

Registration number: 3880081

BRIDGEPOINT CAPITAL GROUP LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2004



Report of the directors

The directors present their annual report together with the audited consolidated financial statements of the Company and Group for the year ended 31 December 2004.

Principal activity and review of business

The principal activity of the Company is that of an investment holding company.

Results and dividends

The results for the year are shown on page 4. During the year an interim dividend of £0.40 per Ordinary share was paid (2003: £3.25 per share).

Directors

The directors who held office during the financial period were as follows:

M J Harford
W N Jackson
D R Shaw

Directors' interests

The interests, all beneficial, of those who were directors at 31 December 2004 in the Ordinary Shares of Bridgepoint Capital Group Limited were:

| | Original ordinary shares of 1p each | | Series II ordinary shares of 1p each | |
|-------------|--|------------------------------|---|------------------------------|
| | As at 1 January 2004 | As at 31 December 2004 | As at 1 January 2004 | As at 31 December 2004 |
| M J Harford | - | - | - | 80,000 |
| W N Jackson | 150,000 | 150,000 | - | - |
| D R Shaw | 150,000 | 150,000 | - | - |

Certain of the Directors, as subscribers to, or having an interest in subscribers to, the general partners of the Funds and Partnerships managed by the Group, have an indirect interest in the management agreements between the Group and those Funds and Partnerships.

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

Report of the directors (continued)

Statement of directors' responsibilities (continued)

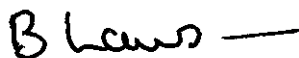
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditor

The company has passed an Elective Resolution to dispense with the annual appointment of its auditor; accordingly KPMG Audit Plc remain in office.

By Order of the Board



B Lawson
Secretary

14 April 2005

Independent auditors' report

TO THE MEMBERS OF BRIDGEPOINT CAPITAL GROUP LIMITED

We have audited the financial statements on pages 4 to 18.

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

The directors are responsible for preparing the directors' report and, as described on pages 1 and 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as the independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

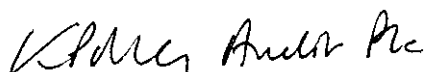
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and Group as at 31 December 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

14 April 2005

Consolidated profit and loss account

For the year ended 31 December 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|--|-------|-----------------|-----------------|
| Fees and commissions receivable | | 35,261 | 37,292 |
| Fees and commissions payable | | <u>(3,435)</u> | <u>(4,751)</u> |
| Gross profit | | 31,826 | 32,541 |
| Administrative expenses | | <u>(26,134)</u> | <u>(21,449)</u> |
| Operating profit | 2 | 5,692 | 11,092 |
| Interest receivable | | <u>666</u> | <u>745</u> |
| Profit on ordinary activities before taxation | | 6,358 | 11,837 |
| Tax on profit on ordinary activities | 5 | <u>200</u> | <u>(3,560)</u> |
| Profit on ordinary activities after taxation | | 6,558 | 8,277 |
| Dividends | | <u>(1,147)</u> | <u>(7,504)</u> |
| Retained profit for the financial year | 13 | <u>5,411</u> | <u>773</u> |

The results above relate to continuing operations

Statement of total recognised gains and losses

For the year ended 31 December 2004

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Profit for the financial year | 6,558 | 8,277 |
| Foreign currency translation | <u>(26)</u> | <u>152</u> |
| Total gains and losses recognised since the last annual report | <u>6,532</u> | <u>8,429</u> |

The notes on pages 8 to 18 form part of these financial statements

Consolidated balance sheet

31 December 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|-------|-----------------|-----------------|
| Fixed assets | | | |
| Goodwill | 6 | 3,248 | 3,464 |
| Tangible assets | 7 | 425 | 325 |
| Investments | 8 | <u>17,556</u> | <u>12,511</u> |
| | | 21,229 | 16,300 |
| Current assets | | | |
| Debtors | 9 | 8,081 | 5,720 |
| Cash at bank and in hand | | <u>18,253</u> | <u>21,326</u> |
| | | 26,334 | 27,046 |
| Creditors: Amounts falling due within one year | 10 | <u>(25,609)</u> | <u>(24,175)</u> |
| Net current assets | | <u>725</u> | <u>2,871</u> |
| Total assets less current liabilities | | 21,954 | 19,171 |
| Provisions for liabilities and charges | 11 | <u>(4,795)</u> | <u>(5,454)</u> |
| Net assets | | <u>17,159</u> | <u>13,717</u> |
| Capital and reserves | | | |
| Called-up share capital | 12 | 37 | 30 |
| Own shares held by ESOT | 13 | (9,187) | (7,237) |
| Other reserves | 13 | 841 | 867 |
| Profit and loss account | 13 | <u>25,468</u> | <u>20,057</u> |
| Equity Shareholders' Funds | 13 | <u>17,159</u> | <u>13,717</u> |

The financial statements on pages 4 to 18 were approved by the Board of Directors on 14 April 2005 and signed on its behalf by:

W N Jackson —

W. N. Jackson
Director

14 April 2005

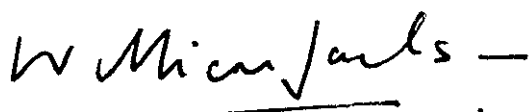
The notes on pages 8 to 18 form part of these financial statements

Balance Sheet

31 December 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|-------|-----------------|-----------------|
| Fixed assets | | | |
| Investments | 8 | <u>24,757</u> | <u>19,712</u> |
| Current assets | | | |
| Debtors - due within one year | 9 | 5,679 | 22,760 |
| Cash at bank and in hand | | <u>248</u> | <u>1,335</u> |
| | | 5,927 | 24,095 |
| Creditors: Amounts falling due within one year | 10 | <u>(19,349)</u> | <u>(34,700)</u> |
| Net current liabilities | | <u>(13,422)</u> | <u>(10,605)</u> |
| Total assets less current liabilities | | 11,335 | 9,107 |
| Net assets | | <u>11,335</u> | <u>9,107</u> |
| Capital and reserves | | | |
| Called-up share capital | 12 | 37 | 30 |
| Own shares held by ESOT | 13 | (9,187) | (7,237) |
| Profit and loss account | 13 | <u>20,485</u> | <u>16,314</u> |
| Equity Shareholders' Funds | 13 | <u>11,335</u> | <u>9,107</u> |

The financial statements on pages 4 to 18 were approved by the Board of Directors on 14 April 2005 and signed on its behalf by:



W. N. Jackson
Director

14 April 2005

The notes on pages 8 to 18 form part of these financial statements

Consolidated cash flow statement

For the year ended 31 December 2004

| | Notes | 2004 | | 2003 | |
|---|-------|--------------|----------------|--------------|----------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Net cash inflow from operating activities | 14a | | <u>5,930</u> | | <u>18,478</u> |
| Returns on investments and servicing of finance | | | | | |
| Interest received | | <u>666</u> | | <u>684</u> | |
| Net cash inflow from returns on investments and servicing of finance | | | 666 | | 684 |
| Taxation | | | | | |
| UK Corporation tax paid | | (920) | | (530) | |
| Overseas tax paid | | <u>(334)</u> | | <u>(252)</u> | |
| Net cash outflow from taxation | | | (1,254) | | (782) |
| Capital expenditure and financial investment | | | | | |
| Purchase of tangible fixed assets | | (280) | | (68) | |
| Purchase of own shares | | (1,950) | | (6,240) | |
| Purchase of fixed asset investments | | (5,046) | | (6,567) | |
| Sale of fixed asset investments | | <u>1</u> | | <u>8</u> | |
| Net cash outflow from capital expenditure and financial investment | | | (7,275) | | (12,867) |
| Dividends paid | | | (1,147) | | (8,076) |
| Net cash outflow before financing | | | <u>(3,080)</u> | | <u>(2,563)</u> |
| Financing | | | | | |
| Shares issued | | <u>7</u> | | <u>-</u> | |
| Net cash inflow from financing | | | <u>7</u> | | <u>-</u> |
| Decrease in cash in the year | 14b | | <u>(3,073)</u> | | <u>(2,563)</u> |

The notes on pages 8 to 18 form part of these financial statements

Notes to financial statements

For the year ended 31 December 2004

1. Accounting policies

A summary of the principal accounting policies all of which have been applied consistently throughout the year and the preceding year is set out below.

a) Accounting convention

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

b) Basis of consolidation

The group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings.

Purchased goodwill arising on consolidation in respect of the acquisition of investments has been capitalised and is amortised on a straight line basis over its estimated useful life of twenty years.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

No profit or loss account is presented for the parent company as permitted by section 230 of the Companies Act 1985. The company's profit for the financial year ending 31 December 2004, determined in accordance with the Act was £5,318,000 (2003 - £9,136,000).

c) Tangible fixed assets

Depreciation is provided on a straight line basis as follows:

| | |
|----------------------------------|---------------|
| Motor vehicles | 5 years |
| Computers and other IT equipment | Up to 3 years |
| Other plant and equipment | 5 to 10 years |

d) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated to sterling at rates current at the year end. The results of overseas subsidiary undertakings are translated at the closing rate of exchange for the year. Exchange differences arising from translation of opening net assets of overseas subsidiary undertakings are taken to reserves. All other exchange differences are included in operating profit.

e) Taxation

Corporation tax is provided on taxable profits at the current rate.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the group anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying difference. Deferred tax balances are not discounted.

f) Pensions

Amounts payable in respect of employer's pension contributions to the company's defined contribution pensions scheme are recognised in Administrative Expenses as they become payable.

Notes to financial statements (continued)

1. Accounting policies (continued)

g) *Placement Agents Fees*

Placement agents fees incurred during the raising of a fund are charged to the profit and loss account on a straight line basis over 2 years from final closing. Amounts paid in advance of the profit and loss charge are included in prepayments.

h) *Employee Share Ownership Trust*

The company is deemed to have control of the assets, liabilities, income and costs of its Employee Share Ownership Trust (ESOT). In accordance with UITF 38 which was adopted during the year, own shares held have been deducted from shareholders' funds on the consolidated and company balance sheets.

Any borrowings of the ESOT, which have been guaranteed by the Company, are included in borrowings with the net financing costs of the ESOT being shown as finance charges in the profit and loss account.

(i) *Operating Lease Rentals*

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

2. Operating profit

Profit on ordinary activities before taxation is stated after charging:

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Amortisation and amounts written off goodwill | 216 | 216 |
| Depreciation and amounts written off tangible fixed assets | 162 | 196 |
| Operating lease rentals | | |
| plant and machinery | 32 | 32 |
| other | 943 | 943 |
| Auditors' remuneration | | |
| - Group | 150 | 107 |
| - Company | 15 | 13 |
| Other fees paid to auditors | - | 11 |

3. Staff costs

The average number of persons, including directors, employed by the Group during the period was as follows:

| | 2004 Number | 2003 Number |
|---|----------------|----------------|
| Directors | 3 | 3 |
| Executives (including Directors of subsidiary undertakings) | 54 | 52 |
| Administrative staff | 42 | 46 |
| | <u>99</u> | <u>101</u> |

Notes to financial statements (continued)

3. Staff costs (continued)

Employee costs (including directors) for the year amounted to:

| | 2004 £'000 | 2003 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 7,331 | 7,052 |
| Staff bonuses | 7,658 | 4,707 |
| Social security costs | 2,076 | 1,710 |
| Pension costs | 817 | 871 |
| Other staff costs | 404 | 330 |
| | <u>18,286</u> | <u>14,670</u> |

Directors' remuneration

Directors' remuneration was as follows:

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Directors' fees, salaries and other benefits | 433 | 448 |
| Performance related bonus | 525 | 448 |
| Payments under the company's long term incentive scheme | - | 1 |
| | <u>958</u> | <u>897</u> |
| Pension contributions | <u>30</u> | <u>58</u> |
| Total emoluments of highest paid director (including pension contributions) | <u>467</u> | <u>460</u> |

The emoluments paid to the Directors relate to services provided both to this company and subsidiary companies.

4. Pension contributions

The group operates a defined contributions pension scheme for its Directors and Employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The scheme is a non-contributory scheme but does permit employee contributions to a maximum of 15% of relevant earnings. The pension cost charge for the period has been shown as part of the staff costs in note 3.

The company operates a bonus sacrifice scheme. At 31 December 2004, pension contributions of £279,000 (2003 - £347,000) payable under this scheme, were included within other creditors in the balance sheet.

Notes to financial statements (continued)

5. Tax on profit on ordinary activities

| | 2004 | 2003 |
|---|---------|---------|
| | £'000 | £'000 |
| The tax (credit)/charge for the year comprises: | | |
| Corporation tax - UK | 52 | - |
| Corporation tax - Overseas | 407 | 86 |
| Total current tax | 459 | 86 |
| Deferred tax | (659) | 3,474 |
| | (200) | 3,560 |
| Profit on ordinary activities before taxation | 6,358 | 11,837 |
| Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2003 - 30%) | 1,907 | 3,551 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 335 | 386 |
| Income not charged to UK Corporation tax | (1,923) | (5,306) |
| Capital allowances for period in excess of depreciation | (22) | 28 |
| Other timing differences | 1,384 | (160) |
| Partnership allocation | 57 | - |
| Tax losses unutilised | - | 1,543 |
| Tax losses utilised | (1,444) | - |
| Overseas tax in excess of standard UK corporation tax rate | 165 | 44 |
| Current tax charge for period | 459 | 86 |

The Group has not recognised a deferred tax asset of £557,000 (2003 - £2,264,000) due to the inherent uncertainty regarding the timing of future taxable profits.

6. Goodwill

| | Group |
|---------------------------|-------|
| | £'000 |
| Cost | |
| Beginning and end of year | 4,329 |
| Amounts written off | |
| Beginning of year | 865 |
| Amortisation | 216 |
| End of year | 1,081 |
| Net book value | |
| At beginning of year | 3,464 |
| At end of year | 3,248 |

Notes to financial statements (continued)

7. Tangible fixed assets

The movement in the year was as follows:

| Group | Motor Vehicles £'000 | Computers and Other £'000 | Total £'000 |
|---------------------------|----------------------------|---------------------------------|----------------|
| Cost or valuation | | | |
| Beginning of year | 78 | 1,391 | 1,469 |
| Foreign exchange movement | (1) | 7 | 6 |
| Additions | 10 | 270 | 280 |
| Disposals | (42) | (336) | (378) |
| End of year | <u>45</u> | <u>1,332</u> | <u>1,377</u> |
| Depreciation | | | |
| Beginning of year | (58) | (1,086) | (1,144) |
| Foreign exchange movement | 1 | 12 | 13 |
| Charge | - | (162) | (162) |
| Disposals | 28 | 313 | 341 |
| End of year | <u>(29)</u> | <u>(923)</u> | <u>(952)</u> |
| Net book value | | | |
| Beginning of year | <u>20</u> | <u>305</u> | <u>325</u> |
| End of year | <u>16</u> | <u>409</u> | <u>425</u> |

8. Fixed assets investments

| Group | Other Investments £'000 | Total £'000 |
|-------------------|-------------------------------|----------------|
| Beginning of year | 12,511 | 12,511 |
| Additions | 5,046 | 5,046 |
| Disposals | (1) | (1) |
| End of year | <u>17,556</u> | <u>17,556</u> |

| Company | Subsidiary Undertakings £'000 | Other Investments £'000 | Total £'000 |
|-------------------|-------------------------------------|-------------------------------|----------------|
| Beginning of year | 7,204 | 12,508 | 19,712 |
| Additions | - | 5,046 | 5,046 |
| Disposals | - | (1) | (1) |
| End of year | <u>7,204</u> | <u>17,553</u> | <u>24,757</u> |

Notes to financial statements (continued)

8. Fixed assets investments (continued)

a) Other investments

The other investments primarily represent loans and preference shares made to Emerald Investments (Guernsey) Limited ("Emerald") and Bridgepoint Capital Delaware General Partner LP as part of the requirement of Bridgepoint Europe II.

The Group includes subsidiaries, listed below, that manage venture capital partnerships in which they have participating interests, albeit small, and for which they act as General Partner. These partnerships are subsidiary undertakings under the Companies Act 1985. As allowed by Section 227(6) of the Act, the directors have departed from the requirement to consolidate these subsidiary partnerships since the economic interest of the Group in these partnerships is, except to the extent that they are proportionally consolidated, merely that of investment manager. The directors are of the opinion that were these partnerships consolidated, the Group accounts would not show a true and fair view. The effect of this departure is to reduce net assets by £1,131m (2003 - £1,084m), minority interests by £1,131m (2003 - £1,084m) and profit before tax by £192m (2003 - £90m).

The interests of the Group in qualifying partnerships have been incorporated in the accounts of the Group by the equity method of proportional consolidation, thereby exempting it from the requirements of the Partnerships and Unlimited Companies Accounts (Regulations) 1993.

b) Subsidiary undertakings

The parent company has investments in the following subsidiary undertakings:

| Name | Country of Incorporation | Nature of business |
|--|--------------------------|---|
| Bridgepoint Capital (Holdings) * | England | Investment Holding Company |
| Bridgepoint Private Equity Growth Fund Limited * | England | General Partner to UK Limited Partnership |
| Bridgepoint Capital France SA | France | Venture Capital management company |
| Bridgepoint Capital SpA ** | Italy | Venture Capital advisory company |
| Bridgepoint Capital (GP) Limited | England | General Partner to Delaware Limited Partnership |
| Bridgepoint Capital GmbH | Germany | Venture Capital advisory company |
| Bridgepoint Capital Limited | England | Venture Capital management company |
| Bridgepoint Capital SA | Spain | Venture Capital advisory company |
| Bridgepoint Capital Scottish GP Limited | Scotland | General Partner to UK Limited Partnership |
| Bridgepoint Capital Scottish GP II Limited | Scotland | General Partner to UK Limited Partnership |
| Bridgepoint Private Equity Limited | England | Venture Capital management company |
| Bridgepoint Capital AB | Sweden | Venture Capital advisory company |
| PEPCO Services LLP | UK | Collective Purchasing Negotiator |

Except where noted, all the above companies are wholly owned and registered in the country of incorporation.

* These entities are owned directly.

** Bridgepoint Capital SpA is 10% owned by the Company and 90% by Bridgepoint Capital (Holdings)

Notes to financial statements (continued)

9. Debtors

| | Group | | Company | |
|---|--------------|--------------|--------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | £'000 | £'000 | £'000 | £'000 |
| <i>Amounts due within one year:</i> | | | | |
| Amounts owed by subsidiary undertakings | - | - | 5,500 | 19,774 |
| Group relief | - | - | - | 2,925 |
| UK Corporation tax receivable | 868 | - | - | - |
| Tax recoverable | 1,438 | 2,713 | - | - |
| Other debtors | 3,568 | 2,264 | 179 | 61 |
| Prepayments and accrued income | 2,207 | 743 | - | - |
| | <u>8,081</u> | <u>5,720</u> | <u>5,679</u> | <u>22,760</u> |

10. Creditors: Amounts falling due within one year

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts owed to subsidiary undertakings | - | - | 14,098 | 26,157 |
| Group relief | - | - | 86 | 3,126 |
| Overseas Corporation tax payable | 79 | 6 | - | - |
| Other creditors | 15,098 | 9,229 | 5,165 | 5,413 |
| Accruals and deferred income | 10,432 | 14,940 | - | 4 |
| | <u>25,609</u> | <u>24,175</u> | <u>19,349</u> | <u>34,700</u> |

Notes to financial statements (continued)

11. Provisions for liabilities and charges

| | Deferred Taxation 2004 £'000 |
|----------------------|---------------------------------------|
| At beginning of year | 5,454 |
| Charged in the year | (659) |
| At end of year | <u>4,795</u> |

12. Called-up share capital

| Company | 2004 Number | 2003 Number | 2004 £'000 | 2003 £'000 |
|--------------------------------------|------------------|------------------|---------------|---------------|
| <i>Authorised</i> | | | | |
| Original Ordinary shares of 1p each | 3,900,000 | 3,900,000 | 39 | 39 |
| Series II Ordinary shares of 1p each | <u>1,100,000</u> | <u>1,100,000</u> | <u>11</u> | <u>11</u> |
| | <u>5,000,000</u> | <u>5,000,000</u> | <u>50</u> | <u>50</u> |
| <i>Allotted, called-up and paid</i> | | | | |
| Original Ordinary Shares of 1p each | 2,957,750 | 2,957,750 | 30 | 30 |
| Series II Ordinary shares of 1p each | <u>709,750</u> | <u>-</u> | <u>7</u> | <u>-</u> |
| | <u>3,667,500</u> | <u>2,957,750</u> | <u>37</u> | <u>30</u> |

On 18 August 2003 the company renamed all the Ordinary shares as Original Ordinary shares. On the same date it created a class of Ordinary shares called Series II Ordinary shares. Both classes of ordinary shares rank pari passu in all respects. On 1 April 2004, 709,750 Series II ordinary shares were allotted at par for cash consideration

Notes to financial statements (continued)

13. Movement on shareholders' funds

| Group | Share Capital £'000 | Other Reserves £'000 | Own shares held by ESOT £'000 | Profit and Loss Account £'000 | Total Shareholders' Funds £'000 |
|--|---------------------------|----------------------------|--|--|--|
| At 1 January 2003 | 30 | 715 | (997) | 19,284 | 19,032 |
| Retained profit for the year | - | - | - | 8,277 | 8,277 |
| Movement in own shares | - | - | (6,240) | - | (6,240) |
| Dividends | - | - | - | (7,504) | (7,504) |
| Revaluation of overseas subsidiary undertakings | - | 152 | - | - | 152 |
| At 1 January 2004 | 30 | 867 | (7,237) | 20,057 | 13,717 |
| Retained profit for the year | - | - | - | 6,558 | 6,558 |
| Movement in own shares | - | - | (1,950) | - | (1,950) |
| Issue of Shares | 7 | - | - | - | 7 |
| Dividends | - | - | - | (1,147) | (1,147) |
| Revaluation of overseas subsidiary undertakings | - | (26) | - | - | (26) |
| At 31 December 2004 | 37 | 841 | (9,187) | 25,468 | 17,159 |

Company

| | | | | | |
|------------------------------|----|---|---------|---------|---------|
| At 1 January 2003 | 30 | - | (997) | 14,682 | 13,715 |
| Retained profit for the year | - | - | - | 9,136 | 9,136 |
| Movement in own shares | - | - | (6,240) | - | (6,240) |
| Dividends | - | - | - | (7,504) | (7,504) |
| At 1 January 2004 | 30 | - | (7,237) | 16,314 | 9,107 |
| Retained profit for the year | - | - | - | 5,318 | 5,318 |
| Movement in own shares | - | - | (1,950) | - | (1,950) |
| Issue of Shares | 7 | - | - | - | 7 |
| Dividends | - | - | - | (1,147) | (1,147) |
| At 31 December 2004 | 37 | - | (9,187) | 20,485 | 11,335 |

The Employee Share Ownership Trust ("ESOT") was established in 2002 in order to provide for the future obligations of the Company in respect of shares awarded under the scheme. At the year-end there were no allocations to any employees under the scheme. All dividends in respect of these shareholdings have been waived.

Notes to financial statements (continued)

14. Cash flow information

a) Reconciliation of operating profit to net inflow from operating activities

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Operating profit | 5,692 | 11,092 |
| Depreciation charges | 162 | 196 |
| Amortisation charges | 216 | 216 |
| Revaluation of overseas subsidiary undertakings | (45) | 129 |
| (Increase) decrease in debtors | (1,493) | 3,075 |
| Increase in creditors | 1,361 | 3,770 |
| Loss on sale of fixed assets | 37 | - |
| Net cash inflow from operating activities | 5,930 | 18,478 |

b) Analysis and reconciliation of net funds

| | 1 January 2004 £'000 | Cashflow £'000 | 31 December 2004 £'000 |
|------------------------------|----------------------------|-------------------|------------------------------|
| Cash at bank | 21,326 | (3,073) | 18,253 |
| | | 2004 £'000 | 2003 £'000 |
| Decrease in cash in the year | | (3,073) | (2,563) |
| Net funds at 1 January | | 21,326 | 23,889 |
| Net funds at 31 December | | 18,253 | 21,326 |

15 Operating Lease Commitments

Annual commitments under non-cancellable operating leases are as follows:

| | 2004 Land and Buildings £'000 | 2004 Other £'000 | 2003 Land and Buildings £'000 | 2003 Other £'000 |
|----------------------------|--|------------------------|--|------------------------|
| Expiry date | | | | |
| between two and five years | - | 23 | - | 23 |
| after five years | 940 | - | 940 | - |
| | <u>940</u> | <u>23</u> | <u>940</u> | <u>23</u> |

Notes to financial statements (continued)

16 Related Party Transactions

a) The investments in Emerald referred to in Note 8 are made up of loans of £9,648,000 and preference shares of £7,766,000 at the year end. The Company and Group received interest of £172,000 (2003 - £61,000) and preference dividends of £nil (2003 - £nil). £172,000 was included in debtors at the year end (2003 - £61,000). Emerald has common shareholders with the Company.

b) Some directors and employees in the company and group are, in their personal capacity, partners in Limited Partnerships that are managed by other fellow subsidiary undertakings and that have certain subsidiary undertakings acting as the General partner of the Limited Partnerships. The distributions which were made in this regard during the year amounted to £5,539,000 (2003 - £5,627,000) .