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Annual report & accounts 1997

Together we deliver the brands the world demands

Inchcape

Bottling

Turnover	**£251.9m**
Operating profit	**£13.1m**
Employees	**4,276**

nchcape bottles and distributes soft drinks or The Coca-Cola Company in Chile, the Russian Federation and Peru. Inchcape has epresented Coca-Cola in southern Chile excluding Santiago) since 1983 and operates ive plants, holding in excess of 70% of the soft drinks market. In 1994 Inchcape was warded six franchises in the Russian Federation. These cover an area south and east of Moscow inhabited by nearly 5 million people and incorporating six of the welve largest cities in the Federation. Since ne year-end, Embotelladora Latinoamericana SA (ELSA) has merged with the Coca-Cola ottlers in the North and South of Peru. his gives Inchcape an effective 50.1% hareholding in a company controlling over 0% of Coca-Cola sales in Peru.

Office Automation

Turnover	**£96.5m**
Operating profit	**£6.2m**
Employees	**2,857**

Inchcape has a 50:50 joint venture with Ricoh, called Inchcape NRG. The business has a direct presence in ten markets in Asia-Pacific and exports to more than ten others. It was formed on 1 September 1995 and is the region's largest independent distributor of office automation equipment. Apart from Ricoh and Gestetner, the business also distributes Nashuatec, Konica, Mita, Hewlett Packard, Compaq, Twinhead, Hasler, Pitney Bowes Mail Handling and Dictaphone products.

Shipping

Turnover	**£151.7m**
Operating profit	**£10.6m**
Employees	**2,889**

Inchcape Shipping Services is the world's largest independent shipping agency, with a network of 254 offices in 45 countries. In 1997, it managed over 34,500 port calls, and almost 1.5 million containers for Liner Principals. It also offers a portfolio of shipping related services, including the supply of Japanese spare parts to ship owners and others, forwarding services, the operation of container depots, and Lloyds and P&I services.

orld's best known companies.
tribution of motor vehicles, soft
lucts, and office automation
es business is the largest
e world. The Group has a turnover
000 people in 68 countries.

Inchcape vision

Together we deliver the brands the world demands

Inchcape mission

To be the recognised leader in delivering the brands the world demands, we will add value to our *Partners'* products and services by:

World-beating expertise in marketing, sales and distribution;

Anticipating and satisfying *Customers'* needs;

Bringing to our *Partners* our local knowledge, innovation, and an ability to create growth in value through our international network;

Providing a working environment that encourages teamwork, motivates *Employees* and provides continuous development of our people's skills and performance;

Creating consistent and sustainable value for *Shareholders;*

Earning respect from all sectors of the local *Communities* in which we operate.

Inchcape values

Service, Teamwork, Innovation, Respect, Results

Contents

Motors

Marketing

Inchcape

Turnover	£4,808.1m
Operating profit	£147.2m
Employees	12,124

Inchcape is the world's largest independent importer and distributor of motor vehicles. At the end of 1997 the Group represented 34 of the world's car manufacturers and 16 commercial vehicle/industrial/agricultural machinery manufacturers, in 35 countries. In 1997 Inchcape sold over 244,000 new vehicles through its Import & Distribution businesses of which around 197,600 were Japanese, including 150,000 Toyotas.

Inchcape also owns retail operations which are independent of its Import & Distribution businesses. In 1997 these sold around 70,000 new and used vehicles. Inchcape also provides a wide range of Financial Services including consumer and dealer finance and insurance and warranty products.

Turnover	£1,339.5m
Operating profit	£27.7m
Employees	15,636

Inchcape Marketing Services operates in 25 countries, primarily in Japan, Greater China, South East Asia, the Middle East and Australia. It is managed as two separate regions – Asia-Pacific and the Middle East – with management located in these markets. It provides a range of marketing and distribution services for leading manufacturers. There are four separate business areas:
Consumer/Logistics – fast-moving consumer goods including liquor and over the counter pharmaceuticals.
Industrial – fast-moving industrial goods, land management products and brewery supplies.
Branded Lifestyle – internationally recognised brands such as Salvatore Ferragamo and Timberland.
Specialist Businesses – including contract manufacturing and supermarkets.

Inchcape represents many of the w
It specialises in the international di
drinks, consumer and industrial pro
equipment; while its shipping serv
independent shipping network in t
of around £6 billion and employs 3

Chairman's Statement

[illegible] ...ever in the past two years, we have taken the opportunity to reconsider the future strategy and shape of the company, [illegible] to later.

1997 performance

[illegible]

Our Motors business, which is by far our most significant activity, performed strongly in 1997, with operating profits up 16%.

Import & Distribution benefited from new products, more positive market conditions and favourable exchange rates on imports. We continued to exit businesses lacking scale potential. In Motors Retail we further rationalised our dealer network in the United Kingdom and initiated a major investment programme in facilities and systems. Strong growth in retail financial services was more than offset by fewer end of lease disposals in the United Kingdom.

Marketing

Profits fell as our businesses faced increasingly difficult market conditions. In the Middle East a number of regional economies were adversely affected by lower oil prices. In the Asia region, profits were reduced largely as a result of the economic turmoil. During the year we completed the majority of our Asian restructuring programme, exiting several businesses accounting for 34% of turnover and 16% of assets employed in that region in 1996.

In Chile there was continued growth in both volumes and market share, whilst in Peru there was a substantial turnaround in profits. Since the year end, ELSA in Peru has been merged with the independent Coca-Cola bottlers in the North and South of Peru. This has resulted in the Group's effective shareholding increasing to 50.1% in a company that controls over 90% of Coca-Cola sales in Peru. In the Russian Federation good growth in sales and market share was insufficient to offset higher start-up losses.

Inchcape NRG, our joint venture with Ricoh, suffered a small decline in profits principally due to a significant downturn in Thailand. All other areas of the business improved their performance.

Shipping

Operating profits fell largely as a result of the impact of currency on translation of profits. Liner Services in the US improved but the Middle East suffered from lower activity by a major client.

Strategy

Since the present management team embarked on a major restructuring of Inchcape two years ago, we have made considerable progress in improving the performance of our principal businesses, with Headline profit before tax up 25% over this period. Your Board's priority continues to be the enhancement of shareholder value and it is determined to achieve this.

Accordingly, at the beginning of March we announced proposals to focus entirely on our Motors activities. We are already the world's largest independent importer and distributor of motor vehicles and we believe this business has very good long-term prospects.

In order to achieve this focus, the Group intends to take the following strategic actions over the next two years:

- to release substantial shareholder value by demerging our very successful South American Bottling operation and listing it on the Chilean Stock Exchange, with American Depository Receipts in New York. It is anticipated this transaction will be completed during 1998; and
- to release additional shareholder value by demerging our Marketing Services businesses in Asia-Pacific and the Middle East and listing them as a single company, on an Asian Stock Exchange. This is not expected to occur until 1999.

As a result of the demergers, shareholders will retain their shares in Inchcape plc and, in addition, will own shares directly in these two companies. The two businesses, once demerged, as well as the continuing business of Inchcape plc, will have capital structures appropriate to the achievement of their strategic objectives. Future dividends will reflect their individual performance and prospects. Shareholders will be advised of the further details of the demergers in due course.

Key messages

- **Second year of recovery**
- **Headline profits up 12% (18% at constant exchange rates)**
- **Continued strong performance in Motors**
- **Excellent growth in South American Bottling**
- **Marketing restructuring complete**

Financial highlights

Turnover continuing activities £m

97	5,931.[illegible]
96	5,723.0
95	5,607.4

Profit by activity* £m 1997

Motors	147.2
Marketing	27.7
Bottling	13.1
Office Automation	6.2
Shipping	10.6

Profit by region* £m 1997

Europe	51.6
Far East	49.9
South East Asia	31.3
Middle East	15.2
The Americas	42.8
Rest of the World	13.4

Headline profit before taxation £m**

97	[illegible]
96	165.1
95	146.8

Headline earnings per share (p)**

97	19.3
96	17.2
95	14.0

Dividends per share * (p)**

97	11.0
96	10.5
95	10.0

Inchcape

* profit is total operating profit before operating exceptional items, excluding central costs £(16.7)m, and for profit by activity also excluding other activities £(0.6)m
** Headline profit and earnings per share are defined in note 2d
*** before Foreign Income Dividend enhancement

An interview with the Group Chief Executive

This time last year, you were [illegible] year of recovery for Motors: [illegible] for significant further invest[illegible] performance of Marketing Se[illegible] Asia-Pacific, was a priority. [illegible] made in the past 12 months?

Thanks to the tremendous efforts of our employees around the world, we have made significant progress in the past year – as demonstrated by a 12% increase in profits, making 25% over the past two years. The recovery in Motors, in particular Import and Distribution, has continued strongly, with the strategic measures we have implemented over the past two years producing a much improved operating performance.

Our Bottling operations have benefited enormously from our heavy investment programme, with operating profits growing by nearly 60% during the year. We have completed our initial investment in the Russian Federation, and have established the basis for a business with good potential for the long term. However, we believe the business will become profitable more quickly when combined with Coca-Cola's Russian Bottling operations.

In Marketing Services, we have made great strides in establishing a stronger and more focused operation. We have exited several businesses in Asia-Pacific which were underperforming or which lacked scale. Despite the effects of the economic turmoil in Asia, we have entered 1998 with a leaner organisation, which is far better placed to compete in this challenging region.

[illegible] Group. Why did you feel such dramatic changes were necessary?

We have made a lot of progress in improving the performance of our core businesses following the strategy of focus I announced two years ago. Unfortunately, this improvement has not been reflected in the share price, nor do we expect it to be in the near future. And, as the Board of a public company, our first priority must be to deliver value to our shareholders.

After a great deal of thought and discussion with the Board, I have concluded that the best way to achieve this is for Inchcape to focus on its Motors business, which has been our largest and most successful Stream for many years. At the same time, we believe our Marketing Services and South American Bottling businesses will be able to make more progress as independent companies.

By the end of the process, three independent companies will exist – each quoted on a stock exchange relevant to its business base and each with a management team experienced in the industry in which it operates. I am confident this will result in an immediate release of value for our shareholders, and a better future for each of the businesses and all of the staff involved. We will also be disposing of Russian Bottling and Shipping Services, and expect both businesses to flourish under new ownership.

[illegible] ultimately intended that [illegible]

It has always been a possibility that, given time,

Sir Colin Marshall Chairman

In addition, we have entered into discussions with The Coca-Cola Company to sell our Russian Bottling business, which has net assets employed of £95.7m and produced an operating loss of £17.4m in 1997. We also intend to sell our Shipping Services business which has net assets of £12.2m and made £10.6m operating profit in 1997. This will complete the Group's exit from its Services businesses.

The next two years will be a period of substantial transition for Inchcape. The demergers and divestments are designed to deliver to shareholders the true underlying value of the Group, which has not been reflected in the share price for some considerable time.

We do not foresee there will be any significant number of job losses associated with these changes and, on behalf of the Board, I am grateful for the support and professionalism of staff in all parts of the Group during these challenging times.

Board changes

There were several changes to our Board in 1997. Rod O'Donoghue, having stepped down as Finance Director during 1997, will retire from the Board at the Annual General Meeting after almost 12 years with Inchcape. I pay a special tribute to him for his valuable contribution over that time and wish him well in his retirement. Andrew Cummins left at the end of 1997 after five years, having played a significant role in developing and implementing Inchcape's strategy, and we wish him every success in the future. Jürgen Hintz will retire at the Annual General Meeting after four years as a non-executive Director and I am grateful for his enthusiastic support during this period.

I am pleased to welcome three new Directors to the Board. Raymond Ch'ien joined us on 1 July 1997 as a non-executive Director and Chairman of Inchcape Pacific. He brings with him a wealth of commercial and public service experience in Asia-Pacific. Trevor Taylor, Chief Executive of Inchcape Toyota Division, and Peter Johnson, Chief Executive of Inchcape Motors International, also joined the Board. They both have extensive experience of the motors industry.

Philip Cushing, Group Chief Executive, Les Cullen, Group Finance Director and I will be responsible for leading and implementing the demergers and divestments. Once these are completed, which is expected to be by mid-1999, Philip Cushing and Les Cullen will leave Inchcape. Thereafter, it is intended that the senior management of our company, by then purely a Motors group, will be led by myself as Chairman, Trevor Taylor as Executive Deputy Chairman and Peter Johnson, as Chief Executive.

Dividend

The Board recommends that a final dividend of 6.6 pence (1996 – 6.3 pence) should be paid, giving a total net dividend for the year of 11.0 pence (1996 – 10.5 pence). It is proposed that one half of the final dividend should be paid as a Foreign Income Dividend. No scrip dividend will be offered.

The net 11.0 pence dividend is covered 1.75 times by Headline earnings per share. The payment of the final dividend has been accelerated to 9 June 1998 (1996: 1 July 1997).

Prospects

We believe that the actions we have taken over the past two years, together with continued buoyant conditions in Europe, will limit the effects of the turbulence in Asia and the reduction in our economic interest in Toyota (GB).

Your Board is confident that the intended demergers and divestments will result in a substantial increase in value for shareholders, when compared to that achievable by the Group as currently constituted.

Sir Colin Marshall
2 March 1998

An interview with the Group Chief Executive continued

over the period. Today, despite the short-term uncertainty created by the turmoil in Asia, all our core businesses are stronger, more focused and ready to stand on their own two feet – which they clearly were not in a position to do two years ago.

For a company whose roots in Asia are more than 150 years old, the present economic problems in the region should be seen as temporary. Although they have had a major impact on our share price, they were not in themselves a reason for changing our strategy. Rather, they served to underline a much more fundamental issue which needed to be addressed – the lack of clarity from an investor's perspective in the Group and its future direction. And with that lack of clarity came a loss of shareholder value, which we could not allow to continue.

As a purely Motors company, how will the 'new Inchcape' fare?

Without a doubt, Motors is the long-term core of Inchcape, and I believe it will go from strength to strength. Our Motors business is already the largest independent distributor in the world, and has excellent prospects for growth. It is able to boast an outstanding list of manufacturer relationships, particularly Toyota, for whom we are their largest independent distributor and where the relationship has been long, deep and extremely successful.

We are fortunate to have an extremely professional management team, led by two very experienced motor industry professionals in Trevor Taylor and Peter Johnson who will, in due course, take over the running of Inchcape plc (as Executive Deputy Chairman and Chief Executive respectively) and, I am sure, drive it to new levels of success.

How do you view the prospects for the [illegible] businesses?

Very positively. We have invested heavily in the 1990s in Bottling and now have a very strong business in South America, which provides an excellent platform for further growth. Most of its peers in South America are independently listed, and valuations reflect the high growth and high returns of a very attractive business. The sale of the Russian operations will allow our Bottling management to concentrate their efforts in the fast growing and profitable South American markets where the Stream management is already based.

In Marketing Services, we have worked hard and long to turn this business into a solid and reliable performer by exiting small or loss-making businesses. The management team has been relocated into local markets, and the business is much leaner and stronger than even one year ago. The outlook for the business in the short-term is difficult, but, nevertheless, it has a number of strong positions in both Asian and Middle Eastern markets. I am sure growth will resume once markets in Asia stabilise.

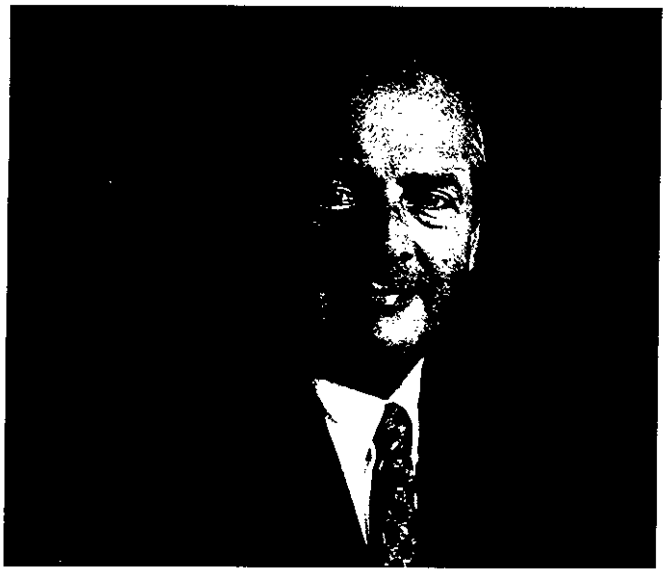
You have put a lot of effort into developing the [illegible] and values. How do you expect these to be [illegible] forward in the new environment?

The tremendous achievements we have made over the past two years in instilling a common sense of values and a culture of teamwork and respect is as relevant at Stream and individual business unit level as it is at the overall Group level.

As Group Chief Executive, I will continue to promote these values and it is my hope and belief that, as the various stages of the demerger and divestment programme are completed, the individual businesses concerned will continue to embrace and benefit from the culture and values we have worked so hard to create. At the end of the day, these are not unique to Inchcape – they simply represent the common-sense approach to running a business that is fundamental to most companies, and especially to any company that operates across countries and across cultures.

Finally, I believe we can look forward to an exciting new era of opportunity for all our businesses – companies which will continue to thrive on the values of Service, Teamwork, Innovation, Respect and Results that have had such a tremendous impact over the past two years on the day-to-day lives of all our employees in the 68 countries in which Inchcape operates.

Philip Cushing
2 March 1998



Philip Cushing Group Chief Executive

Inchcape would have naturally evolved into a specialist Motors business. The gap that now exists between the share price and the underlying value of the Group has brought home the importance of establishing total clarity in our future direction, and, as a result, we have decided to turn this possibility into reality.

In many respects, though, the demerger and divestment programme we announced at the beginning of March is the ultimate extension of a strategy initiated in the mid-1980s. This strategy was based on the firm belief that the secret of success for Inchcape would be an absolute focus on being the best in a limited range of major international businesses. In 1986, ten businesses were identified as core. At the beginning of 1996, I announced that we would be concentrating on five businesses – all within the sphere of international distribution.

Now, Inchcape plc will focus on just one business, Motors; and Marketing Services and South American Bottling will be run as independent concerns going forward.

[illegible] you begin to implement [illegible]

We have thought long and hard on what is the best way forward for Inchcape, our shareholders and our employees, and I must admit it has taken a while for me to get used to the future shape of the Company. However, I am now very enthusiastic about the opportunities, which offer themselves through this restructuring.

There will be those who will mourn the passing of the 'old Inchcape' – diversified, yet part of one family – but we must adapt to a changing business world, and to be the best these days requires absolute focus. Inchcape plc as a purely Motors company and the two new independent companies in Marketing Services and South American Bottling will have exactly that, and I am excited and optimistic about their prospects.

Naturally, I am sad to see the departure of Shipping, which is one of the oldest parts of the Inchcape Group; and our Russian Bottling operations, where the efforts of our staff to establish a very large business in a very short period have been tremendous. Again, I believe the route that we have selected for these two businesses is the best one to enable them to grow and prosper.

Why have you decided to do this now when we have seen significant improvements in operating [illegible] of an influence was the [illegible] Asia?

When I took over as Chief Executive two years ago, the priority – after deciding to sell our Testing Services and Insurance broking businesses – was to improve our operational performance, particularly in our largest business, Motors. In the past two years, thanks to the hard work of our management and staff, we have seen a very solid recovery, with profits for the Group up 25%

Motors

The strategic initiatives we have implemented over the past two years – in particular, our exit from underperforming businesses, investments in improved supply chain management and the enforcement of tighter working capital controls – coupled with improved sales and market share performance have provided the foundation for a further improvement in results. We have also benefited from more favourable trading conditions in a number of major markets, and improvements in product competitiveness through new model introductions by our Principals.

Total operating profits increased by 16.3% to £147.2m, the equivalent of 21.3% growth when translated at 1996 exchange rates. We charged exceptional items totalling £23.9m in the year, a significant proportion of which related to exit costs from import and distribution businesses in Europe and South Korea, and the further rationalisation of our UK retail dealer network.

Operating profits grew by 15.8% to £108.6m, an underlying increase of 21.5% at constant exchange rates, while turnover rose 11.8% (18.8% at constant exchange rates). The sales of major Japanese marques benefited from a significant number of new product launches.

In the UK, Toyota (GB) substantially outperformed the market, increasing its vehicle registrations by 17.2% to a record 79,015 units. This compared with a total market growth rate of 7.5%, and increased Toyota's overall share by 0.3 points to 3.3%, its highest ever. Demand for private cars was buoyant, stimulated by generally favourable economic conditions. Toyota, aided by successful new product launches, particularly the Corolla, outperformed both the retail and fleet sectors. In the light commercial vehicle (LCV) market, Toyota share declined as the new Hilux models were not available until October. Improved profitability was driven by both the substantial increase in sales volumes and our investment in Customer Oriented Logistics, resulting in reduced lead times.

We again achieved strong growth in Chrysler volumes in the UK, with total registrations increasing by 50.7% to 17,519 units. Sales were buoyed by the successful launch of the Voyager and the continued good performance of the Cherokee range, although margins reduced, and increased competition in the 4x4 market led to higher marketing costs. Daihatsu UK registrations grew by 48.0% to 11,102, and the marque established itself as Britain's fastest-growing car brand with new launches including the Move, Grand Move and Terios. Ferrari UK's registrations grew by 23.3% to 410 units – an achievement which saw Ferrari's British sales exceeding those in Italy for the first time ever. In our associate company, MCL, the Mazda franchise increased registrations by 25.2%; however, Kia, due to the financial difficulties of the manufacturer, struggled in a very competitive market place.

Market conditions in **France** remained difficult, with the passenger car market declining by 19.7% as a result of weak consumer confidence and the withdrawal of government incentives to scrap older cars. We achieved an increase in Mazda's market share, despite the continued absence of diesel-engined models in the major volume segments; however, our operating profits deteriorated due to margin pressure.

In **Belgium**, the market showed a modest recovery, with total volumes increasing by 2.0%, but competition remained intense. Toyota retained its position as the leading Japanese marque, although overall registrations declined by 1.9% with share gains in the petrol-engined and fleet sectors more than offset by the absence of appropriate models in the growing diesel market. The new Corolla was launched successfully in June, and the overall performance of the business benefited from our earlier cost reduction measures.

Improving economic conditions in **Greece** stimulated a 15.2% increase in the total vehicle market. Toyota retained its number one position in the light commercial vehicle (LCV) sector, where market volumes grew by 34.6%, and achieved leadership in the private car market following the launch of the new Corolla in June and aggressive marketing activity. As a result, Toyota Hellas achieved the coveted Toyota Triple Crown Award for the first time ever, signifying its leadership in the overall market, as well as in the passenger car and LCV sectors. However, profits were lower than in 1996 as a result of start-up losses on new activities and run-out costs on old models.

Total vehicle sales in **Hong Kong** grew by 56.3% overall, and by 61.0% excluding the HGV sector, although growth slowed in the last two months of the year due to the impact of the Asian economic turmoil. The strong performance reflected improved economic conditions in the first half of the year, the smooth handover to China on 1 July and many new model launches across the market. Inchcape's share of the total vehicle market increased from 37.9% to a record 43.0% (44.3% excluding HGV).

Crown Motors, our Toyota, Lexus and Hino distributor, again led the market, increasing its share of the total vehicle market by 1.6% to 29.7%. It also retained market leadership in the passenger car and LCV segments, thus achieving Toyota's Triple Crown Award for the sixth successive year. Hino truck sales exceeded 1,000 units, and gained the number one position in the above-ten-ton sector. In addition to increased new vehicle sales, the Toyota business enjoyed strong growth in its associated finance,

A more focused future The next two years will be a period of substantial transition for Inchcape as the Company focuses entirely on its international Motors operations through a series of demergers and divestments which are designed to deliver to shareholders the true underlying value of the Group.

The Group

Today		Strategy	By 1999
Motors		To be demerged	Will continue to be listed in London as Inchcape plc
Marketing		To be demerged	New company to be listed on an Asian Stock Exchange
Bottling	South America	To be demerged	New company to be listed on the Chilean Stock Exchange with ADRs in New York
	Russia	To be sold	
Shipping		To be sold	
Office Automation		Discussions started with joint venture partner, Ricoh	

Motors	Turnover 1997 £m	Turnover 1996 £m	Profit 1997 £m	Profit 1996 £m
Europe:				
UK	2,588.8	2,195.1	64.8	57.8
Continent	782.2	866.7	7.8	3.6
Far East	611.0	516.2	36.9	31.4
South East Asia	309.0	390.2	20.5	25.2
The Americas	130.4	118.1	6.5	5.9
Rest of World	386.7	336.4	10.7	2.7
	4,808.1	4,422.7	147.2	126.6
Reversal of associated companies	(327.0)	(253.1)		
	4,481.1	4,169.6		

takes the 'showroom' to the customer. Launched at the beginning of July, this innovative sales approach is beginning to create new growth as consumer awareness and understanding increases.

Operating profits of £26.6m were 4.7% lower than in 1996, with strong underlying growth in retail financial services in a number of countries offset by the start-up costs of new ventures, adverse currency translation, and a reduced contribution from end of contract disposals in the UK leasing business.

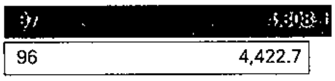
Inchcape Financial Services, our joint venture with Capital Bank, a subsidiary of Bank of Scotland, was successfully launched in January 1997 to provide motor-related credit and insurance services to customers of our UK Retail dealerships. Its services were extended to the Daihatsu UK franchised dealer network in November. CJ Financial Services, a joint venture with Lloyds UDT, was launched in March 1997 to provide similar services to dealers and customers in the UK Chrysler Jeep franchise network. These businesses benefited from the growth in the UK vehicle market during 1997, while our other joint ventures in Hong Kong and Greece also performed well.

Inchcape Financial Services (Australia) commenced operations at the beginning of the year, providing facilities through the dealer networks of our distribution businesses in Australia. During the second half, we established an alliance with Citibank to provide motor related financial services in Singapore.

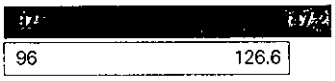
We also established a new motor insurance joint venture with General Accident in Belgium, and launched a new insurance company in Greece to provide extended vehicle warranties.

Motors	Turnover 1997 £m	Turnover 1996 £m	Profit 1997 £m	Profit 1996 £m
Import & Distribution	3,796.5	3,395.1	108.6	93.8
Retail	861.5	899.0	12.0	4.9
Financial Services	150.1	128.6	26.6	27.9
	4,808.1	4,422.7	147.2	126.6
Reversal of associated companies	(327.0)	(253.1)		
	4,481.1	4,169.6		

Turnover £m



Profit £m



insurance, parts and service activities. However, intense competitive activity and increased marketing expenditure both impacted on margins.

Mazda increased its share of the total vehicle market from 6.8% to 10.4%, and achieved market leadership in the growing recreational/multi-purpose vehicle segment with a 23.8% share. Sales benefited from successful new product launches including the 626, Friendee recreational vehicle and Bongo van. The Prestige Car Division, representing Rover, Land Rover, MG, Jaguar/Daimler, Rolls-Royce/Bentley and Aston Martin, also enjoyed good sales growth until the last quarter. Peugeot had a successful year, led by the launch of the 406 Coupe.

The total vehicle market in **Singapore**, which is controlled through government quotas, fell by 5.7%, with a 9.2% decline in the private car sector being partly offset by a 7.6% increase in commercial vehicle registrations. Our Toyota/Lexus distributor, Borneo Motors, retained its leadership position in the overall market, passenger car and LCV segments, gaining Toyota's Triple Crown Award for the fourth consecutive year. However, operating profits were adversely affected by very high prices for government certificates of entitlement for new vehicles in the early part of the year, an exceptional cost in respect of government levies and fees, and intensive promotional activity. Our Suzuki business also suffered from severe competition in the restricted market for small private cars, reflecting the launch of a large number of new models by rival manufacturers.

Our **Australian** franchises had an excellent year, selling more than 25,000 units – an increase of 53.3% against an overall market increase of 11.1%. Profits benefited from improved stock control and positive currency trends. Our Subaru business performed very strongly, increasing unit sales by 68.7% and making Australia the third largest market worldwide for Subaru after Japan and the USA. The franchise benefited from good product positioning in the most buoyant market segments and from favourable exchange rate trends. The Impreza continued to perform well in the expanding small car market, while the successful launch of the new Forrester consolidated Subaru's established strength in the all-wheel-drive sector. Volkswagen volumes grew by 55.2%, with the Polo doing particularly well, and Jaguar also enjoyed a good year with volumes increasing by 21.0%. The Peugeot franchise saw significant volume improvements during 1997, and, with a new management team now in place, will be looking to build on this growth in 1998.

Our Toyota businesses in **Brunei**, **Saipan** and **Ethiopia** performed very well both in terms of sales and profitability. Despite a major typhoon in **Guam** in the latter part of the year, our Toyota business still managed to increase market share, further consolidating its position as market leader.

In **South America**, our agro-industrial import and distribution businesses in Argentina, Chile, Colombia and Peru all performed well. BMW in Chile had an excellent year, achieving leadership in the luxury car market for the first time, and one of BMW's highest customer satisfaction ratings anywhere in the world. Ford in Ecuador did well, benefiting from management and operational restructuring and the initiation of used car trading; however, Ford in Peru suffered from currency shifts which favoured its Far Eastern competitors.

Operating profits increased from £4.9m to £12.0m, with turnover falling 4.2% as a result of the continuing rationalisation of our dealer network. The 1996 operating profit is stated after charging £4.7m of restructuring costs. In 1997, further restructuring costs in Motors Retail have been charged as operating exceptionals, and include the costs of closing a number of Rover and Ford dealerships.

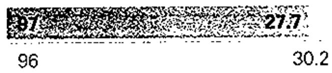
Our **UK** Retail business is one of the country's largest dealer groups, with 76 retail outlets at the year-end representing a total of 18 franchises. Despite the strength of the new car market in 1997, margins in the volume segment remained under pressure. However, our specialist dealerships representing Audi, BMW, Jaguar, Land Rover and Mercedes had an excellent year.

We are now entering a phase of major investment in systems and facilities which will involve significant site redevelopments and refurbishments during 1998. We have also made further investments in new concepts, such as the City Daihatsu 'virtual dealership', which

Marketing	Turnover 1997 £m	1996 £m	Profit 1997 £m	1996 £m
UK	–	–	(1.9)	(2.4)
Far East	736.4	807.3	6.9	1.6
South East Asia	381.0	460.2	10.1	16.2
Middle East	213.9	230.7	13.1	14.1
Rest of World	8.2	10.4	(0.5)	0.7
	1,339.5	1,508.6	27.7	30.2
Reversal of associated companies	(280.9)	(298.0)		
	1,058.6	1,210.6		

Turnover £m

Profit £m



Specialist Businesses Our contract manufacturing business in South East Asia has performed well, despite the regional economic difficulties. The operations in Malaysia and Indonesia enjoyed good sales growth from new and existing Principals, while the business in Thailand benefited from improved operational efficiency. Slumberland, which has factories in Malaysia, Thailand, Indonesia and Mainland China, performed satisfactorily in the face of weaker retail markets across the region.

Performance during 1997 was mixed, with lower oil prices adversely affecting a number of economies in the region. A good performance from Industrial was offset by declines in other divisions, though half the 7.1% decline in attributable operating profit to £13.1m was due to translation at higher sterling exchange rates.

Consumer/Logistics There were improvements in performance in a number of territories and agencies, with Nestlé enjoying a particularly strong year. We also benefited from a full year of our new General Foods agency in Bahrain. This was offset by a reduction in our business in Cyprus (since exited) and lower tobacco profits in Oman. Our new £8m regional distribution centre in the Jebel Ali Free Trade Zone in Dubai was inaugurated in October 1997. This provides a regional hub for third party distribution, serves as a central distribution facility for our Principals in the Middle East and offers a range of added value services.

Inchcape is the leading distributor of beers, wines and spirits in those Gulf states where alcohol is permitted. During 1997, our Liquor business benefited from the growth in tourism both in the United Arab Emirates and Bahrain.

Industrial This division provides a range of technical oilfield services together with equipment and supplies to the oil, gas and water industries. An excellent performance in 1997 principally reflected increased oilfield activity in Oman.

Specialist Businesses Our Spinneys retail chain operates supermarkets in Dubai, Abu Dhabi, Oman and Bahrain, each carrying over 22,000 lines. Profits for the year were flat, reflecting increased competition in the United Arab Emirates and the impact of our continuing programme of store openings and upgrades. This substantial investment programme will continue through 1998 with new openings scheduled in Saudi Arabia and Lebanon, together with third stores in both Oman and Abu Dhabi.

Marketing

Asia-Pacific

Market conditions were difficult throughout the region in 1997, particularly in the final quarter, as the impact of the economic crisis set in. As a result, regional operating profit slipped 9.3% to £14.6m.

The accelerated restructuring programme announced in the interim report has been substantially completed, involving our exit from underperforming businesses representing 34% of turnover and 16% of assets employed in the region in 1996. This project has proved to be cash generative, since it involved the liquidation of a large amount of working capital earning very low returns. We anticipate that it will reduce our asset base by some £70m and generate a total annualised benefit to operating profits of some £5.8m, although this is likely to be offset by the deterioration in regional trading conditions.

In addition, the demerger of our Marketing businesses in Singapore, Malaysia and Indonesia took effect at the beginning of 1998, following its approval by the shareholders of our Singapore-listed subsidiary, Inchcape Berhad. This has created separate Motors and Marketing businesses in Singapore, and has given the Marketing management team increased flexibility to pursue growth opportunities.

We enter 1998 with a much tighter business portfolio in the region, focused on four core activities: Consumer/Logistics, Industrial, Branded Lifestyle and Specialist Businesses. The reduction in our cost base considerably enhances our ability to weather the current economic turmoil in the region.

Consumer/Logistics The reduction in divisional profits reflected difficult market conditions across most of the region throughout the year. The Japanese economy was weak, but we achieved an improved performance through our withdrawal from loss-making businesses in liquor and home care products. We also benefited from better margins on some of our snackfood products. We successfully expanded our business in Hong Kong, with the addition of new principals including Alberto-Culver VO5, Heinz, Johnson & Johnson Medical and Polaroid. In Thailand, we benefited from increased operational efficiency of our logistics centre, while in Singapore, the logistics operation reported better results on the back of increased throughput. This was offset by our exit from the Thai liquor business and lower Healthcare profits in both Thailand and Singapore. We continue to develop our logistics operation in China, where our Shanghai joint venture, launched in September 1996, is performing well.

Industrial The division benefited from improved performances in Greater China and Japan, offset by lower profits in Thailand. Our business in Greater China benefited from our exit from a number of underperforming businesses in building products, semiconductors, contracting, and medical/dental equipment, and from the buoyancy of the Hong Kong economy in the first three quarters of the year. In Japan, we achieved growth through a number of new agencies and benefited from stronger demand for beer kegs, as part of the normal replacement cycle. Although we retained market leadership in Thailand, results from tractor sales were adversely affected by a significant reduction in margins due to an unfavourable sales mix and the devaluation of the Thai Baht. Demand for automotive accessories in Thailand and Toro golf course equipment in South East Asia was also substantially weaker.

Branded Lifestyle The division benefited from improved performance from Timberland in Japan, where significant start-up investments in shops and supporting infrastructure were made in 1996. The Timberland businesses in the rest of the region, including Australasia, performed better in the first half, but deteriorated in the later part of the year as consumer spending weakened. The Salvatore Ferragamo business in South Korea had an excellent first full-year, expanding its retail outlets in both the domestic and duty-free markets. However, despite an increase in turnover and the addition of the Thailand distributorship, the Ferragamo operations in South East Asia were affected by margin erosion and the regional economic turmoil in the second half.

Office Automation

[illegible] automation [illegible] performed well, although [illegible] to take its toll [illegible] share of [illegible] marginally from £6.4m to £6.2m.

	Year	£m
Turnover £m	97	96.5
	96	100.5
Profit £m	97	6.2
	96	6.4

The Greater China operations had a good year overall with strong sales in Hong Kong and a big increase in sales to China compared with 1996. However, sales in both markets slowed down in the last two months of the year. Market conditions in Thailand were difficult for most of the year, and our traditional strength in the public sector has been adversely affected by a significant reduction in government purchasing.

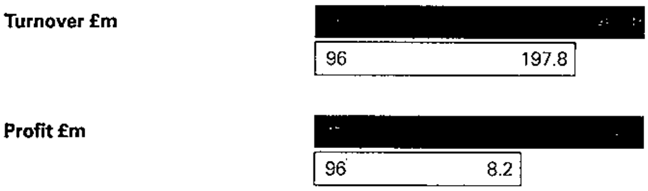
In Australia, there was a significant upturn in business with the strategy of focusing on a single brand, Ricoh, proving very successful in terms of increasing brand awareness and market share. Sales were further boosted by a major contract with The Commonwealth Bank. The bank has appointed Inchcape NRG as sole supplier of copiers and faxes for its entire national network of more than 1,000 branches. As part of the contract, Inchcape NRG will be updating the bank's fax and copier network to the latest digital technology. We have also been accepted by the Federal Government as a preferred supplier, which positions us well for increasing our sales in the public sector.

In Singapore, a fire in April 1997 destroyed the main office and warehouse. However, with the help of other Inchcape Group companies and Konica – another major Inchcape NRG Principal – the business recovered quickly, opening in new premises within two months. Overall, unit sales in Singapore and Malaysia in 1997 were significantly up on the previous year. We opened in the Philippines in April 1997, bringing to ten the number of markets in which we have direct operations. The business has started well and sales are ahead of budget expectations.

The advent of digital technology, in which Ricoh has quickly developed a leadership position, is having a dramatic impact on the office automation industry. The launch of NRG Solutions in Hong Kong in September is a major initiative in our strategy to develop a competitive edge in the networked office environment.

Bottling

Operating profits grew by 59.8% to £13.1m over the year as a whole, following a strong second half. Our operations in Chile continued to make excellent progress. In Peru, we have turned around ELSA, the company in which we acquired a controlling interest in 1996, through restructuring and the acquisition of additional brands. The merger of ELSA at the beginning of 1998 with the other principal Coca-Cola bottlers in Peru affords considerable further potential. Start-up losses in the Russian Federation have been larger than expected, but the majority of our investment programme is now complete and we are experiencing solid volume growth.



Chile Our Chilean franchises continued to perform exceptionally well, outperforming a soft drinks market which showed further good volume growth. Per capita consumption in our franchise areas has grown by 27.7% over the last two years, increasing our market share in those areas by over three percentage points to an average of 73.0% in 1997. Sales benefited from the launch of Quattro grapefruit soda in November 1996, which has rapidly established itself as the leading brand in its sector. We also opened a new plant serving the Viña del Mar franchise area, which has a total population of 1.3 million. Performance benefited from the combination of good volume growth and savings in variable costs. With the launch of Nordic Mist ginger ale and tonic water in November 1997, we now have a comprehensive soft drinks product range with good potential for continued growth.

Peru We acquired management control of ELSA, Peru's largest Coca-Cola bottler, in March 1996, when we purchased a 26% shareholding in the then loss-making business.

The substantial profit turnaround in 1997 was based on a series of distribution and product initiatives, combined with a restructuring of the company to reduce costs and improve efficiencies. A programme of vending machine installations began in January 1997, followed in February by the development of a new distribution system. In March, ELSA acquired the Kola Inglesa soft drink and San Luis table water brands, leading to a 30% increase in volume throughput.

Successful packaging innovations included the launch of Fanta and Sprite in 0.5 litre non-returnable bottles in April, together with a new range of bag-in-box products for bar dispensers, and the introduction of Coca-Cola in a 2 litre refillable PET bottle in September.

With effect from 1 January 1998, ELSA has been merged with the Coca-Cola bottlers in the South and North of Peru, and now controls over 90% of the Coca-Cola market. Inchcape has an effective 50.1% shareholding in the enlarged company, following a £41m cash injection as part of the merger process.

We believe that there is considerable scope for development of the Coca-Cola brands in our enlarged franchise area, and for enhancing profitability through integration and rationalisation.

The Russian Federation We have now completed our initial investment in four bottling plants in the Russian Federation, serving six franchise areas. These comprise six of the twelve largest cities in the Federation and cover a total population of 35 million.

Losses were greater than expected as the market grew more slowly than anticipated, and delays in the opening of our new plants at Samara and Ekaterinburg meant that we incurred higher start-up costs than anticipated, together with additional transport costs while product for these franchise areas was supplied from other locations. Higher depreciation charges were also incurred.

With all four plants now on stream, we are concentrating on building market share while maintaining tight control of our cost base.

Financial Review

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

Post balance sheet events

On 1 January 1998, in accordance with an agreement signed in 1990, Inchcape plc sold 26.0% of the shares in Toyota (GB) to the Toyota Motor Corporation – having received £30m proceeds in advance. As a result of this transaction from 1 January 1998 Inchcape owns 49.0% of Toyota (GB) and will account for its interest as an associate from that date. The 1997 results and balance sheet of the Group have been restated on a pro forma basis in Note 15 to illustrate the effect of this change.

As at 1 January 1998 ELSA, the Peru Bottling business, was merged with two other local Coca-Cola bottlers. At that time the Group invested a further £41m into the newly merged entity and increased its effective shareholding to 50.1%.

Acquisitions, disposals and discontinued activities

The business represented by the brands of San Luis and Kola Inglesa soft drinks in Peru was the only significant acquisition in the year. The only individually notable disposal was that of the Marketing distribution business in Turkey. Discontinued activities in 1996 comprised Insurance Services, Testing and various Shipping operations. We have not disclosed any of our disposed or closed businesses as discontinued in 1997 as they were not sufficiently material.

There are no new accounting standards impacting the results of the year, however to provide a clearer portrayal of the financial position of the Group, we have made two relatively minor accounting presentation changes.

First, we have reclassified from creditors to debt the finance provided by a third party in relation to a specific supply of goods. This reclassification increases the Group's net debt and gearing, but does not affect reported interest. The effect is:

£m		1997	1996
Net (debt)/ cash	– previous basis	(47.2)	39.9
	– revised basis	(96.0)	2.6

Secondly, given the growing investment in Motors Financial Services, we have reclassified interest expense relating to this activity, together with interest income on principal funds in Shipping, from interest to operating profit to represent the results of operations more appropriately. This change only affects operating profit and interest with no effect on profit before tax. The impact on the financial statements is:

£m		1997	1996
Net interest payable	– previous basis	6.0	29.9
	– revised basis	3.4	39.2
Total operating profit*	– previous basis	190.1	195.0
	– revised basis	187.5	204.3

*before exceptional items

Cash flow

Operating profit before exceptionals, adjusted for depreciation of £53.3m, together with dividends received from our associated companies of £28.7m, amounted to £217.3m.

	£m	£m
Net funds – 1 January 1997		2.6
Operating profit and associated company dividends and depreciation	217.3	
Working capital increase	(80.0)	
Capital expenditure and acquisitions	(176.8)	
Disposals of fixed assets and businesses	82.3	
Net outflow in respect of closures and terminations	(53.9)	
Other items	15.4	
Interest	(4.2)	
Tax	(35.2)	
Dividends paid to shareholders and minorities	(65.0)	
Cash flow		(100.1)
Other movements		1.5
Net debt – 31 December 1997		(96.0)

Working capital increased by £80.0m, of which the Motors businesses' increased by £74.5m, which included

Shipping

Ship Services This activity manages port visits, and provides a wide range of services to vessels in port. Excluding Liner calls, port calls handled by this division grew 13.2% to almost 31,000, with the Americas in particular showing strong volume growth. We established a number of additional key account partnerships, particularly in the Americas, benefiting from our global ISO 9002 accreditation and our customer-centred 'Talking Your Trade' strategy. These included Stasco (Shell), Stolt Parcel Tankers and an expanded role with the US Navy. We also expanded our operations in South Africa through the acquisition of Voigt Shipping. Profits were affected principally by a reduction in US Navy business in the Middle East, and also margin pressure in certain markets in Asia-Pacific.

Liner Services This business sells container space on behalf of shipping lines, and arranges cargo handling in port. As announced last year, we have exited from these activities in Asia and most of Europe, and adopted a new regional focus on the Americas, the Middle East and Greece. Business showed strong growth in the Americas, where we also gained a number of new principals.

Other Activities Our Machinery Services division supplying Japanese-made parts to shipowners and plant operators throughout the world had a satisfactory year.

	Turnover		Profit	
	1997	1996	1997	1996
Shipping	£m	£m	£m	£m
Europe:				
UK	16.4	15.3	(2.5)	(1.9)
Continent	14.1	18.3	1.2	1.5
Far East	52.2	59.2	3.0	3.6
South East Asia	1.2	1.4	0.5	0.9
Middle East	7.4	7.9	2.1	3.2
The Americas	58.0	53.9	5.9	5.1
Rest of World	2.4	2.0	0.4	0.5
	151.7	158.0	10.6	12.9
Reversal of associated companies	(8.0)	(11.5)		
	143.7	146.5		

Turnover £m	**97**	**151.7**
	96	158.0
Profit £m	**97**	**10.6**
	96	12.9

Cash and debt

Net debt of £96m at 31 December 1997 comprised a large number of cash and debt balances that are held for operational and other reasons, summarised as follows:

£m	Debt	Cash	Net
Sterling	(144)	49	(95)
Sterling swap deposits	377	–	377
	233	49	282
US Dollar	(468)	82	(386)
Dutch Guilder	–	132	132
Greek Drachma	(49)	9	(40)
Hong Kong Dollar	(42)	16	(26)
French Franc	(35)	10	(25)
Japanese Yen	(40)	16	(24)
Singapore Dollar	(64)	70	6
Other	(114)	99	(15)
	(579)	483	(96)

Our largest net balances are in Sterling and Dutch Guilder cash and US Dollar debt. The Sterling net cash position largely results from our use of swaps as a means of borrowing foreign currency, whereby we have a borrowing in one currency with a corresponding deposit in Sterling.

The Group has a cross currency interest rate swap which had the effect of creating a US Dollar loan of $180m and a corresponding Sterling deposit of £120m (at the exchange rates at inception). This matures on 19 January 1999. Following the hedging policy review described below this arrangement will be terminated in March 1998, nine months prior to its maturity. As a result, Sterling cash and US Dollar debt in the above table will each reduce by circa £110m, at year end exchange rates.

US Dollar borrowings comprise: the £104m (US$172m) Private Placement Loan Notes; the £110m (US$180m) cross currency interest rate swap; £47m US Dollar denominated loans in Russia; together with some £207m of other US Dollar short-term borrowings, a large proportion of which are derived from short-term currency swaps. The relatively high US Dollar cash balance was largely due to a deposit over the year-end prior to making the £41m investment in Peru in early 1998.

The Dutch Guilder cash of £132m arises primarily from the receipt of a substantial dividend from Hong Kong, part of which remains in Holland for fiscal reasons. The Group has net borrowings for working capital purposes in Greece, Hong Kong, France and Japan. The gross cash and debt position in Singapore Dollars results from holding cash balances in Singapore but borrowing in Brunei Dollars (effectively pegged to the Singapore Dollar) to support the local Motors Financial Services operation.

The effects of unwinding of uneconomic supplier credit will further show through in 1998 and our expectation for the Group as presently constituted is for net debt of some £250m throughout the year.

Other than US Dollars, the material cash and debt balances are held locally in each currency.

The Group is not aware of any circumstances which would significantly delay remitting major cash balances to the UK other than from Singapore where it is held in a separately listed company. Such remittances could advance the date on which tax payments would have to be made, or increase the absolute level of tax payable.

For major deposits, our policy is to use only our eleven relationship banks, all of which have very good long-term credit ratings.

Effective interest rates

The Group uses interest rate swaps and forward rate agreements to manage its interest cost. Through the use of these instruments: interest on US$50m of the Group's short-term borrowings has been fixed at 5.87% through to 30 June 1998; interest on US$52m of the US$172m Private Placement will be paid at floating rates through to maturity; £80m of the Sterling net cash position earns interest at fixed rates between 6.88% and 7.02% through to 31 December 1998; interest on £35m of the French Franc gross debt has been fixed at rates between 4.55% and 4.64% through to 4 January 1999; and £40m of Hong Kong Dollar debt incurs interest at an average rate of 12.4% for 1998. This latter arrangement, which was taken out to provide protection from volatile interest rates, is reviewed on a rolling basis each quarter.

As a result of our cash and debt position, for 1998 the Group's major interest rate exposures will be to rising the build up of stocks in advance of the release of new models. Working capital also increased in Bottling by £16.3m offset by a reduction of £14.0m in the Asian Marketing businesses, largely as a result of restructuring.

Expenditure in respect of fixed assets and acquisitions amounted to £176.8m. Our Bottling operations spent £47.3m in the Russian Federation and £31.2m in Latin America, including the two Peruvian soft drink brands acquired during the year. Of the remainder we spent £62.6m in Motors, including £14.1m on developing dealerships in the UK and Finland, and £11.2m on extended lease vehicles. We also invested £1.6m on acquisition of new businesses.

Disposals of fixed assets and businesses generated £82.3m, of which £19.8m was from deferred proceeds of earlier disposals and a further £7.9m from the restructuring of Marketing. Disposals of property generated £16.1m and sales of operating assets, primarily in Motors, generated a further £26.7m, which included the sale of vehicles at the end of their leases amounting to £11.4m.

We spent £53.9m in respect of the closure and termination of operations of which £38.5m was in respect of costs provided for as part of non-operating exceptional items and £15.4m was provided for as part of the operating profit.

Other items of £15.4m included £7.7m exchange effect of hedging instruments and £3.1m in respect of the issue of shares and capital subscribed by minorities.

After the payment of interest of £4.2m, tax of £35.2m and dividends of £65.0m (of which £10.8m were in respect of minorities) the Group had an overall cash outflow in the year of £100.1m resulting in net debt of £96.0m at 31 December 1997.

Our Group Treasury operates within clearly defined policies and authority levels that are approved by the Board. The financial instruments used to manage our interest rate, currency and liquidity risk are subject to Board approved operating parameters and under no circumstances will their use create additional financial exposures over and above those arising from our normal trading activity. Our use of derivative instruments is restricted to foreign currency and interest rate swaps and foreign currency options.

We use foreign currency swaps to borrow in the foreign exchange markets in non-sterling currencies which is cheaper than using bank debt. Interest rate swaps are used to convert the interest payable on our short-term borrowings into that which would be payable on longer-term debt, which is more cost-effective than by directly borrowing longer-term. We also buy foreign currency options to limit the risk that payments to our suppliers in foreign currency would cost us more than when we placed the orders.

Borrowing facilities

The Group has borrowed £125m through a Convertible Bond and £104m (US$172m) through a private placement of US Dollar denominated Loan Notes.
We also have access to £325m of bilateral committed standby facilities which remained undrawn in 1997 and which are due for renewal in the year 2000. As part of our restructuring exercise we intend to redeem the Convertible Bond and to replace the standby facilities with a new syndicated £400m committed facility with a maturity of a further five years. We consider that this will provide sufficient liquidity for the ongoing businesses over the medium term.

Inchcape in the community

The primary objective of Inchcape's community involvement programme is to put something back into the communities from which we earn our living. At the Group level, the Company's policy is to concentrate the majority of its funding on one international charity, where our support can make a significant difference and assist the charity in achieving key development objectives. The Group programme is supplemented in local markets by a variety of sponsorships, donations and fund-raising activities by individual businesses. Wherever possible, Inchcape seeks to involve its employees and business partners in community activities.

The Inchcape Initiative, our partnership with youth development charity Raleigh International, is the Group's flagship sponsorship programme. Between 1996 and the millennium, Inchcape is sponsoring five expeditions amounting to a total investment in Raleigh International of £1.25m.

Inchcape's support enables Raleigh International to achieve one of its core aims, the recruitment of more young people from outside the United Kingdom onto its expeditions. For Inchcape, the programme helps us strengthen links with many of the local communities in which we operate.

On each **Inchcape Initiative** expedition, Inchcape provides 50 fully-funded bursaries and donates £25,000 towards community building projects. Successful expeditions have already taken place in 1996 and 1997 in Chile and Malaysia, and plans are progressing well for the next **Inchcape Initiative** expedition – Raleigh International's first ever expedition to China, which takes place from 9 July to 21 September 1998. The 1999 **Inchcape Initiative** expedition will be to Oman.

Through the Inchcape bursaries, 50% of the 100 plus young people on the China expedition will be from outside the United Kingdom, having been recruited from Argentina, Chile, China, Hong Kong, Italy, Japan, Jordan, Malaysia, Oman and Singapore. Five Inchcape employees from different offices around the globe will also take part in the expedition – providing them with a unique opportunity to develop their teamwork, leadership and communication skills.

During the ten-week expedition, the participants (or "Venturers") will work in small teams on a variety of environmental and community projects in two east-coast provinces – Jiangsu and Shandong. In the planning of the expedition, Raleigh International has developed a close partnership with the China Youth Development Foundation (CYDF), a non-governmental organisation which is a member of the All China Youth Federation. CYDF's principal activity is Project Hope – a high profile primary school construction programme in rural areas across China. The Venturers will work alongside local people in the construction of three Project Hope schools, and will be pioneers in this kind of collaboration between China and a foreign youth organisation.

Environmental projects are being planned in protected areas within the two provinces. One such project would involve assisting Chinese and UK scientists in marking the boundaries of the Dafeng Nature Protection Area in Jiangsu province which holds the only remaining Chinese population of the endangered Pere Davids deer. Another project in Jiangsu involves assisting with data collection and building a 12-metre bridge within the Yancheng Biosphere Reserve. This is a 40,000-hectare coastal wetland which provides sanctuary for 376 bird species, including 30 which are endangered.

In addition to supporting **The Inchcape Initiative**, Group companies continue to support their local communities. For example, Inchcape Pacific, in conjunction with the University of Hong Kong (HKU), has recently established the Inchcape HKU China Scholarship Programme, a five-year student exchange programme between HKU and universities in Mainland China. In addition, Inchcape Pacific sponsors programmes in the Hong Kong Arts Festival and Youth Arts Festival, and the company and its employees also participate in major fund-raising initiatives for Hong Kong's Community Chest charity.

In the United Kingdom, Inchcape and its subsidiaries have given money during the year for charitable purposes amounting to £381,000 (1996 – £305,000). Total charitable donations made by the Group worldwide during the year were £780,000 (1996 – £531,000). No political donations were made.

US Dollar interest rates and falling Sterling interest rates. After taking into account the effect of hedging, a 1% movement in US Dollar interest rates for the whole of 1998 would affect the Group's interest expense by circa £0.9m and a 1% movement in Sterling rates by circa £0.8m.

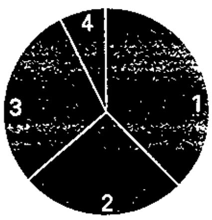
Interest

Net interest cost was £3.4m (1996: £39.2m). The Group benefited by some £32m on the proceeds from the disposals of Insurance and Testing Services. Lower operational financing requirements reduced interest costs by circa £2m, and the Group received £3m interest in respect of final settlement of a claim. Higher effective interest rates cost some £3m, but exchange rate translation reduced the charge by £2m.

Balance sheet hedging

The currency turmoil during the year in Asia led to a review of our policy on managing the exposure in translating foreign currency net assets into Sterling. The percentages of net assets at 31 December 1997 are shown in the following chart:

Analysis of net assets by currency



1 US$ Related*	**38%**
2 Asian	**26%**
3 European	**29%**
4 Other	**7%**

*includes Hong Kong $

The Group has previously tried to protect the Sterling value of its asset base by seeking to match the value of its local currency denominated assets with borrowings in the same currency.

A cornerstone of this policy was the aggregation of certain currencies based on their then close alignment to the US Dollar. The Asian turmoil has meant that this alignment is no longer assured. Furthermore, the Group does not wish to be exposed to potentially high and volatile interest rates through substantial borrowings in local currency. Consequently, in early 1998 the policy has been revised to leave investments in overseas subsidiaries uncovered, and then maximising as far as possible remitted earnings and financing working capital requirements through local currency debt.

Effective exchange rates on transactions

The overall rates achieved in 1997, the proportion of 1998 forecast exposures hedged as at 31 December 1997, and the average rates obtained thereon in respect of our three major transaction exposures are shown in the following table:

	1997 Sterling rate achieved	1996 Sterling rate achieved	Hedged proportion of 1998 forecast exposure	Average Sterling rate for 1998 hedges
Japanese Yen	188	160	54%	202
US Dollar	1.62	1.55	37%	1.62
Deutschmark	2.62	2.21	62%	2.97

Exchange effects – translation

Had the average rates in 1996 continued into 1997 the Group's operating profit for the year would have been £13.5m higher and Headline profit before tax £11.3m higher. The effect on operating profit by business stream and geographic area is analysed in Note 1a of the financial statements.

Taxation

The tax charge on Headline profit for 1997 has reduced to 34.3% from 37.4% in 1996. The reduction in the rate arises principally from a significant improvement in the trading performance of a number of businesses enabling utilisation of tax losses brought forward, particularly in Australia.

As most of the exceptional costs are non-deductible for taxation purposes a net tax charge of £1.6m arose on exceptional items.

Cumulative Advance Corporation Tax (ACT) written-off increased to £25.2m (1996: £14.3m) mainly because of a reduction in the level of ACT offset against UK corporation tax on dividends remitted by subsidiaries to the UK.

It is expected that the Government's proposal to abolish ACT from April 1999 will be broadly neutral to the Group's tax rate.

Dividends

In recent years the Group has paid its interim dividend as a Foreign Income Dividend (FID). Following proposed changes to the ACT regime it is beneficial for the Group to increase the proportion of the total dividends which are paid as FIDs to maximise the utilisation of the Group's ACT asset balance. Consequently, it is proposed that half of the final dividend for 1997 will be paid as a FID.

Minority interests

The increase in the charge to £17.0m (1996: £13.5m) reflects a strong performance by Toyota (GB) and ELSA in Peru, offset by lower profits from Inchcape Berhad in Singapore.

Our Group Policy

Inchcape is one of the world's leading international distribution groups and represents many of the world's best known companies. Inchcape specialises in the international distribution of motor vehicles, soft drinks, consumer and industrial products and office equipment and operates the largest independent shipping services network in the world.

As part of our vision to be the partner of choice in developing quality international brands, we are committed to pursuing sound environment, health and safety management policies and practices across our business. We also recognise that, by providing customers with access to leading products and services and through the consistent, high-quality services we provide to our Principals, we can support the improvement of environment, health and safety standards in both developed and emerging markets.

It is the policy of Inchcape that we will:

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

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

Environment, Health and Safety

Policy

Building on the programme initiated in 1996, the Board has now implemented a formal, Group-wide Environment, Health and Safety (EHS) Policy (see page 22). A Board Director has assumed responsibility for this. In addition, each Business Stream has an EHS policy which focuses on the key issues for its operations. Implementation of these policies is the responsibility of management within the Business Streams.

Progress

In February 1997 the Group, assisted by external consultants, completed its first review of EHS performance. The results formed the basis for the development of Stream policies and supporting action plans. The Business Streams are now working to incorporate EHS performance within the Group's wider Internal Control framework. In September 1997, the Chairman opened the first Group EHS Workshop. This was attended by all Business Streams, those Group functions involved in the EHS programme and external environmental experts, who provided independent views on Inchcape's current EHS performance and priorities for action.

[illegible]

Some examples of areas where Inchcape has demonstrated its commitment to EHS management are:

- in Dubai, where the Spinney's supermarket chain has developed an environmental awareness programme which involves the provision of recycling centres and initiatives to raise environmental awareness in local schools;
- in Inchcape Bottling, which has implemented an investment programme to upgrade wastewater treatment processes at all bottling plants by the end of 1998. In Chile and Peru, Inchcape Bottling also participates in a number of industry and recycling programmes to recover and recycle plastic and glass bottles and cans;
- in the UK, where Inchcape Motors' Health and Safety programme has been expanded to embrace environmental performance;
- in Inchcape Shipping Services, which has developed an Emergency Response service, designed to support ship owners and operators who have suffered major incidents;
- in Hong Kong, where Crown Motors Limited (CML), our Toyota distributor, is involved in a Government initiative to assess the feasibility of replacing diesel taxis with cleaner LPG vehicles. CML has supplied 15 vehicles and is providing technical and training support for the project.

In summary, Inchcape now has a management framework which will enable the Group to build on existing good practice and promote a consistent approach to EHS management across all operations. Next year's programmes will strengthen performance reporting and establish targets for improvement in each Business Stream.

Corporate information

Directors

Messrs P E Cushing, H E Norton and B J Hintz retire by rotation. Mr Cushing and Mr Norton offer themselves for re-election in accordance with the Articles of Association. Mr Hintz and Mr O'Donoghue retire at the conclusion of the Annual General Meeting on 23 April 1998.

Dr R K F Ch'ien, who was appointed to the Board on 1 July 1997, and Messrs P W Johnson and T H Taylor, who were appointed on 1 January 1998, being eligible, offer themselves for re-election in accordance with the Articles of Association.

During the year, the following Directors retired from the Board:

Mr P M F Cheng	22 May 1997
Mr A D Cummins	31 December 1997

The names of the Directors, plus brief biographical details, are given on page 23. Except as stated above they all held office throughout the year.

Corporate Governance

The Final Report of the Committee on Corporate Governance was published on 28 January 1998. The Committee has announced its intention to produce a set of principles and code of good corporate governance which combine its own work with that of the Cadbury and Greenbury Committees. This is then to be published by the Stock Exchange, together with proposed associated changes to the Listing Rules. The Company awaits the publication of the Stock Exchange code and the changes to the Listing Rules.

The Directors are firm supporters of the principles of good corporate governance and set out below is an explanation of the way in which the Company applies those principles.

The Board confirms that the Company has complied throughout the year with the Code of Best Practice published in 1992 by the Cadbury Committee on the Financial Aspects of Corporate Governance. The report by the auditors, Coopers & Lybrand, on this statement is on page 34.

The Board

The roles of the Chairman and of the Chief Executive are separate and have been so since 1991. In addition to the Chairman, the Board includes six other non-executive Directors who bring a wide diversity of experience and expertise. Five of the other non-executive Directors are also independent of the management of Inchcape, being either free from any business or other relationship which could materially interfere with the exercise of their independent judgement or not previously involved in the management of the Group. Tony Alexander has been appointed as the senior independent non-executive Director.

Non-executive Directors are usually appointed for an initial period of three years, which may be extended by

Board of Directors

Chairman

Sir Colin Marshall

Age 64. Joined the Inchcape Board in November 1995 and was appointed non-executive Chairman on 1 January 1996. Sir Colin was formerly Deputy Chairman and Chief Executive of British Airways Plc and has been that company's Chairman since February 1993. In addition, he is Deputy Chairman of British Telecommunications plc and of Siebe plc, and a non-executive Director of HSBC Holdings plc. He was appointed President of the Confederation of British Industry in May 1996.

Executive Directors

Group Chief Executive

Philip Cushing

Age 47. Joined the Group as Chief Executive of Inchcape Berhad in 1990 and was appointed to the Inchcape plc Board in May 1992. Mr Cushing was appointed Group Managing Director in March 1995 and Group Chief Executive in March 1996. Mr Cushing was previously with Norcros, LEGO Group and Norton Opax. He is a non-executive Director of Ikon Office Solutions Inc.

Les Cullen

Age 46. Joined the Inchcape Board in April 1997 and became Group Finance Director in July 1997. Mr Cullen was previously with Goodman Fielder Ltd, De La Rue plc, STC plc and Grand Metropolitan PLC.

Peter Johnson

Age 50. 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. Mr Johnson was previously with the Rover Group, Applied Chemicals and Marshall Motor Group.

Rod O'Donoghue

Age 59. Joined the Group in 1986 as Group Finance Director, stepping down in July 1997 prior to his retirement from the Board at the 1998 Annual General Meeting. Since July he has maintained responsibility for information technology and worked on other operational assignments. Mr O'Donoghue was previously with Kimberly-Clark, Rank Xerox and Pritchard Services Group.

Trevor Taylor

Age 60. Joined the Group in 1987 as Deputy Managing Director of Toyota (GB), becoming Chief Executive in April 1993. He became Chairman and Chief Executive in October 1995 and also at that time was appointed Chief Executive of Inchcape Toyota Division. He joined the Inchcape Board in January 1998, at which time he resigned his executive role with Toyota (GB) to become a non-executive Director. Mr Taylor was previously with Ford Motor Company and the Rover Group and its formative companies.

Non-Executive Directors

Tony Alexander

Age 59. Joined the Inchcape Board in January 1993. Formerly a Director and Chief Operating Officer UK of Hanson plc, he was appointed Vice Chairman of Imperial Tobacco Group plc in 1996. He is also Chairman of Marley plc and a non-executive Director of Cookson Group plc, Misys plc and Shanks & McEwan Group PLC.

Dr Raymond Ch'ien

Age 46. Joined the Inchcape Board in July 1997 at the same time becoming Chairman of Inchcape Pacific Limited. Dr Ch'ien is a member of the Executive Council of the Hong Kong Special Administrative Region Government and Chairman of the Hong Kong Industry & Technology Development Council. He is also Chairman of HSBC Private Equity Management Limited and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited.

B. Jürgen Hintz

Age 55. Joined the Inchcape Board in February 1994. Mr Hintz is Chief Executive designate of Caradon plc. He was President and Chief Executive of Carnaud/Metalbox until October 1995. Prior to joining Carnaud/Metalbox he was Executive Vice-president of Procter & Gamble.

Hugh Norton

Age 61. Joined the Inchcape Board in January 1995. A Managing Director of the British Petroleum Company plc until July 1995, he is a non-executive Director of Standard Chartered plc and of LASMO plc. He is also a member of Council of the Royal Institute of International Affairs.

Simon Robertson

Age 57. Joined the Inchcape Board in May 1996. He was formerly Chairman of Kleinwort Benson Group plc, where his career spanned 33 years, mainly in corporate finance. He is currently President of Goldman Sachs Europe Limited and Managing Director of Goldman Sachs International Limited. In addition he is a non-executive Director of BTR plc, John Mowlem & Co PLC and J W O'Connor & Company Incorporated.

Liam Strong

Age 53. Joined the Inchcape Board in January 1993. Formerly Chief Executive of Sears plc, he is Chief Executive, WorldCom International. In addition Mr Strong is Chairman of the London Health Partnership.

1 Member of the Audit Committee
2 Member of the Remuneration Committee
3 Member of the Nomination Committee

Tony Alexander is Chairman of the Audit Committee and Sir Colin Marshall is Chairman of the Remuneration and the Nomination Committees.

bottling system in Southern Peru and, therefore, it was a related party of the Group at the time of the transaction. Following the merger, 1.26% of the enlarged ELSA is to be transferred to Mr Mitchell and, consequently, this further transaction will be with a related party. The Group made a cash injection of £41m for the additional equity in the enlarged business which had pro forma net assets of £113m on 30 June 1997.

Creditor payment policy

The Company is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted. In line with Inchcape Group policy, payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. The number of days' purchases outstanding at 31 December 1997 in respect of our UK businesses is calculated at 48 days.

Year 2000

A Group wide programme is underway to address the impact of year 2000. Responsibility for managing the issues arising is held by Business Stream management. A task force has been established, resourced by a combination of internal staff and external consultants, together with a central programme office, to monitor progress and manage the defined quality assurance programme.

The Streams have completed the assessment, planning and budgeting phases of the programme and are proceeding with implementation. We estimate, including the cost of already scheduled projects that will also address the year 2000, that the total external expenditure to address the issue will be approximately £30m of which approximately half is capital expenditure.

EMU

We are preparing our businesses for the expected introduction of the Euro as the single currency in anticipation of European Monetary Union (EMU) coming into effect on 1 January 1999.

The Group has established a Working Party comprising representatives of all Business Streams and functions to assess the potential impact of EMU on the Group. The Working Party meets regularly and has the benefit of the input of external legal and financial experts in the field as appropriate.

Annual General Meeting

The notice convening the Annual General Meeting of the Company is enclosed with this Report and Accounts. The AGM will be held at 11.00am on Thursday 23 April 1998 at the Mandarin Oriental Hyde Park Hotel, 66 Knightsbridge, London SW1X 7LA.

It is proposed to put to the Annual General Meeting resolutions to renew the Directors' authorities to allot securities in the Company.

Resolution 10 set out in the Notice of Meeting provides the Directors with authority to allot securities in the Company up to an aggregate nominal value of £44,165,455. If passed, resolution 10 will enable the Directors to allot a maximum of 176,661,823 ordinary shares representing approximately 33% of the issued ordinary share capital as at 27 February 1998, being one month prior to the date of the notice of Annual General Meeting. The Directors have no present intention of exercising the authority which would be conferred by resolution 10.

Resolution 11 set out in the Notice of Meeting is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £6,624,818. The authority conferred by resolution 11 is limited as regards issues of shares other than by way of rights issues to approximately 5% of the issued ordinary share capital of the Company. This amounted to 26,499,273 ordinary shares at 31 December 1997 and 27 February 1998. In relation to the exercise of this authority the Company will have regard to the guidelines published by the investment committees of both the Association of British Insurers and the National Association of Pension Funds. The authorities sought by these resolutions are to replace the existing powers of the Directors which expire at the conclusion of the Annual General Meeting. The authorities sought will expire at the conclusion of the Annual General Meeting to be held in 1999.

In certain circumstances, it might be advantageous to the Company to purchase its own shares. Resolution 12 is a special resolution seeking an authority for such purchases. The resolution specifies the maximum number of shares which may be acquired (approximately 10% of the Company's issued ordinary share capital as at the date of the Notice of Meeting) and the maximum and minimum prices at which shares may be bought.

The Directors intend to use this authority only if, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and will be in the best interest of the shareholders' generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account in reaching such a decision. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

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

agreement with the Board.

The Board is responsible for leading and controlling the Group and meets regularly to deal with strategy and policy issues, to review the Group's financial performance, and to examine significant acquisitions and disposals and major operational capital expenditure. The Board has a schedule of matters required to be brought to it for its decision.

Board Committees

The Board has three principal Committees, all with defined written terms of reference. Membership of each of the Board Committees is indicated on page 23.

The Audit Committee is responsible for reviewing a wide range of financial matters, for the preservation and promotion of good ethical practices and for monitoring the Group's financial controls. Its meetings are attended by the Group Finance Director, the Group Audit Director and the external auditors. The non-executive Directors also have the opportunity at each meeting to review any issues with the auditors in the absence of executive management.

The Remuneration Committee is responsible for remuneration issues regarding executive Directors and senior management. More details are given in the Remuneration Committee Report on pages 27 to 32.

The Nomination Committee is responsible for making recommendations to the Board on selection and nomination of Directors and their re-election at the Annual General Meeting.

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

Internal financial control

The Board of Directors is responsible for the Group's systems of internal financial control. Such systems can provide only reasonable and not absolute assurance against any material misstatements or loss. The Board has delegated to executive management the implementation of the systems of internal financial control within an established framework applicable throughout the Group.

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

Financial reporting There is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reviewed and reported against budget and revised forecasts are prepared and reviewed regularly.

Monitoring systems On behalf of the Board, the Audit Committee examines the effectiveness of these systems which are monitored and reviewed by an independent Internal Audit function. The Committee receives reports arising from the internal and external audit process and reviews issues arising therefrom with line management. Where control weaknesses are identified, follow-up processes exist to ensure appropriate corrective action is taken.

Operating unit controls The overall financial control framework for the Group is detailed in the Group Finance and Information Systems Manuals. Compliance is regularly assessed through the audit process and through a process of self-certification and internal control questionnaires which requires Business Units and Business Stream management to assess annually the quality of key control elements in their area.

Risk management There is an annual risk assessment for each Business Stream which assists the Audit Committee in ensuring that appropriate internal audit effort is focused on the significant risk areas. Twice a year each Stream updates an overview of the significant operational risks facing their businesses for review by the Directors.

Investment appraisal The Group has clearly defined policies for capital expenditures. These include annual budgets and detailed appraisal and review procedures. A periodic post-investment appraisal is reviewed by the Board.

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

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.

Transactions with Directors

No transaction, arrangement or agreement required to be disclosed in terms of the Companies Act 1985 was outstanding at 31 December 1997 or occurred during the year for any Director and/or connected person (1996 – none).

Transactions with Directors of subsidiaries

Pursuant to London Stock Exchange Listing Rules the following transaction with a director of a company, which was and continues to be treated in the Group's accounts as a fully consolidated subsidiary, is notified:

In January 1998 the Group completed the merger of Embotelladora Latinoamericana SA ('ELSA'), the Lima Coca-Cola bottler of which it has management control, with two companies owning the Coca-Cola bottling systems in Northern and Southern Peru. The Chairman of ELSA, Mr Michael Mitchell, controlled more than 30% of the voting rights of the company owning the years. After that period the extent of the awards, including notional increases to allow for the dividends on the shares from the date of the award to the date of the exercise, is determined. In normal circumstances, participants will not receive their shares for a further two years.

The Committee has decided that, for awards in 1998, the Company's total shareholder return should be measured against the total shareholder returns of the top 250 companies in the FTSE Index, as being a more appropriate measure. Participants will be entitled to exercise their 1998 awards in full if the Company's performance is ranked in the top quartile of returns of those companies. The awards then vest on a reducing sliding scale according to the Company's rating. If the Company is ranked at 126 or below, no part of the award may be exercised.

All the shares are held in a general discretionary trust established in Jersey whose potential beneficiaries include employees and former employees of the Group and their dependants.

Executive Share Options

Executive share options are granted on a phased basis to senior managers throughout the Group who do not participate in the Long Term Incentive Plan.

The exercise of options granted from 1995 onwards is subject to a performance test based on the Inchcape share price outperforming the FT All Share Index over a rolling three year period.

Special arrangements have been put in place for Dr Ch'ien as part of the terms and conditions under which he was appointed Chairman of Inchcape Pacific Limited. It was agreed that he would be granted options over shares in Inchcape plc to a total value of £500,000 in two instalments, half on appointment and half a year later. In fulfilment of the first part of this commitment, on 1 July 1997 Inchcape Pacific Limited granted Dr Ch'ien an option to acquire 88,028 shares in Inchcape plc at an exercise price of £2.84 per share. The terms of this option are similar to those of options granted under the Inchcape International Executive Share Option Scheme. Accordingly, the option will be exercisable between three and ten years after grant provided that the percentage growth in the Inchcape plc share price has, over any continuous three year period after the date of grant of the option, exceeded the percentage growth in the FT All Share Index over the same period. Exercise is also normally dependant upon continued employment. Special rules apply, however, where the employment ends in certain specified circumstances (such as, for example, death or disability) or in the event of a change of control in Inchcape plc.

Retirement benefits

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

The Inchcape Group (U.K.) Pension Scheme provides benefits for executive Directors and senior executives at the normal retirement age of 60, equal to two-thirds of final basic salary, subject to completion of 20 years' service. A lump sum benefit of four times basic salary is provided on death in service, along with a spouse's pension of two-thirds of the member's prospective pension. On death after retirement, the spouse's pension is two-thirds of the member's pension. Children's pensions may also be payable.

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

In the case of executive Directors and senior executives appointed after 1 June 1989 the benefits under the Scheme are in respect of capped basic salary. A separate life insurance arrangement exists to supplement the approved life cover to a total lump sum benefit of four times basic salary on death-in-service.

The Inchcape Group UK Supplemental Pension Scheme was established in April 1996. This is a funded defined contribution scheme, established under a central trust, but with individual retirement accounts for participating executives.

Trevor Taylor remains a member of the Toyota (GB) pension scheme where he enjoys similar terms to the UK scheme but 70% of his bonus is pensionable.

Taxable and other benefits

These include such items as company cars, medical insurance and life insurance premia. These are in line with standard employment practice in the UK.

Chairman

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

Non-executive Directors

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

Service contracts

Sir Colin Marshall's appointment as Chairman has been renewed for a further period of two years with effect from 1 January 1998.

None of the non-executive Directors, including Mr Norton and Dr Ch'ien, who are proposed for re-election at the 1998 Annual General Meeting, are engaged on service contracts with the Company. With the exception of Dr Ch'ien neither they, nor the Chairman, are eligible for pension scheme membership, or participation in any of the Company's

Remuneration Committee Report

The Remuneration Committee

Members

Sir Colin Marshall (Chairman), Tony Alexander, B Jürgen Hintz, Hugh Norton and Liam Strong.

All the above members served during the whole of 1997. The Committee has formal terms of reference and normally meets twice a year, in addition to ad hoc meetings as required. It determines all matters relating to the remuneration and benefits of executive Directors and approves the remuneration and benefits of certain other senior executives. It approves awards under the Long Term Incentive Plan and share option allocations under the Executive share option schemes. It is also responsible for the major compensation and benefit policies relating to senior managers generally in the Group.

The Group Chief Executive and the Group Human Resources Director are invited to attend the meetings when their input is required. No one attends any discussion regarding his own remuneration.

The Committee confirms that the Company has fully complied throughout the year with Section A of the best practice provisions annexed to the London Stock Exchange Listing Rules. The Committee also confirms that full consideration has been given to Section B of the best practice provisions annexed to the Listing Rules in framing its remuneration policy and when determining the remuneration packages applicable to the executive Directors in 1998. The Auditors' Report on the financial statements set out on page 34 covers the disclosures contained in this Remuneration Committee Report that are specified by the London Stock Exchange as requiring audit (Tables (a), (b), (c) and (d) on pages 29 to 32).

Remuneration Policy

When considering the remuneration packages of executive Directors, the Remuneration Committee follows the principles outlined below:

- the packages should be competitive when compared with those in organisations of similar size, complexity and type;
- there should be a clear link between the level of remuneration and the performance of the Group and the individual;
- the interests of the shareholders should be safeguarded;
- the package as a whole should be easy to understand and motivating for the individual;
- the composition of the package should reflect best practice among other leading companies.

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

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

Base salary

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

Annual bonus

In 1997 the executive Directors participated in a bonus plan which yielded a bonus of 30% of base salary for on-target performance, with a maximum bonus of 60% of base salary at 115% of target. The plan was based on profit and working capital targets for the year. The bonuses paid under this plan for 1997 are shown in Table (a) on page 29. In 1998 Mr Johnson and Mr Taylor will participate in a bonus plan which has the same characteristics as the 1997 plan save that the financial measures are based on the performance of the Group's Motors Business Stream and excludes those businesses which will be demerged or divested under the restructuring which has been announced.

Long Term Incentive Plan

In 1996 shareholders approved the establishment of a Long Term Incentive Plan, which has applied since then to the executive Directors, as well as to certain other senior executives. This Plan replaces grants under the Executive share option schemes for those participants. The Plan is designed to align the interests of executive Directors and the other senior executives with those of shareholders, to encourage increased shareholding, and to reward sustained good performance over a period of time.

Under the Plan a participant will be contingently awarded a number of ordinary shares in the Company. The awards made to Directors in 1997 are set out in Table (d) on page 32. They are subject to a performance target based on the Company's total shareholder return (share price growth plus reinvested dividends over a three year performance period), subject to a minimum requirement of real growth in share price over that period.

The extent to which the performance target is achieved determines the extent to which the award may be exercised, if at all. Participants will be entitled to exercise their 1996 and 1997 awards in full if the Company's total shareholder return, when compared over the same period against the total shareholder returns of companies in the FTSE 100 Index, is ranked in the top quartile. The awards then vest on a reducing sliding scale according to the Company's rating. If the Company is ranked at 56 or below, no part of the award may be exercised.

The performance target is measured over three

Notes to the Remuneration Committee Report continued

2 Table (b) – Directors' pension entitlement

(i) Contributions paid in year to money purchase schemes

	1997 £'000	1996 £'000
L G Cullen (appointed 21.4.97)	74	–
A D Cummins	75	48
P E Cushing (Highest Paid Director)	148	104
R C O'Donoghue	–	–
Total	297	152

(ii) Accrued annual pension under defined benefit schemes and unfunded schemes

	Age at 31.12.97	Years of service at 31.12.97	Increase in accrued pension during the year under defined benefit schemes (a) £'000	Transfer value of increase £'000	Accumulated total of accrued pension at 31.12.97 £'000	Accumulated total of accrued pension at 1.1.97 £'000	Accumulated total of accrued pension under unfunded schemes at 31.12.97 £'000	Accumulated total of accrued pension under unfunded schemes at 1.1.97 (b) £'000
A D Cummins	48	5	3	29	16	13	–	–
P E Cushing (Highest Paid Director)	47	5	2	26	21	18	–	51
R C O'Donoghue	59	11	15	234	175	154	–	–
Total			20	289	212	185	–	51

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

(b) In April 1997 the accrued pension under unfunded schemes was extinguished by a capital payment to The Inchcape Group UK Supplement Pension Scheme. An additional amount of £72,542 was charged to the profit and loss account at that time, representing the increase in the value of the unfunded benefit for the period from 1 January to 31 March 1997.

P M F Cheng was age 60 when he retired on 22.5.97. Mr Cheng had a personal pension arrangement with Inchcape Pacific Limited which, although structured to deliver a pension could, at his option, be converted fully to a lump sum payment on retirement. Contributions of £53,053 were paid during 1997, which met the Company's full obligation to fund the scheme. As the pension was fully commuted on Mr Cheng's retirement the Company's obligation has been fully extinguished.

bonus, share option or other incentive schemes.

Dr Ch'ien, in his capacity as Chairman of Inchcape Pacific, has a service contract with that company with a notice period which will reduce from an initial period of two years to one year from 14 April 1998. He also has options over shares in the Company as described above.

Mr O'Donoghue will retire from the Company in June 1998. Mr Cushing and Mr Johnson have service contracts with notice periods of two years. The other executive Directors have service contracts with a notice period of one year.

The length of the notice period of executive Directors' service contracts is reviewed annually by the Committee. The Committee has adopted a policy in respect of new appointments to the Board that, in normal circumstances, a two-year fixed term contract would be given, which would become subject to a one-year notice period at the end of the first twelve months.

It is the normal policy of the Committee, in the event of termination, to seek fair mitigation of contractual rights.

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

Sir Colin Marshall
Chairman of the Remuneration Committee
2 March 1998

Notes to the Remuneration Committee Report

1 Directors' emoluments

The total emoluments of the Directors were as follows:

	1997 £'000	1996 £'000
Remuneration and non-executive Directors' fees	**1,798**	1,680
Bonus payments	**597**	450
	2,395	2,130

Table (a) – 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, options held and granted during the year and awards made in the year under the Long Term Incentive Plan are shown in tables (b), (c) and (d) respectively on pages 30 to 32.

	Base Salary		Bonus		Taxable and other benefits		Total remuneration	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000	**1997 £'000**	1996 £'000	**1997 £'000**	1996 £'000
A G L Alexander	**24**	23	**–**	–	**–**	–	**24**	23
Dr R K F Ch'ien (appointed 1.7.97) (a)	**81**	–	**–**	–	**11**	–	**92**	–
L G Cullen (appointed 21.4.97)	**186**	–	**92**	–	**10**	–	**288**	–
P E Cushing (Highest Paid Director) (c)	**379**	349	**200**	164	**16**	16	**595**	529
R C O'Donoghue (c)	**272**	263	**142**	121	**11**	10	**425**	394
B J Hintz	**22**	22	**–**	–			**22**	22
Sir Colin Marshall (d)	**200**	200	**–**	–	**33**	20	**233**	220
H E Norton	**24**	22	**–**	–	**–**	–	**24**	22
S Robertson	**22**	13	**–**	–	**–**	–	**22**	13
L G Strong	**22**	21	**–**	–	**–**	–	**22**	21
Directors who retired during the year:								
P M F Cheng (retired 22.5.97) (a)	**98**	243	**7**	33	**75**	185	**180**	461
A D Cummins (retired 31.12.96) (c)	**297**	278	**156**	132	**15**	15	**468**	425
Total	**1,627**	1,434	**597**	450	**171**	246	**2,395**	2,130

(a) The emoluments disclosed for Mr Cheng and Dr Ch'ien include those in respect of their duties performed as Chairman of Inchcape Pacific Limited.
(b) In the year the Inchcape Group (U.K.) Pension Scheme paid the sum of £2,000 to Mr H E Norton as the fee for chairing the Scheme's trustee board.
(c) 1996 taxable benefits have been restated to reflect replacement of car benefit with leasing cost, and inclusion of supplemental life insurance.
(d) Sir Colin Marshall's 1996 taxable benefits have been restated to include supplemental life insurance. As stated last year, the Company paid £8,625 in 1996 to British Airways as a contribution to that company providing a car and chauffeur for his use

Notes to the Remuneration Committee Report continued

4 Table (d) – Awards under the Long Term Incentive Plan

Details of the Company's ordinary shares contingently awarded during the year to Directors under the Long Term Incentive Plan and the maximum number of shares to which the Directors will be entitled five years after award provided the Company's performance criteria are fully met are as follows:

Director	Total at 1.1.97 (a)	Award in year	Notional increase for dividends during the year	Total at 31.12.97 Transferable at the end of five years after award (b)	Total value 31.12.97(c) £'000
L G Cullen	–	77,941	4,361	82,302	133
A D Cummins	75,444	88,235	9,156	172,835(e)	279
P E Cushing (Highest Paid Director)	93,655	113,235	11,574	218,464	353
R C O'Donoghue	68,941	80,588	8,365	157,894	255

(a) Includes notional increase for dividends.
(b) The maximum figure represents all the shares, (excluding future notional increases for dividends) which will transfer to the Director in 2001 (1996 awards) and 2002 (1997 awards) provided the Company's performance criteria are fully met.
(c) Based on mid-market price of the shares on 31.12.97 – £1.615.
(d) An accrual totalling £0.2m (1996 – £0.1m) has been expensed in the financial statements in respect of the awards made to the above Directors under the Long Term Incentive Plan.
(e) Mr A D Cummins' awards lapsed on 1.1.98.
(f) Messrs P W Johnson and T H Taylor were appointed Directors on 1.1.98 and their respective contingent awards at the end of five years after award at that date were 144,192 and 120,159.

3 Table (c) – Directors' Share Options

	Held at 1.1.97	Granted during the year	Exercised during the year	Held at 31.12.97	Lapsed on 1.1.98	Option price £(e)	Price paid for option	When exercisable	Gain on exercise in the year £
A D Cummins	135,900(a)			135,900	135,900	5.15	£1	May 1995 - May 2002	
	8,900(a)			8,900	8,900	5.85	£1	June 1996 - June 2003	
	26,800(a)			26,800	26,800	5.51	Nil	Apr 1997 - Apr 2004	
	21,900(a)			21,900	21,900	3.19	Nil	May 1998- May 2005	
	6,900(b)			6,900	6,900	2.50	Nil	Aug 2000 - Feb 2001	
P E Cushing	64,200(a)			64,200		5.07	£1	May 1995 - May 2002	
(Highest Paid	17,100(a)			17,100		5.85	£1	June 1996 - June 2003	
Director)	29,000(a)			29,000		5.51	Nil	Apr 1997 - Apr 2004	
	203,700(a)			203,700		3.19	Nil	May 1998 - May 2005	
	1,659(b)			1,659		2.35	Nil	Aug 1999 - Feb 2000	
	4,140(b)			4,140		2.50	Nil	Aug 2000 - Feb 2001	
R C O'Donoghue	28,098(a)		(28,098)(d)			1.59	£1	June 1990 - June 1997	37,932
	59,427(a)			59,427		1.62	£1	June 1991 - June 1998	
	7,428(a)			7,428		2.38	£1	May 1992 - May 1999	
	65,157(a)			65,157		3.12	£1	May 1994 - May 2001	
	19,700(a)			19,700		5.07	£1	May 1995 - May 2002	
	23,900(a)			23,900		5.85	£1	June 1996 - June 2003	
	18,200(a)			18,200		5.51	Nil	Apr 1997 - Apr 2004	
	1,847(b)			1,847	1,847	4.06	Nil	July 1997 - Jan 1998	
	64,500(a)			64,500		3.19	Nil	May 1998 - May 2005	
	2,489(b)			2,489		2.35	Nil	Aug 1999 - Feb 2000	
		1,725(b)		1,725		2.26	Nil	Aug 2000 - Feb 2001	
Dr R K F Ch'ien		88,028(c)		88,028		2.84	Nil	July 2000 - July 2007	

On 1 January 1998 P W Johnson and T H Taylor were appointed as Executive Directors and their share options as at that date and the date of this report are set out below:

	Held at 1.1.98	Option price £(e)	Price paid for option	When exercisable
P W Johnson	192,300(a)	3.12	Nil	Apr 1998 – Apr 2005
	4,314(b)	2.26	Nil	Aug 2000 – Feb 2001
T H Taylor	48,600(a)	5.07	£1	May 1995 – May 2002
	12,000(a)	5.85	£1	June 1996 – June 2003
	3,800(a)	5.51	Nil	Apr 1997 – Apr 2004
	4,140(b)	2.50	Nil	Aug 2000 – Feb 2001
	1,725(b)	2.26	Nil	Aug 2000 – Feb 2001

(a) Under the Inchcape Executive Share Option Scheme.
(b) Under the Inchcape SAYE Share Option Scheme.
(c) Under a Deed dated 1 July 1997.
(d) At the date of exercise the market price of the shares was £2.94.
(e) Option prices are determined in accordance with the Rules of the relevant Share Option Scheme and on an equivalent basis for the Deed in favour of Dr Ch'ien.

Notes on Share Options

The table above shows Directors' options over ordinary shares of 25p. The mid-market price of the shares at 31.12.97 was £1.615. The price range during 1997 was £1.585 to £3.07.

Under the Inchcape Executive Share Option Scheme and the Inchcape International Executive Share Option Scheme (formerly known as the Inchcape Overseas Executive Share Option Scheme), options are granted on a discretionary basis to full-time senior executives based respectively within, and outside, the United Kingdom and, prior to 1995, were granted to Directors of Inchcape plc; such options are exercisable between three and ten years of grant.

Both Executive Share Option Schemes were renewed, with shareholder approval, during 1994. Options granted since the date of renewal are subject to the performance target that they may normally only be exercised if, following any three year period after their date of grant, the percentage increase in the market value of the shares has exceeded the percentage change in the FT-SE Actuaries All Share Index over the same period.

The Inchcape SAYE Share Option Scheme, which was also renewed with shareholder approval in 1994, is open to employees in the United Kingdom with at least one year's service. Up until and including 1995, participants made savings for a five year period. For the 1996 and 1997 invitations, monthly savings are made for a three year period. At the end of the savings period options become exercisable within six months

Report of the Auditors to the members of Inchcape plc

We have audited the financial statements on pages 35 to 63.

Respective responsibilities of Directors and Auditors

As described on page 33 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1997 and of the profit, total recognised losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London

2 March 1998

Report of the Auditors to Inchcape plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 24 and 25 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the Listing Rules 12.43 (j) and 12.43 (v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on pages 24 and 25 and going concern on page 25, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 24 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
London

2 March 1998

Directors' interests

The table below shows the interests other than options or awards under the Long Term Incentive Plan, including family interests, on the dates indicated, in the shares of the Company and its subsidiaries, of the persons who were Directors at 31 December 1997. All the interests are beneficial.

Ordinary shares fully paid of Inchcape plc of 25p each

	31.12.97	1.1.97
A G L Alexander	**10,000**	10,000
Dr R F K Ch'ien	**Nil**	(a) Nil
L G Cullen	**33,500**	(a)18,730
A D Cummins	**21,382**	20,873
P E Cushing	**64,000**	30,000
B J Hintz	**Nil**	Nil
Sir Colin Marshall	**22,462**	12,166
H E Norton	**3,000**	3,000
R C O'Donoghue	**39,043**	39,043
S Robertson	**Nil**	Nil
L G Strong	**1,744**	1,703

Notes:

(a) Held at date of appointment.

(b) The executive Directors of the Company, together with other employees of the Group, are potential beneficiaries of the Inchcape Employee Trust and, as such, are deemed by the Companies Act 1985 to be interested in any shares held by the Trustees. At 31 December 1997, the Trustees' shareholding totalled 758,415 (1 January 1997 – 458,415).

(c) Messrs P W Johnson and T H Taylor were appointed Directors on 1.1.98 and their respective interests at that date were 23,496 and 45,926.

There have been no changes in Directors' interests between 1 January and 2 March 1998.

By order of the Board
R C Williams
Secretary

2 March 1998

Directors' responsibilities

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

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

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

Consolidated and Company balance sheets

as at 31 December 1997

Notes		Group 1997 £m	Group 1996 restated £m	Company 1997 £m	Company 1996 £m
	Fixed assets:				
6	Intangible assets	**22.4**	–	**–**	–
7	Tangible assets	**549.9**	532.8	**–**	–
8	Investments	**166.3**	160.7	**131.6**	157.0
		738.6	693.5	**131.6**	157.0
	Current assets:				
9a	Stocks	**1,218.8**	1,026.1	**–**	–
9b	Debtors:				
	– amounts due within one year	**693.2**	768.4	**496.8**	674.9
	– amounts due after more than one year	**91.7**	86.6	**649.9**	555.5
3a	Cash at bank and in hand	**483.1**	806.7	**0.1**	0.1
		2,486.8	2,687.8	**1,146.8**	1,230.5
	Creditors – amounts falling due within one year:				
3a,9c	Borrowings	**(318.0)**	(372.6)	**–**	–
9c	Other	**(1,495.6)**	(1,344.0)	**(444.5)**	(483.8)
		(1,813.6)	(1,716.6)	**(444.5)**	(483.8)
	Net current assets	**673.2**	971.2	**702.3**	746.7
	Total assets less current liabilities	**1,411.8**	1,664.7	**833.9**	903.7
	Creditors – amounts falling due after more than one year:				
3a,10	Borrowings	**(261.1)**	(431.5)	**(126.4)**	(127.8)
10	Other	**(82.8)**	(88.7)	**(20.0)**	(27.9)
		(343.9)	(520.2)	**(146.4)**	(155.7)
11	**Provisions for liabilities and charges**	**(145.1)**	(129.3)	**(17.2)**	(14.2)
	Net assets	**922.8**	1,015.2	**670.3**	733.8
	Capital and reserves:				
13e	Called-up share capital	**132.5**	132.2	**132.5**	132.2
13f	Share premium account	**106.7**	106.5	**106.7**	106.5
13f	Revaluation reserve	**125.9**	140.2	**–**	–
13f	Profit and loss account	**841.4**	931.3	**431.1**	495.1
		1,206.5	1,310.2	**670.3**	733.8
13f	Goodwill on consolidation	**(416.2)**	(423.4)	**–**	–
	Equity shareholders' funds	**790.3**	886.8	**670.3**	733.8
	Minority interests	**132.5**	128.4	**–**	–
		922.8	1,015.2	**670.3**	733.8

The accounts on pages 35 to 63 were approved by the Board of Directors on 2 March 1998, and were signed on its behalf by:

Directors
Philip Cushing
Les Cullen

Consolidated profit and loss account

for the year ended 31 December 1997

:s		1997 £m	1996 restated £m
2	**Turnover**	**5,931.4**	6,263.2
'a	Cost of sales	**(4,831.9)**	(4,977.7)
.2	Exceptional operating items	**(7.7)**	–
	Gross profit	**1,091.8**	1,285.5
'a	Operating expenses	**(974.8)**	(1,147.4)
2	Exceptional operating items	**(32.9)**	–
'a	Utilisation of termination provisions	**10.6**	7.4
'a	**Operating profit**	**94.7**	145.5
b	Share of profits of associated companies	**52.2**	58.8
	Total operating profit	**146.9**	204.3
'c	Net profit on disposal of properties and investments	**3.8**	9.2
'c	Net loss on sale and termination of operations	**(57.7)**	(67.3)
	Profit on ordinary activities before interest	**93.0**	146.2
:c	Interest	**(3.4)**	(39.2)
:c	**Profit on ordinary activities before taxation**	**89.6**	107.0
;a	Tax on profit on ordinary activities	**(64.8)**	(71.0)
	Profit on ordinary activities after taxation	**24.8**	36.0
:b	Minority interests	**(17.0)**	(13.5)
'd	**Profit for the financial year**	**7.8**	22.5
3a	Dividends	**(58.3)**	(61.1)
3f	**Retained (loss) for the financial year**	**(50.5)**	(38.6)
	Headline profit before tax (£m)	**184.1**	165.1
d	Headline earnings per share (pence)	**19.3p**	17.2p
	FRS3 profit before tax (£m)	**89.6**	107.0
d	Earnings per share (pence)	**1.5p**	4.3p

All items in 1997 relate to continuing operations.

Statement of total recognised gains and losses

		1997 £m	1996 £m
	Profit for the financial year	**7.8**	22.5
	Effect of foreign exchange rate changes:		
	– results for the year	**6.5**	(4.4)
	– foreign currency net investments	**(56.7)**	(18.7)
3f	Unrealised surplus on revaluation of properties	**–**	14.3
	Total recognised gains and losses	**(42.4)**	13.7

Accounting policies

a **Accounting convention** The accounts have been prepared in accordance with applicable UK accounting standards, on the historical cost basis, modified to include the revaluation of certain tangible fixed assets.

b **Basis of Group accounts** The results of businesses acquired or sold are included in the consolidated profit and loss account using the acquisition method from, or up to, the date control passes. All undertakings over which the Group exercises control or a dominant influence, being the right to direct operating and financial policies, are consolidated as subsidiary undertakings ("subsidiaries"). The profit and loss account includes the Group's share of profits less losses of associated undertakings ("associated companies") and the consolidated balance sheet includes interests in associated companies at the Group's share of net assets.

c **Turnover** is the total amount receivable for goods sold and services provided including Motors Financial Services interest and leasing income. It excludes sales related taxes and intra-Group transactions.

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

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

e **Financial instruments** are used to manage the Group's exposure to fluctuations in interest rates and foreign currency exchange rates. Gains and losses are accounted for when the hedged transaction itself is recognised or at the time when the instrument ceases to be an effective hedge.

f **Intangible fixed assets** represent separately identifiable brands, assessed at fair values upon acquisition. Amortisation is not provided except where the end of the useful economic life can be foreseen. The useful economic lives of brands and their carrying value are subject to annual review and any amortisation or provision for permanent impairment would be charged against profit for the period in which it arose.

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

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

Land and buildings were revalued in 1996 on an open market existing use basis by local firms of professionally qualified surveyors in accordance with the Group's policy of triennial valuation. Permanent diminutions in value of individual properties below cost are charged to the profit and loss account whereas deficits which the Directors consider to be temporary in nature are offset against surpluses recognised in the revaluation reserve.

Fixed asset investments are stated at cost, less provisions for permanent diminutions in value.

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

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

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

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

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

l **Trade finance** provided by manufacturers or suppliers, or related finance houses, is treated as a creditor and the cost of such credit is included in cost of sales. Finance provided by independent entities relating to a separately identifiable supply of goods is treated as borrowings (prior years as creditors) and the charge for credit remains included in interest.

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

n **Goodwill** represents the difference between the fair values of the cost of acquisition and the attributable identifiable net assets at the date of acquisition and is eliminated against reserves. The profit or loss on the disposal of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business.

Consolidated cash flow statement

for the year ended 31 December 1997

Reconciliation of operating profit to operating cash flows

otes		1997 £m	1996 restated £m
	Operating profit before exceptional operating items	**135.3**	145.5
11	Payments in respect of exceptional operating items	**(15.4)**	(14.7)
7	Depreciation	**53.3**	69.8
	Loss on sale of tangible fixed assets other than property	**1.7**	4.3
	(Increase) in stocks	**(268.5)**	(17.2)
	(Increase) in debtors	**(47.0)**	(140.2)
	Increase in creditors	**235.5**	144.0
	Exchange effect of hedging instruments	**7.7**	49.2
	Net cash (outflow) from termination of operations	**(38.5)**	(26.0)
	Other items	**2.9**	(2.8)
	Net cash inflow from operating activities	**67.0**	211.9

Consolidated cash flow statement

	Net cash inflow from operating activities	**67.0**	211.9
d(iv)	Returns on investments and servicing of finance	**13.7**	(15.9)
	Taxation	**(35.2)**	(65.3)
7	Capital expenditure and financial investment	**(103.6)**	(28.6)
		(58.1)	102.1
b(i)	Acquisitions and disposals	**9.1**	473.6
	Equity dividends paid	**(54.2)**	(48.9)
	Net cash inflow before use of liquid resources and financing	**(103.2)**	526.8
d(v)	Net cash inflow (outflow) from the management of liquid resources	**450.5**	(414.1)
d(vi)	Net cash (outflow) from financing	**(135.1)**	(76.5)
d(i)	**Net increase in cash**	**212.2**	36.2

Reconciliation of net cash flow to movement in net funds and debt

	Net increase in cash	**212.2**	36.2
	Net cash outflow from increase in debt and lease financing	**138.2**	81.7
	Net cash (inflow) outflow from the management of liquid resources	**(450.5)**	414.1
	Change in net (debt) funds resulting from cash flows	**(100.1)**	532.0
	Effect of foreign exchange rate changes on net debt	**2.4**	10.5
	Inception of finance lease contracts	**(0.5)**	(2.5)
	Net loans and finance leases of subsidiaries acquired and sold	**(0.2)**	(2.6)
	Liquid resources of subsidiaries sold	**(0.2)**	(223.4)
	Movement in net (debt) and funds	**(98.6)**	314.0
	Net funds (debt) at 1 January	**2.6**	(311.4)
d(i)	**Net (debt) funds at 31 December**	**(96.0)**	2.6

Notes to the accounts continued

1 Segmental Analysis continued

b Group share of associated companies' turnover and profit before tax

By business stream:	Turnover by origin 1997 £m	1996 £m	Profit before tax 1997 £m	1996 £m
Motors:				
Import & Distribution	**240.8**	184.5	**6.4**	6.9
Financial Services	**86.2**	68.6	**18.0**	14.0
Total Motors	**327.0**	253.1	**24.4**	20.9
Marketing	**280.9**	298.0	**18.6**	19.8
Bottling	**7.0**	5.5	**0.3**	0.3
Office Automation	**96.5**	100.5	**6.2**	6.4
Shipping	**8.0**	11.5	**2.6**	4.5
Other activities	**0.1**	2.5	**0.1**	1.1
Discontinued operations	–	33.5	–	5.8
	719.5	704.6	**52.2**	58.8

By geographical market:	Turnover by origin 1997 £m	1996 £m	Profit before tax 1997 £m	1996 £m
Europe:				
– United Kingdom	**242.6**	178.1	**18.0**	13.9
– Continent	**25.8**	4.9	**1.6**	1.6
Far East	**120.6**	130.5	**8.1**	9.1
South East Asia	**92.6**	111.4	**3.2**	5.2
Middle East	**201.9**	214.8	**18.3**	20.3
The Americas	**8.2**	6.4	**0.4**	0.5
Rest of World	**27.8**	25.0	**2.6**	2.4
Discontinued operations	–	33.5	–	5.8
	719.5	704.6	**52.2**	58.8

c Average number of employees

	Company & subsidiaries 1997	1996	Associated companies 1997	1996 restated	Total 1997	1996 restated
Motors:						
Import & Distribution	**6,203**	5,779	**930**	839	**7,133**	6,618
Retail	**4,448**	4,267	–	–	**4,448**	4,267
Financial Services	**326**	269	**217**	149	**543**	418
Total Motors	**10,977**	10,315	**1,147**	988	**12,124**	11,303
Marketing	**7,546**	8,279	**8,090**	7,940	**15,636**	16,219
Bottling	**4,195**	3,774	**81**	57	**4,276**	3,831
Office Automation	–	–	**2,857**	2,598	**2,857**	2,598
Shipping	**2,252**	2,138	**637**	1,033	**2,889**	3,171
Other activities	**10**	177	–	375	**10**	552
Corporate	**97**	88	–	–	**97**	88
Discontinued businesses	–	9,551	–	1,379	–	10,930
	25,077	34,322	**12,812**	14,370	**37,889**	48,692

Notes to the accounts

1 Segmental Analysis

a Turnover and total operating profit

	Turnover by origin		Total operating profit		Year on year change explained as: Exchange translation effect	Change at 1996 average rates	Exceptional operating items
By business stream:	**1997 £m**	1996 £m	**1997 £m**	1996 £m	**£m**	**£m**	**1997 £m**
Motors:							
Import & Distribution	**3,796.5**	3,395.1	**108.6**	93.8	**(5.4)**	**20.2**	**(10.6)**
Retail	**861.5**	899.0	**12.0**	4.9	**(0.1)**	**7.2**	**(10.5)**
Financial Services	**150.1**	128.6	**26.6**	27.9	**(0.9)**	**(0.4)**	–
Total Motors	**4,808.1**	4,422.7	**147.2**	126.6	**(6.4)**	**27.0**	**(21.1)**
Marketing	**1,339.5**	1,508.6	**27.7**	30.2	**(3.4)**	**0.9**	**(19.8)**
Bottling	**251.9**	197.8	**13.1**	8.2	**(2.0)**	**6.9**	**(1.0)**
Office Automation	**96.5**	100.5	**6.2**	6.4	**(0.5)**	**0.3**	–
Shipping	**151.7**	158.0	**10.6**	12.9	**(1.3)**	**(1.0)**	**(2.9)**
Other activities	**3.2**	6.5	**(0.6)**	(0.6)	**0.1**	**(0.1)**	**4.2**
Central costs	–	–	**(16.7)**	(15.1)	–	**(1.6)**	–
Reversal of associated companies' turnover*	**(719.5)**	(671.1)	–	–	–	–	–
Continuing businesses	**5,931.4**	5,723.0	**187.5**	168.6	**(13.5)**	**32.4**	**(40.6)**
Discontinued operations**	–	540.2	–	35.7	–	**(35.7)**	–
	5,931.4	6,263.2	**187.5**	204.3	**(13.5)**	**(3.3)**	**(40.6)**
Exceptional operating items – note 2c			**(40.6)**	–			
Total operating profit			**146.9**	204.3			
By geographical market:							
Europe:							
– United Kingdom	**2,608.4**	2,214.7	**59.9**	53.9	–	**6.0**	**(13.7)**
– Continent	**839.7**	916.6	**(8.3)**	(3.4)	**0.2**	**(5.1)**	**(3.2)**
Far East	**1,444.1**	1,426.4	**49.9**	37.6	**(2.7)**	**15.0**	**(12.5)**
South East Asia	**716.1**	886.3	**31.3**	44.2	**(4.7)**	**(8.2)**	**(9.7)**
Middle East	**221.3**	238.6	**15.2**	17.3	**(0.7)**	**(1.4)**	–
The Americas	**396.9**	338.2	**42.8**	27.7	**(3.4)**	**18.5**	**(1.5)**
Rest of World	**424.4**	373.3	**13.4**	6.4	**(2.2)**	**9.2**	–
Reversal of associated companies' turnover*	**(719.5)**	(671.1)	–	–	–	–	–
Discontinued operations**	–	540.2	–	35.7	–	**(35.7)**	–
Central costs	–	–	**(16.7)**	(15.1)	–	**(1.6)**	–
	5,931.4	6,263.2	**187.5**	204.3	**(13.5)**	**(3.3)**	**(40.6)**

* Turnover excludes that of discontinued associated companies.

** Discontinued operations in 1996 consisted of Insurance and Testing Services, certain Shipping liner operations in Europe, Far East and South East Asia and the Motors Import & Distribution business in Switzerland.

An associated company in the Far East, previously included in the Shipping stream, was transferred to the Marketing stream in 1997.

The analysis of turnover by destination is not significantly different to the analysis of turnover by origin.

Notes to the accounts continued

2 Profit and loss

a Analysis

	1997 £m	Continuing operations 1996 restated £m	Discontinued operations 1996 restated £m	Total 1996 restated £m
Turnover	**5,931.4**	5,723.0	540.2	6,263.2
Cost of sales	**(4,831.9)**	(4,642.6)	(335.1)	(4,977.7)
Exceptional cost of sales	**(7.7)**	–	–	–
Gross Profit	**1,091.8**	1,080.4	205.1	1,285.5
Distribution costs	**(493.9)**	(502.6)	(9.5)	(512.1)
Administrative expenses	**(489.7)**	(470.3)	(186.0)	(656.3)
Exceptional operating expenses – administrative	**(32.9)**	–	–	–
Other operating income	**8.8**	5.6	15.4	21.0
Utilisation of termination provisions	**10.6**	2.5	4.9	7.4
Operating profit	**94.7**	115.6	29.9	145.5

	1997 £m	1996 £m
Profit on ordinary activities before taxation is stated after the following charges (credits):		
Wages and salaries	**342.5**	520.8
Social security costs	**30.9**	51.9
Other pension costs	**17.2**	33.1
Total employment costs of the Company and its subsidiaries:	**390.6**	605.8
Depreciation of tangible fixed assets		
– owned	**52.0**	66.0
– held under finance leases	**1.3**	3.8
Loss on sale of tangible fixed assets other than property	**1.7**	4.3
Hire of plant, machinery and equipment	**4.1**	7.9
Other operating lease rentals:		
– payable	**54.6**	76.7
– receivable	**(7.4)**	(11.2)
Audit fees and expenses:		
– Coopers & Lybrand (Company: £0.1m, 1996 – £0.1m)	**2.7**	2.5
– Other firms	**0.2**	0.4
Accounting and other advisory services provided to Group companies in the United Kingdom by Coopers & Lybrand	**0.4**	5.3

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

b Directors

Information on Directors' emoluments and interests, which form part of these audited financial statements, are given on pages 29 to 32.

1 Segmental Analysis continued

d Net assets

	Group share of associates' net assets		Group	
	1997	1996	**1997**	1996 restated
	£m	£m	**£m**	£m
By business stream:				
Motors:				
Import & Distribution	**34.1**	22.9	**395.8**	334.0
Retail	**–**	–	**102.7**	104.5
Financial Services	**54.1**	50.7	**97.9**	72.5
Total Motors	**88.2**	73.6	**596.4**	511.0
Marketing	**37.7**	38.1	**273.2**	378.1
Bottling	**1.8**	1.2	**229.7**	126.8
Office Automation	**20.9**	20.7	**20.9**	20.7
Shipping	**0.5**	8.3	**12.2**	28.9
Other activities	**2.5**	8.1	**(0.6)**	(1.7)
Net (debt) funds*	**–**	–	**(85.1)**	32.5
Other unallocated assets and liabilities	**–**	–	**(123.9)**	(77.0)
Continuing businesses	**151.6**	150.0	**922.8**	1,019.3
Discontinued operations	**–**	3.5	**–**	(4.1)
	151.6	153.5	**922.8**	1,015.2
By geographical market:				
Europe:				
– United Kingdom	**58.6**	49.0	**227.9**	166.4
– Continent	**7.7**	8.4	**217.9**	157.1
Far East	**31.4**	32.7	**256.1**	267.8
South East Asia	**22.3**	40.3	**205.9**	268.9
Middle East	**20.7**	14.3	**27.7**	35.7
The Americas	**2.0**	1.3	**192.5**	145.7
Rest of World	**8.9**	4.0	**3.8**	22.2
Net (debt) funds*	**–**	–	**(85.1)**	32.5
Other unallocated assets and liabilities	**–**	–	**(123.9)**	(77.0)
Discontinued operations	**–**	3.5	**–**	(4.1)
	151.6	153.5	**922.8**	1,015.2

* Reconciled to net (debt) funds – note 3d(i), as follows:

	1997	1996
Net (debt) funds as above	**(85.1)**	32.5
Motors Financial Services debt in respect of consumer financing	**(39.7)**	(67.3)
Shipping cash in respect of principal funds	**28.8**	37.4
Net (debt) funds as reported	**(96.0)**	2.6

Notes to the accounts continued

3 Treasury information

a **Maturity**	**1997 £m**	Group 1996 restated £m	**1997 £m**	Company 1996 restated £m
Long and medium term				
Bank Loans (secured £10.7m – 1996 £9.3m)				
Repayable beyond five years	–	–	–	–
Two to five years	**14.8**	26.8	–	–
One to two years	**8.4**	163.9	–	–
Other loans (secured £1.5m – 1996 £1.5m)				
Repayable beyond five years	**125.0**	167.1	**125.0**	125.0
Two to five years	**104.3**	61.7	**1.4**	2.8
One to two years	**2.5**	1.0	–	–
Finance leases				
Repayable beyond five years	**2.1**	4.3	–	–
Two to five years	**2.6**	5.0	–	–
One to two years	**1.4**	1.7	–	–
Amounts falling due after more than one year	**261.1**	431.5	**126.4**	127.8
Short term – repayable within one year				
Bank loans and overdrafts (secured £19.6m – 1996 £8.2m)	**214.8**	262.8	–	–
Other loans (secured £0.7m – 1996 £5.5m)	**101.3**	106.9	–	–
Finance leases	**1.9**	2.9	–	–
Amounts falling due within one year	**318.0**	372.6	–	–
Total borrowings and finance leases	**579.1**	804.1	**126.4**	127.8
Cash and deposits	**(483.1)**	(806.7)	**(0.1)**	(0.1)
Net borrowings (cash)	**96.0**	(2.6)	**126.3**	127.7

The Group has changed its accounting presentation of trade finance. As a result £48.8m (1996 – £37.3m) has been reported in other loans payable within one year. It was previously included in trade creditors falling due within one year. Comparative figures in the cash flow statement have been restated accordingly.

The Group has £125m 6¼% Convertible Subordinated Bonds Due 2008 which are convertible at the option of the holder, on or prior to 3 May 2008, into fully paid ordinary shares of 25p each of Inchcape plc at 689 pence per share. None of the bonds was converted during the year. If the conversion rights attaching to the bonds outstanding at 31 December 1997 were exercised, 18,142,235 ordinary shares of 25p each of Inchcape plc would fall to be issued. The bonds may be redeemed at the option of the Company, in whole or in part, at any time after 30 May 1998 or earlier if certain conditions are met. Unless previously redeemed or converted, the bonds will be redeemed at par on 10 May 2008.

A US Private Placement was made in May 1995, consisting of US$100m (£60.6m: 1996 – £58.5m) of 6.93% Senior Loan Notes, due 2000 and US$72m (£43.6m: 1996 – £42.1m) of 7.09% Senior Loan Notes, due 2002.

In July 1997 a subsidiary redeemed £150m of Foreign Income Dividend Cumulative Redeemable Preference Shares.

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

b **Facilities**

The Group has committed stand-by credit facilities of £325m (1996 – £325m) in total expiring in 2000. During the year £nil was drawn (1996 – £50m was drawn for three months and £25m for a further one month).

2 Profit and loss continued

c Exceptional items

	1997 £m	1996 £m
Exceptional cost of sales	**(7.7)**	–
Exceptional operating expenses – administrative	**(32.9)**	–
Total exceptional operating items	**(40.6)**	–
Net profit on disposal of properties and investments	**3.8**	9.2
Net loss on the sale and termination of operations	**(57.7)**	(67.3)
Total exceptional items	**(94.5)**	(58.1)

The Marketing Asia-Pacific restructuring comprised mainly redundancy and business closure costs amounting to £59.0m, of which £19.8m was for exceptional operating items and the balance for business termination costs classified as non-operating.

Final settlement of a claim on the Department of Transport in respect of a formerly owned motorway service station generated an exceptional operating gain of £1.0m and a £3.6m non-operating exceptional profit.

Remaining net exceptional operating items amounted to £21.8m of which Motors Import and Distribution suffered £7.7m in respect of a revision of government levies and fees in Singapore and Motors Retail incurred £10.5m primarily on dealership closures. They also included a credit of £5.2m on the restructuring of a Singapore pension scheme.

Other non-operating exceptionals were £18.3m of which the withdrawal from Motors Import and Distribution in South Korea and Europe cost £6.2m. Also included in other non-operating exceptionals were Shipping exit costs of £3.8m and £10.4m incurred in respect of previously disposed businesses.

Included in the exceptional loss on sale and termination of operations was goodwill written off of £8.0m (1996 – £409.8m) which had been charged against reserves in previous years.

d Earnings per ordinary share

	Headline		FRS3	
	1997 £m	1996 £m	1997 £m	1996 £m
Headline profit before tax	**184.1**	165.1	**184.1**	165.1
Exceptional items – note 2c	**–**	–	**(94.5)**	(58.1)
Profit before tax	**184.1**	165.1	**89.6**	107.0
Taxation	**(63.1)**	(61.7)	**(64.8)**	(71.0)
Minority interests	**(18.7)**	(12.5)	**(17.0)**	(13.5)
Earnings	**102.3**	90.9	**7.8**	22.5
Earnings per share	**19.3p**	17.2p	**1.5p**	4.3p

The weighted average number of fully paid shares in issue during the year was 529.4m (1996 – 528.6m).

No material dilution of earnings per ordinary share would arise from full conversion of the Convertible Subordinated Bonds Due 2008.

Headline profits and earnings (before total exceptional items and after the utilisation of provisions made in respect of discontinued activities) are adopted in that they provide a representation of underlying performance.

Notes to the accounts continued

3 Treasury information continued

d Cash flow continued

(iii) Borrowings – amounts repayable within one year	1997 £m	1996 restated £m
Bank loans repayable within one year	**150.6**	118.7
Loans other than from banks	**101.3**	106.9
Debt due within one year	**251.9**	225.6
Finance leases	**1.9**	2.9
Bank overdrafts	**64.2**	144.1
Borrowings – amounts payable within one year as per balance sheet	**318.0**	372.6

(iv) Returns on investments and servicing of finance		
Interest received	**70.4**	61.3
Interest paid	**(74.6)**	(98.6)
Dividends received from associated companies	**28.7**	31.1
Dividends received from other fixed asset investments	**–**	0.2
Dividends paid to minority interests	**(10.8)**	(9.9)
	13.7	(15.9)

(v) Management of liquid resources		
Decrease in liquid resources from discontinued activities	**–**	36.3
Decrease (increase) in other liquid resources	**450.5**	(450.4)
	450.5	(414.1)

(vi) Net cash (outflow) inflow from financing		
Issue of ordinary share capital	**0.5**	1.1
Capital subscribed by minority interests	**2.6**	4.1
Decrease in short term borrowings	**(132.6)**	(74.7)
Capital element of finance lease rental payments	**(5.6)**	(7.0)
	(135.1)	(76.5)

e Borrowings of associated finance companies

Certain associated companies that form part of Motors Financial Services are primarily financed by borrowings without recourse to any other Group company. Borrowings (before deducting external shareholders' interests) of the major associated companies conducting this activity were:

Associated company	External shareholder	1997 £m	1996 £m
CJ Financial Services Limited	Lloyds UDT Limited	**136.6**	–
Inchcape Finance SA	Cofica SA	**43.6**	42.8
Inchcape Financial Services Limited	Capital Bank plc	**55.0**	–
Inchroy Credit Corporation	Bank of America Finance Corporation	**332.2**	235.1
MEVC Finance Limited	Lloyds Bowmaker Limited	**46.7**	49.8
TGB Finance Limited	Lloyds Bowmaker Limited	**380.3**	438.6

3 Treasury information continued

c **Interest**	**1997 £m**	1996 restated £m
Interest payable and other charges:		
On bank loans, overdrafts and other loans falling due within five years	**54.8**	61.8
On bank loans, overdrafts and other loans (including the 6¼% Convertible Subordinated Bonds Due 2008 falling due after five years)	**7.8**	10.7
On Cumulative Redeemable Preference shares issued by a subsidiary	**4.6**	8.8
On finance leases mainly repayable within five years	**1.0**	1.9
Other interest	**10.4**	8.8
	78.6	92.0
Less amounts included in cost of sales for Motors Financial Services	**(4.2)**	(3.8)
	74.4	88.2
Interest receivable	**(84.3)**	(73.6)
Less amounts included in:		
– Motors Financial Services turnover	**11.7**	11.5
– Shipping and discontinued activities other operating income	**1.6**	13.1
	(71.0)	(49.0)
	3.4	39.2

The Group has changed its accounting presentation in respect of interest costs in Motors Financial Services and interest income from Shipping principal funds (1996 also included Insurance Services interest income on third party funds). As a result these amounts are now included in cost of sales and other operating income as appropriate, rather than interest as previously disclosed.

d Cash flow

(i) **Analysis of net funds (debt)**	At 1 January 1997 restated £m	Cash flow £m	Acquisitions and disposals (excluding cash and overdrafts) £m	Other non-cash movements £m	Exchange movement £m	At 31 December 1997 £m
Cash in hand and at bank	202.2	152.0			(12.3)	341.9
Overdrafts	(144.1)	60.2			19.7	(64.2)
		212.2				
Debt due after one year	(420.5)	161.0			4.5	(255.0)
Debt due within one year	(225.6)	(28.4)			2.1	(251.9)
Finance leases	(13.9)	5.6	(0.2)	(0.5)	1.0	(8.0)
		138.2				
Liquid resources	604.5	(450.5)	(0.2)		(12.6)	141.2
Net funds (debt)	2.6	(100.1)	(0.4)	(0.5)	2.4	(96.0)

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

(ii) **Cash and deposits**	**1997 £m**	1996 £m
Cash at bank and in hand	**341.9**	202.2
Liquid resources	**141.2**	604.5
Cash and deposits as per balance sheet	**483.1**	806.7

Notes to the accounts continued

4 Taxation continued

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

	Potential		Recognised	
	1997	1996 restated	**1997**	1996 restated
	£m	£m	**£m**	£m
Excess capital allowances	**(4.0)**	(2.2)	**(1.1)**	(1.1)
Revalued assets	**(1.1)**	(0.9)	**–**	–
Other timing differences	**13.8**	10.6	**4.9**	6.6
	8.7	7.5	**3.8**	5.5

To provide clarification of the balance sheet, advance corporation tax recoverable has been reported separately in debtors – see note 9b.

No account has been taken of taxation which would be payable if the retained profits of overseas subsidiary and associated undertakings were distributed, as there is currently no intention to remit such profits.

5 Pensions and other post-retirement benefits

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

Pensions – UK schemes
The pension costs for the main defined benefit schemes operated in the UK were determined in accordance with the advice of independent professionally qualified actuaries based on the projected unit method.

The market value of the assets held by the Group's UK schemes at March/April 1997 was £413.2m. Actuarial valuations for these schemes were carried out during 1997 using, in the main, per annum long-term assumptions of investment return of 8.5 – 10.0%, salary increase of 6.0 – 7.5%, dividend growth of 4.5 – 5.0% and pension increase of 4.5 – 5.0%. The actuarial valuations of the total assets covered 112% of benefits that had accrued to members. From 1 January 1998 these assumptions will be used to determine the annual pension cost.

Following the abolition of the dividend tax credit on UK equity shares on 2 July 1997, the actuaries to the main defined benefit schemes have reconsidered the valuation assumptions used and have confirmed that they remain appropriate.

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

Pension cost
The pension cost charged for 1997 was £17.2m (1996 – £33.1m) of which £14.7m (1996 – £25.8m) relates to schemes of a defined benefit nature and £2.5m (1996 – £7.3m) represents the amount attributable to defined contribution schemes. The significant decrease in cost in 1997 is mainly due to the disposal of businesses in 1996. A provision of £7.0m (1996 – £9.7m) is included in provisions for liabilities and charges, being the excess of the pension cost charge over the amount funded. Outstanding contributions to defined contribution schemes are £1.7m (1996 – £1.5m).

An amount of £3.8m was credited to operating exceptional items and £3.0m (1996 – £4.4m) charged to non-operating exceptional items in respect of disposals and terminations.

3 Treasury information continued

f Operating lease commitments

	Property leases		Other operating leases	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Operating lease rentals payable in the next year in respect of commitments expiring:				
– within one year	**9.3**	14.5	**1.7**	1.9
– between one and five years	**29.9**	24.8	**1.5**	2.0
– in five years or more	**11.4**	13.1	**–**	–
	50.6	52.4	**3.2**	3.9

4 Taxation

a Taxation on profits

	1997 £m	1996 £m
United Kingdom corporation tax at 31.5% (1996 – 33%)	**28.1**	43.6
Double taxation relief	**(14.4)**	(15.6)
	13.7	28.0
Advance corporation tax written off (back)	**10.9**	(4.6)
	24.6	23.4
Overseas taxes	**30.1**	43.4
Deferred tax credit	**(0.4)**	(5.8)
	54.3	61.0
Adjustments to prior year liabilities	**(0.1)**	(2.1)
The Company and its subsidiaries	**54.2**	58.9
Associated companies	**10.6**	12.1
	64.8	71.0

The tax charge in 1997 was impacted by exceptional costs which were not deductible for tax purposes.

b Deferred taxation asset

	1997 £m	1996 restated £m
Balance at 1 January	**5.5**	5.0
Effect of foreign exchange rate changes	**–**	–
Credited to profit and loss account	**0.4**	5.8
Adjustments to prior year liabilities	**(2.1)**	–
Subsidiaries sold	**–**	(5.3)
Balance at 31 December (1997 due in more than one year)	**3.8**	5.5

Notes to the accounts continued

7 Fixed assets – tangible assets continued

	1997 £m	1996 £m
Book value of land and buildings analysed between:		
– freehold	**176.4**	175.7
– leasehold with over 50 years unexpired	**84.1**	143.2
– short leasehold	**90.0**	31.4
	350.5	350.3
Historic cost value of land and buildings analysed between:		
– cost	**301.5**	295.2
– less depreciation	**(46.5)**	(45.2)
	255.0	250.0
The book value of tangible fixed assets held for rental under operating leases amounted to:		
– cost	**15.3**	11.6
– less depreciation	**(1.9)**	(2.4)
	13.4	9.2

The book value of tangible fixed assets includes £11.8m (1996 – £12.5m) in respect of assets held under finance leases.

	1997 £m	1996 £m
Capital expenditure and financial investment – cash flow		
Expenditure on tangible fixed assets	**(149.1)**	(113.9)
Inception of finance leases	**0.5**	2.5
Increase (decrease) in creditors	**2.2**	(3.7)
Cash outflow on purchase of tangible fixed assets	**(146.4)**	(115.1)
Sale of tangible fixed assets	**42.8**	86.5
	(103.6)	(28.6)

6 Fixed assets – intangible assets

	Acquired brands £m
Subsidiaries acquired	22.4
Cost at 31 December 1997	**22.4**

In March 1997, as part of the Group's acquisition of an increased interest in ELSA, the Bottling business in Peru purchased two soft drinks brands at a fair value of £22.4m.

7 Fixed assets – tangible assets

	Freehold and leasehold land and buildings £m	Plant, machinery and equipment £m	Total £m
Cost or valuation at 1 January 1997	357.1	356.9	714.0
Effect of foreign exchange rate changes	(20.5)	(14.1)	(34.6)
Subsidiaries acquired	–	1.0	1.0
Subsidiaries sold	(8.8)	(2.9)	(11.7)
Additions	56.1	93.0	149.1
Disposals	(6.5)	(47.2)	(53.7)
Transfers	(14.0)	–	(14.0)
Cost or valuation at 31 December 1997	363.4	386.7	750.1
Analysed:			
Valuation 1993	11.0	–	11.0
Valuation 1996	285.3	–	285.3
Cost	67.1	386.7	453.8
	363.4	386.7	750.1
Depreciation at 1 January 1997	(6.8)	(174.4)	(181.2)
Effect of foreign exchange rate changes	1.1	9.5	10.6
Subsidiaries sold	0.6	1.7	2.3
Provided for the year	(8.2)	(45.1)	(53.3)
Disposals	0.4	21.0	21.4
Depreciation at 31 December 1997	(12.9)	(187.3)	(200.2)
Book value at 31 December 1997	350.5	199.4	549.9
Book value at 31 December 1996	350.3	182.5	532.8

Notes to the accounts continued

8 Fixed assets – investments continued

Other listed investments	Associated companies 1997 £m	Associated companies 1996 £m	Other investments 1997 £m	Other investments 1996 £m
Book value	**8.3**	9.4	**7.1**	1.5
Market value	**35.9**	26.7	**6.2**	1.4

b Company

	Own shares £m	Shares in subsidiaries £m	Total £m
At 1 January 1997	**1.4**	**155.6**	**157.0**
Effect of foreign exchange rate changes	**–**	**0.4**	**0.4**
Additions	**0.6**	**–**	**0.6**
Provisions for the year	**–**	**(25.9)**	**(25.9)**
Amortisation of shares purchased for Inchcape Employee Trust	**(0.5)**	**–**	**(0.5)**
At 31 December 1997	**1.5**	**130.1**	**131.6**

9 Net current assets

a Stocks

	1997 £m	1996 £m
Raw materials and work in progress	**34.1**	23.4
Finished goods and merchandise	**1,184.7**	1,002.7
	1,218.8	1,026.1

The replacement cost of stocks is not materially different from the amounts stated above.

Vehicles amounting to £35.2m (1996 – £31.9m) are held on consignment and are in substance assets of the Group. Consequently, they have been included in finished goods stocks, with the corresponding interest bearing liability included within trade creditors. Payment becomes due when title passes to the Group, which is generally the earlier of six months from delivery or date of sale.

8 Fixed assets – investments

a Group

	Shares in associated companies £m	Loans to associated companies £m	Own shares at cost £m	Other investments £m	Total £m
Cost less provisions at 1 January 1997	**97.8**	**26.2**	**1.4**	**5.8**	**131.2**
Effect of foreign exchange rate changes	**(9.7)**	–	–	**(0.3)**	**(10.0)**
Additions	**2.0**	–	**0.8**	**9.0**	**11.8**
Provisions against investments	–	–	–	**(3.0)**	**(3.0)**
Amortisation of shares purchased for Inchcape Employee Trust	–	–	**(0.5)**	–	**(0.5)**
Disposals	–	–	–	**(0.3)**	**(0.3)**
Transfers	**(0.5)**	–	–	**1.9**	**1.4**
Cost less provisions at 31 December 1997	**89.6**	**26.2**	**1.7**	**13.1**	**130.6**
Share of post acquisition reserves:					
Balance at 1 January 1997	**45.8**				**45.8**
Effect of foreign exchange rate changes	**(3.0)**				**(3.0)**
Transfers to other investments	**(1.4)**				**(1.4)**
Retained profit for the financial year – note 13d	**10.5**				**10.5**
Balance at 31 December 1997	**51.9**				**51.9**
Adjustment to cost in respect of net goodwill:					
Balance at 1 January 1997	**(16.3)**				**(16.3)**
Effect of foreign exchange rate changes	**0.7**				**0.7**
Additions	**(0.6)**				**(0.6)**
Balance at 31 December 1997	**(16.2)**				**(16.2)**
Book value at 31 December 1997	**125.3**	**26.2**	**1.7**	**13.1**	**166.3**
Book value at 31 December 1996	127.3	26.2	1.4	5.8	160.7

The share of post acquisition reserves of associated companies attributable to the Group after minority interests as at 31 December 1997 is £50.1m (1996 – £43.9m).

Transactions with associated companies within the Motors Financial Services activity include vehicle purchases and net interest paid on stock financing totalling £20.1m (£0.8m outstanding at 31 December 1997), and vehicle sales and rental income totalling £70.9m (£13.3m outstanding at 31 December 1997). Management fees and expenses received from associated companies amounted to £6.1m (£0.5m outstanding at 31 December 1997).

Transactions with associated companies within the Marketing activity include sales, rental income and net interest totalling £3.5m (£2.5m outstanding at 31 December 1997), and management service and agency fees totalling £2.7m (£1.1m outstanding at 31 December 1997). In addition, net loans due from Marketing associates totalled £0.4m at 31 December 1997.

Own shares at cost are held by the Inchcape Employee Trust, a general discretionary trust whose beneficiaries include employees and former employees of the Group and their dependants. To enable the Trustees to purchase ordinary shares in the Company to meet contingent awards under the Inchcape Long Term Incentive Plan, the Company and a subsidiary loaned £0.6m and £0.2m respectively during the year to the Trust.

On 28 May 1997 the Trustees purchased 300,000 shares at a cost of £0.8m, bringing the total number of shares held to 758,415, which they continued to hold at 31 December 1997. The market value at 31 December 1997 was £1.2m.

The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period during which performance criteria of the incentive plan apply.

The respective performance periods under the contingent awards made in 1996 and 1997 had not expired at 31 December 1997 and none of those awards had become exercisable at that date.

Notes to the accounts continued

9 Net current assets continued

Net investment in finance leases and hire purchase contracts comprises:

	1997 £m	1996 £m
Total amounts receivable	**116.0**	114.9
Less: interest allocated to future periods	**(25.7)**	(23.8)
	90.3	91.1
Finance leases and hire purchase contracts:		
Rentals receivable during the year	**51.9**	50.6
Assets acquired during the year for onwards finance leasing	**50.0**	61.0

c Creditors – amounts falling due within one year:	Group 1997 £m	Group 1996 restated £m	Company 1997 £m	Company 1996 £m
Borrowings – note 3a	**318.0**	372.6	–	–
Other:				
Payments received on account	**143.5**	193.2	–	–
Other trade creditors	**1,004.0**	857.2	–	–
Amounts owed to subsidiaries	–	–	**395.3**	434.6
Amounts owed to associated companies	**1.6**	0.9	–	–
Corporate taxation	**32.0**	35.8	–	–
Advance corporation tax	**10.1**	8.3	**10.1**	8.3
Other taxation and social security	**37.9**	19.2	–	–
Proposed final dividend	**35.0**	33.3	**35.0**	33.3
Dividends payable to minorities	**7.7**	6.8	–	–
Other creditors	**30.9**	24.5	**2.8**	2.0
Net proceeds arising on disposal of shares representing 26% of Toyota (GB) to Toyota Motor Corporation – note 15a	**30.0**	–	–	–
Accruals and deferred income	**162.9**	164.8	**1.3**	5.6
	1,495.6	1,344.0	**444.5**	483.8
Total creditors falling due within one year	**1,813.6**	1,716.6	**444.5**	483.8

10 Creditors – amounts falling due after one year:

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Convertible Subordinated Bonds Due 2008	**125.0**	125.0	**125.0**	125.0
Cumulative Redeemable Preference Shares	–	150.0	–	–
Finance leases	**6.1**	11.0	–	–
Other borrowings	**130.0**	145.5	**1.4**	2.8
Total borrowings and finance leases – note 3a	**261.1**	431.5	**126.4**	127.8
Amounts owed to subsidiaries	–	–	**20.0**	27.9
Corporate taxation	**1.4**	–	–	–
Net proceeds arising on disposal of shares representing 26% of Toyota (GB) to Toyota Motor Corporation in 1998 – note 15a	–	30.0	–	–
Trade and other creditors	**81.4**	58.7	–	–
Total creditors falling due after more than one year	**343.9**	520.2	**146.4**	155.7

9 **Net current assets** continued

b **Debtors**	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts due within one year:				
Trade debtors subject to limited recourse financing	**4.0**	2.9	–	–
less: non-returnable amounts received	**(3.5)**	(2.4)	–	–
	0.5	0.5	–	–
Other trade debtors	**499.2**	531.0	–	–
Net investment in finance leases and hire purchase contracts	**36.8**	38.3	–	–
Amounts owed by subsidiaries	–	–	**481.4**	635.3
Amounts owed by associated companies	**8.8**	3.4	–	–
Deferred taxation asset – note 4b	–	5.5	–	–
Advance corporation tax recoverable	**14.0**	33.8	**14.0**	33.8
Other debtors	**81.2**	105.7	**1.4**	5.8
Prepayments and accrued income	**52.7**	50.2	–	–
	693.2	768.4	**496.8**	674.9
Amounts due beyond one year:				
Trade debtors subject to limited recourse financing	**36.0**	25.9	–	–
less: non-returnable amounts received	**(31.5)**	(21.5)	–	–
	4.5	4.4	–	–
Net investments in finance leases and hire purchase contracts	**53.4**	52.8	–	–
Amounts owed by subsidiaries	–	–	**645.7**	549.0
Amounts owed by associated companies	–	0.1	–	–
Trade and other debtors	**25.8**	29.3	–	6.5
Deferred taxation asset – note 4b	**3.8**	–	–	–
Advance corporation tax recoverable	**4.2**	–	**4.2**	–
	91.7	86.6	**649.9**	555.5
Total debtors	**784.9**	855.0	**1,146.7**	1,230.4

Trade debtors subject to limited recourse financing represent hire purchase debtors discounted with banks in the ordinary course of business, so that the majority of cash received by the Group on discounting is not returnable, and which carry interest at variable rates. The returnable element of the proceeds is recorded as bank loans and overdrafts due within and after one year as appropriate. The Group is not required to make good any losses over and above the agreed recourse limit and the relevant banks have confirmed their acceptance of this position in writing.

In addition to the advance corporation tax recoverable included above, a cumulative £25.2m has been written off to 31 December 1997 (1996 – £14.3m), and is available for set-off against future UK corporation tax liabilities.

Notes to the accounts continued

13 Dividends, minority interests and equity continued

b Minority interests

	1997 £m	1996 £m
Paid or payable as dividends	**12.4**	14.0
Net retained profit (loss) for the year	**4.6**	(0.5)
	17.0	13.5

c Substantial shareholdings

In accordance with the requirements of the London Stock Exchange the following interests in the issued ordinary shares of 25p each of the Company are noted:

	27 February 1998	31 December 1997
Prudential Portfolio Managers Limited	5.11%	5.11%
Templeton Global Investors, Inc. (in the name of Franklin Templeton Group)	16.60%	11.37%
Toyota Motor Corporation	4.76%	4.76%

d Profit (loss) for the financial year

	1997 £m	1996 £m
Dealt with in the accounts of:		
The Company	**(8.0)**	147.9
Subsidiaries	**5.3**	(141.8)
Associated companies – note 8a	**10.5**	16.4
	7.8	22.5

e Share capital

	Authorised		Allotted, called-up and fully paid	
	1997 £m	1996 £m	1997 £m	1996 £m
(i) Summary: Ordinary shares – authorised 786,000,000 ordinary shares of 25p each (1996 – 786,000,000 ordinary shares of 25p each) and allotted, called up and fully paid 529,985,469 ordinary shares of 25p each (1996 – 528,826,278 ordinary shares of 25p each).	**196.5**	196.5	**132.5**	132.2

(ii) During the year the following ordinary shares of 25p each in Inchcape plc were issued:

Under the SAYE Share Option Scheme	**140,246**
Under the Executive Share Option Scheme	**28,098**
Under the International Executive Share Option Scheme	**63,062**
Under the scrip dividend scheme in lieu of 1996 dividend in cash	**927,785**

In aggregate shares to a nominal value of £0.3m were issued at a total consideration of £0.5m.

11 Provisions for liabilities and charges

	Group				Company
	Pensions and other post-retirement benefits (note 5) £m	Exceptional operating expenses £m	Other provisions £m	Total £m	Other provisions £m
Balance at 1 January 1997	**12.2**	**11.7**	**105.4**	**129.3**	**14.2**
Effect of foreign exchange rate changes	**(0.1)**	**(2.3)**	**(8.4)**	**(10.8)**	**–**
Charged to profit and loss account	**17.6**	**40.6**	**90.4**	**148.6**	**12.5**
Utilised during the year:					
– Cash	**(18.6)**	**(15.4)**	**(60.2)**	**(94.2)**	**(7.9)**
– Other	**0.2**	**(5.3)**	**(22.7)**	**(27.8)**	**(1.6)**
Balance at 31 December 1997	**11.3**	**29.3**	**104.5**	**145.1**	**17.2**

Other provisions at 31 December 1997 are mainly in respect of closure costs, claims and warranties.

12 Contingent liabilities, legal proceedings and bank guarantees

	Group		Company	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Guarantees of associated undertakings' borrowings	**13.6**	16.0	**–**	–
Guarantees of various subsidiaries' borrowings (against which £47.4m has been drawn, 1996 – £17.5m)	**–**	–	**373.5**	354.2
Other guarantees and contingent liabilities	**72.4**	75.6	**–**	–

In addition to the above, there were at 31 December 1997 other contingent liabilities arising in the ordinary course of business, including those in respect of disposed businesses. These are not expected to give rise to any significant loss.

Commitments for capital expenditure entered into and not provided for in these accounts are estimated at £22.9m (1996 – £19.5m).

In 1994 the Group disposed of Kenning Car and Van Rental as part of the sale of its two car and van rental businesses, Kenning Car and Van Rental and United Rental Group which, as announced at that time, were sold for a total consideration of £29.8m. A claim in respect of the sale of Kenning Car and Van Rental has been received. The Directors have taken legal advice and the claim is being defended vigorously.

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

13 Dividends, minority interests and equity

	Per Share			
a **Dividends**	**1997 pence**	1996 pence	**1997 £m**	1996 £m
Interim – paid 31 December 1997 (1996 paid – 31 December 1996)	**4.40**	4.20	**23.3**	22.2
Final – proposed – payable 9 June 1998 (1996 paid – 1 July 1997)	**6.60**	6.30	**35.0**	33.3
	11.00	10.50	**58.3**	55.5
Foreign Income Dividend enhancement	**–**	1.05	–	5.6
	11.00	11.55	**58.3**	61.1

Adjustments arising on scrip dividends are reflected in the reconciliation of movements in shareholders' funds – note 13f.

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 13 March 1998.

Notes to the accounts continued

13 Dividends, minority interests and equity continued

f Movements in shareholders' funds	Share capital 1997 £m	Share premium account 1997 £m	Revaluation reserve 1997 £m	Profit and loss account 1997 £m	Goodwill on consolidation 1997 £m	Total 1997 £m	Total 1996 £m
(i) Group							
Profit for the financial year	–	–	–	7.8	–	7.8	22.5
Dividends – note 13a	–	–	–	(58.3)	–	(58.3)	(61.1)
Retained (loss) for financial year	–	–	–	(50.5)	–	(50.5)	(38.6)
Scrip dividend adjustment	–	–	–	2.3	–	2.3	0.7
	–	–	–	(48.2)	–	(48.2)	(37.9)
Effect of foreign exchange rate changes	–	–	(6.5)	(49.5)	5.8	(50.2)	(23.1)
New share capital issued	0.3	0.2	–	–	–	0.5	1.1
Goodwill on acquisitions – note 14	–	–	–	–	(6.6)	(6.6)	(20.4)
Goodwill on disposals – note 14	–	–	–	–	8.0	8.0	409.8
Net surplus on revaluation of properties	–	–	–	–	–	–	24.5
Minority interest on revaluation surplus	–	–	–	–	–	–	(10.2)
Transfers on realisation of property surpluses	–	–	(8.6)	8.6	–	–	–
Other transfers	–	–	0.8	(0.8)	–	–	–
Net change in shareholders' funds	0.3	0.2	(14.3)	(89.9)	7.2	(96.5)	343.8
Balance at 1 January	132.2	106.5	140.2	931.3	(423.4)	886.8	543.0
Balance at 31 December	132.5	106.7	125.9	841.4	(416.2)	790.3	886.8
(ii) Company							
Retained (loss) profit for the year	–	–		(66.3)		(66.3)	86.8
Scrip dividend adjustment	–	–		2.3		2.3	0.7
New share capital issued	0.3	0.2		–		0.5	1.1
Net change in shareholders' funds	0.3	0.2		(64.0)		(63.5)	88.6
Balance at 1 January	132.2	106.5		495.1		733.8	645.2
Balance at 31 December	132.5	106.7		431.1		670.3	733.8

Revaluation reserve includes other non-distributable reserves of £45.0m (1996 – £43.7m). Goodwill on consolidation is after writing off £56.2m against a special capital reserve in 1988. This special capital reserve which was created from share premium has now been transferred to the profit and loss account as all the necessary conditions have been met. Net foreign exchange gains on borrowings reported in reserves amount to £8.7m in 1997.

There is no material difference between the profit on ordinary activities before taxation and the above retained loss for the year, and their historical cost equivalents.

13 Dividends, minority interests and equity continued

(iii) At 31 December 1997, options to subscribe for ordinary shares of 25p each in the Company under the following schemes were outstanding as follows:

Executive Share Option Scheme

Ordinary shares of 25p each	Exercisable until	Option price
123,099	3 June 1998	162.08p
30,672	20 October 1998	186.58p
28,652	18 May 1999	238.40p
21,224	11 May 2000	239.35p
63,674	21 November 2000	222.38p
85,054	29 May 2001	311.91p
17,934	22 November 2001	362.79p
625,400	22 May 2002	507.00p
135,900	22 May 2002	515.00p
44,100	20 October 2002	468.00p
236,400	9 June 2003	585.00p
90,900	21 October 2003	527.00p
306,700	28 April 2004	551.00p
647,000	27 April 2005	312.00p
363,400	18 May 2005	312.00p
9,800	9 November 2005	301.00p
398,200	18 April 2006	314.00p
139,258	17 April 2007	292.00p
44,517	16 October 2007	263.00p

International Executive Share Option Scheme (formerly Overseas Executive Share Option Scheme)

Ordinary shares of 25p each	Exercisable until	Option price
74,284	11 May 2000	239.35p
61,552	21 November 2000	222.38p
107,181	29 May 2001	311.91p
28,759	22 November 2001	362.79p
232,000	22 May 2002	507.00p
654,400	30 October 2002	468.00p
124,500	9 June 2003	585.00p
359,100	21 October 2003	527.00p
638,600	28 April 2004	551.00p
674,400	27 April 2005	312.00p
37,700	9 November 2005	301.00p
971,100	18 April 2006	314.00p
2,300,342	17 April 2007	292.00p
135,267	16 October 2007	263.00p

SAYE Share Option Scheme

Ordinary shares of 25p each	Exercisable until	Option price
37,661	1 January 1998	406.00p
250,420	1 June 1998	339.00p
35,472	1 December 1998	470.00p
43,692	1 June 1999	428.00p
37,457	1 January 2000	441.00p
254,045	1 February 2000	235.00p
59,501	1 June 2000	343.00p
482,089	1 February 2001	250.00p
487,091	1 February 2001	226.00p

Notes to the accounts continued

14 Acquisitions and disposals continued

b Cash flow continued

(ii) **Net assets acquired (disposed of) on acquisition (sale) of shares in subsidiaries**	**Acquisitions 1997 £m**	**Disposals 1997 £m**	Acquisitions 1996 £m	Disposals 1996 £m
Fixed assets and fixed asset investments (including Group share of associated companies' net assets)	**24.8**	**(9.4)**	46.1	(88.4)
Stocks	**0.1**	**(12.8)**	8.5	(7.3)
Debtors	**0.1**	**(12.9)**	13.8	(1,524.2)
Cash less bank overdrafts	**0.1**	**4.6**	3.6	17.3
Liquid resources	**–**	**(0.2)**	–	(223.4)
Loans and finance leases	**(0.2)**	**–**	(10.6)	8.0
Other creditors and provisions including fair value	**(0.4)**	**16.0**	(23.4)	1,714.6
Minority shareholders' interests	**(11.8)**	**0.8**	(28.4)	20.2
Goodwill	**5.9**	**(8.0)**	15.0	(390.1)
Loss (profit) on disposal	**–**	**6.2**	–	(5.5)
Net consideration payable (receivable)	**18.6**	**(15.7)**	24.6	(478.8)
Satisfied by:				
Cash paid (received)	**18.6**	**(15.2)**	23.3	(488.0)
Deferred consideration payable (receivable)	**–**	**(0.5)**	1.3	9.2
	18.6	**(15.7)**	24.6	(478.8)

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

Analysis of the net inflow of cash in respect of the sale of subsidiaries	**£m**
Cash consideration received (including receipts from purchasers outstanding at 31 December 1996)	**34.0**
Cash of subsidiaries sold	**4.6**
Net inflow of cash in respect of the sale of subsidiaries	**38.6**

Analysis of the net outflow of cash in respect of the purchase of subsidiaries	**£m**
Cash consideration paid (including payments to vendors outstanding at 31 December 1996)	**16.6**
Cash of subsidiaries acquired	**(0.1)**
Net outflow of cash in respect of the purchase of subsidiaries	**16.5**

14 Acquisitions and disposals

a Goodwill arising on acquisitions

	As acquired company's accounting records 1997 £m	Revaluation 1997 £m	Fair value to the Group 1997 £m
(i) Subsidiaries – primarily Shipping and Bottling			
Fixed assets – principally intangibles	**20.4**	**3.0**	**23.4**
Stocks	**0.1**	**–**	**0.1**
Debtors	**0.1**	**–**	**0.1**
Cash at bank	**0.1**	**–**	**0.1**
Borrowings	**(0.2)**	**–**	**(0.2)**
Other creditors and provisions	**(0.4)**	**–**	**(0.4)**
Minority interests	**(11.8)**	**–**	**(11.8)**
	8.3	**3.0**	**11.3**
Fair value of consideration			**16.6**
Goodwill			**5.3**
Adjustment in respect of prior year acquisitions			**0.7**
Total goodwill			**6.0**
(ii) Associated companies			
Share of net tangible assets			**1.4**
Fair value of consideration			**2.0**
Goodwill			**0.6**

b Cash flow

(i) **Net cash inflow (outflow) from acquisitions and disposals**	**1997 £m**	1996 £m
Purchase of subsidiaries	**(16.5)**	(20.9)
Purchase of associated companies and other investments	**(12.9)**	(9.2)
Acquisition provision payments	**(1.0)**	(7.5)
Sale of subsidiaries	**38.6**	509.4
Sale of associated companies	**0.9**	1.8
	9.1	473.6

Notes to the accounts continued

16 Principal subsidiary and associated companies

a Principal subsidiary companies
United Kingdom and Continental Europe

United Kingdom

Inchcape Motors International plc
[illegible]

Inchcape Shipping Services (Europe) Ltd
[illegible] and African Shipping Services companies

Inchcape Export Ltd
Holding company whose subsidiaries' activities are Bottling in Russia

CJ Imports UK Ltd
Motors

Toyota (GB) Ltd (75%)
Motors

Wadham Kenning Motor Group Ltd
Motors

Mann Egerton Vehicle Contracts Ltd
Motors Finance Services

Kenning Leaseline Ltd
Motors Finance Services

Belgium
Toyota Belgium NV/SA
Motors

France
France Motors SARL (95%)
Motors

Greece
Toyota Hellas SA
[illegible]

Far East and South East Asia

Hong Kong
Inchcape Pacific Ltd
Holding company whose subsidiaries' activities are Motors, Marketing and Shipping Services

Crown Motors Ltd
Motors

JDH Company Ltd
[illegible]

Mazda Motors (Hong Kong) Ltd
Motors

Singapore
Inchcape Berhad (63%)
Publicly quoted company whose subsidiaries' activities are Motors, Marketing and Shipping Services

Borneo Motors (Singapore) Pte Ltd (63%)
Motors

IRB Finance Berhad (44% effective)
[illegible]

Japan
Inchcape Marketing Services KK
Marketing

Inchcape Shipping Services (Japan) KK
Shipping Services

Malaysia
Inchcape Holdings Sdn Bhd
Marketing

Thailand
Inchcape Engineering Ltd
Marketing

Middle East

Gray Mackenzie & Company Ltd (United Kingdom) and Spinneys 1948 Ltd (United Kingdom)
Holding company for the Group's Middle East Motors, Marketing and Shipping Services businesses

The Americas

USA
SS Acquisition Corporation
[illegible]

Chile
Williamson Balfour SA
[illegible]

Peru
Embotelladora Latinoamericana SA (35% effective) (ELSA)

Australasia

Australia
Subaru (Aust.) Pty Ltd

TKM Automotive Australia Pty Ltd

Inchcape Automotive Australia Pty Ltd

15 Post balance sheet events

a On 1 January 1998, in accordance with an agreement signed in 1990, Inchcape plc sold 26% of the shares in Toyota (GB) to the Toyota Motor Corporation having received £30m proceeds in advance.

As a result of this transaction Inchcape owns, from 1 January 1998, 49% of Toyota (GB) and consequently will equity account for its interest as an associate from that date.

A pro forma statement has been set out below to show the impact on the Group. The results of the Group have been restated to illustrate the effect of the exceptional gain which will arise in 1998 as if the sale of these shares had taken place at the beginning of 1997, and by equity accounting the resultant 49% interest in the results of the business for the year. The pro forma balance sheet is based on the Group's balance sheet at 31 December 1997:

(i) **Profit and loss account**	1997 **£m**	De-consolidate **£m**	Exceptional profit **£m**	Equity account **£m**	1997 restated on a pro forma basis **£m**
Turnover	5,931.4	(1,114.2)	–	–	4,817.2
Operating profit before exceptional operating items	135.3	(28.0)	–	–	107.3
Exceptional operating items	(40.6)	–	–	–	(40.6)
Share of profits of associated companies	52.2	(9.4)	–	19.5	62.3
Total operating profit	146.9	(37.4)	–	19.5	129.0
Other exceptional items	(53.9)	–	19.8	–	(34.1)
Profit on ordinary activities before net interest	93.0	(37.4)	19.8	19.5	94.9
Net interest	(3.4)	(2.4)	–	–	(5.8)
Profit on ordinary activities before taxation	89.6	(39.8)	19.8	19.5	89.1
Tax on profit on ordinary activities	(64.8)	12.6	(0.3)	(6.2)	(58.7)
Profit on ordinary activities after taxation	24.8	(27.2)	19.5	13.3	30.4
Minority interests	(17.0)	6.8	–	–	(10.2)
Profit for the year	7.8	(20.4)	19.5	13.3	20.2

(ii) **Balance sheet**	1997 **£m**	De-consolidate **£m**	Exceptional profit plus opening equity **£m**	Movement in year **£m**	1997 restated on a pro forma basis **£m**
Fixed assets	738.6	(36.2)	19.8	13.3	735.5
Current assets	2,486.8	(401.5)	–	–	2,085.3
Creditors – amounts falling due within one year	(1,813.6)	390.4	30.0	–	(1,393.2)
Net current assets	673.2	(11.1)	30.0	–	692.1
Total assets less current liabilities	1,411.8	(47.3)	49.8	13.3	1,427.6
Creditors – amounts falling due after one year	(343.9)	0.4	–	–	(343.5)
Provisions for liabilities and charges	(145.1)	1.1	–	–	(144.0)
Net assets	922.8	(45.8)	49.8	13.3	940.1
Equity shareholders' funds	790.3	(34.4)	49.8	13.3	819.0
Minority interests	132.5	(11.4)	–	–	121.1
	922.8	(45.8)	49.8	13.3	940.1

b On 1 January 1998, in accordance with an agreement signed during the year, Inchcape's Peruvian bottler, ELSA, was merged with two other Peruvian bottlers, Compania Nor Peruana S.A.("North") and Negociacion Sur Peruana S.A. ("South"). At that time the Group invested a further £41m into the newly merged entity and increased its effective shareholding to 50.1%.

Five year record

Profit and loss account	1997 £m	1996 restated £m	1995 restated £m	1994 restated £m	1993 restated £m
Turnover	**5,931.4**	6,263.2	6,295.9	6,101.6	5,876.9
Total operating profit before exceptional operating items					
– continuing operations	**187.5**	168.6	146.1	217.7	227.0
– discontinued operations	**–**	35.7	53.9	53.8	61.4
	187.5	204.3	200.0	271.5	288.4
Interest	**(3.4)**	(39.2)	(53.2)	(40.9)	(36.0)
Headline profit before taxation	**184.1**	165.1	146.8	230.6	252.4
Exceptional operating items	**(40.6)**	–	(65.2)	–	–
Profit (loss) on sale of properties and investments	**3.8**	9.2	17.7	(4.3)	10.9
Net (loss) profit on the sale and termination of operations	**(57.7)**	(67.3)	(81.9)	2.1	8.1
Profit before taxation (FRS 3)	**89.6**	107.0	17.4	228.4	271.4
Taxation	**(64.8)**	(71.0)	(49.6)	(73.7)	(79.5)
Profit (loss) after taxation	**24.8**	36.0	(32.2)	154.7	191.9
Minority interests	**(17.0)**	(13.5)	(11.8)	(13.7)	(15.6)
Profit (loss) for the financial year	**7.8**	22.5	(44.0)	141.0	176.3
Dividends	**(58.3)**	(61.1)	(60.8)	(78.3)	(77.3)
Retained (loss) profit for the financial year	**(50.5)**	(38.6)	(104.8)	62.7	99.0
Earnings (loss) per ordinary share:					
Headline	**19.3p**	17.2p	14.0p	26.4p	30.4p
FRS 3	**1.5p**	4.3p	(8.3)p	26.8p	33.9p
Dividends per ordinary share*	**11.0p**	10.5p	10.0p	15.0p	14.8p
Balance sheet					
Fixed assets	**738.6**	693.5	753.1	812.2	854.7
Other assets less liabilities other than cash (borrowings)	**280.2**	319.1	219.8	247.0	231.1
	1,018.8	1,012.6	972.9	1,059.2	1,085.8
Net cash (borrowings)	**(96.0)**	2.6	(311.4)	(310.6)	(213.5)
Net assets	**922.8**	1,015.2	661.5	748.6	872.3
Shareholders' funds	**790.3**	886.8	543.0	632.4	764.6
Minority interests	**132.5**	128.4	118.5	116.2	107.7
	922.8	1,015.2	661.5	748.6	872.3

* Before Foreign Income Dividend enhancement.

16 Principal subsidiary and associated companies continued

b Principal associated companies

	% Shareholding
United Kingdom and Continental Europe	
United Kingdom	
Inchcape Financial Services Ltd	49
MCL Group Ltd	40
TGB Finance Ltd	37.5
CJ Financial Services Ltd	50
France	
Inchcape Finance SA	49
Far East	
Hong Kong	
Inchroy Credit Corporation Ltd	50
Inchcape NRG Ltd (United Kingdom)	50

	% Shareholding
Middle East	
Abu Dhabi	
Gray MacKenzie & Partners (Abu Dhabi) LLC Marketing and Shipping Services	49
Spinneys (Abu Dhabi) LLC	49
Bahrain	
Bahrain Maritime & Mercantile International BSC Marketing and Shipping Services	48
Dubai	
Gray Mackenzie & Partners (Central Emirates) LLC Marketing and Shipping Services	49
Spinneys (Dubai) LLC	49

Notes: Only those companies which principally affect profit or assets are included. All companies are owned 100% except where shown. Inchcape Berhad effected a de-merger of its Marketing activities on 1 January 1998 into Inchcape Marketing Services Ltd and Inchcape Motors Ltd. Inchcape Berhad retains the remaining Motors and Shipping subsidiaries. Embotelladora Latinoamerica SA is consolidated as a subsidiary through the Group's control of the Board. Subsequent to the year end the effective shareholding increased to 50.1%. All holdings represent the ultimate interest of the Company in ordinary shares, except in respect of Inchroy Credit Corporation Ltd where the Group holds 50% of the company's non-voting deferred shares and Embotelladora Latinoamerica SA where the Group has a holding of 1% of the company's labour shares which carry no voting rights – but rank pari passu with ordinary shares in all other respects. On 1 January 1998 the effective interests in Toyota (GB) Ltd and TGB Finance Ltd were reduced to 49% and 24.5% respectively.

17 Foreign currency translation

The main exchange rates used for translation purposes are as follows:	Average rates 1997	Average rates 1996	Year end rates 31.12.97	Year end rates 31.12.96
Australian Dollar	**2.21**	2.00	**2.53**	2.15
Belgian Franc	**58.5**	48.4	**61.0**	54.4
Chilean Peso	**690**	646	**721**	726
French Franc	**9.54**	7.99	**9.90**	8.90
Hong Kong Dollar	**12.7**	12.1	**12.7**	13.2
Japanese Yen	**199**	171	**214**	199
Malaysian Ringitt	**4.62**	3.94	**6.40**	4.32
Peruvian Sol	**4.38**	3.83	**4.49**	4.44
Singapore Dollar	**2.44**	2.21	**2.77**	2.39
US Dollar	**1.64**	1.57	**1.65**	1.71

Shareholder information

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Registrar's Department
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Solicitors
Slaughter and May

Auditors
Coopers & Lybrand
Chartered Accountants and Registered Auditors

Merchant Bankers
Baring Brothers International Limited

Stockbrokers
SBC Warburg Dillon Read
A division of Swiss Bank Corporation

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The following executives are responsible for the Group's staff functions:

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Les Cullen
Group Finance Director

Adrian Marsh
Group Treasurer

Martyn Smith
Group Director, Accounting & Tax

John Way
Group Director of Audit & Risk Management

Strategic Development
John Whiteman
Group Strategic Development Director

Human Resources
Bob Goodall
Group Human Resources Director

Corporate Affairs
Paul Barber
Group Corporate Affairs Director

Secretarial and Legal
Roy Williams
Group Company Secretary

Inchcape PEPs
The Company has two established PEPs, the Inchcape General PEP and the Inchcape Single Company PEP. Both PEPs are administered by Bradford & Bingley (PEPs) Limited and are dedicated to Inchcape plc ordinary shares. A brochure and application form are available from:
Group Secretarial Department
Inchcape plc
33 Cavendish Square
London W1M 9HF

UK Tax on Capital Gains
For Capital Gains Tax purposes, the market value of the Company's ordinary shares on 31 March 1982, adjusted for the subdivision of shares in 1988 and the rights issue on 10 December 1991, (excluding scrip dividend options) and indexed to 31 December 1997, is 206.8 pence.

Financial calendar

Ex-dividend date for 1997 final dividend	9 March 1998
Record date for 1997 final dividend	13 March 1998
Annual General Meeting	23 April 1998
Final 1997 ordinary dividend payable	9 June 1998
Announcement of 1998 half year results	10 August 1998

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Inchcape

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