongoing training will continue to be provided by a combination of internal and external resources. Business presentations from the heads of business units have been incorporated into the Board's schedule and the schedule now includes at least one meeting each year at one of the Group's operational locations.

There is a procedure for Directors to take independent professional advice at the Company's expense where relevant to the execution of their duties, although no Director felt it necessary during the year. The Group Company Secretary is responsible for advising the Board through the Chairman on all governance matters and all members of the Board have access to his services and advice.

Performance evaluation During the year, the Chairman put in place a process for evaluating the Board using Towers Perrin, an independent external adviser. All members of the Board were interviewed by Towers Perrin using a detailed questionnaire which was designed to test a range of areas which the Code regards as necessary for good governance. Other key individuals who attend Board or committee meetings or support the Board or the committees in other ways were also interviewed. The results of the evaluation of individual Directors were communicated to them by the Chairman. The evaluation of Board performance was discussed by the Board and by each of the committees in respect of their own performance. The evaluation found that the Board and its committees were generally performing effectively but there were ways in which performance could be improved. Actions were agreed and are being implemented to address the issues which were raised. The Board has agreed that it will carry out evaluations annually. The process will be repeated in 2005 using internal resources and the process for succeeding years will be considered once the next evaluation has been completed and the results are known. The Non-executive Directors, led by the Senior Independent Non-executive Director, are responsible for performance evaluation of the Chairman, taking into account the views of the Executive Directors.

Election and re-election Non-executive Directors are appointed for an initial period of three years, which may be extended by agreement with the Board. All Directors currently on the Board have submitted themselves for election or re-election (as applicable) within the last three years, as required by the Company's Articles of Association. Their terms of appointment are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting for fifteen minutes prior to the meeting and during the meeting.

When considering the election or re-election of a Director, the entire Nomination Committee takes into account the review of his performance. This is particularly rigorous in the case of a Non-executive Director for any term beyond six years. A similar process is applied in considering the appointment or reappointment of a Director to the principal committees.

Board committees

The Board has three principal committees, all with written terms of reference which are available on the Company's website (www.inchcape.com). The Group Company Secretary serves as secretary to all three committees.

Nomination Committee Membership during 2004: Sir John Egan (Chairman), Peter Johnson, Simon Robertson, Ken Hanna and Michael Wemms. Ken Hanna was appointed on 26 February 2004 and Michael Wemms was appointed on 29 July 2004. The other members served throughout the year. Hugh Norton served until his retirement on 13 May 2004 at the 2004 AGM. At all times the majority of members have been Independent Non-executive Directors.

Role: The Nomination Committee meets at least once a year. In 2004 it met six times. It is responsible for leading the process for Board appointments and making recommendations to the Board. Before the Board makes an appointment, the Committee evaluates the balance of skills, knowledge and experience of the Board and in light of this evaluation prepares a description of the role and capabilities required for a particular appointment in consultation with an external search consultant who is appointed to work with the Committee. The consultant prepares a list of potential candidates which is discussed by the Committee and reduced to a shortlist. The shortlist candidates then meet with the Chairman, who is also Chairman of the Committee, and the final candidates meet the other Directors. Following this, and in the light of feedback received, the Committee meets to finalise a recommendation to the Board. A Director may be consulted by the Committee in the course of the process to appoint his successor but it is the policy of the Board that he does not participate in the decision on the appointment.

During the course of the year the Committee met to consider the structure, size and composition of the Board, including the skills, knowledge and experience available. It also considered development and succession plans and these will be considered annually. It made recommendations to the Board regarding the appointment of Michael Wemms as a new Independent Non-executive Director and for his election and for the re-election of Sir John Egan and Peter Johnson at the 2004 AGM. Sir John Egan did not chair the Committee, and neither he nor Peter Johnson participated in the meeting when the recommendations regarding their respective re-election were considered. Having regard to the forthcoming retirement of Trevor Taylor at the end of 2004 and Simon Robertson at the AGM in 2005, it initiated a recruitment process for two Independent Non-executive Directors which resulted in the appointments of Will Samuel and David Scotland.

Remuneration Committee Membership during 2004: Michael Wemms (Chairman), Simon Robertson and Ken Hanna. Hugh Norton served until his retirement at the AGM on 13 May 2004. All the members, other than Hugh Norton who retired during the year, and Michael Wemms, who was appointed on 29 January 2004, served throughout the year. The participation of Sir John Egan on the Committee was reviewed in the year in light of the provisions of the Code. While Sir John Egan continues to attend meetings, he ceased to be a member of the Committee with effect from 29 January 2004. Will Samuel and David Scotland were appointed to the Committee on 26 January 2005 and 24 February 2005 respectively. With the exception of Sir John Egan (member until 29 January 2004), whom the Code does not treat as Independent, the members of the Committee comprised wholly Independent Non-executive Directors during the year and continues to do so.

Role: The Remuneration Committee is responsible for remuneration issues regarding Executive Directors and certain senior executives within the framework recommended by the Committee and approved by the Board. More details are given in the Board report on remuneration on pages 34 to 39.

Audit Committee Membership during 2004: Ken Hanna (Chairman), Simon Robertson and Michael Wemms. Hugh Norton served until his retirement at the AGM on 13 May 2004. All the members, other than Hugh Norton who retired during the year, and Michael Wemms, who was appointed on 29 January 2004, served throughout the year. The participation of Sir John Egan on the Committee was reviewed in the year in light of the provisions of the Code. While Sir John Egan continues to attend meetings, he ceased to be a member of the Committee with effect from 29 January 2004. Will Samuel and David Scotland were appointed to the Committee on 26 January 2005 and 24 February 2005 respectively. With the exception of Sir John Egan (member until 29 January 2004), whom the Code does not treat as independent, the Committee comprised wholly Independent Non-executive Directors during the year and continues to do so.

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

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

Role: The Committee meets at least three times a year. It is responsible for monitoring the integrity of the financial statements of the Company and any formal announcement relating to its financial performance, reviewing internal financial controls and internal control and risk management systems, monitoring and reviewing the effectiveness of the internal audit function, making recommendations to the Board in relation to the appointment and removal of the external auditor, reviewing the external auditor's independence and objectivity and the effectiveness of the audit process, and for policy on the engagement of the external auditor to supply non-audit services. It is also responsible for reviewing the Company's arrangements for employees confidentially to raise concerns about possible improprieties in relation to financial reporting or other matters. In order to fulfil its duties, the Audit Committee receives and challenges presentations or reports from the Group's senior management, consulting as necessary with the external auditors.

Part of the Committee's responsibility in relation to external auditors is to keep their independence and objectivity and the nature and extent of the non-audit services they provide under regular review. The Committee has established policies and procedures in relation to the provision of non-audit services by the external auditors pursuant to which external auditors' services are not permitted on areas such as internal audit, appraisal or valuation services and financial information systems design/implementation. Financial limits are imposed on permitted areas of non-audit work, such as tax advice.

A full statement of the fees paid for audit and non-audit services is provided in note 4b on page 51. Non-audit fees were higher than usual mainly due to the significant work undertaken on the introduction of International Financial Reporting Standards.

Communication with shareholders

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

The Company has an established Investor Relations programme in the course of which the Group Chief Executive and the Group Finance Director have regular meetings with major shareholders to update them on the Company's progress and to discuss any issues that investors may have. During these meetings, shareholders were reminded of the availability of the Chairman, the Senior Independent Non-executive Director and the rest of the Board if they wished to meet them. Any issues arising at such meetings are reported and considered by the Board. In addition, the Company's stockbrokers, UBS, obtain shareholder feedback on a confidential basis from major investors following the meetings and this is reported in summary and considered at Board meetings. The Chairman has written to the largest fifteen shareholders emphasising his availability and that of the Senior Independent Non-executive Director and the rest of the Board, including new Non-executive Directors, should they wish to meet.

The Company makes constructive use of the AGM in accordance with the Code. Private investors are encouraged to participate in the meeting at which the Chairman comments on the performance and outlook for the Company and the Group Chief Executive makes a presentation on operational and strategic issues. In addition to Sir John Egan, who is Chairman of the Nomination Committee, the chairmen of the Audit and Remuneration Committees will be available to answer shareholder questions.

Remuneration report

The Company's policy on executive remuneration with details of the Executive Directors' salaries, annual bonuses, long term incentives and pensions, and fees for the Non-executive Directors appears in the Board report on remuneration on pages 34 to 39.

Internal control

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

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

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

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

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

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

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

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

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

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

Auditor's independence

The Company has an established policy on the provision of non-audit services by the external auditors as shown on page 32 of the report. Through its Audit Committee, the Company has reviewed a report from its auditors, PricewaterhouseCoopers LLP (PwC), confirming, in their professional judgement, their independence. The review included the audit, audit related, tax and consulting services provided by PwC, and compliance with the Group policy introduced in 2003 which prescribes the types of engagements for which external auditors may be used. The Committee also noted that the audit partner is subject to a five year fixed term rotation. Having regard to the policy on the engagement of external auditors for non-audit services, and the report from the auditors, the Company concluded that there are sufficient controls and processes in place to ensure the continued level of independence.

Statement of compliance with the Combined Code

The Company was in compliance throughout the year ended 31 December 2004 with the Code except, as explained above, the proportion of Independent Non-executive Directors on the Board, excluding the Chairman, was less than half. There were certain other exceptions, which are shown below. These were all addressed by the Board on 29 January 2004, its first meeting of the year, after it had concluded its review of its corporate governance practices, policies and procedures in light of the Code.

A.4.1 – The Terms of Reference of the Nomination Committee were revised by the Board and were made available on the Company's website immediately thereafter.

B.2.1 – Sir John Egan ceased to be a member of the Remuneration Committee.

The membership and the Terms of Reference of the Remuneration Committee were revised by the Board and were made available on the Company's website immediately thereafter.

C.3.1 – Sir John Egan ceased to be a member of the Audit Committee.

The membership and the Terms of Reference of the Audit Committee were revised by the Board and were made available on the Company's website immediately thereafter.

Remuneration Committee

The Board has delegated responsibility to the Remuneration Committee for determining and agreeing with the Board the Company's policy and framework for executive remuneration. It is also responsible for setting remuneration packages and terms of employment, including pension rights, for the Chairman, Executive Directors and certain senior executives. This includes agreeing performance incentive arrangements and approving allocations under any long term incentive arrangements, including executive share options.

The members of the Committee during 2004 were Michael Wemms (Chairman), Simon Robertson and Ken Hanna. Hugh Norton served until his retirement on 13 May 2004. All the members, other than Hugh Norton, who retired during the year, and Michael Wemms, who was appointed on 29 January 2004, served throughout the year. The participation of Sir John Egan on the Committee was reviewed in the year in light of the provisions of the Code. While Sir John continues to attend meetings, he ceased to be a member of the Committee on 29 January 2004. Will Samuel and David Scotland were appointed to the Committee on 26 January 2005 and 24 February 2005 respectively. With the exception of Sir John Egan (member until 29 January 2004), whom the Code does not treat as independent, the Committee comprised wholly Independent Non-executive Directors during the year and continues to do so.

Throughout 2004 the Company complied with the remuneration provisions of the Code in respect of Directors. The contents of this report also comply with the Directors' Remuneration Report Regulations 2002 and the relevant requirements of the UKLA Listing Rules.

Committee operation

The Committee holds at least two meetings a year. It has an annual meeting to review the compensation arrangements for each Executive Director and certain senior executives, in advance of the annual salary review on 1 April. It also holds a further meeting to consider policy issues. In addition, ad hoc meetings are held as required. During the year the Committee held eight meetings and details of members' attendance are shown in the table on page 30. Neither the Chairman, nor any executive, is involved in deciding their own remuneration.

The Committee has authority from the Board to obtain the services of external independent advisers, as it may require. Towers Perrin provided advice to the Committee throughout 2004, having been appointed by the Committee as advisers in December 2002. In addition, Towers Perrin provided advice to the Board on Non-executive fees and Board performance and to the Group in connection with the introduction of IFRS 2 in 2005. Each year the chairman of the Committee reviews the use of advisers and he considers the continued appointment of Towers Perrin as appropriate.

In addition to Towers Perrin, the Committee is advised internally by Peter Johnson, Group Chief Executive, Roy Williams, Group Company Secretary and Nick Smith, Group Human Resources Director. These external and internal sources of advice and data available to the Committee, together with consideration of the levels of pay increases for other employees and the remuneration policy outlined below, provide a framework for the decision making process.

Remuneration policy

In establishing its remuneration policy and practice, the Committee had regard to the need to continue to support the Company's business strategy, to allow the Company to motivate and retain its executive management and, where necessary, recruit executives of high quality. The Committee was also guided by the following principles:

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

The remuneration packages for the Executive Directors are made up of both fixed and variable elements as described below. In broad terms, if the Group meets its target levels of performance, the expected value of the variable elements will account for approximately 45.0% to 50.0% of the Executive Directors' total remuneration and, if the Group achieves outstanding results, approximately 60.0% to 65.0%. If target performance levels are not met, then no pay out would be made under the incentive plans. Total remuneration for these purposes comprises base salary, annual bonus and long term incentives.

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

Base salary

Base salaries are set by the Committee, taking into account the individual's level of responsibility, experience, and performance, along with salary levels in comparable companies. The comparator group is made up of twenty five general industry companies, almost all being companies in the FTSE mid 250 index. Those companies were chosen because they are of a similar size and complexity (measured in terms of revenues, market capitalisation, employee numbers and international scope) as the Company. Executive Directors' salary increases in 2004 took into account the relevant median data from this comparative group, and the individual's performance, as well as the continuing excellent performance of the Company. Base salary is the only element of remuneration which is pensionable.

Annual bonus

During 2004 the Executive Directors participated in a bonus plan based solely on profit before tax (PBT). Peter Johnson's bonus plan yields a bonus of 40.0% of base salary if target performance is achieved and higher payments for performance above target to a maximum of 90.0% of base salary. Graeme Potts and Alan Ferguson's bonus plans yield a bonus of 30.0% of base salary if target performance is achieved and higher payments for performance above target to a maximum of 70.0% of base salary. In 2004, the Company's PBT significantly exceeded performance targets set at the start of the year for the bonus plan. This has resulted in Peter Johnson receiving a bonus of 90.0% of his salary, and Graeme Potts and Alan Ferguson receiving bonuses of 70.0% of their salaries, as set out in the remuneration table on page 37.

For 2005, an additional performance measure has been introduced, covering stock ageing and churn, as the Committee feels this is an appropriate measure to monitor the quality of earnings as well as absolute profit before tax. This will represent 10.0% of annual bonus payment.

Deferred bonus plan

Changes to the Inchcape Deferred Bonus Plan were approved by shareholders in 2004. The Plan is a voluntary one available to Executive Directors and certain other senior executives. The purpose of the Plan is to give participants a share linked reward that is related to the participant's commitment to maintaining a shareholding in the Company. Details of awards made to Executive Directors in 2004 under the Plan are shown in note 3 on page 39.

From 2004, participants may invest a minimum of 10.0% and a maximum of 75.0% of any net of tax bonus award to acquire ordinary shares in the Company. These shares will then be matched with a one for one matching share at the end of a three year period. In addition, to comply with current best practice and to align Executive Directors' rewards under the Plan to shareholders' interests, there is a performance condition attaching to the vesting of their matching shares. That test is EPS growth of RPI +3.0% per annum, with no retesting. EPS has been chosen because the Committee believes the key to the Company delivering value to shareholders is through continued strong earnings growth over the long term. EPS will be measured in the same manner as for the Share Option Plan. Subject to that performance condition being met, a Director's shares being held in trust for three years and the Director remaining an employee of the Group, he or she will become entitled to be awarded shares to an amount equal to the gross amount of the bonus used to acquire ordinary shares in the Company.

In previous years, Executive Directors could invest a minimum of 10.0% and a maximum of 50.0% of any bonus award to acquire ordinary shares in the Company, with no performance conditions attached to the vesting of matching shares.

Executive share option plan

Changes to the Inchcape 1999 Share Option Plan were approved by shareholders in 2004. Under the Plan, share options are granted to Executive Directors and certain other senior executives throughout the Group. The option price is calculated by rounding up the arithmetic average of the market quotations of a share for the three dealing days immediately preceding the date of grant. The 2004 grant of share options covered 258 participants across the world. Details of share options granted to Executive Directors in 2004 are shown in note 3 on pages 38 and 39.

Options granted following the 2004 AGM vest according to a sliding scale: 25.0% of the award will vest if earnings per share (EPS) growth of RPI +3.0% per annum is achieved over the initial three year period, with all of the award vesting if EPS growth is RPI +8.0% per annum. Options will vest on a straight line basis between these two points. No options will vest if EPS growth is less than RPI +3.0% per annum. There will be no retesting.

The Committee has retained EPS as the performance measure to ensure that Executive Directors only receive rewards if there is significant and sustained improvement in the underlying financial performance of the Company. EPS will continue to be the Headline earnings per ordinary share as shown in the Company's reported accounts as this provides an independently verifiable measure, which excludes volatile one off matters such as exceptional items and goodwill amortisation. In exceptional circumstances, the Committee has the right to adjust the published EPS, as it considers appropriate. If this were to be the case, any adjustment would be disclosed in this report. In light of changes to accounting standards, the Remuneration Committee will make necessary adjustments to ensure a consistent basis in respect to the EPS measure used to evaluate performance.

During the year, the Committee made annual grants of two times base salary taking into account the Executive Directors' and the Company's performance. This grant level is necessary to keep the Company's long term incentive provision in line with the market. Grants in excess of the two times limit may be required in the future in the event of new hires or developments in market practice. Therefore the Committee has the flexibility to increase the maximum allowable annual grant level in the Plan rules to four times base salary if required.

SAYE share option scheme

The Inchcape SAYE share option scheme was renewed for another ten years with approval from shareholders in 2004. It is open to employees in the UK with at least three months service. Participants make monthly savings for a three year period. At the end of the savings period share options become exercisable within a six month period.

Executive share ownership

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

At the end of the year, by reference to the share price at that date, the Group Chief Executive and the Group Finance Director held shares equating to 210.0% and 230.0% of their basic salaries respectively. The Managing Director, Inchcape UK and Europe, who joined the Company in September 2002, holds shares to a value of 86.0% of his base salary.

Retirement benefits

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

Pensions in payment are guaranteed to increase in line with the lesser of 5.0% and the increase in the RPI. A lump sum benefit of four times base salary is provided, on death in service, along with a spouse's pension of two thirds of the member's pension. Children's pensions may also be payable, up to one third of the member's pension. In the case of Executive Directors and certain other senior executives appointed after 1 June 1989 the benefits under the Inchcape Group (UK) Pension Scheme are in respect of capped base salary. For those Executive Directors and certain other senior executives whose base salary is capped, a separate life assurance exists to supplement the approved life cover to a total lump sum benefit of four times base salary on death in service. Executives whose base salary is capped are paid a monthly cash supplement to enable them to make their own pension arrangements. The two Executive Directors who received such supplements in the year are Peter Johnson and Graeme Potts. Details of the amounts paid are shown in note 1 on page 37.

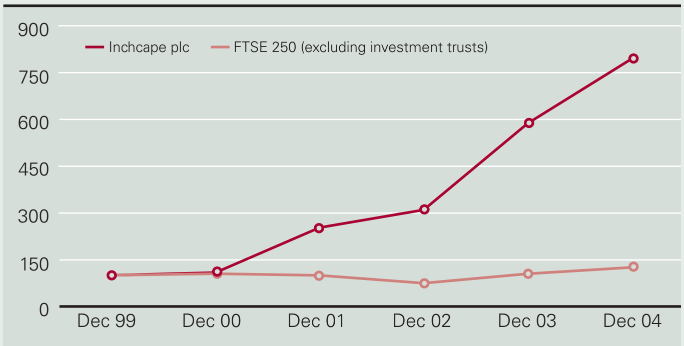
Taxable and other benefits

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

Performance graph

The following graph illustrates the Group's Total Shareholder Return (TSR) over a five year period, relative to the performance of the total return index of the FTSE mid 250 group of companies. TSR is essentially share price growth plus reinvested dividends. The FTSE mid 250 has been chosen as the most suitable comparator as it is the general market index in which Inchcape plc appears.

Historical TSR performance £100 holding



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

Chairman's remuneration

During the year the Chairman's remuneration was determined by the Committee, taking advice from Towers Perrin on best practice and competitive levels, taking into account responsibilities and time commitment.

The Chairman is not eligible for pension scheme membership or participation in any of the Company's bonus, share option or other incentive schemes.

Non-executive Directors' remuneration

The remuneration of Non-executive Directors consists of fees for their services in connection with Board and Committee meetings. Non-executive Directors fees are determined by the Board, within the restrictions contained in the Articles of Association. Fees are reviewed annually, with the Board taking advice from Towers Perrin on best practice and competitive levels, taking into account the individual's responsibilities and time commitment. The Non-executive Directors are not involved in deciding their fees.

Non-executive Directors are not eligible for pension scheme membership or participation in any of the Company's bonus, share option or other incentive schemes.

Service contracts

The Executive Directors have service contracts with a notice period of one year. In the event of termination, the Company will seek fair mitigation of contractual rights. Within legal constraints, the Remuneration Committee tailors its approach, in cases of early termination, to the circumstances of each individual case.

Details of the Executive Directors' service contracts are as follows:

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

Normal retirement age is sixty. Their contracts include entitlements to compensation if their employment is terminated without proper notice by the Company within six months of a change of control. In those circumstances, the compensation payable would not exceed the value of twelve months' remuneration being salary, bonus, pension and company car benefit.

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

As explained in the Corporate Governance Report, Non-executive Directors are appointed for an initial period of three years, which may be extended by agreement with the Board. None of them are engaged on a service contract with the Company.

Policy on external appointments

Inchcape recognises that its Executive Directors may well be invited to become Non-executive Directors of other companies and that this additional experience is likely to benefit the Company. Executive Directors are, therefore, allowed to accept one Non-executive appointment (two in the case of the Group Chief Executive) as long as these are not likely to lead to conflicts of interest or undue time commitments. The policy in respect of the Executive Directors' other commitments is kept under review by the Nomination Committee. Any fees received for these duties may be retained by the Executive Director.

The Group Chief Executive currently holds only one external directorship. He is a Non-executive Director of Wates Group Limited, for which he receives a fee of £32,000.

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

1 Individual emoluments for the year

The table below shows a breakdown of remuneration, including taxable and other benefits of each Director. Details of pension entitlements and share options held are shown in notes 2 and 3 on pages 38 and 39.

	Base salary/fees		Bonus (f)		Taxable and other benefits (h)		Total remuneration excluding Company contributions paid in year in respect of pension arrangements		Company contributions paid in year in respect of pension arrangements		Total remuneration	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000
Sir John Egan	**152.5**	140.0	**–**	–	**21.9**	18.7	**174.4**	158.7	**–**	–	**174.4**	158.7
Peter Johnson (a) (f)	**602.5**	522.5	**549.0**	348.0	**29.3**	26.4	**1,180.8**	896.9	**250.6**	214.4	**1,431.4**	1,111.3
Alan Ferguson (f)	**342.5**	315.0	**245.0**	192.0	**18.0**	17.2	**605.5**	524.2	**–**	–	**605.5**	524.2
Graeme Potts (b) (f)	**355.0**	334.1	**252.0**	102.0	**32.7**	23.5	**639.7**	459.6	**76.2**	71.3	**715.9**	530.9
Trevor Taylor (retired 31 December 2004)	**30.0**	29.0	**–**	–	**–**	–	**30.0**	29.0	**–**	–	**30.0**	29.0
Hugh Norton (c) (d) (retired 13 May 2004)	**17.4**	54.6	**–**	–	**–**	–	**17.4**	54.6	**–**	–	**17.4**	54.6
Simon Robertson	**42.0**	39.0	**–**	–	**–**	–	**42.0**	39.0	**–**	–	**42.0**	39.0
Raymond Ch'ien (e)	**30.0**	29.0	**–**	–	**13.2**	14.3	**43.2**	43.3	**–**	–	**43.2**	43.3
Ken Hanna (d)	**45.2**	42.1	**–**	–	**–**	–	**45.2**	42.1	**–**	–	**45.2**	42.1
Michael Wemms (d)	**39.8**	–	**–**	–	**–**	–	**39.8**	–	**–**	–	**39.8**	–
Total	**1,656.9**	1,505.3	**1,046.0**	642.0	**115.1**	100.1	**2,818.0**	2,247.4	**326.8**	285.7	**3,144.8**	2,533.1

(a) The payment of £250,625 (2003 – £214,405) was paid directly to Peter Johnson to allow him to make his own pension arrangements outside the Company's plan. Such payment was subject to tax.

(b) The payment of £76,175 (2003 – £71,310) was paid directly to Graeme Potts to allow him to make his own pension arrangements outside the Company's plan. Such payment was subject to tax.

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

(d) The details shown include fees of £2,083 to Hugh Norton and £5,417 to Michael Wemms for chairing the Remuneration Committee and £7,500 to Ken Hanna for chairing the Audit Committee.

(e) The emoluments shown for Raymond Ch'ien include those in respect of services provided in Asia.

(f) Executive Directors may elect to invest up to 75.0% (2003 and prior – 50.0%) of their annual bonus in the Deferred Bonus Plan. The invested monies are grossed up by the Company to remove the effect of tax on that portion of the executive's bonus and the grossed up amount is used by the Company to purchase ordinary shares (Awarded shares), which are held in trust for the executive. Provided certain conditions are met, the Awarded shares will vest and the executive may exercise his rights under the Plan at any time during the six month exercise period. Details of Awarded shares are set out in the Deferred bonus plan table on page 39.

(g) No Directors waived emoluments in respect of the year ended 31 December 2004 (2003 – none).

(h) Taxable and other benefits comprise items such as company car, medical care, life assurance premiums and petrol allowance. All Executive Directors are entitled to such benefits.

2 Directors' pension entitlements

Accrued annual pension under defined benefit schemes

	Increase in accrued pension during the year £'000	Increase in accrued pension during the year net of inflation £'000	Accumulated total of accrued pension at 31.12.04 £'000	Transfer value of the increase in accrued benefit net of inflation 31.12.04 £'000	Transfer value of accrued benefits at 31.12.04 (a) £'000	Transfer value of accrued benefits at 01.01.04 (b) £'000	Difference in transfer value (a) – (b) £'000
Peter Johnson	4.4	3.4	33.4	56.6	560.8	449.6	111.2
Alan Ferguson	23.5	17.9	183.3	216.3	2,215.2	1,877.2	338.0
Graeme Potts	3.5	3.4	7.6	31.3	71.0	36.6	34.4
Total	31.4	24.7	224.3	304.2	2,847.0	2,363.4	483.6

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

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

3 Directors' share options

	Held at 31.12.04	Granted during the year	Exercised during the year	Held at 01.01.04 (or date of appointment, if later)	Exercise price (d)	Exercise period
Peter Johnson (highest paid Director)	–	–	104,166 (c)	104,166 (a)	384.0p	Mar 2004 – Mar 2011
	63,065 (a)	–	–	63,065 (a)	685.0p	Mar 2005 – Mar 2012
	61,679 (a)	–	–	61,679 (a)	762.0p	Mar 2006 – Mar 2013
	1,549 (b)	–	–	1,549 (b)	610.0p	Jun 2006 – Dec 2006
	77,608 (a)	77,608 (a)	–	–	1572.0p	May 2007 – May 2014
Alan Ferguson	35,000 (a)	–	–	35,000 (a)	284.0p	Aug 2003 – Aug 2010
	–	–	52,083 (c)	52,083 (a)	384.0p	Mar 2004 – Mar 2011
	33,576 (a)	–	–	33,576 (a)	685.0p	Mar 2005 – Mar 2012
	39,370 (a)	–	–	39,370 (a)	762.0p	Mar 2006 – Mar 2013
	1,549 (b)	–	–	1,549 (b)	610.0p	Jun 2006 – Dec 2006
	44,529 (a)	44,529 (a)	–	–	1572.0p	May 2007 – May 2014
Graeme Potts	97,014 (a)	–	–	97,014 (a)	670.0p	Oct 2005 – Oct 2012
	42,650 (a)	–	–	42,650 (a)	762.0p	Mar 2006 – Mar 2013
	1,549 (b)	–	–	1,549 (b)	610.0p	Jun 2006 – Dec 2006
	45,801 (a)	45,801 (a)	–	–	1572.0p	May 2007 – May 2014

(a) Under the Inchcape 1999 Share Option Plan.

(b) Under the Inchcape SAYE Share Option Scheme.

(c) Peter Johnson and Alan Ferguson exercised their options over 104,166 and 52,083 ordinary shares, respectively, on 21 December 2004. At the close of business on the date of exercise the mid market price of the ordinary shares was 1813.0p. Gains of £1,501,032 and £750,516 respectively were made upon the exercising of these options.

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

Notes on share options:

(i) All options were granted for nil consideration.

(ii) The table shows Directors' options over ordinary shares of 150.0p at 1 January 2004 and 31 December 2004. The mid market price of the shares at the close of business on 31 December 2004 was 1955.0p. The price range during 2004 was 1287.0p to 1955.0p.

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

(iv) Options may normally only be exercised if the performance target has been met. For all options granted between 1999 and 2003 under the Inchcape 1999 Share Option Plan, growth in the Company's earnings per share over a three year period must exceed the increase on the UK Retail Price Index over the same period by 3.0% per annum. Options granted after the 2004 AGM vest according to a sliding scale: 25.0% of the option will vest if EPS growth of RPI +3.0% per annum is achieved over the initial three year period, with all of the option vesting if EPS growth is RPI +8.0% per annum. Options will vest on a straight line basis between these points and there is no opportunity to retest.

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

Deferred bonus plan

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

	Awarded ordinary shares 31.12.04	Ordinary shares awarded during the year	Ordinary shares exercised during the year	Awarded ordinary shares 01.01.04	Market value of shares awarded	Exercise period
Peter Johnson	–	–	30,769 (b)	30,769	390.0p	Apr 2004 – Oct 2004
	14,677	–	–	14,677	724.0p	Apr 2005 – Oct 2005
	3,222	–	–	3,222	724.0p	Apr 2005 – Oct 2005
	18,850	–	–	18,850	748.0p	Apr 2006 – Oct 2006
	15,728	15,728	–	–	1647.0p	Jun 2007 – Dec 2007
Alan Ferguson	–	–	15,384 (a)	15,384	390.0p	Apr 2004 – Oct 2004
	6,543	–	–	6,543	698.0p	Mar 2005 – Sep 2005
	3,222	–	–	3,222	724.0p	Apr 2005 – Oct 2005
	5,553	–	–	5,553	750.0p	Mar 2006 – Sep 2006
	6,461	–	–	6,461	748.0p	Apr 2006 – Oct 2006
	8,677	8,677	–	–	1647.0p	Jun 2007 – Dec 2007
Graeme Potts	6,684	–	–	6,684	748.0p	Apr 2006 – Oct 2006
	4,610	4,610	–	–	1647.0p	Jun 2007 – Dec 2007

(a) Alan Ferguson exercised the award granted to him on 12 April 2001, 15,384 ordinary shares, on 4 October 2004. At the close of business on the date of exercise the mid market price of the ordinary shares was 1590.0p.

(b) Peter Johnson exercised the award granted to him on 12 April 2001, 30,769 ordinary shares, on 6 October 2004. At the close of business on the date of exercise the mid market price of the ordinary shares was 1602.0p.

(c) Directors will become entitled to the Awarded shares if they remain employed by the Inchcape Group for three years and retain the shares purchased with their bonus throughout that period. The awards made will normally vest within three years of award. Special rules apply on termination of employment and on a change of control. For awards made after the 2004 AGM to vest, growth in the Company's earnings per share over a three year period must exceed the increase on the UK Retail Price Index over the same period by 3.0% per annum, with no opportunity to retest.

By order of the Board

M. Wemms

Michael Wemms Chairman of the Remuneration Committee
28 February 2005

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 the Group and the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and the Group and 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 the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website. The work carried out by the auditors does not involve consideration of these matters, and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' report to the members of Inchcape plc
We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, and the related notes and the accounting policies. We have also audited the disclosures required by Part III of Schedule 7A to the Companies Act 1985 contained in the Board report on remuneration (the auditable part).

Respective responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Board report on remuneration.

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

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

We read the other information contained in the Annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Contents, the Introduction, the Chairman's statement, the Chief Executive's review, the Operational review, the Financial review, the Corporate social responsibility report, Inchcape in the community, Environment, health and safety, Working for Inchcape, the Corporate governance report, Board of Directors, the Directors' report, the unaudited part of the Board report on remuneration, Directors' responsibilities, the Five year record and Company details.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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

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

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Board report on remuneration required by Part III of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 February 2005

Consolidated profit and loss account

For the year ended 31 December 2004

Notes		Before exceptional items 2004 £m	Exceptional items 2004 £m	Total 2004 £m	Before exceptional items 2003 £m	Exceptional items 2003 £m	Total 2003 £m
1a	**Turnover including share of joint ventures and associates**	**4,170.3**	**–**	**4,170.3**	3,855.2	–	3,855.2
	Less:						
1a	– share of joint ventures	**(16.9)**	**–**	**(16.9)**	(20.0)	–	(20.0)
1a	– share of associates	**(30.7)**	**–**	**(30.7)**	(42.0)	–	(42.0)
1a	Group turnover	**4,122.7**	**–**	**4,122.7**	3,793.2	–	3,793.2
	Cost of sales	**(3,542.8)**	**–**	**(3,542.8)**	(3,223.3)	–	(3,223.3)
	Gross profit	**579.9**	**–**	**579.9**	569.9	–	569.9
3, 4a	Net operating expenses	**(417.0)**	**(7.6)**	**(424.6)**	(445.5)	15.3	(430.2)
	Operating profit	**162.9**	**(7.6)**	**155.3**	124.4	15.3	139.7
1b	Share of profits of joint ventures	**7.1**	**–**	**7.1**	10.0	–	10.0
1b	Share of profits of associates	**0.7**	**–**	**0.7**	0.9	–	0.9
1b	**Total operating profit**	**170.7**	**(7.6)**	**163.1**	135.3	15.3	150.6
6	Net profit on sale of properties and investments	**–**	**1.2**	**1.2**	–	0.9	0.9
6	Net loss on sale and termination of operations	**–**	**(9.0)**	**(9.0)**	–	(0.4)	(0.4)
	Profit on ordinary activities before interest and taxation	**170.7**	**(15.4)**	**155.3**	135.3	15.8	151.1
7	Net interest	**(4.2)**	**4.2**	**–**	(5.0)	22.2	17.2
4b, 10	**Profit on ordinary activities before taxation**	**166.5**	**(11.2)**	**155.3**	130.3	38.0	168.3
8	Tax on profit on ordinary activities	**(42.3)**	**(0.5)**	**(42.8)**	(31.8)	(7.5)	(39.3)
	Profit on ordinary activities after taxation	**124.2**	**(11.7)**	**112.5**	98.5	30.5	129.0
9	Minority interests	**(3.2)**	**–**	**(3.2)**	(2.0)	–	(2.0)
25a	**Profit for the financial year**	**121.0**	**(11.7)**	**109.3**	96.5	30.5	127.0
11	Dividends	**(39.5)**	**–**	**(39.5)**	(29.6)	–	(29.6)
25a	**Retained profit for the financial year**	**81.5**	**(11.7)**	**69.8**	66.9	30.5	97.4

10	Profit before tax (£m)			**155.3**			168.3
10	Basic earnings per share (pence)			**139.4p**			164.8p
10	Diluted earnings per share (pence)			**137.6p**			162.1p
	Headline (before goodwill amortisation £5.5m (2003 – £5.5m) and exceptional items):						
10	– profit before tax (£m)	**172.0**			135.8		
10	– earnings per share (pence)	**161.4p**			132.4p		

Statement of total recognised gains and losses

For the year ended 31 December 2004

Notes		2004 £m	2003 £m
25a	Profit for the financial year	**109.3**	127.0
	Effect of foreign exchange rate changes:		
	– results for the year	**(0.7)**	(2.9)
	– foreign currency net investments: subsidiaries	**(12.3)**	(4.6)
	joint ventures and associates	**(2.3)**	(2.9)
	Total recognised gains for the financial year	**94.0**	116.6

Note of historical cost profits and losses

For the year ended 31 December 2004

	2004 £m	2003 £m
Reported profit on ordinary activities before taxation	**155.3**	168.3
Difference between the historical cost and the actual depreciation charge	**0.1**	0.6
Historical cost profit on ordinary activities before taxation	**155.4**	168.9
Historical cost profit after taxation, minority interests and dividends	**69.9**	98.0

Consolidated and company balance sheets

As at 31 December 2004

Notes		Group 2004 £m	Group 2003 restated £m	Company 2004 £m	Company 2003 restated £m
	Fixed assets:				
12	Intangible assets	**67.6**	60.9	**–**	–
13	Tangible assets	**281.7**	272.9	**–**	–
14	Investments:				
	– subsidiaries	**–**	–	**1,183.2**	1,186.2
	– joint ventures: share of gross assets	**294.0**	257.1		
	share of gross liabilities	**(256.2)**	(216.7)		
	share of net assets	**37.8**	40.4	**–**	–
	– associates	**3.2**	26.2	**–**	–
	– other investments	**1.5**	0.8	**–**	–
		391.8	401.2	**1,183.2**	1,186.2
	Current assets:				
15	Stocks	**643.6**	597.8	**–**	–
16	Debtors:				
	– amounts due within one year	**197.3**	235.0	**4.3**	2.0
	– amounts due after more than one year	**18.2**	11.3	**155.5**	202.6
17	Investments	**13.1**	13.8	**–**	–
26b	Cash at bank and in hand	**171.2**	102.9	**16.4**	21.7
		1,043.4	960.8	**176.2**	226.3
	Creditors – amounts falling due within one year:				
18a	Borrowings	**(15.6)**	(23.2)	**(2.2)**	(0.4)
18b	Other	**(739.3)**	(709.1)	**(33.1)**	(25.7)
		(754.9)	(732.3)	**(35.3)**	(26.1)
	Net current assets	**288.5**	228.5	**140.9**	200.2
	Total assets less current liabilities	**680.3**	629.7	**1,324.1**	1,386.4
	Creditors – amounts falling due after more than one year:				
19a	Borrowings	**(1.8)**	(0.6)	**–**	–
19b	Other	**(45.0)**	(56.5)	**(639.2)**	(755.5)
		(46.8)	(57.1)	**(639.2)**	(755.5)
21	**Provisions for liabilities and charges**	**(82.3)**	(87.0)	**(16.5)**	(25.1)
	Net assets	**551.2**	485.6	**668.4**	605.8
	Capital and reserves:				
24a, 25	Called-up share capital	**119.5**	118.4	**119.5**	118.4
25	Share premium account	**110.8**	109.1	**110.8**	109.1
25	Revaluation reserve	**28.0**	29.1	**–**	–
25	Capital redemption reserve	**16.4**	16.4	**16.4**	16.4
25	Profit and loss account	**268.8**	206.0	**421.7**	361.9
	Equity shareholders' funds	**543.5**	479.0	**668.4**	605.8
	Minority interests	**7.7**	6.6	**–**	–
		551.2	485.6	**668.4**	605.8

The financial statements on pages 42 to 79 were approved by the Board of Directors on 28 February 2005 and were signed on its behalf by:

Directors
Peter Johnson
Alan Ferguson

Reconciliation of operating profit to operating cash flows

Notes		2004 £m	2003 restated £m
	Operating profit	**155.3**	139.7
4b(i), 12	Amortisation	**5.5**	5.2
3, 12	Impairment of goodwill	**9.4**	–
4b(i), 13	Depreciation	**27.3**	26.6
4b(i)	(Profit) loss on sale of tangible fixed assets other than property	**(0.6)**	1.7
	Increase in stocks	**(28.9)**	(75.2)
	Decrease (increase) in trade debtors	**10.1**	(4.0)
	(Decrease) increase in trade creditors	**(12.7)**	78.9
	Payments in respect of termination of operations	**(1.5)**	(3.1)
	Other items*	**13.3**	(18.1)
	Net cash inflow from operating activities	**177.2**	151.7

Consolidated cash flow statement

Notes		2004 £m	2003 restated £m
	Net cash inflow from operating activities	**177.2**	151.7
	Dividends from joint ventures	**4.6**	4.3
	Dividends from associates	**0.3**	1.9
27a	Returns on investments and servicing of finance*	**15.5**	(1.6)
	Taxation	**(36.9)**	(28.5)
27b	Capital expenditure and financial investment	**(34.8)**	(33.6)
		125.9	94.2
27c	Net cash outflow from acquisitions and disposals	**(1.4)**	(0.5)
	Equity dividends paid	**(32.2)**	(25.4)
	Net cash inflow before management of liquid resources and financing	**92.3**	68.3
	Net cash (outflow) inflow from the management of liquid resources	**(44.1)**	6.7
27e	Net cash outflow from financing	**(15.4)**	(64.7)
26a	**Increase in net cash**	**32.8**	10.3

Reconciliation of net cash flow to movement in net funds

Notes		2004 £m	2003 restated £m
	Increase in net cash	**32.8**	10.3
26a	Net cash outflow from decrease in debt and lease financing	**18.3**	67.2
26a	Net cash outflow (inflow) from the management of liquid resources	**44.1**	(6.7)
	Change in net cash resulting from cash flows	**95.2**	70.8
26a	Effect of foreign exchange rate changes on cash and debt	**(13.1)**	(8.3)
27d	Net loans and finance leases relating to acquisitions	**(7.4)**	–
	Movement in net funds	**74.7**	62.5
	Opening net funds	**79.1**	16.6
26a	**Closing net funds**	**153.8**	79.1

*Net cash inflows include £37.0m for the VAT receipt (note 3), of which £15.5m is reported within Other items and £21.5m (2003 – £1.4m) within Returns on investments and servicing of finance. In addition, £(1.8)m (2003 – £(14.3)m) of non-cash is reported within Other items in respect of the VAT recovery.

Accounting policies

a **Accounting convention**

The financial statements have been prepared on the historical cost basis, modified to include the revaluation of certain tangible fixed assets, in accordance with the Companies Act 1985 and applicable UK accounting standards which have been applied on a consistent basis for all Group operations. UITF Abstract 38 Accounting for ESOP Trusts has been adopted in full with effect from 1 January 2004 and prior year comparatives have been restated accordingly.

b **Basis of consolidation**

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

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

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

c **Turnover and cost of sales**

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

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

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

Cost of sales includes the expense relating to the estimated cost of self-insured warranties offered to customers. These warranties form part of the package of goods and services provided to the customer when purchasing a vehicle and are not a separable product.

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

d **Foreign currencies**

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

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

e **Financial instruments**

Financial instruments are used to manage the Group's exposure to fluctuations in foreign currency exchange rates. Instruments accounted for as hedges are designated as a hedge at the inception of 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 and losses on the related borrowing. Gains and losses arising on hedging instruments which are cancelled due to the termination of underlying exposure are taken to the profit and loss account immediately.

f **Goodwill**

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

Goodwill arising on acquisitions made after the adoption of FRS 10 Goodwill and Intangible Assets in 1998 is capitalised and is amortised on a straight line basis over its separately evaluated useful life of up to twenty years. The carrying value of goodwill is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Historical goodwill arising on acquisitions made before 1998 has been charged to the profit and loss account reserve. On disposal, or in the event of identification of total and permanent impairment, a charge is taken to the profit and loss account.

g **Tangible fixed assets**

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

Freehold buildings and long leasehold land and buildings	2.0%
Short leasehold land and buildings	term of lease
Plant, machinery and equipment	5.0% – 33.3%
Major computer software applications	20.0% – 33.3%

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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 Tangible Fixed Assets 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.

h **Investments**

Both fixed and current asset investments are stated at cost, less provisions for impairment.

i **Vacant leasehold property**

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

j **Stocks and work in progress**

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

k **Leases**

As lessee – assets held within finance leases are treated as if they had been purchased at the present value of the minimum lease payments. This cost is included within 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.

l **Deferred taxation**

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

m **Post-retirement benefits**

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

1 Segmental analysis

	Group subsidiaries		Share of joint ventures		Share of associates		Total	
a **Turnover**	**2004 £m**	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
(i) **By geographical market:**								
UK	**1,331.6**	1,244.8	**5.2**	7.7	**28.6**	40.0	**1,365.4**	1,292.5
Greece/Belgium	**879.3**	820.5	**1.9**	2.9	**2.1**	2.0	**883.3**	825.4
Australia/New Zealand	**597.6**	529.3	**–**	–	**–**	–	**597.6**	529.3
Hong Kong	**237.2**	224.3	**9.8**	9.4	**–**	–	**247.0**	233.7
Singapore/Brunei	**689.0**	614.3	**–**	–	**–**	–	**689.0**	614.3
Other	**388.0**	360.0	**–**	–	**–**	–	**388.0**	360.0
	4,122.7	3,793.2	**16.9**	20.0	**30.7**	42.0	**4,170.3**	3,855.2
(ii) **By activity:**								
Import, Distribution and Retail	**2,964.3**	2,753.5	**0.8**	1.1	**26.1**	38.0	**2,991.2**	2,792.6
UK Retail	**1,104.9**	989.5	**–**	–	**–**	–	**1,104.9**	989.5
Financial Services	**53.4**	50.0	**16.1**	18.9	**4.6**	4.0	**74.1**	72.9
E-commerce	**0.1**	0.2	**–**	–	**–**	–	**0.1**	0.2
	4,122.7	3,793.2	**16.9**	20.0	**30.7**	42.0	**4,170.3**	3,855.2

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

1 Segmental analysis continued

b Total operating profit

	Group subsidiaries 2004 £m	Group subsidiaries 2003 £m	Share of joint ventures 2004 £m	Share of joint ventures 2003 £m	Share of associates 2004 £m	Share of associates 2003 £m	Total 2004 £m	Total 2003 £m
(i) By geographical market:								
UK before exceptional item	**21.2**	15.5	**1.8**	1.2	**0.1**	0.4	**23.1**	17.1
Goodwill impairment (note 3)	**(9.4)**	–	**–**	–	**–**	–	**(9.4)**	–
UK	**11.8**	15.5	**1.8**	1.2	**0.1**	0.4	**13.7**	17.1
Greece/Belgium	**32.7**	27.6	**0.9**	4.2	**0.6**	0.5	**34.2**	32.3
Australia/New Zealand	**27.1**	21.2	**–**	–	**–**	–	**27.1**	21.2
Hong Kong	**25.4**	18.0	**4.4**	4.6	**–**	–	**29.8**	22.6
Singapore/Brunei	**55.4**	46.9	**–**	–	**–**	–	**55.4**	46.9
Other	**18.7**	12.8	**–**	–	**–**	–	**18.7**	12.8
	171.1	142.0	**7.1**	10.0	**0.7**	0.9	**178.9**	152.9
Central costs	**(17.6)**	(17.6)	**–**	–	**–**	–	**(17.6)**	(17.6)
VAT recovery, Central (note 3)	**1.8**	15.3	**–**	–	**–**	–	**1.8**	15.3
	155.3	139.7	**7.1**	10.0	**0.7**	0.9	**163.1**	150.6
(ii) By activity:								
Import, Distribution and Retail before exceptional item	**155.6**	125.0	**0.1**	(0.7)	**(0.8)**	(0.9)	**154.9**	123.4
Goodwill impairment (note 3)	**(9.4)**	–	**–**	–	**–**	–	**(9.4)**	–
Import, Distribution and Retail	**146.2**	125.0	**0.1**	(0.7)	**(0.8)**	(0.9)	**145.5**	123.4
UK Retail	**16.9**	12.8	**–**	–	**–**	–	**16.9**	12.8
Financial Services	**7.8**	4.9	**7.0**	10.7	**1.5**	1.8	**16.3**	17.4
E-commerce	**0.2**	(0.7)	**–**	–	**–**	–	**0.2**	(0.7)
	171.1	142.0	**7.1**	10.0	**0.7**	0.9	**178.9**	152.9
Central costs	**(17.6)**	(17.6)	**–**	–	**–**	–	**(17.6)**	(17.6)
VAT recovery, Central (note 3)	**1.8**	15.3	**–**	–	**–**	–	**1.8**	15.3
	155.3	139.7	**7.1**	10.0	**0.7**	0.9	**163.1**	150.6
(iii) Operating profit before exceptional items and goodwill amortisation:								
Operating profit	**155.3**	139.7	**7.1**	10.0	**0.7**	0.9	**163.1**	150.6
VAT recovery (note 3)	**(1.8)**	(15.3)	**–**	–	**–**	–	**(1.8)**	(15.3)
Goodwill impairment (note 3)	**9.4**	–	**–**	–	**–**	–	**9.4**	–
Goodwill amortisation (note 4)	**5.5**	5.2	**–**	0.3	**–**	–	**5.5**	5.5
	168.4	129.6	**7.1**	10.3	**0.7**	0.9	**176.2**	140.8

Of the £5.5m (2003 – £5.2m) subsidiaries' goodwill amortisation, £4.0m (2003 – £3.5m) relates to the UK, £0.1m (2003 – £0.4m) to Greece/Belgium, £0.5m (2003 – £0.5m) to Australia/New Zealand, £0.7m (2003 – £0.8m) to Singapore/Brunei and £0.2m (2003 – £nil) to Other.

The £nil (2003 – £0.3m) joint ventures' goodwill amortisation is included within the UK segment.

Goodwill amortisation with the exception of £1.6m (2003 – £1.1m) in UK Retail, relates entirely to Import, Distribution and Retail.

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

Interest is not split by segment as this would not provide meaningful information.

1 Segmental analysis continued

c Net assets (liabilities)	Group subsidiaries 2004 £m	Group subsidiaries 2003 restated £m	Share of joint ventures 2004 £m	Share of joint ventures 2003 £m	Share of associates 2004 £m	Share of associates 2003 £m	Total 2004 £m	Total 2003 restated £m
(i) **By geographical market:**								
UK	**279.7**	241.1	**2.2**	4.2	**0.8**	23.9	**282.7**	269.2
Greece/Belgium	**4.5**	4.8	**2.4**	2.7	**2.4**	2.3	**9.3**	9.8
Australia/New Zealand	**(8.7)**	(0.7)	**–**	–	**–**	–	**(8.7)**	(0.7)
Hong Kong	**27.2**	27.6	**33.2**	33.5	**–**	–	**60.4**	61.1
Singapore/Brunei	**68.8**	58.3	**–**	–	**–**	–	**68.8**	58.3
Other	**77.1**	69.8	**–**	–	**–**	–	**77.1**	69.8
	448.6	400.9	**37.8**	40.4	**3.2**	26.2	**489.6**	467.5
Net cash	**153.8**	79.1	**–**	–	**–**	–	**153.8**	79.1
Other unallocated assets and liabilities*	**(92.2)**	(61.0)	**–**	–	**–**	–	**(92.2)**	(61.0)
	510.2	419.0	**37.8**	40.4	**3.2**	26.2	**551.2**	485.6
(ii) **By activity:**								
Import, Distribution and Retail	**238.3**	240.8	**0.3**	0.3	**–**	18.4	**238.6**	259.5
UK Retail	**196.3**	149.7	**–**	–	**–**	–	**196.3**	149.7
Financial Services	**14.1**	10.3	**37.5**	40.1	**3.2**	7.8	**54.8**	58.2
E-commerce	**(0.1)**	0.1	**–**	–	**–**	–	**(0.1)**	0.1
	448.6	400.9	**37.8**	40.4	**3.2**	26.2	**489.6**	467.5
Net cash	**153.8**	79.1	**–**	–	**–**	–	**153.8**	79.1
Other unallocated assets and liabilities *	**(92.2)**	(61.0)	**–**	–	**–**	–	**(92.2)**	(61.0)
	510.2	419.0	**37.8**	40.4	**3.2**	26.2	**551.2**	485.6

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

d Average number of employees	Group subsidiaries 2004	Group subsidiaries 2003	Joint ventures 2004	Joint ventures 2003	Associates 2004	Associates 2003	Total 2004	Total 2003
Import, Distribution and Retail	**6,267**	6,023	**32**	40	**277**	553	**6,576**	6,616
UK Retail	**3,246**	2,986	**–**	–	**–**	–	**3,246**	2,986
Financial Services	**255**	230	**131**	158	**16**	17	**402**	405
E-commerce	**12**	15	**–**	–	**–**	–	**12**	15
Total operational	**9,780**	9,254	**163**	198	**293**	570	**10,236**	10,022
Corporate	**64**	60	**–**	–	**–**	–	**64**	60
	9,844	9,314	**163**	198	**293**	570	**10,300**	10,082

2 Prior year adjustment

The adoption of UITF Abstract 38 Accounting for ESOP Trusts (and the consequent amendment to UITF Abstract 17 Employee Share Schemes) has resulted in a reclassification of own shares of £5.5m at 1 January 2003 and £6.4m at 31 December 2003 from investments to equity shareholders' funds. The associated share scheme creditor of £1.7m at 1 January 2003 and £2.3m at 31 December 2003 has been reclassified from creditors to equity shareholders' funds. This adjustment has no impact on profit in the current or prior year. The cash outflow of £0.9m for the year ended 31 December 2003 for the net purchase of own shares has been reclassified from other items to net cash outflow from financing.

3 Exceptional items charged before operating profit

	2004 £m	2003 £m
VAT recovery, Central	**1.8**	15.3
Goodwill impairment, UK	**(9.4)**	–
	(7.6)	15.3

HM Customs and Excise has agreed a further element of the claims submitted in mid 2003 for the recovery of overpaid VAT for the period 1973 to 1994. This resulted in a further recovery of £1.8m (2003 – £15.3m) and £4.2m (2003 – £22.2m) of associated interest income. A charge for corporation tax of £0.5m (2003 – £7.5m) has been made in respect of this income.

The goodwill impairment relates to Inchcape Automotive Limited, reflecting the more difficult trading conditions experienced by that business. In accordance with FRS 11 Impairment of Fixed Assets and Goodwill, the carrying value of Inchcape Automotive Limited's fixed assets have been compared to their estimated recoverable amount, represented by their value in use to the Group. This has been derived using cash flow projections discounted at a pre-tax rate of 11.5%.

4 Operating profit

		2004 £m	2003 £m
a	**Analysis of net operating expenses**		
	Distribution costs	**226.6**	241.6
	Administrative expenses (includes goodwill amortisation £5.5m (2003 – £5.5m) and impairment £9.4m (2003 – £nil))	**205.3**	207.9
	Other operating income (includes VAT recovery £1.8m (2003 – £15.3m))	**(7.3)**	(18.7)
	Utilisation of termination provisions	**–**	(0.6)
	Net operating expenses	**424.6**	430.2

b	**Profit on ordinary activities before taxation is stated after the following charges (credits):**		
(i)	Amortisation of goodwill – subsidiaries	**5.5**	5.2
	Amortisation of goodwill – joint ventures and associates	**–**	0.3
	Depreciation of tangible fixed assets	**27.3**	26.6
	(Profit) loss on sale of tangible fixed assets other than property	**(0.6)**	1.7
	Hire of plant, machinery and equipment	**1.8**	1.6
	Other operating lease rentals payable	**26.7**	22.5
	Auditors' remuneration:		
	– UK statutory audit (Company: £0.1m; 2003 – £0.1m)	**0.7**	0.7
	– Overseas statutory audit	**0.7**	0.6
	– Non-audit fees: tax advice (UK: £0.3m; 2003 – £0.2m)	**0.6**	0.6
	due diligence and other audit related work* (UK: £0.3m; 2003 – £nil)	**0.5**	0.2
	Total PricewaterhouseCoopers LLP audit and non-audit fees	**2.5**	2.1
	Audit fees and expenses – firms other than PricewaterhouseCoopers LLP	**0.1**	0.1

*Due diligence and other audit related work in 2004 solely comprises fees of £0.5m in respect of the Group's International Financial Reporting Standards conversion project.

		2004 £m	2003 £m
(ii)	Staff costs		
	Wages and salaries	**219.1**	200.9
	Social security costs	**22.6**	22.2
	Other pension costs	**10.2**	9.3
	Total employment costs of the Company and its subsidiaries	**251.9**	232.4

Information on Directors' emoluments and interests, which forms part of these audited financial statements, is given in the notes to the Board report on remuneration (the auditable part).

5 Pensions and other post-retirement benefits

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

Pensions – UK schemes

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

These are considered below.

Open schemes

Inchcape Group (UK) Pension Scheme

The latest actuarial valuation for this scheme was carried out at 31 March 2003 on a market related basis.

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

Inchcape Motors Pension Scheme

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

The main assumptions are weighted average investment return of 6.8%, salary increase of 4.5% and pension increase of 2.5%. The market value of the assets covered 90.7% of the benefits that had accrued to members after allowing for expected future salary increases. The market value of the assets at the date of the valuation was £89.1m, and the deficit was £9.6m. The level of contributions has been increased to address this deficit.

Closed scheme

TKM Group Pension Scheme

The latest actuarial valuation for this closed scheme was carried out at 5 April 2004 on a market related basis.

The main assumptions are weighted average investment return of 5.4% and pension increase of 3.2%. The market value of the assets covered 102.3% of the benefits that had accrued to members. The market value of the assets at the date of the valuation was £232.8m, and the surplus was £5.3m. The scheme has a prudent investment strategy and at 5 April 2004, the scheme had only 0.9% invested in equities.

5 Pensions and other post-retirement benefits continued

Pensions – Overseas schemes

The assets of all overseas schemes had a market value of £98.4m based on the latest actuarial valuations. This included £80.8m of assets held in the Inchcape Group Overseas Scheme managed from Guernsey. In note 5b, in line with FRS 17, this scheme is included in the UK segment. The actuarial assumptions used for overseas schemes were consistent with local practice. The actuarial valuations of the total assets covered 94.3% of the benefits that had accrued to members. The net deficit at the time of the valuations totalled £6.0m.

Pension cost

The pension cost charged for 2004 was £10.2m (2003 – £9.3m) of which £8.1m (2003 – £7.5m) relates to schemes of a defined benefit nature and £2.1m (2003 – £1.8m) represents the amount attributable to defined contribution schemes. Provisions of £4.4m (2003 – £4.5m) in relation to defined benefit pension schemes and £2.9m (2003 – £2.8m) in relation to post-retirement health and medical benefits are included in provisions for liabilities and charges. Outstanding contributions to defined contribution schemes are £0.1m (2003 – £0.2m).

b **Disclosures under FRS 17 for the year ended 31 December 2004**

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

The principal retirement and defined benefit schemes operated by the Group are in the UK and Hong Kong. The most recent actuarial valuations of these schemes have been updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2004. Scheme assets are stated at their market value at 31 December 2004. In addition the Group operates a number of other minor defined benefit pension schemes overseas which due to their immaterial nature are excluded from the FRS 17 disclosures set out below.

With the pending abolition of the Minimum Funding Requirement and amendments to pension legislation in 2004 introducing new powers to seek additional funding from the sponsoring group, the TKM pension scheme has been included in the UK segment for the purposes of the FRS 17 disclosures as at 31 December 2004. This has resulted in an increase in the market value of assets and present value of pension liabilities at 31 December 2004 of £239.2m and £214.9m respectively. Given the closed nature of the scheme, the Group has treated the resultant £24.3m surplus as irrecoverable to the Group.

(i) Weighted average assumptions used by the actuaries:

	UK **2004** **%**	Hong Kong **2004** **%**	UK 2003 %	Hong Kong 2003 %	UK 2002 %	Hong Kong 2002 %
Rate of increase in salaries	**4.7**	**5.0**	4.5	5.0	4.5	5.0
Rate of increase in pensions	**2.7**	**–**	2.5	–	2.5	–
Discount rate	**5.3**	**3.5**	5.4	4.9	5.5	5.5
Inflation assumption	**2.7**	**2.0**	2.5	2.0	2.5	–

The rate of increase in healthcare cost is 4.7% per annum but with higher increases in the first ten years.

5 Pensions and other post-retirement benefits continued

b **Disclosures under FRS 17 for the year ended 31 December 2004** continued

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

UK	2004 %	2004 £m	2003 %	2003 £m	2002 %	2002 £m
Equities	**7.5**	**173.2**	7.5	162.2	7.5	143.9
Bonds	**4.8**	**396.0**	4.8	155.9	4.6	140.4
Other	**4.2**	**23.6**	4.6	16.1	4.0	15.6
Total	**5.6**	**592.8**	6.1	334.2	6.0	299.9
Present value of pension liabilities		**(622.3)**		(376.7)		(346.9)
Deficit in pensions		**(29.5)**		(42.5)		(47.0)
Irrecoverable surplus		**(24.3)**		–		–
Net pension liability		**(53.8)**		(42.5)		(47.0)

Hong Kong	2004 %	2004 £m	2003 %	2003 £m	2002 %	2002 £m
Equities	**7.5**	**10.8**	7.5	10.2	7.5	9.2
Bonds	**4.0**	**2.7**	4.0	3.0	–	–
Other	**2.5**	**1.1**	2.5	0.3	2.5	3.2
Total	**6.5**	**14.6**	6.6	13.5	6.2	12.4
Present value of pension liabilities		**(17.8)**		(15.8)		(19.8)
Deficit in pensions		**(3.2)**		(2.3)		(7.4)
Related deferred tax asset		**–**		–		1.2
Net pension liability		**(3.2)**		(2.3)		(6.2)

Total	2004 £m	2003 £m	2002 £m
Equities	**184.0**	172.4	153.1
Bonds	**398.7**	158.9	140.4
Other	**24.7**	16.4	18.8
Total	**607.4**	347.7	312.3
Present value of pension liabilities	**(640.1)**	(392.5)	(366.7)
Deficit in pensions	**(32.7)**	(44.8)	(54.4)
Irrecoverable surplus	**(24.3)**	–	–
Related deferred tax asset	**–**	–	1.2
Net pension liability	**(57.0)**	(44.8)	(53.2)

5 Pensions and other post-retirement benefits continued

b Disclosures under FRS 17 for the year ended 31 December 2004 continued

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

	UK **2004** **£m**	Hong Kong **2004** **£m**	Total **2004** **£m**	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m
Current year service cost	**6.8**	**1.2**	**8.0**	6.5	1.6	8.1
Past service cost	**0.4**	**–**	**0.4**	0.6	–	0.6
Total operating charge	**7.2**	**1.2**	**8.4**	7.1	1.6	8.7

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

	UK **2004** **£m**	Hong Kong **2004** **£m**	Total **2004** **£m**	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m
Expected return on pension assets	**20.4**	**0.9**	**21.3**	17.7	0.7	18.4
Interest expense on pension liabilities	**(20.2)**	**(0.8)**	**(21.0)**	(18.9)	(1.0)	(19.9)
Net interest income (expense) in respect of pensions	**0.2**	**0.1**	**0.3**	(1.2)	(0.3)	(1.5)

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

	UK **2004** **£m**	Hong Kong **2004** **£m**	Total **2004** **£m**	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m
Actual return less expected return on pension assets	**6.8**	**0.6**	**7.4**	21.9	3.1	25.0
Experience (losses) gains arising on pension liabilities	**(0.2)**	**0.2**	**–**	1.6	2.3	3.9
Changes in assumptions underlying the present value of pension liabilities	**(16.6)**	**(2.0)**	**(18.6)**	(17.1)	–	(17.1)
Actuarial (loss) gain recognised in the statement of total recognised gains and losses	**(10.0)**	**(1.2)**	**(11.2)**	6.4	5.4	11.8

(vi) Movement in deficit in the year

	UK **2004** **£m**	Hong Kong **2004** **£m**	Total **2004** **£m**	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m
Deficit in pensions at 1 January	**(42.5)**	**(2.3)**	**(44.8)**	(47.0)	(7.4)	(54.4)
Effect of foreign exchange rate changes	**–**	**0.2**	**0.2**	–	0.2	0.2
Current year service cost	**(6.8)**	**(1.2)**	**(8.0)**	(6.5)	(1.6)	(8.1)
Contributions	**6.1**	**1.2**	**7.3**	7.0	1.4	8.4
Other finance income	**0.3**	**–**	**0.3**	0.1	–	0.1
Other expenses	**(0.7)**	**–**	**(0.7)**	(0.7)	–	(0.7)
Past service costs	**(0.4)**	**–**	**(0.4)**	(0.6)	–	(0.6)
Net interest income (expense) in respect of pensions	**0.2**	**0.1**	**0.3**	(1.2)	(0.3)	(1.5)
Actuarial (loss) gain recognised in the statement of total recognised gains and losses	**(10.0)**	**(1.2)**	**(11.2)**	6.4	5.4	11.8
Deficit in pensions at 31 December	**(53.8)**	**(3.2)**	**(57.0)**	(42.5)	(2.3)	(44.8)

5 Pensions and other post-retirement benefits continued

b Disclosures under FRS 17 for the year ended 31 December 2004 continued

(vii) Details of experience gains and losses

	UK 2004 £m	Hong Kong 2004 £m	Total 2004 £m	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Actual return less expected return on pension assets	**6.8**	**0.6**	**7.4**	21.9	3.1	25.0	(39.3)	(3.9)	(43.2)
Total market value of pension assets	**353.6**	**14.6**	**368.2**	334.2	13.5	347.7	299.9	12.4	312.3
Percentage of pension assets	**1.9%**	**4.1%**	**2.0%**	6.6%	23.0%	7.2%	(13.1)%	(31.5)%	(13.8)%

	UK 2004 £m	Hong Kong 2004 £m	Total 2004 £m	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Experience (losses) gains arising on pension liabilities	**(0.2)**	**0.2**	**–**	1.6	2.3	3.9	(1.2)	1.1	(0.1)
Present value of pension liabilities	**407.4**	**17.8**	**425.2**	376.7	15.8	392.5	346.9	19.8	366.7
Percentage of present value of pension liabilities	**–**	**1.1%**	**–**	0.4%	14.6%	1.0%	(0.3)%	5.6%	–

	UK 2004 £m	Hong Kong 2004 £m	Total 2004 £m	UK 2003 £m	Hong Kong 2003 £m	Total 2003 £m	UK 2002 £m	Hong Kong 2002 £m	Total 2002 £m
Actuarial (loss) gain recognised in the statement of total recognised gains and losses	**(10.0)**	**(1.2)**	**(11.2)**	6.4	5.4	11.8	(54.5)	(3.3)	(57.8)
Present value of pension liabilities	**407.4**	**17.8**	**425.2**	376.7	15.8	392.5	346.9	19.8	366.7
Percentage of present value of pension liabilities	**(2.5)%**	**(6.7)%**	**(2.6)%**	1.7%	34.2%	3.0%	(15.7)%	(16.7)%	(15.8)%

As the TKM pension scheme has only been included within the UK segment as at 31 December 2004, it is excluded from the above table.

(viii) If the above amounts had been recognised in the financial statements, the Group's balance sheet at 31 December 2004 would have been as follows:

Net assets	**2004 £m**	2003 restated £m
Net assets	**551.2**	485.6
SSAP 24 pension provision (excluding defined contribution provision)	**7.3**	7.3
Net assets excluding SSAP 24 pension provision	**558.5**	492.9
Pension liability	**(57.0)**	(44.8)
Net assets including pension liability	**501.5**	448.1
Reserves		
Profit and loss account	**268.8**	206.0
SSAP 24 pension provision (excluding defined contribution provision)	**7.3**	7.3
Profit and loss account excluding SSAP 24 pension provision	**276.1**	213.3
Pension liability	**(57.0)**	(44.8)
Profit and loss account	**219.1**	168.5

6 Exceptional items charged after operating profit

	2004 £m	2003 £m
Net profit on sale of properties and investments:		
– subsidiaries	**–**	0.6
– associates, UK	**1.2**	0.3
Total net profit on sale of properties and investments	**1.2**	0.9
Net loss on sale and termination of operations:		
– Ferrari, Belgium (includes capitalised goodwill written off £1.4m, note 12)	**(2.1)**	–
– Ferrari, UK (includes goodwill in reserves written off £5.0m, note 25a)	**(8.2)**	–
– MCL and AGL, UK (includes goodwill in reserves written off £1.0m, note 25a)	**(6.8)**	–
– UK Retail dealerships	**(0.9)**	(4.6)
– Provision releases arising from non-motors business exits, Central (note 21)	**8.6**	4.0
– Other	**0.4**	0.2
Total net loss on sale and termination of operations	**(9.0)**	(0.4)
Total exceptional items charged after operating profit	**(7.8)**	0.5

The exceptional charge on Ferrari Belgium and Ferrari UK relates to the exit from the Import and Distribution businesses. This was as a result of the Ferrari strategy to assume control of their import and distribution throughout Europe.

MCL Group Limited (MCL) and Automotive Group Limited (AGL), two non-core businesses, were sold to Itochu Corporation, the 60.0% majority shareholder.

The provision releases arise from litigation provisions relating to non-motors disposals no longer required.

7 Net interest

	2004 £m	2003 £m
Interest payable and other charges relating to the Company and its subsidiaries:		
Bank loans and overdrafts falling due within five years	**0.3**	5.9
Loan notes falling due within five years	**0.1**	2.1
Other interest	**8.4**	4.8
	8.8	12.8
Interest receivable relating to the Company and its subsidiaries:		
Bank and other interest	**(4.5)**	(7.6)
VAT recovery (note 3)	**(4.2)**	(22.2)
	(8.7)	(29.8)
Net interest relating to the Company and its subsidiaries	**0.1**	(17.0)
Share of associates' net interest	**(0.1)**	(0.2)
	–	(17.2)

8 Taxation

a Analysis of tax charge for the year	Headline 2004 £m	Exceptional items 2004 £m	Total 2004 £m	Headline 2003 £m	Exceptional items 2003 £m	Total 2003 £m
Current tax:						
– UK corporation tax at 30.0% (2003 – 30.0%)	**7.1**	**4.9**	**12.0**	9.5	2.6	12.1
– double tax relief	**(7.7)**	**–**	**(7.7)**	(10.0)	–	(10.0)
	(0.6)	**4.9**	**4.3**	(0.5)	2.6	2.1
Overseas tax	**46.3**	**–**	**46.3**	37.5	–	37.5
	45.7	**4.9**	**50.6**	37.0	2.6	39.6
Adjustments to prior year liabilities:						
– UK	**0.3**	**–**	**0.3**	(3.3)	–	(3.3)
– overseas	**(2.3)**	**–**	**(2.3)**	(0.7)	–	(0.7)
The Company and its subsidiaries' current tax	**43.7**	**4.9**	**48.6**	33.0	2.6	35.6
Share of joint ventures' current tax	**1.8**	**–**	**1.8**	2.8	–	2.8
Share of associates' current tax	**(0.4)**	**–**	**(0.4)**	(0.2)	–	(0.2)
Total current tax charge	**45.1**	**4.9**	**50.0**	35.6	2.6	38.2
The Company and its subsidiaries' deferred tax	**(2.6)**	**(4.4)**	**(7.0)**	(3.3)	4.9	1.6
Share of joint ventures' deferred tax	**(0.2)**	**–**	**(0.2)**	(0.5)	–	(0.5)
Total deferred tax	**(2.8)**	**(4.4)**	**(7.2)**	(3.8)	4.9	1.1
Tax on profit on ordinary activities	**42.3**	**0.5**	**42.8**	31.8	7.5	39.3

Tax on Headline profit (note 10) amounts to £42.3m (2003 – £31.8m). Tax of £0.5m (2003 – £7.5m) has been provided on the VAT recovery and associated interest. There is no tax on other exceptional items (2003 – £nil). Of the £7.5m tax relating to last year's VAT recovery, £4.9m has been transferred from deferred tax to current tax this year.

Of the Headline deferred tax credit, £2.4m (2003 – £3.5m) has arisen from the origination and reversal of timing differences. A credit of £0.4m (2003 – £0.3m) has arisen due to adjustments to the estimated recoverable amount of deferred tax arising in prior years. All of the deferred tax charge on the VAT recovery has arisen from the origination of timing differences.

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

The effective tax rate for the year of 32.2% (2003 – 22.7%) is higher than the standard rate of tax. The standard rate comprises the average rates of tax payable across the Group, weighted in proportion to accounting profits.

	2004 £m	2003 £m
Profit on ordinary activities before taxation	**155.3**	168.3
Profit on ordinary activities multiplied by standard rate of tax 23.6% (2003 – 26.2%)	**36.7**	44.1
Effects of:		
– untaxed FRS 3 provision releases	**(2.5)**	(1.2)
– non-deductible goodwill	**6.8**	1.4
– untaxed profits	**(0.3)**	(0.5)
– losses brought forward utilised in year	**(1.8)**	(4.4)
– unrelieved losses	**2.4**	2.3
– permanent disallowable items	**5.3**	5.5
– prior year items	**(2.7)**	(4.0)
– short term timing differences	**8.5**	(3.9)
– accelerated capital allowances	**(2.4)**	(1.0)
– other items	**–**	(0.1)
Total current tax charge	**50.0**	38.2

8 Taxation continued

c Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of c. £25.0m (2003 – c. £21.0m) that may improve the tax rate in future years. The majority of these relate to losses, mainly arising in the UK, with the balance relating to accelerated capital allowances and other short term timing differences. These assets are not recognised because they arise in statutory entities that are currently not forecast to make taxable profits. There are further potential deferred tax assets, relating to losses, of c. £14.0m (2003 – c. £17.0m) that are not recognised and are not considered to have any impact on the future tax charge because the possibility of accessing them is considered so remote. These assets will only become recognisable if the relevant companies which hold them generate sufficient taxable profits.

There are also losses in Belgium for which an asset of £1.7m (2003 – £1.6m) has been recognised, based on current forecast profits. A further asset of £0.4m (2003 – £1.1m) will only become recognisable if the relevant company which holds them generates sufficient taxable profits.

No deferred tax has been recognised for gains arising on revaluing properties to market value. The total unrecognised amount is £1.4m (2003 – £1.4m). Such tax would become payable only if the properties were sold without it being possible to claim rollover relief. At present, it is not envisaged that any such tax will become payable in the foreseeable future.

9 Minority interests

	2004 £m	2003 £m
Paid or payable as dividends	**2.1**	1.1
Net retained profit for the year	**1.1**	0.9
	3.2	2.0

10 Earnings per ordinary share

	Headline		Basic	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Headline profit before tax	**172.0**	135.8	**172.0**	135.8
Goodwill amortisation (note 4)	**–**	–	**(5.5)**	(5.5)
Goodwill impairment (note 3)	**–**	–	**(9.4)**	–
VAT recovery (note 3)	**–**	–	**6.0**	37.5
Other exceptional items (note 6)	**–**	–	**(7.8)**	0.5
Profit before tax	**172.0**	135.8	**155.3**	168.3
Taxation (note 8)	**(42.3)**	(31.8)	**(42.8)**	(39.3)
Minority interests (note 9)	**(3.2)**	(2.0)	**(3.2)**	(2.0)
Earnings	**126.5**	102.0	**109.3**	127.0
Headline earnings per share	**161.4p**	132.4p		
Basic earnings per share			**139.4p**	164.8p
Diluted earnings per share			**137.6p**	162.1p

	2004 number	2003 number
Weighted average number of fully paid ordinary shares in issue during the year	**79,241,664**	78,101,215
Weighted average number of fully paid ordinary shares in issue during the year held by the Inchcape Employee Trust	**(840,828)**	(1,051,904)
	78,400,836	77,049,311
Dilutive effect of potential ordinary shares	**1,019,268**	1,276,038
Adjusted weighted average number of fully paid ordinary shares in issue during the year	**79,420,104**	78,325,349

10 Earnings per ordinary share continued

Headline profit before tax and earnings are presented to assist the reader in understanding the underlying performance of the Group.

Headline and basic earnings per share are calculated by dividing the respective Headline and basic earnings for the year by the weighted average number of fully paid ordinary shares in issue during the year, less those shares held by the Inchcape Employee Trust (note 25a).

Diluted earnings per share is calculated on the same basis as Headline and basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise share options and deferred bonus awards.

11 Dividends

	2004 pence	2003 pence	**2004 £m**	2003 £m
Interim – paid 13 September 2004 (2003 – paid 15 September 2003)	**15.0**	12.0	**11.9**	9.3
Final – proposed – payable 16 June 2005 (2003 – paid 17 June 2004)	**35.0**	26.0	**27.6**	20.3
	50.0	38.0	**39.5**	29.6

If approved at the Annual General Meeting the final ordinary dividend will be paid to ordinary shareholders registered in the books of the Company at the close of business on 20 May 2005.

Dividends above exclude £0.4m (2003 – £0.4m) payable on shares held by the Inchcape Employee Trust (note 25a).

12 Fixed assets – intangible assets

	Goodwill **£m**
Cost at 1 January 2004	**73.7**
Effect of foreign exchange rate changes	**(0.7)**
Additions	**23.6**
Disposals	**(3.4)**
Cost at 31 December 2004	**93.2**
Amortisation at 1 January 2004	**(12.8)**
Effect of foreign exchange rate changes	**0.1**
Disposals	**2.0**
Provided in the year	**(5.5)**
Impairment charge for the year	**(9.4)**
Amortisation at 31 December 2004	**(25.6)**
Book value at 31 December 2004	**67.6**
Book value at 31 December 2003	60.9

Goodwill relating to Australia Retail and some of the UK Retail dealerships is being amortised over periods ranging from two to ten years. All other goodwill is being amortised over twenty years.

Goodwill disposals relate to the sale of the Ferrari Belgium Import and Distribution business and the additions arise mainly from the acquisition of five Mercedes-Benz dealerships in the UK, as set out in note 28.

The impairment charge for the year relates to Inchcape Automotive Limited, as set out in note 3.

13 Fixed assets – tangible assets

	Freehold and leasehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost or valuation at 1 January 2004	**235.2**	**164.4**	**399.6**
Effect of foreign exchange rate changes	**(4.4)**	**(2.5)**	**(6.9)**
Businesses acquired	**5.9**	**1.3**	**7.2**
Businesses sold	**(1.3)**	**(2.1)**	**(3.4)**
Additions	**15.3**	**38.1**	**53.4**
Disposals	**(3.6)**	**(32.3)**	**(35.9)**
Cost or valuation at 31 December 2004	**247.1**	**166.9**	**414.0**
Analysed:			
– valuation 1996	**92.9**	**–**	**92.9**
– cost	**154.2**	**166.9**	**321.1**
	247.1	**166.9**	**414.0**
Depreciation at 1 January 2004	**(27.5)**	**(99.2)**	**(126.7)**
Effect of foreign exchange rate changes	**0.8**	**1.7**	**2.5**
Businesses sold	**0.1**	**1.5**	**1.6**
Provided in the year	**(5.3)**	**(22.0)**	**(27.3)**
Disposals	**2.3**	**15.3**	**17.6**
Depreciation at 31 December 2004	**(29.6)**	**(102.7)**	**(132.3)**
Book value at 31 December 2004	**217.5**	**64.2**	**281.7**
Book value at 31 December 2003	207.7	65.2	272.9

	2004 £m	2003 £m
Book value of land and buildings analysed between:		
– freehold	**152.4**	141.8
– leasehold with over fifty years unexpired	**23.5**	24.1
– short leasehold	**41.6**	41.8
	217.5	207.7
Historical cost value of land and buildings analysed between:		
– cost	**233.4**	218.2
– less depreciation	**(33.2)**	(29.7)
	200.2	188.5

The book value of tangible fixed assets includes £0.8m (2003 – £0.9m) in respect of assets held under finance leases.

14 Fixed assets – investments

a Movement in book value

(i) Group	Shares in joint ventures and associates £m	Own shares restated £m	Other investments £m	Total restated £m
Cost less provisions at 1 January 2004 as previously reported	**24.7**	**6.4**	**0.8**	**31.9**
Restatement (note 2)	**–**	**(6.4)**	**–**	**(6.4)**
Restated balance at 1 January 2004	**24.7**	**–**	**0.8**	**25.5**
Effect of foreign exchange rate changes	**(0.3)**	**–**	**–**	**(0.3)**
Disposals (including £1.0m goodwill previously written off to reserves)	**(15.4)**	**–**	**–**	**(15.4)**
Provision reversal	**–**	**–**	**0.7**	**0.7**
Balance at 31 December 2004	**9.0**	**–**	**1.5**	**10.5**
Share of post acquisition reserves:				
Balance at 1 January 2004	**45.9**			**45.9**
Effect of foreign exchange rate changes	**(2.3)**			**(2.3)**
Disposals	**(10.7)**			**(10.7)**
Retained profit for the financial year	**1.8**			**1.8**
Balance at 31 December 2004	**34.7**			**34.7**
Adjustment to cost in respect of goodwill, previously written off to reserves:				
Balance at 1 January 2004	**(4.0)**			**(4.0)**
Effect of foreign exchange rate changes	**0.3**			**0.3**
Eliminated on disposal	**1.0**			**1.0**
Balance at 31 December 2004	**(2.7)**			**(2.7)**
Book value at 31 December 2004	**41.0**	**–**	**1.5**	**42.5**
Book value at 31 December 2003	66.6	–	0.8	67.4

14 Fixed assets – investments continued

a Movement in book value continued

(ii) Company	Own shares restated £m	Shares in subsidiaries £m	Total restated £m
Balance at 1 January 2004 as previously reported	**6.4**	**1,186.2**	**1,192.6**
Restatement (note 2)	**(6.4)**	**–**	**(6.4)**
Restated balance at 1 January 2004	**–**	**1,186.2**	**1,186.2**
Additions	**–**	**23.0**	**23.0**
Provisions for impairment in the year	**–**	**(26.0)**	**(26.0)**
Balance at 31 December 2004	**–**	**1,183.2**	**1,183.2**

The provisions for impairment in the year principally relate to the Company's investment in Inchcape Automotive Limited, as set out in note 3.

b Listed fixed asset investments

	Other fixed asset investments	
	2004 £m	2003 restated £m
Book value	**1.2**	0.5
Market value	**1.2**	1.9

c Group share of net assets of joint ventures and associates

	Joint ventures		Associates		Total	
	2004 £m	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
Fixed assets	**5.2**	4.6	**–**	15.9	**5.2**	20.5
Current assets	**288.8**	252.5	**50.9**	59.7	**339.7**	312.2
Group share of gross assets	**294.0**	257.1	**50.9**	75.6	**344.9**	332.7
Liabilities due within one year	**(140.4)**	(128.2)	**(39.2)**	(38.7)	**(179.6)**	(166.9)
Liabilities due after more than one year	**(115.8)**	(88.5)	**(8.5)**	(10.7)	**(124.3)**	(99.2)
Group share of gross liabilities	**(256.2)**	(216.7)	**(47.7)**	(49.4)	**(303.9)**	(266.1)
Group share of net assets	**37.8**	40.4	**3.2**	26.2	**41.0**	66.6

d Group transactions and amounts outstanding with joint ventures and associates

	Transactions		Amounts outstanding	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Vehicles purchased from joint ventures and associates	**56.8**	49.8	**1.0**	1.7
Vehicles sold to joint ventures and associates	**397.2**	377.9	**0.1**	0.3
Other income paid	**2.5**	1.4	**0.6**	0.3
Other income received	**11.1**	13.4	**12.7**	15.6

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

15 Stocks

	2004 £m	2003 £m
Raw materials and work in progress	**2.0**	1.8
Finished goods and merchandise	**641.6**	596.0
	643.6	597.8

Certain subsidiaries have an obligation to repurchase, at a guaranteed residual value, vehicles which have been legally sold for leasing contracts. In accordance with FRS 5 Reporting the Substance of Transactions, these assets are included in stock at the guaranteed repurchase price less appropriate provisions where the anticipated realisable value is lower. The corresponding cross guaranteed repurchase liability is included within trade creditors. Stocks include £66.4m (2003 – £74.9m) of such vehicles.

Vehicles held on consignment which are in substance assets of the Group amount to £49.2m (2003 – £35.0m). These have been included in finished goods stock with the corresponding liability included within trade creditors. Payment becomes due when title passes to the Group, which is generally the earlier of six months from delivery or date of sale. Associated stock holding interest of £3.1m (2003 – £2.4m) is charged before arriving at gross profit.

16 Debtors

a Total debtors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts due within one year				
Trade debtors subject to limited recourse financing	**1.0**	0.8	**–**	–
Less non-returnable amounts received	**(0.9)**	(0.7)	**–**	–
	0.1	0.1	**–**	–
Other trade debtors	**107.0**	119.3	**–**	–
Amounts owed by: – Group undertakings	**–**	–	**–**	1.7
– joint ventures and associates	**6.9**	9.5	**–**	–
Other debtors	**48.3**	78.8	**0.2**	–
Advance corporation tax recoverable	**0.2**	0.2	**0.2**	0.2
Corporation tax recoverable	**0.3**	0.3	**3.9**	0.1
Prepayments and accrued income	**34.5**	26.8	**–**	–
	197.3	235.0	**4.3**	2.0
Amounts due after more than one year				
Trade debtors subject to limited recourse financing	**9.3**	6.8	**–**	–
Less non-returnable amounts received	**(7.9)**	(6.1)	**–**	–
	1.4	0.7	**–**	–
Amounts owed by: – Group undertakings	**–**	–	**155.5**	202.6
– joint ventures and associates	**5.9**	6.4	**–**	–
Other debtors	**1.2**	1.7	**–**	–
Deferred tax asset	**9.3**	2.4	**–**	–
Prepayments and accrued income	**0.4**	0.1	**–**	–
	18.2	11.3	**155.5**	202.6
Total debtors	**215.5**	246.3	**159.8**	204.6

16 Debtors continued

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

Advance corporation tax (ACT) written off to date amounts to £9.7m (2003 – £9.7m) and is available for offset against future UK corporation tax liabilities subject to the restrictions of the shadow ACT regulations.

b Deferred taxation asset

	2004 £m	2003 £m
Excess unutilised capital allowances	**1.1**	1.6
Other timing differences	**8.2**	0.8
	9.3	2.4

	2004 £m
Balance at 1 January 2004	**2.4**
Effect of foreign exchange rate changes	**(0.1)**
Credited to profit and loss account	**7.0**
Balance at 31 December 2004	**9.3**

No account has been taken of taxation which would be payable if profits of overseas operations were distributed, as there is currently no legally binding intention to remit such profits.

17 Current asset investments

	2004 £m	2003 £m
Book value	**13.1**	13.8
Market value	**13.9**	14.5

18 Creditors – amounts falling due within one year

		Group		Company	
a	**Borrowings**	**2004 £m**	2003 £m	**2004 £m**	2003 £m
	Bank loans	**0.8**	14.7	**–**	–
	Loan notes	**2.2**	0.4	**2.2**	0.4
	Debt due within one year	**3.0**	15.1	**2.2**	0.4
	Finance leases	**0.2**	0.2	**–**	–
	Bank overdrafts	**12.4**	7.9	**–**	–
	Borrowings – amounts falling due within one year	**15.6**	23.2	**2.2**	0.4

			Group		Company	
b	**Other**		**2004 £m**	2003 restated £m	**2004 £m**	2003 restated £m
	Trade creditors:	– payments received on account	**34.1**	37.3	**–**	–
		– other	**493.5**	483.5	**–**	–
	Amounts owed to:	– Group undertakings	**–**	–	**0.2**	–
		– joint ventures and associates	**1.6**	2.0	**–**	–
	Corporate taxation		**44.9**	32.5	**1.9**	3.4
	Other taxation and social security payable		**14.6**	12.0	**3.3**	2.0
	Other creditors		**7.7**	12.0	**–**	–
	Accruals and deferred income		**113.7**	109.3	**0.1**	–
	Deferred consideration		**0.7**	–	**–**	–
	Dividends payable:	– proposed final	**27.6**	20.3	**27.6**	20.3
		– to minorities	**0.9**	0.2	**–**	–
	Other creditors – amounts falling due within one year		**739.3**	709.1	**33.1**	25.7
	Total creditors falling due within one year		**754.9**	732.3	**35.3**	26.1

19 Creditors – amounts falling due after more than one year

		Group		Company	
a (i)	**Borrowings**	**2004 £m**	2003 £m	**2004 £m**	2003 £m
	Bank loans	**1.4**	0.5	**–**	–
	Finance leases	**0.4**	0.1	**–**	–
	Borrowings – amounts falling due after more than one year	**1.8**	0.6	**–**	–
(ii)	**Maturity of borrowings**				
	Repayable over one year and up to two years:				
	– Bank loans	**0.9**	0.1	**–**	–
	– Finance leases	**0.2**	0.1	**–**	–
		1.1	0.2	**–**	–
	Repayable over two years and up to five years:				
	– Bank loans	**0.5**	0.4	**–**	–
	– Finance leases	**0.2**	–	**–**	–
		0.7	0.4	**–**	–
	Borrowings – amounts falling due after more than one year	**1.8**	0.6	**–**	–

		Group		Company	
b	**Other**	**2004 £m**	2003 restated £m	**2004 £m**	2003 restated £m
	Trade creditors	**44.0**	55.3	**–**	–
	Other taxation and social security payable	**0.4**	0.8	**0.4**	0.8
	Other creditors	**0.1**	–	**–**	–
	Accruals and deferred income	**0.5**	0.4	**–**	–
	Amounts owed to Group undertakings	**–**	–	**638.8**	754.7
	Other creditors – amounts falling due after more than one year	**45.0**	56.5	**639.2**	755.5
	Total creditors falling due after more than one year	**46.8**	57.1	**639.2**	755.5

20 Facilities and borrowings

a Facilities

The Group's principal committed facility is a syndicated five year £250.0m revolving credit facility put in place in July 2002, expiring July 2007. In addition, the relationship banks have made available uncommitted borrowing facilities, which are used for liquidity management purposes.

b Borrowings

At 31 December 2004, £2.2m (2003 – £0.4m) of loan notes, at various rates of interest linked to LIBOR, remained outstanding.

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

As in 2003, the borrowings of the Group and the Company are unsecured.

21 Provisions for liabilities and charges

Group	Pensions and other post-retirement benefits £m	Product warranty £m	Motors business exits £m	Non-motors business exits £m	Vacant leasehold £m	Other £m	Total £m
Balance at 1 January 2004	**7.5**	**40.6**	**3.0**	**25.6**	**5.3**	**5.0**	**87.0**
Effect of foreign exchange rate changes	–	**(0.6)**	–	–	–	**0.2**	**(0.4)**
Charged to profit and loss account	**10.2**	**18.5**	**5.8**	–	**1.0**	**1.7**	**37.2**
Unused amounts reversed to profit and loss account	**(0.3)**	**(5.4)**	**(0.1)**	**(8.6)**	**(1.1)**	**(1.5)**	**(17.0)**
Effect of unwinding of discount factor	–	–	–	–	**0.2**	–	**0.2**
Utilised during the year	**(10.0)**	**(14.3)**	**(4.0)**	**(0.3)**	**(0.3)**	**(0.9)**	**(29.8)**
Reclassification	–	–	–	–	–	**5.1**	**5.1**
Balance at 31 December 2004	**7.4**	**38.8**	**4.7**	**16.7**	**5.1**	**9.6**	**82.3**

Company	Non-motors business exits £m
Balance at 1 January 2004	**25.1**
Unused amounts reversed to profit and loss account	**(8.6)**
Balance at 31 December 2004	**16.5**

Product warranty
Certain Group companies provide self-insured extended warranties beyond those provided by the manufacturer, as part of the sale of the vehicle. These are not separable products. The warranty periods covered are up to six years and/or specific mileage limits. Provision is made for the expected cost of labour and parts based on historical claims experience and expected future trends. These assumptions are reviewed regularly.

Motors business exits
During 2004, the Group became committed to business exits and terminations which resulted in the charge of £5.8m (2003 – £3.0m) to the profit and loss account. These included the Ferrari exits, as set out in note 6. These business exits will largely be completed over the next two years.

Non-motors business exits
Provision has been made for warranties, indemnities and other litigation issues in relation to these exits, based on expected outcomes. These provisions arise from the exits of businesses prior to the transformation of the Group to a purely automotive services group. The exits were all completed by late 1999.

Any detailed disclosure of these outstanding claims could seriously prejudice negotiations. Accordingly, no information is given in regard to the likely timing or cash impact as normally required under FRS 12 Provisions, Contingent Liabilities and Contingent Assets. They are however referred to in note 22.

Vacant leasehold
The Group is committed to certain leasehold premises for which it no longer has a commercial use. These are principally located in the UK. Provision has been made to the extent of the estimated future net cost. This includes taking into account existing subtenant arrangements. In determining the provision, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates. The charge for the unwinding of the discount of £0.2m (2003 – £0.2m) has been included in the interest charge in the profit and loss account.

Other
The provision includes the cost of implementing new European Block Exemption contracts throughout the dealer network in Belgium and a number of litigation provisions that have been reclassified from creditors. These are expected to be settled within the next four years.

22 Guarantees and contingent liabilities

	Group		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Guarantees of joint ventures' and associates' borrowings	**0.4**	0.4	**–**	–
Guarantees of various subsidiaries' borrowings (against which £nil has been drawn, 2003 – £nil)	**–**	–	**250.0**	250.0
Other guarantees, performance bonds and contingent liabilities	**7.0**	5.2	**0.2**	0.2

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

The Company is party to composite cross guarantees between banks and its subsidiaries. The Company's contingent liability under these guarantees at 31 December 2004 was £16.5m (2003 – £21.7m).

Commitments for capital expenditure entered into and not provided for in these accounts amount to £8.0m (2003 – £0.3m).

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

Aon Corporation (Aon) has made certain claims under an indemnity given in connection with the sale of Bain Hogg Limited in 1996 relating to liabilities in respect of advice given on the sale of pensions and related products, opt outs and transfers by Bain Hogg Financial Services Limited and Gardner Mountain Financial Services Limited. Aon may seek to make further claims in respect of such advice and related costs. On the information currently available to the Company, it is not possible to assess fully the merits or value of claims under this indemnity. The Directors have taken legal advice and are pursuing all options open to them to defend or minimise the claims. At 31 December 2004, there were other contingent liabilities arising in the ordinary course of business, including those in respect of disposed businesses. The Directors have reviewed the above matters and have made certain provisions. Having done so, the Directors consider, based on the information currently available, that they will not have a material impact on the financial position of the Group.

In September 2000, the European Parliament passed Directive 2000/53/EC which deals with the collection and disposal of vehicles at the end of their life. The Directive includes a retrospective liability for vehicles put on the road prior to July 2002. Member states were required to enact legislation by 21 April 2002. Belgium, Finland and Greece have enacted legislation. In Belgium and Greece there are self-funding arrangements in place with independent companies which will result in a no cost solution for importers. The same is expected to be the case in Finland. The other member states where the Group operates are expected to pass or are in the course of passing legislation in the near future which may or may not give rise to a liability for the Group. The Directors have reviewed this matter and, based on the information currently available, consider that implementation of the Directive will not have a material impact on the financial position of the Group.

23 Operating lease commitments

	Property leases		Other operating leases	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Operating lease rentals payable in the next year in respect of commitments expiring:				
– within one year	**3.2**	3.4	**1.1**	1.2
– in two to five years	**13.0**	9.3	**1.3**	1.7
– after five years	**10.8**	8.9	**0.4**	0.5
	27.0	21.6	**2.8**	3.4

24 Share capital

a Summary

	Authorised 2004 £m	Authorised 2003 £m	Allotted, called-up and fully paid 2004 £m	Allotted, called-up and fully paid 2003 £m
Ordinary shares – authorised 131,000,000 ordinary shares of 150.0p each (2003 – 131,000,000 ordinary shares of 150.0p each) and allotted, called-up and fully paid 79,656,577 ordinary shares of 150.0p each (2003 – 78,893,237 ordinary shares of 150.0p each)	**196.5**	196.5	**119.5**	118.4

b Substantial shareholdings

Details of substantial interests in the Company's issued ordinary share capital received by the Company at 28 February 2005 under the provisions of the Companies Act 1985 have been disclosed in the substantial shareholdings section of the Directors' report.

c Share options

At 31 December 2004, options to acquire ordinary shares of 150.0p each in the Company up to the following numbers under the schemes below were outstanding as follows:

Ordinary shares of 150.0p each	Exercisable until	Option price	Ordinary shares of 150.0p each	Exercisable until	Option price
The Inchcape 1999 Share Option Plan – approved (Part II – UK)			**The Inchcape SAYE Share Option Scheme – approved**		
2,815	9 August 2010	284.0p	159,042	1 December 2005	554.0p
7,812	21 March 2011	384.0p	162,737	1 December 2006	610.0p
51,043	17 March 2012	685.0p	163,344	1 December 2007	1171.0p
4,477	15 October 2012	670.0p	96,144	1 May 2008	1336.0p
111,991	19 March 2013	762.0p			
2,688	7 August 2013	1116.0p			
4,874	31 August 2013	1231.0p			
92,585	20 May 2014	1572.0p			
16,075	29 September 2014	1555.0p			
– unapproved (Part I – UK)					
42,042	9 August 2010	284.0p			
13,020	21 March 2011	384.0p			
208,805	17 March 2012	685.0p			
92,537	15 October 2012	670.0p			
200,487	19 March 2013	762.0p			
896	7 August 2013	1116.0p			
2,436	31 August 2013	1231.0p			
341,612	20 May 2014	1572.0p			
8,101	29 September 2014	1555.0p			
– unapproved overseas (Part I – Overseas)					
2,577	7 September 2009	388.0p			
21,124	9 August 2010	284.0p			
61,194	21 March 2011	384.0p			
161,798	17 March 2012	685.0p			
141,843	19 March 2013	762.0p			
1,218	31 August 2013	1231.0p			
219,690	20 May 2014	1572.0p			

24 Share capital continued

c Share options continued

During the year, 763,340 (2003 – 1,167,107) ordinary shares were issued under or in connection with the various share option schemes.

The Group has taken advantage of the exemption in UITF Abstract 17 (revised 2003) Employee Share Schemes not to apply the Abstract to the Inchcape SAYE Share Option Scheme.

25 Reserves

Movements in shareholders' funds

a Group	Share capital 2004 £m	Share premium account 2004 £m	Revaluation reserve 2004 £m	Capital redemption reserve 2004 £m	Profit and loss account 2004 £m	Total 2004 £m	Total 2003 restated £m
Profit for the financial year	–	–	–	–	**109.3**	**109.3**	127.0
Dividends (note 11)	–	–	–	–	**(39.5)**	**(39.5)**	(29.6)
Retained profit for the financial year	–	–	–	–	**69.8**	**69.8**	97.4
Effect of foreign exchange rate changes	–	–	**(1.8)**	–	**(13.5)**	**(15.3)**	(10.4)
Shares issued during the year under share option schemes	**1.1**	**1.7**	–	–	–	**2.8**	3.4
Consideration paid for the purchase of own shares held in ESOP Trust	–	–	–	–	**(1.0)**	**(1.0)**	(3.6)
Consideration received for the sale of own shares held in ESOP Trust	–	–	–	–	**1.1**	**1.1**	2.7
Movement in respect of employee share schemes	–	–	–	–	**1.1**	**1.1**	0.6
Goodwill on disposals previously written off	–	–	–	–	**6.0**	**6.0**	–
Transfer from profit and loss account to revaluation reserve	–	–	**0.7**	–	**(0.7)**	–	–
Net change in shareholders' funds	**1.1**	**1.7**	**(1.1)**	–	**62.8**	**64.5**	90.1
Balance at 1 January (2003 – originally £392.7m before deducting restatement of £3.8m, note 2)	**118.4**	**109.1**	**29.1**	**16.4**	**206.0***	**479.0**	388.9
Balance at 31 December	**119.5**	**110.8**	**28.0**	**16.4**	**268.8**	**543.5**	479.0

*The profit and loss account reserve at 1 January 2004 was originally £210.1m before deducting the restatement of £4.1m (1 January 2003 – £3.8m) relating to own shares, net of the associated share scheme creditor (note 2).

Own ordinary shares at cost are held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include employees and former employees of the Group and their dependants. The total number of ordinary shares held by the Inchcape Employee Trust at 31 December 2004 was 791,471 (2003 – 893,811). Their book value at 31 December 2004 was £6.3m (2003 – £6.4m). Their market value at 31 December 2004 was £15.5m and at 25 February 2005 was £16.3m (31 December 2003 – £11.6m, 27 February 2004 – £13.6m).

Goodwill of £108.1m (2003 – £114.4m) is contained within the profit and loss account reserve.

Revaluation reserve includes other non-distributable reserves of £4.9m (2003 – £4.2m). Net foreign exchange gains on borrowings reported in reserves amount to £0.2m in 2004 (2003 – £nil).

25 Reserves continued

Movements in shareholders' funds continued

b Company	Share capital 2004 £m	Share premium account 2004 £m	Capital redemption reserve 2004 £m	Profit and loss account 2004 £m	Total 2004 £m	Total 2003 restated £m
Profit for the financial year	–	–	–	**98.1**	**98.1**	188.3
Dividends (note 11)	–	–	–	**(39.5)**	**(39.5)**	(29.6)
Retained profit for the financial year	–	–	–	**58.6**	**58.6**	158.7
Shares issued during the year under share option schemes	**1.1**	**1.7**	–	–	**2.8**	3.4
Consideration paid for the purchase of own shares held in ESOP Trust	–	–	–	**(1.0)**	**(1.0)**	(3.6)
Consideration received for the sale of own shares held in ESOP Trust	–	–	–	**1.1**	**1.1**	2.7
Movement in respect of employee share schemes	–	–	–	**1.1**	**1.1**	0.6
Net change in shareholders' funds	**1.1**	**1.7**	–	**59.8**	**62.6**	161.8
Balance at 1 January (2003 – originally £447.8m before deducting restatement of £3.8m, note 2)	**118.4**	**109.1**	**16.4**	**361.9***	**605.8**	444.0
Balance at 31 December	**119.5**	**110.8**	**16.4**	**421.7**	**668.4**	605.8

*The profit and loss account reserve at 1 January 2004 was originally £366.0m before deducting the restatement of £4.1m (1 January 2003 – £3.8m) relating to own shares, net of the associated share scheme creditor (note 2).

26 Analysis of changes in net funds

a Analysis of net funds	At 1 January 2004 £m	Cash flow £m	Acquisitions and disposals (excluding cash and overdrafts) £m	Exchange movement £m	At 31 December 2004 £m
Cash in hand, at bank	**44.6**	**37.7**	–	**(12.0)**	**70.3**
Overdrafts	**(7.9)**	**(4.9)**	–	**0.4**	**(12.4)**
		32.8			
Debt due within one year	**(15.1)**	**18.5**	**(6.5)**	**0.1**	**(3.0)**
Debt due after more than one year	**(0.5)**	**(0.3)**	**(0.7)**	**0.1**	**(1.4)**
Finance leases	**(0.3)**	**0.1**	**(0.2)**	**(0.2)**	**(0.6)**
		18.3			
Liquid resources	**58.3**	**44.1**	–	**(1.5)**	**100.9**
Net funds	**79.1**	**95.2**	**(7.4)**	**(13.1)**	**153.8**

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

b Cash at bank and in hand	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Cash in hand, at bank	**70.3**	44.6	**16.4**	21.7
Liquid resources	**100.9**	58.3	–	–
Cash at bank and in hand	**171.2**	102.9	**16.4**	21.7

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

a	Returns on investments and servicing of finance	2004 £m	2003 £m
	Interest received (including £21.5m of VAT recovery (2003 – £1.4m), note 3)	**25.6**	10.8
	Interest paid	**(8.7)**	(11.3)
	Dividends paid to minority interests	**(1.4)**	(1.1)
		15.5	(1.6)

b	Capital expenditure and financial investment		
	Expenditure on tangible fixed assets and investments	**(53.7)**	(55.1)
	Sale of tangible fixed assets and investments	**18.9**	20.0
	Sale of current asset properties	**–**	1.5
		(34.8)	(33.6)

c	Net cash outflow from acquisitions and disposals		
	Acquisitions:		
	Cash paid for businesses acquired (note 28)	**(26.4)**	(22.0)
	Cash less bank overdrafts of businesses acquired (note 28)	**1.6**	0.1
	Net outflow of cash in respect of the acquisition of businesses	**(24.8)**	(21.9)
	Cash paid for prior year acquisitions	**(0.3)**	(0.1)
	Cash paid for joint ventures and associates	**–**	(0.1)
		(25.1)	(22.1)
	Disposals:		
	Cash received for businesses sold (note 28)	**4.4**	16.1
	Cash received for joint ventures and associates sold	**19.3**	7.1
	Cash received from prior year disposals	**2.5**	–
	Cash paid for prior year disposals	**(2.5)**	(1.6)
		23.7	21.6
	Net cash outflow	**(1.4)**	(0.5)

d	Net funds from acquisitions and disposals	Acquisitions 2004 £m	Disposals 2004 £m	Total 2004 £m	Total 2003 restated £m
	Net cash (outflow) inflow from acquisitions and disposals	**(25.1)**	**23.7**	**(1.4)**	(0.5)
	Net loans and finance leases relating to acquisitions	**(7.4)**	**–**	**(7.4)**	–
		(32.5)	**23.7**	**(8.8)**	(0.5)

e	Net cash outflow from financing		
	Issue of ordinary share capital (note 25a)	**2.8**	3.4
	Net sale (purchase) of own shares	**0.1**	(0.9)
	Decrease in debt (note 26a)	**(18.2)**	(66.5)
	Capital element of finance lease rental payments (note 26a)	**(0.1)**	(0.7)
		(15.4)	(64.7)

28 Acquisitions and disposals

The Group acquired and disposed of a number of businesses during the year, none of which were individually material. Details of the provisional fair values of the total net assets acquired by the Group during 2004 and the total net assets disposed of are set out below.

Net assets acquired (disposed of) on acquisition (disposal) of businesses	Acquisitions **2004** **£m**	Disposals **2004** **£m**	Acquisitions 2003 £m	Disposals 2003 £m
Fixed assets	**7.2**	**(1.8)**	12.2	(6.5)
Stocks	**23.6**	**(2.6)**	6.8	(4.3)
Trade debtors	**4.2**	**–**	2.7	–
Cash less bank overdrafts (note 27c)	**1.6**	**–**	0.1	–
Trade creditors	**(22.5)**	**0.5**	(9.2)	1.0
Other creditors	**(2.9)**	**–**	(0.6)	–
External borrowings	**(5.4)**	**–**	–	–
Minority shareholders' interests	**–**	**–**	0.1	–
Goodwill	**23.3**	**(1.4)**	10.1	(14.4)
Net loss on disposal	**–**	**1.5**	–	3.2
Net consideration payable (receivable)	**29.1**	**(3.8)**	22.2	(21.0)
Satisfied by				
Cash paid (received) (note 27c)	**26.4**	**(4.4)**	22.0	(16.1)
Accrued costs	**–**	**0.6**	–	0.8
Deferred consideration payable (receivable)	**0.7**	**–**	0.2	(3.4)
Loan notes payable	**2.0**	**–**	–	–
UITF 31 swap of assets	**–**	**–**	–	(2.3)
	29.1	**(3.8)**	22.2	(21.0)

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

There were no material fair value adjustments arising on the assets acquired.

29 Financial instruments

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

For the purpose of the disclosures which follow in this note (except for exchange risk management disclosures in note 29b), short term debtors and creditors which arise directly from the Group's operations have been excluded as permitted under FRS 13 Derivatives and Other Financial Instruments: Disclosures. The disclosures therefore focus on those financial instruments which play a significant medium to long term role in the financial risk profile of the Group. An analysis of the carrying value of these financial assets and liabilities is given in the fair value table in note 29c.

a Interest rate management

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

At 31 December 2004					Fixed rate	
Currency	Floating rate **£m**	Fixed rate **£m**	On which no interest is paid **£m**	Total **£m**	Weighted average interest rate **%**	Weighted average period for which rate is fixed **months**
Sterling	**10.5**	**0.5**	**37.9**	**48.9**	**9.6**	**19**
Euro	**0.4**	**0.1**	**15.7**	**16.2**	**7.0**	**48**
Other	**4.2**	**–**	**2.4**	**6.6**	**–**	**–**
	15.1	**0.6**	**56.0**	**71.7**	**9.3**	**23**

At 31 December 2003					Fixed rate	
Currency	Floating rate £m	Fixed rate £m	On which no interest is paid restated £m	Total restated £m	Weighted average interest rate %	Weighted average period for which rate is fixed months
Sterling	19.3	0.3	53.7	73.3	8.0	19
Euro	2.8	–	9.8	12.6	–	–
Other	0.6	–	1.3	1.9	–	–
	22.7	0.3	64.8	87.8	8.0	19

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

The financial liabilities on which no interest is paid mainly comprise £44.0m (2003 – £55.2m) of residual buy back commitments which have a weighted average period to maturity of twenty two months (2003 – eighteen months) and £4.7m (2003 – £4.7m) of vacant leasehold property provisions which have a weighted average period to maturity of six years (2003 – six years) (note 21).

29 **Financial instruments** continued

a **Interest rate management** continued

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

At 31 December 2004					Fixed rate	
Currency	Floating rate **£m**	Fixed rate **£m**	On which no interest is paid **£m**	Total **£m**	Weighted average interest rate **%**	Weighted average period for which rate is fixed **months**
Sterling	**66.0**	**–**	**7.1**	**73.1**	**–**	**–**
Euro	**33.8**	**13.1**	**1.9**	**48.8**	**5.7**	**44**
Singapore dollar	**26.9**	**–**	**1.4**	**28.3**	**–**	**–**
Hong Kong dollar	**7.6**	**–**	**0.8**	**8.4**	**–**	**–**
Other	**26.3**	**–**	**9.4**	**35.7**	**–**	**–**
	160.6	**13.1**	**20.6**	**194.3**	**5.7**	**44**

At 31 December 2003					Fixed rate	
Currency	Floating rate £m	Fixed rate £m	On which no interest is paid £m	Total £m	Weighted average interest rate %	Weighted average period for which rate is fixed months
Sterling	11.1	–	7.1	18.2	–	–
Euro	36.1	13.8	1.5	51.4	5.8	49
Singapore dollar	19.6	–	1.5	21.1	–	–
Hong Kong dollar	2.1	–	1.2	3.3	–	–
Other	27.6	–	4.7	32.3	–	–
	96.5	13.8	16.0	126.3	5.8	49

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

The financial assets on which no interest is paid mainly comprise £10.6m (2003 – £6.5m) of short term bank deposits and £5.9m (2003 – £6.4m) of rental income due on contracts in progress in UK leasing businesses which have a weighted average period to maturity of thirteen months (2003 – thirteen months).

29 Financial instruments continued

b Exchange risk management

The table below shows the Group's currency exposures at 31 December 2004 on transactions that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved.

	Net foreign currency monetary assets (liabilities)			Net foreign currency monetary assets (liabilities)		
Functional currency of the operating company	US dollar **2004** **£m**	Other **2004** **£m**	Total **2004** **£m**	US dollar 2003 £m	Other 2003 £m	Total 2003 £m
Sterling	**–**	**0.1**	**0.1**	0.2	–	0.2
Peruvian sol	**0.1**	**–**	**0.1**	(0.3)	–	(0.3)
Chilean peso	**(1.2)**	**(0.1)**	**(1.3)**	(0.6)	–	(0.6)
Other	**0.2**	**1.1**	**1.3**	–	(0.4)	(0.4)
	(0.9)	**1.1**	**0.2**	(0.7)	(0.4)	(1.1)

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

The US dollar exposures in aggregate of £0.9m in 2004 (2003 – £0.7m) principally relate to US dollar trade receivables (payables) within the businesses in Peru and Chile, where the majority of sales and purchases are in US dollars.

Other exposures are principally minor unhedged transactions which are settled within a short time period. This minimises exchange rate risk and the need to hedge the exposure.

c Fair values

Assets (liabilities)	Book value **2004** **£m**	Fair value **2004** **£m**	Book value 2003 restated £m	Fair value 2003 restated £m
Financial instruments held or issued to finance the Group's operations				
Fixed asset investments	**1.5**	**1.5**	0.8	2.2
Cash deposits	**171.2**	**171.2**	102.9	102.9
Current asset investments	**13.1**	**13.9**	13.8	14.5
Other financial assets	**8.5**	**8.5**	8.8	8.8
	194.3	**195.1**	126.3	128.4
Short term borrowings and current portion of long term borrowings	**(15.6)**	**(15.6)**	(23.2)	(23.2)
Long term borrowings	**(1.8)**	**(1.8)**	(0.6)	(0.6)
Long term trade and other creditors	**(45.0)**	**(40.8)**	(56.5)	(51.0)
Other financial liabilities	**(9.3)**	**(9.3)**	(7.5)	(7.5)
	(71.7)	**(67.5)**	(87.8)	(82.3)
Derivative financial instruments held to manage currency exposure				
Forward foreign exchange contracts – liability	**–**	**(8.3)**	–	(14.4)

Fixed asset and current asset investments

The fair value is based on year end quoted prices for listed investments and estimated likely sales proceeds for other investments.

29 Financial instruments continued

c Fair values continued

Long term trade and other creditors

Long term trade and other creditors book value of £45.0m (2003 – £56.5m) principally relates to vehicle buy back commitments of £44.0m (2003 – £55.2m) whose average period to maturity is twenty two months (2003 – eighteen months). Their fair value has been calculated by discounting the expected cash flows at prevailing interest rates. In substance the vehicles remain the assets of the Group and have been included in stock at the guaranteed repurchase price less appropriate provisions where realisable value is lower, with the corresponding cross guaranteed repurchase liability within trade creditors. The asset side of this transaction is not recorded in the previous table because it does not qualify as a financial asset as defined by FRS 13.

Forward foreign exchange contracts

The fair value of contracts of £8.3m represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the spot rates of exchange prevailing at 31 December 2004.

At 31 December 2004 the Group had nominal amounts outstanding of £419.6m (2003 – £417.1m) for these contracts, used principally to hedge future purchases in foreign currency.

d **Maturity of financial liabilities**	Borrowings and finance leases **2004** **£m**	Other financial liabilities **2004** **£m**	Total **2004** **£m**	Borrowings and finance leases 2003 £m	Other financial liabilities 2003 restated £m	Total 2003 restated £m
Repayable within one year	**15.6**	**1.9**	**17.5**	23.2	0.5	23.7
Repayable over one year and up to two years	**1.1**	**27.8**	**28.9**	0.2	29.9	30.1
Repayable over two years and up to five years	**0.7**	**22.4**	**23.1**	0.4	31.1	31.5
Repayable beyond five years	**–**	**2.2**	**2.2**	–	2.5	2.5
Total financial liabilities	**17.4**	**54.3**	**71.7**	23.8	64.0	87.8

e Hedges

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

Unrecognised gains and losses on hedges	Gains **£m**	Losses **£m**	Net gains (losses) **£m**
Gains and losses on hedges at 1 January 2004	**3.5**	**(17.9)**	**(14.4)**
Gains and losses arising before 1 January 2004 that were recognised in 2004	**(3.5)**	**17.9**	**14.4**
Gains and losses arising before 1 January 2004 that were not recognised in 2004	**–**	**–**	**–**
Gains and losses arising in 2004 that were not recognised in that year	**4.4**	**(12.7)**	**(8.3)**
Gains and losses on hedges at 31 December 2004	**4.4**	**(12.7)**	**(8.3)**
Gains and losses expected to be recognised in 2005	**4.4**	**(12.7)**	**(8.3)**

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

30 Principal subsidiaries, joint ventures and associates at 31 December 2004

a Principal subsidiaries

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

b Principal joint ventures and associates

Company	Country	Shareholding	Description
Inchroy Credit Corporation Limited	Hong Kong	50.0%	Financial Services

Only those companies that principally affect the Group's profit or assets are included. All shareholdings represent the ultimate interest of the Group in the respective company's ordinary shares, except for Inchroy Credit Corporation Limited, where the Group holds 50.0% of the company's non-voting deferred shares.

* Owned by Inchcape plc directly

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

31 Foreign currency translation

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

	Average rates		Year end rates	
	2004	2003	**31 December 2004**	31 December 2003
Australian dollar	**2.48**	2.53	**2.45**	2.38
Euro	**1.47**	1.45	**1.41**	1.42
Hong Kong dollar	**14.22**	12.75	**14.92**	13.90
Singapore dollar	**3.09**	2.86	**3.13**	3.04

Five year record

Profit and loss account	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Turnover					
Group subsidiaries	**4,122.7**	3,793.2	3,413.8	3,113.0	3,086.1
Share of joint ventures and associates	**47.6**	62.0	103.2	206.5	631.3
Group including share of joint ventures and associates	**4,170.3**	3,855.2	3,517.0	3,319.5	3,717.4
Total operating profit before exceptional items:					
– continuing operations	**170.7**	135.3	111.6	98.3	81.3
– discontinued operations	**–**	–	–	3.5	8.8
	170.7	135.3	111.6	101.8	90.1
Net operating exceptional (note 3)	**(7.6)**	15.3	–	–	–
Net profit (loss) on sale of properties and investments	**1.2**	0.9	0.9	(0.6)	(0.4)
Net (loss) profit on sale and termination of operations	**(9.0)**	(0.4)	1.2	(36.3)	(0.3)
Profit on ordinary activities before interest and taxation	**155.3**	151.1	113.7	64.9	89.4
Net interest	**(4.2)**	(5.0)	(5.1)	(3.9)	(16.0)
Interest on VAT recovery (note 3)	**4.2**	22.2	–	–	–
Profit on ordinary activities before taxation	**155.3**	168.3	108.6	61.0	73.4
Tax on profit on ordinary activities	**(42.3)**	(31.8)	(28.9)	(29.3)	(19.9)
Tax on VAT recovery (note 3)	**(0.5)**	(7.5)	–	–	–
Profit on ordinary activities after taxation	**112.5**	129.0	79.7	31.7	53.5
Minority interests	**(3.2)**	(2.0)	(3.4)	(8.3)	(7.6)
Profit for the financial year	**109.3**	127.0	76.3	23.4	45.9
Dividends	**(39.5)**	(29.6)	(23.6)	(19.5)	(19.2)
Retained profit for the financial year	**69.8**	97.4	52.7	3.9	26.7
Basic:					
– profit before tax (£m)	**155.3**	168.3	108.6	61.0	73.4
– earnings per share (pence)	**139.4p**	164.8p	100.1p	29.3p	52.3p
Headline (before goodwill amortisation and exceptional items):					
– profit before tax (£m)	**172.0**	135.8	112.1	99.7	75.0
– earnings per share (pence)	**161.4p**	132.4p	104.5p	79.7p	48.4p
Dividends per ordinary share	**50.0p**	38.0p	31.0p	27.0p	22.0p

Balance sheet	2004 £m	2003 restated £m	2002 restated £m	2001 restated £m	2000 restated £m
Fixed assets	**391.8**	401.2	415.6	406.4	356.3
Other assets less (liabilities) other than cash (borrowings)	**5.6**	5.3	(37.5)	(28.1)	118.5
	397.4	406.5	378.1	378.3	474.8
Net cash (borrowings)	**153.8**	79.1	16.6	17.5	(69.1)
Net assets	**551.2**	485.6	394.7	395.8	405.7
Equity shareholders' funds	**543.5**	479.0	388.9	349.9	358.4
Minority interests	**7.7**	6.6	5.8	45.9	47.3
	551.2	485.6	394.7	395.8	405.7

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Solicitors
Slaughter and May

Stockbrokers
UBS

Inchcape PEPS

Individual Savings Accounts (ISAs) replaced Personal Equity Plans (PEPs) in April 1999 as the vehicle for tax efficient savings. Existing PEPs can be retained.

Inchcape PEPs are managed by The Share Centre Ltd, who can be contacted at PO Box 2000, Oxford House, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB.
Tel: +44 (0) 1296 414144

Inchcape ISA

Inchcape has established a Corporate Individual Savings Account (ISA). This is managed by HSBC Trust Company (UK) Ltd who may be contacted for full details at the Corporate PEP and ISA Centre, 5th Floor, City Plaza, 2 Pinfold Street, Sheffield S1 2QZ.
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Financial calendar

Annual General Meeting
12 May 2005

Ex-dividend date for 2004 final dividend
18 May 2005

Record date for 2004 final dividend
20 May 2005

Final 2004 ordinary dividend payable
16 June 2005

Senior executives

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The following executives have functional responsibilities at Group level:

Audit and Risk Management
Tim Trounce

Business Development
Dale Butcher

Company Secretariat
Roy Williams

Financial Control and Taxation
Amanda Brooks

Human Resources
Nick Smith

Information Systems
Peter Wilson

Investor Relations and External Communications
Emma Woollaston

Treasury
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