Annual report 2002

2002

williams lea

Creating advantage by improving the effectiveness of our clients' corporate information.

Contents

Chairman's statement

"Our core business has proved its resilience under strong pressure this year"

I am very pleased to report another year of progress and achievement for the Company. This is against a background of exceptionally poor trading conditions for major financial institutions, a sector which includes many of our largest customers.

Turnover increased by 18.3% to £165m and operating profit, before exceptional items and goodwill amortisation, increased by 13.8% to £9.8m. Earnings per share, again before exceptionals and amortisation but after dilution, increased by 12.3% to 73p per share.

Having due regard to this progress and to the strong cash generation from trading, your Board recommends that a final dividend of 14p per share should be paid, making a total for the year of 20p (2001 – 18p), an increase of 11.1%.

Acquisition

On 1 July 2002 we completed the acquisition of Alistair McIntosh Limited. This is the largest acquisition that we have undertaken and I am pleased to say that, as a result of hard work by the management of both companies, the merger with our Print and Marketing Services division has progressed well, consolidating our position as a leader in this field.

Trading

Our core business has proved its resilience under strong pressure this year, having had to withstand an unprecedented downturn in activity levels across many of our principal clients. Change has been managed with considerable goodwill on all sides and I congratulate the management team on retaining all our clients and acquiring substantial amounts of new business.

As indicated above, our Print and Marketing Services division is now a market leader and sales have moved up from an annualised rate of £40m in September 2001 to over £100m by the year end.

We have continued to invest in building our international infrastructure. We are now active in several European countries as well as having established a joint venture with Bowne in Asia.

Management and staff

I am sure that all shareholders would wish to join me in thanking our executive directors, management and staff for being so dedicated in bringing the Company through one of its most challenging years both stronger and more profitable than it has ever been.

I welcome Stephen Davidson and Katherine Innes Ker to the Board as non-executive directors. We are already benefiting from their input. Stuart Slatter resigned from the Board on 31 January 2002 and I thank him for his expert advice over several years.

Flotation

I wrote to you in March to inform you that stock market conditions as well as our own trading experience had led us to delay our planned listing. We now believe that shareholders' interests are best served by deferring our plans until circumstances are more propitious for such a step and accordingly, we have expensed the £401,000 incurred in our preparations to date.

We remain conscious of the importance of liquidity to our shareholders, including the many amongst our management and employees, and will bring appropriate proposals to you as and when we can.

Prospects

The year has started well and I am very hopeful that our recent new contract wins, our continuing high customer service levels and, above all, our capable and enthusiastic people throughout the business will combine to enable us to have another strong year in 2002/03.

John Padovan, *Chairman*

Chief Executive's review

This has been a tough year for many of our clients, particularly those in the investment banking sector where trading conditions remain extremely difficult. There has been an almost continuous process of contract review as we have reorganised our client operations to reflect the widespread reduction in business volumes. The corresponding impact on our own business has been substantial and we have been forced to reduce staff numbers at many of our client facilities. Nevertheless, as a result of our decisive and proactive response to these challenges, we have been successful both in retaining all our client relationships and maintaining overall levels of profitability. Whilst this clearly reflects the durability of our business model, it is important to recognise the extraordinary commitment shown by our people in supporting Williams Lea's clients at this difficult time.

The prevailing business climate has allowed us to accelerate the development of our corporate information proposition. Technology developments have enabled us to deliver key services remotely, thereby reducing our clients' fixed investment in dedicated on-site infrastructure. The establishment of our 'digital online' reprographics production service enables clients to meet their flexible document processing requirements securely and remotely using a web-based eProcurement system. At the end of last year we also established an off-shore production hub in Chennai, India. This unit provides cost-effective 'back office' information processing services using a highly skilled work force and secure data transmission. As a result of the continuing development and expansion of our service capability, we have secured additional contract revenue at clients including PricewaterhouseCoopers, Glaxo SmithKline, Pfizer, Prudential, AXA and HSBC.

In June we announced the acquisition of Alistair McIntosh Limited, one of the UK's leading print and logistics management businesses, based in Yorkshire. This was an important transaction for us because we had been looking to strengthen our print management capability and extend our geographic coverage more widely across the UK. We achieved both these objectives and, as importantly, we acquired a business with strong management, an outstanding reputation for service and an excellent customer portfolio. The acquisition of Alistair McIntosh has significantly extended our client base and increased our representation in the retail financial services and general retailing sectors. We are now additionally working with, amongst others, Barclays, AMP, Bradford & Bingley, GUS, ASDA and HBOS.

The integration of our combined businesses has gone well and we are delighted to welcome so many high quality people to Williams Lea. We believe that by aligning our outsourcing model with Alistair McIntosh's print management, direct mail and logistics expertise, we have created a compelling proposition for our respective clients. I would also like to extend a warm welcome to the McIntosh family, who have decided to continue as shareholders in the combined business.

We continue to make progress overseas and in September we formalised our relationship with Bowne by establishing a jointly owned company to service our

clients in Asia. I am pleased to report that a number of new contracts have been secured, adding to our regional business which now incorporates operations in Japan, Hong Kong, China, Singapore, Korea and Australia. Closer to home, the opening of our offices in Frankfurt has added impetus to our expansion in Europe and was an important factor in our securing a major European print management supply contract for a global retailing organisation.

This year we held our second Shout! awards evening, where we recognise and celebrate the performance of our people across the business. The event was a great success and some of the individual and team nominations were quite outstanding. The contribution of our people was further endorsed in March when Williams Lea was recognised as one of Britain's 100 most visionary organisations in a competition sponsored by The Guardian in association with BT. We were commended as a 'notable innovative organisation' and 'one to watch' for the future.

Our community programme, Catalyst, has continued to be enthusiastically supported. The contribution of our team at Stormont House, a special needs school in Hackney, deserves particular mention. With an overall objective of helping to prepare the pupils for the working environment, activities have included mentoring, interview training, work experience and the sponsorship of an award for the year 11 student with the most successful work placement assignment. The commitment and dedication of the team has been acknowledged by the teaching staff and governing body of Stormont House and I know from the Head Teacher that their work is making a tangible difference to the school. We have also continued our involvement with Capital Cares, a Business in the Community initiative. This year, the focus was on regenerating fifty green spaces in and around London to commemorate the Golden Jubilee. An able team of Williams Lea volunteers turned their hands to redeveloping a community garden in Brixton, south London, and the project was a great success.

We have started a major building programme at our Head Office in Worship Street, which we hope to conclude by April 2003. The work includes extensive refurbishment of most working areas, together with the addition of a new floor. This investment is long overdue and we look forward to establishing a world class business environment where our clients and employees can interact.

We look forward to the New Year with some optimism but recognise the ongoing challenges which we face in certain market sectors. Our intense focus on customer service and retention, product innovation and sound financial management will, we hope, deliver another successful year for Williams Lea.

Tim Griffiths, Group Chief Executive

Directors and advisors

of Williams Lea Group Limited

Directors

J M F Padovan *✧	*Chairman*
T P Griffiths	*Chief Executive*
J G Barton	
S J Davidson *	
K C M Innes Ker *	
C T M Toulson-Clarke	
A G Williams *	*Life President*
M G Williams ✢	
S M G Williams *	

* *Non-Executive Director*

✧ *Senior independent Non-Executive Director*

✢ *Alternate Director to AG Williams*

Secretary

C Leverick

Auditors

Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London SE1 7EU

Bankers

National Westminster Bank Plc
1-2 Finsbury Square
London EC2A 1JH

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Registered Office

Clifton House
Worship Street
London EC2A 2EJ

Registrars

Capita IRG
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the twenty-first Annual General Meeting of the members of Williams Lea Group Limited will be held in the Ground Floor Auditorium, Woolgate Exchange, 25 Basinghall Street, London EC2V 5HA at 10am on 31 January 2003 for the following purposes:

1. To receive and adopt the report of the directors and the audited accounts for the year ended 30 September 2002.
2. To declare a final dividend of 14 pence per ordinary share for the year ended 30 September 2002, payable on 31 January 2003, to ordinary shareholders on the member's register at the close of business on 17 January 2003.
3. To re-elect AG Williams as a director of the Company.
4. To re-elect JG Barton as a director of the Company.
5. To re-elect CTM Toulson-Clarke as a director of the Company.
6. To elect KCM Innes Ker as a director of the Company.
7. To elect SJ Davidson as a director of the Company.
8. To elect MG Williams as an alternate director to AG Williams.
9. To reappoint Ernst & Young LLP as auditors of the Company and to authorise the directors to fix their remuneration.

BY ORDER OF THE BOARD

C Leverick
Secretary

6 December 2002

A member entitled to attend and vote may appoint one or more proxies to attend and, upon a poll, vote instead of him or her. A proxy need not be a member of the Company.

Directors' report

The directors present their report and accounts of Williams Lea Group Limited for the year ended 30 September 2002

Results and dividends

The operating profit attributable to continuing operations before goodwill amortisation and exceptional items amounted to £9,797,000 (2001 – £8,609,000). The profit for the year after exceptional items and taxation amounted to £4,996,000 (2001 – £4,843,000). The company paid an interim dividend of 6 pence per share during the year (2001 – 6 pence). The directors recommend the payment of a final ordinary dividend of 14 pence per share (2001 – 12 pence), making total dividends for the year of 20 pence per share (2001 – 18 pence), amounting to £1,742,000 (2001 – £1,486,000).

Principal activities and review of the business

A review of the principal activities of Group companies and an appraisal of their business for the year is set out in the Chairman's statement and Chief Executive's review on pages 2 to 5. The Company acts as a holding company only.

Corporate governance

A report on corporate governance is set out on pages 10 and 11.

Subsequent events

There have been no material events subsequent to the date of the accounts that require disclosure.

Directors and their interests

In accordance with the Articles of Association, AG Williams, JG Barton and CTM Toulson-Clarke stand for re-election and KCM Innes Ker, SJ Davidson and MG Williams stand for election at the Annual General Meeting.

During the year, no director had any material interest in any significant contract to which the Group or any subsidiary was a party.

On 31 January 2002 TCM Barry, C Leverick, RA McVey, S StP Slatter and MG Williams resigned from the Board. MG Williams was subsequently appointed as an alternate director to AG Williams.

Details of directors' remuneration and options are detailed in the Remuneration committee report on pages 12 to 15.

Directors' share interests

The directors serving as at 30 September 2002 had the following interests in shares of the Company at the beginning and end of the financial year:

		20p ordinary shares			
		1 October 2001	Acquired	Disposed	30 September 2002
J M F Padovan	– beneficial	50,035	–	5,000	45,035
	– non-beneficial	–	5,000	–	5,000
T P Griffiths		379,178	1,849	–	381,027
J G Barton		–	3,062	–	3,062
S J Davidson (appointed 2/5/02)		–	5,000	–	5,000
K C M Innes Ker (appointed 1/2/02)		–	500	–	500
C T M Toulson-Clarke		14,927	1,600	–	16,527
M G Williams		25,000	–	–	25,000
A G Williams	– beneficial	373,250	–	1,000	372,250
	– non-beneficial	958,250	–	–	958,250
S M G Williams		473,012	–	–	473,012

MG Williams and SMG Williams are among beneficiaries of family share trusts including the J Graham Williams Settlement Trust. At 30 September 2002, the trusts held 2,760,250 ordinary shares in the Company.

Substantial shareholders

At 13 November 2002, the Company had been notified of the following interests of 3 per cent or more of the Company's ordinary share capital other than those disclosed as directors' interests:

	Number	Percentage
Trustees of J Graham Williams Settlement	2,002,000	18.3%
3i Group Plc	1,528,400	14.0%
Williams Lea Group Trustees Limited	1,469,640	13.5%
S E McIntosh	497,800	4.5%

Williams Lea Group Trustees Limited is the Trustee company for the Employee Benefit Trusts of the Williams Lea Group.

Employees

Regular meetings are held involving directors, managers and supervisory staff to convey information about the business. During the year, the Group has provided training for employees at all levels.

The Group's policy is to give full consideration to all applications for employment and to treat all staff fairly, regardless of gender, religion, race, age or physical disability. Where existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Charitable contributions

During the year, the Group made charitable donations in the UK of £38,587 (2001 – £38,388). Included in the charitable contributions was £14,175 in respect of matched amounts for fundraising efforts by Williams Lea staff.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD

C Leverick
Secretary

6 December 2002

Corporate governance

Although private companies are not required to report on the principles of Good Governance and Code of Best Practice ("Combined Code"), the directors wish to apply good governance principles. Accordingly, set out below are the disclosures of the directors' application of those aspects of the Combined Code which have been adopted.

The Board

The Board currently comprises a non-executive chairman, four other non-executive directors and three executive directors. The Board meets ten times a year and additionally when necessary. At each scheduled meeting of the Board, the Chief Executive and the Managing Director report on the Company's operations and the Finance Director reports on the financial position of the Company. In addition, the Board has adopted standard procedures and practices whereby significant issues affecting the Group are reviewed on a regular basis.

The Board considers that the balance of its constitution brings the appropriate skills and experience in judging matters of strategy, performance, resources, investor relations, internal control and corporate governance.

Board Committees

The Board maintains several standing committees, all of which operate within written terms of reference, which deal clearly with their authority and duties. The minutes are available to all directors.

Audit Committee

The Audit Committee is chaired by SMG Williams and comprises all of the non-executive directors. The Finance Director, Chief Executive and external auditors normally attend meetings and the Committee also meets the external auditors without management present. The Audit Committee is responsible for reviewing the half-year and annual accounts prior to their submission to the Board. In addition, it reviews financial and internal controls.

Remuneration Committee

The Remuneration Committee is chaired by AG Williams and comprises, in addition, SJ Davidson, KCM Innes Ker and JMF Padovan. The Committee was established to create a formal and transparent procedure for developing policy on executive remuneration. The Committee was established to determine the remuneration policy adopted for the Group's senior employees including the contract terms, remuneration and other benefits of the executive directors.

Nomination Committee

The Nomination Committee is chaired by JMF Padovan and comprises, in addition, SJ Davidson, KCM Innes Ker, AG Williams, SMG Williams and the Chief Executive. The Committee considers all executive and non-executive appointments, re-appointments and terminations of employment or engagement of directors of the Group. Any proposal by this Committee is discussed and determined by the Board.

Chairman and Chief Executive

The Chairman of the Group is a non-executive director, who is responsible for the running of the Board. The Board is responsible to shareholders for the overall direction and control of the Group. The Chief Executive is responsible to the Board for the management of the Group within parameters set by the Board.

Supply of information

The Board is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties.

Re-election

All directors submit themselves for re-election every three years.

Directors’ remuneration

The statement of the Group’s policy on executive directors’ remuneration and details of directors’ emoluments is contained in the Remuneration committee’s report on pages 12 to 15.

Relations with shareholders

The Group values its dialogue with both institutional and private investors both at the Annual General Meeting and at other appropriate times.

Accountability and audit

The annual report and accounts provide information on and an assessment of the Group’s business, operations, financial position and prospects. After reviewing Group and Company cash balances, borrowings and projected cash flows, the directors believe that the Group and Company have adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Part of the Board’s responsibility is to ensure that the Group maintains a system of internal financial controls, including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication, but any such system can only provide reasonable, and not absolute, assurance against misstatement or loss.

The Group’s internal financial control and monitoring procedures include:

- Clear responsibilities on the part of line and financial management for the maintenance of effective financial controls and the production of accurate and timely financial management information.
- The control of key financial risks through clearly laid down authorisation levels and proper segregation of accounting duties.
- Detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budgets.
- Monitoring of the bidding process for acquisitions and of the negotiation process for contracts and joint ventures by the Board to ensure transactions that are material in terms of size or type are addressed and approved at the highest level.

The Finance Director appraises the Board, both through the Audit Committee and directly, of the effectiveness of the system of internal control and specific areas of risk facing the Group and undertakes, on an ongoing basis, a review of all internal control procedures.

Remuneration committee report

The Remuneration Committee's terms of reference are to determine, on behalf of the Board, the Group's policy on executive remuneration and to consider and approve remuneration packages for executive directors. The policy takes due regard of the remuneration practice across the Group, shareholders' interests and the Group's strategic goals.

Executive directors' remuneration

The executive directors' remuneration packages include the following:

- Basic salaries and benefits which are reviewed annually, having regard to individual performance, responsibility and skills, the employment market generally and practice in other companies in the sector. Benefits include a contributory money purchase group pension plan, private medical insurance and car allowance.
- Performance bonuses, which are not pensionable, are determined by both the performance of the individual and the Group's performance against its financial and other performance targets.
- The opportunity to participate in the Company's equity incentive plans.

The following share schemes were in operation during the year:

1994 Executive Share Option Plan

Under the 1994 Executive Share Option Plan, non-performance related share options were granted to executive directors and other senior staff. Following the introduction of the 2001 Executive Share Option Plan, no new awards have been made under the 1994 Scheme.

2001 Executive Share Option Plan

Under the 2001 Executive Share Option Plan, the Company grants executive directors and other senior staff options on shares up to the value of 150% of the participants' base salary at the time of the award. The Group may grant, on appointment, non-performance related options. Otherwise, awards are made annually and options vest, or otherwise, on the third anniversary of the grant, based on the achievement of pre-set rates of growth in earnings per ordinary share.

If the growth in earnings per ordinary share is less than 10% per annum above the UK retail price index, in the relevant three-year period, then none of the options may be exercised. If the earnings per ordinary share growth is between 10% and 15% above the UK retail price index then, pro rata, between 50% and 100% of the options may be exercised.

The Restricted Share Plan

The Restricted Share Plan ("RSP") is designed to encourage certain senior executives who are not eligible for the 2001 Executive Share Option Plan to hold shares in the Company. The maximum value of an award that may be made in any year is 10% of a participant's salary. The award of shares under the RSP is subject to Group and individual performance and financial objectives. The allocated shares will be held in trust on behalf of the participants and will vest in three equal tranches on the anniversary of the grant over three years. Participants will have voting rights and will receive dividends on their shares.

No awards have been made under this scheme.

Non-executive directors' fees

The Board determines the remuneration arrangements of the Chairman and the other non-executive directors. These emoluments consist wholly of fees, and in one case health insurance benefit, in respect of services. The non-executive directors do not have service contracts.

Directors' emoluments

Directors' emoluments (excluding share options) are analysed as follows:

	Salary/fees *£000s*	Performance related bonus *£000s*	Benefits *£000s*	Money purchase pension contributions *£000s*	Total 2002 *£000s*	Total 2001 *£000s*
J M F Padovan	75	–	–	–	75	75
T P Griffiths	226	60	1	31	318	298
T C M Barry (resigned 31/1/02)	50	–	–	4	54	163
J G Barton	145	40	1	13	199	179
S J Davidson (appointed 2/5/02)	8	–	–	–	8	–
K C M Innes Ker (appointed 1/2/02)	13	–	–	–	13	–
C Leverick (resigned 31/1/02)	45	–	–	4	49	154
R A McVey (resigned 31/1/02)	40	–	–	4	44	129
C T M Toulson-Clarke	172	45	1	22	240	215
S StP Slatter (resigned 31/1/02)	7	–	–	–	7	20
A G Williams	40	–	1	–	41	41
M G Williams	71	–	1	6	78	59
S M G Williams	20	–	–	–	20	20
Total 2002	912	145	5	84	1,146	1,353
Total 2001	1,093	155	6	99	1,353	

Directors' share options

1994 Executive Share Option Plan

		Options to acquire 20p ordinary shares			
	Exercise price	1 October 2001	Options awarded	Options exercised	30 September 2002
T P Griffiths	£0.70	150,000	–	–	150,000
	£1.40	150,000	–	–	150,000
J G Barton	£0.70	108,750	–	–	108,750
	£1.40	125,000	–	–	125,000
C T M Toulson-Clarke	£0.70	149,751	–	–	149,751
	£1.40	125,000	–	–	125,000
M G Williams	£0.70	125,000	–	–	125,000
	£1.40	125,000	–	–	125,000

Directors’ share options *(continued)*

2001 Executive Share Option Plan

Details of the Company's ordinary shares over which the executive directors have conditional option rights under this Executive Share Option Plan are as follows:

		Options to acquire 20p ordinary shares			
	Exercise price	Conditional rights 1 October 2001	Conditional rights granted during the year	Conditional rights lapsed during the year	Conditional rights 30 September 2002
T P Griffiths	£7.00	42,857	–	–	42,857
	£8.00	–	38,438	–	38,438
J G Barton	£7.00	25,714	–	–	25,714
	£8.00	–	25,313	–	25,313
C T M Toulson-Clarke	£7.00	31,071	–	–	31,071
	£8.00	–	30,000	–	30,000

Statement of directors' responsibilities

in respect of the financial statements

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 the year. In preparing those financial statements, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

Independent auditors' report

to the members of Williams Lea Group Limited

We have audited the Group's financial statements for the year ended 30 September 2002 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Group's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

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

We read other information contained in the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' report, Chairman's statement, Chief Executive's review, Corporate governance and Remuneration committee report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the financial statements.
Our responsibilities do not extend to any other information.

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. 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 Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2002 and the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

6 December 2002

Consolidated profit and loss account

for the year ended 30 September 2002

		Notes	2002 £000s	2002 £000s	2002 £000s	(restated) 2001 £000s
Turnover		2				
Continuing operations					150,105	138,875
Acquisitions					14,933	–
Discontinued operations					–	688
					165,038	139,563
Cost of sales		3			(147,066)	(123,419)
Gross profit					17,972	16,144
Administrative expenses		3			(10,525)	(9,089)
Operating profit			*ongoing*	*acquisitions*		
Continuing operations	– before goodwill and exceptional items		9,271	526	9,797	8,609
	– amortisation of goodwill		(570)	(270)	(840)	(570)
	– exceptional items	4	(1,510)	–	(1,510)	(750)
			7,191	256	7,447	7,289
Discontinued operations	– before exceptional items				–	46
	– exceptional items	4			–	(280)
					–	(234)
Total operating profit		5			7,447	7,055
Interest receivable and similar income		7			398	365
Interest payable and similar charges		8			(205)	(246)
Profit on ordinary activities before taxation					7,640	7,174
Tax on profit on ordinary activities		9			(2,644)	(2,331)
Profit on ordinary activities after taxation					4,996	4,843
Dividends		10			(1,742)	(1,486)
Retained profit for the year					3,254	3,357
Earnings per share		11				
Basic before exceptional items and amortisation of goodwill					84p	79p
Basic					60p	62p
Diluted before exceptional items and amortisation of goodwill					73p	65p
Diluted					52p	51p

Consolidated statement of total recognised gains and losses

for the year ended 30 September 2002

	2002	(restated) 2001
Profit for the financial year attributable to members of the parent company	4,996	4,843
Total recognised gains and losses relating to the year	4,996	4,843
Prior year adjustment (note 1)	178	
Total gains and losses recognised since last annual report	5,174	

The notes on pages 21 to 39 form part of these accounts.

Balance sheets

as at 30 September 2002

		Group		Company	
			(restated)		
		2002	2001	2002	2001
	Notes	*£000s*	*£000s*	*£000s*	*£000s*
Fixed assets					
Intangible assets	12	24,475	3,685	–	–
Tangible assets	13	8,600	5,963	–	–
Investments	14	6,503	4,557	34,462	6,526
		39,578	14,205	34,462	6,526
Current assets					
Stocks	15	3,305	371	–	–
Debtors	16	36,495	31,916	12	1,533
Cash at bank and in hand		9,022	11,751	460	2,819
		48,822	44,038	472	4,352
Creditors:					
amounts falling due within one year	17	(43,097)	(30,752)	(9,607)	(5,536)
Net current assets/(liabilities)		5,725	13,286	(9,135)	(1,184)
Total assets less current liabilities		45,303	27,491	25,327	5,342
Creditors:					
amounts falling due after more than one year	18	(9,079)	(4,449)	(8,168)	(2,500)
Provisions for liabilities and charges	19	(750)	(880)	–	–
Net assets		35,474	22,162	17,159	2,842
Capital and reserves					
Called up share capital	21	2,183	1,982	2,183	1,982
Share premium reserve	22	10,004	147	10,004	147
Revaluation reserve	22	3,110	3,110	–	–
Capital redemption reserve	22	77	77	77	77
Other reserves	22	303	303	209	209
Profit and loss account	22	19,797	16,543	4,686	427
Total shareholders' funds	25	35,474	22,162	17,159	2,842

The financial statements on pages 18 to 39 were approved by the Board on 6 December 2002.

J M F Padovan, Chairman

T P Griffiths, Chief Executive

Consolidated cash flow statement

for the year ended 30 September 2002

	Notes	2002 £000s	2001 £000s
Net cash inflow from operating activities	23	13,012	8,252
Returns on investments and servicing of finance			
Interest received		398	365
Interest paid		(165)	(230)
Interest element of finance lease payments		(40)	(16)
Net cash inflow from returns on investments and servicing of finance		193	119
Taxation			
UK Corporation tax paid		(3,060)	(1,402)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(3,098)	(1,099)
Payments to acquire shares by employee related share trusts		(166)	(349)
Receipts from the sale of shares by employee related share trusts		398	827
Receipts from sales of tangible fixed assets		40	434
Net cash outflow from capital expenditure and financial investment		(2,826)	(187)
Acquisitions and disposals			
Purchase of subsidiary undertaking	14	(13,485)	(538)
Sale of business division		–	75
Purchase of unincorporated business		–	(87)
Net cash acquired with subsidiary undertaking	14	1,765	–
Net cash outflow from acquisitions and disposals		(11,720)	(550)
Equity dividends paid		(1,453)	(1,284)
Management of liquid resources			
(Increase) in short-term deposits	24	(710)	(434)
Financing			
Issue of ordinary shares		4	–
Net movement in long term borrowings		3,400	–
Capital element of finance lease payments		(279)	(191)
Net cash inflow/(outflow) from financing		3,125	(191)
(Decrease)/increase in cash	24	(3,439)	4,323
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the period		(3,439)	4,323
Increase in short-term deposits		710	434
Cash outflow from decrease in debt and lease financing		279	191
Loans		(3,400)	–
Change in net funds arising from cash flows		(5,850)	4,948
Loans and finance leases (acquired)/disposed of with subsidiaries		(367)	135
New finance leases		(36)	(374)
Movement in the period		(6,253)	4,709
Net funds at beginning of period	24	8,768	4,059
Net funds at end of period	24	2,515	8,768

The notes on pages 21 to 39 form part of these accounts.

Notes to the accounts

at 30 September 2002

1. Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention, modified to include the revaluation of freehold land and buildings. The accounts have been prepared in accordance with applicable accounting standards.

In preparing the financial statements for the current year, the Group has adopted FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax'. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement.

This change in accounting policy has resulted in a prior year adjustment for the Group. Shareholders' funds at 1 October 2000 have been increased by £133,000 and the tax charge for the year ended 30 September 2001 has been reduced by £45,000. The deferred tax asset at 30 September 2001 has been increased by £178,000.

The adoption of FRS 18 has not required any revisions to the financial statements in either the current or prior years.

Basis of consolidation

The consolidated profit and loss account, balance sheet and statement of cash flows, include the accounts of the parent company and all its subsidiaries made up to the end of the financial year. Intra-group sales and profits are eliminated on consolidation. A separate profit and loss account for the parent company only has not been presented as permitted by section 230 of the Companies Act 1985.

Alistair McIntosh Limited has been included in the Group financial statements using the acquisition method of accounting. Accordingly, the Group profit and loss account and statement of cash flows include the results and cash flows of Alistair McIntosh Limited for the three month period from its acquisition on 1 July 2002. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Turnover

Turnover represents amounts receivable for business services provided in the UK and overseas net of trade discounts, VAT and other sales related taxes. Turnover is recognised at the point service is provided.

Fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, less depreciation.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life which is reviewed annually.
The rates are:

- Freehold buildings — *50 years*
- Leasehold property — *the unexpired period of the lease*
- Fixtures and fittings — *3 – 10 years*
- Computer equipment — *1 – 5 years*
- Plant and machinery — *3 – 7 years*

The carrying value of tangible fixed assets and fixed asset investments are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable.

Goodwill

Goodwill is the difference between the fair value of consideration given to acquire an entity and the aggregate fair value of that entity's identifiable assets and liabilities. Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

1. Accounting policies *(continued)*

Leased assets

Finance leases which give rights approximating to ownership are capitalised at the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is based on the shorter of the period of the lease and the useful estimated life and is charged to the profit and loss account. Lease payments are treated as consisting of capital and interest elements with interest charged to the profit and loss account during the lease term so as to produce a constant periodic rate of charge on the remaining balance of the obligation. All other leases are 'operating leases', and the annual rentals are charged to the profit and loss account on a straight-line basis over the lease term.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and related overheads to the stage of production reached. Net realisable value is represented by the estimated selling price less any further costs of completion or distribution.

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.

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

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted. 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 recognised only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates 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 substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the balance sheet exchange rate.

All exchange differences are taken to the profit and loss account.

Pension costs

The Group operates the Williams Lea Group Pension and Life Assurance Scheme. In respect of current service, the Scheme operates on a money purchase basis, the contributions for which are charged to the profit and loss account as they are incurred. The Scheme previously operated on a final pensionable pay basis. Any additional contributions, in respect of past service, which may be required as a result of future actuarial valuations, will be charged to the profit and loss account immediately.

Employee share trusts

Shares in the Company held by the employee share trusts are included in fixed asset investments at cost less any provision for permanent diminution in value.

2. Turnover

The Group's turnover of £165,038,000 (2001 – £139,563,000), which is derived from the provision of business services, is substantially carried out in the United Kingdom with less than £500,000 arising outside the United Kingdom.

3. Cost of sales and administrative expenses

		2002 £000s	2001 £000s
Cost of sales			
Continuing operations		147,066	122,777
Discontinued operations		–	642
		147,066	123,419
Administrative expenses			
Continuing operations	– ongoing excluding amortisation of goodwill	7,665	7,489
	– ongoing amortisation of goodwill	570	570
	– exceptional items (note 4)	1,510	750
		9,745	8,809
Acquisitions	– before exceptional items	510	–
	– amortisation of goodwill	270	–
		780	–
Discontinued operations	– before exceptional items	–	–
	– exceptional items (note 4)	–	280
		–	280
		10,525	9,089

4. Exceptional items

		2002 £000s	2001 £000s
Continuing operations	– restructuring costs	811	–
	– pre-flotation expenses	401	–
	– integration costs	298	–
	– pension deficit	–	750
	– deferred tax (note 9)	–	(225)
	– tax on exceptional items	(333)	–
		1,177	525
Discontinued operations	– costs of discontinuing lithographic print operations	–	280

4. Exceptional items *(continued)*

Continuing operations

During the year pre-flotation expenses, including professional fees and other expenses, were incurred in preparing the Group for an initial public offering. In June 2002, in light of the depressed state of the equity markets, the Board took the decision to postpone its flotation plans.

Restructuring costs represent redundancy and related payroll expenditure incurred during the year.

Integration costs represent expenses incurred by the Group following the acquisition of Alistair McIntosh Limited.

In the previous year, a charge was made to recognise an anticipated funding deficit of £750,000 on the accrued member benefits of the Williams Lea Group Pension and Life Assurance Scheme based on final pensionable pay. The charge related to the defined benefits scheme based on pensionable service accrued prior to the closure of this part of the Group Pension Scheme on 31 December 1996. The deficit was identified following the most recent actuarial valuation of the Scheme (note 20).

Discontinued operations

In the prior year, the Group made a further provision of £280,000 for the costs of discontinuing its lithographic print production operations.

5. Operating profit

	2002 £000s	2001 £000s
Operating profit is stated after charging/(crediting):		
Amortisation of intangible fixed assets	840	570
Depreciation:		
– owned fixed assets	1,632	1,354
– assets under finance leases	169	216
Operating lease rentals:		
– plant and machinery	9,330	8,670
– property	710	872
Auditors' remuneration:		
– audit services	130	98
– non-audit services	312	149
Loss on disposal of tangible fixed assets	23	5
Government grants	(2)	–
Other operating income	(186)	(205)

Other operating income represents amounts received on the sub-lease of short leasehold properties. The related expenditure in servicing these properties is £197,000 (2001 – £207,000), resulting in a net expenditure of £11,000 (2001 – £2,000).

In addition to the auditors' remuneration, disclosed above, the Group paid £125,000 in respect of further professional fees in connection with the acquisition of Alistair McIntosh Limited (note 14). These costs have been capitalised as part of the costs of acquisition of that company.

6. Staff costs

	2002 £000s	2001 £000s
Wages and salaries	57,610	51,742
Social security costs	4,987	4,636
Other pension costs	1,500	1,002
	64,097	57,380

Details, for each director, of remuneration, pension entitlements and interest in share options are set out on pages 12 to 15.

The average monthly number of persons (including directors) employed by the Group during the year was:

	2002 No.	2001 No.
Production	1,558	1,632
Administration	184	166
Selling	15	12
	1,757	1,810

7. Interest receivable and similar income

	2002 £000s	2001 £000s
Bank interest	398	365

8. Interest payable and similar charges

	2002 £000s	2001 £000s
Bank loans	115	146
Finance lease and hire purchase charges	40	16
Other interest	50	84
	205	246

9. Tax on profit on ordinary activities

	2002 £000s	(restated) 2001 £000s
Current tax		
UK corporation tax	2,754	2,924
Adjustments in respect of prior years	(109)	(355)
	2,645	2,569
Double taxation relief	(26)	–
	2,619	2,569
Foreign tax	26	–
Total current tax	2,645	2,569
Deferred tax	(1)	(238)
Total tax on profit on ordinary activities	2,644	2,331

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2002 £000s	(restated) 2001 £000s
Profit on ordinary activities before tax	7,640	7,174
Tax on Group profit on ordinary activities at standard UK corporation tax rate of 30% (2001 – 30%)	2,292	2,152
Effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	504	553
(Accelerated)/decelerated capital allowances	(4)	234
Other timing differences	(38)	(11)
Adjustments to tax charge in respect of previous years	(109)	(355)
Rollover gain	–	(229)
Deferred tax on pension provision	–	225
Total current tax charge for the year	2,645	2,569

Factors that may affect future tax charges:
No provision has been made for deferred tax on the revaluation gain recognised on freehold land and buildings. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. At present, it is not envisaged that any tax will become payable in the foreseeable future.

Deferred taxation included in the balance sheet is as follows:

	2002 £000s	(restated) 2001 £000s
Excess of depreciation charged over capital allowances	130	121
Pension provision	225	225
Other timing differences	164	45
Included in debtors (note 16)	519	391

The difference between the increase in the deferred tax asset and the deferred tax credit for the year is represented by the Alistair McIntosh Limited deferred tax asset at acquisition of £127,000.

The deferred tax asset of £519,000 has been recognised on the basis that there will be future taxable profits from which future reversals of the timing differences can be deducted.

10. Dividends

	2002 £000s	2001 £000s
Interim – 6p per share (2001 – 6p per share)	487	520
Proposed final dividend – 14p per share (2001 – 12p per share)	1,255	966
	1,742	1,486

On 6 February 1998, the trustees of the Williams Lea Group Employee Share Trusts decided to waive all future dividends receivable on ordinary shares in the Company held by the Trusts. Therefore, both the interim dividend and the proposed final dividend for the current and prior years do not include dividends in respect of the shares held by the Trusts.

11. Earnings per share

Basic and diluted earnings per share are based on earnings for the year of £4,996,000 (2001 – £4,843,000). The calculation of basic earnings per share is based on ordinary shares of 8,333,000 (2001 – 7,842,000), being the weighted average number of ordinary shares in issue throughout the year after excluding shares held by Williams Lea Group Employee Share Trusts.

Diluted earnings per share has been calculated on a weighted average number of shares as follows:

	2002 000s	2001 000s
Basic weighted average number of shares	8,333	7,842
Dilutive potential ordinary shares:		
Employee share options	1,335	1,666
Diluted weighted average number of shares	9,668	9,508

Adjusted earnings per share before exceptional items and goodwill has been presented to give an indication of the ongoing potential of the Group. Adjusted earnings have been calculated as follows:

		2002 £000s	2001 (restated) £000s
Profit on ordinary activities after taxation		4,996	4,843
Add back:			
Amortisation of goodwill		840	570
Exceptional items	– continuing operations	1,510	750
	– discontinued operations	–	280
Tax on exceptional items		(333)	(225)
		7,013	6,218

12. Intangible assets – goodwill

	£000s
Cost:	
At 1 October 2001	4,731
Acquisition of Alistair McIntosh Limited (note 14)	21,625
Additional costs arising on prior acquisition	5
At 30 September 2002	26,361
Amortisation:	
At 1 October 2001	1,046
Provided during year	840
At 30 September 2002	1,886
Net book amount:	
At 30 September 2002	24,475
At 1 October 2001	3,685

Goodwill is being written off in equal annual instalments over periods ranging from 7 to 20 years, reflecting the directors' estimate of the useful economic life of the acquired entities to which the goodwill relates.

13. Tangible fixed assets	Freehold land and buildings £000s	Short leaseholds £000s	Fixtures and fittings £000s	Computer equipment, plant and machinery £000s	Total £000s
Group					
Cost or valuation:					
At 1 October 2001	4,922	1,244	701	9,909	16,776
Acquisition of Alistair McIntosh Limited	–	585	159	623	1,367
Additions	1,819	273	73	969	3,134
Disposals	–	–	(159)	(3,689)	(3,848)
At 30 September 2002	6,741	2,102	774	7,812	17,429
Depreciation:					
At 1 October 2001	1,154	1,128	592	7,939	10,813
Provided during year	233	174	85	1,309	1,801
Disposals	–	–	(137)	(3,648)	(3,785)
At 30 September 2002	1,387	1,302	540	5,600	8,829
Net book amount:					
At 30 September 2002	5,354	800	234	2,212	8,600
At 1 October 2001	3,768	116	109	1,970	5,963

Freehold land and buildings, which originally cost £285,000, were professionally valued on 27 September 1987 at £3,395,000 (including an amount of £2,925,000 relating to land) on an open market basis for existing use. In accordance with the transitional rules of FRS 15, the revaluation has not been updated in the current year.

Included in plant and machinery is plant purchased under finance leases and hire purchase contracts with a net book value of £406,000 (2001 – £471,000).

During the year, the Group wrote off assets which had been fully depreciated, the original cost of which was £3,401,000. These assets had no continuing economic value to the Group.

Company

There are no tangible fixed assets in the Company.

14. Fixed asset investments	Group 2002 £000s	Group 2001 £000s	Company 2002 £000s	Company 2001 £000s
Subsidiary undertakings:				
– cost	–	–	2,769	2,769
– provision	–	–	(800)	(800)
– incorporation of new subsidiary	–	–	16	–
– acquisitions	–	–	25,974	–
Net book amount	–	–	27,959	1,969
Investment in shares in Williams Lea Group Limited:				
– cost brought forward	5,755	8,844	5,755	8,844
– shares issued to Alistair McIntosh Employee Benefit Trust	2,177	–	2,177	–
– shares purchased in year	166	349	166	349
– shares sold in year	(861)	(3,438)	(861)	(3,438)
	7,237	5,755	7,237	5,755
Provision for diminution in value	(1,198)	(3,810)	(1,198)	(3,810)
Shares sold in year	464	2,612	464	2,612
	(734)	(1,198)	(734)	(1,198)
Net book amount	6,503	4,557	6,503	4,557
Total net book amount	6,503	4,557	34,462	6,526

The investment in shares in Williams Lea Group Limited of £7,237,000 (2001 – £5,755,000) represents 1,957,821 shares (2001 – 1,866,820) held by the Williams Lea Group Employee Share Trusts and 217,741 shares held by the Alistair McIntosh Employee Benefit Trust. As part of the acquisition of Alistair McIntosh Limited the Group issued, on 1 July 2002, 217,741 shares valued at £10.00 each to the Alistair McIntosh Employee Benefit Trust.

For share-based incentive schemes, which do not use new issue shares, options will be satisfied by the transfer of shares held in trust, for that purpose. Dividends receivable by the Trusts during the year were waived.

Provision for diminution in value represents the difference between the purchase price of the acquired shares and the exercise price of the matched employee share options.

On 2 September 2002 the Company incorporated a new subsidiary, Williams Lea Germany GmbH.

The principal group subsidiaries are shown in note 27.

14. Fixed asset investments *(continued)*

Acquisition

On 1 July 2002 Williams Lea Group Limited acquired the entire share capital of Alistair McIntosh Limited. Total consideration amounted to £25,973,684 satisfied by cash of £11,335,190, deferred cash of £2,116,400, contingent cash estimated at £3,494,400, ordinary shares in Williams Lea Group Limited valued at £7,876,600 plus acquisition costs of £1,151,094. The contingent consideration is dependent on future earnings targets and other conditions and is payable in instalments over a three year period from the date of acquisition.

Goodwill arising on acquisition has been capitalised in the balance sheet. The investment in Alistair McIntosh Limited is included in the Group's balance sheet at its fair value at the date of acquisition.

The net assets of Alistair McIntosh Limited at the date of acquisition were as follows:

	Initial book value	Fair value adjustments	Fair value of net assets
	£000s	*£000s*	*£000s*
Investment	240	(240)	–
Fixed assets	1,546	(179)	1,367
Stock	4,098	(133)	3,965
Debtors	8,577	(230)	8,347
Cash	1,765	–	1,765
Creditors	(9,945)	(1,150)	(11,095)
Net assets	6,281	(1,932)	4,349
Goodwill arising on acquisition			21,625
Consideration:			25,974

The main fair value adjustments include the write down of certain tangible fixed assets, provisions for doubtful receivables and stock items and the recognition of onerous contracts arising on acquisition.

Alistair McIntosh Limited contributed a net outflow of £164,000 towards the Group's operating cash flows and utilised £52,000 on capital expenditure. Alistair McIntosh Limited earned a profit after tax of £1,211,015 for the year ended 31 August 2001 and a profit after tax of £820,000 for the 10 months ended 30 June 2002.

Alistair McIntosh Limited summarised profit and loss account for the 10 months ended 30 June 2002:

	£000s
Turnover	46,845
Operating profit	1,256
Profit before taxation	1,171
Taxation	(351)
Profit after taxation	820

14. Fixed asset investments *(continued)*

Previous acquisitions

Cash movements during the year relating to the acquisition of subsidiary undertakings in previous years were as follows:

	£000s
Elliott Slone Limited – deferred consideration	302
Springboard Creative Solutions Limited – deferred consideration	697
	999

There was no new goodwill arising from the above payments.

	Group		Company	
	2002	**2001**	**2002**	**2001**
15. Stocks	*£000s*	*£000s*	*£000s*	*£000s*
Raw materials and consumables	3,204	299	–	–
Work in progress	101	72	–	–
	3,305	371	–	–

	Group		Company	
		(restated)		
	2002	**2001**	**2002**	**2001**
16. Debtors	*£000s*	*£000s*	*£000s*	*£000s*
Trade debtors	31,547	27,392	–	–
Amounts owed by subsidiary undertakings	–	–	–	1,521
Other debtors	1,059	645	–	–
Deferred tax asset (note 9)	519	391	–	–
Prepayments and accrued income	3,370	3,488	12	12
	36,495	31,916	12	1,533

17. Creditors: amounts falling due within one year

	Group 2002 £000s	Group 2001 £000s	Company 2002 £000s	Company 2001 £000s
Current instalments due on bank loans	1,200	–	1,120	–
Obligations under finance leases and hire purchase contracts (note 26)	269	224	–	–
Trade creditors	15,603	8,943	–	–
Amounts owed to subsidiary undertakings	–	–	4,999	4,556
Corporation tax	945	1,504	–	–
Other taxes and social security costs	3,195	2,753	–	–
Other creditors	4,047	1,421	2,233	14
Accruals and deferred income	16,583	14,941	–	–
Proposed dividend	1,255	966	1,255	966
	43,097	30,752	9,607	5,536

Bank loans are secured by a floating charge over certain of the Group's assets.

18. Creditors: amounts falling due after more than one year

	Group 2002 £000s	Group 2001 £000s	Company 2002 £000s	Company 2001 £000s
Bank loans	4,829	2,500	4,780	2,500
Obligations under finance leases and hire purchase contracts (note 26)	209	259	–	–
Other creditors	4,041	1,690	3,388	–
	9,079	4,449	8,168	2,500

Other creditors relate to the amounts due on the purchase of subsidiary undertakings and an unincorporated business. Included within this balance are amounts which are contingent on the future performance of the acquired businesses, including £2,329,600 for Alistair McIntosh Limited, £53,000 for Elliott Slone Limited and £600,000 for the trade of the unincorporated business.

Bank loans are secured by a floating charge over certain of the Group's assets.

Bank loans are repayable as follows:

	Group 2002 £000s	Group 2001 £000s	Company 2002 £000s	Company 2001 £000s
Amounts falling due:				
- in one year or less or on demand	1,200	–	1,120	–
- in more than one year but not more than two years	809	–	760	–
- in more than two years but not more than five years	4,020	2,500	4,020	2,500
	6,029	2,500	5,900	2,500
less: included in creditors: amounts falling due within one year	(1,200)	–	(1,120)	–
	4,829	2,500	4,780	2,500

19. Provisions for liabilities and charges

	Pensions £000s	Group property £000s	Total £000s
Provision at 1 October 2001	750	130	880
Utilised during the year	–	(130)	(130)
Provision at 30 September 2002 (note 4)	750	–	750

The property provision represented an estimate of the excess in property outgoings over rental income receivable from sub-tenants on a leasehold property. The lease on this property expired in June 2002.

20. Pension arrangements

The Group has continued to account for pensions in accordance with SSAP 24 and disclosures given are those required by that standard. FRS 17 (Retirement Benefits) was issued in November 2000 and the phased transitional disclosures required from 30 September 2001 are set out under that heading.

The Group operates the Williams Lea Group Pension and Life Assurance Scheme. The Scheme has provided benefits on a money purchase basis only since 1 January 1997 with contributions charged to the profit and loss account as they are incurred. The Scheme also retains deferred defined benefits based on pensionable service accrued prior to 31 December 1996.

The Scheme's assets are held separately from those of the Group and are managed by external independent investment managers appointed by the Trustees.

The latest valuation of the defined benefit scheme was carried out on 5 April 2001 by C Mouqué, Fellow of the Institute of Actuaries, of Alexander Forbes Financial Services Ltd. The principal methods and assumptions used and the results of the valuation are set out below:

Valuation method	Attained Age Method
Investment rate of return up to retirement	6.5% per annum
Investment rate of return after retirement	5.0% per annum
Increases in pensions once in payment	Level on the excess over the Guaranteed Minimum Pension
	Statutory on the Guaranteed Minimum Pension
Increases in pensions in deferment	RPI subject to a maximum of 5% on the excess over the Guaranteed Minimum Pension
	Statutory on the Guaranteed Minimum Pension
Market value of assets	£5,669,000
Level of funding (actuarial value of assets as a percentage of accrued service liabilities)	89%

A further valuation review of the defined benefit scheme, carried out in September 2001, identified a pension deficit of £750,000 and, on actuarial advice, is being funded, in cash terms, over the estimated remaining working lives of the former employees. The deficit was recognised in full as an exceptional charge (note 4) in last year's profit and loss account.

There were no outstanding or prepaid contributions at 30 September 2002 (2001 – £nil).

The total pension cost for the Group is as follows:

	2002 *£000s*	2001 *£000s*
Ongoing defined contribution costs	1,500	1,002
Closed defined benefit valuation deficit (note 4)	–	750
	1,500	1,752

FRS 17 Retirement benefits

C Mouqué carried out the valuation used for the FRS 17 disclosures as at 30 September 2002. Scheme assets are based solely on the assets under management and are stated at their market value at 30 September 2002.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method	Projected Unit Method
Discount rate	5.5% per annum (2001 – 6.2% per annum)
Inflation rate	2.5% per annum (2001 – 3.0% per annum)
Increases in pensions once in payment	Level on the excess over the Guaranteed Minimum Pension
	Statutory on the Guaranteed Minimum Pension
Increases in pensions in deferment	RPI subject to a maximum of 5% on the excess over the Guaranteed Minimum Pension
	Statutory on the Guaranteed Minimum Pension

The assets in the scheme and the expected rate of return were:

	Long-term annual rate of return expected at 30 September 2002	Value at 30 September 2002 £000s	Long-term annual rate of return expected at 30 September 2001	Value at 30 September 2001 £000s
Equities	8.0%	3,083	7.0%	3,693
Bonds	5.0%	604	5.0%	651
Other	4.0%	567	5.0%	477
Total market value of assets		4,254		4,821
Present value of scheme liabilities		(7,286)		(6,439)
Deficit in the scheme		(3,032)		(1,618)
Related deferred tax asset		909		485
		(2,123)		(1,133)

The proforma impact of FRS 17 on Williams Lea Group balance sheet is as follows:

	Group 2002 £000s	Group 2001 £000s
Williams Lea Group net assets	35,474	22,162
Existing pension liability	750	750
Related deferred tax asset	(225)	(225)
	525	525
Net assets excluding pension liability	35,999	22,687
Pension liability (FRS 17 basis)	(2,123)	(1,133)
Net assets including pension liability (FRS 17 basis)	33,876	21,554
Williams Lea Group profit and loss reserves	19,797	16,543
Net pension liability	525	525
Profit and loss reserves excluding pension liability	20,322	17,068
Pension liability (FRS 17 basis)	(2,123)	(1,133)
Profit and loss reserves including pension liability (FRS 17 basis)	18,199	15,935

An analysis of the defined benefit cost for the year ended 30 September 2002 is as follows:

	Group 2002 *£000s*
Current service cost	–
Past service cost	–
Total operating charge	–
Expected return on pension scheme assets	310
Interest on pension scheme liabilities	(402)
Net finance cost	(92)

Analysis of movements in deficit during the year:

	Group 2002 *£000s*
At 1 October 2001	(1,618)
Total operating charge	–
Net finance cost	(92)
Actuarial loss	(1,322)
Contributions	–
At 30 September 2002	(3,032)

History of experience gains and losses:

	Group 2002 *£000s*
Actual return less expected return on pension scheme assets	(823)
Percentage of scheme assets – 19.3%	
Experience gains and losses arising on the scheme liabilities	(23)
Percentage of scheme liabilities – 0.3%	
Changes in assumptions underlying the present value of the scheme liabilities	(476)
Percentage of scheme liabilities – 6.5%	
Actuarial loss recognised in statement of total recognised gains and losses	(1,322)
Percentage of scheme liabilities – 18.1%	

21. Share capital

	2002 No.000s	2001 No.000s	2002 £000s	2001 £000s
Authorised:				
Ordinary shares of 20p each	25,000	25,000	5,000	5,000
Allotted, called up and fully paid:				
Ordinary shares of 20p each	10,917	9,912	2,183	1,982

During the year the allotted, called up and fully paid share capital was increased by £201,180. This included the issue of 1,005,401 ordinary shares which were used as part of the consideration paid for the acquisition of Alistair McIntosh Limited, of which 217,741 were issued to the Alistair McIntosh Employee Benefit Trust and the purchase of 500 shares by a non-executive director.

The Group operates two share option schemes and Save As You Earn Schemes.

The number of options held under the 1994 and 2001 Executive Share Option Schemes at 30 September 2002 were:

Period during which options are exercisable	Option price per share	Number of options
Up to 1 September 2006	£0.70	568,501
Up to 19 September 2007	£1.40	609,240
Up to 16 September 2008	£2.80	45,001
Up to 30 April 2009	£3.30	59,572
Up to 12 August 2009	£3.75	76,175
Between 11 December 2003 to 2 April 2011	£7.00	554,166
Between 2 August 2004 to 30 July 2012	£8.00	316,251
Between 30 July 2005 to 30 July 2012	£10.00	200,000
Total		2,428,906

During the year 516,251 options over shares were awarded (316,251 at £8.00 exercisable between 2 August 2004 and 30 July 2012 and 200,000 at £10.00 exercisable between 30 July 2005 and 30 July 2012). All of the options awarded during the year (at both £8.00 and £10.00) were conditionally awarded. Included in the total of £7.00 options are 233,517 options, which have been conditionally awarded.

Details of options granted to directors of the Company and the conditions relating to conditional option awards are shown in the Remuneration committee report.

Save As You Earn Schemes

At 1 October 2001, the Company had granted options under the Save As You Earn Schemes over 432,453 ordinary shares. At 30 September 2002 options outstanding under these Schemes were 229,413. Under the 1999 Scheme, exercisable between 30 November 2002 and 31 May 2003 there were 38,665 options at £5.95 and under the 2001 Scheme, exercisable between 31 May 2004 and 30 November 2004 there were 190,748 options at £5.95.

22. Reserves

	Group					Company			
	Share premium reserve £000s	Revaluation reserve £000s	Capital redemption reserve £000s	Other reserves £000s	Profit and loss account £000s	Share premium reserve £000s	Capital redemption reserve £000s	Other reserves £000s	Profit and loss account £000s
At 1 October 2001 (restated)	147	3,110	77	303	16,543	147	77	209	427
Retained profit for the year	–	–	–	–	3,254	–	–	–	4,259
Issue of shares (note 25)	9,857	–	–	–	–	9,857	–	–	–
At 30 September 2002	10,004	3,110	77	303	19,797	10,004	77	209	4,686

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

	2002 £000s	2001 £000s
Total operating profit	7,447	7,055
Depreciation of tangible fixed assets	1,801	1,570
Amortisation of intangible fixed assets	840	570
Directors' fees taken as new issue ordinary shares	–	43
Decrease in stocks	1,031	98
Decrease/(increase) in operating debtors and prepayments	3,770	(9,053)
(Decrease)/increase in operating creditors and accruals	(1,770)	7,375
Loss on sale of tangible fixed assets	23	5
Increase in pension provision	–	750
Decrease in property provision	(130)	(161)
Net cash inflow from operating activities	13,012	8,252

24. Analysis of net funds

	2001 £000s	Cash flow £000s	Acquisition £000s	Other non-cash movements £000s	2002 £000s
Cash at bank and in hand	6,211	(3,439)	–	–	2,772
Short-term deposits	5,540	710	–	–	6,250
Loans	(2,500)	(3,400)	(129)	–	(6,029)
Finance leases	(483)	279	(238)	(36)	(478)
Net funds	8,768	(5,850)	(367)	(36)	2,515

Short-term deposits are included in the Group balance sheet as cash at bank and in hand.

25. Reconciliation of movement in shareholders' funds

	2002 £000s	(restated) 2001 £000s
Profit for the financial year	4,996	4,843
Dividends	(1,742)	(1,486)
Retained profit for the year	3,254	3,357
Share capital – arising from share issue	201	1
Share premium reserve – arising from share issue	9,857	42
Net addition to shareholders' funds	13,312	3,400
Opening shareholders' funds (originally £21,984,000 before adding deferred tax prior year adjustment of £178,000)	22,162	18,762
Closing shareholders' funds	35,474	22,162

26. Financial commitments

	2002 £000s	2001 £000s
Finance leases and hire purchase contracts		
Amounts due by the Group under finance leases:		
– within one year	295	257
– in two to five years	228	289
Less: finance charges allocated to future periods	(45)	(63)
	478	483

Operating leases

At 30 September 2002 the Group had annual commitments under non-cancellable operating leases as follows:

	2002		2001	
	Land and buildings £000s	Other £000s	Land and buildings £000s	Other £000s
Expiry date:				
– within one year	31	670	482	1,465
– between two and five years	78	6,244	70	6,373
– in over five years	628	–	275	–
	737	6,914	827	7,838

Capital commitments

At 30 September 2002 the Group had committed capital expenditure of £210,000 (2001 – £nil).

27. Principal subsidiary undertakings

Williams Lea Group Limited held directly or indirectly 100% of the ordinary share capital of the following companies at 30 September 2002:

Name	Country of registration	Nature of business
Williams Lea Group Management Services Limited	England and Wales	Management and property services
Williams Lea Limited	England and Wales	Corporate information services
Springboard Creative Solutions Limited *	England and Wales	Creative design services
Alistair McIntosh Limited	England and Wales	Print management and direct mail services

** Held indirectly via Williams Lea Limited.*

Some of our clients…

ABN AMRO
Accenture
AIG Europe
Allen & Overy
Amerada Hess Limited
AMP
Arnold & Porter
ASDA
AXA
Bain & Company
Bank of America
Barclays
Barclays Capital
Bear Stearns International Limited
BP
Bradford & Bingley
British Airways
Cable & Wireless
Castrol
ChevronTexaco
Close Brothers Group plc
Commerzbank
Credit Suisse First Boston
Debenhams
Dresdner Kleinwort Wasserstein
EBRD
Ernst & Young
Freshfields Bruckhaus Deringer
FSA
GE Capital
GlaxoSmithKline
GUS plc
Halcrow
Hawkpoint Partners
HBOS
Herbert Smith
HSBC
Innogy plc
JPMorgan Chase
Lakeland Limited
Lawrence Graham
Lazard Brothers & Co., Limited
Leeds & Holbeck Building Society
Legal & General
Lehman Brothers
MBNA Europe Bank Limited
McDermott, Will & Emery
Merrill Lynch
Morgan Lewis
Morgan Stanley
N M Rothschild & Sons Limited
Nomura International plc
Norton Rose
NSPCC
P&O
Pfizer
PricewaterhouseCoopers
Prudential plc
Purple Loans
Royal & SunAlliance
Royal Mail Group plc
Schroders
Shearman & Sterling
Shell
Theodore Goddard
Tower 42
UBS Warburg
Weil, Gotshal & Manges

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