

Company Registration No. 714070

CAZENOVE SERVICE COMPANY

Report and Financial Statements

30 April 2004

**Deloitte & Touche LLP
London**



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CAZENOVE SERVICE COMPANY

REPORT AND FINANCIAL STATEMENTS 2004

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CAZENOVE SERVICE COMPANY

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activity of the company is to provide Cazenove Group plc ("the group") and its subsidiaries with the non trading services necessary for the conduct of those companies' businesses.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company has continued to carry out its principal activity during the year.

The directors anticipate that the company will continue to act as the service company for the Cazenove Group for the foreseeable future. Cazenove Group plc has committed to support the company for the foreseeable future.

RESULTS AND DIVIDENDS

The results of the company are set out in the profit and loss account on page 5. During the year no interim dividends were paid (2003: £nil). The directors do not recommend payment of a final dividend (2003: £nil).

DIRECTORS

The following directors served throughout the year, unless otherwise stated:

C R M Bishop
R M Pickering
M R P Power

DIRECTORS' INTERESTS

None of the directors has any direct beneficial interests in the shares of the company at the start or end of the year. The interests (all of which are beneficial) of Messrs Bishop, Pickering and Power, who were directors at the end of the year, in the shares of Cazenove Group plc, the ultimate parent company, are disclosed in the accounts of Cazenove Group plc.

Save as disclosed above, none of the directors held any beneficial interest in the shares or debentures of Cazenove Group plc and its subsidiaries, pursuant to sections 324 and 328 of the Companies Act 1985.

EMPLOYEES

The company provides employee services to Cazenove Group plc, Cazenove & Co. Ltd, Cazenove Fund Management Limited and Cazenove Investment Fund Management Limited. All Cazenove employees in the UK are employed and paid by the company.

There is consultation with all employees on decisions that affect either their current jobs or future prospects, subject to considerations regarding the company's interests.

Applications for employment by disabled persons are considered taking into account the applicant's skills and abilities. In the event of individuals becoming disabled during employment, endeavours are made to ensure that they can continue their employment and, wherever possible, their career within the firm. Training, career opportunities and promotion for all staff, including, wherever possible, disabled staff, are identical.

CAZENOVE SERVICE COMPANY

DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

By order of the Board



Jane Earl
Company Secretary

29 June 2004

CAZENOVE SERVICE COMPANY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- 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 the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAZENOVE SERVICE COMPANY

We have audited the financial statements of Cazenove Service Company for the year ended 30 April 2004 which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

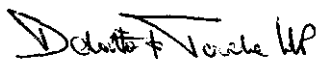
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company'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 the company's affairs as at 30 April 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
29 June 2004
Audit • Tax • Consulting • Corporate Finance.

Member of
Deloitte Touche Tohmatsu

CAZENOVE SERVICE COMPANY

PROFIT AND LOSS ACCOUNT For the year ended 30 April 2004

| | Note | 2004 £'000 | 2004 £'000 | 2003 £'000 | 2003 £'000 |
|--|------|---------------|---------------|---------------|---------------|
| TURNOVER | 1 | | 169,801 | | 154,231 |
| Administrative expenses | | | | | |
| - Restructuring costs | | (1,989) | | (5,396) | |
| - Variable employee remuneration | | (47,133) | | (22,730) | |
| - Special pension contribution | 3 | (25,000) | | - | |
| - Reinstatement release | 16 | 9,190 | | - | |
| - Other administrative expenses | | (116,767) | | (128,737) | |
| | | | (181,699) | | (156,863) |
| OPERATING LOSS | 5 | | (11,898) | | (2,632) |
| Exceptional write-back of initial grant of shares to employees | 6 | | 1,367 | | 4,820 |
| Interest receivable and similar income | 7 | 544 | | 501 | |
| Interest payable and similar charges | 8 | - | | (6) | |
| | | | 544 | | 495 |
| (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | | (9,987) | | 2,683 |
| Tax credit / (charge) on (loss) / profit on ordinary activities | 9 | | 3,253 | | (4,534) |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | | (6,734) | | (1,851) |
| LOSS ON ORDINARY ACTIVITIES FOR THE FINANCIAL YEAR | 18 | | (6,734) | | (1,851) |

All amounts derive from continuing operations.

There were no recognised gains or losses during the current or preceding year other than the retained losses on ordinary activities disclosed above. Accordingly, no statement of total recognised gains and losses is presented.

CAZENOVE SERVICE COMPANY

BALANCE SHEET

30 April 2004

| | Note | 2004 £'000 | 2004 £'000 | 2003 £'000 | 2003 £'000 |
|---|------|------------------|-----------------|------------------|-----------------|
| FIXED ASSETS | | | | | |
| Tangible assets | 10 | | 4,795 | | 3,691 |
| Investments | 11 | | 10,726 | | 13,849 |
| | | | <u>15,521</u> | | <u>17,540</u> |
| CURRENT ASSETS | | | | | |
| Debtors | 12 | 42,511 | | 73,577 | |
| Investments | 13 | 1,446 | | 1,605 | |
| Cash at bank and in hand | | 139 | | 34 | |
| | | <u>44,096</u> | | <u>75,216</u> | |
| CREDITORS: amounts falling due within one year | | | | | |
| Bank overdraft | | 2,559 | | 17,634 | |
| Creditors including taxation and social security | 14 | 103,542 | | 106,415 | |
| | | <u>(106,101)</u> | | <u>(124,049)</u> | |
| NET CURRENT LIABILITIES | | | <u>(62,005)</u> | | <u>(48,833)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | (46,484) | | (31,293) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 16 | | <u>(2,400)</u> | | <u>(13,910)</u> |
| NET LIABILITIES | | | <u>(48,884)</u> | | <u>(45,203)</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 17 | | 8,453 | | 8,453 |
| Other reserves | 19 | | (46,206) | | (50,381) |
| Profit and loss account | 18 | | (11,131) | | (3,275) |
| EQUITY SHAREHOLDERS' DEFICIT | | | <u>(48,884)</u> | | <u>(45,203)</u> |

These financial statements were approved by the Board on 29 June 2004.

Signed on behalf of the Board



M R P Power
Director

CAZENOVE SERVICE COMPANY

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 30 April 2004

| | Note | 2004 £'000 | 2003 £'000 |
|---|------|---------------|---------------|
| Loss for the financial year | | (6,734) | (1,851) |
| Movement in EBT share reserve | 19 | 4,175 | 4,931 |
| Movement in profit and loss reserve relating to equity remuneration | 18 | (1,122) | (1,590) |
| | | <hr/> | <hr/> |
| Net (decrease) / increase in shareholders' funds | | (3,681) | 1,490 |
| Opening shareholders' funds | | (45,203) | (46,693) |
| | | <hr/> | <hr/> |
| Closing shareholders' deficit | | (48,884) | (45,203) |

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with the applicable United Kingdom law and accounting standards and under the historical cost convention

Foreign currency translation

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the closing rates of exchange. All foreign exchange differences are taken to the profit and loss account.

Turnover

Turnover comprises fees paid by other group undertakings in respect of expenses incurred by Cazenove Service Company on their behalf.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more, or less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are recognised in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pensions

Pension costs in respect of the company's employees are charged against profits on a systematic basis, based on actuarial calculations, over the service lives of the employees. Actuarial valuations are periodically reviewed and material surpluses and deficiencies are allocated over the expected remaining service lives of current employees. A special contribution has been made to the Cazenove (1987) Pension Scheme totalling £25m in the year. This has been taken to the profit and loss account in the current year in accordance with SSAP 24 paragraph 82.

The transitional arrangements of FRS 17 require certain additional disclosures to be given which are shown in Note 3.

As required by SSAP 24, the amounts included in the accounts in respect of the Cazenove (1987) Pension Scheme are based on an actuarial valuation carried out at 5 April 2001. This does not take into account any of the fall in general stock market values since that date. Any such impact will be reflected in the SSAP 24 triennial valuation as at 5 April 2004, which has not been finalised as at the date of signing these financial statements, based upon which subsequent pension costs will be determined until the adoption of FRS 17.

Fixed asset investments

Listed investments are at the directors' valuation. The remaining fixed asset investments are valued at cost less any provision for impairment in value that the directors consider necessary.

Share options

Share options granted to employees by the Employee Benefit Trusts or the Group are charged to the profit and loss account at the fair value of the options together with employer's social security expenses or other payroll taxes. The fair value of options is measured using external valuation techniques (including Black-Scholes valuations).

Employee benefit trusts

The difference between the fair value of options and the cost of the underlying shares reflected in the EBT share reserve is credited or charged to distributable reserves. Shares which are unallocated, or allocated but unamortised, are presented as cancelled in accordance with UITF Abstract 38 which has been adopted early by the Group. UITF Abstract 38 continues to treat investments in own shares as a deduction from shareholders' funds in a similar way to UITF Abstract 13 in the prior year. More detailed information is shown in Note 20.

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

1. ACCOUNTING POLICIES (continued)

Leasehold improvements

Leasehold improvements are held at cost, net of depreciation and any provision for impairment. Assets are being depreciated over their useful economic lives or the length of the lease if shorter (or to the date of the next break in the lease). This ranges from two years to the minimum lease term.

Reinstatement of leasehold properties

Costs of reinstating leasehold properties are capitalised and amortised over the life of the relevant lease. A related provision has been established.

Furniture, fittings and equipment

Furniture, fittings and equipment are held at cost, net of depreciation and any provision for impairment. Assets are being depreciated over their useful economic lives. This ranges from three to fifteen years.

Segmental reporting

In the opinion of the directors, the company provides one class of business, namely services to Cazenove Group companies. Accordingly, no segmental analysis is provided.

Operating lease

Operating lease rentals are charged to the profit and loss account in equal amounts over the lease term.

Profit and loss account

The movement in reserves for the current and preceding years relate to the credit and charges arising on the revaluation from cost to fair value of shares in the Employee Benefit Trusts, which have been written off through the profit and loss account (see EBT Note 20).

Cash flow statement

The company's ultimate parent undertaking produces a consolidated cash flow statement in accordance with Financial Reporting Standard ('FRS') 1 (Revised), Cash Flow Statements. Accordingly, the company, which is a wholly owned subsidiary, has elected to utilise the exemption provided in FRS1 (Revised), and not produce a cash flow statement.

Consolidation

Cazenove Service Company is exempt from the obligation to prepare and deliver group financial statements as it is wholly owned by Cazenove Group plc, a company incorporated in Great Britain.

2. EMPLOYEES

Cazenove Service Company is the employer of all the UK based employees working for Cazenove Group plc and its subsidiaries. The average number of employees employed in the UK during the year was 980 (2003 - 1,082). In the year to 30 April 2004 the staff costs, as analysed below, amounted to £119,304,000 (2003 - £94,319,000). Employee pension costs are shown in Note 3. Pension contributions shown below do not include the special contribution for the year of £25,000,000.

| | 2004 £'000 | 2003 £'000 |
|--|----------------|---------------|
| Staff costs (including directors' remuneration): | | |
| Wages and salaries | 98,851 | 77,122 |
| Pension contributions | 8,497 | 8,333 |
| Tax and social security | 11,956 | 8,864 |
| | <u>119,304</u> | <u>94,319</u> |

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

3. PENSIONS

The company funds the pension arrangements in respect of UK employees. For employees who joined the company prior to 6 April 2003, this arrangement is the Cazenove (1987) Pension Scheme ('the Scheme'). For employees who have joined since 6 April 2003, this arrangement is the Cazenove Defined Contribution Pension Plan ("the DC Plan"), a defined contribution scheme, arranged through a stakeholder pension contract, in respect of which the company paid contributions of £191,000 (2003: £nil) during the year. The further notes below relate only to the Scheme.

The Scheme provides members with benefits relating to salary and service at rates defined under the Scheme rules. The benefits are financed by payments to trustee administered funds held separately from the company and its affiliates. These payments are in accordance with rates recommended by the Scheme's Actuary, based upon the projected unit method.

The pension cost for the year ended 30 April 2004 was £33,404,000 (2003: £8,333,000) which included employer contributions of £25,000,000 that were made in addition to the schedule of contributions agreed with the Actuary. The last full actuarial valuation of the Scheme was carried out on 5 April 2001. Following this actuarial valuation, employer contributions to the scheme have been 17.9% of pensionable salaries. An interim actuarial valuation for the purposes of these disclosures in relation to the Scheme was carried out and updated to 30 April 2004 by a qualified independent actuary.

The special employer contribution of £25.0m was made in order to remedy the estimated actuarial deficit as at 30 April 2004. The actuarial deficit arose against a background of substantial restructuring and staff turnover, and closure of the Scheme to new entrants in April 2003; these were considerations which were outside the normal scope of actuarial assumptions (and which had not been allowed for in those assumptions). The special payment therefore met the conditions of SSAP 24 paragraph 82, and has accordingly been charged in full to the profit and loss account for the year ended 30 April 2004, rather than spread forward over the expected remaining service lives of current employees in the Scheme.

A triennial actuarial valuation of the Scheme is being prepared as at 5 April 2004.

The major assumptions used by the Actuary for the purposes of these disclosures in relation to the Scheme were as follows:

| | 30 April 2004 % per annum | 30 April 2003 % per annum | 30 April 2002 % per annum |
|--|------------------------------|------------------------------|------------------------------|
| Rate of increase in salaries | 4.00(a) | 4.10 | 4.20 |
| Rate of increase in pensions in payment and deferred pensions | | | |
| • Pre 1997 | 3.00 | 3.00 | 3.00 |
| • Post 1997 | 2.80 | 2.50 | 2.60 |
| Discount rate | 5.60 | 5.40 | 5.90 |
| Inflation assumption | 3.00 | 2.60 | 2.70 |

Note (a) above – plus allowance for promotional salary increase below age 40.

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

3. PENSIONS (continued)

The net pension liabilities are as shown below. In accordance with the transitional arrangements of FRS 17, the pension asset or liability is not added to, nor subtracted from, the company's reserves.

| | Long term rate of return expected at 30 April 2004 | Value at 30 April 2004 | Long term rate of return expected at 30 April 2003 | Value at 30 April 2003 | Long term rate of return expected at 30 April 2002 | Value at 30 April 2002 |
|---|---|------------------------------|---|------------------------------|---|------------------------------|
| Net pension assets | % per annum | £m | % per annum | £m | % per annum | £m |
| Equities | 8.00 | 74.1 | 7.60 | 55.4 | 7.20 | 66.5 |
| Bonds | 5.00 | 31.9 | 4.60 | 14.0 | 5.20 | 13.6 |
| Cash | 4.00 | 15.2 | 3.60 | 6.5 | 3.70 | 1.1 |
| Stock Exchange | 5.00 | 8.1 | 5.00 | 8.7 | 8.00 | 9.7 |
| Centralised Pension Fund | | | | | | |
| Overall rate of return and total market value | 6.60 | 129.3 | 6.53 | 84.6 | 6.94 | 90.9 |
| Actuarial value of liabilities | | (145.8) | | (127.2) | | (100.1) |
| Net pension liability | | (16.5) | | (42.6) | | (9.2) |

If the net pension liability were recognised, it would give rise to a potential deferred tax asset of £4.9m (2003: £12.8m). This asset would be recovered in the event that future taxable profits were generated.

The following amounts would be recognised in the Profit and Loss Account and Statement of Total Recognised Gains and Losses on full implementation of FRS 17:

| | Year ended 30 April 2004 £m | Year ended 30 April 2003 £m |
|--|-----------------------------------|-----------------------------------|
| Amount that would be charged to operating profit | | |
| Current service cost | 8.8 | 8.7 |
| Past service costs | 0.0 | 0.1 |
| Total operating charge | 8.8 | 8.8 |
| | | |
| | Year ended 30 April 2004 £m | Year ended 30 April 2003 £m |
| Amount that would be credited to other finance income | | |
| Expected return on pension scheme assets | 6.1 | 6.5 |
| Interest on pension scheme liabilities | (7.1) | (6.1) |
| Net return | (1.0) | 0.4 |

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

3. PENSIONS (continued)

| | Year ended 30 April 2004 £m | Year ended 30 April 2003 £m |
|--|-------------------------------------|-------------------------------------|
| Amount that would be recognised in the Statement of Total Recognised Gains and Losses | | |
| Actual return less expected return on pension scheme assets | 7.1 | (20.8) |
| Experience gains and losses arising on the scheme liabilities | 6.3 | - |
| Changes in assumptions underlying the present value of the scheme liabilities | (10.9) | (12.6) |
| | <hr/> | <hr/> |
| Actuarial gain/(loss) that would be recognised in the Statement of Total Recognised Gains and Losses | 2.5 | (33.4) |
| | <hr/> | <hr/> |
| | Year ended 30 April 2004 £m | Year ended 30 April 2003 £m |
| Movement in pension scheme deficit during the year | | |
| Deficit in scheme at 1 May 2003 | (42.6) | (9.2) |
| Current service cost | (8.8) | (8.7) |
| Contributions | 33.4 | 8.4 |
| Past service costs | - | (0.1) |
| Other finance income | (1.0) | 0.4 |
| Actuarial loss | 2.5 | (33.4) |
| | <hr/> | <hr/> |
| Deficit in scheme at 30 April 2004 | (16.5) | (42.6) |
| | <hr/> | <hr/> |
| | Year ended 30 April 2004 £m % | Year ended 30 April 2003 £m % |
| History of experience gains and losses | | |
| Difference between expected and actual return on scheme assets | 7.1 5.5 | (20.8) (24.6) |
| Experience gains or losses on scheme liabilities | 6.3 4.3 | - - |
| Total amount recognised in the Statement of Total Recognised Gains and Losses | 2.5 1.7 | (33.4) (26.3) |

Full FRS17 transitional disclosure is included in the financial statements of Cazenove Group plc.

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

4. DIRECTORS' EMOLUMENTS

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| The emoluments of the directors were as follows : | | |
| Total emoluments | - | 74 |

The emoluments of the highest paid director during the year were £nil (2003: £61,423). The accrued pension entitlement of the highest paid director as at 30 April 2004 was £nil (2003: £5,717). The emoluments of Messrs Bishop, Pickering and Power are shown in the accounts of Cazenove Group plc, the parent company. They are all members of the defined benefit pension scheme (2003: 3).

5. OPERATING LOSS

| | 2004 £'000 | Restated 2003 £'000 |
|--|---------------|---------------------------|
| Operating loss is arrived at after charging: | | |
| Depreciation | 1,088 | 4,140 |
| Auditors' remuneration in respect of: | | |
| - statutory audit | 457 | 497 |
| - audit-related regulatory reporting | 168 | 177 |
| - tax advisory services | 223 | 177 |
| - other services | 100 | 121 |
| Foreign exchange | 519 | 141 |
| Rentals under operating leases: | | |
| - leases relating to land and buildings | 2,871 | 3,430 |
| - other leases | 742 | 207 |
| Fixed asset write-off | 86 | 1,865 |

The company bore the auditors' fees for audit and non-audit services for all Cazenove Group companies in the UK in the current year. These were divided between Cazenove Service Company and Cazenove & Co. Ltd in the prior year.

6. EXCEPTIONAL ITEMS

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Write-back of shares awarded to employees | 720 | 1,721 |
| Write-back of employer's social security or other payroll taxes | 647 | 3,099 |
| | 1,367 | 4,820 |

An initial grant of shares was made to employees on the fundamental restructuring of the group from a partnership to a corporate structure. These were immediately written off to the profit and loss account (at fair value), together with the cost of employer's social security expenses or other payroll taxes. Subsequent write-backs of the initial grant in the current and preceding years relate to lapses of these initial grants from former employees who have lost their entitlement to them, together with a reassessment of estimated employer's social security expenses and other payroll taxes. The tax effect of this item is to increase the company's liability to corporation tax by £0.2m (2003: £0.9m).

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

7. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Interest receivable | 309 | 289 |
| Dividends receivable from subsidiary undertakings | - | 192 |
| Income from other fixed asset investments | 235 | 20 |
| | <u>544</u> | <u>501</u> |

8. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2004 £'000 | 2003 £'000 |
|-------------------------------------|---------------|---------------|
| Bank overdraft and other borrowings | - | 6 |
| | <u>-</u> | <u>6</u> |

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

9.1 ANALYSIS OF TAX (CREDIT) / CHARGE

| | 2004 £'000 | 2003 £'000 |
|---|----------------|---------------|
| Corporation tax | | |
| UK corporation tax at 30 % (2003: 30%) | - | 913 |
| Group relief surrendered to other group companies | (3,880) | 2,555 |
| Double tax relief | - | (8) |
| Overseas tax | 15 | 8 |
| Adjustments in respect of prior years | 612 | 1,066 |
| | <u>(3,253)</u> | <u>4,534</u> |
| Current tax (credit) / charge for the year | | |

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

9.2 FACTORS AFFECTING TAX (CREDIT) / CHARGE FOR THE CURRENT YEAR

| | 2004 £'000 | 2003 £'000 |
|---|----------------|---------------|
| (Loss) / profit on ordinary activities before tax | <u>(9,987)</u> | <u>2,683</u> |
| Tax on (loss) / profit on ordinary activities at 30 % (2003:30%) | (2,996) | 805 |
| Factors affecting charge: | | |
| Tax relief on share options in excess of the expense for the period | (3,730) | 1,580 |
| Dilapidations amortisation not deductible for tax purposes | 23 | 93 |
| Other expenses not deductible for tax purposes | 872 | 552 |
| Non-taxable dividend income from fixed assets investments | (39) | (43) |
| Non-taxable release of dilapidation provision | (2,731) | - |
| Capital allowances in excess of depreciation | (889) | 481 |
| Special pension contributions spread for tax purposes | 5,625 | - |
| Adjustments in respect of prior years | <u>612</u> | <u>1,066</u> |
| Current tax (credit) / charge for the year | <u>(3,253)</u> | <u>4,534</u> |

9.3 DEFERRED TAX

A potential deferred tax asset of £18,389,000 (2003: £3,694,000) arising on the special pension contribution, share options and assets qualifying for capital allowances has not been recognised. The deferred tax asset will be recovered as future taxable profits are generated.

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS Year ended 30 April 2004

10. TANGIBLE FIXED ASSETS

| | Leasehold improvements | Furniture/ fittings and equipment | Reinstatement costs | Total |
|-------------------------|---------------------------|---|------------------------|----------|
| | £'000 | £'000 | £'000 | £'000 |
| COST | | | | |
| At 1 May 2003 | 7,770 | 1,648 | 13,910 | 23,328 |
| Additions | 21 | 2,257 | - | 2,278 |
| Written off in the year | (5,171) | - | (11,510) | (16,681) |
| 30 April 2004 | 2,620 | 3,905 | 2,400 | 8,925 |
| DEPRECIATION | | | | |
| At 1 May 2003 | 7,117 | 152 | 12,368 | 19,637 |
| Charge for the year | 359 | 652 | 77 | 1,088 |
| Written off in the year | (5,085) | - | (11,510) | (16,595) |
| 30 April 2004 | 2,391 | 804 | 935 | 4,130 |
| NET BOOK VALUE | | | | |
| At 30 April 2004 | 229 | 3,101 | 1,465 | 4,795 |
| At 30 April 2003 | 653 | 1,496 | 1,542 | 3,691 |

The write-off of cost and depreciation represents former assets which are no longer in use, together with the utilisation and write back of reinstatement provisions (see Note 16).

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

11a. FIXED ASSET INVESTMENTS

| | | 2004 £'000 | 2003 £'000 |
|---|-------|---------------|---------------|
| Shares in group undertakings | | | |
| Cazenove Securities Limited | | 4,000 | 4,000 |
| Cazenove Leasing Company (an unlimited company) | | 10 | 10 |
| Cazenove Financial Futures Limited | | 270 | 270 |
| | | <u>4,280</u> | <u>4,280</u> |
| Loans to group undertakings | | | |
| Cazenove Incorporated | (i) | - | 1,877 |
| Cazenove AG | (ii) | - | 1,246 |
| | | <u>-</u> | <u>3,123</u> |
| Other investments other than loans | | | |
| Listed investments | (iii) | 6,000 | 6,000 |
| Other unlisted | | 446 | 446 |
| | | <u>6,446</u> | <u>6,446</u> |
| Total investments | | <u>10,726</u> | <u>13,849</u> |

(i), (ii) During the year, loans to Cazenove Incorporated and Cazenove AG were reassigned to Cazenove Group plc.

(iii) The company owns 3,000,000 shares in the London Stock Exchange. They are held at a directors' valuation of £2 per share. The aggregate market value of the shares as at 30 April 2004 was £10,462,000 (2003: £9,750,000).

11b. SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings of the Group were:

| Company | Principal activity | Percentage of nominal value of ordinary shares held by the company |
|-----------------------------|--------------------|--|
| Cazenove Securities Limited | Non trading | 100% |
| Cazenove Leasing Company | Leasing company | 100% |

All the group companies are registered in England and Wales and operate principally in the UK.

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

12. DEBTORS

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Amount owed by fellow group undertaking | 35,436 | 66,262 |
| Amount owed by subsidiary undertaking | 149 | 236 |
| Other debtors | 341 | 380 |
| Tax and social security | 699 | - |
| Prepayments and accrued income | 5,886 | 6,699 |
| | <u>42,511</u> | <u>73,577</u> |

13. CURRENT ASSET INVESTMENTS

| | 2004 £'000 | 2003 £'000 |
|------------------------------------|---------------|---------------|
| Loans to group undertakings | | |
| Cazenove Asia Limited | <u>1,446</u> | <u>1,605</u> |

Under the terms of the Cazenove Asia Limited loan agreement, repayment could be requested at any time from 30 April 2004. Consequently it has been disclosed as a current asset investment.

14. CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

| | 2004 £'000 | 2003 £'000 |
|--|----------------|----------------|
| Amount owed to ultimate parent undertaking | 57,711 | 58,942 |
| Amount owed to fellow group undertakings | 8,187 | 13,137 |
| Amount owed to subsidiary undertakings | 4,215 | 3,714 |
| Other creditors | 21,215 | 12,323 |
| Tax and social security | 6,591 | 10,737 |
| Accruals and deferred income | 5,623 | 7,562 |
| | <u>103,542</u> | <u>106,415</u> |

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

15. OPERATING LEASE COMMITMENTS

At 30 April 2004, the company was committed to making the following payments during the next year in respect of operating leases:

| | 2004 Land and buildings £'000 | 2004 Other £'000 | 2003 Land and buildings £'000 | 2003 Other £'000 |
|--------------------------|--|------------------------|--|------------------------|
| Leases which expire: | | | | |
| Less than one year | - | - | 1,408 | - |
| Within two to five years | 1,722 | 761 | 21 | 761 |
| After five years | 152 | - | 548 | - |

16. PROVISIONS FOR LIABILITIES AND CHARGES

| | Reinstatement provisions £'000 |
|--|--------------------------------------|
| Balance at 1 May 2003 | 13,910 |
| Utilisation of provision during the year | (2,320) |
| Write back of provision during the year | (9,190) |
| Balance at 30 April 2004 | 2,400 |

The provision relates to the costs to be incurred in reinstating leasehold properties to their original form prior to expiry of their leases. The utilisation of the provision relates to reinstatement work incurred on buildings formerly used by the company and its affiliates during the year. The write back of provision arose following agreement with the landlord of one building formerly used by the company and its affiliates to remove the obligation to carry out reinstatement works.

17. CALLED UP SHARE CAPITAL

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Authorised | | |
| 2,500,000,000 ordinary shares of £0.01 each | 25,000 | 25,000 |
| Allotted, called up and fully paid | | |
| 845,310,858 ordinary shares of £0.01 each | 8,453 | 8,453 |

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

18. PROFIT AND LOSS ACCOUNT

| | 2004 £'000 | 2003 £'000 |
|--|-----------------|----------------|
| Retained (loss) / profit at 1 May | (3,275) | 166 |
| Loss for the financial year | (6,734) | (1,851) |
| Movement relating to equity remuneration | (1,122) | (1,590) |
| Retained loss at 30 April | <u>(11,131)</u> | <u>(3,275)</u> |

The movement in reserves relating to equity remuneration relates to credits or charges arising on the revaluation from cost to fair value of the shares held in the Employee Benefit Trusts, which have been written off or written back through the profit and loss account during the year (see Note 20).

19. OTHER RESERVES

| | EBT Share Reserve £'000 | Other Reserve £'000 | Total £'000 |
|--------------------------|----------------------------------|---------------------------|-----------------|
| Balance at 1 May 2003 | (54,381) | 4,000 | (50,381) |
| Movement in the year | <u>4,175</u> | <u>-</u> | <u>4,175</u> |
| Balance at 30 April 2004 | <u>(50,206)</u> | <u>4,000</u> | <u>(46,206)</u> |

Movements on the EBT share reserve are more fully described in Note 20.

The other reserve arises from the transfer of shares from subsidiary companies at book value, which included an earlier upward revaluation. A potential deferred tax liability of £1,200,000 (2003: £1,200,00), subject to the availability of capital losses, exists in respect of the revaluation. However, the liability has not been recognised on the grounds that there is no intention to sell these shares.

20. EMPLOYEE BENEFIT TRUSTS

As at 30 April 2004, there are three Employee Benefit Trusts (the 'Trusts') holding shares in Cazenove Group plc. This includes the Cazenove Share Incentive Plan, which was created during the year as a separate Trust from the two Trusts in existence in the previous year. As at 30 April 2004, the Cazenove Employee Benefit Trust holds 5,012,625 shares in Cazenove Group plc (2003: 15,005,131), the Cazenove Employee Benefit Trust (No. 2) holds 16,028,582 shares in Cazenove Group plc (2003: 15,998,400) and the Cazenove Share Incentive Plan holds 278,860 shares in Cazenove Group plc (2003: none). These shares are either provisionally allocated to employees or are held for future allocations to employees. These shares held in trust are accounted for as follows:

- (i) Shares allocated by the Trusts at the time of the fundamental restructuring of the Cazenove Group from a partnership structure to a corporate group ("the initial grant") had been charged to the profit and loss account at fair value as an exceptional item. In addition, an estimate of the cost of employer's social security expenses to be incurred when share options are exercised had been charged as part of the exceptional item. The exceptional credits in the current and previous years relate to lapses of shares previously allocated as initial grants (no more of which will occur after 30 April 2004), together with a reassessment of employer's social security expenses, which have been written back through the profit and loss account.

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

20. EMPLOYEE BENEFIT TRUSTS (continued)

- (ii) Shares have been allocated by the Trusts subsequent to the initial grant referred to in (i) above as part of the 'Cazenove Share Plan', 'Cazenove Share Option Plan' and 'Restricted Share Plan'. These are charged to the profit and loss account at fair value as an operating cost over the relevant performance periods of the shares granted. In addition, an estimate of the cost of employer's social security expenses to be incurred when share options are exercised (if applicable) has been charged as part of the operating cost over the relevant performance periods of the shares granted. Grants relating to employees who leave the firm prior to the completion of performance periods are written off (if they vest) or written back (if they lapse) immediately.
- (iii) Shares allocated by the Trusts to employees as part of the group's quarterly profit share arrangements under the Cazenove 'Quarterly Equity Points Plan' and 'Share Incentive Plan' have been charged to the profit and loss account at fair value as an operating cost in full, as no performance period applies. In addition, an estimate of the cost of employer's social security expenses to be incurred when share options are exercised (if applicable) has been charged as part of the operating cost.
- (iv) The difference between the fair value and the cost of the shares in respect of (i), (ii), and (iii) above, after taking account of any applicable strike price to be paid on exercise, is charged or credited to reserves. *Where applicable this charge or credit is spread over the performance period of the options.* This movement on reserves is shown in the Reconciliation of Movements in Shareholders' Funds.
- (v) The EBT share reserve comprises parent company shares held by the three Trusts, which have either:
 - not been allocated to employees under the grants of shares referred to in (i), (ii), and (iii) above; or
 - form the unamortised portions of shares allocated to employees over performance periods under the grant of shares referred to in (ii) above.

Amounts represented by the EBT share reserve are shown below.

| | 2004 Book value £'000 | 2004 Nominal value £'000 | 2003 Book value £'000 | 2003 Nominal value £'000 |
|--|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| Cazenove Employee Benefit Trust | 136 | 96 | 124 | 124 |
| Cazenove Employee Benefit Trust (No 2) | 49,698 | 1,267 | 54,257 | 1,356 |
| Share Incentive Plan | 372 | 11 | - | - |
| Total | 50,206 | 1,374 | 54,381 | 1,480 |

CAZENOVE SERVICE COMPANY

NOTES TO THE ACCOUNTS

Year ended 30 April 2004

20. EMPLOYEE BENEFIT TRUSTS (continued)

Movements in the book values of the Trusts over the year to 30 April 2004 are shown below:

| | Cazenove Employee Benefit Trust £'000 | Cazenove Employee Benefit Trust (No 2) £'000 | Share Incentive Plan £'000 | Total £'000 |
|---|---|---|-------------------------------------|----------------|
| Balance at 1 May 2003 | 124 | 54,257 | - | 54,381 |
| Purchases during the year | - | 5,212 | 842 | 6,054 |
| Sales during the year | - | (707) | - | (707) |
| Lapses (less allocations and amortisation) during the year | 12 | (9,064) | (470) | (9,522) |
| Balance at 30 April 2004 | <u>136</u> | <u>49,698</u> | <u>372</u> | <u>50,206</u> |

21. RELATED PARTIES

The company has taken advantage of paragraph 3 (c) of FRS 8 "Related Party Transactions", and accordingly no details of such transactions relating to the company and its affiliated undertakings are provided.

22. CONTINGENT LIABILITIES

The company has a contingent liability to make a payment of up to £553,000 (2003: £645,000) to a supplier, which will be reduced or eliminated if further orders are made with that supplier by 30 June 2005.

23. PARENT UNDERTAKING

Cazenove Group plc, a company incorporated in Great Britain, is for the purposes of the Companies Act 1985, the immediate and ultimate controlling party and the ultimate parent undertaking and parent of the largest and smallest group of companies for which group financial statements are drawn up. Copies of these financial statements may be obtained from the Company Secretary, 20 Moorgate, London EC2R 6DA.