

Report of the Directors

The Directors present their report and the accounts of the Company and the Group for the year ended 30 November 2005.

Principal activities

The Report of the Directors should be read in conjunction with the Chairman's Statement, the Chief Executive's Review, the Divisional Review and the Financial Review, which contain details of the principal activities of the Group during the year and an indication of likely future developments.

Results and dividends

The Group's consolidated net loss for the year, after taxation and minority interest, was £28.4m (2004: profit, £7.0m).

The Directors recommend that a final dividend of 3.00p per share (2004: 2.90p), amounting to £3.0m (2004: £2.9m), be paid on 26 May 2006 to ordinary shareholders whose names appear in the register at close of business on 28 April 2006.

The final dividend together with the interim dividend of 1.70p per share (2004: 1.60p) paid in December 2005 will make a total dividend on the ordinary shares of 4.70p (2004: 4.50p) amounting to £4.7m (2004: £4.5m), which, with the dividends paid on the first, second and third cumulative preference stocks of £23,000 (2004: £23,000), leaves a loss for the year of £33.2m (2004: profit, £2.5m).

Directors

The present Directors of the Company are shown on page 12. All Directors held office throughout the financial year under review, except Mr Chris Littmoden who was appointed on 23 February 2005.

Re-election of Directors

Messrs Hannam, Forman and Davies will retire by rotation in accordance with the Company's Articles of Association at the annual general meeting of the Company to be held on 24 May 2006 and, being eligible, will offer themselves for reappointment.

Mr Forman was appointed as Group Chief Executive on 30 September 2002. He has a service contract with the Company that is terminable by the Company giving him not less than 12 months' notice in writing or by Paul Forman giving the Company not less than six months' notice in writing. Mr Forman has entered into an arrangement with the Company under which the Company may reduce his notice to twelve weeks if he fails to achieve certain financial performance targets. Further details of this arrangement are given in the Directors' Report on Remuneration on page 22.

Messrs Hannam and Davies were appointed on 1 September 2002 and 1 November 2002 respectively for an initial period of three years. The appointments of Messrs Hannam and Davies have been renewed for a further period of three years from 1 September 2005 and 1 November 2005 respectively. Their appointment may be terminated by either the Director or the Company giving six months' notice in writing.

Directors' interests

Directors' interests in shares and debentures of the Company are shown on page 27.

Substantial interests

At the date of this report, the Company had been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

	Shares	%
Atorka Group hf	22,532,500	22.43
Schroder Investment Management Ltd and subsidiary and affiliated companies	18,026,187	17.95
Credit Suisse Asset Management	6,195,548	6.17
Legal & General Investment Management Ltd	3,520,380	3.51
Prudential plc and certain of its subsidiary companies	3,122,500	3.11

Ordinary share capital

Details of the Company's authorised and issued share capital at 30 November 2005 and of options granted and shares issued pursuant to the Company's employee share option schemes and long term incentive plans are shown in note 20 to the accounts.

Capital restructuring

In an arrangement which was approved by the Court of Session in Scotland, the Company cancelled its share premium account, its paid up capital to the extent of 25p per issued ordinary share and reduced the nominal value of its ordinary shares from 50p to 25p. This created a credit on the Company's profit and loss account of £85.4m.

Annual General Meeting

The annual general meeting will be held on 24 May 2006. The notice of meeting is contained in the separate booklet which is enclosed. The booklet contains the text of the resolutions to be proposed and explanatory notes concerning the proposals to authorise the Directors to allot relevant securities and to allot equities for cash other than on a pre-emptive basis. A resolution will also be proposed to authorise the Company to purchase its own shares, as and if appropriate.

We would also draw to your attention the fact that a technical issue has arisen in respect of the interim dividend paid by the Company to its shareholders on 16 December 2005 (the Dividend). When the Company paid the Dividend, although the Company had sufficient profits to pay it at the relevant time, interim accounts showing the requisite level of distributable profits, which are required pursuant to the Companies Act 1985 (the Act) were not prepared. The total amount of the Dividend so paid was £1,703,934, representing 1.7 pence per ordinary share of the Company.

The Company has been advised that it may have claims against present and past shareholders who were recipients of these payments to recover the amounts paid in technical infringement of the Act. The Company has also been advised that it may have claims against those Directors who participated at the Board meeting at which the decisions were taken to pay the Dividend. Any sums recovered from such shareholders and Directors would be repayable with interest at a reasonable rate.

It is clearly not the intention of the Company that any such claim should be made by the Company against either shareholders or Directors. It is proposed that this matter is remedied by shareholders passing a resolution which puts shareholders and Directors into the position in which they were always intended to be. In that regard, a special resolution is being proposed at the annual general meeting, notice of which is enclosed. The resolution is to sanction the appropriation of profits to the payments concerned, to waive any rights of the Company against the shareholders who received the Dividend, to waive any rights of the Company against the Directors in respect of the Dividend and to approve the Company entering into deeds of release in favour of such shareholders and Directors.

Going concern

Having reviewed the medium term forecasts and compared the cash flow with the available bank facilities, the Directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts.

Employment of Disabled Persons

It is the policy of the Group to give full and fair consideration to applications for employment by Group companies received from disabled persons, having regard to their particular aptitudes and abilities, and wherever possible to continue the employment of, and to arrange appropriate training for, employees who have become disabled persons during the period of their employment by a Group company. Group companies provide the same opportunities for training, career development and promotion for disabled as for other employees.

Employee Involvement

The Group's overall policy is to keep employees informed on matters of concern to them and to encourage employee involvement. This policy is implemented in a wide variety of ways, which are reported on by the Group's businesses. These include the publication of a newsletter which is translated into the main languages of our employees at least annually, and regular meetings with employees' representatives.

Payment of Suppliers

The Company's policy and practice is to pay agreed invoices in accordance with the terms of payment agreed with suppliers at the time orders are placed. As the Company is a holding company it has no trade creditors.

Charitable and Political Contributions

The Company has made donations of £15,000 to the Low & Bonar Charitable Trust (2004: £15,000) and £5,000 to the Disasters Emergency Committee (2004: £nil) following the tsunami in south east Asia. The Trust is independent from the Company. The Directors adhered to their policy of making no contributions to any political party.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

By order of the Board
Amanda Whalley
Company Secretary
24 February 2006