

Notes to the financial statements

for the year ended 31 March 2009

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 1985 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 whose registered office is 30 City Road, London EC1Y 2AG and whose head office is located at 100 Pall Mall, London SW1Y 5NQ (until 31 July 2009) and 16 Charles II Street, London SW1Y 4QU (from 1 August 2009).

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 2009:

- IFRIC 11 (IFRS 2), 'Group and treasury share transactions.' The adoption of this standard has not led to any change in the Group's accounting policies.

The following standards and interpretations are effective in 2009 but are not relevant to the Group's accounts:

- IFRIC 12, 'Service concession arrangements';
- IFRIC 13, 'Customer loyalty programmes'; and
- IFRIC 14, 'Recognition of defined benefit pension scheme assets'.

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

- IAS 1 (Revised), 'Presentation of financial statements – Comprehensive revision including a statement of comprehensive income' (effective from 1 January 2009);
- IAS 16 (Amendment), Property, plant and equipment (effective from 1 January 2009);
- IAS 19 (Amendment), Employee benefits (effective from 1 January 2009);
- IAS 20 (Amendment), Accounting for government grants and disclosure of government assistance (effective from 1 January 2009);
- IAS 23 (Amendment), Borrowing costs;
- IAS 27 (Revised), Consolidated and separate financial statements;
- IAS 28, Investments in associates (effective from 1 January 2009);
- IAS 29 (Amendment), Financial reporting in hyperinflationary economies (effective from 1 January 2009);
- IAS 31 (Amendment), Interests in joint ventures (effective 1 January 2009);
- IAS 32 (Amendment), Financial Instruments (Presentation);
- IAS 38 (Amendment), Intangible assets (effective from 1 January 2009);
- IAS 39 (Amendment), The fair value option;
- IAS 40 (Amendment), Investment property (effective from 1 January 2009);
- IAS 41 (Amendment), Agriculture (effective from 1 January 2009);
- IFRS 3 (Revised), 'Business combinations – Comprehensive revision on applying the acquisition method' (effective from 1 July 2009);
- IFRS 2 (Amendment), 'Share-based Payments – amendment to vesting conditions and cancellations';
- IFRS 5 (Amendment), Non-current assets held for sale and discontinued operations (effective from 1 January 2009);
- IFRS 8, Operating segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 extends the scope of segmental reporting;
- IFRIC 9 'IAS 39 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2009);
- IFRIC 15, Agreements for construction of real estates (effective from 1 January 2009);
- IFRIC 16 (Amendment), Hedges of a net investment in a foreign operation (effective from 1 October 2008);
- IFRIC 17, Distributions of non-cash assets to owners; 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 2009.

The principal accounting policies adopted have been consistently applied to all periods presented and are set out below.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a stakeholding of between 20 per cent and 50 per cent of the voting rights. 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 of the United Kingdom.

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

Communications

The revenue derived from commissions on media placements, retainer fees, projects and fees for creative services are recognised on each contract in proportion to the level of services performed. 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.

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.

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.

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 units' three-year forecast. After this period, nominal growth rates of between zero and 2.5 per cent have been applied. 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.

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1 Accounting policies *continued*

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 and that will probably generate economic benefits exceeding costs are recognised as intangible assets. These costs are amortised over their estimated useful lives.

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 are charged to the income statement as notional finance costs (calculated at the annual rate of 3.6 per cent (2008: 5.5 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 either the issue of 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 Payments 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, exercise restrictions and behavioural considerations. 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.

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.

Notes to the financial statements

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1 Accounting policies *continued*

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 part of other income when the Group's right to receive payments is established.

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 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.

Segmental analysis

The primary segmental analysis is considered to be by business. The relevant divisions used for this analysis are described in the Operating Review. The secondary segmental analysis is considered to be geographical.

Foreign currencies

Transactions in currencies other than the Group's functional currency, UK pound, 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 estimate 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, 8.7 per cent instead of 7.9 per cent) the Group would have potentially impaired goodwill by £0.3m (0.2 per cent).

(d) Notional interest

The Group has estimated its notional interest charge using a weighted marginal cost of finance of 3.6 per cent. If the estimated cost of finance had been 10 per cent higher (at 4.0 per cent instead of 3.6 per cent) then the notional interest cost would have increased to £1,000,000 from £880,000.

Notes to the financial statements

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2 Segmental analysis

The Group's operational framework consists of a two divisional structure consisting of the Insight and Communications Divisions.

Turnover, revenue, profit before finance income, finance costs, income from financial assets and taxation, capital expenditure, depreciation, amortisation, gross assets and gross liabilities attributable to Group activities are shown below.

Primary segmental analysis by business

2009	Insight £'000	Communications £'000	Head Office £'000	Group £'000
Turnover (billings)	28,213	110,259	–	138,472
Revenue	16,679	67,116	–	83,795
Profit/(loss) before finance income, finance costs, income from financial assets and taxation (segment result)	4,272	12,042	(4,011)	12,303
Finance income	–	–	45	45
Finance costs	(298)	(582)	(1,607)	(2,487)
Income from financial assets	–	150	–	150
Profit before taxation	3,974	11,610	(5,573)	10,011
Taxation				(3,414)
Profit for the financial year				6,597
Other information				
Capital expenditure (excluding acquisitions)				
– Property, plant and equipment	152	995	2	1,149
– Intangible assets	–	198	86	284
Depreciation of property, plant and equipment	275	1,647	24	1,946
Amortisation of intangible assets	138	97	178	413
Balance sheet				
Segment assets	37,652	121,412	3,745	162,809
Unallocated deferred tax assets				800
Total assets				163,609
Segment liabilities	(3,569)	(23,189)	(46,957)	(73,715)
Unallocated current tax liabilities				(2,026)
Total segment liabilities				(75,741)

Consolidated total assets and liabilities at 31 March 2009 are split as:

	Assets £'000	Liabilities £'000
Non-current	128,302	(14,487)
Current	35,307	(61,254)
	163,609	(75,741)

2008	Insight £'000	Communications £'000	Head Office £'000	Group £'000
Turnover (billings)	30,754	106,503	–	137,257
Revenue	17,885	62,631	–	80,516
Profit/(loss) before finance income, finance costs, income from financial assets and taxation (segment result)	5,192	11,723	(4,229)	12,686
Finance income	–	–	77	77
Finance costs	(291)	(1,110)	(1,786)	(3,187)
Income from financial assets	–	–	–	–
Profit before taxation	4,901	10,613	(5,938)	9,576
Taxation				(4,794)
Profit for the financial year				4,782

Other information

Capital expenditure (excluding acquisitions)				
– Property, plant and equipment	214	1,444	23	1,681
– Intangible assets	–	118	117	235
Depreciation of property, plant and equipment	339	1,692	111	2,142
Amortisation of intangible assets	–	–	85	85

Balance sheet

Segment assets	41,263	118,985	5,229	165,477
Unallocated deferred tax assets				786
Total assets				166,263
Segment liabilities	(9,722)	(44,850)	(26,718)	(81,290)
Unallocated current tax liabilities				(2,069)
Total segment liabilities				(83,359)

Consolidated total assets and liabilities at 31 March 2008 are split as:

	Assets £'000	Liabilities £'000
Non-current	125,963	(31,101)
Current	40,300	(52,258)
	166,263	(83,359)

The Head Office costs include £nil (2008: £586,000) relating to the New York office which was closed in February 2008. There was no revenue attributable to this office as clients are currently serviced from the UK agencies or through US-based affiliates.

Secondary 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	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
UK	66,312	66,770	110,093	109,800
Rest of Europe	15,208	12,663	25,650	25,546
Rest of the World	2,275	1,083	2,729	1,911
	83,795	80,516	138,472	137,257

All significant assets and liabilities are located within the UK.

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3 Operating costs

	2009 £'000	2008 £'000
Employee benefits (note 6)	55,452	51,608
Depreciation and amortisation	2,359	2,227
Other expenses	13,681	13,995
	71,492	67,830

Changes in inventories and work in progress of £267,000 (2008: £3,148,000) 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 costs on deferred consideration. These charges will cease once the relevant earn-out obligations have been settled; and
- (ii) Exceptional non-recurring operating charges, which, in 2009, consist of restructuring costs and close down charges relating to DLKW and MSTs respectively, the impairment of the Group's investment in TRA Asia and advisor fees incurred in connection with the aborted offer for the company. In 2008, these costs were associated with the Creston US office.

2009	PBIT £'000	PBT £'000	PAT £'000
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 costs on future deferred consideration	–	(880)	(880)
Taxation impact			651
Reported	12,303	10,011	6,597

2008	PBIT £'000	PBT £'000	PAT £'000
Headline	15,248	13,539	9,418
Costs of US office	(586)	(586)	(586)
Future acquisition payments to employees deemed as remuneration	(1,976)	(1,976)	(1,976)
Notional finance costs on future deferred consideration	–	(1,401)	(1,401)
Taxation impact	–	–	(673)
Reported	12,686	9,576	4,782

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 beyond 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 as remuneration. The notional finance costs also relate to the deferred consideration. Both of these charges will cease once the relevant earn-outs have been settled.

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:

	2009 £'000	2008 £'000
Auditors' remuneration	248	327
(Profit) on sale of property, plant and equipment	(18)	(4)
Amortisation of intangible assets	413	85
Foreign exchange gains	(314)	(333)
Depreciation		
Property, plant and equipment		
– owned	1,858	2,122
– held under hire purchase contracts	88	20
Operating lease rentals – property	2,526	2,888
Operating lease rentals – plant and equipment	247	227
Operating lease rentals – vehicles	49	58

Auditors' remuneration may be analysed as follows:

	2009 £'000	2008 £'000
External audit services – fees payable for the audit of the parent company and consolidated accounts	48	38
External audit services – fees payable for the audit of subsidiary undertakings	160	155
Non-audit services		
Tax services		
Compliance services	–	46
Advisory services	15	80
Other services	25	8
	248	327

In addition, further assurance services were provided in relation to the certification of balances and profits for the acquisitions, £nil (2008: £20,000). These costs were capitalised within goodwill.

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6 Employee benefits

	2009 £'000	2008 £'000
Wages and salaries (including deemed remuneration)	49,340	46,197
Social security costs	5,066	4,500
Pension costs	933	938
Share-based payments	113	(27)
	55,452	51,608

Wages and salaries include the following costs:

	2009 £'000	2008 £'000
Deemed remuneration		
Future acquisition payments	1,610	1,387
Directors' Long-Term Incentive Plan	684	589
	2,294	1,976

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:

	2009 Number	2008 (restated) Number
Directors	5	6
Administration	132	124
Marketing services	781	764
	918	894

The average number of employees for 2008 was restated to include the full-time equivalent of freelancers/non-permanent members of staff (2008: 35 heads).

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

Key management compensation	2009 £'000	2008 £'000
Salaries and other short-term employee benefits	3,623	3,575
Deemed remuneration	684	589
Share-based payments	–	(6)
	4,307	4,158

Directors	2009 £'000	2008 £'000
Salaries and other short-term employee benefits	1,117	1,280
Deemed remuneration	684	589
Share-based payments	–	–
	1,801	1,869

Details of the remuneration of each Director, which form part of the audited financial statements, are set out in the Remuneration Report on pages 40 to 45.

7 Finance income and finance costs

Finance income includes:

	2009 £'000	2008 £'000
Finance income on cash deposits	45	77

Finance costs include:

	2009 £'000	2008 £'000
Notional finance costs on future deferred consideration	(880)	(1,401)
Finance costs on bank overdrafts and loans	(1,045)	(1,616)
Finance costs on finance leases	(2)	(9)
Finance costs on other loans	(560)	(161)
	(2,487)	(3,187)

8 Income from financial assets

	2009 £'000	2008 £'000
Dividends received	150	–

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

9 Taxation

	2009 £'000	2008 £'000
The tax charge comprises:		
Current tax:		
Corporation tax at 28 per cent (2008: 30 per cent)	3,604	4,081
(Over)/under provision of corporation tax in previous year	(213)	113
	3,391	4,194
Deferred tax:		
Origination and reversal of timing differences	(261)	662
Under/(over) provision of deferred tax in previous year	284	(62)
Tax charge for the year	3,414	4,794

The tax rate for the year is different from the standard rate of corporation tax in the UK, 28 per cent (2008: 30 per cent). The differences are explained below:

	2009 £'000	2008 £'000
Profit before tax	10,011	9,576
Profit before tax multiplied by standard rate of corporation tax in the UK of 28 per cent (2008: 30 per cent)	2,803	2,873
Effects of:		
Expenses not deductible for tax purposes	335	1,870
Deferred tax asset not recognised for tax purposes	205	–
Adjustments to tax charge in respect of previous periods	71	51
Tax charge for the year	3,414	4,794

Notes to the financial statements

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9 Taxation *continued*

Expenses not deductible for tax purposes include the tax impact of deemed remuneration and notional finance costs on future deferred consideration. The Group's effective tax rate is 34 per cent (2008: 50 per cent).

	2009 £'000	2008 £'000
Headline tax charge	(4,065)	(4,121)
Taxation impact of Headline adjustments	651	(673)
Reported tax charge	(3,414)	(4,794)

The Group's effective Headline tax rate is 28.6 per cent (2008: 30.4 per cent) by eliminating the tax impact of items excluded from the Headline results.

10 Earnings per share

	2009			2008		
	Reported profit for the financial year £'000	Weighted average number of shares	Pence per share	Reported profit for the financial year £'000	Weighted average number of shares	Pence per share
Reported basis						
Basic earnings per share						
Earnings attributable to ordinary shareholders	6,597	54,011,332	12.21	4,782	55,265,027	8.65
Dilutive effect of securities:						
Shares	–	507,041	(0.11)	–	–	–
Options	–	–	–	–	91,663	(0.01)
Diluted earnings per share	6,597	54,518,373	12.10	4,782	55,356,690	8.64

	2009			2008		
	Headline profit for the financial year £'000	Weighted average number of shares	Pence per share	Headline profit for the financial year £'000	Weighted average number of shares	Pence per share
Headline basis						
Basic earnings per share						
Earnings attributable to ordinary shareholders	10,128	54,011,332	18.75	9,418	55,265,027	17.04
Dilutive effect of securities:						
Shares	–	507,041	(0.17)	–	–	–
Options	–	–	–	–	91,663	(0.03)
Diluted earnings per share	10,128	54,518,373	18.58	9,418	55,356,690	17.01

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

- (iii) An estimate of nil options (2008: 91,663) remain outstanding that would have been issued based on the average share price (this includes SAYE, EMI and unapproved options).
- (iv) An estimate of 507,041 shares (2008: nil) which will be issued to the Executive Directors in lieu of their annual cash bonus. This represents 50 per cent of their annual bonus and the number of shares issued is based on the average share price during the year. The actual number of shares awarded in lieu of the annual cash bonus will be based on the share price at the time of settlement. Had the shares been issued based on the share price on 19 July 2009 the equivalent number of shares issued would have been 351,335.

A reconciliation of the profit after tax on a Reported basis and the Headline basis is given in note 4.

11 Dividends

	2009 £'000	2008 £'000
Amounts recognised as distributions to shareholders in the year		
Prior year final dividend of 1.80 pence per share (2008: 1.76 pence per share)	971	978
Interim dividend of 0.73 pence per share (2008: 0.97 pence per share)	394	542
	1,365	1,520

The Directors do not propose the payment of a final dividend (2008: 1.80 pence) in respect of the financial year ended 31 March 2009.

12 Goodwill

	Purchased goodwill £'000	Goodwill on consolidation £'000	Total £'000
Cost			
At 1 April 2007	3,432	119,552	122,984
Adjustments to consideration	348	(3,600)	(3,252)
Fair value adjustments	–	(167)	(167)
At 1 April 2008	3,780	115,785	119,565
Adjustments to consideration	–	3,218	3,218
Fair value adjustments	6	67	73
At 31 March 2009	3,786	119,070	122,856
Net book amount			
31 March 2009	3,786	119,070	122,856
31 March 2008	3,780	115,785	119,565

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

At 31 March 2009, the following components of goodwill had been finalised as the earn-out period had completed: ICM, PAN, RDC and TMW.

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 subsidiary's three-year business plan (approved in March 2009) which is subject to a rigorous review and challenge process. The residual growth rate thereafter has been reduced from 3 – 5 per cent to a nominal rate of between zero and 2.5 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 0.69. 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 over the past two years, 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 7.9 per cent (2008: 7.4 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 statutory tax rate and interest rates have fallen during the year, 12-month LIBOR having fallen over 50 per cent year-on-year.

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 2009, had the Group used an industry average beta of 1.0, the weighted average cost of capital would have been 8.5 per cent.

Notes to the financial statements

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12 Goodwill continued

At this level the carrying value of goodwill could potentially be impaired by £300,000 or 0.2 per cent of the total.

If the estimated PBIT had been 10 per cent lower than management's estimate at 31 March 2009, then the carrying value of goodwill could potentially be impaired by £300,000.

Components of goodwill at 31 March 2009 and 2008 are:

	2009 £'000	2008 £'000
Communications		
DLKW	30,533	30,537
TMW	28,539	25,059
PAN	9,599	9,599
Other	23,745	23,923
	92,416	89,118
Insight		
ICM	19,021	19,032
MSL	7,633	7,635
CML	3,786	3,780
	30,440	30,447
Total	122,856	119,565

The carrying value of goodwill for certain entities whose earn-out finalised prior to March 2009 has varied by a nominal amount during the year (DLKW, MSL and CML). This is due to the re-allocation of certain acquisition-related costs during the year. The net impact of these adjustments on goodwill is £nil.

The principal Group companies at 31 March 2009 are set out below:

Subsidiary	Principal activity in the year	Proportion of the Ordinary Shares and voting rights held by:	
		The Company	Subsidiaries
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 – healthcare	100%	
ICM Research Limited	Market Research	100%	
FieldworkUK.com Limited	Face-to-face Research		100%
ICM Direct Limited	Telephone Research		100%
Tullo Marshall Warren Limited	Direct Marketing	100%	
Colombus Communications Limited	Direct Marketing	100%	
PAN Advertising Limited	Advertising – healthcare	100%	

The above list excludes details of non-trading dormant subsidiaries, although all subsidiary undertakings have been included in the consolidated accounts. All of the subsidiary undertakings above are incorporated and operate in the United Kingdom.

13 Other intangible assets

	Software development and licences £'000	Brand names £'000	Customer contracts £'000	Total £'000
Cost				
At 1 April 2007	635	800	1,865	3,300
Additions	235	–	–	235
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 31 March 2009	1,564	800	1,865	4,229
Amortisation				
At 1 April 2007	145	–	1,865	2,010
Charge for the year	85	–	–	85
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 31 March 2009	782	–	1,865	2,647
Net book amount				
At 31 March 2009	782	800	–	1,582
At 31 March 2008	640	800	–	1,440
At 31 March 2007	490	800	–	1,290

In accordance with the Group's accounting policy the carrying value 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.

Notes to the financial statements

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14 Property, plant and equipment

	Leasehold property £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 April 2007	2,063	79	5,717	7,859
Additions	248	20	1,413	1,681
Disposals	(246)	(24)	(1,875)	(2,145)
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 31 March 2009	1,915	356	3,870	6,141
Depreciation				
At 1 April 2007	879	39	2,674	3,592
Charge for the year	646	18	1,478	2,142
Disposals	(245)	(21)	(1,695)	(1,961)
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 31 March 2009	1,615	285	1,727	3,627
Net book amount				
At 31 March 2009	300	71	2,143	2,514
At 31 March 2008	785	39	2,798	3,622
At 31 March 2007	1,184	40	3,043	4,267

The net book amount includes £19,000 (2008: £42,000) in respect of assets held under finance leases and similar hire purchase contracts. The amount of depreciation in respect of such assets amounted to £23,000 (2008: £20,000) for the year. During the year, the Group acquired no assets under finance lease arrangements (2008: £nil).

15 Financial assets – available for sale

	2009 £'000	2008 £'000
Shares in BJK&E Holdings Limited	550	550

The financial asset is held by DLKW Holdings Limited and is denominated in UK pounds 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 2009 or 2008.

16 Inventories and work in progress

	2009 £'000	2008 £'000
Work in progress	1,665	1,932

17 Trade and other receivables

Current Assets	2009	2008
	£'000	£'000
Trade receivables	25,972	27,193
Less: provision for impairment of trade receivables	(376)	(89)
Trade receivables – net	25,596	27,104
Other receivables	683	1,466
Prepayments and accrued income	4,535	6,013
	30,814	34,583

The average credit period taken on sales of goods is 60 days (2008: 61 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
2009	25,596	10,947	14,391	223	35
2008	27,104	15,916	10,085	978	125

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

As of 31 March 2009, trade receivables of £376,000 (2008: £89,000) were impaired and fully provided for. The individually impaired receivables mainly relate to a mixture of clients. These receivables are considered to be doubtful and are aged as follows:

	2009	2008
	£'000	£'000
Three to six months	309	–
Over six months	67	89
	376	89

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

Current Assets	2009	2008
	£'000	£'000
Pounds	28,305	31,477
Euros	2,362	3,093
US Dollars	147	13
	30,814	34,583

Notes to the financial statements

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17 Trade and other receivables *continued*

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

	2009 £'000	2008 £'000
Current Assets		
At 1 April	89	21
Provision for receivables impairment	352	84
Receivables written off during the year as uncollectible	(12)	(6)
Unused amounts reversed	(53)	(10)
At 31 March	376	89

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 £2,806,000 (2008: £3,763,000), restricted cash deposits of £22,000 (2008: £22,000) are maintained in a designated account as security for the loan notes issued on the acquisition of MSL and are therefore not freely available to the Group.

19 Trade and other payables

	2009 £'000	2008 £'000
Trade payables	7,230	8,053
Social security and other taxes	4,402	3,912
Accruals and deferred income	17,731	16,456
Other payables	621	783
	29,984	29,204

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:

	2009 £'000	2008 £'000
Current liabilities		
Pounds	29,836	29,118
Euros	140	73
US Dollars	8	13
	29,984	29,204

20 Provisions

The Directors' best estimate of future earn-out obligations is set out below:

	2009 £'000	2008 £'000
Deferred consideration		
At 1 April	30,458	35,569
Settled in the year	(13,866)	(4,299)
Adjustments to consideration on previous acquisitions (note 12)	3,218	(3,600)
Income statement		
Future acquisition payments to employees deemed as remuneration (note 6)	1,610	1,387
Notional finance cost on future deferred consideration (note 7)	880	1,401
At 31 March	22,300	30,458
	2009 £'000	2008 £'000
Analysed as:		
Current liabilities	19,413	13,757
Non-current liabilities	2,887	16,701
	22,300	30,458

The Group consider that the above liabilities approximate to their fair value. The notional interest rate used during the year was 3.6 per cent (2008: 5.5 per cent). All of the provisions included in non-current liabilities are due to be settled in one to two years.

The deferred consideration will be settled fully in loan notes.

During the period, £15,284,000 (2008: £3,949,000) was paid to purchase subsidiary undertakings 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:

	2009 £'000	2008 £'000
In one year or less	8	39
	8	39

It is the Group's policy to minimise the leasing of its plant and equipment under finance leases. The average remaining lease term is one year. For the year ended 31 March 2009, the average effective borrowing rate was 6.2 per cent (2008: 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 approximate their carrying amount.

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

Notes to the financial statements

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22 Bank overdraft, loans and loan notes

	2009 £'000	2008 £'000
Bank overdraft and revolving credit facility	7,000	3,000
Bank loan	14,400	17,157
Acquisition loan notes	23	1,432
	21,423	21,589
The borrowings are repayable as follows:		
Less than one year – current liabilities	9,823	7,189
In one to two years	11,600	2,800
In more than two years but less than three years	–	11,600
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	14,400

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 a further three years 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 bears interest ranging between 1.0 and 2.15 per cent above LIBOR and varies depending on the Group's gearing. During the year, the average margin was 1.1 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 of borrowings, cash, trade payables, 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 principal currency of the Group's financial assets and liabilities is sterling. There is a minimal amount of cash held in US Dollar and Euro accounts. The Group has no material exposure to foreign currency risk and therefore does not use its financial instruments for hedging purposes.

The Group has committed and undrawn facilities relating to the revolving credit facility of £13,000,000 (2008: £14,576,000) plus an unused overdraft facility of £5,000,000 and a cash balance of £2,806,000 at 31 March 2009.

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

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 of 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 2008 and 2009, the Group's borrowings at variable rate were denominated in sterling.

At 31 March 2009, 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 £14,000 (2008: £26,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been £nil (2008: £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 2009, 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 £67,000 (2008: £130,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been £nil (2008: £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 within 24 hours of notice being given to the bank, hence any short-term liquidity requirement can be managed.

Foreign Currencies

At 31 March 2009, 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 £155,000 (2008: £217,000) 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 UK pound with all other variables held constant, post-tax profit for the year would have been £65,000 (2008: £87,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of sterling denominated trade receivables.

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 net 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 2009, the Group's strategy, which remained unchanged from 2008, was to maintain a gearing ratio below 75 per cent. The gearing ratios at 31 March 2009 and 2008 were as follows:

	2009 £'000	2008 £'000
Net debt (note 31)	(18,603)	(17,843)
Amounts recoverable from vendors	–	935
Provision for deferred consideration (note 20)	(22,300)	(30,458)
Total net debt	(40,903)	(47,366)
Total equity	87,868	82,904
Gearing ratio	47%	57%

The decrease in the gearing ratio during 2009 resulted primarily from the normal profit and cash collection achieved in the year which was utilised to reduce the net debt in the Group.

	2009 £'000	2008 £'000
Ratio of debt to Headline EBITDA		
Headline PBIT (Note 4)	15,605	15,248
Depreciation	1,946	2,142
Amortisation	413	85
Headline EBITDA	17,964	17,475
Ratio of net debt to Headline EBITDA	1.0	1.0
Ratio of total debt to Headline EBITDA	2.3	2.7

Notes to the financial statements

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23 Financial assets and liabilities *continued*

	2009 £'000	2008 £'000
Financial assets		
Cash at bank and in hand maturing in one year or less, or on demand	2,828	3,785
Weighted average interest rate	2.27%	4.58%

	2009 £'000	2008 £'000
Financial liabilities		
Subject to floating rates:		
Bank loan	14,400	17,157

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

	2009 £'000	2008 £'000
At fixed interest rates:		
Revolving credit facility	7,000	3,000
Acquisition loan notes	23	1,432
Finance leases	8	39
Fixed interest rate financial liabilities	7,031	4,471
Weighted average period for which rate is fixed – months	1.0	2.3
Weighted average interest rate	5.23%	5.61%

	2009 £'000	2008 £'000
Repayable in:		
One year or less or on demand	9,831	7,228
More than one year but not more than two years	11,600	2,800
Between two and five years	–	11,600
	21,431	21,628

Fair values of financial assets and liabilities	Book value		Fair value	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Cash at bank and in hand	2,828	3,785	2,828	3,785
Revolving credit facility	(7,000)	(3,000)	(7,000)	(3,000)
Acquisition loan notes	(23)	(1,432)	(23)	(1,432)
Bank loan	(14,400)	(17,157)	(14,400)	(17,157)
Finance leases	(8)	(39)	(8)	(39)
	(18,603)	(17,843)	(18,603)	(17,843)

The fair values of the financial assets and liabilities are estimated to be equal to their book values. The fair value of the Group's derivative instruments is £nil (2008: £nil).

24 Operating lease commitments

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

	2009		2008	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
In one year or less	226	26	908	49
Between one and five years	7,092	402	3,462	257
In five years or more	277	–	1,239	–
	7,595	428	5,609	306

25 Deferred taxation

The deferred taxation asset of £800,000 (2008: £786,000) recognised in the financial statements is set out below:

	2009 £'000	2008 £'000
Accelerated capital allowances	388	415
Short-term timing differences	238	–
Share-based payments	183	217
Future acquisition payments to employees deemed as remuneration	344	344
Purchased goodwill	(328)	(328)
Other timing differences	(25)	138
	800	786

The movement in the year is analysed as follows:

	2009 £'000	2008 £'000
As at 1 April	786	1,347
Income statement (note 9)	(23)	(600)
On acquisition and fair value adjustments	–	39
Other transfers	37	–
As at 31 March	800	786

The Group has recognised deferred tax assets where there are forecast profits in the next 12 months from which the future reversal of the underlying timing difference can be deducted.

26 Share capital

Group and Company	2009 £'000	2008 £'000
Authorised:		
100,000,000 Ordinary Shares of 10 pence each (2008: 100,000,000 Ordinary Shares of 10 pence each)	10,000	10,000
Called up, allotted and fully paid:		
55,761,238 Ordinary Shares of 10 pence each (2008: 55,761,238 Ordinary Shares of 10 pence each)	5,576	5,576

Notes to the financial statements

continued

26 Share capital *continued*

Options

The Group has the following options in issue:

	At start of year	Granted	Exercised/ lapsed	At end of year
Sharesave Scheme	519,217	–	(372,724)	146,493
EMI Scheme	190,940	–	–	190,940
Other options	1,576,954	–	–	1,576,954
	2,287,111	–	(372,724)	1,914,387

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 ending 31 March 2009.

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 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 & 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	1,524,072	2,201,918	(203,764)	(471,711)	3,050,515

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 2009.

Date of grant	Contingent shares	Price of award (pence)
30 May 2006	43,639	161.50
30 May 2006	473,551	155.00
27 July 2006	67,215	160.50
27 July 2006	16,616	162.50
30 January 2007	101,250	200.00
27 July 2007	41,724	179.00
15 October 2007	364,520	115.00
31 January 2008	84,910	56.00
3 April 2008	466,088	60.00
1 July 2008	569,252	58.00
1 August 2008	821,750	80.00
	3,050,515	

Own shares	Treasury scheme No. of shares	EBT No. of shares	Total No. of shares	Total £'000
At 1 April 2008	114,824	400,664	515,488	233
Sold in the year	(62,441)	(78,863)	(141,304)	(114)
Acquired in the year	–	1,349,549	1,349,549	935
At 31 March 2009	52,383	1,671,350	1,723,733	1,054

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 are:	Dividend yield %	Risk-free rate %	Volatility %	Fair value (pence)	Exercise price (pence)	Grant date	Expiry date	Shares
Sharesave scheme								
2006	1.2	4.5	33	47	169.0	24.08.06	31.03.10	89,947
2007	1.8	5.75	25	37	155.4	01.10.07	31.03.11	56,546
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 £15,000 in 2009 (2008: £32,000).

Notes to the financial statements

continued

27 Share-based payments *continued*

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 £131,000 (2008: income of £59,000) as remuneration. In addition, costs of £684,000 (2008: £589,000) were recognised in the year as deemed remuneration.

28 Other reserves

	2009 £'000	2008 £'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

	2009 £'000	2008 £'000
Profit for the year	6,597	4,782
Taxation	3,414	4,794
Profit before taxation	10,011	9,576
Income from financial assets	(150)	–
Finance costs	2,487	3,187
Finance income	(45)	(77)
Profit before finance income, finance costs, income from financial assets and taxation	12,303	12,686
Depreciation of property, plant and equipment	1,946	2,142
Amortisation of intangible assets	413	85
Share-based payments	109	(27)
Deemed remuneration	2,294	1,976
Profit on disposal of property, plant and equipment	17	(4)
Decrease in inventories and work in progress	267	3,148
Decrease/(increase) in trade and other receivables	2,834	(4,194)
Increase in trade and other payables	646	1,984
Operating cash flow	20,829	17,796

30 Reconciliation of net cash flow to movement in net debt

	2009 £'000	2008 £'000
(Decrease)/increase in cash in the year	(957)	2,130
Cash outflow from movement in debt	2,788	2,865
Cash inflow from movement in debt	(4,000)	–
Movement in net debt in the year resulting from cash flows	(2,169)	4,995
Reduction of loan stock	15,275	2,212
Issue of acquisition loan notes	(13,866)	(3,335)
Net debt at 1 April	(17,865)	(21,737)
Net debt at 31 March	(18,625)	(17,865)

31 Analysis of net debt

	At 31 March 2008 £'000	Cash flow £'000	Acquisitions £'000	At 31 March 2009 £'000
Cash and short-term deposits	3,763	(957)	–	2,806
Bank overdrafts and revolving credit facility	(3,000)	(4,000)	–	(7,000)
Acquisition loan notes	(1,432)	15,275	(13,866)	(23)
Bank loans	(17,157)	2,757	–	(14,400)
Finance leases	(39)	31	–	(8)
Net debt	(17,865)	13,106	(13,866)	(18,625)
Restricted cash deposits (note 18)	22	–	–	22
Net debt including restricted cash deposits	(17,843)	13,106	(13,866)	(18,603)

No new finance leases were entered into during the year.

32 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 2009. During the year, total fees of £65,143 (2008: £57,986) were paid to City Group P.L.C., £35,143 (2008: £27,986) for the provision of secretarial services and assistance on the acquisitions and £30,000 (2008: £30,000) for the services of Mr D C Marshall.

33 Post balance sheet events

On 7 July 2009 the Group announced the Placing of 5,576,100 new Ordinary Shares at 60 pence per share thereby raising approximately £3.3 million. The Placing was conditional, inter alia:

- (i) Placees having agreed to acquire all of the new Ordinary Shares at the Placing Price;
- (ii) The Placing Agreement having become unconditional and not having been terminated in accordance with its terms prior to admission to the London Stock Exchange; and
- (iii) Admission having become effective on or before 8.00am on 10 July 2009 (or such later date as the Company may agree, being no later than 8.00am on 17 July 2009).

The new Ordinary Shares, which represented approximately 10 per cent of the Company's existing issued share capital, were issued on 10 July 2009. The Placing Price represented a discount of 7 per cent to the Closing Price of an Ordinary Share of 64.5 pence on 6 July 2009 (being the latest practicable date prior to the date the announcement). These new Ordinary Shares are identical to and rank pari passu in all respects with the Company's existing Ordinary Shares.