Annual Report and Accounts 2002·2003

Whitehead Mann Group

consultants in leadership

Whitehead Mann Group Plc

Highlights

Net cash inflow from operating activities
£7.1m (2002: £2.2m)

Group turnover
£65.0m (2002: £64.6m)

Earnings before interest, tax, depreciation, goodwill charges and exceptional costs*
£9.7m (2002: £13.2m)

Earnings per share before goodwill charges and exceptional costs*
14.69p (2002: 34.34p)

Total dividend for the year
7.0p per share (2002: 13.6p)

Final dividend
2.5p per share (2002: 8.0p)

Exceptional charges
£6.7m redundancy and related costs
£5.0m property provisions and related asset write-downs
£13.4m diminution in carrying value of goodwill

Loss for the year*
£22.1m loss for the year (2002: profit £3.7m)

Basic (loss) earnings per share
(87.15)p (2002: 16.08p)

Disposals and acquisitions
- Training & Careers businesses sold for £2.7m
- Summit acquired in USA for £1.6m
- Munich operations sold to management

* The loss for the year of £22.1m (2002: profit £3.7m) comprises earnings before interest, tax, depreciation, goodwill charges and exceptional costs of £9.7m (2002: £13.2m), interest £(1.0)m (2002: £(0.1)m), tax £(1.4m) (2002: £(2.8)m), depreciation £(1.9)m (2002: (£1.7)m), goodwill amortisation £(2.2)m (2002: £(1.9)m), exceptional items £(25.1)m (2002: £(3.2)m) and minority interests £(0.2)m (2002: £0.2m).

Whitehead Mann Group helps its clients attract and develop the leadership needed to transform their business performance.

Our core activities are:

- Executive Recruitment
- Executive Evaluation
- Executive Development & Coaching

Contents

Chairman's statement

Leadership is **the** scarce resource.

We help our clients become leaders by finding and developing the people needed to transform business performance whatever the geographic, political or economic conditions.

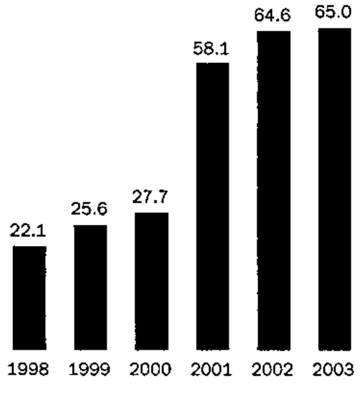
In a world where markets are constantly changing and the pressures of regulation are constantly rising, organisations have no choice but to constantly reshape and rebuild their leadership teams to maximise performance.

In the last 12 months we reshaped both our business and our own leadership team. We are now well placed to take full advantage of the current market and the potential for future growth.

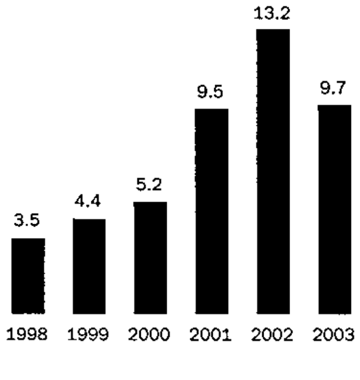
Group turnover for the year to 31 March 2003 was broadly flat at £65.0 million compared with £64.6 million in 2002. Our results reflect a full year's contribution from Baines Gwinner Holdings Limited, which we acquired in November 2001. They also include the contribution of Summit Leadership Solutions Corp based in the USA, which we acquired in August 2002 to complement The Change Partnership Limited, our UK based executive development and coaching business.

These acquisitions had the positive impact of underpinning revenue in a declining market but, together with other senior hires, contributed to the increasing cost base. As a consequence earnings before interest, tax, depreciation, goodwill charges and exceptional costs were £9.7 million (2002: £13.2 million).

Turnover £M
Year ended 31 March



Earnings before interest, tax, depreciation, goodwill charges and exceptional costs £M
Year ended 31 March



Our strategy at the start of last year had been to grow along three dimensions at the same time – geographies, industry channels and services. But, in the context of the global market downturn, we began restructuring our business to reflect a realistic expectation of revenues and moderated our strategic ambitions.

As part of this restructuring, we recruited Stephen Lawrence as our new Chief Executive in November 2002. He has experience of running international professional services companies in the public arena, as well as a strategic management consultancy background.

The restructuring, including the disposal of our Munich operations and of our Training & Careers businesses, resulted in a 25% reduction in headcount. The cost of this restructuring was significant in terms of the exceptional costs incurred. As well as re-evaluating the carrying value of investments and subsequently writing down goodwill by £13.4 million (2002: nil), we have also provided £5.1 million for at least one year's future lease costs of unoccupied property (2002: £800,000). The headcount reduction resulted in over 90 people leaving the Group at a total cost of £6.7 million (2002: £2.4 million).

The Board believes that securing a healthy cash position is a priority in these uncertain times and, as a consequence, is recommending a final dividend of 2.5p (2002: 8.0p) making a total dividend for the year of 7.0p (2002: 13.6p). This dividend is twice covered by adjusted earnings, an appropriate level of cover in current market conditions.

It is now almost three years since the Group acquired GKR Group Limited and Pendleton James & Associates, Inc. As a result of those acquisitions we welcomed both Philip Marsden and Andy Hunter to the Group Board as executive directors to spearhead the integration of the acquired entities. Now that integration is complete, both Philip and Andy have asked to step down from the Board to concentrate fully on their clients. I can also announce that our Group Finance Director, Matthew Brassington, having been with the Group for nearly six years, has decided to leave. He will be staying on whilst a suitable replacement is identified and will help with a handover of responsibilities. All three will step down at the Annual General Meeting to be held on 21 July 2003. On behalf of the Board and the entire Group, I offer thanks to each of them for the considerable contribution they have made at the Board over the last few years and I offer Matthew my best wishes for the future.

Tough times demand strong leadership. Our clients have been seeking ways to recruit and develop the best available executive and non-executive talent to help keep them at the forefront of their own markets. In addition, the need for Board level leadership has been given fresh impetus by the rising pressures of corporate governance.

Given the global economic uncertainty, we are not expecting revenues to improve over the year ahead and, with that in mind, we have taken the necessary steps to reshape the organisation to secure better margins and to generate cash at current trading levels. The current year has started in line with budget and therefore we remain cautiously optimistic for the year ahead.

Peter Foy, Chairman

Whitehead Mann Group at a glance

Leadership talent is a scarce resource. A business may have the greatest strategy and material resources in the world but, without the right people to make it happen, it may fail. The difference between achieving success and failure can often be small and success at the top can leverage huge impact at the bottom.

At Whitehead Mann Group, we help our clients to secure and develop the leadership needed to transform their business performance. Working with national and multi-national organisations, we advise on all aspects of leadership to build and support the right teams, recruiting and developing the highest levels of executive talent.

Our core activities are:
- Executive Recruitment
- Executive Evaluation
- Executive Development & Coaching

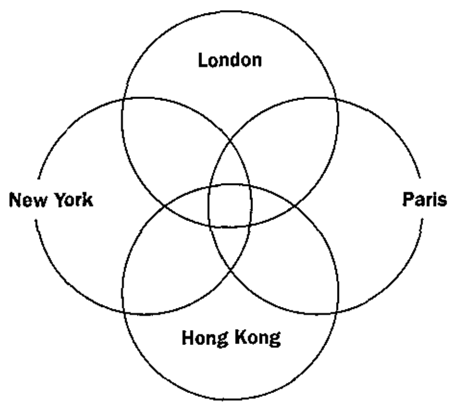
Building a world-class team requires clarity on the skills and experience of the individual members and their effectiveness as a team. Our methods of evaluation and benchmarking can rank their performance against peer groups and competitors. Based on this analysis, we can recruit the right people and help develop the capabilities of the team through coaching.

The right leadership is critical for every organisation but never more so than when facing change, corporate restructuring or mergers and acquisitions. Given the rising pressures of corporate governance, our clients may need to make executive or non-executive Board appointments. They may seek advice on Board effectiveness and assurance that the team is the right team. They may need support to balance the diversity of their top executive team or to develop a succession plan. Or they may want to limit their risk through pre-deal due diligence.

Together, Executive Recruitment, Executive Evaluation and Executive Development & Coaching offer a powerful combination. Our client service teams pool their knowledge, drawing the very best from our industry channels and global functional centres of excellence, to recruit and develop the best talent in the world.

Sectors we serve:
- Financial Services
- Industry
- Consumer/Retail
- Professional Services
- Technology, Media, Telecommunications
- Healthcare
- Public Sector

Functional roles we fill and develop:
- Board Appointments – executive and non-executive
- Finance/Treasury
- Financial Services' specialisms
- Technology
- Human Resources
- Sales and Marketing
- Procurement/Operations/Logistics
- Diversity
- Communications
- Legal/Compliance



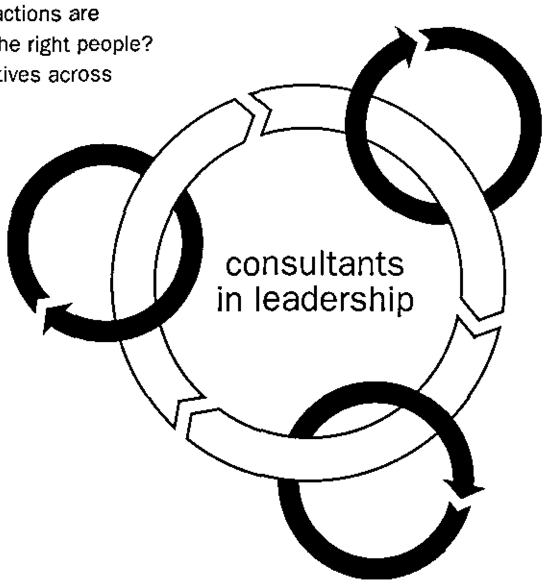
How we operate

Executive Evaluation

With our proprietary assessment tools and processes, we help answer the key questions. What leadership does the strategy need? Is the leadership capable of delivering the strategy? Where are the gaps? How well does the team work together? What actions are needed to recruit and develop the right people? Our detailed database of executives across sectors and countries enables accurate benchmarking and comparison against peer groups and competitors.

Executive Recruitment

Competition for the best business leaders is relentless. With a 25 year track record, we have detailed market intelligence, deep-seated understanding of leadership needs and unrivalled access to business leaders. We are retained by over half of the FTSE 100 companies, with a reputation built on consistently achieving superior results in the search for Board executive and non-executive directors and other senior executives.



Executive Development & Coaching

Operating as The Change Partnership, our coaches are seasoned professionals who understand, through first-hand experience, how business works at the highest levels. We support over 500 organisations across the world, coaching CEOs, CFOs, COOs and other senior executives. Through one-to-one and team coaching, we develop leadership skills for directors and other top executives who have been newly placed, promoted or who are developing in their current roles.

Where we operate

Operational hubs

- London, New York, Paris, Hong Kong

Our 235 client-facing people operate as required across international borders to recruit, evaluate and develop the best talent for our clients. We operate as a single team, with global management for our multi-national clients.

Chief Executive's review

The Whitehead Mann Group is the sixth largest executive search firm in the world and the UK's undisputed market leader in executive recruitment and coaching.

Our core markets are the main boards and senior executives of FTSE 100, Fortune 500, CAC 40 and DAX 30 companies and the highest levels of Government and not-for-profit organisations.

This year we have worked for over 600 organisations, handling over 1,000 assignments, interviewing some 8,500 people and evaluating over 90,000 resumés.

Stephen Lawrence, Chief Executive

Since my appointment in November 2002, we have thoroughly reviewed the Group's operations and strategic direction. Reported revenues were flat, down 10% on a like for like basis, a significant achievement compared to our main competitors who have seen their revenues decline by 20% to 40% in the past year.

Our Executive Evaluation and Executive Development & Coaching businesses have continued to grow as clients seek to evaluate, develop and coach their executive teams in these challenging conditions. However the Executive Recruitment business, which represents 83% of Group revenues, although continuing to outperform the sector, has experienced a decline in volumes in certain industry segments, principally financial services.

As a consequence of this change in revenue mix and the fact that at the start of the year the cost base of our organisation had been sized for significant growth, my immediate priorities have been to align the Group's cost base with expected revenues and to streamline the operations to be more competitive. As a result, we have taken some tough decisions to position the business to make the most of current market conditions.

The market for leadership talent at the highest levels of organisations has proven more resilient than the general recruitment market, and we believe the Whitehead Mann Group has robust businesses with good growth prospects. The strategy of offering clients the combination of Executive Recruitment, Evaluation and Development & Coaching has given the Group a differentiated market position, which has proven successful both within the UK and overseas. During the year, the Group served over half the FTSE 100 as clients in the UK, and we continued to increase our share of top-level assignments for public sector, CAC 40, DAX 30 and Fortune 500 organisations. Although the current trading year is likely to remain flat, as world economies start to recover, our revenues should return to growth.

Operational financial performance

Group turnover for the year to 31 March 2003 showed a marginal increase at £65.0 million compared with £64.6 million in 2002. Earnings before interest, tax, depreciation, goodwill charges and exceptional costs were lower at £9.7 million (2002: £13.2 million).

The exceptional costs of £25.1 million relate to resizing and reshaping the business to better suit market conditions and our business strategy and are discussed in more detail below. Earnings per share (before goodwill charges and exceptional costs) were down on last year to 14.69p (2002: 34.34p).

We generated £7.1 million cash from operating activities (2002: £2.2 million). After paying interest, tax and capital expenditure we remained strongly cash generative: £3.4 million (2002: outflow £2.9 million).

Of the £25.1 million exceptional charges, £13.4 million relates to the writedown of goodwill and has no consequences from a cash perspective. Of the £6.7 million relating to redundancy and related people costs, £4.5 million had been settled prior to the year end with the balance due to be paid over the next two years.

After paying dividends totalling £3.2 million (2002: £2.9 million) and a net cash outflow in respect of deferred consideration and acquisitions and disposals of £1.2 million (2002: £1.8 million), we absorbed, before financing, £1.0 million during the year (2002: £7.6 million absorbed). We therefore finished 2003 with net debt of £10.2 million (2002: £9.2 million).

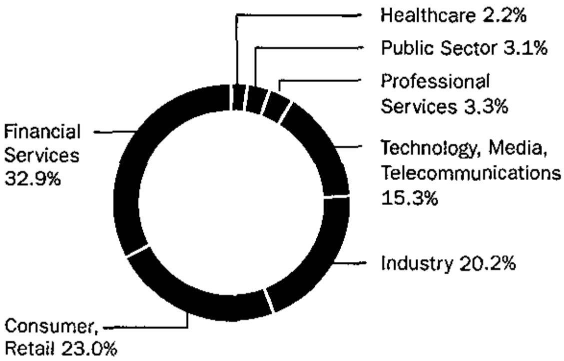
Business and market strategy

Together, Executive Recruitment, Executive Evaluation and Executive Development & Coaching offer a powerful combination to help our clients secure the leadership needed to transform their business performance.
In providing these services, we develop ongoing partnerships with our clients and generate more predictable revenue streams over longer periods.

In order to manage these core relationships effectively, our consultants operate as international teams under the leadership of global relationship managers. Together they are dedicated to client care and are able to provide a broad range of leadership services. During the year, for example, we won a new contract to help shape the leadership team throughout the global operations of one of the largest telecom service providers in the world – combining recruitment, evaluation and coaching services.

We have taken some tough decisions to position the business to optimise market conditions.

Percentage of revenue by sector



As a result, we have strengthened our market position by sustaining our shift away from the sector's traditional reliance on transaction-oriented relationships with clients. This trend towards advisory-oriented relationships will continue, especially as we develop further our range of services. Many of our clients are seeking a total solution to help them build winning teams, through an ongoing service based on annual contracts and support.

Executive Recruitment

The flagship Whitehead Mann executive search business contributed 83% of Group revenues and continued to outperform competitors. Without doubt, the market for recruitment in general has experienced two very difficult years in all developed economies. But through our dominant position within the UK market, working at the highest levels of organisations and searching internationally for our multi-national clients, we believe that we have fared better than competitors in Europe and the USA.

During the year some business units, such as financial services, experienced a decline in activity in line with the overall financial services sector. But across our business as a whole, activity has remained reasonably constant and our success ratio of completed search assignments continues to be in the top quartile for the industry.

We maintained a high level of activity on Board appointments for both executive and non-executive directors and the level of demand for top executives also remained higher than in the general recruitment market. For both executive and non-executive talent, the quality of our search service is underpinned by the breadth and depth of our market intelligence and the rigour of our research processes.

Across the Group, the average starting salary of executives placed by Whitehead Mann during the year was £154,000 (2002: £145,000). This average has grown steadily over the last five years, reflecting the calibre of the people we recruit to fill senior positions for our clients.

In the last two years, our Executive Recruitment consultants have been retained by 60 of Europe's top 200 companies.

Our consultants are leaders in their own right, dedicated to helping our clients transform their business performance. Our value proposition is to offer an integrated range of services – Executive Recruitment, Executive Evaluation and Executive Development & Coaching.

This year alone, our consultants worked for over 600 organisations, handling over 1,000 assignments, interviewing some 8,500 people and evaluating over 90,000 resumés. I can only pay tribute to the teams who have achieved this impressive level of performance during a period of both market downturn and internal reorganisation for the business.

The quality of our service is indicated by the high level of repeat business – 89% of our key clients from three years ago are still working with us. We have an eight-year relationship, for example, with one major international bank. During that time we have carried out over 135 searches for that client and now also provide executive assessment and coaching to them. For one of the world's oil majors, we provide ongoing executive recruitment, evaluation and development services for the organisation's top team of some 270 executives.

Executive Evaluation and Executive Development & Coaching

As consultants advising across the leadership agenda, we provide a wide range of services through our two other business operations: Executive Evaluation and Executive Development & Coaching.

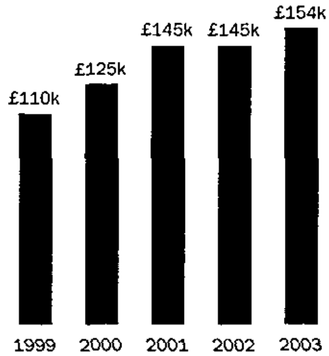
Our executive evaluation activity, which accounts for 4.0% of revenue (2002: 6.0%) has historically been focused on the mergers and acquisitions market and has been weakened by the economic climate. Consequently this activity was restructured during the year to address the wider market of executive evaluation in major organisations. Although this refocusing is now beginning to bear fruit, the impact over the year has been a decline in revenue.

Our development and coaching activity grew by 32% and contributed over 10% of Group revenues. As a proportion of our total revenue, that percentage is growing and we expect it to keep on growing as we develop longer-term relationships. The financial impact of this is to provide the Group with greater revenue certainty as most development and coaching assignments are sold on rolling annual contracts. Our analysis of the total market for Executive Evaluation and Executive Development & Coaching suggests it is approximately three times the size of the market for Executive Recruitment, with a value of over $20 billion and growing in North America, Europe and Asia Pacific.

This year we recruited Board directors and top executives for over half the companies in the FTSE 100.

In order to capitalise on this market opportunity we acquired Summit Leadership Solutions Corp to strengthen our team in the USA, where it has been estimated that around 90% of Fortune 500 companies use coaching. Summit has an impressive track record and client base in this market. Under The Change Partnership brand, we are successfully building on our strength in the UK to roll out coaching services in European markets, where there is significant untapped potential.

Average starting salaries of executives placed by Whitehead Mann



The pressures on Boards to perform, in addition to growing regulatory and corporate governance requirements, mean that clients are constantly seeking to evaluate and develop their executive talent to maximise performance. For example, one of our teams this year assisted the American CEO of a major multi-national corporation to restructure its European divisions. We evaluated whether the people were right for the new roles and then coached the corporation's Presidents in five countries, in four languages, over a six-month period to assist the move to the new structure.

Newly appointed executives and Board members benefit from coaching services to smooth the transition into their new roles and ensure a quicker and more effective fit with the organisation. Such services are also essential to support mergers and acquisitions. For example, we assisted a major financial services client over a three-year period to evaluate over 400 top executives in an acquired business, across a range of specialist functions, to support the integration process. We also recruited over 40 new senior executives for the same client.

Business reshaping

We have now restructured our business to deliver our business strategy, and our brand has value because of the quality of service our people provide. We have also reviewed our remuneration methods and, going forward, rewards will be more aligned to business and team performance as well as individual achievement.

In reshaping the business, our goal has been to strengthen our position as a differentiated player, to reduce costs and to become more efficient. We aim to be faster, nimbler and smarter than our competitors, working through global teams on major client accounts. The new organisational shape reflects global centres of excellence for both industry channels and functional expertise, with operational accountability at local level.

Last year, we positioned our businesses for more rapid growth than became apparent during

During the last five years, we have appointed over 240 Chairmen, Chief Executives and Group Finance Directors and 180 non-executive directors to the Boards of major companies.

There is a growing requirement for high-level cross-border support, building and shaping teams for existing clients to operate in other countries. This year, for example, we helped a Paris-based bank to put in place a new team of over 30 senior executives to operate in New York.

the course of the year. As a consequence we took steps to restore the balance between revenues and costs. In total, we reduced headcount by over 25% from 407 to 295, of whom 235 are client-facing. We also decided to focus around four geographic hubs, London, New York, Paris and Hong Kong, disposing of our operations in Munich and closing other operations where appropriate to streamline our services.

To support our more market-facing approach, we have created seven Industry Channel Practices and ten Functional Centres of Excellence. These make best use of our extensive knowledge and market intelligence on talented people who have the expertise needed by major organisations.

The seven Industry Channel Practices are responsible for managing client relationships and providing knowledge and insights into industry sectors. These are:

- Financial Services
- Industry
- Consumer/Retail
- Professional Services
- Technology, Media, Telecommunications
- Healthcare
- Public Sector

Over 500 organisations use The Change Partnership for coaching, including 42 of the FTSE 100.

The Functional Centres of Excellence are responsible for developing functional knowledge and marketing this effectively through the industry channels. These are:

- Board Services
- Finance/Treasury
- Financial Services' specialisms
- Technology
- Human Resources
- Sales and Marketing
- Procurement/Operations/Logistics
- Diversity
- Communications
- Legal/Compliance

The business is continuing to generate cash, sustaining the successful monthly trend from the end of last year.

We focus on client needs through global industry channels and functional centres of excellence, with hubs in London, New York, Paris and Hong Kong – handling Board appointments, Board effectiveness and assurance, succession planning, performance analysis, benchmarking and development and coaching.

Business growth

Even within the prevailing economic climate, we continue to see opportunities for growth along the three dimensions of geographies, industry channels and services. But, going forward, we will implement our plans for growth in a way that is more consistent with the prevailing economic climate. We have no current plans to make further acquisitions but will continue to assess the potential to grow through acquisition should attractive opportunities arise to support our strategy.

First, in terms of geographies, we now operate cost-effectively out of four geographic hubs from which we can service some 80% of the world market. There is a growing requirement within our client base for such high-level cross-border support and an increasing number of our relationships involve building and shaping teams for existing clients to operate in other countries.

Second, we have reshaped our business to focus more clearly on the industry channels where our track record is strongest. This review process also has identified sectors with growth potential where we are under-represented.

Third, we have barely scratched the surface of the market potential for our businesses in Executive Evaluation and Executive Development & Coaching.

Prospects

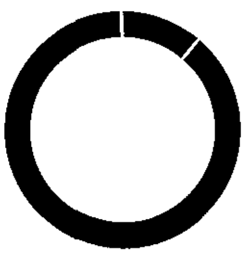
The last 24 months have been some of the worst that the Executive Recruitment industry has known. Despite that, the Whitehead Mann Group has continued to outperform its competitors.

In the opening months of the current trading year revenue has shown early signs of improvement despite difficult market conditions. The business is also continuing to generate cash on a monthly basis, sustaining the successful turnaround in trend from the second half of last year. This is being achieved through a twin strategy of working capital management and reducing costs.

During last year we faced up to some tough decisions and made many changes to get ourselves into the best possible shape. Our people have more than risen to the challenge and over the next 12 months I expect that, due to the outstanding quality of the people we have in the organisation, we will continue to outperform our competitors.

Stephen Lawrence, Chief Executive

For over 70% of our top recruitment clients, we also provide additional leadership services.



89% of our top clients from three years ago are still working with us

Directors' report

Year ended 31 March 2003

Chairman

P Foy (62) has been Chairman of Whitehead Mann since January 2001 and was formerly UK Managing Director of McKinsey & Co Inc. He is a non-executive director of Pepsi Co Inc and of Safeway Plc.

Executive directors

SF Lawrence (46) joined the Group as Chief Executive on 12 November 2002. Prior to joining he was a director of the South African listed Datatec Group, responsible for its professional services division. He trained as a Chartered Accountant with Price Waterhouse before spending 12 years as a management consultant with Arthur D Little Inc in London.

MJ Brassington (36) is a qualified accountant and joined Whitehead Mann as Group Financial Controller and Company Secretary in June 1997. He was appointed to the Board as Group Finance Director in January 2000.

AP Marsden (46) joined the GKR Group in 1993 after a career in investment banking and the oil industry. Following the acquisition of GKR by Whitehead Mann in June 2000, he was appointed to the Board as Deputy Chief Executive. He has overall responsibility for the Group's Global Financial Services business.

DA Hunter (54) joined Pendleton James & Associates, Inc as a partner in 1992. He acquired the firm from its founder EP James in 1998. Following the acquisition of Pendleton James & Associates, Inc in July 2000 by Whitehead Mann, he was appointed to the Board. He chairs our business in North America.

Non-executive directors

HR Collum (62) chairs 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 Safeway plc. He was formerly Executive Vice President and Chief Financial Officer of SmithKline Beecham plc.

EP James (73) joined the board on 1 August 2000 on completion of the acquisition of Pendleton James & Associates, Inc, the company he founded in 1982. Prior to founding Pendleton James & Associates, Inc he served on President Reagan's White House staff and subsequently advised President Bush on personnel matters.

CW Mann (65) joined Whitehead Mann in 1980 serving as Chief Executive until January 2000. Thereafter he served as Executive Deputy Chairman of the Group until 31 July 2002 before moving to become a non-executive director.

AKP Smith (62) is a member of the Audit and Remuneration Committees. He has been a non-executive director since March 1997. He is a non-executive director of Colefax and Fowler plc, Big Food Group plc and was formerly Chairman of Mothercare Plc.

Sir Colin Southgate (64) is Chairman of the Remuneration Committee, is the senior independent non-executive and has been a non-executive director since March 1997. He is Chairman of the Royal Opera House and the former CEO of Thorn EMI Plc.

Financial statements

The directors present their report, financial statements and auditors report for the year ended 31 March 2003.

Principal activity, business review and future developments

The principal activities of the Group as a whole are the provision of consultancy and other services concerned with Executive Recruitment, Executive Evaluation, and Executive Development & Coaching. We expect the activities of the Group to continue into the foreseeable future. The Company's principal activity is to act as the holding company for the Group's trading subsidiaries which are listed at note 10 to these accounts. The Company itself does not trade.

Results and dividends

The results for the year are set out in the profit and loss account on page 23.

After dividends totalling £1,784,000, the retained loss of £23,847,000 is to be transferred from reserves. An interim dividend of 4.5p per share (2002: 5.6p per share) was paid in January 2003. The directors propose to pay a final dividend of 2.5p per share (2002: 8.0p per share) on 29 August 2003, to shareholders on the register at the close of business on 1 August 2003.

Substantial shareholdings

The directors have been notified of substantial shareholdings in the Company's ordinary share capital as at 2 June 2003.

Substantial interests

	Number of ordinary shares	Percentage %
Rothschild Trust Cayman Limited *	1,887,359	7.18
Dr AR Mann	1,903,900	7.24
CW Mann	1,325,000	5.04
British Fund Trustees Limited, the Trustees of the BT Pension Scheme	1,168,197	4.44
JTF Baines	1,111,138	4.23
Standard Life	997,040	3.79
3i Smaller Quoted Companies Trust Plc	957,000	3.64
MCS Leslie	923,000	3.51
IAML A/C Invesco English & International Trust Plc	850,000	3.23

* Rothschild Trust Cayman Limited is a trust for the benefit of employees of GKR Group Holdings Limited which was acquired by the Company in June 2000.

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 2004 will be proposed at the AGM to be held on 21 July 2003.

Donations

During the year the Group made charitable donations of £113,000 (2002: £110,000).

Creditors' payment policy

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

Creditors' payment period

The Company had no trade creditors as at 31 March 2003 (2002: nil).

Directors and their interests

The directors of the Company who held office during the year are as follows:

P Foy, Non-executive Chairman

SF Lawrence, Chief Executive, appointed 12 November 2002

MJ Brassington, Finance Director

DA Hunter, Executive Director

AP Marsden, Deputy Chief Executive

HR Collum, Non-executive, Chairman of the Audit Committee

EP James, Non-executive, USA

CW Mann, Non-executive

AKP Smith, Non-executive, member of the Audit and Remuneration Committees

Sir Colin Southgate, Senior Non-executive Director, Chairman of the Remuneration Committee

G Cléry-Melin, Chief Executive, resigned 12 November 2002

MJ Brassington, AP Marsden and DA Hunter, being eligible, retire by rotation and have decided not to seek re-election. SF Lawrence having been appointed during the year retires from office and, being eligible, offers himself for re-election.

The interests of the directors in the share capital of the Company at the beginning, and at the end, of the year were as set out below. There have been no changes in the interests of the directors in shares since 1 April 2003.

Directors' shareholdings

	5p ordinary shares as at 31 March 2003	5p ordinary shares as at 31 March 2002
P Foy	57,000	12,000
SF Lawrence	30,000	-
MJ Brassington	5,500	5,500
DA Hunter *	741,332	872,154
AP Marsden **	265,000	300,000
HR Collum	30,000	30,000
EP James	-	-
CW Mann ***	3,228,900	3,303,900
AKP Smith	20,000	20,000
Sir Colin Southgate	38,462	38,462

* Includes shares held on trust by the Pell Rudman Trust company for the benefit of DA Hunter's children.
** AP Marsden is a beneficiary of the Rothschild Trust Cayman Limited (not included above).
*** Including the holding owned by his wife, Dr AR Mann.

Auditors

A resolution proposing that Deloitte & Touche be re-appointed as auditors of the Company will be considered at the AGM.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and via a monthly letter sent by the Chief Executive to all employees. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. In addition, all employees of the Group are eligible to receive an annual cash incentive related to the overall profitability of the Group.

Environmental policy

By virtue of the nature of the Group's activities, the Group considers its impact on an ongoing basis on the environment to be minimal. Notwithstanding that, the Company Secretary has been instructed to consider the likely impact the Group might have on the environment in its decision making and to instruct the Board appropriately.

Corporate governance report

The company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance which is appended to the Listing Notes of the Financial Services Authority and for which the Board is accountable to shareholders.

Statement of compliance with the Code of Best Practice

The Company has complied throughout the year ended 31 March 2003, except as described below, with the provisions of the Code of Best Practice set out in section 1 of the Combined Code, as set out below.

Board of directors

Board meetings are held at least six times per year and more frequently as circumstances dictate. The Board presently comprises the non-executive Chairman, the Chief Executive, the Finance Director, two other executive directors and five non-executive directors.

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.

Accordingly, the Group considers all of its non-executive directors, with the exception of CW Mann, to be independent non-executives by reference to the criteria published by Derek Higgs in his review of the role and effectiveness of non-executive directors in January 2003.

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 Committee report. Details of directors' remuneration is set out in the Remuneration Committee report and Shareholders will be invited to vote on that report at the forthcoming AGM.

Audit Committee

The Audit Committee is chaired by HR Collum and comprises P Foy 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 control based upon both internal and externally generated information. The Committee meets at least three times a year, with the auditors in attendance at most meetings. It is usual that the Finance Director and the Chief Executive attend meetings by invitation but that at least once a year the Committee meets the auditors privately.

Nominations Committee

The Board has now appointed AKP Smith as Chairman of the Nominations Committee. As Chairman he is responsible for leading the recruitment of new directors supported by an appropriate quorum of non-executive directors and other executives as appropriate.

Internal controls

The Group has applied the guidance issued by the Turnbull Committee in undertaking reviews of internal controls. Thus when the directors explain how they have maintained sound systems of internal controls and reviewed their effectiveness, they are covering the whole range of risks that are critical to the success of the business and not just those risks relating to financial reporting, compliance matters and the safeguarding of assets.

The Board has overall responsibility for establishing and maintaining the Group's system of internal controls. Any system of internal controls can, however, only provide reasonable and not absolute assurance against material misstatement and loss.

The Board has delegated responsibility for the review of internal controls to the Audit Committee. The Audit Committee receives reports from the Chief Executive and the Finance Director outlining the system in operation, how that system of internal controls is monitored and reviewed, and how changes to the system of internal controls are proposed and introduced.

The Group is organised internally with all professional and support staff allocated to business units which operate within each geography and across international borders. Each business unit is led by a senior executive with profit and loss responsibility for that unit. Each business unit head reports directly to the Chief Executive.

The business units are supported centrally by a management team that covers finance and administration, human resources and people development and IT and systems. This central team is responsible for ensuring consistency of, and compliance with, the Group's practices and procedures, and development of those practices and procedures across business units. Each member of this management team reports to the Chief Executive. Each geography is managed by an Operating Committee chaired by the Chief Executive.

Following each acquisition undertaken by the Group, the acquired company has been fully integrated into this system of operation. Representative taskforces have been convened in each case to manage the transition process and to ensure that the Group adapts its procedures to reflect the changing circumstances.

The geographic Operating Committees and relevant central management meet monthly to review the performance of the business.

Other key elements of this system of internal controls are:

- A comprehensive system of financial reporting to the Board, based on an annual budget, with monthly reporting of actual results and monitoring of key performance indicators.
- Integrated within the system of financial reporting is a system of management reporting which focuses on the performance of the business units and specifically on the performance of individuals within those business units.
- A defined organisational structure with delegation of responsibility to the management of the business units and to the central management team.
- Documented policies and procedures, including delegated financial authorisation limits.
- Procedures for the appraisal and control of capital expenditure and investments, and the recruitment, retention and development of staff.
- The employment of experienced and suitably qualified staff. Appraisal procedures are in place to monitor standards of performance, to identify training needs and to monitor the development of all staff.

The directors confirm that they have reviewed the effectiveness of the system of internal controls for the year ended 31 March 2003.

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 complex derivative 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. All Group companies' transactions are undertaken in local currency.

Dialogue with shareholders

There is regular dialogue with institutional shareholders, including presentations after the announcement of the interim and annual results. This dialogue is principally undertaken by the Chief Executive and the Finance Director who regularly report back to the Board the views of shareholders, the brokers and other key advisors and interested parties. The Board, as a body, uses the AGM as an opportunity 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 and the Chairman of the Group and the senior independent non-executive are available at other times at the specific request of the shareholders.

Directors' responsibilities

Financial statements, including adoption of going concern basis

United Kingdom 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 of the Group as at the end of the financial year, and of the profit or loss of the Group for that period.

After making 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. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the 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; and state whether applicable accounting standards have been followed.

Other matters

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 enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, 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.

This report was approved by the Board on 9 June 2003.

SF Lawrence, Chief Executive Officer

Remuneration Committee report

Year ended 31 March 2003

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduces new statutory requirements for the disclosure of directors' remuneration. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the 'auditable part' of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations).

Unaudited information

Committee composition, advisors and meetings

The Remuneration Committee comprises three independent non-executive directors – Sir Colin Southgate (Chairman), P Foy and AKP Smith.

The Chief Executive and the Company Secretary usually attend Remuneration Committee meetings at the invitation of the Chairman but have not been present when the Committee has been discussing their individual remuneration.

The Committee has received advice from the Company Secretary on compensation matters and on comparator companies.

Policy on executive directors' remuneration

It is the Board's policy to set levels of remuneration with the aim of attracting, retaining and motivating executives by ensuring their overall packages are comparable with similarly experienced executives of similar companies, public and private, and also to reflect the recent history and development of the Group, its corporate strategy, the performance and experience of the individual and the performance of the Group as a whole.

The Board has reviewed the compensation levels of executives in the following companies in determining whether remuneration levels within the Group are appropriate: Heidrick & Struggles International Inc and Korn Ferry Inc, both of whom are listed in the USA and with whom the Group actively competes in all its markets. The Group is of the opinion that it has no direct quoted competitors in the UK but has reviewed compensation levels in similar entities quoted in the UK, namely Michael Page International Plc, Robert Walters Plc and Penna Consulting plc, in determining executive compensation levels.

Components of the remuneration package

The remuneration packages provided to the Group's executive directors and other senior executives comprise base salary, pension contribution, annual performance related bonus and longer term incentives in the form of share options and grants under the Equity Participation Plan.

Non-executive directors' remuneration and terms of appointment

Each of the non-executive directors serves under a letter of appointment. Appointment is for an unspecified term and no notice period is specified. Each director serves subject to the requirements of the Articles of Association which requires re-election of each director at least once every three years.

Non-executive directors are paid £30,000 per annum with an additional £5,000 paid per annum to the Chairman of each of the board's standing committees – the Remuneration Committee and the Audit Committee.

The level of fees paid to non-executive directors was raised to current levels with effect from 1 October 2002 (the first rise since the Group floated in March 1997) to reflect the growth in the size of the Group over that period, the increased frequency of meetings and the increased complexity of corporate governance matters.

The Chairman's remuneration was set on his appointment to the Board in January 2001 to reflect the significant amount of time he is expected to spend on Group business, compared to the other non-executive directors.

At the time of his appointment the Chairman was granted 20,000 share options exercisable at the then market price of 423p. Following developments in corporate governance, the Chairman waived his share options, and any future entitlement to share options, in October 2002.

Service contracts of executive directors

The Board considers that it is in the interests of both the individual executive and the Group that executives work with a reasonable degree of security of employment. Accordingly all executive directors, and other senior employees of the Group, have service agreements that require the giving of one year's notice by either party. Each contract contains non-competition and non-solicitation clauses which are binding for up to 12 months after departure and contains a provision allowing the contract to be terminated immediately at the Group's behest, on payment of a sum equal to 125% of annual base salary.

Basic salary

An executive director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the performance of the Group as a whole and objective research on competitor companies. Executive directors' basic salaries were reduced by 15% in October 2001. Basic salary levels were reviewed in May 2003, no increases were approved, and one current executive director agreed to a further reduction.

In addition to basic salary, the executive directors receive benefits-in-kind, principally medical cover and life assurance. UK executive directors are entitled to a pension contribution equal to 10% of base salary, payable into a personal pension scheme. SF Lawrence receives a cash allowance, included as part of his salary, in lieu of benefits.

Annual cash incentives

Executive directors, depending on their specific role, can benefit from two cash incentive schemes, a sales commission scheme and a Group performance related incentive scheme.

Of the executive directors, only AP Marsden and DA Hunter were eligible for entry into the sales commission scheme, which seeks to award cash incentives to eligible executives across the Group in proportion to the level of business they generate for the Group, during the year.

The Group performance related incentive scheme is open to all staff and awards are subject to varying criteria depending on the role and responsibilities of the individual concerned and on Group profitability. SF Lawrence waived his entitlement.

Share incentives

The Group has two share option schemes and an Employee Benefit Trust which allows the Group to make awards to employees and executives on a regular basis. The intention of making awards is to reward performance, to more closely align the interests of employees and staff with the interests of shareholders, to assist in retention and motivation, and to promote wider share ownership.

Prior to making any awards a review is undertaken of the current internal shareholding base. Awards, as a matter of policy, are not made, and will not be made, to employees at any time who hold more than 2.5% of the Group's issued share capital, or who have held more than that number, at any time in the preceding five years. As is usual SF Lawrence was awarded a grant of options on joining.

Audited information

Directors' remuneration

	Salary/fees £ 000	Benefits in kind £ 000	Bonus £ 000	Pension £ 000	**Total 2003 £ 000**	Total 2002 £ 000
Executive directors						
SF Lawrence (note 1)	121	–	–	–	121	–
MJ Brassington	129	1	–	12	142	153
DA Hunter (note 2)	212	–	–	–	212	241
CW Mann (note 3)	57	2	–	–	59	217
AP Marsden	259	11	162	19	451	286
G Cléry-Melin (until 12/11/02)	222	49	–	–	271	456
Non-executive directors						
P Foy	75	–	–	–	75	75
HR Collum	28	–	–	–	28	20
EP James (note 2)	100	–	–	–	100	100
CW Mann (note 3)	18	–	–	–	18	–
AKP Smith	25	–	–	–	25	20
Sir Colin Southgate	28	–	–	–	28	20
Total	1,274	63	162	31	1,530	1,588
Former directors					138	22
Total					1,668	1,610

Note 1 – SF Lawrence joined the group on 12 November 2002. He receives a payment equal to 25% of base salary in lieu of receiving any pension contributions or other benefits. This amount is included as salary above.

Note 2 – DA Hunter and EP James are employed by Whitehead Mann Inc and are paid in US dollars. The exchange rate used was 1.55 USD/£.

Note 3 – CW Mann reached retirement age in July 2002. On 31 July 2002 he retired from executive office accepting appointment as a non-executive director.

Note 4 – Three of the non-executive directors invoice the Group for their fees.

Directors' share options

	Notes	No. of options at start of period	Issued during the period	Exercised during the period	Expired during the period	Cancelled during the period	No. of options at end of the period
G Cléry-Melin	1	50,000	–	–	–	–	50,000
	2	350,000	–	–	–	–	350,000
Sub total		400,000	–	–	–	–	400,000
MJ Brassington	2	50,000	–	–	–	–	50,000
SF Lawrence	3	–	190,475	–	–	–	190,475
P Foy	4	20,000	–	–	–	(20,000)	–
Total		470,000	190,475	–	–	(20,000)	640,475

None of the other directors hold any share options in the Group. None of the directors are currently entitled to any grants of shares from the Employee Benefit Trust.

Note 1 – Granted in June 2000. Exercise price 298p. Exercisable between June 2003 and June 2007.

Note 2 – Granted August 2000. Exercise price 320p. Exercisable between August 2003 and August 2007.

Note 3 – Granted on appointment. Exercise price 105p. Exercisable between November 2005 and November 2009.

Note 4 – Granted on appointment 2001. Exercise price 423p. Cancelled 30 October 2002.

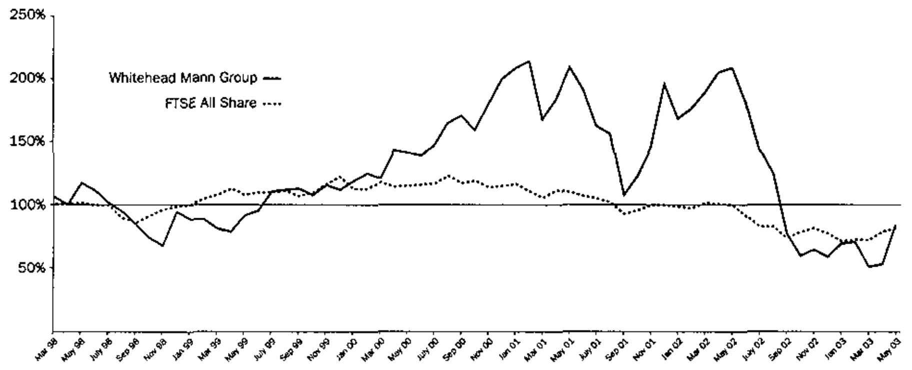
All options are subject to a performance criterion that require earnings per share to grow at RPI +3%.
The performance criterion are subject to amendment at the option of the Board.

Unaudited information

Share price

The share price at 31 March 2003 was 95p with a high of 412.5p and a low of 82.5p during the year.

Total shareholder return comparative graph



The graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Index, also measured by total shareholder return. The All Share Index is the most appropriate index for comparison purposes.

This report was approved by the Board on 9 June 2003.

Sir Colin Southgate

Independent auditors' report to the members of Whitehead Mann Group Plc

We have audited the financial statements of Whitehead Mann Group Plc for the year ended 31 March 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of 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, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. 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 circumstances of the Company and 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 financial statements and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the loss of the Group for the year then ended and the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
London
9 June 2003

Consolidated profit and loss account for the year ended 31 March 2003

	Notes	2003 Ordinary activities £000	2003 Exceptional items (note 6) £000	**2003 Total £000**	2002 Total £000
Turnover					
Continuing operations		61,541	–	61,541	60,509
Discontinued operations		2,747	–	2,747	1,863
Acquisitions		715	–	715	2,197
	2	65,003	–	65,003	64,569
Staff costs	3/6	(31,652)	(6,709)	(38,361)	(34,843)
Operating charges	6	(23,625)	(5,001)	(28,626)	(19,743)
Depreciation	9	(1,864)	–	(1,864)	(1,661)
Goodwill charges	6/8	(2,249)	(13,375)	(15,624)	(1,969)
Operating profit/(loss) – continuing operations	5	5,613	(25,085)	(19,472)	6,353
Interest receivable		55	–	55	211
Interest payable and similar charges		(1,013)	–	(1,013)	(310)
Profit/(loss) on ordinary activities before taxation		4,655	(25,085)	(20,430)	6,254
Tax (charge)/credit on profit/(loss) on ordinary activities	7	(2,935)	1,551	(1,384)	(2,793)
Profit/(loss) on ordinary activities after taxation		1,720	(23,534)	(21,814)	3,461
Equity minority interest				(249)	249
(Loss)/profit for the financial year				(22,063)	3,710
Dividends paid and proposed			18	(1,784)	(3,233)
Retained (loss)/profit for the financial year			19	(23,847)	477
Reserves balance at 1 April			19	8,167	7,739
Currency translation differences on foreign currency investments			19	(265)	(49)
Transfer from merger reserve			19	18,596	–
Reserves balance at 31 March			19	2,651	8,167
Basic (loss)/earnings per share			20	(87.15)p	16.08p
Earnings per share before goodwill charges and exceptional items			20	14.69p	34.34p
Diluted (loss)/earnings per share			20	(87.15)p	15.25p

Consolidated statement of total recognised gains and losses		**2003 £000**	2002 £000
(Loss)/profit for the financial year		(22,063)	3,710
Currency translation differences on foreign currency investments	19	(265)	(49)
		(22,328)	3,661

Consolidated and company balance sheets as at 31 March 2003

	Notes	**Consolidated 2003 £000**	Consolidated 2002 £000	**Company 2003 £000**	Company 2002 £000
Fixed assets					
Goodwill	8	25,455	40,481	–	–
Tangible assets	9	6,300	8,541	–	–
Investments	10	1,192	1,192	22,342	21,261
		32,947	50,214	22,342	21,261
Current assets					
Debtors	11	13,258	18,264	992	992
Cash at bank and in hand		3,490	1,971	–	–
		16,748	20,235	992	992
Creditors: amounts falling due within one year	12	(22,225)	(22,371)	(2,467)	(5,832)
Net current liabilities		(5,477)	(2,136)	(1,475)	(4,840)
Total assets less current liabilities		27,470	48,078	20,867	16,421
Creditors: amounts falling due after more than one year	13	(7,015)	(7,904)	(4,503)	(11,479)
Provisions for liabilities and charges	14	(3,905)	(507)	(317)	–
Net assets		16,550	39,667	16,047	4,942
Capital and reserves					
Called up share capital	17	1,314	1,283	1,314	1,283
Shares to be issued	19	17	33	17	33
Share premium account	19	4,079	4,018	4,079	4,018
Merger reserve	19	8,489	26,415	–	–
Profit and loss account	19	2,651	8,167	10,637	(392)
Equity shareholders' funds	24	16,550	39,916	16,047	4,942
Equity minority interests		–	(249)	–	–
Total capital employed		16,550	39,667	16,047	4,942

The financial statements were approved by the Board on 9 June 2003 and signed on its behalf by

SF Lawrence
Chief Executive Officer

MJ Brassington
Finance Director

Consolidated cash flow statement for the year ended 31 March 2003

	Notes	**2003 £000**	**2003 £000**	2002 £000	2002 £000
Net cash inflow from operating activities	22		7,148		2,230
Returns on investments and servicing of finance					
Interest received		55		211	
Interest paid		(941)		(310)	
Net cash outflow from returns on investments and servicing of finance			(886)		(99)
Taxation			(1,996)		(838)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(932)		(4,248)	
Sale of tangible fixed assets		35		55	
Net cash outflow from capital expenditure and financial investment			(897)		(4,193)
Net cash inflow/(outflow) before acquisitions and disposals, dividends and financing			3,369		(2,900)
Acquisitions and disposals					
Purchase of subsidiary undertakings		(3,872)		(3,664)	
Cash acquired with subsidiary undertakings	26	149		1,827	
Disposal of businesses		2,538		-	
Net cash outflow from acquisitions and disposals			(1,185)		(1,837)
Equity dividends paid			(3,153)		(2,882)
Cash outflow before management of liquid resources and financing			(969)		(7,619)
Financing					
Issue of ordinary share capital			76		74
New bank loan			996		6,417
Increase/(decrease) in cash in the period	23		103		(1,128)

Notes to the financial statements for the year ended 31 March 2003

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a Accounting convention

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

b Basis of consolidation

These financial statements consolidate the financial statements of the Company and its subsidiary undertakings for the year ended 31 March 2003.

Entities acquired during the year have been consolidated using the acquisition method of accounting from the date on which control passed.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account has not been presented for the Company. Profit of £12,813,000 (2002: £1,081,000) from the total consolidated loss 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. Income derived from executive coaching assignments is deferred and released to turnover in equal instalments over the life of the project. All other income is recognised when invoiced during the course of an assignment.

d Tangible fixed assets and depreciation

Fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. 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	– 15–25% p.a.
Motor vehicles	– 20% p.a.
Office equipment	– 25% p.a.

The Group's policy is to write down to nil the carrying value of leasehold improvements in respect of properties that it considers surplus to requirements when the decision to dispose of the property has been taken.

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. Differences between contributions payable in the year and the contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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 lease cost 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 and in respect of vacant properties, an estimate of the likely future cost, based on current market estimates.

g Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered, using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. The taxation liabilities of certain Group companies are reduced wholly or in part by the surrender of losses by fellow Group companies. Payment for tax losses is settled through intercompany accounts.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date. Deferred tax arises 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 gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable, and therefore recognised, only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes to the financial statements continued

g **Taxation continued**

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

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. The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising from translation of the opening net assets and the results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in 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 impairment 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.

j **Goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is between five and twenty years. Provision is made for any impairment.

k **Investments**

Except as stated below, fixed asset investments are shown at cost less provision for impairment. The Company has taken advantage of S.133 Companies Act 1985 in accounting for shares issued on acquisition.
On consolidation the premium on shares issued is recognised as part of the fair value of the consideration given and has been credited to the merger reserve.

Notes to the financial statements continued

2 Turnover

Analysis of turnover by origin

	2003 £000	2002 £000
United Kingdom	51,203	53,097
North America	8,753	8,072
Rest of World	5,047	3,400
Total	65,003	64,569

The analysis presented above includes amounts in respect of operations acquired during the year. An analysis of turnover by destination is not materially different from the analysis of turnover by origin and so has not been presented separately.

Analysis of turnover by type

Executive recruitment	53,933	53,853
Executive evaluation, development and coaching	11,070	10,716
Total	65,003	64,569

The directors have decided not to disclose profit before tax and net assets, by origin or by type, as they consider the disclosure of this information to be prejudicial to the interests of the Group.

3 Employees

Number of employees	2003 Number	2002 Number
The average monthly number of employees, including executive directors, split by function during the year was:		
Client facing staff	285	317
Support staff	72	74
Total	357	391

At 31 March 2003 the Group employed 235 client facing staff (2002: 325) and 60 support staff (2002: 82).

Employment costs	£000	£000
Wages and salaries	26,971	27,198
Social security costs	3,046	3,611
Other pension costs	1,635	1,634
Sub total	31,652	32,443
Redundancy and related people costs (note 6)	6,709	2,400
Total	38,361	34,843

At the year end accrued pension contributions were £136,000 (2002: £135,000). Information regarding directors is provided in the Remuneration Committee Report.

Notes to the financial statements continued

4 Share options

Details of directors' share options are given in the Remuneration Committee report. The table set out below details all outstanding options. The closing share price on 31 March 2003 was 95p with a high of 412.5p and a low of 82.5p during the year.

Date of grant	Exercise price	First date of exercise	Last date of exercise	Exercised during the year	Number of options cancelled during year	Number of options outstanding as at 31 March 2003
1997	136p	March 2000	March 2007	–	–	61,500
1999	205p	June 2002	June 2009	30,000	–	110,000
2000	298p – 360p	June 2003	Nov 2010	–	74,602	944,423
2001	423p – 458p	Jan 2004	March 2011	–	124,750	364,500
2002	105p – 392p	June 2005	Nov 2012	–	55,700	1,170,535
2003	122p	Jan 2006	Jan 2013	–	–	15,000
Total				30,000	255,052	2,665,958

National Insurance has been provided on the gain on unapproved options to 31 March 2003.

5 Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	2003 £000	2002 £000
Auditors' remuneration for audit services	54	55
Property lease rentals	6,589	5,970
Loss on disposal of tangible fixed assets – ordinary items	14	10
Loss on disposal of tangible fixed assets – exceptional items	854	-
Net foreign exchange losses	212	49

Auditors' remuneration for other services, principally tax services, was £91,000 (2002: £128,000).

An analysis of operating profit detailing continuing activities and acquisitions has not been given as the acquired and existing entities were merged on completion and are therefore no longer separately identifiable.

Discontinued operations did not have a material impact on the operating profit/(loss) for the year and therefore all activities have been classified as continuing.

Notes to the financial statements continued

6 Exceptional costs

	2003 £000	2002 £000
Redundancy and related people costs	6,709	2,400
Profit on the sale of Baines Gwinner Training & Careers	(75)	–
Provisions for vacant property and related asset writedowns	5,076	800
Diminution in carrying value of goodwill	13,375	–
Total exceptional costs	25,085	3,200

On 27 September 2002 the Group disposed of the Baines Gwinner Training & Careers businesses for a consideration of £2,700,000 in cash. The businesses were acquired as part of the acquisition of Baines Gwinner Holdings Limited in November 2001 and, being surplus to the Group's requirements, were sold to management.

During the year the Group undertook significant cost reduction programmes which resulted in over 90 people leaving the business at a cost of £6,709,000 (2002: £2,400,000). As part of the same cost reduction programmes the Group has vacated five of its leasehold premises and is in the process of vacating a further two premises. All these properties are being actively marketed and two have now been let. The exceptional charge represents the costs incurred since the premises were vacated and a provision equal to at least one year's future rental cost where the relevant property remains vacant.

In accordance with best practice, the Group undertook a formal review of the carrying value of goodwill arising on the acquisition of subsidiary undertakings. This resulted in the recognition of an exceptional charge in respect of the diminution in value of goodwill of £13,375,000 (2002: £nil). The tax effect of exceptional items is disclosed in note 7.

Notes to the financial statements continued

7 Tax on profit/(loss) on ordinary and exceptional activities

(a) The tax charge comprises:

	2003 £000	2002 £000
Current tax		
UK corporation tax on (losses)/profits for the year	868	3,518
Adjustments in respect of previous years	(86)	(30)
Total current tax	782	3,488
Deferred tax		
Origination and reversal of timing differences:		
Current year	502	(656)
Adjustment for previous years	100	(39)
Total deferred tax	602	(695)
Tax on profit/(loss) on ordinary activities	1,384	2,793
Tax relief on exceptional items (note 6)	1,551	957
Tax on ordinary activities before exceptional items	2,935	3,750

(b) 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 (30%). The difference is explained below.

	2003 £000	2002 £000
(Loss)/profit on ordinary activities before tax	(20,430)	6,254
Corporation tax standard rate	30.0%	30.0%
(Loss)/profit on ordinary activities taxed at the standard rate of corporation tax in the UK	(6,129)	1,876
Effects of:		
Goodwill amortisation	4,687	590
Expenditure not deductible for tax purposes	399	33
Depreciation for period in excess of capital allowances	328	91
Tax losses carried forward overseas	1,226	898
Gain on sale of Baines Gwinner Training & Careers	357	–
Overprovision for prior periods	(86)	–
Current tax charge for the year	782	3,488

Notes to the financial statements continued

8 Goodwill

Group	2003 £000	2002 £000
Cost		
1 April	43,521	34,488
Additions	1,833	9,033
Disposals	(1,300)	–
31 March	44,054	43,521
Amortisation		
1 April	3,040	1,071
Charge for the year	2,249	1,969
Disposals	(65)	–
Provision for diminution in value	13,375	–
31 March	18,599	3,040
Net book value		
31 March	25,455	40,481

An impairment review was conducted as at 31 March 2003. This review assessed the value of goodwill based upon estimates of future revenue streams from the relevant income generating units, discounted at a weighted average cost of capital of 12.4%. The resulting provision for diminution in value was required to reduce book values to realisable amounts.

Notes to the financial statements continued

9 Tangible fixed assets

Group	Leasehold property improvements £000	Fixtures and fittings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost					
1 April 2002	5,510	2,829	3,408	302	12,049
Change in value due to currency translations	(181)	(60)	(46)	10	(277)
Additions	309	173	429	–	911
Disposals	(1,019)	(1,047)	(984)	(129)	(3,179)
31 March 2003	4,619	1,895	2,807	183	9,504
Depreciation					
1 April 2002	607	1,047	1,691	163	3,508
Change in value due to currency translations	(6)	(18)	(31)	5	(50)
Charge for the year	501	447	868	48	1,864
Disposals	(170)	(951)	(903)	(94)	(2,118)
31 March 2003	932	525	1,625	122	3,204
Net book value					
31 March 2003	3,687	1,370	1,182	61	6,300
31 March 2002	4,903	1,782	1,717	139	8,541

The Group had unprovided capital commitments of £nil (2002: £200,000) at the year end.

Notes to the financial statements continued

10 Investments

Group	2003 £000	2002 £000
Investment – own shares (i)	1,192	1,192
Total	1,192	1,192
Company		
Investment – own shares (i)	1,192	1,192
Whitehead Mann Limited (100% ordinary holding) (ii)	56	56
GKR Group Limited (100% ordinary holding) (iii)	9,016	9,016
Whitehead Mann Inc (100% ordinary holding) (iv)	3,582	2,697
The Change Partnership Limited (100% ordinary holding) (v)	4,440	4,417
Baines Gwinner Holdings Limited (100% ordinary holding) (vi)	4,015	3,793
Other	41	90
Total	22,342	21,261

(i) The investment in own shares relates to the Employee Benefit Trust, which at 31 March 2003, held 590,209 (2002: 590,209) 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 2003 was £560,698 (2002: £2,330,120). The nominal value of these shares was £29,510 (2002: £29,510). As at 2 June 2003 the market value of shares was £905,971.

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. £40,384 (2002: £60,640) 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 Employee Benefit Trust repaid its bank loan during the year (2002: £200,000).

The net assets of the Employee Benefit Trust which are included in the accounts are:	2003 £000	2002 £000
Whitehead Mann Group Plc shares at cost	1,192	1,192
Bank and intercompany loans	(1,192)	(1,168)
Net assets	–	24

(ii) Whitehead Mann Limited is registered in England and Wales. Its principal activity is the provision of consultancy services concerned with Executive Recruitment, Executive Evaluation and Executive Development & Coaching.

(iii) GKR Group Limited was acquired on 30 June 2000 and is registered in England and Wales. The trade was transferred to Whitehead Mann Limited on 30 June 2000 and since that time the company has not traded.

(iv) Whitehead Mann Inc is registered in Delaware, USA. It was formed in conjunction with the acquisition of Pendleton James & Associates, Inc with which it was merged on completion in August 2000. Summit Leadership Solutions Corp was acquired during the year (note 26) and was merged with Whitehead Mann Inc. The principal activity of Whitehead Mann Inc is the same as Whitehead Mann Limited.

(v) The Change Partnership Limited was acquired in February 2001. Since that time the trade has been transferred to Whitehead Mann Limited and the company has not traded.

(vi) Baines Gwinner Holdings Limited is registered in England and Wales and was acquired in November 2001. Since that time the trade has been transferred to Whitehead Mann Limited and the company has not traded.

Notes to the financial statements continued

11 Debtors

		Group		Company
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Trade debtors	10,797	14,626	–	–
Amounts owed by subsidiary undertakings	–	–	992	992
Other debtors	542	922	–	–
Prepayments and accrued income	1,694	1,874	–	–
Deferred tax (note 15)	225	842	–	–
Total	13,258	18,264	992	992

Included within other debtors is £109,000 (2002: £116,000) due in more than one year.

12 Creditors: amounts falling due within one year

		Group		Company
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Bank loan and overdraft	5,387	1,600	–	200
Trade creditors	1,273	2,615	–	–
Corporation tax	4,022	5,312	283	–
Other taxation and social security	2,551	2,727	–	–
Other creditors	3,836	864	–	122
Accruals and deferred income	3,142	2,403	170	65
Deferred consideration	1,373	4,840	1,373	3,435
Proposed dividend	641	2,010	641	2,010
Total	22,225	22,371	2,467	5,832

The other creditor comparative has been adjusted by £507,000, now included in note 14.

13 Creditors: amounts falling due after more than one year

		Group		Company
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Bank loan	5,813	5,017	–	–
Deferred consideration	941	2,697	941	2,697
Amounts due to subsidiary undertaking	–	–	3,562	8,782
Other creditors	261	190	–	–
Total	7,015	7,904	4,503	11,479

Deferred consideration in notes 12 and 13 relates to further amounts payable in respect of acquisitions and has been provided in full. £338,000 (2002: £2,374,000) of these amounts is guaranteed by cash, which is held in a separate bank account not immediately accessible by the rest of the Group.

Total bank loan and total deferred consideration in note 13 are due to be repaid between two and five years. The Group has granted a floating charge over its assets to secure its bank overdraft and loans. The bank loan is at libor plus 1.5%.

Notes to the financial statements continued

14 Provisions for liabilities and charges

	2003 Rent provisions £000	2003 Contingent consideration £000	**2003 Total £000**	2002 Rent provisions and total £000
As at 1 April	507	–	507	–
Profit and loss account charge	3,588	–	3,588	507
Utilisation of provision	(507)	–	(507)	–
Acquisition of business	–	317	317	–
As at 31 March	3,588	317	3,905	507

Provision has been made for the rental costs of properties vacant at the balance sheet date, in addition to any shortfall between rental outgoings and receipts in respect of sublet properties. Company provisions are shown in the contingent consideration column above (2002: £nil).

15 Deferred taxation (included in note 11)

Group	**2003 £000**	2002 £000
Depreciation in excess of capital allowances	148	20
Other timing differences	77	166
Losses carried forward	–	656
Total	225	842

A deferred tax asset has not been recognised in respect of taxation losses arising in overseas subsidiaries as the Group does not anticipate taxable profits to arise in the immediate future. The estimated value of the losses not recognised is £5,600,000 (2002: £1,500,000).

The movement in the deferred tax balance arises from a current year charge of £502,000, an adjustment in respect of previous years of £100,000 and a foreign exchange movement of £15,000.

16 Derivatives and other financial instruments

Page 17 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 except for in the currency profile. The fair value of the Group's financial assets and liabilities is not materially different to the book value.

The Group's financial assets at 31 March 2003 comprise sterling, Euro, Hong Kong dollar and US dollar current accounts. £758,000 of the current account was denominated in Euros at 31 March 2003 (2002: £121,000). £2,383,000 of the Group's cash was denominated in US dollars at 31 March 2003 (2002: £683,000) and £10,000 denominated in Hong Kong dollars (2002: £14,000). £2,451,000 (2002: £4,221,000) of the Group's cash balance was held on account at a rate of 1% and £nil (2002: £354,000) at a rate of 2%. The balance of cash is held in sterling current accounts.

Notes to the financial statements continued

17 Share capital

	2003 £000	2002 £000
Authorised		
34,200,000 5p ordinary shares	1,710	–
26,500,000 5p ordinary shares	–	1,325
Allotted called up and fully paid		
26,289,376 5p ordinary shares	1,314	–
25,666,043 5p ordinary shares	–	1,283

593,333 (2002: 3,133,334) ordinary shares were allotted during the year in connection with acquisitions.
30,000 (2002: 60,000) shares were allotted to meet exercised share options.

18 Dividends

	2003 £000	2002 £000
Interim dividend – 4.5p per share (2002: 5.6p per share)	1,143	1,223
Final dividend – 2.5p per share (2002: 8.0p per share)	641	2,010
	1,784	3,233

The interim dividend per share of 4.5p (2002: 5.6p) and the final dividend per share of 2.5p (2002: 8.0p) are based on a dividend of £1,143,000 and a proposed dividend of £641,000 respectively and the 25,699,000 (interim – 25,361,000) 5p ordinary shares in issue and ranking for dividend (excluding shares held by the Whitehead Mann Group Plc Employee Benefit Trust which has waived its right to dividends).

Notes to the financial statements continued

19 Reserves

Group

	Share capital £000	Shares to be issued £000	Share premium account £000	Merger reserve £000	Profit and loss reserve £000	Total £000
Balance at 1 April 2002	1,283	33	4,018	26,415	8,167	39,916
Change due to currency fluctuations	–	–	–	–	(265)	(265)
Transfer between reserves	–	–	–	(18,596)	18,596	–
Retained loss for the year	–	–	–	–	(23,847)	(23,847)
Shares issued	31	(16)	61	670	–	746
Balance at 31 March 2003	1,314	17	4,079	8,489	2,651	16,550

The merger reserve, which arose on the acquisition of subsidiary undertakings, is transferred to the profit and loss reserve as the associated goodwill is amortised.

Company

	Share capital £000	Shares to be issued £000	Share premium account £000	Profit and loss reserve £000	Total £000
Balance at 1 April 2002	1,283	33	4,018	(392)	4,942
Retained profit for the year	–	–	–	11,029	11,029
Shares issued	31	(16)	61	–	76
Balance at 31 March 2003	1,314	17	4,079	10,637	16,047

20 Earnings per share

	2003	2002
Basic (loss)/earnings per share	(87.15)p	16.08p
Earnings per share before goodwill amortisation and exceptional charges	14.69p	34.34p
Diluted (loss)/earnings per share	(87.15)p	15.25p

The calculation of basic loss per share of (87.15)p (2002: profit 16.08p) is based on a loss for the year of £22,063,000 (2002: profit £3,710,000) and on 25,317,038 shares (2002: 23,070,110) 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).

Earnings per share before goodwill charges and exceptional items is based on a profit for the year of £3,720,000 (2002: £7,922,000) after adding back amortisation of £15,624,000 (2002: £1,969,000) and exceptional costs after taxation of £10,159,000 (2002: £2,243,000) and 25,317,038 (2002: 23,070,110) shares, being the weighted average number of shares in issue during the year. The directors consider this figure to be helpful to gaining a better understanding of the underlying business.

Diluted earnings per share for 2002 is based on a profit for the year of £3,710,000 and on 24,323,200 shares.

Notes to the financial statements continued

21 Financial commitments

	2003 £000	2002 £000
The Group is committed to paying the following annual amounts under operating leases on properties expiring:		
In less than one year	115	178
In two to five years	1,573	1,429
In more than five years	5,560	5,251
Total	7,248	6,858

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

	2003 £000	2002 £000
Operating (loss)/profit	(19,472)	6,353
Depreciation	1,864	1,661
Goodwill charges	15,624	1,969
Decrease in debtors	3,248	4,021
Increase/(decrease) in creditors	2,010	(11,845)
Loss on disposal of fixed assets	868	10
Movement on investments	–	61
Movement on provisions	3,081	–
Profit on sale of businesses	(75)	–
Net cash inflow from operating activities	7,148	2,230

23 Analysis and reconciliation of net funds/(debt)

2003	Cash at bank and in hand £000	Overdraft £000	Sub total £000	Bank loan £000	Total net funds/(debt) £000
At 1 April 2002	1,154	(3,757)	(2,603)	(6,617)	(9,220)
Cash flow	(67)	170	103	(996)	(893)
Exchange movement	(49)	–	(49)	–	(49)
At 31 March 2003	1,038	(3,587)	(2,549)	(7,613)	(10,162)

The cash flow excludes amounts in respect of restricted cash of £338,000 which is held to guarantee loan note repayments due on an acquisition (2002: £2,374,000). The decrease in this balance in the year was due to repayments of these loan notes. The remaining balance of restricted cash at 31 March 2003 was £2,114,000 (2002: £2,200,000) and is held in foreign currencies to guarantee rental payments overseas. The movement on this balance is due to foreign exchange movements.

Exceptional costs gave rise to a cash outflow in the year of £7,120,000 (2002: £2,900,000).

Notes to the financial statements continued

24 Reconciliation of movement in equity shareholders' funds

2003	Group £000	Company £000
(Loss)/profit for the financial year	(22,063)	12,813
Other recognised gains and losses relating to the year (net)	(265)	-
	(22,328)	12,813
Dividends paid and proposed	(1,784)	(1,784)
New shares issued	746	76
Net (decrease)/increase in equity shareholders' (deficit)/funds	(23,366)	11,105
Opening equity shareholders' funds	39,916	4,942
Closing equity shareholders' funds	16,550	16,047

25 Related party transactions

During the year ended 31 March 2003 the Group paid MWM Consulting Limited £1,457,000 (2002: £nil). £216,000 was due to MWM Consulting Limited as at the balance sheet date (2002: £nil). CW Mann is a director of MWM Consulting Limited.

26 Acquisition of subsidiary undertakings

The following tables set out the book values of the identifiable assets and liabilities acquired and their fair value to the Group.

Summit Leadership Solutions Corp – acquired 15 August 2002	Book value £000	Fair value adjustments £000	Fair value to Group £000
Tangible fixed assets	11	(11)	-
Debtors	8	(8)	-
Cash	149	-	149
Creditors due within one year	(149)	-	(149)
Net assets	19	(19)	-
Goodwill			1,577
Total			1,577

Satisfied by

	£000
Shares issued – 260,000 at 262.5p	683
Deferred cash consideration	806
Acquisition costs	88
Total	1,577

On acquiring Summit, the principal activities of the business were merged with those of Whitehead Mann Inc. As such it is not possible to disclose separately the contribution of Summit to these results. In the seven months to 31 July 2002, Summit reported unaudited turnover of £715,000 and a profit after taxation of £100,000. The fair value adjustment relates entirely to the revaluation of book values.

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