

Moving forward in 2001

We are confident that Huntsworth is now on a sound financial footing and that we have the management and professional staff in place to build a stronger business. We have continued to develop the business organically by winning a number of important new clients and our aim is to broaden our base by pushing into other high growth markets such as healthcare and technology.

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Key Points

- **Trading loss for 15 months to 31 December 2000 of £1.7m (1999: 12 months – profit £0.2m).**
- **Revenue for 15 months to 31 December 2000 of £11.4m (1999: 12 months – £13.3m).**
- **Exceptional costs for 15 months to 31 December 2000 of £4.9m (1999: 12 months – £1.6m).**
- **Board strengthened**
 - Lord Chadlington appointed Chief Executive
 - Phil Culver Evans appointed Finance Director
 - Baroness Cumberlege joins as Non-Executive Director.

Jon Foulds, Chairman, said:

“We are confident that Huntsworth is now on a sound financial footing and that we have the management and professional staff in place to build a stronger business. We have continued to develop the business organically by winning a number of important new clients and our aim is to broaden our base by pushing into other high growth markets such as healthcare and technology.”

CHAIRMAN'S STATEMENT AND REVIEW

When some 97% of those shareholders in Huntsworth who voted at the extraordinary general meeting in August last year, elected Lord Chadlington, Anthony Brooke and me onto the Board, we were delighted and proud to accept the mandate you placed in our hands. However, once we had access to the financial and management information inside the Huntsworth Group we knew that we faced some urgent management challenges.

As I pointed out at the time of the second interim statement on 5 December 2000 the Group was losing very substantial sums month by month. In addition, the Group's cash position was deteriorating significantly each month, it had thousands of square feet of under-utilised property, had too large a workforce for the levels of revenues being generated and had inadequate management information systems.

Amongst all this bad news, there were three encouraging factors which gave us good reason to believe that the Group could be put onto a firm financial footing: the loyalty of our blue-chip client base, the talents of our key people and the quality of the work they produce.

We now believe that, with the determined support of our staff and clients, we have stabilised the business. All operating companies in the Group are trading profitably and the Group is ahead of budget for the first quarter of 2001. We have re-organised our bank debt with Lloyds TSB, who continue to be supportive. We are intending to occupy just two of the four properties which we inherited, one in London and one in Marlow. We have surrendered the lease of one of the underutilised properties and are in negotiation to sub-let or surrender the lease of the other. We have reduced the headcount by approximately one third. We have appointed a new finance director, with experience in our sector, introduced new management information systems, and we now have timely and accurate financial information.

Now that the financial position of the Group has been improved, we have been able to address the issues of strategy and direction. We intend to build on our strengths: the blue chip clients we serve and the professional men and women we employ.

First of all, we will continue to build the business organically. We have made much progress in this area adding such client names as International Paper, Levi Strauss, Bulmers, Odgers Ray & Berndtson, Jacobs Holdings, Jordan F1 and several others.

But we need to build on our largely consumer goods client base, extend our healthcare and technology offerings and expand into other high growth sectors specifically, public affairs and financial.

The Board also announces the proposed acquisitions of PBC Marketing, a marketing agency providing advertising and strategic research to the healthcare and pharmaceutical industry; Woodside Communications, a marketing communications company providing communications strategy to companies wishing to create, maintain or re-position their brands; and Stephanie Churchill PR, a consultancy specialising in the consumer sector concentrating on brand repositioning and building of the brand franchise, with a special expertise in youth marketing. These acquisitions are the first steps in realising our strategy for growth.

We also announce that we are seeking additional funding, not only to finance the initial cash-consideration for the acquisitions, but also to reduce Group indebtedness and further stabilise the Group's financial position.

Results

The operating loss for the 15 month period before exceptional items was £1.7 million (1999: 12 months: profit £0.2 million) on revenue of £11.4 million (1999: 12 months: £13.3 million). Turnover, which includes the invoice value of costs passed through to clients, was £20.3 million (1999: 12 months: £23.8 million). The operating loss was in line with our forecast in the second interim report. After charging exceptional costs of £4.5 million (1999: 12 months: £1.5 million) the loss on ordinary activities before interest for the period was £6.2 million (1999: 12 months: loss £1.3 million). The increase in exceptional costs from our previous forecast is principally due to additional property provisions and a valuation of the pension scheme revealing a higher than expected deficit.

After allowing for finance charges of £1.0 million (1999: 12 months: £0.4 million) and a tax credit of £0.1 million (1999: 12 months: £0.4 million) the deficit for the period was £7.1 million (1999: 12 months: £1.3 million deficit).

Basic loss per share was 27.4p (1999: 12 months: 5.0p). The directors do not recommend paying a dividend (1999: nil).

Appointment of Chief Executive

When your new Board was elected in August 2000, we agreed to take no remuneration until the Company was able to pay a dividend. This was on the basis that the three new directors would be non-executive. However, the situation we inherited was far worse than expected and

much work had to be done quickly to stabilise the business.

Lord Chadlington stepped into the role of Chief Executive immediately. Lord Chadlington has a distinguished career in public relations and communications both in the UK and around the world. As the Group's largest shareholder, his interests and those of the other owners of the business are strongly aligned. Much of the progress, which I have been able to report, including the proposed acquisitions and fund raising, have all been made possible, in large part, because he took on these responsibilities quickly and with enthusiasm.

Accordingly Lord Chadlington has conditionally entered into a service agreement which is subject to shareholder approval at the Annual General Meeting.

Board Appointment

Baroness Cumberlege was appointed to the Board on 27 April 2001 as a non-executive director and this continues the process of strengthening the non-executive board. Baroness Cumberlege has spent a number of years working in the NHS and serving the healthcare and pharmaceutical industries and was a Health Minister in the House of Lords from 1992 to 1997.

Baroness Cumberlege, besides her duties as a non-executive director, will assist Huntsworth in developing and expanding its services to the healthcare and pharmaceutical industries.

Employees

At the time of the new Board's election, we committed to reviewing the remuneration of all staff, and are presently in the final stages of introducing new contractual arrangements for

CHAIRMAN'S STATEMENT AND REVIEW CONTINUED

employees group-wide, based on the principles of openness, consistency and fairness. Terms, conditions and benefits are being introduced that represent best company practice, not only from around the Group, but throughout our own and other industries. This process will be complete by the time of the Annual General Meeting.

We are committed to being recognised as a genuinely superior employer, motivating our talented and professional workforce to deliver excellent revenue and profit growth, and delivering an improved working environment and the increased rewards such results would affordably merit.

Share Option Schemes

The directors consider that an important factor in making the Company successful will be to incentivise its employees. The Board intends to align the interests of shareholders and employees through certain amendments to the rules of the Executive Share Option Schemes, which will need to be approved by shareholders at the Annual General Meeting.

Group Identity

Following research to discover the strengths and weaknesses of Holmes & Marchant as a brand-name, we have decided to adopt Huntsworth as the Group operating brand replacing Holmes & Marchant. The operating companies formerly trading as Holmes & Marchant will largely revert to their previous standalone identities – for example Masterguide and Counsel – and this will assist the proposed acquisition companies in achieving equal status with the existing businesses under a fresh, new banner. We will be adopting an elegant and contemporary identity with bronze and indigo as our corporate colours, and a new logo representing a speech bubble to communicate that expression is at the heart of everything we do at Huntsworth.

Investor Communications

The last few years have also been difficult for our shareholders and we thank them for their loyalty and support. We intend to keep all investors informed of our progress on a regular basis. We are in the process of upgrading our web site www.huntsworth.com and recommend that shareholders visit it from time to time and also register with it to receive our press releases by e-mail.


Prospects

Any look into the future is necessarily accompanied by uncertainty and the current economic background gives added reason for caution.

This said, your Company is now well placed to expand. The proposed acquisitions will add to the profits now being earned by the existing Group companies. The balance sheet will be significantly stronger after the fundraising announced earlier.

Moreover, the financial threat posed by the legacy of unused properties has been substantially reduced by the surrender of the lease at High Wycombe.

All of these factors, together with the inherent strengths of the underlying business, to which I have already referred, give the Board confidence that prospects for the future of the Group are now better than they have been over the last decade.


Jon Foulds

Chairman

30 April 2001

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the 15 month period ended 31 December 2000.

Activity

The principal activity of the Group is that of a marketing and communications consultancy.

Review of Business and Future Developments

The consolidated profit and loss account for the year is set out on page 16 and shows a loss after taxation of £7,070,000. A more detailed review of the business and future developments is included in the Chairman's Statement and Review on pages 2 to 4.

Dividends

The directors do not recommend a dividend (1999 – £nil).

Financial Resources

The directors have negotiated revised bank facilities with Lloyds TSB Bank plc, as described in note 16, and believe that the Company and the Group have adequate resources and facilities to enable them to continue their operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Company's and the Group's financial statements.

Directors

Details of directors' remuneration are set out in the Report of the Directors on Remuneration.

Except as disclosed in the financial statements, none of the directors was materially interested during the period in any contract which was significant in relation to the business of the Company.

Substantial Shareholdings

Apart from the interests of the directors set out in the Report of the Directors on Remuneration, according to the registers kept by the Company, the directors were aware of the following persons with a holding of 3 per cent or more of the

Company's ordinary shares of 10 pence each at 31 December 2000:

	Number of shares
Jupiter Undervalued Assets Fund	1,345,000
Mr A B M Good	1,263,657
Sir David Alliance	1,000,000
Mr E W Jones	854,864
Ms Philippa Rose	820,000
Smith & Williamson Growth Trust	800,000

Share Capital

It is proposed, in line with common practice, that the directors be authorised to allot up to £744,157 of relevant securities in the Company (equivalent to 7,441,570 ordinary shares of 10 pence each, representing 27 per cent of the Company's issued ordinary share capital as at 27 April 2001 without further reference to the Company in general meeting for a period ending at the conclusion of the Annual General Meeting in 2002.

Under Section 89(1) of the Companies Act 1985, where it is proposed to issue equity securities (which include the Company's ordinary shares of 10 pence each) for cash, they must first be offered to existing shareholders in proportion to their holdings. In some circumstances there may be good reasons to allot such securities for cash without first offering them in this way. The directors will therefore propose a special resolution at the Annual General Meeting which, if passed, will allow them to allot equity securities for cash as if Section 89(1) did not apply. This authority will lapse (unless renewed) after fifteen months or, if earlier, at the conclusion of the Annual General Meeting in 2002 and will be restricted to the allotment of equity securities in connection with a rights issue or the allotment of equity securities for cash up to an aggregate nominal value of £137,792 (equivalent to 1,377,920 ordinary shares of 10 pence each, representing 5 per cent of the Company's issued share capital as at 27 April 2001).

REPORT OF THE DIRECTORS CONTINUED

An ordinary resolution is to be proposed at the Annual General Meeting to allow the Company to purchase its own shares in the market for cancellation, in accordance with the provisions of the Companies Act 1985. Shareholders' consent is sought for the Company to purchase up to a maximum in aggregate of 1,377,920 ordinary shares of 10 pence each in the share capital of the Company, representing 5 per cent of the issued share capital as at 27 April 2001. The directors will exercise the authority only if, in their opinion, the purchase by the Company of its own shares is in the best interests of the Company and its shareholders. The directors monitor on a regular basis whether such purchases are in the best interests of the Company and its shareholders.

An ordinary resolution is also to be proposed at the Annual General Meeting to increase the Company's authorised share capital from £3,500,000 to £15,000,000 representing an increase of 329% from the previous authorised share capital of the Company, so that the Company's authorised share capital is sufficient taking account of the resolutions to be proposed at the Annual General Meeting and at the Extraordinary General Meeting which is to follow the Annual General Meeting.

In addition, ordinary resolutions will be proposed at the Annual General Meeting

- (i) to amend the rules of the Company's Approved Executive Share Option Scheme and the Company's Unapproved Executive Share Option Scheme;
- (ii) to approve the establishment of the Huntsworth Enterprise Management Incentive Scheme; and
- (iii) to approve Lord Chadlington's remuneration and service contract (including the establishment of the Huntsworth (Chief Executive) Unapproved Share Option Scheme); and to authorise the directors pursuant to Section 80 of the Companies Act 1985 to allot unissued share capital with a nominal value of up to £600,000, representing approximately 22 per cent of the total issued share capital of

the Company as at 27 April 2001, for a period ending five years after the date this resolution is passed, in connection with options granted under the Huntsworth (Chief Executive) Unapproved Share Option Scheme. as described in the Notes to Notice of Annual General Meeting on page 36.

In addition, a special resolution is to be proposed at the Annual General Meeting in connection with paragraph (iii) above to authorise the directors to allot ordinary shares in the capital of Company for cash free of statutory pre-emption rights pursuant to Section 95 of the Companies Act 1985 up to a maximum nominal amount of £600,000 in respect of the Huntsworth (Chief Executive) Share Option Scheme.

Donations

During the year the Group made charitable donations of £1,960 (1999 – £1,661). The Group also supports charities by taking advertising space in charity publications. There were no political contributions made in the year (1999 – nil).

Auditors

PricewaterhouseCoopers resigned as auditors on 31 October 2000 and Ernst & Young were appointed as auditors on 4 December 2000. A resolution to re-appoint Ernst & Young will be put to the shareholders at the Annual General Meeting. Ernst & Young has stated that, subject to the approval of its partners, it is intending to transfer its business to a limited liability partnership during the year. If this happens it is the current intention of the directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

Payment of Creditors

The Group's subsidiaries are agency businesses and principally incur costs on behalf of clients which are recharged to them. It is the Group's policy, wherever possible, to pay outside suppliers when payment has been received from the client concerned.

Against this background the Group's subsidiaries generally agree payment terms with their suppliers as set out above when entering binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not have a standard code which deals specifically with the terms of payment of suppliers.

As at 31 December 2000, the Company's trade creditors represented the equivalent of 50 days' invoicing by suppliers.

By order of the Board

David S Lawson
Secretary

30 April 2001

CORPORATE GOVERNANCE

The current Board is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Combined Code appended to the Listing Rules of the Financial Services Authority.

Statement by The Directors on Compliance with the Provisions of the Combined Code

The Company has been managed by two distinct Boards during the period, the former directors who were removed from office on 30 August 2000, and the current directors, substantially all of whom were appointed on that day. The commentary below explains the current directors' approach to corporate governance.

Insofar as the current directors are aware, the Company has been in full compliance with the provisions set out in the Combined Code throughout the period with the exception of:

- Mr J F Holmes was both the Chairman and Chief Executive of the Group until 13 March 2000 (provision A.2.1 of the Combined Code).
- There was no formal process for the appointment of non-executive directors and they were not appointed for specific terms (provision A.5.1). The current non-executive directors have been appointed for initial three year terms subject to a notice period of three months. However, their re-appointment as directors is subject to shareholder approval either due to retirement of one-third of the Board (or the number nearest to but not exceeding one-third), by rotation as provided in the Company's Articles of Association, or due to retirement as a result of appointment since the preceding Annual General Meeting as also provided in the Articles.
- Until 30 August 2000 the Company's Audit Committee comprised all the Board members and did not meet the Code's requirement that the Audit Committee consist, of at least three

non-executive directors (provision D.3.1). Since August 2000, the Audit Committee has comprised all of the Company's non-executive directors whose number reached three on the appointment of Baroness Cumberlege on 27 April 2001.

The Workings of The Board and its Committees

The Board

The Board currently comprises the independent non-executive Chairman, the Chief Executive, the Finance Director and two other independent non-executive directors. One of the non-executive directors, Mr A L Brooke, has the role of senior non-executive director. The biographies of the directors appear on page 15. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which are vital to the success of the Group. The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 10 and a statement on going concern is given on page 5.

The current Board has introduced a formal schedule of matters specifically reserved to it for decision. The Board meets every month, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining acquisition possibilities and reporting to shareholders. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the Board to discharge its duties, all directors receive appropriate and timely information. The Chairman ensures that the directors take independent professional advice as required.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary ensures that the directors receive appropriate training as necessary.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The following committees deal with specific aspects of the Group's affairs.

Remuneration Committee

The Company's Remuneration Committee is chaired by the Company's non-executive Chairman, Mr H J Foulds and its other member is a further non-executive director, Mr A L Brooke. The Remuneration Committee is responsible for making recommendations to the Board, within agreed terms of reference on the Company's framework of executive remuneration and its cost. The Remuneration Committee recommends to the Board the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors. The Remuneration Committee seeks advice from a leading firm of remuneration consultants where appropriate.

Given the size of the Group the Board have decided not to introduce a Nominations Committee.

Further details of the Company's policies on remuneration, service contracts and compensation payments are given in the Report of the Directors on Remuneration on pages 11 to 14.

Audit Committee

The Audit Committee which is chaired by Mr A L Brooke comprises all the non-executive directors. The Audit Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Chief Executive and the Finance Director.

The Audit Committee is responsible for reviewing a wide range of matters including the interim statement and annual financial statements before their submission to the Board and monitoring the controls which are in force to

ensure the integrity of the information reported to the shareholders. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

Internal Control

The Board is responsible for establishing and maintaining a sound system of internal control for the Group and reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

In fulfilling this responsibility the Group has established a number of measures in order to create an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The executive directors together with key senior executives constitute the Group's Steering Committee, which meets weekly, to discuss day-to-day operational matters. The Board meets monthly, and is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks. Additionally, the Board reviews on an annual basis the effectiveness of the Group's system of internal control.

Insofar as the directors are aware, this process has been in place for the period under review and up to the date of approval of the annual report and financial statements in accordance with 'Internal Control: Guidance for Directors on the Combined Code' (The Turnbull Report). On appointment, the current Board conducted a thorough review of the Group's operations, business risks, structure and the effectiveness of the system of internal control. Following this review the Group has restructured its activities and reporting procedures, and has instigated a

CORPORATE GOVERNANCE CONTINUED

revised budgetary process in which the key risks faced by the Group are identified. Performance is monitored and relevant action taken through the monthly reporting to the Board of variances from the budget, updated forecasts for the period together with information on the key risk areas. Capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board.

Responsibility levels are communicated throughout the Group including delegation of authority and authorisation levels, segregation of duties and other control procedures. Each operating company maintains a system of controls appropriate to its business.

The Audit Committee monitors controls which are in force and any perceived gaps in the control environment, and also considers and determines relevant action in respect of any control issues raised by the external auditors. The Group currently does not have an internal audit function. The Audit Committee reviews the need for an internal audit function from time to time. The findings of the Audit Committee are communicated to the Board.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

By order of the Board

David S Lawson
Secretary

30 April 2001

REPORT OF THE DIRECTORS ON REMUNERATION

Remuneration Committee

The Company's Remuneration Committee acknowledges the recommendations of, and, insofar as the current directors are aware, has complied throughout the period with, the requirements of the Combined Code annexed to the Listing Rules of the Financial Services Authority. Since the EGM held on 30 August 2000, the Remuneration Committee has comprised two of the Company's non-executive directors, Mr H J Foulds and Mr A L Brooke and is chaired by Mr H J Foulds. Previously the Remuneration Committee comprised Mr C A Scroggs (Chairman) and Mr R T Hinaman.

The objective of the current Remuneration Committee is to ensure that the executive directors of the Company are fairly rewarded for their individual contributions to the Group's performance and to ensure that their remuneration is commensurate with their duties and responsibilities.

The current Remuneration Committee makes recommendations to the Board, within agreed terms of reference, on overall remuneration packages for executive directors and other senior executives of the Group. They are determined after a review of the performance of the individual. In the case of executive directors, other than the Chief Executive, the Remuneration Committee seeks the advice of the Chief Executive in any review.

The Remuneration Committee is also responsible for granting share options to executive directors of the Company and senior executives of the Group.

Directors' Emoluments

	Salary and fees £000	Benefits £000	Termination payments (1) £000	Total 2000 £000	Total 1999 £000
Chairman					
H J Foulds (4)	–	–	–	–	–
R T Hinaman (3)	19	–	6	25	15
Executive					
Lord Chadlington (4)	–	–	–	–	–
P F Culver Evans (5)	–	–	–	–	–
J F Holmes (3)	200	35	410	645	248
E W Jones (3)	157	26	319	502	195
I A Walter (3)	94	7	169	270	108
G M Holmes (2) (3)	51	7	187	245	–
Non-Executive					
A L Brooke (4)	–	–	–	–	–
Baroness Cumberlege (6)	–	–	–	–	–
C A Scroggs (3)	14	–	4	18	15
Total 2000	535	75	1,095	1,705	581
Total 1999	515	66	–	–	581

REPORT OF THE DIRECTORS' ON REMUNERATION CONTINUED**Notes**

- (1) Termination payments represent the negotiated cash settlements, estimated value of benefits and payments to the Group's defined benefit pension scheme for an additional year of pensionable service for Messrs. J F Holmes, E W Jones, I A Walter, G M Holmes, R T Hinaman and C A Scroggs following their removal from office at the EGM held on 30 August 2000.
- (2) Appointed 13 March 2000
- (3) Removed from office 30 August 2000
- (4) Appointed 30 August 2000
- (5) Appointed 7 March 2001
- (6) Appointed 27 April 2001

Salary and fees shown above include fees paid in respect of duties as directors. Benefits relate mainly to the provision of company cars, fuel and medical insurance.

Highest Paid Director

The aggregate emoluments of the highest paid director were £645,000 for the year (1999 – £248,000).

Directors' Pensions

The Company's former executive directors received non-contributory pension entitlements under the Group's defined benefit pension scheme, referred to in note 8 to the financial statements, aimed at producing a pension of two-thirds of final salary. The former non-executive directors did not participate.

	Age at 31 December 2000	Increase in accrued pension entitlement during the period (note (ii)) £000	Total accrued pension entitlement at 31 December 2000 £000
J F Holmes	56	16	100
E W Jones	52	12	78
I A Walter	45	7	35
G M Holmes	43	9	20

- (i) The pension entitlement shown is that which would be paid annually on retirement, based on service to 30 August 2000, the date of removal from office, plus an additional year of service accruing from the termination agreement.
- (ii) The increase in accrued pension during the period excludes any increase for inflation.
- (iii) The normal retirement age is 60.
- (iv) The widow's pension on death after retirement represents 50% of the member's.
- (v) The Group's defined benefit scheme is contracted out of the State Earnings Related Pension Scheme and on pension accrued before 6 April 1997, increases of 3% per annum compound were applied to Guaranteed Minimum Pension, which is the equivalent of a State pension. All pension accrued after 6 April 1997 is increased in line with movements in the Retail Prices Index up to a maximum of 5% per annum.
- (vi) At 31 December 2000, the total accrued pension entitlement of the highest paid director was £100,000.

Service Contracts

Lord Chadlington's proposed service contract is for a fixed term until 31 December 2003 and Mr Culver Evans' service contract is terminable on 6 months' notice. None of the Company's non-executive directors has a service contract with the Company.

Directors' Interests in Share Options

The Company has two share option schemes by which the former executive directors were able to subscribe for ordinary shares in the Company. The interests of the former executive directors are as follows:

	Scheme	At 1 October 1999	Exercised during the period	At 31 December 2000	Exercise price (pence)	Original option period
J F Holmes	Original	100,000	—	100,000	19p	Jan 1996-Jan 2003
	New unapproved	500,000	—	500,000	10p	Aug 1999-Aug 2006
E W Jones	Original	100,000	—	100,000	19p	Jan 1996-Jan 2003
	New unapproved	500,000	—	500,000	10p	Aug 1999-Aug 2006
I A Walter	Original	100,000	—	100,000	19p	Jan 1996-Jan 2003
	New unapproved	100,000	—	100,000	10p	Aug 1999-Aug 2006
G M Holmes	New approved	100,000	100,000*	—	10.75p	Aug 2000-Aug 2007
	New approved	100,000	—	100,000	10p	Jan 2001-Jan 2008
		1,600,000	100,000	1,500,000		

*At the date of exercise, the Company's share price was 43.50 pence per share and accordingly Mr G M Holmes was able to realise a gain of £32,750.

The market price of the Company's shares on 31 December 2000 was 42.50 pence and the high and low during the year were 57.50 pence and 13.50 pence respectively.

Subsequent to 31 December 2000 the following options were exercised.

	Exercised since 31 December 2000	Exercise price (pence)	Market value at date of exercise	Gain £000
J F Holmes	100,000	19p	51.5p	33
	500,000	10p	51.5p	207
E W Jones	100,000	19p	36.0p	17
	500,000	10p	36.0p	130
I A Walter	100,000	19p	45p	26
	100,000	10p	45p	35
G M Holmes	100,000	10p	43.5p	34
				482

REPORT OF THE DIRECTORS ON REMUNERATION CONTINUED**Directors' Interests in Shares**

The directors were interested (all beneficially unless otherwise stated) in the following number of ordinary shares of 10p each in the Company:

Current Directors	31 December 2000	At date of appointment
Lord Chadlington	4,866,633	4,866,633
H J Foulds	1,148,780	1,148,730
A L Brooke	327,402	327,402
Former Directors		
J F Holmes		
Beneficial	2,882,396	2,882,396
Non beneficial	140,000	140,000
E W Jones		
Beneficial	854,864	854,864
Non beneficial	40,836	41,168
I A Walter	7,500	7,500
G M Holmes	416,012	416,012
R T Hinaman	10,000	10,000
C A Scroggs	50,000	50,000

At the date of their removal from office, Mr J F Holmes and Mr I A Walter had a non-beneficial interest as trustees in 420,000 ordinary shares of 10p each forming part of the beneficial shareholding of Mr E W Jones, and Mr I A Walter and Mr E W Jones had a non-beneficial interest as trustees in 800,000 ordinary shares of 10p each forming part of the beneficial shareholding of Mr J F Holmes.

DIRECTORS AND ADVISERS**H Jon Foulds**

Age 68, Chairman and non-executive director. Mr Foulds is Chairman of the Remuneration Committee and a member of the Audit Committee. Mr Foulds is a former Chairman of Halifax plc and was previously the Chief Executive of 3i plc. His previous directorships include Mercury Asset Management plc and Eurotunnel plc. He is currently a director of a number of private companies.

Lord Chadlington

Age 58, Chief Executive. Lord Chadlington has spent his entire working life in communications, as a journalist after graduating from Cambridge University and later in public relations both in-house and consultancy. He founded Shandwick in 1974, establishing it as the largest PR consultancy in the UK within seven years and holding that position, without interruption for the next 17 years. He built the firm overseas and sold it to InterPublic Group in 1998 forming the group that this year is the largest PR consultancy in the world. Lord Chadlington is a director of Halifax plc and has written and lectured extensively on communications, politics and public relations. He was created a life peer in 1996.

Philip Culver Evans

Age 35, Finance Director. Mr Culver Evans has 11 years sector experience, as Managing Director in charge of the European Business Management function of Burson-Marsteller and previously as Finance Director of Robert Walters Associates.

Anthony Brooke

Age 54, senior independent non-executive director. Mr Brooke is Chairman of the Audit Committee and a member of the Remuneration Committee. Mr Brooke is a director of Fauchier Partners Limited and Chairman of Mercury Equity Arbitrage Limited and of com.Medic Limited. He is a former Managing Director of SBC Warburg.

Baroness Cumberlege

Age 58, non-executive director. Baroness Cumberlege is a former Health Minister in the House of Lords, Chairman of the South West Regional Health Authority, Chairman of the Brighton Health Authority and is a Vice President of the Royal College of Nursing. Baroness Cumberlege holds a number of other directorships, public appointments and consultancies in the healthcare industry.

Company Secretary

David S Lawson

Registered Office

15-17 Huntsworth Mews
London NW1 6DD
020 7402 2272

Registered Number

1729478

Auditors

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

Stockbrokers

Cazenove & Co. Ltd
12 Tokenhouse Yard
London EC2R 7AN

Bankers

Lloyds TSB Bank plc
6-8 Eastcheap
London
EC3M 1AE

Registrars & Transfer Office

Computershare
Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

CONSOLIDATED PROFIT AND LOSS ACCOUNTFOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2000
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED 30 SEPTEMBER 1999)

	NOTES	2000			1999 (as restated)		
		Excluding exceptional items £000	Exceptional items £000	Total £000	Excluding exceptional items £000	Exceptional items £000	Total £000
Turnover							
Continuing operations		20,345	–	20,345	21,147	–	21,147
Discontinued operations		–	–	–	2,680	–	2,680
	2	20,345	–	20,345	23,827	–	23,827
Cost of sales		(8,907)	–	(8,907)	(10,466)	–	(10,466)
Revenue							
Continuing operations		11,438	–	11,438	12,462	–	12,462
Discontinued operations		–	–	–	899	–	899
		11,438	–	11,438	13,361	–	13,361
Administrative expenses							
Recurring		(13,162)	–	(13,162)	(13,133)	–	(13,133)
Exceptional	7	–	(1,282)	(1,282)	–	(324)	(324)
Property costs		–	(3,059)	(3,059)	–	(386)	(386)
Reorganisation costs		–	(100)	(100)	–	–	–
Impairment of goodwill		–	–	–	–	–	–
		(13,162)	(4,441)	(17,603)	(13,133)	(710)	(13,843)
Operating (loss)/profit							
Continuing operations	6	(1,724)	(4,441)	(6,165)	678	(599)	79
Discontinued operations		–	–	–	(450)	(111)	(561)
		(1,724)	(4,441)	(6,165)	228	(710)	(482)
Termination costs of discontinued operations	7	–	–	–	–	(843)	(843)
(Loss)/profit on ordinary activities before interest		(1,724)	(4,441)	(6,165)	228	(1,553)	(1,325)
Interest receivable and similar income	4	–	–	–	5	–	5
Interest payable and similar charges	5	(466)	(500)	(966)	(371)	–	(371)
Loss on ordinary activities before taxation		(2,190)	(4,941)	(7,131)	(138)	(1,553)	(1,691)
Taxation on loss on ordinary activities	9	–	–	61	–	–	421
Deficit for the financial period				(7,070)			(1,270)
Per share – basic	11			(27.4)p			(5.0)p
– diluted				(27.4)p			(5.0)p

There are no recognised gains or losses in either period other than the retained loss for that period.

BALANCE SHEETS

AS AT 31 DECEMBER 2000

(WITH COMPARATIVE FIGURES AS AT 30 SEPTEMBER 1999)

	NOTES	Group		Company	
		2000 £000	1999 £000	2000 £000	1999 £000
Fixed assets					
Tangible assets	12	395	857	18	29
Investments	13	–	–	11,069	11,069
		395	857	11,087	11,098
Current assets					
Work in progress		177	359	–	–
Assets held for resale	14	54	1,043	–	300
Debtors	15	2,891	5,369	4,002	4,171
Cash at bank and in hand		3	12	1,996	1
		3,125	6,783	5,998	4,472
Creditors due within one year					
Bank loans and overdrafts	16	(6,703)	(1,376)	(6,917)	(2,009)
Other creditors	17	(3,627)	(5,359)	(306)	(640)
		(10,330)	(6,735)	(7,223)	(2,649)
Net current (liabilities)/assets		(7,205)	48	(1,225)	1,823
Total assets less current liabilities		(6,810)	905	9,862	12,921
Creditors due after more than one year					
	18	(500)	(3,236)	(500)	(3,236)
Provisions for liabilities and charges	19	(3,143)	(1,163)	(1,357)	(255)
		(10,453)	(3,494)	8,005	9,430
Capital and reserves					
Called up share capital	21	2,606	2,565	2,606	2,565
Share premium account	22	4,510	4,440	4,510	4,440
Profit and loss account	22	(17,569)	(10,499)	889	2,425
Equity shareholders' funds		(10,453)	(3,494)	8,005	9,430

The financial statements were approved by the directors on 30 April 2001.

H Jon Foulds

Chairman

Lord Chadlington

Chief Executive

CONSOLIDATED CASH FLOW STATEMENTFOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2000
(WITH COMPARATIVE FIGURES FOR THE YEAR ENDED 30 SEPTEMBER 1999)

	NOTES	2000		1999	
		£000	£000	£000	£000
Net cash (outflow)/inflow from operating activities	25		(2,686)		428
Returns on investments and servicing of finance					
Interest and rent received		–		5	
Interest paid		(457)		(355)	
Net cash outflow for returns on investments and servicing of finance			(457)		(350)
Taxation					
Corporation tax paid			(60)		(107)
Capital expenditure and financial investment					
Disposal of tangible fixed assets		4		79	
Purchase of tangible fixed assets		(116)		(240)	
Disposal of assets held for resale		1,204		–	
			1,092		(161)
Net cash outflow before financing			(2,111)		(190)
Financing and net cash outflow from financing					
Issue of ordinary share capital		11		–	
Repayment of long term borrowings		(3,569)		(305)	
			(3,558)		(305)
Decrease in cash in the period	25		(5,669)		(495)

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom. The basis of preparation is consistent with the financial statements for previous periods, except as stated below. A summary of the more important accounting policies follows.

Changes in accounting policies and presentation of financial information

The Accounting Standards Board issued the following Financial Reporting Standards effective for the Group's financial statements for the period ended 31 December 2000: FRS 15 – Tangible Fixed Assets, and FRS 16 – Current Tax. These standards were adopted by the Group with effect from 1 October 1999 and have had no material impact on the accounts.

The Group has changed the basis of calculating cost of sales so that it only represents pass through costs rechargeable to clients. Historically cost of sales represented rechargeable costs plus an element of studio costs. Revenue therefore represents fees, commissions and mark ups on rechargeable costs. The directors consider that this is a more appropriate recognition of the income of the Group.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of Huntsworth PLC and all subsidiaries made up to a co-terminus period end. As permitted by section 230 of the Companies Act 1985, Huntsworth PLC has not presented a profit and loss account.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements from or to the date of acquisition or disposal respectively. On acquisition of a business, all of the assets and liabilities of that business that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the date of acquisition, are charged to the post acquisition profit and loss account.

Goodwill

Goodwill arising on consolidation, being the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired, is capitalised and amortised over its expected useful life. It is reviewed for impairment at the end of the first full financial year following acquisition, and in other periods if events or circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets

Tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost of tangible fixed assets, on a straight line basis, over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

Equipment, fixtures and fittings 15% – 33%

Short leasehold land and buildings are amortised over the period of the lease. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Work in progress

Work in progress is stated at the lower of cost and net realisable value, and consists of the cost of materials and artwork incurred on behalf of clients (including an appropriate element of labour and overhead expenditure) which have still to be re-charged.

Deferred tax

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions and other post-retirement benefits, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Vacant leasehold property

Where a leasehold property substantially ceases to be used for the Group's business, or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover the future obligations relating to the lease.

Leasing commitments

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 Principal accounting policies CONTINUED**Pensions**

The Group operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. Contributions to the fund are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. The regular cost, is attributed to individual periods using the attained age method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. On an ongoing basis the scheme no longer has any active members and consequently any variations in pension cost will be recognised in the period in which they arise. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet. Contributions to employees' personal pension plans are charged to the profit and loss account in the period in which they become payable.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

2 Turnover and segmental analysis

Turnover represents the invoiced value of sales attributable to the period, exclusive of value added tax. The Group has one class of business, marketing and communications consultancy. Throughout the period ended 31 December 2000 it operated from the United Kingdom. The analysis of turnover by destination is as follows:

	2000 £000	1999 £000
United Kingdom	17,939	20,828
Other European	1,965	2,407
Rest of World	441	592
	20,345	23,827

3 Operating costs

	2000 Continuing £000	1999 (as restated) Continuing £000	1999 (as restated) Discontinued £000	1999 (as restated) Total £000
Cost of sales	8,907	8,685	1,781	10,466
Administrative expenses before exceptional costs	13,162	11,784	1,349	13,133
Exceptional costs	4,441	599	111	710
Total administrative expenses	17,603	12,383	1,460	13,843
	26,510	21,068	3,241	24,309

4 Interest receivable and similar income

	2000 £000	1999 £000
Rent receivable	–	5

5 Interest payable and similar charges

	2000 £000	1999 £000
Interest payable on bank loans and overdrafts	466	371
Overdraft arrangement fee	500	–
	966	371

Bank loan repayment details are set out in note 16.

6 Operating loss

Operating loss, before exceptional items, is stated after charging:

	2000	1999
	£000	£000
.....		
Auditors' remuneration:		
Audit services	85	164
Non-audit services	35	5
.....		
Depreciation of tangible fixed assets	261	351
Loss on disposal of tangible fixed assets	2	–
.....		
Operating lease rentals:		
Land and buildings	604	630
Equipment, including motor vehicles	890	739

Details, for each director, of the remuneration, compensation for loss of office, pension entitlements and interests in shares and share options are set out in the Report of the Directors on Remuneration.

7 Exceptional items

	2000	1999
	£000	£000
.....		
Property costs:		
Provision against surplus leasehold properties	1,048	324
Fixed asset write offs at surplus leasehold properties	234	–
.....		
	1,282	324
.....		
Reorganisation costs:		
Directors' termination costs	1,095	–
Reorganisation and redundancy costs	1,362	386
Pension scheme deficit (note 8)	525	–
Fixed assets written off	77	–
.....		
	3,059	386

The provision against surplus leasehold property represents the extent that the recoverable amount of the interest in unutilised properties is expected to be insufficient to cover the future obligations relating to the lease. During the period the Group took measures to consolidate its existing businesses into two locations.

The directors' termination costs represents the termination payments made to the former directors, as disclosed in the Report of the Directors on Remuneration.

Reorganisation costs represent the costs of restructuring the Group to reflect its size and current trading position and the professional costs associated with removing the former directors from office. The principal constituents are redundancy costs, professional fees and operating lease termination costs.

Following their review of the Group's operations, the directors have determined that the carrying value of the investment in Universal Specialists Limited is not recoverable, and have therefore recognised an impairment loss of £100,000 on this investment.

Further exceptional costs of £843,000 were incurred in 1999 in the closure of certain operations, the bulk of which related to the Group's London based Central agency of which £500,000 represented an empty property cost provision.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 Employee information

The average number of persons employed by the Group, including executive directors, during the period is analysed below:

	2000	1999
Design and production	56	69
Client handling and administration	115	169
	171	238

Employee costs, before exceptional items, of all employees included above:

	2000 £000	1999 £000
Gross wages and salaries	6,668	6,887
Social security costs	748	724
Other pension contributions	380	393
	7,796	8,004

The Group makes contributions to employees' personal pension plans. The pension cost charged for such plans amounted to £126,000 (1999 – £124,000) during the period. Outstanding contributions of £2,278 (1999 – none) were payable to such funds at 31 December 2000. Prepaid contributions of £2,080 (1999 – £nil) are included in prepayments.

The Group's only defined benefit scheme is a funded scheme for which a full actuarial valuation was last carried out as at 1 May 1998 by Legal & General Assurance Society Limited using the attained age method. Including the present value of pensions currently in payment which have been secured by the purchase of annuities from Legal & General totalling £1,421,000, this valued the scheme's assets at £3,777,000, resulting in a deficit of £377,000 (a funding rate of 91%). The Minimum Funding Rate level at the date of the valuation was 99.7%. The principal assumptions made by the actuaries were that investment yields would be 8% per annum compound, national average earnings would increase by 6% per annum compound and the Retail Price Index would increase by 4% per annum compound.

However during the period the Scheme Actuary advised the Group that the scheme's funding level has decreased significantly. The directors have estimated this deficit, based on the latest information made available by the Scheme Actuary, to be £525,000 and have commissioned a full actuarial valuation. There are no remaining employees in the scheme and hence this deficit has been recognised as an exceptional cost during the period. The Group has also written off the sum of £119,000 that was included in prepayments and accrued income at 30 September 1999. The regular pension cost charge for the year was £254,000 (1999 – £269,000). There were no outstanding or prepaid contributions at 31 December 2000 (1999 – nil).

9 Taxation on loss on ordinary activities

The tax credit is based on the loss on ordinary activities for the period and comprises:

	2000 £000	1999 £000
Deferred tax	–	346
Adjustments in respect of previous years:		
Over-provision for United Kingdom corporation tax	61	75
	61	421

The Group made no taxable profit during the period (1999 – nil).

10 Attributable result

A loss of £1,536,000 (1999 – profit of £631,000) of the consolidated result attributable to the shareholders of Huntsworth PLC has been dealt with in the financial statements of that company.

11 Earnings per share

The basic earnings per share calculation is based on the loss on ordinary activities after taxation of £7,070,000 (1999 – loss of £1,270,000) and on 25,813,097 ordinary shares (1999 – 25,648,430 ordinary shares) being the weighted average number of shares in issue during the period. Where appropriate, diluted earnings per share is calculated on the basis of full exercise of outstanding share options.

12 Tangible fixed assets

The Group	Short leasehold land and buildings £000	Equipment, fixtures & fittings £000	Total £000
Cost			
At 1 October 1999	884	3,846	4,730
Additions	8	108	116
Disposals	–	(22)	(22)
Written off	(675)	(1,610)	(2,285)
At 31 December 2000	217	2,322	2,539
Depreciation			
At 1 October 1999	434	3,439	3,873
Charge for the period	49	212	261
Disposals	–	(16)	(16)
Written off	(418)	(1,556)	(1,974)
At 31 December 2000	65	2,079	2,144
Net book value at 31 December 2000	152	243	395
Net book value at 30 September 1999	450	407	857

Short leasehold land and buildings includes improvements to leasehold properties.

The Company	Equipment, fixtures & fittings £000
Cost	
At 1 October 1999	380
Additions	12
Written off	(7)
At 31 December 2000	385
Depreciation	
At 1 October 1999	351
Charge for the period	23
Written off	(7)
At 31 December 2000	367
Net book value at 31 December 2000	18
Net book value at 30 September 1999	29

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 Investments: the Company

	Shares at cost £000	Provision against subsidiary undertakings £000	Total £000
At 1 October 1999	16,975	(5,906)	11,069
Additions	100	(100)	–
At 31 December 2000	17,075	(6,006)	11,069

During the year the Company acquired the entire share capital of Universal Specialists Limited. The consideration payable of £100,000 was satisfied by the issue of 300,000 ordinary shares of 10 pence each. The directors have determined that the carrying value of this investment is not recoverable, and have therefore recognised an impairment loss on this investment (see note 7).

Details of the Company's principal operating subsidiary undertakings, which are all registered and operating in Great Britain, are as follows. Shares held by an intermediate holding company are indicated with an asterisk(*):

	Description and amount of shares held	Proportion of nominal value of issued shares held	Principal activity
Alternate Resources PLC	50,000 ordinary shares of £1 each	*100%	Promotional marketing consultants
Holmes & Marchant Communications Limited	10,000 'A' ordinary shares of 10p each 3,000 'B' non-voting ordinary shares of 10p each	100% 100%	Marketing and communications consultants
Holmes & Marchant Corporate Design Limited	100 ordinary shares of £1 each	100%	Design consultants
Huntsworth Group Limited	1,000 ordinary shares of £1 each	100%	Public relations consultants
Holmes & Marchant Graphics Limited	1,000 ordinary shares of £1 each	100%	Design and new product development consultants
The Counsel Group Limited	20,000 ordinary shares of 50p each	100%	Design, marketing, advertising and public relations consultants

14 Assets held for resale

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Freehold land and buildings	54	743	–	–
Long leasehold property	–	300	–	300
	54	1,043	–	300

15 Debtors

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Trade debtors	2,475	4,672	–	3
Amounts owed by subsidiary undertakings	–	–	3,398	1,238
Dividends receivable from subsidiary undertakings	–	–	–	1,293
Other debtors	70	103	517	1,520
Prepayments and accrued income	346	594	87	117
	2,891	5,369	4,002	4,171

16 Bank loans and overdrafts

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Due within one year or on demand:				
Bank overdrafts	6,703	1,043	6,917	1,676
Bank loans, current portion	–	333	–	333
	6,703	1,376	6,917	2,009
Due in more than one year:				
Bank loans:				
Repayable between one and two years	–	358	–	358
Repayable between two and five years	–	1,249	–	1,249
Repayable after five years	–	1,629	–	1,629
	–	3,236	–	3,236

Following the EGM on 30 August 2000, the Group changed its principal bankers from National Westminster Bank plc (“NatWest”) to Lloyds TSB Bank plc (“Lloyds TSB”). The Group’s borrowing with Lloyds TSB is represented by an overdraft facility of £7.5 million, rising to £8m in June 2001 and £8.5 million in December 2001. The overdraft is repayable on demand and is secured by a composite guarantee and debenture among the principal subsidiaries of the Group. Interest is payable quarterly in arrears at 2% above the Lloyds TSB base rate.

The Group’s principal borrowing at 30 September 1999 was a medium term loan of £3,569,000 with NatWest. The loan was repayable over a period of 8 years with capital and interest payable in equal quarterly instalments. For the year ended 30 September 1999 interest was payable on both the medium term loan and overdraft facilities at a margin above NatWest’s base rate increasing on a quarterly basis from 1.25% from 1 October 1998 to 2% from 1 July 1999. Interest continued at 2% above NatWest’s base rate. No financial covenants applied to the loan, which was subject to the standard terms and conditions of the bank, including, in certain circumstances, that the loan may be repayable on demand. The medium term loan, together with overdraft facilities, was secured by fixed charges on freehold and long leasehold properties and by floating charges.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 Creditors due within one year

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Trade creditors	1,669	3,188	87	27
Amounts owed to subsidiary undertakings	–	–	–	296
Sundry creditors	263	158	1	3
Taxation and social security	337	841	19	91
Accruals and deferred income	1,358	1,172	199	223
	3,627	5,359	306	640

The Group creditor for taxation and social security includes provision for UK corporation tax amounting to £144,000 (1999 – £265,000). The Company creditor for taxation and social security includes UK corporation tax payable amounting to £nil (1999 – £nil).

18 Creditors due after more than one year

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Bank loans (note 16)	–	3,236	–	3,236
Other creditors	500	–	500	–
	500	3,236	500	3,236

19 Provisions for liabilities and charges

The Group	2000 £000	1999 £000
Deferred taxation: Accelerated capital allowances	93	93
Provision for empty properties	1,657	593
Reorganisation costs	1,393	477
	3,143	1,163

The movement in the year on Group provisions comprises:

	Deferred taxation £000	Empty properties £000	Reorganisation £000	Total £000
At 1 October 1999	93	593	477	1,163
Charged to profit and loss account	–	1,145	1,483	2,628
Utilised	–	(81)	(567)	(648)
At 31 December 2000	93	1,657	1,393	3,143

(a) Deferred taxation represents provision for the full potential liability.

(b) Provision for empty property represents amounts set aside in respect of property leases which are vacant or onerous (refer to note 1)

(c) The reorganisation provision includes an amount of £525,000 representing the pension scheme deficit (refer to note 8).

(d) The majority of the reorganisation provision is expected to be incurred within one year of the balance sheet date. In general, empty property costs are expected to be incurred over periods for which individual properties remain vacant.

19 Provisions for liabilities and charges CONTINUED

The Company	2000 £000	1999 £000
Provision for empty properties	251	–
Reorganisation costs	1,106	255
	1,357	255

The movement in the year on Company provisions comprises:

	Empty properties £000	Reorganisation £000	Total £000
At 1 October 1999	–	255	255
Charged to profit and loss account	251	945	1,196
Utilised	–	(94)	(94)
At 31 December 2000	251	1,106	1,357

20 Financial instruments**Financial instruments, policies and strategies**

During the period the Group has financed its business through firstly the NatWest loan facility and, after 30 August 2000, the overdraft facility arranged with Lloyds TSB (refer to note 16). It is, and has been throughout the periods under review, the Group's policy that no trading in financial instruments should be undertaken. The main risk arising from the Group's financial instruments is interest rate risk.

Short term debtors and creditors have been excluded from the following disclosures, other than the disclosures on currency risk.

Interest rate risk profile of financial liabilities

The interest rate risk profile of the financial liabilities, excluding short term creditors, of the Group as at 31 December 2000 and 30 September 1999 was as follows:

	Total £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
At 31 December 2000: Sterling	10,253	6,703	3,550
At 30 September 1999: Sterling	5,682	4,612	1,070

Floating rate liabilities at 31 December 2000 comprised the bank overdraft that bears interest based on the Lloyds TSB base rate (see note 16). Floating rate liabilities at 30 September 1999 comprised bank loans and overdrafts that bear interest based on the NatWest base rate (see note 16).

Financial liabilities on which no interest is paid as at both 31 December 2000 and 30 September 1999 comprise other creditors due after more than one year and provisions for empty properties and reorganisation costs, details of which are set out in notes 18 and 19. The weighted average period until maturity of financial liabilities on which no interest is paid is 1.77 years (1999 – 2.16 years).

Borrowing facilities

As at 31 December 2000 the Group has an overdraft facility of £7.5 million available to it, of which £885,000 remained unutilised at that date. The facility is due to be increased to £8.0 million by 30 June 2001 and to £8.5 million by 31 December 2001.

As at 30 September 1999 the Group had a medium term loan from NatWest. The undrawn committed facilities available at 30 September 1999 in respect of which all conditions precedent had been met at that date was £357,000 expiring on demand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 Financial instruments CONTINUED

Currency exposures

In certain rare circumstances, clients are billed in a currency other than sterling whilst some purchasing takes place with overseas suppliers who bill in local currency. As at 31 December 2000 the Group had no material foreign currency exposures (1999 – net liabilities of £151,000).

Maturity analysis

The maturity profile of the Group's financial liabilities is as follows:

	2000			1999	
	Bank loans and overdrafts £000	Other creditors £000	Provision for liabilities and charges £000	Bank loans and overdrafts £000	Provision for liabilities and charges £000
Repayable:					
Within one year or on demand	6,703	–	1,473	1,376	477
Between one and two years	–	500	391	358	–
Between two and five years	–	–	1,144	1,249	593
After five years	–	–	42	1,629	–
	6,703	500	3,050	4,612	1,070

Fair values of financial liabilities

The following table provides a comparison by category of the book values and the fair values of the Group's financial liabilities at 31 December 2000 and at 30 September 1999. Fair value is the amount at which a financial instrument can be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale, and excludes accrued interest. Fair values have been calculated using discounted cash flows at prevailing interest rates.

	2000		1999	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial liabilities:				
Bank loans and overdrafts	6,703	6,703	1,376	1,376
Long-term bank borrowings	–	–	3,236	2,382
Other creditors due after more than one year	500	500	–	–
Empty property provisions	1,657	1,657	593	521
Reorganisation provisions	1,393	1,393	477	477

21 Called up share capital

	2000 £000	1999 £000
Authorised:		
35,000,000 (1999 – 35,000,000) ordinary shares of 10 pence each	3,500	3,500
	Number of shares	£000
Issued and fully paid:		
At 1 October 1999	25,648,430	2,565
Issued during the period	410,000	41
At 31 December 2000	26,058,430	2,606

21 Called up share capital CONTINUED

During the period the following shares were issued:

- In June 2000, 300,000 ordinary shares of 10p each were issued at a price of 33¹/₃p each, resulting in a share premium of £70,000, as consideration for the acquisition of Universal Specialists Limited.
- 110,000 ordinary shares were issued for cash consideration as a result of the exercise of options under Company's Executive Share Option Schemes

Share options

The following share options were outstanding under the original Executive Share Option Scheme at 31 December 2000 and 30 September 1999:

	2000		1999	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
June 1993 to June 2000	–	–	10,000	180.0p
June 1995 to June 2002	10,000	14.0p	20,000	14.0p
January 1996 to January 2003	300,000	19.0p	302,000	19.0p
May 1996 to May 2003	25,000	40.5p	25,000	40.5p
	335,000		357,000	

In November 1994, the Company's original Executive Share Option Scheme ("the old scheme") expired in relation to the granting of further options. At an Extraordinary General Meeting held on 2 August 1996, shareholders adopted a new Approved Executive Share Option Scheme ("the new Approved Scheme") and also an Unapproved Executive Share Option Scheme ("the Unapproved Scheme"), together "the new schemes". The Unapproved Scheme enables options to be granted in excess of the £30,000 limit currently allowed by the Inland Revenue. The new schemes are administered by the Company's Remuneration Committee. The maximum number of ordinary shares in the Company that can be issued, in aggregate, pursuant to the Company's old and new schemes is 10% of the ordinary shares in issue.

The following share options were outstanding under the new Approved Scheme at 31 December 2000 and 30 September 1999:

	2000		1999	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
December 1999 to December 2006	175,000	10.0p	300,000	10.0p
August 2000 to August 2007	–	–	100,000	10.75p
September 2000 to September 2007	–	–	20,000	10.75p
January 2001 to January 2008	110,000	10.0p	135,000	10.0p
January 2002 to January 2009	–	–	25,000	11.5p
December 2003 to December 2010	118,000	30.0p	–	–
	403,000		580,000	

At 31 December 2000 and 30 September 1999 a total of 1,100,000 options had been granted to the former executive directors of the Company under the Unapproved Scheme, details of which are set out in the Report of the Directors on Remuneration.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 Reserves

The Group	Share premium account £000	Profit and loss account £000
At 1 October 1999	4,440	(10,499)
Arising on share issues	70	–
Deficit for the financial period	–	(7,070)
At 31 December 2000	4,510	(17,569)
The Company		
At 1 October 1999	4,440	2,425
Arising on share issues	70	–
Deficit for the financial period	–	(1,536)
At 31 December 2000	4,510	889

23 Reconciliation of movements in shareholders' funds

	2000 £000	1999 £000
Opening shareholders' funds	(3,494)	(2,224)
Deficit for the financial period	(7,070)	(1,270)
Issue of share capital	111	–
Closing shareholders' funds	(10,453)	(3,494)

24 Commitments and contingent liabilities

Operating leases

	Group			Company	
	Property In use £000	Vacant/ Sub-let £000	Equipment £000	Property In use £000	Equipment £000
2000					
Annual net commitments at 31 December 2000 in respect of non-cancellable operating leases expiring in:					
One year	–	–	147	–	28
Two to five years	–	185	379	–	54
Over five years	340	215	–	210	–
	340	400	526	210	82

	Group			Company	
	Property In use £000	Vacant/ Sub-let £000	Equipment £000	Property In use £000	Equipment £000
1999					
Annual net commitments at 30 September 1999 in respect of non-cancellable operating leases expiring in:					
One year	–	–	117	–	54
Two to five years	–	161	537	–	73
Over five years	398	79	–	110	–
	398	240	654	110	127

Contingent liabilities

Company

- (i) The Company is registered with HM Customs and Excise as a member of a group for VAT purposes and as a result is jointly and severally liable on a continuing basis for amounts owing by any other members of that group in respect of unpaid VAT. At the balance sheet date the outstanding liability to VAT in the other group companies amounted to approximately £48,820 (1999 – £2,000).
- (ii) The Company is a guarantor of the bank borrowings of certain other group companies. At 31 December 2000 the maximum contingent liability in respect of their borrowings amounted to £2,083,713 (1999 – £nil).

25 Cash flow

Notes supporting the consolidated cash flow statement set out on page 18 are as follows:

Reconciliation of operating profit to net cash (outflow)/inflow from operating activities	2000 £000	1999 £000
Operating loss	(6,165)	(482)
Depreciation	261	351
Tangible fixed assets written off	311	–
Loss on disposal of tangible fixed assets	2	–
Profit on disposal of assets held for resale	(17)	–
Impairment of goodwill	100	–
Decrease in work in progress	182	191
Decrease in debtors	2,478	657
Provision against assets held for resale	–	125
Decrease in creditors	(1,620)	(546)
Increase in provisions for liabilities and charges	1,782	975
Termination costs of discontinued operations	–	(843)
Net cash (outflow)/inflow from operating activities	(2,686)	428

The net cash (outflow)/inflow from operating activities includes cash outflows of £2,032,000 (1999 – £125,000) in respect of exceptional items and £163,000 (1999 – £343,000) in respect of termination costs of discontinued operations.

Reconciliation of net cash flow to movement in net debt

	2000 £000	1999 £000
Decrease in cash	(5,669)	(495)
Cash outflow from debt repayment	3,569	305
Increase in net debt	(2,100)	(190)
Net debt at beginning of period	(4,600)	(4,410)
Net debt at end of period	(6,700)	(4,600)

Analysis of net debt

	1 October 1999 £000	Cash flow £000	31 December 2000 £000
Cash at bank and in hand	12	(9)	3
Bank overdrafts	(1,043)	(5,660)	(6,703)
Net cash	(1,031)	(5,669)	(6,700)
Bank loans, current portion	(333)	333	–
Bank loans, due in more than one year	(3,236)	3,236	–
Net debt	(4,600)	(2,100)	(6,700)

26 Related party transactions

During the period the Group incurred consultancy costs of £36,800, at arm's length, from the Quiller Consultancy Limited, a company in which Lord Chadlington has a beneficial interest. This amount was outstanding at 31 December 2000.

During the previous year the Group spent £9,320 at arm's length with John F Holmes' wife for the provision of presentation skills training services.

REPORT OF THE AUDITORS

TO THE MEMBERS OF HUNTSWORTH PLC

We have audited the financial statements on pages 16 to 31 which have been prepared under the historical cost convention and the accounting policies set out on pages 19 and 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 10 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Group 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance statement on page 8 reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's Statement on internal control covers all risks and controls or form an opinion on the effectiveness of either the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report including the Corporate Governance statement, and consider whether it is consistent with the audited financial statements. We consider its 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 Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2000 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Registered Auditor
London
30 April 2001

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at 15-17 Huntsworth Mews, London NW1 6DD on Wednesday, 6 June 2001 at 11.00 am for the following purposes:

Ordinary business

1. To receive and adopt the Report of the Directors and the audited Financial Statements for the period ended 31 December 2000.
2. To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions.
 - (i) That Mr H J Foulds a Director who had been appointed since the last Annual General Meeting and in accordance with the Company's Articles of Association, now retiring, be and is hereby re-elected a director of the Company.
 - (ii) That Lord Chadlington a Director who had been appointed since the last Annual General Meeting and in accordance with the Company's Articles of Association, now retiring, be and is hereby re-elected a director of the Company.
 - (iii) That Mr A L Brooke a Director who had been appointed since the last Annual General Meeting and in accordance with the Company's Articles of Association, now retiring, be and is hereby re-elected a director of the Company.
 - (iv) That Mr P F Culver Evans a Director who had been appointed since the last Annual General Meeting and in accordance with the Company's Articles of Association, now retiring, be and is hereby re-elected a director of the Company.
 - (v) That Baroness Cumberlege a Director who had been appointed since the last Annual General Meeting and in accordance with the Company's Articles of Association, now retiring, be and is hereby re-elected a director of the Company.

Special business

3. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the amendments to the rules of the Company's Approved Executive Share Option Scheme and the Company's Unapproved Executive Share Option Scheme as described on pages 36 and 38 be approved and the directors be and are hereby authorised to do all such acts as are necessary and desirable to give effect to these amendments.

4. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the rules of the Huntsworth Enterprise Management Incentive Scheme as described on page 39 be approved and the directors be and are hereby authorised to do all such acts as are necessary and desirable to give effect to these rules.

5. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution.

That the service contract and remuneration of Lord Chadlington as described on pages 36 and 40 (including the establishment of the Huntsworth (Chief Executive) Unapproved Share Option Scheme) be approved and that the directors be and are hereby authorised pursuant to Section 80 of the Companies Act 1985 without prejudice to all subsisting authorities including that proposed in resolution 8 below to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of that Act) up to an aggregate nominal amount of £600,000 in connection with the Huntsworth (Chief Executive) Unapproved Share Option Scheme provided that this authority shall expire on the day immediately before the fifth anniversary of the date this resolution is passed and the directors be and are hereby authorised to do all such acts as are necessary and desirable to give effect to these arrangements.

6. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

That the directors of the Company be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985, without prejudice to all subsisting authorities including that proposed in resolution 9 below to allot equity securities (as defined in section 94 of the Act) pursuant to the authority conferred by the passing of resolution 5 as if section 89(1) of the Act did not apply to such allotment provided that this power:

- (i) shall expire on the day immediately before the fifth anniversary of the date this resolution is passed; and

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

(ii) shall be limited to the allotment of equity securities for cash in connection with the Huntsworth (Chief Executive) Unapproved Share Option Scheme up to an aggregate nominal amount of £600,000.

7. To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That Ernst & Young be and are hereby appointed auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which financial statements are laid before the Company and that the directors be and are hereby authorised to fix their remuneration.

8. To consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution.

That the directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of that Act) up to an aggregate nominal amount of £744,157 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may make an offer or agreement before this authority expires which would or might require relevant securities to be allotted after this authority has expired.

9. To consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution.

That the directors be given power pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in section 94 of that Act) without prejudice to all subsisting authorities and pursuant to the authority conferred by resolution 6 as if Section 89(1) of that Act did not apply to the allotment. This power shall expire at the conclusion of the next Annual General Meeting of the Company or fifteen months from the date of this resolution whichever is the earlier save that the Company may make an offer or agreement before this authority expires which would or might require equity securities to be allotted after this authority has expired. This power shall be limited:

- (i) to the allotment of equity securities in connection with a rights issue; and
(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £137,792.

For the purpose of this resolution “rights issue” means an offer of equity securities, open for acceptance for a period fixed by the directors, to holders of ordinary shares on a date fixed by the directors in proportion (as nearly as may be) to their holdings of such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or requirements of any regulatory body or any stock exchange in, any territory).

10. To consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution.

That the Company be and it is hereby authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each in the capital of the Company (“ordinary shares”) upon and subject to the following conditions:

- (i) the maximum number of ordinary shares hereby authorised to be purchased is 1,377,920 (being 5 per cent of the issued share capital at 27 April 2001);
(ii) the maximum price at which ordinary shares may be purchased is 5 per cent above the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five dealing days immediately preceding the date of purchase and the minimum price which may be paid is 10p per share (being the nominal value) in each case exclusive of any relevant tax and expenses payable by the Company; and
(iii) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry enter into a contract to purchase ordinary shares under which such purchase would or might be executed wholly or partly after the expiration of such authority, and may make a purchase of ordinary shares in pursuance of any such contract.

11. To consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution.

That the authorised share capital of the Company be increased from £3,500,000 to £15,000,000 by the creation of 115 million new ordinary shares of 10p each forming a single class with the existing ordinary shares of 10p each in the capital of the Company.

By order of the Board

David S Lawson

Secretary

30 April 2001

Registered office: 15-17 Huntsworth Mews, London
NW1 6DD

Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A separate form of proxy is enclosed.

The following documents will be available for inspection at the Registered Office, during business hours from the date of this notice until the date of the Annual General Meeting, and on that day will be available for inspection at the place of the meeting:

- (i) Copies of contracts of service of the directors with the Company including Lord Chadlington's proposed contract.
- (ii) A statement of all transactions of directors (and of their family interests) in the share capital of the Company for the past year.
- (iii) The Register of Directors' (and their family) interests in the share capital of the Company.
- (iv) Rules of the Company's Approved Executive Share Option Scheme and Rules of the Company's Unapproved Executive share Option Scheme.
- (v) Rules of the Huntsworth (Chief Executive) Unapproved Share Option Scheme.
- (vi) A proposed form of option to be used in similar form for grants under the Huntsworth Enterprise Management Incentive Scheme.

NOTES TO NOTICE OF ANNUAL GENERAL MEETING

Proposed Amendments to the Rules of the Holmes & Marchant Approved Executive Share Option Scheme and the Holmes & Marchant 1996 Unapproved Executive Share Option Scheme

The directors consider that an important factor in making the Company successful in the future will be incentivising its employees and ensuring that their interests are aligned with shareholders through appropriate share incentives. Under the previous management, a large number of options have been granted which were focused mainly on senior executives and directors.

The terms of the Company's existing share option schemes provide that the maximum nominal amount of shares over which options to subscribe may be granted is limited so that when aggregated with the nominal amount issued or remaining issuable in respect of options granted within the previous 10 years it should not exceed 10% of the ordinary share capital in issue on the day preceding that date of grant.

The previous policy of the Company means that the operation of this limit will restrict its future ability to incentivise its employees. Shareholders are therefore asked to approve an increase in the limit to 20% (excluding any options granted under the Huntsworth (Chief Executive) Unapproved Share Option Scheme). In addition shareholders may remember that when the Schemes were approved the Company stated that its intention was not to grant more than 45% of options under the Scheme under the Unapproved section. Due to the limit on granting approved options of shares with a market value of £30,000 this is no longer the Company's intention.

Options may normally only be granted in the six weeks following the Company's announcement of annual or interim results or the four weeks after the conclusion of the AGM or at other times if the Remuneration Committee considers that exceptional circumstances exist to justify the grant. In order to assist further in the alignment of shareholders and employees' interests it is proposed that in addition the Remuneration Committee will be able to grant options to individual employees in the four week period after their employment with the Company is confirmed after their probationary period so that their interests are aligned as soon as possible rather than the grant of options being potentially up to a further 11 months later.

In addition, in order to give more flexibility to the Remuneration Committee at the date of grant of options, the rules will be amended so that the Remuneration Committee may, at its discretion, specify a period shorter than the 3 years after which options are exercisable and/or impose performance conditions which must still be satisfied in any circumstances for the option to be exercisable, notwithstanding other provisions of the rules. Where the Committee has at the date of grant imposed such an overriding performance condition then provided at the date of termination of the employment by the Company, other than for cause, the condition is satisfied, the rules will be amended to allow the employee the right to exercise his option for a period of 6 months following such termination; previously the Committee had a discretion to allow exercise on such circumstances.

Finally the schemes will be renamed by reference to Huntsworth PLC.

Lord Chadlington's remuneration

The shareholders will be aware that Jon Foulds, Anthony Brooke and Lord Chadlington indicated that each of them would not take any salary or other remuneration from the Company until such time as the Company was profitable. At that time it was envisaged that they would be involved solely in a non-executive capacity with the Company. However, the Remuneration Committee now considers that it would be in the interests of the Company for Lord Chadlington to act as its Chief Executive. On that basis, and given the previous statement of intention, the Company is seeking your approval of the remuneration arrangements including the establishment of the Huntsworth (Chief Executive) Unapproved Share Option Scheme and consequential authorities to allot shares under that scheme, which it is proposed would be incorporated in Lord Chadlington's contract of employment and which are summarised on page 40.

These have been approved by the Remuneration Committee who consider that it is in the best interests of the Company for Lord Chadlington to be the Company's Chief Executive on these terms and conditions.

ADDITIONAL INFORMATION ACCOMPANYING NOTES TO NOTICE OF ANNUAL GENERAL MEETING

Executive Share Option Schemes

The Holmes & Marchant Approved Executive Share Scheme (the “Scheme”)

Administration

The Scheme will be operated and administered by a Remuneration Committee (the “Committee”), all of whose members are non-executive directors.

Eligibility

Participants in the Scheme will be selected by the Committee. Participants will be limited to employees and full time directors (whose hours of work are at least 25 hours per week (exclusive of meal breaks)) of the Company and its subsidiaries who in either case devote substantially the whole of their working time to their duties to the Group.

Options

Options will entitle the holder to acquire (either by purchase or by subscription) ordinary shares in the Company. Options will be personal to the optionholder and may not be transferred. No payment will be required for the grant of an option and options are not pensionable.

Timing

Options may normally only be granted in the six weeks following the announcement of the results of the Company for any period and/or the four weeks following the Company’s annual general meeting.

No options will be granted more than 10 years after the date on which the Scheme was adopted.

Option price

The option price payable on exercise of the option may not be less than an amount equal to the average of the middle market quotations of an ordinary share, as derived from the Daily Official List, for the five dealing days immediately preceding the date of grant or, if the Committee so decides, equal to the middle market quotation of an ordinary share, as derived from that List, for the dealing day immediately preceding the date of grant.

Individual limit

The maximum number of new ordinary shares over which an employee may be granted an option to subscribe on any date, when added to those in respect of which he has been granted options to subscribe in the previous 10 years under the Scheme and any similar scheme (except to the extent already exercised), will be limited so that the aggregate cost does not exceed £30,000.

Scheme limits

On any date, the aggregate nominal amount of new ordinary shares in respect of which options may be granted under all option schemes of the Group may not, when added to the nominal amount of new ordinary shares placed under option in the previous ten years, exceed 10 per cent of the equity share capital of the Company;

For the purposes of these limits options which lapse, by reason of non-exercise or otherwise, cease to count.

Performance targets

All options may, at the discretion of the Committee, be granted subject to a performance target. If a performance target is imposed then its achievement will normally be a condition precedent to the right of exercise.

Exercise of options

Options will be exercisable in whole or in part not earlier than three years and not later than 10 years after grant and normally only for so long as the optionholder remains employed in the Group. Exercise will, however, be permitted:

- (i) if the optionholder’s employment ends as a result of injury, disability, redundancy, retirement at normal retirement age or death or, at the discretion of the Committee, in other circumstances, or
- (ii) if the company by which the optionholder is employed, or the business in which he works, is sold outside the Group.

In these circumstances, the option may be exercised irrespective of whether or not the relevant performance target, if any, has been achieved.

Except in these circumstances, options will lapse if the optionholder ceases to be employed by the Group.

The exercise of options will be permitted in the event of a change of control or a compromise or arrangement under Section 425 of the Companies Act 1985 of the Company. In these events optionholders may surrender their options in return for substitute options over shares in the acquiring company.

Shares

The shares to be used for the purposes of the Scheme will be fully-paid ordinary shares in the Company. Application will be made for admission to the Official List of new shares issued under the Scheme. Ordinary shares issued on the exercise of options will rank equally in all respects with existing ordinary shares except for

ADDITIONAL INFORMATION ACCOMPANYING NOTES TO NOTICE OF ANNUAL GENERAL MEETING CONTINUED

rights attaching to ordinary shares by reference to a record date prior to the date of allotment. The Company will at all times keep available sufficient authorised and unissued share capital to satisfy outstanding options to subscribe for ordinary shares.

Variation of capital

In the event of any capitalisation or rights issue by the Company, or any consolidation, subdivision or reduction of the Company's share capital the number of ordinary shares subject to any option and the option price may be adjusted by the Committee in such fair and reasonable manner as they determine to be appropriate.

Amendments

The Committee may make such amendments to the Scheme as are necessary to retain the approval of the Board of Inland Revenue under the Income and Corporation Taxes Act 1988 or to take account of changes to that Act or other applicable legislation. The Committee may also make such amendments to the Scheme and to any option as may be necessary or desirable to obtain or maintain favourable tax treatment for participants or for any company in the Group.

Except as described above no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility, individual or scheme limits, the terms of options or the adjustment of options without the prior approval of the Company in general meeting.

Holmes & Marchant Group 1996 Unapproved Executive Share Option Scheme

The rules of the 1996 Unapproved Scheme are substantially the same as the rules of the Company's approved scheme (summarised above). Options can be granted to any director (other than a non-executive) or employee of any company within the Group (whether based in the UK or overseas) who is required to devote substantially the whole of their working time to the business of the Group. Individuals may be granted options under this scheme subject to a limit that the aggregate option price payable on exercise of all options over the Company's shares (other than a savings related option) shall not exceed four times the participants annual remuneration. In addition, any requirements for prior Inland Revenue approval of amendments to the rules or adjustments on a variation in share capital do not apply.

Proposed Annual General Meeting Amendments

As the directors believe it is in the best interests for the future of the Company to incentivise its employees, shareholders will be asked to approve the following changes:

- (i) an increase in the limit of shares over which options may be granted from 10 per cent to 20 per cent of the ordinary share capital in issue on the day preceding the grant (excluding options granted under the Chief Executive's Scheme, see below);
- (ii) an extension of the period within which options may be granted to four weeks after an employee's employment with the Company is confirmed at the end of their probationary period;
- (iii) the introduction of the ability for the Committee at the date of grant to provide for options to become exercisable earlier than the third anniversary of the date of grant and/or for options to only become exercisable notwithstanding any other provision of the rules (e.g. early cessation of employment) subject to the satisfaction of the performance condition or on a change of control; and
- (iv) where the Committee has at the date of grant imposed a performance condition as referred to in (iii) above in respect of an unapproved option the introduction of a provision that options will be exercisable for a period of 6 months following a termination of employment by the Company other than for cause provided the performance conditions are satisfied at the date of termination.

New Schemes

The Company is also asking shareholders to approve the establishment of the following two new schemes.

The Huntsworth (Chief Executive) Unapproved Share Option Scheme.

The rules of this scheme are substantially the same as the rules of the Company's Unapproved Executive Share Option Scheme (summarised above) but with the following differences. The only participant is Lord Chadlington, the Chief Executive of the Company. Under the scheme he shall receive an option over 2,000,000 shares (less any shares which are the subject to an equivalent option granted under the Company's Enterprise Management Incentive Scheme) at an exercise price of 30.3p which is exercisable immediately but will lapse on the fifth anniversary of the date of grant. The participant shall also be granted a second option over 4,000,000 shares which will,

notwithstanding any other provisions of the rules, only be exercisable in the event of a change in control of the Company or in equal tranches of 1,000,000 shares if the Company's share price is in excess of 70p, £1, £1.30 and £1.60 respectively for a continuous 30 day period. Each option shall be granted as soon as reasonably practicable after the approval of this scheme by the shareholders in general meeting. In addition provided any relevant performance conditions are satisfied at the date of cessation, each option will be exercisable for a period of 6 months following a termination of employment by the Company other than for cause.

The Huntsworth Enterprise Management Incentive Scheme (the "EMI Scheme")

In the Finance Act 2000 the Government introduced a new approved scheme for the purposes of granting options to key employees. The directors are seeking the approval of the shareholders at the AGM for the establishment of such a scheme. Its main terms are summarised below.

Eligibility

Participants in the EMI Scheme will be selected by the Committee. Participants will be limited to employees of the Company and its subsidiaries.

Options

Options will entitle the holder to acquire (either by purchase or by subscription) ordinary shares in the Company. Options will be personal to the optionholder and may not be transferred. No payment will be required for the grant of an option and options are not pensionable. Options granted to individual participants will be in substantially the same terms and consistent with the provisions of this summary and the applicable legislation in Schedule 14 of the Finance Act 2000, as amended from time to time.

Timing

It is intended that options under the EMI Scheme will normally only be granted in the six weeks following the announcement of the results of the Company for any period and/or the four weeks following the Company's annual general meeting and/or, in respect of an individual employee only the four weeks following the confirmation of their employment at the end of their probationary period.

No options will be granted more than 10 years after the date on which the Scheme was adopted.

Option price

The option price payable on exercise of the option will be determined by the Committee at the time of grant and may be less than the market value of an ordinary share at that date.

Scheme limits

The value of the total number of shares which are the subject of options granted under this Scheme may not exceed the limits prescribed by the relevant legislation. Options granted under this Scheme will count for the purposes of the limits of the Executive Share Option Schemes.

Performance targets

All options may, at the discretion of the Committee, be granted subject to a performance target. If a performance target is imposed then its achievement will normally be a condition precedent to the right of exercise.

Exercise of options

Options will be exercisable in whole or in part not later than 10 years after grant and normally only for so long as the optionholder remains employed in the Group. Exercise will, however, be permitted if the optionholder's employment ends as a result of injury, disability, redundancy, retirement at normal retirement age or death or, at the discretion of the Committee, in other circumstances.

In these circumstances, the option may normally be exercised irrespective of whether or not the relevant performance target, if any, has been achieved.

Except in these circumstances, options will lapse if the optionholder ceases to be employed by the Group.

The exercise of options will be permitted in the event of a change of control or a compromise or arrangement under Section 425 of the Companies Act 1985 of the Company. In these events optionholders may surrender their options in return for substitute options over shares in the acquiring company

Shares

The shares to be used for the purposes of the Scheme will be fully-paid ordinary shares in the Company.

Application will be made for admission to the Official List of new shares issued under the Scheme. Ordinary shares issued on the exercise of options will rank equally in all respects with existing ordinary shares except for rights attaching to ordinary shares by reference to a record date prior to the date of allotment. The Company

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will at all times keep available sufficient authorised and unissued share capital to satisfy outstanding options to subscribe for ordinary shares.

Variation of capital

In the event of any capitalisation or rights issue by the Company, or any consolidation, subdivision or reduction of the Company's share capital the number of ordinary shares subject to any option and the option price may be adjusted by the Committee in such fair and reasonable manner as they determine to be appropriate.

Amendments

The Committee may make such amendments to the Scheme as are necessary for options to continue to qualify for the approval of the Board of Inland Revenue under Schedule 14 of the Finance Act 2000 or to take account of changes to that Act or other applicable legislation. The Committee may also make such amendments to the Scheme and to any option as may be necessary or desirable to obtain or maintain favourable tax treatment for participants or for any company in the Group.

Except as described above no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility, individual or scheme limits, the terms of options or the adjustment of options without the prior approval of the Company in general meeting.

Lord Chadlington's Remuneration

Lord Chadlington currently does not have a service agreement with the Company and has received no remuneration since he joined the Board in August 2000. The terms of his remuneration package to be approved by shareholders at the Annual General Meeting is as follows:

Lord Chadlington has entered, subject to shareholders' approval, into a fixed term contract, effective from 1 January 2001 to 31 December 2003 as Chief Executive of Huntsworth PLC at a salary of £200,000 per annum, subject to, and at the discretion of the Remuneration Committee of the Company (the "Committee"), an annual review in October each year but subject to a minimum increase equal to the annual increase in the Retail Prices Index for the year ending the immediately preceding September. Any such increase shall take effect in the following January.

Lord Chadlington has been granted, subject to shareholder approval at the Annual General Meeting, options over 2 million ordinary shares at 30.3p per ordinary share, being the average share price for the five days immediately following the second interim results released on 5 December 2000. He will be granted additional options over 4 million ordinary shares which will vest in tranches of 1 million options when the share price of Huntsworth PLC reaches, for 30 consecutive days, either 70p, 100p, 130p or 160p. These options will be primarily granted under the Company's new Huntsworth (Chief Executive) Unapproved Share Option Scheme.

In addition Lord Chadlington will receive an annual short-term bonus of up to a maximum of £200,000 per year entirely at the discretion of the Committee, dependent on his and the Company's performance against agreed targets.

Lord Chadlington will also be provided with membership of the Company's permanent health insurance scheme and with a car as from 1 October 2001 from the Company's pool of cars which shall be maintained and insured by the Company. The Company shall also be responsible for all running costs.

Furthermore, Lord Chadlington will be entitled to a long-term bonus determined by the Committee taking into account the Company's total shareholder return from time to time during the term of his service agreement with the Company.

