Dignity plc Annual Report & Accounts 2005

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About Dignity

Dignity is Britain's largest single provider of funeral-related services. The Group owns 519 funeral homes and operates 22 crematoria in Britain. The Group is also the market leader in pre-arranged funeral plans, where people plan and pay for their funeral in advance.

What We Believe In

- We are here to help people through one of the most difficult times in their lives.
- We do this with compassion, respect, openness and care.
- We want to be the company that everyone knows they can trust in their time of need.

Key Financial Highlights

Current period financial highlights[(a)]

	2005	2004
Revenue (£million)	**143.2**	135.7
Operating profit (£million)	**41.6**	39.2
Underlying profit before tax[(b)] (£million)	**25.9**	22.2
Profit before tax (£million)	**26.5**	8.0
Cash generated from operations (£million)	**49.5**	44.2
Earnings per share (pence)	**22.9**	8.5
Dividends per share[(c)] (pence)	**2.75**	5.625

(a) Comparative period is 53 week period ended 31 December 2004.
(b) Before profit on sale of fixed assets and non-recurring finance charges.
(c) A further £1 per share return of value is proposed to be made in early August 2006.

Business Overview

Dignity's business is in three main areas:

Funeral Services

We operate a network of 519 funeral homes throughout Britain, trading under established local trading names. In 2005, the Group conducted 67,000 funerals.

Crematoria

We operate 22 crematoria in England and Scotland and carried out 39,500 cremations in 2005.

Pre-arranged Funeral Plans

We are the market leader in the sale of pre-arranged funeral plans, with 181,200 unfulfilled funeral plans as at 30 December 2005. Dignity works with affinity partners such as Age Concern, AXA and Royal London to market funeral plans.

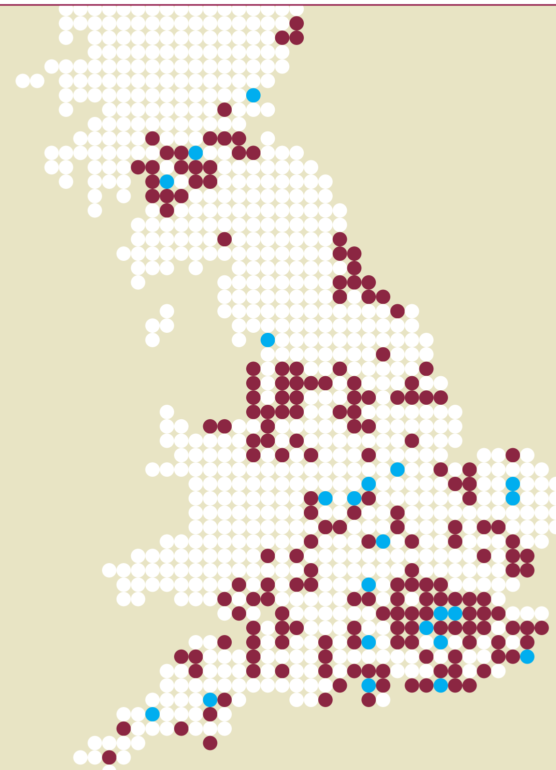
At every step of the way we:

- are compassionate and caring.
- pay attention to detail.
- spend as much time as a client needs.
- are open and straightforward.
- keep in contact.

Our Locations Around The UK

Dignity has 519 funeral homes and 22 crematoria locations around the UK.

- ● Dignity Funeral Home Locations
- ● Dignity Crematoria Locations



Our Strategy

We plan to grow the profitability of our business by:

- operating in a traditional market where people use our services based on our reputation and through recommendations where we believe our continued commitment to excellent service for our clients will generate a high level of referral and organic revenue growth;
- continuing to control our operating costs;
- selective acquisition of additional funeral homes, funded by internally generated cash flows;
- the national marketing, principally through affinity partners, of pre-arranged funeral plans; and
- developing, managing or acquiring additional crematoria where possible.

Chairman's Statement

"I am pleased to report a strong trading performance for the 52 week period ended 30 December 2005."

Richard Connell, Chairman

R.A. Connell

Introduction

Dignity is the single largest provider of funeral-related services, namely funeral services, crematoria and pre-arranged funeral plans in Britain, and is the only UK listed company in this area. This is Dignity's second set of full results following its admission to the Official List of the London Stock Exchange in April 2004.

Results

I am pleased to report a strong trading performance for the 52 week period ending 30 December 2005. Results for the period have been reported for the first time under International Financial Reporting Standards (IFRS). Underlying profit before tax has increased by 17 per cent to £25.9 million (2004: £22.2 million). Operating profit has increased by 6 per cent to £41.6 million (2004: £39.2 million). The reported profit before taxation was £26.5 million (2004: £8.0 million).

Proposed return of value and dividends

We believe an efficient capital structure is consistent with maximising shareholders' returns. Consequently, in February 2006 the Group raised £86 million, net of fees, through a further issue of Secured Notes. We intend to return £80 million (£1 a share) to shareholders in August 2006 and use the remaining funds and existing cash resources to make a payment of £10 million into the Group's pension schemes, thereby substantially eliminating their deficits.

The Board declared and paid an interim dividend of 2.75 pence per share in its interim results announced in September 2005. Given the intended substantial return of value, the Board does not propose to pay a final dividend for 2005, but expects to resume payments with the 2006 interim dividend.

Our staff

The Group is committed to continuing to improve our standards of service and this is critical to our strategy. Client satisfaction, measured by our client surveys remains at record levels.

I would like to thank our staff in all areas of the business for their commitment, diligence and hard work. We operate in an industry that requires a sensitive and personal service to clients. We are fortunate to employ experienced and caring staff, a large number of whom have devoted their working lives to the profession. They are critical in delivering superb client service.

Outlook for 2006

We expect to be able to develop the business further in 2006 and beyond. We believe that delivering ever-greater levels of client service should lead to organic growth in our revenues, which combined with strong cost control, should deliver growth in our core business. We continue to seek further acquisitions of funeral homes, develop our pre-arranged funeral plan business and identify additional crematoria developments and partnerships.

Board of Directors

(a) Member of the Audit Committee
(n) Member of the Nomination Committee
(r) Member of the Remuneration Committee

1. Richard Connell (51) (a)(n)(r)
(Non-Executive Chairman)
Richard has worked in the City for more than 20 years, principally within private equity, and acts as Chairman of a number of companies. He is a Chartered Accountant and has held executive positions in marketing and management. In addition to working with the Company, he is Chairman of Caradon Group and Chairman of 2e2 Group. Richard has a degree from Oxford University and is an FCA.

2. Peter Hindley (62)
(Chief Executive)
Peter has extensive experience of the industry, and led the management buyout of the Group from SCI in 2002. In 1991, he was appointed Chief Executive of Plantsbrook Group plc. Following the acquisition of both Plantsbrook Group plc and Great Southern Group plc by SCI in 1994, he was appointed CEO of SCI (UK). Before entering the funeral services industry, Peter spent 25 years in retailing, holding senior positions in Debenhams, Burtons and Harris Queensway.

3. Mike McCollum (38)
(Finance Director)
Mike joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance in London to manage acquisition activity in the UK and later in Europe, completing more than 25 acquisitions between 1996 and 1999. In 1999, he became responsible for the pre-arranged funeral plan division, restoring its profitability principally through the implementation of the affinity based model. As Finance Director, he has overseen the management buyout and bank refinancing, both in 2002, the whole business securitisation in 2003, the IPO in 2004 and the recent bond issue in February 2006. He has a law degree from Birmingham University (LL.B), is a qualified solicitor and also holds an MBA from Warwick University.

4. Andrew Davies (44)
(Operations Director)
Andrew joined his family owned business in 1979 and worked as a funeral director and embalmer until the business was sold to Great Southern Group in 1993. He then held various management positions within Great Southern Group, and following the acquisition by SCI in 1994, held senior operational positions within SCI (UK). He became Operations Director in 2001, and was a member of the management buyout team in 2002.

5. Jim Wilkinson (53)
(Human Resources and Quality Director)
Jim held various management positions with TI Group and Kalamazoo plc prior to joining PA Consulting Group in 1989, where he specialised in Quality and Performance improvement assignments with plc clients. He assisted SCI (UK) in developing and implementing the 'Right Choice' programme, before joining the Company as Quality and Compliance Manager in 1999. In 2001, he was appointed Human Resources and Quality Director, and was a member of the management buyout team in 2002. Jim holds a BSc (Hons) Mech Eng from Birmingham University; and an MBA from Aston University.

6. James Newman (56) (a)(n)(r)
(Non-Executive Director)
James was Chairman of Waste Recycling Group plc until its takeover in July 2003. He was previously Deputy Chief Executive and Group Finance Director of Kelda Group plc, and before that Group Finance Director of BRIDON plc, Watmoughs (Holdings) plc and a number of other public and private companies. He is currently Chairman of Straight plc, a Non-Executive Director of Richmond Foods plc and Scott Wilson Group plc and is a Governor of Sheffield Hallam University. He is an FCA and a member of the Association of Corporate Treasurers.

7. William Forrester (65) (a)(n)(r)
(Non-Executive Director)
Bill is the Chairman of John Laing plc, the infrastructure investment group, Chairman of Linpac Group, and a Director of The Waterproofing Group. Prior to this he was Group Chief Executive of SIG plc, Europe's largest distributor of insulation, ceiling, partitioning and roofing products. He was also the Managing Director at Kuwait Insulation Manufacturing Company and the Sales and Marketing Director at BP Rockwool Limited.

Operating Review

"Our employees are critical in the continued success of the Group."

Peter Hindley, Chief Executive

Introduction

The Group's operations are managed across three main areas, namely funeral services, crematoria and pre-arranged funeral plans, which respectively represent 79 per cent, 16 per cent and 5 per cent of the Group's revenues. Funeral services revenues relate to the provision of funerals and ancillary items such as memorials and floral tributes. Crematoria revenues arise from cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries. Pre-arranged funeral plan income represents amounts to cover the costs of marketing and administering the sale of plans.

Performance in the period

Total estimated deaths for the 52 week period to 30 December 2005 in Great Britain were 563,800 compared to 574,500 in the comparative 53 week period in 2004. This was 3 per cent below our expectations for the period. The historic number of deaths quoted is based on the initial Office of National Statistics (ONS) estimates for each calendar year. These death rates are revised by the ONS from time to time but to maintain consistency of reporting, Dignity quotes the original reported numbers. Based on historical evidence Dignity estimates that final deaths reported might fluctuate by around 1 per cent.

The Board's view on death rates continues to rely on government forecasts, which were updated in October 2005. These forecasts suggest 573,500 deaths in 2006.

Funeral services

The Group operates a network of 519 funeral homes throughout Britain, trading under local established names. In 2005, the Group conducted 67,000 funerals (2004: 67,600), representing approximately 11.9 per cent (2004: 11.8 per cent) of estimated total deaths in Britain.

Revenue within funeral services was £113.8 million (2004: £108.8 million). Operating profits were £37.1 million (2004: £33.9 million), an increase of 9.4 per cent.

Although funeral volumes were lower principally as a result of 2004 being reported as a 53 week period against 52 weeks in 2005, we are pleased to report that this was offset by increased margins.

We believe it is important to actively manage the Group's portfolio of funeral homes. In 2005, we closed three funeral homes whose very low number of funerals meant they were no longer profitable. As part of our stated strategy, in 2005 the Group acquired ten funeral home locations, investing £6.7 million, funded from existing cash reserves and internally generated cash flows. These new businesses are located in St Albans, Carlisle, Stroud and Ormskirk. They are all long established, highly reputable businesses. In addition, since the period end, the Company has acquired one additional funeral home in Huddersfield.

Since flotation the quantum of investment and the prices paid were in line with our objectives.

Holytown Crematorium, North Lanarkshire.

80%

80% of people choose a funeral director because they've used them before or because of a recommendation.

Thanks to the trained staff in our client service centre, our clients can speak to a person who will help, whatever time of the day or night.

Knowing that we have as much time as our clients need

From the first time they contact us, to arranging the funeral, to choosing a memorial or buying a funeral plan, we spend as much time as a client needs. We don't rush, and we don't assume. We are available 24 hours a day, every day of the year. Our staff in our funeral homes, at our client service centre in Sutton Coldfield, and at our crematoria know the importance of listening and spending time with the client.

Operating Review
Continued

Crematoria
The Group operates 22 crematoria and carried out 39,500 cremations in 2005 (2004: 38,400) representing 7.0 per cent (2004: 6.7 per cent) of estimated total deaths in Britain. The Group is the largest single operator of crematoria in Britain.

Turnover within crematoria was £22.5 million (2004: £21.6 million). Operating profits were £11.9 million (2004: £11.8 million). In 2004 the operating profit included profit on the sale of fixed assets of £0.4 million.

In January 2005 the Department of Environment Food and Rural Affairs announced that crematoria operators should consider installing equipment to cut mercury emissions. A 50 per cent reduction in emissions must be achieved by the end of 2012 under new statutory guidance.

The Group is currently evaluating the best course of action but remains confident that it can meet all the new emissions legislation in the required timescales. We expect funding for these changes to be via an industry wide environmental levy.

Pre-arranged funeral plans
Pre-arranged funeral plans allow people to plan and pay for their funeral in advance. The Group is the market leader in the provision of pre-arranged funeral plans. Unfulfilled pre-arranged funeral plans increased to 181,200 from 170,200 during the period. The Group expects to perform the majority of these funerals.

The Group sells pre-arranged funeral plans through its network of funeral homes and primarily through affinity partners, notably Age Concern, AXA and Royal London. The Group has tested the mailing of funeral plan information with a number of potential new affinity partners including a catalogue retailer and two well respected financial services groups. Further progress is expected with these parties in 2006.

The majority of profits on sale of funeral plans come from sales through Dignity branches. The profits on plans sold via affinity partners are minimal. Therefore the overall profits from marketing and administering funeral plan sales will fluctuate depending on the sales mix. The Group continues to focus on growing the bank of funeral plans which leads to revenues at the time the service is provided in the future. These revenues will be recognised in the funeral division in the cases where Dignity provides the service.

Client service
We believe that excellent client service is fundamental to the Group's success. Reputation, recommendation and previous experience are the client's key criteria for the selection of a funeral director. We continually strive to improve client service and during 2005, the Group introduced the "Helping Our Clients Every Step of the Way" programme. This programme focuses on consistency of service and client satisfaction.

We send our clients a survey after every funeral to monitor client satisfaction. We have an approximate 50 per cent response rate. This survey was updated as part of the new programme to make it more straightforward to use. Surveys are monitored at all levels: nationwide, regional, community groups and individual branches. Feedback is sought on all aspects of the client experience, ranging from prompt answering of the telephone through to staff helpfulness and client satisfaction with the overall cost of the funeral. Levels of client satisfaction remain at record levels.

Our employees
Our employees are critical in the continued success of the Group.

The Group provides direct support to employees through both in-house training and external training courses. Such external training includes both relevant job training and tutoring for professional qualifications. These professional qualifications include the National Association of Funeral Directors (NAFD) Diploma and Membership of the British Institute of Embalmers. In addition the Group now has two members of staff who are qualified to act as tutors for the NAFD diploma.

In addition in 2005, the Group supported staff development and welfare through its Welfare Trust. The Welfare Trust provides funds for staff for professional training, hardship grants, and financial support for employees' children studying in further education.

99%

99% of our clients would recommend us to friends or family.

We have purchased 65 new Mercedes hearses and limousines during the period.

Understanding that every detail is important

Whether it's a favourite flower, piece of music, or reading, we know how important the smallest detail is for a client. We want to make sure we get it right every time and to help us we send out a survey to each client – with their permission. We get an approximate 50% response rate, and from this we know that 99% of clients would recommend us.

Operating Review
Continued

The Group publishes an in-house magazine ('Dignity Express') each quarter supplemented by monthly bulletins to keep all employees informed of what is happening in the Group. These are also provided to employees who have retired from the Group. In addition, the Group has developed a dedicated employee website which can be accessed by all employees and contains news, useful information and background on the Group. This is in addition to both our main website and the investor website.

The Group set up a 'Save As You Earn' share scheme for all staff in 2004. I am pleased to advise the scheme has approximately 700 members all saving monthly to acquire Ordinary Shares in the Group. It is the Group's intention to create further schemes in the future.

During 2005 a total of 180 staff received long service awards. These are paid to staff that have served 10 years or more with the Group and further awards are made at five yearly intervals thereafter. In addition 20 staff received awards during 2005 on their retirement from the Group having served at least 10 years.

The Group is now offering all staff the opportunity to have a will prepared for them free of charge through a third party company thus adding to the benefits that staff are already offered.

At the end of 2005, we announced a bonus totalling £0.8 million (2004: £0.6 million) in which every member of staff not covered by existing schemes was awarded a payment. This was in recognition of the hard work and commitment shown by our staff in all areas of the business and allowed them to share in a successful 2005. We hope that strong performances in 2006 and beyond will allow the Group to pay such bonuses in the future.

Pensions
The Group operated two principal defined benefit pension schemes during the period. The pension deficit decreased in the period by £1.8 million to £12.0 million.

On 6 April 2006, the Trustees of the two schemes agreed to their merger. The purpose of the merger was to reduce administration costs. None of the benefits offered to members of the scheme are affected and the merged scheme will remain open to new members.

Upon completion of the proposed return of value mentioned earlier, the Group intends to pay £10 million into the scheme, thereby largely eliminating its deficit under IAS 19. This will place the scheme on a sound financial basis going forward.

Investment for the future
Within the funeral services division the Group is committed to the proactive development of its national network of branches within local communities. This will be achieved by further acquisitions but only where suitable businesses can be identified and acquired at a price that should deliver returns in excess of our cost of capital. These initiatives will be progressed in conjunction with reviewing existing locations for suitability and viability.

Within the crematoria division the Group is exploring partnership arrangements with a number of Local Councils. The Group continues to develop its range of memorial and interment options within the memorial gardens at its crematoria and cemeteries.

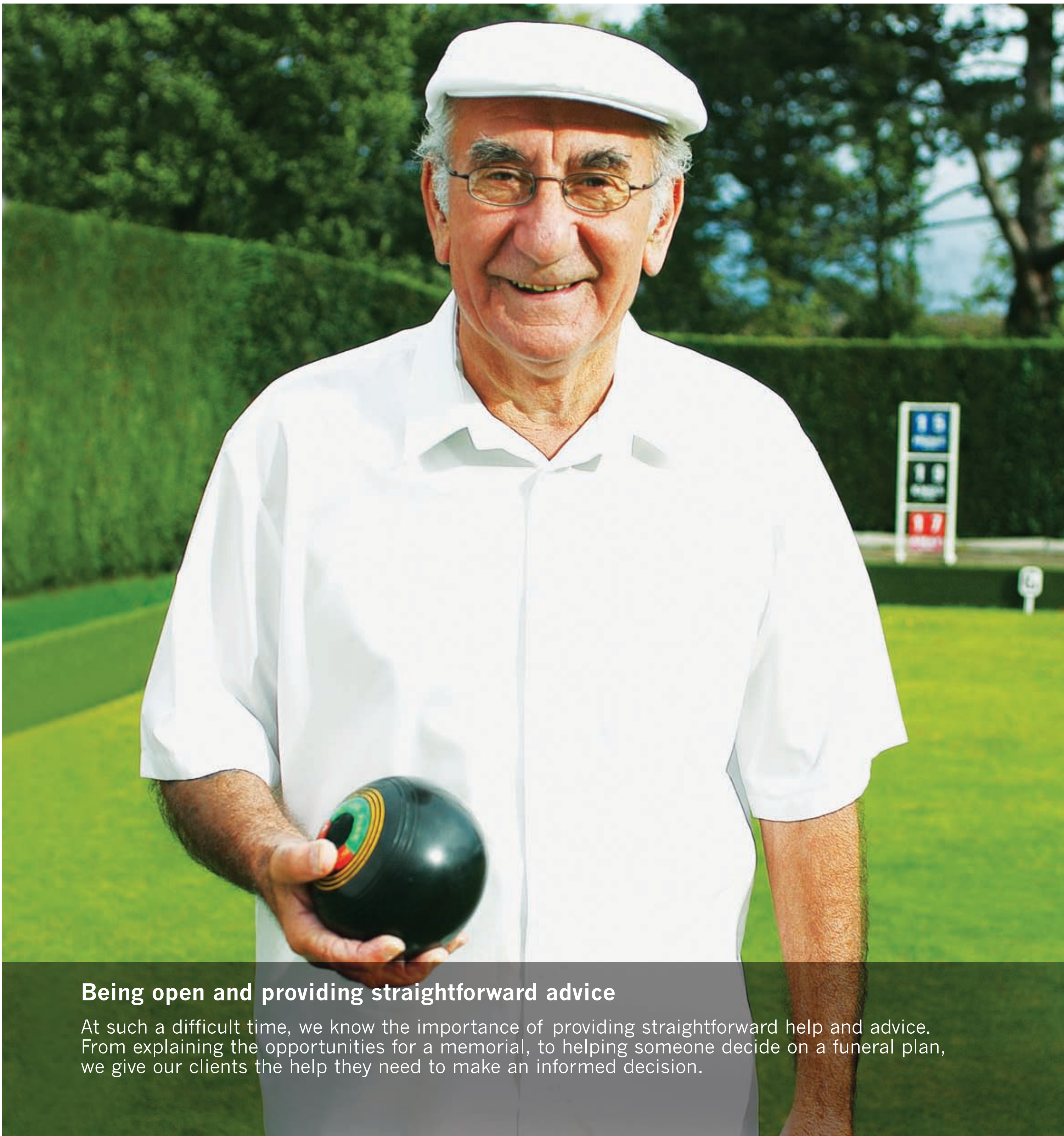
Within the pre-arranged funeral plan division we are continuing to seek further suitable affinity partners.

We continue to maintain our facilities to a high standard. During the period, we refurbished 31 funeral home locations. We have also purchased 65 new Mercedes hearses and limousines, 61 new ambulances and 88 other vehicles.

The strong performance of the Group is a reflection of both the diligence and outstanding service ethic of our staff in all areas of the business. I would like to thank all staff for their contributions for both 2005 and looking ahead into 2006.

**"...I would like to offer my thanks for the support and comfort that the funeral plan has provided..."
B Johnston, London.**

Clients can find out about our products and services at our website www.dignityfunerals.co.uk



Being open and providing straightforward advice

At such a difficult time, we know the importance of providing straightforward help and advice. From explaining the opportunities for a memorial, to helping someone decide on a funeral plan, we give our clients the help they need to make an informed decision.

An Active Role in the Community

"With a clear commitment to community involvement, Dignity provides advice and practical help for staff who want to get involved locally and play a real part in the communities they serve."

Giving something back

Dignity staff are very proactive in their local communities, helping with local and national fundraising events, and donating their time to help good causes and charities.

We run and take part in hundreds of events nationwide. For example in 2005 staff at Ginns and Gutteridge in Leicester raised over £2,000 for Loros Hospice with a 90-mile bike ride. Lawrence Funeral Service in Halifax sponsored the local primary school's new netball team. A Worcester war veteran traveled in style to his VE Day celebration lunch at Buckingham Palace, when AV Band staff took him and his family to London in one of our limousines. In Bournemouth, employees at Mews and Yeatmans Funeral Directors, with the help of Bournemouth AFC, raised over £1,500 to help a soldier who had lost both legs in a suicide bombing while serving in Iraq.

In some areas we have community minibuses, which are used by local groups. We also have four charity fairground organs, which we take to fundraising events nationwide, helping to collect over £120,000 each year. We also provide support to groups such as CRUSE bereavement by offering our premises for their meetings.

With a clear commitment to community involvement, Dignity provides advice and practical help for staff who want to get involved locally and play a real part in the communities they serve.

The Dignity Tsunami Appeal

The majority of charities we work with are chosen at a local level by staff. However after the Boxing Day Tsunami, the Company was united in wanting to provide long term help to the region. In January we launched our Dignity Tsunami appeal working in partnership with the charity World Vision to help children in some of the worst effected areas in Sri Lanka.

Staff have to date raised £30,000 with sponsored events, social evenings and raffles. Dignity has pledged to raise £50,000 by the end of 2006. In September, Dignity project leader Vicki Howell visited Sri Lanka to see how our funds were being used. In her report she wrote:

"Our money is really helping to give children and their parents a chance to start over. It was so hard to visit communities that were so poor, but in amongst those communities I saw so much hope. Children were smiling and playing and helping each other to grieve for their lost relatives and friends. They are so grateful for the help they have received but they will need more if they are ever to improve on the way they are living now."

One of the four charity fairground organs Dignity use to support local fundraising events.

Working with World Vision, Dignity staff have raised over £30,000 this year for Tsunami victims.

Being there for our clients and the community

Our clients know we are there for them every step of the way. We always call a client after the funeral to check everything went as they wanted. We keep in touch as the funeral arrangements are made. Our clients feel looked after at all times, and have confidence in us to make the arrangements they want. As well as our fundraising events in the community, many of our branches have events to support the bereaved including coffee mornings and memorial services.

Financial Review

"A 17 per cent increase in underlying profit is especially pleasing given the shorter trading period and lower than expected death rate."

Mike McCollum, Finance Director

The market conditions in which the Group operates and its trading performance during the 52 week period ended 30 December 2005 are described in the Chairman's Statement and the Operating Review.

These results are prepared under IFRS. The adoption of IFRS represents an accounting change and does not affect the ongoing operations or cash flows of the Group for 2005 or beyond.

The adjustments to the comparative period's results as a consequence of the adoption of IFRS are explained fully in note 35.

Financial highlights

- Revenue has increased 6 per cent to £143.2 million (2004: £135.7 million).
- Operating profit has increased 6 per cent to £41.6 million (2004: £39.2 million).
- Underlying profit before tax has increased 17 per cent to £25.9 million (2004: £22.2 million).
- Profit before tax has increased 231 per cent to £26.5 million (2004: £8.0 million).
- Cash generated from operations has increased 12 per cent to £49.5 million (2004: £44.2 million).
- Earnings per share of 22.9 pence (2004: 8.5 pence).
- The Group has paid an interim dividend of 2.75 pence per share with a further £1 return of value proposed to be made in early August 2006.

Underlying profit before tax

2004 witnessed a significant reorganisation of the Group's capital structure, with the listing of its shares and the redemption of expensive debt. The Directors are of the opinion that the following provides additional indicative information regarding the underlying profits of the Group:

	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Profit before taxation for the period as reported	**26.5**	8.0
Add/(deduct) the effects of:		
Profit on sale of fixed assets	**(0.6)**	(1.2)
Exceptional interest expense	**–**	10.1
Interest expense of Mezzanine Loan and Loan Notes 2013	**–**	4.7
Amortisation of debt issue costs on Mezzanine Loan and Loan Notes 2013	**–**	0.6
Underlying profit before tax	**25.9**	22.2

Cash flow and cash balances

Cash generated from operations was £49.5 million in the period (2004: £44.2 million). Expenditure on funeral home acquisitions amounted to £6.7 million (2004: £5.3 million). A further £7.6 million was spent on capital expenditure, the majority of which was spent on replacing or enhancing existing assets, principally the Group's vehicle fleet and its property portfolio.

Cash balances at the end of the financial period amounted to £37.3 million (2004: £24.9 million) although under the terms of the Group's secured borrowing, there are certain restrictions on elements of this balance as described further in note 15. The Group's operations continue to be significantly cash generative.

Capital structure and financing

The Group's only material external debt financing is the Class A and B Secured Notes, rated A and BBB respectively, of which £202.6 million was outstanding as at 30 December 2005 (2004: £205.3 million).

Both tranches of Notes were issued in 2003 at fixed rates of interest and will be progressively repaid over the next 25 years.

The Directors are of the opinion that the following provides additional indicative information regarding the net debt position of the Group:

	30 December 2005 £m	31 December 2004 £m
Class A and B Secured Notes	**(202.6)**	(205.3)
Loan Notes 2006	**(0.1)**	(0.1)
Cash balances	**37.3**	24.9
Net Debt	**(165.4)**	(180.5)

The Group's financial expense substantially consists of the interest on the Class A and B Secured Notes and related ancillary instruments. The finance charge in the period relating to these instruments was £15.7 million (2004: £16.1 million) including the amortisation of debt issue costs of £0.9 million (2004: £1.0 million). Other ongoing finance costs incurred in the period amounted to £1.3 million (2004: £1.2 million), representing the unwinding of discounts on the Group's provisions, finance expense on retirement obligations and other loans.

The Group produces a strong and stable cash flow, which has increased since the original securitisation in 2003. Subsequent to the year-end, on 20 February 2006 the Group issued a further £45.55 million Class A Secured 6.310% Notes due 2023 and £32.50 million Class B Secured 8.151% Notes due 2031. To ensure that the new Class A Notes issued were identical with those already in issue, Notes with a nominal value of £45.55 million were issued. This, however, after deemed repayments equates to a nominal value outstanding at the date of issue of £42.5 million. The Notes were issued at a premium and raised a total of £86 million after fees and expenses.

The issue of the new Notes will increase the annual interest expense by approximately £5 million per annum.

The Group proposes to return £80 million (£1 per share) to shareholders in early August 2006 through the creation, issue and redemption of Class B shares. Following the return of value, the listed Ordinary Shares will be consolidated to maintain the comparability of financial indicators such as share price. These proposals will be formally tabled at an Extraordinary General Meeting of the Company planned for 8 June 2006. Restrictions within the terms of the A and B Secured Notes mean that the return of value to shareholders cannot be made before August 2006.

We intend to use the remaining £6 million raised, together with some existing cash resources, to largely eliminate the Group's IAS 19 pension deficit of £12 million by paying £10 million into the Group's pension scheme.

The Directors believe that this fund raising and the subsequent proposed return of value to shareholders is consistent with the strategy of maximising total shareholder returns through an efficient balance sheet, which nevertheless leaves sufficient flexibility to continue to grow the business.

Taxation

The overall effective tax rate was approximately 31 per cent and is not expected to vary significantly in the short term. This tax rate is marginally higher than the standard UK tax rate of 30 per cent due to the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for corporation tax purposes.

Earnings per share

The basic earnings per share were 22.9 pence per share for the period (2004: 8.5 pence per share). The potential issue of new shares pursuant to the Group's share option plans in the period would affect the earnings per share by less than 0.1 pence per share if exercised.

Directors' Report

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 52 week period ended 30 December 2005.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Company and the Group and of the profit or loss of the Group for that period. The Directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors confirm that suitable accounting policies have been applied consistently, as explained in note 1 to the financial statements. They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the 52 week period ended 30 December 2005 and that applicable accounting standards have been followed.

The Directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Dignity plc websites are 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 Dignity plc investor website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Capital reorganisation

Subsequent to the period-end, on 20 February 2006, a subsidiary of the Group, Dignity Finance plc, issued £45.55 million Class A Secured 6.310% Notes due 2023 and £32.50 million Class B Secured 8.151% Notes due 2031. This raised a total of £86 million after expenses. The Company proposes to return £80 million (£1 per share) to shareholders through the issue and redemption of a class of B shares. These proposals together with a proposed share consolidation will be formally tabled at an Extraordinary General Meeting of the Company planned for 8 June 2006.

Principal activities and business review

The principal activity of the Group is the provision of funeral services including funeral directing, crematoria operation and the marketing and administration of pre-arranged funeral plans. The principal activity of the Company is that of a holding company.

A review of the Group's business and the financial performance during the period together with an assessment of likely future developments are presented in the Chairman's Statement, Operating Review and Financial Review.

Results

The results for the period are set out in the Consolidated Income Statement on page 28. Group profit before tax amounted to £26.5 million (2003: £8.0 million).

Dividends

An interim dividend of 2.75 pence was paid on 28 October 2005. The Group has not proposed a final dividend for 2006 as it is proposing to return £1 per each 7 pence Ordinary Share to shareholders following the successful issue of further securitised notes completed on 20 February 2006.

Fixed assets

Details of the changes in fixed assets are set out in notes 9, 10 and 11 to the financial statements.

Payments policy

The Group has no formal code or standard that deals specifically with the payment of suppliers. However the Group's policy on the payment of all creditors is to ensure that the terms of payment as specified by, and agreed with, the supplier are not exceeded, provided all trading terms and conditions have been complied with. The average creditor payment period for the Group was 34 days (2004: 30 days). The Company has no trade creditors.

Employment policies

During the period the Group has maintained its obligations to develop and improve arrangements aimed at involving employees in its affairs. Methods of communication used include an in-house newsletter, employee only pages on the Group's investor website, bulletins and management briefings.

This is discussed in more detail in the Operating Review on page 6. Employment policies are designed to provide equal opportunities irrespective of colour, ethnic or national origin, religion, nationality, sex or marital status. Full consideration is given to the employment, training and career development of disabled persons subject only to their aptitudes and abilities. The Group makes every effort to treat disabled persons equally with others.

Directors and their interests
Details of the Directors of the Company who served during the period are shown in the Report on Directors' Remuneration on page 18. In accordance with the Articles of Association, at the Annual General Meeting Peter Hindley and Andrew Davies retire as Directors of the Company and, being eligible, offers themselves for re-election.

Substantial shareholdings
As at 3 April 2006 the Company had been notified of the following interests of 3 per cent or more of the issued share capital:

Holder	Number of Ordinary Shares	Percentage of issued share capital
The Goldman Sachs Group	9,439,427	11.80%
Tiger Global Management LLC	3,674,466	4.59%
Morgan Stanley Securities Ltd	3,503,333	4.38%
Lloyds TSB Group plc	3,142,885	3.93%
UBS Global Asset Management Ltd	2,796,800	3.50%
Legal and General Investment Management Ltd	2,429,363	3.04%
Standard Life Investments	2,415,957	3.02%

Health and safety policy
The Group's operations are executed at all times in such a way as to ensure, so far as reasonably practical, the health, safety and welfare of all of our employees and all other persons who may be attending our premises. The Group is committed to the prevention of accidents and regularly reviews and update procedures and training to ensure that, as far as possible, staff minimise any risks associated with their tasks.

Environmental policy
Maintaining the quality of the environment in which we all live is an important concern for the Group. All areas of the Group operate in accordance with the Group's Environmental Policy. We recognise the impact of our operations on the environment and our aim is to reduce this impact and to operate in an environmentally responsible manner.

The Group and its employees undertake to act whenever necessary to meet or exceed the standards of current environmental legislation and continue to review the policies, systems and services to this end. All waste generated is properly disposed of in accordance with current legislation and steps are taken to recycle waste wherever practical.

Donations
The Group made charitable donations amounting to £0.1 million (2004: £0.1 million) during the period. There were no political donations. Further information can be found on page 12.

Going concern
The Directors have formed a judgment at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Post balance sheet events
See note 33 for further information.

Auditors
A resolution for the reappointment of PricewaterhouseCoopers LLP will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Richard Portman
Company Secretary
18 April 2006

Report on Directors' Remuneration

for the 52 week period ended 30 December 2005

This Report sets out the remuneration policy operated by the Group in respect of the Executive Directors, together with disclosures on all Directors' remuneration. The auditors are required to report on the 'auditable' part of this Report and to state whether, in their opinion, that part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002).

The Board has reviewed the Group's compliance with the Combined Code ('the Code') on remuneration related matters. It is the opinion of the Board that the Group complied with all remuneration related aspects of the Code during the period except that any annual bonus payments to the Chief Executive are pensionable under the terms of his contract of employment although as he has a personal pension plan, any pension contributions paid do not affect the Group's pension schemes.

The Remuneration Committee is responsible for developing policy on remuneration for Executive Directors and Senior Management and for determining specific remuneration packages for each of the Executive Directors.

Bill Forrester chairs the Remuneration Committee and its other members are James Newman and the Non-Executive Chairman, Richard Connell. The Code requires that a Group of this size has a Remuneration Committee with a minimum of two members. The Chairman is specifically excluded from discussions regarding his remuneration. The Remuneration Committee members have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

Executive Directors have attended Remuneration Committee meetings when required. No Executive Director takes part in discussions relating to their own remuneration and benefits.

The Remuneration Committee is formally constituted with written terms of reference. A copy of the terms of reference is available to members by writing to the Company Secretary at the Registered Office and is also available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. The Committee met four times during 2005.

Remuneration policy

The Remuneration Committee's policy is to progressively set the main elements of the Executive Directors' remuneration package at the following quartiles in comparison to a comparable group of companies ('the Comparator Group'). The Comparator Group is 20 companies originally from the FTSE All Share Support Services Index (prior to the reorganisation of classifications effective on 1 January 2006) with similar corporate attributes measured in terms of market capitalisation, turnover and number of employees.

- Basic salary – median.
- Annual bonus potential – median to upper quartile.
- Share incentives – median to upper quartile.
- Total compensation – median to upper quartile.

The objective of the remuneration policy is to provide remuneration packages that will:

- Motivate and encourage superior performance;
- Allow the Group to retain the talent needed to execute its business strategy;
- Enable the Group to be competitive when recruiting appropriately skilled and experienced management; and
- Align rewards with the interests of shareholders.

The Remuneration Committee believes that the policy will retain and develop further the Group's entrepreneurial culture whilst also focusing executive remuneration on performance, which the Committee believes will best serve shareholders' interests. It is therefore the aim of the Remuneration Committee to encourage and reward superior performance by Executive Directors with that performance being based on the measurable delivery of strong financial performance and returns to shareholders.

The Remuneration Committee will continue to review the policy on an annual basis to ensure that it is in line with the Group's objectives and shareholders' interests.

Remuneration policy (continued)

Basic salary

Base salaries of Executive Directors during the period were below the median of the Comparator Group. It is the Remuneration Committee's intention to review Executive Directors' base salaries with the aim of aligning these closer to the comparator median. The total remuneration package for Executive Directors will remain linked to performance.

When determining the salary of the Executive Directors the Remuneration Committee also takes into consideration:

- The levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity;
- The performance of the individual Executive Director;
- The individual Executive Director's experience and responsibilities; and
- Pay and conditions throughout the Group.

Annual performance related bonus

The Committee's policy is to set the maximum annual bonus potential for Executive Directors between the median and the upper quartile in relation to the Comparator Group. The targets for the year are reviewed and set annually by the Committee to ensure that they are appropriate to the current market conditions and remain challenging. They are ratified by the full Board. They are entirely linked to the annual financial objectives of the Group.

The maximum bonus attainable for 2005 by Peter Hindley was 70 per cent of his basic salary and 67 per cent in respect of the other three Executive Directors. Bonuses earned by the Executive Directors are paid when the annual accounts have been audited and signed by the Directors.

Share incentives

Shareholders approved the current discretionary share incentive plan, the Long Term Incentive Plan (LTIP) on 31 March 2004 prior to admission to the London Stock Exchange on 8 April 2004.

The Remuneration Committee aims to provide annual awards to Executive Directors at the median to upper quartile level compared to the Comparator Group. All Executive Directors and other employees are entitled to be considered for the grant of conditional share awards under the LTIP. Under the rules, the maximum annual award that can be made to an individual is 125 per cent of salary. All four Executive Directors were granted conditional share awards during 2005 equivalent to the maximum award in addition to those granted in 2004. Total awards made under the scheme are shown on page 22.

Eligible executives are awarded rights, in the form of nil cost conditional share awards, to acquire a maximum number of shares at the beginning of a three year period, a proportion of which they will be entitled to receive at the end of that period depending on the extent to which the performance conditions set by the Remuneration Committee at the time the allocation is made are satisfied.

The Remuneration Committee selected comparative Total Shareholder Return (TSR) as the performance condition for LTIP awards as it ensures that the Executive Directors outperform the FTSE 350 Index over the measurement period in delivering shareholder value, before being entitled to receive any of their awards irrespective of general market conditions. The FTSE 350 Index was selected as a benchmark as there are no directly comparable quoted companies in the UK and the 'enterprise value' of the Group (debt plus equity) gives it a comparative value to FTSE 350 companies. The Remuneration Committee will calculate the TSR in accordance with the rules of the scheme and ratify the calculation prior to the release of any award. Performance conditions under the LTIP are not subject to re-testing.

The percentage of options exercisable or share award vesting is calculated as follows:

- Ranked in the top quintile: 100 per cent of the total award.
- Ranked at median: 40 per cent of the total award.
- Ranked below median: zero.
- Ranked between median and top quintile: straight-line apportionment.

The Remuneration Committee has set the percentage of options exercisable at 40 per cent for median performance. This is based on the Committee's assessment of an appropriate and necessary award for achieving such a performance after considering all elements of the total remuneration package.

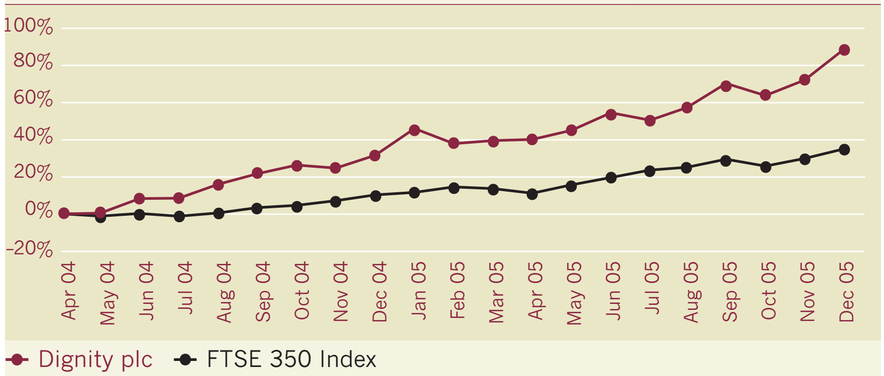
In addition and irrespective of the TSR performance target, no award will vest unless in the opinion of the Remuneration Committee the underlying financial performance of the Group has been satisfactory over the measurement period.

Report on Directors' Remuneration

for the 52 week period ended 30 December 2005 continued

The graph shows the Group's TSR compared to the FTSE 350.

Total Shareholder Return



The total options held by each Director are shown on page 22 in the section of the Remuneration Committee's report that is subject to audit.

In accordance with the ABI guidelines the Group can issue a maximum of 10 per cent of its issued share capital in a rolling ten year period to employees under all share plans. In addition, of this 10 per cent, the Company can only issue 5 per cent to satisfy awards under discretionary or executive plans.

Pensions

The Group provides Peter Hindley with a contribution to his personal pension plan of 10 per cent of his salary and any bonus payable. The Group has also agreed on an exception basis to make a contribution of £150,000 to Mr Hindley's personal pension plan in lieu of annual performance related bonus of the same value. This arrangement has no financial cost to the Company. As this is a personal pension plan any pension contributions paid on a bonus do not affect the Group's pension schemes. Mike McCollum and Jim Wilkinson are members of a Group pension scheme into which the Group contributed 10.5 per cent of salary (details are set out within the audited section of this report on page 21). The Group makes no pension contributions for Andrew Davies.

Benefits in kind

Benefits included the following elements: provision of a company car or allowance, fuel, landline telephone at each Executive Directors' home residence and a mobile telephone together with a pre-arranged funeral plan in accordance with any scheme established by the Group in respect of the funeral of the Executive Director or his wife. All Executive Directors received all of their benefits in kind.

Service contracts

Details of the service contracts with all Directors (both Executive and Non-Executive) are as follows:

Name	Contract Date	Notice Period	Unexpired Term of Contract
Peter Hindley	1 April 2004	12 months	Rolling Contract
Mike McCollum	1 April 2004	12 months	Rolling Contract
Andrew Davies	1 April 2004	12 months	Rolling Contract
Jim Wilkinson	1 April 2004	12 months	Rolling Contract
Richard Connell	1 March 2002	3 months	2 months
James Newman	31 March 2004	3 months	3 months
Bill Forrester	31 March 2004	3 months	3 months

The Board has recently reviewed the terms and conditions of the Non-Executive Directors and the Chairman and have agreed extensions to their contracts. These extensions are for 24 months.

There are no special provisions in service contracts of employees or Directors relating to cessation of employment or change of control. The policy on termination is that the Group does not make payments beyond its contractual obligations, which do not include any payment from the takeover or liquidation of the Group. In addition the Remuneration Committee ensures that there have been no unjustified payments for failure.

Under the Company's Articles of Association one third of the Directors are required to submit themselves for re-election every year. The Board may agree additional terms on a case-by-case basis.

The Board determines the remuneration of the Non-Executive Directors. It is based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Remuneration Committee and the Chief Executive). The level of remuneration of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles.

Directors' interest in shares

The interests of the Directors and their families in the Ordinary Shares of the Company at 31 December 2004 and 30 December 2005 were as follows:

	Ordinary Shares of 7pence	
Name	30 December 2005 Number	31 December 2004 Number
Peter Hindley	926,044	926,044
Mike McCollum	463,018	463,018
Andrew Davies	463,018	463,018
Jim Wilkinson	250,000	463,108
Richard Connell	89,042	89,042
James Newman	10,000	10,000
Bill Forrester	10,000	10,000

Mike McCollum also holds (as nominee for Dignity Finance Holdings Limited) one (2004: one) Ordinary £1 Share in Dignity Finance PLC, a fellow Group company at 30 December 2005.

There have been no changes in Directors' share holdings since the period end.

The following information on pages 21 and 22 has been audited.

Directors' remuneration

The total of Directors' remuneration for the period was £1,458,000 (2004: £1,414,000), including pension contributions of £47,000 (2004: £58,000). The remuneration of individual Directors for the year or from their date of appointment was as follows:

	Salary and fees £'000	Benefits* £'000	Annual performance related bonus £'000	Pension contribution in lieu of bonus £'000	Total 2005 £'000	Total 2004 £'000
Executive Directors						
Peter Hindley	258	29	30	150	467	454
Mike McCollum	185	11	124	–	320	312
Andrew Davies	140	11	94	–	245	228
Jim Wilkinson	134	11	89	–	234	228
Non-Executive Directors						
Richard Connell	68	–	–	–	68	68
James Newman**	44	–	–	–	44	39
Bill Forrester	33	–	–	–	33	27
Total	862	62	337	150	1,411	1,356

*Benefits include the following elements: provision of a company car or allowance, fuel, landline telephone at each Executive Director's home residence and a mobile telephone together with a pre-arranged funeral plan in accordance with any scheme established by the Group in respect of the funeral of the Executive Director or his wife.

**James Newman's expenses are invoiced to the Company by West Wood Associates.

Directors' pension entitlements

Defined benefit salary scheme

	Change in accrued benefit over the period (1) £	Transfer value at 30 December 2005 (2) £	Transfer value at 31 December 2004 (2) £	Change in transfer value less Directors' contributions £	Change in accrued benefit in excess of inflation £	Transfer value of change in accrued benefit net of Directors' contributions £	Accumulated total accrued pension at 30 December 2005 £
Mike McCollum	1,536	74,179	62,095	(1,377)	1,175	5,243	14,897
Jim Wilkinson	1,462	96,143	77,388	3,405	1,213	11,917	10,686

(1) Throughout 2005 the above Directors were members of the Dignity Pension and Assurance Scheme, which is a defined benefit and tax approved scheme to which both the Director and the Company contribute.

(2) Pension accruals shown are the amounts that would be paid annually on retirement based on service at the end of the current year.

(3) Transfer values have been calculated in accordance with Guidance Note GN11 issued by the Faculty and Institute of Actuaries. The transfers represent the actuarial liability of the pension plan and not the sum paid or due to an individual.

Report on Directors' Remuneration
for the 52 week period ended 30 December 2005 continued

Pension contribution

	Contribution 2005 £'000	Contribution 2004 £'000
Peter Hindley	175	36

Long Term Incentive Plan

The Long Term Incentive Plan was approved by members on 31 March 2004.

Granted in 2005:

	2005			
	Value of shares conditionally awarded during the period (4)	Value of shares conditionally awarded during the year as a percentage of salary (3)	Number of shares conditionally awarded during the period	Date of the end of the holding period when shares may be exercised
Peter Hindley	321,875	125%	94,669	After 13 April 2008
Mike McCollum	231,875	125%	68,198	After 13 April 2008
Andrew Davies	175,000	125%	51,470	After 13 April 2008
Jim Wilkinson	167,500	125%	49,264	After 13 April 2008

Granted in 2004:

	2004			
	Value of shares conditionally awarded during the period (2)	Value of shares conditionally awarded during the year as a percentage of salary (3)	Number of shares conditionally awarded during the period	Date of the end of the holding period when shares may be exercised
Peter Hindley	312,501	125%	135,870	After 8 April 2007
Mike McCollum	225,000	125%	97,826	After 8 April 2007
Andrew Davies	162,500	125%	70,652	After 8 April 2007
Jim Wilkinson	162,500	125%	70,652	After 8 April 2007

(1) Awards under the LTIP will only be released if the Group's comparative TSR performance is equal to or greater than the median level of performance over the holding period at which point 40 per cent of the award will be released, with full vesting occurring for upper quintile performance. Vesting occurs on a straight-line basis between those points.

(2) Value based on the price of the Group's Ordinary Shares on 8 April 2004.

(3) Value as a percentage of salary as at the date the options were granted.

(4) Value based on the price of the Group's Ordinary Shares on 12 April 2005.

Inland Revenue Approved SAYE Share Option Scheme

	Date of grant	Number held at 31 December 2004	Granted	Exercised	Gain on exercise	Exercise date	Number held at 30 December 2005
Mike McCollum	6 May 2004	3,163	Nil	Nil	Nil	31 May 2007	3,163

Save as you earn options have an exercise price of £2.30 per share and must be exercised within six months of the exercise date shown above.

The market price of the Group's shares on 30 December 2005 was £4.553 per share. The high and low share prices in the period were £4.553 and £3.235 respectively.

On behalf of the Board

Bill Forrester
Chairman of the Remuneration Committee

Directors' Statement on Corporate Governance

Introduction

The Board is committed to high standards of corporate governance in order to achieve its objectives and meet the necessary standards of accountability and integrity.

The Combined Code sets out the Principles of Good Corporate Governance and various code provisions. The Board is reporting against the revised Combined Code (the Code) as annexed to the Listing Rules issued by the Financial Services Authority.

The Group has complied with all provisions of the Code during 2005, with the exception of the annual bonus awarded to the Chief Executive, which is pensionable. He is however not a member of the Group pension scheme and maintains his own personal pension scheme. As a consequence there is no impact on the Group pension schemes.

The Board is accountable to the Group's shareholders for good governance and a narrative statement on how the Company has applied the principles of the Code and a statement explaining how the provisions of the Code have been applied and complied with are described below.

Narrative statement

The Code establishes 14 principles of good governance, which are split into four areas as outlined below:

1. The Board

The Group is controlled through the Board of Directors that meets regularly throughout the year. Informal meetings are held between individual Directors as required. The Board has adopted a formal schedule of matters reserved to it. The Board is responsible for:

- Overall management of the Group.
- Strategy.
- Approval of major capital expenditure projects and consideration of significant financial matters.
- Monitoring the exposure to key business risks.
- Reviewing the strategic direction of the Group.
- Setting annual budgets and reviewing progress towards achievement of these budgets.

All Directors are provided with all necessary papers in advance of the meetings to permit them to make informed decisions at those meetings. The Board also considers employee issues and key appointments including the role of Company Secretary.

The Board comprises four Executive Directors and three Non-Executive Directors including the Chairman Richard Connell. The Chief Executive is Peter Hindley and the Finance Director is Mike McCollum. There is a clear division of responsibility between the Non-Executive Chairman and the Chief Executive so as to give no individual unfettered powers of decision. The Chairman is responsible for:

- Ensuring the Board functions in all aspects of its role.
- Facilitating the effective contribution of Non-Executive Directors and ensuring constructive relations between Executive and Non-Executive Directors.
- Setting the agenda so all relevant issues are discussed.
- Ensuring effective communication with stakeholders and acting as the public face of the Group.

The Chief Executive is responsible for:

- Operational management and control of the Group on a day-to-day basis.
- Formulating and proposing strategy to the Board.
- Implementing the strategy and policies adopted by the Board.

There are two further Non-Executive Directors, Bill Forrester and James Newman. James Newman is the appointed Senior Independent Director of the Group. Biographical details, including committee memberships, appear on page 5.

The Board considers that four Executive Directors, supported by an experienced Senior Management team, are sufficient to manage a Company of this size. As the Company was below the FTSE 350 throughout 2005, the Board considers that two independent Non-Executive Directors is sufficient and appropriate for the Group and is specifically permitted under the Code.

Directors' Statement on Corporate Governance
Continued

Narrative statement (continued)
All Directors are able to take independent professional advice on the furtherance of their duties if necessary. They also have access to the advice and services of the Company Secretary and, where it is considered appropriate and necessary, training is made available to Directors. All Directors received training on the duties and responsibilities of being a Director of a listed company prior to listing in April 2004 and have received further such training during 2005. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £30 million.

All Directors, in accordance with the Code, submit themselves for re-election at least once every three years.

The Board has established a Remuneration Committee, an Audit Committee and a Nomination Committee all of which operate within defined terms of reference. The specific terms of reference for all the Committees may be obtained from the Company Secretary at the Registered Office and are also available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. All Committees are provided with sufficient resources to undertake their duties.

Those attending and the frequency of Board and Committee meetings held during the year was as follows:

	Main Board(i)	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	7	3	4	2
Richard Connell	6	3	4	2
Andrew Davies	6	0	0	0
Bill Forrester	6	1	4	1
Peter Hindley	6	3(ii)	2(ii)	2(ii)
Mike McCollum	7	3(ii)	1(ii)	0
James Newman	7	3	4	2
Jim Wilkinson	5	0	0	0

(i) Only full Board meetings have been included in the attendance analysis. Five further meetings were held with a quorum of Directors to approve announcements or documents.

(ii) In attendance by invitation of the respective Committee.

When Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

A process exists whereby the Non-Executive Directors can meet without the Executive Directors being present. Three such meetings were held during 2005. During the year the Board undertook a formal and rigorous evaluation of its own performance and that of its Committees and individual Directors. The Non-Executive Directors led by the Senior Independent Director were responsible for the performance evaluation of the Chairman. The Board was satisfied that its performance and that of its individual Directors and Committees was of the appropriate standard. Full evaluations will be completed again during 2006.

Richard Connell, Bill Forrester and James Newman are independent of management.

The Company Secretary, Richard Portman, attends all the above meetings and is responsible for the preparation and distribution of all agendas, minutes and related Board and Committee papers. He is also responsible for ensuring all Board procedures are followed and for advising the Board on corporate governance matters.

2. Directors' remuneration
The Remuneration Committee, chaired by Bill Forrester, determines and agrees with the Board, within formal terms of reference, the framework and policy of Directors' and Senior Managements' remuneration and its cost to the Group. The Committee measures the performance of the Executive Directors as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination.

The Committee members are the independent Non-Executive Directors and the Chairman. This reflects the requirements of the Code to have a Committee of at least two members. The Chairman is a member of the Committee to provide additional experience and balance given the small number of Non-Executive Directors. The Chief Executive, Peter Hindley, also attends the meetings by invitation of the Committee and on occasion the Finance Director Mike McCollum has also attended by invitation. No Director or Senior Manager is involved in any decisions with regard to their own remuneration.

The Executive Directors recommend the remuneration of Non-Executive Directors and recommendations take into account time commitment and role responsibilities in the fulfillment of those duties. The Non-Executive Directors are not eligible for pensions and do not participate in the Group's bonus or share schemes.

The Committee has considered the remuneration of Senior Management immediately below Board level during the year. It concluded based on that review that their remuneration was commensurate with their various duties and in line with market rates.

3. Accountability and audit

Reporting responsibilities

The Board is required to present a balanced and understandable assessment of the Group's position and prospects, not only in the Directors' Report and Accounts but also in the Chairman's Statement (page 4) and the Operating and Financial Reviews (pages 6 and 14 respectively), in interim reports and in price sensitive announcements. The Group also released its Annual Information Update on 6 April 2006. The Board is satisfied that it has met this obligation. A summary of the Directors' responsibilities for the financial statements is set out on page 16.

Going concern

The Directors regularly receive and review management accounts, cash balances, forecasts and the annual budget. After careful consideration the Directors confirm they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the accounts.

Internal control

The Board recognises it is responsible for the Group's system of internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. A formal process of identifying, evaluating and managing the significant risks faced by the Group exists. This process was in place at the date of approval of the Annual Report and is in accordance with Turnbull guidance within the Code.

The Audit Committee on behalf of the Board, as part of an ongoing process, has formerly reviewed and continues to keep under review the effectiveness of the Group's systems of internal controls, including financial, operational and compliance controls and risk management systems. The Audit Committee reviews risk management annually and receives reports from executive management regarding weaknesses in internal control, any losses arising out of weaknesses in internal control and progress in implementing revised procedures to improve and enhance internal control. There have been no reports of system weaknesses that have resulted or would have resulted in a material misstatement or loss.

The key procedures, which operated throughout the period, are as follows:

- Financial reporting – The Group has a comprehensive system of internal budgeting and forecasting. Monthly actual results analysed by operating division are reported to the Board and significant variances to budget are investigated with revised forecasts prepared as necessary. Operational management receives comprehensive management accounts covering their areas of responsibility.
- Financial controls – The Executive Directors have defined appropriate and necessary financial controls and procedures to be employed by operational management. Key controls over major business risks include reviews against budgets and forecasts, review against key performance indicators and exception reporting.
- Quality and integrity of personnel – One of the Group's core values is integrity; this is regarded as vital to the maintenance of the Group's system of internal financial control. The Directors have put in place an organisation structure appropriate to the size and complexity of the Group with defined lines of responsibility and delegation of authority where the Board considers it necessary.
- Internal audit – The Group has a dedicated Internal Audit team, which reports to the Chief Executive. It coordinates the completion of self-assessment reports by operational management that assists in highlighting areas of control weakness or exposure. Internal audit reviews will be completed on such areas together with selected areas of the head office function and any area where an Executive Director has requested a review. The Head of Internal Audit reports to the Audit Committee on a regular basis.
- Procedures – The Group has established and documented processes and procedures covering most parts of its operations both client facing and in support departments. These provide clear guidance on the correct or most appropriate course of action in various circumstances. Both Internal Audit and a comprehensive management structure monitor the adherence to such processes and procedures.
- Risk assessment – Management has responsibility for the identification and evaluation of significant risks that might arise in their area of responsibility together with the design of suitable internal controls. Management on a continual basis assesses the risks. A Risk Register is maintained which is formerly presented to and reviewed by the Audit Committee twice a year.

Internal controls are formally reviewed on an ongoing basis. Internal Audit completes a programme of work each year that provides assurance that internal controls are working effectively and proposes improvements where appropriate and necessary. Coupled with this, the twice-annual review of the Risk Register provides a further formal review mechanism for considering and reviewing internal controls. All such work is reported to and monitored by the Audit Committee.

Directors' Statement on Corporate Governance
Continued

Narrative statement (continued)
Audit Committee
The Audit Committee comprises the two Non-Executive Directors and the Chairman. James Newman who is a Fellow of the Institute of Chartered Accountants in England and Wales chairs it. He is considered to have the relevant financial experience to chair this Committee. Its membership is restricted to Non-Executive Directors. The Committee has specific written terms of reference that explain its authority and duties. The Committee has met three times during 2005 and again in March 2006. The external auditors, the Chief Executive and the Finance Director have attended all the meetings by invitation. The external auditors also have the right to discrete private audiences with the Audit Committee if either party requires or requests them.

The Committee reviews the Group's Annual Report and Interim Report before submission to the Board. It keeps under review the Group's accounting policies, financial controls and internal control and risk management systems. It also evaluates, on a regular basis, the work of the internal audit function and reviews its effectiveness. The Committee also reviews matters brought to its attention both internally and by the external auditors. The Committee reports all findings to the Board.

The Committee also monitored and reviewed management actions and progress on such actions instituted by the Group to address the introduction of International Financial Reporting Standards during 2005.

A process exists by which employees of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. However given the more rigorous requirements of the Code, the Group, through the Audit Committee, established a more formal process during 2005. This ensures arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow-up action.

The Committee also keeps under review the relationship with the external auditors, including their terms of engagement, independence, objectivity and effectiveness. The Committee reviews the remuneration received by the external auditors for non-audit work, which ongoing principally relates to taxation advice. Where considered necessary the Committee approves such work. The external auditors have confirmed their audit independence in writing to the Committee. The Committee also retains responsibility for the appointment and removal of the external auditors.

Nomination Committee
Richard Connell chairs the Nomination Committee, which has met twice this year. The other members of the Committee are James Newman and Bill Forrester, the Non-Executive Directors.

The Committee regularly reviews and makes recommendations to the Board on the structure, size and composition of the Board and the Senior Management team. It is also responsible for identifying and nominating for the approval of the Board, replacement or additional Directors and members of the Senior Management team. Succession planning was formally considered by the Committee during 2005. The Committee concluded that appropriate succession planning exists within the Group.

4. Relations with members
The Group encourages two-way communication with both its institutional and private members and responds promptly to any queries received either verbally or in writing.

The Chief Executive and Finance Director have regular meetings with institutional investors, fund managers and analysts to discuss information made public by the Group. Where appropriate or if requested, such meetings could include either or both of the Chairman and the Senior Independent Director without any Executive Directors present. Further the Group has and will arrange visits to their facilities, if requested by a member, where it will not disrupt normal operational activity.

Each year every member will receive a full Annual Report and Accounts and an Interim Report at the half year. The Group has a separate investor relations website www.dignityfuneralsplc.co.uk upon which users can access the latest financial and corporate news and information.

The Board regards the Annual General Meeting as an opportunity to communicate directly with all members. At least 20 working days notice has been given of the Annual General Meeting at which all Directors and Committee Chairmen will be present and available to answer questions.

Independent Auditors' Report to the Members of Dignity plc

We have audited the Group and parent Company financial statements (the 'financial statements') of Dignity plc for the period ended 30 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent Company financial statements and the Directors' Remuneration Report 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 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). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 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 financial statements and the part of the Directors' Remuneration Report to be audited.

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 30 December 2005 and of its profit and cash flows for the period 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 parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 30 December 2005; and
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
18 April 2006

Consolidated Income Statement

for the 52 week period ended 30 December 2005

	Note	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Revenue	3	**143.2**	135.7
Cost of sales		**(70.0)**	(68.0)
Gross profit		**73.2**	67.7
Trading expenses		**(32.8)**	(29.7)
Other operating income		**1.2**	1.2
Operating profit	3	**41.6**	39.2
Interest payable before exceptional charges	4	**(17.0)**	(22.6)
Exceptional interest payable on redemption of debt	4	**–**	(10.1)
Total interest payable and similar charges	4	**(17.0)**	(32.7)
Interest receivable and similar income	4	**1.9**	1.5
Profit before tax	5	**26.5**	8.0
Taxation	6	**(8.2)**	(2.5)
Profit for the period		**18.3**	5.5
Profit attributable to minority interest		**–**	–
Profit attributable to equity shareholders		**18.3**	5.5
		18.3	5.5
Earnings per share attributable to equity shareholders (pence)			
– Basic and diluted	8	**22.9p**	8.5p

The results have been derived wholly from continuing activities throughout the period.

Consolidated Statement of Recognised Income and Expense

for the 52 week period ended 30 December 2005

	Note	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Profit for the period		**18.3**	5.5
Actuarial gains/(losses) on retirement benefit obligations	29	**1.8**	(0.7)
Deferred tax on the above	29	**(0.5)**	0.2
Net income/(expense) not recognised in income statement		**1.3**	(0.5)
Total recognised income for the period		**19.6**	5.0
Attributable to:			
Minority interest		**–**	–
Equity shareholders of the parent		**19.6**	5.0

Consolidated Balance Sheet
as at 30 December 2005

	Note	30 December 2005 £m	31 December 2004 £m
Non-current assets			
Goodwill	9	**109.1**	107.8
Intangible assets	9	**9.0**	5.2
Property, plant & equipment	10	**86.3**	84.0
Financial assets	11	**5.5**	5.4
		209.9	202.4
Current assets			
Inventories	13	**3.3**	3.4
Trade and other receivables	14	**22.3**	19.7
Assets held for sale		**0.2**	0.8
Cash and cash equivalents	See (a) below	**37.3**	24.9
		63.1	48.8
Current liabilities			
Financial liabilities	17	**(2.2)**	(2.0)
Trade and other payables	16	**(21.9)**	(17.6)
Current tax liabilities		**(2.4)**	(0.1)
Provisions	19	**(1.0)**	(1.0)
		(27.5)	(20.7)
Net current assets		**35.6**	28.1
Non-current liabilities			
Financial liabilities	17	**(191.9)**	(193.9)
Deferred tax liabilities	20	**(5.2)**	(1.6)
Retirement benefit obligation	29	**(12.0)**	(13.8)
Other non-current liabilities	16	**(2.9)**	(2.7)
Provisions	19	**(2.1)**	(2.3)
		(214.1)	(214.3)
Net assets		**31.4**	16.2
Shareholders' equity			
Ordinary shares	22	**5.6**	5.6
Share premium account	24	**111.6**	111.6
Other reserves	24	**(10.4)**	(12.5)
Retained earnings	24	**(74.2)**	(87.3)
Total shareholders' equity		**32.6**	17.4
Minority interest in equity	24	**(1.2)**	(1.2)
Total equity		**31.4**	16.2

(a) Certain cash balances are subject to restrictions. See note 15.

The financial statements on pages 28 to 65 were approved by the Board of Directors on 18 April 2006, and were signed on its behalf by:

Peter Hindley

P T Hindley
Chief Executive

M K McCollum
Finance Director

Consolidated Cash Flow Statement

for the 52 week period ended 30 December 2005

	Note	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Cash flows from operating activities			
Cash generated from operations	25	**49.5**	44.2
Interest received		**1.8**	1.6
Interest paid		**(15.6)**	(39.4)
Tax paid		**(2.5)**	(0.1)
Net cash from operating activities		**33.2**	6.3
Cash flows from investing activities			
Acquisition of subsidiaries and businesses	26	**(6.7)**	(5.3)
Proceeds from sale of property, plant & equipment		**1.2**	2.3
Purchase of property, plant & equipment		**(7.6)**	(8.5)
Transfers from restricted bank accounts	15	**–**	18.3
Net cash (used in)/from investing activities		**(13.1)**	6.8
Cash flows from financing activities			
Net proceeds from issue of Ordinary Share capital		**–**	115.2
Finance lease principal repayments		**–**	–
Repayment of borrowings		**(2.5)**	(125.5)
Dividends paid to shareholders	7	**(5.2)**	(1.5)
Net cash used in financing activities		**(7.7)**	(11.8)
Net increase in cash and cash equivalents		**12.4**	1.3
Cash and cash equivalents at the beginning of the period		**23.7**	22.4
Cash and cash equivalents at the end of the period	15	**36.1**	23.7

Notes to the Financial Statements

for the 52 week period ended 30 December 2005

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

Historically, the Group prepared its consolidated financial statements under UK Generally Accepted Accounting Practice ('UK GAAP'). European law requires that the Group's financial statements for the 52 week period ended 30 December 2005 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRS'), as endorsed by the European Union. These financial statements have been prepared in accordance with IFRS and IFRIC interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The disclosures required by IFRS 1, *First-time adoption of IFRS* concerning the transition from UK GAAP to IFRS are provided in note 35. These financial statements are the first financial statements to be prepared in accordance with IFRS and the date of transition to IFRS is 27 December 2003.

Preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. This will also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from those estimates.

Basis of consolidation

The financial statements are presented in the form of Group financial statements. The Group financial statements consolidate the accounts of the Company and the entities controlled by the Company (including all of its subsidiary entities) after eliminating internal transactions and recognising any minority interests in those entities. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain economic benefits from its activities.

Pre-arranged funeral plan trusts

The three pre-arranged funeral plan Trusts were not consolidated during the period as they were not controlled by the Group. Specifically, Article 60 of the Financial Services and Markets Act 2000 (Regulated Activities) order 2001 requires a majority of the managing trustees to be independent of the Group.

Furthermore, the Group did not direct their financial and operating policies, nor did it have substantially all of the risks and rewards of their ownership.

Acquisition or disposal of subsidiary undertakings

Results of subsidiary undertakings acquired during the period are included in Group profit from the effective date of control using the acquisition method of accounting. The separable net assets, both tangible and intangible, of newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value to the Group as at the effective date of control.

Revenue

Revenue from funeral operations comprises the amount recoverable from customers for the provision of funerals, income from crematoria and other services, to the extent that those services have been performed or the goods supplied.

Income from memorial sales is recognised at the point of sale, to the extent that the goods have been supplied. Costs of maintaining memorials are recognised as incurred.

The accounting policies for recognising turnover for pre-arranged funeral plans are stated below.

All amounts are exclusive of Value Added Tax.

The Group pays certain disbursements such as crematoria fees, burial plots, ministers' fees and doctors' fees on behalf of its clients. These amounts are recovered as part of the invoicing process. However, these amounts are not included within net revenues as they generally do not provide a margin for the Group.

The Group views the UK as one geographical segment, given each local business exhibits similar long term characteristics.

Pre-arranged funeral plans

The Group markets and sells pre-arranged funeral plans, monies received from selling funeral plans being held and controlled by independent pre-arranged funeral plan trusts ('the Trusts'). The responsibility for the ultimate performance of funerals is allocated to funeral directors, who are selected by the beneficiary of the plan and some of whom are not owned by the Group.

Notes to the Financial Statements

for the 52 week period ended 30 December 2005 continued

1 Accounting policies (continued)

The Group receives monies from the Trusts in respect of the following transactions:

- A marketing and administration fee in respect of each plan sold. The marketing element is refundable in the event that the plan is subsequently cancelled. A provision is made for cancellations, where material, to cover the estimated marketing element refundable to the Trusts. Marketing and administration fees are included in Group revenue when the related plan is sold.
- Further contributions are also received from the Trusts in return for the provision of general on-going administrative services supplied to the Trusts. These contributions are included in Group revenue for the period to which they relate.

All costs in respect of the marketing and administration of the pre-arranged funeral plans are expensed in the Group income statement as incurred.

From time to time, the Group receives monies from certain of the Trusts, in line with the relevant Trust's deed, which have been assessed by the trustees as not required to ensure the Trust has sufficient assets to meet its future liabilities in respect of current members ('Recoveries'). All Recoveries are recognised as other operating income in the period in which the trustees approve their payment.

The Group makes payments on behalf of the Trusts relating to the ongoing overheads of the Trusts, refunds to members of the Trusts in event of cancellation, and the payments made to funeral directors when the funeral is ultimately performed. All such payments are reimbursed in full by the Trusts on demand, in accordance with the terms of the relevant Trust's deed.

Neither the sales value of plans nor the costs of providing funerals are recognised in the financial statements of the Group when a pre-arranged funeral plan is sold.

Each Dignity marketing company contractually guarantees with the customer of a pre-arranged funeral plan that (i) if the customer chooses to cancel their selected funeral plan, a full refund will be made to the customer of all monies paid in respect thereof (less in certain cases an administration fee payable to the relevant Dignity marketing company); (ii) the funeral director's services (as selected by the customer) will be provided regardless of price rises in the future; and (iii) for certain plans sold, specific disbursements will be provided regardless of price rises in the future.

Insurance plans

Sun Life

The Group is the named beneficiary on a number of life assurance products sold by Sun Life Assurance Society plc ('Sun Life'). Marketing of these policies has now ceased.

In the event of death of the policyholder, the Group makes an agreed payment to the nominated funeral director and a debtor is recognised. At this time a commission fee is recognised as turnover. All monies are reclaimed in full from Sun Life.

AXA Sun Life PLC

The Group is the named beneficiary on a number of life assurance products sold by AXA Sun Life PLC ('AXA').

A commission is paid when the policy is charged to the Group. As this commission is fully refundable if the Group does not perform the funeral for any reason, it is carried as a debtor and expensed when the funeral is performed.

Share-based payments

The Group issues equity settled share based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. Management measures the fair value using the valuation technique that they consider to be the most appropriate to value each class of award, which include Black-Scholes calculations and Monte Carlo simulations. The valuations take into account factors such as non-transferability, exercise restrictions and behavioural considerations.

An expense is recognised to spread the fair value of each award over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognised immediately.

Earnings per Ordinary Share

Basic Earnings per Ordinary Share (EPS) is calculated by dividing the profit on ordinary activities after taxation and minority interests by the weighted average number of shares in issue during the year. Diluted EPS is calculated by dividing profit on ordinary activities after taxation and minority interests by the weighted average number of shares in issue during the year increased by the effects of all dilutive potential ordinary shares (primarily share options).

Intangible assets – goodwill

Goodwill, which represents the excess of the fair value of the consideration for subsidiaries and other businesses over the fair values of the net assets acquired and liabilities assumed, is capitalised and stated at historical cost less provisions for impairment.

1 Accounting policies (continued)

Goodwill is allocated to cash generating units for the purpose of impairment testing. The business and subsidiaries acquired are generally combined with existing operations in the year of acquisition. For this reason, the cash-generating units typically consist of those business segments, which are engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Intangible assets – trade names

Intangible trade names are recognised as assets at the fair value of the consideration paid to acquire them and are carried at historical cost less provisions for amortisation and impairment. When acquired as part of a business combination the fair value is calculated by reference to the estimated incremental cash flows expected to arise by virtue of the trade name being well-established.

Amortisation is provided from the date of acquisition so as to write-off the asset on a straight-line basis over the term of its useful life. Where there are indicators that a trade name has an indefinite life then these assets are not amortised but are subject to regular impairment reviews. The factors that indicate an indefinite life of trade names acquired include the fact that the Group is a significant operator in a well-established market with inelastic demand, the conservative nature of the UK funeral industry that acts as a barrier to entry for new trade names, and the Group's track record for actively monitoring and relocating trade names to combat shifting demographics. In addition, when allocating a useful life to acquired trade names, the following matters are considered:

- The strength of the trade name in its local environment which is assessed by reference to relative market share and anticipated profitability;
- The likelihood that market based factors could truncate a trade name's life such as competition and shifting demographics and the Group's ability to combat these;
- The length of time, prior to acquisition, for which trade has been conducted under the name acquired;
- The likely support the Group will give to the name in its local environment through marketing and promotion, raising and maintaining community awareness etc;

The useful lives of all capitalised trade names are reviewed on a regular basis.

Intangible assets – software

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software.

An internally generated intangible asset arising from the Group's development of computer systems (including web-sites) is recognised if and only if the costs are directly associated with the production of identifiable and unique software products, controlled by the Group and it is probable that future economic benefits will flow to the Group. All other costs incurred in research or development are expensed as incurred. Capitalised costs will include, where appropriate, directly attributable payroll costs and a portion of direct overheads. Costs recognised as assets are amortised over their estimated useful lives (three to eight years).

Intangible assets – non-compete contracts

Non-compete contracts arising from business combinations are capitalised at the fair value, which is calculated as the present value of any consideration paid discounted at the Group's cost of capital.

All costs are amortised over the term of the relevant agreement on a straight-line basis.

Property, plant & equipment

Assets are recorded in the balance sheet at cost less accumulated depreciation and any recognised impairment loss. Cost includes, where appropriate, directly attributable costs incurred in bringing each asset to its present location and condition.

Depreciation is charged (excluding freehold land and assets in the course of construction) so as to write off the cost of assets to their residual value, over their expected useful lives using the straight-line method. The bases and annual depreciation rates in use for the various classes of assets are as follows:

Freehold and long leasehold buildings	2% - 10%
Short leasehold buildings	Over term of lease
Motor vehicles	11% - 20%
Computers	20%
Other plant and equipment	5% - 33%
Fixtures and fittings	15%

Freehold land is not depreciated on the basis that land has an unlimited life. Where the historical cost of land and buildings cannot be split, the Directors have estimated that the historical cost attributable to land is one third of the original cost of acquiring the land and buildings. This estimate is regularly reviewed.

Notes to the Financial Statements

for the 52 week period ended 30 December 2005 continued

1 Accounting policies (continued)

Major renovations of the Group's trading premises and crematory re-linings are depreciated over the remaining life of the related asset or to the estimated date of the next major renovation or cremator re-lining, whichever is sooner.

Changes in estimates

During the period, the Directors have reassessed the estimated useful life of major renovations on its trading premises resulting in an additional depreciation charge of £0.6 million in the period.

The Directors have also reassessed the residual values attributed to the Group's motor vehicles resulting in a reduction in the depreciation charge of £1.0 million in the period.

Repairs and renewals

All repairs and renewals are charged to the income statement unless they represent an enhancement to the original asset.

Property, plant & equipment held under leases

When assets are financed by leasing agreements, where the risks and rewards are substantially transferred to the Group, the assets are treated as if they had been purchased outright and the corresponding liability to the lessor is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement so as to achieve a constant rate on the outstanding lease obligation.

All other leases are 'operating leases' and the relevant annual rentals are charged wholly to the income statement.

Impairment of assets

The carrying values of intangible assets and property, plant and equipment are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that have an indefinite useful life (e.g. Goodwill) are not subject to amortisation and are tested annually for impairment.

Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future discounted cash flows of the cash-generating unit are estimated, based on latest budgets for the following year and an annual growth rate of UK GDP in subsequent years. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular segment and compared to the carrying value of the relevant asset. Any impairment in the value of an asset below its carrying value is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from classification and the asset is available for immediate sale in its present condition.

Inventories

Inventories, which comprise funeral supplies and monumental masonry, are stated at the lower of cost and fair value less costs to sell. Cost includes all directly attributable costs incurred in bringing each product to its present location and condition. Fair value less costs to sell is based on estimated selling price less any further costs expected to be incurred in completion and sale.

Taxation

The tax charge for the period includes the charge for tax currently payable and deferred taxation. The current tax charge represents the estimated amount due that arises from the operations of the Group in the period and after making adjustments to estimates in respect of prior years.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised where the carrying value of an asset is greater than its associated tax basis or where the carrying value of a liability is less than its associated tax basis. Deferred tax is provided for any differences that exist between the tax base and accounting base of intangibles arising from a business combination that does not involve the acquisition of a subsidiary.

1 Accounting policies (continued)

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the deductible temporary difference can be utilised.

The Group is able to control the timing of dividends from its subsidiaries and hence does not expect to remit overseas earnings in the foreseeable future in a way that would result in a charge to taxable profit. Hence, deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted, by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions

The cost of defined contribution retirement schemes is charged as an expense as the costs become payable. Any difference between the payments and the charge is recognised as a short term asset or liability.

For defined benefit retirement schemes, the cost of providing the benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date.

Past service cost is recognised immediately to the extent the benefits are vested, and otherwise are amortised on a straight line basis over the average period until the benefits become vested. The current service cost and the recognised element of any past service cost are presented within operating profit. The expected return on plan assets less the interest arising on the pension liabilities is presented within net interest payable. Actuarial gains and losses are recognised in full in the period in which they occur, outside of the income statement and presented in the consolidated statement of recognised income and expense.

The expected return on plan assets reflects the estimate made by management of the long term yields that will arise from the specific assets held within the pension plan. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and the fair value of any relevant scheme assets. The discount rate applied in arriving at the present value represents yields on high quality corporate bonds in a similar economic environment with lives similar to the maturity of the pension liabilities.

Provisions

Provisions are recognised when the Company or the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

Provisions (other than deferred tax) are discounted where the present value of the provision is materially different to the undiscounted value. The unwinding of discounts is included within net interest payable and similar charges.

Dividends

Dividends payable are only recognised when they are appropriately approved and no longer at the discretion of the Directors.

Financial instruments

Borrowings

All borrowings are stated at the fair value of consideration received after deduction of transaction costs. The transaction costs and interest payable on debt finance are charged to the income statement, as finance costs, on a constant-yield basis over the term of the borrowings, or over a shorter period where it is more likely than not that the lender will require earlier repayment using the effective interest method.

Early termination costs on borrowings

Premiums and discounts arising on the early repayment of borrowings are written-off to the income statement as incurred.

Interest rate swaps

The Group currently uses several types of financial instruments as part of an overall interest rate risk management strategy. It does not enter into financial instruments for trading purposes. Interest rate risk associated with net debt is managed by using a combination of fixed and floating rate borrowings and financial derivatives such as interest rate swaps. The cash flows from, and losses arising on terminations of, these contracts are recognised as cash flows from operating activities. The Group's interest rate swaps are accounted for as onerous contracts. See note 17(d) for further information.

Notes to the Financial Statements
for the 52 week period ended 30 December 2005 continued

1 Accounting policies (continued)

Financial instruments
Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct transaction costs. Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the financial statements when paid.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits.

2 Financial risk management

The Group finances its operations by a mixture of shareholders' funds, secured notes, bank borrowings, intercompany loans and loan notes as required. The Group manages its funding requirements by the careful selection of appropriate financing methods. This approach seeks to minimise financing costs.

The Group uses derivatives to generate the appropriate balance between fixed and floating interest rates. It is not the Group policy to actively trade in derivatives.

Foreign currency
Assets and liabilities denominated in foreign currencies are translated into Sterling at the closing rate and the exchange differences are included in the income statement. Foreign currency transactions recognised in the income statement are translated into Sterling at the exchange rate on the date the transaction took place.

Interest rate risk
The Group's aim is to minimise the effects of interest rate fluctuations, however the Group does not have a definitive stance on the balance between fixed and floating rate debt.

Liquidity risk
The Group's objective is to maintain a balance between certainty of funding and a flexible, cost-effective borrowings structure, and consequently seeks facilities that have, for the most part, a maturity of five years or longer.

Currency risk
All the Group's financial assets and liabilities are denominated in Sterling.

Credit risk
The Group uses well-established financial institutions with high credit ratings.

3 Revenue and segmental analysis

As described in the Operating and Financial Review, the Group is organised into three main business segments: Funeral services, Crematoria and Pre-arranged funeral plans.

Funeral services represent the sale of funerals and memorials at the time of need.

Crematoria represent the performance of cremations at the time of need, together with the sale of memorials at the time of need and in advance.

Pre-arranged funeral plans represent the revenue from the sale of funerals in advance to customers wishing to make their own funeral arrangements, and the marketing and administration costs associated with making such sales.

Substantially all Group revenue is derived from, and substantially all of the Group's net assets are located in, the United Kingdom and Channel Islands. Overseas transactions are not material.

3 Revenue and segmental analysis (continued)

The segment revenue and segment result were as follows:

52 week period ended 30 December 2005	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Revenue	113.8	22.5	6.9	–	143.2
Segment result	37.1	11.9	2.1	(9.5)	41.6
Interest payable and similar charges					(17.0)
Interest receivable and similar income					1.9
Profit before tax					26.5
Taxation					(8.2)
Profit for the period					18.3
Attributable to:					
Minority interest					–
Equity shareholders of the parent					18.3

The segment assets and liabilities were as follows:

As at 30 December 2005	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Segment assets	165.8	56.0	8.6	2.2	232.6
Unallocated assets:					
Financial assets – loans & receivables					1.2
Accrued fees on secured notes issue					1.9
Cash and cash equivalents					37.3
Total assets					273.0
Segment liabilities	(26.4)	(3.5)	(2.2)	(6.7)	(38.8)
Unallocated liabilities:					
Borrowings					(193.3)
Accrued fees on secured notes issue					(1.9)
Corporation tax					(2.4)
Deferred tax					(5.2)
Total liabilities					(241.6)
Other segment items:					
Capital expenditure (including acquisitions)	14.5	0.6	–	0.4	15.5
Depreciation	5.1	1.2	–	0.3	6.6
Amortisation	–	–	–	0.6	0.6
Impairment of trade receivables	1.0	(0.1)	–	–	0.9
Other non cash expenses	0.2	–	–	0.3	0.5

Notes to the Financial Statements
for the 52 week period ended 30 December 2005 continued

3 Revenue and segmental analysis (continued)

53 week period ended 31 December 2004	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Revenue	108.8	21.6	5.3	–	135.7
Segment result	33.9	11.8	2.5	(9.0)	39.2
Interest payable and similar charges					(32.7)
Interest receivable and similar income					1.5
Profit before tax					8.0
Taxation					(2.5)
Profit for the period					5.5
Attributable to:					
Minority interest					–
Equity shareholders of the parent					5.5

The segment assets and liabilities were as follows:

As at 31 December 2004	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Segment assets	157.5	57.0	8.0	2.6	225.1
Unallocated assets:					
Financial assets – loans & receivables					1.2
Cash and cash equivalents					24.9
Total assets					251.2
Segment liabilities	(28.3)	(3.7)	(1.7)	(4.6)	(38.3)
Unallocated liabilities:					
Borrowings					(195.0)
Corporation tax					(0.1)
Deferred tax					(1.6)
Total liabilities					(235.0)
Other segment items:					
Capital expenditure (including acquisitions)	11.9	2.6	–	0.5	15.0
Depreciation	5.5	0.9	–	0.2	6.6
Amortisation	–	–	–	0.5	0.5
Impairment of trade receivables	1.1	0.2	–	–	1.3
Other non-cash expenses	0.5	–	–	0.1	0.6

4 Net interest payable and similar charges

	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Interest payable and similar charges		
Class A and B secured notes	**14.8**	15.1
Mezzanine Loan	**–**	2.1
Loan Notes	**–**	2.6
Amortisation of issue costs	**0.9**	1.6
Other loans	**0.1**	0.1
Interest payable on finance leases	**0.1**	0.1
Net finance expense on retirement obligations	**0.4**	0.3
Unwinding of discounts	**0.7**	0.7
Interest payable and similar charges before exceptional items	**17.0**	22.6
Exceptional interest payable and similar charges		
Premium on early redemption of Mezzanine Loan	**–**	4.0
Write-off of deferred debt transaction costs	**–**	6.1
Exceptional interest payable and similar charges	**–**	10.1
Total interest payable and similar charges	**17.0**	32.7
Interest receivable and similar income		
Bank deposits	**(1.7)**	(1.3)
Debenture loan	**(0.2)**	(0.2)
Total interest receivable and similar income	**(1.9)**	(1.5)
Net interest payable and similar charges	**15.1**	31.2

Following flotation of the Company on 8 April 2004, the Group redeemed the £40.0 million Mezzanine Loan and £57.0 million of the £63.0 million principal of the Loan Notes 2013, incurring an early redemption penalty of £4.0 million and writing-off £6.1 million of deferred transaction costs. The remaining £6.0 million principal of the Loan Notes 2013 were redeemed on 30 July 2004.

5 Profit before taxation

	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
The following items have been included in arriving at profit before taxation.		
Staff costs (note 28)	**50.8**	48.7
Inventories		
– cost of inventories recognised as an expense (included in cost of sales)	**11.0**	10.9
– Written down to net realisable value (note 13)	**(0.1)**	(0.1)
Depreciation of property, plant & equipment:		
– Owned assets (note 10)	**6.6**	6.6
Amortisation of intangible assets (included in trading expenses) (note 9)	**0.6**	0.5
Profit on disposal of property, plant and equipment	**(0.6)**	(1.2)
Operating lease rentals:		
– Property	**4.1**	4.1
Recoveries (included within other operating income)	**1.2**	1.2
Trade receivables impairment	**0.9**	1.3
Services provided by the Group's auditor		
– Audit fees and expenses	**0.3**	0.2
– Other services to the Group	**0.1**	0.1

Notes to the Financial Statements

for the 52 week period ended 30 December 2005 continued

5 Profit before taxation (continued)

Services provided by the Group's auditor

Included in the Group audit fees and expenses paid to the Group's auditor, £25,000 (2004: £25,000) was paid in respect of the Company.

During 2004, the Group paid the auditor £1.2 million in connection with the issue of the Company's shares on the London Stock Exchange. These costs have been charged to the share premium account.

Other services to Group principally relate to tax compliance and consulting.

6 Taxation

Analysis of charge in the period

	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Current tax – current period	**4.9**	0.2
Adjustment for prior period	**(0.1)**	–
	4.8	0.2
Deferred tax – current period	**3.9**	2.3
Adjustment for prior period	**(0.5)**	–
	3.4	2.3
Taxation	**8.2**	2.5

All tax relates to continuing operations.

Tax on items charged to equity

	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Deferred tax charge/(credit) on actuarial gains and losses on retirement benefit obligations	**0.5**	(0.2)
Deferred tax credit on employee share options	**(0.3)**	(0.1)

Total tax charge

Total current tax charge	**4.8**	0.2
Total deferred tax charge	**3.6**	2.0

The taxation charge in the period is higher (2004: higher) than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Profit before taxation	**26.5**	8.0
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	**8.0**	2.4
Effects of:		
Adjustments in respect of prior period	**(0.6)**	–
Expenses not deductible for tax purposes	**0.8**	0.1
Total taxation	**8.2**	2.5

Under IFRS the tax rate is higher (2004: higher) than the standard UK tax rate of 30 per cent due to the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for corporation tax purposes.

7 Dividends

	52 week period ended 30 December 2005 £m	53 week period ended 31 December 2004 £m
Final dividend in respect of the 53 week period ended 31 December 2004: 3.75p per ordinary 7p share (2003: £nil)	**3.0**	–
Interim dividend paid: 2.75p (2004: 1.875p) per ordinary 7p share	**2.2**	1.5
Total dividends recognised in the period	**5.2**	1.5

8 Earnings per share

The calculation of basic earnings per Ordinary Share has been based on the profit for the relevant period.

For diluted earnings per Ordinary Share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares.

The Group has two classes of potentially dilutive Ordinary Shares being those share options granted to employees under the Group's SAYE scheme and the contingently issueable shares under the Group's LTIP schemes.

At the balance sheet date, the performance criteria for the vesting of the awards under the LTIP schemes had not been met and these contingently issueable shares have been excluded from the diluted EPS calculations.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below.

	Earnings £m	Weighted average number of shares millions	Per share amount pence
52 week period ended 30 December 2005 Profit attributable to shareholders – Basic and diluted EPS	**18.3**	**80.0**	**22.9**
53 week period ended 31 December 2004 Profit attributable to shareholders – Basic and diluted EPS	5.5	65.0	8.5

The potential issue of new shares pursuant to the Group's share option plans in the period would affect the earnings per share by less than 0.1 pence per share if exercised.

Notes to the Financial Statements
for the 52 week period ended 30 December 2005 continued

9 Intangible assets

	Trade names	Software £m	Non-compete agreements	Sub-total £m	Goodwill £m	Total £m
Cost						
At 27 December 2003	–	4.1	–	4.1	106.7	110.8
Additions	–	0.1	–	0.1	–	0.1
Acquisition of subsidiaries and other businesses (note 26(b))	3.5	–	0.1	3.6	1.1	4.7
At 31 December 2004	3.5	4.2	0.1	7.8	107.8	115.6
Additions	–	0.1	–	0.1	–	0.1
Disposals	–	(0.2)	–	(0.2)	–	(0.2)
Acquisition of subsidiaries and other businesses (note 26(a))	4.3	–	0.1	4.4	1.3	5.7
At 30 December 2005	**7.8**	**4.1**	**0.2**	**12.1**	**109.1**	**121.2**
Accumulated amortisation						
At 27 December 2003	–	(2.1)	–	(2.1)	–	(2.1)
Amortisation charge	–	(0.5)	–	(0.5)	–	(0.5)
At 31 December 2004	–	(2.6)	–	(2.6)	–	(2.6)
Amortisation charge	–	(0.6)	–	(0.6)	–	(0.6)
Disposals	–	0.1	–	0.1	–	0.1
At 30 December 2005	**–**	**(3.1)**	**–**	**(3.1)**	**–**	**(3.1)**
Net book amount at 30 December 2005	**7.8**	**1.0**	**0.2**	**9.0**	**109.1**	**118.1**
Net book amount at 31 December 2004	3.5	1.6	0.1	5.2	107.8	113.0
Net book amount at 27 December 2003	–	2.0	–	2.0	106.7	108.7

Impairment tests for goodwill and other intangible assets
As described in note 1, goodwill and other intangible assets with an indefinite life are subject to annual impairment tests in accordance with IAS 36, *Impairment of assets.*

For the purpose of impairment testing, the goodwill and other intangibles are allocated to the Group's cash generating units ('CGUs') according to business segment. The segmental allocation is shown below:

As at 30 December 2005	Intangible assets £m	Goodwill £m	Total £m
Funeral services	**8.0**	**76.3**	**84.3**
Crematoria	**–**	**28.1**	**28.1**
Pre-arranged funeral plans	**–**	**4.7**	**4.7**
Head office	**1.0**	**–**	**1.0**
	9.0	**109.1**	**118.1**
As at 31 December 2004			
Funeral services	3.6	75.0	78.6
Crematoria	–	28.1	28.1
Pre-arranged funeral plans	–	4.7	4.7
Head office	1.6	–	1.6
	5.2	107.8	113.0

The recoverable amount of a CGU is based on a value-in-use calculation. However, the assets allocated to head office are tested for impairment by reference to the Group as a whole.

The value-in-use calculations use cash flow projections based on the latest annual budgets approved by management. Key assumptions used to produce the annual budget are the estimated UK death rates (based on historical death rates supplied by ONS), anticipated market share (based on actual experience) and anticipated price increases. Cash flows beyond the initial 12 month period are extrapolated using the historic UK GDP growth rate. The cash flows are discounted at pre-tax rate of 9.2 per cent (2004: 8.8 per cent). Given the stability and predictability of the industry, cash flows for the following 20 years have been taken into account.

On the basis of the above, the review indicated that no impairment arose in any segment (2004: £nil).

10 Property, plant & equipment

	Freehold land & buildings £m	Leasehold buildings £m	Plant, machinery, fixtures & fittings £m	Motor vehicles £m	Total £m
Cost					
At 27 December 2003	46.5	12.7	15.5	18.7	93.4
Additions	0.1	2.0	1.4	6.1	9.6
Acquisition of subsidiaries and other businesses (note 26(b))	0.5	–	–	0.4	0.9
Disposals	(0.3)	(0.2)	–	(0.6)	(1.1)
Reclassification	2.0	0.4	(2.4)	–	–
At 31 December 2004	48.8	14.9	14.5	24.6	102.8
Additions	1.1	–	5.1	2.2	8.4
Acquisition of subsidiaries and other businesses (note 26(a))	0.6	0.1	0.2	0.2	1.1
Disposals	(0.1)	(0.1)	(2.4)	(1.2)	(3.8)
Reclassification	0.4	0.4	(3.6)	2.8	–
At 30 December 2005	**50.8**	**15.3**	**13.8**	**28.6**	**108.5**
Accumulated depreciation					
At 27 December 2003	(1.4)	(1.5)	(4.3)	(5.0)	(12.2)
Depreciation charge	(1.1)	(0.5)	(1.8)	(3.2)	(6.6)
At 31 December 2004	(2.5)	(2.0)	(6.1)	(8.2)	(18.8)
Depreciation charge	(0.9)	(1.2)	(1.8)	(2.7)	(6.6)
Disposals	–	0.1	2.1	1.0	3.2
At 30 December 2005	**(3.4)**	**(3.1)**	**(5.8)**	**(9.9)**	**(22.2)**
Net book amount at 30 December 2005	**47.4**	**12.2**	**8.0**	**18.7**	**86.3**
Net book amount at 31 December 2004	46.3	12.9	8.4	16.4	84.0
Net book amount at 27 December 2003	45.1	11.2	11.2	13.7	81.2

Depreciation expense of £2.7 million (2004: £3.2 million) is included within cost of sales and the balance is included within trading expenses.

Assets held under finance leases, which relate solely to leasehold land and buildings, have the following net book amount:

	30 December 2005	31 December 2004
Cost	**1.1**	1.1
Accumulated amortisation	**(0.4)**	(0.4)
Net book amount	**0.7**	0.7

The Group had capital expenditure authorised by the Board and contracted for at the balance sheet date of £0.5 million (2004: £3.9 million).

11 Non-current financial assets

	Note	**30 December 2005 £m**	31 December 2004 £m
Debenture loan	(a)	**1.0**	1.0
Prepayments	(b)	**3.5**	3.5
Deferred commissions	(c)	**0.6**	0.4
Other receivables		**0.4**	0.5
		5.5	5.4

Notes to the Financial Statements

for the 52 week period ended 30 December 2005 continued

11 Non-current financial assets (continued)

(a) Debenture loan

The Group's investment represents a £1,000,000 debenture loan in Kenyon Christopher Henley Limited ('KCH'), a company incorporated in the United Kingdom.

The debenture loan to KCH is secured on the assets of that business, earns interest at 15 per cent per annum and is repayable in 2022.

(b) Prepayments

This balance represents the amounts paid to acquire the long leasehold interest in land at certain of the Group's properties. Management consider that leases greater than fifty years at inception are long leases. The balance is expensed on a straight-line basis over the term of the relevant lease. The leases expire at various times over the next thirty to nine hundred years.

(c) Deferred commissions

The Group is the named beneficiary on a number of life assurance products sold by AXA Sun Life PLC ('AXA').

A commission is paid when the policy is charged to the Group. As this commission is fully refundable if the Group does not perform the funeral for any reason, it is carried as a debtor and expensed when the funeral is performed.

All non-current financial assets are valued at fair value.

12. Investments

The trading entities included within the financial information are:

	Activity	Number of shares at 30 December 2005	Percentage held
Dignity Services	Intermediate holding company	203,746,505 Ordinary at £1 each	100%
Dignity Funerals Limited	Funeral services	577,376,905 Ordinary at 10p each	100%
Pitcher & Le Quesne Limited	Funeral directors	100 Ordinary at £1 each	99%
Dignity Pre-Arrangement Limited	Pre-arranged funeral plans	5,001,001 Ordinary at £1 each	100%
Dignity Securities Limited	Pre-arranged funeral plans	19,801 Ordinary at £1 each	100%
		750,000 Redeemable Preference Shares at £1 each	100%
Advance Planning Limited	Pre-arranged funeral plans	7,500 "A" Ordinary at £1 each	100%
		2,500 "B" Ordinary at £1 each	Nil
		6,946,291 0.0000001 pence Redeemable Preference Shares at £1 each	100%
Phillips Funeral Plans	Pre-arranged funeral plans	5,000 Ordinary at £1 each	100%
Dignity Finance PLC	Finance company	50,000 Ordinary at £1 each	100% (see below)
Birkbeck Securities Limited	Intermediate holding company	1,102,271 Ordinary at £1 each	100%
Dignity Finance Holdings Limited	Intermediate holding company	50,000 Ordinary at £1 each	100%
Dignity Holdings No. 2 Limited	Intermediate holding company	2,000,000 Ordinary at £1 each	100%
Dignity Mezzco Limited	Intermediate holding company	1,000 Ordinary at £1 each	100%
Dignity Holdings Limited	Intermediate holding company	1,500,000 Ordinary at £1 each	100%
Dignity (2002) Limited	Intermediate holding company	2 Ordinary at £1 each	100%
Dignity (2004) Limited	Intermediate holding company	1,000 Ordinary at £1 each	100%

All of the subsidiaries are incorporated in the United Kingdom except for Pitcher & Le Quesne Limited which is incorporated in Jersey and effectively 100 per cent controlled. All of the above shareholdings are held indirectly, with the exception of Dignity (2004) Limited. At the balance sheet date, M K McCollum, a Director of the Company holds (as nominee for Dignity Finance Holdings Limited) one Ordinary £1 Share in Dignity Finance PLC.

13 Inventories

	30 December 2005 £m	31 December 2004 £m
Materials	**0.8**	0.7
Finished goods	**2.5**	2.7
	3.3	3.4

The cost of inventories recognised within cost of sales amounted to £11.0 million (2004: £10.9 million).

Finished goods of £1.3 million (2004: £1.3 million) are carried at fair value less costs to sell. During the period £0.1 million (2004: £0.1 million) was credited in relation to inventory write-downs within cost of sales.

14 Trade and other receivables

	30 December 2005 £m	31 December 2004 £m
Trade receivables	**17.4**	17.0
Less: provision for impairment	**(3.3)**	(3.0)
Net trade receivables	**14.1**	14.0
Receivables due from related parties (note 32)	**2.8**	2.5
Prepayments and accrued income	**3.0**	2.8
Other receivables	**2.4**	0.4
	22.3	19.7

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful recoverables.

Due to the short term nature of these balances, the carrying value is considered to be their fair value.

15 Cash and cash equivalents

	Note	30 December 2005 £m	31 December 2004 £m
Cash and cash equivalents		**37.3**	24.9
Represented by:			
Operating cash		**24.6**	12.4
Cash for acquisitions	(a)	**4.9**	7.2
Amounts set aside for intercompany loan	(b)	**7.8**	5.3
		37.3	24.9

(a) Under the terms of the Group's secured borrowings, this amount is required to be retained in a separate bank account. This bank account may, in normal circumstances, only be used for acquiring tangible fixed assets and businesses (either trade and assets or share purchases). Included in this amount is £1.2 million (2004: £1.2 million) relating to Recoveries (see note 1), which may not be used for one year following receipt and hence does not meet the definition of cash and cash equivalents in IAS 7, Cash Flow Statements.

(b) This amount (save for circumstances where the Directors believe there may be a risk of defaulting on the secured notes) may only be used in paying the interest and principal due on a loan between Dignity (2002) Limited and Dignity Mezzco Limited, both of whom are wholly owned subsidiaries of the Company.

Movements in the amounts described in note (a) as Recoveries have been treated as 'transfers from/(to) restricted bank accounts' in the cash flow statement and are reported within 'Cash flows from investing activities' as they do not meet the definition of cash and cash equivalents in IAS 7.

Movements in the amounts described in note (b) have been treated as cash equivalents in the cash flow statement as they will become available for the Group's use once the intercompany payment has been made on 31 January.

Notes to the Financial Statements
for the 52 week period ended 30 December 2005 continued

16 Trade and other payables

Current	30 December 2005 £m	31 December 2004 £m
Trade payables	**7.0**	6.2
Tax and social security	**1.6**	1.4
Other current liabilities	**0.4**	0.3
Accruals and deferred income	**12.9**	9.7
	21.9	17.6

Non-current		
Deferred income	**1.5**	1.3
Deferred consideration for acquisitions	**0.4**	0.4
Long service awards	**0.9**	0.9
Other non-current liabilities	**0.1**	0.1
	2.9	2.7

17 Financial liabilities

Current	Note	30 December 2005 £m	31 December 2004 £m
Class A secured notes	(a)	**1.9**	1.7
Floating rate unsecured Loan Notes 2006	(b)	**0.1**	0.1
Finance lease obligations	(c)	**–**	–
Other current financial liabilities	(d)	**0.2**	0.2
		2.2	2.0

Non-current			
Class A and B secured notes	(a)	**184.7**	186.5
Finance lease obligations	(c)	**0.8**	0.9
Other non-current financial liabilities	(d)	**6.4**	6.5
		191.9	193.9

(a) Class A and B secured notes
On 11 April 2003, Dignity Finance PLC issued £110,000,000 Class A secured notes (the 'A notes') and £100,000,000 Class B secured notes (the 'B notes').

The A notes carry interest at 6.31 per cent, payable half yearly in arrears. The A notes are repayable in instalments ending in December 2023. The transaction costs incurred on issue of the A notes totalled £9.8 million. The B notes carry interest at 8.151 per cent, payable half yearly in arrears. The B notes are repayable in instalments ending in December 2030. The transaction costs incurred on issue of the B notes totalled £8.9 million.

In order to show the Group's net borrowing, the notes and the transaction costs have been offset.

Both the A notes and the B notes are secured by first ranking security in respect of the undertakings and assets of Dignity (2002) Limited and its subsidiaries.

At 30 December 2005, £102.6 million (2004: £105.3 million) of the principal of the A notes and £100.0 million (2004: £100.0 million) of the principal of the B notes was outstanding.

At 30 December 2005, £8.4 million (2004: £8.9 million) and £7.6 million (2004: £8.2 million) of the transaction costs in respect of the A notes and the B notes respectively remain unamortised.

(b) Floating rate unsecured Loan Notes 2006
£1 par value Loan Notes to the value of £371,950 were issued on 30 August 1995 as part consideration for the purchase of a funeral business. The notes are unlisted and unsecured. Interest is payable in arrears on 31 January, 30 April, 31 July and 30 October each year. The rate payable is one per cent below the offered rate for six-month Sterling deposits of £1.0 million with a minimum level of six per cent per annum. Repayment of the Loan Notes may be made on any date by the holder giving not less than thirty days notice in writing. Any notes not previously repaid or repurchased will be repayable in full at par on 31 October 2006, together with accrued interest. At 30 December 2005, £0.1 million (2004: £0.1 million) of the Loan Notes were in issue.

17 Financial liabilities (continued)

(c) Obligations under finance leases

	30 December 2005 £m	31 December 2004 £m
Obligations under finance leases and hire purchase payable:		
Within one year	–	–
Between one and two years	–	–
Between two and five years	0.2	0.2
After five years	0.6	0.7
	0.8	0.9

The finance leases and hire purchase liabilities are secured on the related assets.

(d) Other financial liabilities

On 20 December 2002, Dignity (2002) Limited entered into contracts to swap the floating rate interest on a bank loan into fixed rate. Contractually, these swaps were not effective until 30 April 2003.

On 11 April 2003, as described above, the Group issued secured notes at a fixed rate of interest. These notes replaced the bank loan. Consequently, the swaps were no longer required as the Group had no interest rate risk on the secured notes. As result, the Group entered into further contracts on 11 April 2003 to swap fixed rate interest into floating in order to offset the original swaps and eliminate any interest rate risk in this regard.

As a result of interest rate movements between these two dates, the combined effect of all the contracts was that the Group makes fixed and determinable bi-annual payments on a notional principal amount.

These swap agreements are subject to a common master agreement which allows for the setting of the net amount under the swap agreement, which is undertaken in practice.

Accordingly, the overall transaction represents a derivative financial liability, which has been fair valued at the balance sheet date. The fair value represents the discounted net present value of future cash flows. Further, as these contracts related to the raising of the secured notes, the contract has been accounted for as a transaction cost of the Class A and B secured notes and is being amortised in accordance with IAS 39.

18 Obligations under finance leases and operating leases

For minimum lease payments obligations under finance leases refer to note 21(c)(ii).

	30 December 2005 £m	31 December 2004 £m
The minimum lease payments under non-cancellable operating leases fall due as follows:		
Not later than one year	4.5	4.5
Later than one year but not more than five	11.9	12.8
More than five years	29.4	33.3
	45.8	50.6

The non-cancellable operating leases principally relate to leasehold land and buildings.

The total operating lease payments charged to trading expenses were £4.9 million (2004: £4.6 million) and includes £0.1 million (2004: £0.1 million) in respect of contingent rentals. The contingent rentals are based on the revenues generated at the specific locations.

Notes to the Financial Statements
for the 52 week period ended 30 December 2005 continued

19 Provisions

	Dilapidations £m (a)	Asbestos rectification £m (b)	Onerous contracts £m (c)	Cancellation provision £m (d)	Total £m
At beginning of period	1.1	0.3	1.4	0.5	3.3
Charged to income statement	0.4	–	–	0.3	0.7
Utilised in year	(0.1)	–	(0.4)	–	(0.5)
Amortisation of discount	0.1	–	0.1	–	0.2
Released to income statement	(0.2)	–	(0.2)	(0.2)	(0.6)
At end of period	**1.3**	**0.3**	**0.9**	**0.6**	**3.1**

Provisions have been analysed between current and non-current as follows:

	30 December 2005 £m	31 December 2004 £m
Current	**1.0**	1.0
Non-current	**2.1**	2.3
	3.1	3.3

(a) Dilapidations
The provision for dilapidations covers the costs of repair to leased premises occupied by the Group against which a dilapidations notification has been received, and properties where a dilapidation obligation exists but for which no notification has been received.

It is anticipated that the element of provision relating to dilapidation notices served (£0.6 million) (2004: £0.4 million) will be incurred in the following financial year, and the element relating to dilapidation obligations where no notice has been served will be utilised over the terms of the relevant properly leases, the majority of which is expected to be by 31 December 2014.

(b) Asbestos rectification
In May 2004, the Control of Asbestos at Work regulations came into effect. This introduces an explicit duty to manage asbestos in all non-domestic properties. Those who have responsibility for the maintenance and/or repair of the premises are similarly responsible for the control of asbestos. Therefore, where the Group has entered into leases with a 'tenant-repairing' clause it is also responsible for the control of asbestos.

The provision comprises the expected rectification costs of properties not yet surveyed for asbestos plus the estimated costs of surveying the relevant properties. It is anticipated that the provision will be utilised over the next three years.

(c) Onerous contracts
The Group has provided for the discounted future costs of certain contracts to which the Group is legally bound. These contracts relate to vacant leasehold properties and other contracts from which no economic benefit is derived. The provision will be utilised over the term of the contracts and it is anticipated that it will be fully utilised after nine years.

Included within the provision is an amount of £0.1 million (2004: £0.1 million) relating to the expected costs of ongoing rent reviews, the outcomes of which have been based on recent experience of similar reviews on other properties.

(d) Cancellation provision
As described in note 1, the Group receives monies from certain pre-arranged funeral plan trusts in respect of the marketing of pre-arranged funeral plans, which are refundable to the trust in the event of cancellation.

The provision covers the expected cost of such cancellations anticipated to occur in future years relating to plans sold before the balance sheet date and is anticipated to be utilised over the next five years.

20 Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2004: 30%).

The movement on the deferred tax account is as shown below:

	2005 £m	2004 £m
At beginning of period	1.6	(0.6)
Arising on acquisition	–	0.2
Taken to equity	0.2	(0.3)
Charge to income statement	3.4	2.3
At end of period	5.2	1.6

Deferred tax liabilities

	Accelerated tax depreciation £m	Other £m	Total £m
At 1 January 2005	6.6	0.5	7.1
Charged to income statement	2.2	0.2	2.4
At 30 December 2005	8.8	0.7	9.5

Deferred tax assets

	Provisions £m	Tax losses £m	Pensions £m	Other £m	Total £m
At 1 January 2005	(0.1)	(1.1)	(4.2)	(0.1)	(5.5)
Charged to income statement	–	1.0	–	–	1.0
Pensions taken to equity	–	–	0.5	–	0.5
Stock options taken to equity	–	–	–	(0.3)	(0.3)
At 30 December 2005	(0.1)	(0.1)	(3.7)	(0.4)	(4.3)

Net deferred tax liability	
At 30 December 2005	5.2
At 31 December 2004	1.6

No deferred tax asset is recognised in respect of losses within the Group amounting to £4.4 million net (2004: £4.4 million net). Based on the current debt structure of the Group and the nature of these losses, the Directors do not consider that taxable profits will arise in the relevant company from which the future reversal of the underlying timing differences can be deducted.

Elements of these deferred tax balances may be recoverable within one year. However, the Directors consider that it is not possible to quantify the amount because of a significant level of uncertainty in the timing of events and have therefore classified the whole balance as due after more than one year.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below.

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 30 December 2005 was £5.2 million (2004: £1.6 million).

The deferred tax liability due after more than one year was £5.2 million (2004: £1.6 million).

The deferred income tax credited/(charged) to equity during the period was as follows:

	2005 £m	2004 £m
Deferred tax charge/(credit) on actuarial gains and losses on retirement benefit obligations	0.5	(0.2)
Deferred tax credit on employee share options	(0.3)	(0.1)

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21 Financial instruments

Fair values of derivatives financial instruments
The Group has interest rate swaps with a net fair value of £6.6 million (2004: £ 6.7 million). These swaps are described further in note 17(d).

Fair values of non-derivative financial assets and financial liabilities
Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The carrying values of short term borrowings approximate to book value.

(a) Fair value of non-current borrowings

	30 December 2005		31 December 2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Long term borrowings	**(191.9)**	**(256.0)**	(193.9)	(249.7)
Fair values of other financial assets and financial liabilities Primary financial instruments held or issued to finance the Group's operations:				
Short term borrowings (note 17)	**(2.2)**	**(2.5)**	(2.0)	(2.2)
Trade and other payables (note 16)	**(21.9)**	**(21.9)**	(17.6)	(17.6)
Trade and other receivables (note 14)	**22.3**	**22.3**	19.7	19.7
Cash at bank and in hand (note 15)	**37.3**	**37.3**	24.9	24.9
Other non-current liabilities (note 16)	**(2.9)**	**(2.9)**	(2.7)	(2.7)

(b) Maturity of financial liabilities

	30 December 2005				31 December 2004			
	Debt £m	Finance leases £m	Other financial liabilities £m	Total £m	Debt £m	Finance leases £m	Other financial liabilities £m	Total £m
In more than one year but not more than two years	**1.9**	**–**	**0.3**	**2.2**	1.7	–	0.3	2.0
In more than two years but not more than five years	**10.1**	**0.2**	**1.1**	**11.4**	9.1	0.2	1.0	10.3
In more than five years	**174.6**	**0.6**	**5.3**	**180.5**	177.4	0.7	5.5	183.6
	186.6	**0.8**	**6.7**	**194.1**	188.2	0.9	6.8	195.9

(c) Borrowing facilities
(i) The Group has the following undrawn committed borrowing facilities available at 30 December in respect of which all conditions precedent had been met at that date:

	30 December 2005				31 December 2004
	Floating rate £m	Fixed rate £m	No Interest £m	Total £m	Total £m
Expiring within one year	**30.0**	**–**	**–**	**30.0**	30.0
Expiring between one and two years	**–**	**–**	**–**	**–**	–
Expiring in more than two years	**5.0**	**–**	**–**	**5.0**	5.0
	35.0	**–**	**–**	**35.0**	35.0

The facilities expiring within one year are annual facilities subject to review in 2006. All these facilities incur commitment fees at market rates.

(ii) The minimum lease payments under finance leases fall due as follows:

	30 December 2005 £m	31 December 2004 £m
Not later than one year	**0.1**	0.1
Later than one year but not more than five years	**0.3**	0.3
More than five years	**3.0**	3.1
	3.4	3.5
Future finance charges on finance leases	**(2.6)**	(2.6)
Present value on finance lease liabilities	**0.8**	0.9

22 Called up share capital

	2005 £m	2004 £m
Authorised Equity shares		
100,000,000 Ordinary Shares of £0.07 each	**7.0**	7.0

Allotted, called up and fully paid Equity shares		
80,000,260 (2004: 80,000,000) Ordinary Shares of £0.07 each	**5.6**	5.6

Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company under an approved Save As You Earn Scheme started in 2004. In addition, Executive Directors hold options to subscribe for shares in the company under long term incentive plans (LTIP) awarded in 2004 and 2005.

The number of shares subject to options (excluding lapses), the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price (pence)	Exercise period	2005 Number	2004 Number
2004 – SAYE	230.00	31 May 2007 to 30 November 2007	717,139	763,413
2004 – LTIP	–	8 April 2007 to 8 April 2008	375,000	375,000
2005 – LTIP	–	13 April 2008 to 13 April 2009	263,601	n/a

23 Share based payments

LTIP Schemes

The LTIP Scheme was introduced after the flotation of the Group in 2004. Under the LTIP Scheme, the remuneration committee can grant options over shares in the Company to employees of the Group. Awards under the LTIP Scheme are generally reserved for Executive Directors. The Company has made annual grants since April 2004. Options granted under the LTIP Scheme will become exercisable on the third anniversary of the date of grant, subject to the conditions described on page 19. Exercise of an option is subject to continued employment.

Options were valued using the Monte-Carlo option pricing model. Performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	13 April 2005	8 April 2004
Share price at grant date	**£3.40**	£2.30
Exercise price	**–**	–
Number of employees	**4**	4
Shares under option	**263,601**	375,000
Vesting period (years)	**3**	3
Expected volatility	**42%**	37.6%
Option life (years)	**1**	1
Expected life (years)	**Immediate**	Immediate
Risk free rate	**4.5%**	4.5%
Expected dividends expressed as a dividend yield	**3.3%**	3.2%
Possibility of ceasing employment before vesting	**0%**	0%
Fair value per option	**£1.94**	£1.34

Notes to the Financial Statements
for the 52 week period ended 30 December 2005 continued

23 Share based payments (continued)

The expected volatility is calculated by reference to the estimated volatility of the members on the Comparator Group. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

No options were exercised, forfeited or lapsed during the period.

SAYE Scheme

The Inland Revenue approved SAYE Scheme was introduced on 31 May 2004. Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	31 May 2004
Share price at grant date	£2.30
Exercise price	£2.30
Number of employees	807
Shares under option	799,807
Vesting period (years)	3.25
Expected volatility	47.6
Option life (years)	4
Expected life (years)	Immediate
Risk free rate	5.1%
Expected dividends expressed as a dividend yield	4.1%
Possibility of ceasing employment before vesting	9%
Fair value per option	£0.79

44,357 (2004: 36,394) were forfeited during the period and 1,917 (2004: none) were exercised during the period.

24 Statement of changes in shareholders' equity

	Share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m	Minority interest £m	Total equity £m
Shareholders' equity as at 26 December 2003	2.0	–	(12.3)	(91.3)	(101.6)	(1.2)	**(102.8)**
Share issue	3.6	111.6	–	–	115.2	–	**115.2**
Profit for the 53 weeks ended 31 December 2004	–	–	–	5.5	5.5	–	**5.5**
Actuarial gains and losses on defined benefit plans (net of deferred tax)	–	–	(0.5)	–	(0.5)	–	**(0.5)**
Effects of employee share options (net of deferred tax)	–	–	0.3	–	0.3	–	**0.3**
Dividends	–	–	–	(1.5)	(1.5)	–	**(1.5)**
Shareholders' equity as at 1 January 2005	5.6	111.6	(12.5)	(87.3)	17.4	(1.2)	**16.2**
Profit for the 52 weeks ended 30 December 2005	**–**	**–**	**–**	**18.3**	**18.3**	**–**	**18.3**
Actuarial gains and losses on defined benefit plans (net of deferred tax)	**–**	**–**	**1.3**	**–**	**1.3**	**–**	**1.3**
Effects of employee share options (net of deferred tax)	**–**	**–**	**0.8**	**–**	**0.8**	**–**	**0.8**
Dividends	**–**	**–**	**–**	**(5.2)**	**(5.2)**	**–**	**(5.2)**
Shareholders' equity as at 30 December 2005	**5.6**	**111.6**	**(10.4)**	**(74.2)**	**32.6**	**(1.2)**	**31.4**

Included within other reserves is the merger accounting consolidation difference of £12.3 million, which arose on 20 December 2002 as part of the Group reconstruction effected at that time.

25 Cash flows from operating activities

	2005 £m	2004 £m
Net profit for the period	**18.3**	5.5
Adjustments for:		
Taxation	**8.2**	2.5
Net interest payable	**15.1**	31.2
Profit on disposal of fixed assets	**(0.6)**	(1.2)
Depreciation charges	**6.6**	6.6
Amortisation of intangibles	**0.6**	0.5
Changes in working capital (excluding acquisitions)	**0.8**	(1.1)
Employee share options	**0.5**	0.2
Cash generated from operations	**49.5**	44.2

26 Acquisition and disposals

(a) Acquisition of subsidiary and other businesses – 2005

	Carrying values pre acquisition £m	Provisional fair value £m
Tangible fixed assets	**0.9**	**1.1**
Intangible assets:		
Trade names	**–**	**4.3**
Non compete agreement	**–**	**0.1**
Cash acquired	**0.5**	**0.5**
Other working capital	**(0.7)**	**(0.2)**
Net assets acquired	**0.7**	**5.8**
Goodwill arising		**1.3**
		7.1
Satisfied by:		
Cash paid on completion		**7.0**
Deferred consideration		**0.1**
Total consideration		**7.1**

During 2005, the Group acquired the trade and assets of one funeral business and the entire issued share capital of three funeral businesses. These have been accounted for under the acquisition method.

The businesses acquired have their assets and liabilities amalgamated within the existing business structure and as such, it is impractical to determine, without undue expense and delay due to the immaterial size of each, the post acquisition results.

It is also not possible to quantify the results of these businesses prior to acquisition as it represents confidential information relating to the vendors, which the Directors do not have authority to disclose.

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

The fair value adjustments contain some provisional amounts which will be finalised in 2006.

Notes to the Financial Statements

for the 52 week period ended 30 December 2005 continued

26 Acquisition and disposals (continued)

(b) Acquisition of businesses – 2004

	Carrying values pre acquisition £m	Fair value £m
Tangible fixed assets	1.1	0.9
Intangible assets:		
Trade names	–	3.5
Non compete agreement	–	0.1
Other working capital	(0.1)	(0.2)
Net assets acquired	1.0	4.3
Goodwill arising		1.1
		5.4
Satisfied by:		
Cash paid on completion		5.3
Deferred consideration		0.1
Total consideration		5.4

During 2004, the Group acquired the trade and assets of five funeral businesses. The fair value of the assets acquired and liabilities assumed were provisional at 31 December 2004. These amounts were finalised during 2005, and did not result in any change to the provisional fair values.

The businesses acquired have their assets and liabilities amalgamated within the existing business structure and as such, it is impractical to determine, without undue expense and delay due to the immaterial size of each, the post acquisition results.

It is also not possible to quantify the results of these businesses prior to acquisition as it represents confidential information relating to the vendors, which the Directors do not have authority to disclose.

27 Major non-cash transactions

Non-cash charges comprise amortisation of deferred debt issue costs.

28 Employees and Directors

Employees	2005 £m	2004 £m
Wages and salaries	**45.4**	43.0
Social security costs	**3.9**	3.7
Other pension costs (note 29)	**1.5**	2.0
	50.8	48.7

The monthly average number of people (including Directors) employed by the Group during the period was as follows:

	2005 Number	2004 Number
Management and administration	**119**	116
Funeral services staff	**1,899**	1,879
Crematoria staff	**222**	222
Pre-arranged funeral plan staff	**30**	27
	2,270	2,244

Directors' emoluments

Details of Directors' emoluments are disclosed in the Report of the Remuneration Committee on pages 18 to 22.

29 Pension commitments

Defined contribution plans
The Group contributes to certain individuals' personal pension schemes. These contributions are accounted for as defined contributions.

The pension costs for defined contribution schemes are as follows:

	2005 £m	2004 £m
Defined contribution schemes	**0.1**	0.1

Defined benefit plans
The Group operated two defined benefit plans in the UK. A full actuarial valuation was carried out in respect of both plans at 6 April 2005 for the Dignity Pension and Assurance Scheme and at 6 April 2005 for the Dignity 1972 Pension Scheme. Both valuation results were updated to 30 December 2005 by a qualified independent actuary.

The employer contribution rate paid to the Dignity Pension & Assurance Scheme for the period was 10.5% (2004: 10.5%).

The employer contribution rate paid to the Dignity 1972 Pension Scheme for the period was 15.8% (2004: 15.8%).

For closed plans such as the Dignity 1972 Pension Scheme and those in which the age profile of the active membership is rising significantly, under the projected unit method, the current service cost will increase as a proportion of the payroll cost as the members of the plan approach retirement.

The pension schemes were merged on 6 April 2006.

The principal assumptions used by the actuary were:

Assumptions	2005	2004
Discount rate	**4.8%**	5.3%
Rate of increase in salaries	**3.25%**	3.25%
Rate of increase in payment of pre April 1997 excess over GMP pensions – Dignity Pension & Assurance Scheme members	**0%**	0%
Rate of increase in payment of pre April 1997 excess over GMP pensions – Dignity 1972 Pension Scheme members	**0%**	0%
Rate of increase in payment of post April 1997 pensions	**2.75%**	2.75%
Rate of increase in payment of post April 2005 pensionable service	**2.25%**	n/a
Price inflation assumption	**2.75%**	2.75%

The underlying mortality assumptions are PA92, scaled to 2006 for current pensioners and PA92, scaled to 2020 for deferred pensioners and active members.

Pensions and other post-retirement obligations
The amounts recognised in the balance sheet are determined as follows:

	2005 £m	2004 £m
Present value of funded obligations	**57.8**	52.9
Fair value of plan assets	**(45.8)**	(39.1)
Net liability recognised in the balance sheet	**12.0**	13.8

Analysis of amount charged to income statement in respect of defined benefit schemes

	2005 £m	2004 £m
Current service cost	**1.0**	1.6
Interest cost	**2.8**	2.5
Expected return on plan assets	**(2.4)**	(2.2)
Past service cost	**–**	–
Total included within staff costs (note 28)	**1.4**	1.9

Of the total charge £1.0 million (2004: £1.6 million) and £0.4 million (2004: £0.3 million) were included, respectively, in cost of sales and finance expenses.

Notes to the Financial Statements
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29 Pension commitments (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2005 £m	2004 £m
Present value of obligation at beginning of period	**52.9**	46.6
Service cost	**1.0**	1.6
Interest cost	**2.8**	2.5
Benefits paid	**(1.9)**	(1.9)
Contributions by participants	**0.9**	1.3
Actuarial losses/(gains)	**2.1**	2.8
Present value of obligation at end of period	**57.8**	52.9

Changes in the fair value of plan assets are as follows:

	2005 £m	2004 £m
Fair value of plan assets at beginning of period	**(39.1)**	(33.9)
Expected return on plan assets	**(2.4)**	(2.2)
Contributions by Group	**(1.4)**	(1.5)
Contributions by participants	**(0.9)**	(1.3)
Benefits paid	**1.9**	1.9
Actuarial (gains)/losses	**(3.9)**	(2.1)
Fair value of plan assets at end of period	**(45.8)**	(39.1)

Analysis of the movement in the balance sheet liability

	2005 £m	2004 £m
At beginning of period	**13.8**	12.7
Total expense as above	**1.4**	1.9
Actuarial (gains)/losses	**(1.8)**	0.7
Contributions by Group	**(1.4)**	(1.5)
At end of period	**12.0**	13.8

Cumulative actuarial gains and losses recognised in equity

	2005 £m	2004 £m
At beginning of period	**0.7**	–
Net Actuarial (gains)/losses recognised in the period	**(1.8)**	0.7
At end of period	**(1.1)**	0.7

The actual return on plan assets was £6.3 million (2004: £4.3 million).

History of experience gains and losses

	2005 £m	2004 £m
Experience adjustments arising on scheme assets:		
Amount	**(3.9)**	(2.1)
Percentage of schemes' assets	**8.5%**	5.4%
Experience adjustments arising on scheme liabilities:		
Amount	**0.5**	0.1
Percentage of the present value of the schemes' liabilities	**0.9%**	0.2%
Present value of scheme liabilities	**(57.8)**	(52.9)
Fair value of scheme assets	**45.8**	39.1
Deficit	**(12.0)**	(13.8)

30 Other commitments

Dignity Pre-Arrangement Limited, Dignity Securities Limited and Advance Planning Limited are fellow members of the Dignity Group in the United Kingdom. These companies have sold pre-arranged funeral plans to their clients in the past. All monies from these sales are held and controlled by three independent Trusts, being the National Funeral Trust, the Dignity Limited Trust Fund and the Trust for Age Concern Funeral Plans respectively. Full details of the transactions can be found in the annual reports of these companies, which are available from Plantsbrook House, 94 The Parade, Sutton Coldfield, West Midlands, B72 1PH.

The Group has given commitments to certain of these clients to perform their funeral. The cost of the performance of these funerals will be paid out of the funds held in the Trusts.

It is the view of the Directors that none of these commitments are onerous to the Group.

31 Contingent liabilities

On 11 April 2003, the Group refinanced its debt by way of a whole business securitisation. As a result, the following guarantees and charges were granted to JP Morgan Corporate Trustee Services Limited in its capacity as Security Trustee in the securitisation:

- Dignity (2002) Limited and its wholly owned subsidiaries ('Dignity (2002) Group') have granted the Security Trustee fixed and floating charges over the assets and undertakings of the Dignity (2002) Group;
- Dignity Holdings No. 2 Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings Limited;
- Dignity Holdings Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which its holds in Dignity Mezzco Limited.
- Dignity Holdings Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loans (both interest and non interest bearing) to Dignity Mezzco Limited.
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2002) Limited.
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right and interest in the loan to Dignity (2002) Limited.

At 30 December 2005, the amount outstanding in relation to these borrowings was £202.6 million (2004: £205.3 million).

In the opinion of the Directors no liability is likely to crystallise in respect of these guarantees.

32 Related party transactions

Pre-arrangement trusts

During the period the Group entered into transactions with the Trusts associated with the pre-arranged funeral plan businesses. The nature of the relationship with the Trusts is set out in the accounting polices. Transactions represent:

- Expenses paid by the Group on behalf of the respective Trusts;
- Transfers of funds in relation to payments in respect of deaths and cancellations of existing members;
- The recovery of marketing and administration expenses in relation to plans sold net of cancellations; and
- The payment of realised surpluses generated by the Trust funds as and when the trustees sanction such payments.

Related party transactions are summarised below:

	Transactions during the period		Amounts due to the Group at the period end	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Dignity Limited Trust Fund	**0.4**	0.8	**–**	–
National Funeral Trust	**12.4**	11.9	**1.3**	1.4
Trust for Age Concern Funeral Plans	**11.4**	9.3	**1.5**	1.1

Age Concern

During the period, the Group paid commissions to Age Concern Enterprises Limited totalling £3.8 million (2004: £2.4 million). Age Concern Enterprises Limited owns 25 per cent of the issued share capital of Advance Planning Limited.

33 Post balance sheet events

Subsequent to the year-end, on 20 February 2006 the Group issued £45.55 million Class A Secured 6.310% Notes due 2023 and £32.50 million Class B Secured 8.151% Notes due 2031. To ensure that the new Class A Notes issued were fungible with those already in issue Notes with a nominal value of £45.55 million were issued. This, however, after deemed repayments equates to a nominal value outstanding at the date of issue of £42.5 million. The Notes were issued at a premium and raised a total of £86 million after fees and expenses.

The issue of new Notes will increase the annual interest expense by approximately £5 million per annum.

The Group proposes to return £80 million (£1 per share) to shareholders in early August 2006 through the creation, issue and redemption of Class B shares. Following the return of value, the listed Ordinary Shares will be consolidated to maintain the consistency of financial record. These proposals will be formally tabled at an Extraordinary General Meeting of the Company planned for 8 June 2006. Restrictions within the terms of the A and B Secured Notes means that the return of value to shareholders cannot be made before August 2006.

It is expected that the Group will use the remaining £6 million raised, together with some existing cash resources to largely eliminate the Group's IAS 19 pension deficit of £12 million by paying £10 million into the Group's two pension schemes.

The Group acquired one funeral home location subsequent to the period end.

Notes to the Financial Statements

for the 52 week period ended 30 December 2005 continued

34 Reconciliation of net assets and profit under UK GAAP to IFRS

Dignity plc reported under UK GAAP in its previously published financial statements for the period ended 31 December 2004. The analysis below shows a reconciliation of net assets, cash flow and profit as reported under UK GAAP as at 31 December 2004 to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for this company, being 27 December 2003.

35 Transition to IFRS

First-time adoption

IFRS 1, First-time adoption of International Financial Reporting Standards sets out the requirements for first-time adoption of IFRS. Generally, IFRS 1 requires that accounting policies be adopted that are compliant with all applicable IFRS (including IASs and related interpretations) as at the date the first full financial statements are presented, being 30 December 2005 for the Group. Furthermore, those accounting policies should be applied retrospectively to all comparative periods presented. However, IFRS 1 affords a first-time adopter a number of optional and mandatory exemptions from full retrospective application of the adopted accounting policies in preparing the balance sheet at the transition date and where applicable, the comparative information.

Specifically, the Directors have not revised any estimates required under IFRS that were also required under UK GAAP as at 27 December 2003 and 31 December 2004. In addition, where IFRS requires the use of estimates that were not required under UK GAAP, they have been based on information available at that time and not on subsequent events.

Certain of the exemptions allowed in IFRS 1 do not affect the reported financial performance or position of the Group. Insofar as they affect the Group, the Directors have elected to apply the following permitted exemptions:

• Business combinations before the transition date – IFRS 3, Business combinations

The Group has elected not to apply IFRS 3 retrospectively to acquisitions that took place before the transition date. As a result, the carrying amount of goodwill in the UK GAAP balance sheet as at 26 December 2003 of £106.5 million is brought forward to the IFRS opening balance sheet without adjustment.

• Actuarial gains and losses on retirement benefit obligations – IAS 19, Employee benefits

The Group has elected to recognise all cumulative actuarial gains and losses in relation to employee benefit schemes of £12.7 million (before deferred tax) at the transition date.

In addition, subject to endorsement by the European Commission, the Group has elected to adopt early the amendment to IAS 19 issued in December 2004. The Group has selected the option within this standard, similar to FRS 17,*Retirement Benefits* under UK GAAP, for immediate recognition of all actuarial gains and losses in a statement of recognised income and expense.

• Valuation of property, plant and equipment – IAS 16, Property, plant and equipment

The UK GAAP net book value of the tangible fixed assets at the date of transition has been treated as deemed cost. Specifically, the net book value of any assets that were subject to a fair value assessment in accordance with FRS 7, *Fair values in acquisition accounting* have been brought forward to the IFRS opening balance sheet without adjustment.

• Financial instruments – IAS 32, Financial instruments: disclosure and presentation and IAS 39, Financial instruments: recognition and measurement

The Group has elected to apply IAS 32 and IAS 39 (as endorsed by the European Commission) from the transition date.

1 Significant differences between UK GAAP and IFRS

The significant differences between UK GAAP and IFRS on the reported results and net assets of the Group are described below. These differences affect the 2004 comparative information which will be presented in the 2005 consolidated financial statements and, unless otherwise stated above, have been applied retrospectively in preparing the opening balance sheet under IFRS at the transition date.

(i) Employee benefits

Post employment benefits

Under UK GAAP, the Group accounted for post employment benefits under SSAP 24, *Accounting for pension costs*. This effectively spread the cost of providing defined benefit pensions over the estimated average remaining service life of the schemes members based on triennial valuations. The timing difference between the pension charge recognised in the profit and loss account and the actual cash payments made to schemes was carried as a prepayment (or accrual).

IAS 19 takes a balance sheet approach to accounting for defined benefit schemes similar to FRS 17. The pension charge for defined benefit schemes is calculated using the 'projected unit credit' method, with actuarial valuations being carried out or updated at each balance sheet date. The Group intends to apply the option within the amendment to IAS 19 that allows for immediate recognition of all actuarial gains and losses in the period in which they occur, outside the income statement in the Statement of Recognised Income and Expense ('SORIE').

Therefore, on transition, a deficit of £12.7 million has been recognised which represents an incremental liability of £12.9 million compared with the asset recognised under SSAP 24 principles. As at 31 December 2004 the liability had increased to £13.8 million compared to a SSAP 24 asset recognised of £0.8 million.

1 Significant differences between UK GAAP and IFRS (continued)

These figures are offset by the recognition of a corresponding deferred tax asset of £3.8 million at transition rising to £4.1 million at 31 December 2004 coupled with the derecognition of the corresponding deferred tax liability recognised under UK GAAP.

The Group intends to present current and past service pension costs as a charge to operating profit. The unwinding of the discount on pension liabilities and the expected return on pension assets will be presented as a financing item.

The application of IAS 19 increases the trading expenses for the 53 week period ended 31 December 2004 by £0.7 million and increases the net finance charge by £0.3 million. A further expense of £0.5 million (net of deferred tax) is recognised in the SORIE.

The accounting for defined contribution pension schemes under IFRS is consistent with that applied under UK GAAP.

Impact on the income statement	53 week period ended 31 December 2004 £m
Defined benefit pension charge under UK GAAP	0.9
IFRS adjustment	1.0
Defined benefit pension charge under IFRS	1.9
Charged to operating profit	1.6
Charged to finance expense	0.3

Impact on the balance sheet	As at 26 December 2003 £m	As at 31 December 2004 £m
Defined benefit asset under UK GAAP	0.2	0.8
IFRS adjustment	(12.9)	(14.6)
Defined benefit obligation under IFRS	(12.7)	(13.8)
Increase in deferred tax asset	3.9	4.4

Long service awards
The Group has an established practice of rewarding staff for long service after ten years and thereafter every five years. Under UK GAAP, the cost of these long service awards was expensed as incurred. Under IAS 19, the costs of these awards are accrued over the period in which the service is provided by the employee. Consequently, a provision of £0.9 million for long service awards is included in the opening IFRS balance sheet. The associated deferred tax asset amounts to £0.3 million. The impact on the income statement is minimal.

Other employee benefits
Under UK GAAP, no provision was made for annual leave accrued. IAS 19 requires the expected cost of compensated short term absences to be recognised at the time the related service is provided. Whilst this has no effect on the reported results or net assets at transition or 31 December 2004, it has resulted in an additional charge to operating profit of £0.6 million in the interim period.

(ii) Intangible assets
Under UK GAAP, goodwill was amortised over its estimated life of twenty years. In the 53 week period ended 31 December 2004 the amortisation charge was £5.9 million. Furthermore, intangible assets are only recognised when they are separable and as such the Group did not recognise any intangible assets arising from acquisitions. The goodwill arising from acquisitions during 2004 was £4.6 million.

Under IFRS 3, *Business combinations* goodwill is deemed to have an indefinite life and is subject to annual impairment tests, whilst intangible assets can arise from contractual or legal rights and need not be separable.

Accordingly, an element of the goodwill arising from acquisitions under UK GAAP will be carried as an intangible asset in the form of trade names under IFRS.

Under IFRS, Intangible assets will continue to be amortised over their useful life unless circumstances indicate that the asset has an indefinite life. The significant majority of the intangible assets the Group will recognise under IFRS relate to the trading names acquired via business combinations. IAS 38, *Intangible assets* sets out certain factors to be considered when determining the useful life of intangible assets. After due consideration, the Directors are of the opinion that it would be inappropriate to set a finite life on those assets acquired to date as they will continue to trade under such names for the foreseeable future. Therefore, these assets will not be amortised but subject to annual impairment reviews.

Notes to the Financial Statements
for the 52 week period ended 30 December 2005

1 Significant differences between UK GAAP and IFRS (continued)

The application of IFRS 3 to business combinations effected after 26 December 2003 has resulted in the reversal of £5.9 million goodwill amortisation charged under UK GAAP with a corresponding increase in goodwill. The amortisation charge of intangible assets relating to non-compete agreements is immaterial. Under UK GAAP, the amortisation charge was excluded from the Group's underlying performance measures.

The recognition of intangible trade names and non-compete agreements has resulted in the £4.6 million goodwill additions recognised under UK GAAP in 2004 being reclassified as £3.6 million on intangible assets, £0.1 million deferred tax liabilities and £1.1 million in goodwill.

There was no impairment charge required either on transition or in 2004 in respect of goodwill or intangible trade names.

In summary, the adjustments to the carrying value of goodwill are as follows:

	As at 31 December 2004 £m
Net book value of Goodwill under UK GAAP at end of period	105.4
Reversal of UK GAAP amortisation in the period	5.9
Acquisitions – intangible trade names	(3.5)
Acquisitions – intangible non-compete agreements	(0.1)
Acquisitions – deferred tax on properties	0.1
Hindsight adjustments	–
Net book value of goodwill under IFRS	107.8

(iii) Share based payments

Following the flotation in April 2004, the Group has used share awards to provide incentives to employees. Under UK GAAP, the Group recorded a charge for employee share schemes based on the intrinsic value of the award being the difference between the option price of the conditional award and the share price at the date of grant. In addition, the Group had taken advantage of the dispensation in the Urgent Issues Task Force's Abstract 17 *Employee Share Schemes* not to apply that Abstract to the Group's Inland Revenue approved SAYE scheme.

IFRS 2, Share-based payments requires the Group to recognise a charge for all share-based payments (including approved SAYE schemes), equivalent to the fair value of the award as at the date of grant. An expense is recognised to spread the fair value of each award over its vesting period on a straight-line basis, after allowing for an estimate of the awards that will eventually vest.

The calculation of the fair values for employee incentive share awards requires the Directors to select the option valuation model which they consider the most appropriate for each award. The fair value of the awards made under the Group's SAYE scheme has been calculated using the Black-Scholes model, whilst the Monte-Carlo simulation model has been used to calculate the fair value of awards under the LTIP schemes. The key variables in arriving at the share option charge are the expected volatility of the Company's share price, the expected level of forfeiture that will occur between the grant and vesting dates and the expected period of time between grant and exercise of an award.

As a result, the expense recognised in 2004 for share-based payments is £0.1 million in respect of the LTIPs and £0.1 million in respect of the SAYE schemes. These charges can be compared to £0.2 million and £nil respectively recognised under UK GAAP.

The basis of calculation of deferred tax is the difference between the share price at the balance sheet date and the exercise price of the award. Accordingly, the tax effect does not correlate to the charge in the income statement and an element of deferred tax is recognised within 'other reserves'.

(iv) Leases of land and buildings

The most significant difference between UK GAAP and IFRS in the accounting for leases is the requirement under IAS 17, *Leases* to split the rental obligations on properties between land and buildings for the purposes of determining whether the lease is a finance or an operating lease.

As land is considered to have an indefinite life under IFRS, the lease of land must always be an operating lease. This applies equally to assets held under long leases (greater than 50 years). Under UK GAAP, the value of long lease land was £2.8 million at transition. Under IFRS, this is considered to represent a prepayment of operating lease commitments and as such is reclassified from property, plant & equipment to prepayments.

The value attributed to long lease land was not depreciated under UK GAAP until the lease had less than 50 years to expiry. Under IFRS, the release of the prepayment will occur over the term of the lease. This results in a £0.1 million charge to reserves on transition. Prospectively, there will be a limited impact upon reported earnings.

The majority of the Group's leased buildings are held under short term leases and, consistent with UK GAAP, are classified as operating leases under IFRS. However, there are a limited number of leasehold properties where the rental obligations have been reclassified as finance leases based on the criteria set out in IAS 17.

1 Significant differences between UK GAAP and IFRS (continued)

This has resulted in the recognition of finance lease obligations of £0.9 million at the transition date, partially offset by an increase in property, plant & equipment of £0.7 million. The impact on the 2004 results is to reduce trading expenses by £0.1 million with a corresponding increase in finance expense, such that profit before tax is unaffected.

(v) Deferred tax

Under UK GAAP tax was provided on all 'timing' differences that arose due to inclusion of gains and losses in tax assessments in different periods or amounts to that recorded in the financial statements.

Under IAS 12, *Deferred taxes,* deferred tax is recognised in respect of the majority of differences between the tax base and the carrying value of balance sheet items.

Most significantly for the Group, this results in the recognition of deferred tax on the majority of the Group's properties: as the majority of the Group's properties do not attract writing-down allowances for tax purposes the depreciation thereon creates a taxable temporary difference. Under UK GAAP, tax was not provided on such permanent differences.

Similarly, under IAS 12, deferred tax is provided on anticipated taxable gains on assets held for sale, freehold land revaluations and chargeable gains rolled over

At transition, deferred tax is provided on the properties acquired via business combinations[2] of £39.1 million, in addition to the 'prepayment' of long lease land as noted above.

Under UK GAAP, the deferred tax asset recognised at December 2003 was £9.7 million. This is substantially eliminated under IFRS. At December 2004, these figures were an asset of £7.1 million under UK GAAP compared to a liability of 1.6 million under IFRS.

As a result of the elimination of goodwill amortisation and the tax provision on a large percentage of the property portfolio, it is estimated that the effective tax rate under IFRS will be approximately 31.0 per cent compared to 32.5 per cent under UK GAAP.

The impact of IAS 12 on net assets and results of the Group is summarised below.

	As at 26 December 2003	As at 31 December 2004
Deferred tax asset under UK GAAP	9.7	7.1
Deferred tax adjustments in respect of:		
Defined benefit obligations*	3.9	4.4
Long-service awards	0.3	0.3
Long lease rental prepayments	(0.8)	(1.1)
Property acquired via business combinations	(11.9)	(11.1)
Assets held for sale, land revaluations and rolled over gains	(0.6)	(1.3)
Share based payments*	–	0.1
Other	–	–
Deferred tax asset/(liability) under IFRS	0.6	(1.6)

[2] Properties acquired otherwise than via a business combination will have no deferred tax provided on them. This also includes subsequent expenditure.

* An element of the deferred tax movements will be recognised directly in equity.

(vi) Dividends payable

Under UK GAAP, dividends payable were recognised under the matching principle and recorded in the period to which they related even if the formal authorisation of the dividend did not take place until after the balance sheet date.

IAS 10, *Events after the balance sheet* requires that dividends are only recognised when they are appropriately approved and are no longer at the discretion of the Directors.

Consequently, the final dividend of £3.0 million recognised in the 2004 UK GAAP financial statements will not recorded under IFRS until the 2005 period and the 2004 interim dividend is not recognised until August 2004.

(vii) Presentational changes

Format of the financial statements

The formats of the primary financial statements in this report are presented in accordance with IAS 1, *Presentation of financial statements*.

In addition to the key accounting policy changes and IFRS adjustments highlighted above, there are a number of presentational changes, which will have a minimal impact on the results and net assets of the Group.

Notes to the Financial Statements
for the 52 week period ended 30 December 2005 continued

1 Significant differences between UK GAAP and IFRS (continued)

Swaps
As detailed in note 17(d), the Group is party to a number of interest rate swap contracts, the commercial effect of which is that the Group makes fixed and determinable bi-annual payments on a notional principal. Accordingly, these contracts are considered onerous and classified as provisions in the UK GAAP balance sheet and carried at their present value. The unwinding of the discount is charged to net interest payable and similar items in the UK GAAP profit and loss account.

Under IFRS, the accounting treatment is consistent with UK GAAP and there is no adjustment required to either the net assets or results of the Group. However, in accordance with IAS 39 the Board considered that the obligation is more appropriately disclosed in the balance sheet as an 'Other financial liability' rather than within Provisions.

Accordingly, the balance at the transition date of £6.5 million has transferred from provisions to other financial liabilities. Part of this balance is shown within current liabilities.

Capitalised software
Under UK GAAP, all capitalised computer software was included within tangible fixed assets. IAS 38, *Intangible assets* requires software that is not an integral part of an item of computer hardware be classified within intangible assets.

As such a net reclassification of £2.1 million has been made in the transition balance sheet between property, plant and equipment and intangible assets. Neither the useful economic life nor the depreciation/ amortisation rate are affected.

Non-current assets held for sale
Under UK GAAP, tangible assets held for sale are tested for impairment at the balance sheet date and included within tangible fixed assets.

IFRS 5, *Non-current assets held for sale and discontinued operations* requires that items of property, plant and equipment whose carrying value is expected to be recovered through sale (rather than continued use) should be separately disclosed on the face of the balance sheet.

No material adjustment is required to the carrying value.

Provisions
Under UK GAAP, provisions were disclosed in the balance sheet after liabilities falling due after more than one year. Under IFRS, the element of provisions that is expected to mature in less than twelve months is reported within current liabilities and the balance is shown within non-current liabilities.

Cash equivalents
The adoption of IFRS does not affect the Group's underlying cash flows. However, under IAS 7 liquid investments with maturities of less than three months to maturity are classified within cash and cash equivalents. Under UK GAAP, certain of the Group's cash balances were restricted in use and, where the maturity was less than three months these amounts were reported in the cash flow statements as management of liquid resources.

Under UK GAAP, a reconciliation of cash movements in the period was presented. This included as a reconciling item the cash flow arising from the investment in or realisation of liquid resources. Under IFRS, the cash flow statement reconciles to cash and cash equivalents and as such any movements arising due to cash equivalents do not represent reconciling items.

2 Reconciliations from UK GAAP to IFRS
The following reconciliations provide details of the financial impact of the transition to IFRS from UK GAAP on the net assets and results of the Group as previously reported on the following:

- Reconciliation of equity as at 27 December 2003;
- Reconciliation of equity as at 31 December 2004;
- Reconciliation of net profit for the 53 week period ended 31 December 2004;
- Reconciliation of cash flows for the 53 week period ended 31 December 2004;

In restating the consolidated balance sheet from UK GAAP formats into IFRS formats, the balances previously reported within current assets as 'Debtors – amounts falling due after more than one year' have been shown within non-current assets.

Otherwise, the formats of the primary financial statements adopted under IFRS are substantially similar to those reported under UK GAAP.

Reconciliation of Equity as at 27 December 2003

	UK GAAP in IFRS format £m	IAS 19 Employee benefits £m	IFRS 3 Business combi-nations £m	IFRS 2 Share-based payments £m	IAS 17 Leases £m	IAS 12 Taxation £m	IAS 10 Dividends £m	Reclassi-fications £m	**Restated IFRS £m**
Goodwill	106.5	–	0.2	–	–	–	–	–	**106.7**
Intangible assets	–	–	–	–	–	–	–	2.1	**2.1**
Property, plant & equipment	86.2	–	–	–	(2.1)	–	–	(2.9)	**81.2**
Financial assets	2.4	(0.2)	–	–	2.7	–	–	–	**4.9**
Assets held for sale	–	–	–	–	–	–	–	0.8	**0.8**
Deferred tax assets	9.7	4.2	–	–	–	(13.3)	–	–	**0.6**
Non-current assets	204.8	4.0	0.2	–	0.6	(13.3)	–	–	**196.3**
Inventories	3.1	–	–	–	–	–	–	–	**3.1**
Trade and other receivables	20.8	–	–	–	–	–	–	–	**20.8**
Cash and cash equivalents	41.9	–	–	–	–	–	–	–	**41.9**
Current assets	65.8	–	–	–	–	–	–	–	**65.8**
Financial liabilities	(15.5)	–	–	–	–	–	–	(0.5)	**(16.0)**
Trade and other payables	(31.6)	–	(0.2)	–	–	–	–	–	**(31.8)**
Current tax	–	–	–	–	–	–	–	–	**–**
Provisions	–	–	–	–	–	–	–	(1.0)	**(1.0)**
Current liabilities	(47.1)	–	(0.2)	–	–	–	–	(1.5)	**(48.8)**
Net current assets	18.7	–	(0.2)	–	–	–	–	(1.5)	**17.0**
Financial liabilities	(291.3)	–	–	–	(0.9)	–	–	(6.0)	**(298.2)**
Deferred tax liabilities	–	–	–	–	–	–	–	–	**–**
Retirement benefit obligation	–	(12.7)	–	–	–	–	–	–	**(12.7)**
Other non-current liabilities	(1.8)	(0.9)	–	–	–	–	–	–	**(2.7)**
Provisions	(10.0)	–	–	–	–	–	–	7.5	**(2.5)**
Non-current liabilities	(303.1)	(13.6)	–	–	(0.9)	–	–	1.5	**(316.1)**
Net liabilities	(79.6)	(9.6)	–	–	(0.3)	(13.3)	–	–	**(102.8)**
Shareholders' equity									
Share capital and premium	2.0	–	–	–	–	–	–	–	**2.0**
Other reserves	(12.3)	–	–	–	–	–	–	–	**(12.3)**
Retained earnings	(68.1)	(9.6)	–	–	(0.3)	(13.3)	–	–	**(91.3)**
Total shareholders' equity	(78.4)	(9.6)	–	–	(0.3)	(13.3)	–	–	**(101.6)**
Minority interest in equity	(1.2)	–	–	–	–	–	–	–	**(1.2)**
Total equity	(79.6)	(9.6)	–	–	(0.3)	(13.3)	–	–	**(102.8)**

Notes to the Financial Statements

for the 52 week period ended 30 December 2005 continued

Reconciliation of Equity as at 31 December 2004

	UK GAAP in IFRS format £m	IAS 19 Employee benefits £m	IFRS 3 Business combi-nations £m	IFRS 2 Share-based payments £m	IAS 17 Leases £m	IAS 12 Taxation £m	IAS 10 Dividends £m	Reclassi-fications £m	**Restated IFRS £m**
Goodwill	105.4	–	2.4	–	–	–	–	–	**107.8**
Intangible assets	–	–	3.6	–	–	–	–	1.6	**5.2**
Property, plant & equipment	89.3	–	–	–	(2.9)	–	–	(2.4)	**84.0**
Financial assets	2.7	(0.8)	–	–	3.5	–	–	–	**5.4**
Assets held for sale	–	–	–	–	–	–	–	0.8	**0.8**
Deferred tax assets	7.1	4.7	(0.1)	0.1	–	(13.4)	–	1.6	**–**
Non-current assets	204.5	3.9	5.9	0.1	0.6	(13.4)	–	1.6	**203.2**
Inventories	3.4	–	–	–	–	–	–	–	**3.4**
Trade and other receivables	19.7	–	–	–	–	–	–	–	**19.7**
Cash and cash equivalents	24.9	–	–	–	–	–	–	–	**24.9**
Current assets	48.0	–	–	–	–	–	–	–	**48.0**
Financial liabilities	(1.8)	–	–	–	–	–	–	(0.2)	**(2.0)**
Trade and other payables	(20.6)	–	–	–	–	–	3.0	–	**(17.6)**
Current tax	(0.1)	–	–	–	–	–	–	–	**(0.1)**
Provisions	–	–	–	–	–	–	–	(1.0)	**(1.0)**
Current liabilities	(22.5)	–	–	–	–	–	3.0	(1.2)	**(20.7)**
Net current assets	25.5	–	–	–	–	–	3.0	(1.2)	**27.3**
Financial liabilities	(186.5)	–	–	–	(0.9)	–	–	(6.5)	**(193.9)**
Deferred tax liabilities	–	–	–	–	–	–	–	(1.6)	**(1.6)**
Retirement benefit obligation	–	(13.8)	–	–	–	–	–	–	**(13.8)**
Other non-current liabilities	(1.8)	(0.9)	–	–	–	–	–	–	**(2.7)**
Provisions	(10.0)	–	–	–	–	–	–	7.7	**(2.3)**
Non-current liabilities	(198.3)	(14.7)	–	–	(0.9)	–	–	(0.4)	**(214.3)**
Net assets	31.7	(10.8)	5.9	0.1	(0.3)	(13.4)	3.0	–	**16.2**
Shareholders' equity									
Share capital and premium	117.2	–	–	–	–	–	–	–	**117.2**
Other reserves	(12.1)	(0.5)	–	0.1	–	–	–	–	**(12.5)**
Retained earnings	(72.2)	(10.3)	5.9	–	(0.3)	(13.4)	3.0	–	**(87.3)**
Total shareholders' equity	32.9	(10.8)	5.9	0.1	(0.3)	(13.4)	3.0	–	**17.4**
Minority interest in equity	(1.2)	–	–	–	–	–	–	–	**(1.2)**
Total equity	31.7	(10.8)	5.9	0.1	(0.3)	(13.4)	3.0	–	**16.2**

Reconciliation of Net Profit for the 53 week period ended 31 December 2004

	UK GAAP in IFRS format £m	IAS 19 Employee benefits £m	IFRS 3 Business combi-nations £m	IFRS 2 Share-based payments £m	IAS 17 Leases £m	IAS 12 Taxation £m	IAS 10 Dividends £m	Reclassi-fications £m	Restated IFRS £m
Revenue	135.7	–	–	–	–	–	–	–	**135.7**
Gross profit	68.4	(0.7)	–	–	–	–	–	–	**67.7**
Trading expenses	(35.7)	–	5.9	–	0.1	–	–	–	**(29.7)**
Other operating income	1.2	–	–	–	–	–	–	–	**1.2**
Operating profit	33.9	(0.7)	5.9	–	0.1	–	–	–	**39.2**
Interest payable before exceptional charges	(22.2)	(0.3)	–	–	(0.1)	–	–	–	**(22.6)**
Exceptional interest payable on redemption of debt	(10.1)	–	–	–	–	–	–	–	**(10.1)**
Interest payable and similar charges	(32.3)	(0.3)	–	–	(0.1)	–	–	–	**(32.7)**
Interest receivable	1.5	–	–	–	–	–	–	–	**1.5**
Loss before tax	3.1	(1.0)	5.9	–	–	–	–	–	**8.0**
Taxation	(2.7)	0.3	–	–	–	(0.1)	–	–	**(2.5)**
Loss for the period	0.4	(0.7)	5.9	–	–	(0.1)	–	–	**5.5**

Reconciliation of Cash Flows for the 53 week period ended 31 December 2004

	UK GAAP in IFRS format £m	Adjustments £m	Restated IFRS £m
Cash flows from operating activities			
Cash generated from operations	44.1	0.1	**44.2**
Interest received	1.6	–	**1.6**
Interest paid	(39.4)	–	**(39.4)**
Tax paid	(0.1)		**(0.1)**
Net cash from operating activities	6.2	0.1	**6.3**
Cash flows from investing activities			
Acquisition of subsidiaries	(5.3)	–	**(5.3)**
Purchase of property, plant & equipment ('PPE')	(8.5)	–	**(8.5)**
Proceeds from sale of PPE	2.3	–	**2.3**
Transfers from restricted bank accounts	18.3	–	**18.3**
Net cash (used in)/from investing activities	6.8	–	**6.8**
Cash flows from financing activities			
Net proceeds from issue of shares	115.2	–	**115.2**
Finance lease principal repayments	–	–	**–**
Repayment of borrowings	(125.4)	(0.1)	**(125.5)**
Dividends paid to shareholders	(1.5)	–	**(1.5)**
Net cash used in financing activities	(11.7)	(0.1)	**(11.8)**
Management of liquid resources	(5.3)	5.3	**–**
Net (decrease)/increase in cash and cash equivalents	(4.0)	5.3	**1.3**
Cash and cash equivalents at beginning of the period	22.4	–	**22.4**
Net cash and cash equivalents at the end of the period	18.4	5.3	**23.7**

Dignity plc Statement of Total Recognised Gains and Losses

for the 52 week period ended 30 December 2005

	2005 £m	As restated 2004 £m
Profit for the period and total gains recognised for the period	**19.8**	4.4
Prior period adjustment – FRS 21	**(5.3)**	
Total gains and losses recognised since the last annual report	**14.5**	

Dignity plc Balance Sheet

as at 30 December 2005

	Note	30 December 2005 £m	31 December 2004 As restated £m
Fixed assets			
Investments	C2	**130.3**	130.3
Current assets			
Debtors: amounts falling due within one year	C3	**0.1**	–
Debtors: amounts falling due greater than one year	C3	**0.6**	0.1
Cash at bank and in hand		**18.9**	4.1
Total current assets		**19.6**	4.2
Creditors: amounts falling due within one year	C5	**(13.6)**	(13.7)
Net current assets/(liabilities)		**6.0**	(9.5)
Total assets less current liabilities		**136.3**	120.8
Net assets		**136.3**	120.8
Capital and reserves			
Called up share capital	C6	**5.6**	5.6
Share premium account		**111.6**	111.6
Other reserves	C6	**1.1**	0.2
Profit and loss account	C6	**18.0**	3.4
Equity shareholders' funds	C7	**136.3**	120.8

The financial statements on pages 66 to 69 were approved by the Board of Directors on 18 April 2006 and were signed on its behalf by:

Peter Hindley

P T Hindley
Chief Executive

M K McCollum
Finance Director

Notes to the Dignity plc Financial Statements
for the 52 week period ended 30 December 2005

C1 Principal accounting policies

Basis of preparation
These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. A summary of the principal accounting policies, which have been consistently applied, is set out below.

In accordance with the concession granted under section 230 of the Companies Act 1985, the profit and loss account of the Company has not been separately presented in the financial statements.

In the current period, the Company's financial statements have been prepared for the 52 week period ended 30 December 2005. For the comparative period, the Company's financial statements have been prepared for the period 53 week period ended 31 December 2004.

The Company has taken advantage of the exemption contained in FRS 1, 'Cash flow Statements' and has not prepared a cash flow statement as the Company is included in the consolidated financial statements of Dignity plc, which include a cash flow statement.

Furthermore, the Company has taken advantage of the exemption provided within FRS 8, 'Related party transactions', not to disclose transactions with subsidiary undertakings, 90 per cent or more of whose voting rights are controlled within the Group.

Change in accounting policies
The Company has adopted FRS 21,'Events after the balance sheet date' in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated appropriately. The effect of the change in accounting policy to adopt FRS 21 is to recognise the final proposed dividend for the period ended 31 December 2004 of £3 million and the dividend receivable from Group Companies of £5.3 million in the current period.

The Company has also adopted FRS 20, 'Share-based payment' in these financial statements. The adoption of this standard represents a change in accounting policy and comparative figures have been restated accordingly.

Fixed assets investments
Fixed asset investments are stated at historical cost, less any provision for impairment.

Impairment of fixed assets
The carrying values of fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable or at the end of the first full financial year following the recognition. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account within operating profit. A reversal of an impairment loss is recognised in the profit and loss account to the extent that the original loss was recognised.

Employee share schemes
The Company operates two employee share schemes: The Sharesave Scheme and Long Term Incentive Plan ('LTIP').

The expected fair value of the share options awarded under the LTIP scheme are charged to the profit and loss account over the period in which the right to the options is earned. The fair value is calculated by reference to the market value of the shares at the date on which the options are awarded reduced by any consideration payable by the relevant employee.

Taxation including deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that they are regarded as more likely than not to be recoverable. Deferred tax balances are not discounted.

No deferred taxation is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

Notes to the Dignity plc Financial Statements
for the 52 week period ended 30 December 2005 continued

C2 Investments

Investments in subsidiary undertakings Cost and net book amount	Total £m
At beginning of period	130.3
Additions in period	–
At end of period	**130.3**

On 19 March 2004, the Company acquired the entire issued share capital of Dignity (2004) Limited for £1.

Following this transaction, the Company, Dignity (2004) Limited, and Dignity Mezzco Limited entered into a tripartite agreement, such that Dignity (2004) Limited acquired the entire issued share capital of Dignity (2002) Limited for consideration of £116.0 million, being the market value of Dignity (2002) Limited and its subsidiaries at that time, and the Company assumed the debt due to Dignity Mezzco Limited in consideration for Dignity (2004) Limited issuing 998 Ordinary £1 Shares to the Company.

Following the above, the Company transferred its investment in Dignity Holdings No.2 Limited of £14.3 million to Dignity (2004) Limited in exchange for one Ordinary Share in Dignity (2004) Limited.

C3 Debtors

	2005 £m	As restated 2004 £m
Amounts falling due within one year:		
Prepayments	0.1	–
	0.1	–
Amounts falling due after more than one year:		
Net deferred tax asset (see note C4)	0.6	0.1
	0.6	0.1

C4 Deferred Tax

	2005 £m	2004 £m
Asset at beginning of period	0.1	–
Credit to profit and loss account	0.1	0.1
Credit to equity reserves	0.4	–
Asset at end of period	0.6	0.1

The major components of deferred taxation are as follows:

	2005 £m	2004 £m
Long term incentive plans	0.6	0.1

C5 Creditors: amounts falling due within one year

	2005 £m	As restated 2004 £m
Amounts due to subsidiary undertakings	**13.4**	13.5
Accruals and deferred income	**0.2**	0.2
	13.6	13.7

C6 Share capital and reserves

	2005 £m	2004 £m
Authorised Equity shares		
100,000,000 Ordinary Shares of £0.07 each	**7.0**	7.0
Allotted, called up and fully paid Equity shares		
80,000,260 (2004: 80,000,000) Ordinary Shares of £0.07 each	**5.6**	5.6

As at 30 December 2005:
Equal voting rights are attributable to Ordinary Shares. All of the issued shares are ranked *pari passu*.

Reserves	Other reserves £m	Profit and loss account £m	Total £m
At beginning of period as previously reported	0.2	5.7	5.9
Prior period adjustment – FRS 21	–	(2.3)	(2.3)
At beginning of period as restated	0.2	3.4	3.6
Profit for the period	–	19.8	19.8
Dividends	–	(5.2)	(5.2)
Effects of long term incentive plan	0.9	–	0.9
At end of period	**1.1**	**18.0**	**19.1**

C7 Reconciliation of movement in shareholders' funds

	2005 £m	As restated 2004 £m
Profit for the period	**19.8**	5.3
Dividends	**(5.2)**	(1.5)
Effects of long term incentive plan	**0.9**	0.2
Share issue	**–**	115.2
Net additions to shareholders' funds	**15.5**	119.2
Opening shareholders' funds as previously reported	**123.1**	1.6
Prior year adjustment – FRS 21	**(2.3)**	–
Opening shareholders' funds as restated	**120.8**	1.6
Closing shareholders' funds	**136.3**	120.8

Notice of Meeting

Notice is hereby given that the 2006 Annual General Meeting of Dignity plc ('the Company') will be held at The Mayfair Suite, Ramada Hotel and Resort, Penns Lane, Walmley, Sutton Coldfield, West Midlands B76 1LH on Thursday 8 June 2006 at 11.00am for the following purposes:

Ordinary Business

1. To receive and consider the Company's accounts, and the reports of the Directors and auditors thereon for the 52 week period ended 30 December 2005.
2. To approve the Directors' Remuneration Report for the 52 weeks ended 30 December 2005 as set out on pages 18 to 22 of the Annual Report 2005.
3. To re-appoint Peter Hindley as a Director.
4. To re-appoint Andrew Davies as a Director.
5. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

To propose the following as an ordinary resolution:

6. That, in substitution for all existing authorities to the extent unused, the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ('the Act') to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate amount equal to 20 per cent of the nominal value of the Company's issued share capital (calculated by reference to the Company's issued share capital at the date of the Company's 2006 Annual General Meeting) provided that such authority shall expire at the conclusion of the next Annual General Meeting after passing this resolution or after 15 months (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Business

To propose the following as special resolutions:

7. That subject to the passing of the previous resolution the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) and Section 94(3A) of the Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited:

   a) to the allotment of equity securities in connection with an issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of Ordinary Shares in the capital of the Company ('Ordinary Shares') held by them, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal problems which may arise in any overseas territory or under the requirements of any regulatory body or any stock exchange and;

   b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal amount equal to 5 per cent of the Company's issued share capital (calculated by reference to the Company's issued share capital at the date of the Company's 2006 Annual General Meeting)

   and shall expire at the conclusion of the next Annual General Meeting after passing this resolution or after 15 months (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

This power applies in relation to the 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 the previous resolution' were omitted.

8. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Act to make market purchases (as defined in Section 163(3) of the Act) of Ordinary Shares, subject as follows:

   a) the maximum number of Ordinary Shares which may be purchased is such number as represents 5 per cent of the Company's issued share capital (calculated by reference to the Company's issued share capital at the date of the Company's 2006 Annual General Meeting);

   b) the minimum price to be paid for each Ordinary Share shall not be less than the nominal value of the Ordinary Share and the maximum price shall not be more than 5 per cent above the average of the middle market quotation of the Company's Ordinary Shares for the five business days immediately prior to the day on which the purchase is made;

   c) the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or after 15 months (whichever is earlier), except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which may be executed wholly or partly after such expiry.

Registered office:
Plantsbrook House
94 The Parade
Sutton Coldfield
West Midlands B72 1PH

By order of the Board
Richard Portman
Company Secretary
18 April 2006

Notes

1. A member of the Company entitled to attend and to vote may appoint one or more proxies to attend and vote instead. A proxy need not be a member of the Company. A proxy form is enclosed. Completed proxy forms must be received by the Company's Registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZX, no later than 48 hours before the time of the Annual General Meeting or in the event the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting.
2. The appointment of a proxy will not preclude a member of the Company from attending and voting in person at the meeting if he or she so wishes.
3. In the case of shares held in uncertificated form, the Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only members registered on the register of members of the Company at 6.00pm on Tuesday 6 June 2006 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6.00pm on Tuesday 6 June 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. The following are available for inspection at the Company's registered office during normal business hours on any weekday (excluding public holidays) and will be available for at least 15 minutes prior to, and during, the Annual General Meeting:
   - the register of Directors' interests and those of their immediate families in the share capital of the Company;
   - copies of the Directors' service contracts;
   - a copy of the Company's memorandum and articles of association.
5. Resolutions 6, 7 and 8 have been expressed as percentages of the Company's issued share capital as at the date of the Company's 2006 Annual General Meeting. The reason for this is that the Company proposes at the EGM (further details of the EGM are contained in a circular to shareholders) to be held immediately following the Annual General Meeting, to make a return of capital to shareholders, part of which is a share division and consolidation.

Shareholder Information

General enquiries may be addressed to the Company Secretary, Richard Portman, at the Company's registered office. Other useful information is as follows:

Company registrars

Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's Registrars, Lloyds TSB Registrars. They also provide a range of online shareholder information services at www.shareview.com where shareholders can check their holdings and find practical help on transferring shares and updating personal details.

Share price information

The latest Dignity plc share price can be obtained via the Company's investor website www.dignityfuneralsplc.co.uk. It can also be obtained in the UK on Ceefax and Teletext.

Unsolicited mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations which may use it as a mailing list resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, Freepost 22, London W1E 7EZ or telephone +44 (0)845 703 4599 for an application form.

Annual General Meeting

The Company's Annual General Meeting will be held on Thursday 8 June 2006, at 11.00am at The Mayfair Suite, Ramada Hotel and Resort, Penns Lane, Walmley, Sutton Coldfield, West Midlands B76 1LH. A circular to shareholders, which includes the Notice convening the Meeting is included on pages 70 and 71 of this document.

Contact Details & Advisers

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Company Secretary:
Richard Portman FCA

Registered Number:
4569346

Registrars:
Lloyds TSB Registrars
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Legal Advisor:
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Victoria Square House
Victoria Square
Birmingham B2 4DL

Financial Calendar

21 March 2006
Preliminary announcement of 2005 results

8 June 2006
Annual General Meeting

30 June 2006
2006 financial half year end

15 September 2006
Announcement of interim results

27 October 2006
Payment of interim dividend on Ordinary Shares

29 December 2006
Financial period end

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For more information on investor relations please visit:

www.dignityfuneralsplc.co.uk

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