



# International Automotive Services Group

Interim report 2003



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## Far reaching

### United Kingdom

Inchcape offers a choice of products and channels to market and a range of Business Services, including logistics, refurbishment and re-marketing, to corporate customers. We are aligned to a number of selected specialist manufacturers including BMW, Toyota/Lexus, the Premier Automotive Group of Ford (PAG), Mercedes-Benz and Ferrari/Maserati.

### Greece

Inchcape has been the Importer and Distributor in Greece for Toyota since 1987, now selling around 30,000 units per annum. We also provide a range of financial products to the Toyota retail customer. In addition we retail Toyota/Lexus vehicles in Athens and Salonica. We are in the process of expanding our Retail reach.

Our Greek operation also holds the Toyota distribution rights for Bulgaria, Romania and Macedonia.

### Belgium

Our Import and Distribution business in Belgium for Toyota/Lexus has been part of the Group since 1979. We sell over 25,000 cars per annum through a mainly independent network of some 130 dealerships.

### Australia

We have been the Subaru Importer and Distributor in Australia for over ten years and are now also the sole Retailer for Subaru in Melbourne, a territory that represents some 20.0% of the Australian market. Our facilities include our flagship site at Subaru Docklands, the world's largest Subaru dealership.

In Sydney we exclusively retail VW and Jaguar through six dealerships. We also represent Volvo and Subaru in the greater Sydney area. In total this business sells over 5,000 new and used cars per annum.

### Hong Kong

In Hong Kong we are the exclusive Importer and Retailer for Toyota/Lexus, Daihatsu, Hino, Jaguar, Mazda and Peugeot. Combined, these franchises regularly achieve over 40.0% of the market. Our Crown Motors business has held the Toyota franchise since 1966 and Toyota has been market leader for over twelve years.

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

### Singapore

We exclusively Import and Retail for Toyota/Lexus and Suzuki in Singapore. Inchcape's market share in this territory comfortably exceeds 25.0%. We have held the Toyota franchise since 1967. In this market we have to purchase, on the customers behalf, a Certificate of Entitlement (COE) from the Government in order to buy a new vehicle. Automotive retailers have to bid for them on a fortnightly basis.

## An international automotive services group

Inchcape, an international automotive services group, provides quality representation for its selected manufacturer partners, a choice of channels to market and products for its retail customers and a range of business services for its corporate customers.

Operations are focused on the UK, Greece, Belgium, Australia, Hong Kong and Singapore. Inchcape's activities include exclusive Import, Distribution and Retail, Business Services, automotive E-commerce and Financial Services.

## Focused



### Import, distribution and retail

In all our markets we import and distribute vehicles on behalf of our key manufacturer partners. We are responsible for the retail network, model range, specification, price positioning, marketing strategy and the provision of an aftersales infrastructure.

In markets such as Hong Kong and Singapore, we also exclusively retail all the vehicles we import thus removing the distinction between the importer and retailer. Whilst this unified approach is best suited to city state markets, it is also applicable in Greece and Australia as the local market size and structure of cities like Athens and Melbourne support such a model.

### UK Retail

We aim to represent between 5.0% and 10.0% of our Original Equipment Manufacturer (OEM) partners' national sales volumes in contiguous market areas.

### Financial services

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

### Business services\*

Inchcape Automotive provides specialist expertise in vehicle preparation, refurbishment and transport logistics to vehicle manufacturers and rental and fleet operators. We also offer fleet management and re-marketing services, principally to vehicle manufacturers.

Business Services is a growth opportunity for Inchcape and the building blocks are in place in the UK. We are now starting to focus on the major markets in Continental Europe as manufacturers seek pan European solutions.

\*Included within Import, distribution and retail segment.

# This is Inchcape

## Partnering

Our key manufacturer partners are Toyota/Lexus, Subaru, Ferrari/Maserati, BMW and the Premier Automotive Group of Ford.



## Performance update

**+15.9%**  
**Operating profit before goodwill amortisation\***  
**rose by 15.9% to £68.7m.**  
**Profits increased in the UK, Greece, Belgium, Australia and Singapore.**

\*See note 1.

**+21.5%**  
**Headline earnings per share<sup>†</sup> (before goodwill amortisation and exceptional items) rose by 21.5% to 62.1p.**

<sup>†</sup>See note 3.

**+20.0%**  
**Dividend per share rose by 20.0% to 12.0p.**

## Block Exemption – an overview

European Block Exemption legislation is the framework by which vehicle manufacturers regulate their distribution and retail channels in individual European markets and the European Union as a whole. The methods by which most OEMs interpreted this legislation was seen by the European Commission as anti-competitive for the consumer and restrictive to the dealer.

Consequently, the legislation has been revised.

We have consistently stated that the benefits and opportunities offered to Inchcape by the revised legislation far outweighed any perceived threat. Time is proving this forecast correct.

In Retail, our strategy of developing scale businesses in the specialist sector has left us ideally placed to take advantage of the new structure. The new regulations will foster a balanced relationship between manufacturers and large scale retailers, with the retailer now having far greater freedom of choice on the location and number of dealerships.

In our Toyota Distribution businesses, we have signed new five year contracts and started to reorganise our existing networks in both Greece and Belgium to achieve the correct balance of investment and return for our dealers. In Greece we are taking advantage of these changes to invest in large contiguous retail market areas.

Whilst the full impact of Block Exemption will evolve over the coming months and years, we envisage that consolidation within the UK retail sector will offer growth opportunities for Inchcape.

## Chairman's statement from Sir John Egan

**"Our BMW division is one of the largest in the UK, whilst our contiguous territory is the biggest in the country."**

### Results overview

This set of impressive results continues the trend of reporting profit growth for every set of interims since Inchcape became a pure automotive services group in July 1999.

Headline profit before tax (before goodwill amortisation and exceptional items – see note 3) in the first six months of 2003 was up 16.5%, at £66.4m, compared to 2002. Headline earnings per share increased by 21.5% to 62.1p. In Singapore profits rose sharply. This together with strong performances in Greece and Australia and improved earnings in the UK and Belgium has more than compensated for a decline in Hong Kong profits.

### Block Exemption

The revised European Block Exemption legislation has turned out largely as predicted, with a positive outcome overall for the Group. Our Toyota businesses in Greece and Belgium have entered into new distribution contracts for a minimum period of five years through to September 2008. These contracts highlight the strength of the relationship between Inchcape and Toyota.

In the UK most OEMs have used the revised Block Exemption legislation to revisit existing agreements with their current retail partners and now see fewer but much larger scale relationships as the way forward. As announced today, we have increased our BMW representation with seven of our dealerships forming a large contiguous territory extending from Tunbridge Wells in the east through to Thames Ditton in the west. This was achieved through the acquisition of dealerships in Tunbridge Wells, Sevenoaks, Croydon and Banstead from

L&C Holdings Limited (L&C), and Cobham and Wimbledon from William Jacks PLC (William Jacks). At the same time we disposed of our BMW businesses in Harold Wood and Chigwell, Essex. We believe that greater scale and a geographically focused market area places us in a strong position from which we can generate improved returns. Our BMW division is one of the largest in the UK, whilst our contiguous territory is the biggest in the country.

The Premier Automotive Group of Ford (PAG) also reviewed its long term UK retail partnerships and we have subsequently been awarded the Bristol market area for Land Rover and Volvo. This territory, allied to our existing operations stretching from Southampton to Worcester, will provide a platform for further growth opportunities as we build a large contiguous territory. We are also exploring various infill opportunities to complement our sizeable Toyota/Lexus territories.

We believe the Block Exemption reforms offer our UK Retail business considerable opportunities and greater security of tenure. As a result of the network restructuring undertaken with our key manufacturer partners (BMW, Toyota/Lexus, Mercedes-Benz, PAG and Ferrari/Maserati) we will have a large scale, geographically focused portfolio of businesses, many in contiguous territories, which will provide a high quality platform from which to expand in the future. In this regard, we will benefit from our experience of operating territories like this in other countries to increase customer satisfaction and reduce costs through improved business processes.

### Operating review

This section provides a summary of the Group's performance in our core markets. Group operating profit before goodwill amortisation, of £2.7m, rose by 15.9% from £59.3m to £68.7m. Profits increased in the UK, Greece, Belgium, Australia and Singapore.

For the six months ended 30 June	2003 £m	2002 £m
Operating profit	66.0	56.6
Goodwill amortisation	2.7	2.7
Operating profit before goodwill amortisation	68.7	59.3



## United Kingdom

For the six months ended 30 June	2003 £m	2002 £m
Operating profit	9.6	7.7
Goodwill amortisation	1.8	2.1
Operating profit before goodwill amortisation	11.4	9.8

In the first half of 2003 the UK new car market was in line with the same period last year. Our UK Retail profits, before goodwill amortisation, however, rose by 5.0% to £8.4m. In addition, Financial Services' profits (included in the Financial Services' results) of £0.4m were generated by our UK Retail operations.

This performance was driven by strong organic growth from our Toyota and VW businesses with our new Mercedes-Benz market area also performing well. BMW suffered some margin erosion, partly due to model run outs and the disturbance associated with the restructuring of the network in and around London.

This encouraging growth was partly offset by higher overheads, especially in the areas of national insurance, pension costs, insurance, and start-up losses in our newly awarded Land Rover and Volvo territory in Bristol.

UK Retail has begun to implement improved business processes and revise its management structure. Whilst these changes are still at an early stage, they are already resulting in stronger used car sales, finance penetration and aftersales business.

Our Ferrari Distribution business has performed in line with 2002. Competitive pressure in the Maserati business, however, depressed margins and profitability. The Retail business should start to benefit from the complete refurbishment of our facility in Egham, which was officially reopened in March.

Market conditions remain difficult in Business Services with the daily rental market still suffering from lower and less consistent trading levels. Margins remain under pressure, and volume volatility has impacted operational efficiencies. We have benefited from extending our range of products and services and, in particular, we are experiencing good growth in profitability with our 'Inspect and Collect' business, with new contracts being awarded by both manufacturers and leasing companies.

Our Leasing and Fleet Solutions businesses have enjoyed a good start to the year benefiting from the economies of scale achieved through the amalgamation of the two back offices in late 2002. We are confident that these businesses will now show both revenue and profit growth.

As expected, our Autobytel UK business operated at close to breakeven benefiting from cost savings arising from a closer alliance with our UK Retail business.

In line with others in our industry peer group we have submitted a claim for the recovery of overpaid VAT for the period 1973 to 1994. Discussions with Customs and Excise regarding the claim are still at an early stage.

## Greece/Belgium

For the six months ended 30 June	2003 £m	2002 £m
Operating profit	16.2	12.6
Goodwill amortisation	0.2	0.2
Operating profit before goodwill amortisation	16.4	12.8

In Greece we had a very good first half, maintaining market leadership. The successful launch of the new Toyota Avensis in May 2003, together with the continued strong performance of Corolla has resulted in an increase in our volumes of 4.3% in spite of a 4.4% decline in the market. This, together with growth in the contribution from our Greek ancillary businesses and operations in the Balkans, has resulted in improved profits in the first half of 2003.

In Belgium the market was down by 8.6% compared to the same period last year, partly due to the lack of a Brussels Motor show in 2003. Market share was slightly lower due to an early run out of the old Avensis, although the new model launched in May was well received. However, better margins allied to the continued strong sales performances from the RAV4 and Land Cruiser helped Toyota perform extremely well in the period, with profits slightly above the much improved results of last year.

## Australia/New Zealand

For the six months ended 30 June	2003 £m	2002 £m
Operating profit	11.2	9.6
Goodwill amortisation	0.3	0.3
Operating profit before goodwill amortisation	11.5	9.9

The market in Australia was 8.9% up on the first half of last year. Subaru increased sales by 5.3% achieving a market share of 3.3%. This is only slightly down on last year, despite the run out of the Liberty and Outback prior to the launch of new models in the final quarter of 2003. This volume increase, allied to better margins, has increased Subaru Australia's profitability in the first half.

## Operations update



### BMW

During the first half of 2003, we have extended our BMW/MINI representation in the UK by forming a large contiguous market area. This territory stretches from Tunbridge Wells in the east to Thames Ditton in the west. In addition, we also represent BMW/MINI in Reading.



### Ferrari showroom

In March 2003, Tower Garage, our Ferrari/Maserati showroom in Egham, Surrey, was officially reopened following a complete redevelopment. The capacity of the showroom has more than doubled, and can now display up to fifty Ferrari/Maserati cars.



### Inchcape Automotive

In May this year our Eurofleet business was rebranded 'Inchcape Automotive' as part of our strategy to have all our Business Services activities branded under the Inchcape name.

Subaru Melbourne, in its first full year of trading, is generating profits in line with our expectations and has sold over 2,500 new and used cars during the first six months of 2003.

In Sydney our Retail dealership refurbishment programme is now almost complete. Strong performances from our Subaru and VW dealerships have been more than offset by our Jaguar and Volvo businesses. National sales volumes for these marques were significantly lower than OEM expectations.

Our developing Business Services operation, AutoNexus, has started the year well and we are considering expansion opportunities.

## Hong Kong

For the six months ended 30 June	2003 £m	2002 £m
Operating profit	10.3	17.1
Goodwill amortisation	-	-
Operating profit before goodwill amortisation	10.3	17.1

The outbreak of the Severe Acute Respiratory Syndrome (SARS) in Hong Kong, together with car tax increases, has impacted consumer confidence in the first half of the year. This further depressed an already weak market, which was some 26.6% down on the same period last year. The market is currently at its lowest level since at least 1990. In market share terms, excluding the taxi segment, our Toyota/Lexus penetration has remained stable at c. 29.0%.

Actions have been taken, in the first half, to reduce the cost base of the business. We have also benefited from the decision taken last year to fully integrate the back office activities across all our franchises. Profits from our Financial Services' joint venture, Inchroy, fell but still contributed some £2.7m.

Given the difficult market circumstances, generation of £10.3m in operating profit with a trading margin of 8.8% is an excellent achievement.

## Singapore/Brunei

For the six months ended 30 June	2003 £m	2002 £m
Operating profit	20.1	10.3
Goodwill amortisation	0.4	0.1
Operating profit before goodwill amortisation	20.5	10.4

In Singapore, we experienced strong trading in the first half of 2003 primarily due to an outstanding Toyota/Lexus performance.

An increase in the number of Certificates of Entitlement (COE) issued by the Government has resulted in the Singapore car market growing by 21.1% compared to the first half of last year. The improved transparency of the COE bidding process has allowed us to manage, to a greater extent, the cost of acquiring COEs. This, allied to an improved sales mix, has strengthened our Toyota/Lexus operating margins from 4.1%, in the first half of 2002, to 6.8% in 2003.

Toyota/Lexus increased their market share to an impressive 31.5% with a significant improvement in sales across the product range, and the successful launch of the Toyota Vios in February 2003.

In Brunei, Toyota remains market leader and profits have increased by 31.7%.

## Other

For the six months ended 30 June	2003 £m	2002 £m
Operating profit	7.9	5.1
Goodwill amortisation	-	-
Operating profit before goodwill amortisation	7.9	5.1

In Finland the combination of market growth, changes to tax legislation and new products have stimulated Mazda sales volumes, which have more than doubled, resulting in a significant rise in profits.

Guam has also experienced strong trading and profitability as customers replaced and repaired damaged vehicles following the severe typhoons in late 2002.

Profits from our Toyota businesses in Ethiopia have decreased as a result of a depressed market and margin pressure following an increase in excise taxes in January 2003.

## Central costs

For the six months ended 30 June	2003 £m	2002 £m
	(9.3)	(5.8)

Central costs of £9.3m include a one off charge of £2.9m, which relates to the exit of a lease on a property. We are taking action to recover losses associated with this exit and any further disclosure could prejudice this action.

## Financial review

### Accounting standards

No new Financial Reporting Standards have been adopted during 2003. The accounting policies applied during the year are unchanged from those stated in the 2002 Annual report and accounts.

### Acquisitions and disposals

On 30 June 2003, as part of the BMW network restructuring, we sold our South Bank, London, dealership to a subsidiary of BMW (GB) Ltd for £1.4m net of estimated costs.

Today we announced the completion of the largest BMW contiguous territory in the country. To secure this market area we purchased two BMW dealerships from William Jacks and acquired L&C, which owns four BMW businesses to the south of London. These acquisitions have cost the Group, in aggregate, c. £18.9m, excluding costs.

We have also completed the sale of our BMW businesses in Harold Wood and Chigwell to a subsidiary of the Sytner Group for a cash consideration of £10.1m, excluding costs. These disposals are part of our strategy to focus our BMW representation to the west and south of London.

### Cash flow, interest and financing

The Group's tight control of working capital, together with its impressive trading performance, generated a net cash inflow of £36.0m for the period. This resulted in a net cash position of £52.6m at 30 June 2003, once again demonstrating the Group's excellent cash generation capabilities.

The net interest charge of £2.3m in the first half of 2003 (2002 – £2.3m) has been impacted by significant cash balances in countries with low interest rates whilst the core Group debt is in the UK, which has a higher interest rate.

Working capital is influenced by many factors, such as product launches and seasonality across our markets. We anticipate working capital will increase, to a degree, during the second half of the year.

### Exchange effects

The £9.4m increase in Headline profit before tax is despite a £1.0m reduction arising from using average exchange rates for 2003 compared to those for 2002. This net effect was caused by a weakening of the Singapore and Hong Kong dollars, which was only partially offset by a

**“ The Group has consistently generated profit and earnings growth. Our geographic spread and scale presence with our core OEM partners are critical to this achievement, and are positive factors when judging the quality of earnings.”**

strengthening of the Euro and the Australian dollar. Principal exchange rates are listed in note 2 of the notes to the accounts. The Group continues to operate a policy of hedging transactions and, where appropriate, pre-transaction exposures.

#### Tax

The first half of 2003 benefited from stronger profits being generated in Singapore, a low tax jurisdiction, and Finland, which has tax losses. This favourably impacted the half year Headline tax rate (before goodwill amortisation and exceptionals), which at 26.3% is only marginally higher than the 2002 full year rate of 26.0%. This is despite the inclusion, in 2002, of a one off benefit of 1.3%, which arose from the agreement of prior year overseas tax computations.

#### Minority interests

Profit attributable to minorities has decreased from £2.7m in the first half of 2002 to £1.3m during the first half of 2003. This is mainly due to the acquisition of the c. 36.7% minority stake in Inchcape Motors Limited (IML) in Singapore in May 2002. Prior to May 2002, IML contributed £1.5m to the minority interest charge.

#### Dividend

The Board has declared an interim dividend of 12.0p (2002 – 10.0p), an increase of 20.0% over last year. The interim dividend payment will be made to shareholders on the register at 15 August 2003 and will be paid on 15 September 2003.

#### Prospects

There is little evidence to suggest a significant change in market trends compared to those experienced in the first half of 2003. Seasonal factors tend to result in a lower second half.

In the UK, Retail and Business Services margins are likely to remain under some pressure although Leasing and Fleet Solutions should continue to show improvement over last year.

In Greece and Belgium, results are expected to be stronger in the second half compared to last year with the launch of the new Toyota Avensis in May 2003 impacting positively. There will be no recurrence of the £4.4m charge reflecting the cost of implementing new Block Exemption contracts throughout the dealer network in Belgium.

The Australian market should continue to be strong with our performance being influenced by product launches for Subaru in the fourth quarter of 2003, and Subaru

Melbourne moving into its second year of trading.

Consumer confidence is gradually returning in Hong Kong and we anticipate a better second half this year.

In Singapore lower market growth rates and competitor product launches are likely to put pressure on margins in the second half of 2003.

#### Looking ahead

The Group's balance sheet strength and cash generative qualities mean that we are very well positioned to take advantage of investment opportunities that should arise in the Group's chosen areas of strategic development.

The main focus in the short to medium term is to continue to exploit opportunities for investment in Retail activities in the UK, Greece and Australia as well as to further expand our Business Services operations in the UK, and ultimately Continental Europe and Australia. We are also closely examining the rapidly growing Chinese market to determine if there is an appropriate entry point for the Group.

In the UK we will seek further growth with our key retail partners and are well placed to fund the investments necessary to achieve our aim to represent between 5.0% and 10.0% of our key partners' national sales volumes. Our strategy with Business Services is to develop services and products, which drive costs down for fleet owners and we remain confident of leveraging the Business Services infrastructure into Continental Europe in the future.

Given the above intentions a further return of capital is not considered appropriate at this stage. However, the Board's policy remains clear and consistent: if available funds are not required for investment purposes we will make additional returns of capital to shareholders.

The Group has consistently generated profit and earnings growth. Our geographic spread and scale presence with our core OEM partners are critical to this achievement, and are positive factors when judging the quality of earnings. Our cash flow generation remains strong, leaving us well placed to fulfill our strategic ambitions and continue creating shareholder value.



**Sir John Egan**  
Chairman  
4 August 2003

## News update



#### Avensis

The launch of the new Toyota Avensis in May 2003 was well received by consumers in Greece and Belgium. The Avensis is currently the second largest selling Toyota model in these markets.



#### Glen Waverley

Earlier this year, as part of the development of our Subaru Melbourne market area and following the success of Subaru Docklands, the largest Subaru dealership in the world, we opened a new site in the suburb of Glen Waverley.



#### Mazda

Mazda sales in Finland have more than doubled in the first half of 2003, helped by new products and a buoyant market. The Mazda6 has been instrumental to this growth and will be followed later this year by the new Mazda3.

# Consolidated profit and loss account

For the six months ended 30 June 2003

	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
<b>Turnover including share of joint ventures and associates</b>	<b>1,941.9</b>	1,816.5	3,517.0
Less:			
– share of joint ventures	(10.5)	(18.2)	(30.4)
– share of associates	(20.8)	(43.3)	(72.8)
Group subsidiaries' turnover	<b>1,910.6</b>	1,755.0	3,413.8
<b>Operating profit</b>	<b>61.0</b>	51.7	101.9
Share of profits of joint ventures	4.1	4.8	9.1
Share of profits of associates	0.9	0.1	0.6
<b>Total operating profit</b>	<b>66.0</b>	56.6	111.6
Net profit on disposal of properties and investments	0.7	0.1	0.9
Net (loss) profit including provisions on sale and termination of operations	(0.7)	(0.1)	1.2
Profit on ordinary activities before interest	<b>66.0</b>	56.6	113.7
<b>Net interest:</b>			
Subsidiaries	(2.4)	(2.3)	(5.3)
Share of associates	0.1	–	0.2
	(2.3)	(2.3)	(5.1)
<b>Profit on ordinary activities before taxation</b>	<b>63.7</b>	54.3	108.6
Tax on profit on ordinary activities	(17.5)	(15.4)	(28.9)
<b>Profit on ordinary activities after taxation</b>	<b>46.2</b>	38.9	79.7
Minority interests	(1.3)	(2.7)	(3.4)
<b>Profit for the financial period</b>	<b>44.9</b>	36.2	76.3
Dividends	(9.2)	(7.5)	(23.6)
<b>Retained profit for the financial period</b>	<b>35.7</b>	28.7	52.7
Profit before tax (£m)	<b>63.7</b>	54.3	108.6
Basic earnings per share (pence)	<b>58.5p</b>	47.6p	100.1p
Diluted earnings per share (pence)	<b>57.3p</b>	46.9p	97.9p
Headline (before goodwill amortisation £2.7m (interim 2002 – £2.7m, full year 2002 – £5.6m) and exceptional items):			
– profit before tax (£m)	<b>66.4</b>	57.0	112.1
– earnings per share (pence)	<b>62.1p</b>	51.1p	104.5p



# Statement of total recognised gains and losses

For the six months ended 30 June 2003

	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
Profit for the financial period	44.9	36.2	76.3
Effect of foreign exchange rate changes:			
- results for the period	-	(0.8)	(3.4)
- foreign currency net investments: subsidiaries	6.2	(2.4)	(7.3)
joint ventures and associates	(0.3)	-	(3.2)
Prior period adjustment (note 4)	-	(4.2)	(4.2)
<b>Total recognised gains</b>	<b>50.8</b>	<b>28.8</b>	<b>58.2</b>

# Reconciliation of movements in shareholders' funds

For the six months ended 30 June 2003

	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
Profit for the financial period	44.9	36.2	76.3
Dividends	(9.2)	(7.5)	(23.6)
	35.7	28.7	52.7
Effect of foreign exchange rate changes	5.9	(3.2)	(13.9)
Goodwill on disposals previously written off	-	-	0.3
Shares issued during the year under share option schemes	0.5	0.3	0.9
<b>Net change in shareholders' funds</b>	<b>42.1</b>	<b>25.8</b>	<b>40.0</b>
Opening balance	392.7	352.7	352.7
<b>Closing balance</b>	<b>434.8</b>	<b>378.5</b>	<b>392.7</b>

# Summarised consolidated balance sheet

As at 30 June 2003

	As at 30.6.03 £m	As at 30.6.02 £m	As at 31.12.02 £m
<b>Fixed assets:</b>			
Intangible assets	79.2	90.6	82.9
Tangible assets	263.4	262.3	258.1
Investments:			
– joint ventures: share of gross assets	321.7	400.8	319.2
share of gross liabilities	(273.4)	(351.4)	(271.6)
share of net assets	48.3	49.4	47.6
– associates	25.6	26.0	26.2
– other investments	7.9	7.0	6.3
	424.4	435.3	421.1
<b>Current assets:</b>			
Stocks	512.7	465.7	501.8
Debtors	236.3	228.0	204.9
Investments	12.0	10.6	11.4
Cash at bank and in hand	134.2	119.5	103.2
	895.2	823.8	821.3
<b>Creditors – amounts falling due within one year:</b>			
Borrowings	(30.2)	(134.8)	(44.6)
Other	(623.1)	(539.4)	(596.5)
	(653.3)	(674.2)	(641.1)
<b>Net current assets</b>	241.9	149.6	180.2
<b>Total assets less current liabilities</b>	666.3	584.9	601.3
<b>Creditors – amounts falling due after more than one year:</b>			
Borrowings	(51.4)	(1.9)	(42.0)
Other	(79.3)	(87.5)	(66.3)
	(130.7)	(89.4)	(108.3)
<b>Provisions for liabilities and charges</b>	(94.2)	(111.4)	(94.5)
<b>Net assets</b>	441.4	384.1	398.5
<b>Equity shareholders' funds</b>	434.8	378.5	392.7
<b>Minority interests</b>	6.6	5.6	5.8
	441.4	384.1	398.5

# Consolidated cash flow statement

For the six months ended 30 June 2003

## Reconciliation of operating profit to operating cash flows

	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
Operating profit	61.0	51.7	101.9
Amortisation	2.6	2.4	5.0
Depreciation	12.7	13.1	27.8
(Profit) loss on sale of tangible fixed assets other than property	(0.3)	0.5	1.6
(Increase) decrease in working capital	(1.2)	3.1	32.0
Payments in respect of termination of operations	–	(0.6)	(2.4)
Other items	0.2	(2.0)	(2.0)
<b>Net cash inflow from operating activities</b>	<b>75.0</b>	<b>68.2</b>	<b>163.9</b>

## Consolidated cash flow statement

<b>Net cash inflow from operating activities</b>	<b>75.0</b>	<b>68.2</b>	<b>163.9</b>
Dividends from joint ventures	2.5	3.2	5.5
Dividends from associates	1.6	3.4	3.4
Returns on investments and servicing of finance	(3.6)	(4.3)	(6.7)
Taxation	(16.4)	(14.6)	(26.2)
Capital expenditure and financial investment	(13.0)	(10.3)	(23.6)
	46.1	45.6	116.3
Acquisitions and disposals	(0.8)	(66.5)	(89.7)
Equity dividends paid	(16.1)	(13.8)	(21.4)
<b>Net cash inflow (outflow) before use of liquid resources and financing</b>	<b>29.2</b>	<b>(34.7)</b>	<b>5.2</b>
Net cash (outflow) inflow from the management of liquid resources	(13.0)	1.0	1.6
Net cash (outflow) inflow from financing	(10.0)	22.0	(15.6)
<b>Increase (decrease) in net cash</b>	<b>6.2</b>	<b>(11.7)</b>	<b>(8.8)</b>

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

<b>Increase (decrease) in net cash</b>	<b>6.2</b>	<b>(11.7)</b>	<b>(8.8)</b>
Net cash outflow (inflow) from decrease in debt and lease financing	10.5	(21.7)	16.5
Net cash outflow (inflow) from the management of liquid resources	13.0	(1.0)	(1.6)
Change in net cash and debt resulting from cash flows	29.7	(34.4)	6.1
Effect of foreign exchange rate changes on net cash and debt	6.3	(0.1)	(7.0)
Net loans and finance leases relating to acquisitions and disposals	–	(0.2)	–
<b>Movement in net cash and debt</b>	<b>36.0</b>	<b>(34.7)</b>	<b>(0.9)</b>
Opening net cash	16.6	17.5	17.5
<b>Closing net cash (debt)</b>	<b>52.6</b>	<b>(17.2)</b>	<b>16.6</b>

# Notes to the accounts

## 1 Segmental analysis

	Group turnover plus share of joint ventures and associates			Total operating profit		
	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
<b>By geographical market:</b>						
UK	658.1	647.9	1,279.1	9.6	7.7	14.3
Greece/Belgium	428.6	381.4	704.2	16.2	12.6	19.5
Australia/New Zealand	259.3	234.9	461.8	11.2	9.6	17.4
Hong Kong	117.7	162.9	302.2	10.3	17.1	31.3
Singapore/Brunei	300.6	251.3	486.1	20.1	10.3	32.5
Other	177.6	138.1	283.6	7.9	5.1	10.5
	<b>1,941.9</b>	1,816.5	3,517.0	<b>75.3</b>	62.4	125.5
Central costs	-	-	-	(9.3)	(5.8)	(13.9)
	<b>1,941.9</b>	1,816.5	3,517.0	<b>66.0</b>	56.6	111.6

### By activity:

Import, Distribution and Retail	1,400.3	1,305.5	2,491.9	60.9	49.5	104.5
UK Retail	505.4	454.8	929.3	7.9	7.6	12.5
Financial Services	35.9	55.2	94.6	6.8	5.9	9.5
E-commerce	0.3	1.0	1.2	(0.3)	(0.6)	(1.0)
	<b>1,941.9</b>	1,816.5	3,517.0	<b>75.3</b>	62.4	125.5
Central costs	-	-	-	(9.3)	(5.8)	(13.9)
	<b>1,941.9</b>	1,816.5	3,517.0	<b>66.0</b>	56.6	111.6

	Operating profit before goodwill amortisation		
	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
Operating profit	66.0	56.6	111.6
Goodwill amortisation	2.7	2.7	5.6
	<b>68.7</b>	59.3	117.2

Goodwill amortisation arises in the following geographical markets:

	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
UK	1.8	2.1	4.3
Greece/Belgium	0.2	0.2	0.3
Australia/New Zealand	0.3	0.3	0.5
Singapore/Brunei	0.4	0.1	0.5
	<b>2.7</b>	2.7	5.6

With the exception of £0.5m (interim 2002 – £0.4m, full year 2002 – £0.9m) in UK Retail, goodwill amortisation relates entirely to Import, Distribution and Retail.

Goodwill amortisation on joint ventures is £0.1m (interim 2002 – £0.2m, full year 2002 – £0.3m), and on associates is £nil (interim 2002 – £0.1m, full year 2002 – £0.3m).

## 2 Basis of presentation

The results for the periods to 30 June have been prepared using the discrete period approach (i.e. considering them as accounting periods in isolation). The Headline tax charge is based on the effective tax rates estimated for the full year in the Group's countries of operation being applied to the actual profits for the first half.

These interim financial statements are neither audited nor reviewed by the external auditors. They do not constitute statutory accounts and have been prepared on the basis of the accounting policies set out in the Annual report and accounts 2002.

The results for the year ended 31 December 2002 have been abridged from the Group's published financial statements, which have been reported on by the Group's auditors and filed with the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

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

	Average rates			Period end rates		
	30.6.03	30.6.02	31.12.02	30.6.03	30.6.02	31.12.02
Australian dollar	<b>2.63</b>	2.71	2.77	<b>2.48</b>	2.72	2.86
Euro	<b>1.46</b>	1.61	1.59	<b>1.44</b>	1.54	1.53
Hong Kong dollar	<b>12.54</b>	11.27	11.71	<b>12.87</b>	11.89	12.55
Singapore dollar	<b>2.82</b>	2.63	2.69	<b>2.90</b>	2.69	2.79

## 3 Earnings per ordinary share

	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
Based on the profit for the period:			
<b>Headline profit before tax</b>	<b>66.4</b>	57.0	112.1
Taxation on Headline profit	<b>(17.5)</b>	(15.4)	(29.1)
Minority interests	<b>(1.3)</b>	(2.7)	(3.4)
<b>Headline earnings</b>	<b>47.6</b>	38.9	79.6
Goodwill amortisation	<b>(2.7)</b>	(2.7)	(5.6)
Exceptional items	–	–	2.1
Taxation on goodwill amortisation	–	–	0.2
<b>FRS 3 earnings</b>	<b>44.9</b>	36.2	76.3
Headline earnings per share	<b>62.1p</b>	51.1p	104.5p
Basic earnings per share	<b>58.5p</b>	47.6p	100.1p
Diluted earnings per share	<b>57.3p</b>	46.9p	97.9p
	Six months to 30.6.03 number	Six months to 30.6.02 number	Year to 31.12.02 number
Weighted average number of fully paid ordinary shares in issue during the period, less those held by the Inchcape Employee Trust	<b>76,709,674</b>	76,088,550	76,195,345
Dilutive effect of potential ordinary shares	<b>1,584,449</b>	1,168,274	1,754,558
Adjusted weighted average number of fully paid ordinary shares in issue during the period	<b>78,294,123</b>	77,256,824	77,949,903

Headline profit before tax and earnings (before goodwill amortisation and exceptional items) are adopted in that they provide a fair representation of underlying performance.

Headline and basic earnings per share are calculated by dividing the respective Headline and FRS 3 earnings (as outlined above) for the period by the weighted average number of fully paid ordinary shares in issue during the period, less those shares held by the Inchcape Employee Trust.

Diluted earnings per share is calculated as per Headline and basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares.

#### 4 Taxation

	Six months to 30.6.03 £m	Six months to 30.6.02 £m	Year to 31.12.02 £m
The charge for taxation includes the following:			
Overseas taxes	17.0	15.2	30.9
Joint ventures	1.1	1.2	2.5
Associates	0.3	–	0.6

The adoption of FRS 19 Deferred Tax in 2002 resulted in a prior period adjustment of £4.2m to the Group's net assets in the year ended 31 December 2002.

#### 5 Dividends

The interim dividend of 12.0p per ordinary share (interim 2002 – 10.0p) will be paid on 15 September 2003 to shareholders on the register on 15 August 2003.

#### 6 Post balance sheet events

On 4 August 2003, the Group announced a further expansion of its UK BMW/MINI network. It has acquired L&C Holdings Limited (L&C) and two businesses from a subsidiary of William Jacks PLC for an aggregate consideration of c. £18.9m, excluding costs. The L&C acquisition is subject to the preparation of completion accounts.

On the same date, the Group also announced that it had completed the sale of its BMW/MINI businesses in Harold Wood and Chigwell to a subsidiary of the Sytner Group for a cash consideration of £10.1m, excluding costs.

It is not anticipated that these transactions will give rise to a material profit or loss to the Group.

# Company details

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## Registered office

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London SW1Y 5LP  
Tel: +44 (0) 20 7546 0022  
Fax: +44 (0) 20 7546 0010

## Advisors

### Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors

### Share Registrars

Computershare Services PLC  
Registrar's Department  
PO Box No 82  
Bristol BS99 7NH  
Tel: +44 (0) 870 702 0002

### Solicitors

Slaughter and May

### Stockbrokers

UBS

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## Inchcape PEPS

Individual Savings Accounts have replaced PEPs as the vehicle for tax-exempt individual savings. Existing PEPs may be retained indefinitely.

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

## Inchcape ISA

Inchcape has established a Corporate Individual Savings Account (ISA).

This is managed by HSBC Trust Company (UK) Limited who may be contacted for full details at the Corporate PEP and ISA Centre, 5th Floor, City Plaza, 2 Pinfold Street, Sheffield S1 2QZ.  
Tel: +44 (0) 845 745 6123.

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## Financial calendar

**Interim 2003 ordinary dividend payable**  
Monday 15 September 2003

**Preliminary results 2004**  
Monday 1 March 2004

**Annual General Meeting 2004**  
Thursday 13 May 2004

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## Senior executives

### Group Chief Executive

Peter Johnson  
Tel: +44 (0) 20 7546 0022  
Fax: +44 (0) 20 7546 0010

### Group Finance Director

Alan Ferguson  
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### Managing Director, Inchcape UK and Europe

Graeme Potts  
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Fax: +44 (0) 20 7546 0010

The following executives are responsible for our key market areas:

### Australia

Trevor Amery  
Tel: +61 2 9828 9199  
Fax: +61 2 9828 9120

### Belgium/Greece

Martin Taylor  
Tel: +32 2 386 7211  
Fax: +32 2 386 7540

### Hong Kong/Singapore

William Tsui  
Tel: +852 2562 2226  
Fax: +852 2811 1060

The following executives have functional responsibilities at Group level:

### Audit and Risk Management

Tim Trounce

### Business Development

Dale Butcher

### Company Secretariat

Roy Williams

### Financial Control and Taxation

Amanda Brooks

### Human Resources

Nick Smith

### Information Systems

Peter Wilson

### Investor Relations and External Communications

Emma Woollaston

### Treasury

Chris Parker

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