Whitehead Mann Group Plc Annual report 1999/2000

Directors and advisors:
Sir Peter Parker
Non-executive chairman
CW Mann Deputy chairman
G Clery-Melin
Chief executive
MJ Brassington
Finance director
HR Collum Non-executive
AKP Smith Non-executive
Sir Colin Southgate
Non-executive
DE Tagg CBE Non-executive

Company number:
1725219

Secretary:
MJ Brassington

Registered office:
11 Hill Street
London W1X 8BB

Auditors:
Arthur Andersen
20 Old Bailey
London EC4M 7AN

Bankers:
The Royal Bank of Scotland plc
28 Cavendish Square London
W1M ODB

Solicitors:
Clifford Chance
200 Aldersgate Street
London EC1A 4JJ

Financial advisors:
Rea Brothers Limited
Alderman's Walk
London EC2M 3XR

Stockbrokers:
Sutherlands Limited
Dashwood House
69 Old Broad Street
London EC2M 1NX

Registrar:
Computershare Services PLC
Security Services Registrars
PO Box 82 Caxton House
Redcliffe Way
Bristol BS99 7NH

Corporate statement

A leading executive search, selection and consultancy firm adding value to clients' businesses through the recruitment, evaluation, and retention of key executives.

Has a strong market position operating at board level among FTSE100 companies. Responsible for the successful appointment of many chairmen, chief executives and finance directors.

The group has a growth strategy to expand internationally to meet client demand and enhance quality of earnings.

Profit before tax and exceptionals up 19% to £5.01 million.

Earnings per share, before exceptionals, up by 21% to 22.27p.

Dividend per share increased by 17% to 10.5p.

Principal activities are:

Executive Search
Senior executives and board directors, including chairmen and non-executives, carrying salaries of £100,000 and above, in all industry sectors in the UK, USA and Europe.

Executive Selection
Uses advertising and other sourcing techniques to find senior management, with salaries over £55,000. Provides a level of service that reflects the high standards established by search practice.

Consultancy
Management Asset Valuation, an innovative product which benchmarks management against competitors and the global market for senior executives.

Audit and evaluation of senior management, including psychometric testing.

Chairman's statement

A year of transformation

Whitehead Mann has made a significant advance in the year ended 31 March 2000. Demand for our core business has continued to build, our position in the boardrooms of major clients has flourished, the development of our consultancy product, Management Asset Valuation, has developed extensively and the appointment of the new Chief Executive and his team has been swiftly and smoothly managed. All this has combined to make this a year of transformation for the group. And, since the end of the reporting year, negotiations have been progressing successfully for the two mergers in the UK and the US.

The group recorded an 8% increase in turnover to £27.7 million. The second half of the year was particularly strong, with underlying growth of 15%. Profit before tax and exceptional property costs rose by 19% to £5.0 million.

The board is recommending a final dividend of 6.1p, making a total of 10.5p for the year, an increase of 17%. The final dividend will be paid on 30 August 2000 to shareholders on the register on 28 July 2000.

Continued growth

Whitehead Mann's flagship Board Practice, led by Anna Mann, continues to expand and there have been a number of notable, high profile, appointments to the boards of well-known companies. An increasing proportion of the Board Practice business is international, and this is likely to be enlarged by the group's merger strategy.

The growth in executive search assignments in the past year has been impressive, and the value of this sector of the business has doubled over the past three years.

The selection business is moving forward and is being augmented by the establishment of a new e-recruiting approach.

Expansion of MAV

The group's consultancy product, Management Asset Valuation (MAV) continues to be a success. A major project started in the second half of the year which involved consultancy activities across four continents. Currently the consulting team is carrying out assignments for five major clients, all involved with mergers.

Merger with GKR

The proposed merger with GKR will reinforce our position in the key market sectors in the UK and will provide a strong base for our international expansion. We will have the resources to invest in people and technology in both the UK and international markets.

International development

We intend to establish an office in each of the five core markets: the UK, the US, France, Germany and South East Asia. Two major steps have been taken to implement this strategy during the year. An office has been established in Paris and our team in New York has been strengthened.

The proposed addition of GKR's US partner, Pendleton James Associates, Inc., will significantly enhance our presence in the world's largest executive search market.

Organisation

Gerard Clery-Melin, who joined us as Managing Director International in June 1999, became Chief Executive in January 2000. He brings with him a distinguished record in the search and selection business and will be taking the lead in the development of the group's international strategy and in this role will be supported by

Clive Mann. Clive Mann, who as Chief Executive before Gerard, steered the group into its status as a public company, has become Deputy Chairman.

Matt Brassington, formerly group Financial Controller, was appointed Finance Director in January 2000.

When the merger with GKR is completed, three of their directors will join our board: Philip Marsden, currently a Managing Partner of GKR, will become Deputy Chief Executive and Henry King and Dame Stella Rimington will become non-executive directors of the group.

The group's continued success would not be possible without the loyalty, enthusiasm, and drive of our staff. The strength of the brand reflects the quality of both the professional team and support staff. I would like to thank them for their hard work and valuable contribution to the business.

It is my intention to step down as Chairman during the coming year. In more than 15 years as Chairman, I have seen Whitehead Mann grow from a small private entity into a listed public company which is now on the threshold of significant international expansion. I have the utmost confidence that the group has the resources and people to match the worldwide opportunities ahead.

Future prospects

The past year has seen the transition of Whitehead Mann from a major national firm to a nascent international enterprise. Change has always been a condition of life in the search market, and more so than ever at present. The opportunities for growth and consolidation have been opening up for those international players with the ability and quality to keep up with the pace. We intend to be one of them.

The current year begins with trading strong. Our businesses continue to perform well, with turnover well ahead of the same period last year.

Sir Peter Parker
Chairman

A changing world
Today's business world is changing rapidly and there is an increasing need for human ingenuity, skills and talent. Whitehead Mann provides services to meet this need. It has been one of the UK's leading senior executive search firms for many years and seeks to add value to a client's business by assisting in the recruitment, evaluation and retention of key executives.

Markets
Up to three years ago the world market was dominated by five large integrated firms and three networks of independent local firms. Whitehead Mann was one of the largest members of the Amrop network. We resigned from Amrop in September 1999 in order to pursue our own international strategy.

Consolidation
During the past two years, the search market has undergone a period of consolidation. Two of the largest five integrated firms were floated as public companies in the US and have become increasingly acquisitive. A new major firm has been built up through the consolidation and acquisition of a number of smaller firms. All three of these firms appear to be focusing on size. Two of the three networks have declined significantly with member firms in many countries having been acquired by these three global organisations.

The other integrated international firms are more focused on senior level executive search and remain Whitehead Mann's main rivals in the UK and European markets.

Whitehead Mann intends to become one of the top four value-added integrated search firms by pursuing a focused international strategy.

UK Market
Because of the increasing competition and resources behind the larger global players both Whitehead Mann and GKR might have been vulnerable if they remained independent. As a combined force we will significantly increase our presence in the UK market and have the resources to provide and sustain a strong competitive advantage.

Following completion of the GKR acquisition, the enlarged group will adopt the trading name Whitehead Mann GKR.

Our services
Our expertise lies in our ability both to attract senior executives and advise our clients on the nature and implications of the impact of effective people on corporate performance, not just in the UK, but internationally.

Business units
Our business has been reorganised into a number of business units each focused on a specific market sector. Currently these are:
- Board Practice
- Global Banking
- Consumer Financial Services and Asset Management
- Brands and Leisure
- Retail and Media
- Technology
- Business Services
- Industry; and
- Pharmaceutical and Healthcare

The business units will be the driving force behind the group's international expansion. Each will be fully integrated with partners, consultants and research support in London, New York, Paris and at a later stage Germany and the Far East.

The Board Practice

The Whitehead Mann Board Practice acts for a wide variety of companies as a key adviser on board issues. This includes board structure, composition and remuneration, as well as the appointment of chairmen, chief executives, chief financial officers and independent directors.

The Board Practice offers a unique blend of boardroom experience, knowledge and skill. The credibility of our partnership with each client derives from our recognition of the need for integrity, discretion and confidentiality.

Executive search

We focus on the development of long term partnerships with core clients supported by business unit teams. The search practice has a strong and stable team of professional consultants supported by an established research base.

Executive search continues to be our core business. The volume and value of new search assignments, excluding the Board Practice, has more than doubled over the past three years.

During the last year, the average salary across all search assignments, excluding those for non-executive directors, exceeded £140,000.

Selection and e-recruiting

Whitehead Mann operates at the top of the traditional advertised selection market. Demand has been subdued for the past 18 months, and we transferred our resources to search and consulting. However, the volume of new selection business has now started to improve and our business units are selectively targeting expansion in this sector.

A significant development during the past year has been the development of e-recruiting. Replies to advertisements are now principally accepted through e-mail, and all advertisements are listed on the Whitehead Mann website (www.whiteheadmann.com).

The traditional advertised selection market is changing with the development of internet techniques. This will enable us to offer a faster service for our clients as well as improving our internal efficiency.

Consulting

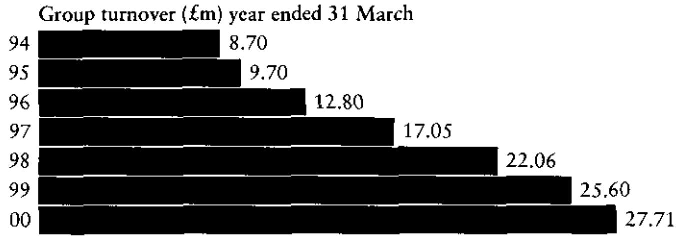
The past two years have seen strong growth for consulting services, since the introduction of Management Asset Valuation (MAV). Consulting is now a major revenue stream for the group and a dedicated consulting team has been established and is being expanded.

MAV benchmarks management against competition and the market using the assessment skills of search professionals allied to psychometric tests. The integration of the consulting and search teams is a prerequisite for the long term growth of this business.

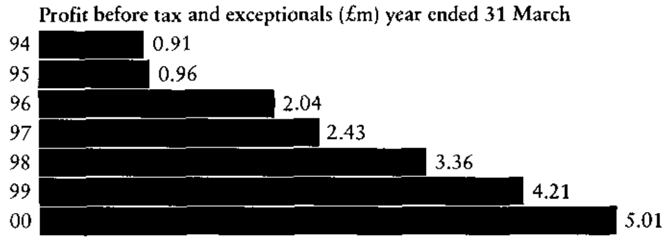
The board believes that there are significant long term growth opportunities for consulting services, particularly through its expansion into Europe and the US. The group will continue to build up its consulting team to match the needs of future demand.

As well as MAV, additional products are being evaluated and developed to broaden the scope of our services. These will be introduced over the next few years.

Group turnover (£m) year ended 31 March



Profit before tax and exceptionals (£m) year ended 31 March



E-business
During the year ended 31 March 2000 Whitehead Mann established a specialised unit focused on e-business. This requires a different method of working including faster execution time, virtual teams able to operate across different disciplines and a more flexible fee structure, including equity participation, to match the needs of start up operations.

This is a rapidly growing market and Whitehead Mann intends to establish itself in a leading position. Candidates for e-business clients are attracted from all sectors and functions.

International expansion
Our international strategy is to focus on five core markets: the UK; the US; France; Germany; and South East Asia. The first steps have been taken to establish our presence in France and the US.

This expansion is being led by international business units centred around industry sectors with an initial focus on board, financial services, technology, and consulting.

France
Whitehead Mann has opened an office in Paris under the leadership of a partner seconded from the UK. Additional teams of partners and consultants have already been attracted to the new operation and the Paris office will be expanded further in the current financial year.

Our objective is to grow to be one of the top five search businesses in the French market within three years. The Paris platform will be a hub for development for search businesses throughout other areas of Europe.

The flagships of the French business are intended to be the Board Practice and a MAV capability, positioning Whitehead Mann to provide services at the highest level to French clients.

US
Our initial presence in the US has been strengthened and now totals five members of our UK team on secondment. Local support staff are actively being recruited. This initial presence will form the base for expansion into the world's largest executive search market.

The proposed addition of Pendleton James Associates, Inc. will significantly enhance our US presence. It is our intention to establish ourselves as a serious player in the highly competitive US market within the next few years, focusing on senior level searches and on forming strong relationships with a selected number of major clients.

GKR
GKR was founded in 1970 as Goddard Kay Rogers. It is one of the UK's leading senior executive search and selection firms and currently employs 88 full-time staff, with headquarters in London and offices in Leeds and Solihull. In the year ended 31 August 1999, GKR reported revenues of £15.3 million.

Whitehead Mann and GKR have similar ambitions, style and culture and both face the challenge of diversification into international markets. The integrated professional team of the enlarged group will strengthen our position in key market sectors in the UK and provide the foundation for the establishment of strong business units across key international markets.

Growth in professional staff

As at 31 March 2000, Whitehead Mann had a professional team of 42 partners and consultants supported by 27 research staff. Total staff in the UK, France and in the US numbered 118.

For its part GKR currently has 27 professional staff, plus 22 in research and 39 support staff.

The proposed addition of Pendleton James Associates, Inc. in the US and our own expansion in France is likely to increase the total number of employees to over 250 by March 2001. This will include a team of about 150 consultant and research staff.

Conclusion

The addition of GKR will consolidate our position as one of the leading senior level executive search firms in the UK. Our international strategy is being implemented with the proposed acquisition of Pendleton James and the development of our office in Paris, helping to establish Whitehead Mann as a serious player in these markets.

Our management team has been strengthened and new international business units established. We continue to invest in these resources to meet the requirements of our clients and provide a quality service in executive search, selection and consulting. This will be reinforced by the growing demand for our services to e-business and MAV.

Our future is exciting. These growth plans are focused on leveraging our existing strengths to meet the changing demands of our clients and enhance shareholder value.

Directors' report
Year ended 31 March 2000

Financial statements
The directors present their report and financial statements for the year ended 31 March 2000.

Principal activity and business review
The company's principal activity is to act as the holding company for Whitehead Mann Limited. The company does not itself trade. The principal activities of the group as a whole are the provision of consultancy services concerned with the recruitment of executive personnel, management assessment and psychometric evaluation.

Results and dividends
The results for the year are set out in the profit and loss account on page 18. The group profit on ordinary activities, before and after taxation, and earnings per ordinary share, are as Figure 0.1 below:

After dividends totalling £1,584,000 the balance of £1,774,000 is to be transferred to reserves. An interim dividend of 4.4p per share (1999: 3.6p per share) was paid in January 2000. The directors propose to pay a final dividend of 6.1p per share (1999: 5.4p per share) on 30 August 2000, to shareholders on the register at the close of business on 28 July 2000.

Substantial shareholdings
The directors have been notified of substantial shareholdings in the company's ordinary share capital as at 9 June 2000 as shown in figure 0.2 below.

Authority to allot shares
The directors' authority to allot shares, and the authority to allot shares for cash without reference to statutory pre-emption rights, expires at the forthcoming AGM. An ordinary resolution and a special resolution to renew this authority until the close of the AGM in 2001 will be proposed at the AGM to be held on 25 July 2000.

Donations
During the year the group made charitable donations of £9,150 (1999: £9,900).

Creditors' payment policy
The company's policy is to pay suppliers generally at the end of the month following that in which the suppliers' invoice is processed. This policy is made known to the staff who handle payments to suppliers and to suppliers on request.

Creditors' payment period
The creditors' payment period as calculated in accordance with Statutory Instrument 1997/571 is 24 days (1999: 65 days).

Millennium compliance programme
The group's IT systems and infrastructure were subject to independent review during 1998/99. The programme of replacing non-millennium compliant computers was completed during the year under review, networks tested and non-compliant software replaced. This programme cost an additional £50,000 in 2000 (1998/1999: £50,000).

Directors and their interests
The directors of the company who held office during the year are as follows:

0.1

Year ended 31 March 2000	£000
Profit on ordinary activities before taxation	5,008
Profit on ordinary activities after taxation	3,358
Earnings per ordinary share	22.27p

0.2

	Number of ordinary shares	Percentage
Dr AR Mann	2,053,900	13.23
CW Mann	1,425,000	9.18
NV Smith*	1,421,675	9.16
3i Smaller Quoted Companies Trust Plc	782,000	5.03
MCS Leslie	781,499	5.03
Sir Peter Parker	666,000	4.29
Invesco GT UK Smaller Companies Fund	581,000	3.74
IAML A/c Invesco English & International Trust Plc	579,000	3.73
HJ Leslie	543,501	3.50

Includes 312,368 shares held on trust by NV Smith and IG Butcher for the benefit of NV Smith's children.

Sir Peter Parker
Non-executive chairman, member of the audit and remuneration committees.

CW Mann
Deputy chairman

G Clery-Melin
Chief executive

MJ Brassington
Finance director

HR Collum
Non-executive. Chairman of the audit committee.

AKP Smith
Non-executive. Member of the audit and remuneration committees.

Sir Colin Southgate
Non-executive. Chairman of the remuneration committee.

DE Tagg CBE
Non-executive.

IG Butcher
Finance director – resigned 25 January 2000.

The interests of the directors in the share capital of the company, at the beginning, and at the end of the year were as in Fig 0.3 below:

There have been no changes in the interests of the directors in shares since 1 April 2000.

DE Tagg CBE is retiring from the board by rotation and is not seeking re-election.

HR Collum retires by rotation and, being eligible, offers himself for re-election.

G Clery-Melin and MJ Brassington, having been appointed during the year, retire from office and, being eligible, offer themselves for re-election.

Non-executive directors
Sir Peter Parker (75) has been the non-executive chairman since 1986. He is also chairman of Mitsubishi Electric Europe BV, AccuRead Limited and a director of a number of other public and private companies. He is deputy chairman of the Court of London University. He was previously chairman of the British Railways Board and the British Institute of Management.

HR Collum is chairman of the audit committee and has been a non-executive director since March 1997. He is chairman of British Nuclear Fuels plc, deputy chairman of Celltech Group plc and a non-executive director of Invensys, Safeway plc and South African Breweries plc.

0.3

	5p ordinary shares as at 31 March 2000	5p ordinary shares as at 31 March 1999
Sir Peter Parker	666,000	696,000
CW Mann	3,478,900*	3,628,900*
G Clery-Melin (appointed 25 January 2000)	215,000	–
MJ Brassington (appointed 25 January 2000)	3,000	–
HR Collum	30,000	30,000
AKP Smith	20,000	20,000
Sir Colin Southgate	38,462	38,462
DE Tagg	20,000	20,000

*Including the holding owned by his wife, Dr AR Mann.

AKP Smith is a member of the audit, and the remuneration committees. He has been a non-executive director since March 1997. He is chairman of Storehouse plc, deputy chairman of Booker plc and a non-executive director of Colefax and Fowler plc.

Sir Colin Southgate is chairman of the remuneration committee and has been a non-executive director since March 1997. He is chairman of the Royal Opera House.

Auditors
A resolution proposing that Arthur Andersen be reappointed as auditors of the company will be put to the AGM.

Corporate Governance Report
In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee.

Statement of compliance with the Code of Best Practice
The company has complied with the provisions of the Code of Best Practice set out in section 1 of the Combined Code, except as listed below;

- The company has not identified a senior non-executive director for the reasons described below.

Further explanation of how the principles of the Code have been applied is set out below and, in connection with directors' remuneration, in the report to shareholders on directors' remuneration.

Board of directors
Board meetings are held at least quarterly and more frequently as circumstances dictate. The board presently comprises the non-executive chairman, the deputy chairman, the chief executive, the finance director and four non-executive directors. As the majority of the directors are non-executive and the board small, the company has not constituted a separate nomination committee for board appointments. The company does not consider any of its non-executive directors to be more senior to the others and has not therefore separately identified a senior independent director.

There are written terms of reference which reserve to the board key matters, including decisions regarding acquisitions, capital expenditure, approval of budgets, financial results, board appointments and dividend recommendations. Policies and procedures are in place to ensure the board receives adequate information in a timely fashion.

Non-executive directors
Each of the non-executive directors has considerable business experience and apart from their shareholdings and fees, are considered free from any business or other relationship which could materially interfere with the independent exercise of their judgement.

Non-executive directors are not appointed for any specific period. The term of office of all directors is subject to shareholder approval at the AGM at least once every three years.

Executive directors

All of the executive directors have service contracts, which are subject to termination by either party upon the giving of not less than one year's notice at any time. The remuneration of the executive directors is subject to the recommendations of the remuneration committee, which comprises three non-executive directors as described in the remuneration report. Details of directors' remuneration is given in note 4 to the accounts.

Audit committee

The audit committee is chaired by HR Collum and comprises Sir Peter Parker and AKP Smith. The committee has written terms of reference which deal clearly with its authority and duties and include matters relating to the appointment, resignation or dismissal of the external auditors and their fees; discussions with the auditors on the nature, scope and findings of the audit; consideration of issues relating to accounting policies and presentation and review of the effectiveness of the group's system of internal financial control based upon both internal and externally generated information. The committee meets at least three times a year, with the auditors in attendance at all meetings.

Internal controls

Code provision D.2.1 requires directors, at least annually, to conduct a review of the group's system of internal control. The company is in the process of reviewing its internal control procedures in the light of the guidance on internal controls issued by the Turnbull Committee. The company has adopted the transitional approach permitted by the London Stock Exchange and has reviewed the effectiveness of the system of internal control in accordance with the previous guidance. Accordingly, the disclosures below are restricted to internal financial controls. The company will report in accordance with the Turnbull guidance in the next annual report.

The board has overall responsibility for establishing and maintaining the group's system of internal financial control which aims to safeguard the group's assets and to ensure that proper accounting records are kept and that financial information used within the group, and that which is published, is accurate and produced in a timely fashion. Any system of internal control can, however, only provide reasonable and not absolute, assurance against material misstatement and loss. Key elements of the system of internal control are:

- A comprehensive system of financial reporting to the board, based on an annual budget approved by the board, with monthly reporting of actual results and monitoring of key performance indicators.

- A clearly defined organisational structure with appropriate delegation of responsibility to the management of each business unit.

- Documented policies and procedures, including delegated financial authorisation limits.

- Procedures for the proper appraisal and control of capital expenditure and investments.

- The employment of experienced and suitably qualified staff. Regular appraisal procedures are in place to monitor standards of performance.

- The directors confirm that they have reviewed the effectiveness of the system of internal financial control for the year ended 31 March 2000.

Derivatives and other financial instruments
The group's financial instruments comprise borrowings, cash and items such as trade debtors and creditors that arise as a result of normal operations. The group does not enter into derivatives transactions and does not trade in financial instruments.

The board reviews and agrees policies for managing its financial instruments periodically. It does not consider the group's exposure to risk arising from financial instruments to be significant.

The group's policy is to maximise interest income by placing excess funds on the money market. The group's liquidity risk is not considered to be significant and foreign currency exposure is not material.

Dialogue with shareholders
There is regular dialogue with institutional shareholders, including presentations after the announcement of the interim and annual results. The board uses the AGM to communicate with private and institutional investors and welcomes their participation. The chairmen of the audit and remuneration committees are available at the AGM to answer questions.

Going concern
After making appropriate enquiries the directors have a reasonable expectation that the company, and the group, have adequate resources to continue in operational existence for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the financial statements.

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 company and the group and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements 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 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 the group 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 company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report to the shareholders on directors' remuneration
As well as complying with the provisions of the code as disclosed in the company's corporate governance statement, the board has applied the principles of good governance relating to directors' remuneration as described below.

The members of the remuneration committee are Sir Colin Southgate (chairman), Sir Peter Parker and AKP Smith.

Policy on executive directors' remuneration

Remuneration of the executive directors and of senior executives is set at levels which reflect the recent history and development of the company and the group, its corporate strategy, the performance of the individual and the performance of the group as a whole. Levels of remuneration are set with the aim of attracting, retaining and motivating experienced executives by ensuring that their overall packages are comparable with similarly experienced executives of similar companies, both public and private.

Components of the remuneration packages

Components of the remuneration packages are reviewed annually and currently comprise base salary and benefits, annual performance bonus, pension and longer-term incentives in the form of share options and grants under the Equity Participation Plan.

Base salary for each executive is determined by the committee taking into account the individual's performance and competitive salary for comparable employment, responsibilities and performance in comparable companies.

Bonuses form a significant element of annual total compensation in order to assist in aligning the performance of the individual with the targets established for the individual personally and for the group as a whole.

The grant of share options and shares to executives under the Equity Participation Plan is determined periodically by the committee by reference to individual performance and with a view to promoting wider share ownership amongst those key executives who currently are not significant shareholders within the group. The share options schemes have performance criteria relating to the growth in earnings per share. Both the share option schemes and the Equity Participation Plan require the executive to remain in employment for at least three years before being able to benefit under any of the schemes. The board may exercise its discretion in the event of an employee departing before an option exercise date to allow the employee to retain all, or part of, any outstanding options or grants.

Executives are generally entitled to a pension contribution of 10% of base salary.

Details of directors' remuneration and share options outstanding are given in note 4 to the accounts.

Service contracts

All the executive directors, and a number of the senior executives, have service agreements with the group, which are terminable on the giving of 12 months notice by either the company or the individual.

Non-executive directors' remuneration

The remuneration of the non-executive directors is determined by the board as a whole, based on outside advice and review of current practices in other companies.

Amendments to Executive Share Schemes

The company is proposing to seek shareholder approval at its July 2000 AGM for a revised Executive Share Option Scheme (ESOS) and Equity Participation Plan (EPP) for senior executives and to increase the shareholding limits of the Employee Benefit Trust.

Introduction

As is the nature of the industry, senior executives are currently incentivised principally by annual cash bonuses and, in general, have limited shareholdings in the company. However, in order to encourage a longer-term outlook and to align their interests with those of shareholders, the current senior management considers it important that the future generation of senior management builds up a significant equity stake through a package of share incentive arrangements. This will ensure the continuation of the owner-managed culture which has proved so successful for this company in the past.

The company is also expanding into the USA and believes that these arrangements will help it to attract executives of the highest quality.

This proposal will apply to over 20 executives, none of whom are currently directors of Whitehead Mann plc.

The Existing Share Schemes

The company's ESOS provides for the grant of options at market value. It is a fairly standard scheme which allows for the grant of options over shares worth up to 4x annual remuneration in a 10-year period. There are the usual dilution limits, ie. 10% of share capital in 10 years for all share schemes, 5% in 10 years for executive schemes and 2.5% in the first four years of the scheme. The company has imposed earnings per share conditions on the exercise of options.

The EPP allows executives to invest any or all of their bonus (net of tax) in the company's shares. If the shares are retained for three years and the executive is still employed, they are matched 1:1 with shares paid for by the company.

The company also has a discretionary employee benefit trust which is used to acquire shares in the company for allocation to employees. It currently holds almost 3% of share capital.

Proposal

Whitehead Mann intends to foster a partnership style culture by introducing shareholding guidelines for key employees. To enable these individuals to meet their shareholding targets, they will participate in enhanced versions of the company's existing ESOS and EPP.

Shareholding Guidelines

Guidelines have been drawn up that require very significant investment by executives. The company considers these to be demanding, but achievable.

It is proposed that the most senior executives will be required to acquire shares worth 75% of base salary within three years, 150% of base salary within six years, 225% of base salary within nine years and 300% of base salary within 12 years. Lower targets will apply to less senior individuals.

Furthermore, if an individual does not satisfy these ownership targets (or if they fail to invest a specified minimum amount in the EPP), they will not be entitled to further option grants or awards of matching shares under the EPP. Nor will they be permitted to exercise any existing options and any previously awarded matching shares will not vest.

ESOS

It is intended that, in addition to operating the above guidelines, this scheme will operate as follows (insofar as that is not already the case):

- Within the confines of the ESOS's existing 4 x earnings limit, and subject to

remuneration committee discretion, it is currently anticipated that, on average, an individual might receive a grant of options over shares worth 17.5% of total compensation (base salary plus bonus) every year. The most senior executives will receive greater grants. If necessary to facilitate recruitment, extra one-off grants may also be made.
- Normally, the options will become exercisable after three years, subject to a performance condition being satisfied. The life of the option will be 10 years.
- The performance condition will require the company's earnings per share growth to have equalled or exceeded the growth in the Retail Prices Index (RPI) plus 9% over a three-year period.

EPP
It is intended that, in addition to operating the above guidelines, the EPP will operate as follows (insofar as that is not already the case):
- Each year, at the company's discretion, an executive can invest part or all of his annual bonus (after tax) in the company's shares.
- If the purchased shares are retained for three years, the executive will receive a matching number of shares based on the amount of bonus invested after tax.
- The ratio of matching to purchased shares will vary depending on the performance of the company and the individual.
- The most appropriate form of company performance measure is considered to be EPS growth. If EPS growth over three years is less than 12.5% per annum the matching ratio will be between 0.65 and 0.85 (depending on individual and company performance). If EPS growth is at least 12.5% per annum but is less than 17.5% the ratio will be between 1.0 to 1.25 and if EPS growth exceeds 17.5% per annum, the executive will receive a match of between 1.45 and 1.65.
- All shares purchased by the executive under the EPP will be included for the purposes of the shareholding guideline, and until matching shares vest, they will count at the minimum vesting level (i.e. 0.65), reduced by 40% on the assumption that when they have vested the individual will sell 40% of them so as to pay the resulting income tax bill.

Share Usage
To enable the company to offer this programme within acceptable limits, the company proposes that the following limits on share usage should apply:
- Dilution under all employee share schemes will be limited to 10% of share capital over the next 10 years, ignoring for this purpose previously granted options (about 1.3% on float and about 1% thereafter).
- It is intended that a mixture of newly issued and purchased shares will be used and that, to affect the transfer of ownership between different generations of management, some of these shares will be purchased from existing senior management. Where this is the case, all purchases will be made at the market price at the time of the transaction.
- In order to keep dilution within reasonable limits, it will be necessary to use a significant number of existing shares. In order to achieve this, it is necessary to increase the limit on the percentage of issued ordinary share capital the trust can hold at any one time from 5% to 10%. The trust will be funded by the company with a mixture of gifts and interest free loans to acquire the shares.

Shareholder consent
In order to operate the schemes as outlined above, at the AGM we will be seeking shareholder consent to make the following amendments (any other amendments required to give effect to the above do not require shareholder consent and will not form part of the rules of the schemes but will be separately notified to participants.

ESOS
- Removal of the 5% in 10 years dilution limit for executive schemes.
- Removal of the 2.5% in the first four years dilution limit for executive schemes.
- Amendment of the 10% in 10 years dilution limit for all employee share schemes by excluding previously granted options.

EPP
- Alignment of the dilution limits with those proposed for the ESOS.
- Amendment of the matching ratio provisions, so that individuals can receive a greater maximum matching allocation of shares.

Employee Benefits Trust
- Amendment to increase from 5% to 10% the limit on the percentage of issued share capital capable of being held in the trust at any time.

A resolution to be presented at the Annual General Meeting will, if passed, authorise the making of these amendments.

A copy of the rules of the ESOS and the EPP containing the proposed amendments, and a copy of the Employee Benefits Trust, will be available for inspection at
11 Hill Street,
London,
W1X 8BB,
until the close of the Annual General Meeting, and at the Meeting itself for 15 minutes prior to and during the Meeting.

This report was approved by the board on 12 June 2000.

MJ Brassington
Director

Auditors' report

To the Shareholders of Whitehead Mann Group Plc:
We have audited the accounts on pages 18 to 28 which have been prepared under the historical cost convention and the accounting policies set out on page 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 12, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the company and the group is not disclosed.

We review whether the corporate governance statement on pages 10 to 12 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and internal controls.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 March 2000 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Arthur Andersen
Chartered Accountants and Registered Auditors

20 Old Bailey
London
EC4M 7AN
12 June 2000

Consolidated profit and loss account for the year ended 31 March 2000

	Notes	2000 £000	1999 £000
Turnover	2	27,712	25,600
Staff costs	3	(14,897)	(14,030)
Depreciation	7	(526)	(531)
Operating charges			
Other operating charges (excluding exceptional costs)		(7,579)	(7,177)
Exceptional property costs	10	–	(400)
Operating profit			
Before exceptional costs		4,710	3,862
Exceptional property costs	10	–	(400)
	5	4,710	3,462
Interest receivable		298	349
Profit on ordinary activities before taxation		5,008	3,811
Tax on profit on ordinary activities	6	(1,650)	(1,301)
Profit for the financial year		3,358	2,510
Dividends	15	(1,584)	(1,355)
Retained profit for the year	16	1,774	1,155
Earnings per share	17	22.27p	16.53p
Diluted earnings per share	17	22.05p	16.42p
Earnings per share before exceptional property costs	17	–	18.34p

All the group's activities are regarded as continuing and there were no acquisitions in the year.

Statement of recognised gains and losses

There were no recognised gains or losses other than those included in the profit and loss account.
The accompanying notes form an integral part of this consolidated profit and loss account.

Consolidated and company balance sheets 31 March 2000

	Notes	Consolidated 2000 £000	Consolidated 1999 £000	Company 2000 £000	Company 1999 £000
Fixed assets					
Tangible fixed assets	7	1,869	1,648	–	–
Investments	8	717	745	778	806
		2,586	2,393	778	806
Current assets					
Debtors	9	7,107	5,292	3,604	2,375
Cash at bank and in hand		4,898	4,694	–	–
		12,005	9,986	3,604	2,375
Creditors: amounts falling due within one year	10	(7,632)	(7,103)	(1,129)	(1,150)
Net current assets		4,373	2,883	2,475	1,225
Total assets less current liabilities		6,959	5,276	3,253	2,031
Creditors: amounts falling due after more than one year	11	(208)	(299)	–	–
Net assets		6,751	4,977	3,253	2,031
Capital and reserves					
Called up share capital	14	776	776	776	776
Profit and loss account	16	5,975	4,201	2,477	1,255
Equity shareholders' funds	21	6,751	4,977	3,253	2,031

The financial statements on pages 18 to 28 were approved by the board on 12 June 2000.

G Clery-Melin
Director

MJ Brassington
Director

The accompanying notes form an integral part of the consolidated and company balance sheets.

Consolidated cash flow statement for the year ended 31 March 2000

	Notes	2000 £000	2000 £000	1999 £000	1999 £000
Net cash inflow from operating activities	19		3,733		3,445
Returns on investments and servicing of finance					
Interest received			298		349
Taxation					
UK taxation paid			(1,579)		(1,200)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1,012)		(332)	
Purchase of own shares		–		(493)	
Sale of tangible fixed assets		242		131	
Net cash outflow from capital expenditure and financial investment			(770)		(694)
Equity dividends paid			(1,478)		(1,231)
Cash inflow before management of liquid resources and financing			204		669
Management of liquid resources					
Money market withdrawals	20		–		1,003
Financing					
Secured loan	20		–		–
Increase in cash in the period	20		204		1,672

The accompanying notes form an integral part of this consolidated cash flow statement.

1 Accounting policies

a Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

b Basis of consolidation

The group financial statements consolidate the financial statements of the company and its principal subsidiary undertakings for the year ended 31 March 2000.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account has not been presented for the company. £2,806,000 (1999: £1,047,000) of the total consolidated profit for the financial year attributable to shareholders of Whitehead Mann Group Plc has been dealt with in the financial statements of the company.

c Turnover

Turnover represents the invoiced amount of services provided in the year net of value added tax.

d Tangible fixed assets and depreciation

Fixed assets are stated at cost. Depreciation is provided at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life at the following rates:

Leasehold properties and improvements	– over the lease term
Fixtures and fittings	– 15% p.a.
Motor vehicles	– 20% p.a.
Office equipment	– 25% p.a.

e Pension costs

The group makes contributions to various defined contribution pension schemes on behalf of certain employees. Pension costs are charged to the profit and loss account as incurred.

f Operating lease costs

Rentals under operating leases are charged on a straight line basis over the lease terms, even if the payments are not made on such a basis. Benefits received or receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used. The group provides for the known future cost, being the shortfall between rental outgoings and rental income, in respect of sublet properties when the liability crystallises.

g Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

h Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

i Employee Benefit Trust

The results and net assets of the Employee Benefit Trust have been included in the accounts. Shares owned by the Employee Benefit Trust are included in the balance sheet at cost less provisions for impairments in value. The cost of grants made by the Employee Benefit Trust are written off to the profit and loss account over the period from the date of grant until the shares vest.

2 Turnover

An analysis of turnover by destination is given below.

	Turnover 2000 £000	Turnover 1999 £000
United Kingdom	26,759	23,853
Overseas	953	1,747
Total	27,712	25,600

3 Employees

Number of employees	2000 Number	1999 Number
The average monthly number of employees, including directors, split by function, during the year was:		
Professional staff	65	60
Support staff	55	54
Total	120	114

Employment costs	£000	£000
Wages and salaries	12,522	12,171
Social security costs	1,553	1,181
Other pension costs	822	678
Total	14,897	14,030

The group contributes to defined contribution pension schemes in respect of eligible employees, the costs of which are shown above.

4 Information regarding directors

	2000 £000	1999 £000
Emoluments		
The emoluments of the directors of the company were:		
Emoluments	945	965
Compensation for loss of office	–	294
Pension contributions to defined contribution schemes	54	91
Total	999	1,350

4 Information regarding directors continued

2000	Fees/ remuneration £000	Benefits in kind £000	Bonuses £000	Pension contributions £000	Total £000
Non-executive directors					
Sir Peter Parker	30	–	–	–	30
HR Collum	20	–	–	–	20
AKP Smith	20	–	–	–	20
Sir Colin Southgate	20	–	–	–	20
DE Tagg	20	–	–	–	20
Executive directors					
CW Mann	220	10	201	36	467
IG Butcher (resigned 25 January 2000)	171	12	91	16	290
G Clery-Melin (appointed 25 January 2000)	48	13	44	–	105
MJ Brassington (appointed 25 January 2000)	15	–	10	2	27
Total	564	35	346	54	999

1999	Fees/ remuneration £000	Benefits in kind £000	Bonuses £000	Pension contributions £000	Total £000
Non-executive directors					
Sir Peter Parker	30	–	–	–	30
HR Collum	20	–	–	–	20
AKP Smith	20	–	–	–	20
Sir Colin Southgate	20	–	–	–	20
DE Tagg	15	–	–	–	15
Executive directors					
CW Mann	220	19	252	36	527
IG Butcher (appointed 31 December 1998)	50	8	50	5	113
D Harris (resigned 31 December 1998)	131	10	120	50	311
Total	506	37	422	91	1,056

Annual bonuses for directors, and senior executives, are determined by the remuneration committee.

D Harris received compensation for loss of office of £294,000 following his resignation on 31 December 1998.

Emoluments detailed above do not include any amounts for the value of options to acquire ordinary shares. CW Mann and MJ Brassington are members of defined contribution pension schemes. G Clery-Melin waived entitlement to pension contributions in respect of the period to 31 March 2000.

Share options

None of the current directors have any share options (1999: D Harris – 20,000). Other employees hold in total 345,000 (1999: 225,000) share options. 80,000 options were cancelled during the year. Exercise of all options is dependent on criteria relating to the growth in earnings per share. The closing mid-price on 31 March 2000 was 255p with a high of 300p and a low of 171.5p during the year.

225,000 of the outstanding options are exercisable between April 2000 and March 2007 at a price of 136p. The remaining options are exercisable between June 2002 and June 2009 at a price of 205p. National Insurance has been provided for on the gain on unapproved options to 31 March 2000.

5 Operating profit is stated after charging/(crediting):

	2000 £000	1999 £000
Auditors' remuneration	28	27
Property lease rentals	1,042	690
Loss/(Profit) on disposal of tangible fixed assets	23	(1)

Auditors' remuneration for other services was £31,600 (1999: £29,000).

6 Taxation

	2000 £000	1999 £000
The tax charge comprises:		
UK corporation tax at 30% (1999: 31%)	1,655	1,363
Deferred tax	103	(62)
Prior year adjustments	(108)	–
Total	1,650	1,301

7 Tangible fixed assets

Group	Leasehold property and improvements £000	Fixtures and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost					
1 April 1999	259	889	1,176	703	3,027
Additions	260	106	443	203	1,012
Disposals	–	–	(61)	(516)	(577)
31 March 2000	519	995	1,558	390	3,462
Depreciation					
1 April 1999	88	408	598	285	1,379
Charge for the year	51	110	257	108	526
Disposals	–	–	(49)	(263)	(312)
31 March 2000	139	518	806	130	1,593
Net book value					
31 March 2000	380	477	752	260	1,869
31 March 1999	171	481	578	418	1,648

The group had capital commitments of £188,000 (1999: nil) at the year end.

8 Investments

Group	2000 £000	1999 £000
Investment – own shares (i)	717	745
Amrop International CV (one share)	–	–
Total	717	745

Company		
Investment – own shares (i)	717	745
Whitehead Mann Limited (100% holding) (ii)	56	56
Whitehead Selection Limited (100% holding) (iii)	5	5
Amrop International CV (one share)	–	–
Total	778	806

(i) The investment in own shares relates to the Employee Benefit Trust, which at 31 March 2000, held 446,000 ordinary shares in Whitehead Mann Group Plc to meet options granted to employees, and shares allocated for award to employees under the Whitehead Mann Group Plc Equity Participation Plan. The market value of the shares owned by the Employee Benefit Trust at the mid-market price on 31 March 2000 was £1,137,300 (1999: £798,417).

The company has an obligation to make regular contributions to the trust to enable it to meet its financing costs. Rights to dividends on shares held by the trust have been waived by the trustees. £28,000 (1999: £23,000) was written off through the profit and loss account during the year in accordance with the accounting policy relating to the Employee Benefit Trust.

The net assets of the Employee Benefit Trust which are included in the accounts are:	£	£
Whitehead Mann Group Plc shares at cost	717,000	745,000
Bank and intercompany loans	(693,000)	(693,000)
Net assets	24,000	52,000

(ii) This company is registered in England and Wales. Its principal activity is the provision of consultancy services concerned with the recruitment of executive personnel and management assessment.

(iii) This company is dormant and registered in England and Wales.

9 Debtors

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Trade debtors	6,072	4,414	–	–
Amounts owed by subsidiary undertakings	–	–	3,604	2,239
ACT recoverable	–	136	–	136
Other debtors	606	98	–	–
Prepayments and accrued income	429	541	–	–
Deferred tax (note 12)	–	103	–	–
Total	7,107	5,292	3,604	2,375

10 Creditors: amounts falling due within one year

	Group		Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Bank loan	200	200	200	200
Trade creditors	456	658	–	–
Corporation tax	1,193	1,225	–	–
Other taxation and social security	3,756	3,136	–	–
ACT payable	–	136	–	136
Other creditors	289	290	9	–
Accruals and deferred income	818	644	–	–
Proposed dividend	920	814	920	814
Total	7,632	7,103	1,129	1,150

In February 1995 the group moved to newly leased premises, vacating the properties it previously occupied.

As at 31 March 2000 the group continues to hold the lease on a property that it does not occupy, which expires in 2003. The property was let during 1998/9 and an amount equal to the difference between the rental income and the rental outgoings until the group's lease expires, of £400,000 charged against profits.

As at 31 March 2000 £66,000 (1999: £77,000) of this amount is included within other creditors falling due within one year and £187,000 (1999: £299,000) within creditors falling due after more than one year.

11 Creditors: amounts falling due after more than one year

	Group		Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Other creditors	208	299	–	–

12 Deferred taxation

Deferred tax provided in the financial statements is as follows:

	2000
Future property costs	£000
1 April 1999	103
Movement during the year	(103)
31 March 2000	–

A deferred tax asset was recognised at the rate of 31% in respect of the creditor for future property costs. The asset was released during the year following agreement with the Inland Revenue on the treatment of the creditor for future property costs for tax purposes.

13 Derivatives and other financial instruments

Page 12 provides an explanation of the group's policies in respect of financial instruments. As permitted by FRS13 short-term debtors and creditors have been excluded from the disclosures.

The group's financial assets at 31 March 2000 comprise sterling current account and money market deposits and French franc and US dollar current accounts. The money market deposits totalled £1,500,000 at rates between 5.625% and 6.125%, maturing between 3 April 2000 and 17 April 2000. The sterling current account balance of £3,070,000 was on call at a rate of 5.77%. £198,000 of the current account was denominated in French francs at 31 March 2000 (31 March 1999: nil). £130,000 of the group's cash was denominated in US dollars at 31 March 2000 (31 March 1999: nil)

The borrowings of £200,000 relates to the Employee Benefit Trust and is at LIBOR plus 1% and is repayable within one year.

14 Share capital

	2000 £000	1999 £000
Authorised		
21,000,000 5p ordinary shares	1,050	1,050
Allotted, called up and fully paid		
15,525,000 5p ordinary shares	776	776

15 Dividends

	2000 £000	1999 £000
Interim dividend – 4.4p per share (1999: 3.6p per share)	664	541
Final dividend – 6.1p per share (1999: 5.4p per share)	920	814
	1,584	1,355

The interim dividend per share of 4.4p and the final dividend per share of 6.1p are based on a dividend of £664,000 and a proposed dividend of £920,000 respectively and the 15,078,957 5p shares in issue and ranking for dividend at the end of the year (excluding shares held by the Whitehead Mann Group Plc Employee Benefit Trust which has waived its right to dividends).

16 Reserves

	Group Profit and loss account £000	Company Profit and loss account £000
1 April 1999	4,201	1,255
Retained profit for the year	1,774	1,222
31 March 2000	5,975	2,477

The cumulative total amount of goodwill written off is £16,000 (1999: £16,000).

17 Earnings per share

	2000	1999
Earnings per share	22.27p	16.53p
Diluted earnings per share	22.05p	16.42p
Earnings per share before exceptional property costs	–	18.34p

The calculation of earnings per share of 22.27p (1999: 16.53p) is based on a profit for the year of £3,358,000 (1999: £2,510,000) and on 15,078,957 shares (1999: 15,189,260), being the weighted average number of shares in issue during the year (excluding the shares held by the Whitehead Mann Group Plc Employee Benefit Trust).

Diluted earnings per share is based on a profit for the year of £3,358,000 (1999: £2,510,000) and on 15,228,087 shares (1999: 15,294,389) reflecting the effect of outstanding share options and allocations made by the Employee Benefit Trust.

Earnings per share before exceptional property costs in 1998/99 was based on a profit for the year of £2,786,000, after adding back after tax exceptional property costs of £276,000, and 15,189,260 shares, being the weighted average number of shares in issue during that year. The directors believe that earnings per share before exceptional property costs more accurately reflected the underlying performance of the group in 1998/99.

18 Financial commitments

	2000 £000	1999 £000
The group is committed to paying the following annual amounts on operating leases on properties expiring:		
In less than one year	143	7
In two to five years	150	150
In more than five years	1,138	823
	1,431	980

19 Reconciliation of operating profit to net cash inflow from operating activities

	2000 £000	1999 £000
Operating profit	4,710	3,462
Depreciation	526	531
Increase in debtors	(2,054)	(827)
Increase in creditors	500	257
Loss/(profit) on disposal of fixed assets	23	(1)
Movement on investments	28	23
Net cash inflow from operating activities	3,733	3,445

20 Analysis and reconciliation of net funds

2000	Cash at bank and in hand £000	Money market deposit £000	Sub total £000	Bank loan £000	Total net funds £000
At 1 April	3,194	1,500	4,694	(200)	4,494
Cash inflow	204	–	204	–	204
At 31 March	3,398	1,500	4,898	(200)	4,698

1999	Cash at bank and in hand £000	Money market deposit £000	Sub total £000	Bank loan £000	Total net funds £000
At 1 April	1,522	2,503	4,025	(200)	3,825
Cash inflow/(outflow)	1,672	(1,003)	669	–	669
At 31 March	3,194	1,500	4,694	(200)	4,494

21 Reconciliation of movement in shareholders' funds

	Group £000	Company £000
Profit for the financial year	3,358	2,806
Dividends paid and proposed	(1,584)	(664)
Net increase in shareholders' funds	1,774	2,142
Shareholders' funds as at 1 April 1999	4,977	2,031
Shareholders' funds as at 31 March 2000	6,751	4,173

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