

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 March 2009.

Principal Activity

The Group is principally engaged in insight and communications services, as described in the Chairman and Chief Executive's Statement and the Operating Review.

Business Review and Key Risks

The information that fulfils the requirements of the Business Review can be found in the Financial Review on pages 26 to 29, the Operating Review on pages 20 to 23, and the Chairman and Chief Executive's Statement on pages 6 to 9, which are incorporated into this Report of the Directors by reference. Creston's principal operating risks and uncertainties are associated with the retention of key personnel and customers. In common with many businesses in the marketing services sector, the loss of certain key personnel could jeopardise the continuing success of the business. Many of these personnel have long-standing relationships with many of the Group's customers. The Group seeks to incentivise its key personnel through LTIP and other bonus arrangements and has a proven track record of retaining key personnel.

The Group derives a substantial amount of revenue from contracts with its major customers. The Group has implemented a system of customer satisfaction reviews to identify areas for improving the service and is continuously working towards reducing client concentration.

Results and Dividends

The Group made a profit for the year after taxation of £6,597,000 (2008: £4,782,000). An interim dividend of £394,000, equal to 0.73 pence per share (2008: 0.97 pence per share), was paid on 12 January 2009. Given the current economic climate and due to the priority of investors to maximise cash, the Directors have recommended no final dividend for the year ending 31 March 2009 (2008: 1.80 pence per share). The total dividend for the year is 0.73 pence per share (2008: 2.77 pence per share). Dividends are detailed in note 11 to the financial statements.

Share Capital

The Company issued no new Ordinary Shares during the year (2008: nil). Details of the Company's issued share capital are given in note 26 to the financial statements.

During the year, the Company purchased 1,349,549 Ordinary Shares of 10 pence each via the Employee Benefit Trust representing 2.4 per cent of the called-up share capital for an aggregate consideration of £935,000.

The Company is authorised to make purchases of its own shares and this authority is to be renewed in accordance with the Notice of Annual General Meeting.

Directors and their Interests

The Company's Directors, who all served throughout the year, are detailed on pages 30 and 31 together with brief biographies.

Mr A J H Dougal retires in accordance with the Articles of Association and being eligible offers himself for re-election. Mr D C Marshall has been a Non-Executive Director for more than nine years and in accordance with the Combined Code offers himself for annual re-election to the Board. The Board has considered paragraph A7.2 of the Combined Code and believes that the members of the Board continue to be effective and to demonstrate commitment to their roles, the Board and the Group. They therefore have no hesitation in recommending the above Directors for re-election at the forthcoming Annual General Meeting.

The beneficial interests of the Directors and their families on 1 April 2008 and 3 July 2009 in the share capital of the Company were as follows:

	Ordinary Shares	
	3 July 2009	1 April 2008
Mr D C Marshall	–	–
Mr D H Elgie	1,796,639	1,427,914
Mr B C Brien	243,481	36,500
Mr M R Wall	–	–
Mr A J H Dougal	15,000	15,000

Details of the Directors' interests in transactions are set out in note 32. Mr D C Marshall is a director of Western Selection P.L.C. which held 3,000,000 Ordinary Shares of Creston plc at 1 April 2008 and at 3 July 2009 (2008: 3,000,000).

The Company maintains directors' and officers' liability insurance.

Substantial Interests

At 3 July 2009, the Company was aware of the following interests which represented 3 per cent or more of the Company's issued share capital.

	Number of shares	Percentage of capital %
Pangaea One Management LLC	5,708,288	10.24
AXA Framlington Investment Managers	3,356,045	6.02
Western Selection P.L.C.	3,000,000	5.38
Hermes Pensions Management	2,961,344	5.31
Majedie Asset Management	2,541,367	4.46
Mr D H Elgie	1,796,639	3.22

Takeover Directive Disclosures

The following disclosures are made in accordance with the requirements of the EU Takeover Directive.

As at 31 March 2009, the Company has only one authorised class of share, namely Ordinary Shares of 10 pence each, of which there were 55,761,238 in issue (2008: 55,761,238). There are no special arrangements or restrictions relating to any of these shares, whether in terms of transfers, voting or other rights, or relating to changes of control of the Company. After the Placing on 7 July 2009 the number of Ordinary Shares in issue increased to 61,337,338.

The Company does not have any special rules in place regarding the appointment and replacement of Directors, or regarding amendments to the Company's Articles of Association.

The Company has obtained authority from its shareholders to purchase its own shares through the Annual General Meeting. Details of the rights so authorised are set out in the Notice of Annual General Meeting which accompanies this report.

There are no special conditions or agreements in place which would take effect, alter or terminate in the event of a takeover.

Special Business at the Annual General Meeting

Shareholders will note from the Notice of Annual General Meeting on pages 88 to 90 that they are asked to consider and, if thought fit, pass a number of resolutions as special business:

- Under section 80 of the Companies Act 1985, the Directors are prevented, subject to certain exceptions, from allotting relevant securities without the authority of the shareholders in general meeting. Relevant securities are defined in the act to include the Company's Ordinary Shares or securities convertible into the Company's Ordinary Shares. This resolution proposed as an ordinary resolution to authorise the Directors to allot relevant securities up to an aggregate nominal value of £2,044,578 and up to an aggregate nominal value of £4,089,156 where the offer is by way of rights issue, such amounts, representing approximately one third and two thirds, respectively of the share capital of the Company in issue at 17 July 2009 (being the last practicable date prior to the publication of this notice). The Directors' authority will expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date on which the resolution is passed. This authority complies with guidelines issued by institutional investors. The Directors have no immediate plans to make use of this authority. As at 17 July (being the last practicable date prior to the publication of this notice), the Company holds 1,226,890 Ordinary Shares in the capital of the Company in treasury/employee benefit trust, representing approximately 2.0 per cent of the share capital of the Company in issue at that date (Resolution 7);
- Under section 89 of the Companies Act 1985, when new shares are allotted or treasury shares are sold for cash, they must first be offered to existing shareholders pro rata to their holdings. This special resolution renews, for the period to the date of the next Annual General Meeting or, if earlier, 15 months from the date on which this resolution is passed, the authorities previously granted to the Directors to: (a) allot shares of the Company in connection with a rights issue open offer, or other pre-emptive offer; and (b) otherwise allot shares of the Company, or sell treasury shares for cash, up to an aggregate nominal value of £306,687 (representing in accordance with institutional investor guidelines, approximately 5% of the share capital in issue as at 17 July 2009) (being the last practicable date prior to the publication of this notice) as if the pre-emption rights of section 89 did not apply (Resolution 8);
- A resolution is being proposed as a special resolution which renews the Directors' current authority to make limited market purchases of the Company's Ordinary Shares. The power is limited to a maximum aggregate number of 6,133,733 shares (representing 10 per cent of the issued share capital as at 17 July 2009 (being the latest practicable date prior to publication of this notice)) and details the minimum and maximum prices that can be paid, exclusive of expenses. The authority conferred by this resolution will expire at the conclusion of the Company's next Annual General Meeting or 15 months from the passing of this resolution, whichever is the earlier. Any purchases of Ordinary Shares would be made by means of market purchase through the London Stock Exchange.

The shares repurchased by the Company under the renewed authority would either be cancelled or held as treasury shares (shares held by the Company itself). No dividends may be paid on shares which are held as treasury shares and no voting rights are attached to them. It is the intention of the Company to hold some or all of the shares which are repurchased under this authority as treasury shares within the limits allowed by law. Once held in treasury, treasury shares may be cancelled, sold for cash or used for the purpose of employee share schemes.

The Directors have no present intention of exercising the authority to purchase the Company's Ordinary Shares. The Directors would only purchase shares if, in their opinion, the expected effect would be to result in an increase in earnings per share and would benefit shareholders generally (Resolution 9);

- It is proposed to amend the Articles of Association (the 'Articles') in order to update the Company's current Articles to take account of changes in English company law brought about by the Companies Act 2006.

Report of the Directors

continued

Certain changes were also made to the Articles at last year's Annual General Meeting and it is anticipated that further changes may be made at the Annual General Meeting in 2010. Therefore, the only change proposed to be made to the Articles this year relates to convening general meetings and the length of notice required to convene general meetings which will be updated to conform to new provisions in the Companies Act 2006. In particular, a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required (Resolution 10); and

- This resolution is required to reflect the proposed implementation in August 2009 of the Shareholder Rights Directive. The regulation implementing this Directive will increase the notice period for general meetings of the Company to 21 days. Subject to the Articles of Association of the Company being amended pursuant to Resolution 10, the Company would be able to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. In order to be able to do so after the Shareholder Rights Directive comes into force in August 2009, shareholders must have approved the calling of meetings on 14 days' notice. This resolution seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Shareholder Rights Directive before it can call a general meeting on 14 days' notice (Resolution 11).

Supplier Payment Policy

It is the Group's intention to settle supplier invoices in line with their terms of business. The number of creditor days outstanding for the Company and for the Group at 31 March 2009 was 25 days (2008: 35 days) and 36 days (2008: 35 days), respectively.

Employees

Employees are incentivised via the operating company specific bonus schemes, corporate bonus schemes and the Group's LTIP scheme to ensure that all employees have a chance to share in the Group's success.

Employees and their representatives are consulted regarding any changes to the business that may affect them. Employees are consulted regularly regarding market and industry developments to ensure that all relevant information affecting the Group is readily available.

The Group adopts a policy for giving full and fair consideration to applications for employment that disabled people make to the Company and ensures that there are relevant opportunities for training, career development and promotion of disabled people and for the continuing employment and training of employees who have become disabled while employed by the Company.

Charitable Contributions

Charitable contributions for the year amounted to £21,000 (2008: £7,000) and were made to bodies including Sports Relief, the RSPCA, the NSPCC, local community and cancer related charities.

Risk Management Policies and Objectives

The Group's policy towards risk is that sound risk management is critical to the delivery of shareholder value. Risks that affect or may affect the business are identified, assessed and appropriate controls and systems are implemented to ensure that the risk is managed. The financial risk management policies and objectives are set out in note 23 of the financial statements.

Directors' Responsibilities

The Directors are responsible 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).

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group and of the profit or loss of the Group and a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company for that period. In preparing those financial statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are 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 Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and that the parent company financial statements and the Directors' Remuneration Report 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.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and, in accordance with Section 380 of the Companies Act 1985, a resolution proposing their re-appointment will be put to the Annual General Meeting.

By Order of the Board

City Group P.L.C.
Secretary

17 July 2009