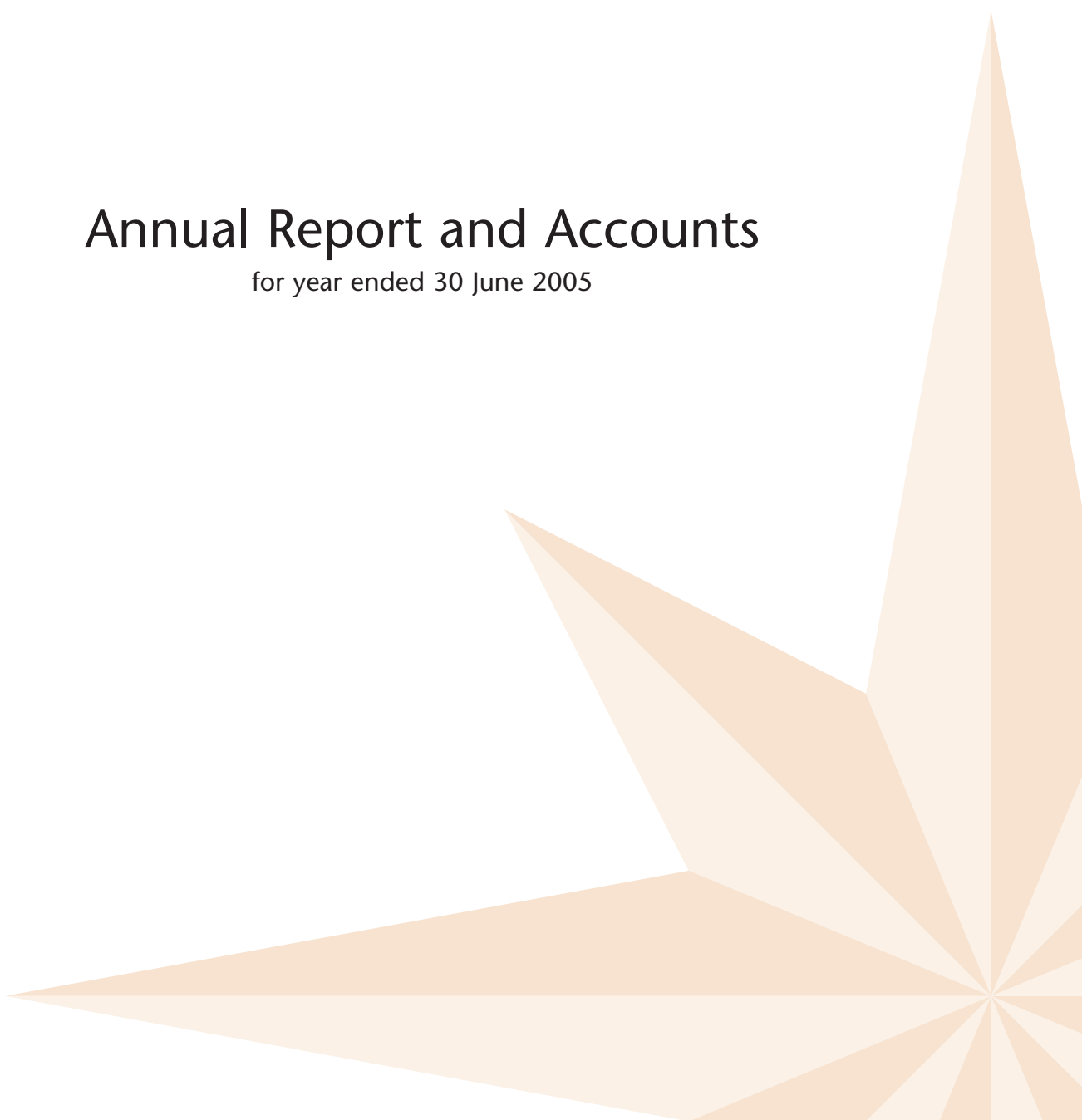


BROOKS MACDONALD 
Group plc

Annual Report and Accounts
for year ended 30 June 2005



Contents

	Page No.
Directors and advisors	1
Group overview	2
Chairman's statement	3
Directors' report	4-5
Directors' responsibilities	6
Auditors' report	7
Consolidated profit and loss account	8
Consolidated balance sheet	9
Balance sheet	10
Cashflow statement	11
Notes to the financial statements	12-21

Directors and advisors

Directors

C J Knight	Non-executive Chairman
C A J Macdonald	Chief Executive
J M Gumpel	Executive Director
S J Jackson	Finance Director
R H Spencer	Investment Director
S P Wombwell	Non-executive Director

Company Secretary

S J Jackson

Trading Offices

111 Park Street London W1K 7JL
Church Court Waltham Chase Hampshire SO32 2LN

Registered Office

111 Park Street London W1K 7JL

Registered Number

4402058

Auditors

Moore Stephens St. Paul's House Warwick Lane London EC4M 7BP

Solicitors

Macfarlanes 10 Norwich Street London EC4A 1BD

Bankers

The Royal Bank of Scotland London Victoria Branch

Registrars

Capita Registrars The Registry 34 Beckenham Road Kent BR3 4TU

Nominated advisor and broker

Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR

Group overview

Brooks Macdonald Group plc is an integrated private client discretionary asset management and financial advisory group which was founded in 1991 by Chris Macdonald, the Chief Executive, Richard Spencer, Jon Gumpel and Martin Mullany all of whom remain actively involved in the business.

There are two trading companies within the group, Brooks Macdonald Asset Management Limited and Brooks Macdonald Financial Consulting Limited, both companies are authorised and regulated by the Financial Services Authority and offer fee based services to a range of clients.

Brooks Macdonald Asset Management provides a bespoke, personalised fund management service mainly to individuals but also to Trusts and Charities. Brooks Macdonald Financial Consulting advises individuals, families and businesses of all sizes on a long term-basis on a broad range of services including pensions, taxation, mortgages and employee benefits.

Brooks Macdonald Asset Management and Brooks Macdonald Financial Consulting have their own client bank as well as sharing a number of clients and the two companies frequently work in tandem with one another as well as cross referring clients who require specialist areas of expertise. The two trading companies share the central resources of compliance, accounts, personnel, IT and training all of which are dealt with in-house.

Chairman's Statement

The admission of Brooks Macdonald Group plc's shares to trading on AiM in March 2005 had several objectives: to raise our profile; to fund our continuing expansion; and to enable more of our staff to become investors in the company. We were delighted by the reception the listing received, and welcome all those who have become shareholders.

In the 2004-05 financial year turnover rose from £4.89million to £5.67million, a rise of 16%, pre-tax profits rose by 39% and discretionary funds under management rose from £332.4million to £411.9million, a rise of 23%. The Board has decided to pay the first dividend of the company of 1p per ordinary share.

Over the last year we have grown funds under management through a combination of strong investment performance and new business, particularly in the area of Self Invested Personal Pension (SIPPs). This continues to be a major area of growth for the company and where the synergies of a private client asset manager and a fee based financial consulting practice come to the fore. In January 2005 we appointed an intermediary sales manager to further foster links with the IFA community, to whose clients we offer both portfolio fund management and the management of SIPPs.

Recruitment, both of individuals and of teams, forms a major part of our expansion strategy. In April this year we opened an office near Winchester, our first office outside London, with a staff of five. All of the establishment costs of this office have been absorbed within our 2004-05 profit and loss account. Since the end of the financial year we have recruited two senior fund managers to join the asset management team in London. Both individuals have acted for substantial client banks historically and bring considerable investment experience in new sectors to our existing fund management team. We plan to recruit further experienced fund managers during the current financial year.

In financial consulting during the year we have recruited three senior consultants who are specialists in the pension and mortgage sectors of the business. Following the depolarisation required by the FSA and with the advent of A Day these individuals allow further growth in these specialised sectors.

As well as continuing to provide a high quality bespoke fund management and financial consulting service to high net worth individuals we will continue to expand our specialist services which are available to our clients either as a distinct service or as part of a larger portfolio. In the last financial year we launched our Portfolio of Absolute Return Strategies (PARS), we have recently launched a property service, a managed portfolio and an IHT/AiM portfolio service are planned.

Your board is confident that Brooks Macdonald is well positioned to continue to grow its funds under management and its profitability. That confidence is in large measure based on the expertise, hard work and enthusiasm of our colleagues, in both the asset management and financial consulting companies, to whom we give our thanks.

Christopher Knight
Chairman

Report of the Directors

The directors present herewith their annual report, together with the audited financial statements for the group for the year ended 30 June 2005.

Principal Activities and Business Review

Brooks Macdonald Group plc is a holding company and does not trade.

The principal activities of its subsidiaries during the year were the provision of investment management and financial services. Both subsidiaries are authorised and regulated by the Financial Services Authority.

The company was admitted to trading on the Alternative Investment Market of the London Stock Exchange on 11 March 2005.

Results and Dividends

The profit for the year after taxation was £461,082 (2004: £345,315).

The directors recommend a final dividend of 1p per ordinary share amounting to £98,110 (2004: £55,569).

It is proposed that the retained profit of £362,972 (2004: £289,746) be transferred to reserves.

Directors and their Interests

The directors of the company during the year and their beneficial interests in the share capital of the company at the beginning and end of the year were as follows:

	"A" Ordinary Shares of £1		"B" Ordinary Shares of £1		Ordinary Shares of £0.01	
	2005	2004	2005	2004	2005	2004
C J Knight	–	–	–	80	30,285	–
C A J Macdonald	–	6,800	–	430	1,156,346	–
J M Gumpel	–	5,600	–	83	921,017	–
S J Jackson	–	–	–	125	25,000	–
R H Spencer	–	6,800	–	110	1,108,096	–
S P Wombwell	–	–	–	–	39,142	–

On 11 February 2005, the company reclassified all A and B ordinary £1 shares to ordinary shares of £0.01. All shares rank pari passu.

Details of share options held by the directors at the beginning and the end of the year are as follows:

	At 30 June 2004	At 30 June 2005	Exercise price	Earliest exercise date	Expiry date
Sharesave Scheme 2005					
C A J Macdonald	–	420	119p	1.06.08	30.11.08
J M Gumpel	–	420	119p	1.06.08	30.11.08
S J Jackson	–	420	119p	1.06.08	30.11.08
R H Spencer	–	420	119p	1.06.08	30.11.08
S P Wombwell	–	420	119p	1.06.08	30.11.08

Enterprise Management Incentive Scheme

S J Jackson	–	40,000	140p	11.03.08	11.03.15
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C J Knight held no share options at either the beginning or the end of the year and no other director held any options under the EMI scheme. No options have been granted to C A J Macdonald, J M Gumpel or R H Spencer (other than those under the company's Sharesave Scheme 2005 shown above) because they have the benefit of substantial equity holdings in the Company following the admittance to AiM in March 2005. This policy may change in the future.

The average share price during the period since March 11 2005 year was 152.50 pence. Details of the share option schemes are described in note 5(d) to the financial statements.

C A J Macdonald and S J Jackson will retire by rotation at the annual general meeting and being eligible will offer themselves for re-election.

Substantial interests in the company's shares as at 5 September 2005 have been advised to the company as follows:

	Number	Percentage holding
C A J Macdonald	1,156,346	11.79%
R H Spencer	1,108,096	11.29%
J M Gumpel	921,017	9.39%
State Street Nominee Ltd	919,455	9.37%
M Mullany	762,067	7.77%
M Lawrence	678,381	6.91%
Jamiro Properties Inc.	659,537	6.72%
A Butt	639,437	6.52%
HSBC Global Custody Nominee (UK) Ltd	455,689	4.64%
E Eaton	314,078	3.20%

Payment Policy

The company does not apply a specific payment code, however, it is normal practice to ensure that the payment of suppliers invoices is made within 30 days of the date of receipt. During the period the average trade creditor was settled in 38 days.

Events since the year end

The group has entered into an agreement to manage approximately £5.2 million of funds from the Portfolio Partnership Limited at a maximum cost of £88,000.

Auditors

The auditors Moore Stephens have indicated their willingness to continue in office and a resolution proposing their reappointment will be put to the annual general meeting.

By Order of the Board

S J JACKSON
Director
15 September 2005

Statement of Directors' Responsibilities

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

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

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

Independent Auditors' Report to the Shareholders of Brooks Macdonald Group plc

We have audited the financial statements of Brooks Macdonald Group plc for the year ended 30 June 2005 set out on pages 8 to 21. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 12 and 13.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's and company's affairs as at 30 June 2005 and of the group's and company's result for the year ended 30 June 2005 and have been properly prepared in accordance with the Companies Act 1985.

St. Paul's House
London EC4M 7BP

15 September 2005

MOORE STEPHENS

Registered Auditor
Chartered Accountants

Consolidated Profit and Loss Account

For the year ended 30 June 2005

	Note	2005	2004
		£	£
Turnover	2, 3	5,667,469	4,886,887
Administrative costs		(5,325,892)	(4,689,581)
Other operating income	4	341,577	197,306
		159,730	159,730
Operating profit	4, 5	501,307	357,036
Income from current asset investments		83	388
Interest receivable	6	120,337	87,207
		120,420	87,595
Profit on ordinary activities before taxation		621,727	444,631
Tax on profit on ordinary activities	7	(160,645)	(99,316)
Profit on ordinary activities after taxation		461,082	345,315
Dividends payable	8	(98,110)	(55,569)
Retained profit for the year	20	362,972	289,746
Earnings per share			
Basic	23	5.16p	–
Diluted	23	5.12p	–

None of the group's activities was acquired or discontinued during the above two financial years.

The group has no recognised gains or losses other than the profit for the above two financial years.

Consolidated Balance Sheet

as at 30 June 2005

	Note	£	2005 £	£	2004 £
Fixed assets					
Tangible assets	9		118,954		99,888
Current assets					
Debtors	11	1,143,784		949,961	
Investments	12	18,022		11,963	
Cash at bank and in hand		2,716,227		1,119,711	
		<u>3,878,033</u>		<u>2,081,635</u>	
Creditors, amounts falling due within one year	13	<u>(1,360,008)</u>		<u>(1,068,088)</u>	
Net current assets			<u>2,518,025</u>		<u>1,013,547</u>
Total assets less current liabilities			<u>2,636,979</u>		<u>1,113,435</u>
Creditors, amounts falling due after more than one year	14		(32,813)		(39,063)
Provisions for liabilities and charges	15		<u>(148,030)</u>		<u>(129,959)</u>
Net assets			<u><u>2,456,136</u></u>		<u><u>944,413</u></u>
Financed by:					
Capital and reserves					
Called up share capital	17		98,110		42,585
Share premium	18		1,362,666		269,440
Merger reserve	19		191,541		191,541
Profit and loss account	20		803,819		440,847
Equity shareholders funds	21		<u><u>2,456,136</u></u>		<u><u>944,413</u></u>

Approved by the Board on 15 September 2005

C A J MACDONALD
S J JACKSON

Chief Executive
Finance Director

Balance Sheet

as at 30 June 2005

	Note	2005	2004
		£	£
Fixed assets			
Investments	10	4,238,125	4,238,125
Current assets			
Debtors	11	1,094,539	218,500
Cash at bank and in hand		80,733	–
		<u>1,175,272</u>	<u>218,500</u>
Creditors, amounts falling due within one year	13	<u>(3,914,981)</u>	<u>(4,140,569)</u>
Net current (liabilities)		<u>(2,739,709)</u>	<u>(3,922,069)</u>
Net assets		<u>1,498,416</u>	<u>316,056</u>
Financed by:			
Capital and reserves			
Called up share capital	17	98,110	42,585
Share premium	18	1,362,666	269,440
Profit and loss account	20	37,640	4,031
Equity shareholders funds	21	<u>1,498,416</u>	<u>316,056</u>

Approved by the Board on 15 September 2005

C A J MACDONALD
S J JACKSON

Chief Executive
Finance Director

Group Cash Flow Statement

For the year ended 30 June 2005

	Note	2005	2004
		£	£
Net cash inflow from operating activities	16	561,403	590,641
Returns on investments and servicing of finance			
Investment income received		83	388
Interest received		120,337	87,207
		<u>120,420</u>	<u>87,595</u>
Taxation			
Corporation tax paid		(85,461)	2,815
Capital expenditure and financial investment			
Purchase of plant and equipment		(78,671)	(39,266)
Purchase of investments		(6,001)	(12,026)
		<u>(84,672)</u>	<u>(51,292)</u>
Equity dividends paid		(61,358)	–
Financing			
Increase in share capital		1,148,751	271,900
		<u>1,148,751</u>	<u>271,900</u>
Net cash inflow in year		<u>1,599,083</u>	<u>901,659</u>
Net funds at beginning of year		1,117,144	215,485
Net inflow		1,599,083	901,659
Net funds at end of year	22	<u>2,716,227</u>	<u>1,117,144</u>

Notes to the Financial Statements

for the year ended 30 June 2005

1. Principal accounting policies

(a) Accounting conventions

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies of the group have remained unchanged from the previous year and are set out below.

(b) Turnover

Turnover represents the amounts earned for services provided net of value added tax and commissions earned from financial services activities.

Financial services commissions are recognised from the point when the policy arranged is placed on risk by the issuer. Fees for other services are recognised when earned.

(c) Depreciation of tangible assets

Provision is made for depreciation on all tangible assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life, as follows:

Fixtures and fittings	–	15% per annum
Equipment	–	20% per annum

(d) Current asset investments

Current asset investments are valued at the lower of cost or net realisable value.

(e) Deferred taxation

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date, at rates that are expected to apply when they crystallise based on current tax rates and law.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets and liabilities are not discounted.

(f) Pension costs

Contributions in respect of the company's defined contribution pension scheme are charged to the profit and loss account for the period in which they fall due.

(g) Operating leases

Rents due under operating leases are charged to the profit and loss account as they fall due. The group benefited from a rent-free period under the terms of the current property lease. In accordance with UITF 28 "Operating Lease Incentives", the benefit is being allocated over the shorter of the lease term and the date of the market valuation as specified in the lease. During the rent-free period a rental charge has been recognised in the profit and loss account and accrued as a liability in the balance sheet.

(h) Foreign exchange

Monetary assets and liabilities expressed in foreign currencies are translated at the rate ruling at the balance sheet date.

All differences on exchange are dealt with in the profit and loss.

(i) Consolidation

On 28 January 2004, the company acquired 100% of the issued ordinary share capital of Brooks Macdonald Financial Consulting Limited by means of a share for share exchange as part of a group reorganisation.

The group has used merger accounting to account for the group reconstruction effected by the acquisition by the company of the interest in Brooks Macdonald Financial Consulting Limited and its subsidiary company. The financial statements are therefore presented as if Brooks Macdonald Financial Consulting Limited and its subsidiary had been owned and controlled by the group throughout the comparable year.

2. Segmental Analysis

The group engages in the provision of investment management and financial consulting services services, and is based in the UK.

Class of business	Turnover	Profit before tax	Net Assets
Investment management and financial services	5,667,469	621,727	2,456,136

3. Turnover

Turnover represents the amounts earned for services provided net of value added tax and commissions earned from financial services activities.

	2005	2004
	£	£
Fee income	4,795,271	3,985,077
Financial services commissions	872,198	901,810
	<u>£5,667,469</u>	<u>£4,886,887</u>

4. Operating profit

	2005	2004
	£	£
This is stated after charging/(crediting):		
Rent receivable	(159,730)	(159,730)
Staff costs (see note 5)	2,834,024	2,474,545
Auditors' fees	24,284	30,151
Depreciation	59,605	64,148
Operating leases	330,000	330,000
Losses on foreign exchange	7,464	8,173
Amounts written off investments	<u>(57)</u>	<u>388</u>

Notes to the Financial Statements

continued

5. Employee information

	2005 £	2004 £
(a) Staff costs		
Wages and salaries	2,457,459	2,145,496
Social security costs	286,287	250,741
Pension costs	90,278	78,308
	<u>2,834,024</u>	<u>2,474,545</u>

Pension costs are in respect of a defined contribution scheme.

(b) The average monthly number of employees during the year including directors was made up as follows:

	Number	Number
Support staff	33	27
Professional staff	21	19
	<u>54</u>	<u>46</u>
	2005 £	2004 £

(c) Directors' emoluments:

Fees and salaries	614,742	509,025
Pension contributions – defined contribution scheme	33,150	22,725
Benefits in kind	9,505	8,526
	<u>657,397</u>	<u>540,277</u>

Highest paid director

Remuneration and benefits in kind	167,182	164,116
Pension contribution to money purchase scheme	8,775	6,000
	<u>175,957</u>	<u>170,116</u>

Retirement benefits are accruing to six directors under a money purchase pension scheme.

(d) Share option schemes

Following admission to AiM the company set up two share option schemes, a Sharesave Scheme 2005 and an Enterprise Management Incentive (EMI) Scheme.

The Sharesave Scheme enables all eligible employees to participate in a scheme whereby they enter into a savings contract for a period of three years. At the end of the three years they receive a bonus payment and the right to subscribe for a number of ordinary shares at the option price up to the maximum value of their savings contract.

The EMI scheme is an incentive scheme used by the company to offer share options to key employees and directors of the group as a part of their remuneration package in addition to their basic pay, performance bonus and other benefits. The share options granted under the EMI scheme are subject to performance conditions being met by the company.

6. Interest receivable

	2005	2004
	£	£
Bank interest	116,455	81,543
Other interest	3,882	5,664
	<u>120,337</u>	<u>87,207</u>

7. Taxation

	2005	2004
	£	£
The tax charge on the profit on ordinary activities for the year was as follows:		
UK corporation tax @ 30% (2004: 30%)	162,933	95,000
Taxation (over)/under provided in previous years	(2,288)	4,316
	<u>160,645</u>	<u>99,316</u>

Factors affecting the charge for the year

Profit on ordinary activities before tax	<u>621,727</u>	<u>444,631</u>
Profit on ordinary activities multiplied by the standard rate of tax in the UK of 30%	186,518	133,389
Disallowable expenses	24,696	19,331
Excess of capital allowances over depreciation and timing differences	(11,501)	(5,884)
Adjustments for overprovision in prior year	(2,288)	4,316
Marginal relief	(11,729)	(23,523)
Losses utilised	(25,051)	(28,313)
Actual tax charge	<u>160,645</u>	<u>99,316</u>

8. Dividends

	2005	2004
	£	£
Proposed final dividend on ordinary shares	<u>98,110</u>	<u>55,569</u>

Notes to the Financial Statements

continued

9. Tangible fixed assets

	Fixtures and fittings £	Equipment £	Total £
Group			
Cost			
At 1 July 2004	62,056	548,901	610,957
Additions	22,308	56,363	78,671
At 30 June 2005	<u>84,364</u>	<u>605,264</u>	<u>689,628</u>
Depreciation			
At 1 July 2004	46,806	464,263	511,069
Charge for the year	8,008	51,597	59,605
At 30 June 2005	<u>54,814</u>	<u>515,860</u>	<u>570,674</u>
Net book value			
At 30 June 2005	<u>29,550</u>	<u>89,404</u>	<u>118,954</u>
At 30 June 2004	<u>15,250</u>	<u>84,638</u>	<u>99,888</u>

10. Investments

	2005 £	2004 £
Subsidiary undertakings	<u>4,238,125</u>	<u>4,238,125</u>

Details of the subsidiary undertakings of the group as at 30 June 2005, all of which are included in the consolidated financial statements, are given below:

Company	Type of Share	Interest	Country of Incorporation	Nature of Business	Aggregate Reserves	Profit for Year
Brooks Macdonald Financial Consulting Limited	Ordinary £0.05	100%	UK	Financial Consulting	4,325,850	277,456
Brooks Macdonald Asset Management Limited	Ordinary £1	100%	UK	Investment Management	869,995	51,907

11. Debtors

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	414,742	197,778	–	–
Amounts owed by group undertakings	–	–	1,094,539	218,500
Other debtors	169,127	322,091	–	–
Prepayments and accrued income	559,915	430,092	–	–
	<u>1,143,784</u>	<u>949,961</u>	<u>1,094,539</u>	<u>218,500</u>

Included within other debtors is £134,910 (2004: £168,630) which relates to payments made to key fee earners in return for an alternative commission structure. £101,190 (2004: £134,910) of this relates to more than one year.

Included within other debtors at 30 June 2004 was a loan of £83,007 to one of the shareholders which was fully repaid during the year.

12. Current asset investments

Group	£
Cost	
At 1 July 2004	27,288
Additions	6,001
At 30 June 2005	<u>33,289</u>
Provision	
At 1 July 2004	15,324
Released	(57)
At 30 June 2005	<u>15,267</u>
Net book value	
At 30 June 2005	<u>18,022</u>
At 30 June 2004	<u>11,963</u>

The investments comprise of investments listed on the London Stock Exchange. The market value of the investments is £21,873.

Notes to the Financial Statements

continued

13. Creditors, amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank overdraft	–	2,567	–	–
Trade creditors	330,100	194,319	7,531	–
Dividend payable	98,205	61,453	98,110	55,569
Corporation tax	170,268	95,084	–	–
Other taxes and social security costs	101,201	178,932	–	–
Other creditors	268,648	127,313	40,199	–
Accruals and deferred income	391,586	408,420	5,000	–
Amounts due to related parties	–	–	3,764,141	4,085,000
	<u>1,360,008</u>	<u>1,068,088</u>	<u>3,914,981</u>	<u>4,140,569</u>

Included within amounts due to related parties is a loan of £3,764,141 (2004: £4,085,000) which is interest free and repayable on demand, due to one of the subsidiary companies.

14. Creditors, amounts falling due after more than one year

	Group	
	2005	2004
	£	£
Other creditors	<u>32,813</u>	<u>39,063</u>

15. Provision for liabilities and charges

	Group	
	2005	2004
	£	£
Client compensation payments	<u>148,030</u>	<u>129,959</u>
	<u>148,030</u>	<u>129,959</u>

Provisions for client compensation payments relate to the potential liability resulting from specific client complaints against the group.

There is a deferred tax asset of £11,473 (2004: £14,857) arising at the year end. Due to the uncertainty of recoverability of the asset, the deferred tax asset has not been provided for in the financial statements.

16. Reconciliation of operating profit and net cash inflow from operating activities

	2005	2004
	£	£
Operating profit	501,307	357,036
Depreciation	59,605	64,148
(Increase)/decrease in trade debtors	(193,823)	79,269
Release of provision for investments	(57)	(22,264)
Current asset investment disposal	–	36,309
Increase/(decrease) in creditors	176,300	(23,816)
Increase in provisions	18,071	99,959
Net inflow	<u>561,403</u>	<u>590,641</u>

17. Share capital

Group and company

	Authorised			
	2005	2004	2005	2004
	£	£	no.	no.
Ordinary shares of £0.01	200,000	–	20,000,000	–
“A” Ordinary shares of £1 each	–	40,000	–	40,000
“B” Ordinary shares of £1 each	–	10,000	–	10,000
	<u>200,000</u>	<u>50,000</u>	<u>20,000,000</u>	<u>50,000</u>
	Allotted, issued and fully paid			
	2005	2004	2005	2004
	£	£	no.	no.
Ordinary shares of £0.01	98,110	–	9,811,000	–
“A” Ordinary shares of £1 each	–	38,400	–	38,400
“B” Ordinary shares of £1 each	–	10,000	–	4,185
	<u>98,110</u>	<u>4,185</u>	<u>9,811,000</u>	<u>42,585</u>

On 6 July 2004 the company issued 160 “B” ordinary shares in the Company. On 4 February 2005, there was a bonus issue of 1 new ordinary share for every existing share of either class. At the same date all the shares were sub-divided into 100 new shares of nominal value £0.01 for every existing share. A further 1,262,000 shares of nominal value £0.01 were issued on 11 March 2005 upon admission to the Alternative Investment Market of the London Stock Exchange plc.

On 11 February 2005 the company increased the authorised share capital by written resolution from £50,000 to £200,000 via the creation of 15 million ordinary shares.

18. Share premium account

The share premium arose as a result of issuing the following shares at the following considerations:

42,745 bonus shares issued at 1 for 1 – cost of £42,745 arising
 160 “B” ordinary shares of £1 each at £125 each – premium of £19,840 arising
 1,262,000 ordinary shares of £0.01 each at £1.40 each – premium of £1,754,180 arising
 Flotation costs of £638,049 were incurred

	Group and Company 2005 £
Balance as at 30 June 2004	269,440
Issue 160 “B” ordinary shares	19,840
Bonus shares issued	(42,745)
Shares issued at flotation less costs of flotation	<u>1,116,131</u>
Balance as at 30 June 2005	<u>1,362,666</u>

Notes to the Financial Statements

continued

19. Merger reserve

	£
Balance as at 30 June 2004 and 30 June 2005	<u>191,541</u>

In accordance with The Companies Act 1985, the difference between the nominal value of shares issued and shares acquired in the group reconstruction has been treated as a merger reserve.

20. Profit and loss account

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
At 1 July	440,847	151,101	4,031	–
Retained profit for the year	362,972	289,746	33,609	4,031
As at 30 June	<u>803,819</u>	<u>440,847</u>	<u>37,640</u>	<u>4,031</u>

21. Reconciliation of shareholders funds

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Opening balance as at 1 July	944,413	382,767	316,056	1
Profit for the year	461,082	345,315	131,719	59,600
Dividends	(98,110)	(55,569)	(98,110)	(55,569)
New share capital subscribed	55,525	2,460	55,525	–
Share premium increase	1,093,226	269,440	1,093,226	312,024
Closing shareholders funds	<u>2,456,136</u>	<u>944,413</u>	<u>1,498,416</u>	<u>316,056</u>

22. Reconciliation of net funds

Increase in cash during the period	<u>1,599,083</u>	<u>833,259</u>
Change in net funds	1,599,083	833,259
Non cash movement	–	68,400
Funds at start of period	1,117,144	215,485
Net funds at end of period	<u>2,716,227</u>	<u>1,117,144</u>
Represented by:		
Cash at bank	2,716,227	1,119,711
Overdraft	–	(2,567)
	<u>2,716,227</u>	<u>1,117,144</u>

Non cash movement represents a share for share exchange as part of the group restructuring during 2004.

23. Earnings per share

	2005
Earnings	£
Profit after tax for the financial year	<u>461,082</u>
	2005
Weighted average number of shares	No. (m)
Number of ordinary shares at start of year	8.52
Share issues	1.29
Basic earnings per share denominator	<u>8.94</u>
Issuable on exercise of options	<u>0.20</u>
Diluted earnings per share denominator	<u>9.00</u>
Basic earnings per share	5.16p
Diluted earnings per share	5.12p

24. Lease commitments

The company has short-term property lease expiring on 20 September 2011. The annual rental due on the lease for the next year is £330,000 (2004: £330,000). The company is responsible for the insurance, maintenance and repairs of the premises.

25. Disclosure of control

There is no controlling party of the company.

26. Post balance sheet event

The group has entered into an agreement to manage approximately £5.2 million of funds from the Portfolio Partnership Ltd at a maximum cost of £88,000.

27. Client money and funds under management

The total balance on client bank accounts managed by the group at 30 June 2005 was £38.4m. Total funds under management at 30 June 2005 were £411.9m.

Explanation of AGM Business

Enclosed with this document is a notice convening the Annual General Meeting of the Company for 13 October 2005. This explanatory note gives further information on resolutions numbered 2 to 8 set out in the notice of AGM.

Resolution 2 – To declare a final dividend

The Directors recommend a final dividend of 1 pence per share, which will be the first dividend of the Company. Subject to approval by shareholders, the final dividend will be paid on 20 October 2005 to shareholders on the register on 30 September 2005.

Resolutions 3 and 4 – To re-elect Christopher Macdonald and Simon Jackson as Directors

The Company's Articles of Association state that one third of the Directors shall retire from office at each Annual General Meeting and offer themselves for re-election. In addition, any Director who has been in office for more than three years since their last appointment or re-appointment should also retire and may offer themselves for re-election.

Information on each of the Directors standing for re-election is set out below. The Chairman confirms that Chris Macdonald and Simon Jackson have extensive relevant experience of the Group and its business. The Board is therefore of the opinion that Chris Macdonald and Simon Jackson should be re-elected to the Board.

CHRIS MACDONALD, *Chief Executive (44)*, was one of the founding directors of Brooks Macdonald in 1991. He is Chief Executive of the Group and is responsible for the day-to-day management of Asset Management, Financial Consulting and the Group. Chris heads one of the asset management teams and is jointly responsible for UK stock selection for the Group. Chris is also non-executive director of the INVESCO AiM VCT, a director of Moulsham Preparatory Charitable Trust and a Fellow of the Institute of Continuing Professional Development. He has spent the whole of his career in the private client investment sector.

SIMON JACKSON, *Finance Director (46)*, is responsible for the Group's finance function. He is also responsible at the Board level for information technology, compliance, training, personnel and office management. Simon joined Brooks Macdonald in 2000. Simon qualified as a chartered accountant with Macintyre Hudson and has previously worked for two of the operating subsidiaries of Rutland Trust PLC.

Resolution 5 – To re-appoint Moore Stephens as auditors

This Resolution proposes that Moore Stephens should be re-appointed as the Company's auditors and authorises the Directors to determine their remuneration.

Resolution 6 – Authority to allot shares

The Companies Act 1985 prevents directors from allotting unissued shares without the authority of shareholders in general meeting. In certain circumstances this could be unduly restrictive. The Directors' existing authority to allot shares, which was granted prior to the Company's Ordinary Shares being admitted to trading on AIM, will expire at the end of this year's Annual General Meeting.

Resolution 6 in the notice of Annual General Meeting will be proposed, as an ordinary resolution, to authorise the Directors to allot Ordinary Shares of 1 pence each in the capital of the Company up to a maximum nominal amount of £32,700 (i.e. 3,270,000 Ordinary Shares), representing approximately 33% of the nominal value of the Ordinary Shares in issue on 5 September 2005. The Company does not currently hold any shares in treasury.

The authority conferred by this Resolution will expire on the date which is fifteen months after the passing of this Resolution or, if sooner, at the end of next year's Annual General Meeting.

The Directors have no present plans to allot unissued shares other than on the exercise of share options under the Company's employee share option schemes. However, the Directors believe it to be in the best interests of the Company that they should continue to have this authority so that such allotments can take place to finance appropriate business opportunities that may arise.

Resolution 7 – To disapply pre-emption rights

Unless they are given an appropriate authority by shareholders, if the Directors wish to allot any of the unissued shares for cash or grant rights over shares or sell treasury shares for cash (other than pursuant to an employee share scheme) they must first offer them to existing shareholders in proportion to their existing holdings. This is known as pre-emption rights.

The existing disapplication of these statutory pre-emption rights, which was granted prior to the Company's Ordinary Shares being admitted to trading on AIM, will expire at the end of this year's Annual General Meeting. Accordingly, Resolution 7 in the notice of Annual General Meeting will be proposed, as a special resolution, to give the Directors power to allot shares without the application of these statutory pre-emption rights: first, in relation to rights issues; and second, in relation to the allotment of equity securities for cash up to a maximum aggregate nominal amount of £4,900 (i.e. 490,000 Ordinary Shares) (representing approximately 5% of the nominal value of the Ordinary Shares in issue on 5 September 2005).

The authority sought and limits set by this Resolution will also apply to a sale by the Company of any shares it holds as treasury shares. The Treasury Share Regulations, which came into effect in December 2003, allow shares purchased by the Company out of distributable profits to be held as treasury shares, which may then be cancelled, sold for cash or used to meet the Company's obligations under its employee share-based incentive schemes. Any subsequent transfers of treasury shares by the Company to satisfy the requirements of employee share-based incentive schemes will be made within the 10% anti-dilution limit for such share issues.

The power conferred by this Resolution will expire on the date which falls fifteen months after the passing of this Resolution or, if sooner, at the end of next year's Annual General Meeting.

Resolution 8 – Company's authority to purchase its own shares

Resolution 8 in the notice of Annual General Meeting, which will be proposed as a special resolution, will authorise the Company to make market purchases of up to 980,000 Ordinary Shares. This equals approximately 10% of the Company's Ordinary Shares in issue on 5 September 2005. The minimum price that may be paid shall be the nominal value of an Ordinary Share (i.e. 1 pence), and the maximum price shall not exceed 5% above the average of the middle market quotations for an Ordinary Share for the five business days before each purchase is made (exclusive of expenses).

The authority conferred by this Resolution will expire on the date which falls fifteen months after the passing of this Resolution or, if sooner, at the end of next year's Annual General Meeting.

Your Directors are committed to managing the Company's capital effectively. Although the Directors have no plans to make such purchases, buying back the Company's Ordinary Shares is one of the options they keep under review. Purchases would only be made after considering the effect on earnings per share, and the benefits for shareholders generally.

The Company may hold in treasury any of its own shares that it purchases pursuant to the Treasury Share Regulations and the authority conferred by this Resolution. This would give the Company the ability to re-issue treasury shares quickly and cost effectively and would provide the Company with greater flexibility in the management of its capital base.

Notice of Annual General Meeting

Notice is given that the annual general meeting of Brooks Macdonald Group plc ("the Company") will be held at the Library Room The Oriental Club Stratford House Stratford Place London W1C 1ES on Thursday 13 October 2005 at 10.00 a.m. to consider the following:

Ordinary Business

1. To receive and adopt the accounts and reports of the directors and the auditors for the year ended 30 June 2005.
2. To declare a final dividend of 1 pence per Ordinary Share for the year ended 30 June 2005.
3. To re-elect Christopher Macdonald as a director.
4. To re-elect Simon Jackson as a director.
5. To re-appoint Moore Stephens as the Company's auditors and to authorise the directors to determine their remuneration.

Special Business

DIRECTORS' AUTHORITY TO ALLOT SHARES

To resolve as an ordinary resolution:

6. That in place of all existing authorities, the directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80) up to an aggregate nominal amount of £32,700 for a period expiring (unless previously revoked, varied or renewed) on the date which is fifteen months after the passing of this Resolution or, if sooner, the end of the next annual general meeting of the Company, but the Company may make an offer or agreement which would or might require relevant securities to be allotted after this authority expires and the directors may allot relevant securities in pursuance of such offer or agreement as if this authority had not expired.

DISAPPLICATION OF PRE-EMPTION RIGHTS

To resolve as a special resolution:

7. That subject to the passing of Resolution 6 above and in place of all existing powers, the directors be generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) to 94(3A) of the Act) for cash, pursuant to the authority conferred by Resolution 6 as if section 89(1) of the Act did not apply to such allotment, provided that this power shall expire on the date which is fifteen months after the passing of this Resolution or, if sooner, the end of the next annual general meeting of the Company. This power shall be limited to the allotment of equity securities:
 - 7.1 in connection with an issue by way of rights (including, without limitation, under a rights issue, open offer or similar arrangement) in favour of holders of Ordinary Shares in the capital of the Company in proportion (as nearly as may be practicable) to their existing holdings of Ordinary Shares, but subject to such exclusions or other arrangements as the directors deem necessary or expedient in relation to fractional entitlements or any legal, regulatory or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
 - 7.2 otherwise than pursuant to paragraph 7.1 up to an aggregate nominal amount of £4,900;

but the Company may make an offer or agreement which would or might require equity securities to be allotted after this power expires and the directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by Resolution 6" were omitted.

COMPANY'S AUTHORITY TO PURCHASE ITS OWN SHARES

To resolve as a special resolution:

8. That the Company be generally authorised pursuant to section 166 of the Act to make market purchases (within the meaning of section 163(3) of the Act) of its Ordinary Shares on such terms and in such manner as the directors shall determine, provided that:
 - 8.1 the maximum number of Ordinary Shares hereby authorised to be purchased is 980,000;
 - 8.2 the maximum price which may be paid for each Ordinary Share shall be 5 per cent. above the average of the middle market quotations for an Ordinary Share (as derived from the daily official list of London Stock Exchange plc) for the five business days immediately before the day on which the purchase is made (in each case exclusive of expenses);
 - 8.3 the minimum price which may be paid for each Ordinary Share shall be £0.01; and
 - 8.4 this authority (unless previously revoked, varied or renewed) shall expire on the date which is fifteen months after the passing of this Resolution or, if sooner, the end of the next annual general meeting of the Company, except in relation to the purchase of Ordinary Shares the contract for which was concluded before such date and which will or may be executed wholly or partly after such date.

BY ORDER OF THE BOARD

Simon Jackson

Company Secretary

Dated: 15 September 2005

Registered Office:

111 Park Street
London
W1K 7JL

Notes

1. Only those shareholders registered in the register of members of the Company as at 6.00 p.m. on Tuesday 11 October 2005 shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting.
2. Every shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of that shareholder. A proxy need not be a member of the Company.
3. A proxy form is enclosed with this notice. Instructions for use are shown on the form. To be valid, the form of proxy must be deposited at Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU **NOT LATER THAN 10.00 A.M. on 11 October 2005**, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority. The completion and return of the form of proxy will not, however, preclude you from attending and voting at the meeting if you so wish.
4. There will be available for inspection at the registered office of the Company during normal business hours on any weekday (excluding Saturdays and public holidays) and at the Library Room The Oriental Club Stratford House Stratford Place London W1C 1ES for at least 15 minutes prior to and during the annual general meeting copies of the register of directors' interests, the service contract of each executive director and the letter of appointment of each non-executive director.

**ANNUAL GENERAL MEETING
13 OCTOBER 2005 AT 10.00 A.M.**

FORM OF PROXY

Please read the notice of Meeting and the explanatory notes below carefully before completing this form.

I/We*

being (a) shareholder(s) of Brooks Macdonald Group plc hereby appoint (the Chairman of the Meeting**)

Name

Address

as my/our proxy to attend and, on a poll, vote for me/us and on my/our behalf as directed below at the annual general meeting of the Company to be held on 13 October 2005 at 10.00 a.m. and at any adjournment thereof.

Directions to your proxy

Ordinary Business	FOR	AGAINST	VOTE WITHHELD***	DISCRETIONARY
Resolution 1: Ordinary resolution to receive and adopt the Annual Report and Accounts for the year ended 30 June 2005				
Resolution 2: Ordinary resolution to declare a final dividend of 1 pence per Ordinary Share				
Resolution 3: Ordinary resolution to re-elect Christopher Macdonald as a director				
Resolution 4: Ordinary resolution to re-elect Simon Jackson as a director				
Resolution 5: Ordinary resolution to re-appoint the Company's auditors and authorise the directors to determine their remuneration				
Resolution 6: Ordinary resolution to give the directors authority to allot shares				
Resolution 7: Special resolution to give the directors power to disapply pre-emption rights in relation to the allotment of shares				
Resolution 8: Special resolution to give the Company a general authority to purchase its own shares				

Signature Date.....2005

(To be valid, this Form of Proxy must be signed)

NOTES:

- 1* Please complete in block capitals with your full name and address.
- 2** If you wish to appoint a proxy other than the Chairman of the Meeting, please delete the words in brackets and insert the name and address of your chosen proxy in block capitals in the box provided and initial alterations.
- 3 Every shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of that shareholder. A proxy need not be a member of the Company.
- 4 If you want your proxy to vote in a certain way on the resolutions specified please place a mark in the relevant boxes. If you select 'Discretionary' or fail to select any of the given options your proxy can vote as he or she chooses or can decide not to vote at all. The proxy can also do this on any other business (including a motion to adjourn the Meeting or to amend a resolution) which may properly come before the Meeting.
- 5*** The 'Vote withheld' option is provided to enable you to abstain on any particular resolution. However it should be noted that a 'Vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
- 6 To be valid, this Form of Proxy must be deposited at Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU, NOT LATER THAN 10.00 A.M. on 11 October 2005, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority. The completion and return of this Form of Proxy will not, however, preclude you from attending and voting at the Meeting if you so wish.
- 7 Any alterations to this Form of Proxy should be initialled.
- 8 In the case of joint holders, the signature of the first named on the register of members will be accepted, but the names of all joint holders should be given.
- 9 In the case of a corporation, this Form of Proxy should be either given under its common seal or signed on its behalf by an officer or attorney duly authorised.



Third fold and tuck in

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**Capita Registrars
Proxy Department
P O Box 25
Beckenham
Kent
BR3 4BR**

First Fold

Second fold

