

Notes to the Financial Statements

for the year ended 31 March 2010

1 Accounting policies

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations adopted for use in the European Union and those parts of the Companies Act 2006 which are applicable to companies reporting under IFRS. The Group accounts are consolidated and include all Group entities. The Company's domicile and country of incorporation is England and Wales, its registered office is 30 City Road, London EC1Y 2AG and its Head Office is located at 16 Charles II Street, London SW1Y 4QU.

The Financial Statements have been prepared in sterling, the currency in which the majority of the Group's transactions are denominated, and on the historical cost basis, except for the revaluation of certain financial instruments.

Standards, amendments and interpretations effective in 2010:

- IAS 1 (revised), 'Presentation of Financial Statements'. The revised standard prohibits the presentation of 'non-owner changes in equity' in the statement of changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Under the revised standard, entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income.
- IFRS 8, 'Operating segments' replaces IAS 14, 'Segment reporting' and requires a 'management approach' to be adopted, under which segment information is presented on the same basis as that used for internal reporting purposes. The new standard, combined with the management divisional restructuring, has resulted in a new segmental format being presented by the Group.

The following standards and interpretations are effective in 2010 but are not relevant to the Group's accounts:

- IFRS 2 (amendment), 'Share-based payments';
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations';
- IFRS 7 (amendment), 'Financial instruments: Disclosure';
- IAS 16 (amendment), 'Property, plant and equipment';
- IAS 19 (amendment), 'Employee benefits';
- IAS 20 (amendment), 'Accounting for government grants and disclosure of government assistance';
- IAS 23 (amendment), 'Borrowing costs';
- IAS 28, 'Investments in associates';
- IAS 31 (amendment), 'Interests in joint ventures';
- IAS 32 (amendment), 'Financial instruments';
- IAS 38 (amendment), 'Intangible assets';
- IAS 39 (amendment), 'The fair value option'; and
- IAS 40 (amendment), 'Investment property'.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

- IAS 27 (Revised), 'Consolidated and separate Financial Statements';
- IFRS 3 (Revised), 'Business combinations – Comprehensive revision on applying the acquisition method' (effective from 1 July 2009); and
- IFRIC 18, 'Transfers of assets from customers' (effective on all transactions from 1 July 2009).

The Group does not consider that these standards and interpretations will have a significant impact on the Financial Statements of the Group except for additional disclosures when the relevant standards come into effect for periods commencing on or after 1 April 2010.

The principal accounting policies adopted have been consistently applied to all periods presented and are set out on the following pages.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group currently has no investment in associates.

Turnover

Turnover represents amounts received or receivable from clients for the rendering of services and is stated after deduction of trade discounts and excluding value-added tax or similar sales taxes outside the UK.

Turnover is recognised at fair value as service activity progresses on the following basis:

1. Project fees are recognised over the period of the relevant assignments or agreements.
2. Retainer fees are spread over the period of the contract on a straight-line basis.
3. Third-party production fees are recognised at the point the client accepts delivery of each component of a project.

Turnover includes all charges paid to external suppliers where they are retained to perform part or all of a client assignment.

Revenue

Insight

Revenue is derived from fees on research assignments. These are recognised on each assignment in proportion to the level of completion. The level of completion is assessed using costs incurred (primarily employment costs) as a proportion of total costs. On long-term contracts, revenue is recognised as contract activity progresses.

Communications

The revenue derived from commissions on media placements, projects and fees for creative services are recognised on each contract in proportion to the level of services performed. Retainers fees are recognised on a straight line basis over the contract period. The level of services performed are assessed based on the relevant criteria including proportion of costs incurred, time-based recognition for retainers and milestones. Incentive-based revenue is recognised when the relevant target has been met.

Health

Revenue derived from project fees is recognised on each contract in proportion to the level of services performed. Retainers fees are recognised on a straight line basis over the contract period. The level of services performed is assessed based on the relevant criteria including proportion of costs incurred, time-based recognition for retainers and milestones.

Intangible assets

(a) Goodwill

Goodwill arising from the purchase of subsidiary undertakings represents the difference between the purchase consideration and the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary acquired, and is capitalised in accordance with the requirements of IFRS 3. Future anticipated payments to vendors in respect of earn-outs are based on the Directors' best estimates of these obligations. Earn-outs are dependent on the future performance of the relevant business and are reviewed semi-annually. The deferred consideration is discounted to its fair value in accordance with IFRS 3 and IAS 39. The difference between the fair value of these liabilities and the actual amounts payable is charged to the income statement as notional finance costs over the life of the associated liability.

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continued

1 Accounting policies *continued*

Goodwill impairment is assessed by comparing the carrying value of goodwill to the net present value of future cash flows derived from the operating performance underpinned by each cash-generating unit's two-year forecast. After this period, nominal growth rates of 3 per cent have been applied for the next two years, followed by no growth thereafter. In accordance with IFRS 3, the carrying value of goodwill will continue to be reviewed for impairment on the basis stipulated and adjusted should this be required. Impairment is recognised in the income statement and is not subsequently reversed. The individual circumstances of each future acquisition will be assessed to determine the appropriate treatment of any related goodwill.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts at the date of transition subject to being tested for impairment at that date. More detail is provided in note 12.

The Directors consider that the customer relationships are not separable or intangible assets, as customer relationships attach to the staff base and senior management of the agency and not to the agency itself. Consequently, unless stated otherwise in note 12, the goodwill reflects the combined value of customer relationships, the staff base and other non-separable intangible assets.

(b) Other intangible assets

Other acquired intangible assets are capitalised at cost. Intangible assets acquired as part of a business combination are capitalised at fair value at the date of acquisition. The list of such intangible assets is significantly more comprehensive under IFRS. Intangible assets are amortised to residual values over the useful economic life of the asset. Where an asset's life is considered to be indefinite an annual impairment test is performed. The Directors consider the value assigned to goodwill to exceed that assigned to intangible assets because the inherent value of the acquired companies predominantly lies within the employees.

The identified intangible assets and associated periods of amortisation are as follows:

Intangible asset	Period of amortisation
Brand names	Infinite life – subject to annual impairment testing
Customer contracts	Over the notice period of the contract (generally one to three months)

Brands are considered to have an infinite economic life because of their proven market position and the Group's commitment to develop and enhance their value. On this basis, the Directors consider it reasonable to assign an infinite life to these tangible assets but consider it appropriate to review this on an annual basis in order to assess whether there has been any degradation to the companies' brand name and image.

The customer contracts are amortised over this period because the Directors consider this to be the typical length of customer contracts active at the time of acquisition.

(c) Software licences

Acquired computer software licences which do not form part of the operating software acquired with a piece of hardware are capitalised on the basis of all costs incurred in bringing them into use. These costs are amortised over a five-year period.

(d) Software development costs

Costs associated with the development of identifiable and unique software products controlled by the Group that will probably generate economic benefits exceeding costs are recognised as intangible assets. These costs are amortised between three and five years.

Provisions – deferred consideration

The terms of an acquisition may provide that the value of the purchase consideration, which may be payable in cash, shares or other securities at a future date, depends on uncertain future events such as the future performance of the acquired company. Where it is not possible to estimate the amounts payable with any degree of certainty, the amounts recognised in the Financial Statements represent a reasonable estimate at the balance sheet date of the amounts expected to be paid. The deferred consideration is discounted to fair value. The difference between the fair value of the liabilities and the actual amounts payable is charged to the income statement as notional finance costs (calculated at the annual rate of 3.6 per cent (2009: 3.6 per cent) based on the weighted average rate appropriate to the expected method of settlement) over the life of the associated liability.

Where deferred consideration may be settled by the issue of either shares or loan notes, it is classified in the balance sheet in accordance with the substance of the transaction. Where the agreement gives rise to an obligation that is settled by the delivery of a variable number of shares to meet a monetary defined liability, these amounts are disclosed as debt.

Share-based payment transactions

In accordance with IFRS 3, certain payments made to employees in respect of earn-out arrangements are treated as remuneration within the income statement over the relating vesting period.

The Group has applied the requirements of IFRS 2 'Share-based payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled and cash-settled Share-based payment to certain employees. Equity-settled Share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled Share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model on the grounds that there are no market-related vesting conditions. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability and exercise restrictions. Details of the risk-free rate and dividend yield used to underpin these assumptions are included in note 27. Market price on any given day is obtained from external publicly available sources.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled Share-based payments. Over the vesting period, where re-measurements materialise, differences are taken to the income statement.

The share-based plans are subject to performance criteria and continued employment. These are assessed on an annual basis. Further details of share options are included in note 26.

Property, plant and equipment

All property, plant and equipment is stated at historical cost (or fair value on acquisition where appropriate) less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less the estimated residual value of each asset evenly over its expected useful economic life, as follows:

Leasehold property	Period of the lease
Motor vehicles	Four years
Fixtures, fittings and equipment	Three – ten years.

Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value. The cost of work in progress includes the costs of direct materials and purchases, and the costs of direct labour plus clients' agreed overheads based on normal levels of activity.

Where projects have the characteristics of long-term contracts, attributable profit is only recognised once their outcome can be assessed with reasonable certainty. Such profit reflects the proportion of work on the project completed to date. Amounts recoverable on such projects are included within debtors after provision for any foreseeable losses and the deduction of applicable payments on account. Full provision is made for any losses on projects in the year in which the loss is first foreseen.

Current taxation

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

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

Notes to the Financial Statements

continued

1 Accounting policies continued

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Lease and hire purchase commitments

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date the asset is initially recognised/date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Pension costs

Retirement benefits to employees are provided by defined contribution schemes that are funded by the Group and employees. Payments are made to pension trusts that are financially separate from the Group. These costs are charged against profits as incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Issue costs are offset against the proceeds of such instruments.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Cash and cash equivalents in the cash flow statement do not include restricted cash deposits.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the income statement.

Other financial assets

Financial assets are recognised and de-recognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Financial assets are classified as either held for trading or available for sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within operating costs in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as income from financial assets when the Group's right to receive payments is received.

Impairment of financial assets

The Group assesses at each reporting date whether an asset may be impaired. If any such indicator exists the Group tests for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of an asset, an impairment loss is required. In addition to this, assets with indefinite lives and goodwill are tested for impairment at least annually.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at their fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Other financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group has only one class of shares in existence; see note 26.

Derivative financial instruments

The Group's activities expose it to certain financial risks including changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge this exposure. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are held at fair value at the balance sheet date. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of future cash flows are recognised directly in the Consolidated statement of comprehensive income and the ineffective portion is recognised immediately in the Consolidated income statement. Amounts deferred in this way are recognised in the income statement in the same period in which the hedged firm commitments or forecast transactions are recognised in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gains or losses on the hedging instrument recognised in equity are retained until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Notes to the Financial Statements

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1 Accounting policies *continued*

Foreign currencies

Transactions in currencies other than the Group's functional currency, Sterling, are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary assets and liabilities and those arising on retranslation are included within operating expenses in the period in which the difference arose.

Dividends

Dividends distributed to the Group's shareholders are recognised as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Group's shareholders.

Accounting estimates and judgements

The Group makes estimates and judgements concerning the future and the resulting estimates may, by definition, vary from the related actual results. The Directors considered the critical accounting estimates and judgements used in the Financial Statements and concluded that the main areas are as follows:

(a) Long term contracts

The Group undertakes projects which have the characteristics of long-term contracts on behalf of its clients. At each balance sheet date, management estimates the stage of completion for each project based on time and specific project milestones, recognising income and associated costs appropriately.

(b) Contingent deferred consideration in respect of acquisitions

The Group has estimated the value of future purchase consideration payable to vendors based on management's estimate of the future financial performance of the relevant entity. This estimated future purchase consideration is used to calculate the deemed remuneration charge. If the estimated Headline PBIT had been 10 per cent lower than management's estimate then the provision would be reduced by £nil and the deemed remuneration would be reduced by £nil because all entities had completed their earn-out period by the balance sheet date.

(c) Estimated impairment of goodwill

The Group tests semi-annually whether goodwill has suffered any impairment, in accordance with the Group's accounting policy. These calculations require the use of estimates (note 12).

If the estimated pre-tax discount rate applied to the discounted cash flows had been 10 per cent higher than management's estimate (for example, 10.5 per cent instead of 9.6 per cent) the Group would still have no impairment.

2 Segmental analysis

The Group's operational framework consists of a three-divisional structure comprising of the Insight, Communications and Health divisions.

Turnover, revenue, Headline and Reported profit before finance income, finance costs, income from financial assets and taxation (PBIT), and profit before tax (PBT) attributable to Group activities are shown below.

Segmental analysis by business

2010	Insight £'000	Communications £'000	Health £'000	Head Office £'000	Group £'000
Turnover (billings)	27,839	98,138	10,845	–	136,822
Revenue	15,956	55,698	8,846	–	80,500
Headline profit/(loss) before finance income, finance costs, income from financial assets and taxation (segment results)	4,883	8,900	2,711	(2,237)	14,257
Restructuring costs	(354)	(568)	–	–	(922)
Goodwill write-off	(3,786)	–	–	–	(3,786)
Future acquisition payments to employees deemed as remuneration	(36)	(215)	(5)	(261)	(517)
Reported profit/(loss) before finance income, finance costs, income from financial assets and taxation (segment result)	707	8,117	2,706	(2,498)	9,032
Finance income	–	–	–	6	6
Finance costs	–	–	–	(676)	(676)
Notional finance cost on future deferred consideration	(204)	(193)	(7)	–	(404)
Income from financial assets	–	195	–	–	195
Profit before taxation	503	8,119	2,699	(3,168)	8,153
Taxation					(3,020)
Profit for the financial year					5,133
2009	Insight £'000	Communications £'000	Health £'000	Head Office £'000	Group £'000
Turnover (billings)	28,213	100,206	10,053	–	138,472
Revenue	16,679	58,690	8,426	–	83,795
Headline profit/(loss) before finance income, finance costs, income from financial assets and taxation (segment results)	4,498	11,597	2,677	(3,167)	15,605
Restructuring costs	(78)	(706)	–	–	(784)
TRA Asia investment impairment	–	(64)	–	–	(64)
Advisor fees on aborted offer	–	–	–	(160)	(160)
Future acquisition payments to employees deemed as remuneration	(148)	(1,513)	51	(684)	(2,294)
Reported profit/(loss) before finance income, finance costs, income from financial assets and taxation (segment result)	4,272	9,314	2,728	(4,011)	12,303
Finance income	–	–	–	45	45
Finance costs	–	–	–	(1,607)	(1,607)
Notional finance cost on future deferred consideration	(298)	(648)	66	–	(880)
Income from financial assets	–	150	–	–	150
Profit before taxation	3,974	8,816	2,794	(5,573)	10,011
Taxation					(3,414)
Profit for the financial year					6,597

The new requirements under IFRS 8, 'Operating segments', combined with the management divisional restructuring, has resulted in a new segmental format being presented by the Group, and therefore the comparatives for 2009 have been reported under the new segmental format.

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2 Segmental analysis *continued*

The chief operating decision-maker has been identified as the Board of Directors ('the Board') which make the strategic decisions. The Board has determined the operating segments in a manner consistent with the internal reporting provided to the Board. The Board considers the business from a divisional perspective, these being Insight, Communications and Health.

The principal activities of the three divisions are as follows:

Insight

The Insight division performs a complete range of market research services on behalf of its clients, through both qualitative and quantitative means using the mediums of face-to-face, telephone and online techniques.

Communications

The Communications division offers clients an integrated approach to their marketing and communication strategy, offering a range of services which include advertising, public relations, digital, customer relationship marketing (CRM), data analytics, mobile and local marketing.

Health

The Health division provides an integrated communications solution to the healthcare and pharmaceuticals sector and offers services which include advertising, direct marketing, digital marketing, public relations, issue management, market research and medical education.

The Board assesses the performance of the operating segments based on a measure of revenue and Headline PBIT. This measurement basis excludes the effects of non-recurring charges from the operating segments, such as restructuring costs, goodwill write-off, notional finance costs on future deferred consideration and future acquisition payments to employees deemed as remuneration.

Accounting policies are consistent across the reportable segments.

All significant assets and liabilities are located within the UK. The Board does not review the assets and liabilities of the Group on a divisional basis and therefore has chosen to adopt early amendments to IFRS 8 of not segmenting the assets of the Group.

Other information provided to the Board of Directors is measured in a manner consistent with that in the Financial Statements.

Segmental analysis by geography

The following table provides an analysis of the Group's turnover and revenue by geographical market, irrespective of the origin of the services.

	Revenue		Turnover	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
UK	65,345	66,312	113,953	110,093
Rest of Europe	13,141	15,208	20,053	25,650
Rest of the World	2,014	2,275	2,816	2,729
	80,500	83,795	136,822	138,472

3 Operating costs

	2010 £'000	2009 £'000
Employee benefits (note 6)	54,173	55,452
Depreciation and amortisation	1,699	2,359
Goodwill write-off	3,786	–
Other expenses	11,810	13,681
	71,468	71,492

Changes in inventories and work in progress of £1,272,000 (2009: £267,000) are reflected in charges paid to external suppliers which form part of the difference between turnover and revenue.

4 Reconciliation of Headline profit to Reported profit

In order to enable a better understanding of the underlying trading of the Group, the Directors refer to Headline PBIT, PBT and PAT, which eliminate non-recurring charges from the Reported figures. These break down into two parts:

- (i) certain accounting policies which have a material impact and introduce volatility to the Reported figures. These are deferred consideration payments deemed as remuneration and notional finance cost on deferred consideration. These charges will cease once all the relevant earn-out obligations have been settled; and
- (ii) exceptional non-recurring operating charges, which, in 2010, consist of restructuring costs, closure charges relating to CML and MSTs, and the goodwill write-off in respect of CML. In 2009 these included advisor fees incurred in connection with the aborted offer for the Company, the impairment of TRA Asia investment and restructuring costs.

	PBIT £'000	PBT £'000	PAT £'000
2010			
Headline	14,257	13,782	10,370
Restructuring costs	(922)	(922)	(922)
Goodwill write-off	(3,786)	(3,786)	(3,786)
Future acquisition payments to employees deemed as remuneration	(517)	(517)	(517)
Notional finance cost on future deferred consideration	-	(404)	(404)
Taxation impact			392
Reported	9,032	8,153	5,133
2009			
Headline	15,605	14,193	10,128
Restructuring costs	(784)	(784)	(784)
TRA Asia investment impairment	(64)	(64)	(64)
Advisor fees on aborted offer	(160)	(160)	(160)
Future acquisition payments to employees deemed as remuneration	(2,294)	(2,294)	(2,294)
Notional finance cost on future deferred consideration	-	(880)	(880)
Taxation impact			651
Reported	12,303	10,011	6,597

Creston requires up to 25 per cent of any deferred consideration payable as part of an earn-out to be paid to the non-shareholders of the acquired company. Creston believes this is an important driver in motivating employees, rather than just the shareholders, to grow the acquired company and outperform the market. This contingent consideration paid by Creston to non-shareholder employees in respect of the deferred consideration is deemed to be remuneration. The notional finance costs also relate to the deferred consideration. Both of these charges will cease once all earn-out obligations have been settled.

Notes to the Financial Statements

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5 Profit before finance income, finance costs, income from financial assets and taxation

The profit before finance income, finance costs, income from financial assets and taxation is stated after:

	2010 £'000	2009 £'000
Auditors' remuneration	248	248
(Profit)/loss on sale of property, plant and equipment	(1)	17
Amortisation of intangible assets	323	413
Foreign exchange loss/(gain)	61	(314)
Depreciation		
Property, plant and equipment		
– owned	1,366	1,858
– held under hire purchase contracts	10	88
Goodwill write-off	3,786	–
Operating lease rentals – land and buildings	3,114	2,526
Operating lease rentals – plant and equipment	223	247
Operating lease rentals – vehicles	32	49

Auditors' remuneration may be analysed as follows:

	2010 £'000	2009 £'000
External audit services – fees payable for the audit of the parent Company and Consolidated Financial Statements	50	48
External audit services – fees payable for the audit of subsidiary undertakings	159	160
Non-audit services		
Tax services		
Compliance services	–	–
Advisory services	–	15
Other services	39	25
	248	248

6 Employee benefits

	2010 £'000	2009 £'000
Wages and salaries (including deemed remuneration)	48,239	49,340
Social security costs	5,019	5,066
Pension costs	1,007	933
Share-based payments	(92)	113
	54,173	55,452

Wages and salaries include the following costs:

	2010 £'000	2009 £'000
Deemed remuneration		
Future acquisition payments	256	1,610
Directors' Long Term Incentive Plan	261	684
	517	2,294

The deemed remuneration arises on the contingent deferred consideration to be paid by Creston to non-shareholding employees of the business acquisitions. These costs will cease once the relevant earn-outs have been settled. The Directors' Long Term Incentive Plan costs relate to the amounts payable to the Directors arising on the acquisition of companies by Creston.

The average number of employees of the Group during the year was:

	2010 Number	2009 Number
Directors	5	5
Administration	141	132
Marketing services	772	781
	918	918

The key management are considered to be the Executive Board together with the Executive Directors. Their remuneration is as follows:

	2010 £'000	Restated 2009 £'000
Key management compensation		
Salaries and other short-term employee benefits	2,314	2,232
Deemed remuneration	261	684
Share-based payments	9	–
	2,584	2,916
Executive Directors		
Salaries and other short-term employee benefits	1,089	1,117
Deemed remuneration	261	684
Share-based payments	5	–
	1,355	1,801

The Non-Executive Directors' remuneration has not been disclosed above. Details of the remuneration of each Director, which form part of the audited Financial Statements, are set out in the Directors' Remuneration Report on pages 39 to 44.

The Executive Board was effective from 1 April 2009 and consists of the Divisional Heads and the Executive Directors. This replaces the Partners' Board, which was considered the key management body for the year ended 31 March 2009. This has therefore required a restatement of the 2009 key management compensation.

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7 Finance income and finance costs

Finance income includes:

	2010 £'000	2009 £'000
Finance income on cash deposits	6	45

Finance costs include:

	2010 £'000	2009 £'000
Notional finance cost on future deferred consideration	(404)	(880)
Finance costs on bank overdrafts and loans	(386)	(1,045)
Finance costs on finance leases	(1)	(2)
Finance costs on other loans	(289)	(560)
	(1,080)	(2,487)

8 Income from financial assets

	2010 £'000	2009 £'000
Dividends received	195	150

Dividends have been received from the Group's investment in BJK&E Holdings Limited.

9 Taxation

	2010 £'000	2009 £'000
The tax charge comprises:		
Current tax:		
Corporation tax	3,322	3,604
(Over) provision of corporation tax in previous year	(336)	(213)
	2,986	3,391
Deferred tax:		
Origination and reversal of timing differences	187	(261)
(Over)/under-provision of deferred tax in previous year	(153)	284
Deferred tax charge (note 25)	34	23
Tax charge for the year	3,020	3,414

The tax rate for the year is different from the standard rate of corporation tax in the UK, i.e. 28 per cent (2009: 28 per cent). The differences are explained below:

	2010 £'000	2009 £'000
Profit before taxation	8,153	10,011
Profit before taxation multiplied by standard rate of corporation tax in the UK of 28 per cent (2009: 28 per cent)	2,283	2,803
Effects of:		
Expenses not deductible for tax purposes	1,226	335
Deferred tax asset not recognised for tax purposes	–	205
Adjustments to tax charge in respect of previous periods	(489)	71
Tax charge for the year	3,020	3,414

Expenses not deductible for tax purposes include a provision against tax relief on CML goodwill and notional finance cost on future deferred consideration. The Group's effective tax rate is 37 per cent (2009: 34 per cent).

	2010 £'000	2009 £'000
Headline tax charge	(3,412)	(4,065)
Taxation impact of Headline adjustments	392	651
Reported tax charge	(3,020)	(3,414)

The Group's effective Headline tax rate is 25 per cent (2009: 29 per cent) by eliminating the tax impact of items excluded from the Headline results.

10 Earnings per share

	Reported profit for the financial year £'000	2010 Weighted average number of shares	Pence per share	Reported profit for the financial year £'000	2009 Weighted average number of shares ¹	Pence per share ¹
Reported basis						
Basic earnings per share						
Earnings attributable to ordinary shareholders	5,133	58,729,868	8.75	6,597	54,367,255	12.13
Dilutive effect of securities:						
Shares	–	32,047	(0.01)	–	507,041	(0.11)
Diluted earnings per share	5,133	58,761,915	8.74	6,597	54,874,296	12.02

	Headline profit for the financial year £'000	2010 Weighted average number of shares	Pence per share	Headline profit for the financial year £'000	2009 Weighted average number of shares ¹	Pence per share ¹
Headline basis						
Basic earnings per share						
Earnings attributable to ordinary shareholders	10,370	58,729,868	17.66	10,128	54,367,255	18.63
Dilutive effect of securities:						
Shares	–	32,047	(0.01)	–	507,041	(0.17)
Diluted earnings per share	10,370	58,761,915	17.65	10,128	54,874,296	18.46

¹ In July 2009, the Group issued new shares as part of an Equity Placing. In accordance with IAS 33 this required a retrospective adjustment to the weighted average number of shares and consequently the earnings per share.

Diluted earnings per share has been calculated based on the following dilutive elements:

- (i) there were no shares (2009: 507,041) issued to the Executive Directors in lieu of their annual cash bonus. In the prior year this represented 50 per cent of their annual bonus and the number of shares issued were estimated based on the average share price during the prior year; and
- (ii) 32,047 restricted shares had vested but not been issued at the balance sheet date (2009: none).

A reconciliation from the Headline to Reported profit after tax is given in note 4.

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11 Dividends

	2010 £'000	2009 £'000
Amounts recognised as distributions to shareholders in the year		
Prior year final dividend of nil pence per share (2009: 1.80 pence per share)	–	971
Interim dividend of nil pence per share (2009: 0.73 pence per share)	–	394
	–	1,365

A final dividend of 1.00 pence per share (2009: nil pence) equivalent to £613,373 is recommended to be paid on 8 September 2010 to shareholders on the register on 6 August 2010. The final dividend will be recognised in the 2011 Financial Statements, should it be approved by shareholders at the AGM.

12 Goodwill

	Purchased goodwill £'000	Goodwill on consolidation £'000	Total £'000
At 1 April 2008	3,780	115,785	119,565
Adjustments to consideration	–	3,218	3,218
Fair value adjustments	6	67	73
At 1 April 2009	3,786	119,070	122,856
Goodwill write-off	(3,786)	–	(3,786)
Adjustments to consideration	–	11	11
At 31 March 2010	–	119,081	119,081
Net book amount			
31 March 2010	–	119,081	119,081
31 March 2009	3,786	119,070	122,856

The 'adjustments to consideration' relate to a change in the estimated deferred consideration for operating companies in the earn-out period under the terms of the relevant sale and purchase agreements.

CML was closed during the year. This led to a goodwill write-off of £3,786,000.

In accordance with the Group's accounting policy, the carrying values of goodwill and other intangible assets not subject to systematic amortisation are reviewed semi-annually for impairment. The review assesses whether the carrying value of goodwill could be supported by the present value of future cash flows derived from operating activities. Future cash flows are calculated with reference to each operating company's two-year business plan (approved in March 2010) which is subject to a rigorous review and challenge process. The residual growth rate thereafter has been reduced to a nominal rate of 3 per cent for all units.

In considering the discount rate applicable to the Group we have considered the following factors:

- (i) 12-month cost of debt; and
- (ii) the cost of equity based on a two-year beta of 1.12. We consider this to be an appropriate period since the Group is of an acquisitive nature and therefore has changed significantly during the last five years. Since no acquisitions have taken place since December 2006, the Directors believe this period represents the most appropriate to the Group's circumstances.

The pre-tax discount rate, used to assess the carrying value of goodwill, is 9.6 per cent (2009: 7.9 per cent), which approximates the Group's weighted average cost of capital adjusted only to reflect the way in which the market would assess the specific risks associated with the estimated cash flows of the Group and excluding any risks that are not relevant to estimated cash flows of the Group. In arriving at this discount rate it was noted that the interest rate had fallen significantly during the year. This is unlikely to be sustainable and therefore to arrive at our cost of debt we have used a higher rate in line with an expected increase in LIBOR.

The review performed at the year end did not result in the impairment of goodwill for any cash-generating unit as the estimated recoverable amount exceeded the carrying value in all cases.

At 31 March 2010, had the Group used an industry-average beta of 1.5, the weighted average cost of capital would have been 11.2 per cent. At this level the carrying value of goodwill could potentially be impaired by £250,000 or 0.2 per cent of the total.

If the budgeted 2011 and 2012 PBIT is 10 per cent lower than management's estimate at 31 March 2010 and there is zero growth thereafter, then the carrying value of goodwill could potentially be impaired by £437,000 or 0.4 per cent of the total.

Components of goodwill at 31 March 2010 and 2009 are:

Insight	2010 £'000	2009 £'000
ICM	19,030	19,021
MSL	7,633	7,633
CML	–	3,786
	26,663	30,440
Communications		
DLKW	30,533	30,533
TMW	28,541	28,539
NBC	6,434	6,434
Others	9,643	9,643
	75,151	75,149
Health		
PAN	9,599	9,599
RDC	7,668	7,668
	17,267	17,267
Total	119,081	122,856

The principal Group companies at 31 March 2010 are set out below:

Operating company	Principal activity in the year	Proportion of the Ordinary Shares and voting rights held by:	
		The Company	Operating companies
Marketing Sciences Limited	Market Research	100%	
Mobile Sensory Testing Services Limited	Market Research		100%
The Real Adventure Marketing Communications Limited	Marketing Communications	100%	
EMO Group Limited	Marketing Communications	100%	
Emery McLaven Orr Limited	Marketing Communications		100%
Nelson Bostock Communications Limited	Public Relations	100%	
CML Research Limited	Qualitative Research	100%	
Face Communications Limited	Intermediate Holding Company	100%	
DLKW Holdings Limited	Intermediate Holding Company		100%
DLKW & Partners Limited	Advertising Agency		100%
Dialogue DLKW Limited	Marketing Communications		100%
The Composing Room Limited	Pre-press Print Production		100%
Red Door Communications Limited	Public Relations – Health	100%	
ICM Research Limited	Market Research	100%	
FieldworkUK.com Limited	Market Research		100%
ICM Direct Limited	Market Research		100%
Tullo Marshall Warren Limited	Direct Marketing	100%	
Colombus Communications Limited	Direct Marketing	100%	
PAN Advertising Limited	Advertising – Health	100%	

The above list excludes details of non-trading dormant subsidiaries, although all subsidiary undertakings have been included in the Consolidated Financial Statements. All of the subsidiary undertakings above are incorporated and operate in the UK.

Notes to the Financial Statements

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13 Other intangible assets

	Software development and licences £'000	Brand names £'000	Customer contracts £'000	Total £'000
Cost				
At 1 April 2008	870	800	1,865	3,535
Transfer from property, plant and equipment	487	–	–	487
Additions	284	–	–	284
Disposals	(77)	–	–	(77)
At 1 April 2009	1,564	800	1,865	4,229
Transfer from property, plant and equipment	73	–	–	73
Additions	227	–	–	227
Disposals	(6)	–	–	(6)
At 31 March 2010	1,858	800	1,865	4,523
Amortisation				
At 1 April 2008	230	–	1,865	2,095
Transfer from property, plant and equipment	195	–	–	195
Charge for the year	413	–	–	413
Disposals	(56)	–	–	(56)
At 1 April 2009	782	–	1,865	2,647
Transfer from property, plant and equipment	8	–	–	8
Charge for the year	323	–	–	323
Disposals	(6)	–	–	(6)
At 31 March 2010	1,107	–	1,865	2,972
Net book amount				
At 31 March 2010	751	800	–	1,551
At 31 March 2009	782	800	–	1,582
At 31 March 2008	640	800	–	1,440

In accordance with the Group's accounting policy the carrying values of brand names are reviewed for impairment in the same manner as goodwill (see note 12).

The method of valuation and subsequent review is outlined in note 1.

14 Property, plant and equipment

	Leasehold property £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 April 2008	2,065	75	5,255	7,395
Transfer to intangible assets	–	–	(487)	(487)
Additions	200	295	654	1,149
Disposals	(350)	(14)	(1,552)	(1,916)
At 1 April 2009	1,915	356	3,870	6,141
Transfer to intangible assets	–	–	(73)	(73)
Transfer between categories	206	–	(206)	–
Additions	346	–	657	1,003
Disposals	(144)	(322)	(634)	(1,100)
At 31 March 2010	2,323	34	3,614	5,971
Depreciation				
At 1 April 2008	1,280	36	2,457	3,773
Transfer to intangible assets	–	–	(195)	(195)
Charge for the year	685	261	1,000	1,946
Disposals	(350)	(12)	(1,535)	(1,897)
At 1 April 2009	1,615	285	1,727	3,627
Transfer to intangible assets	–	–	(8)	(8)
Charge for the year	287	62	1,027	1,376
Disposals	(144)	(318)	(627)	(1,089)
At 31 March 2010	1,758	29	2,119	3,906
Net book amount				
At 31 March 2010	1,758	29	2,119	3,906
At 31 March 2009	300	71	2,143	2,514
At 31 March 2008	785	39	2,798	3,622

The net book amount includes £21,000 (2009: £19,000) in respect of assets held under finance leases and similar hire purchase contracts. The amount of depreciation in respect of such assets amounted to £10,000 (2009: £23,000) for the year. During the year, the Group acquired £15,000 of assets under finance lease arrangements (2009: £nil).

15 Financial assets – available for sale

	2010 £'000	2009 £'000
Shares in BJK&E Holdings Limited	550	550

This financial asset is held by DLKW Holdings Limited and is denominated in Sterling and represents 15 per cent of the share capital of BJK&E Holdings Limited. This financial asset is held at its fair value. Since this entity is not quoted on an active market the Group has valued this investment at a reasonable multiple of the average earnings of the previous three financial years, which has not changed significantly during the year. There were no disposals or impairment provisions on available-for-sale financial assets in 2010 or 2009.

16 Inventories and work in progress

	2010 £'000	2009 £'000
Work in progress	2,937	1,665

Notes to the Financial Statements

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17 Trade and other receivables

	2010 £'000	2009 £'000
Current assets		
Trade receivables	26,750	25,972
Less: provision for impairment of trade receivables	(64)	(376)
Trade receivables – net	26,686	25,596
Other receivables	306	683
Prepayments and accrued income	5,354	4,535
	32,346	30,814

The average credit period taken on sales of goods is 60 days (2009: 60 days).

The Group is satisfied that the majority of its clients are of sound creditworthiness. This view is supported by the willingness of our credit insurers to provide cover in the majority of cases. Management noted, however, that during the year there was a growing trend by the underwriters to reduce or remove cover on certain clients.

The ageing analysis of net trade receivables is as follows:

	Carrying value as at 31 March £'000	Neither past due nor impaired £'000	Past due but not impaired		
			Up to 3 months £'000	3 to 6 months £'000	Greater than 6 months £'000
2010	26,686	8,458	17,215	977	36
2009	25,596	10,947	14,391	223	35

Past due amounts are not considered impaired where collection is still considered likely.

As of 31 March 2010, trade receivables of £64,000 (2009: £376,000) were impaired and fully provided for. The individually impaired receivables relate to a mixture of clients. These receivables are considered to be doubtful and are aged as follows:

	2010 £'000	2009 £'000
Three to six months	13	309
Over six months	51	67
	64	376

The carrying amounts of the trade and other receivables are denominated in the following currencies:

	2010 £'000	2009 £'000
Current assets		
Pounds	29,677	28,305
Euros	2,410	2,362
US Dollars	259	147
	32,346	30,814

Movements on the provision for impairment of trade receivables are as follows:

	2010 £'000	2009 £'000
Current assets		
At 1 April	376	89
Provision for receivables impairment	39	352
Receivables written off during the year as uncollectible	(96)	(12)
Unused amounts reversed	(255)	(53)
At 31 March	64	376

The creation and release of the provision for impaired receivables have been included in other expenses in the income statement within operating costs (note 3). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

18 Cash and short-term deposits

In addition to the cash and cash equivalents of £2,778,000 (2009: £2,806,000), restricted cash deposits of £nil (2009: £22,000) were maintained in a designated account as security for the loan notes issued on the acquisition of MSL.

19 Trade and other payables

	2010 £'000	2009 £'000
Trade payables	9,415	7,230
Social security and other taxes	5,129	4,402
Accruals and deferred income	20,713	17,731
Other payables	627	621
	35,884	29,984

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

The carrying amounts of the trade and other payables are denominated in the following currencies:

	2010 £'000	2009 £'000
Current liabilities		
Pounds	35,860	29,836
Euros	24	140
US Dollars	–	8
	35,884	29,984

Notes to the Financial Statements

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20 Provisions for other liabilities and charges

The earn-out obligations is set out below:

	2010 £'000	2009 £'000
Deferred consideration		
At 1 April	22,300	30,458
Settled in the year	(23,122)	(13,866)
Adjustments to consideration on previous acquisitions (note 12)	11	3,218
Re-allocation to provisions	151	–
Income statement		
Future acquisition payments to employees deemed as remuneration (note 6)	256	1,610
Notional finance cost on future deferred consideration (note 7)	404	880
At 31 March	–	22,300
	2010 £'000	2009 £'000
Analysed as:		
Current liabilities	–	19,413
Non-current liabilities	–	2,887
	–	22,300

The Group considers that the above liabilities approximate to their fair value. The notional interest rate used during the year was 3.6 per cent (2009: 3.6 per cent).

During the period, £20,058,000 (2009: £15,284,000) was paid to purchase subsidiary undertakings ICM, MSL, RDC and TMW (2009: DLKW and NBC), all of which were acquired by the Group in previous years.

21 Commitments under finance leases and hire purchase agreements

Commitments under finance leases and hire purchase agreements are as follows:

	2010 £'000	2009 £'000
In one year or less	8	8
Between one and five years	8	–
	16	8

It is the Group's policy to minimise the leasing of its plant and equipment under finance leases. The average remaining lease term is two years. For the year ended 31 March 2010, the average effective borrowing rate was 2.6 per cent (2009: 6.2 per cent). Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

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

22 Bank overdraft, loans and loan notes

	2010 £'000	2009 £'000
Bank overdraft and revolving credit facility	13,000	7,000
Bank loan	11,600	14,400
Acquisition loan notes	3,087	23
	27,687	21,423
The borrowings are repayable as follows:		
Less than one year – current liabilities	27,687	9,823
In one to two years	–	11,600
In more than two years but less than three years	–	–
In more than three years but less than four years	–	–
In more than four years but less than five years	–	–
Non-current liabilities	–	11,600

Following the amendments to the Group's banking facilities in June 2008, the principal features of the Group's borrowings are as follows:

- The bank loan is repayable over the period to 31 March 2011 in six-monthly instalments and secured by a fixed and floating charge over the assets of the Group.
- The Group has an overdraft facility of £5 million which was renewed in June 2008.
- The Group has a revolving credit facility of £25 million (which is reduced by the £5 million committed overdraft facility) which expires on 31 March 2012.
- The bank loan, revolving credit facility and overdraft currently bear interest ranging between 1.0 and 2.15 per cent above LIBOR and vary depending on the Group's gearing. During the year, the average margin was 1.3 per cent above LIBOR.
- The bank loan, revolving credit facility and overdraft are secured by a fixed and floating charge over the assets of the Group.

23 Financial assets and liabilities

The Group's financial instruments comprise borrowings, cash, trade payables, investments, trade receivables and available-for-sale financial assets. The financial assets are required for day-to-day working capital of the Group. The borrowings were used as part of the funding for past acquisitions. The objective is to achieve the best interest rates available whilst maintaining acceptable flexibility and minimal risk.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and liquidity risk.

Currency risk

The principal currency of the Group's financial assets and liabilities is sterling. The Group does have contracts where it has been agreed to bill the clients in a currency other than the principal currency. The Group therefore faces currency exposures. To hedge against this risk the Group has taken out a forward contract. The instrument purchased is denominated in Euros as this is the Group's significant exposure.

The derivative financial instrument has been calculated by assessing the movement in fair value of the forward contract. This contract qualifies for hedge accounting and has been treated as a cash flow hedge, and therefore the effective portion of the change in fair value is recognised within the Consolidated statement of comprehensive income. The ineffective portion is recognised directly in the Consolidated income statement.

The fair value of the derivative is based on the market value supplied by the bank through which the currency derivative was acquired.

	2010 £'000	2009 £'000
Forward foreign exchange contracts – cash flow hedge	(188)	–
Tax effect of forward foreign exchange contract	53	–
Total	(135)	–

The Group has committed and undrawn facilities relating to the revolving credit facility of £7,000,000 (2009: £13,000,000) plus an unused overdraft facility of £5,000,000 and a cash balance of £2,778,000 at 31 March 2010.

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23 Financial assets and liabilities continued

At 31 March 2010, if Sterling had weakened/strengthened by 10 per cent against the Euro with all other variables held constant, post-tax profit for the year would have been £385,000 (2009: £155,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables.

During the year, if the Euro had weakened/strengthened by 4 per cent against the Sterling with all other variables held constant, post-tax profit for the year would have been £163,000 (2009: £65,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of sterling-denominated trade receivables.

Interest rate risk

The Group's operations are cash-generative and it funds acquisitions through a combination of retained profits and borrowings. In order to manage the Group's exposure to interest rate risk, borrowings comprise a mixture of fixed and floating rate instruments.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2009 and 2010, the Group's borrowings at variable rate were denominated in sterling.

At 31 March 2010, if interest rates on currency-denominated borrowings had been 0.1 per cent higher/lower with all other variables held constant, post-tax profit for the year would have been £16,000 (2009: £14,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been £nil (2009: £nil) lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available for sale. At 31 March 2010, if interest rates on sterling-denominated borrowings at that date had been 0.5 per cent higher/lower with all other variables held constant, post-tax profit for the year would have been £78,000 (2009: £67,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been £nil (2009: £nil) lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available for sale.

Liquidity risk

The Group maintains a mixture of short- and long-term borrowings to manage this risk. Furthermore, the Group's cash deposits are highly liquid. The Group seeks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group's unused banking facilities can be drawn on a revolving credit facility which is available with 24 hours of notice being given to the bank, hence any short-term liquidity requirement can be managed.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the relevant agency Board. The utilisation of credit limits is regularly monitored.

The Group maintains insurance against all trade receivables. Consequently, the Group is insured for the non-settlement of up to 90 per cent of the insured trade receivables in the event that the customer is unable to settle validly invoiced debts (subject to an excess of £1,000).

Credit limits are agreed with the Group's insurers. Where insurance is refused on a customer the Group will only trade with that customer if appropriate and suitably conservative settlement terms are agreed.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the Consolidated balance sheet) less cash and cash equivalents. Total debt is net debt together with the Group's deferred consideration provisions (being future earn-out obligations) as set out in note 20. Total capital is calculated as equity as shown in the Consolidated balance sheet.

During 2010, the Group's strategy, which remained unchanged from 2009, was to maintain a gearing ratio below 75 per cent. The gearing ratios at 31 March 2010 and 2009 were as follows:

	2010 £'000	2009 £'000
Net debt (note 30)	(24,925)	(18,603)
Amounts recoverable from vendors	–	–
Provision for deferred consideration (note 20)	–	(22,300)
Total debt	(24,925)	(40,903)
Total equity	95,954	87,868
Gearing ratio	26%	47%

The decrease in the gearing ratio during 2010 resulted primarily from the normal profit and cash collection achieved in the year which was utilised to reduce the net debt in the Group.

Ratio of debt to Headline EBITDA	2010 £'000	2009 £'000
Headline PBIT (note 4)	14,257	15,605
Depreciation	1,376	1,946
Amortisation	323	413
Headline EBITDA	15,956	17,964
Ratio of net debt to Headline EBITDA	1.6	1.0
Ratio of total debt to Headline EBITDA	1.6	2.3

Financial assets	2010 £'000	2009 £'000
Cash at bank and in hand maturing in one year or less, or on demand	2,778	2,828
Weighted average interest rate	0.10%	2.27%

Financial liabilities	2010 £'000	2009 £'000
Subject to floating rates:		
Bank loan	11,600	14,400
Revolving credit facility	13,000	7,000
	24,600	21,400
Weighted average period for which rate is fixed – months	1.0	1.0
Weighted average interest rate (including LIBOR)	1.78%	5.23%

The bank loan and revolving credit facility interest rate can be fixed every one, three, six or twelve months and, accordingly, is not deemed a fixed rate financial liability.

	2010 £'000	2009 £'000
At fixed interest rates:		
Acquisition loan notes	3,087	23
Finance leases	16	8
Fixed interest rate financial liabilities	3,103	31

	2010 £'000	2009 £'000
Repayable in:		
One year or less or on demand	27,703	9,831
More than one year but not more than two years	–	11,600
	27,703	21,431

Notes to the Financial Statements

continued

23 Financial assets and liabilities continued

Fair values of financial assets and liabilities	Book value		Fair value	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Cash at bank and in hand	2,778	2,828	2,778	2,828
Revolving credit facility	(13,000)	(7,000)	(13,000)	(7,000)
Acquisition loan notes	(3,087)	(23)	(3,087)	(23)
Bank loan	(11,600)	(14,400)	(11,600)	(14,400)
Finance leases	(16)	(8)	(16)	(8)
	(24,925)	(18,603)	(24,925)	(18,603)

The fair values of the financial assets and liabilities are estimated to be equal to their book values.

24 Operating lease commitments

As at 31 March the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

Fair values of financial assets and liabilities	2010		2009	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
In one year or less	374	28	226	26
Between one and five years	8,512	456	7,092	402
In five years or more	682	–	277	–
	9,568	484	7,595	428

25 Deferred taxation

The deferred taxation asset of £766,000 (2009: £800,000) recognised in the Financial Statements is set out below:

	2010 £'000	2009 £'000
Accelerated capital allowances	437	388
Short-term timing differences	275	238
Share-based payments	139	183
Future acquisition payments to employees deemed as remuneration	–	344
Purchased goodwill	(82)	(328)
Other timing differences	(3)	(25)
	766	800

The movement in the year is analysed as follows:

	2010 £'000	2009 £'000
As at 1 April	800	786
Income statement (note 9)	(34)	(23)
On acquisition and fair value adjustments	–	–
Other transfers	–	37
As at 31 March	766	800

The Group has recognised deferred tax assets where there are forecast profits in the next twelve months from which the future reversal of the underlying timing differences can be deducted.

26 Called up share capital

Group and Company	2010 £'000	2009 £'000
Authorised:		
100,000,000 Ordinary Shares of 10 pence each (2009: 100,000,000 Ordinary Shares of 10 pence each)	10,000	10,000
Called up, allotted and fully paid:		
61,337,338 Ordinary Shares of 10 pence each (2009: 55,761,238 Ordinary Shares of 10 pence each)	6,134	5,576

Options

The Group has the following options in issue:

	At start of year	Lapsed	At end of year
Sharesave scheme	146,493	(110,620)	35,873
EMI scheme	190,940	–	190,940
Other options	1,576,954	–	1,576,954
	1,914,387	(110,620)	1,803,767

All outstanding options are due for settlement in cash up to the expiry dates disclosed in note 27. No options were exercised during the financial year ended 31 March 2010.

Sharesave scheme

This scheme permits any employee of the Company or its subsidiaries (who is resident in the UK) to enter into a savings contract which will mature in a specified period of time (being three years for the current scheme) at which date the employee can use the funds to exercise options granted to them under this scheme. The purpose of this scheme was to ensure that all employees were given the opportunity to participate in the future success of the Group.

EMI scheme

The purpose of this scheme is to incentivise certain key employees. Consequently, these options are linked to performance targets for both the Group and the individual. This scheme is now closed and no further awards will be made.

Other options

Unapproved options are outstanding in respect of Directors (1,470,060 options as detailed in the Directors' Remuneration Report) and former Directors (106,894 options), of which the latter will lapse on 28 January 2011.

Creston plc Long Term Incentive Plan ('LTIP')

This scheme has replaced the EMI scheme and is intended to incentivise the Chief Executive Officer, the Chief Operating and Financial Officer and other senior employees. Participants are awarded a contingent right to receive new Ordinary Shares in the Company subject to meeting certain agreed performance conditions. These awards are granted at the beginning of each financial year or on the date of acquisition (Chief Executive Officer and Chief Operating and Financial Officer) and vest over three years. There is no exercise price in respect of these awards.

The Group has the following LTIPs in issue:

	At start of year	Granted	Vested	Lapsed	At end of year
LTIP	3,050,515	1,857,211	(798,646)	(1,343,510)	2,765,570

LTIPs lapsed in the year because certain performance criteria were not met and due to the departure of staff from the Group.

The following awards issued under this scheme have not vested or lapsed as at 31 March 2010:

Date of grant	Contingent shares	Price of award Pence
15 October 2007	240,878	115.0
31 January 2008	50,946	56.0
3 April 2008	466,088	60.0
1 July 2008	276,148	58.0
15 July 2009	1,480,087	65.0
30 January 2010	251,423	80.0
	2,765,570	

Notes to the Financial Statements

continued

26 Called up share capital continued

Own shares	Treasury scheme. No. of shares	EBT No. of shares	Total No. of shares	Total £'000
At 1 April 2009	52,383	1,671,350	1,723,733	1,054
Sold in the year	–	(640,012)	(640,012)	(253)
At 31 March 2010	52,383	1,031,338	1,083,721	801

27 Share-based payments

Options

The Group uses a Black-Scholes model to calculate the fair value of options on grant date. For schemes without market-based performance conditions the valuation methodology is applied at each year end and the valuation revised to take account of any changes in estimate of the likely number of shares expected to vest.

The key assumptions used in determining the fair values are set out below:

Share options outstanding at the year end	Dividend yield %	Risk-free rate %	Volatility %	Fair value Pence	Exercise price Pence	Grant date	Expiry date	Shares
Sharesave scheme	1.8	5.75	25	37	155.4	01.10.07	31.03.11	35,873
EMI scheme	1.2	4.5	42	72	142.0	30.11.04	30.11.14	120,518
EMI scheme	1.2	4.5	41	75	150.0	30.09.04	30.09.14	70,422
Unapproved options	1.2	4.5	46	76	95.0	29.01.01	29.01.11	246,954
Unapproved options	1.2	4.5	46	76	142.0	30.09.04	30.09.14	150,000
Unapproved options	1.2	4.5	56	66	110.0	16.10.03	16.10.13	382,380
Unapproved options	1.2	4.5	56	69	114.0	17.10.03	17.10.13	60,657
Unapproved options	1.2	4.5	56	68	113.0	03.11.03	03.11.13	91,145
Unapproved options	1.2	4.5	55	84	139.0	30.07.04	04.07.14	46,752
Unapproved options	1.2	4.5	46	76	142.0	30.09.04	30.09.14	67,477
Unapproved options	1.2	4.5	33	69	155.0	31.03.05	31.03.15	487,280
Unapproved options	1.2	4.5	32	71	165.5	28.07.05	28.07.15	24,231
Unapproved options	1.2	4.5	32	71	165.5	31.08.05	31.08.15	20,078

Volatility is based on the Group's share price movement over the 12 months preceding the grant of the options. This is a lower period than is recommended by IFRS but is, in the opinion of the Directors, appropriate given the Group's history of growth and acquisitions at the time the options were awarded.

The Group recognised expenses of £nil in 2010 (2009: £15,000).

LTIP

The Group operates the Creston Long Term Incentive Plan (LTIP) for senior management. The awards are valued using the share price on the date of grant. The income statement is charged over the performance period of the award, taking account of the estimated number of shares expected to vest. The Group recognised an expense of £25,000 (2009: £131,000) as remuneration. In addition, costs of £187,000 (2009: £684,000) were recognised in the year as deemed remuneration.

28 Other reserves

	2010 £'000	2009 £'000
Special reserve	2,385	2,385
Revaluation reserve	535	535
Capital redemption reserve	72	72
Other reserve	28,365	28,365
	31,357	31,357

The special reserve and capital redemption reserve are non-distributable reserves which arose prior to 2001 (when Creston commenced operations as a marketing communications group).

The revaluation reserve arose on the fair valuation of the shares in BJK&E Holdings Limited in 2005.

The other reserve represents the difference between the fair value of shares issued for non-cash consideration and the nominal value of those shares and is considered by the Directors to be non-distributable. Where shares are issued for cash consideration, the difference between the fair value of shares issued and the nominal value is recognised in the share premium account.

29 Reconciliation of profit for the year to operating cash flow

	2010 £'000	2009 £'000
Profit for the year	5,133	6,597
Taxation	3,020	3,414
Profit before taxation	8,153	10,011
Income from financial assets	(195)	(150)
Finance costs	1,080	2,487
Finance income	(6)	(45)
Profit before finance income, finance costs, income from financial assets and taxation	9,032	12,303
Depreciation of property, plant and equipment	1,376	1,946
Amortisation of intangible assets	323	413
Share-based payments	(92)	109
Goodwill write-off	3,786	–
Deemed remuneration	517	2,294
(Profit)/loss on disposal of property, plant and equipment	(1)	17
(Increase)/decrease in inventories and work in progress	(1,273)	267
(Increase)/decrease in trade and other receivables	(1,591)	2,834
Increase in trade and other payables	5,970	646
Operating cash flow	18,047	20,829

Notes to the Financial Statements

continued

30 Analysis of net and total debt

	At 31 March 2009 £'000	Other movements £'000	Acquisitions £'000	Cash flow £'000	At 31 March 2010 £'000
Cash and short-term deposits	2,806	–	–	(28)	2,778
Bank overdrafts and revolving credit facility	(7,000)	–	–	(6,000)	(13,000)
Acquisition loan notes	(23)	–	(19,682)	16,618	(3,087)
Bank loans	(14,400)	–	–	2,800	(11,600)
Finance leases	(8)	–	–	(8)	(16)
Net debt	(18,625)	–	(19,682)	13,382	(24,925)
Restricted cash deposits (note 18)	22	–	–	(22)	–
Net debt including restricted cash deposits	(18,603)	–	(19,682)	13,360	(24,925)
Provision for deferred consideration (note 20)	(22,300)	(822)	19,682	3,440	–
Total debt	(40,903)	(822)	–	16,800	(24,925)

31 Related party transactions

Mr D C Marshall is a Director of City Group P.L.C. and Western Selection P.L.C. which held 3,000,000 Ordinary Shares at 31 March 2010 and 31 March 2009. During the year, total fees of £61,435 (2009: £65,143) were paid to City Group P.L.C., £31,435 (2009: £35,143) for the provision of secretarial services and assistance on the acquisitions and £30,000 (2009: £30,000) for the services of Mr D C Marshall. Key management's salaries have been disclosed in note 6.

32 Post balance sheet events

At the General Meeting to be held on 13 July 2010 the Directors will be recommending to shareholders the sale of Delaney Lund Knox Warren and Partners, Dialogue DLKW and The Composing Room ('DLKW Group') for £28.0 million. Details setting out the strategic reasons and financial information, relating to this disposal has been announced separately. If the shareholders approve the sale, a loss on disposal of approximately £3.2 million (subject to any net asset adjustment) would be recognised in the financial year ending 31 March 2011. This loss is the difference between the net proceeds and the goodwill and intangible assets relating to the DLKW Group. The Directors do not regard the carrying value as impaired at 31 March 2010 as they believe the value in use to exceed the carrying value at that date. The Directors are recommending the sale at a value below the carrying value for strategic reasons, which has been disclosed in the related circular to shareholders detailing the disposal.

Should the disposal be approved by shareholders, the proceeds will be used to repay the Group's borrowing liabilities which as at 31 March 2010 were £24,925,000 (see note 30).