

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

REPORT AND ACCOUNTS

31 DECEMBER 1998



Suite 3, Rushmoor Court
Croxley Business Park
Hatters Lane
Watford
Hertfordshire WD1 8YL

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Tozer Kemsley and Millbourn Automotive Limited ("the company") is an investment holding company and owns subsidiaries and interests in associated companies (based both in the United Kingdom and overseas) whose activities primarily relate to automotive retailing, distribution and associated services. A list of principal subsidiary and associated undertakings is set out on page 9.

RESULTS AND DIVIDENDS

The results for the year are disclosed in the profit and loss account on page 6. The Company has paid or proposed dividends amounting to £800,000 (1997: £3,039,600) during the year.

DIRECTORS

The names of the present directors of the Company are shown on page 1.

J M Cross resigned as director on 17 February 1998, and was replaced by J W James, who was appointed on the same day.

No director was materially interested in any contract of significance.

DIRECTORS' INTERESTS

No director had any interests in the shares of the Company (or any of its subsidiaries or intermediate parent undertaking) at either 1.1.98 or 31.12.98.

The interests of the directors in the Ordinary Shares of Inchcape plc, the ultimate parent undertaking, are as shown below:

| | 31.12.98 | | | 1.1.98 or Date of Appointment |
|-------------------|----------|---------|-----------|----------------------------------|
| Shares | | | | |
| A M Ferguson | 6,851 | | | 6,795 |
| Executive Options | | Granted | Exercised | |
| A M Ferguson | 84,334 | - | - | 84,334 |
| J W James | 29,700 | - | - | 29,700 |
| SAYE Options | | Granted | Exercised | Lapsed |
| A M Ferguson | 1,380 | - | - | 4,424 |
| | | | | 5,804 |

Interests shown above under Executive Options refer to options granted under the Inchcape Executive Share Option Scheme and Inchcape International Executive Share Option Scheme and those shown under SAYE Options refer to options granted under the Inchcape SAYE Share Option Scheme. At the Annual General Meeting of Inchcape plc held on 14 May 1999 it was agreed to establish the Inchcape 1999 Share Option Plan and the Inchcape Deferred Bonus Plan. As a pre-condition of receiving options and awards under the new schemes, all awards under the Inchcape Executive Share Option Scheme, the Inchcape International Executive Share Option Scheme, and the Inchcape plc Long Term Incentive Plan will be cancelled.

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

REPORT OF THE DIRECTORS (continued)

AUDITORS

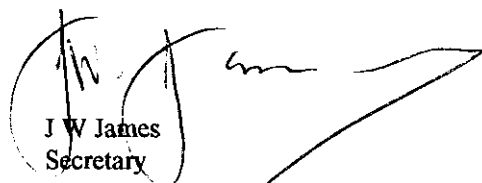
Pursuant to the Companies Act 1985, Section 386, the company has elected to dispense with the obligation to appoint auditors annually. Our auditors Messrs Coopers & Lyband merged with Price Waterhouse on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors will be proposed at the forthcoming annual general meeting.

YEAR 2000 AND EUROPEAN MONETARY UNION

The company did not incur any expenditure in the year, and does not expect to incur significant expenditure in the coming year, relating to the year 2000. The directors are of the opinion that the risks and uncertainties associated with the year 2000 problem are minimal for the company.

There were no significant costs incurred during the year relating to the introduction of the EMU on 1st January 1999, and it has not had a material effect on the operation of the business.

BY ORDER OF THE BOARD



J W James
Secretary

Date: 15 June 1999

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The directors are required by law to prepare financial statements for the financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the result for that period. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable Accounting Standards. The directors are additionally responsible for maintaining adequate accounting records, for safeguarding the assets of the company, and for preventing and detecting fraud and other irregularities. The directors confirm, in respect of the preparation of the financial statements, that:

- they have been prepared on a going concern basis,
- suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used; and
- applicable Accounting Standards have been followed.

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

We have audited the financial statements on pages 6 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 4 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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

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

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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1998 and of the result for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



PRICEWATERHOUSECOOPERS
Chartered Accountants and Registered Auditors

London

Date: 15 June 1999

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

| | Notes | 1998 £000 | 1997 £000 |
|---|-------|-----------------|-----------------|
| Dividends received from group undertakings | | 8,155 | 3,800 |
| Provision against investment in subsidiary undertakings | 5 | (10,213) | (82,072) |
| Provision against unquoted investment | 5 | - | (2,997) |
| Foreign exchange profit/(loss) | | <u>-</u> | <u>(57)</u> |
| Operating (loss)/profit | 2 | (2,058) | (81,326) |
| Interest receivable | 3 | 257 | 558 |
| Interest payable | 3 | <u>(476)</u> | <u>-</u> |
| Profit/(loss) on ordinary activities before taxation | | (2,277) | (80,768) |
| Taxation | 4 | <u>(132)</u> | <u>(936)</u> |
| Profit/ (Loss) for the financial year | | (2,409) | (81,704) |
| Dividends paid to holding company | | <u>(800)</u> | <u>(3,040)</u> |
| Retained loss for the financial year | | (3,209) | (84,744) |
| Balance brought forward - 1 January | | <u>(79,592)</u> | <u>5,152</u> |
| Balance carried forward - 31 December | | <u>(82,801)</u> | <u>(79,592)</u> |

There were no discontinued activities during the year.

The company has no recognised gains or losses other than as presented in the Profit and Loss Account and thus a Statement of Total Recognised Gains and Losses is not required.

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

The notes on pages 8 to 11 form part of these financial statements.

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

BALANCE SHEET

AT 31 DECEMBER 1998

| | Notes | 1998 £000 | 1997 £000 |
|---|-------|------------------|------------------|
| Fixed Assets | | | |
| Investments | 5 | <u>118,845</u> | <u>101,807</u> |
| Current Assets | | | |
| Debtors | 6 | 260 | 4,262 |
| Cash at bank and in hand | | <u>-</u> | <u>8,651</u> |
| | | 260 | 12,913 |
| Current Liabilities | | | |
| Creditors - amounts falling due within one year | 7 | <u>(109,897)</u> | <u>(102,303)</u> |
| Net Current Liabilities | | <u>(109,637)</u> | <u>(89,390)</u> |
| Total Assets less Current Liabilities | | <u>9,208</u> | <u>12,417</u> |
| FINANCED BY: | | | |
| Capital and Reserves | | | |
| Called up share capital | 8 | 13,775 | 13,775 |
| Share premium account | 9 | 78,234 | 78,234 |
| Profit and loss account | | <u>(82,801)</u> | <u>(79,592)</u> |
| Equity Shareholders' Funds | 10 | <u>9,208</u> | <u>12,417</u> |

ON BEHALF OF THE BOARD



A M Ferguson
Director

Date: 15 June 1999

The notes on pages 8 to 11 form part of these financial statements.

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards. The principal accounting policies of the company are described below.

Accounting convention

The financial statements are prepared under the historical cost basis and in accordance with the Companies Act 1985.

Group accounts

In accordance with the exemption permitted by Section 228 of the Companies Act 1985 no group financial statements have been prepared.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for impairments.

Overseas currencies

Assets and liabilities in foreign currencies are converted into sterling at the rates ruling on 31 December or forward contract rates, where appropriate.

Deferred taxation

Deferred taxation is accounted for under the liability method, to the extent that it is probable that a liability will crystallise in the future.

Related Party Transactions

The company is a wholly owned subsidiary in the Inchcape plc group and has applied the exemption in paragraph 3(c) of FRS8 "Related Party Disclosures". This exemption permits the non-disclosure of transactions and balances with related parties that are included in the consolidated financial statements of Inchcape plc. The directors consider that there are no other relationships, transactions or balances which are required to be disclosed by FRS8.

2. OPERATING LOSS

None of the directors received any remuneration for services rendered to the company (1997: nil).

Auditors' remuneration has been borne by the parent company (1997: nil).

3. INTEREST (PAYABLE)/RECEIVABLE

| | 1998 | 1997 |
|--------------------------------------|--------------|------------|
| | £000 | £000 |
| Interest receivable on bank balances | 257 | 558 |
| Interest payable on bank balances | <u>(476)</u> | <u>-</u> |
| | <u>(219)</u> | <u>558</u> |

4. TAXATION

| | 1998 | 1997 |
|---|--------------|--------------|
| | £000 | £000 |
| The taxation credit/(charge) based on the results for the year is made up as follows: | | |
| UK Corporation tax at 31% (1997: 31.5%) | (3,396) | (176) |
| Double tax relief | 3,464 | - |
| Tax credit on dividends received | <u>(200)</u> | <u>(760)</u> |
| | <u>(132)</u> | <u>(936)</u> |

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

NOTES TO THE ACCOUNTS (Continued)

| 5. FIXED ASSET INVESTMENTS | Investments in Subsidiary Undertakings £000 | Investment in Unquoted Company £000 | Loans to Subsidiary Undertakings £000 | Total £000 |
|-----------------------------------|--|--|--|------------------|
| Cost: | | | | |
| At 1 January 1998 | 193,166 | 2,997 | 1 | 196,164 |
| Additions | <u>27,251</u> | <u>-</u> | <u>-</u> | <u>27,251</u> |
| At 31 December 1998 | <u>220,417</u> | <u>2,997</u> | <u>1</u> | <u>223,415</u> |
| Amounts provided for: | | | | |
| At 1 January 1998 | (91,360) | (2,997) | - | (94,357) |
| Provided/released for in the year | <u>(10,213)</u> | <u>-</u> | <u>-</u> | <u>(10,213)</u> |
| At 31 December 1998 | <u>(101,573)</u> | <u>(2,997)</u> | <u>-</u> | <u>(104,570)</u> |
| Net Book value: | | | | |
| At 31 December 1998 | <u>118,844</u> | <u>-</u> | <u>1</u> | <u>118,845</u> |
| At 31 December 1997 | <u>101,806</u> | <u>-</u> | <u>1</u> | <u>101,807</u> |

The Directors have valued the Company's investments in subsidiary undertakings at 31 December 1998, in accordance with its policy, at cost less provision for impairments. The Directors have considered the value of the remaining investments and are satisfied that these are worth, in total, not less than the aggregate amount at which they have been stated in the Company's accounts. Accordingly, in accordance with Section 275 of CA85, the provision does not fall to be classified as a realised loss.

The addition consisted of a recapitalisation of the Import & Distribution business in Finland. The additional provisions against subsidiary undertakings consisted of the write-down to net asset value of certain European Import & Distribution businesses where it is considered that the historic goodwill is permanently impaired.

Principal subsidiary and associated undertakings are listed below. Unless otherwise shown, the capital of each company is wholly owned and is in ordinary shares, and the principal country of operation is the country of incorporation. Where a company is not wholly owned, the percentage of the capital held is shown in brackets.

| | | Principal Activity | Country of Incorporation |
|---|---|--------------------------------|-----------------------------|
| * | Inchcape France S.A. (£91.1m preference (100%); £18.7m ordinary (100%)) | Investment Holding | France |
| | Inchcape Automobiles S.A. | Motors Retail | France |
| | Inchcape Shipping Services S.A. | Shipping Services | France |
| | Gellatly France S.A. | Shipping Services | France |
| | Marseille Liner Agency S.A. | Shipping Services | France |
| | Tozer Kemsley & Millbourn Holding France S.A | Investment Holding | France |
| | France Motors SARL (95%) | Motors Import and Distribution | France |
| | Kennings S.A. | Motors Retail | France |
| * | Tozer International Holdings Limited | Investment Holding | England |
| * | Inchcape Motors (Australia) Limited (formerly Tozer Kemsley & Millbourn Automotive (Australia) Limited) | Motors Import and Distribution | Australia |
| | Ateco Holdings Limited | Investment Holding | Australia |
| # | Subaru (Aust) Pty. Limited | Motors Import and Distribution | Australia |
| | TKM Automotive Australia Pty. Limited | Motors Import and Distribution | Australia |
| * | Nexus Corporation Limited | Investment Holding | England |
| | Automotive Group Limited (40%) | Motors Import and Distribution | England |
| | The Cooper Group Limited | Motors Retail | England |
| | Tozer Kemsley & Millbourn Automotive (Ireland) Limited | Dormant | Ireland |
| | MCL Group Limited (40%) | Motors Import and Distribution | England |
| | Wadham Kenning Motor Group Limited | Motors Retail | England |
| * | Tozer Kemsley & Millbourn Finland Oy | Motors Import and Distribution | Finland |
| | Haka-Auto Oy | Motors Import and Distribution | Finland |
| * | Inchcape Motors (Switzerland) SA | Dormant | Switzerland |

* Indicates that shares in the company are directly owned by Tozer Kemsley and Millbourn Automotive Limited

This company operates in both Australia and New Zealand.

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

NOTES TO THE ACCOUNTS (Continued)

| | | |
|---|-----------------|-----------------|
| 6. DEBTORS | 1998 | 1997 |
| | £000 | £000 |
| Amounts due from Group undertakings | - | 4,249 |
| Interest receivable | - | 13 |
| Corporation tax receivable | <u>260</u> | <u>-</u> |
| | <u>260</u> | <u>4,262</u> |
| 7. CREDITORS - amounts falling due within one year | 1998 | 1997 |
| | £000 | £000 |
| Bank loans and overdrafts | 10,457 | - |
| Amounts due to Group undertakings | 99,402 | 102,127 |
| Corporation tax payable | - | 176 |
| Other creditors | <u>38</u> | <u>-</u> |
| | <u>109,897</u> | <u>102,303</u> |
| 8. SHARE CAPITAL | 1998 | 1997 |
| | £000 | £000 |
| Ordinary shares of £1 each: | | |
| Authorised | <u>20,000</u> | <u>20,000</u> |
| Issued and fully paid | <u>13,775</u> | <u>13,775</u> |
| 9. SHARE PREMIUM ACCOUNT | 1998 | |
| | £000 | |
| At 1 January 1998 and 31 December 1998 | <u>78,234</u> | |
| 10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS | 1998 | 1997 |
| | £000 | £000 |
| Profit/(Loss) for the financial year | (2,409) | (81,704) |
| Dividends paid | <u>(800)</u> | <u>(3,040)</u> |
| Net (decrease) / increase in Shareholders' funds | (3,209) | (84,744) |
| Opening Shareholders' funds | <u>12,417</u> | <u>97,161</u> |
| Closing Shareholders' funds | <u>9,208</u> | <u>12,417</u> |

TOZER KEMSLEY AND MILLBOURN AUTOMOTIVE LIMITED

NOTES TO THE ACCOUNTS (Continued)

11. CONTINGENT LIABILITIES

The company is party to composite cross guarantees between banks, its ultimate parent undertaking and fellow subsidiaries. The company's contingent liability under these guarantees at 31 December 1998 was £nil (1997: £8,650,406).

12. CASH FLOW STATEMENT

A cash flow statement is not required as Inchcape plc, the company's ultimate parent undertaking, has complied with Financial Reporting Standard 1 Revised by including a consolidated cash flow statement in its Report and Accounts for the year ended 31 December 1998.

13. ULTIMATE PARENT UNDERTAKING

The directors regard the ultimate parent undertaking as Inchcape plc which is incorporated in Great Britain.

The largest and the smallest group of which the company is a member and for which Group Financial Statements are drawn up is that of Inchcape plc which is registered in England. Copies of the Report and Financial Statements of that company are available from:

The Company Secretary
Inchcape plc
33 Cavendish Square
London
W1M 9HF