

Annual report 2003

2003

williamslea

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

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Chairman's statement

I am very pleased to report another year of progress for the Company. Turnover and earnings increased despite continued poor markets for some of our core services. Turnover increased by 17% to £193m and operating profit, before exceptional items and goodwill amortisation, increased by 3% to £10.1m.

Despite the 12% decrease in the diluted earnings per share (before exceptionals and amortisation) to 64p per share, your Board has taken into account its confidence for the future and recommends that a final dividend of 14 pence per share should be paid on 30 January 2004, making a total for the year of 20 pence (2002 – 20 pence).

Trading

Our businesses have proved their resilience in the face of continuing downturns in activity levels at many of our principal clients. Change has been managed with considerable goodwill on all sides and I congratulate the management team on client retention and on acquiring substantial new business to replace the reduction in existing volumes.

The ongoing development of our Corporate Information Solutions business is exciting and sees the Company emerging as a leading provider of integrated outsourcing services. This heralds a new era in selling our capabilities, characterised by signing higher value, more complex

contracts with new and existing clients and further increases in the differentiation between Williams Lea and its competitors.

We have continued to invest in building an international infrastructure. Our Indian operation is implementing a number of important client contracts, and in addition, our other operations in Asia now employ over 120 staff. The development of a European presence, demonstrated further by the acquisition of Pierce Corporate Information Solutions in Ireland on 31 October 2003, confirms our commitment to growth in this region.

Acquisition

On 1 March 2003 we completed the acquisition of Rodber Thorneycroft. This is an important niche acquisition, which significantly strengthens our marketing services proposition. The Rodber Thorneycroft team brings a new range of services and experience to Williams Lea covering, among other things, conference and event management. This strengthens our ability to deliver broad-based marketing solutions for our clients.

Management and staff

I have great pleasure in thanking our executive directors, management and staff for bringing the Company through another challenging year and for their great energy in growing the business profitably.



Board

In October 2003, Tony Williams completed 50 years as a Director, 18 of them as Chairman and 21 as Managing Director. Our congratulations go to him on achieving this unique record of service. Tony has seen the transformation of Williams Lea from being a traditional printer to the business it is today. He is Life President of the Group and his contribution is still greatly valued.

In May 2003, Conor Davey was appointed a Director. He joined the Group in 1991 and is currently responsible, with great success, for Group Business Development.

Prospects

The year has started well and I am cautiously optimistic that we will soon be signing further significant new business. We are confident of continuing profitable growth both domestically and overseas. Indeed, the opportunities for growth in all our markets are now stronger than ever, and the Board is actively considering how best to finance them. Our capable and enthusiastic people throughout the business will enable us to exploit these opportunities in 2003/04 and beyond.

A handwritten signature in blue ink that reads "John Padovan". The signature is fluid and cursive.

John Padovan, Chairman

Chief Executive's review

Last year I commented on the difficult trading conditions which were impacting business volumes across our client operations. This has been a recurring feature, particularly during the first half of 2003, but we have continued to work closely with our clients in response to these challenges.

We started the new year with a clear strategy to protect our existing platform of contracted business while maintaining overall levels of profitability. However, we were also determined to develop our corporate information proposition and we have made considerable progress during the past 12 months. There is now a genuine and rapidly developing understanding in the marketplace as to the benefits organisations can derive from integrating their 'front' and 'back-office' information requirements. Our ability to re-engineer processes, whilst reducing costs and improving the impact of the product we manage, has created widespread interest in Williams Lea's services. As a consequence, we have secured a new portfolio of clients across a broad mix of industry sectors. We are working for the first time this year with Lloyds TSB Commercial Finance, Société Générale, BMW, Debenhams, Marks & Spencer, Legal & General, Avis Europe and O2.

We made a series of important investments during the year to extend the breadth of our services and the countries in which we operate. In March we announced the acquisition of Rodber Thorneycroft, a niche

marketing communications agency specialising in corporate sponsorship and event management. This is a critical transaction because we can now offer these services to our existing clients on a fully outsourced basis. The acquisition of Rodber Thorneycroft has also extended our client base and we are delighted to be working with, among others, Orange, The Carphone Warehouse, Dresdner Kleinwort Wasserstein and Staffware. We have also extended our geographical capability in Ireland through the acquisition of Pierce Corporate Information Solutions on 31 October 2003. This is an important market for Williams Lea as we extend our European infrastructure in support of our clients. Based in Dublin and Belfast, we have already gained new contracts with Allied Irish Bank, Canada Life and PricewaterhouseCoopers.

Williams Lea is now fully operational in India providing cost-effective, back-office information processing services from Chennai. We view the provision of a highly secure offshore production 'hub' as an important option in the solutions we provide and believe that our presence in India will grow in the coming years. We have also continued to build our joint venture in Asia, extending our operations to include facilities in Seoul, Taipei, Shanghai and Beijing, and a new client in Sydney.

This year we held our third Shout! awards evening at The Natural History Museum, where we celebrated the contribution of our people to Williams Lea. The event was extended to include all staff and a much wider



invitation to clients. We also used the occasion to relaunch Nexus, our corporate intranet, which we view as a vital communication interface for the business. Our Shout! programme also won an award in its own right as runner-up in the Best Employee Recognition Programme in Incentive Today's Motivation Awards 2003. This is a great achievement, particularly as the Shout! reward and recognition programme was developed in house.

Our community programme, Catalyst, continues to be very strongly supported. The ongoing dedication and support of the team working with the pupils at Stormont House, a school for children with special needs in Hackney, continues to be warmly received by the school. This year, activities included mentoring, interview training and work experience.

The enthusiasm of the volunteers is acknowledged by the teaching staff and governing body of Stormont House and I know from the head teacher that their work is highly valued by the pupils. This year we continued our support of Capital Cares with over 40 employees taking part in two projects. The first group redecorated the community centre of Unity 70, a charitable organisation which helps to integrate disabled people of all ages into the community through outdoor events and regular meetings at their centre. Another team of volunteers helped revamp the Royal Hospital for Neurodisability in London. Williams Lea has become a national member of Capital Cares, allowing all our

colleagues around the UK to participate in worthy causes under this programme.

The new financial year has started well and we are encouraged by the continuing level of new business activity. There is undoubtedly a strong appetite in the marketplace for integrated, corporate information solutions which should provide Williams Lea with considerable opportunity in the months ahead.

A handwritten signature in blue ink, appearing to read 'Tim Griffiths'. The signature is fluid and stylized, with a large initial 'T' and 'G'.

Tim Griffiths, Chief Executive

Directors and advisors

of Williams Lea Group Limited

Directors

J M F Padovan *◇ *Chairman*
T P Griffiths *Chief Executive*
J G Barton
C J Davey
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
1 More London Place
London SE1 2AF

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

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the twenty-second Annual General Meeting of the members of Williams Lea Group Limited will be held at Clifton House, Worship Street, London EC2A 2EJ at 12 noon on 30 January 2004 for the following purposes:

1. To receive and adopt the report of the directors and the audited accounts for the year ended 30 September 2003.
2. To declare a final dividend of 14 pence per ordinary share for the year ended 30 September 2003, payable on 30 January 2004, to ordinary shareholders on the members' register at the close of business on 17 January 2004.
3. To re-elect JMF Padovan as a director of the Company.
4. To re-elect TP Griffiths as a director of the Company.
5. To re-elect SMG Williams as a director of the Company.
6. To elect CJ Davey as a director of the Company.
7. 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
23 December 2003

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 2003

Results and dividends

The operating profit attributable to continuing operations before goodwill amortisation and exceptional items amounted to £10,125,000 (2002 – £9,797,000). The profit for the year after exceptional items and taxation amounted to £3,640,000 (2002 – £4,996,000). The Company paid an interim dividend of 6 pence per share during the year (2002 – 6 pence).

The directors recommend the payment of a final ordinary dividend of 14 pence per share (2002 – 14 pence), making total dividends for the year of 20 pence per share (2002 – 20 pence), amounting to £1,689,000 (2001 – £1,742,000).

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.

Directors and their interests

In accordance with the Articles of Association, TP Griffiths and SMG Williams stand for re-election and CJ Davey stands for election at the Annual General Meeting.

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

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 2003 had the following interests in shares of the Company at the beginning and end of the financial year:

	20p ordinary shares			
	1 October 2002	Acquired	Disposed	30 September 2003
J M F Padovan – beneficial	40,035	–	2,835	37,200
– non-beneficial	10,000	–	1,000	9,000
T P Griffiths	381,027	–	47,542	333,485
J G Barton	3,062	15,115	16,577	1,600
C J Davey (<i>appointed 30 May 2003</i>)	18,944	963	5,211	14,696
S J Davidson	5,000	–	–	5,000
K C M Innes Ker	500	–	–	500
C T M Toulson-Clarke	16,527	–	14,927	1,600
A G Williams – beneficial	372,250	–	100,000	272,250
– non-beneficial	958,250	–	–	958,250
M G Williams	25,000	20,000	–	45,000
S M G Williams	473,012	20,000	–	493,012

MG Williams is one of a number of beneficiaries of the Williams family share trusts, which includes the J Graham Williams Settlement Trust. At 30 September 2003, the trusts held 2,468,521 ordinary shares in the Company.

Subsequent events

Pierce Corporate Information Solutions

On 31 October 2003 the Group completed the acquisition of Pierce Corporate Information Solutions, a division of Robert Pierce Limited. The business provides corporate information services to clients in Ireland. Total consideration at completion amounted to £840,000, with further deferred consideration based on performance payable at the end of each of the first two years following completion.

Substantial shareholders

At 13 November 2003, 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
Williams Lea Group Trustees Limited	2,678,292	24.1%
Trustees of J Graham Williams Settlement Trust	1,710,271	15.4%
3i Group Plc	1,421,412	12.8%
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 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, career development and promotion to disabled employees wherever appropriate.

Charitable contributions

During the year, the Group made charitable donations in the UK of £25,976 (2002 – £38,587). Included in the charitable contributions was £9,766 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
23 December 2003

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 four 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, in addition, SJ Davidson, KCM Innes Ker and JMF Padovan. The Chief Executive, Finance Director 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 and the appropriateness of accounting policies.

Remuneration Committee

The Remuneration Committee is chaired by SJ Davidson and comprises, in addition, KCM Innes Ker, JMF Padovan and AG Williams. The Committee was established to create a formal and transparent procedure for developing an executive remuneration policy. The Committee's duties are to determine, on behalf of the Board, the remuneration packages, including pension provision and contracts of service of senior employees and the executive directors.

Nomination Committee

The Nomination Committee is chaired by JMF Padovan and comprises, in addition, all of the non-executive directors and the Chief Executive. The Committee considers all executive and non-executive appointments, reappointments and terminations of employment and 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. Such controls, however, are designed to manage rather than eliminate the risk and can provide reasonable, but 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

Although private companies are not required to include a Remuneration Committee report in their report and accounts, the directors wish to apply good governance principles. Accordingly, set out below, is the Remuneration Committee report although this does not include all aspects of the provisions of the Combined Code as relates to Directors' remuneration annexed to the Listing Rules of the Financial Services Authority.

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 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 total awards made during the year under this scheme are detailed in note 21 and those to Directors are shown on page 15.

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 2003 £000s	Total 2002 £000s
J M F Padovan	75	–	–	–	75	75
T P Griffiths	241	–	1	38	280	318
J G Barton	155	–	1	15	171	199
C J Davey (appointed 30 May 2003)	47	–	–	2	49	–
S J Davidson	20	–	–	–	20	8
K C M Innes Ker	20	–	–	–	20	13
C T M Toulson-Clarke	182	–	1	26	209	240
A G Williams	40	–	1	–	41	41
M G Williams	–	–	–	–	–	78
S M G Williams	20	–	–	–	20	20
Total 2003	800	–	4	81	885	992
Total 2002	770	145	5	72	992	

The amounts in respect of the highest paid director are as follows: emoluments of £242,000 (2002 – £287,000) and money purchase pension contributions of £38,000 (2002 – £31,000).

Directors' share options

1994 Executive Share Option Plan

Details of the Company's ordinary shares under this Executive Share Option Plan are as follows:

	Options to acquire 20p ordinary shares				
	Exercise price	1 October 2002	Options awarded	Options exercised	30 September 2003
T P Griffiths	£0.70	150,000	–	–	150,000
	£1.40	150,000	–	–	150,000
J G Barton	£0.70	108,750	–	15,115	93,635
	£1.40	125,000	–	–	125,000
C Davey (<i>appointed 30 May 2003</i>)	£1.40	10,700	–	–	10,700
	£2.80	5,364	–	–	5,364
	£3.30	10,000	–	–	10,000
	£3.75	40,000	–	–	40,000
	£7.00	23,856	–	–	23,856
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

The vesting of the shares under the 1994 Executive Share Option Plan are not subject to performance criteria. The dates on which these options are exercisable are included in note 21.

Directors' share options (continued)

2001 Executive Share Option Plan

Details of the Company's ordinary shares under this Executive Share Option Plan are as follows:

	Options to acquire 20p ordinary shares				
	Exercise price	1 October 2002	Granted during the year	Lapsed during the year	30 September 2003
T P Griffiths	£7.00	42,857	–	42,857	–
	£8.00	38,438	–	–	38,438
	£9.00	–	33,750	–	33,750
J G Barton	£7.00	25,714	–	25,714	–
	£8.00	25,313	–	–	25,313
	£9.00	–	21,750	–	21,750
C J Davey (appointed 30 May 2003)	£7.00	30,437	–	20,357	10,080
	£8.00	20,625	–	–	20,625
	£9.00	200,000	–	–	200,000
C T M Toulson-Clarke	£7.00	31,071	–	31,071	–
	£8.00	30,000	–	–	30,000
	£9.00	–	25,500	–	25,500

All of the awards under the 2001 Executive Share Option Plan are subject to performance criteria, details of which are set out on page 12, except the awards to CJ Davey of 10,080 options at £7.00 per share and 200,000 options at £9.00 per share.

The dates on which these options are exercisable are included in note 21.

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 and of the profit or loss of the Group 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.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

23 December 2003

Consolidated profit and loss account

for the year ended 30 September 2003

	Notes	2003 £000s	2003 £000s	2003 £000s	2002 £000s
Turnover	2				
Group and share of joint venture's turnover				194,958	165,038
Less share of joint venture's turnover				(1,806)	–
Continuing operations				190,242	165,038
Acquisitions				2,910	–
Group turnover				193,152	165,038
Cost of sales	3			(173,779)	(147,066)
Gross profit				19,373	17,972
Administrative expenses	3			(12,459)	(10,525)
Operating profit		<i>ongoing</i>	<i>acquisitions</i>		
Continuing operations – before goodwill and exceptional items		9,974	151	10,125	9,797
– amortisation of goodwill		(1,650)	(115)	(1,765)	(840)
– exceptional items	4	(1,446)	–	(1,446)	(1,510)
Group operating profit		6,878	36	6,914	7,447
Share of operating profit in joint venture				36	–
Total operating profit: Group and share of joint venture	5			6,950	7,447
Interest receivable and similar income	7			167	398
Interest payable and similar charges	8			(663)	(205)
Profit on ordinary activities before taxation				6,454	7,640
Tax on profit on ordinary activities	9			(2,814)	(2,644)
Profit on ordinary activities after taxation				3,640	4,996
Dividends	10			(1,689)	(1,742)
Retained profit for the year				1,951	3,254
Earnings per share	11				
Basic before exceptional items and amortisation of goodwill				74p	84p
Basic				42p	60p
Diluted before exceptional items and amortisation of goodwill				64p	73p
Diluted				36p	52p
Consolidated statement of total recognised gains and losses					
for the year ended 30 September 2003					
				2003	2002
Profit for the financial year attributable to members of the parent company				3,640	4,996
Total recognised gains and losses relating to the year				3,640	4,996

Balance sheets

as at 30 September 2003

	Notes	Group		Company	
		2003 £000s	2002 £000s	2003 £000s	2002 £000s
Fixed assets					
Intangible assets	12	24,566	24,475	–	–
Tangible assets	13	9,934	8,600	–	–
Investments	14	13,491	6,503	40,995	34,462
		<u>47,991</u>	<u>39,578</u>	<u>40,995</u>	<u>34,462</u>
Current assets					
Stocks	15	3,844	3,305	–	–
Debtors	16	39,604	36,495	45	12
Cash at bank and in hand		5,922	9,022	797	460
		<u>49,370</u>	<u>48,822</u>	<u>842</u>	<u>472</u>
Creditors:					
amounts falling due within one year	17	(46,357)	(43,097)	(13,934)	(9,607)
Net current assets/(liabilities)		<u>3,013</u>	<u>5,725</u>	<u>(13,092)</u>	<u>(9,135)</u>
Total assets less current liabilities		51,004	45,303	27,903	25,327
Creditors:					
amounts falling due after more than one year	18	(11,744)	(9,079)	(11,485)	(8,168)
Provisions for liabilities and charges	19	(673)	(750)	–	–
Net assets		<u>38,587</u>	<u>35,474</u>	<u>16,418</u>	<u>17,159</u>
Capital and reserves					
Called up share capital	21	2,224	2,183	2,224	2,183
Share premium reserve	22	11,125	10,004	11,125	10,004
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	21,748	19,797	2,783	4,686
Total shareholders' funds	25	<u>38,587</u>	<u>35,474</u>	<u>16,418</u>	<u>17,159</u>

The financial statements on pages 18 to 39 were approved by the Board on 23 December 2003.

J M F Padovan, Chairman

T P Griffiths, Chief Executive

Consolidated cash flow statement

for the year ended 30 September 2003

	Notes	2003 £000s	2002 £000s
Net cash inflow from operating activities	23	9,265	13,012
Returns on investments and servicing of finance			
Interest received		167	398
Interest paid		(631)	(165)
Interest element of finance lease payments		(32)	(40)
Net cash inflow from returns on investments and servicing of finance		(496)	193
Taxation			
UK Corporation tax paid		(2,647)	(3,034)
Overseas tax paid		–	(26)
Net cash outflow from taxation		(2,647)	(3,060)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(3,601)	(3,098)
Payments to acquire shares by employee related share trusts		(6,989)	(166)
Investment in joint venture		(226)	–
Receipts from the sale of shares by employee related share trusts		264	398
Receipts from sales of tangible fixed assets		154	40
Net cash outflow from capital expenditure and financial investment		(10,398)	(2,826)
Acquisitions and disposals			
Purchase of subsidiary undertaking	14	(3,228)	(13,485)
Net cash acquired with subsidiary undertaking	14	217	1,765
Net cash outflow from acquisitions and disposals		(3,011)	(11,720)
Equity dividends paid		(1,763)	(1,453)
Management of liquid resources			
Decrease/(increase) in short-term deposits	24	2,850	(710)
Financing			
Issue of ordinary shares		162	4
Net movement in short term borrowings		(11)	–
Net movement in long term borrowings		6,073	3,400
Capital element of finance lease payments		(274)	(279)
Net cash inflow from financing		5,950	3,125
Decrease in cash	24	(250)	(3,439)
Reconciliation of net cash flow to movement in net funds/debt			
Decrease in cash in the year		(250)	(3,439)
(Decrease)/increase in short-term deposits		(2,850)	710
Cash outflow from decrease in lease financing		274	279
Loans		(6,062)	(3,400)
Change in net funds arising from cash flows		(8,888)	(5,850)
Loans and finance leases acquired with subsidiaries		–	(367)
New finance leases		–	(36)
Movement in the year		(8,888)	(6,253)
Net funds at beginning of the year	24	2,515	8,768
Net funds at end of the year	24	(6,373)	2,515

Notes to the accounts

at 30 September 2003

1. Accounting policies

Basis of preparation

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.

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.

Rodber Thorneycroft 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 Rodber Thorneycroft Limited for the seven month period from its acquisition on 1 March 2003. 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 during the year in the UK and overseas net of trade discounts, VAT and other sales related taxes.

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 | <i>the unexpired period of the lease</i> |
| ■ 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.

Joint venture

The Group's share of turnover and operating profit of the joint venture is included in the consolidated profit and loss account and the investment is included in the consolidated balance sheet at the Group's share of the joint venture's net assets.

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 on an undiscounted basis at 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 exchange

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of undertakings with a reporting currency other than in sterling are taken to reserves.

All other currency translation differences are taken to the profit and loss account.

1. Accounting policies (continued)

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 £193,152,000 (2002 – £165,038,000), which is derived from the provision of business services, is substantially carried out in the United Kingdom with £1,652,000 (2002 – £500,000) arising outside the United Kingdom.

	2003	2002
	£000s	£000s
3. Cost of sales and administrative expenses		
Cost of sales	<u>173,779</u>	<u>147,066</u>
Administrative expenses		
Continuing operations – ongoing excluding amortisation of goodwill and exceptional items	9,005	8,175
– ongoing amortisation of goodwill	1,650	840
– exceptional items (note 4)	<u>1,446</u>	<u>1,510</u>
	<u>12,101</u>	<u>10,525</u>
Acquisitions – excluding amortisation of goodwill	243	–
– amortisation of goodwill	<u>115</u>	<u>–</u>
	<u>358</u>	<u>–</u>
	<u>12,459</u>	<u>10,525</u>

	2003	2002
	<i>£000s</i>	<i>£000s</i>
4. Exceptional items		
Continuing operations – restructuring costs	1,159	811
– share buy back	287	–
– pre-flotation expenses	–	401
– integration costs	–	298
– tax on exceptional items	(387)	(333)
	<u>1,059</u>	<u>1,177</u>

Restructuring costs incurred in the year ended 30 September 2003 represented redundancy and associated payroll expenditure.

The share buy back expenses represented professional fees and other expenses incurred in the purchase of 764,684 shares on 3 April 2003. The shares in Williams Lea Group Limited were acquired by an employee benefit trust and were financed by a loan of £6,882,156 from the Company.

In the previous year exceptional items represented restructuring costs, pre-flotation expenses and integration costs. Restructuring costs related to redundancy and associated payroll expenditure. Pre-flotation expenses included professional fees and other expenses incurred in preparing the Group for an initial public offering, which was postponed in June 2002 in light of the depressed state of the equity markets. Integration costs represented expenses incurred by the Group following the acquisition of Alistair McIntosh Limited.

	2003	2002
	<i>£000s</i>	<i>£000s</i>
5. Operating profit		
Operating profit is stated after charging/(crediting):		
Amortisation of intangible fixed assets	1,765	840
Depreciation:		
– owned fixed assets	1,931	1,632
– assets under finance leases	57	169
Operating lease rentals:		
– plant and machinery	8,125	9,330
– land and buildings	774	710
Auditors' remuneration:		
– audit services	146	130
– non-audit services	108	312
Loss on disposal of tangible fixed assets	175	23
Government grants	–	(2)
Other operating income	(226)	(186)
	<u></u>	<u></u>

Other operating income represents amounts received on the sub-lease of short leasehold properties. The related expenditure in servicing these properties is £207,000 (2002 – £197,000), resulting in a net income of £19,000 (2002 – £11,000 expenditure).

	2003	2002
	<i>£000s</i>	<i>£000s</i>
6. Staff costs		
Wages and salaries	55,376	57,610
Social security costs	5,032	4,987
Other pension costs	1,558	1,500
	<u>61,966</u>	<u>64,097</u>

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:

	2003	2002
	<i>No.</i>	<i>No.</i>
Production	1,569	1,558
Administration	208	184
Selling	14	15
	<u>1,791</u>	<u>1,757</u>

	2003	2002
	<i>£000s</i>	<i>£000s</i>
7. Interest receivable and similar income		
Bank interest	<u>167</u>	<u>398</u>

	2003	2002
	<i>£000s</i>	<i>£000s</i>
8. Interest payable and similar charges		
Bank loans	492	115
Finance lease and hire purchase charges	32	40
Loan notes	116	43
Other interest	23	7
	<u>663</u>	<u>205</u>

9. Tax on profit on ordinary activities	2003	2002
	<i>£000s</i>	<i>£000s</i>
Current tax		
UK corporation tax	2,735	2,754
Adjustments in respect of prior years	(30)	(109)
	<u>2,705</u>	<u>2,645</u>
Double taxation relief	–	(26)
	<u>2,705</u>	<u>2,619</u>
Foreign tax	20	26
Total current tax	<u>2,725</u>	<u>2,645</u>
Deferred tax	89	(1)
Total tax on profit on ordinary activities	<u>2,814</u>	<u>2,644</u>

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:

	2003	2002
	<i>£000s</i>	<i>£000s</i>
Profit on ordinary activities before tax	<u>6,454</u>	<u>7,640</u>
Tax on Group profit on ordinary activities at standard UK corporation tax rate of 30% (2002 – 30%)	1,936	2,292
Effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	805	504
Accelerated capital allowances	(36)	(4)
Other timing differences	–	(38)
Adjustments to tax charge in respect of previous years	(30)	(109)
Unrelieved tax losses	61	–
Deferred tax on pension provision	(23)	–
Exchange rate difference	12	–
Total current tax charge for the year	<u>2,725</u>	<u>2,645</u>

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:

	2003	2002
	<i>£000s</i>	<i>£000s</i>
Excess of depreciation charged over capital allowances	143	130
Pension provision	202	225
Other timing differences	80	164
Included in debtors (note 16)	<u>425</u>	<u>519</u>

The difference between the decrease in the deferred tax asset and the deferred tax charge for the year is represented by the Rodber Thorneycroft Limited deferred tax liability at acquisition of £5,000.

The deferred tax asset of £425,000 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	2003	2002
	<i>£000s</i>	<i>£000s</i>
Interim – 6p per share (2002 – 6p per share)	508	487
Proposed final dividend – 14p per share (2002 – 14p per share)	1,181	1,255
	<u>1,689</u>	<u>1,742</u>

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. 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 £3,640,000 (2002 – £4,996,000). The calculation of basic earnings per share is based on ordinary shares of 8,717,000 (2002 – 8,333,000), 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:

	2003	2002
	<i>000s</i>	<i>000s</i>
Basic weighted average number of shares	8,717	8,333
Dilutive potential ordinary shares:		
Employee share options	1,309	1,335
Diluted weighted average number of shares	<u>10,026</u>	<u>9,668</u>

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:

	2003	2002
	<i>£000s</i>	<i>£000s</i>
Profit on ordinary activities after taxation	3,640	4,996
Add back:		
Amortisation of goodwill	1,765	840
Exceptional items	1,446	1,510
Tax on exceptional items	(387)	(333)
	<u>6,464</u>	<u>7,013</u>

12. Intangible assets – goodwill

£000s

Cost:	
At 1 October 2002	26,361
Acquisition of Rodber Thorneycroft Limited (see note 14)	2,076
Write back of goodwill on the unincorporated business	(600)
At 30 September 2003	<u>27,837</u>
Amortisation:	
At 1 October 2002	1,886
Provided during the year	1,765
Write back of amortised goodwill on the unincorporated business	(380)
At 30 September 2003	<u>3,271</u>
Net book amount:	
At 30 September 2003	<u>24,566</u>
At 1 October 2002	<u>24,475</u>

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	Short leaseholds	Fixtures and fittings	Computer equipment, plant and machinery	Total
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Group					
Cost or valuation:					
At 1 October 2002	6,741	2,102	774	7,812	17,429
Acquisition of Rodber Thorneycroft Limited	–	–	25	25	50
Additions	1,958	16	241	1,386	3,601
Disposals	(48)	(19)	(51)	(633)	(751)
At 30 September 2003	8,651	2,099	989	8,590	20,329
Depreciation:					
At 1 October 2002	1,387	1,302	540	5,600	8,829
Provided during the year	411	50	79	1,448	1,988
Disposals	(6)	(19)	(14)	(383)	(422)
At 30 September 2003	1,792	1,333	605	6,665	10,395
Net book amount:					
At 30 September 2003	6,859	766	384	1,925	9,934
At 1 October 2002	5,354	800	234	2,212	8,600

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 £183,000 (2002 – £406,000).

Company

There are no tangible fixed assets in the Company.

	Group		Company	
	2003	2002	2003	2002
14. Fixed asset investments	£000s	£000s	£000s	£000s
Subsidiary undertakings:				
– cost	–	–	28,759	2,769
– provision	–	–	(800)	(800)
– incorporation of new subsidiaries	–	–	–	16
– additional cost of incorporation of existing subsidiary	–	–	19	–
– acquisitions	–	–	–	25,974
Net book amount	–	–	27,978	27,959
Joint Venture:				
– Investment	226	–	–	–
– Fixed Assets	57	–	–	–
– Current Assets	567	–	–	–
Share of gross assets	850	–	–	–
– Liabilities due within one year	(361)	–	–	–
– Liabilities due after more than one year	(15)	–	–	–
Share of gross liabilities	(376)	–	–	–
Share of net assets	474	–	–	–
Investment in shares in Williams Lea Group Limited:				
– cost brought forward	7,237	5,755	7,237	5,755
– shares issued to Alistair McIntosh Employee Benefit Trust	–	2,177	–	2,177
– shares purchased in year	6,989	166	6,989	166
– shares sold in year	(287)	(861)	(287)	(861)
	13,939	7,237	13,939	7,237
Provision for diminution in value	(734)	(1,198)	(734)	(1,198)
Shares sold in year	23	464	23	464
Increase in provision	(211)	–	(211)	–
	(922)	(734)	(922)	(734)
Net book amount of investment in shares in Williams Lea Group Limited	13,017	6,503	13,017	6,503
Total net book amount	13,491	6,503	40,995	34,462

The cost of the investment in shares in Williams Lea Group Limited of £13,939,000 (2002 – £7,237,000) represents 2,678,292 shares (2,460,551 shares (2002 – 1,740,080) held by the Williams Lea Group Employee Share Trusts and 217,741 (2002 – 217,741) shares held by 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.

During the year, the Group incorporated the following subsidiaries: Williams Lea France S.A.S, Williams Lea S.L, Williams Lea Italia s.r.l, Williams Lea Belgium BVBA, Williams Lea Ireland Limited and Williams Lea Finland Oy and established a joint venture with Bowne & Co., Inc. in Asia.

The principal group subsidiaries are shown in note 28.

14. Fixed asset investments (continued)

Acquisition

On 1 March 2003 Williams Lea Limited acquired the entire share capital of Rodber Thorneycroft Limited. Total consideration amounted to £2,062,047 satisfied by cash of £664,000 and 111,109 ordinary shares in Williams Lea Group Limited valued at £9.00 per share (£999,981) and contingent cash (£336,000) payable on the achievement of a pre-tax profit target for the period from 1 March 2003 to 30 September 2003. Acquisition costs totalled £62,066.

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

The net assets of Rodber Thorneycroft Limited at the date of acquisition were as follows:

	Initial book value	Fair value adjustments	Fair value of net assets
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Fixed assets	56	(6)	50
Debtors	1,481	(5)	1,476
Cash	217	–	217
Creditors	(1,757)	–	(1,757)
Net assets	(3)	(11)	(14)
Goodwill arising on acquisition			2,076
Consideration:			<u>2,062</u>

The fair value adjustments include provisions for doubtful receivables and additional charges to align depreciation policies to those used within the Group.

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	280
Alistair McIntosh Limited – deferred consideration	2,222
	<u>2,502</u>

There was no goodwill arising from the above payments.

	Group		Company	
	2003	2002	2003	2002
15. Stocks	£000s	£000s	£000s	£000s
Raw materials and consumables	3,513	3,204	–	–
Work in progress	331	101	–	–
	<u>3,844</u>	<u>3,305</u>	<u>–</u>	<u>–</u>

	Group		Company	
	2003	2002	2003	2002
16. Debtors	£000s	£000s	£000s	£000s
Trade debtors	33,448	31,547	–	–
Other debtors	285	1,059	33	–
Deferred tax asset (note 9)	425	519	–	–
Prepayments and accrued income	5,446	3,370	12	12
	<u>39,604</u>	<u>36,495</u>	<u>45</u>	<u>12</u>

	Group		Company	
	2003	2002	2003	2002
17. Creditors: amounts falling due within one year	£000s	£000s	£000s	£000s
Current instalments due on bank loans (note 18)	1,189	1,200	1,140	1,120
Obligations under finance leases and hire purchase contracts (note 26)	104	269	–	–
Trade creditors	18,454	15,603	–	–
Amounts owed to subsidiary undertakings	–	–	8,763	4,999
Corporation tax	1,018	945	6	–
Other taxes and social security costs	1,935	3,195	29	–
Other creditors	4,432	4,047	2,817	2,233
Accruals and deferred income	18,046	16,583	–	–
Proposed dividend	1,179	1,255	1,179	1,255
	<u>46,357</u>	<u>43,097</u>	<u>13,934</u>	<u>9,607</u>

Other creditors includes £336,000 due on the purchase of Rodber Thornycroft Limited which is contingent on the future performance of the business.

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

	Group		Company	
	2003	2002	2003	2002
18. Creditors: amounts falling due after more than one year	£000s	£000s	£000s	£000s
Bank loans	10,902	4,829	10,902	4,780
Obligations under finance leases and hire purchase contracts (note 26)	100	209	–	–
Other creditors	742	4,041	583	3,388
	<u>11,744</u>	<u>9,079</u>	<u>11,485</u>	<u>8,168</u>

Other creditors includes £582,400 due on the purchase of Alistair McIntosh Limited which is contingent on the future performance of the business.

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

Bank loans are repayable as follows:

	Group		Company	
	2003	2002	2003	2002
	£000s	£000s	£000s	£000s
Amounts falling due:				
- in one year or less or on demand	1,189	1,200	1,140	1,120
- in more than one year but not more than two years	760	809	760	760
- in more than two years but not more than five years	10,142	4,020	10,142	4,020
	<u>12,091</u>	<u>6,029</u>	<u>12,042</u>	<u>5,900</u>
less: included in creditors: amounts falling due within one year	(1,189)	(1,200)	(1,140)	(1,120)
	<u>10,902</u>	<u>4,829</u>	<u>10,902</u>	<u>4,780</u>

19. Provisions for liabilities and charges	Total
	<i>£000s</i>
Pension provision at 1 October 2002	750
Utilised during the year	<u>(77)</u>
Pension provision at 30 September 2003	<u>673</u>

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 disclosures required 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 in the year ended 30 September 2001.

There were no outstanding or prepaid contributions at 30 September 2003 (2002 – £nil).

The total pension cost for the Group is as follows:

	2003	2002
	<i>£000s</i>	<i>£000s</i>
Ongoing defined contribution costs	<u>1,558</u>	<u>1,500</u>

20. Pension arrangements (continued)

FRS 17 Retirement benefits

Alexander Forbes Financial Services Ltd carried out the valuation used for the FRS 17 disclosures as at 30 September 2003. Scheme assets are based solely on the assets under management and are stated at their market value at 30 September 2003.

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

Valuation method	Projected Unit Method
Discount rate	5.75% per annum (2002 – 5.5% per annum, 2001 – 6.2% per annum)
Inflation rate	2.75% per annum (2002 – 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 2003	Value at 30 September 2003 £000s	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%	3,877	8.0%	3,083	7.0%	3,693
Bonds	5.0%	531	5.0%	604	5.0%	651
Other	4.0%	267	4.0%	567	5.0%	477
Total market value of assets		4,675		4,254		4,821
Present value of scheme liabilities		(7,729)		(7,286)		(6,439)
Deficit in the scheme		(3,054)		(3,032)		(1,618)
Related deferred tax asset		916		909		485
		(2,138)		(2,123)		(1,133)

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

	2003 £000s	2002 £000s
Williams Lea Group net assets	38,587	35,474
Existing pension liability	673	750
Related deferred tax asset	(202)	(225)
	471	525
Net assets excluding pension liability	39,058	35,999
Pension liability (FRS 17 basis)	(2,138)	(2,123)
Net assets including pension liability (FRS 17 basis)	36,920	33,876
Williams Lea Group profit and loss reserves	21,748	19,797
Net pension liability	471	525
Profit and loss reserves excluding pension liability	22,219	20,322
Pension liability (FRS 17 basis)	(2,138)	(2,123)
Profit and loss reserves including pension liability (FRS 17 basis)	20,081	18,199

20. Pension arrangements (continued)

An analysis of the defined benefit cost for the year ended 30 September 2003 is as follows:

	2003	2002
	<i>£000s</i>	<i>£000s</i>
Current service cost	–	–
Past service cost	–	–
Total operating charge	<u>–</u>	<u>–</u>
Expected return on pension scheme assets	296	310
Interest on pension scheme liabilities	<u>(398)</u>	<u>(402)</u>
Net finance cost	<u>(102)</u>	<u>(92)</u>

Analysis of movements in deficit during the year:

	2003	2002
	<i>£000s</i>	<i>£000s</i>
At 1 October	(3,032)	(1,618)
Total operating charge	–	–
Net finance cost	(98)	(92)
Actuarial loss	(26)	(1,322)
Contributions	102	–
At 30 September	<u>(3,054)</u>	<u>(3,032)</u>

History of experience gains and losses:

	2003	2002
	<i>£000s</i>	<i>£000s</i>
Actual return less expected return on pension scheme assets	108	(823)
<i>Percentage of scheme assets –</i>	2.3%	19.3%
Experience gains and losses arising on the scheme liabilities	(202)	(23)
<i>Percentage of scheme liabilities –</i>	2.6%	0.3%
Changes in assumptions underlying the present value of the scheme liabilities	68	(476)
<i>Percentage of scheme liabilities –</i>	0.9%	6.5%
Actuarial loss recognised in statement of total recognised gains and losses	<u>(26)</u>	<u>(1,322)</u>
<i>Percentage of scheme liabilities –</i>	0.3%	18.1%

21. Share capital	2003	2002	2003	2002
	<i>No.000s</i>	<i>No.000s</i>	<i>£000s</i>	<i>£000s</i>
Authorised:				
Ordinary shares of 20p each	<u>25,000</u>	<u>25,000</u>	<u>5,000</u>	<u>5,000</u>
Allotted, called up and fully paid:				
Ordinary shares of 20p each	<u>11,119</u>	<u>10,917</u>	<u>2,224</u>	<u>2,183</u>

During the year, the allotted, called up and fully paid share capital was increased by £40,332. This represented the issue of 111,109 ordinary shares, which were used as part of the consideration paid for the acquisition of Rodber Thorneycroft Limited and the issue of 90,549 ordinary shares to vested share option holders.

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	518,386
Up to 19 September 2007	£1.40	550,787
Up to 16 September 2008	£2.80	33,314
Up to 30 April 2009	£3.30	25,815
Up to 12 August 2009	£3.75	62,946
Between 11 December 2003 and 2 April 2011	£7.00	348,668
Between 4 August 2004 and 30 July 2012	£8.00	306,251
Between 30 July 2005 and 30 July 2012	£10.00	200,000
Between 24 April 2006 and 24 April 2013	£9.00	568,698
Total		<u>2,614,865</u>

During the year, 568,698 options at £9.00, exercisable between 24 April 2006 and 24 April 2013, were awarded under the 2001 Executive Share Option Plan. All of the options awarded during the year were awarded with no associated performance criteria except 103,500, which were conditionally awarded.

During the year, 202,498 options, awarded under the 2001 Executive Share Option Plan at £7.00 per share in March 2001, lapsed because they did not meet the performance requirement set out under the plan. Details of the conditions relating to conditional option awards and options granted to directors of the Company are shown in the Remuneration Committee report.

Save As You Earn Schemes

At 1 October 2002, the Company had granted options under the Save As You Earn Schemes over 229,413 ordinary shares.

At 30 September 2003 options outstanding under these Schemes were 162,017 exercisable between 31 May 2004 and 30 November 2004 at £5.95 per share.

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 2002	10,004	3,110	77	303	19,797	10,004	77	209	4,686
Retained profit/(loss) for the year	–	–	–	–	1,951	–	–	–	(1,903)
Issue of shares (note 25)	1,121	–	–	–	–	1,121	–	–	–
At 30 September 2003	11,125	3,110	77	303	21,748	11,125	77	209	2,783

23. Reconciliation of operating profit to net cash flow from operating activities	2003 £000s	2002 £000s
Total operating profit	6,950	7,447
Depreciation of tangible fixed assets	1,988	1,801
Amortisation of intangible fixed assets	1,765	840
(Increase)/decrease in stocks	(539)	1,031
(Increase)/decrease in operating debtors and prepayments	(1,727)	3,770
Increase/(decrease) in operating creditors and accruals	730	(1,770)
Loss on sale of tangible fixed assets	175	23
Decrease in pension provision	(77)	–
Decrease in property provision	–	(130)
Net cash inflow from operating activities	9,265	13,012

24. Analysis of net funds	2002 £000s	Cash flow £000s	2003 £000s
Cash at bank and in hand	2,772	(250)	2,522
Short-term deposits	6,250	(2,850)	3,400
Loans	(6,029)	(6,062)	(12,091)
Finance leases	(478)	274	(204)
Net funds	2,515	(8,888)	(6,373)

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

	2003	2002
	<i>£000s</i>	<i>£000s</i>
25. Reconciliation of movement in Group shareholders' funds		
Profit for the financial year	3,640	4,996
Dividends	(1,689)	(1,742)
Retained profit for the year	1,951	3,254
Share capital – arising from share issue	41	201
Share premium reserve – arising from share issue	1,121	9,857
Net addition to shareholders' funds	3,113	13,312
Opening shareholders' funds	35,474	22,162
Closing shareholders' funds	38,587	35,474

	2003	2002
	<i>£000s</i>	<i>£000s</i>
26. Group financial commitments		
Finance leases and hire purchase contracts		
Amounts due by the Group under finance leases:		
– within one year	115	295
– in two to five years	107	228
Less: finance charges allocated to future periods	(18)	(45)
	204	478

Operating leases

At 30 September 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	2003		2002	
	Land and buildings	Plant and machinery	Land and buildings	Plant and machinery
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
Expiry date:				
– within one year	–	1,686	31	670
– between two and five years	96	3,714	78	6,244
– in over five years	368	–	628	–
	464	5,400	737	6,914

Capital commitments

At 30 September 2003 the Group had committed capital expenditure of £nil (2002 – £210,000).

27. Subsequent events

Pierce Corporate Information Solutions

On 31 October 2003 the Group completed the acquisition of Pierce Corporate Information Solutions, a division of Robert Pierce Limited. The business provides corporate information services to clients in Ireland. Total consideration at completion amounted to £840,000, with further deferred consideration based on performance payable at the end of each of the first two years following completion.

28. Principal subsidiary undertakings

Williams Lea Group Limited held directly or indirectly 100% of the ordinary share capital of the following companies at 30 September 2003:

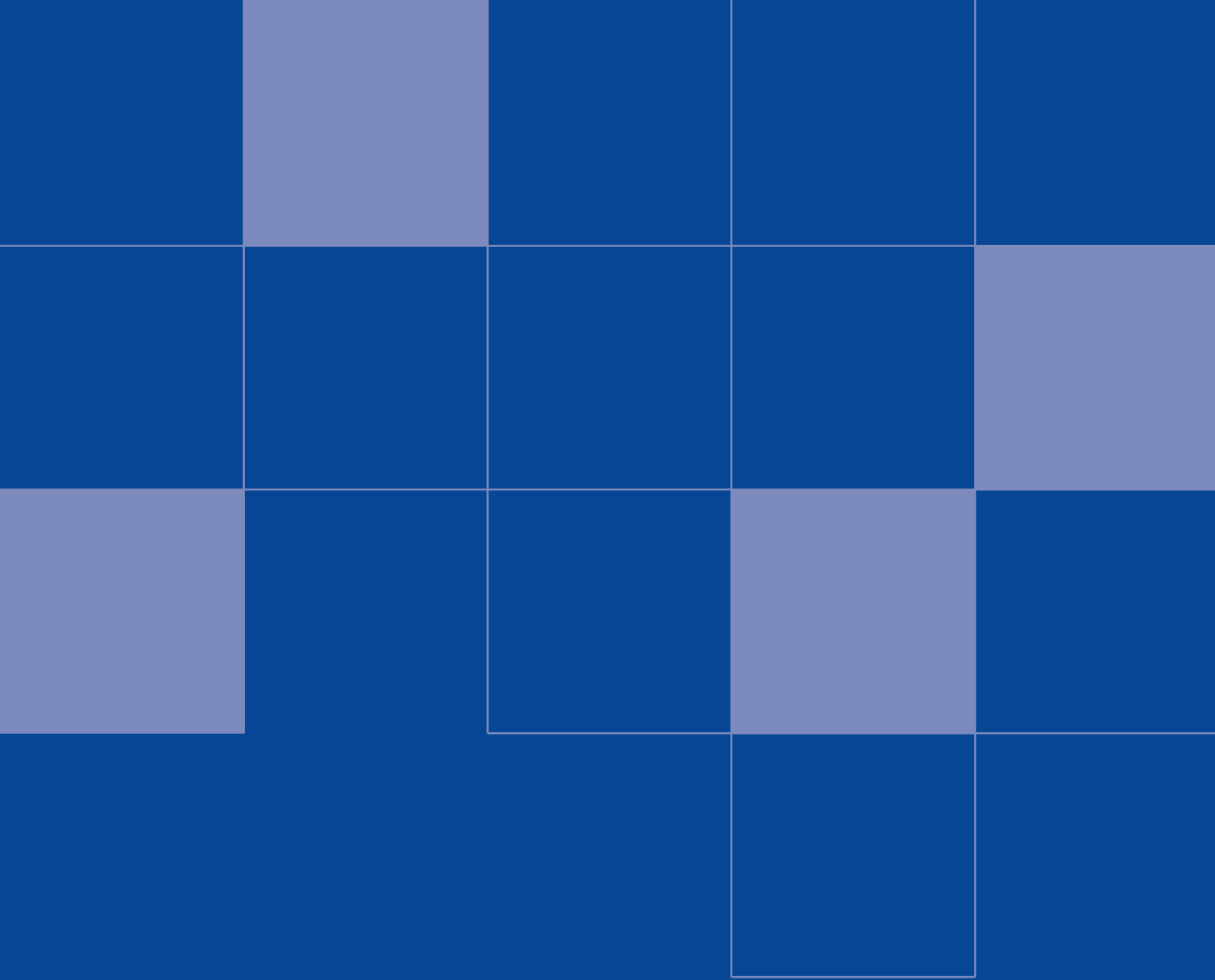
Name	Country of registration	Nature of business
Williams Lea Group Management Services Limited	England and Wales	Management and property services
Williams Lea Limited	England and Wales	Corporate information solutions
Williams Lea (UK) Limited	England and Wales	Print management and direct mail services
Springboard Creative Solutions Limited *	England and Wales	Creative design services
Rodber Thorneycroft Limited *	England and Wales	Event management and marketing services
Williams Lea GmbH *	Germany	Corporate information solutions
Williams Lea France S.A.S *	France	Corporate information solutions
Williams Lea S.L *	Spain	Corporate information solutions
Williams Lea Italia s.r.l *	Italy	Corporate information solutions
Williams Lea Belgium BVBA *	Belgium	Corporate information solutions
Williams Lea Finland Oy *	Finland	Corporate information solutions
Williams Lea Ireland Limited *	Ireland	Corporate information solutions

* Held indirectly via Williams Lea Limited.

Some of our clients...

ABN AMRO	Debenhams	Merrill Lynch
Accenture	Domino's Pizza UK & Ireland	Morgan Lewis
AIG Europe	Dresdner Kleinwort Wasserstein	Morgan Stanley
Allen & Overy	DSTi	NM Rothschild & Sons Limited
Allied Irish Bank	EBRD	Network Associates
Amerada Hess	Ernst & Young	Newton Investment Management
ARG Financial Services	Freshfields Bruckhaus Deringer	Nomura International
Argos Retail Group	FT Interactive Data	Norton Rose
Arnold & Porter	GE	NSPCC
ASDA	GlaxoSmithKline	O2
Avis Europe	Halcrow	P&O
AXA	Hawkpoint Partners	Pfizer
Bain & Company	HBOS	PricewaterhouseCoopers
Bank of America	Heller Ehrman	Prudential
Barclays	Herbert Smith	Royal & SunAlliance
Barclays Capital	HHG	Royal Mail Group
Bear Stearns International	HSBC	Russell/Mellon CAPS
BMW	IMI	Scottish Water
BP	Innogy	Schroders
Bradford & Bingley	JPMorgan Chase	Shearman & Sterling
BSH Home Appliances	Lakeland	Shell
Cable & Wireless	Lawrence Graham	Shop Direct Group
Canada Life	Lazard Brothers	Société Générale
Castrol	Leeds & Holbeck Building Society	Staffware
Cheltenham & Gloucester	Legal & General	The Carphone Warehouse
ChevronTexaco	Lehman Brothers	Theodore Goddard
Cinven	Lloyds TSB Commercial Finance	Tower 42
Close Brothers Group	Marks & Spencer	UBS
Commerzbank Corporate Banking	MBNA Europe Bank	Weil, Gotshal & Manges
Credit Suisse First Boston	McDermott, Will & Emery	White & Case

Creating advantage



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