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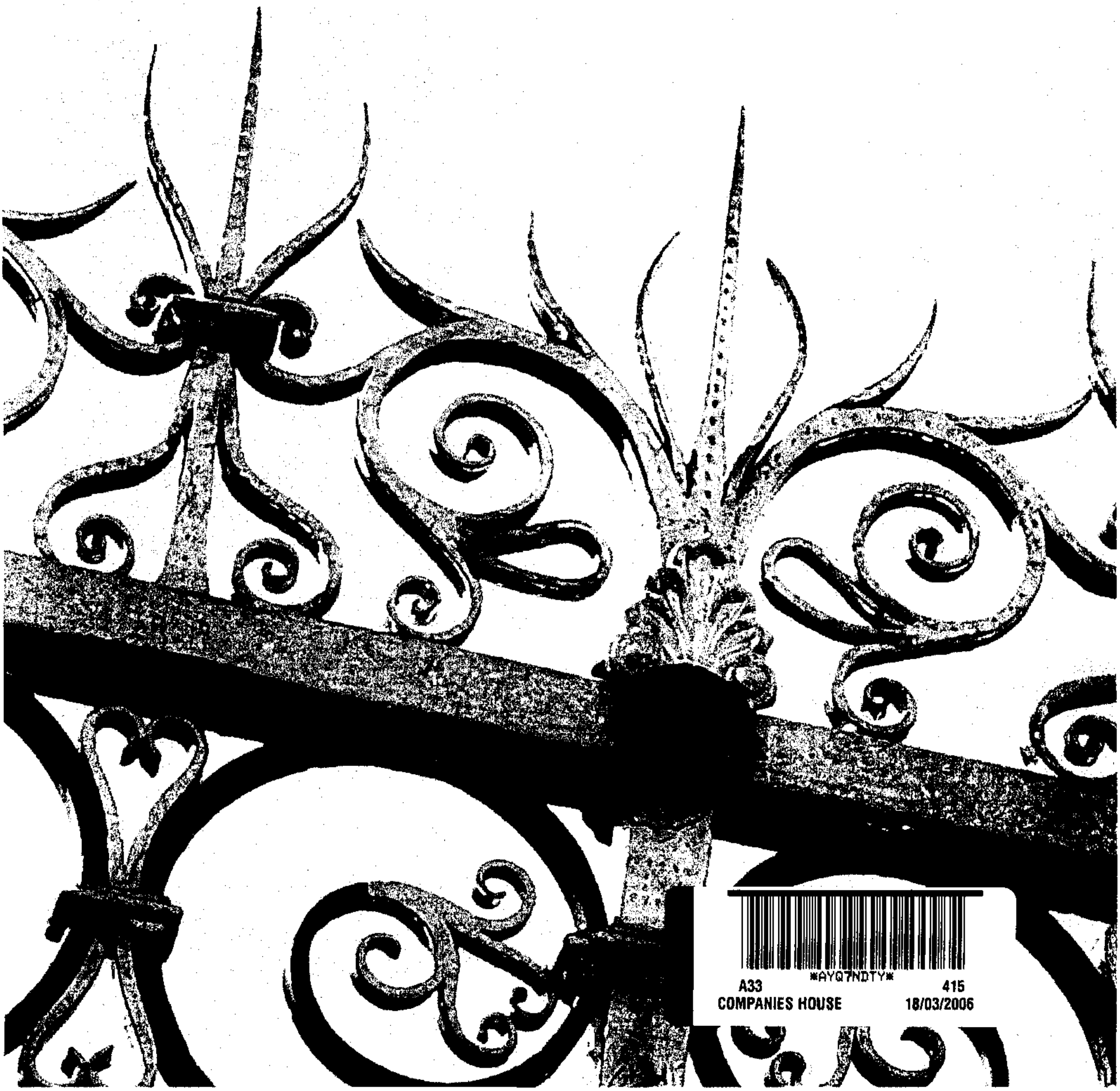
FARLEY GROUP plc

Annual Report & Accounts 2005



Directors, officers and advisers

Directors

Tim James	*Executive chairman*
Patricia Farley	Managing director
Simon Wharmby	Non-executive director
Stephen Russell	*Non-executive director*

Secretary
Nigel Gordon

Registered office
Russell Square House
10–12 Russell Square
London WC1B 5LF

Company number
4058708

Financial adviser and nominated adviser & broker
Corporate Synergy Plc
30 Old Broad Street
London EC2N 1HT

Solicitors
Stringer Saul LLP
17 Hanover Square
London W1S 1HU

Auditors
Chantrey Vellacott DFK LLP
Chartered Accountants
Russell Square House
10–12 Russell Square
London WC1B 5LF

Registrars
Capita Registrars
Northern House
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Chairman's statement

During the year to 30 September 2005, your company focused on managing the business of Farley & Co and developing its future growth strategy.

Despite a difficult market in which many of our competitors have noted a downturn in business, I am absolutely delighted to report that at Farley Group plc we managed to achieve a growth in turnover up 28% on 2004 to £2.56 million and profit before tax and amortisation of goodwill also up 28% to £0.48 million. I would particularly like to thank Patricia Farley for her major contribution in achieving this result, not only given the challenging market conditions we have faced but also given the sad loss of her father, Vincent Farley, who helped build up the Farley & Co brand over his 60 year association with the company. We all remember Vincent with great affection and he will be sadly missed by his family, friends and colleagues.

Given the increase in profits of the group, we intend to declare a special interim dividend of 1.1p per share to all shareholders on the register immediately prior to the forthcoming share placing in lieu of a final dividend, an increase of 0.1p per share compared with the final dividend for the year to 30 September 2004.

In June this year Pendana Limited made a strategic investment of £2 million for a 25% stake in the company. Pendana is a company which is ultimately owned by Investec Trust (Guernsey) Limited as trustees of the Tchenguiz Family Trust, who have many varied interests in the UK residential property market. We are pleased to welcome Stephen Russell, Pendana's representative to our board. The association with Pendana is already resulting in a number of business opportunities which I am confident will enhance the long term prospects of the group.

Post balance sheet events

As you are all aware, Farley recently announced that, subject to shareholder approval, it intends to acquire the business of Humberts, an independent national firm of land and estate agents and chartered surveyors with a multi-disciplined practice providing integrated expertise in the residential, commercial, rural and professional services fields.

Humberts has a total of 39 offices, 18 of which are owned and 21 of which are franchised. Your company intends to develop and grow the Humberts brand as part of its overall growth strategy. Over the next two years, as we integrate Humberts into the Farley group, we expect to incur one off costs of up to £1 million including the cost of re-branding, normalising over-rent properties and introducing a new technology and financial reporting platform needed for the effective management and growth of the Humberts brand.

In addition to the proposed acquisition of Humberts and also subject to shareholder approval, the company is proposing to raise up to £8 million (before expenses) by way of a cash placing of new shares, the proceeds of which will be used to provide additional working capital to help finance the group's strategic growth going forward.

In order to manage the integration of Humberts and develop our future growth strategy I am particularly delighted to announce the appointment, subject to shareholder approval, of Max Ziff as group chief executive officer. Max, whom I have known and worked with for over ten years, has a wide range of financial experience in corporate restructuring, mergers and acquisitions, liability management and the raising of debt and equity capital across the international capital markets. Max will take responsibility for managing the group's activities on a day to day basis and working closely with me and the board in developing the group's acquisition strategy.

Following completion of the proposed acquisition of Humberts, which will result in the issue of 1,666,667 new ordinary shares, and the issue of 13,333,334 new ordinary shares pursuant to the proposed share placing, there will be 38,526,215 ordinary shares in issue (assuming the placing is fully subscribed), and the interests of directors and major shareholders will be as follows:

Shareholder	Ordinary shares	Percentage
Pendana Limited	9,631,552	25.0%
Patricia Farley*	3,798,898	9.9%
Tim James	2,313,625	6.0%
Westminster Enterprises Ltd	2,126,667	5.5%
Intellectual Capital Trust	1,580,395	4.1%
John Peter Gibson Morris	1,517,273	3.9%
State Street Nominees Limited	1,288,432	3.3%
Bryan Richmond-Dodd	1,213,411	3.2%
Simon Wharmby	1,016,266	2.6%
Max Ziff	465,151	1.2%
Stephen Russell	Nil	Nil

*3,632,231 of these shares are held in the name of Patricia Mary Preston, Patricia Farley's married name, and 166,666 are held by Patricia Farley's husband Martin Preston.

Chairman's statement

Post balance sheet events (continued)
In addition to their shareholdings identified above, Max Ziff will hold 2,000,000 and each of Patricia Farley, Tim James and Simon Wharmby will hold 333,333 options over ordinary shares in the company, all exercisable at 60p per share. Options will be exercisable between two and ten years from grant, with 1/3rd exercisable if the ordinary share price rises above 100p per share, 1/3rd exercisable if the ordinary share price rises above 80p and 1/3rd exercisable unconditionally.

Reduction of share capital
The company's balance sheet at 30 September 2005 included the sum of £4,324,171 in respect of share premium which had arisen on the issue by the company of shares at a premium to their nominal value from time to time. Following the placing referred to above of up to 13,333,334 ordinary shares of 5p each at 60p (i.e. a premium of 55p per share) and the allotment of 1,666,667 consideration shares to the vendors of Humberts credited as fully paid at the same premium, the amount standing to the credit of the share premium account will (assuming the placing is subscribed in full) increase by £9,000,000 to £13,324,171.

A share premium account is an undistributable reserve and, accordingly, the purposes for which the company can use its share premium account are extremely restricted. In particular, it cannot be used for the purpose of paying dividends.

However, with the consent of the Court, the company may reduce or cancel a share premium account and, subject to satisfying the Court that no creditor is prejudiced thereby, move the sum which results upon such reduction or cancellation to a distributable reserve where its application is not so restricted.

The company therefore proposes to reduce the sum standing to the credit of its share premium account following the placing by the sum of £5,000,000 and to carry the sums set free to a special reserve which, subject to suitable protection being put in place for the benefit of the company's creditors, may be treated as a distributable reserve.

Once the reduction of the share premium account has become effective, there will be sufficient distributable reserves to allow the company to maintain a progressive dividend policy. Without such reduction of share premium account, the one off costs of up to £1 million referred to above would have an adverse impact on distributable reserves thereby restricting the company's ability to maintain such a dividend policy going forward.

The reduction of the company's share premium account requires shareholder approval by way of special resolution and this approval is the subject of resolution 6 set out in the notice convening the Annual General Meeting of the company.

The reduction of the company's share premium account will only take effect if confirmed by the Court and upon the appropriate documents being lodged with the Registrar of Companies. The Court will require the company either to obtain the consent of the company's existing creditors or to put in place protection for the benefit of the company's existing creditors and your board anticipates that the company will obtain the consent of the company's existing creditors.

The application to the Court will be made soon after the AGM. A date for the hearing of the Petition has provisionally been arranged with the Court for 1 February 2006 and the procedure is expected to be finalised by 14 February 2006. The provisional timetable is subject to alteration depending on the Court's Schedule and is not something which your board is able to guarantee. However, there is no reason at present to anticipate any delay in the process which would postpone completion of the reduction of share premium account beyond 31 March 2006.

Other special business at the AGM
A resolution is being proposed as special business at the AGM to approve the entry by the company into a contract for the purchase by the company of all the 4,700,000 issued deferred shares of 20p each in the company for a total consideration of £1. A copy of that contract will be available for inspection at Russell Square House, 10–12 Russell Square, London WC1B 5LF, the registered office of the company from today until the date of the AGM.

A resolution is also being proposed to grant authority to the directors to make market purchases of its own ordinary shares. The proposed authority to make market purchases of its ordinary shares is for a maximum of 3,852,621 ordinary shares (representing approximately 10% of the issued share capital of the company following the completion of the acquisition of Humberts and the placing (assuming full subscription) referred to above) will expire at the end of the Annual General Meeting in 2006. The maximum price which may be paid for an ordinary share is 105% of the average of the middle market quotations for the five business days preceding the purchase and the minimum price that may be paid for an ordinary share is 5p.

The directors intend to use this authority only when they consider it to be in the best interests of shareholders taking into account prevailing market conditions and the financial position of the company. In addition, it is possible for the company to hold any ordinary shares purchased by it in treasury instead of cancelling them as previously required. Such ordinary shares may be sold by the company for cash or alternatively transferred for the purposes of an employees' share scheme. If the company were able to purchase ordinary shares in accordance with this authority, the directors would consider the possibility of holding them in treasury.

The resolution approving the contract to purchase the deferred shares is resolution 7 and will be proposed as a special resolution. The resolution to approve the making of market purchases of ordinary shares is resolution 8 and will also be proposed as a special resolution.

Tim James
17 November 2005

Directors' report

for the year ended 30 September 2005

The directors present their annual report and the audited consolidated financial statements of the company for the year ended 30 September 2005.

Activities

The company is the parent of Farley & Co Limited, the company's principal operating subsidiary, whose business is that of an independent estate agent specialising in the selling, letting and management of residential properties in the Royal Borough of Kensington and Chelsea in central London.

Results and review of the development of the business

The results of the group and its financial position as at 30 September 2005 are set out in the accompanying financial statements. The group made a profit after taxation and amortisation of goodwill of £0.24 million (2004: £0.18 million).

Basic earnings per share were down to 1.30p per share (2004: 1.44p) but this was due to the increased number of shares following the increase in share capital in June as reflected by the increase in cash balances to £4.69 million (2004: £2.33 million).

Dividends

The directors intend to pay a special interim dividend of 1.1p per ordinary share to holders on the register at 11 November 2005 (final dividend of 1.0p per share in 2004). The dividend will be paid on 19 December 2005.

Directors

The directors of the company during the year and their beneficial interests in the ordinary share capital of the company were as follows:

	Ordinary shares of 5p	
	30 September 2005	1 October 2004 (or date of appointment)
T M James	**2,263,625**	2,263,625
P M Farley	**3,582,231**	3,582,231
S A R Wharmby*	**966,266**	966,266
S A Russell (appointed 12 August 2005)	—	—

*Held in the name of Rock Nominees Limited.

There have been no changes in directors' shareholdings since 30 September 2005, but, under the placing referred to in the chairman's statement, Patricia Farley will be subscribing for 216,667 ordinary shares, Tim James and Simon Wharmby will each be subscribing for 50,000 ordinary shares, and Max Ziff (who will be appointed as the chief executive officer of the company following the completion of the acquisition of the business of Humberts) will be subscribing for 283,333 ordinary shares, all at 60p per share.

Service contracts

Tim James and Patricia Farley have service contracts with the company, which may be terminated by either party giving twelve months' written notice. Simon Wharmby and Stephen Russell have letters of appointment with the company. Either party, giving three months' written notice, may terminate the appointment.

Substantial shareholdings

Save for the holdings of the directors, at 8 November 2005 the company had received no notification other than those set out below, which should be recorded in the register of substantial interests pursuant to Section 211 of the Companies Act 1985.

Shareholder	Ordinary shares	Percentage
Pendana Limited	6,060,606	25.8%
State Street Nominees Limited	1,473,799	6.3%
Rock Nominees Limited	1,281,448	5.4%
JPG Morris	1,100,606	4.7%
HSBC Global Custody Nominee	861,076	3.7%
Pershing Keen Nominees Limited	807,150	3.4%

Creditor payment policy

It is the company's policy that payments to suppliers are made in accordance with all relevant terms and conditions. Creditor days for the company have been calculated at 46 days at 30 September 2005.

Corporate governance

As a company quoted on AIM, Farley Group plc is not required to issue a statement of compliance with the Combined Code revised in July 2003 by the Financial Reporting Council. Nevertheless, as the board wishes to enhance the transparency of the company's activities, we provide below, for information only, details of the governance arrangements that the company has in place. This information is not required to be audited.

- The company is headed by an effective board, which leads and controls the company.
- There is a clear division of responsibilities in running the board and running the company's business.
- The board includes a balance of executive and non-executive directors. Due to the size of the company there is no formal procedure for the appointment of new directors.
- The board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties.
- Directors submit themselves for re-election every three years by rotation in accordance with the Articles of Association.
- The board is available to discuss current events with its institutional and private shareholders and positively encourages attendance at the Annual General Meeting.
- The board, through the chairman's statement and the directors' report, presents a clear and detailed account of the company's position and prospects.
- The board regularly reviews the systems of internal financial controls and considers their effectiveness at safeguarding shareholders' investments and the company's assets.

Remuneration and audit committees

The board has established a remuneration committee and an audit committee, both comprising the board and chaired by a non-executive director. Following the completion of the acquisition of the business of Humberts and the placing to raise up to £8 million, the audit committee will comprise Stephen Russell, Simon Wharmby, and Max Ziff, and will be chaired by Stephen Russell. The remuneration committee will comprise Simon Wharmby, Tim James and Stephen Russell, and will be chaired by Simon Wharmby. The details of the directors' emoluments are set out in the financial statements. However, there are no separate reports of the remuneration and audit committees. It is the company's policy that the remuneration of directors should be commensurate with services provided by them to the company.

Going concern

As part of its regular assessment of the prospects for the group, the board reviews a detailed one-year plan and further projections. As a result of such considerations the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Directors' report

for the year ended 30 September 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the profit or loss of the group for that year. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint Chantrey Vellacott DFK LLP as auditors to the company will be put at the Annual General Meeting to be held on 15 December 2005.

Financial calendar

Record date for special interim dividend of 1.1p per share	11 November 2005
Annual General Meeting	15 December 2005
Special interim dividend payment date	19 December 2005

Approved by the board of directors and signed on its behalf

Tim James
Chairman
17 November 2005

Independent auditors' report

to the shareholders of Farley Group plc

We have audited the financial statements of Farley Group plc for the year ended 30 September 2005 which comprise the group profit and loss account, group statement of total recognised gains and losses, group balance sheet, company balance sheet, group cash flow statement and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report and the chairman's statement. We consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of the company's and group's affairs as at 30 September 2005 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chantrey Vellacott DFK LLP

Chantrey Vellacott DFK LLP
Chartered Accountants
Registered Auditors
London
17 November 2005

Group profit and loss account

for the year ended 30 September 2005

	Notes	2005 £	2004 £
Turnover	2	**2,556,033**	2,002,498
Cost of sales		**(1,432,429)**	(1,037,856)
Gross profit		**1,123,604**	964,642
Administrative and establishment expenses		**(822,003)**	(682,349)
Amortisation of goodwill		**(96,000)**	(72,000)
Operating profit	3	**205,601**	210,293
Interest receivable and similar income	7	**184,186**	97,485
Interest payable	8	**(2,284)**	(2,501)
Profit on ordinary activities before tax		**387,503**	305,277
Tax	9	**(146,124)**	(124.026)
Profit on ordinary activities after tax		**241,379**	181.251
Dividends	10	**(258,788)**	(174.656)
Retained (deficit)/profit for the year		**(17,409)**	6,595
Losses brought forward		**(16,021)**	(22,616)
Retained losses carried forward		**(33,430)**	(16,021)
Earnings per ordinary share – basic	4	**1.30p**	1.44p
– diluted		**1.25p**	1.37p

Group statement of total recognised gains and losses

for the year ended 30 September 2005

	2005 £	2004 £
Profit for the financial year	**241,038**	181,251
Unrealised surplus on the revaluation of investment properties	**—**	50,000
Total recognised gains and losses relating to the year	**241,038**	231,251

The above results are derived from continuing operations.

The notes on pages 12 to 20 form part of these financial statements.

Group balance sheet

as at 30 September 2005

	Notes	2005 £	2004 £
Fixed assets			
Investments	11	**375,000**	375,000
Tangible fixed assets	12	**154,429**	173,149
Intangible fixed assets	13	**1,755,728**	1,851,728
		2,285,157	2,399,877
Current assets			
Debtors	14	**316,219**	388,135
Cash at bank and in hand		**4,687,455**	2,328,523
		5,003,674	2,716,658
Creditors: due within one year	15	**(797,689)**	(568,886)
Net current assets		**4,205,985**	2,147,772
Total assets less current liabilities		**6,491,142**	4,547,649
Creditors: due after more than one year	16	**(23,510)**	(19,627)
Provisions for liabilities and charges			
Deferred taxation	17	**(10,580)**	(12,108)
		6,457,052	4,515,914
Capital and reserves			
Called up share capital	18	**2,116,311**	1,813,280
Share premium account	19	**4,324,171**	2,668,655
Revaluation reserve	19	**50,000**	50,000
Profit and loss account	19	**(33,430)**	(16,021)
Equity shareholders' funds	20	**6,457,052**	4,515,914

P. Farley

Patricia Farley
Managing Director

Approved by the board on 17 November 2005

The notes on pages 12 to 20 form part of these financial statements.

Company balance sheet

as at 30 September 2005

	Notes	2005 £	2004 £
Fixed assets			
Investments	11	**2,150,000**	2,150,000
Current assets			
Debtors	14	**429,126**	275,343
Cash at bank and in hand		**4,214,134**	2,267,737
		4,643,260	2,543,080
Creditors: due within one year	15	**(303,719)**	(184,883)
Net current assets		**4,339,541**	2,358,197
Total assets less current liabilities		**6,489,541**	4,508,197
Net assets		**6,489,541**	4,508,197
Capital and reserves			
Called up share capital	18	**2,116,311**	1,813,280
Share premium account	19	**4,324,171**	2,668,655
Profit and loss account	19	**49,059**	26,262
Equity shareholders' funds	20	**6,489,541**	4,508,197

Patricia Farley
Managing Director

Approved by the board on 17 November 2005

The notes on pages 12 to 20 form part of these financial statements.

Group cash flow statement

for the year ended 30 September 2005

	Note	30 September 2005 £	30 September 2004 £
Cash inflow from operating activities	21	**484,360**	389,280
Returns on investments and servicing of finance			
Interest received		**184,186**	97,485
Interest paid		**(2,284)**	(2,501)
		181,902	94,984
Taxation			
UK corporation tax paid		**(80,354)**	(28,972)
Capital expenditure			
Purchase of tangible fixed assets		**(11,624)**	(98,621)
Sales of tangible fixed assets		**4,798**	13,006
		(6,826)	(85,615)
Acquisitions			
Net cash acquired with subsidiary		—	*(344,111)*
Financing			
Issue of share capital		**1,958,556**	2,451,092
Repayment of loan stock		—	(544,157)
Repayment of hire purchase		**(4,050)**	(12,609)
Dividends		**(174,656)**	—
		1,779,850	1,894,326
Increase in cash in the year		**2,358,932**	1,919,892

Reconciliation of net cash inflow to movement in net funds

	Note	30 September 2005 £	30 September 2004 £
Increase in cash in the year		**2,358,932**	1,919,892
Opening net funds		**2,328,523**	408,631
Closing net funds	22	**4,687,455**	2,328,523

The notes on pages 12 to 20 form part of these financial statements.

Notes to the financial statements

For the year ended 30 September 2005

1. Accounting policies

(a) *Basis of accounting*

The financial statements have been prepared on the historical cost basis.

(b) Basis of consolidation

The group profit and loss account and balance sheet include the financial statements of the company and all its subsidiaries from the date of acquisition and made up to the balance sheet date, consolidated under the acquisition method.

(c) Turnover

Turnover represents income receivable from invoiced fees and commissions, net of value added tax. Fee income arising from the sale of properties is recognised when contracts are exchanged. Letting fee income is recognised when invoiced and provision is made for fees refunded as a result of early termination of tenancies.

All turnover is derived from continuing activities.

(d) Depreciation and amortisation

Depreciation is provided on all tangible fixed assets in order to write off their cost over their expected useful lives at the following annual rates:

Leasehold property	– over the life of the lease
Equipment, fixtures and fittings	– 15% on net book value
Motor vehicles	– 25% on net book value
Computer equipment	– 33% on net book value

Goodwill arising on consolidation is capitalised and amortised on a straight line basis over its expected useful life of 20 years.

(e) Deferred tax

Provision is made at current rates for taxation deferred in respect of all material timing differences.

A deferred tax asset is only recognised where the conditions for recognition in Financial Reporting Standard No. 19 are satisfied.

(f) Pension costs

The group operates a defined contribution pension scheme. The assets of the independently administered scheme are held separately from those of the group. The profit and loss account charge for the year represents contributions payable to the fund. No amounts were outstanding at the year end.

(g) *Leases*

Assets held under finance leases and hire purchase contracts are capitalised at their fair value at the inception of the lease and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Operating lease rentals are charged to the profit and loss account evenly over the lease term.

(h) Investment properties
Investment properties are included in the balance sheet at valuation. The valuations, at open market value, were carried out by the directors after taking independent advice. The surplus arising on the valuation has been transferred to the revaluation reserve.

Although the Companies Act would normally require the systematic depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes to the current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been included cannot be separately identified or quantified.

(i) Fixed asset investments
Shares in subsidiaries are stated at cost less amounts written off where, in the opinion of the directors, there has been a permanent diminution in the value of a subsidiary. In assessing permanent diminution the directors consider the subsidiary's long term profit earning potential.

Other investments are stated at cost, subject to any permanent diminution in value.

2. Turnover
Turnover is attributable to the group's principal continuing activity and arose in the United Kingdom.

3. Operating profit

	2005 **£**	2004 £
Auditors' remuneration – audit fees	**25,000**	20,000
– other fees	**24,555**	7,760
Staff costs (note 5)	**1,259,062**	1,338,086
Depreciation	**38,765**	44,261
(Profit)/loss on sale of fixed assets	**(1,519)**	11,960
Amortisation of goodwill	**96,000**	72,000

4. Earnings per share
The calculation of basic earnings per ordinary share is based on the profit on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the year. The calculation of diluted earnings per ordinary share is based on the basic earnings per ordinary share adjusted to allow for the issue of shares on the assumed conversion of all dilutive instruments.

	2005			2004		
	Profit £	**Weighted average number of shares**	**Earnings per share pence**	Profit £	Weighted average number of shares	Earnings per share pence
Basic	**241,379**	**18,631,109**	**1.30p**	181,251	12,621,459	1.44p
Diluted	**241,379**	**19,244,051**	**1.25p**	181,251	13,224,943	1.37p

Notes to the financial statements

For the year ended 30 September 2005

5. Staff costs (including directors)

	2005 £	2004 £
Wages and salaries	**1,131,992**	1,208,915
Social security costs	**127,070**	129,171
	1,259,062	1,338,086

The average number of employees (including directors) during the year was:

	2005 Number	2004 Number
Block management and accounts	**8**	7
Sales	**12**	12
Lettings	**9**	10
	29	29

6. Directors' remuneration

	2005 £	2004 £
Included in staff costs are directors' emoluments as follows:		
Total emoluments	**226,484**	221,406

The number of directors accruing benefits under a money purchase scheme was 1 (2004: 1).

Aggregate emoluments of the highest paid director were £156,213 (2004: £157,797).

7. Interest receivable and similar income

	2005 £	2004 £
Bank deposit interest	184,186	97,485

8. Interest payable

	2005 £	2004 £
Finance lease interest	**2,284**	2,501

9. Taxation

	2005 £	2004 £
(a) Analysis of tax charge for the year		
Current tax:		
UK corporation tax on profits of the year	**147,424**	85,903
Adjustments in respect of prior years	**228**	(78)
Total current tax charge (note 9(b))	**147,652**	85,825
Deferred tax:	**(1,528)**	38,201
Tax on profit on ordinary activities	**146,124**	124,026

	2005 £	2004 £
Deferred tax		
At 1 October 2004	**12,108**	—
Provision acquired with subsidiary	**—**	(26,093)
Deferred tax (credit)/charge for the period	**(1,528)**	38,201
At 30 September 2005	**10,580**	12,108

	2005 £	2004 £
(b) Factors affecting the tax charge for the year:		
Tax on profit on ordinary activities at standard corporation tax rate of 30%	**145,051**	91,583
Expenses not deductible for tax purposes	**7,581**	11,590
Capital allowances	**1,528**	99
Amortisation of goodwill	**—**	21,600
Utilisation of tax losses	**—**	(34,706)
Tax credits	**—**	(1,090)
Marginal relief	**—**	(3,532)
Non-corporate distributions	**—**	359
Adjustments to tax charge in respect of previous periods	**228**	(78)
Lower rate tax adjustments	**(6,736)**	—
Current tax charge for the year	**147,652**	85,825

10. Dividends

	2005 £	2004 £
Special interim dividend (in lieu of final)		
1.1p per ordinary share	**258,788**	—
Final – proposed: 1p per ordinary share	**—**	174,656
	258,788	174,656

Notes to the financial statements

For the year ended 30 September 2005

11. Investments

Group

	Investment properties £	Other investments £	Total £
Valuation			
At 1 October 2004 and 30 September 2005	350,000	25,000	375,000

The cost of investment properties to the group at 30 September 2005 was £300,000. The properties comprise long leasehold interests of £157,187 and freehold interests of £192,813.

All properties are valued at their open market value by the directors having taken independent advice.

Company

	Subsidiary undertakings £	*Loan to* subsidiary £	Total £
Cost			
At 1 October 2004 and 30 September 2005	1,605,843	544,157	2,150,000

The following subsidiary undertakings at 30 September 2005 were wholly owned and are incorporated and operate in England.

	Nature of business
Farley Services Limited	Holding company
*Farley & Co Limited	Estate agency and residential lettings and management
Tourdeal Limited	Dormant
**Farley Professional Services Limited	Dormant
**Farley Management Company Limited	Property investment

*The equity of this company is held by Farley Services Limited.
**The equity of these companies is held by Farley & Co Limited.

12. Tangible fixed assets – group

	Leasehold property improvements £	Motor vehicles £	Equipment, fixtures and fittings £	Computer equipment £	Total £
Cost					
At 1 October 2004	65,580	54,639	231,218	123,924	475,361
Additions	—	14,600	5,348	3,376	23,324
Disposals	—	(15,595)	—	(1,928)	(17,523)
At 30 September 2005	**65,580**	**53,644**	**236,566**	**125,372**	**481,162**
Depreciation					
At 1 October 2004	35,804	27,526	150,694	88,188	302,212
Charge for the year	3,144	10,371	12,875	12,375	38,765
Disposals	—	(13,456)	—	(788)	(14,244)
At 30 September 2005	**38,948**	**24,441**	**163,569**	**99,775**	**326,733**
Net book value					
At 30 September 2005	**26,632**	**29,203**	**72,997**	**25,597**	**154,429**
At 30 September 2004	29,776	27,113	80,524	35,736	173,149

The above includes two motor vehicles acquired on hire purchase agreements with a net book value of £26.497 at 30 September 2005. Depreciation charged for the year was £8,833.

13. Intangible fixed assets

	Goodwill £
Cost	
At 1 October 2004 and 30 September 2005	1,923,728
Amortisation	
At 1 October 2004	72,000
Charge during the year	96,000
At 30 September 2005	**168,000**
Net book value	
At 30 September 2005	**1,755,728**
At 30 September 2004	1,851,728

14. Debtors

	Group		Company	
	2005 £	2004 £	**2005 £**	2004 £
Trade debtors	**188,668**	251,228	**—**	—
Prepayments and accrued income	**123,175**	120,398	**12,249**	5,988
Other debtors	**4,376**	16,509	**2,482**	2,452
Due from subsidiary undertakings	**—**	—	**414,395**	266,903
	316,219	388,135	**429,126**	275,343

15. Creditors: due within one year

	Group		Company	
	2005 £	2004 £	**2005 £**	2004 £
Trade creditors	**79,957**	65,735	**3,352**	1,338
Corporation tax	**153,201**	85,903	**9,561**	389
Social security and other taxes	**134,237**	119,177	**—**	—
Accruals and deferred income	**163,489**	119,365	**32,018**	8,500
Hire purchase agreements	**8,017**	4,050	—	—
Dividends payable	**258,788**	174,656	**258,788**	174,656
	797,689	*568,886*	***303,719***	*184,883*

16. Creditors: due after one year

	Group		Company	
	2005 £	2004 £	**2005 £**	2004 £
Hire purchase agreements	**23,510**	19,627	**—**	—
	23,510	19,627	**—**	—

Notes to the financial statements

For the year ended 30 September 2005

16a. Obligations under hire purchase agreements

	Group		Company	
	2005	2004	**2005**	2004
	£	£	**£**	£
Payable				
Within one year	**8,017**	4,050	**—**	—
From one to two years	**8,017**	4,050	**—**	—
From two to five years	**15,493**	15,577	**—**	—
	31,527	23,677	**—**	—

Hire purchase agreements are charged at fixed rates of interest and are secured on the specific assets to which they relate.

17. Provision for deferred tax

	Group		Company	
	2005	2004	**2005**	2004
	£	£	**£**	£
Accelerated capital allowances	**10,580**	12,108	**—**	—

18. Share capital

	2005	2004
	£	£
Authorised:		
81,200,000 ordinary shares of 5p each	**4,060,000**	4,060,000
4,700,000 deferred shares of 20p each	**940,000**	940,000
	5,000,000	5,000,000
Allotted, issued and fully paid:		
23,526,216 ordinary shares of 5p each	**1,176,311**	873,280
4,700,000 deferred shares of 20p each	**940,000**	940,000
	2,116,311	1,813,280

On 20 June 2005, 6,060,606 ordinary shares of 5p each were issued fully paid for cash at 33p per share. The share premium arising of £1,696,960 has been credited to the share premium account.

The holders of the deferred shares are not entitled to receive any dividends. On a return of capital or a winding up, the holders of deferred shares shall be entitled to receive a sum equal to the nominal capital paid up, but only after the sum of £1,000,000 per ordinary share has been distributed to the holders of the ordinary shares. The holders of the deferred shares shall not be entitled to any further participation in the assets or profits of the company.

The holders of the deferred shares are not entitled to receive notice of or attend and shall not be entitled to vote at any general meeting of the company.

Share option plan

At 30 September 2005, the company had granted a total of 832,374 options to subscribe for ordinary 5p shares under the Farley Group plc Share Option Plan 2003. The subscription prices range from 25p to 66.5p and the exercise periods range from 23 December 2005 to 25 July 2015.

19. Reserves

Group	Share premium account £	Revaluation reserve £	Profit and loss account £
At 1 October 2004	2,668,655	50,000	(16,021)
Arising on issue of shares	1,696,690	—	—
Share issue costs	(41,444)	—	—
Retained loss for the year	—	—	(17,409)
At 30 September 2005	**4,324,171**	**50,000**	**(33,430)**

Company	Share premium account £	Profit and loss account £
At 1 October 2004	2,668,655	26,262
Arising on issue of shares	1,696,960	—
Share issue costs	(41,444)	—
Retained profit for the year	—	22,797
At 30 September 2005	**4,324,171**	**49,059**

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account for the company has not been presented.

20. Reconciliation of movements in equity shareholder's funds

	Group		Company	
	2005 £	2004 £	**2005 £**	2004 £
(Loss)/profit for the financial year	**(17,409)**	6,595	**22,797**	48,878
Investment revaluation reserve	**—**	50,000	**—**	—
New shares issued (net of expenses)	**303,030**	1,388,280	**303,030**	1,388,280
Share premium	**1,655,517**	2,668,655	**1,655,517**	2,668,655
Shareholders' funds at 1 October 2004	**4,515,914**	402,384	**4,508,197**	402,384
Shareholders' funds at 30 September 2005	**6,457,052**	4,515,914	**6,489,541**	4,508,197

21. Reconciliation of operating profit to net cash flow from operating activities

	2005 £	2004 £
Operating profit	**205,601**	210,293
Depreciation charge	**38,765**	44,261
(Profit)/loss on disposal of fixed assets	**(1,519)**	11,960
Amortisation of goodwill	**96,000**	72,000
Decrease in debtors	**71,916**	46,341
Increase in creditors	**73,597**	4,425
Net cash inflow from operating activities	**484,360**	389,280

Notes to the financial statements

For the year ended 30 September 2005

22. Analysis of changes in net funds

	At 1 October 2004 £	Cash flows £	**At 30 September 2005 £**
Bank balances and cash	58	—	**58**
Liquid resources	2,328,465	2,358,932	**4,687,397**
	2,328,523	2,358,932	**4,687,455**
Debt due within one year	4,050	3,967	**8,017**
Debt due after one year	19,627	3,883	**23,510**
	2,352,200	2,366,782	**4,718,982**

23. Operating lease commitments

The group's commitments for rental payments under non-cancellable operating leases payable during the year to 30 September 2006 are:

	Land and buildings £	Other operating leases £
Leases expiring:		
Between two and five years	—	31,909
After five years	125,000	—
	125,000	31,909

24. Financial instruments

The financial instruments used by the group comprise internal cash resources, hire purchase and finance lease agreements and short term debtors and creditors arising from normal trading activities. The group has no undrawn bank borrowing facilities available to it.

The group's interest rate risk and maturity of financial liabilities is disclosed in note 16(a).

The group is not exposed to any foreign currency risks.

The directors believe that there is no material difference between the carrying value and the fair value of its financial instruments.

25. Capital commitments

At the year end, the group had contracted for capital commitments of £15,000 (2004: £nil).

26. Related party transactions

During the year, £52,500 (2004: £42,500) was paid to P M Farley, being 50% of the total rent of the company's offices, on commercial terms.

Notice of annual general meeting

Farley Group plc
(Incorporated in England & Wales under the Companies Act 1985 with registered number 4058708)

Notice is hereby given that the 2005 Annual General Meeting of Farley Group plc ("the Company") will be held at the offices of Stringer Saul LLP, Fifth Floor, 17 Hanover Square, London W1S 1HU on Thursday 15 December 2005 at 9.00 am to transact the following business:

Ordinary business

1. To receive and adopt the annual report and financial statements for the year ended 30 September 2005.
2. To re-elect Simon Alexander Robin Wharmby as a director who is offering himself for re-election in accordance with the Articles of Association of the Company.
3. To re-elect Stephen Anthony Russell as a director who is offering himself for re-election in accordance with the Articles of Association of the Company.
4. Subject to him having been appointed as a director of the Company, prior to the Annual General Meeting of the Company, to re-elect Simon Maxwell Ziff as a director who is offering himself for re-election in accordance with the Articles of Association of the Company.
5. To reappoint Messrs Chantrey Vellacott DFK LLP as the auditors of the Company and to authorise the directors to determine their remuneration.

Special business

As special business to consider and, if thought fit, pass the following resolutions, all of which will be proposed as special resolutions:

6. That, subject to the confirmation of the Court, the share premium account of the Company be reduced by the sum of £5,000,000.
7. That the proposed contract between the Company and Nigel Gordon, the company secretary, relating to the off market purchase by the Company of the 4,700,000 deferred shares of 20p each in the capital of the Company currently held in the name of Nigel Gordon for a total purchase price of £1 as laid before the meeting and initialled by the chairman for the purposes of identification be and it is hereby approved and its terms authorised, such authority to expire on 31 March 2006, and that the directors of the Company be and they are hereby authorised to enter into and conclude the said contract.
8. That:

   a) the Company be and is hereby generally and unconditionally authorised, pursuant to Section 166 of the Companies Act 1985 to make market purchases (as defined in Section 163 of the Companies Act 1985) of its own ordinary shares of 5p each ("Ordinary Shares") on such terms and in such manner as the directors of the Company shall determine;
   b) the general authority conferred by this resolution shall:
      i) be limited to a maximum of 3,852,621 Ordinary Shares (representing approximately 10% of the issued share capital of the Company following the completion of the Acquisition and the Placing (assuming full subscription) both as defined in the admission document of the Company dated 2 November 2005);
      ii) not permit payment of a price per Ordinary Share, exclusive of expenses of less than 5p or more than 105% of the average price at which business was done in the Ordinary Shares of the Company in the five business days preceding the purchase;
      iii) expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2006 and 15 months after the passing of this resolution save that the Company may before the expiry of the power hereby conferred contract to purchase its own Ordinary Shares which contract requires or might require the purchase of such Ordinary Shares wholly or partly after such expiry.

By order of the board

Nigel Gordon
Secretary
21 November 2005

Registered office:
Russell Square House
10–12 Russell Square,
London WC1B 5LF

Notice of annual general meeting

Farley Group plc
(Incorporated in England & Wales under the Companies Act 1985 with registered number 4058708)

Notes:

1. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and (on a poll) to vote in his or her place. A proxy need not be a member of the Company.

2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such a power of authority must be deposited at the office of the Registrars, Capita Registrars, Registration Services, PO Box 25. Beckenham, Kent BR3 4BR, not later than 48 hours before the time appointed for the Meeting. A form of proxy is enclosed.

3. There will be available for inspection at the registered offices of the Company, during usual business hours on any weekday from the date of this notice until the date of the Meeting, and at the place of the Meeting for 15 minutes prior to and during the Meeting, and particulars for the period up to 21 November 2005 of the transactions of each director and, so far as he can reasonably ascertain, of persons connected to him (within the meaning of Section 346 of the Act) in the share capital of the Company.

Form of Proxy

for Annual General Meeting

I/We..

of...

....

being a member(s) of the above named company hereby appoint*

.... whom failing the chairman of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Stringer Saul LLP, Fifth Floor, 17 Hanover Square, London W1S 1HU on 15 December 2005 at 9.00 am, and at any adjournment thereof.

Please indicate with an X in the appropriate space how you wish your votes to be cast.

Ordinary business				
Resolution	For	Against	Vote Withheld*	Discretionary**
1. Ordinary resolution – to adopt the report and accounts				
2. Ordinary resolution – to re-elect Simon Wharmby				
3. Ordinary resolution – to re-elect Stephen Russell as a director				
4. Ordinary resolution – to re-elect Max Ziff as a director.				
5. Ordinary resolution – to reappoint Messrs Chantrey Vellacott DFK LLP as auditors and to authorise the directors to determine their remuneration.				
Special business				
Resolution	For	Against	Vote Withheld*	Discretionary**
6. Special resolution – to approve the reduction of the Company's share premium account				
7. Special resolution – to approve the contract for the repurchase of the deferred shares				
8. Special resolution – to approve market purchases of the Company's shares				

* The "Vote Withheld" option is to enable you to abstain on any of the specified resolutions. Please note that a "Vote Withheld" has no legal effect and will not be counted in the votes "For" and "Against" a resolution.

** If you select "Discretionary" or fail to select any of the given options, the proxy is authorised to vote (or abstain from voting) at his or her discretion on the specified resolutions. The proxy is also authorised to vote (or abstain from voting) on any other business which may properly come before the meeting.

Date... Signature(s) or common seal ....

Notes:

1. A proxy need not be a member of the Company.
2. If you do not indicate how you wish your proxy to use your vote on any particular matter, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting.
3. In the case of a corporation this form of proxy must be executed under the seal or under the hand of an officer or attorney duly authorised in writing.
4. This form of proxy has been sent to you by post, e-mail or facsimile. It may be returned by either of the following methods: in hard copy form by post or courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In each case the proxy appointment must be received not less than 48 hours before the time for the holding of the meeting or adjourned meeting together with any authority (or a notarially certified copy of such authority) under which it is signed.
5. In the case of joint holders, the signature of any one of them will suffice, but if a holder other than the first-named holder signs, it will help the registrars if the name of the first-named holder is given.
6. Any alteration to this form must be initialled.
7. Completion and return of this form of proxy does not preclude a member from subsequently attending and voting at the Meeting.

Second fold

BUSINESS REPLY SERVICE
Licence No. MB122

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Capita Registrars
Proxy Department
PO Box 25
Beckenham
Kent BR3 4BR

First fold

Third fold and tuck in

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