Interim report 2005

Inchcape

International Automotive Services

This is Inchcape

International

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

Automotive

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

Services

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

Results overview

Inchcape has delivered a further set of outstanding results, which again show year on year growth with profit before tax up 21.6%. This continues the trend of reporting an increase in profit at every set of interims since we became a pure automotive services group in July 1999. Profits are up in all our core markets, except for Greece. Singapore again has shown the strongest growth. Especially pleasing is the underlying year on year growth in our UK Retail business, which continues to deliver improved financial and operational results. The Group's strong financial performance is all the more impressive given that market conditions in the UK and Continental Europe are difficult in comparison to last year, and we are awaiting a number of significant new model launches, which will commence in early 2006.

The £65.0m share buy back programme announced on 28 February 2005 has commenced, and to date £31.0m has been returned to shareholders through the purchase of c. 1.7m shares at an average price of 1846p per share. Whilst this has had a significant effect on the cash flow in the period, the full impact on earnings will be seen over the next eighteen months.

These results are the first produced under International Financial Reporting Standards (IFRS), with the 2004 comparatives as published on 12 May 2005. As well as highlighting the statutory numbers in this statement we also report Headline numbers, which exclude exceptional items and any material impact on profits of not achieving hedge effectiveness under IAS 39. In the period we exclude only the exceptional profit of £4.0m, as the impact of IAS 39, whilst negative, is not material.

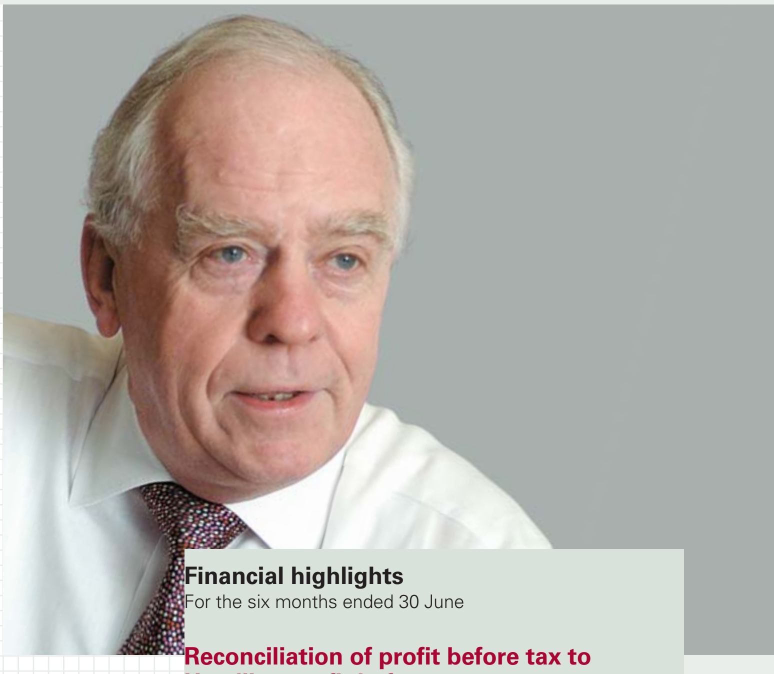
Headline profit before tax was up 14.7% to £100.8m in the first six months of 2005. Headline earnings per share increased from 81.3p to 93.9p in the period, a growth of 15.5%.

Strategy update

Our strategic growth plans are centred on expansion with selected manufacturer partners in, or adjacent to, markets where we already have a scale business. On entering new markets we look to invest in either vertically integrated import and retail businesses or scale retail opportunities, preferably in contiguous territories. Within Inchcape these business models are well proven and we have significant expertise in running them. This lowers the risks associated with entering new markets.

Expansion in our core markets is mainly focused on the UK, Australia and Greece. In the UK we continue the strategy of growing with our selected partners in contiguous territories. In the first half of the year we purchased a Mercedes-Benz market area centred around Liverpool. We are now the largest independent Mercedes-Benz retailer in the country, representing c. 8.0% of their national sales volumes.

We continue to develop our contiguous territory for BMW to the south of London. We are building new facilities in Croydon and Tunbridge Wells, and redeveloping Cobham. In addition we have recently introduced common systems for all the BMW dealerships, which allow management to run the territory as a single business.



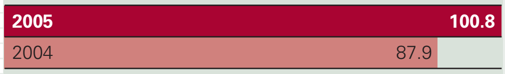
Financial highlights

For the six months ended 30 June

Reconciliation of profit before tax to Headline profit before tax

£m	2005	2004
Profit before tax	**104.8**	86.2
Exceptional items	**(4.0)**	2.9
Exceptional items – associates	**–**	(1.2)
Headline profit before tax	**100.8**	87.9

Headline profit before tax £m



£100.8m +14.7%

"Inchcape has delivered a further set of outstanding results, which again show year on year growth with profit before tax up 21.6%. This continues the trend of reporting an increase in profit at every set of interims since we became a pure automotive services group in July 1999."

Sir John Egan Chairman

The benefits arising from Brooklands, our pre-delivery centre which serves BMW and our other franchises in the area, are starting to be seen, for example by increasing the Retail aftersales hours we sell.

In Australia and Greece we continue our push into retail with Subaru and Toyota respectively. Additionally in Australia, now that we have proven retail expertise, we are examining the possibility of building a broader based multi-franchise retail business along the East Coast.

Outside our core markets, attention is focused mainly on Eastern Europe. In Latvia, following the acquisition of a Mazda dealer, we have now become the country's sole Retailer for Mazda and Jaguar. As we are the Importer for these brands, we have now created a vertically integrated Import and Retail business similar to that recently achieved in Estonia. In the Balkans we continue to invest in our Retail outlets with significant expansion planned for Romania. We are also looking at many other opportunities in the region mainly with our key manufacturer partners. This includes the possibility of entering the Russian market, most likely as a scale retailer in Moscow.

We are re-examining the Chinese market, which is now looking more attractive given the increasing focus of our key manufacturer partners on developing a quality retail network for their brands.

Operational review

This section analyses the performance of the Group's subsidiaries.

Operating profit before exceptional items has been defined as trading profit throughout the Operational review.

For the six months ended 30 June	**2005 £m**	2004 £m	Increase %
Operating profit	**104.1**	86.1	20.9
Exceptional items	**(4.0)**	2.9	n/a
Trading profit	**100.1**	89.0	12.5

Australia

Trading profit 2005: £16.1m (2004: £14.2m)

The 13.4% growth in trading profit was assisted by a record market, up 5.4% on last year. Subaru outperformed the market, underpinned by strong Liberty and Impreza sales and achieved its highest ever first half market share of 3.8%.

Our Melbourne Retail business continues to perform well with increased new and used unit sales. This, coupled with higher aftersales income, partly as a result of the investments made in aftersales facilities in 2004, has improved trading profits.

The Sydney Retail business underwent a significant restructuring in mid 2004. The benefits from this, together with the contribution from the two new Subaru dealerships, have resulted in an increase in profitability.

Trading profits in AutoNexus, our Business Services operation, have grown and we are continuing to invest in this business.

Belgium

Trading profit 2005: £8.3m (2004: £8.0m)

In Belgium the market fell by 0.7% in the first half of the year. Our Toyota/Lexus market share however increased from 4.8% in 2004 to 5.0% in 2005, despite Toyota having a number of core models in run out; namely the RAV4, Yaris and Hilux. This strong performance was helped by the introduction of new diesel derivatives and the easing of the supply constraints experienced in 2004.

Continued expansion with Mercedes-Benz in the UK

In April 2005, Inchcape acquired six Mercedes-Benz businesses and one smart dealership. This increased our total UK representation to fourteen Mercedes-Benz sites including the largest contiguous territory for Mercedes-Benz and smart in the UK.

The most recent acquisition added Mercedes-Benz dealerships in Liverpool, Warrington, Chester, Southport, the Wirral and Llandudno to Inchcape's portfolio. The new smart dealership is located in Liverpool. Together, these sites generated new car sales of some 2,100 units and used car sales of 1,100 units in 2004.

Inchcape already had dealerships in Nottingham, Leicester, Derby, Mansfield, Loughborough, Coventry, Stratford-upon-Avon and Oxford.

We now represent c. 8.0% of Mercedes-Benz's national sales volumes, in line with our UK growth strategy of representing 5.0% to 10.0% of our chosen partners' national sales volumes. In 2006, we expect to sell some 6,000 units.

Focus on building a first class Retail environment in Sydney

The focus for our Sydney Retail business, now that the refranchising of facilities is almost complete, is to establish a first class Retail environment. Our aim is to provide high levels of customer satisfaction, which should then result in increased sales with much improved financial returns. In order to achieve this we will embed the Retail processes, which proved so successful in our Subaru Melbourne business, into all of our dealerships in Sydney. These processes cover all the key areas of the customer experience.

We are also expanding our Business Services company, AutoNexus, to undertake all Retail pre-delivery inspection and used car preparation work. This will enable us to decongest our Retail sites, which again helps increase customer satisfaction and operating margins.

Together these initiatives will create a solid platform, which is essential as we look to expand this business, and we are encouraged by the success experienced when we started operating the Hyundai franchise, awarded to us recently, for the city territory in Sydney.

Greece

Trading profit 2005: £7.8m (2004: £8.3m)

The market softened in the first half of 2005, after a strong performance last year stimulated in part by the Olympics. Toyota, in Greece, has also been adversely impacted by the run out of core models, but has not benefited from new diesel variants. This, allied to business disruption suffered as a result of the network re-organisation in Athens late in 2004, has caused Toyota's market share to reduce to 8.5%.

These tough trading conditions have adversely impacted our Retail businesses in Athens and Salonica. Our new Athens dealership, which opened in late 2004, has also experienced a slower start up than anticipated, resulting in a net trading loss for our Retail business in the first half of 2005.

Despite these issues, costs have been tightly controlled and margins have risen although 2004 was impacted by low margin taxi sales made prior to the Olympics.

Hong Kong

Trading profit 2005: £13.0m (2004: £11.8m)

The market experienced a slow start to the year but began to gradually recover in the second quarter as consumer confidence strengthened. Crown Motors, our Toyota/Lexus business, achieved a market share of 34.4%, which is slightly lower than the full year in 2004. This is partly due to supply constraints, which particularly affected the Corolla, the facelift Alphard and new Hiace models.

Trading profits in the first half of 2005 were 10.2% stronger than last year. This year however, there was a £0.9m benefit from a one off property profit. After adjusting for this trading margins of 10.6% were achieved, up from 9.9% last year.

Singapore

Trading profit 2005: £34.6m (2004: £28.4m)

The market continues to benefit from higher levels of Certificates of Entitlement (COEs), and was up 18.2% on 2004. Toyota/Lexus has sold over 19,000 units in the first half of 2005, up over 2,000 units on the first half of last year, assisted by the launch of the new Lexus GS 300 and higher taxi sales. The resultant market share is 29.9%.

We continue to invest in our aftersales facilities and have opened two new satellite centres, increasing capacity by over 5.0%. This will help us meet the service requirements of the enlarged Toyota parc.

The increase in sales volumes and softening in COE prices, together with increased aftersales activity, has resulted in an increase of 21.8% in trading profit and trading margins of 9.4%.

United Kingdom

Trading profit 2005: £15.0m (2004: £13.9m)

Overall the region has achieved a growth of 7.9% in trading profit, despite the loss of the Ferrari/Maserati import and distribution business in late 2004.

Encouragingly, in a more difficult market, UK Retail has shown like for like growth in trading profit. The business continues to benefit from improved processes. These have helped increase used car sales, which are up by 6.8%, finance and insurance income and service profitability. This more than compensates for the weaker new unit sales, which have declined, but at a slower rate than the market.

There has also been a growth in trading profit due to acquisitions, in particular the Mercedes-Benz dealerships in the Midlands acquired in June 2004, and, to a lesser extent, those purchased in the North West of England in April 2005.

In total UK Retail generated a trading profit of £13.8m, up from £11.3m last year. The trading margin in the first half of 2004, under IFRS, was 1.9%. In this more difficult year margins have progressed to 2.0%.

At Inchcape Automotive, during the first half of 2005, the business encountered some disruption due to workshop refurbishment, and production efficiency issues, which impacted results negatively. The logistics problems experienced in 2004 however, have been resolved and we continue to focus on strengthening management and improving processes.

Inchcape Fleet Solutions performed well. It continued to develop its Fleet Management operations and benefited from lower overheads. As a result trading profits are up 13.0%.

Other

Trading profit 2005: £14.3m (2004: £15.1m)

In Finland the softening in the market experienced towards the end of 2004 continued into 2005. In addition, Mazda6, the core model of the range, suffered from the introduction of new competitor models. As a result profitability fell in the period. The Mazda6 facelift was launched at the end of June 2005.

Our newly established operations in the Baltics, which include Import, Distribution and Retail for Mazda, Jaguar and Land Rover have made a promising start to the year.

Our Toyota operations in the Balkans achieved encouraging growth in trading profit which was up 43.8% on last year. This was aided by an increase in volumes to over 3,400 units. The markets, particularly Romania, still exhibit high growth rates and we continue to invest in our Retail outlets.

Toyota in Guam, Subaru in New Zealand and BMW in Chile all increased sales and trading profits in the period. In Brunei and France however trading profits are flat. In France a strong performance from Volkswagen/Audi was offset by a weak performance from the Premier Automotive Group of Ford. In Poland however the market was down, which put pressure on the performance of our new BMW dealerships.

Central costs

2005: £(9.0)m (2004: £(10.7)m)

In 2004, Central costs included £2.2m of one off charges. Excluding these, underlying Central costs are slightly higher than last year due to additional share-based payment costs arising on the transition to IFRS.

Financial review

International Financial Reporting Standards

This Interim report is the first set of financial statements produced by the Group under IFRS.

Prior to 2005 the Group prepared its financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). From 1 January 2005 the Group is required to prepare its financial statements in accordance with IFRS, endorsed by the European Union and implemented in the UK, including comparative information for 2004.

It is possible that there will be further changes to IFRS and interpretations before the end of 2005. These might require further adjustments to the financial information contained in this Interim report before being included in the 2005 Annual report.

The main differences between UK GAAP and IFRS are highlighted in note 1 to the accounts and are set out in further detail in an explanatory report entitled 'Preliminary unaudited financial information on the transition to International Financial Reporting Standards', published by the Group on 12 May 2005 and available on the Group's website, www.inchcape.com. This sets out reconciliations between UK GAAP and IFRS of the Group's income statements and balance sheets for 2004.

The principal areas of difference include share-based payments, goodwill, pensions, dividends and derivative financial instruments. These are essentially generic changes that are common to most companies transitioning to IFRS.

There are also a number of differences that are more specific to the Group. Accounting for property leases requires the reclassification of the land element of leaseholds from property, plant and equipment to trade and other receivables, reversing any previous revaluation. Stock holding interest is reclassified from operating expenses to finance costs in the income statement. Where contract hire vehicles are sold, for which a Group company retains a residual value commitment, the vehicle is retained on the balance sheet and the profits are spread over the duration of the lease.

Overall, the application of IFRS has had a broadly neutral impact on profit before tax and earnings subject to the achievement of hedge effectiveness under IAS 39. Furthermore, cash flow and the underlying economics of the business have not changed although net assets have been reduced mainly due to the inclusion of the net pension deficit.

Acquisitions and disposals

In April 2005 the Group acquired Robert Smith Group Limited and its subsidiaries, which owned six Mercedes-Benz dealerships in the North West of England. The estimated consideration is c. £17.9m of which £0.9m is deferred. These new dealerships create a further scale Mercedes-Benz market area for Inchcape and complement our existing Mercedes-Benz operations in the Midlands.

No other acquisitions or disposals of significance were made in the period.

Cash flow and financing

The Group continues to focus on tight working capital management and this, together with strong operating profits, generated net cash from operating activities of £85.0m for the first half of 2005. This represents 84.9% of operating profits before exceptional items and demonstrates yet again the Group's cash generative capabilities.

During the period the Group returned £58.2m to shareholders, £31.0m by way of the share buy back programme and £27.2m in respect of the final 2004 dividend. The Group also invested £63.6m in acquisitions and net capital expenditure in the period, with £49.7m of this relating to UK Retail. An outflow of c. £6.8m also arose on the settlement of non-motors business claims. As a result of all these factors, net cash decreased from £151.9m at 31 December 2004 to £119.8m at 30 June 2005.

The net finance costs for the period were £2.4m lower than the first half of 2004. This year has benefited from the £135.0m of cash permanently repatriated to the UK in late 2004, which minimised the mismatch between debt in the UK and cash held overseas in countries with low interest rates. This has been partially offset by the financing cost of the £31.0m share buy back, UK Retail acquisitions and higher stock holding interest costs.

In July 2005, the Group replaced its principal committed borrowing facility of £250.0m with a syndicated five year revolving credit facility of £275.0m.

Joint ventures and associates

The share of joint ventures and associates profit after tax has decreased from £4.9m in the first half of 2004 to £3.1m during the first half of 2005. This is mainly due to the sale of the Group's 40.0% stake in MCL Group Limited and Automotive Group Limited in July 2004 and the fact that 2004 included a £1.2m exceptional profit.

Exceptional items

The release of litigation provisions arising from the settlement and expiry of a number of claims relating to non-motors exits generated the £4.0m exceptional income for the six months ended 30 June 2005.

Exchange rates

The first half 2005 Headline profit before tax of £100.8m would not differ significantly had the June 2004 exchange rates continued in 2005. The impact of the stronger euro and Australian dollar was effectively offset by the weaker Hong Kong dollar.

Tax

The subsidiaries Headline tax rate for the first half of 2005 is 25.5% compared to 26.6% for the full year 2004. This year has benefited from no losses in the UK, due to improved trading and the impact of the £135.0m cash repatriation in late 2004. In addition, the rate is lower by 0.5% due to a one off recovery in Greece.

Minority interests

Profits attributable to minority interests of £2.1m are slightly higher than the first half of 2004 reflecting the improved trading performance of our Australian and Bulgarian businesses.

Board update

On 1 June 2005 we announced that André Lacroix is to join the Group on 1 September 2005 as Group Chief Executive Designate. He will assume the full responsibilities of Group Chief Executive on 1 January 2006 when Peter Johnson will replace me as Non-executive Chairman. I will be retiring from the Inchcape Board at the end of this year.

In May 2005, we announced that Alan Ferguson, our Group Finance Director, will leave Inchcape in September 2005 to assume that role at a FTSE 100 company. The search for his successor is well under way and we will make an announcement in due course.

Mazda acquisition in Latvia

In April 2005, our business in Finland expanded its market presence in Latvia and became the exclusive Retailer for Mazda through the acquisition of M-Motors. The acquisition coincided with the opening of new premises in Riga where we now represent both the Mazda and Jaguar brands.

This latest development is in addition to the Distribution rights that Inchcape already holds for Mazda, Jaguar and Land Rover in Latvia.

In line with our strategy of creating scale, contiguous territories in existing markets, or those adjacent to our operations, our business is now able to combine and integrate its Distribution and Retailing activities in Latvia. This will help drive further economies of scale, improve margins and customer service levels.

Singapore record breakers

Our Toyota/Lexus business in Singapore, Borneo Motors, achieved an all time aftersales service record at the start of 2005 when they served a staggering 1,371 customers in just one day. This equates to some 144 customers per hour.

Previously Borneo Motors had achieved an impressive average of some 650 customers per day; however the significant development of aftersales facilities, and a conscious push from the Borneo sales team to promote the service aspect of the customer experience, has resulted in the business attracting a record number of customers.

The ongoing development and refurbishment of the facilities was undertaken to ensure high standards of service and quality of work were maintained throughout the Borneo Motors network of seven service centres in Singapore.

Dividend

The Board has declared an interim dividend of 19.0p (2004 – 15.0p), an increase of 26.7% on last year.

The Board's policy at the interim stage is to plan for a dividend split, which is one third at the interim and two thirds at the final.

The interim dividend payment will be paid on 12 September 2005 to shareholders on the register at 12 August 2005.

Prospects

The market in Australia is expected to remain strong for the remainder of the year. Subaru's model line up will be strengthened by the introduction of the new Impreza and Forester ranges and so the outlook remains positive.

In Belgium market conditions are expected to be little changed from the first half.

In Greece we expect that the market will continue to be lower than last year and remain extremely competitive.

In Hong Kong profitability is anticipated to be in line with our expectations at the start of the year.

In Singapore trading conditions are strong, supported by the fact that the number of Certificates of Entitlement issued in 2005 will be higher than in 2004.

In the UK the full year market is forecast to fall between 4.0% and 5.0%, however the positive start to the year by UK Retail is expected to continue.

Within Other it is anticipated that the full year will be better than last year.

Overall the first half results and our expectations for the second half leave us confident that 2005 will be another year of good progress for Inchcape.

Looking ahead

The financial capacity of the Group, after the share buy back programme is completed, remains substantial, as are the opportunities for investment.

Many of these opportunities will be in retail. This re-emphasises the need for Inchcape to develop world class management and processes, which have a particular focus on customer experience and operational excellence, supported by a more standardised approach to dealer management systems.

We already have examples of world class Retail performance in a number of our markets, however we are recruiting more people internationally with retail skills to further support our expansion plans. We are also undertaking long term initiatives, such as our Retail Academy in the UK developed in conjunction with Loughborough University, which will improve the retail skills of our managers across franchises and countries.

All this gives the Board confidence that Inchcape remains well placed to deliver on its strategic growth plans.

John Egan

Sir John Egan Chairman
1 August 2005

Consolidated income statement

For the six months ended 30 June 2005

	Notes	**Six months to 30.6.05 £m**	Six months to 30.6.04 £m	Year to 31.12.04 £m
Revenue	3	**2,257.0**	2,158.5	4,119.5
Cost of sales		**(1,937.4)**	(1,848.5)	(3,532.9)
Gross profit		**319.6**	310.0	586.6
Operating expenses before exceptional items		**(219.5)**	(221.0)	(414.5)
Exceptional items	4	**4.0**	(2.9)	(10.6)
Total operating expenses		**(215.5)**	(223.9)	(425.1)
Operating profit	3	**104.1**	86.1	161.5
Share of profit after tax of joint ventures and associates		**3.1**	4.9	7.8
Profit before finance and tax		**107.2**	91.0	169.3
Finance income before exceptional finance income		**4.9**	3.2	5.8
Exceptional finance income		**–**	–	4.2
Finance income	5	**4.9**	3.2	10.0
Finance costs	6	**(7.3)**	(8.0)	(16.1)
Profit before tax		**104.8**	86.2	163.2
Tax	7	**(24.9)**	(22.5)	(43.6)
Profit for the period		**79.9**	63.7	119.6
Attributable to:				
– Equity holders of the parent		**77.8**	61.9	116.4
– Minority interests		**2.1**	1.8	3.2
		79.9	63.7	119.6
Basic earnings per share (pence)	8	**99.0p**	79.2p	148.5p
Diluted earnings per share (pence)	8	**97.9p**	78.4p	146.6p

Consolidated balance sheet
As at 30 June 2005

	As at 30.6.05 £m	As at 30.6.04 £m	As at 31.12.04 £m
Non-current assets			
Goodwill	**82.2**	77.4	71.5
Other intangible assets	**6.2**	6.7	6.5
Property, plant and equipment	**337.0**	292.0	295.9
Trade and other receivables	**22.8**	22.2	19.6
Investments in joint ventures and associates	**47.6**	67.8	42.2
Other investments	**–**	10.1	11.9
Available for sale financial assets	**11.9**	–	–
Deferred tax assets	**21.4**	20.1	20.8
	529.1	496.3	468.4
Current assets			
Inventories	**541.5**	443.3	577.1
Trade and other receivables	**226.3**	210.7	198.3
Other investments	**–**	2.8	2.7
Available for sale financial assets	**2.3**	–	–
Current tax assets	**1.6**	0.8	0.5
Cash and cash equivalents	**194.5**	175.5	171.2
	966.2	833.1	949.8
Total assets	**1,495.3**	1,329.4	1,418.2
Current liabilities			
Borrowings	**(69.3)**	(10.2)	(15.6)
Trade and other payables	**(645.4)**	(618.8)	(657.3)
Derivative financial instruments	**(12.7)**	–	–
Current tax liabilities	**(41.9)**	(41.9)	(44.9)
Provisions	**(27.2)**	(29.5)	(24.6)
	(796.5)	(700.4)	(742.4)
Non-current liabilities			
Borrowings	**(5.4)**	(2.7)	(3.7)
Trade and other payables	**(36.2)**	(37.2)	(31.8)
Provisions	**(33.7)**	(54.9)	(51.9)
Deferred tax liabilities	**(17.2)**	(14.6)	(14.8)
Retirement benefit liability	**(60.6)**	(50.9)	(58.9)
	(153.1)	(160.3)	(161.1)
Total liabilities	**(949.6)**	(860.7)	(903.5)
Net assets	**545.7**	468.7	514.7
Shareholders' equity			
Called up share capital	**119.8**	118.9	119.5
Share premium account	**111.6**	109.9	110.7
Other reserves	**13.8**	(2.8)	4.4
Retained earnings	**291.4**	235.6	271.8
Equity attributable to equity holders of the parent	**536.6**	461.6	506.4
Minority interests	**9.1**	7.1	8.3
Total shareholders' equity	**545.7**	468.7	514.7

Consolidated statement of changes in equity

For the six months ended 30 June 2005

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Effect of foreign exchange rate changes	**13.6**	(21.5)	(15.2)
Movement in cash flow hedges	**0.8**	–	–
Movement in available for sale financial assets	**0.5**	–	–
Actuarial losses on defined benefit pension schemes	**(3.6)**	(3.5)	(10.1)
Net gains (losses) recognised directly in equity	**11.3**	(25.0)	(25.3)
Profit for the period	**79.9**	63.7	119.6
Total recognised income for the period*	**91.2**	38.7	94.3
Share-based payments charge	**1.9**	0.5	1.7
Net disposal of own shares by the ESOP Trust	**1.0**	–	0.1
Dividends:			
– Equity holders of the parent	**(27.2)**	(20.4)	(32.2)
– Minority interests	**(1.6)**	(1.2)	(1.6)
Issue of ordinary share capital	**1.2**	1.5	2.8
Share buy back programme	**(31.0)**	–	–
	35.5	19.1	65.1
Balance at 1 January	**514.7**	449.6	449.6
Adoption of IAS 32 and IAS 39	**(4.5)**	–	–
Balance at period end	**545.7**	468.7	514.7

* Of the total recognised income for the period £89.0m is attributable to equity holders of the parent (£37.3m for the six months ended 30 June 2004; £91.3m for the year ended 31 December 2004) and £2.2m is attributable to minority interests (£1.4m for the six months ended 30 June 2004; £3.0m for the year ended 31 December 2004).

Consolidated cash flow statement

For the six months ended 30 June 2005

	Notes	**Six months to 30.6.05 £m**	Six months to 30.6.04 £m	Year to 31.12.04 £m
Cash flows from operating activities				
Operating profit		**104.1**	86.1	161.5
Exceptional items		**(4.0)**	2.9	10.6
Amortisation and impairment of intangible assets		**1.6**	2.4	4.6
Depreciation		**11.7**	10.3	21.2
(Profit) loss on disposal of property, plant and equipment		**(1.1)**	(0.2)	0.7
Share-based payments charge		**1.9**	0.5	1.7
(Increase) decrease in working capital		**(5.2)**	48.0	(30.5)
Decrease (increase) in vehicles subject to residual value commitments		**4.3**	(1.4)	4.7
Payment in respect of termination of operations		**(1.0)**	(0.2)	(1.5)
Other items*		**2.5**	17.6	14.2
Cash generated from operations		**114.8**	166.0	187.2
Tax paid		**(30.9)**	(17.6)	(36.9)
Net interest received*		**1.1**	15.7	9.6
Net cash generated from operating activities		**85.0**	164.1	159.9
Cash flows from investing activities				
Acquisition of businesses, net of cash and overdrafts acquired		**(28.5)**	(18.0)	(25.1)
Net cash (outflow) inflow from sale of businesses		**(5.5)**	4.3	23.7
Purchase of property, plant and equipment		**(39.3)**	(20.2)	(40.3)
Purchase of intangible assets		**(0.8)**	(1.6)	(3.3)
Proceeds from disposal of property, plant and equipment		**5.0**	1.7	5.5
Net disposal of other investments		**–**	1.0	0.7
Net disposal of available for sale financial assets		**0.9**	–	–
Dividends received from joint ventures and associates		**1.2**	2.8	4.9
Net cash used in investing activities		**(67.0)**	(30.0)	(33.9)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**1.2**	1.5	2.8
Share buy back programme		**(31.0)**	–	–
Net disposal of own shares by the ESOP Trust		**1.0**	–	0.1
Net cash outflow from borrowings		**(2.7)**	(18.0)	(18.2)
Payment of capital element of finance leases		**(0.2)**	(0.1)	(0.2)
Equity dividends paid		**(27.2)**	(20.4)	(32.2)
Minority dividends paid		**(1.8)**	(1.2)	(1.4)
Net cash used in financing activities		**(60.7)**	(38.2)	(49.1)
Net (decrease) increase in cash and cash equivalents	13	**(42.7)**	95.9	76.9
Cash and cash equivalents at beginning of the period		**158.8**	95.0	95.0
Net foreign exchange difference		**10.8**	(22.0)	(13.1)
Cash and cash equivalents at end of the period		**126.9**	168.9	158.8
Cash and cash equivalents consist of:				
– Cash and cash equivalents		**194.5**	175.5	171.2
– Overdrafts		**(67.6)**	(6.6)	(12.4)
		126.9	168.9	158.8

* Net cash inflows for the six months ended 30 June 2005 include £5.4m in respect of the VAT receipt (notes 4 and 5). Of this total £1.8m is reported within Other items (£15.4m for the six months ended 30 June 2004; £15.5m for the year ended 31 December 2004) and £3.6m is reported within Net interest received (£21.3m for the six months ended 30 June 2004; £21.5m for the year ended 31 December 2004).

1 Basis of preparation

These interim financial statements are neither audited nor reviewed by the external auditors and do not constitute statutory accounts.

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 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.

The Group's published financial statements for the year ended 31 December 2004 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		
	30.6.05	30.6.04	31.12.04	**30.6.05**	30.6.04	31.12.04
Australian dollar	**2.42**	2.46	2.48	**2.35**	2.61	2.45
Euro	**1.45**	1.48	1.47	**1.48**	1.50	1.41
Hong Kong dollar	**14.62**	14.15	14.22	**13.93**	14.20	14.92
Singapore dollar	**3.09**	3.09	3.09	**3.02**	3.11	3.13

International Financial Reporting Standards

Prior to 2005, the Group prepared its audited annual financial statements and unaudited interim financial statements under UK Generally Accepted Accounting Principles (UK GAAP). From 1 January 2005, the Group is required to prepare annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and implemented in the UK. As the 2005 annual financial statements will include comparatives for 2004, the Group's date of transition to IFRS is 1 January 2004 and the 2004 comparatives have been restated to IFRS.

On 12 May 2005 the Group published an explanatory report entitled 'Preliminary unaudited financial information on the transition to International Financial Reporting Standards' available on the Group's website, www.inchcape.com. This document sets out the key differences between UK GAAP and IFRS for the Group, reconciliations of its income statements for the six months ended 30 June 2004 and the year ended 31 December 2004 and its balance sheets as at 1 January 2004, 30 June 2004 and 31 December 2004, together with its principal accounting policies under IFRS.

Accounting policies

The Group's results for the six months ended 30 June 2005 have been prepared on a basis consistent with the Group's IFRS accounting policies as set out in note 2. These IFRS accounting policies have been prepared on a basis consistent with IFRS and interpretations expected to be in effect for the year ending 31 December 2005. It is possible that there will be changes to these standards and interpretations before the end of 2005, which might require further adjustments to this information before it is included in the 2005 annual financial statements. In addition, the Group has early adopted the amendment to IAS 19 Employee Benefits on the basis that this is expected to be formally adopted by the EU before the end of 2005.

First-time adoption

The general principle that should be applied on first-time adoption of IFRS is that standards are applied with full retrospective effect. In accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards, the Group is entitled to a number of voluntary and mandatory exemptions from full restatement. The Group has elected:

(i) not to restate its business combinations made prior to 1 January 2004 to comply with IFRS 3 Business Combinations;

(ii) to retain previous UK GAAP carrying values of property, plant and equipment, treating any historic revaluations as deemed cost at 1 January 2004;

(iii) to recognise all cumulative actuarial gains and losses in respect of defined benefit pension schemes and similar benefits in shareholders' equity at 1 January 2004;

(iv) to apply IFRS 2 Share-based Payments only to awards granted after 7 November 2002 and not vested by 1 January 2005;

(v) to deem cumulative translation differences for all foreign operations to be nil at 1 January 2004; and

(vi) not to present comparative information in accordance with IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

The effect of adopting IAS 32 and IAS 39 at 1 January 2005 is shown as a movement in shareholders' equity for 2005. This decreased shareholders' equity by £4.5m at 1 January 2005. In addition, under IAS 32 cash balances and bank overdrafts can only be presented net where there is both the legal ability and intention to settle net. From 1 January 2005 this has had the effect of grossing up cash and borrowings in the balance sheet.

1 Basis of preparation continued

Impact of transition

The application of IFRS has a broadly neutral impact on profit before tax and earnings, and results in a decrease in net assets, mainly due to the recognition of the pension deficit. The principal differences for the Group between reporting on the basis of UK GAAP and IFRS are as follows:

(i) recognising an expense for the fair value of employee share-based awards rather than the intrinsic value;

(ii) ceasing to amortise goodwill and testing for impairment at least annually;

(iii) recognising the full pension deficit on the balance sheet, taking operating and financing costs to the income statement and actuarial gains and losses to shareholders' equity;

(iv) derecognising the sale of vehicles sold subject to a residual value commitment, retaining the vehicle on the balance sheet and spreading the profit over the duration of the lease;

(v) reclassifying the land element of leaseholds from property, plant and equipment to prepayments, reversing any previous revaluation;

(vi) reclassifying stock holding interest from operating expenses to finance costs in the income statement;

(vii) recognising deferred tax on revaluations of property and on non-qualifying properties acquired as part of a business combination; and

(viii) no longer recognising dividends proposed but not declared as a liability at the balance sheet date.

The application of IFRS has also changed the presentation of the cash flow statement which now shows cash flows from three activities – operating, investing and financing. In addition, under IFRS the cash flow statement includes all cash flows in respect of cash and cash equivalents which is broader in scope than cash as defined under UK GAAP.

2 Accounting policies

Accounting convention

These interim financial statements have been prepared on an historical cost basis, except for the retention of some freehold properties and leasehold buildings at previously revalued amounts (which have been treated as deemed cost under IFRS) and the measurement of certain balances at fair value as disclosed in the accounting policies below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company (Inchcape plc) and its subsidiary undertakings (defined as where the Group has control), together with the Group's share of the results of its joint ventures (defined as where the Group has joint control) and associates (defined as where the Group has significant influence but not control). The financial statements of subsidiaries, joint ventures and associates are prepared as of the same reporting date as the parent company, using consistent accounting policies.

The results of subsidiaries are consolidated, using the purchase method of accounting, from the date on which control of the net assets and operations of the acquired company are effectively transferred to the Group. Similarly, the results of subsidiaries divested cease to be consolidated from the date on which control of the net assets and operations are transferred out of the Group.

Investments in joint ventures and associates are accounted for using the equity method. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

2 **Accounting policies** continued

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is Inchcape plc's functional and presentational currency.

In the individual entities, transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except those arising on long term foreign currency borrowings used to finance or hedge foreign currency investments which on consolidation are taken directly to shareholders' equity.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. The income statements of foreign operations are translated into sterling at the average for the period of the month end rates of exchange. Exchange differences arising from 1 January 2004 are recognised as a separate component of shareholders' equity. On disposal of a foreign operation any cumulative exchange differences held in shareholders' equity are transferred to the consolidated income statement.

Derivative financial instruments (up to 31 December 2004)

Derivative financial instruments are used to manage the Group's exposure to fluctuations in foreign currency exchange rates. Instruments accounted for as hedges are designated as hedges at the inception of contracts. Gains and losses on foreign currency hedges are recognised on maturity of the underlying transaction. Currency swap agreements are retranslated at the rates ruling in the agreements with resulting gains and losses being offset against foreign exchange gains and losses on the related borrowings. Gains and losses on hedging instruments which are cancelled due to the termination of the underlying exposure are taken to the income statement immediately.

Derivative financial instruments (after 31 December 2004)

The Group uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are measured at fair value. The gains or losses on remeasurement are taken to the income statement except where the derivative is designated as a cash flow hedge. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange prevailing at the balance sheet date.

For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity and the ineffective portion is recognised in the income statement. When the hedged firm commitment results in the recognition of a non-financial asset or a liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged firm commitment affects the income statement.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time any cumulative gains or losses on the hedging instrument which have been recognised in shareholders' equity are kept in shareholders' equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the cumulative gains or losses that have been recognised in shareholders' equity are transferred to the income statement for the period.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

2 **Accounting policies** continued

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is based on cost less estimated residual value and is provided, except for freehold land, on a straight line basis over the estimated useful life of the asset. For the following categories, the annual rates used are:

Freehold buildings and long leasehold buildings	2.0%
Short leasehold buildings	shorter of lease term or useful life
Plant, machinery and equipment	5.0%–33.3%
Vehicles subject to residual value commitments	over the lease term

The assets' residual values and useful lives are reviewed at least at each balance sheet date.

Goodwill

Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets of the business acquired at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested at least annually for impairment.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold in determining the gain or loss on disposal, except for goodwill arising on business combinations on or before 31 December 1997 which has been deducted from shareholders' equity and remains indefinitely in shareholders' equity.

Other intangible assets

Intangibles assets, when acquired separately from a business (including computer software), are carried at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a straight line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is three to five years.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition.

Impairment

Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. In addition, goodwill is tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in bringing inventories to their present location and condition.

Vehicles held on consignment which are deemed in substance to be assets of the Group are included within inventories with the corresponding liability included within trade payables.

Stock holding costs are charged to finance costs.

2 Accounting policies continued

Investments (up to 31 December 2004)

Both non-current and current asset investments are stated at cost, less provision for impairment.

Investments (after 31 December 2004)

The Group's investments are classified as available for sale or held to maturity (where management has a positive intention and ability to hold the asset to maturity).

Gains and losses on available for sale financial assets are recognised in shareholders' equity, until the investment is sold or is considered to be impaired, at which time the cumulative gain or loss previously reported in shareholders' equity is included in the income statement.

Held to maturity financial assets are carried at amortised cost.

Pensions and other post employment benefits

The Group operates a number of retirement benefit schemes.

The major schemes are defined benefit pension funds with assets held separately from the Group. The cost of providing benefits under the plan is determined separately for each plan using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in operating expenses in the consolidated income statement. Past service costs are similarly included where the benefits have vested otherwise they are amortised on a straight line basis over the vesting period. The expected return on assets of funded defined benefit pension plans and the imputed interest on pension plan liabilities comprise the post retirement benefits element of finance costs and finance income in the income statement.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in shareholders' equity in full in the period in which they arise.

The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

The Group also has a liability in respect of past employees under post retirement healthcare schemes which have been closed to new entrants. These schemes are accounted for on a similar basis to that for defined benefit pension plans in accordance with the advice of independent qualified actuaries.

Share-based payments

The Group operates various share-based award schemes. The fair value at the date at which the share-based awards are granted is recognised in the income statement (together with a corresponding increase in shareholders' equity) on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. For equity settled share-based awards, the services received from employees are measured by reference to the fair value of the awards granted. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Leases

Finance leases, which transfer to the Group substantially all the risks and rewards of ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rental payments, other than contingent rentals, are recognised as an expense in the income statement on a straight line basis over the lease term.

2 **Accounting policies** continued

Revenue and cost of sales

Revenue from the sale of goods and services sold is measured at the fair value of consideration receivable, net of rebates and any discounts. It excludes sales related taxes and intra Group transactions.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically dispatched or when the service has been undertaken.

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

Profits arising on the sale of vehicles to a leasing company, sourced from within the Group, for which a Group company retains a residual value commitment to the leasing company, are recognised over the period of the lease. These vehicles are retained on the balance sheet within property, plant and equipment on the basis that the significant risks and rewards of ownership have not been transferred to the purchaser. The vehicles are written down to their residual value over the term of the lease with the corresponding deferred income included in trade and other payables and released to the income statement over the same period.

Dividend income is recognised when the right to receive payment is established.

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

Income tax

The charge for current income tax is based on the results for the period as adjusted for items which are not taxed or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is accounted for using the liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference is due to goodwill arising on a business combination, negative goodwill arising on a business combination, nor from an asset or liability, the initial recognition of which does not affect either taxable or accounting income.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, short term deposits and other short term liquid investments.

In the consolidated cash flow statement, cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

Offsetting (after 31 December 2004 only)

Balance sheet netting only occurs to the extent that there is the legal ability and intention to settle net. As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with the cash balance.

2 Accounting policies continued

Provisions

Provisions are recognised when the Group has a present obligation in respect of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

Exceptional items

Items which are both material and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, restructuring of businesses, litigation and asset impairments.

Dividends

Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are approved by the Board of Directors.

3 Segmental analysis

The Group's primary reporting format is on a geographical basis.

The Group is organised into six main geographical segments: Australia, Belgium, Greece, Hong Kong, Singapore and the UK.

	Revenue		
	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Australia	**312.4**	302.1	567.3
Belgium	**257.5**	257.9	462.7
Greece	**156.8**	197.4	348.0
Hong Kong	**114.4**	118.9	237.2
Singapore	**366.3**	338.2	652.5
UK	**744.1**	683.5	1,331.3
Other	**305.5**	260.5	520.5
	2,257.0	2,158.5	4,119.5

	Operating profit before exceptional items			Exceptional items			Operating profit after exceptional items		
	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m	**Six months to 30.6.05 £m**	Six months to 30.6.04 £m	Year to 31.12.04 £m	**Six months to 30.6.05 £m**	Six months to 30.6.04 £m	Year to 31.12.04 £m
Australia	**16.1**	14.2	28.1	**–**	0.5	0.6	**16.1**	14.7	28.7
Belgium	**8.3**	8.0	12.6	**–**	(1.3)	(2.1)	**8.3**	6.7	10.5
Greece	**7.8**	8.3	17.7	**–**	–	0.1	**7.8**	8.3	17.8
Hong Kong	**13.0**	11.8	25.6	**–**	–	–	**13.0**	11.8	25.6
Singapore	**34.6**	28.4	53.5	**–**	–	–	**34.6**	28.4	53.5
UK	**15.0**	13.9	25.8	**–**	(5.6)	(19.3)	**15.0**	8.3	6.5
Other	**14.3**	15.1	26.7	**–**	0.1	0.3	**14.3**	15.2	27.0
	109.1	99.7	190.0	**–**	(6.3)	(20.4)	**109.1**	93.4	169.6
Central costs	**(9.0)**	(10.7)	(17.9)	**4.0**	3.4	9.8	**(5.0)**	(7.3)	(8.1)
	100.1	89.0	172.1	**4.0**	(2.9)	(10.6)	**104.1**	86.1	161.5

Share of results of joint ventures and associates

The Group's share of the profit after tax of joint ventures and associates of £3.1m for the six months ended 30 June 2005 (£4.9m for the six months ended 30 June 2004; £7.8m for the year ended 31 December 2004) arises in Hong Kong (£1.7m), the UK (£0.6m), Greece (£0.5m) and Belgium (£0.3m).

4 Exceptional items

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Net profit (loss) on sale and termination of operations:			
– Provision release arising from non-motors business exits	**4.0**	3.6	8.6
– MCL Group Limited and Automotive Group Limited	**–**	(5.6)	(5.8)
– Ferrari Belgium and UK	**–**	–	(5.3)
– Other	**–**	(0.9)	(0.5)
Total net profit (loss) on sale and termination of operations	**4.0**	(2.9)	(3.0)
Goodwill impairment	**–**	–	(9.4)
VAT recovery	**–**	–	1.8
Total exceptional items	**4.0**	(2.9)	(10.6)

The release of provisions in the six months ended 30 June 2005 arises from the settlement and expiry of a number of legal claims relating to non-motors business exits.

A further £4.2m of exceptional finance income in respect of the VAT recovery is included in finance income for the year ended 31 December 2004 (note 5).

In addition, an exceptional profit of £1.2m arising on the sale of properties is included in the share of profit after tax of joint ventures and associates in the income statement for the six months ended 30 June 2004 and the year ended 31 December 2004.

5 Finance income

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Bank interest receivable	**2.8**	2.1	4.1
Post retirement benefits	**–**	0.3	0.5
Other interest receivable	**2.1**	0.8	1.2
Finance income before exceptional finance income	**4.9**	3.2	5.8
Exceptional finance income – VAT recovery	**–**	–	4.2
Total finance income	**4.9**	3.2	10.0

6 Finance costs

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Bank interest payable	**0.8**	0.3	0.3
Stock holding interest	**4.4**	3.4	7.2
Post retirement benefits	**0.1**	–	–
Other interest payable	**2.0**	4.3	8.6
Total finance costs	**7.3**	8.0	16.1

7 Tax

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Current tax:			
– UK corporation tax	**0.9**	4.9	4.6
– Overseas taxes	**24.6**	22.5	44.0
	25.5	27.4	48.6
Deferred tax	**(0.6)**	(4.9)	(5.0)
Total tax charge	**24.9**	22.5	43.6

The tax charge above includes £nil for the six months ended 30 June 2005 (£nil for the six months ended 30 June 2004; £0.5m for the year ended 31 December 2004) arising in respect of exceptional items.

8 Earnings per ordinary share

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Headline profit before tax	**100.8**	87.9	168.4
Tax on Headline profit	**(24.9)**	(22.5)	(43.1)
Minority interests	**(2.1)**	(1.8)	(3.2)
Headline earnings	**73.8**	63.6	122.1
Exceptional items:			
– Group	**4.0**	(2.9)	(10.6)
– Joint ventures and associates	**–**	1.2	1.2
Exceptional finance income	**–**	–	4.2
Tax on exceptional items	**–**	–	(0.5)
Basic earnings	**77.8**	61.9	116.4
Headline earnings per share	**93.9p**	81.3p	155.7p
Basic earnings per share	**99.0p**	79.2p	148.5p
Diluted earnings per share	**97.9p**	78.4p	146.6p

	Six months to 30.6.05 number	Six months to 30.6.04 number	Year to 31.12.04 number
Weighted average number of fully paid ordinary shares in issue during the period	**79,725,947**	79,067,128	79,241,664
Weighted average number of fully paid ordinary shares in issue during the period:			
– Held by the ESOP Trust	**(626,561)**	(866,230)	(840,828)
– Repurchased as part of the share buy back programme	**(537,393)**	–	–
	78,561,993	78,200,898	78,400,836
Dilutive effect of potential ordinary shares	**932,782**	784,404	1,019,268
Adjusted weighted average number of fully paid ordinary shares in issue during the period	**79,494,775**	78,985,302	79,420,104

Headline profit before tax and Headline earnings (which exclude exceptional items and any material impact on profits of not achieving hedge effectiveness under IAS 39) are adopted to assist the reader in understanding the underlying performance of the Group. Headline earnings per share is calculated by dividing the Headline earnings for the period by the weighted average number of fully paid ordinary shares in issue during the period, less those shares held by the ESOP Trust and those repurchased as part of the share buy back programme.

Basic earnings per share is calculated by dividing the basic earnings for the period by the weighted average number of fully paid ordinary shares in issue during the period, less those shares held by the ESOP Trust and those repurchased as part of the share buy back programme.

Diluted earnings per share is calculated on the same basis as the 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.

9 Acquisitions

The Group acquired a number of businesses during the period, none of which was individually material. The estimated consideration payable for these businesses is c. £23.4m, of which £22.5m has been paid in this half year. The provisional fair value of the total net assets acquired was £13.1m, with goodwill arising on these acquisitions of £10.3m.

10 Post retirement benefits

The Group provides employee benefits under various arrangements, including through defined benefit and defined contribution pension plans, the details of which are disclosed in the 2004 annual financial statements. At the interim balance sheet date, the assets and liabilities of the principal defined benefit plans have been updated from the latest actuarial valuations.

11 Shareholders' equity

Share buy back programme

The Group repurchased £31.0m of shares during the six months ended 30 June 2005 in relation to its share buy back programme. These shares are being held as treasury shares within shareholders' equity.

Issue of ordinary shares

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Share capital	**0.3**	0.6	1.1
Share premium	**0.9**	0.9	1.7
	1.2	1.5	2.8

Dividends

The following dividends were paid by the Group.

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Interim dividend for the six months ended 30 June 2004 of 15.0p per share	**–**	–	11.8
Final dividend for the year ended 31 December 2004 of 35.0p per share (2003 – 26.0p per share)	**27.2**	20.4	20.4
	27.2	20.4	32.2

The interim dividend for the six months ended 30 June 2005 of 19.0p per share was approved by the Board on 1 August 2005 and has not been included as a liability as at 30 June 2005.

12 Contingencies

In the six months ended 30 June 2005 the Group has come to a final settlement of the legal claims made by Aon Corporation under an indemnity given in connection with the sale of Bain Hogg Limited in 1996.

In September 2000, the European Parliament passed Directive 2000/53/EC which deals with the collection and disposal of vehicles at the end of their life. The Directive includes a retrospective liability for vehicles put on the road prior to July 2002. Member states were required to enact legislation by 21 April 2002. Legislation has now been enacted in all the Group's core markets in the EU, including the UK, where the legislative framework has now come into effect. In Belgium, Greece and now Finland, there are self-funding arrangements in place with independent companies which will result in a no cost solution for importers. The Directors view these latest developments as favourable to the Group. Accordingly, having reviewed this matter and, based on the information currently available, the Directors still consider that implementation of the Directive will not have a material impact on the financial position of the Group.

13 Reconciliation of net cash flow to movement in net funds

	Six months to 30.6.05 £m	Six months to 30.6.04 £m	Year to 31.12.04 £m
Net (decrease) increase in cash and cash equivalents	**(42.7)**	95.9	76.9
Net cash outflow from borrowings and lease financing	**2.9**	18.1	18.4
Change in net cash and debt resulting from cash flows	**(39.8)**	114.0	95.3
Effect of foreign exchange rate changes on net cash and debt	**10.8**	(21.8)	(13.1)
Net loans and finance leases relating to acquisitions	**(4.0)**	(6.7)	(7.4)
Movement in net funds	**(33.0)**	85.5	74.8
Opening net funds	**151.9**	77.1	77.1
Adoption of IAS 32 and IAS 39	**0.9**	–	–
Closing net funds	**119.8**	162.6	151.9

14 Post balance sheet events

In July 2005, the Group replaced its principal committed borrowing facility of £250.0m with a syndicated five year revolving credit facility of £275.0m.

Company details

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Chartered Accountants and Registered Auditors

Share Registrars
Computershare Investor Services PLC
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Tel: +44 (0) 870 702 0000

Solicitors
Slaughter and May

Stockbrokers
UBS

Inchcape PEPS

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

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

Inchcape ISA

Inchcape has established a Corporate Individual Savings Account (ISA). This is managed by HSBC Trust Company (UK) Ltd who may be contacted for full details at the Corporate PEP and ISA Centre, 5th Floor, City Plaza, 2 Pinfold Street, Sheffield S1 2QZ.
Tel: +44 (0) 845 745 6123
Fax: +44 (0) 114 252 8116

Financial calendar

Annual General Meeting
11 May 2006

Ex-dividend date for 2005 interim dividend
10 August 2005

Record date for 2005 interim dividend
12 August 2005

Interim 2005 ordinary dividend payable
12 September 2005

Senior executives

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Fax: +44 (0) 1832 737127

Inchcape Fleet Solutions
Terry Bartlett
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The following executives have functional responsibilities at Group level:

Audit and Risk Management
Tim Trounce

Business Development
Dale Butcher

Company Secretariat
Roy Williams

Financial Control and Taxation
Amanda Brooks

Human Resources
Nick Smith

Information Systems
Peter Wilson

Investor Relations and External Communications
Emma Woollaston

Treasury
Chris Parker

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