

# isg

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# 03

INTERIOR SERVICES GROUP PLC  
REPORT AND FINANCIAL STATEMENTS  
2003



We serve our customers in two ways.

Firstly, our managers create a place for them to operate in. This could involve building a new building, refurbishing an existing building or fitting out the internal space of a building.

**We call this our Facilities Creation business.**

Secondly, our professionals use their advisory, facilities and property skills to manage and operate buildings on behalf of the owners or occupiers. We help them use the space efficiently and run their portfolio so that it meets all their needs. Our facilities services teams supply the security, cleaning, catering and front of house staff who ensure smooth operation.

**We call this our Occupancy business.**

These services are delivered with passion and care to promote long term relationships with demanding customers.

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	2003	2002	Comparison
Fee income	£57.7m	£54.3m	6%
Total operating profit – before goodwill and exceptional costs *	£6.9m	£6.7m	3%
Total operating (loss) / profit	£(3.9)m	£5.7m	(169)%
Profit before tax – before goodwill and exceptional costs **	£7.9m	£8.1m	(2)%
(Loss) / profit before tax	£(2.9)m	£7.1m	(141)%
Adjusted earnings per share	20.36p	22.41p	(9)%
Basic (loss) / earnings per share †	(20.96)p	18.37p	(214)%
Dividend per share	7.50p	6.50p	15%
Net cash position	£33.4m	£30.1m	11%

\* Adjusted operating profit is calculated from group operating loss of £3,933,000 (2002 – £5,692,000 profit) after adjusting for amortisation of goodwill of £1,220,000 (2002 – £1,020,000), impairment of goodwill under FRS 10 Goodwill and intangible assets of £8,000,000 (2002 – nil) and exceptional costs of £1,619,000 (2002 – nil).

\*\* Adjusted profit before tax is calculated from loss before tax of £2,908,000 (2002 – £7,103,000 profit) after adjusting for amortisation of goodwill of £1,220,000 (2002 – £1,020,000), impairment of goodwill under FRS 10 Goodwill and intangible assets of £8,000,000 (2002 – nil) and exceptional costs of £1,619,000 (2002 – nil).

† Adjusted earnings per share is calculated from the earnings attributable to ordinary shareholders after adjusting for amortisation of goodwill, impairment of goodwill and exceptional costs.

**Introduction**

Despite this year being the most difficult so far for the group since coming to the market five years ago, profits (pre amortisation / impairment and exceptionals) have almost been maintained at £7.93m (2002 – £8.1m) on a marginally increased volume. This is a highly creditable outcome given the continued low demand for both fit out services and property related advisory income.

However, the need for further reorganisation in the second half in our Occupancy business, combined with a review of goodwill carrying value, has resulted in a loss before tax of £2.91m.

**Financial Highlights**

Fee income continued to grow for the fifth year in succession by 6.3% to £57.7m (2002 – £54.3m) on a gross value of work performed up from £511m in 2002 to £540m this year.

Profits, pre amortisation / impairment and exceptionals, of £7.93m are 2.4% down on 2002's £8.12m, giving an adjusted eps of 20.36p (2002 – 22.41p). Reorganisation costs, mostly associated with the Occupancy division, totalled £1.62m, after £0.76m in the first half.

Following a review of the carrying value of our facilities services and property management acquisitions made in 1999 and 2000, we have written down their goodwill value by £8m. This is a non cash item.

An interim dividend of 2.5p was paid in April 2003. Because of the underlying strength of the business at the operating profit level and the continued strong cash generation, a final dividend of 5.0p is recommended. The total for the year of 7.5p is an increase of 15%. Subject to its approval at the AGM on 11 December 2003, the final dividend will be payable on 15 December 2003 to shareholders on the register on 14 November 2003.

**Strategic Developments**

The objectives this year have been:

- to build on the sector and regional diversification programme started in 2001, both reducing our reliance on the occupier led London office fit out market and to open up opportunities for organic growth in the government funded public sector;
- to create a single Occupancy division that is both profitable and capable of organic growth. To identify potential acquisitions to improve its scale and its viability;
- to deliver a capability outside the UK to service our international clients in Europe and Asia; and
- to invest in winning longer term contracted income through involvement in PFI funded programmes.

Interior and Exterior, our Facilities Creation businesses, have successfully worked hard to fill the voids created by the severe decline from occupiers for office fit out in London over the last two years. This has involved increased activity in:

- the Regions from bases in Reading, Manchester and Edinburgh, not just for occupiers, but also for owners of space; and
- London for owners and owner occupiers requiring to refurbish or build anew their assets.

Our presence outside of London has led to the recent award of our two largest projects this year totalling £80m – the fitting out of the new stand at Ascot Racecourse and the building of a new campus for Telford College in Edinburgh. The Telford College project illustrates the greatest market diversification that has taken place – into the growing publicly funded education sector. Dependence on the London fit out market has continued to reduce, with London fit out representing 32% of group fee income, down from 38% in 2002.

The creation of the new single Occupancy division has finally been achieved, against the background of a continued weak trading environment. After spending £764k in the first half, we decided to make further overhead reductions in both people and premises. Now completed, the reorganisation costs total £1.62m of which £355k is an FRS12 adjustment for surplus office space in the City of London. These further changes, resulting in annualised savings of £1.4m, have been essential to stem losses and bring income and costs into equilibrium.

A number of discussions about potential acquisitions have taken place but none have developed to proposal stage.

Interior, our fit out business, has had a presence in Germany for many years and more recently in France (with a partner) and in Spain through a JV for a project. Building a reliable business of scale serving UK or US based customers without breaking into the local market, has not delivered a sustainable business. It has also involved an excess of management time. Whilst over the years our European businesses have been a net profit contributor, they are unlikely to be on a sufficiently significant enough scale in the future to merit the risks involved. For these reasons, we have wound down the German business and we are reducing our stake in France to 20% allowing us to have a delivery capability without serious management input. No significant costs have been incurred with these changes.

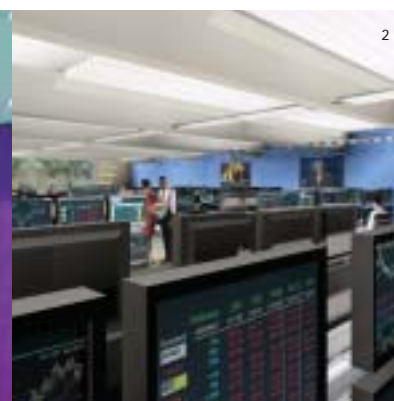


ALBION PROPERTIES LTD, ALBION RIVERSIDE

“Interior have performed in an excellent and highly professional manner under difficult circumstances”.  
Grand Metropolitan plc (Diageo)

“Overall first rate performance, I look forward to working with you again”.  
Grosvenor Ltd

“We are so impressed by the proactive approach being taken”.  
Hutchinson Whampoa Europe Ltd



"Above all, Interior continue to understand our business / customer needs and norms".  
BP International Ltd

- 1 CINVEN LTD,  
OLD BROAD STREET
- 2 CHEYNE CAPITAL MANAGEMENT LTD,  
STORNOWAY HOUSE
- 3 RACECOURSE INVESTMENTS LTD,  
NEWMARKET RACECOURSE
- 4 BENCHMARK GROUP PLC
- 5 BP INTERNATIONAL LTD,  
BRITANNIC HOUSE



"The service and standard of work were excellent".  
Broadgate (PHCW) Ltd

"Nothing was too much trouble".  
Racecourse Investments Ltd



This reduced involvement model mirrors the structure of our Asian investment. In July 2002, we started a 49% JV with our previous partner, City Axis Holdings, to tackle the Greater China Market. At the first half I reported that the JV had acquired a 200-person project management and facilities management capability from Trammel Crow Savills. Following this acquisition, it became apparent that the JV was now a significant part of City Axis' business and we decided to sell our 49% stake in the JV in return for a 22.2% stake in the Singapore-based quoted company. This was approved at an EGM in July and at that time City Axis changed its name to ISG Asia. Subsequent to the year-end, this created an expected gain of £361k which will be treated as a balance sheet item and reflected in the accounts to December 2003.

To create longer term income as well as higher margin business, we have been investing in bidding PFI related work on two fronts. As a tier 1 supplier to an existing PFI vehicle, we are bidding for the construction component of a schools outsourcing contract. With bidding costs of approx £250k per opportunity, the costs are five times higher than the normal construction market, but the potential rewards outweigh this. As a principal investor we have also been bidding on a number of LIFT health schemes. Costs of over £400k have been written off this year to cover these bids. We remain hopeful for a positive outcome for this investment.

#### Trading

Overall trading, measured by fee income, increased by 6.3% and is split as follows:

	2003 £m	2002 £m
LONDON FIT-OUT	18.7	20.7
EXTERIOR / REFURBISHMENT	17.5	14.1
REGIONAL FIT-OUT	7.8	8.7
OCCUPANCY	9.3	9.2
EUROPE	1.1	1.6
ASIA	3.3	-
	57.7	54.3

#### Facilities Creation

Volume of work performed in the second half maintained the rate of the first half. In fee income terms, Facilities Creation represents 84% of group fee income. Growth in demand from owners for our new build and refurbishment services grew to 30% of group fee income and is starting to rival the contribution made by our original fit out business. The fit out business in both London and the Regions is now 46% of income.

This transition has not affected margin. Indeed, margins have been remarkably steady given the increased competitive pressure of the last two years. After adjusting the group operating profit / fee income calculation for the PFI investments, gross margins have been maintained at last year's 12.4%.

London fit out fee income reduced 10% from £20.7m to £18.7m. This reduction was made in a market with record vacancy rates and declining space take up by occupiers. Space take up is an indicator of the available fit out market, and this has reduced by over 60% over the last two years. Regional fit out also declined slightly from £8.7m to £7.8m, reflecting poor take up in the Western Corridor.

However, Interior is very well placed to win those projects that are available. Major London projects awarded this year included the new HQ for VISA, the new HQ for Marks & Spencer as well as new premises for the London Stock Exchange and Mellon Bank. These four contracts have a total value in excess of £85m.

Out of London successes included the BBC in Birmingham, two projects for the Royal Bank of Scotland in Birmingham, a PFI related project for Group 4 in Bedford, and Johnson Matthey in Swindon. Most recently awarded is the fit out of the new Ascot Racecourse facility. Collectively these contracts are worth over £120m.

Exterior, our new build service, combined with our refurbishment division, made up these fit out shortfalls with 24% growth in fee income from £14.1m to £17.5m. Exterior specialises in complex new build assignments for demanding owners with ambitious schemes. This specialisation had led to the ongoing £100m Albion Wharf residential scheme (to finish this year), the Tanaka Business School at Imperial College, the new HQ for Centrica in Edinburgh and the redevelopment of Wandsworth Shopping Centre. Most recently awarded is the new Campus for Telford College in Edinburgh. These assignments have a total value of over £230m.

The winding down, in the second half, of our European business meant a 31% reduction in fee income contribution this year from £1.6m to £1.1m.

Asia made a first time contribution in the second half of £3.3m of fee income, representing 6% of group fees, and a profit of £0.2m.

**Occupancy**

With fee income steady at £9.3m, Occupancy's contribution to group fee income was 16%. A useful contribution, but not significant enough to improve the group's quality of income profile.

Trading in terms of existing contracts has remained steady with an improving quality of delivery and service. Focus has been on improving systems to improve delivery. ISO accreditation has been gained for Facilities Services provision and for Property Management.

Although income was flat, costs were up in anticipation of new sales which were not forthcoming. Part of the second half reorganisation has involved bringing these sales costs in line. The major portion of the reorganisation cost has been spent reducing headcount in the Property Advisory unit where transactional derived demand continued to be weak, having anticipated an improvement in market conditions in the second half. Property Management and Facilities Services are the key contributors to Occupancy's budget and performed reliably – but with no significant new sales to provide growth. At the same time, growth anticipated from cross sales from the Grosvenor service centre contract and other Property Management customers did not reach the levels anticipated.

It was this shortfall in new sales, combined with a slower than anticipated building acquisition programme by Stonemartin (where we supply facilities management and services), that has resulted in a goodwill writedown of £8m. Whilst this is regrettable, it is a non cash item.

Combined with the effects of reorganisation, it has been a busy but difficult year for this business.

**Staff Development**

Growth in fee income reflects growth in the number of our fee earners, increasing this year from 674 to 728, all of whom have been able to participate in our continuously developing Academy training facility, which is also now available to our suppliers.

That the quality of and performance of our staff continues to improve, is demonstrated by further improvements in project delivery and customer satisfaction KPIs. Whilst 'defect free' service and delivery remains our objective, we can and do measure the progress we are making towards it. This is where the positive attitude and commitment of our staff is evidenced by our customers and on behalf of the Board and all our shareholders, I thank them warmly.

1 VOLKSWAGEN GROUP UK LTD  
 2 INVESCO UK LTD, FINSBURY SQUARE  
 3 LOVELLS, HOLBORN VIADUCT  
 4 GRAND METROPOLITAN PLC, HENRIETTA HOUSE  
 5 SELFRIDGES, MANCHESTER  
 6 E. M. SOLUZIONI S.R.L. (GEORGIO ARMANI) SLOANE STREET  
 7 JOHNSON MATTHEY PLC, GREAT WESTERN WAY  
 8 DERWENT VALLEY HOLDINGS PLC, OLIVERS YARD

Further evidence of the continuously developing culture of the business, was the judging of our Facilities Creation business to be one of the Sunday Times "100 Best Companies to Work for in the UK". Interior and Exterior improved on last year's 43rd to 21st this year. The management team is to be congratulated.

**Prospects**

With our most difficult year yet behind us, I would like to be able to look forward to net overall growth this coming year. We are budgeting for some growth in refurbishment and new build, and in Occupancy. The fit out market however is likely to remain weak, with such a high level of surplus space in occupiers' existing portfolios.

We are starting the year with a total order book of circa £500m. Whilst this is at the same level as last year, a lesser proportion than usual of this total is for work in the current year. Conversely, the order book for 04 / 05 and beyond is significantly increased.

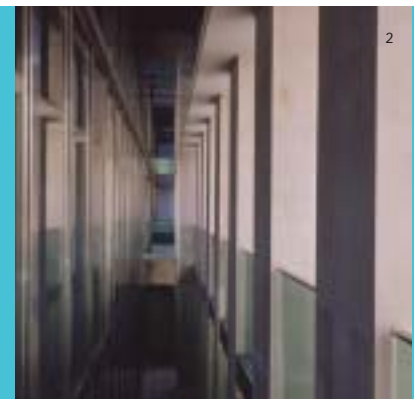
We shall be continuing our strategy to improve earnings visibility and margin through involvement in the PFI market (building on our initial success with Group 4 at Bedford) and have doubled our PFI bidding budget accordingly. This increase in costs, combined with the reduced current year order book, makes this year as challenging as any so far. However, we would expect that the rewards we could gain from these investments would show through the year following, by which time we may also see an improvement in occupier led markets.

**David King**

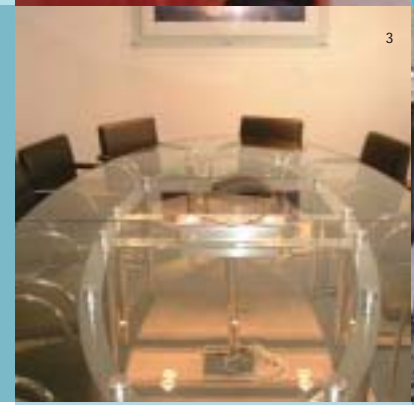
Executive Chairman  
 24 September 2003



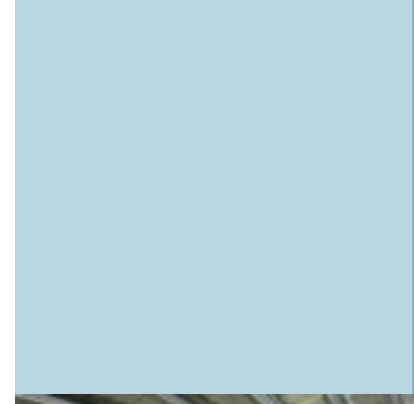
" ISG Occupancy provides Volkswagen Group UK precisely with what it needs, when it needs it - a professional service that can always be relied upon" .  
**Volkswagen Group UK Ltd**



" The service provided by the Interior team was of the highest order. I would recommend Interior without hesitation" .  
**Warner Chappell Music Ltd**



" Flexibility very good, very good team. Great support to me to achieve business objectives" .  
**Grand Metropolitan plc (Diageo)**



" The team produced a good working environment that encouraged all participants to produce quality work that was reflected in the end product" .  
**Derwent Valley Holdings plc**



" Very impressed with the overall performance of the team" .  
**Broadgate (PHCW) Ltd**



" A well managed project in a particularly difficult environment. Logistical, political and technical problems overcome very quickly and efficiently" .  
**British Telecommunications plc**



The last year has been one of special significance. The business has made strategic decisions to invest in Asia, expand in the UK regions, reorganise the facilities and property management businesses as well as divert management resources into winning more public sector work. At the same time we have repositioned ourselves in mainland Europe by downsizing in Germany, reorganising and repositioning our French joint venture and reducing our advisory and transaction based activity. Although overall growth may have levelled off this year we are a very different business from the one that listed on AIM five years ago and one capable of continued growth.

The Facilities Creation businesses have had a very good year strategically and continued to pursue new sector opportunities within education, leisure and retail. The reduction in fit out activity was compensated for in new build and refurbishment growth. The order book remains at similar levels to the prior year and the value of the Interior and Exterior brand has been strengthened by their ability to work together in new and innovative schemes. The business continues to complete complex and demanding projects for signature architects, delivering quality results and receiving awards.

ISG Occupancy became one managed business from 1 January 2003 and we spent £0.76m (a one-off charge) carrying this out. However, the new business was clearly affected by the corporate doubts, uncertainties and lack of decision-making occasioned by the Gulf conflict, SARS and the economic climate. We had to re-look at staffing levels, office premises and general overhead, particularly in our Advisory and transaction business and take further action in May. The outcome of the second reorganisation has been to increase the one off charge to a total of £1.6m and of this circa £400k related to property costs.

It was the view of the Board of directors that a close look should be taken at the carrying value of the investments comprising the companies acquired under the ISG Occupancy family. The reorganisation of ISG Occupancy, the merger of the acquired businesses, recognition of the slower than planned roll out plan of the Stonemartin IoD hubs, have all been considered in our assessment of the level of goodwill. The Board has made a decision to write off £8.0 million as a permanent impairment adjustment. This does not affect cash flow but does impact the total value of shareholder funds.

ISG's ability to grow is directly related to the number and quality of our fee earners (defined as all salary staff). Accordingly, the company continues to invest heavily in its people. The total number of delegates who attended our in-house training centre, the Academy, grew by 12% to 2,300. We delivered over 29,000 hours of training to our staff and to those who work with us. Within ISG a number of our companies received awards and accolades for training, development and best practice standards, including a finalist for the European Lifelong Learning Award 2003. Interior was 15th in the FT "Best Workplaces 2003" and 21st in the Sunday Times "100 Best Companies to Work for in the UK". This and other achievements are testimony to how we value our staff and their commitment.

The economic background for much of the last 12 months trading has been difficult. Characterised by uncertainty and indecision, the group has continued to demonstrate its resilience to the challenges by continuing its diversification strategy. London based commercial fit out represented only some 32% of group fee income in the year just ended, which compares to circa 70% when we came to the AIM market in June 1998. The benefit of this diversification across sectors, geography and products has enabled the group to report a flat year, despite a significant downturn in construction activity related to fit out of new space.

As a service led business where the majority of income is generated from fees, the group continues to assess group performance by reporting internally on fee income rather than the level of turnover. On this basis fee income has grown by 6% to £57.7m compared to £54.3m in the previous year. Albeit, the majority of this increase, £3.3m, was derived from the new business started in Asia.

It is important to understand the effect of starting up the new business in Hong Kong and North East Asia on our statistics this year. The average number of ISG fee earners increased overall from 674 to 728, of which 75 of this average is in Asia. Next year these fee earners will not be in our statistics as in August 2003 we exchanged our 50% share in the joint venture for shares comprising 22% of the Singapore listed vehicle ISG Asia (formerly City Axis).

"We were extremely impressed with the overall approach and professionalism of the project team".  
Imperial College of Science, Technology and Medicine

BEXLEY BUSINESS ACADEMY, THAMESMEAD SCHOOL, LONDON



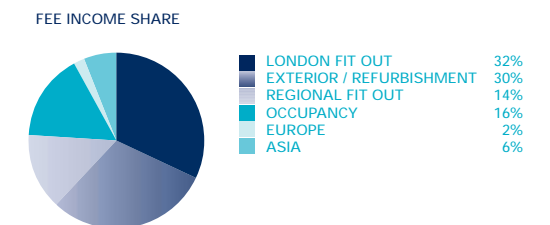
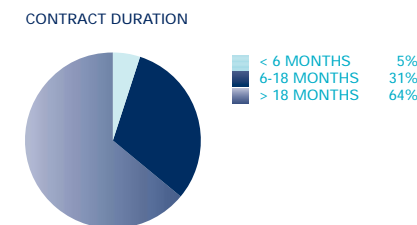
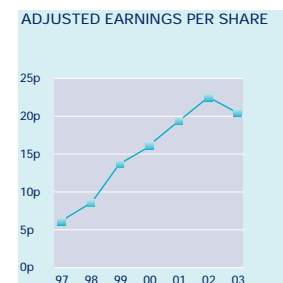
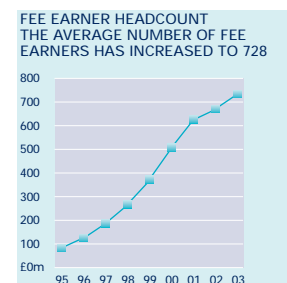
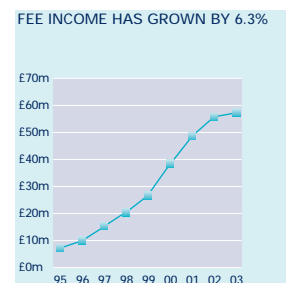
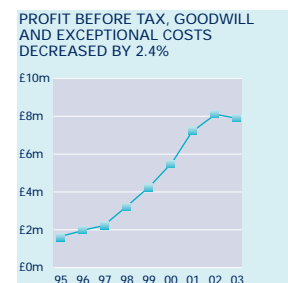
The profit (before goodwill, exceptional items and the Asian effect) has gone up within the underlying UK business. The underlying UK business has remained resilient and profit per fee earner in the UK is up from £12,100 per fee earner last year to £12,300 this year. The slow down in fit out and the reduction in headcount for ISG Occupancy have meant a lower level of equivalent fee earners. And so before exceptional items the profit percentage per fee income is marginally lower at June 2003 down from 14.9% to 14.6%. The exceptional item of £1.6m caused by the reorganisation of Occupancy is equivalent to £2,500 per fee earner.

We report at this stage the income split between Facilities Management and Facilities Creation as a statement of what we are doing to continue to move the business away from what is perceived as shorter-term higher risk Facilities Creation fit out income towards a reliance on longer-term lower risk Facilities Management income. At 16% (2002 - 17%) of fee income derived from FM we have not made progress and recognise that a step change needs to happen to achieve the internal target of 40%. However, we also recognise that the large refurbishment projects and major new build assignments within Facilities Creation business have begun to deliver much longer-term income (up to three years). Conversely, some of

the income in Facilities Management has been very short-term transaction business, which during the spring of 2003 was extremely difficult to generate. Accordingly, we believe a further and equally realistic view of the improving quality of our income is measuring the mix (across the whole business) as to short term, medium term, and longer term income shown in our order book. Currently our order book split on this basis is 5:31:64 (2002 - 13:27:60), a much improved level on the prior year.

**Facilities Creation**

The core UK business of Facilities Creation in Interior and Exterior has had a successful year maintaining fee income at circa £45.0m. The emphasis through the year on balancing market sectors and products has stood us in good stead. The proportion of work in Exterior and Refurbishment has grown considerably and this has offset the anticipated decline in central London fit out. The percentage of the group's total fee income generated by Exterior and Refurbishment increased from 26% to 30%. This means that only 32% of the group's fee income is now generated from central London fit out work - a figure down from 38% last year and from around 70% when we came to AIM in June 1998. Fee income from our regional activity has not been as high as we anticipated; however, the order book has a number of key projects yet to be delivered in the regions.





The European operation has had a particularly difficult year, as there has been very limited fit out opportunity from our multi-national customers in Europe generally. Fee income is down from £1.6m to £1.1m. Projects in Germany remained few and far between and by reacting to these market conditions during the year it meant taking action to downsize the business overall. France was less vulnerable than Germany but made no real contribution to the growth of the group. The loss before tax from European operations was £314,000 compared to a profit of £421,000 in 2002.

**ISG Occupancy**

As I said last year we found it difficult to offer an holistic, integrated service when we were ourselves fragmented internally into different companies. With the formation of ISG Occupancy as a single managed structure we have now begun to reflect our customers' needs and expectations.

The companies of Walker Packman, ISGC, Eurica Management, Interior Furniture Services, Square Mile and Eurica Services, were all brought together during the autumn of 2002 into ISG Occupancy, operating with four main streams of activity, being Facilities Management, Advisory, Property Management, and Services.

**Facilities Management**

The Facilities Management team signed a five-year agreement in December 2002 with Grosvenor to provide management services and importantly to develop a new services offer to their three-hundred acre London estate. We commenced mobilisation on this contract and started to generate fees in the second half of the year and additionally it has led to other

opportunities with Grosvenor in Scotland. The roll out programme of serviced offices for Stonemartin plc, where we provide facilities management support and facilities services for each of the IoD branded hub offices, has progressed through this year with the opening of Manchester; albeit Stonemartin are behind programme vis a vis their roll out for the next office. Our ten-year contract at Liverpool Victoria is into year three and progressing well.

A number of discussions took place with other Facilities Management companies during the year all of them directed to acquiring more scale for our business. It is a feature of the Facilities Management market place that there are a lot of small companies which will present opportunity. It is our intention to carry on pursuing acquisitions in order to increase the critical mass of this operation.

**Advisory**

Our Advisory stream experienced a very difficult year. Having reorganised ourselves during November and December for a strong performance after Christmas, the transaction teams were affected by corporate indecision and lack of work. We had a review at the end of May, which led to a further reorganisation and a reduction in staff numbers. We believe we have a better balance of staff now able to service the existing spin-off work from the enlarged property management client base. The focus of the Advisory team will now be on the "workplace" and entirely on building services and project management work.

**Property Management**

It has been a successful year for this part of the business. ISO accreditation and the completion of the new software management system have given the team a platform from which to grow. In July 2002 we announced the award of a forty building (1.8m ft<sup>2</sup>) property management assignment for the Benchmark Group. This contract will generate contribution for five years and beyond. We have retained and developed further opportunity with the First Group train operating companies and picked up important work for our Manchester office.

**Services**

We are pleased with the substantial progress shown by our Facilities Services business. Having completed a review of the services that it provides and its structure, we repositioned the business as part of the occupancy offering, reducing the cost base and targeting the business at key existing clients which meet the group's aspirations and that require more than just a single commodity service. The focus remains on front of house, reception, building management, security, cleaning and catering services. Whilst we had a lack of growth in overall fee income terms we retained a number of key clients, removed some non-core activity, extended the order book and improved the underlying profitability from our key clients. We achieved ISO accreditation and since the year-end have secured a significant new contract from an existing client. We are targeting this year to grow the net fee income by 15%.

**Order Book**

A major key performance indicator for ISG is the income horizon reflected by the fee income in our order book. As the graphs demonstrate, when the company floated in 1998, no contract exceeded 18 months. By 1999, our "tail" had extended to a horizon of four years, and by July 2002, our order book contained contracts spanning up to ten years. In the last financial year we have continued to improve the longer-term visibility of our order book and, in overall terms, at the year end our fee income is once again higher than at the same time last year.

**Working Capital and Facilities**

Through the year the group generated a strong cash flow from its facilities creation business, while the occupancy division continued to utilise some cash to fund its reorganisation and every day working capital. In total the cash generated from group operating activities was £9.3m (2002 – £6.8m), net interest received was similar to the prior year at £1.0m and the group paid tax and dividends of £4.5m (2002 – £3.9m). Cash utilised for acquisition net of disposals was £0.5m. Capital expenditure and financial investment rose to £2.3m (2002 – £1m) being primarily shares acquired into the share option trust scheme and a small investment in the Willesden PFI scheme. We also invested £0.4m into a regulated Property Fund as part of our partnering arrangement to provide property management and advisory services. We made repayments of £0.7m out of the group's long-term loan arrangement with the Bank of Scotland. By the end of the year the group's net cash position had grown to £33.4m compared to £30.1m last year.

**Interest Rate and Currency Risk**

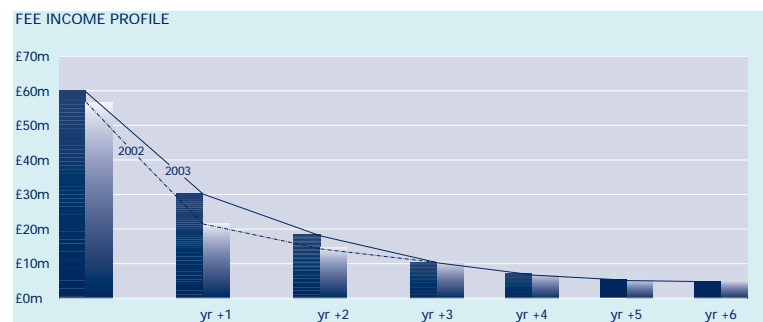
The Board of directors reviewed and agreed policy for managing interest rate risk and foreign currency risk. The company does not speculate with derivative instruments. As the group is a net generator of cash, it reviews its treasury position daily, placing surplus cash on short-term deposits. The group publishes its financial statements in pounds Sterling and conducts most of its business in Sterling. The level of foreign business is unlikely to grow and is currently less than 4% of the group's total activity and conducted primarily through associates and joint ventures. Further detail is given in the Notes 19 and 21 to the accounts.

**Shareholders' Funds**

During the year shareholders' funds fell by £9.2m to £15.1m. As the Chairman announced at the half year, the Board looked at the carrying value of our investment in Stonemartin and reduced the value by £2.3m taking into account the quoted value of their shares on the AIM. The effect of goodwill impairment and the Stonemartin PLC market adjustment was a write down of £10.3m on the value of shareholders' funds. Additionally, we raised £0.1m from the issue of new shares. Of the remaining movement, the group's operations generated funds of £4.0m before setting aside £1.8m for dividends and £1.2m of goodwill amortisation.

**Robert Horvath**

Group Managing Director  
24 September 2003



**DIRECTORS**

J D King (Executive Chairman)  
 R B Horvath (Group Managing Director)  
 S D Lawther (Financial Director)  
 S I Millar  
 P C David (Non-Executive)  
 J L Jeremy (Non-Executive)

**SECRETARY**

S D Lawther

**REGISTERED OFFICE**

15 Appold Street  
 London EC2A 2NH

**AUDITORS**

Deloitte & Touche LLP  
 Chartered Accountants  
 London

**SOLICITORS**

CMS Cameron McKenna  
 Mitre House  
 160 Aldersgate Street  
 London EC1A 4DD

**BANKERS**

Bank of Scotland  
 London Chief Office  
 38 Threadneedle Street  
 London EC2P 2EH

The Royal Bank of Scotland  
 2½ Devonshire Square  
 London EC2M 4WS

**NOMINATED ADVISER**

Bridgewell Corporate Finance Limited  
 21 New Street  
 London EC2M 4HR

**NOMINATED BROKER**

WestLB Panmure Limited  
 Woolgate Exchange  
 25 Basinghall Street  
 London EC2V 5HA

**REGISTRARS**

Capita IRG plc  
 Bourne House  
 34 Beckenham Road  
 Beckenham  
 Kent BR3 4TV

The directors present their annual report and the audited financial statements for the year ended 30 June 2003.

**Activities**

The principal activity of the company and its subsidiaries is to provide occupancy support services to its customers in the United Kingdom, Europe and Asia. The group has European operations based in Germany and France and Asian operations based in Hong Kong, Singapore, Japan and South Korea.

**Review of business**

A detailed account of the group's progress during the year and its future prospects are set out in the Chairman's Statement on pages 4 to 9 and the Operating and Financial Review on pages 10 to 13.

**Results and dividends**

The results for the year are set out in detail on page 25.

The Board paid an interim dividend of 2.50p per share (2002 – 2.20p) totalling £622,000 (2002 – £559,000) on 23 April 2003 to shareholders on the register on 28 March 2003. The directors propose the payment of a final dividend of 5.00p per share (2002 – 4.30p) totalling £1,210,000 (2002 – £1,115,000), giving a total dividend for the year of 7.50p per share (2002 – 6.50p).

**Share capital**

Details are set out in Note 23 to the accounts. Details of the company's purchase of own shares are included in Note 14.

**Directors and their interests**

The directors at the date of this report and who served throughout the year and their interests (including those of their spouses and children) in the shares of the company, all of which were beneficial, are set out below:

	ORDINARY SHARES	
	30 JUNE 2003	30 JUNE 2002
P C David	120,891	120,891
R B Horvath	277,618	266,614
J L Jeremy	82,161	82,161
J D King	1,494,868	1,493,864
S D Lawther	50,000	10,000
S I Millar	1,405,950	1,405,950

There have been no changes in directors' interests between the year end and 10 September 2003.

	NUMBER OF OPTIONS			EXERCISE PRICE (PENCE)	EARLIEST DATE FROM WHICH EXERCISABLE	EXPIRY DATE
	1 JULY 2002	AWARDED / (CANCELLED)	30 JUNE 2003			
R B Horvath	100,000	-	100,000	117	21/10/2001	21/10/2008
R B Horvath	100,000	-	100,000	226	15/10/2002	15/10/2009
S D Lawther	125,000	(125,000)	-	390	29/06/2004	29/06/2011
S D Lawther	-	125,000	125,000	200	20/09/2005	20/09/2012

None of the options have yet been exercised.

The market price of the shares at 30 June 2003 was 157.5p and the range during the year was 226.0p to 121.0p.

In accordance with the Articles of Association, S D Lawther and S I Millar will retire by rotation. Each of these directors, being eligible, offer themselves for re-election at the Annual General Meeting, notice of which is set out on page 50.

#### Other substantial shareholders

Apart from the shareholdings of the directors and those parties listed below, the company has not been notified of any shareholdings which are three per cent or more of the total issued ordinary shares of the company.

	NO. OF ORDINARY SHARES	% HELD
Zurich Financial Services Group	2,414,000	9.35
ISIS Asset Management	1,799,113	6.97
Merrill Lynch Investment Managers Limited	1,780,791	6.90
Fidelity Investment Services Limited	1,706,762	6.61
UBS Global Asset Management Limited	1,627,711	6.31
SG Asset Management Limited	1,451,892	5.62
Aerion Fund Management Limited	911,825	3.53

Per the Registrar on 9 September 2003.

#### Payments to creditors

The group's policy is to fix payment terms when agreeing the terms of each transaction. It is the group's general policy to pay suppliers according to the agreed terms and conditions, provided that the supplier has complied with those terms. Trade creditors include retention amounts held over defect liability periods. The creditor days for the company at 30 June 2003 are 6 days (2002 – 13 days). The creditor days for the group at 30 June 2003 are 27 days (2002 – 18 days).

#### Donations

During the year the company made no political donations. Charitable donations of £3,000 to Aplastic Anaemia Trust, £2,500 to Save The Children and £2,000 to the NSPCC were made as well as a further £4,296 in total to other charitable organisations.

#### Employment policies

The group's policies respect the individual regardless of gender, race or religion. Full and fair consideration is given to applications for employment from disabled people. The group has a well-established structure to communicate with employees at every level and to encourage their involvement regarding the group's performance and future activities.

#### Health, safety and the environment

The Board continues to consider health, safety and the environment as a key priority and this year has seen continuous development in all areas. In November of last year, the UK facilities creation business obtained certification to ISO14001:1996, the international standard for environmental management systems. This places the group among the industry leaders in this area, and aligns it with best practice among its clients and investors.

#### Euro

The position regarding UK membership of the EMU remains uncertain but the group continues its preparations for the possibility of the UK joining. Group entities undertaking business in Europe can account for transactions in euros if required. The costs incurred to date in respect of the changeover to the euro are not material to the group.

#### Auditors

On 1 August 2003, Deloitte & Touche, the group's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The group's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the group's auditors will be proposed at the forthcoming Annual General Meeting.

The notice of the Annual General Meeting is set out on page 50.

Approved by the Board of directors and signed on behalf of the Board.

#### S D Lawther

Company Secretary  
24 September 2003

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and has been approved by the Board and adopted for the submission to the shareholders. This report is unaudited, except where specified.

**Remuneration Committee**

The members of the Remuneration Committee were J L Jeremy and P C David throughout the year. The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each of the executive directors.

**Details of directors' remuneration**

This report should be read in conjunction with Note 5 to the accounts, which also constitutes part of this report. The required details of all elements in the remuneration package of each director are given in Note 5 to the accounts. The information contained within Note 5 has been audited.

**Remuneration policy**

The group's policy is to provide executive remuneration packages which are designed to attract, motivate and retain directors of the highest calibre required and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package are undertaken by the Remuneration Committee consisting solely of non-executive directors. The remuneration of the non-executive directors is determined by the full Board.

In framing remuneration policy the Remuneration Committee has given full consideration to the requirements of the Combined Code appended to the Listing Rules of the London Stock Exchange.

**Components of remuneration**

The components of remuneration are:

- a) basic salary and benefits determined by the Remuneration Committee and reviewed annually;
- b) performance related bonuses based upon improvements in earnings per share, profitability and market capitalisation of the group; and
- c) share option incentives.

The company operates a salary waiver arrangement which can result in pension contributions being made.

**Basic salary**

An executive director's basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility.

**Bonus payments**

In the year ended 30 June 2003, the directors received bonuses as shown in Note 5, which reflected a discretionary amount relating to the financial year ended 30 June 2002. Future bonus awards will be discretionary amounts based upon group performance and other criteria, after consideration by the Remuneration Committee.

**Directors' contracts**

None of the service contracts of executive directors includes provision for specific payment in the event of early termination, nor do they provide for extended notice periods in the event of a change in control. It is not the Remuneration Committee's intention to introduce such provisions. If any existing contract of employment is breached by the company in the event of termination, the company would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period. The Remuneration Committee will seek to ensure that the director fulfils his obligation to mitigate his losses and will also give consideration to phased payments where appropriate.

Details of the service contracts of the executive directors are shown in the table below.

	DATE OF CONTRACT	NOTICE PERIOD FROM COMPANY (MONTHS)	RETIREMENT AGE (YEARS)
R B Horvath	15 December 1997	12	60
J D King	1 May 1989	12	60
S D Lawther	18 June 2001	12	60
S I Millar	1 May 1989	12	60

With the approval of the Remuneration Committee, certain directors are entitled, under their service agreements, to perform duties outside the group and to receive fees for those duties.

**Share options**

The Remuneration Committee approves the grant of options to executive directors under the group's discretionary share option schemes. Other than as disclosed below, the share options issued to executive directors do not have any performance criteria attached as at the time they were first issued it was not felt that performance criteria were appropriate.

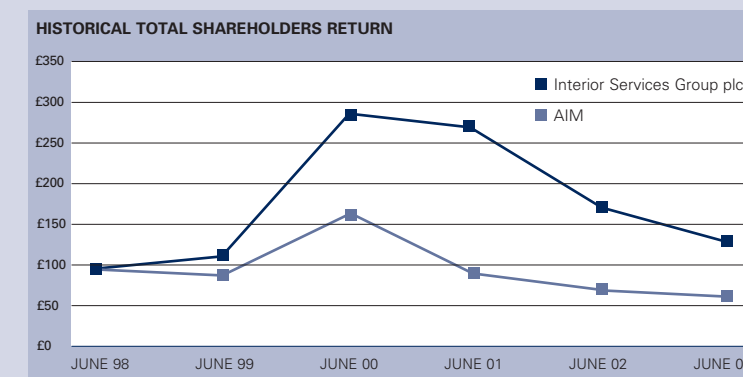
In respect of share options, the following audited information also applies:

- a) details of directors' share options are included in the Directors' Report on pages 15 to 17; and
- b) the only share options to which performance criteria apply have been issued to S D Lawther. These are dependant on the market capitalisation of the company, the growth in earnings per share and the adjusted profit before tax (before amortisation of goodwill).

Executive directors are also entitled to participate in the SAYE Scheme.

**Performance graph**

The following graph shows the company's performance, measured by total shareholder return, compared with the performance of the AIM share index also measured by shareholder return. The AIM share index has been selected for this comparison as the company is a constituent of that index.



The graph shows the theoretical growth in the value of an initial £100 hypothetical shareholding over the specified period, assuming that dividends are re-invested to purchase additional units of equity at the closing price applicable on the ex-dividend date. Historical data is based on the constituent companies at each given date.

**Non-executive directors**

The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association, and is based upon independent surveys of fees paid to non-executive directors of similar companies. The remuneration paid to each non-executive director in the year to 30 June 2003, shown in Note 5, was subject to Board approval. Non-executive directors may be paid for professional services provided to the group, but cannot participate in the company's share option schemes. Non-executive directors do not have service contracts, and are not eligible to join in any pension scheme operated by the group. The letters of appointment for P C David and J L Jeremy are for a one year term and subject to prior termination on notice of three months either way.

Approved by the Board of directors and signed on behalf of the Board.

**J L Jeremy**

*Chairman of Remuneration Committee*

While the group is not subject to the provisions of the Combined Code, the directors have decided to provide corporate governance disclosures.

Section 1 of the Combined Code, as appended to the Listing Rules, sets out Principles of Good Corporate Governance and Code provisions which are applicable to listed companies incorporated in Great Britain.

A narrative statement on how the company has applied the Principles and a statement explaining the extent to which the provisions in the Code have been complied with appear below.

#### **NARRATIVE STATEMENT**

The Code establishes 14 Principles of Good Governance which are split into the four areas described below.

##### **Directors**

The company is controlled through the Board of directors which comprises four executive and two independent non-executive directors. As the Executive Chairman is mainly responsible for the running of the Board, he has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Group Managing Director's responsibilities focus on running the group's businesses and implementing group strategy. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board has a formal schedule of matters reserved to it and meets monthly. It is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers environmental and employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. A budget is established for this purpose. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has two committees, the Audit Committee and the Remuneration Committee. The Audit Committee meets regularly with the company's senior management and with the external auditors to review the financial statements, the accounting policies of the company, and its internal management and financial controls. The members of the Audit Committee are P C David and J L Jeremy. The minutes of the meetings of the Audit Committee and the Remuneration Committee are circulated to and reviewed by the Board of directors.

##### **Directors' remuneration**

The Remuneration Committee measures the performance of the executive directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination. The report of the Board to the shareholders on directors' remuneration is set out on pages 18 and 19.

##### **Relations with shareholders**

The Board encourages two way communication with both its institutional and private investors and responds quickly to all queries received. The Executive Chairman and the Group Managing Director have met with analysts and institutional shareholders on a regular basis in the year ended 30 June 2003. All shareholders have at least twenty working days' notice of the Annual General Meeting at which all directors and Committee chairs are introduced and available for questions.

##### **Accountability and audit**

###### **Financial reporting**

A review of the performance and financial position of the group is included in the Operating and Financial Review. The Board uses this, together with the Chairman's Statement and the directors' report on pages 15 to 17, to present a balanced and understandable assessment of the company's position and prospects. The statement of directors' responsibilities for the financial statements is described on page 23.

###### **Internal control**

An ongoing process for identifying, evaluating, and managing the significant risks faced by the group is now established and that process is regularly reviewed by the Board and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party. Following the latest review, the significant risks faced by the group now total twenty-eight. Steps continue to be taken to embed internal control and risk management further into the operations of the business and deal with areas of improvement coming to management and Board attention. Furthermore, a series of risk management seminars have been held for the group's senior management.

The reporting systems include formal consideration of all significant business risks at the monthly Board meetings and are still subject to continuous review by the Board throughout the year. The monthly management information includes some key risk indicators with the emphasis on early warning systems. Risk management principles are embedded within all significant projects.

The directors are responsible for the system of internal control and reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable but not absolute assurance against material misstatement or loss. Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

The key risk management activities are described under the following headings:

- **Strategic control**  
The Board reviews the group's strategic plans each year. On a regular basis, the group's significant risks are updated and appropriate control strategies and accountabilities are agreed.
- **Allocation of responsibilities and control environment**  
The Board has set clear terms of reference for each of its committees and the group has an organisational structure with clearly defined and documented delegation of authority to executive management and reporting systems for financial results, risk exposure and control assessment.
- **Financial control**  
The group has a comprehensive system for reporting financial results to the Board; each operating unit prepares monthly results with a comparison against budget. The Board reviews these for the group as a whole and determines appropriate action.
- **Quality and integrity of personnel**  
The group is committed to competence and integrity of management and staff at all levels, through its values statement, comprehensive recruitment, training and appraisal programmes.
- **IT systems**  
The group has established controls and procedures over the security of data held on computer systems and has put in place suitable disaster recovery arrangements.
- **Controls over central functions**  
A number of the group's key functions, including treasury and taxation, are dealt with centrally. Each function is required to report to the Board on a regular basis.
- **Operating unit controls**  
Key controls over major business risks include reviews against performance indicators and exception reporting. Each operating unit's senior management is responsible for identifying, evaluating and managing major business risks. They make regular assessments of their exposure to major business risks and the extent to which these risks are controlled, which are reported to the Board.
- **Internal audit**  
Internal audit resources are provided by the central functions. It supports the risk management activities and helps to identify key risk areas across the group. Any significant issues are reported to the Board via monthly reports from the central finance and commercial and systems departments.
- **Role of the Executive Committee**  
Day-to-day management of the group's activities is delegated by the Board to the Executive Committee. It monitors the effectiveness of the operating units in meeting group objectives and controlling major business risks and makes recommendations to the Board.
- **Risk management reporting and Board review**  
The Board has overall responsibility for identifying, evaluating and managing major business risks facing the group. It regularly reviews all operating unit assessments of business risk exposure and control, including compliance assessments, and determines appropriate action, taking into account the recommendations of the Executive Committee.

An ongoing review of the effectiveness of the system of internal control for the year ended 30 June 2003 has been maintained and has taken account of any material developments since the year end.

A summary of the process the Board (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control is set out as follows.

During the year, the Audit Committee of the Board, comprising the non-executive directors:

- (a) meets three times a year, with the external auditors and executive directors attending by invitation;
- (b) receives and considers reports relating to the monitoring of the adequacy of the group's internal controls, the suitability of its accounting policies and financial reporting and matters arising from the external auditors' work; and
- (c) makes recommendations to the Board on these matters.

The chairman of the Audit Committee makes a report to the Board following each Committee meeting and the Board receives the minutes of all Audit Committee meetings.

#### **GOING CONCERN BASIS**

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements. This statement also forms part of the Operating and Financial Review.

#### **COMPLIANCE STATEMENT**

Although not required to, the Board reports on compliance with the forty five code provisions throughout the accounting period. Save for the exceptions outlined below, the company has complied throughout the accounting period ended 30 June 2003 with the provisions set out in Section 1 of the Code. The exceptions to the Code and the resulting changes to the company's corporate governance procedures to comply with specified code provisions were as follows:

- A.2.1 No senior independent non-executive director has been formally appointed as the Board believes that, given the current structure and existing independent directors, appointing a senior independent director is not necessary or appropriate at the current time. This will be monitored and if circumstances change such that the Board feels it appropriate to appoint a senior independent director, it will do so in the future.
- A.5.1 The directors have not constituted a Nomination Committee because they consider that it is preferable for elections to the Board to be dealt with by the Board as a whole.
- D.3.1 The Audit Committee has comprised only two non-executive directors.

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year 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; and
- state whether applicable accounting standards have been followed.

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

We have audited the financial statements of Interior Services Group plc for the year ended 30 June 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, and the related notes 1 to 37. These financial statements have been prepared under the accounting policies set out therein. At the request of the directors, we have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

#### Respective responsibilities of directors and auditors

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

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

The directors have also asked us to review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review as if the Listing Rules of the Financial Services Authority applied, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

#### Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 2003 and of the loss of the group for the year then ended; and
- The financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

#### Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London  
24 September 2003

	Note	2003 £'000	2002 £'000
<b>Gross value of work performed</b>	2	539,932	510,750
Less: relating to construction management share of joint ventures' turnover		(130,975)	(101,303)
		(6,940)	(3,008)
<b>TURNOVER</b>			
<b>Group turnover – continuing operations</b>	1, 2	402,017	406,439
Cost of sales	2	(377,283)	(380,190)
Gross profit	2	24,734	26,249
Amortisation of goodwill	12	(1,220)	(1,020)
Impairment of goodwill	12	(8,000)	-
Exceptional reorganisation costs	4	(1,619)	-
Other administrative expenses		(17,793)	(19,590)
Administrative expenses	2	(28,632)	(20,610)
<b>OPERATING (LOSS) / PROFIT</b>			
<b>Group operating (loss) / profit – continuing operations</b>	2, 3	(3,898)	5,639
Share of operating (loss) / profit in joint ventures	7	(35)	53
<b>Total operating (loss) / profit</b>		(3,933)	5,692
Profit on disposal of interest in joint venture		-	412
Net interest receivable and similar income	8	1,025	999
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(2,908)	7,103
Tax on (loss) / profit on ordinary activities	9	(2,055)	(2,443)
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(4,963)	4,660
Equity minority interests	22	(288)	(26)
<b>(LOSS) / PROFIT FOR THE FINANCIAL YEAR</b>		(5,251)	4,634
Equity dividends paid and proposed	10	(1,832)	(1,674)
<b>Retained (loss) / profit for the financial year</b>		(7,083)	2,960
<b>Basic (loss) / earnings per ordinary share</b>	11	(20.96)p	18.37p
<b>Diluted (loss) / earnings per ordinary share</b>	11	(20.96)p	18.01p
<b>Adjusted earnings per ordinary share before goodwill amortisation / impairment and exceptional administrative costs</b>	11	20.36p	22.41p
<b>Dividend per ordinary share</b>	10	7.50p	6.50p

	Note	2003 £'000	2002 £'000
<b>FIXED ASSETS</b>			
Intangible assets	12	8,454	17,694
Tangible fixed assets	13	1,394	1,851
Investment in joint ventures:	14b		
Share of gross assets		3,632	1,596
Share of gross liabilities		(3,259)	(1,234)
		373	362
Other fixed asset investments	14c	3,415	3,997
Total investments		3,788	4,359
<b>TOTAL FIXED ASSETS</b>		<b>13,636</b>	<b>23,904</b>
<b>CURRENT ASSETS</b>			
Stocks	15	229	315
Debtors	16	68,617	49,806
Cash at bank and in hand		38,528	36,619
		107,374	86,740
<b>CREDITORS: amounts falling due within one year</b>	17	<b>(101,748)</b>	<b>(80,867)</b>
<b>NET CURRENT ASSETS</b>		<b>5,626</b>	<b>5,873</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>19,262</b>	<b>29,777</b>
<b>CREDITORS: amounts falling due after more than one year</b>	18	<b>(3,440)</b>	<b>(5,296)</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	20	<b>(719)</b>	<b>-</b>
<b>EQUITY MINORITY INTERESTS</b>	22	<b>-</b>	<b>(150)</b>
<b>TOTAL NET ASSETS</b>		<b>15,103</b>	<b>24,331</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	23	258	257
Share premium account	24	9,116	9,022
Other reserves	24	1,171	3,456
Profit and loss account	24	4,558	11,596
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>		<b>15,103</b>	<b>24,331</b>

The financial statements were approved by the Board of directors on 24 September 2003.  
Signed on behalf of the Board of directors.

David King  
Director

	Note	2003 £'000	2002 £'000
<b>FIXED ASSETS</b>			
Tangible fixed assets	13	454	502
Investments	14a	8,808	5,169
<b>TOTAL FIXED ASSETS</b>		<b>9,262</b>	<b>5,671</b>
<b>CURRENT ASSETS</b>			
Amounts owed by group undertakings		7,248	24,643
Corporation tax recoverable		637	1,025
Dividends receivable		6,000	-
Other debtors		186	312
Cash at bank and in hand		1,561	344
		15,632	26,324
<b>CREDITORS: amounts falling due within one year</b>			
Bank loans	19	(1,070)	(740)
Obligations under hire purchase contracts		-	(4)
Trade creditors		(63)	(101)
Amounts owed to group undertakings		(8,336)	(11,205)
Other creditors – loan notes		(224)	(43)
Other creditors – deferred consideration		(159)	(180)
Accruals		(737)	(522)
Proposed dividend		(1,210)	(1,115)
<b>NET CURRENT ASSETS</b>		<b>3,833</b>	<b>12,414</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,095</b>	<b>18,085</b>
<b>CREDITORS: amounts falling due after more than one year</b>			
Bank loans	18	(3,243)	(4,308)
Other creditors – loan notes	18	(197)	(808)
Other creditors – deferred consideration	18	-	(159)
		(3,440)	(5,275)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
Deferred taxation		-	(6)
<b>TOTAL NET ASSETS</b>		<b>9,655</b>	<b>12,804</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	23	258	257
Share premium account	25	9,116	9,022
Profit and loss account	25	281	3,525
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>		<b>9,655</b>	<b>12,804</b>

The financial statements were approved by the Board of directors on 24 September 2003.  
Signed on behalf of the Board of directors.

David King  
Director

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	31	9,261	6,757
Dividends from joint ventures		-	105
Returns on investments and servicing of finance	32	1,012	984
Taxation		(2,790)	(2,567)
Capital expenditure and financial investment	32	(2,328)	(997)
Acquisitions and disposals	32	(502)	(660)
Equity dividends paid		(1,737)	(1,373)
<b>Cash inflow before financing</b>		<b>2,916</b>	<b>2,249</b>
Financing:			
Issue of shares (net)		6	99
Capital element of payments under hire purchase contracts		(27)	(21)
Long term debt		(735)	48
<b>Net cash (outflow) / inflow from financing</b>		<b>(756)</b>	<b>126</b>
<b>Increase in cash in the year</b>	33	<b>2,160</b>	<b>2,375</b>

**Reconciliation of net cash flow to movement in net funds (Note 33)**

	2003 £'000	2002 £'000
Increase in cash in the year	2,160	2,375
Cash outflow / (inflow) from debt financing	762	(27)
<b>Change in net debt resulting from cash flows</b>	<b>2,922</b>	<b>2,348</b>
<b>Change in net debt resulting from non-cash changes</b>	<b>430</b>	<b>(82)</b>
<b>Net funds brought forward</b>	<b>3,352</b>	<b>2,266</b>
<b>Net funds carried forward</b>	<b>30,077</b>	<b>27,811</b>
<b>Net funds brought forward</b>	<b>30,077</b>	<b>27,811</b>
<b>Net funds carried forward</b>	<b>33,429</b>	<b>30,077</b>

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES | YEAR ENDED 30 JUNE 2003**

	2003 £'000	2002 £'000
(Loss) / Profit for the financial year:		
Group	(5,238)	4,619
Joint ventures	(13)	15
<b>Unrealised (loss) / gain arising on investments (see Note 24)</b>	<b>(5,251)</b>	<b>4,634</b>
Currency translation differences arising on foreign currency investment: Subsidiaries	21	-
Currency translation differences arising on foreign currency investment: Joint ventures	24	-
<b>Total recognised gains and losses relating to the year</b>	<b>(7,491)</b>	<b>8,090</b>

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. A summary of principal accounting policies, all of which have been applied consistently during the year and the preceding year covered by the financial information in this report, is set out below:

**Accounting convention**

The financial information set out in this report has been prepared under the historical cost convention.

**Basis of consolidation**

The consolidated statements incorporate the financial statements of the company and all its subsidiaries.

**Acquisitions**

On the acquisition of a business, fair values are attributed to the group's share of separable net assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill, and, following the implementation of FRS 10, is capitalised in the group balance sheet in the year of acquisition. Previously purchased goodwill was written off directly to reserves as noted below.

The profit or loss on the disposal of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

**Goodwill**

For acquisition of a business, including an interest in an associated undertaking, following the implementation of FRS 10 Goodwill and Intangible Assets, purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life of up to 20 years from the date of acquisition. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period.

Goodwill which arose on the acquisition of a business, including an interest in an associated undertaking, in prior periods and was written off to the profit and loss account reserve as a matter of accounting policy remains eliminated against that reserve and will be charged or credited in the profit and loss account as appropriate on the subsequent disposal of the business to which it related.

**Turnover**

Turnover which is stated net of value added tax represents the sales value of work done in the year, including estimates in respect of amounts still to be invoiced.

**Long term contracts**

Profit on long term contracts is taken as the work is carried out, provided that the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which has been completed to date. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

The amount by which turnover is in excess of payments on account has been classified as amounts recoverable on contracts.

**Pensions**

Contributions to the defined contribution pension schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

**1. ACCOUNTING POLICIES (continued)**
**Work in progress and stocks**

Work in progress and stocks are valued at the lower of cost and net realisable value. Provision is made for foreseeable losses.

**Fixed asset investments**

Except as stated below, investments held as fixed assets are stated at cost less any impairment in value.

In the consolidated financial statements, shares in joint ventures are accounted for using the gross equity method. The consolidated profit and loss account includes the group's share of the pre-tax profits and attributable taxation of the joint ventures based on the financial statements for the year. In the consolidated balance sheet, the investments in joint ventures are shown at the group's share of gross assets and gross liabilities.

**Tangible fixed assets and depreciation**

Depreciation of fixed assets is provided to write off the cost in equal annual instalments over the estimated useful economic lives of the assets. The estimated useful lives are as follows:

Short leasehold property	5 years
Motor vehicles	4 years
IT and office equipment	3-5 years

**Deferred taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future rate, at rates expected to apply when they crystallise based on current rates and law. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries or associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Leases**

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Rentals are charged to profit and loss in equal annual amounts over the lease term.

**Foreign exchange**

Transactions denominated in foreign currencies are translated into sterling at the average rates of exchange ruling during the year. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings are taken direct to reserves.

**2. SEGMENTAL INFORMATION**

Gross value of work performed, turnover and (loss) / profit before taxation may be analysed as follows:

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Gross value of work performed by origin and destination:		
United Kingdom	516,716	501,171
Europe	12,183	9,579
Asia	11,033	-
	<u>539,932</u>	<u>510,750</u>
Turnover by origin and destination:		
United Kingdom	395,716	402,563
Europe	9,320	6,884
Asia	3,921	-
	<u>408,957</u>	<u>409,447</u>
Less: Share of joint ventures' turnover	(6,940)	(3,008)
	<u>402,017</u>	<u>406,439</u>
(Loss) / Profit on ordinary activities before taxation:		
United Kingdom	(2,810)	6,682
Europe	(314)	421
Asia	216	-
	<u>(2,908)</u>	<u>7,103</u>
Fee income, which we consider to be a key indicator, is derived as follows:		
Turnover	402,017	406,439
Trade contractor costs recharged	(345,619)	(353,359)
	<u>56,398</u>	<u>53,080</u>
Interest receivable	1,301	1,337
Less: Attributable to minority interests	(46)	(69)
	<u>57,653</u>	<u>54,348</u>

The majority of net assets are held in the United Kingdom.

The group has one area of activity which is to provide occupancy services to its customers throughout the Occupancy Life Cycle.

In accordance with industry practice, gross value of work performed includes £130,975,000 (2002 – £101,303,000) in respect of the construction costs of projects on which the company acts as construction manager. These construction costs are billed directly to the client and are not invoiced via the group.

**3. OPERATING (LOSS) / PROFIT**

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
<b>Operating (loss) / profit is stated after charging / (crediting):</b>		
Auditors' remuneration:		
group audit fees	145	152
company audit fees	30	29
taxation	126	88
other services – UK	10	24
other services – Germany	51	29
Depreciation and other amounts written off tangible fixed assets:		
owned assets	1,041	1,187
leased assets	16	25
Loss on sale of tangible fixed assets	26	7
Rentals under operating leases:		
land and buildings	1,419	719
hire of plant and machinery	776	405
other operating leases	278	333
Exchange (gains) / losses	(36)	8

**4. EXCEPTIONAL ITEMS**

Exceptional administrative costs relate to the reorganisation of seven Facilities Management and Operation businesses into one new division, ISG Occupancy, and related property costs (see Note 20).

**5. DIRECTORS' REMUNERATION**

Details of the directors' interests in the share capital of the company are set out in the Directors' report on pages 15 to 17. Remuneration policy and further details of directors' remuneration are set out on pages 18 and 19.

						Year ended 30 June 2003 Total	Year ended 30 June 2002 Total
	Fee £	Salary £	Bonus £	Pension £	Benefits £	remuneration £	remuneration £
P C David	25,000	-	-	-	-	25,000	20,000
R B Horvath	-	182,500	50,000	-	15,950	248,450	232,214
J L Jeremy	25,000	-	-	-	-	25,000	20,000
J D King	-	191,250	50,000	-	13,665	254,915	236,490
S D Lawther	-	182,500	35,000	-	12,615	230,115	188,626
S I Millar	-	156,108	50,000	29,544	13,322	248,974	216,567
J F Squire	-	-	-	-	-	-	240,193
	50,000	712,358	185,000	29,544	55,552	1,032,454	1,154,090

The above bonuses relate to the profits for the financial year ended 30 June 2002. Included in Note 6 is an accrual for bonuses payable in respect of 30 June 2003.

After consideration by the Remuneration Committee, the directors will be awarded discretionary bonuses out of the amount set aside as described in Note 6. The only pension contributions made by the company in respect of directors are to personal pension schemes under a salary waiver arrangement.

**6. STAFF COSTS INCLUDING DIRECTORS' REMUNERATION**

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Salaries and wages	43,687	41,575
Social security costs	4,082	3,818
Pension costs	227	234
	47,996	45,627

Included in salaries above is a bonus accrual payable in respect of the financial year ended 30 June 2003. The accrual is the directors' latest estimate of the likely amount payable to satisfy the group's commitment to discretionary amounts based upon group performance.

Certain subsidiary undertakings of the group operate defined contribution pension schemes. The assets of the schemes are held separately from those of the group by an independently administered fund. The pension cost charge represents contributions payable and paid by the subsidiary undertakings to the fund and amounted to £165,000 (2002 – £148,000) including contributions in respect of employees. At the balance sheet date outstanding contributions amounted to £19,000 (2002 – £5,000).

The only other pension contributions made by the group are to employees' personal pension schemes under a salary waiver arrangement.

	Year ended 30 June 2003 Number	Year ended 30 June 2002 Number
<b>Employees</b>		
Average number of persons employed by the group in the year:		
Project management	498	496
Service delivery	1,445	1,452
Sales	12	22
Administration	101	90
Other	34	51
	2,090	2,111
Share of average number of persons employed by joint ventures in the year:		
Project management, sales, administration and other	83	15
Service delivery	6	-
	2,179	2,126

**7. SHARE OF OPERATING (LOSS) / PROFIT IN JOINT VENTURES**

The group share of the operating loss in Interior Alpha SA is £255,000 (2002 – £116,000 profit). The group share of the operating profit in Eurica (Stockley Park) Limited is £7,000 (2002 – £15,000 loss). The group share of the operating profit in ISG City Axis Limited is £213,000 (2002 – nil). The group share of the operating loss in Stonemartin Corporate Centres Limited is nil (2002 – £48,000).

Further details are set out in Note 14b.

## 8. NET INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Group:		
Bank interest receivable	1,301	1,328
Bank loans and overdrafts	(285)	(348)
Finance charges on hire purchase contracts	(3)	(5)
Other interest (payable) / receivable	(1)	9
Joint ventures:		
Group share of interest receivable	13	15
	<u>1,025</u>	<u>999</u>

## 9. TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
United Kingdom corporation tax at 30% (2002 - 30%) based on the (loss) / profit for the year	2,089	2,565
Adjustment to prior years' tax provisions	42	4
	<u>2,131</u>	<u>2,569</u>
United Kingdom corporation tax on joint ventures	1	2
Overseas taxation on joint ventures	(10)	51
	<u>2,122</u>	<u>2,622</u>
Deferred taxation		
Origination and reversal of timing differences	(67)	(179)
	<u>2,055</u>	<u>2,443</u>

The tax effect of the exceptional items in the year ended 30 June 2003 is a credit of £486,000. The tax effect of the profit on disposal of interest in joint ventures in the year ended 30 June 2002 is a charge of £117,000.

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2002 - 30%). The actual tax charge for the current and the previous year exceeds the standard rate for the reasons set out in the following reconciliation:

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
(Loss) / Profit on ordinary activities before tax	(2,908)	7,103
Tax on ordinary activities at standard rate	(870)	2,131
Factors affecting charge for the period:		
Amortisation and impairment	2,766	306
Expenses not deductible for tax purposes	181	219
Depreciation in excess of capital allowances	41	56
Other timing differences	(36)	(78)
Rate differences on current tax	(2)	7
Utilisation of provisions	-	(23)
Adjustment to prior years' tax provisions	42	4
	<u>2,122</u>	<u>2,622</u>

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and associates. As the earnings are continually reinvested by the group, no tax is expected to be payable on them in the foreseeable future.

## 10. EQUITY DIVIDENDS PAID AND PROPOSED

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
Interim paid - 2.50p per ordinary share (2002 - 2.20p)	622	559
Final proposed - 5.00p per ordinary share (2002 - 4.30p)	1,210	1,115
	<u>1,832</u>	<u>1,674</u>
Ordinary dividends on equity shares	<u>1,832</u>	<u>1,674</u>

## 11. (LOSS) / EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the year, determined in accordance with the provisions of FRS 14 Earnings per share.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. Diluted loss per share is the same as basic loss per share. There are not considered to be any dilutive potential ordinary shares. The group has only one category of dilutive potential ordinary shares, being share options granted where the exercise price is less than the average price of the company's ordinary shares during the year.

Adjusted earnings per share is calculated by dividing the earnings attributed to ordinary shareholders, pre-amortisation and impairment of goodwill and before post-tax exceptional costs, by the weighted average number of ordinary shares during the year.

	Year ended 30 June 2003 £'000	Year ended 30 June 2002 £'000
(Loss) / Profit for the financial year	(5,251)	4,634
Basic and diluted earnings attributable to ordinary shareholders	(5,251)	4,634
Amortisation and impairment of goodwill	9,220	1,020
Post-tax exceptional costs	1,133	-
	<u>5,102</u>	<u>5,654</u>
Adjusted earnings attributable to ordinary shareholders	<u>5,102</u>	<u>5,654</u>
	Number	Number
Weighted average number of ordinary shares	25,056,093	25,231,388
Dilutive share options	-	501,006
	<u>25,056,093</u>	<u>25,732,394</u>
Diluted weighted average number of ordinary shares	<u>25,056,093</u>	<u>25,732,394</u>
Basic (loss) / earnings per ordinary share	(20.96)p	18.37p
Diluted (loss) / earnings per ordinary share	(20.96)p	18.01p
Adjusted earnings per ordinary share	<u>20.36p</u>	<u>22.41p</u>

## 12. INTANGIBLE FIXED ASSETS

	Goodwill £'000
<b>Cost</b>	
At 1 July 2002	20,574
Adjustments to goodwill	(20)
At 30 June 2003	20,554
<b>Accumulated amortisation</b>	
At 1 July 2002	2,880
Charge for the year	1,220
Impairment	8,000
At 30 June 2003	12,100
<b>Net book value</b>	
At 30 June 2003	8,454
At 30 June 2002	17,694

The impairment charge for the year of £8,000,000 relates to acquisitions in prior years which, in the opinion of the directors, have become impaired.

A useful life of twenty years has been used on goodwill arising on all acquisitions to date, with the exception of Square Mile Real Estate Services Limited which the directors have estimated has a useful life of five years.

## 13. TANGIBLE FIXED ASSETS

Company	Short leasehold property £'000	Motor vehicles £'000	IT and office equipment £'000	Total £'000
<b>Cost</b>				
At 1 July 2002	289	-	375	664
Additions	-	24	139	163
Disposals	-	-	(15)	(15)
At 30 June 2003	289	24	499	812
<b>Accumulated depreciation</b>				
At 1 July 2002	83	-	79	162
Charge for the year	65	3	133	201
Disposals	-	-	(5)	(5)
At 30 June 2003	148	3	207	358
<b>Net book value</b>				
At 30 June 2003	141	21	292	454
At 30 June 2002	206	-	296	502

Group	Short leasehold property £'000	Motor vehicles £'000	IT and office equipment £'000	Total £'000
<b>Cost</b>				
At 1 July 2002	891	208	5,177	6,276
Additions	24	24	592	640
Disposals	(70)	(101)	(502)	(673)
At 30 June 2003	845	131	5,267	6,243
<b>Accumulated depreciation</b>				
At 1 July 2002	335	171	3,919	4,425
Charge for the year	201	21	835	1,057
Disposals	(69)	(95)	(469)	(633)
At 30 June 2003	467	97	4,285	4,849
<b>Net book value</b>				
At 30 June 2003	378	34	982	1,394
At 30 June 2002	556	37	1,258	1,851

The net book value of the group's office equipment includes £45,000 (2002 – £61,000) in respect of assets held under hire purchase contracts.

## 14. FIXED ASSET INVESTMENTS

a. Company	Own shares £'000	Other loans £'000	Participating interests £'000	Shares in group undertakings £'000	Total £'000
At 1 July 2002	119	-	207	4,843	5,169
Additions	1,195	108	-	3,385	4,688
Disposals	(1)	-	-	(1,048)	(1,049)
At 30 June 2003	1,313	108	207	7,180	8,808

As at 30 June 2003, the Interior Services Group Qualifying Employee Share Trust held 103,929 (2002 – 105,000) ordinary 1p shares in the company at a cost of £118,000 (market value £164,000). These shares have not yet been allocated to individuals and accordingly, dividends on these shares have been waived. During the year, the Interior Services Group Employee Share Trust acquired 700,000 ordinary 1p shares in the company at a cost of £1,195,000 (market value £1,103,000). Further details are disclosed below.

At 30 June 2003, the company owns 3.1% (2002 – 0.4%) of its own called up share capital.

During the year, the company acquired 750 £1 ordinary shares (7.5% of ordinary share capital) in Willcare Holdings Limited for a cost of £750 and invested £107,000 in unsecured subordinated loan notes with the same company.

During the year, the company sold its investment in three of its subsidiaries, Square Mile Real Estate Services Limited, ISGC Limited and Interior Furniture Services Limited, at cost to another of its subsidiaries, ISG Occupancy Limited. The company transferred £119,000 of its cost of investment in ISGC Limited to its cost of investment in ISG Occupancy Limited. On 1 July 2002, the company acquired one further £1 ordinary share in ISG Occupancy Limited, a wholly-owned subsidiary, at a premium of £3,265,999 for total consideration of £3,266,000.

The company also holds a 49% interest in a joint venture ISG City Axis Limited. Further details are disclosed below.

## 14. FIXED ASSET INVESTMENTS (continued)

<b>b. Group interest in joint ventures</b>						
	<b>Share of net assets</b>					
	<b>£'000</b>					
At 1 July 2002	362					
Loss for the year	(13)					
Currency translation differences arising on foreign currency investments	24					
At 30 June 2003	373					
The above is made up as follows:						
	<b>Share of gross assets</b>	<b>Share of gross liabilities</b>	<b>Share of net assets</b>	<b>Share of gross assets</b>	<b>Share of gross liabilities</b>	<b>Share of net assets</b>
	<b>2003</b>	<b>2003</b>	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Interior Alpha SA	1,609	(1,535)	74	1,216	(1,013)	203
Eurica (Stockley Park) Limited	56	(98)	(42)	173	(221)	(48)
ISG City Axis Limited	1,967	(1,626)	341	207	-	207
	<b>3,632</b>	<b>(3,259)</b>	<b>373</b>	<b>1,596</b>	<b>(1,234)</b>	<b>362</b>

Further information on the joint ventures is given in Notes 35 and 36.

<b>c. Group other investments</b>				
	<b>Other loans</b>	<b>Own shares</b>	<b>Other investments</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>				
At 1 July 2002	-	663	3,334	3,997
Additions	508	1,195	1	1,704
Disposals	-	(1)	-	(1)
Adjustments	-	-	(2,285)	(2,285)
At 30 June 2003	<b>508</b>	<b>1,857</b>	<b>1,050</b>	<b>3,415</b>

The fair value (calculated using market value) of these investments is £3,120,000.

As at 30 June 2003, the Interior Services Group Qualifying Employee Share Trust held 103,929 (2002 – 105,000) ordinary 1p shares in the company at a cost of £118,000 (market value £164,000). Further details are disclosed above. As at 30 June 2003, the Interior Services Group Employee Share Trust held 843,625 (2002 – 143,625) ordinary 1p shares with a nominal value of £8,436 (2002 – £1,436) in the company at a cost of £1,739,000 (2002 – £544,000) (market value £1,329,000). These shares have not yet been allocated to individuals and accordingly, dividends on these shares have been waived.

At 30 June 2003, the group owns 3.7% (2002 – 1.0%) of its own called up share capital.

The group holds trading investments of £12,000 (2002 – £11,000).

The Stonemartin plc shareholding has been included at a value of £1,038,000 (market value £1,108,000). The £2,285,000 adjustment during the year reflects the unrealised loss as a result of the fall in the market value of the investment in Stonemartin plc since the date of acquisition. Further information is given in Note 24.

During the year, the group acquired 750 £1 ordinary shares (7.5% of ordinary share capital) in Willcare Holdings Limited for a cost of £750 and invested £107,000 in unsecured subordinated loan notes with the same company.

During the year, the group invested £400,000 in the MC Property Growth Fund, a limited partnership. Of this total, £4,000 was capital contribution (being 6.4% of total capital) and the balance of £396,000 was an interest free loan.

## 15. STOCKS

	<b>Group 2003</b>	<b>Group 2002</b>
	<b>£'000</b>	<b>£'000</b>
Work in progress	-	28
Consumables at site and contract start-up costs	229	287
	<b>229</b>	<b>315</b>

## 16. DEBTORS

	<b>Group 2003</b>	<b>Group 2002</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	49,263	30,886
Advance corporation tax recoverable	-	1
Amounts owed by joint ventures	621	37
Other debtors	1,062	689
Prepayments and accrued income	17,286	17,875
Deferred taxation (see below)	385	318
	<b>68,617</b>	<b>49,806</b>
Included in the above are the following amounts due after more than one year:		
Trade debtors	3,964	-

The movement on deferred taxation is as follows:

	<b>Group</b>
	<b>£'000</b>
As at 1 July 2002	318
Profit and loss account credit	67
As at 30 June 2003	<b>385</b>

Provision for deferred taxation consists of the following amounts:

	<b>Group 2003</b>	<b>Group 2002</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation in excess of capital allowances	351	318
Other timing differences	34	-
	<b>385</b>	<b>318</b>

## 17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2003 £'000	Group 2002 £'000
Loan notes (Note 19)	224	43
Bank loans and overdrafts (Note 19)	1,411	1,332
Obligations under hire purchase contracts (Note 19)	24	30
Trade creditors	28,410	18,614
Amounts owed to minority interests	497	-
Corporation tax	875	1,535
Other taxation and social security	4,687	3,503
Other creditors	136	90
Deferred and contingent consideration (see below)	159	180
Accruals and deferred income	64,115	54,425
Proposed dividend (Note 10)	1,210	1,115
	<u>101,748</u>	<u>80,867</u>
Deferred and contingent consideration comprises:		
Deferred consideration on acquisition of ISGC Limited	-	21
Deferred consideration on acquisition of minority interest in ISG Occupancy Limited	159	159
	<u>159</u>	<u>180</u>

## 18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Loan notes (Note 19)	197	808	197	808
Bank loans (Note 19)	3,243	4,308	3,243	4,308
Obligations under hire purchase contracts (Note 19)	-	21	-	-
Deferred consideration on acquisition of minority interest in ISG Occupancy Limited	-	159	-	159
	<u>3,440</u>	<u>5,296</u>	<u>3,440</u>	<u>5,275</u>

The bank loans are secured by a fixed and floating charge over the assets of the company and certain subsidiary undertakings. Further details on the loan notes are given in Note 21.

## 19. BORROWINGS

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Bank overdrafts	341	592	-	-
Bank loans	4,313	5,048	4,313	5,048
Loan notes	421	851	421	851
Obligations under hire purchase contracts	24	51	-	4
	<u>5,099</u>	<u>6,542</u>	<u>4,734</u>	<u>5,903</u>
<b>Analysis of repayments</b>				
Bank loans and overdrafts:				
within one year on demand	1,411	1,332	1,070	740
between one and two years	1,070	1,080	1,070	1,080
between two and five years	2,173	3,228	2,173	3,228
Loan notes:				
within one year on demand	224	43	224	43
between two and five years	197	808	197	808
Obligations under hire purchase contracts:				
within one year on demand	24	30	-	4
between one and two years	-	21	-	-
	<u>5,099</u>	<u>6,542</u>	<u>4,734</u>	<u>5,903</u>

## 20. PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring costs £'000	Onerous rental contract £'000	Group total £'000
As at 1 July 2002	-	-	-
Profit and loss account charge	(364)	(355)	(719)
As at 30 June 2003	<u>(364)</u>	<u>(355)</u>	<u>(719)</u>

**Group restructuring costs**

Provision has been made for further restructure costs regarding the reorganisation of seven Facilities Management and Operation businesses into one new division, ISG Occupancy. These costs include redundancy costs and the full cost of divisional closures and will be incurred in the first quarter of the next financial year.

	2003 £'000	2002 £'000
Restructure costs	<u>(364)</u>	-

**Group onerous rental contract**

A leased building has ceased to be occupied during the year and as such the contract has become onerous. Provision has been made for the full cost of the lease (after making reasonable assumption on when the property will be sub-let) through to its expiry on 23 September 2005.

	2003 £'000	2002 £'000
Onerous rental contract	<u>(355)</u>	-

**21. FINANCIAL INSTRUMENTS**

The group's policies as regards financial instruments are set out in the Operating and Financial Review on pages 10 to 13. Short term debtors and creditors have been excluded from these disclosures.

**a. Maturity and interest profile of financial assets and liabilities**

The group has a long-term facility with Bank of Scotland of £4.3m (2002 – £5.0m). £1.3m is repayable in thirteen equal quarterly instalments from 10 July 2003 and £3.0m is repayable in twelve equal quarterly instalments of £167,400 from 10 July 2003 and a balancing payment of £1,004,400 in July 2006. The facility bears a floating interest rate (with reference to LIBOR) which was 4.9% at 30 June 2003 (2002 - 5.5%).

At the year-end, non-interest bearing financial liabilities were £0.5m (2002 – £0.9m). This amount is expected to mature within one year.

At the year end, guaranteed loan notes of £0.4m (2002 – £0.7m) with a repayment date of 30 June 2005 and guaranteed loan notes of nil (2002 – £0.1m) with a repayment date of 30 June 2006 were in issue. The loan notes bear a floating interest rate (with reference to LIBOR) which was 3.9% (2002 – 4.1%) at 30 June 2003.

Further details of the maturity profile of financial liabilities are set out in Note 19.

Cash (sterling £37,617,000, euro £911,000) is invested on short-term deposit earning a return by reference to LIBOR (2002 – sterling £35,346,000, euro £1,273,000).

**b. Fair value of financial assets and liabilities**

The fair value of the group's other fixed asset investments (calculated using market value) is disclosed in Note 14c. The fair values of the group's other financial assets and liabilities are not materially different from their stated carrying values.

**c. Currency profile**

The main functional currency of the group is sterling. The group conducts substantially all of its business in sterling. The level of foreign business is likely to grow but is currently less than 4% of the group's total activity.

As a result of the foreign activity, the group is subject to foreign exchange exposure due to the effects that foreign exchange rate movements have on the group's transactions, and on the translation of the results and underlying balance sheet net assets of its foreign subsidiaries. Whilst the group does not currently undertake any hedging, currency exposures are monitored. The accounting treatment of exchange gains and losses relating to foreign activities is described in Note 1.

**22. EQUITY MINORITY INTERESTS**

	<b>Group £'000</b>
As at 1 July 2002	150
Share of profits for the year	288
Equity dividend payable to minority interest	(497)
Other movement	59
	<hr/>
As at 30 June 2003	-
	<hr/>

**23. CALLED UP SHARE CAPITAL**

	<b>Group and Company 2003 Number</b>	<b>Group and Company 2003 £'000</b>	<b>Group and Company 2002 Number</b>	<b>Group and Company 2002 £'000</b>
<b>Authorised:</b>				
Ordinary shares of 1p each (2002 - 1p each)	100,000,000	1,000	100,000,000	1,000
<b>Allotted, called up and fully paid:</b>				
Ordinary shares of 1p each (2002 - 1p each)	25,809,318	258	25,735,084	257
		<b>Nominal value £</b>	<b>Number of shares</b>	<b>Consideration £</b>
Ordinary shares of 1p each allotted as at 1 July 2002		257,351	25,735,084	
Ordinary shares issued during the year ended 30 June 2003 fully paid:				
Deferred consideration on ISG Occupancy Limited minority interest		433	43,334	63,701
Deferred consideration on ISGC Limited		250	25,000	27,000
Crystallisation of options		59	5,900	3,363
		<hr/>	<hr/>	<hr/>
Total ordinary shares of 1p each allotted and fully paid during the year ended 30 June 2003		742	74,234	94,064
		<hr/>	<hr/>	<hr/>
Ordinary shares of 1p each allotted as at 30 June 2003		258,093	25,809,318	

**24. GROUP RESERVES**

	<b>Share premium £'000</b>	<b>Other reserves £'000</b>	<b>Profit and loss account £'000</b>
Balance at 1 July 2002	9,022	3,456	11,596
Loss for the year	-	-	(5,251)
Equity dividends	-	-	(1,832)
Unrealised loss arising on investments	-	(2,285)	-
Share premium arising on issue of shares	94	-	-
Exchange differences	-	-	45
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2003	9,116	1,171	4,558

The unrealised loss on Other reserves has arisen as a result of the fall in the market value of the investment in Stonemartin plc. This loss has been treated in a manner consistent with the treatment of the unrealised gain on the original acquisition of the investment.

**25. COMPANY RESERVES**

	Share premium £'000	Profit and loss account £'000
Balance at 1 July 2002	9,022	3,525
Loss for the year	-	(1,389)
Equity dividends	-	(1,832)
Share premium arising on issue of shares	94	-
Exchange differences	-	(23)
Balance at 30 June 2003	9,116	281

**26. PARENT COMPANY PROFIT AND LOSS ACCOUNT**

The company has taken advantage of s230 of the Companies Act 1985 and has not presented its own profit and loss account. The loss for the year dealt with in the accounts of the parent company is £1,389,000 (2002 – £853,000 profit).

**27. CAPITAL AND OTHER COMMITMENTS**

At 30 June 2003, the group and the company had no capital commitments (2002 - nil).

**Operating leases**

The group's minimum annual commitments under non-cancellable operating leases at 30 June are as follows:

	Land and buildings 2003 £'000	Other 2003 £'000	Land and buildings 2002 £'000	Other 2002 £'000
Operating leases which expire:				
Within one year	231	270	220	109
Within two to five years	582	639	598	541
After five years	133	56	97	-
	946	965	915	650

**Finance leases**

Details of obligations under hire purchase contracts are included in Note 19.

**28. EMPLOYEE SHARE SCHEMES**

The company has adopted the following share incentive arrangement plans:

**Interior Services Group plc Company Share Option Plan (the 'Approved Plan')**

The Approved Plan was adopted by the company on 26 September 1997, approved by the Inland Revenue on 26 November 1997 and amended by the company in General Meeting on 4 December 2000.

Under this scheme, the following options have been approved by the Board:

Date of Board approval and grant	1 July 2002	Number of share options		30 June 2003	Option price (pence)	Period during which options may be exercised
		Awarded / (Lapsed)	Exercised / (Cancelled)			
19 January 1998	236,768	-	(5,900)	230,868	57	On or after 19 January 2001
21 October 1998	145,458	-	-	145,458	117	On or after 21 October 2001
7 July 1999	12,000	-	-	12,000	141	On or after 7 July 2002
1 December 2000	7,500	(2,500)	-	5,000	385	On or after 1 December 2003
29 June 2001	7,500	-	(7,500)	-	390	On or after 29 June 2004
19 October 2001	760,848	(37,242)	(663,382)	60,224	300	On or after 19 October 2004
20 September 2002	-	825,404	(72,242)	753,162	200	On or after 20 September 2005
28 October 2002	-	207,500	-	207,500	200	On or after 28 October 2005
14 April 2003	-	55,000	-	55,000	150	On or after 14 April 2006

At 30 June 2003, the number of option-holders participating in the Approved Plan was 144.

**Interior Services Group plc Unapproved Company Share Option Plan (the "Unapproved Plan")**

The Unapproved Plan was adopted by the company on 8 June 1998 and amended by the company in General Meeting on 4 December 2000.

Under this scheme, the following options have been approved by the Board:

Date of Board approval and grant	1 July 2002	Number of share options		30 June 2003	Option price (pence)	Period during which options may be exercised
		Awarded / (Lapsed)	Exercised / (Cancelled)			
21 October 1998	154,542	-	-	154,542	117	On or after 21 October 2001
7 July 1999	80,000	-	-	80,000	141	On or after 7 July 2002
3 September 1999	40,000	-	-	40,000	197	On or after 3 September 2002
15 October 1999	100,000	-	-	100,000	226	On or after 15 October 2002
29 June 2001	117,500	-	(117,500)	-	390	On or after 29 June 2004
19 October 2001	605,073	-	(557,605)	47,468	300	On or after 19 October 2004
15 April 2002	275,000	-	(275,000)	-	263	On or after 15 April 2005
20 September 2002	-	795,583	(20,000)	775,583	200	On or after 20 September 2005
28 October 2002	-	45,000	(5,000)	40,000	200	On or after 28 October 2005
14 April 2003	-	15,000	-	15,000	150	On or after 14 April 2006

At 30 June 2003, the number of option-holders participating in the Unapproved Plan was 32.

**Interior Services Group plc Savings Related Share Option Scheme (the "SAYE Scheme")**

The SAYE Scheme was adopted by the company on 8 June 1998 and approved by the Inland Revenue on 18 June 1998. On the date of adoption, the Board approved and granted share options of which 106,515 were still exercisable at 30 June 2003, at an option price of 113p on or after the fifth anniversary of the grant.

In July 1998, one hundred and thirteen employees started contributing to the SAYE Scheme and at 30 June 2003, 72 employees were still members. The SAYE scheme was amended by the Board on 1 June 2001, pursuant to the shareholders' resolution establishing a QUEST passed on 4 December 2000.

The SAYE scheme concludes on 1 September 2003.

**Interior Services Group plc All-Employee Share Ownership Plan (the "AESOP")**

The AESOP was adopted by the company on 2 March 2001 and approved by the Inland Revenue on 5 April 2001.

At 30 June 2003, 75 employees were participating in the plan.

In addition to the above schemes, a Restricted Share Scheme operated during the year.

**29. CONTINGENT LIABILITIES**

There are group cross guarantees from the company for all monies due to certain of the group's banks and surety lenders. No monies were outstanding at 30 June 2003 (2002 – nil). In the normal course of business there are contingent liabilities in respect of completed and uncompleted contracts.

**30. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS**

	2003 £'000	2002 £'000
(Loss) / Profit for the financial year	(5,251)	4,634
Equity dividends	(1,832)	(1,674)
	<u>(7,083)</u>	<u>2,960</u>
Foreign exchange gain	45	-
Unrealised (loss) / gain arising on investments	(2,285)	3,456
Cost of shares to be allocated in the group Qualifying Employee Share Trust	-	(301)
Proceeds from share issue	95	741
	<u>(9,228)</u>	<u>6,856</u>
Net (deduction from) / addition to shareholders' funds		
Shareholders' funds at 1 July	24,331	17,475
Shareholders' funds at 30 June	<u>15,103</u>	<u>24,331</u>

**31. RECONCILIATION OF OPERATING (LOSS) / PROFIT TO OPERATING CASH FLOWS**

	2003 £'000	2002 £'000
Operating (loss) / profit	(3,898)	5,639
Depreciation charges	1,057	1,212
Amortisation and impairment of goodwill	9,220	1,020
Loss on sale of tangible fixed assets	26	7
Decrease / (increase) in stocks	86	(64)
(Increase) / decrease in debtors	(7,667)	7,069
Increase / (decrease) in creditors	10,437	(8,126)
	<u>9,261</u>	<u>6,757</u>
Net cash inflow from operating activities		

**32. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT**

	2003 £'000	2002 £'000
<b>Returns on investments and servicing of finance:</b>		
Interest received	1,301	1,337
Interest paid	(289)	(353)
	<u>1,012</u>	<u>984</u>
Net cash inflow for returns on investments and servicing of finance		
<b>Capital expenditure and financial investment:</b>		
Payments to acquire tangible fixed assets	(640)	(1,066)
Receipts from sales of tangible fixed assets	14	69
Payments to purchase financial investments	(1,703)	-
Receipts from sales of financial investments	1	-
	<u>(2,328)</u>	<u>(997)</u>
Net cash outflow for capital expenditure and financial investment		
<b>Acquisitions and disposals:</b>		
Purchase of subsidiary undertakings	(502)	(1,028)
Net cash acquired with subsidiaries	-	277
Receipt from disposal of joint ventures	-	390
Purchase of interest in joint ventures	-	(207)
Purchase of minority interests in subsidiary undertakings	-	(92)
	<u>(502)</u>	<u>(660)</u>
Net cash outflow for acquisitions and disposals		

Cash flows relating to deferred consideration on prior year acquisitions are included in Purchase of subsidiary undertakings.

**33. ANALYSIS OF NET FUNDS**

	2002 £'000	Cash flow £'000	Other non-cash changes £'000	2003 £'000
Cash in hand and at bank	36,619	1,909		38,528
Overdraft	(592)	251		(341)
		<u>2,160</u>		
Debt due after one year	(5,116)	735	941	(3,440)
Debt due within one year	(783)	-	(511)	(1,294)
Hire purchase contracts	(51)	27	-	(24)
	<u>30,077</u>	<u>2,922</u>	<u>430</u>	<u>33,429</u>

The net other non-cash changes relate to the redemption of £430,000 loan notes previously issued as part of the consideration on the acquisition of ISG Occupancy Limited (formerly Eurica Limited).

**34. RELATED PARTY TRANSACTIONS**

During the year the group traded with three of its joint ventures: Interior Alpha SA, Eurica (Stockley Park) Limited and ISG City Axis Limited. The group provided services with a total value of £482,467, and was charged for services with a total value of £34,910. The group also provided a loan of £583,728 to ISG City Axis Limited.

At the financial year end, £620,478 of loans were outstanding and joint ventures owed £193,987 in relation to the above trading. These amounts are included in debtors.

Also during the year, the company traded with another of its related parties, Stonemartin plc. The group provided services with a total value of £9,609,814. At the financial year end, £415,854 in relation to this trading was included within debtors.

**35. EVENTS OCCURRING AFTER THE YEAR END**

On 13 August 2003, ISG City Axis Limited, one of the company's joint venture investments, was disposed of for consideration of a 22% shareholding in an enlarged company listed on the Singapore Stock Exchange as City Axis Limited. This is expected to result in an unrealised gain of £361,000. The holding in City Axis Limited will be included as an associate in the balance sheet.

**36. ADDITIONAL INFORMATION ON JOINT VENTURES**

	Country of incorporation/ registration and operation	Activity	Proportion of ordinary shares held by the group %
<b>Eurica (Stockley Park) Limited</b> <sup>1</sup>	England	Property management	49
Total issued share capital:	100	£1 ordinary	
<b>Interior Alpha SA</b> <sup>2</sup>	France	Internal refurbishment and building	50
Total issued share capital:	2,500,000	0.08 Euro ordinary	
<b>ISG City Axis Limited</b> <sup>3</sup>	Hong Kong	Internal refurbishment and building	49
Total issued share capital:	5,000,000	HK\$1 ordinary	

<sup>1</sup> The shares in this company are held directly by ISG Occupancy Limited.

<sup>2</sup> The shares in this company are held directly by Interior (Europe) Limited.

<sup>3</sup> The accounting reference date for ISG City Axis Limited is 31 December. Accordingly, management accounts information has been used for the period to 30 June 2003.

The group also has a joint arrangement in Spain. In accordance with FRS 9 the group accounts for this by taking its share of the profit and loss account, assets, liabilities, and cash flows on a proportional basis.

**37. ADDITIONAL INFORMATION ON SUBSIDIARIES**

Subsidiary undertakings	Country of incorporation/ registration and operation	Activity	Proportion of ordinary shares held by the group %
Interior plc	England	Internal refurbishment and building	100
Exterior International plc	England	External refurbishment and building	100
ISG Occupancy Limited	England	Management of occupied space	100
Walker Packman Limited <sup>1</sup>	England	Property management	100
H Waters Limited <sup>2</sup>	England	Property management	100
Eurica Management Limited <sup>1</sup>	England	Project management	100
Interior (Europe) Limited	England	Holding company	100
Interior Tolent Limited <sup>3</sup>	England	Internal refurbishment and building	65
Eurica Services Limited <sup>1</sup>	England	Facilities management	100
Interior Furniture Services Limited <sup>1</sup>	England	Furniture retailing and services	100
ISGC Limited <sup>1</sup>	Scotland	Consultancy and advisory	100
Interior Construction GmbH <sup>4</sup>	Germany	Internal refurbishment and building	100
Square Mile Real Estate Services Limited <sup>1</sup>	England	Real estate services	100
Interior Services Group Employee Trustees Limited	England	Employee share scheme trustee	100
Interior Services Group AESOP Trustee Limited	England	Employee share scheme trustee	100
Interior Services Group Trustee Limited	England	Employee share scheme trustee	100
Interior (Appold Street) Limited <sup>3</sup>	England	Dormant	100
Interior JV Limited <sup>3</sup>	England	Dormant	100
Exterior Construction Limited <sup>3</sup>	England	Dormant	100
RAN Consultants Limited <sup>3</sup>	England	Dormant	100
Care Services Limited <sup>1</sup>	England	Dormant	100
Care International Limited <sup>5</sup>	England	Dormant	100
Care Services Group Limited <sup>5</sup>	England	Dormant	100
Care Combined Services Limited <sup>6</sup>	England	Dormant	100
Care Facilities Management Services Limited <sup>6</sup>	England	Dormant	100
Eurica Limited	England	Dormant	100
Occupancy Services Limited <sup>7</sup>	England	Dormant	100
Occupancy Management Limited <sup>7</sup>	England	Dormant	100
PC <sup>2</sup> Limited	England	Dormant	100
Interior S.r.l. <sup>4</sup>	Italy	Dormant	100
ISG Interior (Europe) S.L. <sup>4</sup>	Spain	Dormant	100

<sup>1</sup> The shares in these companies are held directly by ISG Occupancy Limited.

<sup>2</sup> The shares in this company are held directly by Walker Packman Limited.

<sup>3</sup> The shares in these companies are held directly by Interior plc.

<sup>4</sup> The shares in these companies are held directly by Interior (Europe) Limited.

<sup>5</sup> The shares in these companies are held directly by Eurica Services Limited.

<sup>6</sup> The shares in these companies are held directly by Care Services Group Limited.

<sup>7</sup> The shares in these companies are held directly by Eurica Limited.

NOTICE IS HEREBY GIVEN that the ninth Annual General Meeting of Interior Services Group plc (the 'Company') will be held at Mitre House, 160 Aldersgate Street, London EC1A 4DD on 11 December 2003 at 15:30 for the following purposes:

#### Ordinary Business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive the audited accounts of the Company for the financial year ended 30 June 2003, the directors' report and the auditors' report on those accounts.
2. That the Report of the Board to the Shareholders on Directors' Remuneration be and is hereby approved.
3. That Deloitte & Touche LLP, be and are hereby re-appointed as auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which audited accounts are laid.
4. To declare a final dividend for the year ended 30 June 2003 of 5.00 pence per ordinary share payable to shareholders on the register at the close of business on 14 November 2003.
5. To re-appoint S D Lawther, who is retiring by rotation in accordance with the Company's Articles of Association as a director of the Company.
6. To re-appoint S I Millar, who is retiring by rotation in accordance with the Company's Articles of Association as a director of the Company.

#### Special Business

To consider and, if thought fit, pass the following resolutions, of which resolution 7 will be proposed as an ordinary resolution and resolutions 8 and 9 as special resolutions:

7. That the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined for the purposes of section 80 of the Companies Act 1985 (the 'Act')) up to an aggregate nominal amount of £86,051 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on the date being five years after the date of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if this authority had not expired, and provided further that this authority shall be to the exclusion of and in substitution for any such earlier authority.
8. That the directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(3) of the Act) for cash pursuant to the general authority conferred on them for the purposes of section 80 of the Act or to sell equity securities held as treasury shares for cash pursuant to section 162D of the Act, or partly in one way and partly in the other, in each case as if section 89(1) of the Act did not apply to such allotment or sale provided that this power shall be limited to:
  - (a) the allotment or sale of equity securities (or partly in one way and partly in the other) in connection with an issue or offering in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of such shareholders of ordinary shares on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed to be held by them (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any other stock exchange in any territory or in relation to fractional entitlements); and
  - (b) the allotment or sale (or partly in one way and partly in the other) otherwise than pursuant to paragraph (a) above of equity securities having in the case of relevant shares (as defined in section 94(5) of the Act), a nominal amount in aggregate or, in the case of other equity securities, giving the rights to subscribe for or convert into relevant shares having a nominal value not exceeding in aggregate, the sum of £12,908;

provided that this power shall expire on the date being five years after the date of this resolution, unless varied, renewed or revoked by the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be so allotted or sold after such expiry and the directors may allot or sell equity securities in pursuance of such offer or agreement as if this power had not expired. This power shall be to the exclusion of and in substitution for any such earlier power.

9. That the Company be and is hereby generally and unconditionally authorised, pursuant to the provisions of article 53 of the Company's Articles of Association, to make one or more market purchases (within the meaning of section 163(3) of the Act) on the Alternative Investment Market of the London Stock Exchange plc of ordinary shares of 1p each in the capital of the Company ("ordinary shares") provided that:
  - (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 2,581,532;
  - (b) the minimum price which may be paid for such ordinary shares is not less than 1p (exclusive of expenses);
  - (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than 105 per cent of the average of the middle market values for an ordinary share as derived from the Alternative Investment Market AIM segment of the London Stock Exchange Alternative Trading Service for the five business days immediately preceding the day on which the ordinary share is purchased;
  - (d) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company to be held in 2004 or 12 months from the date of passing of this resolution, whichever shall be the earlier; and
  - (e) the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares pursuant to any such contract or contracts.

#### Auditors seeking re-election

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003. Accordingly, the accounts have been signed in the name of Deloitte & Touche LLP.

#### Directors seeking re-election

S D Lawther was appointed as a director of the Company on 18 June 2001. He is employed as Group Finance Director and Company Secretary and he is a non-executive director of ISG Asia Limited which is quoted on the Singapore Stock Exchange.

S I Millar is a founder member of the business and he was part of the MBO team that acquired Interior from Stanhope in 1995. He is currently Chief Executive of Facilities Creation.

#### Explanation of Special Business

##### *Authority to allot ordinary shares (Resolution 7)*

At the Annual General Meeting, shareholders will again be asked to renew the directors' authority to allot relevant securities under section 80 of the Act, for a period of five years from the date of passing the resolution. This authority will be limited to an aggregate nominal amount of £86,051, which represents approximately 33 per cent. of the current issued ordinary share capital. The directors have no present intention of exercising this authority.

##### *Disapplication of pre-emptive rights (Resolution 8)*

Shareholders will also be asked to allow the directors, within limits, to allot equity securities and/or to sell equity securities held "in treasury" (if any) (see below for explanation of equity securities held "in treasury") in the Company for cash without application of the pre-emptive rights provided by section 89 of the Act and for the purpose of allotting equity securities or selling equity securities held in treasury up to a maximum aggregate nominal value of £12,908, which represents approximately 5 per cent. of the current issued ordinary share capital of the Company. The authority will expire on a date being five years after the passing of the resolution unless previously renewed or revoked by the Company. There are no current plans to allot any shares except in connection with the employee share schemes of the Company.

From 1 December 2003, companies may purchase their own shares and hold them "in treasury", rather than having to cancel them. Treasury shares carry no right to attend or vote at meetings, or to receive dividends. Nor will the shares confer any right to participate pre-emptively in new issues by the Company. It is possible to hold treasury shares for later cash sale or for transfer for the purposes of, or pursuant to, an employees' share scheme, or to cancel them at any time.

***Authority to purchase own shares (Resolution 9)***

Resolution 9 is to authorise the Company to purchase (in accordance with its Articles of Association and within recommended best practice) up to 10 per cent. of the present ordinary issued share capital. The authority prescribes the maximum and minimum prices to be paid, and, if passed, would expire within twelve months of this year's Annual General Meeting at the latest.

The authority would only be exercised if the directors were satisfied that such purchases might be expected to result in an increase in earnings per share for the remaining shareholders and were in the best interests of shareholders generally.

Shares purchased under the authority would be treated as cancelled (and the number of shares in issue reduced accordingly) or would be held as treasury shares, which may be re-sold, cancelled or transferred for the purposes of an employee share scheme.

Shareholders will once again be asked to allow the directors, within limits, to make market purchases of the Company's shares. As at the date of this Notice, the Company had 25,815,318 shares in issue. Resolution 9 seeks authority to purchase a maximum of 2,581,532 shares, representing approximately 10 per cent. of its current issued share capital.

**BY ORDER OF THE BOARD**

**S D Lawther**  
*Director and Secretary*  
24 September 2003

**Registered Office:**  
15 Appold Street  
London  
EC2A 2NH

**Notes to the Notice of the Meeting:**

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the office of the registrars, Capita IRG plc (Proxies), PO Box 25, Beckenham, Kent BR3 4TU not later than 48 hours before the time fixed for the meeting or any adjournment thereof. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude ordinary shareholders from attending and voting in person at the meeting.