

Company Number: 4195561

# **Report & Accounts 2003 Fitzhardinge plc**



Fitzhardinge plc principally trades as Colliers CRE (Colliers Conrad Ritblat Erdman)

## **Directors and Advisers**

---

### **Directors**

J.H. Ritblat FRICS, Non-Executive Chairman  
P.J. Manser CBE, FCA, DL, Non-Executive Deputy Chairman  
D.S. Izett BA, Managing Director  
T.P. Tidy BSc, FCA, Finance and Deputy Managing Director  
A.B. Graham MA, FRICS, Executive Director  
D.J. Hyams FRICS, Executive Director  
Sir David Hardy FCA, FCIT, Non-Executive Director  
C.B. Wagman FCA, Non-Executive Director

### **Company Secretary and Registered Office**

H. Goldsobel, Solicitor, MBA  
9 Marylebone Lane  
London W1U 1HL

### **Nominated Adviser**

Shore Capital and Corporate Limited  
Bond Street House  
14 Clifford Street  
London W1S 4JU

### **Solicitors**

S J Berwin  
222 Grays Inn Road  
London WC1X 8XF

Michael Conn Goldsobel  
24 Queen Anne Street  
London W1G 9AX

### **Auditors**

Baker Tilly  
2 Bloomsbury Street  
London WC1B 3ST

### **Stockbroker**

Shore Capital Stockbrokers Limited  
Bond Street House  
14 Clifford Street  
London W1S 4JU

### **Bankers**

Barclays Bank PLC  
54 Lombard Street  
London EC3V 9EX

### **Registrars**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## Financial highlights

for the year ended 31 December 2003

	Year to 31.12.03	Year to 31.12.02
Turnover	£56.71 million	£38.21 million
Operating profit	£4.66 million	£3.83 million
Profit before tax*	£2.64 million	£3.19 million
Basic Earnings per Share before exceptional items	11.59p	11.09p
Fully diluted Earnings per Share before exceptional items	10.72p	10.13p
Total Dividend per Share	3.30p	3.15p

\* After exceptional items

## **Chairman's statement**

I am pleased to report another year of significant advance for the Company following the acquisitions in March 2003 of Gooch Webster and Fisher Wilson (Scotland) which place Colliers CRE (Colliers Conrad Ritblat Erdman) as one of the UK's top ten property service consultancies. We have benefited from a strong market in 2003 in most of the areas in which we operate and I am glad to report improved results with growth in our existing businesses and also in our recent acquisitions.

*Total fee income for the year ended 31 December 2003 amounted to £56.71 million (2002 : £38.21 million) on which we achieved operating profit of £4.66 million (2002 : £3.83 million) before interest and before exceptional items of £1.5 million arising in respect of the acquisitions and subsequent reorganisation. Profit before taxation was £2.64 million and earnings per share on a fully diluted basis, adjusted for exceptional items, amounted to 10.72p (2002 : 10.13p).*

Also, as a result of the acquisitions, we have increased recurrent revenue with more than half of total income derived from non-agency work, such as asset and property management, the quantum of which is less vulnerable to market fluctuations.

The Board is pleased to recommend an increased final dividend of 2.25p which, together with the interim dividend of 1.05p, gives a total for the year of 3.30p and is 2.14 times covered by earnings. This final dividend, subject to approval at the Annual General Meeting on 18 May 2004, will be paid on 26 May 2004 to those shareholders on the register at the close of business on 30 April 2004. The Trustee of the Company's ESOP has, once again, waived its entitlement to dividends in respect of its entire holding of 4.6 million shares.

Our business model is the provision of a wide range of first class property advisory services from asset management to valuation across an unrivalled spread of specialist sectors, from business space and retail through to hotels, healthcare, motor trade and licensed and leisure. We do this via a comprehensive network of UK offices. It is most satisfactory to note that, as a result of our acquisitions and selective recruitment, we have significantly strengthened our business in all these areas. Our client base has also deepened accordingly.

We were involved in many significant transactions throughout the year. Highlights included acting on two of the largest transactions in the City of London, for Marks & Spencer and White & Case, advising Spirit Group on their acquisition of Scottish & Newcastle Retail and carrying out the largest single distribution sector letting (1m sq ft) for HM Prison Service to B&Q. Our successes have not passed without public recognition – our fund management team winning, for the second year running, the Estates Gazette Property Investment Award for Best Performing Fund (over ten years), our subsidiary, CICSE receiving Partner of the Year Award from CoreNet (the corporate services industry representative organisation) for work carried out with Oracle, and our Retail and Logistics & Industrial teams being short-listed for the Property Week Awards this month.

Our staff, now 650 strong, are the essential ingredient to our provision of high quality service to our growing client base. I would like to express the Board's particular gratitude for their contribution to the results and warmly welcome our new colleagues to the Company. We ensure that our staff benefit from the Company's results through attractive incentives and remuneration arrangements which in turn lead to a high staff retention level.

We continue to invest where appropriate in premises from which we operate. Furthermore, we are presently looking at a number of business opportunities that may involve the issue of equity and are therefore seeking shareholder approval to issue up to 6,100,000 50p ordinary shares for cash, without having to first offer them to existing shareholders. This represents approximately 20% of our issued *share capital*.

Ours is a strong national business with a high degree of specialisation. As the economic climate continues to strengthen, we expect to benefit from increased market share as a result of our reputation as 'best in sector' in a growing number of areas. We continue to look for appropriate acquisitions and to take advantage of market opportunities, such as REITs, and are confident of further growth in the year ahead.



John Ritblat  
Chairman  
20 April 2004

## **Managing Director's review**

---

On the 3 March 2003, we achieved a quantum leap in size with the acquisitions of Gooch Webster and Fisher Wilson (Scotland). As a consequence of detailed pre-planning and decisive implementation, we succeeded in fully integrating the businesses within a few months. The result has been very satisfactory with operating profit of £4.66m and fee income for 2003 of £56.71m (or £60m when adjusted to include January and February income from Gooch Webster and Fisher Wilson) compared with £38.21m for 2002.

We now operate from nine full-service offices – London (City and West End), Birmingham, Leeds, Manchester, Bristol, Edinburgh, Glasgow and Belfast (25% owned) and nine Colliers Robert Barry offices. We continue to benefit from being a driver member of Colliers International where total revenues for 2003 exceeded US\$1bn and which has 247 offices in 53 countries.

The strength of our business lies in its ability to deliver first class advice and excellent service across a broad range of sectors, through specialist, highly focused, national teams.

### **Auctions**

2003 saw rooms packed with eager bidders and success rates of 95% and 100% as stable interest rates and a lacklustre equities market increased competition for property. Major instructions included more than 100 roadside sites sold for Total UK and portfolios of retail investments for Rotch and HSBC. We continue to dominate the sale of property from the public sector and 2003 saw our three year total exceed £120m including some significant development sites. The 2003 Focus Auction Guide Analysis shows us to be one of the top five commercial property auctioneers.

### **Asset & Property Management**

This is our largest department in terms of professional staff, operating from all our offices including, recently, the City of London. Major new clients, as a result of our acquisitions, include The Corporation of London, Morley, Scottish Enterprise and Staffordshire County Council. Significant strides have been made in occupier management with mandates from Abbey National, the National Probation Service, O2, Three Cocks and Vue Cinemas.

### **Building Consultancy**

The Building Consultancy Department has 42 fee earners and offers four core skills; project management, building surveying, quantity surveying and architectural design. Recent instructions include a £60m project management of 40 Portman Square for Delancey Estates, nationwide auditing work for Virgin Retail, cost consultancy and monitoring of a series of healthcare new build establishments for The Royal Bank of Scotland and the design and project management of car showrooms for H R Owen.

### **Healthcare**

2003 was a very busy year for the healthcare sector generally. We advised a wide range of corporate operators and debt and equity funders including Priory Healthcare on securitisation, the provisional liquidator of the King Edward VII Hospital at Midhurst and the funders of major acquisitions for Barchester Healthcare and other long-term care corporates.

## Hotels

2003 was a record year for Colliers Robert Barry, our hotels division, with turnover up one third. A new office was opened in Glasgow taking the total to date to nine. Concentrating largely on transactional work, the team produced a strong performance in the privately owned sector, increasing market share significantly in an area where it is already among the market leaders. Moreover, the team has made considerable strides into both the corporate and Central London markets. High profile mandates undertaken during the course of the year included acting on behalf of the administrative receivers on the sale of the operational leases of The Waldorf and Grosvenor House Hotels in London, and an instruction from Macdonalds Hotels to sell 15 properties.

## Investment

There was strong demand from private individuals, property companies and UK and European funds as trading conditions improved steadily throughout the year. The team advised various clients on a number of notable transactions including:

- TRW on the sale and leaseback of its headquarters building in Birmingham for £40m.
- London Inns on the acquisition of Swallow Hotels from Whitbread for £57m.
- British Land on the formation of a limited partnership with Land Securities in respect of four Scottish shopping centres with a combined value of c£500m.
- Deutsche Bank/Tufton on the acquisition of a retail park portfolio in Gloucester, Kettering, Poole and York for £35.8m.
- Warner Estate on the acquisition of The Pyramids Shopping Centre, Birkenhead for £42m.
- Logical Properties on the acquisition of 250 public houses from Punch for £57m.
- Hammerson and Teachers on the sale of Sprowston Retail Park, Norwich for £49m.
- Magell on the purchase of Cameron Toll Shopping Centre, Edinburgh for £74.5m.
- Hermes on the sale of The Wellgate Shopping Centre, Dundee for £55.25m.

## Licensed & Leisure

Towards the end of the year we advised The Blackstone Group and Texas Pacific Group on one of the largest ever public house portfolio deals, the £2.5bn takeover by Spirit Group of Scottish & Newcastle Retail. This rounded off a very successful year for the team who also carried out major instructions for Luminar Leisure, Megabowl, Mitchells & Butlers, Odeon Cinemas and Wolverhampton & Dudley.

## Logistics & Industrial

2003 saw increasing demand in the logistics sector, particularly from retailers such as John Lewis, Tesco and TK Maxx and a general under supply of sites able to accommodate in excess of 250,000 sq ft especially in the South-East where competition for housing is greatest. We advised on a number of big shed transactions including The Prison Service on their site at Branston in Staffordshire. This 62 acre site incorporated 1,000,000 sq ft of warehouse buildings which were let to B & Q - the UK's largest letting. Rent review instructions have been carried out for many clients including Avesco, Booker, Iron Mountain, Leicestershire County Council Pension Fund and Panavision Europe.

### Motor Trade

*The development of the automotive industry in the UK and Europe continues to provide us with significant opportunities - substantial relocations, consolidations including a large increase in corporate activity with mergers and acquisitions in the dealer networks, rationalisation of under-performing assets in the manufacturing sector and continued rationalisation in the oil company sector. Accordingly, 2003 was an excellent year for our Motor Trade department, the largest dedicated team in the UK. New clients secured in 2003 included BMW Financial Services (GB), Cheyne Motor Group, DaimlerChrysler AG, Evobus UK, Penske Realty, Rolton Group and Rossit and Beck, to add to existing business from Chevron Texaco, DaimlerChrysler Retail, HR Owen, Inchcape, Welcome Break and various lending institutions.*

### Offices

*The national office market remained tough with many occupiers, particularly those in the technology and telecom sectors striving to make the most efficient use of their resources, attempting to offload surplus space in a quiet market. Some signs of recovery however appeared late in 2003 as levels of preliminary enquiries increased.*

*During the year we advised a number of occupiers including Nvidia, Adobe, Marconi, Siemens and, most recently, TRW Automotive when we acted on the sale of their 52 acre office campus in Solihull including 182,000 square feet in eight buildings and 25 acres of development land. Other significant activity included the appointment of the Scottish team on Rosyth Europarc which is masterplanned for 460,000 sq ft of offices and 125,000 sq ft of industrial.*

*In Central London, our City leasing team, on our estimates, was responsible for around 15% of the market. In the West End, our team has been fully restructured following the arrival of Nick Ridley and Lisa Bailey, the results of which are beginning to show. Here, the market is becoming more liquid and we anticipate a greater volume of transactions.*

*On the landlord and tenant side instructions were undertaken for a number of clients including Allied Irish Bank, Diageo, Mapeley, Morley, Sotheby's and Staffordshire County Council Pension Fund.*

### Planning & Development

*The team was significantly strengthened during the year by the key recruitment of Adam Pyrke as Head of Retail Planning and John Sidgwick as Head of Planning for London. The development consultancy side of the department was also strengthened. Further recruitment, particularly in the provinces, is progressing. Private sector work included advice to Spirit Group on 120 public houses and to the provisional liquidator of the King Edward VII Hospital in Midhurst. Residential and commercial work was undertaken for Philips Pension Fund, The Kenmore Group and Weston Homes. Advice was provided to local authorities on major town centre mixed use schemes in Darlington, Dunstable, Guildford and Reading.*



### Rating

The Rating Department can look back at 2003 with great satisfaction. It is now a stronger, more experienced team with a greater presence in our regional offices and a broader, more diverse client base. The team's focus on rate liability management has provided it with a market edge and instructions were received from Marconi, the Scottish Court Service and the National Probation Directorate to manage and pay their rates. We now have 4,500 properties under management with a £100m rates liability.

### Real Estate Partnering Group (REPG)

REPG provides consultancy services to our corporate and public sector clients and takes responsibility for managing multi-discipline projects. The team has won a variety of mandates including; advising CIPD (Chartered Institute of Personnel & Development) on the acquisition and development of a new headquarters building and disposal of their former premises; taking a lead consultancy role in the evaluation and implementation of the estates redevelopment strategy for Edinburgh's Telford College; advising The University of Sheffield on a potential partnership for the release of its non-core student residential estate; an appointment to advise The County and City of Cardiff on a major new city centre development being promoted by The St David's Partnership. In recognition of the increasing amount of work the Company is undertaking on behalf of clients in the public sector, REPG has created a Public Sector Group which brings together all our skills and experience in this sphere. A specialist team focusing on the education sector has also been established.

### Research

To reflect the importance we attach to our research function, we are investing in the strengthening and expansion of the department through recruitment and this is leading to a significant increase in the range of its publications and services. The department continues to play a pivotal role in the production of the annual Midsummer Retail Report and the accompanying retail rents maps and our quarterly Real Estate Investment Forecasts (REIF). 2004 will see the launch of a new quarterly publication on the Central London Office market. For the first time, research papers will also be produced in support of specialist sectors such as healthcare and hotels. On the consultancy side, the department has successfully completed major retail and office studies for the Department of the Environment in Northern Ireland and is regularly engaged in preparing and presenting expert evidence on behalf of clients at public inquiries across the UK.

### Residential

Our Residential Consultancy had another successful year principally in the acquisition for major clients of new developments and portfolios for long-term investment of some £100m. A new jointly owned company was formed known as CCRE Touchstone, combining the proven experience of Touchstone Asset Management in residential property management, with the expertise of Colliers CRE in the acquisition, development and disposal of large residential property portfolios. It holds contracts for the active management of over 3,000 properties for major residential investment companies and banks. The department has strengthened its research capability with the appointment of a leading team of three - David Moulton, Paul Belson and Fiona Sadek - enabling it to secure numerous mandates for the provision of project advice to national house builders, institutions and property companies.

## Retail

Our retail team has been significantly reinforced with the arrival of our new colleagues from Gooch Webster and Fisher Wilson (Scotland). The team is retained by more than 40 leading multiple retailers such as Body Shop, Bon Marche, Bratano, Carpetright, Dixons, Harveys, Iceland, J Sainsbury, Krispy Kreme, MFI, Peacocks, TK Maxx, Virgin and Woolworths. It transacted over 7 million sq ft during the year, a highlight being the disposal of the Powerhouse portfolio – 220 stores sold in eight weeks. The team is letting agent on a number of shopping centres nationwide and has won several new instructions, for example, for Crest Nicholson on both Waterside, Aylesbury and Park Street, Camberley. Landlord and tenant work was carried out for a number of clients including AXA Sunlife, British Land, Chelsfield, Credit Suisse Property Investment Management, ISIS, Land Securities, O2 and TK Maxx. We act for 17 out of the top 20 Out of Town landlords. With the acquisition of Fisher Wilson (Scotland), we are now one of the leading retail agents in Scotland where we are retained on 40 retail parks for clients such as British Land, Castlemore, MacDonald Estates, Scottish Provident and Standard Life.

## Valuation

The Valuation Department had another successful year undertaking several high profile valuations in connection with M&A activity, including Debenhams (39 stores) GUS's Reality Group (125 properties), and Littlewoods (270 stores). Major finance valuations included 78 Marks & Spencer stores owned by Topland, six shopping centres acquired by Catalyst Capital/Bank of Scotland from REIT Asset Management for over £300m and eight distribution warehouses acquired by Warner Estate/Bank of Scotland. The number of regular valuations for institutional and property company clients (in excess of £10bn in aggregate) increased during the year, in part due to instructions held by Gooch Webster from clients such as Century Life, Credit Suisse Property Investment Management and Development Securities. Valuations for company accounts purposes included Metropolitan Police and Nationwide Building Society together with the worldwide portfolios of Burberry and Smiths Industries.

## Colliers International Corporate Services Europe (CICSE)

CICSE is a new vehicle, launched in 2003, designed to win and manage pan-European and global corporate occupier accounts. Activity in this area picked up during the first half of 2003, with occupiers taking strategic portfolio decisions leading to numerous consolidations and lease re-gearings. For example, the team concluded relocation and consolidation transactions on behalf of Oracle in Austria (38,000sq ft), Spain (74,000 sq ft), The Netherlands (150,000 sq ft) and Germany (129,000 sq ft), the latter being one of the largest transactions in the Munich market for that year. The team also saw significant disposal activity as clients sought to rationalise their operational portfolios, e.g. Marconi in France, Michelin in Norway, Shell in Sweden and Smiths Group in the USA.

Cadbury Schweppes became a major new client of the company during the year following our appointment as one of three preferred suppliers for the global portfolio of their recently acquired Adams business. Numerous consultancy and valuation projects have been concluded around the world, for example in Russia and in South America, as well as major acquisition transactions in the USA.

### Colliers Capital UK

We are equally satisfied with the first year's trading of Colliers Capital where the fund management team continues to deliver award winning levels of performance from their existing funds and the private client and international teams have been very successful in introducing new clients to the company. 2003 also saw the creation of a new property fund backed by a leading Middle Eastern Investment Bank. The company has also been appointed to advise DIFKO, a Danish Investment House. Foundations are also being laid for future property investment funds.

### Deanwater Estates

Deanwater is the property co-investment business of Fitzhardinge plc. In each of our three co-investments we have equity of between 6% and 12% of the ventures. During 2003 these bought and sold over £50m worth of property. The most significant transaction was the acquisition by Stainton Capital of a portfolio of 14 properties for c. £40m in the final quarter. The ventures ended 2003 with £140m worth of property.

### Premises

As a consequence of our acquisitions during 2003, we embarked upon a programme of premises rationalisation. Outside London, premises in Birmingham, Bristol, Edinburgh, Glasgow and Leeds have been disposed of. Modern new open plan space has been taken in Bristol. In London, we have taken a lease of a single open plan floor of 18,400 sq ft in The Corner, Welbeck Street, opposite our headquarters building at 9 Marylebone Lane. By the end of this summer all our West End staff will be accommodated in these two buildings allowing us to dispose of the former Gooch Webster building in Albemarle Street and 13/14 Manchester Square, the home of Conrad Ritblat, in which we restructured our leasehold interest in July 2003. This interest is now on the market.



David Izett  
Managing Director  
20 April 2004

# Directors

**\* John Ritblat FRICS (aged 68)**

Non-Executive Chairman

(appointed 15 June 2001, re-elected 13 May 2003)

John was a founder, Senior Partner and Chairman of Conrad Ritblat & Co since its inception in 1959 and has, since 1970, also been the Chairman and Managing Director of The British Land Company PLC. John is an Honorary Fellow and Deputy Chairman of the board of Governors of the London Business School and is Deputy Chairman and an Honorary Fellow of the Royal Academy of Music. He has been the driving force in the development of the Group's business from the formation of Conrad Ritblat & Co in 1959 to the present day.

**\*† John Manser CBE, FCA, DL (aged 64)**

Non-Executive Deputy Chairman

(appointed 18th June 2001, elected 14th May 2002)

John was Chairman of Delancey Estates PLC from 1998 to 2001 and was formerly Chairman of Robert Fleming Holdings Limited. He is Chairman of Intermediate Capital Group plc and is a non-executive director of Shaftesbury Estates PLC and SAB Miller plc.

**David Izett BA (aged 47)**

Managing Director

(appointed 15 June 2001, re-elected 13 May 2003)

David joined Conrad Ritblat in April 1994 as a director in the Retail Division and the following year became head of the In Town Retail Department. He was appointed Managing Director of the Company in 2001 having previously been joint Deputy Managing Director.

**Tom Tidy BSc, FCA (aged 55)**

Finance Director and Deputy Managing Director

(appointed 15th June 2001, elected 14th May 2002)

Tom was Finance Director (Europe) for Sotheby's which he joined in 1975 after qualifying as a chartered accountant with Deloitte & Co. He joined the Group in 1994 as Finance Director of Milner Estates plc.

**Andrew Graham MA, FRICS (aged 53)**

Executive Director

(appointed 15 June 2001, elected 14 May 2002)

Andrew joined Conrad Ritblat in 1973, and became a partner in 1980. He is responsible for the Investment Division and for business development and is Deputy Chairman of Colliers CRE. He is a former Chairman of the Investment Property Forum and is currently Chairman of the Investment Property Forum Educational Trust. He is property advisor to Leicestershire County Council Pension Fund and is a Non-Executive Director of Stylo Barratt Properties Limited.

**David Hyams FRICS (aged 58)**

Executive Director

(appointed 15 June 2001, elected 14 May 2002)

David joined Conrad Ritblat in 1962 and became a partner in 1970. He is responsible for the Residential Consultancy and Auction Departments. He has had a role in developing Colliers CRE's business in government and public sector disposals.

**\*† Sir David Hardy FCA, FCIT (aged 73)**

Non-Executive Director

(appointed 15 June 2001, re-elected 13 May 2003)

Sir David is Chairman of the Transport Research Foundation and the Trustees of the National Maritime Museum. Until recently he was a Non-Executive Director at Hanson PLC and Imperial Tobacco Group PLC; and is a Non-Executive Director at James Fisher & Sons PLC and Stirling Lloyd Holdings plc.

**† Colin Wagman FCA (aged 57)**

Non-Executive Director

(appointed 4th September 2001, elected 14th May 2002)

Colin is Deputy Chairman of Delancey Estates Limited which holds 11,266,667 ordinary shares in the Company (36.84% of the issued share capital). He is also a Non-Executive Director of GET Group plc. Colin is a Chartered Accountant and was until 1991 a Senior Partner of Casson Beckman, a firm of Chartered Accountants which has since merged with Baker Tilly.

John Manser and Sir David Hardy are independent Non-Executive Directors.

\* member of the Audit Committee

† member of the Remuneration Committee

# Report of the Directors

---

The Directors submit their Report and Accounts for the year ended 31 December 2003.

## Principal activity and business review

The Group principally trades as property consultants Colliers CRE, providing a comprehensive range of agency, strategic, advisory and implementation services to property owners, investors, developers and occupiers. On 3 March 2003, the Company completed the acquisitions of Gooch Webster Group Limited and Fisher Wilson (Scotland) Limited. The businesses acquired were immediately hived up into the Company. The Directors are pleased with the results for the year and expect the Group to increase market share thus leading to further growth in the year ahead.

A review of the Group's activities and its prospects is contained within the Chairman's statement on pages 3 to 4 and the Managing Director's review on pages 5 to 10.

## Substantial interests

As at 20 April 2004 the following substantial interests in the share capital of the Company had been notified:

	Number of Ordinary Shares	% of issued share capital
Delancey Estates Limited	11,266,667	36.84%
Trustee of the Milner Consultancies Employee Share Ownership Plan	4,622,398	15.12%
Funds managed by ISIS plc	2,095,652	6.85%
Funds managed by Northern Venture Managers Limited	1,304,348	4.27%

## Dividends

The Directors recommend the payment of a final dividend of 2.25p (2002 – 2.10p) per share payable on 26 May 2004 to Shareholders on the register at the close of business on 30 April 2004.

## Employees

The Group recognises the importance of good internal communications and all employees are encouraged to discuss with management factors affecting the Group and any matters about which they are concerned. The Group regularly updates employees regarding the Group's objectives and performance and all employees are entitled to participate in the Group's discretionary bonus scheme.

The Group always fully and fairly considers employment applications from disabled persons. In the event that employees become disabled every effort is made to ensure that their employment continues. It is the Group's policy that the training and development of disabled persons should, as far as possible, be the same as for other employees.

### **Charitable donations**

During the year the Group made charitable donations totalling £18,714 (2002 - £19,005). There were no political contributions.

### **Corporate governance**

The Company supports the Provisions of the Code of Best Practice embodied in Section 1 of the Combined Code and, with some exceptions as noted below, has adopted these principles as follows:

#### **Board of Directors**

The Directors of the Company are listed on page 11. The Board meets regularly throughout the year to *discuss issues relating to strategy, budgets, major items of capital expenditure, acquisitions and senior personnel appointments*. The roles of Chairman and Chief Executive are split and throughout the year there have been four Non-Executive Directors, two of whom are independent. The Company has not designated a Senior Independent Director as required by the Combined Code as, having regard to the size of the Company, such a designation is not considered necessary.

In accordance with the Company's Articles of Association, John Manser, Tom Tidy and Sir David Hardy will retire by rotation at this year's Annual General Meeting and, being eligible, will offer themselves for re-election (Sir David Hardy, who is over 70, on special notice).

#### **Relations with Shareholders**

The Board considers relationships with Shareholders to be particularly important. Regular presentations are given to institutional shareholders and the Board views the Annual General Meeting as an opportunity to communicate with all Shareholders.

#### **Accountability and audit**

##### **Financial reporting**

The Board aims to present a balanced and understandable view of the Group's financial position and prospects.

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those accounts, the Directors are required:

- to select suitable accounting policies and then apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- to prepare the accounts on the going concern basis unless it is inappropriate to presume that the 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 Company and to enable them to ensure that the

accounts comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Board Committees**

The Board has maintained an Audit Committee and a Remuneration Committee, each of which is chaired by a Non-Executive Director, throughout the year.

The Audit Committee meets at least twice a year and is chaired by Sir David Hardy and comprises John Ritblat and John Manser. The Committee receives reports from, and consults with, the Company's external Auditors. The Committee is responsible for reviewing accounting procedures and controls and for the publication of the Company's accounts, and also reviews the effectiveness of the Group's system of internal financial control. In addition, the Committee considers matters relating to the appointment, independence and objectivity of the Auditors and reviews the results and effectiveness of the audit.

The Remuneration Committee determines the employment terms and annual remuneration of the *Executive Directors and senior employees of the Company*. The Committee consists of John Manser (Chairman of the Committee) together with Colin Wagman and Sir David Hardy. The Committee is *constituted, and has complied with, the Combined Code throughout the year except that only two of the three members of the Committee are considered to be independent.*

The Company has not established a Nomination Committee as it regards the approval and appointment of Directors (whether Executive or Non-Executive) as a matter for consideration by the whole Board.

#### **Going concern**

The Directors are satisfied, having made appropriate enquiries, that the Group has adequate resources to continue its operations for the foreseeable future. The Directors, therefore, continue to adopt the going concern basis in preparing the accounts.

#### **Internal control and risk management**

The Group maintains a system of internal financial control and risk management in order to provide reasonable, but not absolute, assurance of:

- the maintenance of proper accounting records and the reliability of financial information used within the business and for publication;
- the safeguarding of assets against unauthorised use or disposition; and
- *the assessment of areas of risk and managing them in order to achieve the Group's objectives.*

The Board continually reviews the effectiveness of the Group's system of internal controls which include:

- a management reporting system that includes regular working capital reports and forecasts;
- regular reporting to the Board on financial and treasury matters;
- a detailed authorisation process to ensure that no commitments are entered into without appropriate authorisation; and
- a schedule of matters reserved for decision by the Board.

#### **Compliance with the Code of Best Practice**

Other than as stated above, the Company has complied with the Provisions of the Code of Best Practice set out in Section 1 of the Combined Code throughout the year.

#### **Creditor payment policy**

The Group agrees the terms of contracts when orders are placed. It is the Group's policy that payments to suppliers are made in accordance with those terms, provided that suppliers also comply with all relevant terms and conditions.

At 31 December 2003 amounts due to trade and other suppliers represented 33 days (2002 - 27 days) of trade purchases.

#### **Directors' and Officers' Liability Insurance**

The Company maintains liability insurance covering the Directors and Officers of the Company.

#### **The CREST system**

The Company's Ordinary Shares are held in the CREST system which facilitates paperless settlement.

#### **Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution proposing the reappointment of Baker Tilly, Chartered Accountants, as auditors to the Company will be put to the Annual General Meeting.

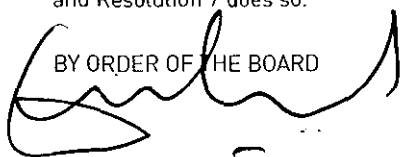
#### **Special Business**

There are two items of Special Business on the Agenda for the Annual General Meeting and your attention is drawn to Resolutions 6 and 7 in the Notice on pages 41 to 42.

First, the Company is currently considering various opportunities that may involve the issue of equity. It is therefore proposed by Resolution 6 to renew the annual authority of the Directors to allot new shares for cash other than to existing shareholders on this occasion up to 20% of the present issued share capital, to allow for these opportunities.

Secondly, although the Company is not subject to the requirements of the Directors' Remuneration Report Regulations 2002 (nor is the Report of the Remuneration Committee in conformity with such regulations), the Board believes it to be best practice to put the Report to Shareholders for their approval; and Resolution 7 does so.

BY ORDER OF THE BOARD



H. Goldsobel  
Secretary  
20 April 2004

Registered Office:  
9 Marylebone Lane,  
London W1U 1HL



# **Report of the Remuneration Committee**

## **Remuneration policy**

The Company's Executive Remuneration Policy is to pay market rate salaries in line with those paid by comparable firms of surveyors. None of the Executive Directors has a service agreement of which more than one year remains unexpired. Non-Executive Directors are appointed for a three-year term and are paid fees of £17,000 per annum plus an entitlement to a further £2,500 per annum if chairing a Board Committee. A further £2,500 per annum is payable to the Non-Executive Deputy Chairman. The Chairman is paid a fee of £50,000 per annum. Salaries are reviewed, but not necessarily increased, annually.

## **Components of remuneration**

The components of remuneration are as follows:

### **Basic salary**

### **Annual bonus**

The Company has a discretionary bonus scheme in which all employees, including Executive Directors, are eligible to participate. There are two elements to this scheme; a departmental element which is progressive and based upon the achievement of increasing levels of return on cost by each business unit, and a corporate element based upon individual out-performance, contribution and the overall profitability of the Company.

### **Long term incentives**

Although the Company has an existing approved Executive Share Option Scheme, no options have been granted thereunder. In addition, as reported last year, the Company has discontinued the use of the Deferred Share Bonus Plan ("the Plan") in which all awards lapsed in 2002. As a result, the existing pool of 2.8m Ordinary Shares ("the Pool") held by the Trustee of the Company's ESOP and earmarked for the Plan, has become available for use on the recommendation of the Remuneration Committee for the benefit of employees, including the making of share awards under the Company's Nil-Cost Option Scheme (described below).

### **Nil-Cost Option Scheme**

The Company's Nil-Cost Option Scheme is a very flexible and transparent instrument for making deferred awards of Ordinary Shares. Such awards can be:

- in lieu of cash bonus for past excellence; and/or
- linked to bespoke short or longer-term performance objectives; and/or
- structured to encourage recruitment, retention or co-investment in the Company with employees.

Under the Nil-Cost Option Scheme, certain employees of the Group may be granted options to acquire for nil consideration Ordinary Shares in the Company which are currently held by the Trustee of the ESOP.

Such options may vest variously from one to five years after grant, and thereafter are exercisable within ten years of the date of original grant. There is no requirement for performance criteria to be met prior to exercise of existing nil-cost options although options granted from 2004 onwards may have performance criteria attached at the discretion of the Remuneration Committee. Typically, such performance criteria may require quantitative corporate or personal achievements to be first satisfied over a set period (e.g. growth in annual earnings per share or a departmental fee income target). Normally the option will lapse if the grantee leaves the Company before the option has vested.

#### Directors' emoluments

	Salary/Fee £	Bonus £	Benefits £	2003 Total £	2002 Total £
J.H. Ritblat (*) (#)	59,000	-	4,506	63,506	74,736
P.J. Manser	22,000	-	-	22,000	18,000
D.S. Izett	127,500	135,000	20,432	282,932	256,541
T.P. Tidy	95,000	-	17,306	112,306	112,182
A.B. Graham (#)	147,500	136,500	21,188	305,188	217,405
D.J. Hyams (*) (#)	142,100	50,000	14,004	206,104	179,330
Sir David Hardy	19,500	-	-	19,500	16,500
C.B. Wagman	17,000	-	-	17,000	15,000
	629,600	321,500	77,436	1,028,536	889,694

(\*) In the case of John Ritblat (2002 only) and David Hyams, salary/fee includes a contractual provision to pay each of them £30,000 per annum for a period of 10 years from 1 May 1992 or 1 May next following his attaining the age of 50 if later.

(#) In respect of these Directors, salary includes an enhancement of 18% in lieu of pension contributions by the Company. Subject thereto, the Company has no obligation to make any pension provision for these individuals.

The Company has also agreed to make additional contributions of £91,100 and £28,200 to executive pension schemes on behalf of Tom Tidy and David Hyams respectively.

The Group's principal pension scheme, the Conrad Ritblat Group Pension Scheme, provides a funded defined benefit pension with a normal retirement date of 65 (see note 26 to the accounts). David Izett and Tom Tidy are both members of this scheme. Pension entitlements and corresponding transfer values increased as follows during the year:

	D.S. Izett		T.P. Tidy	
	2003 £	2002 £	2003 £	2002 £
Gross increase in accrued pension	1,880	2,060	1,583	1,737
Increase in accrued pension net of inflation	1,562	1,765	1,232	1,396
Total accrued pension at year end	13,961	12,081	14,910	13,326
Value of net increase in accrual in the year	986	4,958	3,235	7,282
Total change in transfer value during the year	8,991	(4,500)	14,871	(822)
Transfer value of accrued pension	85,429	67,963	139,196	116,155

Pension accruals shown are the amounts that would be paid annually on retirement based on service to the end of the year. Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.

The value of net increase represents the incremental value to the Director of his service during the year, calculated on the assumption that service terminated at the year-end. It is based upon the accrued pension increase and after the deduction of the Director's contributions. The change in the transfer value includes the effect of fluctuations attributable to factors beyond the control of the Company and its Directors, such as stock market movements. It is calculated after deducting the Director's contributions.

#### Directors' interests in Shares

The Directors' interests in the issued share capital of the Company as at 31 December 2003 were:

	Ordinary Shares of 50p each			
	31 December 2003		31 December 2002	
	(number)	%	(number)	%
J.H. Ritblat	416,666	1.37%	416,666	1.80%
P.J. Manser	-	-	-	-
D.S. Izett	41,667	0.14%	41,667	0.18%
T.P. Tidy	33,333	0.11%	33,333	0.14%
A.B. Graham	377,558	1.24%	377,558	1.63%
D.J. Hyams	366,666	1.20%	366,666	1.58%
Sir David Hardy	41,667	0.14%	41,667	0.18%
C.B. Wagman	-	-	-	-

There have been no changes in Directors' interests in the share capital of the Company since 31 December 2003. Those Directors (other than John Manser and Colin Wagman) who were employees of certain subsidiaries of the Company are also deemed to be interested in any unallocated Ordinary Shares held by the Trustee of the Group's Employee Share Ownership Plan.

#### Directors' options under Nil-Cost Option Scheme

Directors' options as at 20 April 2004, by date of grant and by exercise date, were as follows:

	Granted 13 July 2001		Granted 17 January 2002	Granted 17 April 2003
	Exercisable from 28 February 2002 (number of shares)	Exercisable from 28 February 2004 (number of shares)	Exercisable from 1 November 2002 (number of shares)	Exercisable from 1 May 2004 (number of shares)
J.H. Ritblat	-	50,000	-	-
D.S. Izett	9,350	50,000	3,649	115,000
T.P. Tidy	50,000	50,000	3,649	50,000
A.B. Graham	54,167	50,000	6,082	45,000
D.J. Hyams	50,000	50,000	5,473	15,000
Sir David Hardy	-	41,667	-	-

Since the year end, the Remuneration Committee has recommended that the following Nil-Cost Options (amounts shown by value) be granted to Messrs Izett, Tidy and Graham at the first opportunity, effective from 1 January 2004.

	Column 1 £	Column 2 £
D.S. Izett	165,000	350,000
T.P. Tidy	150,000	250,000
A.B. Graham	90,000	-

Those grants shown in Column 1 become exercisable after 31 December 2006 vesting as to one-third each year (including the current year 2004) provided growth in earnings per share for the relevant year equals or exceeds RPI plus 2%. Those grants shown in Column 2 become exercisable after 31 December 2008 provided that compound annual growth in earnings per share for the period equals or exceeds RPI plus 5%.

No options were exercised by the Directors during the year. The market price of the Shares as at 31 December 2003 was 120p, and the highest and lowest prices prevailing during the year were 120p and 105.5p respectively.

#### External directorships

The Executive Directors are encouraged to hold external non-executive directorships, subject to approval by the Board and any conditions it might impose.

#### Compensation payments on early termination

The Company applies the principle of mitigation in the event of early termination of service contracts.



John Manser  
Chairman, Remuneration Committee  
20 April 2004

# **Independent Auditor's report**

---

to the members of Fitzhardinge plc

We have audited the financial statements on pages 22 to 39.

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 auditor's 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**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Report of the Directors on page 13.

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 Report of the Directors 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 Company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Highlights, the Chairman's Statement, the Managing Director's Review, the Report of the Directors, the Report of the Remuneration Committee and the Pro Forma Five Year Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

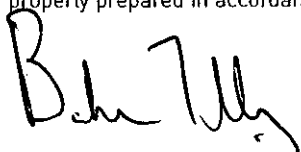
## **Basis of opinion**

We conducted our audit in accordance with 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 affairs of the Company and of the Group as at 31 December 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Baker Tilly', is written over the printed name.

Baker Tilly  
Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

20 April 2004

## Consolidated profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £000	Continuing Operations Acquisitions 2003 £000	Total 2003 £000	Total 2002 £000
Turnover	2	41,718	14,988	56,706	38,210
Operating expenses		(39,190)	(13,220)	(52,410)	(34,544)
Other operating income	4	253	113	366	161
Operating profit	5	2,781	1,881	4,662	3,827
Share of operating profit in associates		96	-	96	-
Exceptional items - costs of fundamental re-organisation	6	(403)	(1,097)	(1,500)	-
Profit before interest		2,474	784	3,258	3,827
Interest receivable and similar income	7			214	127
Interest payable and similar charges	8			(833)	(765)
Profit on ordinary activities before taxation	2			2,639	3,189
Tax on profit on ordinary activities	9			(813)	(1,148)
Profit attributable to shareholders				1,826	2,041
Dividends	10			(855)	(731)
Retained profit transferred to reserves	21			971	1,310
<b>Basic earnings per share</b>					
Unadjusted (p)	11			7.36	11.09
Adjusted for exceptional items (p)	11			11.59	11.09
<b>Fully diluted earnings per share</b>					
Unadjusted (p)	11			6.81	10.13
Adjusted for exceptional items (p)	11			10.72	10.13

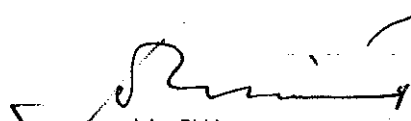
There are no recognised gains or losses other than the profit for the financial year.

## Balance sheets

AT 31 DECEMBER 2003

	Notes	2003 £000	Group 2002 £000	Company 2003 £000	2002 £000
<b>Fixed assets</b>					
Intangible assets	12	36,234	24,887	35,531	24,887
Tangible assets	13	6,375	2,444	6,375	2,444
Investments	14	5,616	4,800	37,443	25,660
		48,225	32,131	79,349	52,991
<b>Current assets</b>					
Debtors	15	21,290	14,030	22,302	14,086
Cash at bank and in hand		1,077	4,370	911	4,344
		22,367	18,400	23,213	18,430
<b>Creditors: Amounts falling due within one year</b>	16	(19,250)	(13,089)	(50,411)	(33,979)
<b>Net current assets/(liabilities)</b>		3,117	5,311	(27,198)	(15,549)
<b>Total assets less current liabilities</b>		51,342	37,442	52,151	37,442
<b>Creditors: Amounts falling due after more than one year</b>	17	(13,997)	(9,018)	(13,997)	(9,018)
<b>Net assets</b>		37,345	28,424	38,154	28,424
<b>Capital and reserves</b>					
Called up share capital	20	15,224	11,597	15,224	11,597
Share capital to be issued	20	500	-	500	-
Share premium account	21	18,240	14,417	18,240	14,417
Profit and loss account	21	3,381	2,410	4,190	2,410
<b>Equity shareholders' funds</b>	21	37,345	28,424	38,154	28,424

Approved by the Board on 20 April 2004 and signed on its behalf by:

  
John Ritblat  
Director

  
Tom Tidy  
Director



## Consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2003

Notes	2003		2002	
	£000	£000	£000	£000
Operating profit		4,662		3,827
Exceptional items		(1,500)		-
Depreciation		1,136		900
Loss/(profit) on disposal of tangible fixed assets		9		(6)
(Increase)/decrease in debtors		(2,856)		984
Increase in creditors		3,213		2,591
Net cash inflow from operating activities		4,664		8,296
Dividends from associated undertakings		31		-
Returns on investments and servicing of finance				
Interest received	100		127	
Interest paid	(730)		(648)	
Interest element of finance lease rental payments	(103)		(117)	
Net cash outflow from returns on investment and servicing of finance		(733)		(638)
Tax (paid)/recovered		(1,699)		65
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(4,407)		(678)	
Purchase of intangible fixed assets	-		(7)	
Purchase of investments	(218)		-	
Sale of tangible fixed assets	148		192	
Sale of investments	95		17	
Net cash outflow from investing activities		(4,382)		(476)
Acquisitions and disposals				
Purchase of subsidiary undertakings	(3,215)		(1,283)	
Net overdrafts acquired with subsidiaries	(849)		-	
Investment in associated undertakings	(34)		-	
Net cash outflow from acquisitions		(4,098)		(1,283)
Equity dividends paid		(808)		(422)
Net cash (outflow)/inflow before financing		(7,025)		5,542
Financing				
New bank loans	4,784		-	
Bank loan repayments	(934)		(1,405)	
New asset finance agreements	729		626	
Finance lease repayments	(847)		(630)	
Net cash inflow/(outflow) from financing		3,732		(1,409)
(Decrease)/increase in cash	22	(3,293)		4,133

# Notes forming part of the accounts

---

FOR THE YEAR ENDED 31 DECEMBER 2003

## 1. Accounting policies

### Basis of accounting

The accounts have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The Group accounts consolidate the accounts of Fitzhardinge plc and all of its subsidiaries for the year ended 31 December 2003. As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented for Fitzhardinge plc.

### Turnover

Turnover, which excludes Value Added Tax, represents the invoiced value of services rendered. Commission on clients' property transactions is generally recognised as earned on completion of the transaction, except in the case of auction and certain hotel and residential sales where fees are recognised on exchange of contracts and long-term developments where non-returnable fees are recognised when they become payable during the course of the development. Fees for other professional services are recognised when they become due and payable.

### Goodwill

Goodwill represents the excess of the fair value of the consideration given for a business over the fair value of the net assets acquired. In accordance with FRS10 goodwill arising on consolidation is capitalised as an intangible fixed asset.

Each acquisition is assessed individually in order to determine the estimated useful life of the goodwill. Where goodwill is regarded as having a limited useful life it is amortised through the profit and loss account. Where goodwill is considered to have an indefinite useful life it is not amortised. In such cases, annual impairment reviews are carried out, in accordance with FRS11, by discounting estimated future cash flows from the individual businesses concerned, at an appropriate discount rate. The value of such goodwill is then adjusted to its recoverable amount if required.

*The Companies Act 1985 requires that all goodwill carried on the balance sheet should be amortised. Where goodwill is considered to have an indefinite useful life, the Directors consider that it is appropriate to depart from this requirement in order to ensure that the accounts show a true and fair view as to amortise such goodwill would be misleading.*

### Depreciation

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset over the expected useful life as follows:

Short leasehold premises -	Straight line over the remaining life of the lease (or 10% per annum straight line if the remaining life of the lease exceeds ten years)
Furniture, fixtures, fittings and equipment -	10% - 20% per annum straight line
Motor cars -	25% per annum straight line

### Other fixed asset investments

In accordance with FRS 9, investments in associated undertakings are included under the equity method. As a result, fixed asset investments include the Group's share of the net assets of associated undertakings. Other investments held as fixed assets are stated at cost less any provision for permanent diminution in value.

### Interest rate derivatives

Receipts and payments arising from derivatives which hedge interest rate exposure are treated as part of the interest cost.

### Employee Share Ownership Plan ("ESOP")

In accordance with UITF13, the assets and liabilities of the ESOP are recognised as assets and liabilities of the Company and of the Group.

### Leasing and hire purchase

Assets acquired under finance leases or hire purchase contracts are capitalised as tangible assets and depreciated over their useful lives. Finance charges and interest are taken to the profit and loss account in constant proportion to the remaining balance of capital repayments or net obligations outstanding. Rentals payable under operating leases are taken to the profit and loss account on a straight line basis over the lease term.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains or losses in tax assessments in periods different to those in which they are recognised in the financial statements.

Deferred tax is measured at the average rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### Pension costs

Pension contributions in respect of the Group's defined benefit pension scheme are charged to the profit and loss account so as to spread pension costs over the service lives of employees who are scheme members. Pension contributions in respect of the Group's defined contribution scheme are charged to the profit and loss account as they become payable. Contributions to both schemes are invested separately from the Group's assets.

## 2. Turnover and profit on ordinary activities before taxation

The turnover of the Group and the profit on ordinary activities before taxation during the year entirely arose in the United Kingdom and derive from the same class of business as noted in the Report of the Directors.

### 3. Employees and Directors

	2003 £000	2002 £000
Staff costs including executive directors:		
Wages and salaries	31,491	19,101
Social security costs	2,628	1,564
Pension costs	1,825	1,516
	35,944	22,181

The average monthly number of employees during the year was:	Number	Number
Professional and administrative	599	444

Directors emoluments	£000	£000
All Directors	1,029	890
Highest paid Director	305	257

The number of Directors to whom retirement benefits are accruing under the defined benefit pension scheme was	Number	Number
	2	2

Accrued pension as at year-end	£000	£000
Highest paid Director	-	12

### 4. Other operating income

	2003 £000	2002 £000
Net rental income	42	39
Other income	324	122
	366	161

### 5. Operating profit

	2003 £000	2002 £000
Operating profit is arrived at after charging/(crediting):		
Auditors remuneration:		
Audit services	80	70
Non-audit fees	148	183
Operating lease rentals:		
Land and buildings	2,652	2,270
Other assets	687	528
Depreciation - owned assets	551	428
Depreciation - leased assets	585	472
Loss/(profit) on disposal of fixed assets	9	(6)

Non-audit fees paid to Baker Tilly above include £45,000 (2002-£34,000) in respect of tax compliance, £20,000 (2002-£18,000) in respect of tax advisory services and £83,000 (2002-£131,000) in respect of further assurance services. In addition, in the year ended 31 December 2003, fees of £197,000 paid to Baker Tilly in respect of the acquisitions of Gooch Webster and Fisher Wilson (Scotland) have been treated as part of the cost of investment in those subsidiaries.

## 6. Exceptional items

	2003 £000	2002 £000
Costs of fundamental re-organisation	1,500	-
Current year corporation tax credit arising from above	(450)	-

## 7. Interest receivable and similar income

	2003 £000	2002 £000
Bank interest	36	44
Other interest	178	83
	214	127

## 8. Interest payable and similar charges

	2003 £000	2002 £000
Bank interest	576	616
Finance charge element of finance lease payments	103	117
Other interest	154	32
	833	765

## 9. Taxation

	2003 £000	2002 £000
Current tax:		
UK corporation tax on profits of the year	785	1,276
Adjustments in respect of previous periods	(65)	-
Total current tax	720	1,276
Deferred tax:		
Origination and reversal of timing differences	64	(128)
Total Group taxation	784	1,148
Attributable to associated undertakings	29	-
Total taxation - effective rate 30.8% (2002 - 36.0%)	813	1,148

### Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30%.

	2003 £000	2002 £000
Profit on ordinary activities before tax	2,639	3,189
less: share of profit of associated undertakings	(96)	-
Group profit on ordinary activities before tax	2,543	3,189
Group profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 - 30%)	763	957
Effects of:		
Expenses not deductible for tax purposes	283	269
Non-taxable income	(82)	-
Capital allowances in excess of depreciation	(14)	50
Utilisation of tax losses	(165)	-
Over-provision in prior year	(65)	-
Group current tax charge	720	1,276

## 10. Dividends

	2003 £000	2002 £000
Interim dividend paid 1.05p per share (2002 - 1.05p)	271	194
Proposed final dividend 2.25p per share (2002 - 2.1p per share)	584	537
	855	731

The Trustee of the Milner Consultancies Employee Share Ownership Plan has waived the entitlement to receive dividends in respect of the ESOP's holding of 4,622,398 Ordinary Shares.

## 11. Earnings per share

	2003 £000	2002 £000
Profit attributable to Shareholders	1,826	2,041
Exceptional items	1,500	-
Tax on exceptional items @ 30%	(450)	-
Profit attributable to Shareholders adjusted for exceptional items	2,876	2,041
	Number	Number
Weighted average number of shares		
Total number of shares in issue in the year	29,236	23,194
add: shares to be issued	347	-
less: weighted average number of shares held by ESOP trustee	(4,772)	(4,793)
Weighted average number of shares for basic earnings per share	24,811	18,401
Shares held by ESOP trustee in respect of options granted		
under the Nil-Cost Option Scheme	2,015	1,757
Weighted average number of shares for fully diluted earnings per share	26,826	20,158
Basic earnings per share (p)	7.36	11.09
Basic earnings per share adjusted for exceptional items (p)	11.59	11.09
Fully diluted earnings per share (p)	6.81	10.13
Fully diluted earnings per share adjusted for exceptional items (p)	10.72	10.13

Basic and fully diluted earnings per share adjusted for exceptional items have been disclosed in order to enable a fair comparison to be made between the Group's earnings per share in the current and previous years excluding the significant distortion resulting from non-recurring exceptional costs.

## 12. Intangible fixed assets

	Group £000	Company £000
Goodwill		
Cost and net book value		
At 1 January 2003	24,887	24,887
Additions	11,347	10,644
At 31 December 2003	36,234	35,531

No amortisation has been provided on goodwill acquired in the acquisition of Milner Consultancies Holdings Limited in August 2001 or on goodwill acquired in the acquisitions of Gooch Webster Group Limited and Fisher Wilson (Scotland) Limited in March 2003. It is considered that, given the nature of these businesses and the markets in which they operate, the goodwill acquired has an indefinite useful life.

If the goodwill shown above were to be amortised, the profit for the year would be reduced by charging the above amount over the period selected for amortisation.

### 13. Tangible fixed assets

The Group and the Company	Short leasehold premises £000	Furniture, fixtures, fittings and equipment £000	Motor cars £000	Total £000
<b>Cost</b>				
At 1 January 2003	413	2,843	386	3,642
Additions	3,436	962	9	4,407
Acquisition of subsidiaries	193	624	-	817
Disposals	-	(15)	(258)	(273)
<b>At 31 December 2003</b>	<b>4,042</b>	<b>4,414</b>	<b>137</b>	<b>8,593</b>
<b>Depreciation</b>				
At 1 January 2003	118	957	123	1,198
Disposals	-	(11)	(105)	(116)
Charge for the year	172	914	50	1,136
<b>At 31 December 2003</b>	<b>290</b>	<b>1,860</b>	<b>68</b>	<b>2,218</b>
<b>Net book value</b>				
At 31 December 2003	3,752	2,554	69	6,375
At 31 December 2002	295	1,886	263	2,444

Additions to leasehold premises includes the acquisition of a long leasehold interest in 13/14 Manchester Square, London W1.

The net book value of furniture, fixtures, fittings and equipment above includes £1,868,000 (2002 - £1,392,000) in respect of assets held under finance leases, and the related depreciation charge for the year in respect of those assets was £538,000 (2002 - £362,000). The net book value of motor cars above includes £68,000 (2002 - £259,000) in respect of assets held under finance leases, and the related depreciation charge for the year in respect of those assets was £47,000 (2002 - £110,000).

### 14. Investments

The Group	Associated undertakings £000	Own Shares £000	Unlisted Investments £000	Total £000
<b>Cost and net book value</b>				
At 1 January 2003	-	4,800	-	4,800
Additions	34	-	213	247
Acquisition of subsidiaries	-	-	594	594
Share of profits less dividends received	65	-	-	65
Disposals	-	(90)	-	(90)
<b>At 31 December 2003</b>	<b>99</b>	<b>4,710</b>	<b>807</b>	<b>5,616</b>

The Company	Associated undertakings £000	Own Shares £000	Subsidiary Companies £000	Total £000
<b>Cost and net book value</b>				
At 1 January 2003	-	4,800	20,860	25,660
Additions	34	-	11,839	11,873
Disposals	-	(90)	-	(90)
<b>At 31 December 2003</b>	<b>34</b>	<b>4,710</b>	<b>32,699</b>	<b>37,443</b>

Investments in associated undertakings represents the Company's 49% interest in the ordinary share capital of CCRE Touchstone Limited which carries on a residential property management business.

As at 31 December 2003 the Company held the whole of the issued ordinary share capital of the following principal subsidiary undertakings, all of which are registered in England and Wales:

Name of company	Nature of business
Colliers International Corporate Services Europe Limited	International property consultancy
Colliers Capital UK Limited	Property fund management
Gooch Webster Group Limited	Holding company
Gooch Webster Limited	* Property investment
Fisher Wilson (Scotland) Limited	Non-trading
Colliers Conrad Ritblat Erdman Limited	* Non-trading
Conrad Ritblat & Co Limited	* Dormant
Colliers Erdman Lewis Limited	* Dormant
Robert Barry & Co Limited	* Dormant
Milner Consultancies Holdings Limited	Holding company

\* = indirectly held

As part of the acquisition of Milner Consultancies Holdings Limited in 2001, the Group inherited an Employee Share Ownership Plan ("ESOP"). The ESOP was set up to fulfill and discharge obligations under the Nil-Cost Option Scheme and the Deferred Share Bonus Plan and involves the purchase of shares in the Company for the benefit of eligible employees. Shares are distributed to employees as they become entitled to them under the terms and conditions of each scheme. The related costs are charged to the profit and loss account.

At 31 December 2003, the ESOP held 4,712,398 (2002 - 4,787,735) Ordinary Shares of 50p each which had been acquired at a total cost of £4,710,000 (2002 - £4,800,000). In accordance with UITF 13, the assets and liabilities of the ESOP have been recognised as assets and liabilities of both the Company and of the Group.

## 15. Debtors

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Trade debtors	17,629	10,380	17,023	10,380
Amounts owed by Group undertakings	-	-	1,765	95
Other debtors	680	1,051	680	1,012
Corporation tax	327	263	327	263
Deferred tax (see note 18)	89	128	89	128
Prepayments and accrued income	2,565	2,208	2,418	2,208
	21,290	14,030	22,302	14,086

Included within debtors above is an amount of £89,000 (2002 - £128,000) which is receivable after more than one year.



#### 16. Creditors: Amounts falling due within one year

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Loan notes (see note 23)	292	-	292	-
Bank loans and overdrafts	1,430	1,497	1,430	1,497
Obligations under finance leases and hire purchase contracts	720	664	720	664
Trade creditors	1,686	979	1,686	979
Amounts owed to Group undertakings	-	-	31,161	20,890
Proposed dividend	584	537	584	537
Corporation tax	1,091	1,896	1,091	1,896
Other taxation and social security costs	4,900	3,280	4,900	3,280
Other creditors	398	308	398	308
Accruals and deferred income	8,149	3,928	8,149	3,928
	19,250	13,089	50,411	33,979

The bank loans and overdrafts are secured by a fixed and floating charge over the assets of the Group. Obligations under finance leases and hire purchase contracts are secured on the related assets.

#### 17. Creditors: Amounts falling due after more than one year

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Loan notes (see note 23)	458	-	458	-
Bank loans	10,079	5,568	10,079	5,568
Obligations under finance leases and hire purchase contracts	1,068	957	1,068	957
Other creditors	2,392	2,493	2,392	2,493
	13,997	9,018	13,997	9,018

The bank loans are secured by a fixed and floating charge over the assets of the Group. Obligations under finance leases and hire purchase contracts are secured on the related assets. Of the obligations under finance leases and hire purchase contracts above £435,000 (2002 - £446,000) are payable in one to two years and £633,000 (2002 - £511,000) are payable in two to five years.

#### 18. Deferred taxation

	Group and Company	
	2003 £000	2002 £000
Deferred tax comprises:		
Depreciation in excess of capital allowances	70	39
Other timing differences	19	89
	89	128
Deferred tax asset at 1 January 2003		128
Acquisition of subsidiaries		25
Transfer to profit and loss account		(64)
Deferred tax asset at 31 December 2003		89

## 19. Net debt

### Treasury management

The Group finances its activities through a combination of equity and bank and other borrowings. The Group also enters into derivative transactions (principally interest rate swaps and swaptions). An internal committee that includes two Directors and external advisers monitor all derivative activity. No speculative treasury transactions are undertaken.

### Interest rate risk

The Group borrows at both fixed and floating rates. The Group's policy is to cover interest rate risk exposure through the use of a range of derivatives including option-based products. The Group's policy is to maintain over 75% of its net borrowings at fixed rates of interest.

### Liquidity risk

The Group seeks to achieve a balance between short and long term funding in order to maintain continuity and flexibility.

### Currency risk

The Group is not exposed to any currency risk as all debt instruments are denominated in sterling.

### Activity during the year

On 31 July 2003, the Company drew down £2.72 million under a new bank loan facility to part finance the acquisition of the leasehold interest in 13/14 Manchester Square, London W1.

Analysis of net debt	2003 £000	2002 £000
Loan notes (interest free)	500	-
Loan notes (4% fixed rate)	250	-
Bank loans (1.65% over LIBOR)	2,720	-
Bank loans (1.75% over LIBOR)	8,183	7,065
Bank loans (2% over LIBOR)	606	-
Finance leases - floating rate	188	329
Finance leases - fixed rate	1,600	1,292
Total borrowings	14,047	8,686
less: cash at bank and in hand	(1,077)	(4,370)
Net debt	12,970	4,316

	2003 £000	2002 £000
Interest rate risk profile		
Loan notes - interest free and fixed rate	750	-
Finance leases - fixed rate	1,600	1,292
Protected by interest rate swaps	12,000	4,000
Protected by interest rate swaptions	-	3,000
	14,350	8,292
% of gross debt protected	102%	95%

The weighted average interest rate implicit in the Group's fixed rate finance leases at 31 December 2003 was 6.85% (2002 - 6.95%). At 31 December 2003, the market value of the Group's borrowings was not materially different to book value. Net unrecognised gains on interest rate swaps totalled £211,000 (2002 - losses of £33,000) as at that date.

Repayment profile	2003 £000	2002 £000
Within one year	2,442	2,161
1-2 years	2,923	2,031
2-5 years	6,491	4,494
5-10 years	2,191	-
	14,047	8,686

Of bank loans of £11,509,000 as at 31 December 2003, £10,903,000 are repayable in instalments. All of the debt repayments due after 5 years are payable in instalments.

## 20. Share capital

	2003 £000	2002 £000
<b>Authorised</b>		
50,000,000 (2002 - 32,000,000) Ordinary Shares of 50p each	25,000	16,000
<b>Allotted, issued and fully paid</b>		
30,448,680 (2002 - 23,194,376) Ordinary Shares of 50p each	15,224	11,597

On 24 February 2003, the Company issued 6,902,192 Ordinary Shares of 50p each as part consideration for the acquisition of Gooch Webster Group Limited and on 3 March 2003 a further 352,112 Ordinary Shares of 50p each as part consideration for the acquisition of Fisher Wilson (Scotland) Limited (see note 23).

On 13 May 2003, a resolution was passed to increase the authorised share capital of the Company to £25,000,000 by the creation of 18,000,000 new Ordinary Shares of 50p each.

Part of the consideration for the acquisition of Fisher Wilson (Scotland) Limited (see note 23) is to be satisfied by the issue of Ordinary Shares by the Company with an aggregate value of £500,000. This amount is included on the balance sheet under the heading shares to be issued. On 3 March 2004, 130,720 Ordinary Shares of 50p each were issued as part of this deferred share consideration.

## 21. Reserves and reconciliation of movements in equity shareholders' funds

The Group	Share premium £000	Profit and loss £000
At 1 January 2003	14,417	2,410
Arising on share issues	3,823	-
Profit for the year	-	971
Balance at 31 December 2003	18,240	3,381

The Company	Share premium £000	Profit and loss £000
At 1 January 2003	14,417	2,410
Arising on share issues	3,823	-
Profit for the year	-	1,780
Balance at 31 December 2003	18,240	4,190

Reconciliation of movement in Shareholders' funds	2003 £000	2002 £000
Profit attributable to shareholders	1,826	2,041
Dividends	(855)	(731)
Issue of share capital	7,450	-
Share capital to be issued	500	-
Movement in the year	8,921	1,310
Opening Equity Shareholders' funds	28,424	27,114
Closing Equity Shareholders' funds	37,345	28,424

## 22. Notes to the consolidated cash flow statement

	Year to 31.12.03 £000	Year to 31.12.02 £000
<b>Reconciliation of net cash flow to movement in net debt</b>		
(Decrease)/increase in cash in the year	(3,293)	4,133
New bank loans	(4,784)	-
Bank loan repayments	934	1,405
Loan notes redeemed	500	-
New asset finance agreements	(729)	(626)
Finance lease repayments	847	630
Movement in net debt resulting from cash flows in the year	(6,525)	5,542
New loan notes	(1,250)	-
Net debt on acquisition of subsidiaries	(879)	-
Movement in net debt during the year	(8,654)	5,542
Net debt at 1 January 2003	(4,316)	(9,858)
<b>Net debt at 31 December 2003</b>	<b>(12,970)</b>	<b>(4,316)</b>

	At 1 January 2003 £000	Cashflow £000	Acquisitions (excluding cash) £000	Other non- cash changes £000	At 31 December 2003 £000
<b>Analysis of changes in net debt</b>					
Cash at bank and in hand	4,370	(3,293)	-	-	1,077
Bank loans due within one year	(1,497)	67	-	-	(1,430)
Bank loans due after one year	(5,568)	(3,917)	(594)	-	(10,079)
Loan notes due within one year	-	500	-	(792)	(292)
Loan notes due after one year	-	-	-	(458)	(458)
Finance leases	(1,621)	118	(285)	-	(1,788)
	(4,316)	(6,525)	(879)	(1,250)	(12,970)

## 23. Acquisitions

On 3 March 2003, the Company completed the acquisitions of Gooch Webster Group Limited and Fisher Wilson (Scotland) Limited. In accordance with FRS 6 these have both been accounted for as acquisitions as detailed below:

<b>Gooch Webster Group Limited</b>	£000
Net assets acquired:	
Tangible fixed assets	791
Investments	594
Debtors	3,743
Bank loans and overdrafts	(1,771)
Other creditors	(3,460)
	(103)
<b>Goodwill</b>	<b>9,038</b>
	<b>8,935</b>
Satisfied by:	
Issue of 6,902,192 Ordinary Shares @ 102.5p per share	7,075
Cash consideration	601
Loan note consideration	750
Expenses of acquisition	509
	<b>8,935</b>

As part of the consideration for the acquisition of Gooch Webster Group Limited, the Company issued unsecured fixed rate loan notes with a nominal value of £750,000. Of these loan notes £500,000 were redeemed on 31 December 2003. The remainder are redeemable in two equal instalments of £125,000 each on 31 December 2004 and 31 December 2005. Interest is payable quarterly in arrears at the rate of 4% per annum.

The consolidated results of Gooch Webster Group Limited prior to acquisition are shown below:

	10 months to 28.02.03 £000
Turnover	13,421
Operating loss	(2,007)
Loss before taxation	(2,198)
Taxation	0
Loss after taxation	(2,198)

#### Fisher Wilson (Scotland) Limited

##### Net assets acquired:

Tangible fixed assets	26
Debtors	549
Cash at bank and in hand	328
Creditors	(309)
	594
Goodwill	2,309
	2,903

##### Satisfied by:

Issue of 352,112 Ordinary Shares @ 106.5p per share	375
Cash consideration	1,385
Loan note consideration	500
Deferred share consideration	500
Expenses of acquisition	143
	2,903

As part of the consideration for the acquisition of Fisher Wilson (Scotland) Limited, the Company issued guaranteed fixed rate loan notes with a nominal value of £500,000. These notes are redeemable in three equal instalments on 3 March 2004, 2005 and 2006. No interest is payable in respect of these notes, the redemption of which has been guaranteed by Barclays Bank PLC.

In addition, the Group made cash payments of £77,000 during the year representing previously provided deferred consideration in respect of the acquisition of Robert Barry by the Milner Consultancies Holdings sub-group prior to 10 August 2001.

The businesses and net assets of the acquisitions during the year were immediately hived up into the Company. No adjustment was necessary to the book values of the assets and liabilities acquired when their fair values were calculated in accordance with FRS 7.

#### 24. Related party transactions and interests of Directors

During the year, the Company earned fee income of £219,000 (2002 - £347,000) from its largest shareholder, Delancey Estates Limited and subsidiaries thereof. The total debt due from the Delancey Estates group at 31 December 2003 was £34,000 (2002 - £135,000). The Company also paid rent of £nil (2002 - £119,000) to subsidiaries of Delancey Estates Limited during the year.

No director had an interest in any material contracts entered into by the Group during the year.

## 25. Operating lease commitments

At 31 December 2003 the Group was committed to making the following payments during the next year in respect of operating leases:

	2003		2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
<b>The Group</b>				
Leases which expire:				
<i>In less than one year</i>	824	124	16	48
<i>In one to two years</i>	161	229	4	214
<i>In two to five years</i>	-	356	192	245
<i>In more than five years</i>	2,436	-	1,831	-
<b>At 31 December 2003</b>	<b>3,421</b>	<b>709</b>	<b>2,043</b>	<b>507</b>

## 26. Pension costs

The Group operates two pension schemes, one providing benefits based on final basic salary (the Conrad Ritblat Pension Scheme ("the Scheme")) and the other providing benefits based on the contributions paid (the Fitzhardinge Pension Scheme). The assets of each scheme are held separately from those of the Group. The Group also funds a Group Personal Pension Plan and other personal pension plans. As at 31 March 2004, there were 133 active members of the Scheme (which has been closed to new joiners since April 2001), 60 active members of the Fitzhardinge Pension Scheme and, in addition, the Group contributes to personal pension plan arrangements for a further 115 employees.

Contributions to the Scheme are charged to the profit and loss account, so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of formal triennial actuarial valuations using the *Attained Age* method. A full actuarial valuation was carried out at 31 March 2003 and updated to 31 December 2003 by a qualified independent actuary for SSAP 24 purposes. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in basic salaries and pensions.

It was assumed that the investment returns would be 5.3% p.a. after retirement and 7.1% p.a. before retirement, that basic salary increases would be on average 4.1% p.a. and that present and future pensions would increase at 2.6% p.a. (4% for pensions accrued before 1 April 2001 for former British Land members).

This valuation showed that the market value of the Scheme's assets at 31 December 2003 was £16.8 million and that the value of those assets represented 88% (2002-74%) of the benefits that had accrued, after allowing for expected future increases in basic salaries. During 2003, employer's contributions were £1,284,000 (17.2% of pensionable pay). Employees' contributions were increased from 5% to 8.6% with effect from 1 January 2003 and it is intended that they be maintained at one-half of the Company's contribution rate from time to time.

The pension charge for the year, including contributions to the Scheme and to the various money purchase arrangements, was £1,825,000 (2002 - £1,516,000). Contributions totalling £nil (2002 - £143,000) were payable to the pension scheme at the year end and are included in creditors.

## FRS17 disclosures for the year to 31 December 2003

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. A new pension cost accounting standard, FRS17, is being implemented in stages and, as a result, the following transitional disclosures are required.

A full actuarial valuation was carried out at 31 March 2003 and updated to 31 December 2003 by a qualified independent actuary. The principal assumptions used by the actuary were:

	2003	2002	2001
Rate of increase in salaries	4.1%	3.8%	4.0%
Rate of increase in pensions in payment (*)	2.6%	2.3%	2.5%
Discount rate	5.5%	5.6%	6.0%
Inflation assumption	2.6%	2.3%	2.5%

\* = for former British Land members, 4% for benefits accrued before 1 April 2001

The assets in the Scheme and the expected rate of return (net of expenses) were:

	Long term rate of return expected at 31.12.03	Value at 31.12.03 £000	Long term rate of return expected at 31.12.02	Value at 31.12.02 £000	Long term rate of return expected at 31.12.01	Value at 31.12.01 £000
Equities	7.1%	12,313	6.2%	9,939	6.7%	10,988
Bonds	4.4%	3,975	3.7%	2,032	4.2%	2,172
Property	7.1%	505	5.9%	519	5.4%	514
Cash	3.1%	28	2.7%	680	3.2%	625
Total market value of assets		16,821		13,170		14,299
Present value of scheme liabilities		(24,452)		(18,256)		(15,476)
Deficit in the Scheme		(7,631)		(5,086)		(1,177)
Related deferred tax asset		2,289		1,526		353
Net pension liability		(5,342)		(3,560)		(824)

If the above pension liability were to be recognised in the accounts, the Group's net assets and profit and loss reserve would be as follows:

	2003 £000	2002 £000
Net assets excluding pension liability	37,345	28,424
Pension liability	(5,342)	(3,560)
Net assets including pension liability	32,003	24,864
Profit and loss reserve excluding pension liability	3,381	2,410
Pension reserve	(5,342)	(3,560)
Profit and loss reserve including pension liability	(1,961)	(1,150)
Analysis of the amount charged to operating profit		
Current service cost	673	900
Analysis of the amount debited to other finance income		
Expected return on pension scheme assets	787	924
Interest on pension liabilities	(1,051)	(961)
Net return	(264)	(37)
Analysis of amount recognised in statement of total recognised gains and losses		
Actual return less expected return on assets	1,222	(3,643)
Experience gains and losses on liabilities	(1,360)	-
Changes in assumptions	(2,754)	(739)
Net loss recognised in statement of total recognised gains and losses	(2,892)	(4,382)

	2003 £000	2002 £000
<b>Movement in deficit during the year</b>		
Deficit in the Scheme at 1 January 2003	(5,086)	(1,177)
Movement in the year:		
Current service cost	(673)	(900)
Contributions	1,284	1,410
Other finance income	(264)	(37)
Actuarial loss	(2,892)	(4,382)
<b>Deficit in the Scheme at 31 December 2003</b>	<b>(7,631)</b>	<b>(5,086)</b>

	Year to 31.12.03	Year to 31.12.02	Year to 31.12.01
<b>History of experience gains and losses</b>			
Difference between expected and actual return on scheme assets (£000)	1,222	(3,643)	(2,697)
Percentage of scheme assets	7%	(28%)	(19%)
Experience gains and losses on scheme liabilities (£000)	(1,360)	-	(46)
Percentage of present value of scheme liabilities	(6%)	0%	0%
<i>Total amount recognised in statement of total recognised gains and losses (£000)</i>	<i>(2,892)</i>	<i>(4,382)</i>	<i>(2,083)</i>
Percentage of present value of scheme liabilities	(12%)	(24%)	(13%)



## Pro forma five year record

	Year to 31 May 2000 £000	Year to 31 May 2001 £000	10 Aug to 31 Dec 2001 £000	Year to 31 Dec 2002 £000	Year to 31 Dec 2003 £000
Turnover	38,631	38,751	15,261	38,210	56,706
Operating expenses	( 34,723)	( 33,797)	( 13,007)	( 34,544)	( 52,410)
Other operating income	549	44	64	161	366
Operating profit	4,457	4,998	2,318	3,827	4,662
Share of operating profit in associates	16	60	-	-	96
Exceptional items	-	-	-	-	( 1,500)
Profit before interest	4,473	5,058	2,318	3,827	3,258
Net interest receivable/(payable)	( 5)	92	( 306)	( 638)	( 619)
Profit on ordinary activities before tax	4,468	5,150	2,012	3,189	2,639
Taxation	( 1,597)	( 1,701)	( 684)	( 1,148)	( 813)
Profit on ordinary activities after tax	2,871	3,449	1,328	2,041	1,826
Dividends	( 2,400)	( 2,000)	( 228)	( 731)	( 855)
Retained profit	471	1,449	1,100	1,310	971

The figures for the years ended 31 May 2000 and 31 May 2001 are based on the results of the Milner Consultancies sub-group prior to its acquisition by the Company in August 2001.