

STATEMENT ON THE IMPACT OF ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Until 31 December 2004 Lookers plc prepared its financial statements in accordance with UK Generally Accepted Accounting Practices (UK GAAP).

From 1 January 2005 Lookers plc is required to report its results in accordance with those International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Commission (EC) that are expected to be applicable at 31 December 2005.

This statement is intended to explain material differences, to the consolidated net profit and shareholders' funds of the Group, between UK GAAP and IFRS and to set out the Group accounting policies under IFRS.

The transition date to IFRS is 1 January 2004 (the Transition date), being the start of the period of comparative information.

The financial information presented in this document is unaudited.

Accounting policies

Basis of preparation

The consolidated financial statements of the Group will be prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and as endorsed by the European Commission (EC) with the exception of IAS19 (revised) adopted by the Group but not yet endorsed by the EC and IAS34 (not yet mandatory).

The unaudited IFRS financial information set out on pages 2 to 7 establishes the comparative financial information to be included in the Group's first set of IFRS financial statements for the year ended 31 December 2005.

Due to the continuing work of the IASB and possible amendments to the interpretive guidance, the Group's accounting policies and the information presented may change prior to the publication of the Group's full year results in 2006.

Adoption of standards

The IFRS noted below are the principal standards relevant to the Group's operations:

<i>IAS1 (revised 2003)</i>	<i>Presentation of Financial Statements</i>
<i>IAS2</i>	<i>Inventories</i>
<i>IAS7</i>	<i>Cash Flow Statements</i>
<i>IAS8 (revised 2003)</i>	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
<i>IAS10 (revised 2003)</i>	<i>Events after the Balance Sheet Date</i>
<i>IAS12</i>	<i>Income Taxes</i>
<i>IAS14</i>	<i>Segmental Reporting</i>
<i>IAS16 (revised 2003)</i>	<i>Property, Plant and Equipment</i>
<i>IAS17</i>	<i>Leases</i>
<i>IAS18</i>	<i>Revenue</i>
<i>IAS19 (revised 2004)</i>	<i>Employee Benefits</i>
<i>IAS24 (revised 2003)</i>	<i>Related Party Disclosures</i>
<i>IAS27 (revised 2003)</i>	<i>Consolidated and Separate Financial Statements</i>
<i>IAS32 (revised 2003)</i>	<i>Financial Instruments: Disclosure and Presentation</i>
<i>IAS33 (revised 2003)</i>	<i>Earnings per Share</i>
<i>IAS36 (revised 2004)</i>	<i>Impairment of Assets</i>
<i>IAS37</i>	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
<i>IAS38 (revised 2004)</i>	<i>Intangible Assets</i>
<i>IAS39 (revised 2004)</i>	<i>Financial Instruments: Recognition and Measurement</i>
<i>IFRS1</i>	<i>First-time Adoption of International Financial Reporting Standards</i>
<i>IFRS2</i>	<i>Share-based Payments</i>
<i>IFRS3</i>	<i>Business Combinations</i>
<i>IFRS5</i>	<i>Non Current Assets held for resale and Discontinued operations</i>

Except as noted below, the adoption of the IFRS noted above has not resulted in substantial changes to the Group's accounting policies for the period under review.

The adoption of IAS 10, 19, 36, 38, 39 and IFRS 3 has resulted in changes to the Group's accounting policies as follows:

The adoption of IAS 10 has eliminated the charge for dividends payable from the Income Statement. This is explained in more detail in note on page 7 .

IFRS 1 includes an exemption allowing a first time adopter to elect to use a revaluation made under its previous GAAP at, or before the date of transition to IFRS as deemed cost at the date of the revaluation if the revaluation was broadly comparable to fair cost. Certain of the Groups properties were revalued on 31 December 2003. The basis of the revaluation, being open market value was, in the opinion of the Directors, approximate to fair value and has been adopted as deemed cost on transition.

The adoption of IAS 19 requires a change in the accounting policy for pensions. Until 31 December 2004, the Group accounted for pensions under SSAP 24 with additional disclosure under the transitional arrangements of FRS 17. In accordance with the

provisions of IAS 19, the Group recognised the pension liability on the balance sheet from 1 January 2004. Actuarial gains and losses are now recognised in the period in which they occur in the Statement of Recognised Income and Expense (SORIE). Additionally, the SSAP 24 prepayment previously recognised, together with the associated deferred tax, has been reversed.

The adoption of IFRS 3, IAS 36 and IAS 38 resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was amortised on a straight line basis over its estimated useful life, subject to a maximum 20 years. In accordance with the provisions of IFRS 3, the Group ceased amortising goodwill from 1 January 2004 and from that date goodwill is tested annually for impairment, as well as when there are indications of impairment.

In addition, the adoption of IFRS 3 and IAS 38 requires the Group to separately recognise, as intangible assets, separately from goodwill, any assets acquired through a business combination that meet the criteria for an intangible asset as defined by IAS 38. Any intangible asset recognised in this way is amortised to the Income Statement over its expected economic life. This has been applied for acquisitions completed after 1 January 2004.

The adoption of IAS 39 requires the recognition of derivative financial instruments at fair value with changes in their fair value being recognised in the Income Statement.

Basis of consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiary undertakings. An undertaking is regarded as a subsidiary if the Group has control over its operating and financial policies. The profits and losses of subsidiary undertakings are consolidated as from the effective date of acquisition or to the effective date of disposal.

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of no more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Turnover

Turnover is measured at invoice price, excluding discounts and value added taxes, and principally comprises external vehicle sales, parts, servicing and bodyshop sales. Vehicle and parts sales are recognised at the time of delivery to the customer. Service and bodyshop sales are recognised in line with the work performed. Turnover also comprises commissions receivable for arranging vehicle financing. Commissions are based on agreed rates and income is recognised at the time of approval of the vehicle finance by the finance provider.

Segmental Reporting

A geographical segment is engaged in providing goods and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing goods and services that are subject to risks and returns that are different from those other business segments.

Goodwill arising on consolidation

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of the acquisition. Goodwill on acquisitions of subsidiaries is shown separately on the Balance Sheet. Goodwill arising on acquisitions prior to 1 January 2004 is tested annually for impairment and is carried at its amortised net book value less accumulated impairment losses. Goodwill arising on acquisitions on or after 1 January 2004 is tested annually for impairment and is carried at cost less accumulated impairment losses.

Intangible assets

Intangible assets acquired on a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets so acquired 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. The useful life of customer relationships is expected to be up to 20 years, and the useful lives of acquired brands varies between 5 years and indefinite life.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Property, plant and equipment

Assets are stated at their net book value. With the exception of certain properties which were revalued on 31 December 2003, all assets are recorded at historical cost. The basis of the revaluation, being open market value was, in the opinion of the Directors,

approximate to fair value and has been adopted as deemed cost on transition. The Group has decided to adopt the cost model under IAS 16.

Freehold buildings and long leasehold properties are depreciated over 50 years on a straight line basis to their estimated residual values. Short leasehold properties are amortised by equal installments over the periods of the respective leases.

Plant, machinery, including motor vehicles, fixtures, fittings, tools and equipment including computer equipment and terminals, are depreciated on a straight line basis at rates varying between 10% and 33% per annum over their estimated useful lives.

Properties are transferred to “Properties held for resale” when management expect their disposal to be completed within one year from the balance sheet date. Properties held for resale are stated at the lower of net book value or expected proceeds.

Impairment of assets

Assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less disposal costs, and value in use.

Leases

Assets purchased under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligation is charged to the profit and loss account so as to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Inventories

Inventories are valued at the lower of cost and net realisable value. Deposits paid for vehicles on consignment represent bulk deposits paid to manufacturers. The Group recognises consignment stock in its balance sheet when there has been a substantial transfer of the risks and rewards of ownership. The related liabilities are included in trade creditors.

Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Gains and losses on remeasurement are taken to the income statement.

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is not provided on temporary differences arising on investments in subsidiaries and associates, as the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Pension Costs

The Group participated in the Lookers Pension Plan which is a defined benefit scheme providing benefits based on final pensionable salary. “The Lookers Pension Plan”, is a funded scheme and the assets of the scheme are held separately from those of the Group, being held in separate funds by the Trustees of the Lookers Pension Plan.

Contributions to the defined benefit scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' estimated working lives with the Group. The contribution rate is recommended by a qualified actuary on the basis of triennial valuations, using the projected unit method. This scheme has now been closed to new members.

The latest triennial valuation is currently being prepared and will be available for the 2005 Annual Report and Accounts. The full actuarial valuation carried out at 6 April 2002 by Mercer Human Resource Consulting Limited has been updated to 30 June 2005 by a qualified independent actuary to take account of IAS19 requirements.

Under IAS19, the defined benefit surplus or deficit is included on the Group's balance sheet. Liabilities are calculated based on the current yields on high quality corporate bonds and on market conditions. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme.

The current service cost and any past service costs are included in the income statement within the operating cost and the expected return on the scheme assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within finance costs.

Actuarial gains and losses are recognised, net of the related deferred tax through the statement of Recognised Income and Expense.

The Group also provides pension arrangements for employees and certain Directors under defined contribution schemes. Contributions for these schemes are charged to the income statement in the year in which they are payable.

Comparative information

Comparative information for both June 2004 and December 2004 has been restated for the effects of adopting IFRS. The aggregate effect of the above restatements is as follows:

Reconciliation of profit for the year ended 31 December 2004

	Previously Stated 2004 £'000	Dividends £'000 Note (a)	Revaluation of property £'000 Note (b)	Pensions £'000 Note (c)	Intangible Assets £'000 Note (d)	Goodwill £'000 Note (e)	Other £'000 Note (f)	Restated £'000
Revenue	1,093,752							1,093,752
Cost of sales	(962,750)							(962,750)
	131,002	0	0	0	0	0	0	131,002
Distribution costs	(81,687)							(81,687)
Administration expenses	(29,689)		(129)	(1,080)				(30,898)
Other operating income	1,851							1,851
Operating profit before amortisation and exceptional items	21,477	0	(129)	(1,080)	0	0	0	20,268
<i>Goodwill amortisation</i>	(1,227)					1,227		0
Amortisation of intangible assets	0				(162)			(162)
Vat refund	7,248							7,248
Loss on termination of businesses	(3,425)							(3,425)
Profit on disposal of properties	231							231
Profit from operations	24,304	0	(129)	(1,080)	(162)	1,227	0	24,160
Finance costs - net	(6,159)						(18)	(6,177)
Finance income - interest on VAT	8,400							8,400
	26,545	0	(129)	(1,080)	(162)	1,227	(18)	26,383
Taxation	(7,701)		274	310	49			(7,068)
Net profit	18,844	0	145	(770)	(113)	1,227	(18)	19,315

Reconciliation of equity for the year ended 31 December 2004

	Previously Stated 2004 £'000	Dividends £'000 Note (a)	Revaluation of property £'000 Note (b)	Pensions £'000 Note (c)	Intangible Assets £'000 Note (d)	Goodwill £'000 Note (e)	Other £'000 Note (f)	Restated £'000
Non current assets								
Goodwill	23,494				(9,531)	1,227		15,190
Other intangible assets	0				13,454			13,454
Property, plant & equipment	94,749		11,456					106,205
Deferred tax asset	0			6,095				6,095
Total non-current assets	118,243	0	11,456	6,095	3,923	1,227	0	140,944
Current assets								
Inventories	140,410							140,410
Trade and other receivables	54,429			(2,266)				52,163
Derivative financial instruments	0						30	30
Cash and cash equivalents	2,514							2,514
Total current assets	197,353	0	0	(2,266)	0	0	30	195,117
Non current assets held for resale	1,792							1,792
Total assets	317,388	0	11,456	3,829	3,923	1,227	30	337,853
Current liabilities								
Bank loans and overdrafts	(16,474)							(16,474)
Hire purchase obligations	(163)							(163)
Derivative financial instruments	0						(18)	(18)
Trade and other payables	(159,566)	2,864						(156,702)
Tax liabilities	(8,095)							(8,095)
Short term provisions	(1,375)							(1,375)
Total current liabilities	(185,673)	2,864	0	0	0	0	(18)	(182,827)
Net current assets	11,680	2,864	0	(2,266)	0	0	12	12,290
Non current liabilities								
Bank loans	(43,695)							(43,695)
Hire purchase obligations	(5)							(5)
Retirement benefit obligation	0			(18,051)				(18,051)
Deferred taxation	(135)		(2,701)		(4,036)			(6,872)
Long term provisions	(2,175)							(2,175)
Total non current liabilities	(46,010)	0	(2,701)	(18,051)	(4,036)	0	0	(70,798)
Total liabilities	(231,683)	2,864	(2,701)	(18,051)	(4,036)	0	(18)	(253,625)
Total assets less total liabilities	85,705	2,864	8,755	(14,222)	(113)	1,227	12	84,228
Share capital	8,838							8,838
Share premium	1,579							1,579
Revaluation reserve	6,689		11,456					18,145
Capital redemption reserve	14,591							14,591
Retained earnings	53,978	2,864	(2,701)	(14,222)	(113)	1,227	12	41,045
	85,675	2,864	8,755	(14,222)	(113)	1,227	12	84,198
Minority interest in equity	30	0						30
	85,705	2,864	8,755	(14,222)	(113)	1,227	12	84,228

Reconciliation of profit for the six months ended 30 June 2004

	Previously Stated 2004 £'000	Dividends £'000 Note (a)	Revaluation of property £'000 Note (b)	Pensions £'000 Note (c)	Intangible Assets £'000 Note (d)	Goodwill £'000 Note (e)	Other £'000 Note (f)	Restated £'000
Revenue	576,430							576,430
Cost of sales	(508,264)							(508,264)
	68,166	0	0	0	0	0	0	68,166
Distribution costs	(40,201)							(40,201)
Administration expenses	(15,939)		(64)	(599)				(16,602)
Other operating income	460							460
Operating profit before amortisation and exceptional items	12,486	0	(64)	(599)	0	0	0	11,823
<i>Goodwill amortisation</i>	(475)					475		0
Amortisation of intangible assets	0							0
Vat refund	7,750							7,750
Loss on termination of businesses	0							0
Profit on disposal of properties	0							0
Profit from operations	19,761	0	(64)	(599)	0	475	0	19,573
Finance costs - net	(2,672)							(2,672)
Finance income - interest on VAT	9,000							9,000
	26,089	0	(64)	(599)	0	475	0	25,901
Taxation	(7,588)		368	180				(7,040)
Net profit	18,501	0	304	(419)	0	475	0	18,861

Reconciliation of equity for the six months ended 30 June 2004

	Previously Stated 2004 £'000	Dividends £'000 Note (a)	Revaluation of property £'000 Note (b)	Pensions £'000 Note (c)	Intangible Assets £'000 Note (d)	Goodwill £'000 Note (e)	Other £'000 Note (f)	Restated £'000
Non current assets								
Goodwill	10,137					475		10,612
Other intangible assets	0							0
Property, plant & equipment	92,124		11,521					103,645
Deferred tax asset	0			4,670				4,670
Total non-current assets	102,261	0	11,521	4,670	0	475	0	118,927
Current assets								
Inventories	97,168							97,168
Trade and other receivables	79,932			(1,668)				78,264
Derivative financial instruments	0						67	67
Cash and cash equivalents	28							28
Total current assets	177,128	0	0	(1,668)	0	0	67	175,527
Non current assets held for resale	7,192							7,192
Total assets	286,581	0	11,521	3,002	0	475	67	301,646
Current liabilities								
Bank loans and overdrafts	(26,319)							(26,319)
Hire purchase obligations	(31)							(31)
Derivative financial instruments	0						(37)	(37)
Trade and other payables	(135,736)	1,408						(134,328)
Tax liabilities	(8,057)							(8,057)
Short term provisions	0							0
Total current liabilities	(170,143)	1,408	0	0	0	0	(37)	(168,772)
Net current assets	14,177	1,408	0	(1,668)	0	0	30	13,947
Non current liabilities								
Bank loans	(27,133)							(27,133)
Hire purchase obligations	(6)							(6)
Retirement benefit obligation	0			(13,900)				(13,900)
Deferred taxation	(1,424)		(2,607)					(4,031)
Long term provisions	0							0
Total non current liabilities	(28,563)	0	(2,607)	(13,900)	0	0	0	(45,070)
Total liabilities	(198,706)	1,408	(2,607)	(13,900)	0	0	(37)	(213,842)
Total assets less total liabilities	87,875	1,408	8,914	(10,898)	0	475	30	87,804
Share capital	8,791							8,791
Share premium	1,272							1,272
Revaluation reserve	7,407		11,521					18,928
Capital redemption reserve	14,591							14,591
Retained earnings	55,785	1,408	(2,607)	(10,898)		475	30	44,193
	87,846	1,408	8,914	(10,898)	0	475	30	87,775
Minority interest in equity	29							29
	87,875	1,408	8,914	(10,898)	0	475	30	87,804

Notes

- (a) Under UK Company Law, companies were required to provide for their final dividend in their closing balance sheet and in advance of the dividend being declared and approved by the Annual General Meeting. Under IAS 10 the dividend cannot be provided in the year end balance sheet as, at that date, the dividend did not represent a liability. At 31 December 2004 accrued dividends of £2,864,000 were removed from other liabilities. At June 2004 the accrued interim dividends of £1,408,000 were similarly removed from other liabilities.
- (b) The Group has decided to adopt the cost model under IAS 16. IFRS 1 includes an exemption allowing fair value to be used as deemed cost at the date of transition. Certain of the Group's properties were revalued on 31 December 2003, but this revaluation was not included in the UK GAAP accounts. The basis of the revaluation, being open market value was, in the opinion of the Directors, approximate to fair value and has been adopted as deemed cost on transition. At 31 December 2003, £11,585,000 was transferred to the revaluation reserve, and at 31 December 2004 an amount equivalent to the additional depreciation of £129,000 was transferred to Revenue Reserves. An amount of £2,701,000 was transferred to deferred tax relating to the revaluation.
- (c) The Group previously accounted for its participation in the Lookers Pension Plan, a Group wide defined benefit scheme, under SSAP 24. On adoption of IAS 19, the pension prepayment and related deferred taxation are no longer required. At 31 December 2004 an amount of £1,586,000 being the SSAP 24 prepayment net of deferred tax was written off (June 2004: £1,168,000).

Under IAS 19, retirement benefit liabilities are presented gross on the balance sheet. At 31 December 2004 a liability of £18,051,000 has been provided together with an associated deferred tax asset of £5,415,000 (June 2004: £13,900,000 and £4,170,000 respectively).

- (d) Under IAS 38, intangible assets acquired as part of a business combination are required to be separately identified from goodwill. In August 2004 the Group acquired FPS, which gave rise to such intangible assets. As a result, £13,616,000 was reclassified from goodwill to intangible assets. Of this balance, £113,000, net of tax had been amortised by 31 December 2004.
- (e) Under IFRS 3 Goodwill is not amortised but instead must be tested for impairment at least annually. Opening goodwill at 1 January 2004 was £10,605,000. Goodwill of £1,227,000 previously amortised in the year to 31 December 2004 has been reversed (June 2004: £475,000).
- (f) In accordance with IAS 39, derivatives held by an entity have to be carried at fair value with movements in the fair value being taken to the income statement. At 30 June and 31 December 2004, the Group had a number of interest rate hedging arrangements in place. At 31 December 2004 derivatives with a net fair value of £12,000 were recognised (June 2004: £30,000).