Interim report 2004

Inchcape

International Automotive Services Group

This is Inchcape

An international automotive services group

Inchcape, an international automotive services group, provides quality representation for its 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.

Strong partnerships

Our key manufacturer partners are Toyota/Lexus, Subaru, Ferrari/Maserati, BMW, the Premier Automotive Group of Ford (PAG), Mazda, Mercedes-Benz and Volkswagen.

International presence

United Kingdom

In UK Retail we are aligned to a number of manufacturers including Toyota/Lexus, BMW, the Premier Automotive Group of Ford (PAG), Mercedes-Benz and Volkswagen. We aim to represent between 5.0% and 10.0% of our key partners' national sales volumes. Our strategy for achieving this is to develop a large scale, geographically focused portfolio of businesses, many in contiguous territories, that will provide a high quality platform from which to expand in the future.

In addition to our Retail activities, Inchcape offers a wide choice of products and channels to market to corporate customers. Our Business Services division encompasses logistics, refurbishment and remarketing whilst Inchcape Fleet Solutions provides fleet management and leasing services.

Our Ferrari/Maserati business includes import and retail activities. Our Retail business, Maranello Sales, accounts for over 20.0% of Ferrari/Maserati total UK sales.

Greece

Inchcape has been the Importer and Distributor in Greece for Toyota since 1987 and sells over 28,000 units per annum. As the Distributor we are responsible for the independent retail network of some sixty dealerships.

We exclusively retail Toyota/Lexus vehicles in Salonica, and are in the process of expanding our Retail reach in Athens. We also provide a range of financial and insurance products to the Toyota retail customer through our relationship with EFG Eurobank Ergasias, one of the leading banks in Greece.

Our successful Greek operation has provided the platform for us to enter the Balkans, where we are investing for future growth. We currently hold the Toyota distribution rights for Bulgaria, Romania and Macedonia. In 2003 we imported and distributed over 3,000 units in these territories of which 1,400 were retailed by our dealerships.

Belgium

In Belgium our Toyota Import and Distribution business has been part of the Group since 1979. Today, we are also the Importer and exclusive Retailer for Lexus in this market. We currently sell over 26,000 cars per annum through a mainly independent network of some 100 dealerships.

The car parc in Belgium is dominated by diesel products, which account for c. 70.0% of the market.

Australia

Inchcape has been the Subaru Importer and Distributor in Australia for over ten years. Our current market share is the largest for a major Subaru market outside Japan. We are also the sole Retailer for Subaru in Melbourne, a territory that represents some 16.0% of the Australian market.

We also retail Subaru, Jaguar, Volkswagen and Volvo in the greater Sydney area.

AutoNexus, our Business Services operation, provides a range of supply chain management solutions for both vehicles and parts.

Hong Kong

In Hong Kong we are the exclusive Importer and Retailer for Toyota/Lexus, Hino, Jaguar, Mazda and Daihatsu. When combined, these franchises regularly achieve around 40.0% of the market. Whilst all customer facing activities are franchise specific, we benefit from the centralisation of back office functions such as pre-delivery inspection and administration.

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, and we have held the Toyota franchise since 1967. In total, these businesses sold over 27,000 units in 2003 with a combined market share of over 31.0%.

In this market a Certificate of Entitlement from the Government is required in order to buy a new vehicle. Automotive retailers, such as Inchcape, have to bid online for them on behalf of customers on a fortnightly basis.

Performance

Results overview

This is a set of high quality financial results. Profits have grown in all our core markets, and these results continue the trend of reporting profit growth at every set of interims since we became a pure automotive services group in July 1999. The core markets, which achieved the highest growth were Singapore, Hong Kong, the UK and Australia.

Singapore and Australia both achieved record unit sales in the period, aided by strong markets. In Hong Kong profits increased, partly as a result of the recovery in consumer confidence after the severe impact of SARS on the economy in 2003. The growth in the UK was principally driven by increased sales levels and much improved management processes in UK Retail.

Headline profit before tax (before goodwill amortisation and exceptional items) was up 33.9% to £88.9m in the first six months of 2004. Headline earnings per share (before goodwill amortisation and exceptional items) increased from 62.1p in 2003 to 82.5p in 2004, a growth of 32.9%.

Strategy update

Our strategy remains to grow with selected manufacturer partners, wherever possible in scale contiguous territories in, or adjacent to, our core markets. The strength of our balance sheet leaves us well placed to undertake such investments.

In UK Retail, the European Block Exemption reforms have offered significant consolidation opportunities enabling us to acquire and build scale contiguous territories with our selected partners. To this effect, in June 2004 we acquired five Mercedes-Benz dealerships in Derby, Nottingham, Loughborough, Mansfield and Leicester. These businesses adjoin our existing market area and this has resulted in the largest independent Mercedes-Benz territory in the country. We have also acquired a Volkswagen dealership in Cheltenham, adjacent to our Swindon territory, and opened Toyota Basingstoke extending our existing Surrey/Berkshire market area for this brand.

The integration of the six BMW/MINI businesses acquired last year is progressing well and, in anticipation of the broadening of the model range and higher sales volumes, we are upgrading and investing in new facilities.

The new Brooklands pre-delivery inspection centre started operating this year and will help decongest our Retail facilities. Over time Brooklands will also help drive our trading margins.

We continue to invest in our Retail activities in Greece and the Balkans. In Athens, our Retail operations are progressively taking on a more significant role and we are currently investing in new facilities in the north east of the city. In Romania, given the growth in the market, we are investing in new facilities for our Distribution and Retail activities.

In Singapore we are undertaking a reorganisation and expansion of our aftersales activities, in order to accommodate the increased size of the Toyota/Lexus vehicle parc.

In June 2004 we were awarded the Land Rover import and distribution rights for Finland and the Baltics, and this business will complement our existing Mazda and Jaguar activities in these markets.

Operating review

The remainder of this section provides a summary of the Group's performance in our core markets. The Group's operating profit before goodwill amortisation rose by 32.3% from £68.7m to £90.9m. Profits rose in all of our core markets.

For the six months ended 30 June	**2004 £m**	2003 £m	Increase %
Operating profit	**88.1**	66.0	33.5
Goodwill amortisation	**2.8**	2.7	n/a
Operating profit before goodwill amortisation	**90.9**	68.7	32.3

Financial highlights for the six months ended 30 June

Reconciliation of profit before tax to Headline profit before tax

Headline profit before tax £m

£88.9m

For the six months ended 30 June	**2004 £m**	2003 £m
Profit before tax	**83.4**	63.7
Exceptional items	**2.7**	–
Goodwill amortisation	**2.8**	2.7
Headline profit before tax	**88.9**	66.4

+33.9%

Headline profit before tax (before goodwill amortisation and exceptional items) rose by 33.9% to £88.9m.

+32.9%

Headline earnings per share (before goodwill amortisation and exceptional items) rose by 32.9% to 82.5p.

+25.0%

Dividend per share rose by 25.0% to 15.0p.

United Kingdom

For the six months ended 30 June	2004 £m	2003 £m	Increase %
Operating profit	**13.3**	9.6	38.5
Goodwill amortisation	**1.8**	1.8	n/a
Operating profit before goodwill amortisation	**15.1**	11.4	32.5

Last year our UK Retail dealership network underwent significant change as we acquired or opened thirteen dealerships and sold or closed twelve. We also restructured our management team and introduced many new business processes.

During the first half of 2004 the benefit of these changes has become apparent. On a like for like basis, our new car volumes were up 7.1%, finance and insurance income per new unit was up 33.7%, and service profitability rose 28.3%. This growth, coupled with the successful integration of the new dealerships, has resulted in a significant improvement in our overall UK Retail performance. Operating profit before goodwill amortisation and stock holding interest rose 20.2%, whilst the return on sales exceeded 2.0%.

Inchcape Fleet Solutions has shown strong year on year growth. It has benefited from the increased business generated by new fleet management contracts won towards the end of 2003, and better margins on the disposal of contract hire vehicles.

Inchcape Automotive, our Business Services division, continues to suffer margin pressure in its daily rental operations. However, we have been successful in our strategy of broadening the business base by targeting other fleet owners such as contract hire companies. An example of this is a recently awarded refurbishment and remarketing contract with Bank of Scotland Vehicle Management.

Volumes in our Ferrari/Maserati Import and Distribution business were up 11.8% on the first six months of 2003, helped by the new Maserati Quattroporte. Maranello Sales, with its newly enlarged Retail market area, has had an encouraging start to the year, with a significant increase in new and used car volumes. Discussions regarding the renewal of the import and distribution contract remain ongoing.

Our total UK operating profit before goodwill amortisation is up an encouraging 32.5%.

Greece/Belgium

For the six months ended 30 June	2004 £m	2003 £m	Increase %
Operating profit	**17.7**	16.2	9.3
Goodwill amortisation	**0.1**	0.2	n/a
Operating profit before goodwill amortisation	**17.8**	16.4	8.5

In Greece the market for the first six months was at its highest for the last four years, and was 18.8% up on the first half of 2003. The continued success of the Toyota/Lexus product range contributed to our market share increasing to 10.5% and the retention of market leadership, in spite of supply constraints.

Encouragingly, Bulgaria and Romania, our key businesses in the Balkans, are candidate countries for future entry into the European Union. This has supported economic growth and underpinned significant increases in vehicle markets. Volumes were up over 65.0% and profits more than doubled from our Toyota/Lexus businesses in the Balkans. We continue to invest in our Balkan operations, especially in Retail, and look forward to benefiting from further expansion.

In Belgium, increased volumes have driven an 8.1% growth in operating profit as the Brussels Motor Show, which took place in early 2004, supported an 11.5% growth in the market. However compared with 2002, which was the last Motor Show year, the market was up just 1.8%. Supply constraints had an impact on Belgium, with our Toyota/Lexus market share remaining static at 4.8%.

Australia/New Zealand

For the six months ended 30 June	2004 £m	2003 £m	Increase %
Operating profit	**13.7**	11.2	22.3
Goodwill amortisation	**0.3**	0.3	n/a
Operating profit before goodwill amortisation	**14.0**	11.5	21.7

Operational update

Market area development with Mercedes-Benz

In June 2004 Inchcape acquired five Mercedes-Benz dealerships in Derby, Nottingham, Loughborough, Mansfield and Leicester, with Derby and Nottingham also representing the smart franchise. This acquisition increases our total UK representation for Mercedes-Benz to eight sites, and offers excellent business synergies and generates significant scale.

Allied to the Group's existing market area, which consists of dealerships in Coventry, Stratford-upon-Avon and Oxford, Inchcape has created the largest independent contiguous territory for Mercedes-Benz in the UK.

In total, these combined businesses are expected to generate sales of 7,500 units per annum.

"On a like for like basis, our new car volumes were up 7.1%, finance and insurance income per new unit was up 33.7%, and service profitability rose 28.3%. This growth, coupled with the successful integration of the new dealerships, has resulted in a significant improvement in our overall UK Retail performance."
Sir John Egan Chairman

The Australian market reached a record level in the first half of 2004, and the successful launch of the Liberty and Outback models in October 2003 helped increase Subaru's market share to 3.7%. Together, these factors have driven a significant increase in our volumes and profits.

Subaru Melbourne has now been operational for two years and is achieving a 3.1% return on sales. In March 2004 we opened an additional satellite sales and service facility, which will help continue to improve new and used car sales and aftersales penetration.

A decline in national sales volumes for the Jaguar marque has resulted in another disappointing performance for Sydney Retail. However, this business has now been largely restructured and this will lead to an improvement in the second half.

Hong Kong

For the six months ended 30 June	**2004 £m**	2003 £m	Increase %
Operating profit	**14.3**	10.3	38.8
Goodwill amortisation	**–**	–	n/a
Operating profit before goodwill amortisation	**14.3**	10.3	38.8

In Hong Kong the market has continued its gradual recovery, which started in late 2003 following the severe impact of weak economic conditions and SARS in the first half of that year. The market, excluding taxis, is some 25.8% ahead of 2003 but remains 5.6% lower than in 2002. Our overall market share increased to 42.1% driven primarily by Toyota/Lexus and Mazda.

Despite a £1.8m currency translation loss, as a result of the weak Hong Kong dollar, profits increased by 38.8% and margins rose to 11.5% driven by the significant increase in volumes.

Singapore/Brunei

For the six months ended 30 June	**2004 £m**	2003 £m	Increase %
Operating profit	**29.2**	20.1	45.3
Goodwill amortisation	**0.4**	0.4	n/a
Operating profit before goodwill amortisation	**29.6**	20.5	44.4

The Singaporean car market grew by 29.6% in the first half of the year. This was due to a greater number of Certificates of Entitlement (COEs) being issued by the Government in the fiscal year to April 2004, compared to the same period last year. Toyota/Lexus continues to enjoy market leadership with a 31.4% market share.

A stabilisation of COE prices in the early part of the year plus the increase in new vehicle registrations, allied to the associated aftersales and finance income, have been the key drivers of a 44.4% increase in profits. Margins also increased from 6.8% to 8.3%. The increase in profits would have been greater still had it not been for a £2.8m currency translation loss due to the weakening of the Singapore dollar.

Other

For the six months ended 30 June	**2004 £m**	2003 £m	Increase %
Operating profit	**10.6**	7.9	34.2
Goodwill amortisation	**0.2**	–	n/a
Operating profit before goodwill amortisation	**10.8**	7.9	36.7

Improved performances from Mazda in Finland and the Baltics, BMW in Chile, and a return to profitability in our French Retail business, have generated a 36.7% profit growth.

Central costs

For the six months ended 30 June	**2004 £m**	2003 £m	Increase %
	(10.7)	(9.3)	15.1

The level of central costs has been influenced by one off charges of £2.2m in 2004 and £2.9m in 2003. In 2004 this related to the settlement of various litigation issues. The underlying increase in central costs is mainly due to project development spend, an increase in pension charges, arising from the 2003 actuarial valuation, and higher staff costs.

Continuing expansion with Toyota

In April 2004 Inchcape Retail in the UK opened a Toyota dealership in Basingstoke. Prior to the construction of this brand new centre, Toyota did not have a presence in this area.

The site, which is Inchcape's tenth with Toyota, spans over 1.6 acres and includes a specialised new car area with a nine vehicle capacity and a display area capable of housing ninety used cars.

The dealership is expected to sell 1,000 new and 800 used vehicles per annum. The service centre, which has an eight bay facility, has been developed with a strong focus on customer service.

This development not only underlines Inchcape's position as the leading Toyota Retailer in the UK but also expands our existing Surrey/Berkshire market area, which now encompasses four dealerships.

> "The Midlands businesses complement the Group's existing market area stretching from Coventry to Oxford. The total of eight sites represents the largest independent contiguous territory for Mercedes-Benz in the UK."
> **Sir John Egan** Chairman

Financial review

Accounting standards

UITF 38 Accounting for ESOP Trusts was issued in December 2003 and has been adopted with effect from 1 January 2004. As a result, a prior period adjustment reducing the net assets, at 31 December 2003, by £4.1m has been made, as the value of shares held by the ESOP Trust, and the associated share scheme creditor, must now be deducted from reserves. Comparatives have been restated accordingly. With this exception, the accounting policies applied during the year are unchanged from those stated in the 2003 Annual report and accounts.

Inchcape will adopt International Financial Reporting Standards (IFRS) for the year ending 31 December 2005 and will therefore prepare the 2005 Interim report in accordance with these Standards. In anticipation of this, our IFRS steering committee, in conjunction with our auditors, continues to assess the impact on the Group of reporting under these new Standards. Whilst a substantial amount of progress has been made, more time is needed to conclude the full effects of this significant change in Standards.

Acquisitions and disposals

In June 2004 the Group acquired Southwell Motor Co. Limited and its subsidiary Leadley Limited, which owned four Mercedes-Benz dealerships. On 30 June 2004 Leadley Limited acquired an additional dealership in Leicester. The estimated total consideration is c. £28.0m, excluding costs. Of this, £21.8m was reflected in the half year cash flow. The Midlands businesses complement the Group's existing market area stretching from Coventry to Oxford. The total of eight sites represents the largest independent contiguous territory for Mercedes-Benz in the UK.

On 28 July 2004 the Group's 40.0% stake in UK associates, MCL Group Limited (MCL) and Automotive Group Limited (AGL), was sold to Itochu, the 60.0% majority shareholder. This will give rise to a cash inflow of £19.3m in the second half but will result in a loss on disposal of c. £6.6m. This loss has been provided for at 30 June 2004 as an exceptional item.

Cash flow, interest and financing

The net cash inflow for the period was £85.5m, resulting in a net cash position of £164.6m at the end of June 2004. Net cash inflows include £36.7m in relation to the VAT refund and associated interest. This, allied to strong trading results and an abnormally low level of working capital, contributed to the significant cash inflow. Supply constraints in Greece and Belgium were key factors in the working capital reduction, although it is expected that this position will normalise before the end of the year.

The net interest charge of £2.0m for the period was £0.3m lower than 2003 although this year benefited from additional interest on the VAT refund of £0.5m. The Group is affected by the interest rate differentials that exist in relation to the UK, where it has underlying debt, and overseas markets.

Exchange effects

The underlying Headline profit before tax would have been £4.8m higher if the June 2003 exchange rates had continued into 2004. This was mainly caused by the weakening of the Singapore and Hong Kong dollars.

Exceptional items

The net exceptional charge of £2.7m mainly reflects the loss arising on sale of our stake in MCL and AGL, which was partially offset by the release of litigation provisions relating to the sale of non-motors businesses.

Operational update

Further progress for Inchcape Motors Finland

Inchcape Motors Finland (IMF) has been awarded the Land Rover import and distribution rights for Finland, Estonia, Latvia and Lithuania, further demonstrating the long standing and successful relationship Inchcape has with the Premier Automotive Group of Ford.

IMF, which also imports and distributes for Mazda and Jaguar in Finland, Estonia, Latvia and Lithuania, will integrate the new Land Rover Distribution business into the existing IMF infrastructure by September 2004, when the business commences.

Tax
The Headline tax rate for the first half of 2004 is 25.4%. This rate benefited by 1.4% from the satisfactory outcome of a tax audit in Greece and the agreement of UK tax computations by one of our associates. Stronger profits in the UK also favourably impacted the rate.

The 2003 full year Headline tax rate of 23.4% included a one off tax benefit of 2.9%, associated with the release of a provision relating to a tax efficient financing structure. Excluding this the 2003 underlying full year tax rate was 26.3%.

Minority interests
The minority interest charge, of £1.8m, for the period is £0.5m greater than the first half of 2003, reflecting the improved trading performance of our Australian and Bulgarian businesses.

Dividend
The Board has declared an interim dividend of 15.0p (2003 – 12.0p), an increase of 25.0% on last year. The interim dividend payment will be made to shareholders on the register at 13 August 2004 and will be paid on 13 September 2004.

Prospects
In the UK we expect profits to grow in the second half, compared to the same period in 2003. This will be primarily driven by UK Retail where we expect our existing dealerships to continue to deliver stronger performances and benefit from the acquisitions that took place in June 2004.

Whilst in the short term supply constraints will continue to suppress volumes in Greece and Belgium, we expect to see an improvement before the year end.

We expect another good performance from Australia in the second half of the year although we do not anticipate the market matching the record levels achieved in the first six months. The recovery in Hong Kong is encouraging, especially as the market is still at a relatively low level.

During the second half the Singapore market is likely to be at a similar level to last year but COE allocations may impact margins.

This year has started much better than expected and whilst growth will not continue at the level achieved in the first half, we are confident of a strong performance in 2004.

Looking ahead
We have once again demonstrated the cash generative qualities of the Group and we are therefore in an excellent position to take advantage of investment opportunities, which are consistent with the Group's strategy.

In UK Retail we will continue to focus on developing scale contiguous territories with selected partners and we aim to represent between 5.0% and 10.0% of their national sales volumes.

We will invest further in retail facilities with Toyota/Lexus in Greece and the Balkans, and Subaru in Australia. We will also continue to examine ways of entering new markets such as China and Eastern Europe. We are considering, for example, taking a retail presence in the Baltics where we are currently an Importer.

The Board's policy remains clear that if available funds are not required for investment purposes, we will return capital to shareholders.

Sir John Egan Chairman
2 August 2004

Crown Motors stages unique Toyota launch
Crown Motors, our Toyota/Lexus business in Hong Kong, successfully launched the new seven seater Toyota Alphard in early 2004 and generated more than 200 sales in the first three months.

Being the first business to showcase the Alphard outside Japan, Crown Motors broadcast the launch simultaneously, using innovative web technology, to our six Toyota showrooms in Hong Kong.

Consolidated profit and loss account

For the six months ended 30 June 2004

	Six months to 30.6.04 £m	Six months to 30.6.03 £m	Before VAT exceptional 31.12.03 £m	VAT exceptional 31.12.03 £m	Year to 31.12.03 £m
Turnover including share of joint ventures and associates	**2,199.8**	1,941.9	3,855.2	–	3,855.2
Less:					
– share of joint ventures	**(8.5)**	(10.5)	(20.0)	–	(20.0)
– share of associates	**(31.4)**	(20.8)	(42.0)	–	(42.0)
Group subsidiaries' turnover	**2,159.9**	1,910.6	3,793.2	–	3,793.2
Operating profit	**84.2**	61.0	124.4	15.3	139.7
Share of profits of joint ventures	**3.7**	4.1	10.0	–	10.0
Share of profits of associates	**0.2**	0.9	0.9	–	0.9
Total operating profit	**88.1**	66.0	135.3	15.3	150.6
Net profit on sale of properties and investments	**1.2**	0.7	0.9	–	0.9
Net loss including provisions on sale and termination of operations	**(3.9)**	(0.7)	(0.4)	–	(0.4)
Profit on ordinary activities before interest	**85.4**	66.0	135.8	15.3	151.1
Net interest	**(2.0)**	(2.3)	(5.0)	22.2	17.2
Profit on ordinary activities before taxation	**83.4**	63.7	130.8	37.5	168.3
Tax on profit on ordinary activities	**(22.6)**	(17.5)	(31.8)	(7.5)	(39.3)
Profit on ordinary activities after taxation	**60.8**	46.2	99.0	30.0	129.0
Minority interests	**(1.8)**	(1.3)	(2.0)	–	(2.0)
Profit for the financial period	**59.0**	44.9	97.0	30.0	127.0
Dividends	**(11.9)**	(9.2)	(29.6)	–	(29.6)
Retained profit for the financial period	**47.1**	35.7	67.4	30.0	97.4
Profit before tax (£m)	**83.4**	63.7			168.3
Basic earnings per share (pence)	**75.4p**	58.5p			164.8p
Diluted earnings per share (pence)	**74.7p**	57.3p			162.1p
Headline (before goodwill amortisation and exceptional items, note 6):					
– profit before tax (£m)	**88.9**	66.4	135.8		
– earnings per share (pence)	**82.5p**	62.1p	132.4p		

Statement of total recognised gains and losses

For the six months ended 30 June 2004

	Six months to 30.6.04 £m	Six months to 30.6.03 £m	Year to 31.12.03 £m
Profit for the financial period	**59.0**	44.9	127.0
Effect of foreign exchange rate changes:			
– results for the period	**(0.9)**	–	(2.9)
– foreign currency net investments: subsidiaries	**(19.7)**	6.2	(4.6)
joint ventures and associates	**(0.9)**	(0.3)	(2.9)
Total recognised gains	**37.5**	50.8	116.6

Reconciliation of movements in shareholders' funds

For the six months ended 30 June 2004

	Six months to 30.6.04 £m	Six months to 30.6.03 restated £m	Year to 31.12.03 restated £m
Profit for the financial period	**59.0**	44.9	127.0
Dividends	**(11.9)**	(9.2)	(29.6)
	47.1	35.7	97.4
Effect of foreign exchange rate changes	**(21.5)**	5.9	(10.4)
Shares issued during the period under share option schemes	**1.5**	0.5	3.4
Consideration paid for the purchase of own shares held in an ESOP Trust (note 2)	**(0.2)**	(3.6)	(3.6)
Consideration received for the sale of own shares held in an ESOP Trust (note 2)	**0.2**	2.0	2.7
Credit in respect of employee share schemes (note 2)	**0.7**	0.3	0.6
Goodwill written off to exceptional items (note 3)	**1.0**	–	–
Net change in shareholders' funds	**28.8**	40.8	90.1
Opening balance (2003 – originally £392.7m before deducting restatement of £3.8m, note 2)	**479.0**	388.9	388.9
Closing balance	**507.8**	429.7	479.0

Summarised consolidated balance sheet

As at 30 June 2004

	As at 30.6.04 £m	As at 30.6.03 restated £m	As at 31.12.03 restated £m
Fixed assets:			
Intangible assets	**76.2**	79.2	60.9
Tangible assets	**277.2**	263.4	272.9
Investments:			
– joint ventures: share of gross assets	**293.6**	321.7	257.1
share of gross liabilities	**(253.9)**	(273.4)	(216.7)
share of net assets	**39.7**	48.3	40.4
– associates	**28.0**	25.6	26.2
– other investments	**0.8**	0.8	0.8
	421.9	417.3	401.2
Current assets:			
Stocks	**508.8**	512.7	597.8
Debtors	**225.7**	236.3	246.3
Investments	**12.1**	12.0	13.8
Cash at bank and in hand	**175.5**	134.2	102.9
	922.1	895.2	960.8
Creditors – amounts falling due within one year:			
Borrowings	**(10.2)**	(30.2)	(23.2)
Other	**(680.2)**	(622.8)	(709.1)
	(690.4)	(653.0)	(732.3)
Net current assets	**231.7**	242.2	228.5
Total assets less current liabilities	**653.6**	659.5	629.7
Creditors – amounts falling due after more than one year:			
Borrowings	**(0.7)**	(51.4)	(0.6)
Other	**(49.2)**	(77.6)	(56.5)
	(49.9)	(129.0)	(57.1)
Provisions for liabilities and charges	**(88.8)**	(94.2)	(87.0)
Net assets	**514.9**	436.3	485.6
Equity shareholders' funds	**507.8**	429.7	479.0
Minority interests	**7.1**	6.6	6.6
	514.9	436.3	485.6

Consolidated cash flow statement

For the six months ended 30 June 2004

Reconciliation of operating profit to operating cash flows

	Six months to 30.6.04 £m	Six months to 30.6.03 restated £m	Year to to 31.12.03 restated £m
Operating profit	**84.2**	61.0	139.7
Amortisation	**2.8**	2.6	5.2
Depreciation	**13.3**	12.7	26.6
Loss (profit) on sale of tangible fixed assets other than property	**0.2**	(0.3)	1.7
Decrease (increase) in working capital	**47.9**	(1.2)	(0.3)
Payments in respect of termination of operations	**(0.2)**	–	(3.1)
Other items*	**18.5**	1.8	(18.1)
Net cash inflow from operating activities	**166.7**	76.6	151.7

Consolidated cash flow statement

Net cash inflow from operating activities	**166.7**	76.6	151.7
Dividends from joint ventures	**2.8**	2.5	4.3
Dividends from associates	**–**	1.6	1.9
Returns on investments and servicing of finance*	**17.9**	(3.6)	(1.6)
Taxation	**(17.6)**	(16.4)	(28.5)
Capital expenditure and financial investment	**(23.2)**	(13.0)	(33.6)
	146.6	47.7	94.2
Acquisitions and disposals	**(13.7)**	(0.8)	(0.5)
Equity dividends paid	**(20.4)**	(16.1)	(25.4)
Net cash inflow before use of liquid resources and financing	**112.5**	30.8	68.3
Net cash (outflow) inflow from the management of liquid resources	**(50.4)**	(13.0)	6.7
Net cash outflow from financing	**(16.6)**	(11.6)	(64.7)
Increase in net cash	**45.5**	6.2	10.3

Reconciliation of net cash flow to movement in net funds

Increase in net cash	**45.5**	6.2	10.3
Net cash outflow from decrease in debt and lease financing	**18.1**	10.5	67.2
Net cash outflow (inflow) from the management of liquid resources	**50.4**	13.0	(6.7)
Change in net funds resulting from cash flows	**114.0**	29.7	70.8
Effect of foreign exchange rate changes on net funds	**(21.8)**	6.3	(8.3)
Net loans and finance leases relating to acquisitions	**(6.7)**	–	–
Movement in net funds	**85.5**	36.0	62.5
Opening net funds	**79.1**	16.6	16.6
Closing net funds	**164.6**	52.6	79.1

*Net cash inflows include £36.7m for the VAT exceptional (note 4). Of this total £15.4m is reported within Other items and £21.3m within Returns on investments and servicing of finance. In the 2003 full year, Other items included £(14.3)m of non-cash VAT exceptional.

1 Segmental analysis

By geographical market:	Group turnover plus share of joint ventures and associates			Total operating profit		
	Six months to 30.6.04 £m	Six months to 30.6.03 £m	Year to 31.12.03 £m	**Six months to 30.6.04 £m**	Six months to 30.6.03 £m	Year to 31.12.03 £m
UK	**716.5**	658.1	1,292.5	**13.3**	9.6	17.1
Greece/Belgium	**489.1**	428.6	825.4	**17.7**	16.2	32.3
Australia/New Zealand	**316.8**	259.3	529.3	**13.7**	11.2	21.2
Hong Kong	**124.0**	117.7	233.7	**14.3**	10.3	22.6
Singapore/Brunei	**356.7**	300.6	614.3	**29.2**	20.1	46.9
Other	**196.7**	177.6	360.0	**10.6**	7.9	12.8
	2,199.8	1,941.9	3,855.2	**98.8**	75.3	152.9
Central costs	**–**	–	–	**(10.7)**	(9.3)	(17.6)
VAT exceptional (note 4)	**–**	–	–	**–**	–	15.3
	2,199.8	1,941.9	3,855.2	**88.1**	66.0	150.6

By activity:						
Import, Distribution and Retail	**1,601.4**	1,400.3	2,792.6	**80.8**	60.9	123.4
UK Retail	**558.9**	505.4	989.5	**9.7**	7.9	12.8
Financial Services	**39.5**	35.9	72.9	**8.3**	6.8	17.4
E-commerce	**–**	0.3	0.2	**–**	(0.3)	(0.7)
	2,199.8	1,941.9	3,855.2	**98.8**	75.3	152.9
Central costs	**–**	–	–	**(10.7)**	(9.3)	(17.6)
VAT exceptional (note 4)	**–**	–	–	**–**	–	15.3
	2,199.8	1,941.9	3,855.2	**88.1**	66.0	150.6

Operating profit before goodwill amortisation and VAT exceptional:

	Six months to 30.6.04 £m	Six months to 30.6.03 £m	Year to 31.12.03 £m
Operating profit	**88.1**	66.0	150.6
Goodwill amortisation	**2.8**	2.7	5.5
VAT exceptional (note 4)	**–**	–	(15.3)
	90.9	68.7	140.8

Goodwill amortisation arises in the following geographical markets:

	Six months to 30.6.04 £m	Six months to 30.6.03 £m	Year to 31.12.03 £m
UK	**1.8**	1.8	3.8
Greece/Belgium	**0.1**	0.2	0.4
Australia/New Zealand	**0.3**	0.3	0.5
Singapore/Brunei	**0.4**	0.4	0.8
Other	**0.2**	–	–
	2.8	2.7	5.5

With the exception of £0.5m (interim 2003 – £0.5m, full year 2003 – £1.1m) in UK Retail, goodwill amortisation relates entirely to Import, Distribution and Retail.

Goodwill amortisation on joint ventures is £nil (interim 2003 – £0.1m, full year 2003 – £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 and do not constitute statutory accounts. They have been prepared on the basis of the accounting policies set out in the Annual report and accounts 2003, except that UITF Abstract 38 Accounting for ESOP Trusts has been adopted for the first time in these financial statements. This has resulted in a reclassification of own shares of £5.5m at 1 January, £7.1m at 30 June and £6.4m at 31 December 2003 from investments to equity shareholders' funds. The associated share scheme creditor of £1.7m at 1 January, £2.0m at 30 June and £2.3m at 31 December 2003 has been reclassified from creditors to equity shareholders' funds. The cash outflows at 30 June and 31 December 2003 of £1.6m and £0.9m respectively for the net purchases of own shares have been reclassified from other items to net cash outflow from financing.

The results for the year ended 31 December 2003 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		
	30.6.04	30.6.03	31.12.03	**30.6.04**	30.6.03	31.12.03
Australian dollar	**2.46**	2.63	2.53	**2.61**	2.48	2.38
Euro	**1.48**	1.46	1.45	**1.50**	1.44	1.42
Hong Kong dollar	**14.15**	12.54	12.75	**14.20**	12.87	13.90
Singapore dollar	**3.09**	2.82	2.86	**3.11**	2.90	3.04

3 Exceptional items

	Six months to 30.6.04 £m	Six months to 30.6.03 £m	Year to 31.12.03 £m
Net profit on sale of properties and investments:			
– subsidiaries	**–**	0.5	0.6
– associates	**1.2**	0.2	0.3
Total net profit on sale of properties and investments	**1.2**	0.7	0.9
Net (loss) profit including provisions on sale and termination of operations:			
– MCL and AGL, UK (includes goodwill written off £1.0m, note 9)	**(6.6)**	–	–
– Provision release arising from non-motors business exits – central	**3.6**	–	4.0
– UK Retail dealerships	**–**	(0.3)	(4.6)
– Other	**(0.9)**	(0.4)	0.2
Total net loss including provisions on sale and termination of operations	**(3.9)**	(0.7)	(0.4)
Total exceptional items charged after operating profit	**(2.7)**	–	0.5

4 VAT exceptional

The 2003 Annual report and accounts included claims for overpaid VAT. A net VAT recovery of £15.3m was reported as operating exceptional income, £22.2m of associated interest as exceptional interest income and £7.5m as an exceptional tax charge.

5 Taxation

The charge for taxation includes the following:	**Six months to 30.6.04 £m**	Six months to 30.6.03 £m	Year to 31.12.03 £m
Overseas taxes	**22.6**	17.0	37.5
Joint ventures	**0.8**	1.1	2.3
Associates	**(0.6)**	0.3	(0.2)

Associates benefited by £0.7m from the agreement of prior years' tax computations.

6 Earnings per ordinary share

Based on the profit for the period:	**Six months to 30.6.04 £m**	Six months to 30.6.03 £m	Year to 31.12.03 £m
Headline profit before tax	**88.9**	66.4	135.8
Taxation on Headline profit	**(22.6)**	(17.5)	(31.8)
Minority interests	**(1.8)**	(1.3)	(2.0)
Headline earnings	**64.5**	47.6	102.0
Goodwill amortisation (note 1)	**(2.8)**	(2.7)	(5.5)
Exceptional items (note 3)	**(2.7)**	–	0.5
VAT exceptional (note 4)	**–**	–	37.5
Taxation on VAT exceptional (note 4)	**–**	–	(7.5)
Basic earnings	**59.0**	44.9	127.0
Headline earnings per share	**82.5p**	62.1p	132.4p
Basic earnings per share	**75.4p**	58.5p	164.8p
Diluted earnings per share	**74.7p**	57.3p	162.1p

	Six months to 30.6.04 number	Six months to 30.6.03 number	Year to 31.12.03 number
Weighted average number of fully paid ordinary shares in issue during the period, less those held by the Inchcape Employee Trust	**78,200,898**	76,709,674	77,049,311
Dilutive effect of potential ordinary shares	**784,404**	1,584,449	1,276,038
Adjusted weighted average number of fully paid ordinary shares in issue during the period	**78,985,302**	78,294,123	78,325,349

Headline profit before tax and earnings (before goodwill amortisation and exceptional items) are adopted in that they assist the reader in understanding the underlying performance.

Headline and basic earnings per share are calculated by dividing the respective Headline and basic 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. Dilutive potential ordinary shares comprise share options and deferred bonus awards.

7 Dividends

The interim dividend of 15.0p per ordinary share (interim 2003 – 12.0p) will be paid on 13 September 2004 to shareholders on the register on 13 August 2004.

8 Acquisitions

In June 2004 the Group acquired five Mercedes-Benz dealerships. The estimated consideration is c. £28.0m of which £21.8m arose in this half year.

9 Post balance sheet events

On 28 July 2004, the Group completed the disposal of its 40.0% associates, MCL Group Limited and Automotive Group Limited (MCL and AGL), for c. £19.3m (net of costs) in cash. A provision for the anticipated loss of c. £6.6m has been recognised within exceptional items, including £1.0m goodwill previously written off to reserves.

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Slaughter and May

Stockbrokers
UBS

Inchcape PEPs

Individual Savings Accounts (ISAs) have replaced Personal Equity Plans (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, Oxford House, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB
Tel: +44 (0) 1296 414144

Inchcape ISA

Inchcape has established a Corporate 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
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Business Development
Dale Butcher

Company Secretariat
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Financial Control and Taxation
Amanda Brooks

Human Resources
Nick Smith

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Peter Wilson

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