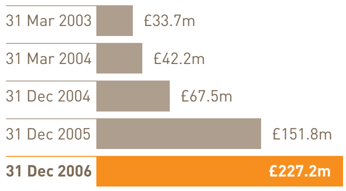
ANNUAL REPORT AND ACCOUNTS 2006

Erinaceous. One company. One solution.

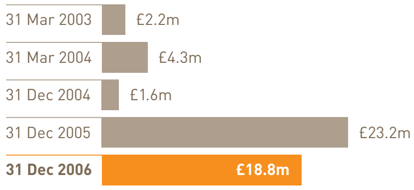
ERINACEOUS
GROUP PLC

Contents

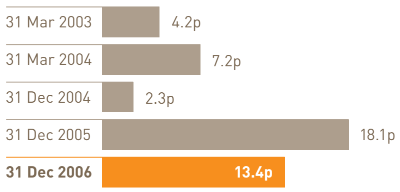
Turnover



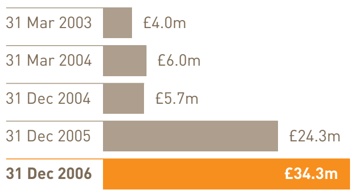
Profit before tax



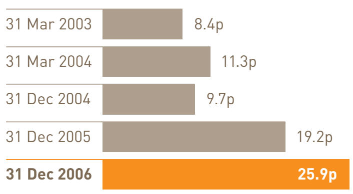
Earnings per share



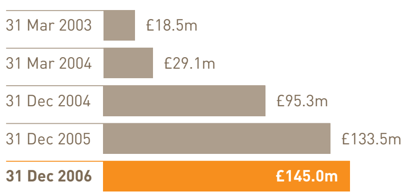
Adjusted profit before tax*



Adjusted earnings per share*



Net assets



* Excludes goodwill amortisation, restructuring costs, other non-recurring and non-trading costs, amortisation of intangibles and share of operating loss on joint venture. 31 December 2004 covers a shorter nine month period. See note 10 for calculation of adjusted earnings per share. Organic growth rates are derived from proforma 2005 results noted in the Business review.

Erinaceous aims to become the UK's premier property services company, providing a unique one-stop-shop and integrated solutions for our clients for all services that relate to the ownership, design, construction, management, insurance and maintenance of property.

Financial highlights

£227.2m
Revenue including organic growth**** of 8% (2005: £151.8m).

13.4p
Earnings per share (2005: 18.1p).

£26.5m
Profit from operations (2005: £26.9m).

25.9p
Adjusted earnings per share* (2005: 19.2p).

£41.2m
Adjusted profit from operations* including organic growth**** of 9% (2005: £27.8m).

£10.5m
Cash generated from operations (2005: £21.9m).

£18.8m
Profit before taxation (2005: £23.2m).

£19.3m
Adjusted cash generated from operations*** (2005: £26.0m).

£34.3m
Adjusted profit before taxation** (2005: £24.3m).

5.0p
Dividend per share up by 18% (2005: 4.25p).

£14.3m
Profit for the year (2005: £17.4m).

* Adjusted profit from operations: excludes restructuring costs, other non-recurring and non-trading costs and amortisation of intangibles

** Adjusted profit before tax: excludes restructuring costs, other non-recurring and non-trading costs, amortisation of intangibles and share of operating loss on joint venture

*** Adjusted operating cash flows: excludes restructuring costs, the cash element of non-recurring and non-trading costs and the cost of development land acquired during the year

**** Organic growth rates are calculated by adjusting for the impact of acquisitions

A nationwide one-stop-shop property services group

Residential

The UK's No. 1 for tenant referencing and property management.

Out of the Group's residential property services, 60% relates to public bodies and 40% private. These services include letting, tenant referencing, property management, property maintenance and building consultancy.

Erinaceous is established as the UK's No. 1 for tenant referencing and property management, providing services to owners, occupiers and residential management company directors across the UK.

List of services

- Property management
- Public sector management
- Building consultancy
- Professional services
- Facilities management
- Advisory and agency

Commercial

A prime mover in the UK commercial property market.

85% of commercial property services' work is private sector. We can offer any service related to the procurement and management of property. Our property management teams manage properties valued in excess of £5.5bn while housing management services look after 10,000 local authority homes. Building consultancy's multi-disciplined teams have completed projects across all sectors including residential, commercial, education, health, leisure and community.

List of services

- Estate management
- Professional services
- Building consultancy
- Public sector housing management
- Tenant referencing
- Residential lettings services
- Facilities management

Insurance

The UK's largest property scheme provider and the UK's second largest broker.

Property insurance services are one third public and two thirds private sector. The company has the UK's No. 1 market share for insurance of both social housing and private sector blocks of flats. This division is a cash generator and a central part of the Group's cross-selling offering. We also have a major presence in the rent guarantee market.

List of services

- Social housing
- Blocks of flats insurance
- Commercial property insurance
- Residential property insurance
- Rent guarantees
- Schemes

For more information about the Erinaceous Group, please visit: www.erinaceous.com

Key facts

1

The UK's first all-in-one Group to offer the full range of property services.

3

Three areas of operation, each comprising a wide range of property services. Two thirds of revenue is recurring, not project-based.

34%

A third of our work comes from the public sector.

66%

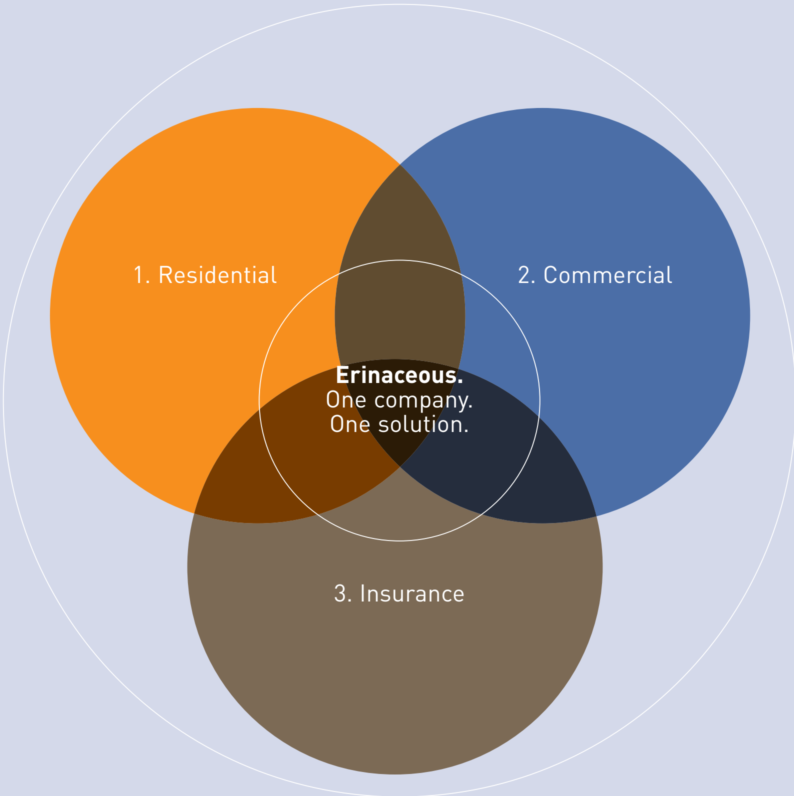
Two thirds of our work comes from the private sector.

A nationwide one-stop-shop property services Group.
We now have over 100 locations in the UK and Ireland. From our roots in Manchester and London, our offices now cover the whole of the UK creating huge opportunity for cross-selling.

Selling multiple services to clients

The Group has the central and the operational management to integrate new businesses and to generate additional cross-selling opportunities.

A history of growth.
Delivering value to our shareholders through increased total shareholder returns remains our prime objective. For our five year performance review go to page 83.



1. Residential
Provides property solutions tailored to the needs of clients and local communities in the UK and Ireland. It is a people business that has strong overlap with the insurance and commercial divisions.

2. Commercial
Providing all services related to property procurement and management, we also offer a multi-disciplinary approach that harnesses the talents of professionals across the design spectrum. This division is the bricks and mortar of the Group.

3. Insurance
With the No. 1 market share for insurance of social housing and private sector blocks of flats, we also offer specialist niche commercial products. This division is a central pillar of the Group's cross-selling offering.

Introduction and background

2006 was a year of considerable progress for the Group. Erinaceous has grown rapidly over its history and we took the opportunity in 2006 to consolidate and lay the foundations for future organic growth. The Operations Board has developed the vision and values for the Group, which are now being rolled out. 'Erinaceous' is starting to be used as the brand that identifies the 'one-stop-shop' for property support services.

Additionally, the consolidation of activities under service lines and divisional management has identified the need to develop an improved IT platform for several activities and these developments, both at divisional level and for the Group, were a major focus in 2006. Once completed the businesses concerned will be able to grow more rapidly, both organically and through acquisitions, due to operational efficiency and improved competitiveness.

In 2006 acquisition activity continued as the Group sought to extend its geographical spread in the UK and Ireland and fill in gaps in core competencies within the business activities. As flagged at the start of the year acquisitions have been modest in size. In the first half of the year, it included Douglas Duff, which extended the commercial property services businesses geographically in mainland UK, Tom McNamara & Partners, which provides business consulting services in Ireland and Shoreham Airport, which extended the Group's management activities into the running of airports. In the second half, the Group acquired Keelan Westall, an insurance broker specialising in property, and a number of bolt-on commercial property services businesses including fund management.

Elsewhere in the Group, organic growth was maintained and towards the end of the year there were new contract wins in the repairs and housing management businesses.

2006 also saw the well publicised investigation into the alleged fraud of an employee at the Group's Bow Lane office. The Group has included a charge in the accounts for the directors' estimate of the cost arising.

Business progress

Turnover for the year was £227.2m, an increase of 50% (of which 8% represents organic growth with strong performance within our transactional activities).

Adjusted profit from operations (excluding restructuring costs, other non-recurring and non-trading costs, amortisation of other intangibles, and share of operating loss of joint venture) increased from £27.8m to £41.2m an increase of 48% of which 9% came from organic growth. Earnings per share (which is calculated after items such as restructuring costs, other non-recurring and non-trading costs, amortisation of other intangibles, and share of operating loss of joint venture) fell from 18.1p to 13.4p, while the adjusted earnings per share increased 35% from 19.2p to 25.9p.

Dividend

A dividend of 5.0p per share will be paid on 4 May 2007 to shareholders on the register on 13 April 2007. This compares with a dividend of 4.25p per share in 2006. The Group paid total dividends of 7.75p per share in 2006 (2005: 6.75p).

Staff

I would like to thank all directors and staff for their continuing efforts in helping to develop a business that delivers improving services to its customers.

The continuing rationalisation and integration of business and development of IT platforms has made for a challenging year for all concerned.

This year the Group has grown strongly organically and through acquisition

Board and senior management

The Board continues to focus on strategy and monitoring the performance of management. The Executive Committee continues to concentrate on the day-to-day issues, in particular the financial issues affecting the Group whilst the Operations Board, which includes divisional managing directors and functional heads, has made good progress in helping the Chief Executive and Chief Operating Officer push ahead with policy decisions across the Group.

Summary

Whilst 2006 was a challenging year, real progress was made on taking the necessary business decisions to create a sound platform for future growth. The Board remains confident in the future of the business.

Nigel Turnbull
Chairman
7 March 2007

Significant investment has been made in 2006 to strengthen the Group's delivery capabilities in accordance with our strategy

Neil Bellis
Chief Executive

Lucy Cummings
Chief Operating Officer

Michael Pearson
Finance Director

Chief Executive's strategic review

The year under review has been one of significant activity and achievement on all fronts. In 2006 Erinaceous continued to show strong revenue growth. This has been driven by underlying organic growth, with particularly strong performance from transactional activities, and has been enhanced by carefully identified acquisitions.

The Group vision is to become the premier provider of property services, throughout the UK and Ireland. By providing a wide variety of services, Erinaceous enables both public sector and private sector clients to manage their properties in a simpler, more coherent and efficient way. This will enable the Group to develop longer-term and broader client relationships, generate superior returns to its shareholders and offer a more satisfying career pattern for its staff.

The Group has a long-term commitment to continue growing the business through a combination of organic growth, increased cross-selling and carefully targeted earnings-enhancing acquisitions. Comfortable borrowing headroom and ongoing cash generation from operations mean that there remains scope for further acquisitions, however, the Board will seek to ensure the Group's gearing levels remain prudent and sensible.

Erinaceous has increased expenditure in order to strengthen the Group's systems and controls and has put in place strong operational management in each of its divisions, not only to manage the business going forward but to ensure that acquisitions are integrated efficiently into the Group. Whilst this expenditure has dampened profit growth and increased restructuring costs and capital expenditure, the investment is important for the future growth of the Group's businesses.

Erinaceous offers a fully integrated property service business, providing a high proportion of recurring revenue, with positive cash generation and economic resilience.

Significant investment has been made in 2006 to strengthen the Group's delivery capabilities in accordance with our strategy. As a result I look forward confidently to a future of continued successful growth for the Group.

	Year ended 31 Dec 2006 £m	Year ended 31 Dec 2005 £m
Revenue		
Residential Property Services	**101.2**	74.2
Commercial Property Services	**97.0**	55.2
Property Insurance Services	**29.0**	22.4
	227.2	151.8
Adjusted profit from operations*		
Residential Property Services	**14.3**	13.0
Commercial Property Services	**20.1**	7.6
Property Insurance Services	**14.4**	11.3
Central overheads	**(7.6)**	(4.1)
Adjusted profit from operations*	**41.2**	27.8
Restructuring costs	**(6.1)**	(1.6)
Other non-recurring and non-trading (costs)/income	**(4.4)**	0.7
Amortisation of intangibles	**(4.2)**	–
Profit from operations	**26.5**	26.9
Share of operating loss of joint venture	**(0.8)**	–
Net interest	**(6.9)**	(3.7)
Profit before taxation	**18.8**	23.2
Adjusted profit before taxation*	**34.3**	24.3
Profit for the year attributable to equity shareholders	**14.3**	17.4
Adjusted profit for the year*	**29.8**	18.5
Basic earnings per share (pence)	**13.4p**	18.1p
Adjusted earnings per share (pence)*	**25.9p**	19.2p
Net assets	**145.0**	133.5
Cash generated from operations	**10.5**	21.9
Adjusted cash generated from operations*	**19.3**	26.0
(Decrease)/increase in cash in the year	**(2.0)**	2.7

*for details of adjusting items please refer to page 1

Managing over £5.5bn of properties, we enhance asset values

Every property is different: we take time to understand clients' issues and concerns

Overview

The Group has continued to deliver growth in 2006 while also undertaking a significant change management programme. Revenue, adjusted profit and adjusted earnings per share growth continues, while a large number of major projects have been undertaken to strengthen the Group and its business streams. Profit and earnings per share fell as they included restructuring costs, other non-recurring and non-trading costs, amortisation of other intangibles and share of loss of joint venture. This investment programme is expected to continue throughout 2007 and early into 2008. In 2006 this additional expenditure has been more than offset by growth in revenue and profitability from the operating divisions including the growing range of transactional activities the Group undertakes.

Organic revenue growth across the Group has remained strong at 8%, most of which has been derived from the Group's transactional income streams. The Group increasingly makes use of its wide ranging customer base (including local authorities, property funds, letting agents, private investors, residential and commercial property users) to create value enhancing transactional opportunities. These activities include services such as agency, investment advisory work and valuations, short-term property investment, and involvement in a number of development projects (where fees may be deferred until the projects become possible). These less visible transactional activities have become an increasing value creator for the Group (although they remain less than 15% of Group revenues in 2006) and the income and gross profit contributions from these transactional areas are disclosed in the divisional analysis.

Organic profit growth across the Group remained strong at 9% in 2006. The operating margins of the Group have remained relatively steady in 2006 with the organic profit and revenue growth largely comparable. Our investment in infrastructure and management of approximately £2m dampened margins, while the increase in higher margin, but less visible and less predictable, transactional activities has served to more than offset these additional costs. In the coming year, similar margin dynamics will continue and while there remains a risk that the high level of transactional income achieved in 2006 may not be matched in 2007, the macro-economic market conditions suggest these opportunities will remain strong. While the Group plans to continue to invest for the longer term, the major change programme should be substantially complete by the end of 2007. On completion of the investment programme cost saving efficiencies will be generated and, depending on the relative weightings of the revenue mix, allow the Group to achieve modest operational gearing benefits from future growth.

The Group has also continued to make earnings enhancing acquisitions during the year. Revenue and profit before tax from acquisitions made in 2006 were £23.6m and £5.8m respectively. Including this and the impact of additional interest expense in respect of acquisition finance, the Group's revenue has risen by 50% to £227.2m in 2006, adjusted profit before tax by 41% to £34.3m, and adjusted earnings per share by 35% to 25.9p.

"Organic and acquisitive growth has been strong in 2006. It has also been a year focused on investment to deliver a platform for growth into the longer term."

Michael Pearson
Finance Director

We provide a full residential property management service for owners and occupiers

The residential area has won 14 planning and development awards

Erinaceous Managed Services
We provide a diverse range of property and estate managed services to customers within both the private and public sectors, including over 360,000 meals a year.

The Group is committed to growing the business through a combination of organic growth – including cross-selling – and targeted earnings - enhancing acquisitions.

We have created a **strong platform for growth**

Erinaceous Residential Property Management

Owners, occupiers and residents' management company directors rely on our property managers for a range of property management and company secretarial services.

The drive to ensure consistent standards of service in every operational area is increasing the scope for cross-selling.

We offer a **truly integrated service**

The Group's business model continues to benefit from five core strengths:

1 High visibility of income streams

While transactional income streams have risen to 13% of revenues in 2006, the remaining 87% remains highly visible.

2 Low cyclicality in relation to general macro-economic conditions

Although the Group is firmly positioned at the heart of the residential and commercial property sectors, overall it does not have significant exposure to property prices or investment yields.

3 Strong cash generated from operations

The majority of the Group's business streams have short working capital cycles. In addition, the Group's core capital expenditure requirements are modest (around £4m pa in line with the Group's depreciation expense).

4 Strong positions in fragmented and growing markets

In several of the Group's activities it is market leader or near market leader, typically in fragmented and growing markets. These include tenant referencing (market leader with around 10% market share), blocks of flat insurance (market leader with around 15% market share) and residential property management (market leader with around 3% market share). These positions create strong growth opportunities with the current investment programme designed to allow the Group to exploit them in the medium term.

5 Good organic and cross-selling growth prospects

The markets in which Erinaceous operates support strong organic growth and this has been consistently delivered by the Group. In addition, our database of clients and stakeholders provides a platform for cross-selling growth.

These core strengths mean Erinaceous can continue to strengthen its infrastructure and build the platform to take advantage of its many commercial opportunities over the long term. This investment includes growth by targeted acquisitions, investment in people, properties and IT, and continuous strengthening of management structures and teams. 2006 was, and 2007 will be, a year of high investment as the Group looks to position itself to take advantage of the opportunities in its marketplace over the next ten years.

Residential property services

	Year ended 31 Dec 2006 £m	Year ended 31 Dec 2005 £m
Revenue	**101.2**	74.2
Gross profit	**62.4**	51.2
Adjusted profit from operations*	**14.3**	13.0
Adjusted operating profit margin (%)*	**14.1%**	17.5%

*Adjusted profit from operations and adjusted operating margin excludes amortisation of other intangibles.

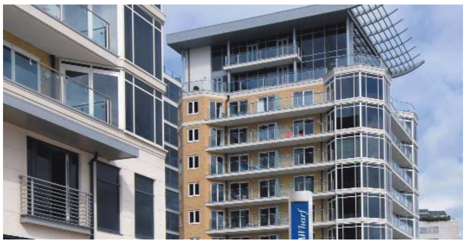
The performance of the residential property services division has been positive in 2006 with continuing revenue growth (organic and acquisitive). Revenue rose to £101.2m compared to £74.2m in 2005 including modest 1% organic growth on top of the impact of acquisitions made in 2005 and 2006.

Residential property services revenue bridge 2004-2006

Proforma 2004	£55.2m
Organic growth	23.9%
Acquisitions	10.5%
Reported 2005	£74.2m
Full year impact 2005 acquisitions	£26.1m
Proforma 2005	£100.3m
Organic growth	0.9%
Reported 2006	£101.2m

Residential property services profit bridge 2004-2006

Proforma 2004	£9.3m
Organic growth	39.8%
Reported 2005	£13.0m
Full year impact 2005 acquisitions	£0.7m
Proforma 2005	£13.7m
Organic growth	6.6%
P&L investment	(2.2%)
Reported 2006	14.3m



Clients increasingly enjoy the advantages of a simple, well-managed property outsourcing solution

We deliver a one-stop-shop solution for high quality property services

Divisional operating margins have fallen from 17.5% to 14.1% as a result of changes in margin mix and overhead investment. The margin fall can be attributed to the margin mix impact of increased repairs revenues (up from 14% to 33% of divisional revenues) resulting from acquisitions made in late 2005. In addition the strengthening of management across the division as part of the Group's change management programme has increased run-rate overheads by circa £0.3m.

The analysis of performance and future prospects in the division's key service streams highlights the medium term potential for continued organic growth and positive operational gearing, albeit 2007 is likely to be another year of investment in major parts of the division.

"The residential lettings services business continues to go from strength to strength. By adopting an investment strategy in 2006 and 2007 we aim to position the business to take advantage of its many organic growth opportunities in the medium term, while still delivering positive results in the shorter term."

Andy Halstead
Managing Director of Insurance
and Residential Lettings Services

Residential lettings services, which represents around half of the residential division's profits and a quarter of its revenues, provides a range of services and products, including references, rent guarantees, software solutions and various insurance products, to landlords, tenants and letting agents in the tenanted residential property sector.

Through its Jordans chain of letting agents it has a suitable test bed for the development of an expanded range of products and services that can subsequently be distributed through its full distribution channel of letting agents and IFAs. The continued growth in the business is demonstrated by referencing sales that have increased from around 250,000 in 2005 to 285,000 in 2006.

This service stream has continued to show solid revenue and profit growth in 2006 and remains the strongest performing area of the residential property services division. The marketplace in which this division operates continues to grow fuelled by factors such as the increase in single person households, more mobile workforces and the continuing struggle for first-time buyers to afford homes. The strength of this core marketplace and the division's position within it underpin the decision by management to significantly increase investment in 2006 and 2007 for long-term and sustainable gains.

The core strength of this service stream is its ability to provide key products and services to the lettings industry in a manner that is efficient and easy for the end user. It has built an enviable distribution channel (mainly B2B via letting agents and IFAs) and an IT platform that remains market leading. This position provides a platform for strong organic revenue growth in the medium term, together with operational gearing benefits.

"2006 ended on a very strong note with the award of two separate partnering contracts with local authorities, totalling £85m over a seven to ten year period. The new business pipeline is very strong and we believe the rebranding following integration will raise the profile of the division even further, leading to additional contract wins."

Kevin Childs
Managing Director of Property
Maintenance service stream

The existing systems do not fully support the flexibility required by the business in respect of product and service offerings and pricing in the longer term. As a result plans have been developed, together with the Group's insurance division, to undertake step change improvements to the front office IT systems in 2007. The IT investment to be incurred in 2007 will strengthen, consolidate, and in some cases replace, the existing IT platforms allowing the business development teams to bring new or amended products and services to market much more rapidly. In addition, a range of revenue opportunities that are currently deferred as a result of IT logistical difficulties will become possible. These would range from more bespoke pricing on existing products to a more creative view of the range of products and services to be offered.

National service line professionals consult on commercial investment deals across the UK and Ireland

Our multi-disciplinary team bring together professionals across the design spectrum

Erinaceous Architecture
Our architects provide innovative, sustainable design solutions relevant to the needs of the markets in which our clients operate.

The purpose of providing a one-stop-shop solution is to enable clients to manage their properties in a simpler, more coherent and efficient way.

We maximise **the value of our customers' assets**

Erinaceous Agency
With a comprehensive understanding of the UK market, our agents provide services for clients that wish to rationalise, expand or develop their property portfolios.

With strong customer focus, commitment to service and innovation, we work in partnership with a diverse range of clients, adding value and implementing total property solutions.

Meeting our **customers' needs**

The **property management** teams provide management and associated services to the public and private sectors and represent around one third of the division's total revenues and operating profits. In the public sector the relationships with its two main local authority customers, Westminster and Lewisham, remain very strong. This was evidenced by the contract extensions and additions with both: for Westminster contracts were extended for a further five years and the total number of public sector properties managed by the Group rose from 7,000 units to 7,600 units; while the London Borough of Lewisham awarded further management contracts that commenced in January 2007 and increased the number of properties managed from 1,500 to 5,000. The service stream continues to score highly with resident satisfaction surveys and in its key performance indicators. On the private sector side the division now manages around 130,000 units and, through relations with major developers across the United Kingdom, has an order book of new managements in excess of 16,000 units.

Although the division continues to win further property management mandates, there has been some increase in average churn in 2006, largely resulting from the higher property management churn inherited within acquisitions made in 2005. As a result the sub-division's growth in 2006 stems from the impact of acquisitions made in late 2005, rather than underlying revenue and profit growth.

This area is currently undertaking a major change programme encompassing redesigned management structures, business processes, changes to and rationalisation of IT systems, merging of operating locations and teams, and rebranding. Investment in this programme in 2006 totalled around £2m, mainly included within highlighted restructuring costs, and similar costs will be incurred in 2007. The size of the project together with the need to maintain and improve service standards has made 2006 a demanding year for management but major progress has been made in the scoping and commencement of the change programme.

It is likely they will remain firmly inwardly focused throughout 2007 and into 2008. The integration programme is likely to continue to limit organic growth in 2007, and makes acquisitions in this area less likely. Once the implementation programme has been completed service qualities and cost efficiencies will have been improved dramatically. This will allow residential property management services, which although a market leader already, has a comparatively low market share of around 3% in its fragmented market, to target market share growth aggressively.

The residential division is also beginning to see the benefits of combining the public and private sector residential management teams and this promises to offer exciting market opportunities in mixed tenure developments where Erinaceous can work alongside developers and housing associations.

The **property maintenance** service stream principally undertakes day-to-day repairs and planned maintenance projects and represents around 30% of divisional revenue and 15% of operating profits. Both activities are supplied directly to local authorities and housing associations but increasingly these services are also offered to properties managed by the residential property management service stream.

Revenues more than doubled in 2006, mainly as a result of the full year impact of acquisitions made in 2005. In addition, cost savings drove operating margins up to around 5% which is considered satisfactory in this marketplace.

The division continues to provide services to around 200,000 homes and has won contracts in Portsmouth, Dartford and Medway amongst others during 2006, with an expected increase in annual revenue of £15m for varying terms of between five and ten years. The division has fully integrated its activities during 2006 having started the year as five separate trading entities. In addition, it was rebranded as Erinaceous in December 2006, a change that management believe will improve its prospects in future local authority and housing association tenders.

We can help manage property risk and provide specialist niche insurance products

We have panels comprising over 6,000 agents and 5,000 insurance brokers

Commercial property services
revenue bridge 2004-2006

Proforma 2004	£44.6m
Organic growth	6.7%
Acquisitions	17.0%
Reported 2005	£55.2m
Full year impact 2005 acquisitions	£14.6m
Proforma 2005	£69.8m
Organic growth	17.6%
Acquisitions	21.3%
Reported 2006	£97.0m

Commercial property services
profit bridge 2004-2006

Proforma 2004	£3.6m
Organic growth	69.4%
Acquisitions	41.7%
Reported 2005	£7.6m
Full year impact 2005 acquisitions	£4.0m
Proforma 2005	£11.6m
Organic growth	42.2%
Acquisitions	31.0%
Reported 2006	£20.1m

We are the UK's second largest
insurance broker

Commercial property services

	Year ended 31 Dec 2006 £m	Year ended 31 Dec 2005 £m
Revenue	**97.0**	55.2
Gross profit	**72.7**	32.2
Adjusted profit from operations*	**20.1**	7.6
Adjusted operating profit margin (%)*	**20.7%**	13.8%

*Adjusted profit from operations and adjusted operating margin excludes amortisation of other intangibles

The **commercial property services** division provides a range of services to the public and private sector (including many blue-chip companies). The division has achieved impressive results in 2006 with revenue increasing to £97.0m compared to £55.2m in 2005. This includes 18% organic growth on top of the impact of acquisitions made in 2005 and 2006. Operating profit growth has been even more significant rising from £7.6m to £20.1m including 42% organic growth. As a result divisional operating margins have increased from 14% to 21% as a result of changes in margin mix (blue collar FM services were around 18% of divisional revenue in 2005 compared to 9% in 2006) together with the division's increased focus on higher margin transactional activities.

The division has benefited from a major increase in its transactional activities during the year that were a key driver for the strong organic growth in the division (transactional revenues have risen from 22% to 26% of total divisional revenues). The division invested heavily in senior management positions during 2006 at the expense of an increased cost base. This has allowed the division to take advantage of increased levels of transactional activities while ensuring repetitive income streams remain the bedrock of the division's activities. Included within the transactional activities is around £15m of revenue and £11m of gross profit attributed to short-term property investment. Having developed a wide ranging client base, wide ranging sector knowledge, fund management expertise and experience together with a highly skilled senior management team the Group is confident it will be able to continue to take advantage of similar revenue opportunities in the future. The continued ability to exploit all of its transactional opportunities, especially where market dynamics are strong (as they are expected to be in 2007) allows the division to balance lower margin repetitive services with increased higher margin transactional activities.

The commercial division has been a major focus for acquisitions in 2006, larger acquisitions including:

- Tom McNamara & Partners: a building consultancy and project management business operating in Ireland acquired in February 2006
- Douglas Duff: a UK-wide commercial property services business focusing on management and valuation services acquired in March 2006
- Egan Lawson: a London-based commercial management and investment advisory business acquired in August 2006
- Monaghans: a Manchester-based building consultancy and project management business acquired in August 2006
- John Nolan Associates: a Birmingham-based structural consulting and engineering business acquired in November 2006.

These acquisitions continue the Group's drive to expand the range, quality and geographic coverage of its property services offering. They have served to strengthen the Group's operations in its key locations (London, Manchester and Birmingham) and, particularly through Douglas Duff, provide the opportunity to increase the Group's presence in a larger number of UK cities. The division trades in three core service areas: property management and associated services; building consultancy services; and blue collar FM services.

The **property management and services** stream encompasses commercial property management in the public and private sector; FM advisory services; blue collar FM services; and higher margin transactional activities such as agency, professional services, investment advice, auctioneering and short-term property investment. The service stream now represents around three quarters of the division's revenue and profits. Its revenue and profits have shown exceptional growth in 2006, both organically and as a result of acquisitions.The strategic focus of this division remains on its property management activities as provision of these comparatively lower margin operations presents a pipeline of opportunities for higher margin transactional activities that are offered and undertaken. Properties under management continue to grow and the portfolio managed now has a market value of around £8bn, up from £6bn in 2005.

Management contracts won in 2006 included the Shoreham Airport operations and property management contract that commenced in July 2006; public sector management contracts in Islington (£1m pa three year contract) and Hammersmith & Fulham (£0.3m five year contract); together with numerous contracts in the private sector. The FM advisory team have doubled their help desk size on the back of cross-selling wins; signed up Yahoo on a rolling contract with annual revenues of £0.5m; extended the contract with First Group providing advice in respect of over 1,000 railway stations; and further expanded the service offering with the long-standing Liverpool Victoria contract. Although competition in the private sector marketplace remains strong, 2006 has again demonstrated the division's ability to retain and strengthen existing relationships while achieving meaningful new business wins.

"In 2006 the division enhanced its geographical spread and its ability to share resources, grow core skills and obtain larger commissions with its deepening service range. This will continue in 2007 with organic growth, targeted acquisitions and expansion into the international building consultancy arena following overseas contract wins with existing clients."

Norman Kemp
Managing Director of
Building Consultancy service stream

Operational developments in 2006 include the commencement of back office outsourcing to India and the commencement of a major IT development project in commercial management; developing the national service stream structure required to ease management and encourage cross-selling; and finalising plans for consolidated office hubs in London, Bristol and Brentwood with all these moves expected to be completed in 2007.

The transactional activities undertaken by this service stream have taken full advantage of a buoyant property market in 2006. Agency results have been markedly increased on 2005 more than offsetting the slight cyclical downturns in other areas such as landlord and tenant advisory services.

2006 has also seen the division take significant steps forward in its commercial property fund management services, largely as a result of the Egan Lawson acquisition. Relationships with commercial property funds will be a key strategic focus for this service stream. Management will seek only to enter into long-term relationships that will deliver ongoing and varied income streams including property management, fund management services, agency services and building consultancy cross-selling opportunities.

In addition, the service stream continued to develop and extend its participation in short-term property investment transactions in 2006. These are undertaken in lieu of high agency and profit share fees typically where property situations have complex planning or ownership structures. The Group will not take major long-term stakes in property investment opportunities but will continue to take advantage of short-term revenue and profit opportunities where these will be substantially de-risked through existing individual investor and property fund participation. 2006 represented a year of very strong development of these business strategies, with income streams well above management's expectations at the start of the year.

The **building consultancy** services provided by the division encompass architecture, project and cost advice and management, engineering consultancy and other building design and advisory services. In 2006 this service stream represented around a quarter of the division's revenue and profits. The service stream has continued to grow strongly on the back of acquisitive and organic growth in 2006.

The appointment of its first dedicated managing director in mid 2006 led to the building consultancy division undertaking substantial operational integration. The division comprised over ten businesses, most of which were acquired in 2005 and 2006, but has been consolidated into a single operation in 2006.

Building consultancy is now managed on a geographic location and service specialism matrix and will complete its rebranding programme (to Erinaceous) and IT consolidation process (to a single project client billing system) in 2007.

This integration programme has seen much increased intra service stream cross-selling as the previous businesses share their client relationships and new business opportunities more widely, a trend that is expected to continue in the future. During 2006 the division achieved many contract wins to underpin its future ambitions. Notable examples include Shirley town centre redevelopment, Brighton International Arena, further commissions in the hotel sector including for new clients Choice and Jurys Doyle Hotels, and many commissions in the retail sector including for household names such as Asda/WalMart, Woolworths, Primark, TK Maxx and Body Shop. In Ireland, Tom McNamara & Partners have been appointed cost consultants for the Irish National Forensic Laboratory and in Bucharest, Romania, Leach Rhodes Walker have been appointed architects on the Colloseum retail development. The division also led on behalf of the Group in achieving a successful BS14001 environmental audit and certification.

We look after more than 25m sq ft
of offices, industrial, retail and mixed uses

Erinaceous Insurance Services
Our insurance professionals offer innovative solutions, including a range of niche insurance products, to cover clients' needs in the risk management of residential and commercial property.

We are in line to be the UK and Ireland's first full service company for property services, with the range of services and people to open up opportunities to optimise revenue generation.

We generate **opportunities for the Group**

Property insurance revenue bridge 2004-2006

Proforma 2004	£22.2m
Organic growth	(1.8%)
Acquisitions	2.7%
Reported 2005	£22.4m
Full year impact 2005 acquisitions	£1.2m
Proforma 2005	£23.6m
Organic growth	11.4%
Acquisitions	11.4%
Reported 2006	£29.0m

Property insurance profit bridge 2004-2006

Proforma 2004	£10.6m
Organic growth	2.8%
Acquisitions	3.8%
Reported 2005	£11.3m
Full year impact 2005 acquisitions	£1.1m
Proforma 2005	£12.4m
Organic growth	8.9%
Acquisitions	11.3%
P&L investment	(4.0%)
Reported 2006	£14.4m

Insurance services division

	Year ended 31 Dec 2006 £m	Year ended 31 Dec 2005 £m
Revenue	**29.0**	22.4
Gross profit	**24.4**	22.4
Adjusted profit from operations*	**14.4**	11.3
Adjusted operating profit margin (%)*	**49.7%**	50.4%

*Adjusted profit from operations and adjusted operating margin excludes amortisation of other intangibles

The insurance services division achieved revenue growth of 29% to £29.0m and operating profit growth of 27% to £14.4m in 2006. Stripping out the impact of acquisitions, underlying divisional performance was strong, with 11% organic revenue growth and 7% organic profit growth (after offsetting the investment in the division that dampened organic profit growth by 4%). The division continues to achieve very strong operating margins (50% in both years) as a result of the niche and specialised areas the division operates in, together with the nature of insurance intermediary accounting where reported revenues represent the fees or commissions earned.

The division continues to invest heavily to ensure it meets all its regulatory requirements and delivers the high service standards demanded of its customer base. The provision of insurance services is increasingly an area where clients expect 'added value' service delivery: through the sourcing of innovative insurance deals and products, proactive benchmarking of pricing and product terms, efficient claims handling and support services that continue long after the initial sale has occurred, consultancy services to assist clients in assessing and presenting their insurance needs optimally, and strict adherence to all regulatory guidelines. In order to ensure the division continues to meet these expectations additional ongoing investment expenditure of £0.5m has being undertaken in 2006, mainly in respect of increases in compliance and client service staff numbers. This is included within the operating results in the division and has served to dampen underlying organic profit growth by 4%. In 2007 this investment is likely to continue, together with a major capital programme to develop and improve back office systems as management continue to balance short-term profit growth with longer-term business development.

In addition, to overhead investment, the division also acquired the Keelan Westall insurance intermediary business for £21m in August 2006. This acquisition strengthened management with the division's insurance director and finance director both being appointed from within Keelan Westall. As well as enlarging the division's book of insurance business it also assisted in the final elements of integration within the division that saw five independent business units become one during 2006. The division also appointed a new compliance director in 2006 and added two non executive directors to its Board. This strengthening of the division gives management confidence about their ability to meet the ongoing investment programme in 2007 while also taking advantage of the many opportunities for organic growth.

We help public and private sector clients to manage their property

Erinaceous is a fast growing company, offering an attractive career track

The businesses within the division offer a range of insurance intermediary and underwriting services. **Property insurance** in the private sector, covering commercial retail and office buildings and residential blocks of flats, represents around half of the division's revenue and profits. This area has seen solid growth in 2006 and continues to achieve renewal rates in excess of 80%. This area benefits from cross-selling opportunities introduced by the Group's commercial and residential property management divisions together with a strong and growing unconnected client base. Management feel that these opportunities remain relatively under developed and will focus on these growth areas in 2007.

Social housing insurance represents just under a third of this division's revenue and profits and we remain the market leader in this area. 2006 was a challenging year in this area with fierce competition from the No.2 in the market and a number of management defections to a new market entrant. The social housing team has displayed enthusiasm and commitment in defending the market position and renewal rates have remained strong at around 90%. Although margins and profits in this niche area have been reduced as a result of this competition the business remains a significant profit contributor. Management expect the challenges to continue in 2007 and are determined to defend the Group's enviable position in this marketplace.

"The Keelan Westall acquisition was a highlight of 2006, strengthening the division's management and operational structures. As we continue to grow and strengthen our market share, systems, customer relationships and senior management teams we can look forward confidently to successes in 2007 and beyond."

Andy Halstead
Managing Director of Insurance and Residential Lettings

The Group also undertakes limited **insurance underwriting** activities for certain risks placed by its insurance intermediary service streams. The underwriting activities are restricted to areas where there has been a long track record of underwriting profitability and where the risk profile of the products has limited individual claim costs. All of the insurance underwriting activities are undertaken in a fully regulated EU-based insurance company. The focus in 2006 has been on rent guarantee products and various buildings and contents insurance products and services.

The Group co-insures with a major insurer for much of the portfolio and provides loss adjusting, claims handling, analysis of claims and advice on pricing. The combination of the nature of the insured business, the support and shared knowledge of a well respected insurer, and a prudent reinsurance programme serve to significantly reduce the risks inherent with any insurance underwriting activity. Claims experience to date has been in line with expectations at the start of 2006.

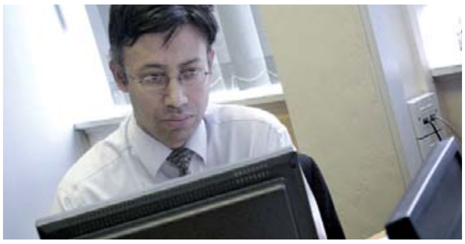
Although this activity commenced in February 2006 the impact on profits and revenue has been modest. In its first year the division incurs full overhead but spreads its income over the life of the policies covered (typically 12 months). As a result, and subject to future claims experience, management expect the underwriting activities to achieve significantly enhanced results in 2007.

"The insurance division has met our expectations in 2006 and we are optimistic about its performance in 2007. It has added extra capacity to the marketplace and its influence should ensure that these insurance products will continue to be available and can be enhanced in the years ahead."

John Perham
Managing Director of Insurance

The balance of the division comprises a range of niche products and services specific to identified trade associations and industry risks together with commercial insurance products provided as part of a package including the core commercial property insurance.

Neil Bellis
Chief Executive
7 March 2007



Erinaceous has put in place strong operational management and effective internal processes

Our agency teams assist with the procurement, asset management and sale of commercial properties

Central overheads

Central overhead costs rose significantly from £3.4m to £7.6m in 2006. The Group has continued to invest in its central service infrastructure which includes HR, IT, payroll, internal audit and corporate accounts support to the operating divisions, with £1.5m of the increased costs specifically relating to this investment programme. The Group firmly believes that the provision of strong centralised support services results in improved risk management and supports senior management within the Group's operating divisions in making appropriate strategic and operational decisions. Having made this additional investment in 2006 the Group will be positioned to identify, assess and integrate acquisitions in a more timely basis than ever before. The Group will continue to invest in these key areas to support its medium- and long-term growth aspirations.

Restructuring costs and other non-recurring, non-trading costs

The Group's results include £6.1m of restructuring costs in respect of the major integration, change and investment programmes discussed in this report. The Group continues to allocate the costs of its restructuring programme to capital expenditure where the costs are producing an identifiable intangible asset (mainly IT systems development work), highlighted restructuring costs where those costs impact on the change programme period only (eg duplicated salary costs, specific redundancy packages and specific recruitment fees), or within the standard divisional and central operating costs (where the costs relate to ongoing overhead increases).

Restructuring costs incurred in 2006 have been higher than originally envisaged as management developed and extended the original scope of the investment and integration work. Initially the focus of the plan had been targeted to achieve immediate or short-term synergistic cost savings and to align IT systems. The focus of the plan was extended significantly during the year to encompass more substantial business change and improvement plans, significant improvements to the Group's key management teams and support services, and additional focus on improved control and risk management structures. The overall plan, as detailed in this report, became more ambitious than originally envisaged but, when successfully completed, should deliver a greatly strengthened platform from which the Group can achieve its medium-term growth potential.

This project will continue throughout 2007. The restructuring costs are expected to be lower in 2007 and substantially reduced by 2008.

Other non-recurring, non-trading expenses of £4.4m relate principally to the alleged fraud identified in the Group's city office in March 2006. This charge to the income statement is the directors' best estimate, having taken appropriate professional advice in respect of the issues arising.

Net interest

The net interest relates, principally, to the bank debt within the Group. The Group rationalised its banking facilities in July 2006 when it agreed a five year revolving credit facility with a syndicate of UK banks (Bank of Scotland, Lloyds TSB and HSBC). Interest is charged at a rate of 1-1.25% over LIBOR (at current debt levels the rate equates to 1.25% above LIBOR).

In addition, the Group's deferred consideration is discounted and an implied interest rate charged to the Group profit and loss account. For the year ended 31 December 2006 this totalled £0.2m (2005: £0.2m).

Although debt levels have increased during the year interest cover remains strong at 6.0 times (2005: 7.5 times) calculated using adjusted operating profit. Based on unadjusted profit, interest cover was 3.8 times (2005: 7.2).The Group intends to remain appropriately geared in the medium term and seeks to maintain interest cover at prudent levels.

Dividends

A dividend of 5.0p (2005: 4.25p) per share will be paid on 4 May 2007 to shareholders on the register on 13 April 2007. This, together with the dividend of 3.5p (2005: 2.75p) per share paid in October 2006, gives a full year dividend of 8.5p (2005: 7.0p) per share.

Divisional analysis

The Group monitors, manages and reports its business streams according to the primary determinant of customer type. This analysis splits customers between residential property, commercial property and insurance services dependent upon the core service delivered via that distribution channel or to that customer. This analysis reflects the importance the Group places on providing the range of services and improving cross-selling opportunities: it sees a residential property customer, for example, as requiring its full range of residential property services rather than just a single service. Increasingly this year the Group has improved reporting systems, management structures and cross-selling initiatives to strengthen this structure.

Beneath this primary analysis the Group monitors its performance by a matrix of service streams and geographic locations. The Group currently operates out of over 100 locations in the United Kingdom and has further modest operating locations in Ireland, Malta, India, Romania and UAE. The Group undertakes a wide range of services and discusses the key groupings of these services in the divisional review section of this report.

Although the range of services provided by the Group is too broad to be separately reported, the Group has determined two distinct types of revenue and profit streams that have differing risk dynamics. The majority of the Group's activities can be defined, in broad terms as repetitive. These areas benefit particularly highly from the two core defensive strengths of the Group's underlying business model: high visibility of income streams and low cyclicality in relation to general macro-economic conditions. Services and products that fall under this general category would include:

- property management services and FM services: typically on rolling contracts or contract lengths of 3-10 years
- white collar professional services such as architecture and project management: typically supported by highly visible project pipelines with visibility over a 1-3 year period
- insurance products and services: typically with renewal rates in excess of 80%
- residential lettings' products and services: although made up of a high volume of low-cost items the visibility of income is high given the robust distribution channel that provides a predictable and uninterrupted volume of sales.

These activities account for more than 85% of the Group's revenues in 2006. They will continue to form the vast majority of Group revenue, providing the Group with a secure platform to make continued investment decisions for the medium and long term.

The second revenue and profit stream comes from a range of transactional activities where the future income streams are significantly less visible, and where the level of income is likely to be impacted by macro-economic issues (especially commercial property investment market cycles). The range of these transactional activities include:

- commercial property agency: a comparatively low volume high value income stream
- commercial and residential auctioneering: although some visibility exists through the schedule of auctions each month the number of sales per auction is less predictable
- white collar professional services such as property valuations, landlord and tenant advisory work, rent reviews etc: ongoing customer relationships provide a degree of visibility, however, forward looking pipeline of business is short
- involvement in property projects, taking a short-term investment position where value creation is likely, and achieving success fees where value has been created to clients on specific property transactions: a high value low volume activity taking advantage of ad hoc opportunities.

These transactional activities represent an important and growing area of the Group's business activities. The Group's wide ranging client base (public and private sectors, residential and commercial properties, investor, landlord and tenant) and wide ranging skill sets present a number of value creating opportunities. The Group intends to continue to take advantage of these opportunities in the future where they present themselves.

Balance sheet

Net assets at 31 December 2006 have risen by 9% to £145.0m (2005: £133.5m). This major increase was largely a result of the retained earnings for theyear of £14.3m (2005: £17.4m); offset by the

dividend payments during the year of £8.2m (2005: £6.4m).

Cash flow and gearing

Cash flows generated from operations (excluding exceptional and restructuring items) remained positive at £19.3m (2005: £26.0m). This represents a ratio of 47% on adjusted operating profits (2005: 94%). Operating cash flows in 2006 were dampened by the following:

- loans to property funds provided during the year totalling £8.5m (received in full in the first quarter of 2007)
- stock of development land acquired during the year of £1.5m
- working capital outflows in respect of certain acquisitions totalling £4.5m.

Excluding these items the ratio of adjusted operating profit cash flows to adjusted profit from operations rises to 82%.

Capital expenditure in the year totalled £12.5m (2005: £3.8m) of which £7.6m (2005: £1.4m) related to costs in respect of freehold and leasehold offices.

Payments made in respect of acquisitions in the year, and deferred consideration in respect of acquisitions made in prior years, totalled £63.3m (2005: £51.8m). The Group continues to invest a proportion of its cash flows in acquisitions, and to structure its acquisitions such that deferred consideration remains a key element of most acquisitions made. These deferred elements are fixed or may be dependent on future profitability. They can be satisfied in cash or shares at the Group's election (providing additional comfort in respect of the Group's gearing levels).

The Group's net debt, excluding IBA cash has risen from £67.3m to £152.7m during 2006 as a result of expenditure on acquisitions and higher than normal levels of fixed asset investment. This represents a gearing level of 104% which the management consider a sensible and prudent gearing level. Including restricted insurance monies of £12.9m the net debt of the Group is £139.8m. Banking facilities at the end of 2005 totalled £215m and positive discussions are being undertaken to obtain further financing for future acquisitions and organic growth opportunities in early 2007.

Treasury shares

The Group has undertaken selective purchase of its own shares to be held in treasury under the terms approved at the 2006 Annual General Meeting. Such treasury shares will be held and utilised in respect of employee share options schemes, long-term incentive plans and share incentive plans. In addition, they may be used to fund the equity elements of future acquisitions to reduce shareholder dilution.

Summary

2006 was a year of many challenges for the Group and required management to react to unanticipated events, undertake substantial investment in the businesses, continue to complete and integrate targeted acquisitions, and to achieve organic growth. The Group continued to deliver a positive set of results to its shareholders, while at the same time embarking on a substantial investment programme. Erinaceous is well positioned to face its future challenges as it continues to grow and strengthen.

Michael Pearson
Finance Director
7 March 2007

This announcement includes 'forward-looking statements'. These statements contain the words "anticipate", "believe", "intend", "estimate", "expect", and words of similar meaning. All statements other than statements of historical facts included in this announcement, including, without limitation, those regarding the Group's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Group's products and services) are forward-looking statements that are based on current expectations. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance, achievements or financial position of the Group to be materially different from future results, performance, achievements or financial position expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's operating performance, present and future business strategies, and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this announcement. Subject to the Listing Rules of the UK Listing Authority, the Group expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based. Past performance cannot be relied upon as a guide to future performance.

Corporate social responsibility

Introduction

The Group has strengthened the foundations of its commitment to sound corporate social responsibility practices in 2006. Through the acquisition of new companies across the UK and by winning major new long-term contracts, we are more than ever a people-based business working in partnership with local communities, enterprises, suppliers and our own employees.

Erinaceous are playing an increasingly active role in local communities, matching charitable donations to good causes and implementing public private partnership initiatives that are increasingly changing people's lives for the better. The Group has also invested heavily in training staff and supporting them through a range of initiatives and benefits programmes.

Our workplace

The Group has introduced a learning and development strategy which includes:

- delivering senior management development programmes Group-wide
- strengthening professional graduate recruitment programmes and introducing a graduate recruitment programme across the Group
- development of a supervisory skills programme to be delivered to all managers of people
- employing a fully functional learning management system tracking individual employee development needs and achievements
- working towards IIP accreditation across the Group. Representative teams from across the business are currently being brought together to spearhead the implementation of the Investors in People Standard. A division of our residential property management operation achieved full IIP status during 2006 and parts of the building consultancy operation have held this accreditation for some time.

The Group is a major recruiter of talent across the property services sector and this year has invested heavily in building People Resourcing, a best practice internal recruitment function set up to identify internal and external talent. It will also provide a competitive intelligence and talent management capability.

We are also improving the quality of the Group's residential division, which is working in conjunction with DeMontford University to spearhead a property management education initiative for Erinaceous offering existing and new students a range of certificates, diplomas and degree-level property management qualifications.

Erinaceous sponsors Assessment of Professional Competence (APC) candidates that have no relevant property degree to take a related Masters qualification so that they can satisfy RICS requirements. This is a two-year mentored programme that enables surveyors to gain Chartered Status.

Apart from educational initiatives we support our employees through other tangible initiatives that offer real added financial value, for example, the Group's Sharesave and SIPs plans.

Sharesave and SIPs

Many eligible employees have joined the Group Sharesave plan and the Share Incentive plan (SIP) to date. Both of these plans provide a positive and tax efficient mechanism for employees both to save and to share in the Group's success.

Erinaceous HR held a series of presentations to explain how these plans work and the benefits of participating.

Other company-wide benefits include:

- Erinaceous has teamed up with Fitness First to offer employees a special corporate discount on their gym membership
- a company pension: all Erinaceous employees can contribute to a company pension managed by Standard Life. This pension offers a tax efficient way to save for their retirement. Staff can make payments while they are working, then when they retire the funds they have built up provide them with an income for the rest of their life
- death in service at four times employees' salaries
- competitive rates on medical cover
- employees can now benefit from reductions on their insurance policies for home contents, car insurance etc. – benefiting from the buying power of Erinaceous Insurance Services which is now the UK's second largest independent insurance broker
- monthly Group newsletter sent to all employees.

Our community and equal opportunities

Erinaceous' Group CEO Neil Bellis is a board member of Croydon Business Development Partnership (CBDP). CBDP is a public private sector partnership that brings together a cross section of key players in Croydon from primarily the private sector and from the public sector. The aim of the CBDP is to position and promote Croydon as one of the best economies and a really good place to do business in.

Neil also plays a highly active role on the board of Croydon BID (Business Improvement District), which levies higher business rates from local business that are willing and able to contribute a bit more to the improvement of their local communities. BID came into effect from 1 April 2007 and will operate for a five-year term. It is committed to enhancing Croydon's image, profile and competitiveness in order to develop its position as a leading commercial and cultural centre in the South East.
The BID is also committed to:

- creating a safer and more secure area
- making Croydon a cleaner and more attractive environment
- improving the accessibility to and within the area
- acting as a facilitator and collective voice for the businesses.

The Group is further involved in the communities it serves through its partnership with the creative regeneration charity it helped to found in 2005, Vital Regeneration.

Vital Regeneration – now a separate company – manages a portfolio of community regeneration projects, which encompass community learning services, youth arts and enterprise schemes and community development programmes. The Group supports the ongoing development of the charity through representation on the Board of Trustees, sponsorship and through the provision of support services, advice and advocacy.

Erinaceous recognises the importance of equal opportunities policies and best practice. The Group operates and is committed to the fair and equitable treatment of all its employees irrespective of gender, race, disability or sexual orientation. Policies have been implemented across the Group

to ensure that this commitment is fulfilled. We encourage the recruitment and subsequent training, career development and promotion of disabled people on the basis of their aptitude and abilities, and the retention and retraining of employees who become disabled.

Charity and sponsorship policy

Erinaceous ring fences monies every year to support and sponsor charitable activities identified by employees. Dependent on the monies raised Erinaceous will match donations or donates 10% of the value for charitable events involving employees such as, for example the London Marathon, Cancer Research Race for Life, K2 Trek and Mont Blanc Trek.

The Group has also sponsored the Adur Festival and the Veteran's Drum Head ceremony at Worthing, West Sussex.

Health and safety

Erinaceous takes health and safety issues very seriously and now has a newly appointed Director of Health and Safety to oversee the welfare of the Group's 6,000 employees. The Group employs eight full-time health and safety advisors in a variety of roles and locations. In addition, there are a team of CDM co-ordinators and asbestos surveyors located in the consulting division of the Group.

Erinaceous submitted an application for the RoSPA Occupational Health and Safety Award and was successful in achieving a gold award at the first time of trying. Winning a gold award first time around is recognition of the exceptional work in an area where the risks are high (cleaning, security and catering and other FM services). During 2006 Erinaceous also had success with its application to register three divisions of the business for the international standard for environmental management. Initially with limited scope, this is now being rolled out across the Group.

A comprehensive health and safety training programme is being rolled out (June 2007), subject to training needs analysis and offered to the whole Group, providing cost effective delivery and helping to develop and maintain a competent risk aware workforce. An annual health, safety and environmental audit of each office is also planned for the Group.

The environment

During 2006, key divisions of the Group achieved ISO 14001 certification, the internationally recognised Environmental Management System standard. ISO 14001 reflects good environmental practice and helps companies to identify, prioritise and manage environmental risk as part of normal business practice.

Wider Group actions on the environment that have been undertaken include:

- providing training and communications to raise awareness and understanding of environmental issues, and to show their impact on the business
- ensuring that all decisions regarding working practices and purchasing take environmental considerations into account
- monitoring usage of consumable materials to minimise waste
- purchasing recycled or long-life products where appropriate
- recycling waste materials wherever possible
- providing opportunities for our employees and suppliers to suggest ways in which this policy could be further developed.

Erinaceous Research

Erinaceous Research has been set up to fund and encourage research and development in 'blue sky' thinking. The aim is to place the Group in the forefront of industry-led research and development.

Erinaceous Research, which has worked with Imperial College in 2007, has already made a start on two pure research projects taking a fresh look at energy and hydrocarbon recovery from the things we throw away; another project is examining sustainable ways of providing clean water and safe sanitation in the developing world.

Our vision and values

The Group is rolling out a set of vision and values, to be incorporated in all management development programmes, and embedded in all HR people processes. These will form an integral part of the Group's induction and integration materials communicated to employees internally and externally.

As part of Vital Regeneration's FreqOUT! project, two young residents of Fulham test out artist Christian Nold's Emotional Mapping devices – GPS receivers connected to Galvanic Skin sensors. After a walk around their local area, data is collected corresponding to their route and bodily activity revealing their bodies' reactions to the experience and providing a focus for debate on architecture, perception of crime and uses and accuracy of new technologies

Lisson Green parents gather at the Greenside Community Centre's Under 5s' Playground. The Greenside Community Centre is managed by charity Vital Regeneration

Board of Directors

1. Nigel Turnbull, FCA Hon FCT BSc
Chairman, aged 65

Nigel Turnbull graduated as a scientist from St. Andrews University and then was articled as an accountant in the City of London. Once qualified, he trained as a management accountant with a US chemical company before joining Tricentrol plc where he ultimately became finance director. He joined Rank Group plc as finance director in 1987 and retired in 1999. He was chairman of the Turnbull Committee, which was responsible for providing guidance to directors of listed companies on internal control. Nigel joined the Group in 2002.He is also chairman of The Risk Advisory Group (Holdings) plc and Hotbed Group Ltd.

Chairman of the Nomination Committee

2. Neil Bellis, LLB
Chief Executive, aged 53

Neil Bellis has a law degree from King's College, London and was called to the Bar in 1976. Following pupillage with Stephen Sedley (now Lord Justice of Appeal) at the Chambers of John Platts-Mills QC, Neil was involved in establishing a new set of chambers in the Temple. From 1981 onwards he was a director and shareholder in a number of private companies, mainly in the fields of property, building services and aviation. Neil started working with Lucy Cummings in 1990 and from 1993 onwards worked alongside her in establishing a property management business which led in 1999 to the formation of the Group.

3. Lucy Cummings, MA (Cantab) MBA (INSEAD)
Chief Operating Officer, aged 46

Lucy Cummings has a degree in English from Cambridge University and a Masters in Business Administration from INSEAD, Fontainebleau. On leaving INSEAD, she worked as a management consultant for Oliver Wyman & Co, specialising in the financial services industry. In 1990 she started working with Neil Bellis. From 1993 she was involved in establishing a property management business, which led to her becoming, with Neil Bellis, a founder shareholder and director of the Group.

4. Nigel Davis, MA ACMA
Commercial Director, aged 53

Nigel Davis qualified as an accountant in 1980 and has a Masters degree in corporate finance and control. He previously held senior financial positions within Hanson plc and was CFO Europe for The Crest Group. Nigel joined the Erinaceous Board in 2004 following the acquisition of Hercules Property Services plc where he had been the finance director since January 2002.

5. Michael Pearson, BA (Oxon) ACA
Finance Director, aged 35

Michael Pearson graduated from Magdalen College, Oxford, as a mathematician. He then joined BDO Stoy Hayward, qualifying as a Chartered Accountant in 1996. During his time at BDO Stoy Hayward he focused on public company work with a wide range of clients. He previously acted as finance director for an internet betting company, before joining the Group as Finance Director in June 2002.

6. Lord Razzall, CBE
Senior Independent Non Executive Director, aged 63

Chief Executive of City law firm Frere Cholmeley Bischoff until 1993 and a partner there from 1973 to 1995, Tim has over 30 years experience in corporate finance advice. He was National Treasurer of the Liberal Democrats for 11 years and a Richmond Councillor for 24 years. He is also the Liberal Democrat spokesman on Trade and Industry in the House of Lords and was awarded the CBE in the 1993 New Year's Honours and became a life peer in 1997. Tim joined the Board in 2003 and has wide experience as a director of listed and unlisted companies.

Chairman of the Remuneration Committee
Member of the Nomination and Audit Committees

7. Nicholas Fry, MA (Cantab) FCA
Non Executive Director, aged 59

Nicholas Fry graduated from Cambridge University before qualifying as a chartered accountant. He has extensive experience in corporate finance, having been a director of SG Warburg & Co Ltd (now part of UBS AG) from 1983 to 1996 and more recently a partner of KPMG LLP and Vice Chairman KPMG Corporate Finance. Nicholas joined the Board in 2005. He also serves as a non executive director of Brixton plc, Merrill Lynch British Smaller Companies Trust plc, Absolute Return Trust Ltd and Pochin's plc.

Chairman of the Audit Committee
Member of the Remuneration Committee

8. Keith Peraux, Cert PFS
Non Executive Director, aged 58

Keith Peraux began his insurance career with Guardian Royal Exchange in 1966 before leaving to become managing director of Bowden Insurance Brokers Ltd, which subsequently became The Hanover Park Group plc. A former chair of two regions of The British Insurance Brokers Association, he is a Past President of The Insurance Institute of Croydon. Keith is a partner in Grosvenor Park Associates LLP and Summerfield Properties and joined the Board in August 2002.

Member of the Remuneration Committee

Lord Poole, MA (Oxon) MBA (INSEAD)
Non Executive Director, aged 62
(Not pictured)

David Poole has extensive corporate finance, financial services, banking and insurance expertise. He was previously a member of John Major's Policy Unit at No. 10, and served as Chief Executive of Ockham Holdings plc until 2002. David joined the Board in 2005 and is also a director of Aldgate & Co Ltd and a non executive director of RGA Reinsurance UK Ltd, RGA UK Services Ltd and chairman of Besso Holdings Ltd, Chairman of Besso Holdings Ltd and Chairman of Conscientia Group.

Member of the Audit and Nomination Committees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Our people

A thank you to our employees

The people in the photography captioned below are all Erinaceous employees. We would like to take this opportunity to thank them for representing the company in the Annual Report.

Charles Brown
Charles has worked for Erinaceous for over two and a half years.

Rabia Ahmed
Rabia has worked for the company for over three and a half years.

Jill Rendall
Jill has worked for Erinaceous for over five years.

James Roberts
James has worked for the company for almost three years.

Enrico Noronha
Enrico has worked for Erinaceous for seven months.

FSC

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Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2006.

Principal activities

The Company operates principally as a Group holding company providing accommodation, management and technical services to its subsidiary companies.

The Group provides services to an extensive range of private and public sector property clients through its residential property services, commercial property services and property insurance services divisions.

Business review

The Group achieved profits before taxation of £18.8m in the year to 31 December 2006 (2005: £23.2m). Excluding restructuring costs, share of joint venture losses, other non-recurring and non-trading costs, amortisation of other intangibles and profit on sale of non-current assets, the profit before tax for the year was £34.3m (2005: £24.3m).

The Group made basic earnings per share of 13.4p (2005: 18.1p) and basic adjusted earnings per share of 25.9p (2005: 19.2p).

The Group maintains a strategy of increasing profitability and shareholder value by a combination of targeted acquisitions and organic growth within its existing divisions.

The Chairman's statement, Chief Executive's strategic review and Business review report on the activities during the year and the likely future developments. These statements include information which is required to fulfil the requirements of the business review pursuant to the Companies Act 1985 and are incorporated into the Report of the Directors by reference.

Details of the use by the Group of financial instruments are set out in note 1 to the accounts.

Dividends

The Directors have proposed payment of a dividend of 5.0p per ordinary share which, together with the dividend of 3.5p per ordinary share already paid, makes a total of 8.5p per ordinary share for the financial year. The dividend will be paid on 4 May 2007 to those shareholders on the register at close of business on 13 April 2007.

Acquisitions during the year

During the year the Group's largest acquisition was Keelan Westall, acquired for total consideration of £20.3m in September 2006. Keelan Westall's activities relate to property insurance services.

The other major acquisitions made by the Group in the year comprise John Nolan, Egan Lawson, Tom McNamara & Partners and Monaghan's. The acquisitions provide a range of property services, predominantly to commercial property clients.

All the acquisitions made by the Group during 2006 will be fully integrated into the Group's three trading divisions, residential property services, commercial property services and property insurance services, during 2007.

Further information in respect of the Group's acquisitions is included in the notes to these financial statements.

Post balance sheet events

There have been no post balance sheet events since the year end that require disclosure.

Substantial shareholdings

In addition to the Directors, as at 6 March 2007 the Company had been notified under the provisions of the Companies Act 1985 that the following were interested in 3% or more of the Company's ordinary share capital:

	Number of ordinary shares	%
Aberdeen Asset Management plc	6,300,700	5.00%
Legal & General Group plc	5,363,516	4.96%
Lloyds TSB Group plc	4,377,060	4.09%

Directors

The Board comprises the following Executive and Non Executive Directors who bring significant experience to the Group's operations and activities. All Directors served throughout the year.

Nigel Turnbull	Chairman
Neil Bellis	Chief Executive
Lucy Cummings	Chief Operating Officer
Nigel Davis	Commercial Director
Michael Pearson	Finance Director
Nicholas Fry	Non Executive Director
Keith Peraux	Non Executive Director
Lord Poole	Non Executive Director
Lord Razzall	Non Executive Director

In accordance with the provisions of the articles of association of the Company, Keith Peraux will retire at the AGM. Keith Peraux has decided not to seek re-election in order for him to focus on his other business activities. The Board are actively seeking a new Non Executive Director.

The interests of the Directors and their families in the shares of the Company are disclosed in the Directors' remuneration report.

No Director had, during the year or at the end of the year, a material interest in any contract which was significantly in relation to the Group's business, except as disclosed in the notes to the financial statements.

The Group maintains directors' and officers' liability insurance.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report, Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Information provided to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
(2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Employee involvement

The Group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Group.

This is achieved through the Company newsletter, staff briefings, regular road shows to all staff and senior management presented by Board members, email alerts and divisional operations meetings.

Employees are encouraged to participate in the share ownership of the Company by, for example, joining the sharesave scheme and the share incentive plan outlined on page 35.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue.

Donations

Details of the Company's principal charitable activities can be found in the Corporate social responsibility report on page 24.
No political donations were made during the year.

Payment policy and practice

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them. Trade creditors due at the year end amount to 39 days purchases (2005: 46 days).

Related party transactions

Details of transactions with related parties undertaken by the Group during the year are disclosed in the notes to the financial statements.

Treasury shares

Pursuant to the authority given to the Company at the last Annual General Meeting, in 2006 the Company purchased a total of 312,250 of its own shares to be held in treasury at prices ranging from £3.21 to £3.28. During the year a total of 495,982 treasury shares had been cancelled with those cancellations matched by the issue of shares as consideration for acquisitions. The maximum percentage of the Company's issued share capital held in treasury during the course of the year was 0.4%.

Going concern

After making enquiries, the Directors have reasonable expectation that the Company and the Group have 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 financial statements.

Auditors

Deloitte & Touche LLP were appointed as auditors during 2006 and offer themselves for reappointment in accordance with section 385 of the Companies Act 1985.

By order of the Board

Michael Pearson
Finance Director
7 March 2007

Statement of compliance

The Board supports the principles of corporate governance and this report sets out the Company's compliance with the Combined Code on Corporate Governance, which is appended to the Listing Rules of the Financial Services Authority.

The Company complied with the provisions set out in Section 1 of the Combined Code throughout 2006.

The Board

The Board comprises the Chairman, four Executive Directors and four Non Executive Directors. The roles of the Chairman and Chief Executive are separated and there is a clear division of responsibilities.

The Board has a schedule of regular meetings together with ad hoc meetings when required and a strategy review. The Board focuses on strategic issues and financial performance. The matters reserved for the Board's approval include major capital expenditure, acquisitions and disposals, treasury and dividend policy and Group budgets and business plans. Other responsibilities are delegated to the Committees of the Board within a framework of delegated authorities.

An evaluation of the Board's effectiveness was carried out twice during the year in the form of a questionnaire covering Board processes and behaviours and the Committees of the Board. Responses were openly discussed and debated at a Board meeting and were constructive in identifying areas for improvement. The evaluation process will also be repeated during the year.

All of the Non Executive Directors are considered to be independent. The terms and conditions of appointment of Non Executive Directors are available for inspection at the Company's registered office and at the Annual General Meeting ('AGM'). Non Executive Directors are not appointed for specified terms, but on a rolling basis determinable on either side at any time by giving three months' written notice. Contracts also provide for the termination of appointment in accordance with the provisions of the Company's articles of association. There are clear channels of communication between the Chairman and the Non Executive Directors providing opportunities for discussion outside Board meetings.

Keith Peraux, who is due to retire at the AGM, has decided not to seek re-election in order for him to focus on his other business activities. The Board are grateful for his contribution since his appointment in 2002. The Board are actively seeking a new Non Executive Director to ensure a balance of Non Executive Directors and Executive Directors.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. There is an agreed procedure whereby Directors can obtain independent professional advice, paid for by the Group. External training is also provided as necessary.

Committees of the Board

The Board's Committees meet regularly to enable them to discharge their responsibilities. Each committee has written terms of reference, which are reviewed annually by the Board and are available to view in the Corporate Governance section of the Group's website: www.erinaceous.com.

Audit Committee

The Audit Committee comprises Nicholas Fry, Lord Poole and Lord Razzall, all independent Non Executive Directors. Nicholas Fry, a Chartered Accountant with recent and relevant financial expertise, chairs the Committee and all three members of the Committee hold recognised professional qualifications.

The Committee meets at least three times a year. The Chairman, Non Executive Directors, Chief Executive, Finance Director, head of Group risk management and internal audit and the external auditors are invited to attend meetings. There is an opportunity at Committee meetings for private discussion to take place between the Non Executive Directors and the external auditors.

The Audit Committee is responsible for reviewing the external audit process, including the effectiveness of the audit, and considering any major accounting issues.

Following a review during the second half of 2006, Deloitte & Touche LLP were appointed as external auditors in place of Grant Thornton UK LLP. It had been recognised that the Group would benefit from the global presence and technical expertise of a larger audit service provider and a formal tendering process took place with three of the big four audit firms. Two of the firms later presented to a committee of the Board including the Chairman of the Audit Committee, resulting in the selection and appointment of Deloitte & Touche LLP on 20 December 2006.

Details of non-audit work provided by Grant Thornton UK LLP during the year are provided in note 3 and it is envisaged that Deloitte & Touche LLP will undertake similar types of work going forward.

The Board and Audit Committee monitor the cost effectiveness of audit and non-audit work performed by the auditors and also consider the potential impact, if any, on the corporate relationship and independence of the auditors before awarding any non-audit work. The auditors also operate procedures to safeguard their objectivity and will report annually to the Audit Committee with an assessment including a summary of non-audit services provided and fees receivable.

The Committee also oversees the work of the Group's risk management and internal audit function, paying particular attention to the effectiveness of the Group's internal control procedures.

Nomination Committee

The Nomination Committee comprises Nigel Turnbull, Lord Razzall and Lord Poole and is chaired by Nigel Turnbull. The Chief Executive is also invited to attend meetings.

The Committee is responsible for recommending candidates for appointment to the Board, reviewing the structure of the Board and appraising succession planning processes to ensure that an appropriate balance of skills is maintained within the Group and on the Board. The Committee also ensures that relevant training and induction requirements of any new Board appointments are addressed.

Remuneration Committee

The Remuneration Committee comprises Lord Razzall, Nicholas Fry and Keith Peraux and is chaired by Lord Razzall. The Committee met six times during the year and is responsible for determining the remuneration packages of the Executive Directors and certain key senior executives. The Directors' remuneration report on page 34 includes details of the Remuneration Committee and its work.

Executive Committee

The Executive Committee is chaired by Nigel Turnbull and currently comprises the Executive Directors together with Ken Hackney (a former Board member), Andy Halstead (Managing Director of insurance and residential lettings) and Melanie Gurney (Group HR Director). The Executive Committee has concentrated on operational performance, decision-making and the formulation of strategic proposals to the Board.

Following a review, and having taken into account the successful progress being made by the Operations Board it has been agreed that operational issues can be delegated to that Board. The future emphasis of the Executive Committee will be to challenge the financial results and future costs of the Group and the members of the Committee will in future be Nigel Turnbull, the Executive Directors and Andy Halstead.

Operations Board

The Operations Board is chaired by Neil Bellis, and comprises the Executive Directors, managing directors of core business units and heads of corporate functions. The Operations Board mainly focuses on operational matters.

Board and Committee Attendance

The following table details the number of Board and Committee meetings held during 2006 and the attendance record of each Director.

	Board Meetings	Committee Meetings Audit	Remuneration	Nomination
Number of meetings in year	9[i]	3	6	1
* Nigel Turnbull	9	3	6[ii]	1
Neil Bellis	9	–	4[ii]	–
Lucy Cummings	9	–	–	–
Nigel Davis	8	–	–	–
Michael Pearson	9	2[ii]	–	–
* Nicholas Fry	9	3	6	–
* Keith Peraux	6	2[ii]	5	–
* Lord Poole	9	3	5[ii]	1
* Lord Razzall	8	3	6	1

*Non Executive Director
(i) One Board meeting was called at short notice
(ii) Attendance by invitation

Risk management and internal control

The Board has accountability for reviewing and approving the adequacy and effectiveness of internal controls operated by the Group, including financial, operational and compliance controls and risk management. It is the role of management to implement the agreed policies on risk, compliance and control. This is effected both by the Executive Committee and the Operations Board.

The system of internal financial and operational control is designed to meet the Group's particular needs and aims to facilitate effective and efficient operation, to safeguard the Group's assets, ensure proper accounting records are maintained and that the financial information used within the business, and for publication, is reliable.

Such systems of internal control can only be designed to manage rather than eliminate risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement and loss. In March 2006 the Group became aware that an employee at its valuation office in Bow Lane in the City of London was the subject of a criminal investigation. The office was closed and the employee suspended. The Board has considered that the design of this aspect of the Group's system of internal control was satisfactory and that this was not a failing or weakness in internal control. However, further procedures have been adopted in light of the Board's review.

The Board confirms that there is a continuing process for identifying, evaluating and managing the risks faced by the Group which complies with the Revised Guidance of Code Principle C2 and that this process covers all of the Group's subsidiaries. The Audit Committee has reviewed risk registers detailing associated controls for mitigating risks and has also received reports on the operation and effectiveness of the Group's internal controls that operated during the period covered by the financial statements, up to and including the date of approval by the Board.

Key features on the system of the Group's internal control are as follows:

Control environment

The Group's management systems include financial and business policies and procedures, quality assurance manuals and corporate health and safety procedures. These procedures are subject to ongoing review and improvement.

Financial reporting

The Board approves annual budgets for each division in the Group and the monthly financial performance of each division is reported and compared to budget. The Group reports to shareholders on a half-yearly basis. Forecasts for the Group are updated and reviewed by the Board on a regular basis.

Individual business controls

Individual businesses and central corporate functions complete an annual self-certification statement. The managers responsible personally confirm the review of their systems of internal control to manage significant risks identified within their divisional risk register and also confirm their compliance with regulations. The statement also requires the reporting of any significant control issues that have emerged so that areas of group concern may be identified, addressed and experience shared.

Businesses who undertake activities regulated by the FSA have compliance officers within the division who undertake a programme of compliance reviews to ensure that the highest standards are maintained. Where agents have been appointed, the compliance teams undertake site visits to ensure appointed representatives adhere to FSA requirements. During the year the Group continued to improve the corporate governance arrangements within the insurance division and two Non Executive Directors have been appointed to the Board of Erinaceous Insurance Services Limited.

Functional speciality reporting

The Board assesses the risks facing the business on an ongoing basis and has identified a number of other key areas that are subject to regular reporting to the Board, such as financial performance, acquisition reports, human resources, and compliance.

Risk management review

The Board is committed to improving risk management and internal control across the Group and has established a Risk Review Forum that meets on a quarterly basis. The Group risk management framework requires divisions to formally record all significant risks facing their businesses and detail the steps being taken to avoid or mitigate those risks. A summary of the key risks facing the Group is recorded in the risk registers, which are reviewed regularly by the Board.

The Group maintains insurance policies to provide protection from losses and the adequacy of the insurance cover is reviewed by the Executive Committee on an annual basis.

Acquisitions

The Group operates a system of internal controls over business acquisitions. This is achieved through due diligence of the target company and business cases presented to the Board. Following acquisitions, the Board is presented with an integration plan and financial and non-financial targets are set for the newly acquired business. Performance is monitored and reported to the Board as normal.

Internal audit

The Group risk management and internal audit function undertakes a programme to assess internal control, compliance and risk management processes with particular reference to the Turnbull report. The conclusions of these reviews are communicated to the relevant level of management and the function has a direct reporting responsibility to the Audit Committee.

Investor relations

The Board encourages communication with its institutional and private investors. All Board members attend the Company's AGM and the Chairman and the Senior Independent Non Executive Director are available to meet with major shareholders when reasonably requested. Throughout the year the Chief Executive and relevant Executive Directors hold regular meetings with investors, analysts and brokers. Non Executive Directors are informed of the views of shareholders by the Executive Directors and via the analysts' reports that are circulated to the Board.

A range of information is available from the Group's website including copies of presentations, press releases and the latest annual and interim financial reports.

Information not subject to audit

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be presented.

The Remuneration Committee comprises Lord Razzall, Nicholas Fry and Keith Peraux and is chaired by Lord Razzall. The Chairman and Chief Executive also attend meetings by invitation.

Executive remuneration policy and structure

The Group's aim is to provide sufficient levels of remuneration to attract, retain and motivate Executive Directors, but to avoid paying more than is necessary for this purpose. Remuneration packages are structured so as to link rewards to corporate and individual performance and they incorporate a combination of fixed and variable elements.

The table on page 36 includes a summary of the remuneration for the Executive Directors.

Basic salary

The Committee determines base salary by taking into account the position of the individual compared with base salaries in comparable companies using the independent Monk's remuneration survey. The base salaries of the Executive Directors for 2006 were slightly below the median.

All Directors are able to participate in the Group stakeholder pension and the Group medical insurance scheme, but this is by way of salary sacrifice; the Company makes no contribution to any Director's pension scheme and the Company does not provide a company car to any Director. The salary paid is increased to include the evaluated cost of these benefits and any unused holiday entitlement.

Performance bonuses

The Executive Directors receive discretionary performance bonuses based upon the annual performance of that individual and the Group. The financial performance measure is adjusted earnings per share ('EPS') measured against the Group budget for the year. In addition there are personal targets for non-financial performance.

The Executive Directors' bonus scheme for 2007 will be capped at a maximum of 80% of salary for that year, and will be structured in a similar format to the 2006 bonuses noted below.

2006 bonus information:

	Maximum achievable (% of salary)		
	Group EPS	Personal performance	Total
Neil Bellis	40	35	75
Lucy Cummings	40	30	70
Nigel Davis	40	20	60
Michael Pearson	40	20	60

Share schemes

The Company operates a number of share schemes and these are detailed below. Details of the Executive Directors' participation in these schemes are set out on pages 36 to 38.

Long-term incentive plan ('LTIP')

Executive Directors and certain senior management are entitled to be considered for a grant of awards under the LTIP. The eligible executives are awarded a conditional right over a whole number of shares ('LTIP Award') with the release being dependent on the extent to which (if it all) the challenging performance conditions set by the Remuneration Committee at the time the LTIP Award is made are satisfied. The maximum annual LTIP Award is 100% of salary. Executives are also entitled to receive a further award of matching shares of up to 25% of salary, if they retain any shares released under the LTIP.

The performance condition for the grant of awards under the LTIP is set out below:

Level of Comparative TSR Performance against FTSE all share support services sector	% of LTIP Award Released*
Median	25%
Upper Quartile	100%

*Straight line vesting between points.

In addition, no LTIP Awards will vest unless the Company's average EPS growth over the performance period is at least RPI plus 5% per annum.

The Remuneration Committee believes that comparative total shareholder return ('TSR') is the most appropriate measure to align shareholders' and executives' interests. Comparative TSR was selected as the performance condition for LTIP Awards as it ensures that, before being entitled to receive any of their LTIP Awards, the executives outperform companies in the FTSE all share support service sector over the measurement period in delivering value irrespective of general market conditions.

In order to encourage the retention of shares at the end of the three year performance period, any shares which are held for a further two years from the date of release of any LTIP Award may be matched subject to continued employment throughout the two year holding period and the satisfaction of additional performance requirements. One matching share will be awarded for every four shares retained where the Group's comparative TSR is at or above the median of the companies in the FTSE all share support services sector over the two year period. Where performance is below median there will be no matching shares awarded.

Executive share option scheme

Executive Directors and certain senior management are entitled to participate in the Group's share option scheme and options are granted at the discretion of the Remuneration Committee. All share options granted during the year are subject to performance related vesting conditions that require the EPS of the Group to out-grow RPI by 7% per annum. This EPS growth is tested throughout the vesting period allowing options that would not vest under these conditions in the initial years to subsequently vest in later years. Executives are also entitled to receive an award of matching shares of up to 25% of salary, if they retain any shares allotted under the Executive share option scheme.

The grant of share options throughout 2006 and going forward has been restricted to the £30,000 limit per individual available under the HMRC Approved scheme. The Committee now uses LTIP awards where more substantial long-term incentives are considered desirable.

Share incentive plan

The Board is keen to give all employees the opportunity to invest in the Group.

The Group offers eligible employees, including Executive Directors and senior management, the opportunity of purchasing a maximum of £1,500 worth of shares per annum out of pre-tax salary and additional matching shares are awarded on a one matching share for every four shares purchased basis.

These matching shares will normally be released three years after they have been awarded provided that the associated shares purchased by the employee have been retained, and provided that the employee is still employed by a Group company at the time.

Sharesave plan

Invitations are periodically made to eligible employees to apply for options under the scheme to be paid for by way of monthly contributions from the employee's post-tax salary.

Directors' contracts

All Executive Directors have rolling contracts with 12-month notice provisions.

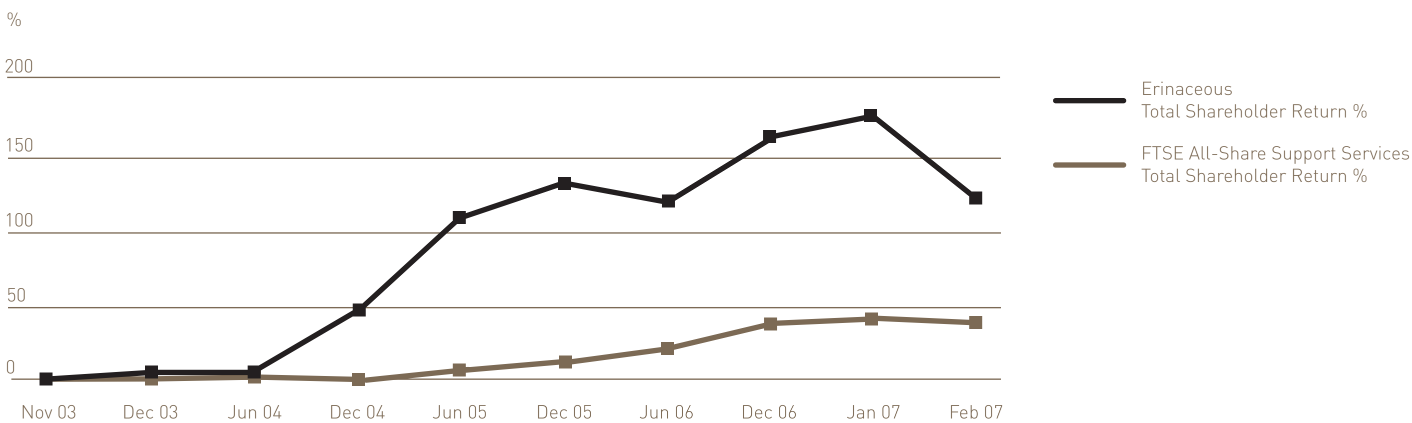
Non Executive Directors

Non Executive Directors are paid annual fees set by the Board. All Non Executive Directors have rolling contracts determinable on either side at any time by giving three months' notice. There are no provisions for any compensation on termination of contracts. Their remuneration is as shown in the table on page 36.

Performance graph

The graph below shows the Group's total shareholder returns compared to the FTSE all share support services indices with the latter rebased to the Group's share price on its flotation in November 2003.

Total shareholder returns



Information subject to audit

Directors' remuneration

	Salary and fees 2006 £'000	Bonus 2006 £'000	Total 2006 £'000	Salary and fees 2005 £'000	Bonus 2005 £'000	Total 2005 £'000
N Turnbull	110	–	110	82	–	82
N Bellis	395	59	454	264	150	414
L Cummings	341	53	394	228	129	357
N Davis	191	27	218	156	78	234
M Pearson	192	17	209	141	62	203
N Fry	38	–	38	28	–	28
K Peraux	30	–	30	30	–	30
Lord Poole	30	–	30	20	–	20
Lord Razzall	30	–	30	30	–	30

The Company makes no contribution to Directors' pension schemes and does not provide a company car.

Long-term incentive plan

	Date of award	Market price at date of award	Vesting period	No. of awards as at 01/01/06	Granted during the year	No. of awards as at 31/12/06
N Bellis	22-Sep-05*	£2.63	3-10 yrs	95,147	–	95,147
	23-Mar-06	£3.85	3-10 yrs	–	77,922	77,922
L Cummings	22-Sep-05*	£2.63	3-10 yrs	81,826	–	81,826
	23-Mar-06	£3.85	3-10 yrs	–	64,935	64,935
N Davis	22-Sep-05*	£2.63	3-10 yrs	59,372	–	59,372
	23-Mar-06	£3.85	3-10 yrs	–	38,961	38,961
M Pearson	22-Sep-05*	£2.63	3-10 yrs	53,282	–	53,282
	23-Mar-06	£3.85	3-10 yrs	–	38,961	38,961

*the base period for determining EPS growth over the three year performance period for these awards will be 13.9p, being the pro forma earnings for 2004.

Executive share option scheme

	Date of grant	Exercise price	Exercise period	No. of options as at 01/01/06	Exercised during year	Lapsed during year	No. of options as at 31/12/06	Date of exercise	Share price at date of exercise	Gain on exercise
N Bellis	06-Apr-03	£1.00	3-10 yrs	170,000	170,000	–	**–**	**29-Jun-06**	**£2.85**	**£314,500**
	31-Jul-03	£1.00	3-10 yrs	30,000	30,000	–	**–**	**26-Sep-06**	**£3.16**	**£64,800**
L Cummings	06-Apr-03	£1.00	3-10 yrs	170,000	170,000	–	**–**	**29-Jun-06**	**£2.85**	**£314,500**
	31-Jul-03	£1.00	3-10 yrs	30,000	30,000	–	**–**	**26-Sep-06**	**£3.16**	**£64,800**
N Davis*	30-Oct-04	£0.29	1-8 yrs	200,421	200,421	–	**–**	**02-Jun-06**	**£3.46**	**£635,335**
	30-Oct-04	£0.80	1-8 yrs	98,235	–	–	**98,235**	**–**	**–**	**–**
	30-Oct-04	£1.85	1-8 yrs	45,644	–	–	**45,644**	**–**	**–**	**–**
M Pearson	06-Apr-03	£1.00	3-10 yrs	200,000	–	–	**200,000**	**–**	**–**	**–**

*The options issued to N Davis were issued under the roll-over provisions offered to holders of existing Hercules Property Services plc share options following its acquisition. As a result their terms mirror those Hercules share options in having no performance vesting conditions and they are exercisable at an early date. N Davis also potentially holds a total of 12,677 shares under the Hercules AESOP plan.

Share incentive plan

	No. of partnership shares purchased to 31/12/05	No. of matching shares awarded to 31/12/05	No. of partnership shares purchased to 31/12/06	No. of matching shares awarded to 31/12/06	Total no. of partnership shares held at the date of this report	Total no. of matching shares held at the date of this report
N Bellis	217	54	677	166	**711**	**174**
L Cummings	217	54	677	166	**711**	**174**
N Davis	217	54	677	166	**711**	**174**

Partnership shares are ordinary shares of the Company and were purchased on a monthly basis (at prices from £2.78 to £3.87).

Matching shares are ordinary shares of the Company and were awarded on a monthly basis in conjunction with share purchases.

Sharesave plan

	Date of grant	Exercise price	Exercise period	No. of options as at 01/01/06	Exercised during year	Lapsed during year	No. of options as at 31/12/06
N Bellis	07-Jul-05	£2.15	5 yrs	7,686	–	–	**7,686**
L Cummings	07-Jul-05	£2.15	5 yrs	7,686	–	–	**7,686**
N Davis	07-Jul-05	£2.15	5 yrs	7,686	–	–	**7,686**

Directors' interests in shares

		Ordinary shares held at 31/12/06	Ordinary shares held at 31/12/05
N Turnbull	Personal shareholding	**48,170**	47,170
	Close family shareholding	**5,500**	5,000
	Controlled Company	**41,266**	40,266
N Bellis	Personal shareholding	**8,120,340**	7,920,340
	Close family shareholding	**972,752**	972,752
L Cummings	Personal shareholding	**8,112,840**	7,912,840
N Davis	Personal shareholding	**30,927**	5,927
N Fry	Personal shareholding	**20,000**	20,000
M Pearson	Personal shareholding	**76,300**	76,300
K Peraux	Personal shareholding	**717,908**	1,467,908
Lord Poole	–	**–**	–
Lord Razzall	Controlled Company	**9,400**	9,400

There have been no changes in Directors' interests between the year ended 31 December 2006 and the date of this report save for the following:

(i) On 4 January 2007 N Bellis and L Cummings each purchased 80,865 shares.
(ii) On 5 January 2007 N Bellis and L Cummings each purchased 38,000 shares.
(iii) N Bellis, L Cummings and N Davis each acquired a beneficial interest in further shares purchased under the SIP.

The current Directors' interest in shares as at the date of this report are therefore disclosed in the above table with the exception of N Bellis who has a shareholding of 9,211,957 shares (including close family shareholding) and L Cummings who has a shareholding of 8,231,705 shares.

The market price of an ordinary share of 0.5p in the Company at 31 December 2006 was 346.5p (31 December 2005: 308.8p) and the highest and lowest market prices during the year were 400p and 258.5p.

This report has been approved by the Board of Directors and has been signed on behalf of the Board by:

Lord Razzall
Chairman of the Remuneration Committee
7 March 2007

Independent auditors' report to the members of Erinaceous Group plc

We have audited the Group financial statements of Erinaceous Group plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and the related notes 1 to 39. These Group 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.

We have reported separately on the parent company financial statements of Erinaceous Group plc for the year ended 31 December 2006.

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 Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 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 the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group 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 Group 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 Group 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 presentation of information in the Group financial statements and the part of the Directors' remuneration report to be audited.

Independent auditors' report to the members of Erinaceous Group plc

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation
- the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985
- the information given in the Directors' Report is consistent with the Group financial statements.

Separate opinion in relation to IFRSs

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Crawley
United Kingdom
7 March 2007

Note: The maintenance and integrity of the Erinaceous Group plc website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ in other jurisdictions.

Annual Accounts 2006

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Consolidated income statement

	Notes	2006 £m	2005 £m
Revenue	2	**227.2**	151.8
Cost of sales		**(68.7)**	(44.0)
Gross profit		**158.5**	107.8
Administrative expenses:			
– general		**(117.3)**	(80.0)
– other – restructuring costs	4	**(6.1)**	(1.6)
– other – non-recurring and non-trading costs	5	**(4.4)**	–
– other – amortisation of other intangible assets	12	**(4.2)**	–
Total other administrative expenses		**(14.7)**	(1.6)
Total administrative expenses		**(132.0)**	(81.6)
Adjusted profit from operations before other administrative expenses	2	**41.2**	27.8
Other administrative expenses		**(14.7)**	(1.6)
Profit on sale of non-current assets	3	**–**	0.7
Profit from operations	2	**26.5**	26.9
Share of operating loss of joint venture	15	**(0.8)**	–
Finance costs	7	**(7.6)**	(4.2)
Investment income	8	**0.7**	0.5
Profit before taxation		**18.8**	23.2
Taxation	9	**(4.5)**	(5.8)
Profit for the year attributable to equity shareholders		**14.3**	17.4

Earnings per share			
Basic earnings per share (pence)	10	**13.4p**	18.1p
Diluted earnings per share (pence)	10	**13.2p**	17.4p
Dividends			
Proposed dividend per share (pence)	11	**5.0p**	4.25p
Proposed dividend (£m)	11	**5.4**	4.4
Dividend paid during the year (pence)	11	**7.75p**	6.75p
Dividend paid during the year (£m)	11	**8.2**	6.4

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated balance sheet

	Notes	2006 £m	2005 £m (as restated)*
Non-current assets			
Intangible assets	12	**278.5**	214.2
Property, plant and equipment	13	**28.7**	21.2
Long-term financial assets	14	**0.4**	0.5
Investment in joint venture	15	**(0.7)**	–
		306.9	235.9
Current assets			
Inventories	16	**7.8**	4.2
Trade and other receivables	17	**102.1**	47.7
Cash and cash equivalents	18	**23.0**	23.8
		132.9	75.7
Total assets		**439.8**	311.6
Current liabilities			
Trade and other payables	19	**(94.7)**	(59.7)
Borrowings	20	**(6.0)**	(10.3)
Tax liabilities		**(11.3)**	(6.8)
		(112.0)	(76.8)
Non-current liabilities			
Other payables	21	**(18.8)**	(22.8)
Borrowings	22	**(156.8)**	(69.6)
Retirement benefit obligation	23	**–**	(0.3)
Other provisions	24	**(5.0)**	(5.5)
Deferred tax	25	**(2.2)**	(3.1)
		(182.8)	(101.3)
Total liabilities		**(294.8)**	(178.1)
Net assets		**145.0**	133.5
Equity attributable to equity holders of the parent			
Share capital	26	**0.5**	0.5
Share premium	27	**20.5**	17.6
Shares to be issued	27	**0.7**	0.9
Treasury shares	27	**(3.2)**	(2.2)
Other reserves	27	**102.9**	101.2
Retained earnings	27	**23.6**	15.5
Total equity		**145.0**	133.5

*See note 12

These financial statements on pages 42 to 83 were approved by the Board of Directors and authorised for issue on 7 March 2007, and are signed on its behalf by:

Neil Bellis
Director

Michael Pearson
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of recognised income and expense

	Notes	2006 £m	2005 £m
Actuarial gains arising in respect of defined benefit pension scheme	23	**0.3**	–
Tax credit on share options taken directly to equity		**1.3**	–
Release of fair value adjustment in respect of available for sale financial assets		**–**	0.6
Net income recognised directly in equity		**1.6**	0.6
Profit for the year		**14.3**	17.4
Total recognised income and expense for the year		**15.9**	18.0

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated cash flow statement

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Profit from operations		**26.5**	26.9
Adjustments for:			
– Depreciation and amortisation		**8.8**	2.3
– Share option costs provided for		**0.2**	0.3
(Increase)/decrease in inventories		**(2.5)**	3.0
Increase in debtors		**(45.0)**	(4.5)
Increase/(decrease) in creditors		**22.5**	(6.1)
Cash generated from operations		**10.5**	21.9
Taxes paid		**(4.6)**	(3.3)
Interest paid		**(6.2)**	(4.2)
Net cash from operating activities		**(0.3)**	14.4
Cash flows from investing activities			
Interest received		**0.7**	0.5
Proceeds of disposal of property, plant and equipment		**0.3**	6.9
Purchases of property, plant and equipment and software		**(12.5)**	(3.8)
Purchase of other intangibles		**(2.8)**	–
Deferred consideration payments		**(17.1)**	(3.2)
Acquisition of subsidiaries		**(52.5)**	(48.6)
Cash acquired as part of acquisitions		**9.8**	–
Net cash used in investing activities		**(74.1)**	(48.2)
Cash flows from financing activities			
Dividends paid	11	**(8.2)**	(6.4)
Repayments of bank borrowings		**(88.0)**	(10.4)
New bank loans raised		**169.6**	41.0
Payment of finance lease liabilities		**(1.0)**	–
Loan to joint venture		**(2.0)**	–
Issue of shares		**3.0**	14.5
Purchase of treasury shares		**(1.0)**	(2.2)
Net cash from financing activities		**72.4**	36.5
Net (decrease)/increase in cash and cash equivalents		**(2.0)**	2.7
Cash and cash equivalents at beginning of year		**19.5**	16.8
Cash and cash equivalents at end of year	31	**17.5**	19.5

This format represents the indirect method of determining operating cash flow.

The accompanying accounting policies and notes form an integral part of these financial statements.

Note 1a. Presentation of financial statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as developed and published by the International Accounting Standards Board (IASB) and as adopted by the EU.

The financial statements are presented in Great British pounds since this is the currency in which the majority of the Group's transactions are denominated.

At the date of approving these financial statements, the following IFRS and International Financial Reporting Interpretations Committee (IFRIC), which have not been applied in these financial statements, were in issue but not yet effective:

- IFRIC 7 'Applying the Restatement approach under IAS29, Financial Reporting in Hyperinflationary Economies'
- IFRIC 8 Scope of IFRS 2 'Share-based payment transactions'
- IFRIC 9 'Reassessment of Embedded Derivatives'
- IFRIC 10 'Interim Financial Reporting and Impairment'
- IFRIC 11 'Group and Treasury Shared Transactions'
- IFRIC 12 'Service Concession Agreements'
- IFRS 7 'Financial Instruments – Disclosures'
- IFRS 8 'Operating Segments'

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Note 1b. Summary of principal accounting policies

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and certain financial assets and liabilities. The measurement bases are more fully described in the accounting policies.

It should be noted that accounting estimates and assumptions are used in preparing the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Note 1b – 1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Subsidiaries are accounted for under the purchase method.

All intra Group transactions, balances, income and expenses are eliminated on consolidation.

IFRS 3 Business Combinations has been applied to all acquisitions after the transitional date but not to any acquisitions made prior to that date. This applies to all acquisitions made in the current financial year, please refer to note 33 for complete details.

Note 1b – 2 Goodwill

Goodwill on acquisitions is initially measured at cost being the excess of the fair value of the consideration given over the Group's interest in the fair value of the identifiable net assets. Goodwill is recognised as an asset of indefinite economic life. Goodwill is not amortised and is reviewed for impairment at least annually.

Where at the date of acquisition, a full and reliable fair value exercise cannot be completed, those fair values will be deemed provisional, and the Group may reassess those fair values within 12 months of the acquisition date.

Deferred consideration on acquisitions is provided based on the Directors' best estimate of the liability at the balance sheet date. The liability is discounted and an imputed interest charge is included in the income statement.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Note 1b – 3 Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the fair value of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the goodwill belongs.

Goodwill arising on acquisition is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired.

Any impairment is recognised immediately in the income statements as part of other operating expenses and is not subsequently reversed.

Note 1b – 4 Other intangible fixed assets

For acquisitions of businesses, the Group recognises, separately from goodwill, intangible assets, provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Where the intangible assets recognised have finite lives their fair value is amortised on a straight line basis over those lives, subject to reviews for impairment when events or change of circumstance indicate that the carrying value may not be recoverable using cash flow projections. To the extent carrying values exceed fair values, an impairment is recognised and charged to the income statement in that period.

Computer software consists of all software that is not an integral part of the related computer hardware and is stated at cost less accumulated amortisation and impairment losses. Computer software is amortised on a straight line basis over five years.

Other intangible assets are amortised on a straight-line basis over their contractual term/average useful life of customer relationships.

Note 1b – 5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue in the residential property services division comprises fees for building consultancy, property management fees in respect of the public and private sectors, fees for facilities services delivery, disposals of property investments, income from products and services supplied to the residential lettings agent industry and commissions on other services provided where these relate principally to residential properties together with rent and rental income included in respect of owned properties.

Revenue in the commercial property services division comprises fees for building consultancy, property management fees in respect of the public and private sectors, fees for facilities services delivery, disposals of property investments, commissions on other services provided and other transactional services where these relate principally to commercial properties.

Revenue in both the residential and commercial property services divisions is recorded on an accruals basis. Revenue is accrued for services provided by the accounting date but not invoiced and deferred if services are invoiced but not fully provided by the accounting date. Revenue on projects and ongoing management is spread over the period in which the services are being provided. Revenue from disposal of property investments is recognised at the date of disposal.

Revenue in the property insurance services division comprises broking and insurance commissions recognised on the date the policy commences, risk management and other consulting services recognised when the services are provided, profit shares and other income received from insurance companies recognised in the period to which it relates and ongoing service provision (including claims handling) which is deferred over the period services are being provided.

Note 1b – 6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land by equal annual instalments over their expected useful life. The rates generally applicable are:

Freehold buildings	2%
Leasehold buildings	5%
Leasehold improvements	10%
Motor vehicles	25%
Fixtures and fittings	20%
Computer equipment	33%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit from operations.

Note 1b – 7 Finance leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their primary lease term. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Note 1b – 8 Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Note 1b – 9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax is calculated at the tax rates enacted or substantially enacted at the balance sheet date that are expected to apply in the period when the liability is settled or the asset realised.

Note 1b – 10 Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets (which are assets that necessarily take a substantial period of time to get ready for their intended use or sale) are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the period in which they are incurred.

Note 1b – 11 Retirement benefit costs

The Group operates a defined benefit pension scheme, which requires contributions to be made to separately administered funds. The cost of providing benefits under the scheme is determined using the projected unit valuation method. Actuarial gains and losses are not recognised as an expense unless the total unrecognised gain or loss exceeds 10% of the greater of the obligation and the related plan assets. The amount exceeding this 10% corridor is charged or credited to the income statement, over the expected average remaining working lives of the employees participating in the plans. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they would be of a short nature.

Note 1b – 12 Cash and cash equivalents

Cash and cash equivalents, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less bank overdrafts, as well as short-term highly liquid investments, that have an insignificant risk of change in value.

Note 1b – 13 Client monies and Insurance Broking Financial statements ('IBA') cash

The Group manages certain client monies as part of its residential management activities. These monies belong to clients, but the Group has operational control over the monies in order to perform its management services. In common with other property services companies these monies are not recognised in the Group balance sheet.

In addition the Group holds IBA cash in respect of its insurance activities. The use of this IBA cash is restricted to the settlement of applicable insurance creditors. These are included as an asset on the balance sheet in common with insurance industry accounting practice.

Note 1b – 14 Share based payment

The Group has applied the requirements of IFRS 2 – Share based payment. In accordance with the transitional provisions IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. All share based payments are equity settled.

All employee services received in exchange for the grant of any share based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to shares to be issued reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as additional paid-in capital.

Fair value is measured by use of the Monte Carlo model. The expected life, volatility and dividend yield used in the model has been derived based on management's best estimate taking into account relevant factors.

Note 1b – 15 Investments

Available for sale financial assets consist of investments in ordinary shares and therefore have no fixed maturity date or interest rate and are re-measured to their fair value at the reporting date. Gains and losses arising from securities classified as available for sale are recognised in the income statement when they are sold or when the investment is impaired, fair value movements are recognised as an equity movement.

In the case of impairment, any loss previously recognised in equity is transferred to the income statement. Losses recognised in the income statement on equity investments are not reversed through the income statement.

Note 1b – 16 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost comprises direct costs, and where applicable, associated costs incurred in bringing the inventories to their present location and condition. Work in Progress is valued on the basis of the proportion of work completed on contracts and includes attributable profit.

Note 1b – 17 Equity

Share capital is determined using the nominal value of shares that have been issued.

Share premium account includes any premiums received on the initial issuing of the share capital, unless merger relief is available. Any transaction costs associated with the issuing of shares are deducted from additional paid in capital, net of any related income tax benefits.

Retained earnings include all current and prior period results as disclosed in the income statement along with other relevant items recognised already in equity.

Shares to be issued reserve represents all share based remuneration which is ultimately recognised as an expense in the income statement with a corresponding credit to the shares to be issued reserve.

Other reserves is the difference between total consideration satisfied by issue of shares and the nominal value of shares that have been issued, in respect of acquisitions where UK merger relief is available.

Note 1b – 18 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which is probable will result in an outflow of economic benefits that can be reasonably estimated.

Note 1b – 19 Financial assets

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: loans and receivables, financial assets at fair value through the income statement, available-for-sale financial assets and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available. All financial assets are recognised on their settlement date. All financial assets that are not classified at fair value through the income statement are initially recognised at fair value, plus transaction costs.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a Group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in the income statement when received, regardless of how the related carrying amount of financial assets is measured.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if it is the intention of the Group's management to hold them until maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in the income statement.

Financial assets at fair value through the income statement include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through the income statement upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through the income statement may not subsequently be reclassified. Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognised in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment, any loss previously recognised in equity is transferred to the income statement. Losses recognised in the income statement on equity instruments are not reversed through the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in the income statement. Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Group's financial liabilities include bank loans and overdrafts, trade and other payables and finance leasing liabilities. They are included in balance sheet line items 'borrowings' and 'trade and other payables'.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance cost in the income statement.

Bank loans are raised for support of long-term funding of the Group's operations. They are recognised at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see Note 1b – 7).

Trade payables are recognised initially at their nominal value and subsequently measured at amortised cost less settlement payments.

Dividend distributions to shareholders are included in 'other short-term financial liabilities' when the dividends are approved by the shareholders' meeting, prior to the balance sheet date.

Note 1b – 20 Financial risk management

The Group uses financial instruments comprising bank loans, cash, term deposits and finance leases, together with various items such as trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks as detailed below.

Term deposits are structured so as to enable cash to be available when required. Most of these attract fixed interest rates. No transactions in derivatives are undertaken.

Note 1b – 21 Interest rate risk

The Group finances its operations through a mixture of shareholders' funds and bank loans and overdrafts. The Group accepts the risk attached to interest rate fluctuations but continues to monitor the situation.

Note 1b – 22 Liquidity risk

The Group manages liquidity risk by a combination of controls including:

- regular reviews at full Board level of cash flow projections and headroom position in respect of banking facilities;
- maintaining sensible gearing levels across the Group; and
- ensuring excess facilities are readily available for future use.

Note 1b – 23 Currency risk

The Group does not to any material extent operate in overseas markets nor does it pay suppliers in non-sterling currencies. Hence management do not envisage any significant currency risk attached to the Group for all financial short-term instruments (including debtors and creditors).

Note 1b – 24 Critical accounting judgements and sources of estimation uncertainty

In applying the Group's accounting policies, management have made a number of judgements and estimates. Further disclosure of those, which are critical to the accounts, are provided in the subsequent notes.

Note 2. Business and geographic segments – Year ended 2006

	Residential property services £m	Commercial property services £m	Property insurance services £m	Unallocated/ corporate £m	Total £m
Revenue	101.2	97.0	29.0	–	227.2
Adjusted profit/(loss) from operations	14.3	20.1	14.4	(7.6)	41.2
Other non-recurring and non-trading costs	–	–	–	(4.4)	(4.4)
Restructuring costs	–	–	–	(6.1)	(6.1)
Amortisation of intangibles	(0.3)	(2.9)	(1.0)	–	(4.2)
Profit/(loss) from operations	14.0	17.2	13.4	(18.1)	26.5
Share of operating loss of joint venture	–	–	–	(0.8)	(0.8)
Net interest	–	–	–	(6.9)	(6.9)
Tax expense	–	–	–	(4.5)	(4.5)
Profit/(loss) for the year	14.0	17.2	13.4	(30.3)	14.3
Balance sheet analysis:					
Consolidated total assets	102.0	137.8	169.4	30.6	439.8
Consolidated total liabilities	(26.0)	(18.2)	(24.4)	(226.2)	(294.8)
Consolidated net assets/(liabilities)	76.0	119.6	145.0	(195.6)	145.0
Property, plant and equipment analysis:					
Additions	1.9	1.0	0.1	8.2	11.2
Depreciation	1.8	0.8	0.3	1.3	4.2
Software, other intangibles analysis:					
Additions	0.3	7.0	0.6	1.2	9.1
Amortisation	–	3.3	1.3	–	4.6

Note 2. Business and geographic segments – Year ended 2005

	Residential property services £m	Commercial property services £m	Property insurance services £m	Unallocated/ corporate £m	Total £m
Revenue	74.2	55.2	22.4	–	151.8
Adjusted profit/(loss) from operations	13.0	7.6	11.3	(4.1)	27.8
Profit on sale of non-current assets	–	–	–	0.7	0.7
Restructuring costs	–	–	–	(1.6)	(1.6)
Profit/(loss) from operations	13.0	7.6	11.3	(5.0)	26.9
Net interest	–	–	–	(3.7)	(3.7)
Tax expense	–	–	–	(5.8)	(5.8)
Profit/(loss) for the year	13.0	7.6	11.3	(14.5)	17.4
Balance sheet analysis:					
Consolidated total assets	68.7	78.7	140.2	24.0	311.6
Consolidated total liabilities	(28.6)	(11.5)	(18.2)	(119.8)	(178.1)
Consolidated net assets/(liabilities)	40.1	67.2	122.0	(95.8)	133.5
Property, plant and equipment analysis:					
Additions	1.5	0.1	0.3	0.9	2.8
Depreciation	0.9	0.4	0.3	0.6	2.2
Software, other intangibles analysis:					
Additions	0.6	4.4	6.0	–	11.0
Amortisation	–	–	0.3	–	0.3

The above analysis has been restated in accordance with the changes referred to in note 12.

The Group's primary basis of segmental reporting is by business segment.

Materially all business operations are carried out within the United Kingdom.

The Group undertakes a range of transactional activities where the future revenue and profit streams are less visible and predictable, and where the level of income is likely to be impacted by macro-economic issues (especially commercial property investment market cycles). The range of these transactional activities includes:

- commercial property agency: a comparatively low volume, high value income stream
- commercial and residential auctioneering: although some visibility exists through the schedule of auctions each month, the number of sales per auction is less predictable
- white collar professional services such as property valuations, landlord and tenant advisory work, rent reviews etc: ongoing customer relationships provide a degree of visibility, however, forward looking pipeline of business is short
- involvement in property projects taking a short-term investment position where value creation is likely, and achieving success fees where value has been created for clients on specific property transactions: a high value, low volume activity taking advantage of ad hoc opportunities.

Included within the transactional income streams is around £15m of revenue and £11m of gross profit attributed to short-term property investment where the Group has achieved returns above those it could achieve acting in a purely intermediary role. Having developed a wide ranging client base, wide ranging sector knowledge, fund management expertise and experience together with a highly skilled senior management team the Group will look to continue to identify and take advantage of similar revenue opportunities in the future. The continued ability to exploit all of its transactional opportunities, especially where market dynamics are strong (as they are expected to be in 2007) allows the Group to balance lower margin repetitive services with increased higher margin transactional activities.

Note 3. Profit from operations

Profit from operations has been arrived at after charging/(crediting):

	2006 £m	2005 £m
Depreciation of property, plant and equipment:		
– Owned assets	**3.6**	1.9
– Under finance leases	**0.6**	0.2
Amortisation of intangible assets	**4.6**	0.3
Operating lease rentals:		
– Plant and machinery	**1.0**	1.3
– Property	**2.5**	0.6
Charge for share based payment	**0.2**	0.4
Total administrative expenses	**132.0**	81.6
Profit on disposal of property	**–**	(1.0)
Loss on disposal of assets held for resale	**–**	0.3
Profit on disposal of non current assets	**–**	(0.7)
Current auditors' remuneration		
Statutory audit	**0.3**	–
Audit of accounts of subsidiary companies pursuant to legislation	**0.1**	–
Previous auditors' remuneration		
Statutory audit	**–**	0.2
Audit of accounts of subsidiary companies pursuant to legislation	**–**	0.1
Other services pursuant to legislation*	0.1	0.1

*The non-audit services for both years noted above relate to work in respect of RICS audit work and Company law requirements on a number of acquisitions.

Note 4. Restructuring costs

The Group's results include £6.1m of restructuring costs in respect of the major integration, change and investment programmes discussed in this report. The Group continues to allocate the costs of its restructuring programme to capital expenditure where the costs are producing an identifiable intangible asset (mainly IT systems development work); highlighted restructuring costs where those costs impact on the change programme period only (eg, duplicated salary costs, specific redundancy packages and specific recruitment fees); or within the standard divisional and central operating costs (where the costs relate to ongoing overhead increases).

Restructuring costs incurred in 2006 have been higher than originally envisaged as management developed and extended the original scope of the restructuring and integration work. Initially the focus of the plan had been targeted to achieve immediate or short-term synergistic cost savings and to align IT systems. The focus of the plan was extended significantly during the year to encompass more substantial business change and improvement plans, significant improvements to the Group's key management teams and support services, and additional focus on improved control and risk management structures. The overall plan became more ambitious than originally envisaged but, when successfully completed, should deliver a greatly strengthened platform from which the Group can achieve its medium term growth potential.

As this project continues throughout 2007 and beyond it is likely that significant further restructuring costs will be incurred going forward, but with these costs expected to be lower in 2007 and substantially reduced by 2008.

In the prior year, the Group's results included £1.6m of restructuring costs in respect of compensation for loss of office to acquired entities' senior management and back office reorganisations.

Note 5. Other non-recurring, non-trading costs

Other non-recurring, non-trading expenses of £4.4m relate principally to the alleged fraud identified in the Group's City office in March 2006. This charge to the income statement is the Directors' best estimate, having taken appropriate professional advice in respect of the issues arising.

The Group has applied the provisions of IAS 37 (92), which permits exemption from full disclosure of this issue as it considers that to do so could be seriously prejudicial to the outcome of the case.

Note 6. Directors and employees

Staff costs during the year were as follows:

	2006 £m	2005 £m
Wages and salaries	86.2	67.2
Social security costs	8.7	6.5
Other pension costs:		
– defined benefit plans	0.3	0.2
– defined contribution plans	1.0	0.7
	96.2	74.6

The average number of employees of the Group during the year to 31 December 2006 was 3,215 (2005: 2,692).
Details in respect of the Directors' emoluments are included within the Directors' remuneration report.

Note 7. Finance cost

	2006 £m	2005 £m
Bank loans	6.5	3.2
Bank overdrafts	0.6	0.8
Discount unwind in respect of deferred consideration	0.5	0.2
	7.6	4.2

Note 8. Investment income

	2006 £m	2005 £m
Interest on bank deposits	0.7	0.5
	0.7	0.5

Note 9. Income tax expense

	2006 £m	2005 £m
Current tax – domestic – current year	6.3	5.4
Current tax – domestic – prior year	–	0.6
Deferred tax – current year	(0.6)	0.2
Deferred tax – prior year	(1.2)	(0.4)
	4.5	5.8

Factors affecting tax charge for the year

	2006 £m	2005 £m
Profit before taxation	18.8	23.2
Profit before taxation multiplied by the standard rate of corporation tax in the United Kingdom 30% (2005: 30%)	5.6	7.0
Timing differences	(0.5)	–
Net profit on disposal of investments not credited for tax purposes	–	(1.6)
Amortisation/impairment of goodwill deductible for tax purposes	–	0.2
Expenses not deductible for tax purposes	0.6	(0.4)
Adjustments made in respect of prior periods	(1.2)	0.6
	4.5	5.8

Note 10. Earnings per share

	2006 pence	2005 pence
Basic earnings per share	**13.4**	18.1
Diluted earnings per share	**13.2**	17.4
Adjusted earnings per share	**25.9**	19.2
Diluted adjusted earnings per share	**25.6**	18.5

The calculations of basic earnings per share are based on the following data:

	2006 £m	2005 £m
Earnings		
Profit for the year	**14.3**	17.4

	2006 Number Million	2005 Number Million
Number of shares		
Weighted average number of ordinary shares	**106.8**	96.3
Effect of dilutive potential ordinary shares:		
Share options and LTIPs	**1.4**	3.6
Diluted weighted average number of shares	**108.2**	99.9

Basic earnings per share is based on profit for the year and on weighted average number of ordinary shares. Diluted earnings per share is based on profit for the year and on diluted weighted average number of ordinary shares.

Adjusted earnings per share

Adjusted earnings per share is presented to show the earnings per share after removing any one-off revenues or costs. The calculations use the same numbers for weighted average number of shares. The calculations use the earnings data noted below:

	2006 £m	2005 £m
Earnings		
Profit for the year	**14.3**	17.4
Adjustments:		
– Restructuring costs	**6.1**	1.6
– Other non-recurring and non-trading costs	**4.4**	–
– Tax on restructuring costs	**(2.1)**	–
– Profit on sale of non current assets	**–**	(0.7)
– Amortisation of other intangibles	**4.2**	–
– Loss of joint venture	**0.8**	–
– Imputed interest charge	**–**	0.2
Earnings for the purpose of adjusted and diluted adjusted earnings per share	**27.7**	18.5

Note 11. Dividends

During the year, dividends of 7.75p (2005: 6.75p) per share, totalling £8.2m (2005: £6.4m) were paid to shareholders.

A dividend of 5.0p per share will be paid on 4 May 2007 to the shareholders on the register on 13 April 2007. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is £5.4m.

Note 12. Intangible assets

	Goodwill £m	Software £m	Other £m	Total £m
Cost				
At 1 January 2006 (as restated – see below)	206.6	1.5	10.0	218.1
Additions	59.8	2.1	7.0	68.9
At 31 December 2006	266.4	3.6	17.0	287.0
Amortisation				
At 1 January 2006 (as restated – see below)	3.5	0.4	–	3.9
Provided in the year	–	0.4	4.2	4.6
At 31 December 2006	3.5	0.8	4.2	8.5
Net book value at 31 December 2006	262.9	2.8	12.8	278.5
Net book value at 31 December 2005 (as restated – see below)	203.1	1.1	10.0	214.2

Following a review of the Mount Street acquisition, which occurred at the end of last year, £5.0m has been identified as being attributable to customer relationships/book of business in the insurance business. These will be amortised over five years representing the average life of these relationships. A further £5.0m has been identified as relating to contractual and non-contractual relationships as part of the finalisation of fair value exercises accounted for on a provisional basis in 2005, and these amounts are being amortised over the estimated average lives of the relationships. These items have been reclassified from goodwill to other intangible assets within the opening balances at 1 January 2006. The opening goodwill balance (and correspondingly the deferred tax provision opening balance) has been increased by £3.0m to reflect the deferred tax on these intangible assets.

In addition, as disclosed in the 2005 annual report, the fair values relating to the Mount Street acquisition were identified on a provisional basis. During 2006 this exercise was finalised resulting in a further increase in goodwill of £3.9m along with a corresponding increase in receivables of £0.3m and an increase in provisions of £4.2m. Comparative information has been restated to reflect these final fair values.

In addition to the above, the intangible assets relating to computer software has been reclassified from tangible assets to intangible fixed assets at 1 January 2006. These assets had a cost of £1.5m and accumulated amortisation of £0.4m. Comparative information has been restated.

The addition to other intangible assets relates to the acquisition of a Civil Aviation Authority (CAA) licence as part of the Shoreham Airport deal. This is being amortised over five years.

The amortisation of intangible assets is being charged through the income statement.

Additions to goodwill have resulted from the following acquisitions:

	2006 £m
Douglas Duff	5.7
Tom McNamara & Partners	6.1
Egan Lawson	8.2
Monaghans	5.9
John Nolan	13.2
Keelan Westall	19.0
Others	1.7
	59.8

Note 12. Intangible assets (continued)

Impairment tests for cash generating units containing goodwill and other intangible assets.

The Group's impairment testing is based on fair value less costs to sell.

The fair value of each of the Group's cash generating units is based on value in use calculations. Those calculations use cash flow projections based on actual operating profits and following years' budgets (these are approved by the Board). Budgeted cash flows for a further three years are then extrapolated using a 5% growth rate, which is appropriate because of the organic growth trends achieved by the Group over the last three years. A pre-tax discount rate of 9.5% (based on the Group's weighted average cost of capital) has been used in discounting the projected cash flows.

The intangible assets acquired in 2005 have been impairment tested, using as cash generating units the business entities acquired as disclosed in the table above. As these entities are fully integrated into the Group three divisional structure, and in respect of prior year intangible assets which have already been fully integrated into this divisional structure, future impairment testing will be based upon the three cash generating units of residential property services, commercial property services and property insurance services.

The allocation of goodwill in 2006 for impairment testing is as follows:

	Residential £m	Commercial £m	Insurance £m	Total £m
Balance at 1 January 2006 (restated)	52.7	53.6	96.8	203.1
Additions	0.8	39.9	19.1	59.8
Balance at 31 December 2006	**53.5**	**93.5**	**115.9**	**262.9**

The fair value of each of the Group's cash generating units, significantly exceeds the respective carrying value of the unit including goodwill.

Note 13. Property, plant and equipment

	Freehold land and buildings £m	Leasehold buildings and improve-ments £m	Motor vehicles, fixtures and fittings £m	Computer equipment £m	Total £m
Cost					
At 1 January 2006 (as restated see note 12)	12.0	3.2	7.8	10.8	33.8
Additions	6.9	0.7	1.7	1.9	11.2
Disposals	–	–	(0.7)	(0.4)	(1.1)
Transfers	(0.1)	0.2	0.4	(0.5)	–
Reclassification	(2.1)	2.1	0.3	(0.3)	–
Arising on acquisition	0.1	–	0.5	0.3	0.9
At 31 December 2006	16.8	6.2	10.0	11.8	44.8
Depreciation					
At 1 January 2006 (as restated see note 12)	0.3	1.4	4.4	6.5	12.6
Charge for the year	0.2	0.6	1.4	2.0	4.2
Disposals	–	–	(0.4)	(0.3)	(0.7)
Transfers	–	–	0.6	(0.6)	–
Reclassification	–	(0.1)	0.4	(0.3)	–
At 31 December 2006	0.5	1.9	6.4	7.3	16.1
Net book value at 31 December 2006	**16.3**	**4.3**	**3.6**	**4.5**	**28.7**
Net book value at 31 December 2005 (as restated see note 12)	11.7	1.8	3.4	4.3	21.2

Note 13. Property, plant and equipment (continued)

Assets held under finance leases have the following net book value:

	2006 £m	2005 £m
Cost	**2.9**	0.8
Aggregate depreciation	**(1.3)**	(0.4)
Net book value	**1.6**	0.4

Included in assets held under finance leases, which are secured on those assets, are motor vehicles of £1.6m (2005: £0.4m).

Note 14. Long-term financial assets

	Investment £m
At 1 January 2006	0.5
Disposal	(0.1)
At 31 December 2006	**0.4**

Long-term financial assets consist of unlisted investments and loans to those investments.

Note 15. Investment in joint venture

	Share of net liabilities of joint venture £m 2006
Cost	
Share of loss for the year	(0.8)
At 31 December 2006	**(0.8)**
Goodwill	
Additions	**0.1**
Net book value	
At 31 December 2006	**(0.7)**

The Group's investment in the joint venture was acquired as part of the Mount Street acquisition in late 2005. It relates to an outsourcing operation based in India, Core BPO, in which the Group has a shareholding of 50% plus 1 share. The 100% values are shown below:

	Joint venture £m 2006
Revenue	**1.1**
Loss for the year	**(1.6)**
Current assets	**0.4**
Non-current liabilities	**(2.0)**
Current liabilities	**(0.2)**
Net liabilities	**(1.8)**
Pre-acquisition net liabilities	**0.2**
Post-acquisition net liabilities	**(1.6)**

Note 16. Inventories

	2006 £m	2005 £m
Stock of properties	**1.8**	–
Stock of materials	**0.4**	0.2
Work in progress	**5.6**	4.0
	7.8	4.2

Note 17. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**72.6**	36.1
Allowance for specific doubtful debts	**(4.1)**	(3.3)
Net trade receivables	**68.5**	32.8
Other receivables	**11.4**	4.7
Prepayments and accrued income (restated – see note 12)	**22.2**	10.2
	102.1	47.7

Trade receivables comprise amounts receivable from the sale of goods and provision of services.

An allowance has been made for estimated irrecoverable amounts from the sale of goods and provision of services. This allowance has been determined by reference to past default experience and the current economic environment.

The Group's credit risk is primarily attributable to its trade receivables.

The fair value of these short-term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

Note 18. Cash and cash equivalents

	2006 £m	2005 £m
IBA cash	**12.3**	11.2
Other cash and cash equivalents	**10.7**	12.6
	23.0	23.8

The Group holds IBA cash in respect of its insurance activities, held principally in respect of insurance trade creditors. This cash is only available for specific purposes.

Note 19. Trade and other payables: current liabilities

	2006 £m	2005 £m
Trade payables	**37.8**	20.4
Other payables	**9.7**	6.0
Deferred purchase consideration (net of discount)	**20.3**	13.4
Social security and other taxes	**7.5**	6.2
Accruals and deferred income	**19.4**	13.7
	94.7	59.7

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 39 days (2005: 46).

The fair values of trade and other payables has not been disclosed as, due to their short duration, the Directors consider the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

Deferred purchase consideration represents the outstanding payments due in respect of completed acquisitions. All such deferred purchase consideration bears no interest and is unsecured. Deferred consideration includes amounts totalling £1.9m, in respect of variable earn-out based payments, and £20.0m that can be settled by either cash or shares at the Company's option, less a discount element of £1.6m.

Note 20. Borrowings: current liabilities

	2006 £m	2005 £m
Bank overdrafts	**5.5**	4.3
Bank loans – secured	**–**	5.6
Finance lease obligations	**0.5**	0.4
	6.0	10.3

The bank overdrafts of the Group are secured by a fixed and floating charge over all the assets of the Group.

The bank overdrafts bear interest at 1.0% above base rate.

Finance lease obligations are secured on the relevant asset.

Note 21. Other payables: non-current liabilities

	2006 £m	2005 £m
Deferred purchase consideration – gross	**20.2**	22.8
Discount	**(1.4)**	(0.5)
Deferred purchase consideration – net	**18.8**	22.3
Other payables	**–**	0.5
	18.8	22.8

Deferred purchase consideration represents the outstanding payments due in respect of completed acquisitions. All such deferred purchase consideration bears no interest and is unsecured. Deferred consideration includes amounts totalling £8.7m, in respect of variable earn-out based payments, and £8.3m that can be settled by either cash or shares at the Company's option.

Note 22. Borrowings: non-current liabilities

	2006 £m	2005 £m
Bank loans – secured	**156.4**	69.2
Finance lease obligations	**0.4**	0.4
	156.8	69.6

The bank loans of the Company and its subsidiaries are secured by a fixed and floating charge over all the assets of the Group except for those within its insurance regulated subsidiaries. These are excluded from the security web to ensure key liquidity and solvency calculations of the regulated businesses are not weakened.

Bank loan facilities comprise a bank overdraft of £10.0m and a revolving credit facility available for acquisition expenditure totalling £205.0m. Both facilities attract interest rates of between 1.00% and 1.25% above LIBOR dependent upon gearing levels. The overdraft facility is a standard 12 month facility to cover normal working capital cash flow swings. The revolving credit facility is a five year facility repayable in full in one bullet repayment in July 2011.

The issue costs of the loans of £0.5m are deducted from gross proceeds and interest computed on the carrying amount.

Total facilities amount to £215.0m.

Note 22. Borrowings: non-current liabilities (continued)

Long-term liabilities are repayable as follows:

	2006 £m	2005 £m
After one and within two years		
Bank loans	–	3.2
Finance leases	**0.3**	0.3
Deferred purchase consideration	**9.8**	8.3
Other payables	–	0.5
After two and within five years		
Bank loans	**156.4**	60.8
Finance leases	**0.1**	0.1
Deferred purchase consideration	**9.0**	13.3
After five years		
Bank loans	–	5.2
Deferred purchase consideration	–	0.7
	175.6	92.4

Interest rate risk

The Group does not hedge its interest rate exposure, as it accepts the risk attached as interest remains a low proportion of operating profits.

Interest rates

The effective interest rates at the balance sheet dates were as follows LIBOR rate at 31 December:

	2006 £m	2005 £m
Bank overdraft	**6.25%**	5.75%
Bank loans	**6.50%**	6.00%

Fair values

The fair values of the Group's financial instruments is considered to approximate to their book value.

Note 23. Retirement benefit obligations

Defined benefit schemes

Haywards Property Services Ltd, a subsidiary undertaking, operates one defined benefit pension scheme in the United Kingdom in respect of certain current and ex-employees. The assets of the scheme are administered by trustees in a fund independent from those of the Company.

The scheme is part of a multi-employer scheme, with separate assets for each employer's section. The last full actuarial valuation of the full scheme was carried out as at 3 March 2003. The value of the scheme has been assessed as at 31 December 2006 using the projected unit method by a qualified independent actuary.

A schedule of contributions was put in place with effect from 1 April 2003. A contribution rate of 14% of pensionable salaries was agreed.

Note 23. Retirement obligations (continued)

Defined benefit schemes – continued

The main assumptions used by the actuary for the valuation were as follows:

	2006 %	2005 %
Rate of increase in salaries	**4.1**	4.0
Rate of increase for pensions in payment	**3.1**	3.0
Discount rate	**5.1**	4.7
Expected rate of return on plan assets	**6.5**	6.3
Inflation	**3.1**	3.0

The assets in the scheme and the expected rate of return (net of investment management expenses) were:

	2006 £m	2005 £m
Equities	**1.6**	1.3
Bonds	**0.1**	0.1
Cash	**0.1**	–
Total market value of assets	**1.8**	1.4
Actuarial value of liabilities	**(1.8)**	(1.7)
Net pension liability	**–**	(0.3)

The amounts recognised in the income statement are as follows:

	2006 £m	2005 £m
Current service cost	**0.3**	0.2
Interest cost	**0.1**	0.1
Expected return on plan assets	**(0.1)**	(0.1)
Total included within staff costs (note 6)	**0.3**	0.2

Analysis of the movement in the deficit in the balance sheet:

	2006 £m	2005 £m
Deficit in the scheme at beginning of the year	**(0.3)**	(0.1)
Current service cost	**(0.3)**	(0.2)
Contributions	**0.3**	0.3
Actuarial gain/(loss)	**0.3**	(0.3)
Deficit at end of year	**–**	(0.3)

Defined contribution schemes

Contributions payable to various defined contribution schemes in respect of the accounting year have been charged against profits.

Note 24. Other provisions

	2006 £m
As at 1 January 2006 (restated – see note 12)	**5.5**
Additional provisions	**0.3**
Expensed in the year	**(0.8)**
As at 31 December 2006	**5.0**

Other provisions arise from recent acquisitions of the Group and are provided against potential legal and other claims.

Usually, these claims are settled within two years from initiation, depending on the procedures used for negotiating the claims. As the timing of settlement of these claims is to a large extent dependent on the pace of negotiation with various counterparties and legal authorities, the Group cannot reliably estimate the timing of settlement of the amounts that will eventually be paid but it is expected that any settlement will be more than 12 months from the balance sheet date.

Note 25. Deferred tax

	2006 £m	2005 £m
As at 1 January (restated – see note 12)	**3.1**	0.3
Credit to income statement	**(1.8)**	(0.2)
Credit to retained earnings	**(0.4)**	–
Intangible additions	**1.3**	3.0
As at 31 December	**2.2**	3.1
Analysis of deferred tax:		
– Timing differences on property, plant and equipment	**0.6**	0.3
– Timing differences on unexpired share options	**(0.9)**	–
– Timing differences on intangibles	**3.1**	3.0
– Provisions	**(0.6)**	(0.2)
	2.2	3.1

At the balance sheet date, the Group has unused tax losses of £2.7m (2005: £1.8m) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £nil (2005: £nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Note 26. Share capital

	2006 £m	2005 £m
Authorised:		
200,000,000 (2005: 200,000,000) ordinary shares of 0.5p each	**1.0**	1.0
Issued and fully paid:		
107,362,419 (2005: 105,079,221) ordinary shares of 0.5p each	**0.5**	0.5
As at 1 January	**0.5**	0.5
Issue in respect of acquisitions	**–**	–
As at 31 December	**0.5**	0.5

	2006 Number of shares	2005 Number of shares
As at 1 January	**105.1**	94.4
Share options exercised	**2.3**	1.0
Issue in respect of acquisitions	**0.5**	10.0
Cancellation of treasury shares	**(0.5)**	(0.3)
As at 31 December	**107.4**	105.1

Allotments during the year

The Company issued from cancelled treasury shares 187,340 0.5p ordinary shares in February 2006 in respect of the Tom McNamara acquisition. The difference of £0.7m between the total consideration and the nominal value has been credited to reserves.

The Company issued from cancelled treasury shares 308,642 0.5p ordinary shares in November 2006 in respect of the John Nolan acquisition. The difference of £1.0m between the total consideration and the nominal value has been credited to reserves.

The Company issued 2,283,198 shares in respect of the exercise of share options during the year and received £2.9m, which has been credited to the share premium account.

Note 27. Reserves

	Share premium £m	Shares to be issued £m	Treasury shares £m	Merger and other reserves £m	Profit and loss account £m
At 1 January 2005	16.5	1.6	–	74.9	1.8
Retained profit for the year	–	–	–	–	17.4
Dividends	–	–	–	–	(4.3)
Issue of share capital	–	(1.0)	–	27.7	–
Cost of issue of shares	–	–	–	(1.4)	–
Share based payments	–	0.3	–	–	–
Equity share options exercised	1.1	–	–	–	–
Treasury shares purchased	–	–	(2.2)	–	–
Release of provision in respect of available for sale financial assets	–	–	–	–	0.6
At 1 January 2006	17.6	0.9	(2.2)	101.2	15.5
Retained profit for the year	–	–	–	–	14.3
Dividends	–	–	–	–	(8.2)
Issue of share capital	–	–	–	1.7	–
Share based payments	–	0.2	–	–	–
Equity share options exercised	2.9	–	–	–	–
Reserve movement on exercise of share options	–	(0.4)	–	–	0.4
Treasury shares purchased	–	–	(1.0)	–	–
Actuarial gain arising in respect of defined benefit pension scheme	–	–	–	–	0.3
Tax credit re share options	–	–	–	–	1.3
At 31 December 2006	20.5	0.7	(3.2)	102.9	23.6

Note 28. Share based payments

During the year ended 31 December 2006, the Company had three share based payment arrangements, which are described below.

Type of arrangement	Date granted	Option price	Number granted
Executive share option scheme			
	11 Dec 2000	£1.93	137,956
	26 Oct 2001	£1.86	45,644
	11 Dec 2001	£2.55	106,925
	18 Mar 2002	£1.55	24,012
	12 Dec 2002	£0.80	98,235
	20 Feb 2003	£0.78	22,287
	06 Apr 2003	£1.00	782,000
	31 Jul 2003	£1.00	81,000
	20 Jul 2004	£1.41	267,000
	22 Apr 2005	£2.42	501,120
	23 Mar 2006	£3.85	118,182
	26 Apr 2006	£3.85	2,597
	15 Sep 2006	£2.90	110,336
Sharesave plan			
Three year	06 Jul 2005	£2.15	278,232
	26 May 2006	£3.06	180,573
Five year	06 Jul 2005	£2.15	205,496
	26 May 2006	£3.06	136,238
Long-term incentive plan	23 Sep 2005	£2.63	453,273
	23 Mar 2006	£3.85	401,301
	15 Sep 2006	£2.90	246,332
			4,198,739

Long-term incentive plan ('LTIP')

All senior executives are entitled to be considered for a grant of awards under the LTIP. The eligible executives are awarded a conditional right over a whole number of shares ('LTIP Award') with the release being dependent on the extent to which (if at all) the challenging performance conditions set by the Remuneration Committee at the time the LTIP Award is made are satisfied. The maximum annual LTIP Award is 100% of salary. Executives are also entitled to receive a further award of matching shares of up to 25% of salary, if they retain any shares released under the LTIP.

The performance condition for the grant of awards under the LTIP is set out below:

Level of Comparative TSR Performance against FTSE all share support services sector	% of LTIP Award Released*
Median	25%
Upper Quartile	100%

*Straight line vesting between points.

In addition, no LTIP Awards will vest unless the Company's average EPS growth over the performance period is at least RPI plus 5% per annum.

In order to encourage the retention of shares at the end of the three year performance period, any shares which are held for a further two years from the date of release of any LTIP Award may be matched subject to continued employment throughout the two year holding period and the satisfaction of additional performance requirements. One matching share will be awarded for every four shares retained where the Group's comparative TSR is at or above the median of the companies in the FTSE all share support services sector over the two year period. Where performance is below median there will be no matching shares awarded.

Executive share option scheme

Executive Directors and certain senior management are entitled to participate in the Group's share option scheme and options are granted at the discretion of the Remuneration Committee. All share options granted during the year are subject to performance related vesting conditions that require EPS of the Group to out grow RPI by 7% per annum. This EPS growth is tested throughout the vesting period allowing options that would not vest under these conditions in the initial years to subsequently vest in later years. Executives are also entitled to receive an award of matching shares of up to 25% of salary, if they retain any shares allotted under the Executive share option scheme.

The grant of share options throughout 2006 and going forward has been restricted to the £30,000 limit per individual available under the HMRC Approved scheme. The Committee now uses LTIP awards where more substantial long-term incentives are considered desirable.

The estimated fair value of each option granted is £1.10. This was calculated by applying a Monte Carlo option pricing model. The model inputs were the share price on the grant date, exercise price, contractual life of ten years, and a risk-free interest rate of 5%. To allow for the effects of early exercise, it was assumed that employees would exercise options after the vesting date when the share price was twice the exercise price.

Further details of the share options and LTIP awards are as follows:

	2006 Number	2005 Number
Outstanding at start of year	**5,943,026**	5,028,458
Granted	**1,219,971**	1,932,360
Lapsed	**(744,391)**	(36,479)
Exercised	**(2,219,867)**	(981,313)
Outstanding at end of year	**4,198,739**	5,943,026
Weighted average exercise price (pence)	**224.9**	161.2

	2006 £m	2005 £m
Expense arising from share and share option plans	**0.2**	0.4

Note 29. Reconciliation of net cash flow to movement in debt

	2006 £m	2005 £m
(Decrease)/increase in cash and cash equivalents in the year	**(2.0)**	2.7
Cash inflow from debt financing	**(81.6)**	(31.5)
Change in net debt resulting from cash flows	**(83.6)**	(28.8)
Debt acquired with subsidiary	**(0.1)**	(1.6)
Movement in net debt in the year	**(83.7)**	(30.4)
Net debt at 1 January	**(56.1)**	(25.7)
Net debt at 31 December	**(139.8)**	(56.1)

Note 30. Analysis of changes in net debt

	At 1 January 2006 £m	Group cash flow £m	Acquisitions* £m	At 31 December 2006 £m
Cash in hand and at bank	23.8	(0.8)	–	23.0
Bank overdraft	(4.3)	(1.2)	–	(5.5)
	19.5	(2.0)	–	17.5
Debt falling due within one year	(5.6)	5.6	–	–
Debt falling due after one year	(69.2)	(87.2)	–	(156.4)
Finance leases	(0.8)	–	(0.1)	(0.9)
	(56.1)	(83.6)	(0.1)	(139.8)

*Acquisitions exclude cash and overdrafts.

Note 31. Reconciliation of cash and cash equivalents to net debt

	2006 £m	2005 £m
Analysis per balance sheet headings:		
– IBA cash	**12.3**	11.2
– Other cash and cash equivalents	**10.7**	12.6
– Bank overdrafts (included within bank loans and overdrafts)	**(5.5)**	(4.3)
Cash and cash equivalents	**17.5**	19.5
Finance leases	**(0.9)**	(0.8)
Bank loans	**(156.4)**	(74.8)
Net debt	**(139.8)**	(56.1)
Net debt excluding IBA cash	**(152.1)**	(67.3)

Note 32. Major non-cash transactions

Part of the consideration for the purchase of interests in subsidiary undertakings and unincorporated businesses comprise shares and deferred payments. Further details of these major non-cash transactions are given below in note 33.

Note 33. Acquisitions

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

Entity	Country of operation	Acquisition date	Consideration £m
Keelan Westall	United Kingdom	Sep 06	**20.3**
John Nolan	United Kingdom	Nov 06	**14.3**
Egan Lawson	United Kingdom	Aug 06	**10.5**
Tom McNamara & Partners	Ireland	Feb 06	**8.8**
Monaghans	United Kingdom	Aug 06	**8.0**
Douglas Duff	United Kingdom	Mar 06	**6.0**
Other		Various	**3.7**
			71.6

Net assets/(liabilities) acquired

	Book value prior to acquisition £m	Accounting policy adjustments £m	Provisional fair value adjustments £m	Provisional fair value of net assets/ (liabilities) acquired £m
Intangible fixed assets	1.3	–	2.9	4.2
Tangible fixed assets	1.0	(0.1)	–	0.9
Current assets (excluding cash)	10.7	–	(0.3)	10.4
Cash	9.8	–	–	9.8
Creditors due within one year	(12.0)	–	(1.5)	(13.5)
Total net assets acquired	10.8	(0.1)	1.1	11.8

Consideration	69.7
Acquisition costs	1.9
Total investment costs	71.6
Provisional goodwill arising	59.8

Note 33. Acquisitions (continued)

A. Keelan Westall

On 6 September 2006 the Group acquired 100% of the issued capital of Keelan Westall. The business acquired provides insurance services. Total consideration for the acquisition was provisionally £20.3m comprising:

- Cash and settlement of liabilities of £17.7m
- Further share issues, loan notes and cash payments outstanding at 31 December 2006 of £2.6m.

The provisional goodwill arising on the acquisition of Keelan Westall is principally attributable to the workforce, certain customer relationships which do not meet the criteria for separate recognition as an intangible asset, and the anticipated future operating synergies from the combination of the business with the Group's existing businesses.

Provisional goodwill arising on the acquisition of £19.0m has been capitalised. The provisional fair value analysis has attributed a value of £nil in respect of intangible assets surrounding customer relationships, pending a detailed review in 2007.

The purchase of Keelan Westall has been accounted for by the acquisition method of accounting.

The assets and liabilities acquired and provisional fair value adjustments were as follows:

	Unadjusted acquired balance sheet £m	Provisional fair value adjustments £m	Provisional fair value balance sheet £m
Non-current assets			
Property, plant and equipment	0.3	–	0.3
Current assets			
Trade and other receivables	2.8	–	2.8
Cash and cash equivalents	3.8	–	3.8
Total assets	6.9	–	6.9
Liabilities			
Trade and other payables	5.6	–	5.6
Total liabilities	5.6	–	5.6
Fair value of net assets on acquisition			1.3
Purchased goodwill			19.0
			20.3

The outflow of cash and cash equivalents on this acquisition is calculated as follows:

Cash and payment of liabilities	17.7
Loan notes	2.6
	20.3

The fair values included above are provisional.

Note 33. Acquisitions (continued)

B. John Nolan Associates

On 20 November 2006 the Group acquired 100% of the issued capital of John Nolan Associates. The business acquired provides property services. Total consideration for the acquisition was provisionally £14.3m comprising:

- 308,642 ordinary 0.5p shares issued at a premium of 323 pence per share (£1.0m)
- Cash and settlement of liabilities of £7.3m
- Further share issues and cash payments outstanding at 31 December 2006 of £6.0m.

The provisional goodwill arising on the acquisition of John Nolan Associates is principally attributable to the workforce, certain customer relationships which do not meet the criteria for separate recognition as an intangible asset, and the anticipated future operating synergies from the combination of the business with the Group's existing businesses.

Goodwill arising on the acquisition of £13.2m has been capitalised. The purchase of John Nolan Associates has been accounted for by the acquisition method of accounting.

The assets and liabilities acquired and provisional fair value adjustments were as follows:

	Unadjusted acquired balance sheet £m	Provisional fair value adjustments £m	Provisional fair value balance sheet £m
Non-current assets			
Property, plant and equipment	0.1	–	0.1
Current assets			
Inventories	0.5	–	0.5
Trade and other receivables	1.7	(0.4)	1.3
Cash and cash equivalents	0.8	–	0.8
Total assets	3.1	(0.4)	2.7
Liabilities			
Trade and other payables	(1.6)	–	(1.6)
Total liabilities	(1.6)	–	(1.6)
Fair value of net assets on acquisition			1.1
Purchased goodwill			13.2
			14.3

The outflow of cash and cash equivalents on this acquisition is calculated as follows:

Cash and payment of liabilities	7.3
Deferred consideration	6.0
Shares issued	1.0
	14.3

The fair values are provisional because the John Nolan Associates acquisition occurred late in 2006.

An element of the deferred consideration is dependent on future profitability and future realisation of certain assets held at acquisition date over the next three years.

Note 33. Acquisitions (continued)

C. Egan Lawson

On 23 August 2006 the Group acquired 100% of the issued capital of Egan Lawson. The business acquired provides property services. Total consideration for the acquisition was £10.5m comprising:

- Cash and settlement of liabilities of £7.4m
- Further share issues and cash payments outstanding at 31 December 2006 of £3.1m.

The provisional goodwill arising on the acquisition of Egan Lawson is principally attributable to the workforce, certain customer relationships which do not meet the criteria for separate recognition as an intangible asset, and the anticipated future operating synergies from the combination of the business with the Group's existing businesses.

Goodwill arising on the acquisition of £8.2m has been capitalised. The purchase of Egan Lawson has been accounted for by the acquisition method of accounting.

The assets and liabilities acquired and provisional fair value adjustments were as follows:

	Unadjusted acquired balance sheet £m	Provisional fair value adjustments £m	Provisional fair value balance sheet £m
Non-current assets			
Property, plant and equipment	0.1	–	0.1
Current assets			
Trade and other receivables	0.9	–	0.9
Cash and cash equivalents	2.5	–	2.5
Total assets	3.5	–	3.5
Liabilities			
Trade and other payables	(1.2)	–	(1.2)
Total liabilities	(1.2)	–	(1.2)
Fair value of net assets on acquisition			2.3
Purchased goodwill			8.2
			10.5

The outflow of cash and cash equivalents on this acquisition is calculated as follows:

Cash and payment of liabilities	7.4
Deferred consideration	3.1
	10.5

An element of the deferred consideration is dependent on future profitability over the next three years.

Note 33. Acquisitions (continued)

The Group's acquisitions recorded the following results in the year:

	Period up to acquisition £m	Period from acquisition to 31 December 2006 £m	Total £m
Revenue			
Keelan Westall	4.1	2.5	6.6
John Nolan	3.6	0.9	4.5
Monaghans	3.3	0.9	4.2
Douglas Duff	2.0	6.5	8.5
Egan Lawson	0.8	1.4	2.2
Tom McNamara & Partners	0.1	3.9	4.0
Other	2.4	7.5	9.9
	16.3	23.6	39.9
Profit before tax			
Keelan Westall	0.3	1.3	1.6
John Nolan	0.9	0.3	1.2
Monaghans	1.0	–	1.0
Douglas Duff	0.3	0.6	0.9
Egan Lawson	0.5	0.9	1.4
Tom McNamara & Partners	(0.3)	2.0	1.7
Other	0.3	0.7	1.0
	3.0	5.8	8.8

Note 34. Capital commitments

	2006 £m	2005 £m
Contracted but not provided for	1.9	–

Note 35. Obligations under finance leases

	Minimum lease payments 2006 £m	Minimum lease payments 2005 £m	Present value of lease payments 2006 £m	Present value of lease payments 2005 £m
Amounts payable under finance leases				
Within one year	**0.6**	0.4	**0.5**	0.4
In the second to fifth years inclusive	**0.4**	0.5	**0.4**	0.4
	1.0	0.9	**0.9**	0.8
Less: future finance charges	**(0.1)**	(0.1)		
Minimum lease payments	**0.9**	0.8		
Present value of lease payments			**0.9**	0.8
Less: amount due for settlement within 12 months (shown under current liabilities)			**0.5**	0.4
Amount due for settlement after 12 months			**0.4**	0.4

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is two years. For the year ended 31 December 2006, the average effective borrowing rate was 5.5%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's finance lease obligations approximates their carrying value.

The Group's obligations under finance lease are secured by the lessor's charge over the leased assets.

Note 36. Operating lease commitments – minimum lease payments

The Group's minimum operating lease payments are as follows:

	2006 Land & buildings £m	2006 Other £m	2005 Land & buildings £m	2005 Other £m
Within one year	**2.6**	**0.7**	0.2	0.4
Between one and five years	**7.4**	**4.0**	0.8	0.8
In more than five years	**6.7**	**–**	4.8	–
	16.7	**4.7**	5.8	1.2

Operating lease payments recognised as an expense during the year amounted to £3.5m (2005: £1.8m)

Note 37. Related party transactions

Juliet Bellis & Co solicitors is a related party by virtue of the close family relationship between J Bellis, the senior partner of the firm, and N Bellis, a director of the Company.

Juliet Bellis & Co is an independent two partner firm of solicitors which renders legal services to the Group. The firm employs five solicitors, one licensed conveyancer, two legal executives, twenty para legals and one secretary. The firm carries out most of the legal work for the Group including all employment matters, debt collection and other litigation, acquisitions and property sales and purchases. The firm also carries out work for third party clients who are independent of the Group.

J Bellis is company secretary to all companies within the Group.

Juliet Bellis & Co rendered legal and company secretarial services to the Group amounting to £0.8m (2005: £0.6m) of which £0.4m was accrued and owed to Juliet Bellis & Co. Juliet Bellis & Co's fees were subject to scrutiny and approval by the Remuneration Committee. The Company also received rental income amounting to £60,000 (2005: £60,000) from Juliet Bellis & Co.

Longmint Limited is a related party by virtue of shares held by N Bellis and L Cummings who are also directors of Erinaceous Group plc. The Group provides a range of property management services to Longmint Limited and as at 31 December 2006, Longmint Limited owed the Group £1.2m.

Note 38. Post balance sheet events

There have been no material post balance sheet events since the year end to the date of signing this report and financial statements.

Note 39. Principal subsidiaries

At 31 December 2006 the Group held 20% or more of the equity of the following:

Principal subsidiary undertakings	Nature of business	Proportion held by the Group
CPM Asset Management Ltd	Property management	100%
Erinaceous Commercial Property Services Ltd	Property services	100%
Erinaceous Commercial Services Ltd	Asset management	100%
Entente Group Ltd	Property services	100%
Erinaceous Managed Services Ltd	Contractor of support services	100%
Erinaceous Insurance Services Ltd	Insurance services	100%
Erinaceous Property Services Ltd	Holding company	100%
Hanover Park Services plc	Residential lettings services	100%
Harman Healy Ltd	Auction house	100%
HLR Holdings Ltd	Property holding company	100%
Johnson Cooper Ltd	Property management	100%
John Nolan Associates Ltd	Structural and consulting engineering	100%
Jordan's Residential Lettings Ltd	Residential lettings services	100%
Leach Rhodes Walker Ltd	Property services	100%
Mainguild Ltd	Auction house	100%
Monaghans Ltd	Property management	100%
Erinaceous Property Maintenance Ltd	Residential lettings services	100%
Tom McNamara & Partners Ltd (registered in Ireland)	Surveyors	100%
Core BPO Ltd	Business process outsourcing	50% + 1 share
which owns 100% of:		
Core (BPO) India Ltd (registered in India)	Business process outsourcing	50%

Independent Auditors' report on the Company's accounts

We have audited the parent company financial statements of Erinaceous Group plc for the year ended 31 December 2006 which comprise the balance sheet and the related notes 1 to 17. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Erinaceous Group plc for the year ended 31 December 2006 and on 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 parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Crawley
United Kingdom
7 March 2007

Company balance sheet

	Notes	2006 £m	2005 £m
Fixed assets			
Intangible assets	5	**1.2**	–
Tangible assets	6	**6.1**	5.5
Investments	7	**196.6**	156.5
		203.9	162.0
Current assets			
Debtors	8	**157.6**	63.6
Cash at bank and cash in hand		**–**	3.2
		157.6	66.8
Creditors: amounts falling due within one year	9	**40.7**	19.5
Net current assets		**116.9**	47.3
Total assets less current liabilities		**320.8**	209.3
Creditors: amounts falling due after more than one year	10	**174.8**	76.1
Net assets		**146.0**	133.2
Capital and reserves			
Share capital	11	**0.5**	0.5
Share premium	12	**20.6**	17.6
Shares to be issued	12	**0.7**	0.9
Treasury shares	12	**(3.2)**	(2.2)
Other reserves	12	**102.9**	101.2
Profit and loss account	12	**24.5**	15.2
Shareholders' funds		**146.0**	133.2

These financial statements on pages 74 to 83 were approved by the Board of Directors and authorised for issue on 7 March 2007, and are signed on its behalf by:

Neil Bellis
Director

Michael Pearson
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Note 1. Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the Company are set out below. The Directors have reviewed the principal accounting policies of the Company and consider they remain the most appropriate for the Company. The accounting policies have remained unchanged from the previous year.

Cash flow

Under FRS 1 the Company is exempt from the requirement of completing a cash flow statement.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful life. The rates generally applicable are:

Freehold buildings	2%
Leasehold improvements	10%
Motor vehicles	25%
Fixtures and fittings	20%
Computer equipment	33%

Investments in Group subsidiaries

Investments are included at cost less any provision for impairment.

Interest capitalised on fixed assets

Finance costs are capitalised as incurred in the period of construction/development of properties prior to the relevant assets being available for use. Where applicable, the tax effect of this treatment is matched with the resulting depreciation of the relevant assets.

Contributions to pension schemes – Defined contribution scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting year.

Computer software

Computer software consists of all software that is not an integral part of the related computer hardware and is stated at cost less accumulated amortisation and impairment losses. Computer software will be amortised over five years.

Deferred tax

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

Share based payment

The Group has applied the requirements of FRS 20 – Share based payment. All share based payments are equity settled.

All employee services received in exchange for the grant of any share based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to shares to be issued reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as additional paid-in capital.

Fair value is measured by use of the Monte Carlo model. The expected life, volatility and dividend yield used in the model has been derived based on management's best estimate taking into account relevant factors.

Note 2. Profit for the financial year

The parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Group profit for the year includes a profit of £17.1m (2005: £18.1m) which is dealt with in the financial statements of the Company.

Note 3. Profit from ordinary activities

Profit from operations has been arrived at after charging (crediting):

	2006 £m	2005 £m
Previous auditors remuneration:		
– Statutory audit	–	–
– Other services pursuant to legislation*	0.1	0.1
	0.1	0.1

*The other services pursuant to legislation for both years noted above relate to work in respect of RICS audit work and company law requirements on a number of acquisitions. In addition the auditors received £0.1m (2005: £0.1m) in respect of reporting accountants' fees, which have been added to the cost of investments and deducted from share premium.

The audit fee for the Company was £15,000 (2005: £15,000).

The Directors' emoluments are presented in the Directors' remuneration report.

Note 4. Directors and employees

Staff costs during the year were as follows:

	2006 £m	2005 £m
Wages and salaries	6.3	3.2
Social security costs	0.7	0.4
	7.0	3.6

The average number of employees of the Company during the year to 31 December 2006 was 150 (2005: 108).
Details in respect of the Directors' emoluments are included within the Directors' remuneration report.

Note 5. Intangible assets

	Software £m
Cost	
Additions	1.2
At 31 December 2006	1.2
Amortisation	
Provided in the year	–
At 31 December 2006	–
Net book value at 31 December 2006	1.2

Note 6. Tangible assets

	Freehold land and buildings £m	Leasehold improve-ments £m	Motor vehicles, fixtures and fittings £m	Computer equipment £m	Total £m
Cost					
At 1 January 2006	2.8	1.1	0.6	2.6	7.1
Reclassification	(2.1)	2.1	0.3	(0.3)	–
Additions	–	0.5	–	0.9	1.4
At 31 December 2006	**0.7**	**3.7**	**0.9**	**3.2**	**8.5**
Depreciation					
At 1 January 2006	0.1	0.3	–	1.2	1.6
Provided in the year	–	0.1	–	0.7	0.8
Reclassification	–	(0.1)	0.4	(0.3)	–
At 31 December 2006	**0.1**	**0.3**	**0.4**	**1.6**	**2.4**
Net book value at 31 December 2006	**0.6**	**3.4**	**0.5**	**1.6**	**6.1**
Net book value at 31 December 2005	2.7	0.8	0.6	1.4	5.5

Note 7. Investments

	2006 £m
Investments in Group subsidiaries at cost	
At 1 January 2006	156.5
Additions	40.1
At 31 December 2006	**196.6**

Details of related undertakings are disclosed in note 39 in the Group accounts.

Note 8. Debtors

	2006 £m	2005 £m
Amounts owed by Group undertakings	**134.2**	61.3
Other debtors	**14.7**	0.8
Prepayments and accrued income	**8.7**	1.5
	157.6	63.6

Note 9. Creditors: amounts falling due within one year

	2006 £m	2005 £m
Bank loans and overdraft (see note 10)	**14.0**	0.2
Deferred purchase consideration (net of discount)	**20.3**	11.1
Trade creditors	**0.3**	1.9
Other creditors	**1.1**	2.4
Social security and other taxes	**0.6**	0.6
Corporation tax	**–**	0.8
Accruals and deferred income	**4.4**	2.5
	40.7	19.5

Deferred purchase consideration represents the outstanding payments due in respect of completed acquisitions. All such deferred purchase consideration bears no interest and is unsecured. Deferred consideration includes amounts totalling £1.9m, in respect of variable earn-out based payments, and £20.0m that can be settled by either cash or shares at the Company's option, less a discount element in relation to one year of £1.6m.

Note 10. Creditors: amounts falling due after more than one year

	2006 £m	2005 £m
Deferred purchase consideration – gross	**19.8**	21.3
Discount	**(1.4)**	(0.5)
	18.4	20.8
Bank loans – secured	**156.4**	55.3
	174.8	76.1

Deferred purchase consideration represents the outstanding payments due in respect of completed acquisitions. All such deferred purchase consideration bears no interest and is unsecured. Deferred consideration includes amounts totalling £7.2m, in respect of variable earn-out based payments, and £12.6m that can be settled by either cash or shares at the Company's option.

The bank loans of the Company are secured by a fixed and floating charge over all the assets of the Group except for those within its insurance regulated subsidiaries. These are excluded from the security web to ensure key liquidity and solvency calculations of the regulated businesses are not weakened.

Bank loan facilities comprise a bank overdraft of £10.0m and a revolving credit facility available for acquisition expenditure totalling £205.0m. Both facilities attract interest rates of between 1.00% and 1.25% above LIBOR dependent upon gearing levels. The overdraft facility is a standard 12 month facility to cover normal working capital cash flow swings. The revolving credit facility is a five year facility repayable in full in one bullet repayment in July 2011.

The issue costs of the loans are deducted from gross proceeds and interest computed on the carrying amount.

Total facilities amount to £215.0m.

Note 10. Creditors: amounts falling due after more than one year (continued)

Long-term liabilities are repayable as follows:

	2006 £m	2005 £m
After one and within two years		
Bank loans	–	10.2
Deferred purchase consideration	**9.8**	8.3
After two and within five years		
Bank loans	**156.4**	40.3
Deferred purchase consideration	**8.6**	7.9
After five years		
Bank loans	–	4.8
Deferred purchase consideration	–	0.7
	174.8	72.2

The Company uses financial instruments comprising bank loans, cash, term deposits and finance leases, together with various items such as trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks as detailed below.

Term deposits are structured so as to enable cash to be available when required. Most are in fixed interest rates. No transactions in derivatives are undertaken.

Short-term debtors and creditors

Short-term debtors and creditors are excluded from the disclosures below (except foreign currency risks) as allowed by FRS 13.

Interest rate risk

The Company finances its operations through a mixture of shareholders' funds and bank loans. The Group accepts the risk attached to interest rate fluctuations as interest rates remain a very low proportion of operating profits.

Liquidity risk

The Company manages liquidity risk by a combination of controls including:
- regular reviews at full board level of cash flow projections and headroom position in respect of banking facilities;
- maintaining sensible gearing levels across the Group; and
- ensuring excess facilities are readily available for future use.

Currency risk

The Company does not, to any material extent, operate in overseas markets nor does it pay suppliers in non-sterling currencies. Hence management do not envisage any significant currency risk attaches to the Company for all financial short-term instruments (including debtors and creditors).

Fair values

The fair value of the Company's financial instruments is considered to be approximate to their book value.

Note 11. Share capital

	2006 £m	2005 £m
Authorised:		
200,000,000 (2005: 200,000,000) ordinary shares of 0.5p each	**1.0**	1.0
Issued and fully paid:		
107,362,419 (2005: 105,079,221) ordinary shares of 0.5p each	**0.5**	0.5
As at 1 January	**0.5**	0.5
Share options exercised	**–**	–
Issue in respect of acquisitions	**–**	–
As at 31 December	**0.5**	0.5

	2006 Number of shares	2005 Number of shares
As at 1 January	**105.1**	94.4
Share options exercised	**2.3**	1.0
Issue in respect of acquisitions	**0.5**	10.0
Cancellation of treasury shares	**(0.5)**	(0.3)
As at 31 December	**107.4**	105.1

Merger relief arises on acquisitions made by the Group where shares are provided as part of the purchase consideration and is included in Other Reserves. This occurs as section 131 of the Companies Act 1985 does not allow the difference between the fair value and nominal value of such shares being taken to the Share Premium Account.

Allotments during the year

The Company issued from cancelled treasury shares 187,340 0.5p ordinary shares in February 2006 in respect of the Tom McNamara acquisition. The difference of £0.7m between the total consideration and the nominal value has been credited to reserves.

The Company issued from cancelled treasury shares 308,642 0.5p ordinary shares in November 2006 in respect of the John Nolan acquisition. The difference of £1.0m between the total consideration and the nominal value has been credited to reserves.

The Company issued 2,283,198 shares in respect of the exercise of share options during the year and received £3.0m which has been credited to the share premium account.

Note 12. Combined reconciliation of movement in shareholders' funds and statement of movements in reserves

	Share capital £m	Share premium £m	Shares to be issued £m	Treasury shares £m	Other reserves £m	Profit and loss account £m	2006 Total £m	2005 Total £m
Balance at 1 January 2006	0.5	17.6	0.9	(2.2)	101.2	15.2	133.2	94.9
Profit for the year	–	–	–	–	–	17.1	17.1	18.1
Dividends – paid	–	–	–	–	–	(8.2)	(8.2)	(4.3)
Issue of share capital	–	–	–	–	1.7	–	1.7	26.7
Cost of issue of shares	–	–	–	–	–	–	–	(1.4)
Share based payments	–	–	0.2	–	–	–	0.2	0.3
Equity share options exercised	–	3.0	–	–	–	–	3.0	1.1
Reserve movement on exercise of share options	–	–	(0.4)	–	–	0.4	–	–
Treasury shares purchased	–	–	–	(1.0)	–	–	(1.0)	(2.2)
Balance at 31 December 2006	**0.5**	**20.6**	**0.7**	**(3.2)**	**102.9**	**24.5**	**146.0**	133.2

Note 13. Capital commitments

The Company had no outstanding capital commitments at 31 December 2006 (2005: nil).

Note 14. Contingent assets and liabilities

At 31 December 2006 the Company had undertaken to support certain subsidiary undertakings.

The Company has offered a composite guarantee to the Group's bankers that incorporates a right of set-off of liquid balances. The aggregate Group liability at 31 December 2006 amounted to £161.9m (2005: £79.1m).

Note 15. Retirement benefits

The Company has no defined benefit or defined contribution schemes.

Note 16. Related party transactions

Juliet Bellis & Co solicitors is a related party by virtue of the close family relationship between J Bellis, the senior partner of the firm, and N Bellis, a director of the Company.

Juliet Bellis & Co is an independent two partner firm of solicitors which renders legal services to the Company. The firm employs five solicitors, one licensed conveyancer, two legal executives, twenty para legals and one secretary. The firm carries out most of the legal work for the Company including all employment matters, debt collection and other litigation, acquisitions and property sales and purchases. The firm also carries out work for third party clients who are independent of the Company.

J Bellis is company secretary.

Juliet Bellis & Co rendered legal and company secretarial services to the Company amounting to £0.8m (2005: £0.6m) of which £0.4m was accrued and owed to Juliet Bellis & Co. Juliet Bellis & Co's fees were subject to scrutiny and approval by the Remuneration Committee. The Company also received rental income amounting to £60,000 (2005: £60,000) from Juliet Bellis & Co.

Longmint Limited is a related party by virtue of shares held by N Bellis and L Cummings who are also directors of Erinaceous Group plc. The Company provides a range of property management services to Longmint Limited and as at 31 December 2006, Longmint Limited owed the Company £0.7m.

Note 17. Post balance sheet events

There have been no material post balance sheet events since the year end to the date of signing this report and financial statements.

Five year summary (unaudited)

	Year ended 31 Mar 2003 £m UK GAAP	Year ended 31 Mar 2004 £m UK GAAP	Nine months ended 31 Dec 2004 £m IFRS	Year ended 31 Dec 2005 £m IFRS	Year ended 31 Dec 2006 £m IFRS
Turnover					
Residential property services	30.7	38.6	38.4	74.2	**101.2**
Commercial property services	–	–	20.5	55.2	**97.0**
Insurance property services	3.0	3.6	8.6	22.4	**29.0**
	33.7	42.2	67.5	151.8	**227.2**
Adjusted profit*					
Residential property services	5.2	7.2	5.6	13.0	**14.3**
Commercial property services	–	–	1.0	7.6	**20.1**
Insurance property services	0.7	1.4	3.2	11.3	**14.4**
Central overheads	(1.7)	(2.3)	(3.4)	(4.1)	**(7.6)**
Share of joint venture results	(0.1)	(0.1)	–	–	**(0.8)**
	4.1	6.2	6.4	27.8	**40.4**
Pre-tax profit	2.2	4.3	1.6	23.2	**18.8**
Post-tax profit	1.4	2.8	1.2	17.4	**14.3**
Adjusted pre-tax profit*	4.0	6.0	5.7	24.3	**34.3**
Adjusted post-tax profit*	2.9	4.4	5.3	18.5	**29.8**
Cash inflow from operations (before exceptional items)	4.7	7.5	5.5	26.0	**19.3**
Net assets	18.5	29.1	95.3	133.5	**145.0**
Earnings per share (pence)	4.2p	7.2p	2.3p	18.1p	**13.4p**
Adjusted earnings per share (pence)*	8.4p	11.3p	9.7p	19.2p	**25.9p**

*Excludes goodwill amortisation, restructuring costs, other non-recurring and non-trading costs, amortisation of intangibles and share of operating loss of joint venture.

Shareholder information and financial calendar

Directors

Nigel Turnbull	Chairman
Neil Bellis	Chief Executive
Lucy Cummings	Chief Operating Officer
Nigel Davis	Commercial Director
Michael Pearson	Finance Director
Nicholas Fry	Non Executive Director
Keith Peraux	Non Executive Director
Lord Poole	Non Executive Director
Lord Razzall	Non Executive Director

All of:
Phoenix House
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Company secretary

Juliet Bellis

Registered office

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Company number

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Brokers

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Financial calendar

Proposed dividend paid	May 2007
Annual General Meeting	July 2007
Interim results announced	September 2007
Interim dividend paid	October 2007
Full year results announced	March 2008
Annual General Meeting	April 2008
Proposed final dividend paid	April 2008

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