

isg

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INTERIOR SERVICES GROUP PLC
REPORT AND FINANCIAL STATEMENTS
2004

ISG

Our Vision

Our vision is to be the leading premium brand provider of **Fit out, Refurbishment** and **New build** services in the UK with a European and Asian capability.

Our Mission

We will achieve our vision by:

- providing **best in class** levels of service that combine both innovation and tried and tested processes
- working with value driven owners and occupiers on **mission critical projects**
- having a service orientated, values driven, **relationship focused** approach
- **growing** the business to serve customers in a wide range of **sectors and geographies**

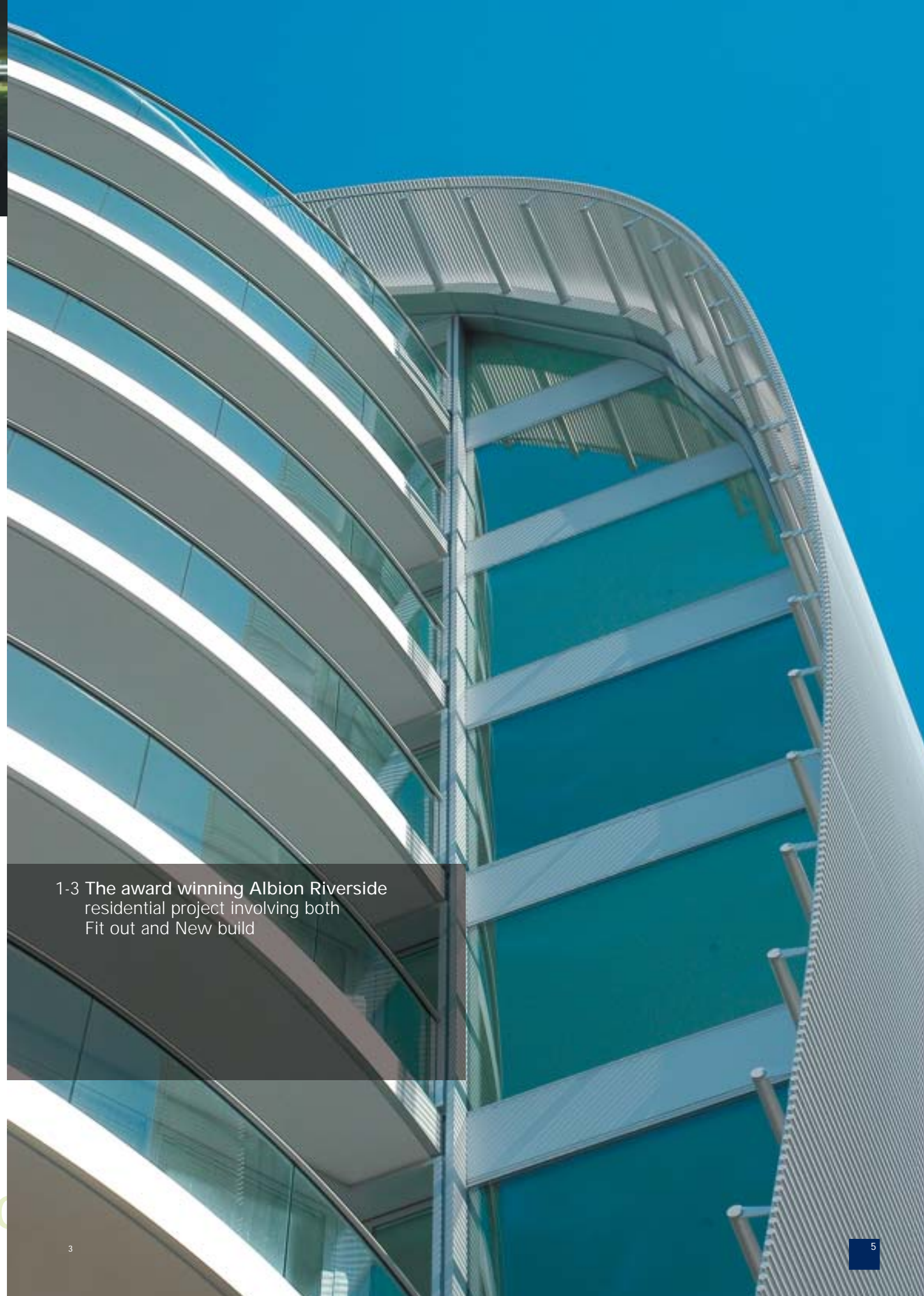
	2004	2003	Change
Profit / (loss) before tax	£2.3m	£(2.9)m	179%
Profit before tax – before goodwill and exceptional costs *	£5.2m	£7.9m	(34)%
Fee income	£48.9m	£57.7m	(15)%
Gross value of work performed	£446m	£539m	(17)%
Basic earnings / (loss) per share	1.86p	(20.96)p	109%
Adjusted earnings per share – before goodwill, exceptional costs and loss on disposal of subsidiaries**	13.48p	20.36p	(34)%
Final dividend per share	5.50p	5.00p	10%
Total dividend per share	8.25p	7.50p	10%
Net cash position	£31.3m	£33.4m	(6)%

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* Adjusted profit before tax is calculated from profit before tax of £2,302,000 (2003 - £2,908,000 loss) after adjusting for amortisation of goodwill of £630,000 (2003 - £1,220,000), impairment of goodwill under FRS 10 Goodwill and intangible assets of nil (2003 - £8,000,000), exceptional costs of £460,000 (2003 - £1,619,000) and loss on disposal of subsidiaries of £1,829,000 (2003 - nil).

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



I am pleased to present my first statement since joining the Board in June this year and assuming the Chairmanship. David King's relinquishing of that role is in accordance with best corporate governance practice of separating the roles of Chairman and Chief Executive.

I joined towards the conclusion of a difficult year, as last year's Chairman's statement predicted. At that time the Board anticipated that the year to 30 June 2004 would be as challenging as any so far; and so it proved. Profits before goodwill, exceptional costs and tax fell to £5.2m from £7.9m on volumes of £446m, a reduction from the previous year of £94m.

Profits before tax however rose to £2.3m, compared to a loss of £2.9m in 2003 following a goodwill write down of £8m. Profits before tax for the current year include a loss of £2.3m on the carrying value of our property and facilities management business which we sold for £10.0m and a provision of £1.2m against a disputed contract.

Notwithstanding these problems, our cash position remains strong. A strong covenant and a healthy balance sheet are critical success factors for us as we undertake more work for owners of property, seek more work in the public sector and in PFI, and consider expansion by acquisition.

As the year ended we have seen a pick up in our order book. Although this will improve volumes in the second half of the year, any profits impact will not show until the first half of 05/06. We anticipate that this order book growth trend will continue as developers respond to the signs of a revival in occupier requirements. Against this more encouraging background the Board is declaring a final dividend of 5.5p which, together with the interim dividend of 2.75p, is an increase of 10 percent over last year.

There have been a number of important changes at Board and senior management level during the year. Ivan Millar retired from the Board as CEO of ISG InteriorExterior after 15 years. He has been succeeded by John Knight as Managing Director. Robert Horvath, CEO of our Facilities company left the Board upon its sale and Peter David resigned as non-executive director at the end of the year after nine years on the Board. At the same time that I joined the Board in June John Barnes was appointed a non-executive director. To those that have left, I thank them for their contribution and dedication. To the staff that have remained steadfast through the last two challenging years I thank them for their hard work, commitment and loyalty.

With the new team in place and with market conditions and order book improving, we now have the ingredients for longer term growth, and can look forward with greater optimism.

Roy Dantzic
Chairman
24 September 2004

1-3 The award winning Albion Riverside residential project involving both Fit out and New build

BEST IN CLASS BEST IN CLASS BEST IN CLASS



1 Diageo
a new HQ
Fit out which was
awarded 'Best fit
out' in London for
2003 by the British
Council for Offices

2 Marks & Spencer
Fit out of their
new HQ building
in London



Voted 'Fit out Specialist of The Year' in the DTI Sponsored 'Specialist Contractor Awards' in 2003

Introduction

As we anticipated this has been a busy and challenging year for the company responding to difficult market conditions in some sectors as well as a change in our development strategy. Profits (before goodwill, tax and exceptionals) of £5.22m (2003 - £7.93m), were achieved on volumes down 17% at £446m (2003 - £540m).

In May 2004 we sold our property & facilities management business for £10.0m at a loss, after associated costs, of £2.3m to book value, resulting in a group profit before tax of £2.3m compared to a loss of £2.9m in 2003.

Financial Highlights

Fee income fell by 15% on the reduced volumes to £48.9m (2003 - £57.7m). Profits (before goodwill, tax and exceptionals) were down 34% after making a provision of £1.2m against a specific project in dispute. This dispute, relating to a large management contract, is unlikely to be settled without legal remedy which may take many months.

Cashflow remained relatively strong, given the lower volumes, with net cash at the year end of £31.3m (2003 - £33.4m). Adjusted eps reduced in line with profits to 13.48p (2003 - 20.36p). An interim dividend of 2.75p was paid in April 2004. A final dividend of 5.50p (2003 - 5.00p) is proposed, bringing the total to 8.25p (2003 - 7.50p), an increase of 10%. Subject to its approval at the AGM on 6 December 2004, the final dividend will be payable on 8 December 2004 to shareholders on the register on 12 November 2004.

Strategic Developments

For the last 5 years we have had two activity streams to our business: our Facilities Creation business (new build, refurbishment and fit out) and our Occupancy business (property and facilities management & services). Developing the Occupancy business to a level at which it would make a meaningful contribution to the Group has been difficult. To build a business of sufficient scale to be profitable, and of a quality

that enhances the ISG brand, would have meant considerable further long term investment. Given the opportunities available to expand our Facilities Creation business, and also to get a better return on the capital employed in ISG Occupancy, we decided to sell it.

The sale was completed in May 2004. £2.0m of cash was received on completion with a further £1.4m received in August 2004. Three further payments of £2.2m are due in May 2005, 2006 and 2007.

Following the sale, the Group is now solely focused on being a leader in the Construction Services market place - a business targeting demanding customers with mission critical projects, across the UK, whether in new build, refurbishment, or fit out. The Group will maintain its Facilities Creation capability in Europe and Asia through Joint Venture or minority ownership, in order to service UK clients in these regions.

To further develop our Facilities Creation business, we have combined the two separate companies previously trading as Interior and Exterior into one, ISG InteriorExterior. This new single brand builds on the established highly regarded fit out & refurbishment brand of Interior and on the increasing awareness of the new build Exterior brand. This makes it easier to offer combined services of build and fit out for which there is an increasing demand from our owner & occupier clients.

Over the last eighteen months we have been investing in developing one such opportunity - PFI funded schemes. We have been working on three schemes this year in partnership with others, but disappointingly without success. As a result £588k of bidding cost has been written off this year.

We remain though of the firm view that PFI is a major opportunity for the Group to win longer term, higher margin work of quality and to improve returns on our cash surpluses. We will be continuing to explore avenues into this market (and in particular the education sector) which the government is committed to growing.



3 Lovells
a Fit out and
Refurbishment
for this growing
legal practice

Our strategy outside the UK remains unchanged – we want a capability to service international clients in Europe and in Asia. Our Asia partner, ISG Asia (where we own 22%) opened a new office in Shanghai in addition to the offices in Japan, Kuala Lumpur, Hong Kong and Singapore. In Germany we have decided to replicate the minority ownership model we have in France through our 20% interest in IASA. We have agreed terms to create a new German company with ISG holding 36% and our French partner 64%. IASA will manage the new company.

In 5 years we are targeting for our investments outside the UK to provide 10-15% of profits (up from 3%) as we build on the demand for a more international capability from multinational corporations.

As well as developing our Facilities Creation business organically, we are considering acquisitions that could broaden its sector or geographic spread. We are also investigating acquisitions in other construction sectors outside of ISG InteriorExterior's remit that could provide a 'second leg' to the UK business.

Trading

Overall trading was affected by lower volumes, competitive pressure and some operational issues, which resulted in group fee income declining 15% and profit margin on fee income reducing from 13.7% to 10.7%:

Group Fee Income	2004	2003
	£m	£m
Fit out	22.2	26.5
New build	8.8	8.6
Refurbishment	7.0	8.9
	38.0	44.0
Occupancy (disposed)	7.6	9.3
Europe	1.0	1.1
Asia	2.3	3.3
	48.9	57.7

Fit out – fitting out of new office space for occupiers

The 16% reduction in pure fit out fee income was due to the reduced number of larger scale projects available. We have a strong position in the large scale fit out market and of the projects tendered with a value of over £10m we maintained our win rate of 40%. Notable successes included projects for Ascot Racecourse, Nomura, BP and Bechtel totalling £100m. The contribution to group fee income from UK Fit out was maintained at 45% (2003 – 46%). Whilst gross margins in Fit out were maintained, net margins came under pressure in the second half as headcount was belatedly adjusted for the lower volumes. Net margins were put under further pressure by a provision we have taken against a potential claim from a client for £1.2m due to a delayed completion.

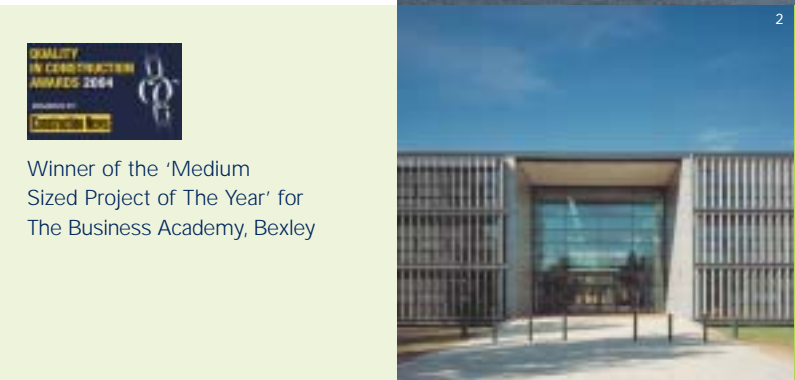
Considering the continued low levels of take up of new space (London take up levels are down 60% from their peak in 2000) this is a commendable performance. Volumes in the second half were 19% lower than the first half and this lower work rate will continue through the first half of the new financial year. Demand for projects below £1m was strong and improving with both gross and net margins being maintained. Fit out starts the current year with an 'in-year' order book of £97m (2003 - £142m).

New build - new buildings for owners and developers

New build fee income was slightly improved at £8.8m. This also is an excellent result given the weak demand from commercial office owners and is due to the diversification into the residential, education, and leisure sectors. Major wins during the year included projects for Fairbriar (residential), Imperial College in London (education), The Lawn Tennis Association (leisure) and Telford College in Edinburgh (education), totalling over £90m. Gross and net margins were maintained and budgets were met.

Strong sales performance throughout the year has improved the 04/05 'in-year' order book to £84m (2003 - £71m).

1 Imperial College, London the new Tanaka Business School is one of seven projects we completed last year for the college



Winner of the 'Medium Sized Project of The Year' for The Business Academy, Bexley

2 The Business Academy, Bexley, London a New build project in the Education sector

Voted one of the Sunday Times
'100 Best Companies to Work For'
for a 3rd year in a row



1 Southside Shopping Centre, Wandsworth
a New build,
Refurbishment
and Fit out in the
Retail & Leisure sector



2 Zetter Hotel, Restaurant & Rooms
a Refurbishment in the
Retail & Leisure sector



Refurbishment – the regeneration of buildings for owners

The Refurbishment division started the year well but was impacted in the second half by lower volumes principally caused by delayed starts to two projects. Net margins were also affected as staff costs could not be adjusted to these delays. Demand for our product remains very strong however especially for the more complicated larger projects. Strong sales in the second half have improved the outlook with the 04/05 year order book increasing to £68m (2003 - £53m). Major awards include projects for The Royal Festival Hall, The Blackstone Group and Allied London totalling £90m.

Europe & Asia

Having reduced our stake in France to 20% and having passed day to day management to our partner IASA, we are pleased that our share generated a £210k profit contribution. Our wholly owned German business also made a profit contribution of £112k.

In our first year as a 22% shareholder in ISG Asia we booked an operating loss of £129k due to one off start up costs in Shanghai and a slow Singapore fit out market. Demand however is increasing in Japan and Hong Kong.

Management and Staff Development

The Board has undergone a number of changes during the year. Following the ISG Occupancy sale, Robert Horvath left the company to follow other interests. As a result of this, and to pursue our new strategy, David King became CEO and a new non-executive Chairman, Roy Dantzig, was appointed in June. Roy, 60, is currently non-executive Chairman of property development group, Development Securities plc. A chartered accountant, he spent the early part of his career in the City and has a wealth of experience in the property sector.

Ivan Millar, CEO of ISG InteriorExterior, stepped down from the Board at the end of the year after fifteen years with the company to a well earned retirement. Ivan made an invaluable contribution to the development and success of the Facilities Creation business and we all wish him well. John Knight was appointed as Managing Director to replace Ivan in March 2004. John has been with the company for 14 years, the last four being on the Board of ISG InteriorExterior.

Peter David also stepped down in June after nine years with the company as a non-executive director. Peter helped the company form its MBO in 1995. He too made a significant and creative contribution. John Barnes joined the Board as a non-executive director in June 2004. John, 55, is currently a non-executive director of Caffè Nero Group plc,

Arena Leisure plc and Chairman of Zoo Digital Group plc. John brings a wide range of skills and experience of working in the leisure and hospitality industry, where he honed a particular strength in marketing.

Despite a difficult trading year with many strategic and management changes, the company has retained its unique culture and willingness to develop.

For the third year running ISG InteriorExterior was voted as one of the Sunday Times 100 Best Companies to Work For, coming in at 27th. A project for Diageo was voted Best London Fit out by the British Council for Offices and our project manager and his team were awarded the NHBC Supreme Pride in the Job Award for their work on the £100m Albion Riverside residential project. At the 2003 'Specialist Contractor Awards' Interior was voted 'Best Fit out Company'.

These awards are testimony to the effort all members of the company put in and in good times would be remarkable – in less good times it is even more remarkable.

Prospects

We said this year would be difficult and the second half especially so, and it has been. But it's getting better. Our total forward order book for all years was £407m at the year end. This is 4% up year on year but importantly a 29% improvement since December 2003. The bulk of this improved order book is in new build and refurbishment projects which, because of their longer term nature, will only flow into profits in around 18 months time, by which time we may also have benefited from an improving market for shorter lead time, higher margin, fit out.

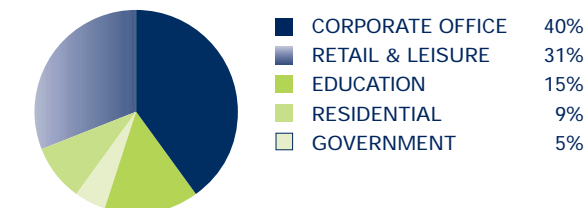
We start the year with an in-year order book of £253m (2003 - £276m), strongly biased to the second half. As a result, turnover levels in the first half of the new financial year will be at a similar level to the second half of 03/04, and consequently profits are budgeted to be generated substantially in the second half.

Since the year end the order book has grown further to a new all time high of £501m. This increase, combined with tentative signs of an improving occupier led Fit out market, means we can now look forward to a brighter future.

David King

Chief Executive
24 September 2004

SECTOR SHARE



Summary

The Group's profit before tax rose to £2.3m compared to the loss of £2.9m in 2003. Of this profit, the UK reported a contribution of £2.2m (loss of £2.8m in 2003). Europe contributed £0.3m compared to a loss of £0.3m in 2003, while Asia produced a loss of £0.2m compared to a profit of £0.2m in 2003.

If one excludes the effects of goodwill and the sale of ISG Occupancy (ISGO) then adjusted profits before tax, goodwill and exceptional items reduced to £5.2m; a reduction of 34%. This fall reflected a reduction in fee income of 15%, and in the competitive market conditions a reduction in the net profit margin on fee income by 3% to report a net margin of 10.7%.

Basic earnings per share increased from a loss last year of 20.96p per share to a positive 1.86p per share. The adjusted earnings per share showed a fall of 34% to 13.48p per share (2003 - 20.36p).

The Group has increased the dividend paid to the shareholders by 10% to 8.25p. At this level the dividend is covered 1.6 times by ongoing activities, an appropriate level of cover at this stage in the cycle and with the company's positive net cash position.

Taxation

The loss on the disposal of ISGO and amortisation of goodwill are non-deductible for taxation purposes. The effective tax rate on adjusted profits excluding the disposal of ISGO and amortisation of goodwill is 35% (2003 - 33%). This increase reflects the lower level of profit increasing the effective tax rate on expenses not deductible for tax purposes by 1% and the blend of trading profits from countries with a higher tax rate.

Working Capital and Facilities

In Facilities Creation activities the Group receives the flow through benefit of cash payments to trade contractors. A reduction in the level of activity therefore impacts on the company's cash position. However, despite a reduction in trading, the Group maintained a strong cash position. At the end of the year the Group had a net cash position of £31.3m compared to £33.4m last year, a net outflow of £2.1m; the cash outflow from operating activities was £0.8m (2003 - inflow of £9.3m), reflecting the 17% reduction in trading volumes and the reduction in profit margins. Net Interest received was similar to the prior year at £1.0m. The Group paid tax and dividends of £3.5m (2003 - £4.5m). Net cash generated from disposals was £1.0m (2003 - outflow of £0.5m). Capital expenditure was £0.4m (2003 - £0.6m) and £0.2m was raised from the utilisation of shares in the ESOP trust and issue of new shares.

FEE INCOME SHARE



During the year the Group made repayments of £4.3m in respect of its long term loan arrangement with the Bank of Scotland and repaid £0.4m of loan notes relating to previous acquisitions. The Group is ungeared. In addition to the net cash realised from the ISGO disposal in the year, the Group has received £1.4m since the year end and is contracted to receive a further £6.6m deferred consideration over the next 3 years.

In anticipation of increased activity in New build and Refurbishment, during the year the Group has increased its bonding facilities so that it now has lines with Euler Hermes, Norwich Union and Ace INA UK.

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 has a positive net cash position, 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 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.

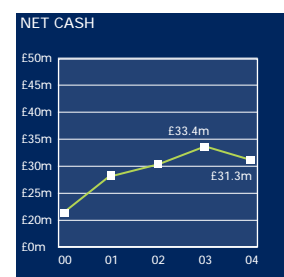
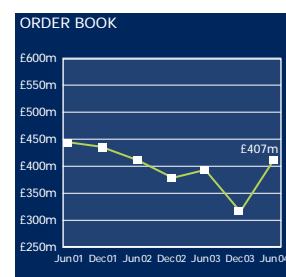
Shareholders Funds

During the year, the Group adopted UITF 38 "Accounting for ESOP trusts," and accordingly the Group's investment in its own shares, £1.9m at 30 June 2003, was reclassified as a deduction from shareholders' funds rather than as a fixed asset investment. This reclassification had no impact on the profit and loss account. The Group's opening shareholders' funds were £13.3m. During the year shareholders' funds fell by £0.9m to £12.4m; included in this was the loss relating to the disposal of ISGO of £2.3m and amortisation of goodwill relating to ISGO activities of £0.5m.

With regards to ongoing activities, shareholders' funds increased by £1.9m. The Group operations generated £3.3m and there was goodwill amortisation relating to Facilities Creation activity of £0.1m. £2.1m was set aside for dividend payments. Additionally, £0.4m unrealised profit was produced from the Group's activities in Asia where we also incurred £0.1m foreign exchange loss. £0.5m of the movement related to a reduction in the company's own shares held in Trust and the issue of new shares.

David Lawther

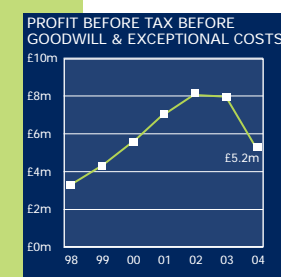
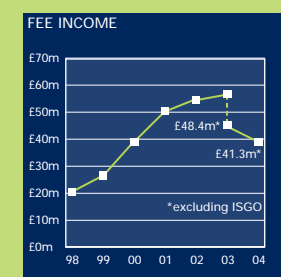
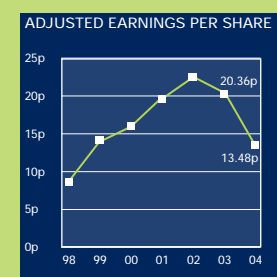
Financial Director
24 September 2004



1 JP Morgan Chase, Hong Kong involving ISG Asia in the Corporate Office sector



2 Department for Constitutional Affairs a Refurbishment project in the Government sector



DIRECTORS

R M Dantzig (Non-Executive Chairman) (Appointed 4 June 2004)
 J D King (Chief Executive)
 R B Horvath (Resigned 30 April 2004)
 S D Lawther (Financial Director)
 S I Millar (Resigned 30 June 2004)
 J L Jeremy (Non-Executive)
 M J Barnes (Non-Executive) (Appointed 4 June 2004)
 P C David (Non-Executive) (Resigned 30 June 2004)

SECRETARY

S D Lawther

REGISTERED OFFICE

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 London EC2A 2NH

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NOMINATED ADVISER

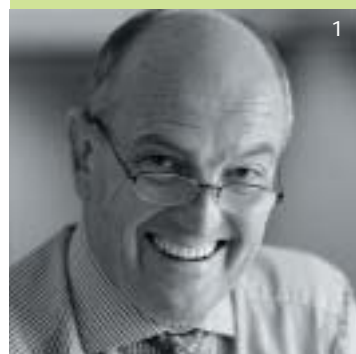
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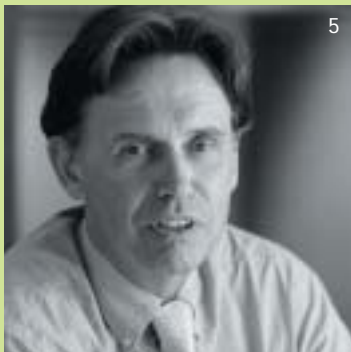


1

1 DAVID KING
 2 DAVID LAWATHER
 3 ROY DANTZIC
 4 JOHN JEREMY
 5 JOHN BARNES



3



5



2



4

The directors present their annual report and the audited financial statements for the year ended 30 June 2004.

Activities

The principal activity of the company and its subsidiaries is to provide construction management 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, Malaysia and China.

Review of business

A detailed account of the group's progress during the year and its future prospects are set out in the Chief Executive's Statement on pages 6 to 11 and the Operating and Financial Review on pages 12 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 2.75p per share (2003 - 2.50p) totalling £690,000 (2003 - £622,000) on 20 April 2004 to shareholders on the register on 26 March 2004. The directors propose the payment of a final dividend of 5.50p per share (2003 - 5.00p) totalling £1,380,000 (2003 - £1,210,000), giving a total dividend for the year of 8.25p per share (2003 - 7.50p).

Share capital

Details are set out in Note 22 to the accounts.

Directors and their interests

The directors at the date of this report and who served throughout the year, except where indicated, 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 2004	30 JUNE 2003
M J Barnes	-	*-
R M Dantzig	10,000	*10,000
P C David	†120,891	120,891
R B Horvath	†278,391	277,618
J L Jeremy	82,161	82,161
J D King	1,495,782	1,494,868
S D Lawther	50,000	50,000
S I Millar	†1,405,950	1,405,950

† As at date of resignation; * As at date of appointment.

There have been no changes in directors' interests between the year end and 13 September 2004.

	NUMBER OF OPTIONS			EXERCISE PRICE (PENCE)	EARLIEST DATE FROM WHICH EXERCISABLE	EXPIRY DATE
	1 JULY 2003	AWARDED / (CANCELLED)	30 JUNE 2004			
R B Horvath	100,000	-	†100,000	117	21/10/2001	20/04/2005
R B Horvath	100,000	-	†100,000	226	15/10/2002	20/04/2005
S D Lawther	125,000	-	125,000	200	20/09/2005	20/09/2012
S D Lawther	-	183,422	183,422	176 ½	10/05/2007	10/05/2014

† As at date of resignation.

None of the options have yet been exercised.

The market price of the shares at 30 June 2004 was 166.5p and the range during the year was 193.5p to 131.0p.

In accordance with the Articles of Association, J L Jeremy will retire by rotation. M J Barnes and R M Dantzig, both appointed during the year, will also retire in accordance with the Articles of Association. All three 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
Threadneedle Asset Management Limited	2,891,500	11.14
Standard Life Investments	1,910,000	7.36
SG Asset Management Limited	1,711,639	6.60
UBS Global Asset Management Limited	1,622,108	6.25
Fidelity Investment Services Limited	1,547,400	5.96
Merrill Lynch Investment Managers Limited	1,294,830	4.99
Aerion Fund Management Limited	911,825	3.51
Judges Capital plc	† 803,000	3.09

† Includes 209,000 held in form of CFD's.

Per the Registrar on 13 September 2004.

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 2004 are 22 days (2003 - 6 days). The creditor days for the group at 30 June 2004 are 35 days (2003 - 27 days).

Donations

During the year the company made no political donations. Charitable donations of £1,000 to the Imperial College Symphony Orchestra, £686 to the Royal Marsden Cancer Campaign, £500 to Headway, £250 to the Avenue Youth Project and £500 of donations to other charitable organisations were made.

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 has maintained this focus throughout the year. The UK business has certification to ISO14001:1996 and ISO18001:1999, the international standards for health and safety and 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

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 2004

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 during the year were J L Jeremy (Chairman), M J Barnes and P C David, who resigned from the Board on 30 June 2004. 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 high 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 2004, the directors received bonuses as shown in Note 5, which reflected a discretionary amount relating to the financial year ended 30 June 2003. 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)
J D King	1 May 1989	12	60
S D Lawther	18 June 2001	12	60
R B Horvath	15 December 1997	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.

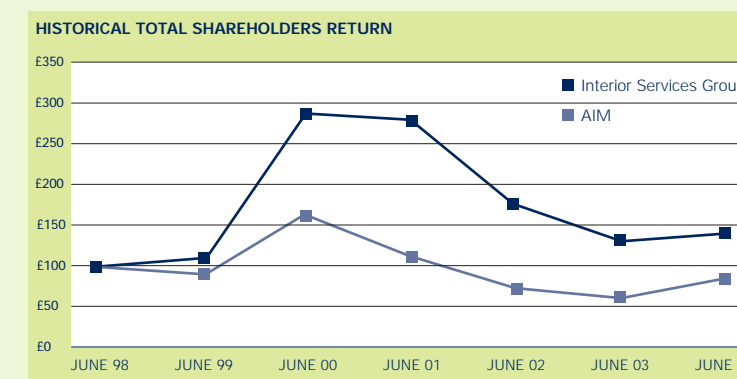
In respect of share options, the following audited information also applies:

- 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 dependent 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 2004, 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 J L Jeremy and M J Barnes are for a one year term and subject to prior termination on notice of three months either way, while the letter of appointment for R M Dantzig is for a one year term with 12 months notice.

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

J L Jeremy
Chairman of Remuneration Committee
24 September 2004

While the group is not subject to the provisions of the revised Combined Code on Corporate Governance - July 2003 (The Combined Code), the directors have decided to provide corporate governance disclosures. The directors have also considered the guidance set out in Guidance on Audit Committees (The Smith Guidance).

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

Following the changes of appointments, the company is now controlled through the Board of directors which comprises two executive and three independent non-executive directors. As the Non-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 Chief Executive'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 R M Dantzig (Chairman) 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 directors have met with analysts and institutional shareholders on a regular basis in the year ended 30 June 2004. Non-executive directors are fully briefed by the executive directors on the views of major shareholders about the company and are available for meetings with major shareholders. 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, the Chief Executive'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 nine. 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.

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 programmes 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, there is no dedicated resource. They support the risk management activities and help 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 2004 has been maintained and has taken account of any material developments since the year end.

Audit Committee

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 2004 with the provisions set out in Section 1 of the Code. The exceptions to the Code were as follows:

- 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 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, and the related notes 1 to 36. 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 2004 and of the profit of the group for the year then ended; and
- The financial statements and that 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 2004

	Note	2004 £'000	2003 £'000
Gross value of work performed	2	445,779	539,932
Less: relating to construction management share of joint ventures' and associates' turnover		(76,913) (7,507)	(130,975) (6,940)
TURNOVER			
Group turnover - continuing operations	1, 2, 3	361,359	402,017
Cost of sales	3	(343,696)	(377,283)
Gross profit	3	17,663	24,734
Amortisation of goodwill	12, 14c	(630)	(1,220)
Impairment of goodwill		-	(8,000)
Exceptional disposal costs	35	(460)	-
Exceptional reorganisation costs		-	(1,619)
Other administrative expenses		(13,567)	(17,793)
Administrative expenses	3	(14,657)	(28,632)
OPERATING PROFIT / (LOSS)			
Operating profit / (loss) - continuing operations	3, 4	3,006	(3,898)
Share of operating profit / (loss) in joint ventures and associates	7	95	(35)
Total operating profit / (loss)		3,101	(3,933)
Loss on disposal of subsidiaries	35	(1,829)	-
Net interest receivable and similar income	8	1,030	1,025
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	2	2,302	(2,908)
Tax on profit / (loss) on ordinary activities	9	(1,835)	(2,055)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		467	(4,963)
Equity minority interests		-	(288)
PROFIT / (LOSS) FOR THE FINANCIAL YEAR	23	467	(5,251)
Equity dividends paid and proposed	10, 23	(2,070)	(1,832)
Retained loss for the financial year		(1,603)	(7,083)
Basic earnings / (loss) per ordinary share	11	1.86p	(20.96)p
Diluted earnings / (loss) per ordinary share	11	1.84p	(20.96)p
Adjusted earnings per ordinary share before goodwill amortisation / impairment, exceptional administrative costs and loss on disposal of subsidiaries	11	13.48p	20.36p
Dividend per ordinary share	10	8.25p	7.50p

	Note	2004 £'000	2003 Restated* £'000
FIXED ASSETS			
Intangible assets	12	961	8,454
Tangible fixed assets	13b	686	1,394
Investment in joint ventures:	14b		
Share of gross assets		-	3,632
Share of gross liabilities		-	(3,259)
		-	373
Investment in associates	14c	1,208	-
Other fixed asset investments	14d	-	1,558
Total investments		1,208	1,931
TOTAL FIXED ASSETS		2,855	11,779
CURRENT ASSETS			
Stocks	15	121	229
Debtors: amounts falling due within one year	16a	59,636	64,653
Debtors: amounts falling due after more than one year	16b	5,622	3,964
Cash at bank and in hand		31,387	38,528
		96,766	107,374
CREDITORS: amounts falling due within one year	17	(87,243)	(101,748)
NET CURRENT ASSETS		9,523	5,626
TOTAL ASSETS LESS CURRENT LIABILITIES		12,378	17,405
CREDITORS: amounts falling due after more than one year	18	-	(3,440)
PROVISIONS FOR LIABILITIES AND CHARGES	20	-	(719)
TOTAL NET ASSETS		12,378	13,246
CAPITAL AND RESERVES			
Called up share capital	22	260	258
Share premium account	23	9,281	9,116
Other reserves	23	436	1,171
Own shares	23	(1,573)	(1,857)
Profit and loss account	23	3,974	4,558
TOTAL EQUITY SHAREHOLDERS' FUNDS		12,378	13,246

*Comparative figures have been restated (see Note 23).

The financial statements were approved by the Board of directors on 24 September 2004.
Signed on behalf of the Board of directors.

David King
Director

	Note	2004 £'000	2003 Restated* £'000
FIXED ASSETS			
Tangible fixed assets	13a	298	454
Investments	14a	3,219	7,495
TOTAL FIXED ASSETS		3,517	7,949
CURRENT ASSETS			
Amounts owed by group undertakings		47	7,248
Corporation tax recoverable		-	637
Dividends receivable		1,200	6,000
Other debtors: amounts falling due within one year		3,875	186
Other debtors: amounts falling due after more than one year		3,835	-
Cash at bank and in hand		4,356	1,561
		13,313	15,632
CREDITORS: amounts falling due within one year		(72)	(224)
Loan notes	19	(72)	(224)
Bank loans	19	-	(1,070)
Trade creditors		(166)	(63)
Amounts owed to group undertakings		(3,839)	(8,336)
Corporation tax		(684)	-
Other creditors		(27)	(159)
Accruals		(655)	(737)
Proposed dividend		(1,380)	(1,210)
NET CURRENT ASSETS		6,490	3,833
TOTAL ASSETS LESS CURRENT LIABILITIES		10,007	11,782
CREDITORS: amounts falling due after more than one year		-	(197)
Loan notes	18	-	(197)
Bank loans	18	-	(3,243)
		-	(3,440)
TOTAL NET ASSETS		10,007	8,342
CAPITAL AND RESERVES			
Called up share capital	22	260	258
Share premium account	24	9,281	9,116
Other reserves	24	436	-
Own shares	24	(1,199)	(1,313)
Profit and loss account	24	1,229	281
TOTAL EQUITY SHAREHOLDERS' FUNDS		10,007	8,342

*Comparative figures have been restated (see Note 24).

The financial statements were approved by the Board of directors on 24 September 2004.
Signed on behalf of the Board of directors.

David King
Director

	Note	2004 £'000	2003 £'000
Net cash (outflow) / inflow from operating activities	30	(810)	9,261
Returns on investments and servicing of finance	31	1,022	1,012
Taxation		(1,549)	(2,790)
Capital expenditure and financial investment	31	(325)	(2,328)
Acquisitions and disposals	31	979	(502)
Equity dividends paid		(1,900)	(1,737)
Cash (outflow) / inflow before financing		(2,583)	2,916
Financing:			
Issue of shares (net)		96	6
Capital element of payments under hire purchase contracts		-	(27)
Repayment of long term debt		(4,313)	(735)
Net cash outflow from financing		(4,217)	(756)
(Decrease) / increase in cash in the year	32	(6,800)	2,160
Reconciliation of net cash flow to movement in net funds (Note 32)			
		2004 £'000	2003 £'000
(Decrease) / increase in cash in the year		(6,800)	2,160
Cash outflow from debt financing		4,337	762
Change in net debt resulting from cash flows		(2,463)	2,922
Change in net debt resulting from non-cash changes		349	430
Net funds brought forward		33,429	30,077
Net funds carried forward		31,315	33,429

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES | YEAR ENDED 30 JUNE 2004

	2004 £'000	2003 £'000
Profit / (loss) for the financial year:		
Group	445	(5,238)
Joint ventures and associates	22	(13)
Unrealised gain / (loss) arising on investments (see Note 23)	467	(5,251)
Currency translation differences arising: Subsidiaries	436	(2,285)
Currency translation differences arising: Joint ventures and associates	(24)	21
	(128)	24
Total recognised gains and losses relating to the year	751	(7,491)

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. A summary of principal accounting policies is set out below. With the exception of the adoption of UITF 38 during the year (see Notes 23 and 24), all other accounting policies have been applied consistently during the current and prior years. The adoption of UITF 38 had no impact on the profit and loss account.

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 instructions have been received from the client. 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.

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.

1. ACCOUNTING POLICIES (continued)
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 associates and 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 associates and joint ventures based on the financial statements for the year. In the consolidated balance sheet, the investments in associates are shown at the group's share of gross assets and gross liabilities.

Own shares

Own shares deducted in arriving at shareholders' funds represent the cost of the company's ordinary shares acquired by ESOP trusts in connection with the group's employee share schemes.

The accounting policy for own shares held in an ESOP trust has been amended to conform with UITF 38.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

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	the life of the lease
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 lease 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 profit / (loss) before taxation may be analysed as follows:

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Gross value of work performed by origin and destination:		
United Kingdom	427,999	516,716
Europe	3,912	12,183
Asia	13,868	11,033
	<u>445,779</u>	<u>539,932</u>
Turnover by origin and destination:		
United Kingdom	359,099	395,716
Europe	3,912	9,320
Asia	5,855	3,921
	<u>368,866</u>	<u>408,957</u>
Less: Share of joint ventures' and associates' turnover	(7,507)	(6,940)
	<u>361,359</u>	<u>402,017</u>
Profit / (loss) on ordinary activities before taxation:		
United Kingdom	2,169	(2,810)
Europe	322	(314)
Asia	(189)	216
	<u>2,302</u>	<u>(2,908)</u>
Fee income, which we consider to be a key indicator, is derived as follows:		
Turnover	361,359	402,017
Trade contractor costs recharged	(313,571)	(345,619)
	<u>47,788</u>	<u>56,398</u>
Interest receivable	1,114	1,301
Less: Attributable to minority interests	-	(46)
	<u>48,902</u>	<u>57,653</u>

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

The group has one area of activity which is to provide construction services to its customers in the UK and internationally.

In accordance with industry practice, gross value of work performed includes £76,913,000 (2003 - £130,975,000) 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. ANALYSIS OF ONGOING OPERATIONS

On 30 April 2004, the group disposed of its interest in the ordinary share capital of ISG Occupancy Limited and all of its subsidiaries. The results of those companies up to the date of disposal and the comparatives for the year ended 30 June 2003 are shown under disposed operations. Further information is given in Note 35.

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Turnover:		
ongoing operations	339,033	371,839
disposed operations	22,326	30,178
	<u>361,359</u>	<u>402,017</u>
Cost of sales:		
ongoing operations	323,820	350,813
disposed operations	19,876	26,470
	<u>343,696</u>	<u>377,283</u>
Gross profit:		
ongoing operations	15,213	21,026
disposed operations	2,450	3,708
	<u>17,663</u>	<u>24,734</u>
Administrative expenses (see below):		
ongoing operations	11,445	12,630
disposed operations	3,212	16,002
	<u>14,657</u>	<u>28,632</u>
Operating profit / (loss):		
ongoing operations	3,768	8,396
disposed operations	(762)	(12,294)
	<u>3,006</u>	<u>(3,898)</u>
Included within Administrative expenses are the following amounts:		
Goodwill amortisation and impairment:		
ongoing operations	121	61
disposed operations	509	9,159
	<u>630</u>	<u>9,220</u>

4. OPERATING PROFIT / (LOSS)

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Operating profit / (loss) is stated after charging / (crediting):		
Auditors' remuneration:		
group audit fees	140	145
company audit fees	26	30
taxation	39	126
other services – UK	-	10
other services – Germany	8	51
Depreciation and other amounts written off tangible fixed assets:		
owned assets	691	1,041
leased assets	-	16
Loss on sale of tangible fixed assets	42	26
Rentals under operating leases:		
land and buildings	971	1,419
hire of plant and machinery	749	776
other operating leases	280	278
Exchange gains	(4)	(36)

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 2004 Total remuneration £	Year ended 30 June 2003 Total remuneration £
	Fee £	Salary £	Bonus £	Pension £	Benefits £		
R M Dantzig	2,923	-	-	-	-	2,923	-
J D King	-	233,600	20,000	-	16,873	270,473	254,915
R B Horvath	-	155,125	633,603	-	13,543	802,271	248,450
S D Lawther	-	174,150	27,500	13,536	14,189	229,375	230,115
S I Millar	-	161,330	32,000	27,997	13,514	234,841	248,974
J L Jeremy	30,000	-	-	-	-	30,000	25,000
M J Barnes	1,900	-	-	-	-	1,900	-
P C David	30,000	-	-	-	-	30,000	25,000
	<u>64,823</u>	<u>724,205</u>	<u>713,103</u>	<u>41,533</u>	<u>58,119</u>	<u>1,601,783</u>	<u>1,032,454</u>

Included in the remuneration of R B Horvath for the year ended 30 June 2004 is £40,000 compensation for loss of office, £407,454 transaction fee as a reward for the agreed disposal of ISG Occupancy Limited and its subsidiaries and £207,282 for payment in lieu of notice (see Note 35).

The above bonuses relate to the profits for the financial year ended 30 June 2003. Included in Note 6 is an accrual for bonuses payable in respect of 30 June 2004.

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 2004 £'000	Year ended 30 June 2003 £'000
Salaries and wages	37,565	43,687
Social security costs	3,884	4,082
Pension costs	254	227
	<u>41,703</u>	<u>47,996</u>

Included in salaries above is a bonus accrual payable in respect of the financial year ended 30 June 2004. 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 have operated defined contribution pension schemes. The assets of the schemes were held separately from those of the group by an independently administered fund. The group no longer operates these schemes as they have been disposed of as part of the sale of ISG Occupancy Limited.

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

	Year ended 30 June 2004 Number	Year ended 30 June 2003 Number
Employees		
Average number of persons (including directors) employed by the group in the year:		
Project management	442	498
Service delivery	1,326	1,445
Sales	7	12
Administration	64	101
Other	40	34
	<u>1,879</u>	<u>2,090</u>
Share of average number of persons employed by associates / joint ventures in the year:		
Project management, sales, administration and other	61	83
Service delivery	-	6
	<u>1,940</u>	<u>2,179</u>

7. SHARE OF OPERATING PROFIT / (LOSS) IN JOINT VENTURES AND ASSOCIATES
a. Joint ventures

The group share of the operating profit in ISGO Stockley Park Limited is £20,000 (2003 - £7,000). As part of the disposal of ISG Occupancy Limited on 30 April 2004, the group also disposed of its joint venture holding in ISGO Stockley Park Limited. On 1 July 2003, two of the group's joint ventures, IASA and ISG Asia Limited, became associates. The group share of their results in 2003 was £255,000 loss and £213,000 profit respectively.

b. Associates

The group share of the operating profit in IASA is £204,000 (2003 - nil). The group share of the operating loss in ISG Asia Limited is £129,000 (2003 - nil). Further details are set out in Note 14b and 14c.

8. NET INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Group:		
Bank interest receivable	1,047	1,301
Bank loans and overdrafts	(92)	(285)
Finance charges on hire purchase contracts	-	(3)
Discount on deferred consideration	51	-
Other interest receivable / (payable)	16	(1)
Joint ventures and associates:		
Group share of interest receivable	8	13
	<u>1,030</u>	<u>1,025</u>

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

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
United Kingdom corporation tax at 30% (2003 - 30%) based on the profit / (loss) for the year	1,500	2,089
Adjustment to prior years' UK tax provisions	223	42
	<u>1,723</u>	<u>2,131</u>
United Kingdom corporation tax on joint ventures	-	1
Overseas taxation – current year	10	-
Overseas taxation – previous years	340	-
Double tax relief	(340)	-
Overseas taxation on joint ventures and associates	81	(10)
Total current tax	<u>1,814</u>	<u>2,122</u>
Deferred taxation:		
Timing differences, origination and reversal	228	(67)
Adjustment in respect of prior years	(207)	-
Tax on profit / (loss) on ordinary activities	<u>1,835</u>	<u>2,055</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2003 - 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 2004 £'000	Year ended 30 June 2003 £'000
Profit / (loss) on ordinary activities before tax	2,302	(2,908)
Tax on ordinary activities at standard rate	691	(870)
Factors affecting charge for the period:		
Amortisation and impairment	191	2,766
Expenses not deductible for tax purposes	173	181
Loss on disposal of subsidiary not allowable for tax purposes	687	-
Depreciation in excess of capital allowances	(3)	41
Other timing differences	(207)	(36)
Rate differences on current tax	59	(2)
Adjustment to prior years' tax provisions	223	42
Total actual amount of current tax	<u>1,814</u>	<u>2,122</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 2004 £'000	Year ended 30 June 2003 £'000
Interim paid – 2.75p per ordinary share (2003 – 2.50p)	690	622
Final proposed – 5.50p per ordinary share (2003 – 5.00p)	1,380	1,210
Ordinary dividends on equity shares	<u>2,070</u>	<u>1,832</u>

11. EARNINGS / (LOSS) 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. In the case of a loss, 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 2004 £'000	Year ended 30 June 2003 £'000
Profit / (loss) for the financial year	467	(5,251)
Basic and diluted earnings attributable to ordinary shareholders	467	(5,251)
Amortisation and impairment of goodwill	630	9,220
Post-tax exceptional costs	460	1,133
Loss on disposal of subsidiaries	1,829	-
Adjusted earnings attributable to ordinary shareholders	<u>3,386</u>	<u>5,102</u>
	Number	Number
Weighted average number of ordinary shares	25,124,166	25,056,093
Dilutive share options	216,296	-
Diluted weighted average number of ordinary shares	<u>25,340,462</u>	<u>25,056,093</u>
Basic earnings / (loss) per ordinary share	<u>1.86p</u>	<u>(20.96)p</u>
Diluted earnings / (loss) per ordinary share	<u>1.84p</u>	<u>(20.96)p</u>
Adjusted earnings per ordinary share	<u>13.48p</u>	<u>20.36p</u>

12. INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	
At 1 July 2003	20,554
Adjustments to goodwill	(27)
Disposals	(19,324)
At 30 June 2004	<u>1,203</u>
Accumulated amortisation	
At 1 July 2003	12,100
Charge for the year	570
Eliminated on disposals	(12,428)
At 30 June 2004	<u>242</u>
Net book value	
At 30 June 2004	<u>961</u>
At 30 June 2003	<u>8,454</u>

Disposals relate to sale on 30 April 2004 of ISG Occupancy Limited and all of its subsidiaries. Further information is given in Note 35.

13. TANGIBLE FIXED ASSETS

a. Company	Short leasehold property £'000	Motor vehicles £'000	IT and office equipment £'000	Total £'000
Cost				
At 1 July 2003	289	24	499	812
Additions	-	22	35	57
Disposals	-	(34)	(3)	(37)
At 30 June 2004	<u>289</u>	<u>12</u>	<u>531</u>	<u>832</u>
Accumulated depreciation				
At 1 July 2003	148	3	207	358
Charge for the year	30	7	148	185
Disposals	-	(8)	(1)	(9)
At 30 June 2004	<u>178</u>	<u>2</u>	<u>354</u>	<u>534</u>
Net book value				
At 30 June 2004	<u>111</u>	<u>10</u>	<u>177</u>	<u>298</u>
At 30 June 2003	<u>141</u>	<u>21</u>	<u>292</u>	<u>454</u>

13. TANGIBLE FIXED ASSETS (continued)

b. Group	Short leasehold	Motor	IT and office	Total
	property	vehicles	equipment	
	£'000	£'000	£'000	£'000
Cost				
At 1 July 2003	845	131	5,267	6,243
Additions	-	22	547	569
Disposals	(99)	(34)	(287)	(420)
Disposal of subsidiary undertakings	(239)	(13)	(1,697)	(1,949)
At 30 June 2004	507	106	3,830	4,443
Accumulated depreciation				
At 1 July 2003	467	97	4,285	4,849
Charge for the year	63	17	611	691
Disposals	(44)	(8)	(196)	(248)
Disposal of subsidiary undertakings	(255)	(13)	(1,267)	(1,535)
At 30 June 2004	231	93	3,433	3,757
Net book value				
At 30 June 2004	276	13	397	686
At 30 June 2003	378	34	982	1,394

The net book value of the group's office equipment includes nil (2003 - £45,000) in respect of assets held under hire purchase contracts.

14. FIXED ASSET INVESTMENTS

a. Company	Own shares	Other loans	Participating interests	Shares in	Total
				group undertakings	
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 2003					
As previously stated	1,313	108	207	7,180	8,808
Prior year adjustment (see Note 24)	(1,313)	-	-	-	(1,313)
As restated	-	108	207	7,180	7,495
Additions	-	-	1,227	-	1,227
Adjustments	-	-	-	(27)	(27)
Disposals	-	(108)	(207)	(5,161)	(5,476)
At 30 June 2004	-	-	1,227	1,992	3,219

The investment in Participating interests at 30 June 2004 represents a 22.2% interest in an associate ISG Asia Limited. Further information is given in Note 23.

Disposals in Shares in group undertakings and other loans relate to the sale on 30 April 2004 of ISG Occupancy Limited and all of its subsidiaries. Further information is given in Note 35.

b. Group interest in joint ventures

	Share of net assets
	£'000
At 1 July 2003	373
Profit for the year	14
Holdings converted to associates (see below)	(415)
Disposals	28
At 30 June 2004	-

Holdings converted to associates relates to the decrease in the share of net assets of ISG Asia Limited arising from the disposal on 1 July 2003 and the decrease in the share of net assets of IASA arising from the part disposal on 1 July 2003. Disposals relate to the joint venture holding in ISGO Stockley Park Limited, disposed of as part of the disposal of ISG Occupancy Limited on 30 April 2004.

The above is made up as follows:

	Share of gross assets	Share of gross liabilities	Share of net assets	Share of gross assets	Share of gross liabilities	Share of net assets
	2004	2004	2004	2003	2003	2003
	£'000	£'000	£'000	£'000	£'000	£'000
IASA	-	-	-	1,609	(1,535)	74
ISGO Stockley Park Limited	-	-	-	56	(98)	(42)
ISG Asia Limited	-	-	-	1,967	(1,626)	341
	-	-	-	3,632	(3,259)	373

c. Group interest in associates

	Goodwill	Share of net assets	Total
	£'000	£'000	£'000
At 1 July 2003	-	-	-
Additions	60	1,328	1,388
Profits retained for the year	-	8	8
Currency translation differences	-	(128)	(128)
Amortisation for the year	(60)	-	(60)
At 30 June 2004	-	1,208	1,208

Additions relate to the joint ventures converted to associates (see above) with net assets transferred of £415,000. Also included is a £584,000 loan to ISG Asia Limited which was capitalised, the unrealised gain on ISG Asia Limited of £436,000 (see Note 23) and the deferral of the gain on IASA of £47,000.

On the acquisition of ISG Asia Limited, goodwill of £60,000 was created. The directors took the decision to fully amortise this during this year.

Further information on associates is given in Note 34.

14. FIXED ASSET INVESTMENTS (continued)
d. Group other investments

Cost	Other loans £'000	Own shares £'000	Other investments £'000	Total £'000
At 1 July 2003				
As previously stated	508	1,857	1,050	3,415
Prior year adjustment (see Note 23)	-	(1,857)	-	(1,857)
As restated	508	-	1,050	1,558
Disposals	(508)	-	(1,050)	(1,558)
At 30 June 2004	-	-	-	-

The group holds nil trading investments (2003 - £12,000).

15. STOCKS

	Group 2004 £'000	Group 2003 £'000
Consumables at site and contract start-up costs	121	229

16. DEBTORS
a. Amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000
Trade debtors	38,054	45,299
Overseas tax debtor	318	-
Amounts owed by joint ventures	-	621
Other debtors	4,967	1,062
Prepayments and accrued income	16,146	17,286
Deferred taxation (see below)	151	385
	<u>59,636</u>	<u>64,653</u>

b. Amounts falling due after more than one year

	Group 2004 £'000	Group 2003 £'000
Trade debtors	1,787	3,964
Other debtors	3,835	-
	<u>5,622</u>	<u>3,964</u>

The movement on deferred taxation is as follows:

	Group £'000
As at 1 July 2003	385
Timing differences, origination and reversal	(228)
Adjustment in respect of prior years	207
Disposal of subsidiaries	(213)
As at 30 June 2004	<u>151</u>

Provision for deferred taxation consists of the following amounts:

	Group 2004 £'000	Group 2003 £'000
Depreciation in excess of capital allowances	135	351
Other timing differences	16	34
	<u>151</u>	<u>385</u>

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2004 £'000	Group 2003 £'000
Loan notes (Note 19)	72	224
Bank loans and overdrafts (Note 19)	-	1,411
Obligations under hire purchase contracts (Note 19)	-	24
Trade creditors	32,965	28,410
Amounts owed to minority interests	-	497
Corporation tax	1,433	875
Other taxation and social security	2,300	4,687
Other creditors	295	136
Deferred consideration on acquisition of minority interest in ISG Occupancy Limited	-	159
Accruals and deferred income	48,798	64,115
Proposed dividend (Note 10)	1,380	1,210
	<u>87,243</u>	<u>101,748</u>

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

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Loan notes (Note 19)	-	197	-	197
Bank loans (Note 19)	-	3,243	-	3,243
	<u>-</u>	<u>3,440</u>	<u>-</u>	<u>3,440</u>

19. BORROWINGS

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank overdrafts	-	341	-	-
Bank loans	-	4,313	-	4,313
Loan notes	72	421	72	421
Obligations under hire purchase contracts	-	24	-	-
	<u>72</u>	<u>5,099</u>	<u>72</u>	<u>4,734</u>
Analysis of repayments				
Bank loans and overdrafts:				
within one year on demand	-	1,411	-	1,070
between one and two years	-	1,070	-	1,070
between two and five years	-	2,173	-	2,173
Loan notes:				
within one year on demand	72	224	72	224
between two and five years	-	197	-	197
Obligations under hire purchase contracts:				
within one year on demand	-	24	-	-
	<u>72</u>	<u>5,099</u>	<u>72</u>	<u>4,734</u>

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring costs £'000	Onerous rental contract £'000	Group total £'000
As at 1 July 2003	(364)	(355)	(719)
Utilised	364	174	538
Disposal of subsidiaries	-	181	181
As at 30 June 2004	<u>-</u>	<u>-</u>	<u>-</u>

21. FINANCIAL INSTRUMENTS

The group's policies as regards financial instruments are set out in the Operating and Financial Review on pages 12 to 13. Short term debtors and creditors have been excluded from these disclosures.

a. Maturity and interest profile of financial assets and liabilities

At the year-end, non-interest bearing financial liabilities were nil (2003 - £0.5m).

At the year end, guaranteed loan notes of £0.1m (2003 - £0.4m) with a repayment date of 30 June 2005 were in issue. The loan notes bear a floating interest rate (with reference to LIBOR) which was 5.0% at 30 June 2004 (2003 - 3.9%).

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

Cash (sterling £30,545,000, euro £842,000) is invested on short-term deposit earning a return by reference to LIBOR (2003 - sterling £37,617,000, euro £911,000).

b. Fair value of financial assets and liabilities

The fair values of the group's 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. CALLED UP SHARE CAPITAL

	Group and Company 2004 Number	Group and Company 2004 £'000	Group and Company 2003 Number	Group and Company 2003 £'000
Authorised:				
Ordinary shares of 1p each (2003 - 1p each)	100,000,000	1,000	100,000,000	1,000
Allotted, called up and fully paid:				
Ordinary shares of 1p each (2003 - 1p each)	25,952,596	260	25,809,318	258
		Nominal value £	Number of shares	Consideration £
Ordinary shares of 1p each allotted as at 1 July 2003		258,093	25,809,318	
Ordinary shares issued during the year ended 30 June 2004 fully paid:				
Deferred consideration on ISG Occupancy		434	43,334	70,851
Limited minority interest				
Crystallisation of options		999	99,944	95,968
Total ordinary shares of 1p each allotted and fully paid during the year ended 30 June 2004		<u>1,433</u>	<u>143,278</u>	<u>166,819</u>
Ordinary shares of 1p each allotted as at 30 June 2004		<u>259,526</u>	<u>25,952,596</u>	

23. GROUP RESERVES

	Share premium £'000	Other reserves £'000	Own shares £'000	Profit and loss account £'000
Balance at 1 July 2003				
As previously stated	9,116	1,171	-	4,558
Prior year adjustment (see below)	-	-	(1,857)	-
As restated	9,116	1,171	(1,857)	4,558
Profit for the year	-	-	-	467
Equity dividends	-	-	-	(2,070)
Realisation of gain on sale of investments	-	(1,171)	-	1,171
Share premium arising on issue of shares	165	-	-	-
Movement in own shares held	-	-	284	-
Unrealised gain arising on investments	-	436	-	-
Exchange differences	-	-	-	(152)
Balance at 30 June 2004	9,281	436	(1,573)	3,974

UITF 38 "Accounting for ESOP trusts" has been adopted during the current year, which states that consideration paid for shares in Interior Services Group plc, held by an ESOP trust on behalf of the company, should be accounted for as a reduction to shareholders' funds rather than as a fixed asset investment. Consideration paid for the purchase of own shares, represents the cost of shares purchased by the company. As a result of the adoption of UITF 38, the group's net assets and its shareholders' funds at 30 June 2003 have decreased by £1,857,000 and at 30 June 2004 by £1,573,000. The adoption had no impact on the group's results.

As at 30 June 2004, the Interior Services Group Qualifying Employee Share Trust held 3,518 (2003 - 103,929) ordinary 1p shares in the company at a cost of £4,000 (2003 - £117,000) (market value £6,000). These shares have not yet been allocated to individuals and accordingly, dividends on these shares have been waived.

As at 30 June 2004, the Interior Services Group Employee Share Trust held 794,825 (2003 - 843,625) ordinary 1p shares in the company at a cost of £1,569,000 (2003 - £1,739,000) (market value - £1,323,000). 701,075 of these shares have not yet been allocated to individuals and accordingly, dividends on these shares have been waived.

At 30 June 2004, the group owns 3.1% (2003 - 3.7%) of its own called up share capital.

On 13 August 2003, ISG City Axis Limited, one of the company's joint venture investments, was disposed of for consideration of a 22.2% shareholding in an enlarged company listed on the Singapore Stock Exchange as ISG Asia Limited. This resulted in the unrealised gain of £436,000. The holding in ISG Asia Limited has been included as an associate in the balance sheet (see Note 14c).

24. COMPANY RESERVES

	Share premium £'000	Other reserves £'000	Own shares £'000	Profit and loss account £'000
Balance at 1 July 2003				
As previously stated	9,116	-	-	281
Prior year adjustment (see below)	-	-	(1,313)	-
As restated	9,116	-	(1,313)	281
Profit for the year	-	-	-	3,018
Equity dividends	-	-	-	(2,070)
Share premium arising on issue of shares	165	-	-	-
Utilisation of own shares	-	-	114	-
Unrealised gain arising on investments (see Note 23)	-	436	-	-
Balance at 30 June 2004	9,281	436	(1,199)	1,229

As detailed in Note 23 above, UITF 38 "Accounting for ESOP trusts" has been adopted during the current year. As a result of the adoption of UITF 38, the company's net assets and its shareholders' funds at 30 June 2003 have decreased by £1,313,000 and at 30 June 2004 by £1,199,000. The adoption had no impact on the company's results.

As at 30 June 2004, the Interior Services Group Qualifying Employee Share Trust held 3,518 (2003 - 103,929) ordinary 1p shares in the company at a cost of £4,000 (2003 - £117,000) (market value £6,000). Further details are disclosed above.

As at 30 June 2004, the Interior Services Group Employee Share Trust held 700,000 (2003 - 700,000) ordinary 1p shares in the company at a cost of £1,195,000 (2003 - £1,195,000) (market value £1,165,000). These shares have not yet been allocated to individuals and accordingly, dividends on these shares have been waived.

At 30 June 2004, the company owns 2.7% (2003 - 3.1%) of its own called up share capital.

25. 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 profit for the year dealt with in the accounts of the parent company is £3,018,000 (2003 - £1,389,000 loss).

26. CAPITAL AND OTHER COMMITMENTS

At 30 June 2004, the group and the company had no capital commitments (2003 - nil).

Operating leases

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

	Land and buildings 2004 £'000	Other 2004 £'000	Land and buildings 2003 £'000	Other 2003 £'000
Operating leases which expire:				
Within one year	47	142	231	270
Within two to five years	536	219	582	639
After five years	115	5	133	56
	<u>698</u>	<u>366</u>	<u>946</u>	<u>965</u>

27. 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, amended by the company in General Meeting on 4 December 2000 and amended pursuant to a Board Resolution dated 31 October 2003, approved by the Inland Revenue on 23 January 2004.

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

Date of Board approval and grant	Number of share options		30 June 2004	Option price (pence)	Period during which options may be exercised	
	1 July 2003	Awarded / Exercised / (Lapsed) (Cancelled)				
19 January 1998	230,868	-	34,944	195,924	57	On or after 19 January 2001
21 October 1998	145,458	(307)	65,000	80,151	117	On or after 21 October 2001
7 July 1999	12,000	-	-	12,000	141	On or after 7 July 2002
1 December 2000	5,000	(5,000)	-	-	385	On or after 1 December 2003
19 October 2001	60,224	(7,500)	-	52,724	300	On or after 19 October 2004
20 September 2002	753,162	(70,304)	-	682,858	200	On or after 20 September 2005
28 October 2002	200,000	(45,000)	-	155,000	200	On or after 28 October 2005
14 April 2003	55,000	(7,500)	-	47,500	150	On or after 14 April 2006

At 30 June 2004, the number of option-holders participating in the Approved Plan was 125.

27. EMPLOYEE SHARE SCHEMES (continued)
Interior Services Group plc Unapproved Company Share Option Plan (the "Unapproved Plan")

The Unapproved Plan was adopted by the company on 8 June 1998, amended by the company in General Meeting on 4 December 2000 and amended pursuant to a Board Resolution on 31 October 2003.

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

Date of Board approval and grant	Number of share options			30 June 2004	Option price (pence)	Period during which options may be exercised
	1 July 2003	Awarded / (Lapsed)	Exercised / (Cancelled)			
21 October 1998	154,542	(14,693)	-	139,849	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
19 October 2001	47,468	-	-	47,468	300	On or after 19 October 2004
20 September 2002	775,583	(190,583)	-	585,000	200	On or after 20 September 2005
28 October 2002	45,000	(10,000)	-	35,000	200	On or after 28 October 2005
14 April 2003	15,000	-	-	15,000	150	On or after 14 April 2006
10 May 2004	-	183,422	-	183,422	176½	On or after 10 May 2007

At 30 June 2004, 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. It was amended by Board resolution on 1 June 2001, pursuant to the shareholders' resolution establishing a QUEST passed on 4 December 2000. It was further amended by Board resolution dated 3 October 2003.

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

Date of Board approval and grant	Number of share options			30 June 2004	Option price (pence)	Period during which options may be exercised
	1 July 2003	Awarded / (Lapsed)	Exercised / (Cancelled)			
8 June 1998	106,515	(6,104)	100,411	-	113	On or after 1 September 2003
28 November 2003	-	*178,448	-	178,448	153	On or after 1 January 2007

* granted 199,955, lapsed 21,507.

At 30 June 2004 the number of option-holders participating in the SAYE scheme was 87.

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

The AESOP was adopted by the company on 2 March 2001, approved by the Inland Revenue on 5 April 2001 and amended pursuant to a Board Resolution dated 30 January 2004, approved by the Inland Revenue on 16 March 2004.

At 30 June 2004, 47 employees were participating in the plan.

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

28. 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 2004 (2003 - nil). In the normal course of business there are contingent liabilities including the provision of bonds in respect of completed and uncompleted contracts.

29. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	2004	2003
	£'000	£'000
Profit / (loss) for the financial year	467	(5,251)
Equity dividends	(2,070)	(1,832)
Exchange differences	(152)	45
Unrealised gain / (loss) arising on investments (see Note 23)	436	(2,285)
Movement in own shares	284	-
Proceeds from share issue	167	95
Net deduction from shareholders' funds	(868)	(9,228)
Shareholders' funds at 1 July	13,246	24,331
Prior year adjustment (see Note 23)	-	(1,857)
Shareholders' funds at 30 June	12,378	13,246

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

	2004	2003
	£'000	£'000
Operating profit / (loss)	3,006	(3,898)
Depreciation charges	691	1,057
Amortisation and impairment of goodwill	630	9,220
Loss on sale of tangible fixed assets	42	26
Decrease in stocks	57	86
Increase in debtors	(1,886)	(7,667)
(Decrease) / increase in creditors	(3,350)	10,437
Net cash (outflow) / inflow from operating activities	(810)	9,261

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

	2004	2003
	£'000	£'000
Returns on investments and servicing of finance:		
Interest received	1,149	1,301
Interest paid	(127)	(289)
Net cash inflow for returns on investments and servicing of finance	1,022	1,012
Capital expenditure and financial investment:		
Payments to acquire tangible fixed assets	(569)	(640)
Receipts from sales of tangible fixed assets	130	14
Payments to purchase financial investments	-	(1,703)
Receipts from sales of financial investments	114	1
Net cash outflow for capital expenditure and financial investment	(325)	(2,328)
Acquisitions and disposals:		
Purchase of subsidiary undertakings	(410)	(502)
Proceeds from sale of subsidiary undertakings	1,561	-
Net overdraft disposed of on sale of subsidiary undertakings	(172)	-
Net cash inflow / (outflow) for acquisitions and disposals	979	(502)

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

32. ANALYSIS OF NET FUNDS

	2003 £'000	Cash flow £'000	Other non-cash changes £'000	2004 £'000
Cash at bank and in hand	38,528	(7,141)		31,387
Overdraft	(341)	341		-
		(6,800)		
Debt due after one year	(3,440)	3,440	-	-
Debt due within one year	(1,294)	873	349	(72)
Hire purchase contracts	(24)	24	-	-
	<u>33,429</u>	<u>(2,463)</u>	<u>349</u>	<u>31,315</u>

The other non-cash changes relate to the redemption of £349,000 loan notes previously issued as part of the consideration on the acquisition of ISG Occupancy Limited.

33. RELATED PARTY TRANSACTIONS

During the year the group traded with two of its joint ventures / associates: ISGO Stockley Park Limited and IASA. The group provided services with a total value of £104,758.

At the financial year end, joint ventures and associates owed nil in relation to the above trading.

From the date of disposal of ISG Occupancy Limited and its subsidiaries, 30 April 2004, to the year end, the group was charged for services with a total value of £26,733 provided by ISG Occupancy Limited and its subsidiaries. At the financial year end, £2,684 was owed to these parties in respect of services provided throughout the year.

There is a reciprocal arrangement in place between Interior Services Group plc and ISG Occupancy Limited whereby each party rents space owned by the other for a period of six months from the date of disposal. No consideration is payable in respect of this arrangement but it is estimated that the arms-length rental charge for each lease would be £14,000 per month.

Up to 30 April 2004, the group took advantage of the exemption available to it under FRS 8 Related party transactions not to disclose transactions with these subsidiaries. The group has taken advantage of the exemption available to it under FRS 8 Related party transactions not to disclose transactions with all its other subsidiaries.

34. ADDITIONAL INFORMATION ON ASSOCIATES

	Country of incorporation/ registration and operation	Activity	Proportion of ordinary shares held by the group %
IASA ¹	France	Internal refurbishment and building	20.0
Total issued share capital:	2,500,000	0.08 Euro ordinary	
ISG Asia Limited ²	Singapore	Internal refurbishment and building	22.2
Total issued share capital:	135,000,000	\$0.05	

¹ The shares in this company are held directly by Interior (Europe) Limited.

² The accounting reference date for ISG Asia Limited is 31 December. Accordingly, management accounts information has been used for the period to 30 June 2004.

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.

35. DISPOSAL OF SUBSIDIARIES

On 30 April 2004, the group sold its interest in the following wholly owned active subsidiaries: ISG Occupancy Limited, Eurica Services Limited, Walker Packman Limited, H Waters Limited, Eurica Management Limited, Interior Furniture Services Limited, ISGC Limited and Square Mile Real Estate Services Limited. Also included in the disposal were eight wholly owned dormant subsidiaries and the group's joint venture holding in ISGO Stockley Park Limited.

A total loss on the sale and exceptional costs relating to the sale of the group subsidiaries disclosed above of £2,289,000 was generated based on total proceeds, at fair value, of £9,400,000. Of these proceeds, £2,000,000 was received in cash on the disposal date, £1,400,000 was received in cash on 31 August 2004 and the balance was received in loan notes. The actual loan notes received were three notes each with a face value of £2.2m, redeemable on each of the first three anniversaries of the date of disposal.

Exceptional administrative costs of disposal of £459,596 relate to a transaction fee of £407,454 (inclusive of £52,142 social security costs) to R B Horvath, at the time a director, as a reward for the agreed disposal of ISG Occupancy Limited and its subsidiaries. These exceptional costs are not tax deductible.

36. ADDITIONAL INFORMATION ON SUBSIDIARIES

Subsidiary undertakings	Country of incorporation/ registration and operation	Activity	Proportion of ordinary shares held by the group %
ISG InteriorExterior plc	England	Internal refurbishment and building	100
Exterior International plc	England	External refurbishment and building	100
Interior (Europe) Limited	England	Holding company	100
Interior Tolent Limited ¹	England	Internal refurbishment and building	65
Interior Construction GmbH ²	Germany	Internal refurbishment and building	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 St.) Limited ¹	England	Dormant	100
Interior JV Limited ¹	England	Dormant	100
Exterior Construction Limited ¹	England	Dormant	100
RAN Consultants Limited ¹	England	Dormant	100
Eurica Limited	England	Dormant	100
Occupancy Services Limited ³	England	Dormant	100
Occupancy Management Limited ³	England	Dormant	100
ISG Interior (Europe) S.L. ²	Spain	Dormant	100
Interior Limited	England	Dormant	100

¹ The shares in these companies are held directly by ISG InteriorExterior plc.

² The shares in these companies are held directly by Interior (Europe) Limited.

³ The shares in these companies are held directly by Eurica Limited.

NOTICE IS HEREBY GIVEN that the tenth Annual General Meeting of Interior Services Group plc (the "Company") will be held at Mitre House, 160 Aldersgate Street, London EC1A 4DD on 6 December 2004 at 15:00 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 2004, 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 2004 of 5.50 pence per ordinary share payable to shareholders on the register at the close of business on 12 November 2004.
5. To re-appoint J L Jeremy, who is retiring by rotation in accordance with the Company's Articles of Association as a director of the Company.
6. To re-appoint R M Dantzig, who is retiring in accordance with the Company's Articles of Association as a director of the Company.
7. To re-appoint M J Barnes, who is retiring 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 8 will be proposed as an ordinary resolution and resolutions 9 and 10 as special resolutions:

8. 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 £86,528 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.
9. 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 £12,979;

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.

10. 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 2,595,859;

(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 2005 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.

Directors seeking re-election

J L Jeremy, 54, is a former director with the merchant banking subsidiary of National Westminster Group. He is an Associate of the Institute of Financial Services. He has been a non-executive director of the Company since 1995 and he is Chairman of the Remuneration Committee. He is a non-executive director of a number of other companies including Wyndeham Press Group plc.

R M Dantzig, 60, is a former director of Stanhope Properties plc and from 1996 to 2003 he was Managing Director of Secondsite Property Holdings Limited. He is a member of the Institute of Chartered Accountants of Scotland. He was appointed as non-executive Chairman of the Board on 4 June 2004. He is Chairman of the Audit Committee. In addition to a number of non-executive director positions he is also non-executive Chairman of property development group, Development Securities plc. He is a Council Member of the Architectural Heritage Fund and a former Member of the Government's Property Advisory Group.

M J Barnes, 55, was appointed as a non-executive director of the Board on 4 June 2004. He has extensive experience in the leisure and hospitality industry and is a non-executive director of a number of other companies including Caffè Nero Group plc and Arena Leisure plc. He is also Chairman of Zoo Digital Group plc.

Explanation of Special Business

Authority to allot ordinary shares (Resolution 8)

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 £86,528, 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 9)

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 £12,979, 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.

Since 1 December 2003, companies have been allowed to 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 10)

Resolution 10 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 25,958,596 shares in issue. Resolution 10 seeks authority to purchase a maximum of 2,595,859 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 2004

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.