

Domestic & General **Interim Report 2003**





Financial Highlights for six months ended 31 December 2002

- **Turnover** up 39.1% to £107.4 million.
Increase on a like for like basis 38.2%.

- **Operating profits** down 23.2% to £7.3 million.
Decrease on a like for like basis 21.1%.

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

- **Reduction in value of equity portfolio** of £2.0 million;
adverse variance of £2.5 million from expected
longer term return.

- **Interim dividend per share** increased by 10.1% to 6.78p.

- **Board confident** about prospects and development
of Group.

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Report to the Shareholders

Overview

Group turnover has continued to grow strongly, by 39.1% to £107.4 million. Whilst the overall results for the period are disappointing and operating profits are down 23.2% to £7.3 million, the Board is confident that the fundamental structure and underlying strategy of both the warranty division and the support services division remain sound.

Low interest rates have affected investment returns and our investment portfolio has fallen in value by £2.0 million with the consequence that total profits are down 40.0% to £4.8 million.

Our warranty division occupies a key position with our manufacturing and retail clients. We have a strong franchise within our industry with household name trade partners and their customers. We now provide warranty protection for over 4 million appliances and, in 2002, we settled over 900,000 claims. Our business is based on providing a quality service at every point of contact.

The support services division, centred on the Inkfish brand, can now provide individual or integrated telephony, mailing, fulfilment and administration services. The division is concentrating on longer term relationships to provide a firm base for profitable development and growth.

Dividends

The Board has declared an interim dividend of 6.78p (2001: 6.16p) per ordinary share, which will be paid on 9 May 2003. The Group's operating performance has not matched expectations in the first half and is unlikely to show any significant improvement in the second half. However, given the excellent recent turnover growth within the warranty division, the benefits of which are expected to flow through in future periods, the Board is confident of the Group's future prospects and is reflecting this confidence by increasing the dividend by 10.1%.

Warranty

| | Six months December 2002 | Six months December 2001 | Year June 2002 |
|-----------------------------------|-----------------------------|-----------------------------|-------------------|
| | £m | £m | £m |
| UK | 93.4 | 65.5 | 148.5 |
| Other EU member states | 2.7 | 1.9 | 3.7 |
| Warranty turnover | 96.1 | 67.4 | 152.2 |
| Earned income | 72.9 | 54.5 | 115.0 |
| Repair costs and claims | (38.4) | (26.3) | (58.5) |
| Incurred acquisition costs | (19.4) | (12.9) | (28.1) |
| Administrative expenses | (11.5) | (10.5) | (20.2) |
| Contribution from warranty | 3.6 | 4.8 | 8.2 |
| Claims ratio | 52.7% | 48.3% | 50.9% |

Our warranty division has continued to deliver strong turnover growth, which is up 42.6% to £96.1m. Earned income has increased by 33.8% to £72.9m reflecting the higher levels of new business written over recent periods. However, the increased weighting of new business in our earned income has led to both higher claims ratios and higher expenses. The overall contribution from our warranty division has reduced to £3.6m.

We have made good progress in Europe. Turnover is up 42.1% and Germany has continued to generate profits. Overall losses in continental Europe have halved to £0.1 million.

The Competition Commission inquiry is ongoing with hearings scheduled for the spring and findings due to be published in the summer.



Report to the Shareholders

Support Services

| | Six months December 2002 | Six months December 2001 | Year June 2002 |
|---|-----------------------------|-----------------------------|-------------------|
| | £m | £m | £m |
| Telephony | 8.3 | 7.7 | 15.8 |
| Other services | 1.3 | 1.4 | 2.6 |
| Support services turnover | 9.6 | 9.1 | 18.4 |
| Telephony | 0.3 | 0.8 | 2.0 |
| Other services | 0.1 | 0.4 | 0.2 |
| Contribution from support services | 0.4 | 1.2 | 2.2 |

Support services comprise telephony, mailing, fulfilment and warranty administration services to trade partners both within and outside our traditional electrical and heating industries.

Turnover growth of just 5.5% and the reduction in contribution are disappointing. New contracts have been slower to crystallise than expected and we have incurred additional infrastructure expenses in our telephony division in anticipation of higher levels of growth. We have taken action, at an additional cost in the period of approximately £0.2 million, to reduce expenses where appropriate but the anticipated results for the year will remain disappointing. Although prospect business in the pipeline looks promising, there is likely to be only minimal beneficial impact this year.

Our mailing house, which principally services the warranty division, has reached its operational capacity and it is our intention to move to larger premises in autumn of this year.

Pets

| | Six months December 2002 | Six months December 2001 | Year June 2002 |
|---------------------------------------|-----------------------------|-----------------------------|-------------------|
| | £m | £m | £m |
| Continuing activities | 1.0 | 0.7 | 1.6 |
| Acquisition – Pet Protect | 0.7 | — | — |
| Pet division turnover | 1.7 | 0.7 | 1.6 |
| Continuing activities | — | 0.1 | 0.1 |
| Acquisition – Pet Protect | (0.2) | — | — |
| Contribution from pet division | (0.2) | 0.1 | 0.1 |

The successful acquisition of Pet Protect Limited was completed in September 2002. Pet Protect is a marketing and administration intermediary with the underwriting capability being provided by third parties. This business is complementary to our existing pet book, which operates with a different distribution channel and is underwritten within the Group. Some transitional costs of approximately £0.2 million of relocating and restructuring the acquisition have been incurred but the business is performing in line with expectation and the prospects are good.

Investment Income

| | Six months December 2002 | Six months December 2001 | Year June 2002 |
|----------------------------------|-----------------------------|-----------------------------|-------------------|
| | £m | £m | £m |
| Investment income | 3.8 | 3.8 | 7.4 |
| Interest payable | (0.2) | (0.2) | (0.3) |
| Unrealised losses | (2.0) | (1.0) | (1.6) |
| <hr/> | <hr/> | <hr/> | <hr/> |
| Net investment income | 1.6 | 2.6 | 5.5 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| Variance from longer term return | (2.5) | (1.5) | (2.9) |
| <hr/> | <hr/> | <hr/> | <hr/> |

Lower interest rates have impacted upon our investment returns, although £75million of our funds remain protected at a net interest rate of 6.25% until November 2003. Falling stock markets have had a negative impact on our equity portfolio, which is included in the variance from the expected long-term rate of return.

Retirement of Roy Constantine

As previously reported, The Hon. Roy Constantine is retiring as a director on 28 February 2003. Roy joined the Company as a non-executive director in 1984 and served as Chairman from 1998 to November 2002. I would like to thank Roy for his invaluable contribution to the successful development of our Group and wish him well in his retirement.

Outlook

Warranty turnover is expected to progress well in the second half, albeit at a lower rate than achieved over the last 18 months, reflecting the impact of accounts won over the last 2 years. As this recent strong growth stabilises and earned income continues to grow we are confident that the prospects for future periods remain strong. The claims ratio going forward will reflect the changing profile of our business mix. In the current year, the weighting of earned income relating to new business is increasing and consequently there will be a further small rise in the aggregate claims ratio this year.

The anticipated increased operational contribution from our warranty division next financial year will be tempered by the reduction in investment income when our interest rate protection expires in November 2003. At current market rates this would have the impact of reducing investment income by approximately £1.2million for the 2003/4 year.

In support services, we anticipate that an improvement in telephony will not occur until late in the fourth quarter as new accounts come on stream, whereas in the other services we expect there to be an improved performance throughout the second half of the year. Despite the current challenging economic environment, pipeline prospect activity in our support services division in both telephony and fulfilment is promising and, with the expansion of our mailing unit, we are well placed to deliver improved results next year.

Overall, we remain confident about the prospects and development of our Group.



Nicholas D Rochez
Chairman

27 February 2003



Consolidated Profit and Loss Account

| | | Six months ended 31 December 2002 (Unaudited) £m | Six months ended 31 December 2001 (Unaudited) £m | Year ended 30 June 2002 £m |
|---|----------|---|---|----------------------------------|
| Turnover | | | | |
| Continuing operations | | 106.7 | 77.2 | 172.2 |
| Acquisitions | | 0.7 | — | — |
| Total turnover | 1 | 107.4 | 77.2 | 172.2 |
| Activity profit | 2 | 3.2 | 5.4 | 9.2 |
| Net investment income | 3 | 1.6 | 2.6 | 5.5 |
| Variance from long-term return on equities | 4 | 2.5 | 1.5 | 2.9 |
| Operating profit including longer term investment return | | 7.3 | 9.5 | 17.6 |
| Short-term variance in investment return | 4 | (2.5) | (1.5) | (2.9) |
| Profit on ordinary activities before tax: | | | | |
| Continuing operations | | 5.0 | 8.0 | 14.7 |
| Acquisitions | | (0.2) | — | — |
| Profit on ordinary activities before tax | | 4.8 | 8.0 | 14.7 |
| Tax on profit on ordinary activities | | (1.6) | (2.5) | (4.6) |
| Profit on ordinary activities after taxation attributable to shareholders | | 3.2 | 5.5 | 10.1 |
| Dividends | 5 | (2.4) | (2.2) | (6.8) |
| Retained profit for the period transferred to reserves | | 0.8 | 3.3 | 3.3 |
| Earnings per share — basic | 6 | 8.80p | 15.68p | 28.75p |
| Earnings per share — adjusted | 6 | 9.76p | 16.68p | 30.61p |
| Diluted earnings per share | 6 | 8.61p | 15.61p | 28.60p |
| Dividends per share | 5 | 6.78p | 6.16p | 19.03p |

Consolidated Balance Sheet

| | | 31 December 2002 (Unaudited) £m | 31 December 2001 (Unaudited) £m | 30 June 2002 £m |
|--|-------------|---------------------------------------|---------------------------------------|--------------------|
| | Note | | | |
| Assets | | | | |
| Intangible assets | 9 | 11.4 | 14.7 | 11.5 |
| Investments | 7 | 140.1 | 133.1 | 137.7 |
| Assets held to cover linked liabilities | | 2.0 | 2.5 | 2.4 |
| Reinsurers' share of technical provisions | | 1.3 | 1.5 | 1.3 |
| Debtors | 10 | 72.0 | 40.4 | 53.8 |
| Other assets | 11 | 11.8 | 9.2 | 9.7 |
| Prepayments and accrued income | 12 | 50.8 | 36.3 | 42.3 |
| Total Assets | | 289.4 | 237.7 | 258.7 |
| Liabilities | | | | |
| Capital and reserves | | | | |
| Called up share capital | 14 | 3.6 | 3.6 | 3.6 |
| Share premium account | 14 | 8.3 | 7.7 | 7.8 |
| Profit and loss account | | 62.3 | 61.4 | 61.5 |
| Shareholders' funds attributable to equity interests | | 74.2 | 72.7 | 72.9 |
| Technical provisions | 15 | 126.4 | 117.3 | 122.4 |
| Fund for future appropriations | | — | 0.2 | — |
| Provisions for other risks and charges | | (0.1) | (0.4) | 0.1 |
| Creditors: amounts falling due within one year | 16 | 37.7 | 35.3 | 31.3 |
| Accruals and deferred income | 17 | 51.1 | 12.6 | 31.7 |
| Creditors: amounts falling due after more than one year | | 0.1 | — | 0.3 |
| Total Liabilities | | 289.4 | 237.7 | 258.7 |



Consolidated Cash Flow Statement

| | Six months ended 31 December 2002 (Unaudited) £m | Six months ended 31 December 2001 (Unaudited) £m | Year ended 30 June 2002 £m |
|---|---|---|----------------------------------|
| Net cash inflow from operating activities | 19.0 | 13.5 | 26.9 |
| Returns on investment and servicing of finance | (0.2) | (0.2) | (0.3) |
| Taxation | (0.9) | (1.6) | (6.5) |
| Capital expenditure and financial investment | (2.5) | (4.6) | (5.6) |
| Acquisitions | (4.1) | (7.9) | (7.9) |
| Equity dividends paid | (4.6) | (4.1) | (6.3) |
| Financing | 0.6 | 6.0 | 6.1 |
| Increase in cash in the period | 7.3 | 1.1 | 6.4 |
| Cash flows were invested as follows: | | | |
| Cash holdings | 1.5 | 0.2 | 0.2 |
| Deposits with credit institutions | 3.7 | 6.0 | (4.2) |
| Gilts and fixed interest securities | — | 0.1 | 0.2 |
| Cash liquidity funds | 0.3 | — | 15.6 |
| Personal loans | 0.6 | (0.4) | (0.2) |
| Amounts owed to credit institutions | 1.2 | (4.8) | (5.2) |
| Net investment of cash flows | 7.3 | 1.1 | 6.4 |

Notes to the Unaudited Financial Statements

1. Turnover

| | Six months ended 31 December 2002 (Unaudited) £m | Six months ended 31 December 2001 (Unaudited) £m | Year ended 30 June 2002 £m |
|-----------------------------------|---|---|----------------------------------|
| Warranty — UK | 93.4 | 65.5 | 148.5 |
| Warranty — Other EU member states | 2.7 | 1.9 | 3.7 |
| Warranty income | 96.1 | 67.4 | 152.2 |
| Pet gross premiums | 1.0 | 0.7 | 1.6 |
| Support services | 9.6 | 9.1 | 18.4 |
| Like for like turnover | 106.7 | 77.2 | 172.2 |
| Acquisitions — Pet Protect | 0.7 | — | — |
| Total turnover | 107.4 | 77.2 | 172.2 |

2. Operating profit before investment income

| | £m | £m | £m |
|------------------------------------|--------|--------|--------|
| Warranty: | | | |
| Earned income | 72.9 | 54.5 | 115.0 |
| Repair costs and claims | (38.4) | (26.3) | (58.5) |
| Incurred acquisition costs | (19.4) | (12.9) | (28.1) |
| Administrative expenses | (11.5) | (10.5) | (20.2) |
| Contribution from warranty | 3.6 | 4.8 | 8.2 |
| Pets: | | | |
| Earned income | 0.8 | 0.6 | 1.3 |
| Claims | (0.7) | (0.5) | (1.1) |
| Commission income | 0.7 | — | — |
| Incurred acquisition costs | (0.3) | — | — |
| Administrative expenses | (0.7) | — | (0.1) |
| Contribution from pet division | (0.2) | 0.1 | 0.1 |
| Support services: | | | |
| Income | 9.6 | 9.1 | 18.4 |
| Direct costs | (5.7) | (5.4) | (10.9) |
| Administrative expenses | (3.5) | (2.5) | (5.3) |
| Contribution from support services | 0.4 | 1.2 | 2.2 |



Notes to the Unaudited Financial Statements

2. Operating profit before investment income continued

| | Six months ended 31 December 2002 (Unaudited) £m | Six months ended 31 December 2001 (Unaudited) £m | Year ended 30 June 2002 £m |
|--|---|---|----------------------------------|
| Total contribution | 3.8 | 6.1 | 10.5 |
| Other charges | (0.3) | (0.4) | (0.6) |
| Amortisation of goodwill | (0.3) | (0.3) | (0.7) |
| Profit before investment income and tax | 3.2 | 5.4 | 9.2 |

3. Net investment income

| | £m | £m | £m |
|-------------------|------------|------------|------------|
| Investment income | 3.8 | 3.8 | 7.4 |
| Interest payable | (0.2) | (0.2) | (0.3) |
| Unrealised losses | (2.0) | (1.0) | (1.6) |
| | 1.6 | 2.6 | 5.5 |

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 7% 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.

| | Six months ended 31 December 2002 (Unaudited) £m | Six months ended 31 December 2001 (Unaudited) £m | Year ended 30 June 2002 £m |
|---|---|---|----------------------------------|
| Expected longer term return | 0.5 | 0.6 | 1.1 |
| Actual investment return | (2.0) | (0.9) | (1.8) |
| Short-term variance in investment return | (2.5) | (1.5) | (2.9) |

5. Dividends

The Board has declared an interim dividend of 6.78p per ordinary 10p share payable on 9 May 2003 to shareholders who are on the Register at the close of business on 4 April 2003.

6. Earnings per share

Earnings per share of 8.80p and 15.68p for the six months to 31 December 2002 and 2001 respectively have been calculated on the basis of 35,839,553 and 34,905,864 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. Adjusted earnings per share have been based on profit attributable to shareholders but adding back goodwill and amortisation.

7. Investments

| | 31 December 2002 (Unaudited) £m | 31 December 2001 (Unaudited) £m | 30 June 2002 £m |
|-----------------------------------|---------------------------------------|---------------------------------------|--------------------|
| Freehold land and buildings | 5.6 | 5.2 | 5.6 |
| Shares, securities and mortgages | 12.0 | 15.2 | 14.0 |
| Loans | 14.7 | 14.1 | 14.2 |
| Cash liquidity funds | 16.0 | — | 15.6 |
| Deposits with credit institutions | 91.8 | 98.6 | 88.3 |
| | <u>140.1</u> | <u>133.1</u> | <u>137.7</u> |

8. Acquisition of Pet Protect Limited

On 10 September 2002, the Company acquired, for a cash consideration, the whole of the issued share capital of Pet Protect Limited, a marketing and administration intermediary in the pet insurance market.

9. Goodwill

| | Cost £m | Amortisation £m | Net £m |
|---------------------|-------------|--------------------|-------------|
| At 1 July 2002 | 12.3 | (0.8) | 11.5 |
| Arising in period | 0.2 | — | 0.2 |
| Charge for period | — | (0.3) | (0.3) |
| At 31 December 2002 | <u>12.5</u> | <u>(1.1)</u> | <u>11.4</u> |



Notes to the Unaudited Financial Statements

10. Debtors

| | 31 December 2002 (Unaudited) £m | 31 December 2001 (Unaudited) £m | 30 June 2002 £m |
|--|---------------------------------------|---------------------------------------|--------------------|
| Debtors arising from direct insurance operations | 32.9 | 27.7 | 30.8 |
| Debtors arising from service plans | 25.1 | 7.3 | 15.9 |
| Debtors arising from intermediary operations | 5.9 | — | — |
| Other | 8.1 | 5.4 | 7.1 |
| | <u>72.0</u> | <u>40.4</u> | <u>53.8</u> |

11. Other assets

| | £m | £m | £m |
|--------------------------|-------------|------------|------------|
| Tangible assets | 9.7 | 8.4 | 8.9 |
| Cash at bank and in hand | 2.1 | 0.8 | 0.8 |
| | <u>11.8</u> | <u>9.2</u> | <u>9.7</u> |

12. Prepayments and accrued income

| | £m | £m | £'m |
|--------------------------------------|-------------|-------------|-------------|
| Deferred acquisition costs | 47.0 | 32.4 | 39.2 |
| Other prepayments and accrued income | 3.8 | 3.9 | 3.1 |
| | <u>50.8</u> | <u>36.3</u> | <u>42.3</u> |

13. Deferred acquisition costs

| | Commission 31 December 2002 (Unaudited) £'000 | Other expenses 31 December 2002 (Unaudited) £'000 | Total 31 December 2002 (Unaudited) £'000 |
|---------------------|--|--|---|
| At 1 July 2002 | 14.4 | 24.8 | 39.2 |
| Arising in period | 7.3 | 18.0 | 25.3 |
| Charge for period | (5.6) | (11.9) | (17.5) |
| At 31 December 2002 | 16.1 | 30.9 | 47.0 |

14. Share capital and share premium

| | Share capital £m | Share premium £m |
|---------------------|---------------------|---------------------|
| At 1 July 2002 | 3.6 | 7.8 |
| Arising in period | — | 0.5 |
| At 31 December 2002 | 3.6 | 8.3 |

15. Technical provisions

| | 31 December 2002 (Unaudited) £m | 31 December 2001 (Unaudited) £m | 30 June 2002 £m |
|-------------------------|---------------------------------------|---------------------------------------|--------------------|
| Unearned premiums | 116.6 | 107.0 | 111.4 |
| Claims outstanding | 5.9 | 5.9 | 6.5 |
| Long-term business fund | 1.9 | 1.9 | 2.1 |
| Linked liabilities | 2.0 | 2.5 | 2.4 |
| | 126.4 | 117.3 | 122.4 |



Notes to the Unaudited Financial Statements

16. Creditors

| | 31 December 2002 (Unaudited) | 31 December 2001 (Unaudited) | 30 June 2002 |
|------------------------------|---|---|---------------------|
| | £m | £m | £m |
| Insurance creditors | 8.3 | 10.1 | 6.2 |
| Intermediary creditors | 6.7 | — | — |
| Due to credit institutions | 6.1 | 5.9 | 6.9 |
| Dividends | 2.4 | 2.2 | 4.6 |
| Taxation and social security | 5.1 | 6.2 | 4.4 |
| Deferred consideration | — | 6.9 | 4.0 |
| Loan notes | 3.5 | 0.5 | — |
| Other | 5.6 | 3.5 | 5.2 |
| | 37.7 | 35.3 | 31.3 |

The loan notes were issued as part of the consideration in connection with the acquisition of Inkfish. The loan notes outstanding at 31 December 2002 are redeemable, with appropriate notice either in whole or in part, on 30 April or 31 October in any year commencing 1 January 2004.

17. Accruals and deferred income

| | £m | £m | £m |
|-----------------|-------------|-------------|-------------|
| Accruals | 4.4 | 2.5 | 3.3 |
| Deferred income | 46.7 | 10.1 | 28.4 |
| | 51.1 | 12.6 | 31.7 |

18. The results for the six months ended 31 December 2002 and 2001 and the results for the year ended 30 June 2002 do not constitute statutory accounts. The statutory accounts for the year ended 30 June 2002 received an unqualified auditors' report and have been delivered to the Registrar of Companies.

19. 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 2003

Dividends

Interim 2002/2003

— Ex dividend 2 April 2003
— Record date 4 April 2003
— Payment 9 May 2003

Final 2002/2003

— Ex dividend 8 October 2003
— Record date 10 October 2003
— Payment 14 November 2003

Announcements

Preliminary results for year ended 30 June 2003

27 August 2003

Annual General Meeting

12 November 2003



DOMESTIC & GENERAL

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