

Annual Review 2001

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Financial Statements 2001

The directors of Incepta Group plc present their report together with the audited financial statements for the year ended 28 February 2001.

### Principal activities

Incepta is an international marketing and communications group, its principal activities being public relations, advertising, marketing services and design & branding. Incepta Group plc itself is the ultimate holding company of the Group.

Incepta has a clear focus on the higher growth, higher value communications disciplines. The directors believe that the Group has made substantial progress during the year in strengthening its global position. The Citigate brand has further established itself as a leader in global financial and corporate communications. The marketing services brands have also established strong leadership positions.

In addition to continued strong organic growth, the Group completed a number of acquisitions to strengthen its global positioning. On 14 April 2000, the Group acquired Sard Verbinnen & Co., Inc., a financial public relations agency in the US. Effective 1 August 2000, the Group acquired Cunningham Communication, Inc., one of the leading technology consultancies in the US. The Group completed a further 16 acquisitions during the year. A total of £19.6 million, net of costs, was raised via issues of ordinary shares during the year.

Other developments, current trading and future prospects of the Group are discussed in detail in the Chairman's statement, the Review of operations and the Financial review.

### Subsequent event

In March 2001, the Company acquired First Financial Communications B.V., a financial communications consultancy in The Netherlands. Details of this acquisition are set out in note 31 on page 88.

### Results and dividends

The Group made a profit attributable to shareholders for the year of £16,471,000 (2000 – £16,913,000). The directors recommend a final dividend of 0.60 pence per ordinary share (2000 – 0.50 pence) to be paid on 16 July 2001 to shareholders on the register as at 18 May 2001.

### Directors and their interests

The following served as directors during the year:

David Wright  
Richard Nichols  
Kevin Steeds  
Anthony Carlisle  
Charles Good  
Neil Mackay  
Bob Morton (resigned 31 March 2001)

On 1 April 2001, Robert Alcock and Christian Strenger were appointed as directors.

Brief biographical details of the directors at the date of this report are set out on pages 46 and 47.

The interests of directors in the share capital of the Company and in share options are set out in the statement of directors' remuneration and interests on pages 95 to 98.

### Directors' responsibilities

Company law requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of each financial year and of the profit or loss for that year. In preparing those financial statements, the directors confirm that: suitable accounting policies have been selected and applied consistently; reasonable and prudent judgements and estimates have been made; applicable accounting standards have been followed; and that it is appropriate to prepare the financial statements on a going concern basis.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

#### Introduction of the euro

The introduction of the euro on 1 January 1999 has not had a material affect on the operation of businesses in continental Europe. The Group has prepared for transition to the single currency within Europe and will continue to maintain the capability to conduct business in both national and European currencies for as long as is necessary. The Group does not currently expect to report its results in euros until after the introduction of the common currency in the UK.

#### Charitable and political donations

The Group made charitable donations during the year amounting to £47,000 (2000 – £28,000). In addition, the Group's public affairs division, Citigate Public Affairs, attends party conferences, dinners and other events organised by or on behalf of the political parties for which they levy a charge.

#### Substantial shareholdings

As at 4 May 2001, the directors were aware of the following interest of 3 per cent. or more in the issued ordinary share capital of the Company and had not been notified, pursuant to the provisions of the Companies Act 1985, of any further such interests:

| Shareholder                    | Percentage<br>of issued share<br>capital held<br>% |
|--------------------------------|----------------------------------------------------|
| Morley Fund Management Limited | 3.98                                               |

#### Policy on payment to creditors

The Company agrees the terms and conditions under which business transactions with suppliers are conducted. It complies with these payment terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions. The number of days taken to pay suppliers, calculated on the basis of trade creditors as at 28 February 2001 and average daily purchases for the year ended 28 February 2001, is 20 days (2000 – 24 days).

#### Employees

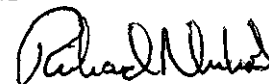
It is the Group's policy not to discriminate between employees or potential employees on any grounds. Full and fair consideration is given to the recruitment, training and promotion of disabled people and, should staff become disabled during the course of their employment, efforts are made to provide appropriate re-training. The Group places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Group by way of regular meetings, newsletters and publications, together with distribution of the Annual Report.

#### Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

By order of the board

Richard Nichols  
Company Secretary  
8 May 2001



**Consolidated profit and loss account**  
for the year ended 28 February 2001

|                                                                  |         | 2001             |                                         | 2000                                      |
|------------------------------------------------------------------|---------|------------------|-----------------------------------------|-------------------------------------------|
|                                                                  | Note    | Total<br>£'000   | Before<br>exceptional<br>items<br>£'000 | Exceptional<br>items<br>(note 8)<br>£'000 |
| <b>Turnover</b>                                                  | 2, 3    |                  |                                         |                                           |
| Continuing operations                                            |         | <b>195,524</b>   | 173,409                                 | –                                         |
| Acquisitions                                                     |         | <b>70,139</b>    | –                                       | –                                         |
|                                                                  |         | <b>265,663</b>   | 173,409                                 | –                                         |
| Cost of sales                                                    |         | <b>(112,331)</b> | (96,219)                                | –                                         |
| <b>Gross profit (gross revenue)</b>                              | 2, 3    |                  |                                         |                                           |
| Continuing operations                                            |         | <b>103,713</b>   | 77,190                                  | –                                         |
| Acquisitions                                                     |         | <b>49,619</b>    | –                                       | –                                         |
|                                                                  |         | <b>153,332</b>   | 77,190                                  | –                                         |
| Administrative expenses (including goodwill amortisation)        |         | <b>(126,614)</b> | (64,178)                                | (1,220)                                   |
| Other operating income                                           | 4       | <b>583</b>       | 573                                     | –                                         |
| <b>Group operating profit before goodwill amortisation</b>       | 2, 3    |                  |                                         |                                           |
| Continuing operations                                            |         | <b>16,820</b>    | 13,585                                  | (1,220)                                   |
| Acquisitions                                                     |         | <b>10,972</b>    | –                                       | –                                         |
|                                                                  |         | <b>27,792</b>    | 13,585                                  | (1,220)                                   |
| Goodwill amortisation                                            |         | <b>(491)</b>     | –                                       | –                                         |
| <b>Group operating profit</b>                                    | 3       |                  |                                         |                                           |
| Continuing operations                                            |         | <b>16,537</b>    | 13,585                                  | (1,220)                                   |
| Acquisitions                                                     |         | <b>10,764</b>    | –                                       | –                                         |
|                                                                  |         | <b>27,301</b>    | 13,585                                  | (1,220)                                   |
| Share of operating profit of associates                          |         | <b>59</b>        | 608                                     | –                                         |
| <b>Total operating profit: Group and share of associates</b>     |         | <b>27,360</b>    | 14,193                                  | (1,220)                                   |
| Profit on sale of other fixed asset investment                   |         | –                | –                                       | 10,983                                    |
| Income from other fixed asset investment                         |         | –                | 163                                     | –                                         |
| Net interest payable                                             | 6       | <b>(681)</b>     | (323)                                   | –                                         |
| <b>Profit on ordinary activities before tax</b>                  | 2, 3, 7 | <b>26,679</b>    | 14,033                                  | 9,763                                     |
| Tax on profit on ordinary activities                             | 9       | <b>(10,086)</b>  | (4,178)                                 | (2,688)                                   |
| <b>Profit on ordinary activities after tax</b>                   |         | <b>16,593</b>    | 9,855                                   | 7,075                                     |
| Minority interests                                               | 22      | <b>(122)</b>     | (17)                                    | –                                         |
| <b>Profit attributable to group shareholders</b>                 |         | <b>16,471</b>    | 9,838                                   | 7,075                                     |
| Dividend                                                         | 10      | <b>(2,707)</b>   |                                         |                                           |
| <b>Profit for the financial year transferred to reserves</b>     | 21      | <b>13,764</b>    |                                         |                                           |
| <b>Basic earnings per share</b>                                  | 11      | <b>4.02p</b>     | 2.98p                                   | 5.12p                                     |
| <b>Diluted earnings per share</b>                                | 11      | <b>3.83p</b>     | 2.88p                                   | 4.95p                                     |
| <b>Basic earnings per share (before goodwill amortisation)</b>   | 11      | <b>4.14p</b>     | 2.98p                                   | 5.12p                                     |
| <b>Diluted earnings per share (before goodwill amortisation)</b> | 11      | <b>3.94p</b>     | 2.88p                                   | 4.95p                                     |

There is no difference between the profit reported above and historical cost profit.

**Consolidated balance sheet**  
as at 28 February 2001

|                                                                | Note | 2001<br>£'000   | 2000<br>(as restated)<br>£'000 |
|----------------------------------------------------------------|------|-----------------|--------------------------------|
| <b>Fixed assets</b>                                            |      |                 |                                |
| Intangible assets                                              | 12   | 301,635         | 74,707                         |
| Tangible assets                                                | 13   | 15,089          | 8,237                          |
|                                                                |      | <b>316,724</b>  | <b>82,944</b>                  |
| <b>Investments:</b>                                            |      |                 |                                |
| Investment in associates                                       | 14   | 70              | 34                             |
| Other investment                                               | 14   | 711             | —                              |
|                                                                |      | <b>781</b>      | <b>34</b>                      |
|                                                                |      | <b>317,505</b>  | <b>82,978</b>                  |
| <b>Current assets</b>                                          |      |                 |                                |
| Work in progress                                               |      | 3,920           | 3,720                          |
| Debtors                                                        | 15   | 60,578          | 41,386                         |
| Cash at bank and in hand                                       | 25   | 29,493          | 27,837                         |
|                                                                |      | <b>93,991</b>   | <b>72,943</b>                  |
| <b>Creditors: amounts falling due within one year</b>          | 16   | <b>(87,921)</b> | <b>(67,497)</b>                |
| <b>Net current assets</b>                                      |      | <b>6,070</b>    | <b>5,446</b>                   |
| <b>Total assets less current liabilities</b>                   |      | <b>323,575</b>  | <b>88,424</b>                  |
| <b>Creditors: amounts falling due after more than one year</b> | 17   | <b>(24,545)</b> | <b>(14,523)</b>                |
| <b>Provisions for liabilities and charges</b>                  | 18   | <b>(33,913)</b> | <b>(12,255)</b>                |
| <b>Net assets</b>                                              | 2    | <b>265,117</b>  | <b>61,646</b>                  |
| <b>Capital and reserves</b>                                    |      |                 |                                |
| Called up share capital                                        | 20   | 4,487           | 3,336                          |
| Share premium account                                          | 21   | 33,789          | 13,485                         |
| Shares to be issued                                            | 21   | 67,277          | 22,527                         |
| Merger reserve                                                 | 21   | 123,710         | 1,192                          |
| Profit and loss account                                        | 21   | 35,654          | 21,015                         |
| <b>Equity shareholders' funds</b>                              |      | <b>264,917</b>  | <b>61,555</b>                  |
| Minority interests (equity)                                    | 22   | 200             | 91                             |
| <b>Total equity capital employed</b>                           |      | <b>265,117</b>  | <b>61,646</b>                  |

These financial statements were approved by the board of directors on 8 May 2001 and were signed on its behalf by:

David Wright  
Executive Chairman

Richard Nichols  
Chief Executive



**Company balance sheet**  
as at 28 February 2001

|                                                                | Note | 2001<br>£'000   | 2000<br>(as restated)<br>£'000 |
|----------------------------------------------------------------|------|-----------------|--------------------------------|
| <b>Fixed assets</b>                                            |      |                 |                                |
| Tangible assets                                                | 13   | 3,584           | 3,630                          |
| Investments:                                                   |      |                 |                                |
| Investment in subsidiary undertakings                          | 14   | 287,898         | 106,221                        |
| Other investment                                               | 14   | 711             | —                              |
|                                                                |      | <b>288,609</b>  | 106,221                        |
|                                                                |      | <b>292,193</b>  | 109,851                        |
| <b>Current assets</b>                                          |      |                 |                                |
| Debtors: due after more than one year                          | 15   | 61,090          | 2,664                          |
| Debtors: due within one year                                   | 15   | 24,450          | 24,381                         |
|                                                                |      | <b>85,540</b>   | 27,045                         |
| Cash at bank and in hand                                       |      | 10,033          | 17,127                         |
|                                                                |      | <b>95,573</b>   | 44,172                         |
| <b>Creditors: amounts falling due within one year</b>          | 16   | <b>(42,536)</b> | (32,452)                       |
| <b>Net current assets</b>                                      |      | <b>53,037</b>   | 11,720                         |
| <b>Total assets less current liabilities</b>                   |      | <b>345,230</b>  | 121,571                        |
| <b>Creditors: amounts falling due after more than one year</b> | 17   | <b>(23,527)</b> | (14,493)                       |
| <b>Provisions for liabilities and charges</b>                  | 18   | <b>(33,210)</b> | (10,364)                       |
| <b>Net assets</b>                                              |      | <b>288,493</b>  | 96,714                         |
| <b>Capital and reserves</b>                                    |      |                 |                                |
| Called up share capital                                        | 20   | 4,487           | 3,336                          |
| Share premium account                                          | 21   | 33,789          | 13,485                         |
| Shares to be issued                                            | 21   | 67,277          | 22,527                         |
| Merger reserve                                                 | 21   | 169,077         | 46,559                         |
| Profit and loss account                                        | 21   | 13,863          | 10,807                         |
| <b>Equity shareholders' funds</b>                              |      | <b>288,493</b>  | 96,714                         |

These financial statements were approved by the board of directors on 8 May 2001 and were signed on its behalf by:

David Wright  
Executive Chairman

Richard Nichols  
Chief Executive



Consolidated cash flow statement  
for the year ended 28 February 2001

|                                                   | Note | 2001<br>£'000   | 2000<br>£'000 |
|---------------------------------------------------|------|-----------------|---------------|
| <b>Cash flow from operating activities</b>        |      | <b>29,115</b>   | 12,630        |
| Dividends received from associates                |      | 49              | 410           |
| Returns on investments and servicing of finance   | 23   | (1,203)         | (277)         |
| Taxation                                          | 23   | (9,894)         | (3,723)       |
| Capital expenditure and financial investment      | 23   | (5,947)         | 13,126        |
| Acquisitions                                      | 23   | (33,253)        | 2,717         |
| Equity dividends paid                             |      | (1,961)         | (1,381)       |
| <b>Net cash (outflow)/inflow before financing</b> |      | <b>(23,094)</b> | 23,502        |
| Financing – issue of shares                       | 23   | 19,611          | 95            |
| – increase in debt                                | 23   | 4,515           | 2,115         |
| <b>Increase in cash</b>                           |      | <b>1,032</b>    | 25,712        |

**Reconciliation of group operating profit to cash flow from operating activities**

|                                                        | 2001<br>£'000 | 2000<br>£'000 |
|--------------------------------------------------------|---------------|---------------|
| <b>Group operating profit</b>                          | <b>27,301</b> | 12,365        |
| Goodwill amortisation                                  | 491           | –             |
| Depreciation                                           | 4,304         | 2,351         |
| Net loss/(profit) on disposal of tangible fixed assets | 11            | (11)          |
| Other non-cash items                                   | 84            | (176)         |
| Decrease/(increase) in work in progress                | 1,986         | (689)         |
| Decrease/(increase) in debtors                         | 9,839         | (3,315)       |
| (Decrease)/increase in creditors                       | (14,901)      | 2,105         |
| <b>Net cash inflow from operating activities</b>       | <b>29,115</b> | 12,630        |

**Reconciliation of net cash flow to movement in net funds/(debt)**

|                                                               | Note | 2001<br>£'000   | 2000<br>£'000 |
|---------------------------------------------------------------|------|-----------------|---------------|
| <b>Increase in cash</b>                                       |      | <b>1,032</b>    | 25,712        |
| Cash inflow from increase in debt                             | 23   | (4,515)         | (2,115)       |
| Issue costs of new bank loans                                 |      | 525             | –             |
| <b>Movement in net funds/(debt) resulting from cash flows</b> | 25   | <b>(2,958)</b>  | 23,597        |
| Debt acquired with subsidiary undertakings and businesses     | 25   | (2,981)         | –             |
| Inception of finance leases                                   |      | (119)           | (2)           |
| Issue of loan notes for non-cash consideration                |      | (13,904)        | –             |
| Other non-cash changes                                        |      | (114)           | (18)          |
| Effect of foreign exchange                                    | 25   | 369             | 361           |
| <b>Movement in net funds/(debt)</b>                           |      | <b>(19,707)</b> | 23,938        |
| <b>Opening net funds/(debt)</b>                               | 25   | <b>10,411</b>   | (13,527)      |
| <b>Closing net (debt)/funds</b>                               | 25   | <b>(9,296)</b>  | 10,411        |

**Statement of total recognised gains and losses**  
for the year ended 28 February 2001

|                                                          | 2001<br>£'000 | Group<br>2000<br>£'000 |
|----------------------------------------------------------|---------------|------------------------|
| <b>Profit attributable to group shareholders</b>         | <b>16,471</b> | <b>16,913</b>          |
| Exchange differences on foreign currency net investments | 875           | 250                    |
| <b>Total recognised gains and losses</b>                 | <b>17,346</b> | <b>17,163</b>          |

The Company made no recognised gains and losses other than a profit after tax and before distributions of £5,763,000 (2000 – £12,516,000).

**Reconciliation of movements in equity shareholders' funds**  
for the year ended 28 February 2001

|                                                                                          | Note | Group<br>2001<br>£'000 | Group<br>2000<br>£'000 | Company<br>2001<br>£'000 | Company<br>2000<br>£'000 |
|------------------------------------------------------------------------------------------|------|------------------------|------------------------|--------------------------|--------------------------|
| <b>Profit attributable to group shareholders</b>                                         |      | <b>16,471</b>          | 16,913                 | <b>5,763</b>             | 12,516                   |
| Dividend                                                                                 |      | (2,707)                | (1,968)                | (2,707)                  | (1,968)                  |
|                                                                                          |      | <b>13,764</b>          | 14,945                 | <b>3,056</b>             | 10,548                   |
| Other recognised gains and losses                                                        |      | 875                    | 250                    | –                        | –                        |
| Issue of shares net of issue costs                                                       |      | <b>143,973</b>         | 2,122                  | <b>143,973</b>           | 2,122                    |
| Net movement in estimated value of shares to be issued as consideration for acquisitions | 21   | <b>44,750</b>          | 20,872                 | <b>44,750</b>            | 20,872                   |
| Movement in goodwill relating to acquisitions in prior years                             |      | –                      | (362)                  | –                        | –                        |
| <b>Net addition to equity shareholders' funds</b>                                        |      | <b>203,362</b>         | 37,827                 | <b>191,779</b>           | 33,542                   |
| <b>Opening equity shareholders' funds</b>                                                |      | <b>61,555</b>          | 23,728                 | <b>96,714</b>            | 63,172                   |
| <b>Closing equity shareholders' funds</b>                                                |      | <b>264,917</b>         | 61,555                 | <b>288,493</b>           | 96,714                   |

**1 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

**(1) Basis of accounting and presentation of the financial statements**

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. As discussed in note 1(8) below, where goodwill is treated as having indefinite economic life, the financial statements depart from the requirement of companies' legislation to amortise goodwill over a finite period, in order to give a true and fair view.

In accordance with section 230(3) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The profit of the Company for the financial year dealt with in the consolidated financial statements is disclosed in the statement of total recognised gains and losses.

**(2) Changes in presentation of financial information**

Deferred consideration for acquisitions has been reclassified from creditors to provisions (note 18) in order to better reflect the nature of the liabilities concerned. Comparative figures have been restated accordingly.

Geographical segments in note 2 have been redefined to more appropriately reflect the geographical distribution of the Group's operations. Comparative figures have been restated accordingly. A more detailed analysis by individual country is considered to be commercially sensitive and is not provided.

Financial Reporting Standard ('FRS') 15: 'Tangible fixed assets' and FRS 16: 'Current tax' both came into effect for these financial statements but have not resulted in any changes in presentation.

**(3) Basis of consolidation**

The Group financial statements consolidate the accounts of the Company and all of its subsidiary undertakings. Associates are included under the equity accounting method. The results of subsidiary undertakings and associates acquired or disposed of in the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal.

**(4) Turnover**

Turnover represents amounts receivable, either for services to customers or for work completed during the year, excluding VAT.

**(5) Foreign currencies**

In the financial statements of individual group undertakings, transactions in foreign currencies are recorded in the local currency using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

In the consolidated financial statements, the results of overseas subsidiary undertakings are translated at the average rates during the year and the balance sheets of these undertakings are translated at the year end exchange rates. Exchange differences arising on the re-translation at year end rates of opening net assets and results for the year of overseas subsidiary undertakings and of long term funding of investments in overseas subsidiary undertakings are dealt with through reserves. All other exchange differences are dealt with in the profit and loss account.

**(6) Leases**

When the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

**(7) Fixed assets**

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Short leasehold property – Life of lease.

Fixtures, fittings, vehicles & equipment – 20% to 35% per annum.

Depreciation is provided on freehold and long leasehold property in order to reduce the carrying value to the residual value estimated by the directors over a period of between 30 and 70 years.

Fixed asset investments are stated at the lower of cost and recoverable amount, where recoverable amount is the higher of net realisable value and value in use.

## Notes to the financial statements

28 February 2001

### 1 Accounting policies (continued)

#### (8) Goodwill and intangible assets

Goodwill arising on acquisitions of businesses, associated undertakings or subsidiary undertakings is calculated as the excess of the fair value of the consideration given and costs of acquisition over the fair value of the separable net assets acquired. Goodwill arising on acquisitions up to and including 28 February 1998 was written off against reserves immediately on acquisition.

In accordance with FRS 10: 'Goodwill and intangible assets', goodwill arising on acquisitions on or after 1 March 1998 is capitalised as an intangible fixed asset and amortised over its estimated useful economic life. Each acquisition is assessed with reference to its durability, ability to sustain long term profitability, proven ability to maintain market leadership and the Group's commitment to develop and enhance its value across its network of offices worldwide. Based on their assessment of acquisitions during the year and reassessment of certain prior year acquisitions, the directors are of the opinion that the intangible assets of the Group have economic lives ranging from 10 years to indefinite with effect from the date of acquisition for current year acquisitions and 1 March 2000 for prior year acquisitions. During the year, £491,000 (2000 – nil) was charged to operating profit in respect of goodwill amortisation. Goodwill previously written off directly to reserves has not been reinstated on the balance sheet in accordance with the transitional provisions of FRS 10.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill taken directly to reserves on acquisition and the net book value of any related goodwill capitalised in the balance sheet.

In accordance with FRS 10 and FRS 11: 'Impairment of fixed assets and goodwill', the carrying values of intangible assets are reviewed annually for impairment on the basis stipulated in FRS 11 and adjusted to the recoverable amount if required. No such adjustment was considered necessary as at 28 February 2001 or as at 29 February 2000.

Where goodwill is treated as having indefinite economic life, the financial statements depart from the requirement of companies' legislation to amortise goodwill over a finite period, in order to give a true and fair view for the reasons outlined above. Capitalised goodwill regarded as having indefinite useful economic life amounted to £290.5 million as at 28 February 2001 (2000 – £74.7 million). If this goodwill were to be amortised over a period of 20 years, operating profit for the year ended 28 February 2001 would have decreased by £10.4 million (2000 – £1.6 million).

#### (9) Work in progress

Work in progress comprises costs incurred on behalf of clients and is stated at the lower of cost and estimated net realisable value.

#### (10) Financial instruments

The costs of issue of capital instruments such as the issue costs of new debt are charged to the profit and loss account on an annual basis over the life of the instrument.

#### (11) Pensions

The Group operates defined contribution money purchase pension schemes and makes contributions to individual employees' personal pension schemes. The Group's contributions are charged against profits in the year in which contributions are made.

#### (12) Tax

The charge for tax is based on the results for the year and takes into account deferred tax on timing differences arising due to the different treatment of certain items for tax and accounting purposes. Provision is made for deferred tax only to the extent that it can be demonstrated with reasonable certainty that an actual liability will crystallise in the foreseeable future.

## 2 Segmental information

### Classes of business

|                                          | Turnover      |               | Gross profit<br>(gross revenue) |               | Profit on ordinary<br>activities before tax |               |
|------------------------------------------|---------------|---------------|---------------------------------|---------------|---------------------------------------------|---------------|
|                                          | 2001<br>£'000 | 2000<br>£'000 | 2001<br>£'000                   | 2000<br>£'000 | 2001<br>£'000                               | 2000<br>£'000 |
| Public Relations                         | 114,115       | 58,923        | 83,292                          | 41,008        | 14,981                                      | 6,869         |
| Advertising                              | 98,367        | 81,305        | 36,618                          | 18,067        | 8,139                                       | 3,403         |
| Marketing Services                       | 39,496        | 23,719        | 23,334                          | 9,599         | 4,578                                       | 2,457         |
| Design & Branding                        | 22,487        | 19,205        | 10,874                          | 9,084         | 94                                          | 856           |
| Intra-group trading                      | (8,802)       | (9,743)       | (786)                           | (568)         | -                                           | -             |
|                                          | 265,663       | 173,409       | 153,332                         | 77,190        | 27,792                                      | 13,585        |
| Goodwill amortisation                    |               |               |                                 |               | (491)                                       | -             |
| Share of operating profit of associates  |               |               |                                 |               | 59                                          | 608           |
| Income from other fixed asset investment |               |               |                                 |               | -                                           | 163           |
| Net interest payable                     |               |               |                                 |               | (681)                                       | (323)         |
|                                          |               |               |                                 |               | 26,679                                      | 14,033        |
| Exceptional items (note 8)               |               |               |                                 |               | -                                           | 9,763         |
|                                          |               |               |                                 |               | 26,679                                      | 23,796        |

|                                    | Exceptional items |               | Net assets/(liabilities) |               |
|------------------------------------|-------------------|---------------|--------------------------|---------------|
|                                    | 2001<br>£'000     | 2000<br>£'000 | 2001<br>£'000            | 2000<br>£'000 |
| Public Relations                   | -                 | (164)         | 55,158                   | (670)         |
| Advertising                        | -                 | (495)         | 8,209                    | (117)         |
| Marketing Services                 | -                 | -             | 18,436                   | 4,103         |
| Design & Branding                  | -                 | (31)          | 3,294                    | 1,932         |
| Parent company and non-operational | -                 | 10,453        | 180,022                  | 56,398        |
|                                    | -                 | 9,763         | 265,119                  | 61,646        |

The above analyses of turnover, gross profit (gross revenue), profit on ordinary activities before tax and net assets for the year ended 28 February 2001 include the following amounts in relation to acquisitions during the year:

|                       | Turnover<br>£'000 | Gross profit<br>(gross revenue)<br>£'000 | Profit<br>on ordinary<br>activities<br>before tax<br>£'000 | Net assets<br>£'000 |
|-----------------------|-------------------|------------------------------------------|------------------------------------------------------------|---------------------|
| Public Relations      | 37,634            | 28,883                                   | 4,639                                                      | 53,246              |
| Advertising           | 3,803             | 2,356                                    | 458                                                        | 659                 |
| Marketing Services    | 27,502            | 17,411                                   | 5,350                                                      | 15,354              |
| Design & Branding     | 1,200             | 969                                      | 525                                                        | 1,984               |
|                       | 70,139            | 49,619                                   | 10,972                                                     | 71,243              |
| Goodwill amortisation |                   |                                          | (208)                                                      |                     |
| Net interest payable  |                   |                                          | (72)                                                       |                     |
|                       |                   |                                          | 10,692                                                     |                     |

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### 2 Segmental information (continued)

#### Geographical segments

|                                          | Turnover by origin |               | Gross profit<br>(gross revenue) |               | Profit on ordinary<br>activities before tax |               |
|------------------------------------------|--------------------|---------------|---------------------------------|---------------|---------------------------------------------|---------------|
|                                          | 2001<br>£'000      | 2000<br>£'000 | 2001<br>£'000                   | 2000<br>£'000 | 2001<br>£'000                               | 2000<br>£'000 |
| UK                                       | 132,910            | 105,815       | 77,911                          | 53,096        | 16,430                                      | 12,560        |
| Rest of the world                        | 141,555            | 77,337        | 76,207                          | 24,662        | 11,362                                      | 1,025         |
| Intra-group trading                      | (8,802)            | (9,743)       | (786)                           | (568)         | -                                           | -             |
|                                          | 265,663            | 173,409       | 153,332                         | 77,190        | 27,792                                      | 13,585        |
| Goodwill amortisation                    |                    |               |                                 |               | (491)                                       | -             |
| Share of operating profit of associates  |                    |               |                                 |               | 59                                          | 608           |
| Income from other fixed asset investment |                    |               |                                 |               | -                                           | 163           |
| Net interest payable                     |                    |               |                                 |               | (681)                                       | (323)         |
|                                          |                    |               |                                 |               | 26,679                                      | 14,033        |
| Exceptional items (note 8)               |                    |               |                                 |               | -                                           | 9,763         |
|                                          |                    |               |                                 |               | 26,679                                      | 23,796        |

|                   | Turnover by destination<br>(before intra-group trading) |               | Exceptional items |               | Net assets/(liabilities) |               |
|-------------------|---------------------------------------------------------|---------------|-------------------|---------------|--------------------------|---------------|
|                   | 2001<br>£'000                                           | 2000<br>£'000 | 2001<br>£'000     | 2000<br>£'000 | 2001<br>£'000            | 2000<br>£'000 |
| UK                | 109,744                                                 | 88,760        | -                 | 9,930         | 190,155                  | 64,369        |
| Rest of the world | 164,721                                                 | 94,392        | -                 | (167)         | 74,964                   | (2,723)       |
|                   | 274,465                                                 | 183,152       | -                 | 9,763         | 265,119                  | 61,646        |

### 3 Analysis of the results of acquisitions

|                                                                                    | Continuing<br>operations<br>£'000 | Acquisitions<br>£'000 | 2001<br>Total<br>£'000 | 2000<br>Continuing<br>operations<br>£'000 |
|------------------------------------------------------------------------------------|-----------------------------------|-----------------------|------------------------|-------------------------------------------|
| <b>Turnover</b>                                                                    | 195,524                           | 70,139                | 265,663                | 173,409                                   |
| Cost of sales                                                                      | (91,811)                          | (20,520)              | (112,331)              | (96,219)                                  |
| <b>Gross profit (gross revenue)</b>                                                | 103,713                           | 49,619                | 153,332                | 77,190                                    |
| Administrative expenses (including goodwill amortisation) before exceptional items | (87,754)                          | (38,860)              | (126,614)              | (64,178)                                  |
| Other operating income                                                             | 578                               | 5                     | 583                    | 573                                       |
| <b>Group operating profit before goodwill amortisation</b>                         | 16,820                            | 10,972                | 27,792                 | 13,585                                    |
| Goodwill amortisation                                                              | (283)                             | (208)                 | (491)                  | -                                         |
| <b>Group operating profit before exceptional items</b>                             | 16,537                            | 10,764                | 27,301                 | 13,585                                    |
| Share of operating profit of associates                                            | 59                                | -                     | 59                     | 608                                       |
| Income from other fixed asset investment                                           | -                                 | -                     | -                      | 163                                       |
| Net interest payable                                                               | (609)                             | (72)                  | (681)                  | (323)                                     |
|                                                                                    | 15,987                            | 10,692                | 26,679                 | 14,033                                    |
| Exceptional items (note 8)                                                         | -                                 | -                     | -                      | 9,763                                     |
| <b>Profit on ordinary activities before tax</b>                                    | 15,987                            | 10,692                | 26,679                 | 23,796                                    |

Details of acquisitions made during the year are provided in note 27.

### 4 Other operating income

Other operating income of £583,000 (2000 - £573,000) consists of rental income from office space which has been sub-let.

**5 Employee numbers and remuneration**

The average number of persons employed by the Group (including directors) during the year, analysed by class of business, was as follows:

|                    | 2001         | 2000       |
|--------------------|--------------|------------|
| Public Relations   | 780          | 468        |
| Advertising        | 407          | 213        |
| Marketing Services | 305          | 111        |
| Design & Branding  | 163          | 157        |
| Head office        | 38           | 37         |
|                    | <b>1,693</b> | <b>986</b> |

The aggregate payroll costs of these persons were as follows:

|                       | 2001<br>£'000 | 2000<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 73,372        | 37,290        |
| Social security costs | 7,165         | 3,178         |
| Other pension costs   | 2,077         | 1,734         |
|                       | <b>82,614</b> | <b>42,202</b> |

Aggregate payroll costs include the following amounts in respect of the exceptional items disclosed in note 8:

|                       | 2001<br>£'000 | 2000<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | —             | 1,027         |
| Social security costs | —             | 155           |
| Other pension costs   | —             | 36            |
|                       | —             | <b>1,218</b>  |

Exceptional items in the year ended 29 February 2000 included a provision of £530,000 in relation to employer's National Insurance contributions payable on certain share options (note 8). This amount is not included in the table above.

The information on directors' emoluments and share options set out on pages 95 to 98 forms part of these financial statements.

**6 Net interest payable**

|                                | 2001<br>£'000 | 2000<br>£'000 |
|--------------------------------|---------------|---------------|
| Interest payable:              |               |               |
| Group                          |               |               |
| — on bank loans and overdrafts | 1,466         | 993           |
| — on loan notes                | 267           | 74            |
| — in respect of finance leases | 33            | 18            |
|                                | <b>1,766</b>  | <b>1,085</b>  |
| Interest receivable:           |               |               |
| Group                          |               |               |
| — on bank deposits             | (1,081)       | (755)         |
| Associates                     |               |               |
| — on bank deposits             | (4)           | (7)           |
|                                | <b>681</b>    | <b>323</b>    |

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## 7 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging/(crediting):

|                                                                          | 2001<br>£'000 | 2000<br>£'000 |
|--------------------------------------------------------------------------|---------------|---------------|
| Staff costs (note 5)                                                     | 82,614        | 42,202        |
| Depreciation of tangible fixed assets:                                   |               |               |
| – owned assets                                                           | 4,108         | 2,312         |
| – assets held under finance leases                                       | 196           | 39            |
| Net loss/(profit) on disposal of tangible fixed assets                   | 11            | (11)          |
| Rent and other operating lease rentals                                   | 7,493         | 4,530         |
| Exchange losses/(gains)                                                  | 326           | (146)         |
| Group audit fees and expenses:                                           |               |               |
| – current year, of which the parent company was £65,000 (2000 – £55,000) | 430           | 215           |
| – under provision in prior year                                          | –             | 49            |

Fees paid to PricewaterhouseCoopers for non-audit services in the UK were £279,000 (2000 – £240,000). Of this amount £154,000 (2000 – £34,000) has been capitalised within intangible fixed assets, being costs of acquisitions.

## 8 Exceptional items

|                                                                                       | 2001<br>£'000 | 2000<br>£'000 |
|---------------------------------------------------------------------------------------|---------------|---------------|
| Profit on sale of other fixed asset investment                                        | –             | 10,983        |
| Provision for employer's National Insurance contributions on unapproved share options | –             | (530)         |
| Restructuring costs                                                                   | –             | (690)         |
|                                                                                       | –             | 9,763         |

During the year ended 29 February 2000, the Group sold its strategic investment in Lopex plc, making a profit on sale of £10,983,000. The investment had previously been included in fixed asset investments at an historic cost of £5,535,000. Proceeds from the sale were £17,650,000 and total costs associated with the sale amounted to £1,132,000.

In addition, in the year ended 29 February 2000, a provision of £530,000 was made in relation to employer's National Insurance contributions payable on unapproved share options granted since 6 April 1999 and £690,000 of redundancy costs were incurred in the final stages of the Group's restructuring programme following the Dewe Rogerson acquisition in October 1998.

## 9 Tax on profit on ordinary activities

|                                                                           | 2001<br>£'000 | 2000<br>£'000 |
|---------------------------------------------------------------------------|---------------|---------------|
| UK corporation tax payable on the profit for the year at 30% (2000 – 30%) | 5,358         | 6,154         |
| Foreign taxes on profits of subsidiary undertakings                       | 5,542         | 541           |
| Share of tax of associates                                                | 18            | 289           |
| Over provision in respect of prior years                                  | (832)         | (118)         |
|                                                                           | 10,086        | 6,866         |

In the year ended 29 February 2000, net tax payable on exceptional items amounted to £2,688,000, including £3,024,000 payable in respect of the sale of the fixed asset investment.

## 10 Dividend

|                         | 2001<br>£'000 | 2000<br>£'000 |
|-------------------------|---------------|---------------|
| Final dividend proposed | 2,707         | 1,968         |

A final dividend of 0.60p per share (2000 – 0.50p per share) is recommended and, subject to approval by shareholders, will be paid on 16 July 2001 to shareholders on the register at 18 May 2001.

## 11 Earnings per share

Earnings per share has been calculated using the following:

|                                                                | Earnings<br>£'000 | 2001<br>Weighted average<br>number of shares | Earnings<br>£'000 | 2000<br>Weighted average<br>number of shares |
|----------------------------------------------------------------|-------------------|----------------------------------------------|-------------------|----------------------------------------------|
| Basic EPS                                                      | 16,471            | 410,086,758                                  | 16,913            | 330,546,515                                  |
| Diluted EPS                                                    | 16,471            | 430,419,490                                  | 16,913            | 342,022,113                                  |
| Basic EPS before goodwill amortisation and exceptional items   | 16,962            | 410,086,758                                  | 9,838             | 330,546,515                                  |
| Diluted EPS before goodwill amortisation and exceptional items | 16,962            | 430,419,490                                  | 9,838             | 342,022,113                                  |

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

|                                                          | Earnings<br>£'000 | 2001<br>Weighted average<br>number of shares | 2001<br>Earnings<br>per share<br>p | Earnings<br>£'000 | 2000<br>Weighted average<br>number of shares | 2000<br>Earnings<br>per share<br>p |
|----------------------------------------------------------|-------------------|----------------------------------------------|------------------------------------|-------------------|----------------------------------------------|------------------------------------|
| <b>Basic EPS</b>                                         | 16,471            | 410,086,758                                  | 4.02                               | 16,913            | 330,546,515                                  | 5.12                               |
| Effect of dilutive securities:                           |                   |                                              |                                    |                   |                                              |                                    |
| Options and warrants                                     |                   | 12,178,004                                   |                                    |                   | 9,879,329                                    |                                    |
| Contingently issuable shares in relation to acquisitions |                   | 8,154,728                                    |                                    |                   | 1,596,269                                    |                                    |
| <b>Diluted EPS</b>                                       | 16,471            | 430,419,490                                  | 3.83                               | 16,913            | 342,022,113                                  | 4.95                               |

**Earnings per share before goodwill amortisation and exceptional items**

|                                                                       |        |             |      |         |             |      |
|-----------------------------------------------------------------------|--------|-------------|------|---------|-------------|------|
| <b>Basic EPS</b>                                                      | 16,471 | 410,086,758 | 4.02 | 16,913  | 330,546,515 | 5.12 |
| Goodwill amortisation                                                 | 491    |             |      | –       |             |      |
| Exceptional items (post tax)                                          | –      |             |      | (7,075) |             |      |
| <b>Basic EPS before goodwill amortisation and exceptional items</b>   | 16,962 | 410,086,758 | 4.14 | 9,838   | 330,546,515 | 2.98 |
| <b>Diluted EPS</b>                                                    | 16,471 | 430,419,490 | 3.83 | 16,913  | 342,022,113 | 4.95 |
| Goodwill amortisation                                                 | 491    |             |      | –       |             |      |
| Exceptional items (post tax)                                          | –      |             |      | (7,075) |             |      |
| <b>Diluted EPS before goodwill amortisation and exceptional items</b> | 16,962 | 430,419,490 | 3.94 | 9,838   | 342,022,113 | 2.88 |

## 12 Intangible fixed assets

|                                                        | Goodwill<br>£'000 |
|--------------------------------------------------------|-------------------|
| At 1 March 2000                                        | 74,707            |
| Goodwill arising on acquisitions in the year (note 27) | 230,191           |
| Adjustments in relation to prior year acquisitions     | (2,772)           |
| Goodwill amortisation                                  | (491)             |
| At 28 February 2001                                    | 301,635           |

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## 13 Tangible fixed assets

### Group

|                       | Freehold<br>& long<br>leasehold<br>property<br>£'000 | Short<br>leasehold<br>property<br>£'000 | Fixtures,<br>fittings,<br>vehicles &<br>equipment<br>£'000 | Total<br>£'000 |
|-----------------------|------------------------------------------------------|-----------------------------------------|------------------------------------------------------------|----------------|
| <b>Cost</b>           |                                                      |                                         |                                                            |                |
| At 1 March 2000       | 507                                                  | 5,389                                   | 14,365                                                     | 20,261         |
| Acquisitions          | –                                                    | 1,104                                   | 4,455                                                      | 5,559          |
| Additions             | 7                                                    | 1,068                                   | 4,361                                                      | 5,436          |
| Disposals             | –                                                    | (63)                                    | (3,629)                                                    | (3,692)        |
| Foreign exchange      | 48                                                   | 92                                      | 516                                                        | 656            |
| At 28 February 2001   | 562                                                  | 7,590                                   | 20,068                                                     | 28,220         |
| <b>Depreciation</b>   |                                                      |                                         |                                                            |                |
| At 1 March 2000       | 106                                                  | 2,342                                   | 9,576                                                      | 12,024         |
| Charge for the year   | 17                                                   | 701                                     | 3,586                                                      | 4,304          |
| Disposals             | –                                                    | (62)                                    | (3,538)                                                    | (3,600)        |
| Foreign exchange      | 21                                                   | 30                                      | 352                                                        | 403            |
| At 28 February 2001   | 144                                                  | 3,011                                   | 9,976                                                      | 13,131         |
| <b>Net book value</b> |                                                      |                                         |                                                            |                |
| At 28 February 2001   | 418                                                  | 4,579                                   | 10,092                                                     | 15,089         |
| At 29 February 2000   | 401                                                  | 3,047                                   | 4,789                                                      | 8,237          |

The net book value of assets at 28 February 2001 includes an amount of £770,000 in respect of assets held under finance leases (29 February 2000 – £268,000).

### Company

|                       | Freehold<br>& long<br>leasehold<br>property<br>£'000 | Short<br>leasehold<br>property<br>£'000 | Fixtures,<br>fittings,<br>vehicles &<br>equipment<br>£'000 | Total<br>£'000 |
|-----------------------|------------------------------------------------------|-----------------------------------------|------------------------------------------------------------|----------------|
| <b>Cost</b>           |                                                      |                                         |                                                            |                |
| At 1 March 2000       | 379                                                  | 3,395                                   | 3,253                                                      | 7,027          |
| Additions             | 7                                                    | 256                                     | 599                                                        | 862            |
| Disposals             | –                                                    | –                                       | (484)                                                      | (484)          |
| At 28 February 2001   | 386                                                  | 3,651                                   | 3,368                                                      | 7,405          |
| <b>Depreciation</b>   |                                                      |                                         |                                                            |                |
| At 1 March 2000       | 12                                                   | 1,477                                   | 1,908                                                      | 3,397          |
| Charge for the year   | 8                                                    | 307                                     | 587                                                        | 902            |
| Disposals             | –                                                    | –                                       | (478)                                                      | (478)          |
| At 28 February 2001   | 20                                                   | 1,784                                   | 2,017                                                      | 3,821          |
| <b>Net book value</b> |                                                      |                                         |                                                            |                |
| At 28 February 2001   | 366                                                  | 1,867                                   | 1,351                                                      | 3,584          |
| At 29 February 2000   | 367                                                  | 1,918                                   | 1,345                                                      | 3,630          |

The net book value of assets at 28 February 2001 includes an amount of £48,000 in respect of assets held under finance leases (29 February 2000 – £87,000).

## 14 Fixed asset investments

### Group

|                                              | Investment in<br>associates<br>£'000 | Other<br>investment<br>£'000 |
|----------------------------------------------|--------------------------------------|------------------------------|
| At 1 March 2000                              | 34                                   | –                            |
| Additions                                    | –                                    | 711                          |
| Share of profits less dividends for the year | 31                                   | –                            |
| Foreign exchange                             | 5                                    | –                            |
| At 28 February 2001                          | 70                                   | 711                          |

The investment in associates at 28 February 2001 represents the Group's 40% holding in Capital Communications Kft and 34% holding in NBS Spolka z.o.o. Both companies are public relations consultancies, registered in Hungary and Poland respectively. The carrying value of the investment in associates equates to the Group's share of their net assets and does not include any goodwill.

The amount shown as other investment represents the Group's investment in Openshop Holding AG, a German technology company. This investment was made as part of the Group's development and marketing of its new media and on-line capabilities. It is a listed investment on an overseas stock exchange with a market value at 28 February 2001 of £110,000. The other investment is shown at cost as, in the opinion of the directors, its cost is lower than its recoverable amount, being its value in use.

#### 14 Fixed asset investments (continued)

| Company                      | Investment in subsidiary undertakings<br>£'000 | Other investment<br>£'000 |
|------------------------------|------------------------------------------------|---------------------------|
| At 1 March 2000              | 106,221                                        | –                         |
| Additions                    | 201,064                                        | 711                       |
| Transfers to group companies | (19,387)                                       | –                         |
| At 28 February 2001          | 287,898                                        | 711                       |

Loans to group undertakings are included in debtors.

Principal subsidiary undertakings and associates at 28 February 2001 are listed in note 32. A full list of subsidiary undertakings and associates will be annexed to the Company's next annual return.

#### 15 Debtors

|                                                   | Group         |               | Company       |               |
|---------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                   | 2001<br>£'000 | 2000<br>£'000 | 2001<br>£'000 | 2000<br>£'000 |
| Amounts falling due within one year:              |               |               |               |               |
| Trade debtors                                     | 52,886        | 37,045        | –             | –             |
| Amounts owed by subsidiary undertakings           | –             | –             | 22,916        | 22,600        |
| Amounts owed by associates – dividends receivable | 34            | 74            | –             | –             |
| Corporation tax                                   | 672           | 407           | 761           | 515           |
| Advance corporation tax recoverable               | –             | 193           | –             | 193           |
| Withholding tax recoverable                       | 135           | 124           | –             | –             |
| Other debtors                                     | 2,004         | 1,657         | 354           | 596           |
| Prepayments and accrued income                    | 4,847         | 1,886         | 419           | 477           |
|                                                   | 60,578        | 41,386        | 24,450        | 24,381        |
| Amounts falling due after more than one year:     |               |               |               |               |
| Amounts owed by subsidiary undertakings           | –             | –             | 61,090        | 2,664         |
|                                                   | 60,578        | 41,386        | 85,540        | 27,045        |

Included within other debtors falling due within one year for the Group is an amount of £24,000 (2000 – £47,000) relating to shares in the Company held by the Citigate Communications Group Limited Employee Share Trust. The shares were issued at the time of the Citigate acquisition as consideration for Citigate Communications Group Limited shares which were held by the Employee Share Trust in accordance with an agreement dated 4 April 1995 between the Employee Share Trust and Citigate Communications Group Limited. The shares are to be distributed under a replacement option scheme resulting from the acquisition and are valued at cost. Further details of the option scheme are provided on page 98.

#### 16 Creditors: amounts falling due within one year

|                                                              | Group         |                                | Company       |                                |
|--------------------------------------------------------------|---------------|--------------------------------|---------------|--------------------------------|
|                                                              | 2001<br>£'000 | 2000<br>(as restated)<br>£'000 | 2001<br>£'000 | 2000<br>(as restated)<br>£'000 |
| Bank loans                                                   | –             | 1,983                          | –             | 1,983                          |
| Loan notes                                                   | 14,660        | 807                            | 14,642        | 807                            |
| Obligations under finance leases falling due within one year | 474           | 113                            | 7             | 73                             |
| Trade creditors                                              | 19,980        | 18,850                         | 586           | 614                            |
| Amounts owed to subsidiary undertakings                      | –             | –                              | 16,121        | 12,650                         |
| Amounts owed to associates – trading balances                | 13            | –                              | –             | –                              |
| Corporation tax                                              | 7,988         | 6,086                          | –             | –                              |
| Other taxes and social security                              | 5,295         | 1,931                          | 958           | 736                            |
| Initial consideration for acquisition of SEA                 | –             | 11,062                         | –             | 11,062                         |
| Advance corporation tax payable                              | –             | 124                            | –             | –                              |
| Proposed dividend                                            | 2,702         | 1,961                          | 2,707         | 1,968                          |
| Other creditors                                              | 5,564         | 5,165                          | 112           | 149                            |
| Accruals and deferred income                                 | 31,245        | 19,415                         | 7,403         | 2,410                          |
|                                                              | 87,921        | 67,497                         | 42,536        | 32,452                         |

Deferred consideration for acquisitions has been reclassified from creditors to provisions (note 18) in order to better reflect the nature of the liabilities concerned. Comparative figures have been restated accordingly.

Included within other creditors for the Group is £100,000 (2000 – £97,000) relating to liabilities and accrued obligations of the Citigate Communications Group Limited Employee Share Trust, representing its income tax liability, accrued professional fees and a provision against future commitments. The proposed dividend for the Group is stated after deducting dividends of £5,000 (2000 – £7,000) in respect of shares held by the Citigate Communications Group Limited Employee Share Trust.

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## 16 Creditors: amounts falling due within one year (continued)

Loan notes were issued as part of the consideration for certain acquisitions. They are secured either on cash deposits, by guarantee or by way of a charge over the minority interests acquired. Cash deposits provided as security are included within cash at bank and in hand. All loan notes are repayable on six months notice at the holder's discretion and are interest-bearing at the following rates:

|                           | 2001<br>£'000 | 2000<br>£'000 |
|---------------------------|---------------|---------------|
| <b>Secured</b>            |               |               |
| Bank base rate plus 0.25% | 736           | 736           |
| Bank bid rate less 1.15%  | 2             | 71            |
| Bank base rate less 2.5%  | 12,326        | —             |
|                           | <b>13,064</b> | <b>807</b>    |
| <b>Unsecured</b>          |               |               |
| Bank base rate less 1.5%  | 1,596         | —             |
|                           | <b>14,660</b> | <b>807</b>    |

## 17 Creditors: amounts falling due after more than one year

|                                                                         | Group         |                                | Company       |                                |
|-------------------------------------------------------------------------|---------------|--------------------------------|---------------|--------------------------------|
|                                                                         | 2001<br>£'000 | 2000<br>(as restated)<br>£'000 | 2001<br>£'000 | 2000<br>(as restated)<br>£'000 |
| Bank loans                                                              | 23,527        | 14,480                         | 23,527        | 14,480                         |
| Obligations under finance leases falling due between one and five years | 128           | 43                             | —             | 13                             |
| Corporation tax                                                         | 423           | —                              | —             | —                              |
| Other creditors                                                         | 467           | —                              | —             | —                              |
|                                                                         | <b>24,545</b> | <b>14,523</b>                  | <b>23,527</b> | <b>14,493</b>                  |

Bank loans are stated net of unamortised issue costs of £473,000 (2000 – £62,000). Issue costs of £525,000 were incurred in respect of the borrowing facilities described in note 26. They are allocated to the profit and loss account over the five year term of the facilities on a straight line basis. Issue costs of £62,000 relating to the previous facility were charged to the profit and loss account during the year.

Deferred consideration for acquisitions has been reclassified from creditors to provisions (note 18) in order to better reflect the nature of the liabilities concerned. Comparative figures have been restated accordingly.

## 18 Provisions for liabilities and charges

| Group                                                                     |  | Employer's<br>National Insurance<br>on share options<br>£'000 | Deferred<br>consideration<br>for acquisitions<br>£'000 | Total<br>£'000 |
|---------------------------------------------------------------------------|--|---------------------------------------------------------------|--------------------------------------------------------|----------------|
| At 1 March 2000 (as restated)                                             |  | 530                                                           | 11,725                                                 | 12,255         |
| Paid during the year                                                      |  | —                                                             | (2,862)                                                | (2,862)        |
| Net movement in estimated deferred consideration payable for acquisitions |  | —                                                             | 24,520                                                 | 24,520         |
| At 28 February 2001                                                       |  | 530                                                           | 33,383                                                 | 33,913         |
| Company                                                                   |  | Employer's<br>National Insurance<br>on share options<br>£'000 | Deferred<br>consideration<br>for acquisitions<br>£'000 | Total<br>£'000 |
| At 1 March 2000 (as restated)                                             |  | 530                                                           | 9,834                                                  | 10,364         |
| Paid during the year                                                      |  | —                                                             | (1,212)                                                | (1,212)        |
| Net movement in estimated deferred consideration payable for acquisitions |  | —                                                             | 24,058                                                 | 24,058         |
| At 28 February 2001                                                       |  | 530                                                           | 32,680                                                 | 33,210         |

Deferred consideration for acquisitions has been reclassified from creditors to provisions in order to better reflect the nature of the liabilities concerned. Comparative figures have been restated accordingly.

The provision for employer's National Insurance on unapproved share options granted since 6 April 1999 is expected to be fully utilised within two to five years.

### Provision for deferred consideration for acquisitions

Acquisitions made by the Group typically involve an earn-out arrangement whereby the consideration payable includes a deferred element that is subject to the future financial performance of the acquired entity. The provision for deferred consideration for acquisitions of £33.4 million as at 28 February 2001 represents the directors' best estimate of the amount expected to be payable in cash or loan notes. The estimated value of deferred consideration payable by issue of new ordinary shares in the Company of £67.3 million is included in the balance sheet as shares to be issued (note 21). The directors estimate that, in delivering the future financial performance required for these amounts to become payable, the acquired entities will generate £68.1 million of operating cash inflows.

# 18 Provisions for liabilities and charges (continued)

Details of each acquisition made during the current year are set out in note 27. The maximum potential deferred cash and loan note consideration payable under all earn-out arrangements ongoing as at 28 February 2001 is £71.5 million. In the opinion of the directors, the £38.1 million not provided for above represents a contingent liability as the likelihood of payment is considered to be remote.

# 19 Deferred tax

At 28 February 2001, the Group had potential deferred tax assets of £1,289,000 (2000 – £1,181,000) in relation to allowable tax losses and £647,000 (2000 – £992,000) in relation to timing differences. These assets have not been recognised in the financial statements as, in the opinion of the directors, their recoverability is not beyond reasonable doubt.

# 20 Called up share capital

|                                                             | 2001<br>£'000 | 2000<br>£'000 |
|-------------------------------------------------------------|---------------|---------------|
| <b>Authorised</b>                                           |               |               |
| Ordinary shares of 1p each 610,000,000 (2000 – 441,955,000) | 6,100         | 4,420         |
| <b>Allotted and fully paid</b>                              |               |               |
| Ordinary shares of 1p each 448,656,576 (2000 – 333,557,447) | 4,487         | 3,336         |

Pursuant to an ordinary resolution passed at the Company's Annual General Meeting on 7 July 2000, the authorised share capital of the Company was increased from £4,419,550 to £6,100,000 by the creation of 168,045,000 ordinary shares of 1 pence each to rank pari passu in all respects with the existing ordinary shares of 1 pence each of the Company.

A total of 9,520,445 shares were issued during the year as deferred consideration for the acquisitions of Team Marketing Communications, i.MAGE Marcom (S) Pte Ltd, i.MAGE Public Relations (S) Pte Ltd, SEA Spiess Ermsch & Andere Werbeagentur GmbH and 5% of SEA Dewe Rogerson GmbH, all of which were made during prior years.

In April 2000, 31,761,939 shares were issued in relation to the acquisition of Sard Verbinnen & Co., Inc.. During the year, a total of 22,422,026 shares were issued in relation to the acquisition of Cunningham Communication, Inc. and a total of 31,244,463 shares were issued as consideration for other acquisitions made during the year.

On 17 April 2000, the Company issued 16,551,900 shares by way of a placing at 115 pence per share, raising £19.0 million. On 23 August 2000, the Company issued 704,225 shares by way of a placing at 142 pence per share, raising £1.0 million.

On 30 June 2000, the rights of holders of warrants to subscribe for ordinary shares in the Company expired. During the year, the rights to subscribe for one share for each warrant held at a price of 19.3 pence per share were exercised by or on behalf of holders of 1,575,537 warrants. There were no warrants in issue as at 28 February 2001 and none have been issued subsequently.

A total of 1,318,594 shares were issued during the year under the Company's share option schemes for total consideration of £240,000.

Subsequent to the year end, 2,155,456 shares were issued as initial consideration for the acquisition of First Financial Communications B.V. and 421,740 shares were issued under the Company's share option schemes.

The total number of shares in issue as at 8 May 2001 is 451,233,772.

Further shares are to be issued subject to future financial performance as deferred consideration for acquisitions. The estimated value of these shares is included in shares to be issued at 28 February 2001 (note 21).

The Company has shareholder authority to purchase its own shares to a maximum of 39,355,231 shares.

## Options

As at 28 February 2001, certain employees including directors held options over ordinary shares of 1 pence under the following schemes:

|                                          | Options held |            | Exercise prices<br>(per share) | Exercise periods (various dates)              |
|------------------------------------------|--------------|------------|--------------------------------|-----------------------------------------------|
|                                          | 2001         | 2000       |                                |                                               |
| Employee Share Option Scheme             | 2,596,000    | 3,776,000  | 10.5p to 31.0p                 | Up to 29 October 2007                         |
| Executive Share Option Plan              | 6,535,000    | 6,385,000  | 23.25p to 129.0p               | Between 22 September 2001 and 20 October 2010 |
| Executive Long Term Incentive Plan       | 3,174,000    | –          | 129.0p                         | Between 20 October 2003 and 20 October 2010   |
| 1998 Savings Related Share Option Scheme | 1,961,695    | 2,184,512  | 15.2p                          | Between 1 January 2001 and 31 December 2002   |
| 1999 Savings Related Share Option Scheme | 1,522,786    | 1,706,738  | 47.0p to 50.0p                 | Between 1 January 2002 and 30 June 2003       |
| 2000 Savings Related Share Option Scheme | 1,227,967    | –          | 103.6p to 139.5p               | Between 1 January 2003 and 30 June 2004       |
|                                          | 17,017,448   | 14,052,250 |                                |                                               |

A total of 4,872,219 options were granted, 1,315,042 exercised and 591,979 lapsed during the year under the above schemes. Further details are shown in the statement of directors' remuneration and interests on pages 95 to 98.

## Notes to the financial statements

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### 21 Reserves Group

|                                                                                          | Share<br>premium<br>account<br>£'000 | Shares to<br>be issued<br>£'000 | Merger<br>reserve<br>£'000 | Profit and<br>loss account<br>£'000 |
|------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------|----------------------------|-------------------------------------|
| At 1 March 2000                                                                          | 13,485                               | 22,527                          | 1,192                      | 21,015                              |
| Retained profit for the year                                                             | -                                    | -                               | -                          | 13,764                              |
| Exchange differences on foreign currency net investments                                 | -                                    | -                               | -                          | 875                                 |
| Premium on shares issued as consideration for acquisitions                               | 191                                  | -                               | 123,221                    | -                                   |
| Premium on shares issued via placings                                                    | 19,862                               | -                               | -                          | -                                   |
| Premium on shares issued under share option schemes                                      | 227                                  | -                               | -                          | -                                   |
| Premium on shares issued to warrant holders                                              | 288                                  | -                               | -                          | -                                   |
| Share issue costs                                                                        | (264)                                | -                               | (703)                      | -                                   |
| Net movement in estimated value of shares to be issued as consideration for acquisitions | -                                    | 44,750                          | -                          | -                                   |
| At 28 February 2001                                                                      | 33,789                               | 67,277                          | 123,710                    | 35,654                              |

A merger reserve has been created in relation to 94,784,213 shares issued during the year as consideration for acquisitions, as permitted by section 131 of the Companies Act 1985.

Cumulative goodwill relating to acquisitions made up to and including 28 February 1998, which has been eliminated against reserves, amounts to £46,259,000 (2000 – £46,259,000).

### Company

|                                                                                          | Share<br>premium<br>account<br>£'000 | Shares to<br>be issued<br>£'000 | Merger<br>reserve<br>£'000 | Profit and<br>loss account<br>£'000 |
|------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------|----------------------------|-------------------------------------|
| At 1 March 2000                                                                          | 13,485                               | 22,527                          | 46,559                     | 10,807                              |
| Retained profit for the year                                                             | -                                    | -                               | -                          | 3,056                               |
| Premium on shares issued as consideration for acquisitions                               | 191                                  | -                               | 123,221                    | -                                   |
| Premium on shares issued via placings                                                    | 19,862                               | -                               | -                          | -                                   |
| Premium on shares issued under share option schemes                                      | 227                                  | -                               | -                          | -                                   |
| Premium on shares issued to warrant holders                                              | 288                                  | -                               | -                          | -                                   |
| Share issue costs                                                                        | (264)                                | -                               | (703)                      | -                                   |
| Net movement in estimated value of shares to be issued as consideration for acquisitions | -                                    | 44,750                          | -                          | -                                   |
| At 28 February 2001                                                                      | 33,789                               | 67,277                          | 169,077                    | 13,863                              |

### 22 Minority interests

|                                                                                       | £'000 |
|---------------------------------------------------------------------------------------|-------|
| At 1 March 2000                                                                       | 91    |
| Minority interests' share of profit for the year                                      | 122   |
| Minority interests' share of dividends                                                | (22)  |
| Minority interests' share of exchange differences on foreign currency net investments | 9     |
| At 28 February 2001                                                                   | 200   |

## 23 Analysis of cash flows

|                                                                         | 2001<br>£'000 | 2000<br>£'000 |
|-------------------------------------------------------------------------|---------------|---------------|
| <b>Returns on investments and servicing of finance</b>                  |               |               |
| Interest received                                                       | 1,075         | 754           |
| Interest paid                                                           | (1,698)       | (1,160)       |
| Issue costs of new bank loans                                           | (525)         | -             |
| Interest element of finance lease payments                              | (33)          | (18)          |
| Dividend received from other fixed asset investment                     | -             | 147           |
| Dividends paid to minority interests                                    | (22)          | -             |
|                                                                         | (1,203)       | (277)         |
| <b>Taxation</b>                                                         |               |               |
| UK tax paid                                                             | (5,874)       | (3,609)       |
| Overseas tax paid                                                       | (4,020)       | (114)         |
|                                                                         | (9,894)       | (3,723)       |
| <b>Capital expenditure and financial investment</b>                     |               |               |
| Purchase of tangible fixed assets                                       | (5,317)       | (3,549)       |
| Disposal of tangible fixed assets                                       | 81            | 94            |
| Purchase of other fixed asset investment                                | (711)         | -             |
| Net cash inflow from sale of other fixed asset investment               | -             | 16,581        |
|                                                                         | (5,947)       | 13,126        |
| <b>Acquisitions</b>                                                     |               |               |
| Purchase of subsidiary undertakings (note 27)                           | (38,915)      | (1,629)       |
| Purchase of businesses (note 27)                                        | (744)         | (1,897)       |
| Net cash acquired with subsidiary undertakings and businesses (note 27) | 6,406         | 6,243         |
|                                                                         | (33,253)      | 2,717         |
| <b>Financing</b>                                                        |               |               |
| Issue of shares:                                                        |               |               |
| Proceeds from issue of ordinary share capital                           | 20,578        | 98            |
| Share issue costs                                                       | (967)         | (3)           |
|                                                                         | 19,611        | 95            |
| Increase in debt:                                                       |               |               |
| Repayment of bank loans                                                 | (36,974)      | (3,503)       |
| Draw-down of bank loans                                                 | 42,000        | 6,511         |
| Capital element of finance lease payments                               | (397)         | (106)         |
| Repayment of loan notes                                                 | (114)         | (787)         |
|                                                                         | 4,515         | 2,115         |
|                                                                         | 24,126        | 2,210         |

**Acquisitions**

Acquisitions accounted for £7,786,000 (2000 – £444,000) of cash flow from operating activities, £3,138,000 (2000 – nil) of taxation, and £1,858,000 (2000 – £6,000) of capital expenditure in the year. These amounts represent the cash flows of all acquisitions except PLPR Communications, as its cash flows are not separately identifiable from the cash flows of continuing operations.

**Exceptional items**

Cash flow from operating activities includes an outflow of £81,000 (2000 – £609,000) in respect of the exceptional items arising in the year ended 29 February 2000 (note 8).

## 24 Major non-cash transactions

Part of the consideration for the acquisitions of subsidiary undertakings during the year comprised shares. Further details are set out in note 27.

## Notes to the financial statements

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### 25 Analysis of net (debt)/funds

|                                                | At 1 March<br>2000<br>£'000 | Cash flows<br>£'000 | Acquisitions<br>(excluding cash)<br>£'000 | Exchange<br>movements<br>£'000 | Other<br>movements<br>£'000 | At 28 February<br>2001<br>£'000 |
|------------------------------------------------|-----------------------------|---------------------|-------------------------------------------|--------------------------------|-----------------------------|---------------------------------|
| Cash at bank and in hand                       | 27,837                      | 1,032               | –                                         | 624                            | –                           | 29,493                          |
| Loan notes                                     |                             |                     |                                           |                                |                             |                                 |
| – amounts falling due within one year          | (807)                       | 114                 | (63)                                      | –                              | (13,904)                    | (14,660)                        |
| Bank loans                                     |                             |                     |                                           |                                |                             |                                 |
| – amounts falling due within one year          | (1,983)                     | 4,133               | (2,200)                                   | 68                             | (18)                        | –                               |
| – amounts falling due after more than one year | (14,480)                    | (8,634)             | –                                         | (317)                          | (96)                        | (23,527)                        |
| Finance leases                                 |                             |                     |                                           |                                |                             |                                 |
| – amounts falling due within one year          | (113)                       | 291                 | (536)                                     | (4)                            | (112)                       | (474)                           |
| – amounts falling due after more than one year | (43)                        | 106                 | (182)                                     | (2)                            | (7)                         | (128)                           |
|                                                | 10,411                      | (2,958)             | (2,981)                                   | 369                            | (14,137)                    | (9,296)                         |

Other movements comprise loan notes issued as consideration for acquisitions, amortisation of loan issue costs and inception of finance leases, together with transfers between ageing categories.

### 26 Financial instruments

The Group's financial instruments comprise cash at bank and in hand, borrowings in the form of loan notes, bank loans and finance leases, consideration for acquisitions and various items such as trade debtors and trade creditors that arise directly from its operations. As permitted by FRS 13: 'Derivatives and other financial instruments: disclosures', short-term debtors and creditors have been excluded from all financial instrument disclosures other than currency exposure disclosures.

The Group's policies and strategies in relation to risk and financial instruments are explained in the Financial review on pages 43 and 44. Accounting policies relevant to financial instruments are detailed in note 1(10).

The Group does not enter into any hedging arrangements involving derivative financial instruments.

#### Interest rate risk profile of financial liabilities

As at 28 February 2001:

| Currency                           | Floating rate<br>financial<br>liabilities<br>£'000 | Fixed rate<br>financial<br>liabilities<br>£'000 | Financial<br>liabilities<br>on which no<br>interest is paid<br>£'000 | Total<br>£'000 |
|------------------------------------|----------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------------|----------------|
| Sterling                           | 38,187                                             | 238                                             | 16,206                                                               | 54,631         |
| EU currencies (excluding Sterling) | –                                                  | –                                               | 9,800                                                                | 9,800          |
| US dollars                         | –                                                  | 336                                             | 2,326                                                                | 2,662          |
| Other currencies                   | –                                                  | 28                                              | 5,051                                                                | 5,079          |
|                                    | 38,187                                             | 602                                             | 33,383                                                               | 72,172         |

| Currency                           | Fixed rate financial liabilities       |                                                                 | Financial liabilities<br>on which no<br>interest is paid |
|------------------------------------|----------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------|
|                                    | Weighted average<br>interest rate<br>% | Weighted average<br>period for which<br>rate is fixed<br>Months | Weighted average<br>period until<br>maturity<br>Months   |
| Sterling                           | 9.8                                    | 15                                                              | 18                                                       |
| EU currencies (excluding Sterling) | –                                      | –                                                               | 26                                                       |
| US dollars                         | 9.3                                    | 14                                                              | 27                                                       |
| Other currencies                   | 7.0                                    | 34                                                              | 12                                                       |
|                                    | 9.4                                    | 16                                                              | 20                                                       |

26 Financial instruments (continued)  
As at 29 February 2000:

| Currency                           | Floating rate<br>financial<br>liabilities<br>£'000 | Fixed rate<br>financial<br>liabilities<br>£'000 | Financial<br>liabilities<br>on which no<br>interest is paid<br>£'000 | Total<br>£'000 |
|------------------------------------|----------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------------|----------------|
| Sterling                           | 8,245                                              | 85                                              | 730                                                                  | 9,060          |
| EU currencies (excluding Sterling) | 7,036                                              | —                                               | 19,725                                                               | 26,761         |
| US dollars                         | 1,013                                              | 70                                              | 1,171                                                                | 2,254          |
| Other currencies                   | 976                                                | 1                                               | 1,161                                                                | 2,138          |
|                                    | 17,270                                             | 156                                             | 22,787                                                               | 40,213         |

| Currency                           | Weighted average<br>interest rate<br>% | Weighted average<br>period for which<br>rate is fixed<br>Months | Financial liabilities<br>on which no<br>interest is paid<br>Weighted average<br>period until<br>maturity<br>Months |
|------------------------------------|----------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Sterling                           | 12.0                                   | 15                                                              | 21                                                                                                                 |
| EU currencies (excluding Sterling) | —                                      | —                                                               | 18                                                                                                                 |
| US dollars                         | 8.5                                    | 11                                                              | 12                                                                                                                 |
| Other currencies                   | 7.8                                    | 18                                                              | 2                                                                                                                  |
|                                    | 10.4                                   | 13                                                              | 17                                                                                                                 |

## Interest rate risk profile of financial assets

| Currency                           | Other fixed<br>asset<br>investment<br>£'000 | Cash at<br>bank and<br>in hand<br>£'000 | 2001<br>Total<br>£'000 | 2000<br>Cash at<br>bank and<br>in hand<br>£'000 |
|------------------------------------|---------------------------------------------|-----------------------------------------|------------------------|-------------------------------------------------|
| Sterling                           | —                                           | 13,563                                  | 13,563                 | 16,784                                          |
| EU currencies (excluding Sterling) | 711                                         | 10,067                                  | 10,778                 | 7,919                                           |
| US dollars                         | —                                           | 2,939                                   | 2,939                  | 1,725                                           |
| Other currencies                   | —                                           | 2,924                                   | 2,924                  | 1,409                                           |
|                                    | 711                                         | 29,493                                  | 30,204                 | 27,837                                          |
| No interest                        | 711                                         | 1,652                                   | 2,363                  | 1,386                                           |
| Floating rate                      | —                                           | 27,785                                  | 27,785                 | 25,221                                          |
| Fixed rate                         | —                                           | 56                                      | 56                     | 1,230                                           |
|                                    | 711                                         | 29,493                                  | 30,204                 | 27,837                                          |

Cash at bank and in hand includes deposits placed with banks on money markets at overnight rates.

## Maturity of group financial liabilities

|                                                     | Borrowings<br>and finance<br>leases<br>£'000 | Deferred<br>consideration<br>for acquisitions<br>£'000 | 2001<br>Total<br>£'000 | Borrowings<br>and finance<br>leases<br>£'000 | Deferred<br>consideration<br>for acquisitions<br>£'000 | 2000<br>Total<br>£'000 |
|-----------------------------------------------------|----------------------------------------------|--------------------------------------------------------|------------------------|----------------------------------------------|--------------------------------------------------------|------------------------|
| In one year or less or on demand                    | 15,134                                       | 6,010                                                  | 21,144                 | 2,903                                        | 13,556                                                 | 16,459                 |
| In more than one year but not more than two years   | 110                                          | 8,408                                                  | 8,518                  | 2,017                                        | 189                                                    | 2,206                  |
| In more than two years but not more than five years | 23,545                                       | 18,965                                                 | 42,510                 | 12,506                                       | 9,042                                                  | 21,548                 |
|                                                     | 38,789                                       | 33,383                                                 | 72,172                 | 17,426                                       | 22,787                                                 | 40,213                 |

## Notes to the financial statements

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### 26 Financial instruments (continued)

#### Maturity of Company borrowings and finance leases

Company borrowings including bank loans, bank overdrafts and loan notes, and obligations under finance leases, fall due as follows:

|                                                     | 2001<br>£'000 | 2000<br>£'000 |
|-----------------------------------------------------|---------------|---------------|
| In one year or less or on demand                    | 14,649        | 2,863         |
| In more than one year but not more than two years   | –             | 1,994         |
| In more than two years but not more than five years | 23,527        | 12,499        |
|                                                     | <b>38,176</b> | <b>17,356</b> |

#### Borrowing facilities

The Group had an undrawn committed facility of £51.0 million available at 28 February 2001 (2000 – £976,000) in respect of which all conditions precedent had been met at that date. This relates to a £75.0 million five year multi-currency facility arranged through Lloyds TSB Bank plc which bears interest of between 1% and 1.5% above LIBOR and expires in September 2005. The total facility includes a £50.0 million five year revolving loan facility and a £25.0 million revolving 364 day loan facility with an option to convert into a four year term loan.

#### Fair values of financial assets and liabilities

The fair values of primary financial instruments held or issued to finance the Group's operations, as determined by market values or calculated by discounting expected future cash flows at prevailing interest rates, were not materially different to their carrying values as at 28 February 2001 or 29 February 2000.

#### Currency exposures

The Group's objectives in managing the structural currency exposures arising from its net investments overseas are explained in the Financial review on page 44. Gains and losses arising from these currency exposures are recognised in the statement of total recognised gains and losses. The table below shows the Group's transactional currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures arise from monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating unit involved.

#### As at 28 February 2001:

| Functional currency<br>of group operation | Net foreign currency monetary assets/(liabilities) |                                                   |                     |                              | Total<br>£'000 |
|-------------------------------------------|----------------------------------------------------|---------------------------------------------------|---------------------|------------------------------|----------------|
|                                           | Sterling<br>£'000                                  | EU currencies<br>(excluding<br>Sterling)<br>£'000 | US dollars<br>£'000 | Other<br>currencies<br>£'000 |                |
| Sterling                                  | –                                                  | (1,976)                                           | (957)               | (267)                        | (3,200)        |
| EU currencies (excluding Sterling)        | (35)                                               | –                                                 | 8                   | –                            | (27)           |
| US dollars                                | (51)                                               | (46)                                              | –                   | –                            | (97)           |
| Other currencies                          | 60                                                 | –                                                 | (321)               | –                            | (261)          |
| Total                                     | (26)                                               | (2,022)                                           | (1,270)             | (267)                        | (3,585)        |

#### As at 29 February 2000:

| Functional currency<br>of group operation | Net foreign currency monetary assets/(liabilities) |                                                   |                     |                              | Total<br>£'000 |
|-------------------------------------------|----------------------------------------------------|---------------------------------------------------|---------------------|------------------------------|----------------|
|                                           | Sterling<br>£'000                                  | EU currencies<br>(excluding<br>Sterling)<br>£'000 | US dollars<br>£'000 | Other<br>currencies<br>£'000 |                |
| Sterling                                  | –                                                  | (3,872)                                           | 2,759               | 118                          | (995)          |
| EU currencies (excluding Sterling)        | (3)                                                | –                                                 | 8                   | –                            | 5              |
| US dollars                                | 222                                                | –                                                 | –                   | (41)                         | 181            |
| Other currencies                          | (40)                                               | (26)                                              | (249)               | –                            | (315)          |
| Total                                     | 179                                                | (3,898)                                           | 2,518               | 77                           | (1,124)        |

Monetary assets and liabilities of group operations for which Hong Kong dollars is the functional currency were disclosed separately in the prior year but are reported within other currencies in the tables above.

**27 Acquisitions****Sard Verbinen acquisition**

On 14 April 2000, the Group acquired the whole of the issued share capital of Sard Verbinen & Co., Inc., a financial public relations agency and mergers and acquisitions adviser in the US. Initial consideration was US\$58.0 million, comprising US\$29.0 million in cash, by means of a vendor placing of 15,880,969 ordinary shares at 115 pence per share together with a US\$173,000 cash payment, and 15,880,970 new ordinary shares in the Company. A maximum deferred consideration of US\$92.0 million is payable in new ordinary shares in the Company depending on future financial performance.

Estimated acquisition costs amount to £356,000, of which £316,000 had been paid at 28 February 2001.

The book values and fair values of assets and liabilities acquired were as follows:

|                          | Book value<br>£'000 | Fair value<br>adjustment<br>£'000 | Fair value<br>£'000 |
|--------------------------|---------------------|-----------------------------------|---------------------|
| Tangible fixed assets    | 244                 | –                                 | 244                 |
| Debtors                  | 3,026               | (63)                              | 2,963               |
| Cash at bank and in hand | 810                 | –                                 | 810                 |
| Taxation                 | 1                   | –                                 | 1                   |
| Other creditors          | (4,081)             | –                                 | (4,081)             |
|                          | –                   | (63)                              | (63)                |
| Goodwill                 |                     |                                   | 70,605              |
| Total cost               |                     |                                   | 70,542              |

The fair value adjustment to debtors reflects write downs to estimated realisable value. All fair values are provisional awaiting final determination of the balances acquired.

The results of Sard Verbinen & Co., Inc. from the start of its financial period on 1 January 2000 until acquisition, were: turnover US\$6,395,000; operating loss US\$359,000; loss before tax US\$361,000; tax charge US\$7,000, reflecting acquisition related costs which more than offset the underlying operating profit of the business. The profit after tax for the year ended 31 December 1999 was US\$1,800,000.

**Cunningham Communication acquisition**

The Group acquired the whole of the issued share capital of Cunningham Communication, Inc., one of the leading technology communications consultancies in the US, effective 1 August 2000. Initial consideration of US\$45.0 million comprised US\$22.5 million in cash, by means of a vendor placing of 10,563,381 new ordinary shares in the Company at 142 pence per share together with a US\$718,000 cash payment, and 11,858,645 new ordinary shares in the Company. A maximum deferred consideration of US\$15.0 million in cash and US\$15.0 million new ordinary shares in the Company is payable subject to future financial performance.

Estimated acquisition costs amount to £297,000, of which £287,000 had been paid at 28 February 2001.

The book values and fair values of assets and liabilities acquired were as follows:

|                                  | Book value<br>£'000 | Fair value<br>adjustment<br>£'000 | Fair value<br>£'000 |
|----------------------------------|---------------------|-----------------------------------|---------------------|
| Tangible fixed assets            | 2,463               | –                                 | 2,463               |
| Work in progress                 | 98                  | –                                 | 98                  |
| Debtors                          | 7,311               | (172)                             | 7,139               |
| Bank overdraft                   | (801)               | –                                 | (801)               |
| Bank loans                       | (1,969)             | –                                 | (1,969)             |
| Obligations under finance leases | (336)               | –                                 | (336)               |
| Taxation                         | (282)               | –                                 | (282)               |
| Other creditors                  | (4,041)             | –                                 | (4,041)             |
|                                  | 2,443               | (172)                             | 2,271               |
| Goodwill                         |                     |                                   | 31,902              |
| Total cost                       |                     |                                   | 34,173              |

The fair value adjustment to debtors reflects write downs to estimated realisable value. All fair values are provisional awaiting final determination of the balances acquired.

The results of Cunningham Communication, Inc. from the start of its financial period on 1 January 2000 until acquisition, were: turnover US\$17,599,000; operating loss US\$3,254,000; loss before tax US\$3,345,000; tax charge US\$319,000, reflecting acquisition related costs which more than offset the underlying operating profit of the business. The profit after tax for the year ended 31 December 1999 was US\$441,000.

## 27 Acquisitions (continued)

### Other acquisitions

On 27 March 2000, the Company acquired the whole of the issued share capital of two London-based online investor relations companies, MARCHCom.co.uk Limited and CAROL Limited. Initial consideration comprised £140,000 in cash, £1,795,000 in loan notes and 1,516,868 new ordinary shares in the Company. A maximum deferred consideration of £2,000,000 in loan notes and £2,000,000 in new ordinary shares in the Company will be paid subject to future financial performance.

The Company acquired 100% of JKD Communications Limited, a London based business-to-business new media development and design agency, effective 1 March 2000. Initial consideration comprised £1,945,000 in cash and 1,772,844 new ordinary shares in the Company. A maximum deferred consideration of £5,660,000, of which the vendors can elect to receive up to £2,660,000 in loan notes, will be paid subject to future financial performance.

The Group acquired the trade and certain assets of Ballard & King Communications CC, a South African IT public relations consultancy, effective 1 March 2000. Initial consideration comprised Rand 3,400,000 in cash and 43,060 new ordinary shares in the Company. A maximum deferred consideration of Rand 6,000,000, of which a minimum of Rand 600,000 is payable in cash, will be paid subject to future financial performance.

The Company acquired 100% of Finex Communications Group plc, an integrated global marketing services agency, effective 1 April 2000. Initial consideration comprised £5.0 million in loan notes and 2,108,972 new ordinary shares in the Company. A maximum deferred consideration of £17.0 million will be paid in cash or loan notes and new ordinary shares in the Company subject to future financial performance.

On 7 April 2000, the Group acquired 100% of Smarts (Advertising and Design) Limited, an advertising and design agency in Scotland. Consideration comprised £1,390,000 in cash and 844,749 in new ordinary shares in the Company.

The Group acquired the trade and certain assets of PLPR Communications, a consumer public relations consultancy in Northern Ireland, effective 1 May 2000. Initial consideration comprised £150,000 in cash. A maximum deferred consideration of £275,000, of which a minimum of £69,000 is payable in cash, will be paid subject to future financial performance.

The Company acquired 100% of Financial Group S.r.l., based in Milan and offering advertising, direct marketing and marketing training services, effective 15 June 2000. Initial consideration comprised Lire 4,205,000,000 in cash and 612,128 new ordinary shares in the Company. A maximum deferred consideration of Lire 9,410,000,000, of which Lire 4,705,000,000 is payable in cash subject to future financial performance.

The Company acquired 100% of DVL Smith Group Limited, effective 1 July 2000. The DVL Smith Group is a group of research companies based in London. Initial consideration comprised £1,200,000 in cash and 559,440 new ordinary shares in the Company. A maximum deferred consideration of £5,500,000, of which a minimum of £3,300,000 is payable in cash or loan notes at the Company's discretion, will be paid subject to future financial performance.

The Company acquired effective control of 100% of Su Yeang Design Pte Ltd, a visual communications consultancy based in Singapore, on 1 September 2000. Initial consideration comprised S\$3,000,000 in cash and 517,777 new ordinary shares in the Company, plus S\$1,563,000 in cash and 304,573 new ordinary shares in the Company for the net assets acquired. A maximum deferred consideration of S\$25,000,000, of which S\$15,000,000 is payable in cash, will be paid subject to future financial performance.

The Group acquired the trade and certain assets of Oaktree Communications (Pty) Limited, a Johannesburg based design and financial advertising agency, effective 1 September 2000. Initial consideration comprised Rand 1,000,000 in cash. A maximum deferred consideration of Rand 1,750,000, of which Rand 525,000 is payable in cash, will be paid subject to future financial performance.

The Company acquired 100% of Gramma AB, an integrated communications consultancy based in Stockholm, effective 1 October 2000. Initial consideration comprised SEK 16,500,000 in cash and 2,501,942 new ordinary shares in the Company. A maximum deferred consideration of SEK 151,000,000, of which a minimum of SEK 75,500,000 is payable in cash, will be paid subject to future financial performance.

The Company acquired 100% of Dynamo Marketing Limited, effective 1 October 2000. The Dynamo Group is an UK group of promotional marketing companies. Initial consideration comprised £2,606,000 in cash, £1,669,000 in loan notes and 3,045,110 new ordinary shares in the Company. A maximum deferred consideration of £11,450,000, of which £5,500,000 is payable in loan notes and £11,000,000 is subject to future financial performance, will be paid.

The Company acquired 100% of Key Communications Limited, an UK public relations consultancy, effective 1 November 2000. Initial consideration comprised £40,000 in cash, £1,578,000 in loan notes and 2,571,836 new ordinary shares in the Company, plus £562,000 for the net assets acquired. A maximum deferred consideration of £1,300,000 will be paid subject to future financial performance.

**27 Acquisitions (continued)**

The Group acquired 100% of Hudson Technology Group, Inc., a US based online and new media consulting firm, effective 1 November 2000. Initial consideration comprised \$4,000,000 in cash and 2,120,665 new ordinary shares in the Company. A maximum deferred consideration of \$17,000,000, will be paid in cash and shares subject to future financial performance.

The Group acquired 100% of Broad Street Productions, Inc., a US based company specialising in high-end corporate videos, major corporate conferences, interactive media events and design & branding programmes, effective 1 February 2001. Initial consideration comprised \$8,316,000 in cash and 6,119,795 new ordinary shares in the Company. A maximum deferred consideration of \$15,000,000, of which \$6,750,000 is payable in cash and \$8,250,000 is payable in shares, will be paid subject to future financial performance.

The Company acquired 100% of The RED Consultancy Group Limited, a UK company offering strategic advice and implementation in the business-to-business, corporate and consumer public relations market, effective 16 February 2001. Initial consideration comprised £1,138,000 in cash, £3,861,000 in loan notes and 6,604,704 new ordinary shares in the Company. A maximum deferred consideration of £13,000,000, of which £5,416,667 is payable in cash, will be paid subject to future financial performance.

The aggregated book values and fair values of assets and liabilities acquired as a result of these acquisitions were as follows:

|                                  | Book value<br>£'000 | Fair value<br>adjustments<br>£'000 | Fair value<br>£'000 |
|----------------------------------|---------------------|------------------------------------|---------------------|
| Tangible fixed assets            | 3,108               | (256)                              | 2,852               |
| Work in progress                 | 1,968               | -                                  | 1,968               |
| Debtors                          | 16,459              | 168                                | 16,627              |
| Bank loans                       | (231)               | -                                  | (231)               |
| Loan notes                       | (63)                | -                                  | (63)                |
| Obligations under finance leases | (382)               | -                                  | (382)               |
| Taxation                         | (1,373)             | -                                  | (1,373)             |
| Net cash at bank and in hand     | 6,397               | -                                  | 6,397               |
| Other creditors                  | (20,969)            | -                                  | (20,969)            |
|                                  | 4,914               | (88)                               | 4,826               |
| Goodwill                         |                     |                                    | 127,684             |
| Total cost                       |                     |                                    | 132,510             |

The fair value adjustments to tangible fixed assets were made to ensure consistency of accounting policies. The net fair value adjustment to debtors reflects write downs to estimated realisable value and an adjustment to ensure consistency of accounting policies. All fair values are provisional awaiting final determination of the balances acquired.

Goodwill arising on all acquisitions in the year has been capitalised (note 12).

**Cash flow**

The cash flow during the year in relation to acquisitions was as follows:

|                                                                           | Sard<br>Verbinnen<br>£'000 | Cunningham<br>Communication<br>£'000 | Other<br>acquisitions<br>£'000 | Total<br>£'000 |
|---------------------------------------------------------------------------|----------------------------|--------------------------------------|--------------------------------|----------------|
| Purchase of subsidiary undertakings                                       | (427)                      | (781)                                | (37,707)                       | (38,915)       |
| Purchase of businesses                                                    | -                          | -                                    | (744)                          | (744)          |
| Net cash/(overdraft) acquired with subsidiary undertakings and businesses | 810                        | (801)                                | 6,397                          | 6,406          |
| Net cash inflow/(outflow)                                                 | 383                        | (1,582)                              | (32,054)                       | (33,253)       |

The cash flow in respect of other acquisitions includes outflows of £14,671,000 within purchase of subsidiary undertakings and £154,000 within purchase of businesses relating to acquisitions made before 1 March 2000.

## Notes to the financial statements

28 February 2001

### 28 Commitments

Annual commitments under non-cancellable operating leases are as follows:

| Group                                         | Land and<br>buildings<br>£'000 | 2001                   |                                | 2000                   |                                |
|-----------------------------------------------|--------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|
|                                               |                                | Other<br>£'000         | Land and<br>buildings<br>£'000 | Other<br>£'000         | Land and<br>buildings<br>£'000 |
| Operating leases which expire:                |                                |                        |                                |                        |                                |
| within one year                               | 1,503                          | 128                    | 730                            | 46                     |                                |
| within two to five years                      | 4,454                          | 275                    | 819                            | 140                    |                                |
| after five years                              | 5,169                          | 62                     | 2,791                          | 20                     |                                |
|                                               | 11,126                         | 465                    | 4,340                          | 206                    |                                |
| <b>Company</b>                                |                                |                        |                                |                        |                                |
|                                               | Land and<br>buildings<br>£'000 | 2001<br>Other<br>£'000 | Land and<br>buildings<br>£'000 | 2000<br>Other<br>£'000 |                                |
| Operating leases which expire within one year | 218                            | 4                      | 159                            | —                      |                                |

### 29 Contingencies

#### Deferred consideration

Under the terms of certain acquisition agreements, additional consideration is payable by the Company and certain of its subsidiary undertakings contingent on performance. The estimated amount of such contingent consideration is included in provisions and shares to be issued.

#### Guarantees

In connection with the Group's banking and borrowing facilities with Lloyds TSB Bank plc (note 26), the Company and certain of its subsidiary undertakings have entered into cross-guarantee and indemnity arrangements with Lloyds TSB Bank plc, HSBC Bank plc, The Chase Manhattan Bank, Scotiabank Europe plc and The Co-operative Bank PLC.

### 30 Related party transactions

In relation to acquisitions in the current and prior years, the Group paid cash consideration of £30.6 million, issued £13.9 million of loan notes and issued 80,278,085 new ordinary shares in aggregate to the following individuals who, as directors of the Company or its principal subsidiaries, are deemed related parties: E Åfors, P Arlow, K Ballard, I Bate, L Brend, S Bushe, P Cameron, A Catlin, R Catlin, A Cunningham, N Cunningham, C Davies, P de Wesselow, A Dexter, D Dreyfuss, L Fetherston, R Fine, D Fink, J Foenander, A Fry, D Fry, P Fuller, P Goodwin, C Gulliver, J Hamilton, J Kelsey, C Kent, D Kidwell, H King, E Lee Kia Jong, E Lim, L Loubser, G Manzone, P Martin, B Meising, D Mittereder, R Morrice, N Notarini, N Pritchard, S Pritchard, J Rabin, P Reynolds, I Sanderson, G Sard, A Simpson, D Smith, J Smith, E Spiess, A Thomas, M Townsend, M Triggs, S Turner, P Verbinen, T Warren, D Watson, S Yeang, M Zischka. A maximum further consideration of £39.6 million in cash, £17.0 million in loan notes and 106,621,013 new ordinary shares (based on the share price of Incepta Group plc as at 28 February 2001) is payable in aggregate to certain of these individuals.

The Group and its associates during the year carried out consultancy work on behalf of each other's clients. Aggregate amounts included in turnover and cost of sales in the consolidated profit and loss account in respect of these transactions were as follows:

|                            | Turnover<br>£'000 | Cost of sales<br>£'000 |
|----------------------------|-------------------|------------------------|
| Capital Communications Kft | 8                 | 3                      |
| NBS Spolka z.o.o.          | 5                 | 13                     |

There were dividends of £5,000 and £29,000 respectively due from the Group's two associates, Capital Communications Kft and NBS Spolka z.o.o., and a trading balance of £13,000 due to NBS Spolka z.o.o., as at 28 February 2001.

There were no further related party transactions during the year.

### 31 Subsequent event

In March 2001, the Company acquired the whole of the issued share capital of First Financial Communications B.V., a financial communications consultancy in The Netherlands. Initial consideration was NLG 15.0 million, comprising NLG 7.5 million in cash and 2,155,456 new ordinary shares in the Company. Further consideration up to a maximum of NLG 10.5 million is payable in cash and shares subject to future financial performance.

### 32 Principal subsidiary undertakings and associates

#### Principal subsidiary undertakings as at 28 February 2001

| Name                                                  | Country of incorporation/<br>principal operation | Directly owned<br>by the Company | Class of business                                    |
|-------------------------------------------------------|--------------------------------------------------|----------------------------------|------------------------------------------------------|
| Citigate Dewe Rogerson Limited                        | England                                          |                                  | Public Relations                                     |
| Citigate Technology <sup>1</sup>                      |                                                  |                                  |                                                      |
| Citigate Westminster Limited                          |                                                  |                                  |                                                      |
| Citigate Public Affairs <sup>2</sup>                  |                                                  |                                  |                                                      |
| Citigate DVL Smith Limited                            |                                                  | ✓                                |                                                      |
| Key Communications Limited                            |                                                  | ✓                                |                                                      |
| Citigate MARCHCom Limited                             |                                                  | ✓                                |                                                      |
| Citigate Albert Frank Limited                         |                                                  |                                  | Advertising                                          |
| Finex Communications Group plc                        |                                                  | ✓                                | Marketing Services                                   |
| Dynamo Marketing Limited                              |                                                  | ✓                                |                                                      |
| JKD Communications Limited                            |                                                  | ✓                                |                                                      |
| TEAM LGM Limited                                      |                                                  |                                  |                                                      |
| Park Avenue Productions plc                           |                                                  | ✓                                |                                                      |
| The RED Consultancy Group Limited                     |                                                  | ✓                                |                                                      |
| Citigate Lloyd Northover Limited                      |                                                  |                                  | Design & Branding                                    |
| Citigate Publishing Limited                           |                                                  |                                  |                                                      |
| Citigate Holdings GmbH                                | Germany                                          | ✓                                | Holding Company                                      |
| Citigate Dewe Rogerson GmbH                           |                                                  | #                                | Public Relations                                     |
| Citigate SEA GmbH & Co KG                             |                                                  |                                  | Advertising                                          |
| Citigate Demuth GmbH                                  |                                                  |                                  | Public Relations<br>Advertising<br>Design & Branding |
| Park Avenue GmbH                                      |                                                  |                                  | Marketing Services                                   |
| Citigate Gramma AB                                    | Sweden                                           | ✓                                | Public Relations                                     |
| Citigate Italia S.r.l.                                | Italy                                            | ✓                                | Advertising                                          |
| Citigate Inc.                                         | USA                                              |                                  |                                                      |
| Citigate Albert Frank <sup>3</sup>                    |                                                  |                                  | Advertising                                          |
| Citigate Corporate Branding <sup>3</sup>              |                                                  |                                  | Design & Branding                                    |
| Citigate Dewe Rogerson Inc.                           |                                                  |                                  | Public Relations                                     |
| Citigate Sard Verbinnen Inc.                          |                                                  | ✓                                |                                                      |
| Citigate Cunningham Inc.                              |                                                  | ✓                                |                                                      |
| Citigate Hudson Inc.                                  |                                                  | ✓                                |                                                      |
| Citigate Broad Street Inc.                            |                                                  | ✓                                | Marketing Services                                   |
| Citigate Asia Limited                                 | Hong Kong                                        |                                  |                                                      |
| Citigate Dewe Rogerson <sup>4</sup>                   |                                                  |                                  | Public Relations                                     |
| Citigate Lloyd Northover <sup>4</sup>                 |                                                  |                                  | Design & Branding                                    |
| Citigate Window Creative Limited                      |                                                  |                                  | Advertising                                          |
| Citigate Dewe Rogerson i.MAGE Pte Ltd                 | Singapore                                        | ✓                                | Public Relations                                     |
| Citigate Su Yeang Design Pte Ltd                      |                                                  | ✓                                | Design & Branding                                    |
| Citigate Dewe Rogerson Communications Private Limited | India                                            | ✓                                | Public Relations                                     |
| Citigate SMARTS Limited                               | Scotland                                         |                                  | Public Relations<br>Advertising<br>Design & Branding |
| Citigate Northern Ireland Limited                     | Northern Ireland                                 |                                  | Public Relations<br>Design & Branding                |
| Citigate South Africa (Pty) Limited                   | South Africa                                     |                                  | Public Relations<br>Advertising<br>Design & Branding |
| Incepta Holdings Limited                              | England                                          | ✓                                | Holding Company                                      |
| Citigate.com Limited                                  |                                                  |                                  |                                                      |

<sup>1</sup> Trades as a division of Citigate Dewe Rogerson Limited<sup>4</sup> Trades as a division of Citigate Asia Limited<sup>2</sup> Trades as a division of Citigate Westminster Limited

# Owned 5% directly and 95% indirectly

<sup>3</sup> Trades as a division of Citigate Inc.

All of the above subsidiary undertakings are wholly owned with the exception of Citigate Demuth GmbH (80.2% owned) and Citigate Window Creative Limited (85% owned).

## Notes to the financial statements

(continued) 28 February 2001

### 32 Principal subsidiary undertakings and associates (continued) Associates as at 28 February 2001

| Name                       | Country of incorporation/<br>principal operation | Class of business |
|----------------------------|--------------------------------------------------|-------------------|
| Capital Communications Kft | Hungary                                          | Public Relations  |
| NBS Spolka z.o.o.          | Poland                                           | Public Relations  |

All subsidiary undertakings and associates have financial year ends which are coterminous with that of Incepta Group plc with the exception of The RED Consultancy Limited, which has a 16 February year end, and Capital Communications Kft and NBS Spolka z.o.o., which have 31 December year ends.

**Auditors' report to the members of Incepta Group plc**

We have audited the financial statements on pages 64 to 90.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report. As described on pages 62 and 63, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 92 and 93 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risks and control procedures.

**Basis of audit opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 28 February 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

PricewaterhouseCoopers  
Chartered Accountants and Registered  
Auditors  
London  
8 May 2001

The Group is committed to high standards of corporate governance. The board is accountable to the Company's shareholders for good governance.

#### **Statement of compliance**

The board has reviewed the Company's compliance with the Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority ('the Combined Code'). The board confirms that, throughout the year ended 28 February 2001, the Company has been in compliance with Section 1 of the Combined Code and guidance issued by the Turnbull Committee relating to provision D.2.1 of that Code.

#### **Application of principles of good governance**

##### **Board of directors**

The board is responsible for leading and controlling the Group. All of the major decisions affecting the Group are made by the board including those relating to corporate strategy, operating policy, board appointments and all investment decisions. Board meetings follow a formal agenda of matters specifically reserved for decision by the board. Each board member receives monthly trading results, including a comprehensive review and analysis. Prior to each board meeting, directors are sent an agenda and a full set of board papers for each agenda item to be discussed at the meeting. Additional information is provided as appropriate.

The composition and effectiveness of the board is reviewed regularly, particularly with regard to the skills and experience required of the executive and non-executive directors in relation to the Group's businesses. This review concentrates on experience, age and term of service and maintaining the balance between executive and non-executive directors. Both executive and non-executive directors have a wide range of knowledge and experience which they contribute to the board's deliberations.

Throughout the financial year, the board of directors consisted of seven members, three of whom were non-executive. The offices of Chairman and Chief Executive were held by separate individuals, with the former being a non-executive role. Currently, the board consists of four executive and four non-executive directors. The Chairman and Chief Executive positions are held by separate individuals but are now both executive roles. The board has nominated Robert Alcock as the Company's senior independent director. Biographies of the current directors and their membership of the board and its committees are shown against the individual directors' names on pages 46 and 47.

Any director who is appointed during the year is required to stand for election at the first Annual General Meeting after his appointment. In addition, one third of all directors are required to retire by rotation at each Annual General Meeting of the Company.

All directors are able, where appropriate, to secure the assistance of outside professional advice at the Company's expense.

##### **Non-executive directors**

With their different backgrounds, the non-executive directors bring a wide range of experience and expertise to the Company's affairs and provide independent judgement on key issues of strategy, performance and resources, including key appointments and standards of conduct. Each of the non-executive directors has a signed letter of appointment terminable by either party on six months' notice to expire at any time.

Throughout the financial year, the Company had three independent non-executive directors, Bob Morton, Neil Mackay and Charles Good, who attended monthly board meetings and who were all members of the Company's Audit Committee and Remuneration Committee. On 31 March 2001, Bob Morton stepped down from the board and on 1 April 2001 Robert Alcock and Christian Strenger joined the board as non-executive directors, the former in the capacity of non-executive Deputy Chairman.

##### **Board committees**

Certain of the board's duties are delegated to committees of the board, all of which have written terms of reference and whose responsibilities and composition are as follows:

The Audit Committee ensures that an objective and professional relationship is maintained with the external auditors. The Committee meets twice a year to discuss accounting, audit and internal control matters, as well as reviewing the financial statements and compliance with accounting standards. The Group Finance Director is invited to attend part of each meeting. The external auditors may request a meeting with the Audit Committee at any time and one of their representatives is present at all meetings. There is provision for the external auditors to discuss any concerns they may have with the Committee in the absence of management if necessary. Throughout the financial year, the Committee comprised wholly of the three non-executive directors under the chairmanship of Bob Morton. With effect from 1 April 2001, it is chaired by Robert Alcock and comprises all four current non-executive directors.

The Remuneration Committee meets at least twice a year to review the remuneration packages and service contracts of the directors and certain senior executives. The Committee is also responsible for administering the Company's share option scheme. Throughout the financial year, the Committee comprised wholly the three non-executive directors under the chairmanship of Bob Morton. With effect from 1 April 2001, it is chaired by Robert Alcock and comprises all four current non-executive directors.

The Nomination Committee meets as necessary and is responsible for reviewing and making proposals to the board on the appointment of directors. Throughout the financial year the Committee consisted of Bob Morton, Neil Mackay and David Wright and was chaired by Bob Morton. The Committee currently comprises Robert Alcock, Neil Mackay, Charles Good, David Wright and Richard Nichols and is chaired by David Wright.

#### **Relationship with institutional investors**

The Company has designated David Wright and Richard Nichols as its principal spokespersons with institutional investors, analysts, press and other interested parties.

#### **Relationship with private investors**

The board recognises that not all the Company's private investors have regular access to market information. All shareholders are sent copies of Annual and Interim Reports and, where appropriate, circulars and prospectuses, and are given notice to enable them to attend the Company's Annual General Meeting. Shareholders whose shares are held by nominees may receive copies of such communications upon request.

Additionally, the Company has an internet web site, [www.incepta.com](http://www.incepta.com), on which it publishes its Annual and Interim Reports, press releases and other such information concerning the Company's business and development and which enables information on the Company to reach a greater number of investors worldwide.

#### **Internal controls**

The board of directors has overall responsibility for establishing key procedures designed to achieve a sound system of internal controls and for reviewing its effectiveness.

The Combined Code has extended the requirement that the board reviews and reports on the effectiveness of the Group's system of internal control to cover all controls including financial, operational, compliance and risk management. Last year, the Company reported, under the transitional arrangements then available, that it had established procedures to ensure full compliance with this requirement from 1 March 2000.

#### **Financial reporting**

The Group operates a comprehensive financial reporting system. Detailed annual budgets are prepared by operating units, reviewed by Group Finance and approved at subsidiary board meetings. The overall Group budget is reviewed and approved by the board. Operating units complete standard monthly reporting packages which compare actual and forecast results together with cash flows against budget and prior year. Performance is discussed at monthly subsidiary board meetings and consolidated actual and forecast results by operating unit are reviewed and discussed by the Group board each month.

#### **Operational control environment**

An environment of competence and integrity is promoted by way of stringent recruitment procedures, regular staff appraisals and communication of codes of conduct and control procedures by senior management across the Group. A clear group organisational structure is maintained with appropriate lines of reporting and delegation of authority.

#### **Risk management**

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. A risk review report, which identifies key risks, the impact should they occur, and actions being taken to manage those risks to the desired level, is produced at least half-yearly by each business unit and by each Group departmental head. In addition, proposed improvements to the way that risks are managed are also reported. This system has been in place throughout the year under review and up to the date of approval of this annual report and is reviewed regularly by the board of directors. It is designed to manage rather than to eliminate the risks inherent in achieving the Group's business objectives and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The risk management process is applied to all new businesses acquired by the Group as part of their integration. The board receives regular reports on progress during the year.

Detailed internal financial procedures are set out for operating units. Self-certification control questionnaires are completed by the head of finance at each operating unit and are reviewed by Group Finance and the results are reported to the Audit Committee.

The directors are satisfied that the procedures in place throughout the year ensured full compliance with the internal control requirements of the Combined Code.

#### **Going concern**

The directors have reviewed the Group's budget and cash flow for the year ending 28 February 2002 and considered outline plans for the Group thereafter. The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

## Remuneration report

for the year ended 28 February 2001

Incepta Group has established a Remuneration Committee to address all matters relating to the remuneration of its key executives.

### The constitution and responsibility of the Remuneration Committee

The Remuneration Committee's principal function is to determine the remuneration packages of the executive directors. It reviews the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. No executive director may participate in decisions regarding his own remuneration.

The Committee also makes recommendations to the board concerning the allocation of share options to employees.

The Committee consists solely of non-executive directors. During the course of the financial year, the Remuneration Committee was chaired by Bob Morton and also comprised Neil Mackay and Charles Good. With effect from 1 April 2001, Robert Alcock (non-executive Deputy Chairman) was appointed Chairman of the Remuneration Committee. At the same time, Christian Strenger joined the Committee. The Committee has access to professional advice as and when it considers it necessary.

### Remuneration policy

In determining remuneration packages, the Remuneration Committee has regard to the importance of attracting, retaining and motivating executive directors of the highest calibre as well as linking reward to the Group's performance.

Within this context, the Committee has developed remuneration packages which provide a competitive base salary combined with incentive arrangements linked to challenging performance targets. The interests of the executive directors are aligned with those of shareholders.

### Remuneration packages

#### Basic salary and benefits in kind

Basic salary and benefits are normally determined on an annual basis, currently 1 March, after considering the individual's performance, responsibilities and market trends. Particular regard is paid to salary levels in companies of a comparable size, sector and performance. Benefits may include life assurance, permanent health and private medical insurance. The value of benefits is not pensionable.

#### Performance related bonus

The executive directors may be awarded an annual cash bonus up to a maximum of annual basic salary, which is not pensionable, providing an incentive to achieve short-term performance targets related to earnings per share growth. In addition, the Committee may also award individual discretionary bonuses.

For the year under review, the executive directors were awarded bonuses on meeting earnings per share growth targets for the year. Anthony Carlisle also received a bonus relating to the performance of the consulting division of Citigate Dewe Rogerson.

### Pensions

Pension contributions are made to the executive directors' pension plans. David Wright, Kevin Steeds and Richard Nichols currently participate in a company money purchase pension plan. The Company contributes 10% of annual salary to the pension plan. The Committee allows each director, at his own discretion, to make a salary sacrifice to increase his pension contribution by transferring part of his annual salary into the money purchase pension plan. Anthony Carlisle receives 20% of annual salary, which is paid into his personal pension scheme arrangements.

### Share options

The Committee decided to award share options to certain key executives in the core operating subsidiaries during the course of the year, maintaining the commitment to the philosophy of wide and deep share ownership across the Group.

The executive directors are entitled to participate in the Incepta Group Savings Related Share Option Scheme.

### Service contracts

David Wright, Richard Nichols, Kevin Steeds and Anthony Carlisle all have service agreements with the Company terminable by either party giving to the other not less than twelve months written notice.

### Outside appointments

The Group expects that executive directors will operate under full time service contracts and would not normally accept appointments outside of the Group. It is recognised, however, that provided the time commitment is limited, a non-Group appointment may broaden the management experience of the executives concerned. Any such appointment would require the approval of the Committee and it would be expected that any payment for such services would be retained by the executive.

### Non-executive directors

The executive directors are responsible for setting the non-executive directors' fees. All non-executive directors have signed a letter of appointment terminable by either party on six months notice to expire at any time.

**Directors' remuneration and interests**  
for the year ended 28 February 2001

The remuneration of each director for the year ended 28 February 2001 was as follows:

|                                |     | Basic salary/<br>fees<br>£ | Bonus<br>£ | Pension<br>contributions<br>£ | Cash value of<br>benefits in kind<br>£ | Total emoluments<br>2001<br>£ | Total emoluments<br>2000<br>£ |
|--------------------------------|-----|----------------------------|------------|-------------------------------|----------------------------------------|-------------------------------|-------------------------------|
| <b>Executive directors</b>     |     |                            |            |                               |                                        |                               |                               |
| David Wright                   | (1) | 300,000                    | 300,000    | 30,000                        | 3,065                                  | 633,065                       | 577,440                       |
| Richard Nichols                | (2) | 180,000                    | 180,000    | 18,000                        | 134                                    | 378,134                       | 369,375                       |
| Anthony Carlisle               | (3) | 300,000                    | 200,000    | 60,000                        | 2,469                                  | 562,469                       | 501,796                       |
| Kevin Steeds                   | (4) | 175,000                    | 175,000    | 17,500                        | 1,686                                  | 369,186                       | 339,193                       |
| <b>Non-executive directors</b> |     |                            |            |                               |                                        |                               |                               |
| Bob Morton*                    | (5) | 25,000                     | —          | —                             | —                                      | 25,000                        | 22,500                        |
| Neil Mackay                    |     | 18,000                     | —          | —                             | —                                      | 18,000                        | 16,500                        |
| Charles Good                   |     | 18,000                     | —          | —                             | —                                      | 18,000                        | 16,500                        |
| Robert Alcock**                |     | —                          | —          | —                             | —                                      | —                             | —                             |
| Christian Strenger**           |     | —                          | —          | —                             | —                                      | —                             | —                             |
|                                |     |                            |            |                               |                                        | <b>2,003,854</b>              | <b>1,843,304</b>              |

\* Resigned from the board on 31 March 2001

\*\* Appointed to the board on 1 April 2001

- (1) David Wright was the highest paid director for the year under review. Under his service contract, he was paid a salary of £300,000 in the year to 28 February 2001. The Company also contributed 10% of annual salary to the executive's pension plan. Under the salary sacrifice arrangements in place, he elected to direct £16,300 of his annual salary to his pension.

David Wright was also awarded a bonus of £300,000 based on the Group's financial performance for the year.

- (2) Richard Nichols, under his service contract, was paid an annual salary of £180,000 in the year to 28 February 2001. The Company also contributed 10% of annual salary to the executive's pension plan.

Richard Nichols was also awarded a bonus of £180,000 based on the Group's financial performance for the year.

- (3) Anthony Carlisle, under his service contract, was paid an annual salary of £300,000 in the year to 28 February 2001. The Company also contributed 20% of annual salary to the executive's pension plan.

Anthony Carlisle was also awarded a bonus of £200,000 in relation to his performance for the consultancy division of Citigate Dewe Rogerson in the period.

- (4) Kevin Steeds, under his service contract, was paid an annual salary of £175,000. The Company also contributed 10% of annual salary to the executive's pension plan. Under the salary sacrifice arrangements in place, he elected to direct £17,500 of his annual salary to his pension.

Kevin Steeds was also awarded a bonus of £175,000 based on the Group's financial performance for the year.

- (5) In their capacity as non-executive directors to the Group, Bob Morton, Neil Mackay and Charles Good received annual fees of £25,000, £18,000 and £18,000 respectively.

## Directors' remuneration and interests

for the year ended 28 February 2001

### Shareholdings

The directors in service at 1 March 2000 and who served during the year held interests in the ordinary share capital of the Company as follows:

|                       | As at 1 March 2000 | As at 28 February 2001 | As at 8 May 2001 |
|-----------------------|--------------------|------------------------|------------------|
| <b>Executive</b>      |                    |                        |                  |
| David Wright          | 10,490,028         | 10,490,028             | 10,490,028       |
| Richard Nichols       | 800,000            | 800,000                | 800,000          |
| Anthony Carlisle      | 12,765,979         | 12,765,979             | 12,765,979       |
| Kevin Steeds          | 3,773,397          | 3,773,397              | 3,773,397        |
| <b>Non-executive</b>  |                    |                        |                  |
| Bob Morton**          | 12,000,000         | 12,000,000             | n/a*             |
| Neil Mackay           | 508,181            | 508,181                | 508,181          |
| Charles Good          | 4,752,256          | 3,265,689              | 3,265,689        |
| Robert Alcock***      | n/a*               | n/a*                   | 5,000            |
| Christian Strenger*** | n/a*               | n/a*                   | -                |

\* not applicable as not a serving director at that date

\*\* resigned from the board on 31 March 2001

\*\*\* appointed to the board on 1 April 2001

The above shareholdings were all beneficially held except for 2,109,276 ordinary shares attributable to Charles Good and 192,034 ordinary shares attributable to Neil Mackay which were non-beneficially held. Included in the holding of Bob Morton are 2,500,000 shares held by Southwind Limited, an investment company which is ultimately owned by a trust established by Mr Morton for the benefit of his children.

None of the directors has any other interest in the shares of the Company or its subsidiaries.

The directors' interests in share options under the Company's share options are included in the tables below:

### Incepta Group plc Employee Share Option Scheme

The Incepta Group plc Employee Share Option Scheme was established on 4 November 1988 for a term of 10 years. Accordingly, no further options have been granted under the Scheme during the current financial year. The table below summarises all outstanding options currently issued under the scheme. In normal circumstances, the options may be exercised at any time between the third and tenth anniversaries of their date of grant.

|                         | Held on<br>1 March<br>2000 | Exercised<br>during the<br>year | Held on<br>28 February<br>2001 | Held on<br>8 May<br>2001 | Exercise<br>price per<br>share | Exercisable between   |
|-------------------------|----------------------------|---------------------------------|--------------------------------|--------------------------|--------------------------------|-----------------------|
| <b>Director</b>         |                            |                                 |                                |                          |                                |                       |
| Richard Nichols         | 120,000                    | -                               | 120,000                        | 120,000                  | 21.40p                         | 29 October 2000-2007  |
| <b>Employees</b>        |                            |                                 |                                |                          |                                |                       |
| Total by exercise price | 375,000                    | (375,000)                       | -                              | -                        | 15.67p                         | 8 October 1994-2001   |
|                         | 250,000                    | (250,000)                       | -                              | -                        | 24.50p                         | 5 July 1996-2003      |
|                         | 140,000                    | -                               | 140,000                        | 140,000                  | 31.00p                         | 1 September 1996-2003 |
|                         | 40,000                     | -                               | 40,000                         | 40,000                   | 12.50p                         | 31 January 1998-2005  |
|                         | 1,700,000                  | (200,000)                       | 1,500,000                      | 1,100,000                | 10.50p                         | 5 January 1999-2006   |
|                         | 146,000                    | -                               | 146,000                        | 146,000                  | 20.50p                         | 18 July 1999-2006     |
|                         | 1,005,000                  | (355,000)                       | 650,000                        | 650,000                  | 21.40p                         | 29 October 2000-2007  |
|                         | 3,776,000                  | (1,180,000)                     | 2,596,000                      | 2,196,000                |                                |                       |

### Incepta Group plc Executive Share Option Plan

The Incepta Group plc Executive Share Option Plan was established by the Company at its Annual General Meeting on 3 July 1998, for a term of 10 years. In normal circumstances, the options may be exercised at any time between the third and tenth anniversaries of their date of grant, provided that performance conditions relating to earnings per share growth to which they are subject have been fulfilled.

|                         | Held on<br>1 March<br>2000 | Granted<br>during<br>the year | Held on<br>28 February<br>2001 | Held on<br>8 May<br>2001 | Exercise<br>price per<br>share | Exercisable between    |
|-------------------------|----------------------------|-------------------------------|--------------------------------|--------------------------|--------------------------------|------------------------|
| <b>Director</b>         |                            |                               |                                |                          |                                |                        |
| Richard Nichols         | 1,000,000                  | -                             | 1,000,000                      | 1,000,000                | 24.50p                         | 4 May 2002-2009        |
| <b>Employees</b>        |                            |                               |                                |                          |                                |                        |
| Total by exercise price | 825,000                    | -                             | 825,000                        | 825,000                  | 23.25p                         | 22 September 2001-2008 |
|                         | 2,175,000                  | -                             | 2,175,000                      | 2,175,000                | 24.50p                         | 4 May 2002-2009        |
|                         | 2,185,000                  | -                             | 2,185,000                      | 2,185,000                | 55.50p                         | 12 October 2002-2009   |
|                         | 200,000                    | -                             | 200,000                        | 200,000                  | 100.50p                        | 25 January 2003-2010   |
|                         | -                          | 150,000                       | 150,000                        | 150,000                  | 129.00p                        | 20 October 2003-2010   |
|                         | 6,385,000                  | 150,000                       | 6,535,000                      | 6,535,000                |                                |                        |

### Incepta Group plc Executive Long Term Incentive Plan

The Incepta Group plc Executive Long Term Incentive Plan was established by the Company at its Annual General Meeting on 7 July 2000, for a term of 10 years. In normal circumstances, the options may be exercised at any time between the third and tenth anniversaries of their date of grant to the extent that they have vested, provided that performance conditions relating to earnings per share growth to which they are subject have been fulfilled. Options will vest in respect of one third of the shares on each of the third, fourth and fifth anniversaries of the date of grant.

|                  | Granted during the year | Lapsed during the year | Held on 28 February 2001 | Held on 8 May 2001 | Exercise price per share | Exercisable between  |
|------------------|-------------------------|------------------------|--------------------------|--------------------|--------------------------|----------------------|
| <b>Employees</b> |                         |                        |                          |                    |                          |                      |
| Total            | 3,474,000               | (300,000)              | 3,174,000                | 3,154,000          | 129.0p                   | 20 October 2003-2010 |

The Group is committed to a philosophy of wide and deep share ownership. As such, the Group has introduced a Savings Related Share Option Scheme in each of the last three years to enable every employee to participate in the growth of the Group. The tables below summarise the current options issued and outstanding under each of the three schemes.

### Incepta Group plc 1998 Savings Related Share Option Scheme

|                        | Held on 1 March 2000 | Exercised during the year | Lapsed during the year | Held on 28 February 2001 | Held on 8 May 2001 | Exercise price per share | Exercisable between     |
|------------------------|----------------------|---------------------------|------------------------|--------------------------|--------------------|--------------------------|-------------------------|
| <b>Directors</b>       |                      |                           |                        |                          |                    |                          |                         |
| David Wright           | 38,240               | —                         | —                      | 38,240                   | 38,240             | 15.2p                    | 1 January-30 June 2002  |
| Richard Nichols        | 38,240               | —                         | —                      | 38,240                   | 38,240             | 15.2p                    | 1 January-30 June 2002  |
| Kevin Steeds           | 38,240               | —                         | —                      | 38,240                   | 38,240             | 15.2p                    | 1 January-30 June 2002  |
| <b>Employees</b>       |                      |                           |                        |                          |                    |                          |                         |
| Total by exercise date | 1,931,102            | (22,508)                  | (82,013)               | 1,826,581                | 1,826,581          | 15.2p                    | 1 January-30 June 2002  |
|                        | 12,746               | —                         | —                      | 12,746                   | 12,746             | 15.2p                    | 1 February-30 July 2002 |
|                        | 8,922                | —                         | (8,922)                | —                        | —                  | 15.2p                    | 1 May-31 October 2002   |
|                        | 7,648                | —                         | —                      | 7,648                    | 7,648              | 15.2p                    | 1 July-31 December 2002 |
|                        | 109,374              | (107,949)                 | (1,425)                | —                        | —                  | 15.2p                    | 1 January-30 June 2001  |
|                        | 2,184,512            | (130,457)                 | (92,360)               | 1,961,695                | 1,961,695          |                          |                         |

### Incepta Group plc 1999 Savings Related Share Option Scheme

|                        | Held on 1 March 2000 | Exercised during the year | Lapsed during the year | Held on 28 February 2001 | Held on 8 May 2001 | Exercise price per share | Exercisable between    |
|------------------------|----------------------|---------------------------|------------------------|--------------------------|--------------------|--------------------------|------------------------|
| <b>Directors</b>       |                      |                           |                        |                          |                    |                          |                        |
| David Wright           | 5,771                | —                         | —                      | 5,771                    | 5,771              | 47.0p                    | 1 January-30 June 2003 |
| Richard Nichols        | 5,771                | —                         | —                      | 5,771                    | 5,771              | 47.0p                    | 1 January-30 June 2003 |
| Kevin Steeds           | 5,771                | —                         | —                      | 5,771                    | 5,771              | 47.0p                    | 1 January-30 June 2003 |
| <b>Employees</b>       |                      |                           |                        |                          |                    |                          |                        |
| Total by exercise date | 184,688              | (4,160)                   | (10,701)               | 169,827                  | 169,827            | 50.0p                    | 1 January-30 June 2002 |
|                        | 1,504,737            | (425)                     | (168,666)              | 1,335,646                | 1,333,998          | 47.0p                    | 1 January-30 June 2003 |
|                        | 1,706,738            | (4,585)                   | (179,367)              | 1,522,786                | 1,521,138          |                          |                        |

### Incepta Group plc 2000 Savings Related Share Option Scheme

|                         | Granted during the year | Lapsed during the year | Held on 28 February 2001 | Held on 8 May 2001 | Exercise price per share | Exercisable between    |
|-------------------------|-------------------------|------------------------|--------------------------|--------------------|--------------------------|------------------------|
| <b>Directors</b>        |                         |                        |                          |                    |                          |                        |
| David Wright            | 748                     | —                      | 748                      | 748                | 103.6p                   | 1 January-30 June 2004 |
| Richard Nichols         | 748                     | —                      | 748                      | 748                | 103.6p                   | 1 January-30 June 2004 |
| Kevin Steeds            | 748                     | —                      | 748                      | 748                | 103.6p                   | 1 January-30 June 2004 |
| <b>Employees</b>        |                         |                        |                          |                    |                          |                        |
| Total by exercise price | 953,678                 | (20,252)               | 933,426                  | 932,304            | 103.6p                   | 1 January-30 June 2004 |
|                         | 281,183                 | —                      | 281,183                  | 281,183            | 110.0p                   | 1 January-30 June 2003 |
|                         | 11,114                  | —                      | 11,114                   | 11,114             | 139.5p                   | 1 January-30 June 2004 |
|                         | 1,248,219               | (20,252)               | 1,227,967                | 1,226,845          |                          |                        |

## Directors' remuneration and interests

for the year ended 28 February 2001

### Other schemes

Certain former directors and employees of Citigate Communications Group Limited hold share options over the Company's shares under separate schemes. The replacement option schemes resulted from options originally held under the Citigate Communications Group Limited Approved Executive Share Option Scheme and sought to place each option holder in a similar position to that which they were in before the acquisition by Incepta in March 1997. The shares in Incepta Group plc, over which these options have been granted, are already issued and are held by the Citigate Employee Share Trust. The tables below summarise the current options outstanding under these two schemes.

#### Citigate Communications Group Limited Approved Executive Share Option Scheme

|                  | Held on<br>1 March<br>2000 | Exercised<br>during the<br>year | Lapsed<br>during the<br>year | Held on<br>28 February<br>2001 | Held on<br>8 May<br>2001 | Exercise<br>price per<br>share | Exercisable between |
|------------------|----------------------------|---------------------------------|------------------------------|--------------------------------|--------------------------|--------------------------------|---------------------|
| <b>Directors</b> |                            |                                 |                              |                                |                          |                                |                     |
| Kevin Steeds     | 216,098                    | —                               | —                            | 216,098                        | 216,098                  | 4.86p                          | 25 April 1998-2005  |
| <b>Employees</b> |                            |                                 |                              |                                |                          |                                |                     |
| Total            | 464,610                    | (464,610)                       | —                            | —                              | —                        | 4.86p                          | 25 April 1998-2005  |
|                  | 680,708                    | (464,610)                       | —                            | 216,098                        | 216,098                  |                                |                     |

As a result of the deferred consideration payable under the acquisition of Citigate Communications Group Limited, the Citigate Employee Share Trust also issued the following unapproved share options on 1 July 1998. The unapproved options may be exercised after 31 January 1999 and only if there has been no exercise prior to 1 February 1999 of the approved replacement option as detailed above.

#### Citigate Communications Group Limited Unapproved Executive Share Option Scheme

|                  | Held on<br>1 March<br>2000 | Exercised<br>during the<br>year | Lapsed<br>during the<br>year | Held on<br>28 February<br>2001 | Held on<br>8 May<br>2001 | Total<br>exercise<br>price | Exercisable between         |
|------------------|----------------------------|---------------------------------|------------------------------|--------------------------------|--------------------------|----------------------------|-----------------------------|
| <b>Directors</b> |                            |                                 |                              |                                |                          |                            |                             |
| Kevin Steeds     | 110,505                    | —                               | —                            | 110,505                        | 110,505                  | £1                         | 1 February 1999-1 July 2005 |
| <b>Employees</b> |                            |                                 |                              |                                |                          |                            |                             |
| Total            | 237,585                    | (237,585)                       | —                            | —                              | —                        | £1                         | 1 February 1999-1 July 2005 |
|                  | 348,090                    | (237,585)                       | —                            | 110,505                        | 110,505                  |                            |                             |

### Share price

The market price of Incepta Group plc shares as at 28 February 2001 was 107.0 pence per share. The price ranged from 96.5 pence per share to 183.0 pence per share during the financial year.

Notice is hereby given that the Annual General Meeting of Incepta Group plc will be held at 26 Finsbury Square, London, EC2A 1SH on 6 July 2001 at 12 noon for the transaction of the following business:

## Ordinary Business

### Resolution 1

To re-elect Richard Nichols as a director of the Company, who retires by rotation in accordance with the Articles of Association.

### Resolution 2

To re-elect Neil Mackay as a director of the Company, who retires by rotation in accordance with the Articles of Association.

### Resolution 3

To elect Robert Alcock, being a director of the Company appointed on 1 April 2001, who retires in accordance with the Articles of Association.

### Resolution 4

To elect Christian Strenger, being a director of the Company appointed on 1 April 2001, who retires in accordance with the Articles of Association.

### Resolution 5

To elect Michael Butterworth, being a director of the Company to be appointed before the Annual General Meeting, who retires in accordance with the Articles of Association.

### Resolution 6

That the directors be generally and unconditionally authorised:

- (a) to exercise the power contained in the Articles of Association of the Company as from time to time varied so that, to the extent and in the manner determined by the directors, the holders of ordinary shares of 1p each in the capital of the Company be permitted to elect to receive new ordinary shares, credited as fully paid, instead of the whole or any part of any dividends (including interim dividends) paid by the directors or declared by the Company in general meeting (as the case may be) during or in respect of any financial year of the Company ending on or prior to 28 February 2006, including the final dividend for the financial year ended on 28 February 2001; and
- (b) to capitalise the appropriate nominal amount of the new ordinary shares falling to be allotted pursuant to any elections made as aforesaid out of the amount standing to the credit of any reserve or fund (including the profit and loss account, share premium account, capital redemption reserve or any other non-distributable reserve), whether or not the same is available for distribution, as the directors may determine, to apply such sum in paying up such ordinary shares in full and to allot such ordinary shares to the shareholders of the Company validly making such elections in accordance with their respective entitlements.

### Explanation of Resolution 6

This resolution, which will be proposed as an ordinary resolution, relates to the Company's proposal to allow shareholders to take dividends in the form of shares instead of cash as described in a separate letter from the Chairman dated 1 June 2001.

### Resolution 7

That the directors' report and financial statements of the Company for the year ended 28 February 2001 be received and adopted.

### Resolution 8

To re-appoint PricewaterhouseCoopers as auditors of the Company to hold office until the next General Meeting at which the accounts are laid before the Company and to authorise the directors to fix their remuneration.

### Resolution 9

To declare a final dividend of 0.60 pence net per ordinary share.

### Resolution 10

That the Company be and is hereby authorised to:

- a) make donations to EU Political Organisations; and
- b) incur EU Political Expenditure

in an aggregate amount not exceeding £100,000 during the period ending on the date of the Company's Annual General Meeting in 2002. Such authority shall extend to enable any such donation to be made or expenditure to be incurred by the Company or by its wholly owned subsidiary Citigate Westminster Limited, trading as Citigate Public Affairs. For the purposes of this resolution, "donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in Part XA of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000).

### Explanation of Resolution 10

Authority is sought to enable the Company to enter into financial arrangements with organisations which may fall within the definition of "political organisations" under the Political Parties, Elections and Referendums Act 2000 (the "Act") which came into force on 16 February 2001 and which contains restrictions on companies making donations or incurring expenditure in relation to EU Political Organisations. The Act requires companies to seek shareholder approval for donations to organisations within the European Union which are, or could be, categorised as EU Political Organisations as provided for by the Act.

Although the Company does not intend to make donations to political parties within the normal meaning of that expression, as part of its normal work on behalf of clients and as part of its own marketing, the Company's public affairs subsidiary, Citigate Westminster Limited, trading as Citigate Public Affairs, needs to attend or sponsor events which are organised by the political parties or other political organisations, for which a charge is made. The Company may also from time to time invite clients and prospective clients to attend events that could fall within the meaning of the Act's provisions. The Act defines "donations" very broadly such that this sort of activity would fall within its ambit. It similarly defines EU Political Organisations very widely such that it may include, for example, bodies concerned with policy review and law reform, with representation of the business community or with the representation of their communities or special interest groups which the Company may wish to support.

The Company believes that the authority proposed under this resolution to allow it to fund activity which would bear the much broader meaning of a donation, as provided for by the Act, to a limit of £100,000 is necessary.

In accordance with the Act the Company will make disclosure in its next Annual Report of any donation made by it to an EU Political Organisation or any EU Political Expenditure incurred which is in excess of £200.

## Special Business

### Resolution 11

That the authorised share capital of the Company be increased from £6,100,000 to £9,100,000 by the creation of 300,000,000 additional ordinary shares of 1 pence each to rank pari passu in all respects from their date of issue with the existing ordinary shares of 1 pence each of the Company.

### Explanation of Resolution 11

This resolution, which will be proposed as an ordinary resolution, will increase the Company's authorised share capital. Institutional guidelines effectively provide that the Company should restrict the amount of "headroom" (i.e. the difference between its authorised and issued share capital) to one third of the Company's issued share capital. The free "headroom" currently available to the Company has now been reduced (by the grant of options and contingent obligations entered into by the Company to satisfy deferred consideration payable in respect of acquisitions by the allotment of shares in the Company). The directors therefore now wish to take this opportunity to increase the authorised share capital to create some new free "headroom" and to allow for the issue of scrip dividends. The resolution proposes an increase of the existing authorised share capital of approximately 49%.

#### Resolution 12

That the directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 ("the Act") to exercise all powers of the Company to allot, grant options over, deal with or dispose of any relevant securities (as defined in section 80(2) of the Act) to such persons, at such times and generally on such terms and conditions as the directors may determine up to an aggregate nominal amount of £4,587,662 provided that this authority shall expire, unless previously renewed, revoked or varied by the Company in general meeting, fifteen months after the passing of this resolution, or, if earlier, at the conclusion of the Annual General Meeting next following the passing of this resolution save that, before such expiry, the Company may make any offer or agreement which would or might require relevant securities to be allotted after such expiry and, notwithstanding such expiry, the directors may allot relevant securities in pursuance of any such offer or agreement, and provided further that all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked.

#### Explanation of Resolution 12

Resolution 12 which will be proposed as an ordinary resolution, would give the directors authority to allot shares up to a maximum nominal amount of £4,587,662 being the whole of the authorised but unissued share capital of the Company and representing 101% of the Company's current issued share capital. This amount of authority is required to provide the directors with flexibility to allot shares up to approximately one third of the Company's issued share capital in addition to allowing for the allotment of shares in respect of deferred consideration which may fall due pursuant to acquisitions, on the exercise of options and also on the issue of scrip dividends. The existing authority would be revoked and this authority would expire on the date of the 2002 Annual General Meeting or 5 October 2002, whichever is the earlier. Save as set out above, the directors have no present intention of exercising this authority.

#### Resolution 13

That subject to the passing of Resolution 12, the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the general authority conferred on them by Resolution 12 as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with an offer of securities (whether by way of a rights issue, open offer or otherwise), open for acceptance for a period fixed by the directors, to holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of, or the requirements of any regulatory body or any stock exchange in any territory; and
- (b) the allotment (otherwise than pursuant to paragraph (a) above) of securities up to an aggregate nominal amount of £225,616 and shall expire, unless previously renewed, revoked or varied by the Company in general meeting, at such time as the general authority conferred on the directors by Resolution 12 expires save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and, notwithstanding such expiry, the directors may allot equity securities in pursuance of any such offer or agreement.

#### Explanation of Resolution 13

Resolution 13 will be proposed as a special resolution and would renew the power of the directors to allot shares for cash as though the rights of pre-emption conferred by section 89(1) of the Companies Act 1985 did not apply:

- (a) in respect of the whole of the authorised but unissued share capital in connection with an offer to existing shareholders (to allow the directors to take action to overcome certain practical difficulties which could arise in the case of such an offer), and
- (b) up to a nominal amount of £225,616, being 5% of the current issued share capital of the Company (to give the directors some flexibility in financing business opportunities as they arise).

This power would expire on the date of the 2002 Annual General Meeting or 5 October 2002, whichever is the earlier.

#### Resolution 14

That the Company be and is hereby unconditionally and generally authorised pursuant to Article 11.4 of the Articles of Association of the Company and in accordance with the provisions of section 166 of the Companies Act 1985 ("the Act"), to make market purchases (as defined in section 163 of the Act) of ordinary shares of 1 pence each in the capital of the Company provided that:

- (a) the maximum number of ordinary shares hereby authorised to be purchased is 45,123,377;
- (b) the minimum price which may be paid for any such ordinary share is 1 pence per share;
- (c) the maximum price which may be paid for any such ordinary share is, in respect of a share contracted to be purchased on any day, an amount equal to 105 % of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange on the ten business days immediately preceding the day on which any such ordinary share is contracted to be purchased; and
- (d) the authority hereby conferred shall expire on the date of the 2002 Annual General Meeting or 5 October 2002, whichever is the earlier (but so that this power shall enable the Company to make offers or agreements before the expiry of this authority which would or might require ordinary shares to be purchased by the Company after the expiry of this power).

#### Explanation of Resolution 14

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 14, which will be proposed as a special resolution, seeks authority from shareholders to do so, such authority to expire on the date of the 2002 Annual General Meeting or 5 October 2002, whichever is the earlier. The directors intend to exercise this power only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be accordingly reduced.

This resolution specifies the maximum number of shares which may be acquired (being 10% of the Company's issued share capital as at 8 May 2001 of 451,233,772) and the maximum and minimum prices at which they may be bought.

**The board unanimously recommends shareholders to vote in favour of Resolutions 1 to 14 above.**

By order of the board

RS Nichols  
Company Secretary

8 May 2001

Registered Office:

3 London Wall Buildings  
London Wall  
London  
EC2M 5SY

#### Notes

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company. Returning the Form of Proxy will not prevent a shareholder from attending in person and voting at the meeting.
2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a duly certified copy of such power or authority must be deposited with the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZL not later than 12 noon on 4 July 2001 being 48 hours before the meeting.
3. In the case of a Corporation, the Form of Proxy should be under its Common Seal, or under the hand of an officer of the Corporation duly authorised in that behalf.
4. Copies of the following documents, which are available for inspection at the Registered Office of the Company during usual business hours on any weekday (Saturday and public holidays excepted) will also be available for inspection at the place of the Annual General Meeting from 9 a.m. on the day of the meeting until the conclusion of the meeting:
  - (a) copies of service contracts of the directors with the Company; and
  - (b) the register of interests of the directors (and their families) in the share capital of the Company.