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Watermark Group plc Annual Report and Accounts 2004

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the total solution for the travel industry

contents

Chairman's and Chief executive's letter to share owners

Dear Share owner

The year in brief

Notwithstanding the ongoing challenges being faced by the airline sector, and a significant bad debt taken during the first half, the year 2004 has been another period of growth for Watermark with revenues, normalised profits and earnings per share, again reaching all-time highs.

As well as organic growth from the core products division, and a claw back in margins during the second half of the year, the acquisitions that we made in 2003 have all continued to increase sales and pre-tax profits during the year, whilst strengthening the foundations for the future growth of your company.

Financial highlights

Comparing consolidated operations in 2004 with 2003:

Turnover	Up 88% to £77.6m	(£41.2m)
Gross profit margin %	Up 22% to 33.0%	(27.0%)
Operating profit	Up 50% to £5.1m	(£3.4m)
EBITDA	Up 43% to £6.3m	(£4.4m)
Normalised EBITDA*	Up 95% to £8.0m	(£4.1m)
Normalised profit (pre-tax)*	Up 94% to £7.0m	(£3.6m)
Normalised EPS (diluted)*	Up 18% to 12.74p	(10.79p)
Dividend per share	Up 10% to 1.96p	(1.78p)
Share owners' funds	Up 141% to £37.6m	(£15.6m)

*Normalised EBITDA, profit (pre-tax) and EPS (diluted) exclude amortisation of goodwill and exceptional costs, and are presented as the underlying measure of profitability.

Dividend policy

The board is recommending a 10% increase in the annual dividend from 1.78p per share to 1.96p.

General

Traffic recovery in 2004 at 15.3% exceeded the original IATA (International Air Transport Association) forecast of 7%-8%, which compared with a reduction of 2.4% in 2003 against the previous year. The number of airlines and travel clients with whom the group trades also continued to grow.

Re-organisation

Following the acquisition of Air Fayre, the group has undergone a fundamental re-organisation, both in terms of the nature and focus of its operations, to provide savings to its clients through its enhanced products and services range. Since the acquisition was completed the group has relocated its catering and newspaper and magazine distribution services operations to the new group headquarters at Heathrow. Space has been reserved for further expansion of services within this dedicated location. Since the year end, head office finance and administration has been repositioned to Heathrow. These fundamental re-organisation costs are reflected in the exceptional costs disclosed separately on the face of the profit and loss account. Also during this re-organisation period, we took advantage of integration efficiencies to complete the absorption of a number of complementary businesses, acquired over the last three years, to restructure our non-catering services for the future and manage them on a unified basis. This has allowed us to enter 2005 with a substantially reduced central cost base. As part of this process, the group has invested in new operational and accounting IT systems, incurring both external and incremental internal costs.

The business now operates in two main divisions, namely products and services (including catering).

Chairman's and Chief executive's letter to share owners (continued)

Products division

The positive trends in passenger numbers have enabled the products division to see organic growth in sales, as well as a partial reversal of the margin erosion experienced in the first half as a result of the increase in raw materials associated with the rise in the price of oil.

Services division

Air Fayre's successful transition to our new 140,000 sq. ft. facility at Heathrow, and the commencement in September of a 6-year contract with Air Canada (coupled with fees paid for consultancy) has meant that Air Fayre, in its first full year within the group, has made a substantial contribution to overall group profits. M'n'H Recycling and Media on the Move have both seen meaningful growth during the course of the year.

Investments

AeroTV Limited

AeroTV, an onboard entertainment company in which Watermark holds a 16% stake (and receives a commission of 10% of all sales revenue), completed a successful 3-month trial with National Express. Subsequent to the year-end, it has been agreed to extend this service across the National Express fleet, with an immediate roll-out on 100 coaches. This 3-year contract, valued at £7.2 million, now forms the bedrock for AeroTV's future expansion.

Aerobox plc

A favourable settlement with Aerobox, the AIM listed manufacturer of composite cargo containers, resulted in Watermark being issued with 7.5% of Aerobox's share capital, as well as receiving a payment for marketing services. This equity stake was sold during 2004, realising a net gain of £0.7m after taking into account associated costs which include an appropriate charge for the involvement of some of the directors in resolving this.

FlightStore Group plc

FlightStore, an AIM listed new media company in which the group holds a 7.7% stake, has seen its market capitalisation reduce during the year to approximately £2 million, necessitating the balance sheet valuation of our investment being adjusted accordingly.

Personnel

Once again, we offer our sincere thanks to all the staff across the group, who have shown tremendous dedication and loyalty in a year in which the airline industry has again been subjected to difficult market forces.

Outlook

The challenge for the industry now is to turn traffic growth into profitability. Airlines entered 2005 with a renewed determination to improve efficiency, and increasingly look at the benefits of outsourcing as a means of reducing operational cost structures.

The value of new contract wins during the first part of 2005 has been encouraging, and our relocated and refocused operations at Heathrow allows group companies and our Encompass JV partners to operate from a single location.

John A-G-Calthorpe
Chairman

John Caulcutt
Chief executive

Financial Review

Summary of consolidated financial performance

	2004 £'000	2003 £'000	Change %
Sales revenues	**77,581**	41,215	88.2
Gross profit	**25,619**	11,117	130.4
Gross margin (%)	*33.0%*	*27.0%*	*22.2*
Operating profit	**5,125**	3,367	52.2
EBITDA	**6,331**	4,379	44.6
Normalised EBITDA*	**7,984**	4,146	92.6
Net profit before taxation	**3,835**	3,324	15.4
Normalised net profit before taxation*	**7,029**	3,614	94.5
*Normalised net profit margin before taxation (%)**	*9.1%*	*8.8%*	*3.4*
Normalised earnings per share			
-Basic	13.15p	11.20p	17.4
-Diluted	12.74p	10.79p	18.1
Standard earnings per share			
- Basic	5.78p	9.73p	(40.6)
- Diluted	5.60p	9.37p	(40.2)

*Normalised EBITDA, normalised net profit before taxation, normalised net profit margin and normalised earnings per share exclude amortisation of goodwill and exceptional costs.

Sales revenues

Sales revenues reflect the core activities of the group and include the four acquisitions made during 2003. During 2004, sales revenues increased by 88.2% to £77.6 million compared with £41.2 million for 2003, which translates into a 130.4% increase in gross profit generated over the same period. The sales growth in 2004 includes a full year's contribution of sales revenues from the caterer, Air Fayre Limited, compared to 6 weeks contribution in 2003, but also includes organic growth of 22% (£6.9 million) on the in-flight products division's sales in 2003, as well as organic growth from the other service companies, M'n'H Recycling Limited and Media on the Move Limited, both of which were acquired in 2003.

Gross profit

The gross profit margin percentage of 33.0% shows a 22.2% increase on the previous year's gross margin percentage of 27.0%. A small decrease in the in-flight products division's margin as a result of the oil price increase affecting certain supply costs, has been more than offset by the higher margins achieved by the service companies acquired in 2003.

EBITDA (earnings before interest, taxation, depreciation and amortisation)

EBITDA has increased by 44.6% to £6.3 million after taking into account the Duo Airways exceptional bad debt write off and exceptional catering contract start-up costs, totalling £0.9 million. Normalised EBITDA, which excludes all exceptional costs, has increased by 92.6% to £8.0 million on the previous year.

Administrative expenses

Excluding amortisation, exceptional costs and other operating income, administrative expenses are £18.0 million, an increase of 136.8% on 2003 (£7.6 million). 2004's administrative expenses include a full year's contribution from Air Fayre Limited of £10.7 million which, if excluded, provides an adjusted 2004 administrative expenses figure of £7.3 million, which is comparable with the previous year.

Goodwill amortisation of £1.5 million (2003: £0.5 million) has been included in administrative expenses.

Financial Review (continued)

Operating profit

Operating profit of £5.1 million is net of goodwill amortisation of £1.5 million and exceptional costs of £0.9 million and compares to operating profit of £3.4 million in 2003, which was net of £0.5 million of goodwill amortisation. At the operating profit level, despite the considerably higher goodwill amortisation charge in the year and the exceptional costs, the group's 30% annual average compound growth rate in terms of operating profit has now been maintained over a 12-year period.

Profit on sale of investment

The net profit on sale of investment of £0.7 million is a result of the disposal of the whole of the company's investment in Aerobox plc.

Amount written off investment

The company's investment in FlightStore Group plc has been written down by £89,000 to its market value at the year-end.

Interest payable

There has been an increase in interest payable of £0.2 million to £0.5 million as a result of the higher level of borrowings this year. The principal reason for the increase in bank borrowings during the year was the establishment of the new 140,000 sq. ft. catering facility at Heathrow. Excluding exceptional costs of £2.4 million, interest cover has increased to 12 times, compared to 11 times in the previous year.

Net profit before taxation

The exceptional re-organisation costs, bad debt write off, contract start up costs and higher amortisation charge have all resulted in the net profit margin decreasing to 4.9% compared to 8.1% in 2003.

Normalised net profit margin before taxation, which excludes all exceptional costs and amortisation of goodwill, has increased to 9.1% in 2004 from 8.8% in 2003. Normalised net profit before taxation increased 94.5% to £7.0 million for 2004 from £3.6 million achieved in 2003.

Taxation

The rate of corporation taxation on current year profits at 34.6% (2003: 27.0%) is significantly higher in 2004 because of the effect of a higher amortisation of goodwill figure of £1.5 million (2003: £0.5 million). However, if amortisation of goodwill is excluded, the underlying rate of corporation tax on profits for 2004 is 24.7% (2003: 23.3%).

The full taxation charge, inclusive of deferred taxation and adjustments in respect of previous years, is 44.7% (2003: 28.4%).

Dividends

Dividends per share have been increased 10% to 1.96p from 1.78p in the previous year. The company continues with its 8th year of increasing dividends by at least 10%.

Earnings per share

Basic earnings per share of 5.78p compares to 9.73p in 2003 and diluted earnings per share of 5.60p compares to 9.37p in 2003. These figures are based on post-tax earnings figures, which are net of exceptional costs, the increased level of amortisation of goodwill and a higher total taxation charge this year.

Normalised diluted earnings per share, which exclude the effects of the exceptional costs and amortisation of goodwill, have shown an increase of 18.1% to 12.74p from 10.79p in 2003.

Working capital

Net current assets of £3.5 million have improved by £14.2 million during the year from a net current liabilities position as at 31 December 2003 of £10.7 million.

Stocks of £4.1 million were held at the end of the year, as compared to £3.4 million in 2003.

Trade debtors of £15.6 million at the end of the year have increased from £13.5 million in 2003. Debtor collection has improved from 86 days to 72 days.

Trade creditors, together with accruals and deferred income, total £13.6 million at the end of the year and are up from £11.7 million in 2003.

Cash flow

The consolidated cash flow statement on page twenty four shows a net decrease in cash for the year of £5.6 million compared to a net increase in cash in 2003 of £4.8 million.

Operating activities generated a cash inflow of £6.2 million (2003: £2.3 million). The principal reason for the outflow of cash this year is the capital expenditure of £9.6 million (before financing of £1.9 million), which was primarily on the new 140,000 sq. ft. Heathrow facility, together with investment in new technology and new distribution vehicles.

The cost of the acquisition of Air Fayre Limited in the year was financed by funds raised through the placing and open offer.

Equity and gearing

Share owners' funds at the end of the year have increased by 141% from £15.6 million to £37.6 million. Retained earnings account for £1.3 million of the increase with the remainder relating to the shares issued during the year in relation to the acquisition of Air Fayre Limited.

Gearing at the year end is 8% compared to 3% at the end of 2003, taking net bank borrowings as a percentage of net assets.

Derivatives and financial instruments

The group's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade debtors and trade creditors, which arise directly from its operations. The group also enters into derivative transactions (principally forward foreign currency contracts). The purpose of such transactions is to manage the currency risks arising from the group's operations and its sources of finance.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 2004.

Interest rate risk

The group finances its operations through a mixture of retained profits and bank borrowings. The directors continually monitor bank balances and, where possible, place surplus funds on short-term deposit to minimise interest rate risk. The effect of a 1 percent increase in the bank interest rate on the group's net borrowings is not considered material.

Liquidity risk

As regards liquidity, the group's target has, throughout the year, been to achieve short-term flexibility by a combination of overdraft facilities and short-term bank loans. The group manages the gearing level of its working capital requirements, and the need for longer-term borrowings is regularly assessed. However, by reference to cash flow projections, it is regarded that the current level of temporary bank borrowings are adequate for the funding of the group's working capital.

Foreign currency risk

54% of the sales of the group were denominated in US dollars (2003: 71%), the same currency in which the associated purchases are made. The decrease is a result of the contribution of the service companies, which have the majority of their sales and costs denominated in pounds sterling. The group hedges its US dollar profit margins on its US dollar sales through the use of forward foreign currency contracts.

Financial Review (continued)

International Financial Reporting Standards

Following the European Union's adoption of Regulation (EC) No 1606/2002, all publicly listed companies within the EU will be required to adopt International Financial Reporting Standards ("IFRS") and revised International Accounting Standards ("IAS") which were in issue at 31 March 2004 for their consolidated accounts from 2005 onwards. Consequently, Watermark Group plc will be required to report in accordance with IFRS for the six months ending 30 June 2005 and in all subsequent annual and interim reports.

The directors have established a dedicated project team to study the financial impact on the group's accounts of adopting IFRS. The team is following a three-phase transition plan, which consists of an initial assessment, detailed impact review and implementation.

The project team is currently undertaking the detailed impact study and the directors will consider the results of this study in due course. However, having concluded the initial assessment, the following key areas have been identified that may impact the group's financial statements:

Financial instruments

The group has a policy to match its principal projected cash flows by currency to actual or effective borrowings in the same currency. Primarily, the group uses forward exchange contracts to achieve this. Under existing UK GAAP, there is no requirement to measure such derivative instruments at fair value.

Under IAS 39 *Financial Instruments*, all derivative financial instruments need to be measured at fair value. Where derivative instruments have been designated as a cash flow hedge of specific assets, liabilities, income or expenses, or as a hedge against the net investment in foreign entities which meet certain effectiveness criteria, then hedge accounting treatment will apply with the effective portion of the hedges being recognised as a movement in reserves. Fair value hedges and all other changes in value of foreign currency borrowings and derivative contracts will be recognised in the income statement for the period.

Due to existing instruments already in place, the group is unlikely to be able to designate all of its existing foreign currency borrowings and derivative contracts as hedges and will need to recognise changes in the fair value of these through the income statement.

Share based payments

Under existing UK GAAP, the cost of share options is based on the intrinsic value of the options on the date of grant. Such options granted to employees at market price or under an Inland Revenue approved scheme do not generate an expense.

Under IFRS 2 *Share based payments*, it will be necessary for the group to measure the cost of all share options using option pricing models. This cost will be a non-cash expense, but will be required to be recognised within the consolidated IFRS income statement.

Business combinations and goodwill

Business combinations (acquisitions) that have occurred since 31 December 2003 must be accounted for in accordance with IFRS 3 *Business Combinations*. However, IFRS 1 *First time adoption of International Financial Reporting Standards*, allows an option of not restating acquisitions made before 31 December 2003 or, alternatively, to restate such acquisitions in accordance with IFRS 3. Whilst the group has not acquired any entities since 31 December 2003, it will be necessary to assess the financial impact of treating previously acquired companies in accordance with IFRS 3.

On adopting International Financial Reporting Standards, goodwill will no longer be amortised. Instead, goodwill will be subject to an annual impairment review. An impairment review of goodwill has been performed as at 31 December 2004, and the directors remain of the opinion that goodwill is being shown at the correct carrying value, based on expected future cash flows arising from the companies acquired.

Leases

As the group occupies leased properties, IAS 17 *Leases* requires the land and buildings element to be considered separately. It is possible that the buildings element of certain property leases, currently being treated as operating leases under UK GAAP, may need to be reclassified and capitalised within fixed assets as a finance lease under International Financial Reporting Standards.

Crispin Quail
Group finance director

Directors' biographies

John A-G-Calthorpe Age 57
Chairman (non-executive)

John A-G-Calthorpe became chairman of Watermark in July 1991 after joining the board at the group's inception in 1985. He currently has many active directorships and management roles in companies and trusts. His career has involved stockbroking, financial advertising and serving as chief executive of his family owned group of companies which have extensive property and commercial interests on an international scale.

John Caulcutt Age 57
Chief executive

John Caulcutt founded Watermark in 1985 and has been integral in the success of the company over the last 20 years. He started his career as a stockbroker with Vanderfelt and Co. and was elected a partner at the age of 21. After leaving the City, he founded Sky Signs Limited, a marketing services company specialising in aerial advertising. This company was successfully sold, initially to Hawley Group plc in 1980, and later demerged into Carraun Group plc in 1982.

Crispin Quail FCA Age 44
Group finance director

Crispin Quail joined Watermark as finance director in 1996. He was previously financial controller for 7 years at the tour operator Manos Holidays. For the two years prior to this, he worked at BTR plc after training and qualifying as a Chartered Accountant with Pannell Kerr Forster in 1986.

George Brooksbank FCA Age 56
Part-time executive director

George Brooksbank initially joined the board in 1993 as a non-executive director. During his career, he has been managing director of a private venture capital company, worked in corporate finance at de Zoete & Bevan Limited, set up and run a retailing company and been group financial controller at Debenhams plc. He initially trained and qualified as a Chartered Accountant with Binder Hamlyn in 1972.

William Skerrett Age 57
Senior independent non-executive director

William Skerrett joined the board in 1998 as a non-executive director. He currently runs his own human resources consultancy. Previous appointments were as group human resources director at Aegis plc and Scholl plc. He has held senior HR positions with Schering Plough and Johnson & Johnson, and is also a non-executive director of Construction Learning World.

Maurice Ostro Age 40
Non-executive director

Maurice Ostro joined the board on 1 August 2003 as a non-executive director upon the completion of the acquisition of Media On The Move Limited. His previous ventures included establishing a company supplying ice cream and frozen yogurt to airlines. He has degrees from New York University, Oxford University and the Gemological Institute of America.

Danny Bernstein Age 62
Independent non-executive director

Danny Bernstein joined the board in May 2004 as a non-executive director. He is currently the non-executive chairman of Monarch Airlines Limited, having previously served as managing director between 1991 and 2002. He is also chairman of the British Air Transport Association (BATA) and is also a non-executive director of National Air Traffic Services plc (NATS). He initially trained as a Chartered Accountant, qualifying in 1969.

Directors' report

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report for the year ended 31 December 2004.

Statement of directors' responsibilities

Company law in the United Kingdom requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In preparing the accounts, the directors are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

The directors are also responsible for the directors' report and the directors' remuneration report, and the maintenance and integrity of the company's corporate website, **www.watermark.co.uk.**

Activities and results

The group's principal activities comprise the provision of travel supplies and cabin management services to the international travel industry.

The chairman's and chief executive's letter to share owners on pages two and three and the financial review on pages four to seven report on the principal activities of the group, its financial and operating performance during the year and the future development of the business.

The subsidiary undertakings principally affecting the profits or net assets of the group in the year are listed in note 14 to the accounts.

Dividends

Subject to approval at the Annual General Meeting, the directors recommend a final ordinary dividend of 1.96p. It is proposed that the dividend be paid on 27 July 2005 to share owners on the register at 1 July 2005.

Directors

The company's current directors are listed on page eight.

John A-G-Calthorpe, William Skerrett and George Brooksbank retire from the board by rotation and, being eligible, offer themselves for re-election.

Danny Bernstein was appointed to the board on 11 May 2004.

Mark Scott resigned from the board on 29 June 2004 and Paul Evans resigned from the board on 31 December 2004.

The directors' interests in the ordinary shares and share options of the company are disclosed within the directors' remuneration report on pages fourteen to nineteen.

Transactions with directors are set out in note 31 to the accounts.

Charitable and political contributions

Charitable contributions in the UK amounted to £1,462 during the year (2003: £1,350). No political contributions were made during the year or the prior year.

Employment policies

The group's employment policies are designed to create an employment environment which attracts, retains and motivates the very best people.

The group recognises that this can only be achieved through an active policy of equal opportunity from selection and recruitment, through training and development, appraisal and promotion.

The group's policy is to ensure a working environment which is free from all types of discrimination and is one where all employees receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion.

Employees with disabilities, or who become disabled during their employment, are encouraged to develop their skills to their full potential and, under the equal opportunities policies operated by the group, every effort is made to meet their individual needs.

Systems are in place to ensure that all employees are made aware on a regular basis of the group's policies, programmes and progress, including financial and economic factors affecting the group's performance. Extensive use is made of briefing meetings, notice boards and through other internal communication channels to ensure employees understand the business strategy and are able to contribute to its achievement.

Employees are encouraged to provide feedback on a regular basis through their performance reviews, during briefing meetings and directly to the Audit Committee if required. All views expressed by employees are reviewed and acted upon in confidence.

Success for the group is dependent upon the quality and performance of its employees. To encourage and motivate employees to participate in the group's performance, a range of approved and unapproved share option schemes are in place. Further details of these share option schemes are described within the directors' remuneration report on pages fourteen to nineteen.

Health, safety and the environment

The group is committed to the health, safety and welfare of its employees, customers and others. Accordingly, it is the group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to health and safety and the environment. The group has put in place documented systems and policies for ensuring continuous progress towards achieving its targets and objectives.

The group recognises that safe operations depend not only on technically sound plant and equipment but also on competent people and an active health, safety and environmental culture. It ensures that its employees, contractors and others are informed, engaged in and committed to the health, safety and environmental improvement process. To facilitate this commitment, its workforce is carefully selected and trained and their skills and competencies regularly assessed.

The group recognises the importance of its responsibility for health, safety and environmental performance. The group manages these responsibilities as a core business activity and is aware of its obligations at all times.

Supplier payment policy

The group's policy is to settle terms of payment with suppliers when agreeing the terms of transactions. Payment terms vary, reflecting local practice throughout the world, and it is the group's policy to abide by the terms of payment, provided suppliers perform in accordance with the agreed terms.

The parent company, Watermark Group plc, has no trade creditors.

The average age of invoices outstanding in the group was 61 days at 31 December 2004 (2003: 45 days).

Share capital

The authority given to the directors to allot ordinary shares of the company, and the directors' power to allot equity securities for cash other than to existing share owners on a pro rata basis, expire at the Annual General Meeting.

To ensure a degree of flexibility in the allotment of ordinary shares of the company, the directors recommend that both the authority and the power to allot shares be renewed so as to expire at the conclusion of the Annual General Meeting of the company to be held in the year 2006.

Details of changes in the share capital during the year are disclosed in note 22 to the accounts. On 15 April 2005, the following share owners, other than directors, held more than 3% of the company's share capital:

5.01%	Britel Fund Nominees Limited Fund
4.17%	Chase Nominees Limited
3.41%	Possfund Nominees Limited
3.21%	HSBC Global Custody Nominee (UK) Limited Account 934567
3.03%	HSBC Global Custody Nominee (UK) Limited Account 811664

The directors have not been advised of any other individual interest or group of interests held by persons acting together which, at 15 April 2005, exceeds 3% of the company's issued share capital.

Corporate governance

Details concerning the group's arrangements relating to corporate governance and its compliance with the Combined Code are given on pages eleven to thirteen. The directors' remuneration report is on pages fourteen to nineteen.

Annual General Meeting

The notice convening the Annual General Meeting to be held on 29 June 2005 at 1pm at the company's Heathrow premises will be sent out separately.

Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the appointment as auditors to Grant Thornton UK LLP from 1 July 2004. The directors will place a resolution before the Annual General Meeting to re-appoint Grant Thornton UK LLP as auditors for the forthcoming year.

By order of the board

Belmore Park
Upham
Hampshire
SO32 1HQ

Crispin Quail
Company secretary

18 April 2005

Corporate governance

The company is committed to applying the highest standards of corporate governance. The board is accountable to the company's share owners for good corporate governance.

Compliance

Except for amendments which are currently being made to the terms of reference for the audit committee and remuneration committee, the board of directors consider the company has complied throughout the year ended 31 December 2004 with the Code provisions set out in Section 1 of the Combined Code (2003).

This report and the directors' remuneration report describe how it complies with the provisions of the Combined Code.

The board

The company's objectives include the delivery of sustainable value to share owners through the concept of an effective board leading and controlling the company. The board considers that it has shown its commitment to this objective by explaining the group's current strategy to all its employees and seeking their input, meeting on a regular basis throughout the year and formally considering how and to whom matters covered at each meeting should be communicated beyond the board.

The company's commitment to achieving a balance of executive and non-executive directors is shown by the fact that the board consists of three executive directors and four non-executive directors. Biographical details of the directors are given on page eight. The non-executive directors, with the exception of John A-G-Calthorpe and Maurice Ostro, are independent of management and any business or other relationship which could interfere with the exercise of their independent judgement. The board considers William Skerrett to be independent, despite his participation in the company's share option scheme.

The board reviews the performance of its executive and non-executive directors and relevant committees on an annual basis and critically compares this to the objectives set for each director. The review process is led by the senior independent director who will provide relevant feedback to each director. The performance of the board as a whole is reviewed by the non-executive directors.

During the year, Danny Bernstein was appointed as a non-executive director. The board did not use an external search consultant, nor did it advertise the position. The board's main criteria was to ensure the non-executive director had relevant industrial experience and was a person who was known within the airline industry. The board identified Danny Bernstein during their search and strongly believe they have succeeded in the appointment of a non-executive director who has a strong understanding of the industry and the risks facing the company.

The board has divided responsibilities for managing the board and the company's business by appointing John A-G-Calthorpe as non-executive chairman, John Caulcutt as chief executive and William Skerrett as the senior independent non-executive director.

The board is responsible for approving company policy and strategy. A full board meeting is held at least every two months and has a schedule of matters specifically reserved to it for decision. During 2004, the board met formally 8 times with all the directors attending each meeting, except for George Brooksbank and Paul Evans who each attended 7 of the meetings held. Management supplies the board with appropriate and timely information about the group's activities and developments and the directors are free to seek any further information they consider necessary. All directors have access to advice from the company secretary and may take independent professional advice at the company's expense. Training is available for new directors and other directors as necessary.

The board has sought to ensure that directors are properly briefed on issues arising at board meetings by establishing procedures for distributing board papers in advance of meetings, considering the adequacy of the information provided before making decisions, adjourning meetings or deferring decisions when directors have concerns about the information available to them, having a standing agenda item to consider the timeliness and quality of information, and making the company secretary responsible to the board for the timeliness and quality of information.

The board considers that the size of the board is such that it is not necessary to establish a nomination committee. Nevertheless, a formal and transparent procedure is followed when appointing new directors, approval of which is subject to the majority decision of the board. These procedures were followed in relation to the appointment of Danny Bernstein.

All directors are subject to re-election every three years and three directors must retire each year. For all directors appointed during the year, re-election at the first Annual General Meeting after appointment is required, in accordance with the provisions of the Code of Best Practice. As disclosed in the directors' report, Danny Bernstein retired following his appointment during the year and was re-elected at the 2004 AGM. John A-G-Calthorpe, William Skerrett and George Brooksbank are due to retire by rotation at the 2005 Annual General Meeting, and offer themselves for re-election.

The unexpired terms of their contracts at the Annual General Meeting on 29 June 2005 will be:

John A-G-Calthorpe	6 months
William Skerrett	6 months
George Brooksbank	6 months

At no time during the year has any director had any material interest in a contract with any group company, being a contract of significance in relation to the group's business, other than John Caulcutt's interest in the contract to provide rent and other services to Watermark Limited, as disclosed in note 31.

Relations with share owners

The directors seek to build on a mutual understanding of objectives between the company and its share owners by encouraging two-way communications with institutional investors, analysts and private investors.

The company values the views of its share owners and recognises their interest in the company's strategy and performance, board membership and quality of management.

The board considers the Annual Report and the Annual General Meeting to be the primary methods of communicating with share owners. The preliminary and interim results announcements are sent to all share owners and the group responds to all communications from individual share owners on a wide range of topics.

The board communicates with investors and encourages their participation by inviting all share owners to submit questions in advance of the Annual General Meeting. The company holds regular meetings and presentations with its institutional share owners, analysts and brokers to discuss objectives, particularly following the announcement of interim and preliminary results, which are generally in March and September of each year. Other meetings are held at institutional share owners' request. The feedback from these meetings is communicated to the rest of the board, including the non-executive directors, in order to ensure that the full board understands the views of major share owners.

This year's Annual General Meeting will be held on 29 June 2005 at 1pm at the company's Heathrow premises, at which time the chairman of the audit and remuneration committees will be available to answer share owners' questions.

Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Accounts. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

All share owners can gain access to the Annual Report and other information about the company through the company's website, which can be found at **www.watermark.co.uk**.

Appropriate audit committee responsibilities and relationships with auditors

The board presents a balanced and understandable assessment of the company's position and prospects in all annual, interim and price-sensitive reports and reports to regulators, as well as in the information presented in accordance with statutory requirements.

The board has shown its commitment to formal and transparent arrangements for financial reporting, internal control and external audit by informing all employees that any concerns they have in these areas can be raised with the chairman of the audit committee in the strictest confidence. The audit committee has procedures in place to allow for proportionate and independent investigation of any such matters and for appropriate follow-up action to be taken.

The audit committee comprises John A-G-Calthorpe as chairman, and two independent non-executive directors, William Skerrett and Danny Bernstein. The audit committee was due to meet twice in 2004, but the second meeting was postponed until February 2005. All committee members were present at the meetings held in 2004 and February 2005. With effect from 2005 and thereafter, the audit committee will now meet three times each year.

The duties of the audit committee include an annual review of the effectiveness of the group's system of internal control, including an assessment of the need for an internal audit function. The committee has considered the additional risks associated with the enlarged group and will continue to do so. The board considers that an internal audit function is not justified at present, but it will keep the decision under review on at least an annual basis.

The terms of reference of the committee also include keeping under review the scope and results of the external audit and its cost effectiveness. The committee reviews the independence and objectivity of the external auditors. The committee has the primary responsibility for making a recommendation on the appointment, re-appointment and removal of external auditors. Grant Thornton UK LLP, in its capacity as the group's external auditor, undertakes work that it is obliged, or in the view of the committee, is best placed to perform. Such work may include taxation-related services, regulatory matters, work related to acquisitions and mergers and other closely related services. The committee reviews the nature and extent of non-audit services supplied by the external auditors to the company, seeking to balance independence, objectivity and value for money.

The audit committee has independent access to the auditors throughout all reporting periods.

The terms of reference of the audit committee are available on request by writing to the company secretary at the registered office address.

Corporate governance (continued)

Maintenance of a sound system of internal control

The board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness.

The group's system of internal control, including the mechanism by which the directors routinely review the effectiveness of the system of internal control and risk management, includes the following:

- Approval and regular reviews of annual budgets;

- Monthly reviews by the executive committee of key financial and non-financial business performance indicators of the group's operating divisions;

- Strict internal financial controls covering capital expenditure, together with post-investment performance reviews and treasury operations;

- Clearly defined organisation structures and appropriate delegated authorities for executives throughout the group;

- Group-wide policies, standards and procedures relating to key business activities.

The system is designed to manage, rather than eliminate, risk of failure to achieve the business objectives and, as such, can provide only reasonable and not absolute assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the group that has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, and the process is regularly reviewed by the board. The review covers all controls including financial, operational and compliance controls and risk management.

The size of the group is such that the establishment of a separate risk committee is not appropriate, and management reports directly to the full board. A system of business risk identification, assessment and evaluation is in place within the management process throughout the group. Strategic risks are regularly reviewed by the board. Risks relating to the key activities within the subsidiary operating units are assessed continuously.

The board reviews the risk management and control process and, in particular, considers the authority and resources of those involved. It responds to significant risks identified where necessary and provides assurance in specialist areas such as health and safety.

The board responds to all reports as necessary to maintain a control environment directed towards proper management of risk.

The board confirms that it has conducted a review of the effectiveness of the group's system of internal controls described above for the financial year and up to the date of this report in accordance with the guidance set out in Internal Control: Guidance for Directors on the Combined Code ("The Turnbull Report").

Directors' remuneration report

The board recognises that directors' remuneration is of legitimate concern to the share owners and is committed to following current best practice. The company operates within a competitive environment that is subject to rapid technical change. Its performance depends on the individual contributions of the directors and employees and it believes in rewarding vision and innovation.

In accordance with Section 241 A of the Companies Act 1985, the board presents the directors' remuneration report for share owner approval.

Section 1: Information not subject to audit

The remuneration committee

The remuneration committee has responsibility for determining the appropriate policy for rewarding the group's executive directors and senior executives. It carries out the policy on behalf of the board.

The members of the committee throughout the year have been John A-G-Calthorpe as chairman, and two independent non-executive directors, William Skerrett and Danny Bernstein, who replaced Mark Scott on 11 May 2004. None of them has any personal financial interest in the matters to be decided (other than as share owners), potential conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business.

The committee meets on average twice a year. During the year, John A-G-Calthorpe was unable to attend one of the committee meetings. As well as considering conditions in the group as a whole, it takes into account the position of the company relative to other companies and is aware of what these companies are paying, though comparisons are treated with caution to avoid an upward ratchet in remuneration. The committee consults the chief executive, has access to professional advice within the company and obtains its own independent professional advice from outside the company, if applicable. The committee has not considered it necessary to seek any external professional advice this year. The chairman of the committee maintains contact with the principal share owners.

Policy for determining remuneration

The policy of the board is to provide executive remuneration packages designed to attract, motivate and retain directors of the calibre necessary to maintain the group's position as a market leader and to reward them for enhancing share owner value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration should also reflect the directors' responsibilities and contain incentives to deliver the company's objectives.

The salaries, bonuses, pension contributions and benefits (which comprise car benefits, life assurance, disability insurance and medical insurance) of executive directors and other senior executives are reviewed annually by the remuneration committee having regard to competitive market practice, supported by external independent sources.

Details of remuneration

The board does not pay more than is necessary to attract and retain the directors needed to run the company successfully by ensuring that the remuneration policy as described below provides for a fair and independent process in fixing the remuneration.

The main elements of the remuneration packages offered are:

• Basic salary

Each executive director's basic salary is reviewed annually by the committee. In deciding upon appropriate levels of remuneration the committee believes that the company should offer levels of basic pay reflecting individual responsibilities, compared to similar positions in comparable companies. Basic salary is determined by the remuneration committee, taking into account the performance of the individual against his set objectives and the performance of the group. Executive directors' basic salaries are reviewed on 1 January each year.

• Annual bonus

The remuneration committee establishes the objectives for measuring bonuses. The executive directors are paid performance related bonuses, dependent upon their achievement of individual non-financial objectives and the group meeting pre-determined profit targets, based on the company's budgets, which are always set at a higher amount than the previous year, unless there are special circumstances. No bonuses are to be paid in relation to 2004 profit targets.

• Share options

Grants of share options are made on the recommendation of the remuneration committee under an approved and an unapproved scheme. Under the approved scheme, options are normally only exercisable after the expiry of three years from the date of grant and will lapse if not exercised within a further seven years.

Under the unapproved scheme, options granted after September 2003 are normally only exercisable after the expiry of three years from the date of grant and will lapse if not exercised within a further four years. Options under this scheme granted before September 2003 are exercisable at any time up to seven years from the date of grant.

These approved and unapproved scheme options are only exercisable if the pre-determined performance target of real growth in the group's earnings per share over any three year period during the life of the option is achieved. The options granted under the unapproved scheme on 27 September 2001 had an additional performance target of the share price being at least 140p per ordinary share after 3 years, which has been met. The options granted under the unapproved scheme on 1 October 2002 had an additional performance target of the share price being at least 225p per ordinary share prior to exercise.

Directors' remuneration report (continued)

The price at which options under the approved scheme are granted is the closing mid-market price at the end of the dealing day on which the interim or end of year results are announced. Invitations are sent out within thirty days of the announcement of the interim or end of year results. The price at which options under the unapproved scheme are granted is the prevailing mid-market price at the time of the grant.

- **Pensions**

The group provides the executive directors with fixed percentage salary-related contributions to their individual money purchase pension schemes. All pensions are subject to contractual annual increases in line with salary. The normal retirement age for directors is 60.

- **Non-executive directors' fees and salaries**

Fees and salaries for non-executive directors are determined by the executive directors. Non-executive directors are not eligible to join the company's pension scheme, but are able to take up a stakeholder pension if they so wish.

Service contracts

In keeping with current practice, the policy of the company is that directors are employed on rolling service contracts with notice periods of twelve months or less. Each contract and notice period is reviewed on 1 January in each year as part of the review of management salaries for the coming year. Each appointment is terminable on an agreed period of notice, as shown below, by either party expiring at any time. The policy of the company is that termination payments, excluding statutory entitlements, should not exceed more than 12 months basic salary.

The following table gives details of the current contract of service of each person who has served as a director of the company at any time during the year:

Director	Position	Date of contract	Notice period	Salary and fees	Benefits
John A-G-Calthorpe	Chairman	22 March 2001	Six months	£50,000	Life and disability insurance benefits
John Caulcutt (Note 1 below)	Chief executive	6 April 2001	Twelve months	£193,000	Life, disability and private medical insurance benefits
Crispin Quail	Group finance director and company secretary	9 July 1996	Six months	£115,000	Company car and travel allowance, life, disability and private medical insurance benefits
George Brooksbank (Note 1 below)	Part-time executive director	28 April 1999	Six months	£80,000	None
William Skerrett	Non-executive director	12 August 1998	Six months	£25,000	Life and disability insurance benefits
Maurice Ostro (Note 2 below)	Non-executive director	1 August 2003	Six months	£25,000	Life and disability insurance benefits
Danny Bernstein (Note 3 below)	Non-executive director	1 May 2004	Six months	£25,000	Life and disability insurance benefits
Mark Scott (Note 4 below)	Non-executive director	23 March 2002	Six months	£5,000	Life and disability insurance benefits

Note 1 - John Caulcutt was a non-executive director of FlightStore Group plc and Medico Legal Consultancy plc during the year ended 31 December 2004 and received the sum of £37,000 from these appointments.

George Brooksbank was a non-executive director of The Wigmore Group plc, CCG Limited and Award International Holdings plc during the year ended 31 December 2004 and received the sum of £63,000 from these appointments.

During the annual performance review, the board have agreed that John Caulcutt and George Brooksbank are permitted to retain these fees. The board consider that their executive duties have not been adversely affected by the non-executive appointments.

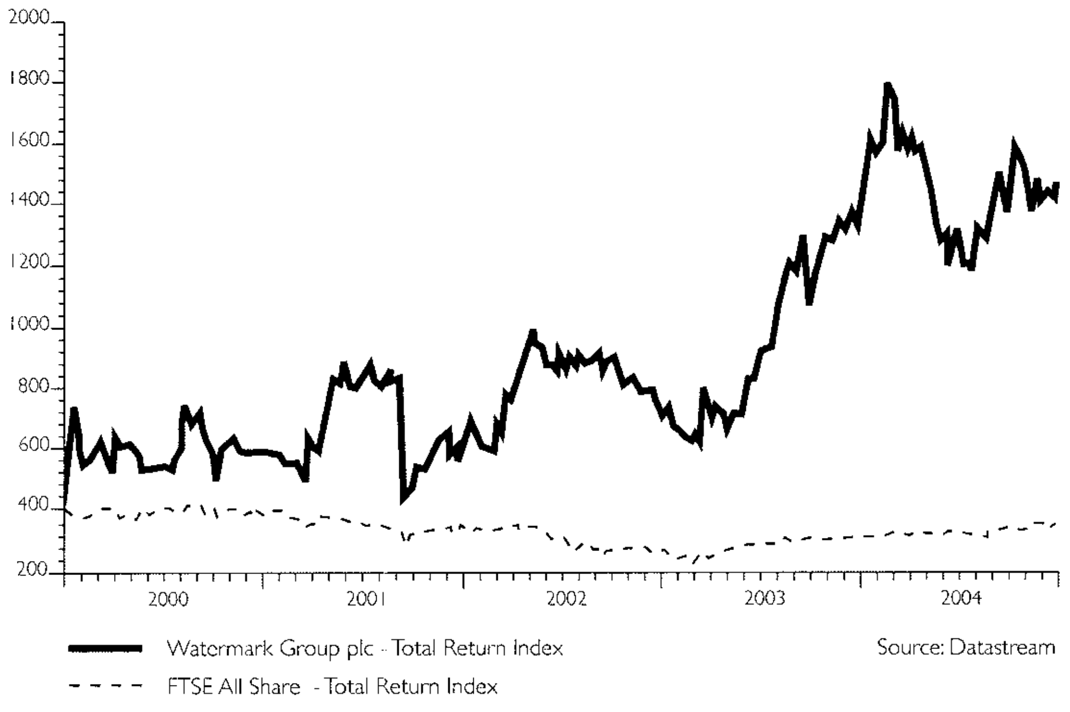
Note 2 - Maurice Ostro is also employed as managing director of Air Fayre Limited and Media On The Move Limited under a contract dated 5 December 2003, as amended on 23 February 2004, under which he receives a salary of £85,000 and medical and pension benefits. The contract provides for a twelve month notice period.

Note 3 - Danny Bernstein was appointed to the board of Watermark Group plc on 11 May 2004.

Note 4 - Mark Scott resigned from the board of Watermark Group plc on 29 June 2004.

Note 5 - Paul Evans resigned from the board of Watermark Group plc on 31 December 2004, and has been excluded from the above table as he has no current contract of service.

Performance Graph



The above graph shows Watermark Group plc's total share owner return (TSR) performance compared to the FTSE All-Share Index over the last 5 years. TSR is defined as the percentage change in market price of the company shares over the period, assuming the reinvestment of income and funding of liabilities of the theoretical holding.

The company is a member of the FTSE All-Share Index and, as such, this sector is considered to be the most appropriate comparator group upon which a broad equity market index is calculated. TSR has been calculated on a one-month averaging basis in order to reduce the volatility associated with spot prices.

Section 2: Information subject to audit

Directors' remuneration

The total amounts for directors' remuneration and other benefits were as follows:

	2004 £	2003 £
Emoluments	847,125	742,235
Gains on exercise of share options	640,421	-
Money purchase pension contributions	45,675	45,512
	1,533,221	**787,747**

Directors' emoluments

The emoluments of the directors for the year are shown below:

	Salary and fees 2004 £	Benefits 2004 £	Total emoluments 2004 £	Gain on exercise of share options 2004 £	Money purchase pension contributions 2004 £	Total emoluments 2003 £	Gain on exercise of share options 2003 £	Money purchase pension contributions 2003 £
Executive								
John Caulcutt	193,000	2,871	195,871	143,250	19,300	178,359	-	16,042
Paul Evans (Note 1 below)	245,000	599	245,599	203,750	15,875	163,451	-	13,833
Crispin Quail	106,000	3,409	109,409	245,921	10,500	126,213	-	12,262
George Brooksbank	84,222	-	84,222	28,500	-	116,321	-	-
Kevin Peat (Note 1 below)	-	-	-	-	-	42,981	-	3,375
Non-executive								
John A-G-Calthorpe	50,000	-	50,000	-	-	55,000	-	-
William Skerrett	25,000	-	25,000	-	-	20,000	-	-
Mark Scott (Note 1 below)	12,500	-	12,500	19,000	-	20,000	-	-
Maurice Ostro (Note 2 below)	107,240	617	107,857	-	-	19,910	-	-
Danny Bernstein (Note 3 below)	16,667	-	16,667	-	-	-	-	-
Total emoluments	**839,629**	**7,496**	**847,125**	**640,421**	**45,675**	**742,235**	**-**	**45,512**

On 5 April 2004, PVC Supplies (St. Albans) Limited, a company in which John Caulcutt owns 100% of the issued share capital, exercised options over 200,000 ordinary shares at a price of 59.5p and sold these on that date, resulting in a gain of £227,000.

Note 1 Mark Scott resigned from the board of Watermark Group plc on 29 June 2004.
Paul Evans resigned from the board of Watermark Group plc on 31 December 2004. His emoluments include an amount of £70,000 in respect of his compensation for loss of office.
Kevin Peat resigned from the board of Watermark Group plc on 7 July 2003.

Note 2 Maurice Ostro was appointed to the board of Watermark Group plc on 1 August 2003 and is also managing director of Air Fayre Limited and Media On The Move Limited. His employment contract dated 5 December 2003, as amended on 23 February 2004 reflects a salary of £85,000 and medical and pension benefits, with a twelve month notice period. The emoluments above comprise his salary as non-executive director of Watermark Group plc from 1 August 2003 and as managing director of Air Fayre Limited and Media On The Move Limited from the date of the companies joining the group.

Note 3 Danny Bernstein was appointed to the board of Watermark Group plc on 11 May 2004.

Note 4 All pension contributions made relate to contributions due for the current year.

Share interests

(1) Interests in 1p ordinary shares fully paid:

Director	Beneficial interest at 31 December 2004	Beneficial interest at 1 January 2004 or later date of appointment
John A-G-Calthorpe	791,840	756,840
John Caulcutt	3,852,665	3,805,405
Crispin Quail	48,000	44,500
George Brooksbank	153,900	300,400
William Skerrett	39,000	39,000
Maurice Ostro	80,000	-
Danny Bernstein	10,000	-

Maurice Ostro did not hold any direct beneficial interest in the shares of Watermark Group plc as at 31 December 2003 but, on 23 February 2004, he acquired 65,000 shares and, on 28 May 2004, he acquired a further 15,000 shares.

On joining the company on 11 May 2004, Danny Bernstein acquired 10,000 shares in Watermark Group plc, which continued to be held at 31 December 2004.

The above shares are all beneficially held. In addition to the above, the following shares were held:

John Caulcutt is a beneficiary of a pension scheme managed by James Hay Pension Trustees Limited, which had an interest in 815,000 shares in the company at 31 December 2004 (2003: 815,000).

John Caulcutt owns 100% of PVC Supplies (St. Albans) Limited, which held 29,567 shares in the company at 31 December 2003 and sold these shares in April 2004.

John A-G-Calthorpe owns 51% of the issued share capital of Hintlesham Holdings Limited, whose wholly owned subsidiary undertaking, Ampton Investments Limited, had an interest in 1,887,288 shares in the company at 31 December 2004 (2003: 1,887,288 shares).

Media On The Move Holdings Limited owns 651,042 shares in Watermark Group plc as at 31 December 2004. Maurice Ostro is one of the potential beneficiaries of The Max Ostro Children's Trust, which holds a controlling interest in Media On The Move Holdings Limited.

Maurice Ostro is one of the potential beneficiaries of The Max Ostro Children's Trust, which held a controlling interest in the shares of Air Fayre Limited at 31 December 2003. On 23 February 2004, these shares were acquired by Watermark Group plc for a consideration of £3,882,773.

The Air Fayre All-Employee Share Incentive Plan Trust owns 90,500 shares in Watermark Group plc as at 31 December 2004. Maurice Ostro is a Trustee of the Air Fayre All-Employee Share Incentive Plan Trust.

In the period between 31 December 2004 and the signing of these accounts, no transactions have taken place in relation to the directors' interests other than John A-G-Calthorpe transferring 40,000 shares in Watermark Group plc from his personal holding to that of Ampton Investments Limited on 23 March 2005. This transfer has no effect on his total beneficial holding.

Share interests (continued)

(2) Options to acquire 1p ordinary shares:

Share options were granted to and exercised by the directors during the year as follows:

	As at 31 December 2003 Number	Granted during the year Number	Exercised during the year Number	As at 31 December 2004 Number	Option price	Share price at date of exercise	Period during which exercisable
John A-G-Calthorpe	30,000	-	-	30,000	72p	-	29/3/2001 to 28/3/2008
	30,000	-	-	30,000	53p	-	28/9/2004 to 27/9/2008
John Caulcutt	150,000	-	150,000	-	71.5p	167p	3/4/2001 to 2/4/2008
	270,000	-	-	270,000	53p	-	28/9/2004 to 27/9/2008
	-	75,000	-	75,000	178p	-	29/1/2007 to 28/1/2014
Paul Evans	250,000	-	250,000	-	101.5p	167p	1/10/2002 to 30/9/2009
	150,000	-	-	150,000	101.5p	-	1/10/2002 to 30/9/2009
	50,000	-	50,000	-	87p	167p	19/3/2003 to 18/3/2010
	-	75,000	-	75,000	178p	-	29/1/2007 to 28/1/2014
Crispin Quail	17,647	-	17,647	-	34p	167p	29/4/2000 to 28/4/2007
	100,000	-	100,000	-	48.5p	167p	5/5/1998 to 4/5/2005
	40,000	-	40,000	-	41.5p	167p	26/5/1999 to 25/5/2006
	50,000	-	50,000	-	59.5p	167p	6/4/2000 to 5/4/2007
	50,000	-	-	50,000	72p	-	29/3/2001 to 28/3/2008
	130,000	-	-	130,000	53p	-	28/9/2004 to 27/9/2008
	-	60,000	-	60,000	178p	-	29/1/2007 to 28/1/2014
George Brooksbank	30,000	-	30,000	-	72p	167p	29/3/2001 to 28/3/2008
	60,000	-	-	60,000	53p	-	28/9/2004 to 27/9/2008
	-	50,000	-	50,000	178p	-	29/1/2007 to 28/1/2014
William Skerrett	20,000	-	-	20,000	72p	-	29/3/2001 to 28/3/2008
	20,000	-	-	20,000	53p	-	28/9/2004 to 27/9/2008
Mark Scott	20,000	-	20,000	-	72p	167p	29/3/2001 to 28/3/2008
	20,000	-	-	20,000	53p	-	28/9/2004 to 27/9/2008
Maurice Ostro	-	-	-	-	-	-	-

All of the above options relate to the company's unapproved scheme, except for the 17,647 options previously held by Crispin Quail in the approved scheme.

In addition to the above, PVC Supplies (St. Albans) Limited, in which John Caulcutt owns 100% of the issued share capital, held options to subscribe for 200,000 ordinary shares at a price per ordinary share of 59.5p as at 31 December 2003. These options were exercised on 5 April 2004 and the shares were sold for £346,000, resulting in a gain of £227,000.

No directors' share options have lapsed and no variations to the terms and conditions of the scheme have been made during the year.

Auditors' report

Report of the independent auditors to the members of Watermark Group plc

We have audited the financial statements of Watermark Group plc for the year ended 31 December 2004, which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement, and notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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

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

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the chairman's and chief executive's letter to share owners, the financial review, the directors' biographies, the directors' report, the corporate governance statement and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2004 and of the profit of the group for the year then ended; and

- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Southampton

18 April 2005

Consolidated profit and loss account

for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Turnover		**77,581**	**41,215**
Cost of sales		(51,962)	(30,098)
Gross profit		**25,619**	**11,117**
Administrative expenses (excluding exceptional items)	5	(19,601)	(7,750)
Exceptional bad debt	5	(591)	-
Exceptional contract start-up costs	5	(302)	-
Total administrative expenses	5	(20,494)	(7,750)
Operating profit	6	**5,125**	**3,367**
Profit on sale of investment	14	676	233
Exceptional re-organisation costs	7	(1,436)	-
Interest receivable and similar income		64	28
Amount written off investment	14	(89)	-
Interest payable and similar charges	8	(505)	(304)
Profit on ordinary activities before taxation		**3,835**	**3,324**
Taxation on profit on ordinary activities	9	(1,713)	(944)
Profit for the financial year		**2,122**	**2,380**
Dividends	10	(885)	(678)
Retained profit for the year		**1,237**	**1,702**
Earnings per share	11		
Normalised earnings per share*			
Basic earnings per share		13.15p	11.20p
Diluted earnings per share		12.74p	10.79p
Standard earnings per share			
Basic earnings per share		5.78p	9.73p
Diluted earnings per share		5.60p	9.37p

All of the activities of the group are continuing.

* Normalised earnings per share excludes amortisation of goodwill and exceptional costs. The calculation of normalised earnings per share is presented as note 11.

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

	Total 2004 £'000	Total 2003 £'000
Profit for the financial year	2,122	2,380
Currency translation	60	(468)
Total recognised gains relating to the year	**2,182**	**1,912**

Consolidated balance sheet

as at 31 December 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	12	28,534	30,202
Tangible assets	13	10,433	1,606
Investments	14	217	330
		39,184	32,138
Current assets			
Stocks	15	4,096	3,381
Debtors	16	20,611	18,157
Cash at bank and in hand		1,823	7,102
		26,530	28,640
Creditors: Amounts falling due within one year	17	(22,998)	(39,351)
Net current assets/(liabilities)		3,532	(10,711)
Total assets less current liabilities		42,716	21,427
Creditors: Amounts falling due after more than one year	18	(4,612)	(5,778)
		38,104	15,649
Provisions for liabilities and charges	19	(523)	(48)
Net assets		**37,581**	**15,601**
Capital and reserves			
Called-up share capital	22	404	249
Share premium account	23	22,803	599
Shares to be issued	24	6,496	8,172
Capital redemption reserve	25	24	24
Merger reserve	25	(527)	(527)
Profit and loss account	25	8,381	7,084
Equity share owners' funds	26	**37,581**	**15,601**

The accounts on pages 21 to 43 were approved by the board on 18 April 2005 and signed on its behalf by:

John A-G-Calthorpe
Director

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet
as at 31 December 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	13	-	-
Investments	14	35,350	35,487
		35,350	35,487
Current assets			
Debtors	16	4,090	2,709
Cash at bank and in hand		-	518
		4,090	3,227
Creditors: Amounts falling due within one year	17	(5,400)	(24,741)
Net current liabilities		(1,310)	(21,514)
Total assets less current liabilities		34,040	13,973
Creditors: Amounts falling due after more than one year	18	(3,187)	(4,250)
Net assets		**30,853**	**9,723**
Capital and reserves			
Called-up share capital	22	404	249
Share premium account	23	22,803	599
Shares to be issued	24	6,496	8,172
Capital redemption reserve	25	24	24
Profit and loss account	25	1,126	679
Equity share owners' funds		**30,853**	**9,723**

The accounts on pages 21 to 43 were approved by the board on 18 April 2005 and signed on its behalf by:

John A-G-Calthorpe
Director

The accompanying notes are an integral part of this company balance sheet.

Consolidated cash flow statement

for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Net cash inflow from operating activities	27	6,180	2,333
Returns on investments and servicing of finance	28	(441)	(276)
Taxation		(2,066)	(617)
Capital expenditure and financial investment	28	(7,038)	(104)
Acquisitions and disposals	28	(19,308)	2,652
Equity dividends paid		(719)	(396)
Cash (outflow)/inflow before financing		(23,392)	3,592
Financing	28	17,747	1,191
(Decrease)/increase in cash in the year	29	**(5,645)**	**4,783**

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to the accounts

for the year ended 31 December 2004

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

The accounts are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

(1) Basis of consolidation

The group accounts consolidate the accounts of Watermark Group plc and its subsidiary undertakings (see note 14) made up to 31 December each year.

Watermark Group (Holdings) Limited and its subsidiaries and Watermark Travel Supplies Limited were accounted for by the merger method. All other subsidiaries acquired were accounted for by the acquisition method.

(2) Goodwill

Goodwill on acquisitions is the excess of the fair value of the consideration given to acquire a business or a subsidiary over the fair value of the separable net assets acquired, where the acquisition method of accounting has been used. Goodwill on acquisitions is capitalised within intangible assets and is amortised on a straight-line basis over the directors' estimate of its useful economic life. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standards then in force and has not been reinstated in the balance sheet. Such goodwill will be charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

(3) Profit attributable to Watermark Group plc

No profit and loss account for Watermark Group plc has been presented as permitted by Section 230 of the Companies Act 1985.

The profit for the financial year dealt within the accounts of the parent company, Watermark Group plc was £447,000 (2003: £485,000) and is stated after taxation and dividends.

(4) Turnover

Turnover represents amounts receivable for products and services provided in the UK and overseas, net of trade discounts, VAT and other sales related taxes.

Turnover in the products division is recognised either at the time of shipment or delivery to the client, dependent on the terms of supply agreed with the client. Turnover in the services division, including marketing services and consultancy, is recognised at the point of delivery to the client.

(5) Pension costs

Contributions made by the group to defined contribution personal pension plans of certain employees are charged to the profit and loss account as incurred.

(6) Taxation

Current taxation, including UK corporation taxation and foreign taxation, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred taxation assets are recognised when it is more likely than not that they will be recovered. Deferred taxation is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

1 Accounting policies (continued)

(7) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is provided on all tangible assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful economic life at the following annual rates:

Plant and machinery	10% - 25%
Fixtures and fittings	10% - 25%
Office equipment	25%
Motor vehicles	20-25%
Leasehold improvements	Over the term of the lease

(8) Leasing and hire purchase commitments

Assets obtained under leases and hire purchase contracts which result in the transfer to the company of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated in accordance with the above policy. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of each lease or hire purchase contract so as to produce a constant periodic rate of charge on the outstanding balance of the net obligations in each period.

Rentals paid under other leases (operating leases) are charged against income on a straight-line basis over each lease term.

(9) Investments

Fixed asset investments are stated at cost less amounts written off to the profit and loss account.

(10) Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less expected further costs to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

(11) Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or, if applicable, at the forward contract rate.

The results of foreign subsidiaries are translated at the average rate of exchange for the year. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if applicable, at the forward contract rate.

The net assets of foreign subsidiaries are translated under the closing rate method using the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. Exchange differences arising on translation of the opening net assets are dealt with through reserves. All other exchange differences are included in the profit and loss account.

(12) Derivative financial instruments

The group uses forward foreign currency contracts to reduce exposure to foreign exchange risk movements. The instrument must be related to specific foreign currency assets or liabilities or to a probable commitment reflected in the same or similar currencies.

Forward foreign currency contracts are not recognised within the financial statements other than to translate the foreign currency monetary balances which are covered by the financial instrument, using the forward exchange rate, where appropriate. Gains and losses arising on these contracts are only recognised in the profit and loss account when the underlying transaction covered by the financial instrument has itself been reflected in the group's accounts, or upon maturity of the instrument.

The group does not hold or issue derivative financial instruments for speculative purposes.

2 EBITDA (earnings before interest, tax, depreciation and amortisation)

Reconciliation of profit on ordinary activities before taxation to EBITDA:	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	3,835	3,324
Interest receivable	(64)	(28)
Interest payable	505	304
Depreciation	514	256
Amortisation of goodwill	1,541	523
	6,331	**4,379**

Normalised EBITDA (earnings before interest, taxation, depreciation, amortisation and exceptional costs)

Reconciliation of profit on ordinary activities before taxation to normalised EBITDA:	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	3,835	3,324
Exceptional bad debt (note 6)	591	-
Exceptional contract start-up costs (note 6)	302	-
Exceptional re-organisation costs (note 7)	1,436	-
Profit on sale of investment (note 14)	(676)	(233)
Interest receivable	(64)	(28)
Interest payable	505	304
Depreciation	514	256
Amortisation of goodwill	1,541	523
	7,984	**4,146**

3 Normalised profit before tax

Reconciliation of profit on ordinary activities before taxation to normalised profit on ordinary activities before taxation	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	3,835	3,324
Exceptional bad debt (note 6)	591	-
Exceptional contract start-up costs (note 6)	302	-
Exceptional re-organisation costs (note 7)	1,436	-
Profit on sale of investment (note 14)	(676)	(233)
Amortisation of goodwill	1,541	523
	7,029	**3,614**

4 Segmental analysis

In the opinion of the directors, the segmental reporting of results would be seriously prejudicial to the business and accordingly it has not been disclosed.

5 Total administrative expenses (net)

	2004 £'000	2003 £'000
Administrative expenses (excluding exceptional items)	19,601	8,167
Exceptional bad debt (note 6)	591	-
Exceptional contract start-up costs (note 6)	302	-
	20,494	8,167
Other operating income	-	(417)
Total administrative expenses	**20,494**	**7,750**

6 Operating profit is stated after charging:

		2004 £'000	2003 £'000
Depreciation and amortisation:			
- owned fixed assets		447	241
- assets under hire purchase agreements		67	15
Amortisation of goodwill		1,541	523
Operating lease rentals:			
- plant and machinery		137	55
- land and buildings		852	178
Fees paid to primary auditors:			
Audit services	- statutory audit	53	60
	- audit related regulatory reporting	2	5
Taxation services	- compliance	29	32
	- advisory	31	18
Fees paid to other auditors:			
Audit services	- statutory audit	28	14
Other services	- accountancy advice	7	5
Exceptional bad debt (see below)		591	-
Exceptional contract start-up costs (see below)		302	-
and after crediting:			
Foreign currency translation		(503)	25

The exceptional bad debt relates to the net amount written off following the collapse of Duo Airways Limited.

The exceptional start-up costs relate to the costs associated with the setting up of a new catering contract.

The foreign exchange gain achieved this year reflects the company's policy to actively take advantage of exchange rate movements, where possible.

7 Exceptional re-organisation costs

The group has undergone a fundamental re-organisation of its operations, both in terms of physical location, management and staffing.

The new Heathrow facility, has been developed into the group's main UK operating unit. It is intended to house the majority of the group's operations, historically carried out from a range of disparate facilities, together with the newly centralised finance and administration functions for the enlarged group. It also acts as a base for the group's Encompass partners, and the operation of its total cabin-management programme.

The costs associated with the re-organisation relate principally to the closure costs in the UK, the catering relocation and the group integration, and are analysed below:

	2004 £'000
Property closures	154
Assets write off	644
Redundancy and salary costs	581
Legal and professional	26
Other	31
	1,436

Notes to the accounts (continued)

for the year ended 31 December 2004

8 Interest payable and similar charges

	2004 £'000	2003 £'000
On loans and overdrafts	484	297
On hire purchase agreements	10	3
Other interest	11	4
	505	**304**

9 Taxation on profit on ordinary activities

	2004 £'000	2003 £'000
Current year		
UK corporation taxation	1,111	750
Foreign taxation	217	146
Prior years		
UK corporation taxation	(88)	-
Foreign taxation	(2)	-
	1,238	896
Deferred taxation (current year)	475	48
Taxation charge for the year	**1,713**	**944**

Factors affecting taxation charge for period:

The taxation assessed for the period is lower than the standard rate of corporation taxation in the UK (30%). The differences are explained as follows:

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	3,835	3,324
Profit on ordinary activities multiplied by standard rate of corporation taxation in the UK of 30%	1,151	997
Effect of:		
Expenses not deductible for taxation purposes - amortisation	462	179
Expenses not deductible for taxation purposes – other	258	-
Gains	(2)	-
Timing differences between depreciation and capital allowances	(389)	(2)
Utilisation of taxation losses	58	(48)
Decrease/(increase) in provisions	-	18
Lower taxation rates on overseas earnings	(210)	(248)
Adjustments to taxation charge in respect of prior periods	(90)	-
Current taxation charge for period	**1,238**	**896**

10 Dividends

	2004 £'000	2003 £'000
Dividend payable at 1.96p per share (2003: 1.78p)	841	675
Under provision in prior year	44	3
	885	**678**

The under provision arises as a result of new shares ranking for dividend being issued during the year.

11 Earnings per share

Basic and diluted earnings per share have been calculated in accordance with FRS14 - Earnings per share.

Diluted earnings per share takes into account the effect of the exercise of employee share options and shares to be issued where these are expected to dilute earnings.

In order to show results from operating activities on a comparable basis, a normalised earnings per share has been presented which excludes amortisation and exceptional costs from the adjusted earnings calculation.

The calculations of earnings per share are based on the following profits and numbers of shares:

	Earnings 2004 £'000	Weighted average shares 2004 Number	Total Earnings per share 2004 (pence)	Earnings 2003 £'000	Weighted average shares 2003 Number	Total Earnings per share 2003 (pence)
Basic earnings per share	**2,122**	**36,720,161**	**5.78**	**2,380**	**24,466,277**	**9.73**
Dilutive effect of share options	-	1,181,095	(0.18)	-	926,935	(0.36)
Diluted earnings per share	**2,122**	**37,901,256**	**5.60**	**2,380**	**25,393,212**	**9.37**
Add amortisation of goodwill	1,541	-	4.07	523	-	2.06
Add exceptional costs (post-tax)	1,638	-	4.32	-	-	-
Less profit on sale of investment (post-tax)	(473)	-	(1.25)	(163)	-	(0.64)
Normalised diluted earnings per share	**4,828**	**37,901,256**	**12.74**	**2,740**	**25,393,212**	**10.79**
Dilutive effect of share options	-	(1,181,095)	0.41	-	(926,935)	0.41
Normalised diluted earnings per share	**4,828**	**36,720,161**	**13.15**	**2,740**	**24,466,277**	**11.20**

12 Intangible fixed assets

Goodwill	Total £'000
Cost	
1 January 2004	30,791
Additions (see below)	90
Reduction in the fair value of deferred consideration (see below)	(217)
31 December 2004	**30,664**
Amortisation	
1 January 2004	589
Charge for the year	1,541
31 December 2004	**2,130**
Net book value	
31 December 2004	**28,534**
31 December 2003	30,202

An impairment review of goodwill has been undertaken for each of the group's subsidiaries, in accordance with FRS 10 - *Goodwill and intangible assets*, and no provision for impairment is considered necessary.

The directors remain of the opinion that goodwill should be amortised over their estimate of the expected useful life, which is considered to be 20 years from the date of each acquisition.

The additions in the year relate to additional consideration of £71,000 payable to the former shareholders of Watermark Asia Limited (note 35) and under-estimated professional costs of £19,000 in respect of the acquisition of Air Fayre Limited in 2003.

The reduction in the fair value of deferred consideration payable for the acquisition of Globe Audio Limited arises as the company considers that no further contingent consideration is due (note 35).

Notes to the accounts (continued)

for the year ended 31 December 2004

13 Tangible fixed assets

(1) Group	Plant and machinery £'000	Fixtures and fittings £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
1 January 2004	2,190	456	241	183	3,070
Currency translation	(14)	(2)	(8)	-	(24)
Additions	4,010	5,562	45	11	9,628
Reclassification	86	(49)	(37)	-	-
Disposals	(141)	-	(60)	(3)	(204)
31 December 2004	6,131	5,967	181	191	12,470
Depreciation					
1 January 2004	953	265	173	73	1,464
Currency translation	(10)	(1)	(6)	-	(17)
Reclassification	65	(38)	(27)	-	-
Charge for the year	347	108	28	31	514
Impairment	192	88	-	-	280
Disposals	(141)	-	(60)	(3)	(204)
31 December 2004	1,406	422	108	101	2,037
Net book value					
31 December 2004	**4,725**	**5,545**	**73**	**90**	**10,433**
31 December 2003	1,237	191	68	110	1,606

Included above are assets subject to hire purchase agreements with a net book value at 31 December 2004 of £1,812,475 (2003: £41,000).

(2) Company	Plant and machinery £'000
Cost	
1 January 2004 and 31 December 2004	98
Depreciation	
1 January 2004 and 31 December 2004	98
Net book value	
31 December 2003 and 31 December 2004	-

14 Investments

(1) Group

	Other investments £'000
Cost	
1 January 2004	336
Additions	111
Disposals	(85)
31 December 2004	362
Amortisation	
1 January 2004	6
Charge for the period	50
Provision (see below)	89
31 December 2004	145
Net book value	
31 December 2004	**217**
31 December 2003	330

(2) Company

	Other investments £'000	Subsidiary undertakings £'000	Total £'000
Cost			
1 January 2004	249	35,391	35,640
Additions	111	143	254
Reduction in the fair value of deferred consideration (note 12)	-	(217)	(217)
Disposals	(85)	-	(85)
31 December 2004	275	35,317	35,592
Provision for impairment in value			
1 January 2004	-	153	153
Provision (see below)	89	-	89
31 December 2004	89	153	242
Net book value			
31 December 2004	**186**	**35,164**	**35,350**
31 December 2003	249	35,238	35,487

Included in other investments are investments listed on a recognised investment exchange with a cost of £234,000 (2003: £234,000), which has been reduced by £89,000 to the market value of £145,000 (2003: £851,000).

Included in other investments in 2003 were investments listed on a recognised investment exchange at a cost of £15,000. In 2004, a further investment of £70,000 was made and the full investment was disposed of in July, resulting in a gain of £676,000, as shown below:

	2004 £'000
Proceeds on disposal	1,166
Less cost of investment	(85)
Less legal and professional and other dispute resolution costs	(405)
	676

14 Investments (continued)

(3) Principal group investments

As at 31 December 2004, the company owned 100% of the ordinary share capital of the following subsidiaries, all of which are included within the consolidated financial statements:

Name of subsidiary undertaking	Nature of business
Watermark Limited	Provision of travel supplies and marketing services to the international travel sector
Watermark Americas Inc.	Provision of travel supplies and marketing services to the international travel sector
Watermark Asia Limited	Provision of travel supplies and marketing services to the international travel sector
Watermark South Africa (Pty) Limited	Provision of travel supplies and marketing services to the international travel sector
M'n'H Recycling Limited	Recycling and packing of airline cabin products
Media On The Move Limited	Provision of newspapers and magazines to the international travel sector
Air Fayre Limited	Provision of catering and logistics services to the international travel sector
Watermark Asia Holdings Limited	Provision of staff to Hong Kong based subsidiaries
Glorient In-Flight Sales Limited	DORMANT
Globe Audio Limited	DORMANT
Update International Limited	DORMANT
Update International Services Limited	DORMANT
Encompass Supply Chain Management Limited	DORMANT
Watermark Group Holdings Limited	DORMANT
Airspace Outdoor Advertising Limited	DORMANT
Bigger Than Life (UK) Limited	DORMANT
Telecard Limited	DORMANT
Watermark Travel Supplies Limited	DORMANT
Watermark.com Limited	DORMANT
Watermark Hong Kong Limited	DORMANT

During the year, the name of Watermark Asia Procurement Limited was changed to Update International Limited.

During the year, the trade of Glorient In-Flight Sales Limited was transferred to Watermark Asia Limited, and the trade of Globe Audio Limited and Update International Services Limited was transferred to Watermark Limited.

As at 31 December 2004, all companies are owned directly by Watermark Group plc, except that:

a) the investment in Bigger Than Life (UK) Limited was held by Airspace Outdoor Advertising Limited and
b) the investment in Watermark Asia Limited, Glorient In-Flight Sales Limited and Update International Limited was held by Watermark Asia Holdings Limited.

All subsidiaries are incorporated in England and Wales except:

Name of subsidiary undertaking	Country of incorporation
Watermark Americas Inc.	Delaware, USA
Watermark Asia Holdings Limited	Hong Kong
Watermark Asia Limited	Hong Kong
Glorient In-Flight Sales Limited	Hong Kong
Watermark Hong Kong Limited	Hong Kong
Update International Limited	Hong Kong
Watermark South Africa (Pty) Limited	South Africa

(4) Other investments	Nature of business	Investment
FlightStore Group plc	In-flight interactive media provider and product retailer	Current holding 7.7%
AeroTV Limited	Provider of entertainment systems to short-haul aircraft, buses and trains	Current holding 16%

The group's 16% investment in AeroTV Limited has not been treated as an associate undertaking as the company is controlled by the majority shareholder, who holds the remaining 84% of the voting shares. Despite Watermark Group plc having a director on the board of AeroTV Limited, in the opinion of the directors, the shareholding is such as to prevent the group from exercising significant influence over its operations.

15 Stocks

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Goods for resale	**4,096**	**3,381**	**-**	**-**

16 Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year				
Trade debtors	15,569	13,497	-	-
Amounts owed by subsidiary undertakings	-	-	3,064	1,693
Other debtors	630	976	800	1,001
Prepayments and accrued income	4,300	3,684	226	15
	20,499	18,157	4,090	2,709
Amounts falling due after more than one year				
Trade debtors	112	-	-	-
	20,611	**18,157**	**4,090**	**2,709**

17 Creditors: amounts falling due within one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans and overdrafts	4,962	5,994	3,246	-
Trade creditors	9,795	7,491	-	-
Amounts owed to subsidiary undertakings	-	-	174	4,663
Corporation taxation	1,118	1,945	76	70
Other taxes and social security costs	390	781	-	-
Deferred cash consideration for acquisitions (note 35)	1,063	18,160	1,063	18,160
Other creditors	491	74	-	-
Obligations under hire purchase agreements	553	18	-	-
Accruals and deferred income	3,785	4,213	-	1,173
Proposed dividend	841	675	841	675
	22,998	**39,351**	**5,400**	**24,741**

The bank loans and overdrafts bear interest at 1.25% above LIBOR and 1% above the base rate respectively. The bank loans and overdrafts are secured by an unlimited debenture, a charge over the group's trade debtors and an assignment of the proceeds of key man insurance policies in respect of certain directors.

Obligations under hire purchase agreements are secured by the related assets.

Notes to the accounts (continued)

for the year ended 31 December 2004

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Obligations under hire purchase agreements	1,314	11	-	-
Bank loans	-	1,517	-	-
Other creditors	111	-	-	-
Deferred cash consideration for acquisitions (note 35)	3,187	4,250	3,187	4,250
	4,612	**5,778**	**3,187**	**4,250**

Borrowings

The borrowings are repayable as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within one year	5,515	6,012	3,246	-
Between one and two years	1,088	526	-	-
Between two and five years	226	1,002	-	-
	6,829	**7,540**	**3,246**	**-**

Obligations under hire purchase agreements are secured by the related assets.

19 Provisions for liabilities and charges

	Deferred Taxation £'000
At 1 January 2004	48
Provisions in the year	475
At 31 December 2004	**523**

20 Deferred taxation

Group	2004 £'000	2003 £'000
Accelerated capital allowances	523	48

21 Financial instruments

The financial review on pages four to seven provides an explanation of the role that financial instruments have had during the period in creating or changing the risks which the group faces in its activities.

The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period.

The numerical disclosures in this note deal with the financial assets and financial liabilities as defined in FRS 13 - *Derivatives and other financial instruments: Disclosures*. Certain financial assets such as investments in subsidiary and associated companies are also excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Interest rate profile
The profile of the group's interest-bearing financial assets and liabilities at 31 December 2004 and 2003 was as follows:

		Floating rate	
Currency		**2004 £'000**	**2003 £'000**
Sterling	- assets	161	4,859
Sterling	- borrowings	(9,877)	(7,142)
US dollar	- assets	5,447	1,651
US dollar	- borrowings	(455)	(272)
Hong Kong dollar	- assets	374	586
Hong Kong dollar	- borrowings	-	(51)
Euro	- assets	209	3
Euro	- borrowings	(1,222)	(46)
South African rand	- assets	-	3
Australian dollar	- assets	4	-
Canadian dollar	- assets	1,915	-
Russian roubles	- assets	305	-
		(3,139)	**(409)**

The financial assets comprise cash.

Under the terms of the overdraft facility, there is a right of set off between certain sterling and foreign currency balances with a net liability value of £4,962,000 (2003: net asset of £2,574,000).

The floating rate assets and liabilities bear interest at rates which move in accordance with the bank base rate.

Notes to the accounts (continued)

for the year ended 31 December 2004

21 Financial instruments (continued)

Currency exposures

The table below shows the group's currency exposures, in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or "functional") currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. As at 31 December 2004, these exposures were as follows:

	Net foreign currency						
	Sterling £'000	US Dollars £'000	Hong Kong Dollars £'000	Euros £'000	Canadian Dollars £'000	Other £'000	Total £'000
2004							
Functional currency of group operation							
Sterling	-	1,620	-	(1,109)	1,915	-	2,426
US Dollars	711	-	(275)	72	-	126	634
	711	**1,620**	**(275)**	**(1,037)**	**1,915**	**126**	**3,060**
2003							
Functional currency of group operation							
Sterling	**-**	**1**	**-**	**-**	**-**	**-**	**1**

The amounts shown in the tables above take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. As at 31 December 2004, the group held open forward contracts of US$10,500,000 (2003: US$8,706,204) taken out to hedge expected profits on future foreign currency sales. These contracts expire evenly over 2005.

Maturity of financial liabilities

The maturity profile of the group's financial liabilities other than short-term creditors is shown in note 18.

Borrowing facilities

The group had undrawn committed borrowing facilities at 31 December 2004, in respect of which all conditions precedent had been met, as follows:

	2004 £'000	2003 £'000
Expiring in one year or less	**5,038**	**2,472**

Fair values

The book value of the group's financial instruments recognised in the financial statements approximates to their fair value.

22 Called-up share capital

	2004 £'000	2003 £'000
Authorised		
65,382,754 (2003: 39,325,030) ordinary shares of 1p each	654	393
Allotted, issued and fully paid		
40,421,900 (2003: 24,880,321) ordinary shares of 1p each	**404**	**249**

On 23 February 2004, the authorised share capital was increased to £653,827 by the creation of 26,057,724 ordinary shares of 1p each. The issued share capital was increased by the issue of 12,937,766 ordinary shares of 1p each by way of a share placing and open offer, raising £20,053,537. The shares were issued for cash and the proceeds were used to fund the consideration for the acquisition of Air Fayre Limited.

During the year, 1,068,265 ordinary shares of 1p each were allotted as a result of the exercise of share options, and 1,535,548 ordinary shares of 1p each were allotted under the terms of sale and purchase agreements for company acquisitions, for a total consideration of £776,245.

Contingent rights to the allotment of shares:

Watermark Group plc executive share option scheme

At 31 December 2004, options to subscribe for 745,307 ordinary shares of 1p each had been granted, all exercisable between 3 and 10 years after the date they were granted, as follows:

Number of options	Exercisable after	Exercisable before	Exercise price
10,000	13 June 1999	13 June 2006	15p
10,000	29 April 2000	29 April 2007	34p
10,000	5 May 2002	5 May 2008	48p
20,000	25 May 2003	25 May 2009	40p
22,500	9 October 2003	9 October 2010	72p
117,882	6 April 2004	6 April 2011	72p
130,000	3 April 2005	3 April 2012	86.5p
30,000	24 October 2005	24 October 2012	97.5p
152,043	1 October 2006	1 October 2013	123.5p
242,882	8 April 2007	8 April 2014	178.5p

Watermark Group plc unapproved share option scheme

At 31 December 2004, options to subscribe for 2,230,334 ordinary shares of 1p each had been granted, exercisable within 7 years from the date of grant (except notes 1 and 2 below), as follows:

Number of options	Date of grant	Exercisable before	Exercise price
10,000	15 October 1999	15 October 2006	51.5p
25,000	29 September 2000	29 September 2007	72p
219,000	29 March 2001	29 March 2008	72p
815,000 (note 1 below)	27 September 2001	27 September 2008	53p
7,500	3 April 2002	3 April 2009	86.5p
100,000	2 May 2002	2 May 2009	106.5p
100,000	12 August 2002	12 August 2009	102.5p
150,000 (note 2 below)	1 October 2002	1 October 2009	101.5p
50,000	25 September 2002	25 September 2009	94.5p
10,625	19 March 2003	19 March 2010	87p
50,000	25 March 2003	25 March 2010	89.5p
588,209	29 January 2004	29 January 2011	178p
105,000	1 April 2004	1 April 2011	178.5p

Note 1 815,000 options granted at a price of 53p per share are exercisable within 3 to 7 years from the date of grant, provided the share price has reached at least 140p per share at the third anniversary of the date of grant. This target was met.

Note 2 150,000 of the options granted at a price of 101.5p per share are exercisable at any time up to 7 years from the date of grant, provided the share price has at least reached 225p per share.

Note 3 During the year, the group's share price ranged from 126.5p to 195.5p and closed the year on 31 December 2004 at 156.5p. The share price as at 15 April 2005 was 158.5p.

Note 4 As at 1 January 2004 3,137,815 share options had been granted. During the year ended 31 December 2004, 966,061 further share options were granted, 1,068,265 share options were exercised and 60,000 share options lapsed.

Notes to the accounts (continued)
for the year ended 31 December 2004

23 Share premium

Group and company	£'000
1 January 2004	599
Share options exercised	766
Deferred consideration shares issued	1,375
Issue of shares upon placing	20,063
31 December 2004	**22,803**

24 Shares to be issued

Group and company	£'000
1 January 2004	8,172
Additional consideration payable	71
Deferred consideration shares issued	(1,530)
Reduction in the fair value of deferred consideration (note 12)	(217)
31 December 2004	**6,496**

Deferred consideration shares are contingent upon subsidiary undertakings achieving future profit targets. Provision has been made for deferred consideration shares, based on the directors' best estimate of the number of shares expected to be issued (note 35).

25 Reserves

	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
(1) Group			
1 January 2004	24	(527)	7,084
Retained profit for the financial year	-	-	1,237
Currency translation	-	-	60
31 December 2004	**24**	**(527)**	**8,381**
(2) Company			
1 January 2004	24	-	679
Retained profit for the financial year	-	-	447
31 December 2004	**24**	**-**	**1,126**

(3) Cumulative goodwill

Cumulative goodwill written off amounts to £2,281,301, of which £40,127 was written off against reserves in the year of acquisition and £2,241,174 has been fully amortised through the profit and loss account.

26 Reconciliation of movements in equity share owners' funds

Group	2004 £'000	2003 £'000
Profit for the financial year	2,122	2,380
Currency translation	60	(468)
Dividends	(885)	(678)
New shares issued and to be issued	20,683	6,918
Net addition to equity share owners' funds	**21,980**	**8,152**
Opening equity share owners' funds	15,601	7,449
Closing equity share owners' funds	**37,581**	**15,601**

27 Net cash inflow/(outflow) from operating activities

	Operating profit £'000	Exceptional items £'000	2004 Total £'000	2003 Total £'000
Operating profit	5,125	-	5,125	3,367
Less exceptional item	-	(1,436)	(1,436)	-
			3,689	3,367
Depreciation and amortisation charges	2,105	280	2,385	785
(Increase)/decrease in stocks	(816)	-	(816)	1,080
(Increase)/decrease in debtors	(2,993)	339	(2,654)	1,398
Increase/(decrease) in creditors	3,270	306	3,576	(4,297)
Net cash inflow from operating activities	**6,691**	**(511)**	**6,180**	**2,333**

28 Analysis of cash flows

(1) Returns on investments and servicing of finance	2004 £'000	2003 £'000
Interest received	64	28
Bank interest paid	(484)	(297)
Interest element of hire purchase payments	(10)	(3)
Other interest	(11)	(4)
Net cash outflow	**(441)**	**(276)**

(2) Capital expenditure and financial investment	2004 £'000	2003 £'000
Purchase of fixed asset investments	(111)	(14)
Purchase of tangible fixed assets	(7,688)	(428)
Sale of fixed asset investments	761	335
Sale of tangible fixed assets	-	3
Net cash outflow	**(7,038)**	**(104)**

(3) Financing	2004 £'000	2003 £'000
Issue of ordinary share capital	20,830	231
Receipts from bank borrowing	-	1,451
Repayment of bank borrowing	(2,981)	(468)
Capital element of hire purchase payments	(102)	(23)
Net cash inflow	**17,747**	**1,191**

(4) Acquisitions and disposals	2004 £'000	2003 £'000
Cash consideration for acquisitions	(18,160)	(1,286)
Costs of acquisitions	(1,148)	(551)
Cash acquired with acquisitions	-	4,489
Net cash (outflow)/inflow	**(19,308)**	**2,652**

29 Analysis and reconciliation of net debt

	1 January 2004 £'000	Currency translation £'000	Capital element of new hire purchase agreements £'000	Cash flow £'000	31 December 2004 £'000
Cash at bank and in hand	7,102	(82)	-	(5,197)	1,823
Bank overdrafts	(4,528)	14	-	(448)	(4,962)
Increase/(decrease) in cash for the year	2,574	(68)	-	(5,645)	(3,139)
Bank loans	(2,983)	2	-	2,981	-
Hire purchase agreements	(29)	-	(1,940)	102	(1,867)
Net debt	**(438)**	**(66)**	**(1,940)**	**(2,562)**	**(5,006)**

	2004 £'000	2003 £'000
(Decrease)/increase in cash in the year	(5,645)	4,783
Cash flow from movement in bank loans	2,981	(983)
Cash flow from movement in hire purchase agreements	102	23
Change in net debt resulting from cash flows	(2,562)	3,823
Inception of hire purchase agreements	(1,940)	-
Currency translation	(66)	(93)
Acquisitions	-	(20)
Net debt as at 31 December 2003	(438)	(4,148)
Net debt as at 31 December 2004	**(5,006)**	**(438)**

30 Financial commitments

(1) Operating leases

At 31 December 2004, the group had annual commitments under non-cancellable operating leases as follows:

Group	Land and buildings 2004 £'000	Other 2004 £'000	Land and buildings 2003 £'000	Other 2003 £'000
Expiry date				
- within one year	-	8	548	19
- between one and two years	-	-	155	5
- between two and five years	200	19	43	18
- after five years	984	-	-	-
	1,184	**27**	**746**	**42**

(2) Commitments on behalf of group undertakings

The company has guaranteed the borrowings of its subsidiary undertakings. The borrowings are secured on the assets of all group undertakings. In addition, at 31 December 2004, the company has guaranteed the sum of £4.96 million (2003: £4.53 million). At 31 December 2004, net bank borrowings were £3.14 million (2003: £2.58 million assets).

31 Related party transactions

The group purchased goods and services during the year from John Caulcutt and PVC Supplies (St. Albans) Limited, a company in which John Caulcutt owns 100% of the issued share capital, at a cost of £73,000 (2003: nil), relating principally to rent and other services for the use of the premises at Belmore Park. In addition, an accrual for £75,500, as determined by an independent surveyor, was included for dilapidations on the premises, payable on 31 December 2005.

Maurice Ostro is a director of Air Fayre Limited and Media On The Move Limited. Prior to the acquisition of Air Fayre Limited and Media On The Move Limited by Watermark Group plc in 2003, Maurice Ostro had a beneficial interest in these companies.

Maurice Ostro is one of the potential beneficiaries of The Max Ostro Children's Trust, which held an interest in the shares of Air Fayre Limited at 31 December 2003. On 23 February 2004, these shares were acquired by Watermark Group plc.

There were no other related party transactions that require disclosure under FRS 8 - *Related party disclosures*.

The company has taken advantage of the exemption within FRS 8 not to disclose transactions with other group companies which have been eliminated on consolidation.

32 Employees

The average monthly number of persons (including directors) employed by the group during the year was:

	2004 Number	2003 Number
Sales and distribution	267	136
Management and administration	87	25
	354	**161**

Their employment costs were:

	2004 £'000	2003 £'000
Wages and salaries	10,668	4,132
Social security costs	746	295
Pension costs	155	98
	11,569	**4,525**

Included in wages and salaries are payments to agency staff totalling £2,893,829 (2003: £279,059).

33 Pensions

The group operates defined contribution pension schemes for the benefit of the employees. The assets of the schemes are administered by trustees in funds independent from those of the group.

The pensions cost charge for the year was £154,816 (2003: £98,325).

34 Capital commitments

The group had capital commitments of £190,700 in respect of the purchase of capital equipment at 31 December 2004 (2003: £310,000).

35 Deferred contingent consideration payable for the acquisition of subsidiaries

The deferred consideration payable in respect of M'n'H Recycling Limited, Media On The Move Limited and Air Fayre Limited is contingent upon these companies achieving future profit targets, and will be satisfied by a combination of cash and the issue of shares in Watermark Group plc. The deferred consideration becomes payable once the audit is completed for each year.

The maximum deferred consideration recognised at 31 December 2004, as shown in the note below, is the directors' best estimate of the amount which remains payable, assuming that a 30% growth in annual profits is achieved by each of the companies. This amount is the maximum payable under each sale and purchase agreement and is considered attainable by reference to the results achieved by each company to date.

	Media On The Move Limited £'000	Air Fayre Limited £'000	M'n'H Recycling Limited £'000	Globe Audio Limited £'000	Watermark Asia Limited £'000	Total £'000
Deferred share consideration (note 24)						
Balance brought forward	1,875	4,390	1,269	217	421	8,172
Additional consideration payable	-	-	-	-	71	71
Issued in the year	(625)	(140)	(273)		(492)	(1,530)
Reduction in the fair value of deferred consideration	-	-	-	(217)	-	(217)
Balance carried forward:						
Payable within one year	625	1,063	272	-	-	1,960
Payable after more than one year	625	3,187	724	-	-	4,536
Shares to be issued	**1,250**	**4,250**	**996**	**-**	**-**	**6,496**
Deferred cash consideration (note 17 and 18)						
Balance brought forward	1,000	21,410	-	-	-	22,410
Paid in the year	(1,000)	(17,160)	-	-	-	(18,160)
Balance carried forward:						
Within one year	-	1,063	-	-	-	1,063
After more than one year	-	3,187	-	-	-	3,187
	-	**4,250**	**-**	**-**	**-**	**4,250**
Total deferred consideration payable	**1,250**	**8,500**	**996**	**-**	**-**	**10,746**

In addition to the amount recognised, further deferred consideration may become payable in accordance with the sale and purchase agreements, as follows:

1. Under the terms of the agreement for the purchase of Media On the Move Limited, in addition to the deferred consideration reflected above, additional bonus shares issued at the share price applicable at the time of issue become payable if these profit targets are exceeded, up to a maximum value of £1.75 million.

2. Under the terms of the agreement for the purchase of Air Fayre Limited, in addition to the deferred consideration reflected above, additional bonus shares become payable if these profit targets are exceeded. There is no limit to the level of profits upon which bonus shares become payable. Air Fayre Limited has exceeded its profit targets in 2004 and a maximum amount of un-provided deferred consideration of £799,000 may become payable in April 2005. This amount is payable in shares issued at the share price applicable at the time of issue, and is contingent upon the former shareholders of Air Fayre Limited electing to receive or further defer their entitlement at this time.

3. Under the terms of the sale and purchase agreement for the acquisition of Update International Limited (now Watermark Asia Limited), further consideration in the sum of £71,000 was paid during the year in additional shares issued at the share price at the date of issue.

4. Under the terms of the sale and purchase agreement for the acquisition of Globe Audio Limited, no further deferred consideration is payable.

36 Contingent liabilities

The directors are not aware that the group had any contingent liabilities as at 31 December 2004 or 2003, except that the company has guaranteed the annual lease commitments of £984,000 of Air Fayre Limited on the Heathrow premises for a minimum of three years from commencement of the lease.

Corporate share owner information

Board of directors	John A-G-Calthorpe (Chairman) John Caulcutt (Chief executive) Crispin Quail FCA (Group finance director) George Brooksbank FCA William Skerrett Maurice Ostro Danny Bernstein FCA	
Company secretary	Crispin Quail FCA	
Financial calendar	2005 Annual General Meeting Payment of 2004 dividend 2005 Interim results 2005 Preliminary results	29 June 2005 27 July 2005 September 2005 March 2006
Registered office	Belmore Park, Upham, Hampshire, SO32 1HQ, UK	
Company registration number	1944667	
Email address	info@watermark.co.uk	
Web site	www.watermark.co.uk	
Registrars	Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA	
Auditors	Grant Thornton UK LLP, Manor Court, Barnes Wallis Road, Segensworth, Fareham, Hampshire, PO15 5GT	
Bankers	National Westminster Bank plc, 105 High Street, Winchester, Hampshire, SO23 9AW	
Solicitors	Payne Hicks Beach, 10 New Square, Lincoln's Inn, London, WC2A 3QG Humphries Kirk, Ling Road, Poole, Dorset, BH12 4NZ S J Berwin, 222 Gray's Inn Road, London WC1X 8XF	
Stockbroker	Numis Securities Limited, Cheapside House, 138 Cheapside, London, EC2V 6LH	
Financial PR	Tavistock Communications Limited, 131 Finsbury Pavement, London, EC2A 1NT	

Share owners' service

Share price

The company's share price is broadcast on BBC1 Ceefax page 233 (page 1/4) and on Channel 4 Teletext page 526 (page 14/17) as well as appearing in the Financial Times, Daily Telegraph and the London Evening Standard.

Investor communications initiative

For all the latest news and information on Watermark Group plc, register at **www.hemscott.com**

Payment of dividends

The best way to ensure that dividends are received as quickly as possible is to instruct our registrars, whose address is given above, to pay them directly into your bank account; tax vouchers are then posted to you separately. This method also avoids the risk of the dividend cheques being delayed or lost in the post.

Voting on the Web

We have organised an electronic facility for share owners to record their proxy vote for our Annual General Meeting. Share owners will be sent their own unique company code, stock code, card ID and password on the proxy card which they will receive with the notice of the Annual General Meeting. To lodge your vote electronically, you need to go to **www.capitaregistrars.com** and select the shareholder services pages.

Share owner enquiries

All administrative enquiries relating to shareholdings, such as queries concerning dividend payments, notification of change of address or the loss of a share certificate, should be made to our registrars by telephone on 0870 162 3131 or in writing to the address given above. Capita also operate a web-based enquiry service; please visit **www.capitaregistrars.com** where you can view your shareholding and see a range of useful information.

group companies

uk
americas
europe
asia

inflight products

inflight catering

recycling of onboard products

distribution of newspapers and magazines

headsets and electronics

cabin design and management

relationship marketing

logistics and supply chain management

group joint ventures and investments

global logistics network

cabin crew training

inflight entertainment for long-haul aircraft

cabin cleaning and laundry services

onboard retail

interactive media and retail

inflight entertainment for short-haul aircraft

Watermark Group plc
Belmore Park Upham Hampshire SO32 1HQ United Kingdom
Tel: +44 (0)1489 897800 Fax: +44 (0)1489 896605

www.watermark.co.uk