



DOMESTIC & GENERAL

**Interim Report
2002**

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Highlights

six months ended 31 December 2001

- **Turnover** up 35.9% to £77.2 million.
Increase on a like for like basis is 23.8%.

- **Activity profits** up 12.5% to £5.4 million.

- **Operating profits** up 6.7% to £9.5 million.

- **Investment return reflects lower interest rates and poor equity market performance**

- **Interim dividend per share** increased 10% to 6.16p.

- **Further progress expected**

Chairman's Statement

Overview

During the six months ended 31 December 2001, the Group has made significant progress in developing its business. Strong warranty turnover growth, coupled with the acquisition of Inkfish, have laid down solid foundations for future progress. The benefits of recent warranty account wins have yet to impact fully on either turnover or earnings. Activity profits before investment income have increased by 12.5% to £5.4 million which reflects the positive underlying dynamics of the business. Operating profits, including equity returns using a long-term rate of return, have increased by 6.7% to £9.5 million. Actual investment return reflects falling interest rates and poor equity market performance which have resulted in a small reduction in total profits before tax of £0.3 million to £8.0 million. The Group has entered an exciting new phase in its development and now employs over 1,500 staff across 11 locations. Our team's commitment and enthusiasm have been significant elements in the success we have enjoyed over the last 6 months and going forward we are confident of developing successfully the strong position we have created for the Group.

Dividends

The Board has declared an interim dividend of 6.16p (2000: 5.60p) per ordinary share, which

will be paid on 9 May 2002 to shareholders who are on the Register at the close of business on 5 April 2002.

Turnover

Group turnover has increased by 35.9% to £77.2 million, which includes the results of Inkfish. On a like for like basis, turnover has increased by 23.8%.

Insurance Activities and Warranty Service Plans

During the six months ended 31 December 2001, the Group has made considerable progress in developing its warranty business. In the UK, turnover is up 23% which reflects our success in winning new accounts over the last 12 months together with the ongoing development of our existing business. Earned warranty income has increased by only 8% as the benefits of stronger top line growth will emerge over the period of the underlying contracts. Additional costs have been incurred to support increased turnover growth and we have experienced higher loss ratios in the period. In Europe, turnover has increased by 11.8% and Germany has broken even for the six months.

Support Services

Like for like turnover growth in our Support Services division has increased by 69% to

£2.2 million with a further £6.9 million being generated by Inkfish. Margins are being maintained across all sectors and the contribution from our Support Services division increased from £0.2 million to £1.2 million.

Investments and investment return

The overall investment portfolio, net of borrowings, is £127.2 million and comprises cash deposits, loans, equities and group occupied properties.

The investment return on the cash portfolio is underpinned by an interest rate floor, covering £75 million until November 2003, which will provide a minimum net return of approximately 6.25%. The equity portfolio is a long-term investment and operating profits include an investment return based on a long-term rate of return applied to the weighted equity portfolio. Any variance between this long-term return and the actual return is credited or charged to the profit and loss account in arriving at profits before tax. The appropriate long-term rate being applied is currently 8%.

During the six months to 31 December 2001, interest rates have fallen significantly and the equity market has suffered a number of setbacks. Consequently, total investment income has reduced to £2.6 million and the

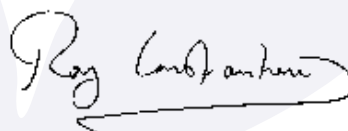
equity portfolio has under-performed the long-term rate of return by £1.5 million.

Inkfish

As previously reported, the Company acquired Inkfish, an inbound and outbound call centre business with operations in Slough, Redhill and Brighton, on 2 July 2001. The maximum consideration for the acquisition is £14.6 million, which will be determined finally on the basis of Inkfish profits for the year ending 30 June 2002. The initial consideration was £7.7 million and has been settled by cash, loan notes and shares. At this stage, it is estimated that the maximum consideration will apply and £6.9 million deferred consideration is included in creditors.

Outlook

I expect the strong turnover growth to continue in the second half of the year and I believe that the Group will continue to make progress.



*The Hon. Roy Constantine
Chairman*

28 February 2002

Consolidated Profit and Loss Account

		<i>Six months ended</i> 31 December 2001 <i>(Unaudited)</i>	<i>Six months ended</i> 31 December 2000 <i>(Unaudited)</i>	<i>Year ended</i> 30 June 2001
	<i>Note</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Turnover				
Continuing operations		70.3	56.8	115.9
Acquisitions		6.9	—	—
		<hr/>	<hr/>	<hr/>
	1	77.2	56.8	115.9
Activity profit	2	5.4	4.8	11.6
Net investment income	3	2.6	3.5	6.3
Variance from long-term return on equities	4	1.5	0.6	2.0
		<hr/>	<hr/>	<hr/>
Operating profit including longer term investment return		9.5	8.9	19.9
Short-term variance in investment return	4	(1.5)	(0.6)	(2.0)
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities before tax:				
Continuing operations		7.4	8.3	17.9
Acquisitions		0.6	—	—
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities before tax		8.0	8.3	17.9
Tax on profit on ordinary activities		(2.5)	(2.5)	(5.2)
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities after taxation attributable to shareholders		5.5	5.8	12.7
Dividends	5	(2.2)	(2.0)	(6.0)
		<hr/>	<hr/>	<hr/>
Retained profit for the period transferred to reserves		3.3	3.8	6.7
		<hr/>	<hr/>	<hr/>
Earnings per share	6	15.68p	16.63p	36.52p
		<hr/>	<hr/>	<hr/>
Diluted earnings per share	6	15.61p	16.54p	36.35p
		<hr/>	<hr/>	<hr/>
Dividends per share	5	6.16p	5.60p	17.30p
		<hr/>	<hr/>	<hr/>

Consolidated Balance Sheet

		31 December 2001 (Unaudited) £m	31 December 2000 (Unaudited) £m	30 June 2001 £m
	Note			
ASSETS				
Intangible assets		14.7	0.7	0.7
Investments	7	133.1	124.3	128.2
Assets held to cover linked liabilities		2.5	3.0	2.9
Reinsurers' share of technical provisions	10	1.5	2.1	1.7
Debtors	11	40.4	25.7	28.8
Other assets	12	9.2	4.6	5.4
Prepayments and accrued income	13	36.3	31.5	30.5
Total Assets		237.7	191.9	198.2
LIABILITIES				
Capital and reserves				
Called up share capital	15	3.6	3.5	3.5
Share premium account	15	7.7	1.8	1.8
Profit and loss account		61.4	55.3	58.2
Shareholders' funds attributable to equity interests		72.7	60.6	63.5
Technical provisions	16	117.3	113.4	113.6
Fund for future appropriations		0.2	0.2	0.2
Provisions for other risks and charges		(0.4)	(0.2)	(0.4)
Creditors	17	35.3	16.3	19.1
Accruals and deferred income	18	12.6	1.6	2.2
Total Liabilities		237.7	191.9	198.2

Consolidated Cash Flow Statement

	Six months ended 31 December 2001 (Unaudited) £m	Six months ended 31 December 2000 (Unaudited) £m	Year ended 30 June 2001 £m
OPERATING ACTIVITIES			
Premiums received from policyholders	56.1	53.5	107.9
Net reinsurance	(0.3)	(0.8)	(1.1)
Claims paid	(26.1)	(22.2)	(49.1)
Commissions paid	(4.3)	(2.2)	(4.3)
Cash paid to and on behalf of employees	(12.2)	(7.1)	(14.5)
Interest received	2.8	2.4	7.5
Other operating cash payments	(21.6)	(13.3)	(26.5)
Other operating cash receipts	19.1	0.9	2.8
Net cash inflow from operating activities	13.5	11.2	22.7
Returns on investment and servicing of finance	(0.2)	—	—
Taxation	(1.6)	(1.2)	(4.9)
Capital expenditure and financial investment	(4.6)	(0.6)	(2.2)
Acquisitions	(7.9)	—	—
Equity dividends paid	(4.1)	(3.5)	(5.5)
Financing	6.0	0.5	0.5
Increase in cash in the period	1.1	6.4	10.6
Cash flows were invested as follows:			
Cash holdings	0.2	0.1	0.2
Deposits with credit institutions	6.0	—	(0.6)
Gilts and fixed interest securities	0.1	—	0.1
Investment properties	—	0.2	0.2
Ordinary shares and unit trusts	—	—	5.0
Personal loans	(0.4)	1.2	1.7
Amounts owed to credit institutions	(4.8)	4.9	4.0
Net investment of cash flows	1.1	6.4	10.6

Notes to the Unaudited Financial Statements

1. Turnover

	Six months ended 31 December 2001 (Unaudited) £m	Six months ended 31 December 2000 (Unaudited) £m	Year ended 30 June 2001 £m
UK	66.2	53.8	109.6
Other EU member states	1.9	1.7	3.3
Warranty and insurance	68.1	55.5	112.9
Support services	9.1	1.3	3.0
Turnover	77.2	56.8	115.9

2. Profit before Taxation

(a) Analysis

	£m	£m	£m
Warranty and insurance:			
Earned income	55.1	51.0	104.3
Repair costs and claims	(26.8)	(24.0)	(48.7)
Incurred acquisition costs	(12.9)	(12.7)	(25.2)
Administrative expenses	(10.5)	(9.4)	(18.5)
Contribution from warranty and insurance	4.9	4.9	11.9
Support services:			
Income	9.1	1.3	3.3
Direct costs	(5.4)	(0.9)	(2.4)
Administrative expenses	(2.5)	(0.2)	(0.5)
Contribution from support services	1.2	0.2	0.4
Other charges	(0.4)	(0.3)	(0.6)
Amortisation of goodwill	(0.3)	—	(0.1)
Activity profit before investment income and tax	5.4	4.8	11.6
Net investment income (note 3)	2.6	3.5	6.3
Variance from longer term investment return	1.5	0.6	2.0
Operating profit including longer term investment return	9.5	8.9	19.9
Short-term variance in investment return	(1.5)	(0.6)	(2.0)
Profit before taxation	8.0	8.3	17.9

Notes to the Unaudited Financial Statements

2. Profit before Taxation continued

	Six months ended 31 December 2001 (Unaudited)	Six months ended 31 December 2000 (Unaudited)	Year ended 30 June 2001
	£m	£m	£m
(b) Geographic			
UK	8.2	8.6	18.4
Other EU member states	(0.2)	(0.3)	(0.5)
	<u>8.0</u>	<u>8.3</u>	<u>17.9</u>

3. Net investment income

(a) Analysis

	£m	£m	£m
Investment income	3.8	3.8	7.6
Interest payable	(0.2)	—	—
Unrealised gains/(losses)	(1.0)	(0.3)	(1.3)
	<u>2.6</u>	<u>3.5</u>	<u>6.3</u>

(b) By source

	£m	£m	£m
Deposits and loans	3.5	3.6	7.2
Equities	(0.9)	(0.2)	(1.1)
Properties	—	0.1	0.2
	<u>2.6</u>	<u>3.5</u>	<u>6.3</u>

4. *Investment return on equities*

Taking a long-term view, equity investments are expected to produce total investment income and gains equal to the market long-term rate of return, which is kept under review and is currently expected to be 8% per annum.

The expected annual return, using the long-term rate, is calculated on the market value of equity investments at the beginning of the year adjusted for changes in the level of investment during the year. The expected annual return is included in operating profits for the year and the variance from this expected annual return is deemed to be a short-term variation which is treated as an adjustment between operating profits and profit before tax.

	<i>Six months ended 31 December 2001 (Unaudited)</i>	<i>Six months ended 31 December 2000 (Unaudited)</i>	<i>Year ended 30 June 2001</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Investment income	0.1	0.1	0.2
Unrealised gains and losses	(1.0)	(0.3)	(1.3)
Actual investment return	(0.9)	(0.2)	(1.1)
Expected longer term return	(0.6)	(0.4)	(0.9)
Short-term variance in investment return	(1.5)	(0.6)	(2.0)

5. *Dividends*

The Board has declared an interim dividend of 6.16p per ordinary 10p share payable on 9 May 2002 to shareholders who are on the Register at the close of business on 5 April 2002.

6. *Earnings per share*

Earnings per share of 15.68p and 16.63p for the six months to 31 December 2001 and 2000 respectively have been calculated on the basis of 34,905,864 and 34,687,861 weighted average number of shares in issue. Diluted earnings per share have been calculated in accordance with FRS 14 and allow for the exercise of outstanding share options and the average share price during the period.

7. *Investments*

	<i>31 December 2001 (Unaudited)</i>	<i>31 December 2000 (Unaudited)</i>	<i>30 June 2001</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Freehold land and buildings	5.2	5.2	5.2
Shares, securities and mortgages	15.2	11.8	15.9
Loans	14.1	13.9	14.4
Deposits with credit institutions	98.6	93.4	92.7
	133.1	124.3	128.2

Notes to the Unaudited Financial Statements

8. Acquisition of Inkfish call centres limited (“Inkfish”)

On 2 July 2001, the Company acquired the whole of the issued share capital of Inkfish, which provides inbound and outbound telephone services and has call centres in Slough, Redhill and Brighton.

The maximum total consideration is £14.6 million, which will finally be determined on the basis of Inkfish profits for the year ending 30 June 2002. The initial consideration amounted to £7.7 million and was settled by £1.4 million in cash, £0.45 million of loan notes and £5.85 million by the issue of shares. At this stage, it is estimated that the maximum consideration will apply and £6.9 million deferred consideration is included in creditors.

The fair value of the net assets acquired was £0.371 million.

9. Goodwill

Goodwill arising on the acquisition of Inkfish, which has been accounted for on the acquisition basis, represents the difference between the purchase consideration and fair value of the assets acquired. Goodwill is included as an intangible asset and is amortised on a straight line basis over a period of 20 years, to reflect the nature of the business acquired.

10. Reinsurers’ Share of Technical Provisions

	31 December 2001 (Unaudited) £m	31 December 2000 (Unaudited) £m	30 June 2001 £m
Unearned premiums	0.8	1.4	1.0
Long-term business provision	0.5	0.5	0.5
Claims outstanding	0.2	0.2	0.2
	<u>1.5</u>	<u>2.1</u>	<u>1.7</u>

11. Debtors

	£m	£m	£m
Debtors arising from direct insurance and warranty operations	35.0	24.0	26.0
Debtors arising from reinsurance operations	—	0.2	—
Other	5.4	1.5	2.8
	<u>40.4</u>	<u>25.7</u>	<u>28.8</u>

12. Other Assets

	£m	£m	£m
Tangible assets	8.4	4.1	4.8
Cash at bank and in hand	0.8	0.5	0.6
	<u>9.2</u>	<u>4.6</u>	<u>5.4</u>

13. Prepayments and Accrued Income

	31 December 2001 (Unaudited)	31 December 2000 (Unaudited)	30 June 2001
	£m	£m	£'m
Accrued interest and rent	1.8	2.5	1.0
Deferred acquisition costs	32.4	27.4	27.6
Other prepayments and accrued income	2.1	1.6	1.9
	36.3	31.5	30.5

14. Deferred Acquisition Costs

	Commission 31 December 2001 (Unaudited)	Other expenses 31 December 2001 (Unaudited)	Total 31 December 2001 (Unaudited)
	£'000	£'000	£'000
At 1 July 2001	6.3	21.3	27.6
Arising in period	5.9	11.7	17.6
Charge for period	(2.1)	(10.7)	(12.8)
At 31 December 2001	10.1	22.3	32.4

15. Share Capital and Share Premium

	Share capital	Share premium
	£m	£m
At 1 July 2001	3.5	1.8
Arising in period	0.1	5.9
At 31 December 2001	3.6	7.7

16. Technical Provisions

	31 December 2001 (Unaudited)	31 December 2000 (Unaudited)	30 June 2001
	£m	£m	£m
Unearned premiums	107.0	102.0	103.9
Claims outstanding	5.9	6.3	4.9
Long-term business fund	1.9	2.1	1.9
Linked liabilities	2.5	3.0	2.9
	117.3	113.4	113.6

17. Creditors

	31 December 2001	31 December 2000	30 June 2001
	(Unaudited)	(Unaudited)	
	£m	£m	£m
Insurance creditors	10.1	7.9	7.7
Due to credit institutions	5.9	0.3	1.0
Dividends	2.2	1.9	4.1
Taxation and social security	6.2	5.1	4.0
Deferred consideration	6.9	—	—
Other	4.0	1.1	2.3
	35.3	16.3	19.1

18. Accruals and deferred income

	£m	£m	£m
Accruals	2.5	1.5	1.5
Deferred income	10.1	0.1	0.7
	12.6	1.6	2.2

19. The results for the six months ended 31 December 2001 and 2000 and the results for the year ended 30 June 2001 do not constitute statutory accounts. The statutory accounts for the year ended 30 June 2001 received an unqualified auditors' report and have been delivered to the Registrar of Companies.

20. A copy of this statement is being sent to all shareholders. Further copies are available from Domestic & General Group PLC, Swan Court, Mansel Road, Wimbledon, London, SW19 4AA.

Financial Calendar

Dividends

Interim 2001/2002	—Ex dividend	3 April 2002
	—Record date	5 April 2002
	—Payment	9 May 2002
Final 2001/2002	—Ex dividend	9 October 2002
	—Record date	11 October 2002
	—Payment	15 November 2002

Announcements

Preliminary results for year ended 30 June 2002 29 August 2002

Annual General Meeting 13 November 2002



DOMESTIC & GENERAL

Domestic & General Group PLC
Swan Court, 2A Mansel Road,
Wimbledon, SW19 4AA

Telephone: (020) 8946 7777