

Financial Statements

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Directors' Report

The directors of Incepta Group plc present their report together with the audited financial statements for the year ended 28 February 2003.

Principal activities

Incepta is an international marketing and communications group, its principal activities being marketing services, public relations and specialist advertising. 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 Group's performance for the year reflects a very difficult trading environment which deteriorated as the year progressed. Despite the inevitable reduction in gross revenues, the Group's leading market positions and the proactive management of the cost base meant that Incepta still delivered double digit underlying operating margins in the year (before goodwill and exceptional items). The Group's financial position also remains satisfactory – the businesses continue to generate good operating cash flows and interest cover remains very healthy.

Other developments, current trading and future prospects of the Group are discussed in detail in the Chairman's Statement, the Chief Executive's Review, the Review of Operations and the Financial Review.

Results and dividends

The Group made a loss attributable to shareholders for the year of £35,468,000 (2002 – attributable profit of £3,813,000). The directors recommend a final dividend of 0.2 pence per ordinary share (2002 – 0.7 pence) to be paid on 15 July 2003 to shareholders on the register as at 16 May 2003.

Directors and their interests

The following served as directors during the year:

David Wright
Richard Nichols
Mike Butterworth
Anthony Carlisle
Robert Alcock
Charles Good
Christian Strenger
Neil Mackay (deceased 14 July 2002)

Brief biographical details of the directors at the date of this report are set out on pages 52 and 53.

The interests of directors in the share capital of the Company and in share options are set out in the Remuneration Report on pages 102 to 109.

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.

Charitable and political donations

The Group made charitable donations during the year amounting to £96,000 (2002 – £77,000).

The Political Parties, Elections and Referendums Act 2000 ('the Act') requires disclosure of any donations made by companies to an EU Political Organisation (including a registered political party in the UK) or any EU Political Expenditure incurred which is in excess of £200. 'EU Political Organisation' and 'EU Political Expenditure' are both defined in the Act.

Although the Company does not 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 Public Affairs Limited, needs to attend or sponsor events which are organised by political parties or other political organisations, for which a charge is made.

The Company also from time to time invites clients and prospective clients to attend events that fall within the meaning of the Act's provisions. The Act defines 'donations' very broadly such that this sort of activity falls within its ambit. It similarly defines EU Political Organisation very widely such that it includes, 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.

During the year the Company incurred no EU Political Expenditure.

It made donations amounting to £5,450 to the Labour Party for seats at the Party's Annual Conference Dinner; £1,800 to the Scottish Labour Party for seats at its Gala Dinner; £1,506 to the Conservative Party for seats at the Party's Annual Conference Corporate Dinner and an entry in the Conference Handbook; £103 to the Liberal Democrat Party for a seat at the Party's Annual Conference Corporate Dinner, attendance at a breakfast and a subscription to Liberal Democrat News; £150 to the Scottish National Party for an advertisement in its Campaign Conference Handbook; and £200 to the Fabian Society for Corporate Membership.

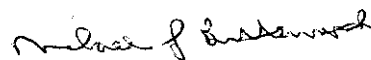
Auditors

The auditors, KPMG Audit Plc, 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

Mike Butterworth

Company Secretary
7 May 2003



Substantial shareholdings

As at 6 May 2003, 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 of issued share capital held %
Morley Fund Management Limited	6.50
Mr George Sard	4.94

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 by the Company to pay suppliers, calculated on the basis of trade creditors as at 28 February 2003 and average daily purchases for the year ended 28 February 2003, is 17 days (2002 – 21 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.

Consolidated Profit and Loss Account

for the year ended 28 February 2003

	Note	2003			2002		
		Before exceptional items £'000	Exceptional items (Note 8) £'000	Total £'000	Before exceptional items £'000	Exceptional items (Note 8) £'000	Total £'000
Turnover	2, 3	250,984	–	250,984	286,269	–	286,269
Cost of sales		(90,470)	–	(90,470)	(115,437)	–	(115,437)
Gross profit (gross revenue)	2, 3	160,514	–	160,514	170,832	–	170,832
Administrative expenses (including goodwill)		(144,012)	(43,810)	(187,822)	(149,224)	(8,512)	(157,736)
Other operating income	4	1,097	–	1,097	828	–	828
Operating profit/(loss) before goodwill	2, 3	19,395	(7,887)	11,508	27,813	(8,512)	19,301
Goodwill amortisation and impairment		(1,796)	(35,923)	(37,719)	(5,377)	–	(5,377)
Operating profit/(loss)		17,599	(43,810)	(26,211)	22,436	(8,512)	13,924
Amounts written off investments		–	(1,720)	(1,720)	–	–	–
Net interest payable	6	(2,540)	–	(2,540)	(1,805)	–	(1,805)
Profit/(loss) on ordinary activities before goodwill and tax		16,855	(9,607)	7,248	26,008	(8,512)	17,496
Goodwill amortisation and impairment		(1,796)	(35,923)	(37,719)	(5,377)	–	(5,377)
Profit/(loss) on ordinary activities before tax	2, 3, 7	15,059	(45,530)	(30,471)	20,631	(8,512)	12,119
Tax on profit/(loss) on ordinary activities	9	(6,089)	1,045	(5,044)	(9,638)	1,281	(8,357)
Profit/(loss) on ordinary activities after tax		8,970	(44,485)	(35,515)	10,993	(7,231)	3,762
Minority interests	22	47	–	47	51	–	51
Profit/(loss) attributable to group shareholders		9,017	(44,485)	(35,468)	11,044	(7,231)	3,813
Dividend	10			(1,328)			(3,434)
Retained (loss)/profit for the financial year	21			(36,796)			379
(Loss)/earnings per share							
Basic	11			(7.11)p			0.82p
Diluted	11			(7.11)p			0.74p
Basic before goodwill and exceptional items	11			2.17p			3.52p
Diluted before goodwill and exceptional items	11			1.41p			3.19p

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

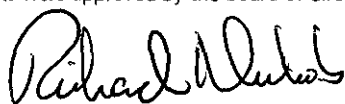
Consolidated Balance Sheet

as at 28 February 2003

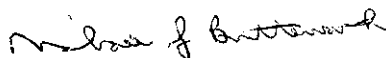
	Note	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	12	311,260	340,054
Tangible assets	13	15,254	16,839
		326,514	356,893
Investments:			
Investment in associates	14	78	78
Other investments	14	454	1,069
		532	1,147
		327,046	358,040
Current assets			
Work in progress		1,695	4,362
Debtors	15	54,170	59,970
Cash at bank and in hand	25	7,440	19,794
		63,305	84,126
Creditors: amounts falling due within one year	16	(82,147)	(103,308)
Net current liabilities		(18,842)	(19,182)
Total assets less current liabilities		308,204	338,858
Creditors: amounts falling due after more than one year	17	(61,473)	(31,612)
Provisions for liabilities and charges	19	(19,478)	(29,994)
Net assets	2	227,253	277,252
Capital and reserves			
Called up share capital	20	5,310	4,716
Share premium account	21	38,895	38,542
Shares to be issued	21	30,954	68,174
Merger reserve	21	142,943	130,585
Profit and loss account	21	8,990	35,158
Equity shareholders' funds		227,092	277,175
Minority interests (equity)	22	161	77
Total equity capital employed		227,253	277,252

These financial statements were approved by the board of directors on 7 May 2003 and were signed on its behalf by:

Richard Nichols
Chief Executive



Mike Butterworth
Group Finance Director



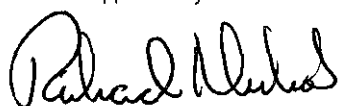
Company Balance Sheet

as at 28 February 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	13	3,256	4,286
Investments:			
Investment in subsidiary undertakings	14	510,738	467,700
Other investments	14	440	1,055
		511,178	468,755
		514,434	473,041
Current assets			
Debtors: due after more than one year	15	15,543	54,575
Debtors: due within one year	15	26,632	35,913
		42,175	90,488
Cash at bank and in hand		629	9,878
		42,804	100,366
Creditors: amounts falling due within one year	16	(209,017)	(215,736)
Net current liabilities		(166,213)	(115,370)
Total assets less current liabilities		348,221	357,671
Creditors: amounts falling due after more than one year	17	(61,083)	(30,852)
Provisions for liabilities and charges	19	(10,428)	(26,820)
Net assets		276,710	299,999
Capital and reserves			
Called up share capital	20	5,310	4,716
Share premium account	21	38,895	38,542
Shares to be issued	21	30,954	68,174
Merger reserve	21	188,310	175,952
Profit and loss account	21	13,241	12,615
Equity shareholders' funds		276,710	299,999

These financial statements were approved by the board of directors on 7 May 2003 and were signed on its behalf by:

Richard Nichols
Chief Executive



Mike Butterworth
Group Finance Director



Consolidated Cash Flow Statement

for the year ended 28 February 2003

	Note	2003 £'000	2002 £'000
Cash inflow from operating activities		14,416	25,644
Dividends received from associates		–	34
Returns on investments and servicing of finance	23	(2,401)	(1,936)
Taxation	23	(7,090)	(11,063)
Capital expenditure and financial investment	23	(6,581)	(6,378)
Acquisitions	23	(10,463)	(18,072)
Equity dividends paid		(3,397)	(2,389)
Net cash outflow before financing		(15,516)	(14,160)
Financing	23	2,868	5,050
Decrease in cash in the year		(12,648)	(9,110)

Reconciliation of operating (loss)/profit to cash inflow from operating activities

	2003 £'000	2002 £'000
Operating (loss)/profit	(26,211)	13,924
Goodwill	37,719	5,377
Depreciation	5,544	6,471
Net loss on disposal of tangible fixed assets	343	172
Other non-cash items	224	(375)
Decrease/(increase) in work in progress	2,670	(732)
Decrease in debtors	7,945	7,760
Decrease in creditors	(13,818)	(6,953)
Net cash inflow from operating activities	14,416	25,644

Reconciliation of net cash flow to movement in net debt

	Note	2003 £'000	2002 £'000
Decrease in cash in the year		(12,648)	(9,110)
Cash inflow from increase in debt	23	(2,788)	(4,763)
Issue costs of new bank loans		170	131
Movement in net debt resulting from cash flows	25	(15,266)	(13,742)
Debt acquired with subsidiary undertakings and businesses	25	(81)	(63)
Inception of finance leases		(121)	(105)
Issue of loan notes for non-cash consideration		(14,585)	(8,816)
Other non-cash changes		(175)	(129)
Effect of foreign exchange	25	817	(594)
Movement in net debt		(29,411)	(23,449)
Opening net debt	25	(32,745)	(9,296)
Closing net debt	25	(62,156)	(32,745)

Statement of Total Recognised Gains and Losses

for the year ended 28 February 2003

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
(Loss)/profit attributable to group shareholders	(35,468)	3,813	(4,046)	2,757
Exchange differences on foreign currency net investments	2,990	(304)	(1,529)	-
Total recognised gains and losses	(32,478)	3,509	(5,575)	2,757

Reconciliation of Movements in Equity Shareholders' Funds

for the year ended 28 February 2003

	Note	Group		Company	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
(Loss)/profit attributable to group shareholders		(35,468)	3,813	(4,046)	2,757
Dividend		(1,328)	(3,434)	(1,328)	(3,434)
		(36,796)	379	(5,374)	(677)
Exchange differences on foreign currency net investments		2,990	(304)	(1,529)	-
Goodwill previously written off to reserves		109	-	-	-
Contribution to Qualifying Employee Share Trust		(96)	(571)	(96)	(571)
Issue of shares net of issue costs		20,930	11,857	20,930	11,857
Net movement in estimated value of shares to be issued as consideration for acquisitions	21	(37,220)	897	(37,220)	897
Net change to equity shareholders' funds		(50,083)	12,258	(23,289)	11,506
Opening equity shareholders' funds		277,175	264,917	299,999	288,493
Closing equity shareholders' funds		227,092	277,175	276,710	299,999

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 result 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.

Geographical segmental information is disclosed in note 2. A more detailed analysis by individual country is considered to be commercially sensitive and is not provided.

(2) Changes in presentation of financial information

In accordance with FRS 18: 'Accounting Policies' the directors have performed their regular review of the Group's accounting policies and have decided to change the treatment of goodwill from being a sterling asset to a currency asset. This change brings the Group into line with common practice and better reflects goodwill as being part of the net assets of the Group's foreign investments.

This change does not affect the profit and loss account and its impact on prior period balance sheets is immaterial, therefore no prior year adjustment has been made.

(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.

Public Relations & Marketing Services

Revenue is derived from retainers and fees for services provided. Revenue is recognised when the service is performed in accordance with the contract and the stage of completion.

Specialist Advertising

Revenue is in the form of commissions on media placements and fees for creative and production services provided. Revenue is recognised as the services are performed.

(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. Exchange differences arising on the retranslation of foreign currency borrowings used to provide a hedge against foreign currency investments are taken directly to reserves.

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.

1 Accounting policies (continued)**(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.

(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 5 years to indefinite.

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.

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 £291.3 million as at 28 February 2003 (2002 – £320.5 million). If this goodwill were to be amortised over a period of 20 years, the operating loss for the year ended 28 February 2003 would have increased by £14.5 million (2002 – decrease in operating profit of £15.4 million).

(9) Work in progress

Work in progress comprises third party 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 over the life of the instrument.

(11) Pensions

The Group principally 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 due.

(12) Tax

The charge for tax is based on the results for the year and takes into account deferred tax. Deferred tax is recognised with discounting in respect of all timing differences between the treatment of certain items for tax and accounting purposes which have arisen and not reversed by the balance sheet date, except as otherwise required by FRS 19.

(13) Employee share ownership plans

Shares in Incepta Group plc held by The All Employee Share Ownership Plan and Employee Benefit Trusts have been included within other fixed asset investments and are stated at cost less provisions for any impairment.

2 Segmental information

Classes of business

	Turnover		Gross profit (gross revenue)		Profit/(loss) on ordinary activities before tax	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Public Relations	99,989	113,867	82,070	85,479	7,913	11,482
Marketing Services	98,960	96,504	56,634	55,090	9,163	10,010
Specialist Advertising	61,738	86,700	25,709	33,345	2,319	6,321
Intra-group trading	(9,703)	(10,802)	(3,899)	(3,082)	–	–
	250,984	286,269	160,514	170,832	19,395	27,813
Goodwill amortisation					(1,796)	(5,377)
Net interest payable					(2,540)	(1,805)
					15,059	20,631
Exceptional items (note 8)						
– restructuring costs					(7,887)	(8,512)
– goodwill impairment					(35,923)	–
– amounts written off investments					(1,720)	–
					(30,471)	12,119

	Exceptional restructuring costs		Net assets	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Public Relations	4,634	4,980	83,774	52,058
Marketing Services	372	1,277	39,051	19,349
Specialist Advertising	958	1,427	24,384	15,933
Parent company and non-operational	1,923	828	80,044	189,912
	7,887	8,512	227,253	277,252

The above analyses of turnover, gross profit (gross revenue), profit/(loss) on ordinary activities before tax and net assets for the year ended 28 February 2003 include the following amounts in relation to acquisitions during the year:

	Turnover £'000	Gross profit (gross revenue) £'000	Profit on ordinary activities before tax £'000	Net assets £'000
Public Relations	3,419	3,097	251	781
Marketing Services	2,984	1,888	445	316
	6,403	4,985	696	1,097
Goodwill			(282)	
Net interest receivable			1	
			415	

2 Segmental information (continued)

Geographical segments

	Turnover by origin		Gross profit (gross revenue)		Profit/(loss) on ordinary activities before tax	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
UK	139,462	146,320	84,633	86,756	11,194	14,140
Rest of the world	121,225	150,751	79,780	87,158	8,201	13,673
Intra-group trading	(9,703)	(10,802)	(3,899)	(3,082)	–	–
	250,984	286,269	160,514	170,832	19,395	27,813
Goodwill amortisation					(1,796)	(5,377)
Net interest payable					(2,540)	(1,805)
					15,059	20,631
Exceptional items (note 8)						
– restructuring costs					(7,887)	(8,512)
– goodwill impairment					(35,923)	–
– amounts written off investments					(1,720)	–
					(30,471)	12,119

	Turnover by destination		Exceptional restructuring costs		Net assets	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
UK	119,010	121,993	2,444	3,010	170,906	206,801
Rest of the world	131,974	164,276	5,443	5,502	56,347	70,451
	250,984	286,269	7,887	8,512	227,253	277,252

3 Analysis of the results of acquisitions

	Continuing operations £'000	Acquisitions £'000	2003 Total £'000	2002 Continuing operations £'000
Turnover	244,581	6,403	250,984	286,269
Cost of sales	(89,052)	(1,418)	(90,470)	(115,437)
Gross profit (gross revenue)	155,529	4,985	160,514	170,832
Administrative expenses (including goodwill and exceptional restructuring costs)	(183,251)	(4,571)	(187,822)	(157,736)
Other operating income	1,097	–	1,097	828
Operating profit before goodwill and exceptional restructuring costs	18,699	696	19,395	27,813
Goodwill amortisation and impairment	(37,437)	(282)	(37,719)	(5,377)
Exceptional restructuring costs (note 8)	(7,887)	–	(7,887)	(8,512)
Operating (loss)/profit	(26,625)	414	(26,211)	13,924
Amounts written off investments	(1,720)	–	(1,720)	–
Net interest (payable)/receivable	(2,541)	1	(2,540)	(1,805)
(Loss)/profit on ordinary activities before tax	(30,886)	415	(30,471)	12,119

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

4 Other operating income

Other operating income of £1,097,000 (2002 – £828,000) principally 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:

	2003	2002
Public Relations	978	997
Marketing Services	791	701
Specialist Advertising	340	400
Head Office	39	41
	2,148	2,139

The aggregate payroll costs of these persons were as follows:

	2003 £'000	2002 £'000
Wages and salaries	88,019	92,413
Social security costs	8,287	8,540
Other pension costs	2,835	2,573
	99,141	103,526

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

	2003 £'000	2002 £'000
Wages and salaries	1,928	4,506
Social security costs	189	340
Other pension costs	159	75
	2,276	4,921

The information on directors' emoluments and share options set out on pages 105 to 109 forms part of these financial statements.

6 Net interest payable

	2003 £'000	2002 £'000
Interest payable:		
Group		
– on bank loans and overdrafts	2,673	2,273
– on loan notes	330	420
– in respect of finance leases	23	47
Associates		
– on bank loans and overdrafts	5	6
	3,031	2,746
Interest receivable:		
Group		
– on bank deposits	(487)	(938)
Associates		
– on bank deposits	(4)	(3)
	(491)	(941)
	2,540	1,805

7 Profit/(loss) on ordinary activities before tax

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

	2003 £'000	2002 £'000
Staff costs (note 5)	99,141	103,526
Depreciation of tangible fixed assets:		
– owned assets	5,453	6,400
– assets held under finance leases	91	71
Net loss on disposal of tangible fixed assets	343	172
Rent and other operating lease rentals	10,612	11,048
Exchange losses/(gains)	659	(222)
Group audit fees and expenses	520	430

Of the Group audit fee, the parent company fee was £70,000 (2002 – £67,000).

Fees paid to KPMG Audit Plc and its associates for non-audit services were £550,000 (2002 – £295,000) of which £333,000 (2002 – £25,000) arose in the UK. Of the total non-audit fees, £255,000 (2002 – £214,000) has been capitalised within intangible fixed assets, being costs of acquisitions.

8 Exceptional items

	2003 £'000	2002 £'000
Restructuring costs:		
– redundancy (note 5)	2,276	4,921
– property	4,736	1,809
– other	875	1,782
	7,887	8,512
Goodwill impairment	35,923	–
Amounts written off investments	1,720	–
	45,530	8,512

Exceptional restructuring costs relate to a number of restructuring and cost reduction programmes initiated during the year.

Goodwill impairment relates to the write down of the carrying value of goodwill held on the Group balance sheet following the directors' annual impairment review.

Amounts written off investments principally relate to a provision to write down shares held by employee benefit trusts to 11.5 pence, the market value of Incepta Group plc shares as at 28 February 2003.

9 Tax on profit/(loss) on ordinary activities

	2003 £'000	2002 £'000
UK corporation tax		
Current tax on income for the year	3,025	4,912
Adjustments in respect of prior years	(201)	168
	2,824	5,080
Double taxation relief	(186)	(31)
	2,638	5,049
Foreign tax		
Current tax on income for the year	1,775	5,727
Adjustments in respect of prior years	1,836	(1,031)
	3,611	4,696
Total current tax charge	6,249	9,745
Deferred tax (note 19)		
Origination and reversal of timing differences	(1,385)	(480)
Decrease/(increase) in discount	177	(915)
	(1,208)	(1,395)
Share of associates' tax	3	7
Tax on profit/(loss) on ordinary activities	5,044	8,357

Included above is a tax credit on exceptional items amounting to £1,045,000 (2002 – £1,281,000).

9 Tax on profit/(loss) on ordinary activities (continued)**Factors affecting the tax charge for the current year**

The total current tax charge for the year is higher than the standard rate of corporation tax in the UK of 30% (2002 – 30%). The differences are explained below:

	2003 £'000	2002 £'000
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	(30,471)	12,119
Current tax credit/(charge) at 30% (2002 – 30%)	9,141	(3,636)
Effects of:		
Expenses (including goodwill) not deductible for tax purposes	(12,307)	(2,175)
Depreciation in excess of capital allowances	(168)	(227)
Utilisation of tax losses	5	152
Unrecognised tax credits in respect of overseas losses	(1,097)	(3,491)
Higher tax rates on overseas earnings	(188)	(1,231)
Adjustments to tax charge in respect of previous years	(1,635)	863
Total current tax charge	(6,249)	(9,745)

Factors that may affect future tax charges are disclosed in note 19.

10 Dividend

	2003 £'000	2002 £'000
Final dividend proposed	1,335	3,453
Dividend receivable in respect of own shares held	(7)	(19)
	1,328	3,434

A final dividend of 0.2 pence per share (2002 – 0.7 pence per share) is recommended and, subject to approval by shareholders, will be paid on 15 July 2003 to shareholders on the register as at 16 May 2003.

11 Earnings/(loss) per share

Earnings/(loss) per share (EPS) has been calculated using the following:

	(Loss)/ earnings £'000	2003 Weighted average number of shares	Earnings £'000	2002 Weighted average number of shares
Basic EPS	(35,468)	499,115,818	3,813	466,019,938
Diluted EPS	(35,468)	499,115,818*	3,813	514,887,844
Basic EPS before goodwill and exceptional items	10,813	499,115,818	16,421	466,019,938
Diluted EPS before goodwill and exceptional items	10,813	764,659,218	16,421	514,887,844

11 Earnings/(loss) per share (continued)

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

	2003			2002		
	(Loss)/ earnings £'000	Weighted average number of shares	(Loss)/earnings per share p	Earnings £'000	Weighted average number of shares	Earnings per share p
Basic EPS	(35,468)	499,115,818	(7.11)	3,813	466,019,938	0.82
Dilutive effect of:						
Options		4,442,677	—*		7,237,251	(0.01)
Shares to be issued as consideration for acquisitions		261,100,723	—*		41,630,655	(0.07)
Diluted EPS	(35,468)	764,659,218	(7.11)*	3,813	514,887,844	0.74

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

Basic EPS	(35,468)	499,115,818	(7.11)	3,813	466,019,938	0.82
Goodwill and impairment	37,719		7.56	5,377		1.15
Exceptional items (post tax)	8,562		1.72	7,231		1.55
Basic EPS before goodwill and exceptional items	10,813	499,115,818	2.17	16,421	466,019,938	3.52
Diluted EPS	(35,468)	499,115,818	(7.11)*	3,813	514,887,844	0.74
Adjustment to treat potential shares as dilutive		265,543,400	2.47		—	—
Goodwill	37,719		4.93	5,377		1.05
Exceptional items (post tax)	8,562		1.12	7,231		1.40
Diluted EPS before goodwill and exceptional items	10,813	764,659,218	1.41	16,421	514,887,844	3.19

*Because basic EPS results in a loss per share, FRS14: 'Earnings per share' requires that diluted EPS is calculated using the undiluted weighted average number of shares.

The EPS figures have been calculated using earnings before goodwill and exceptional items in order to assist the reader's understanding of the Group's underlying performance and provide comparability with the Group's peers.

12 Intangible fixed assets

	Goodwill £'000
Cost	
At 1 March 2002	345,922
Goodwill arising on acquisitions in the year (note 27)	14,615
Net adjustment to goodwill arising on prior year acquisitions	(7,507)
Foreign exchange	1,230
At 28 February 2003	354,260
Amortisation	
At 1 March 2002	5,868
Charge for the year	1,796
Impairment losses	35,923
Foreign exchange	(587)
At 28 February 2003	43,000
Net book value	
At 28 February 2003	311,260
At 28 February 2002	340,054

The net adjustment to goodwill arising on prior year acquisitions comprises a net decrease to consideration payable of £7,855,000 and fair value adjustments of £348,000. These fair value adjustments comprise £268,000 reduction in the value of fixed assets and £80,000 to record unrecognised liabilities

The directors' impairment review of goodwill used a discount rate of 7.5% in the net present value calculation of the carrying value.

13 Tangible fixed assets

Group	Freehold and long leasehold property £'000	Short leasehold property £'000	Fixtures, fittings, vehicles & equipment £'000	Total £'000
Cost				
At 1 March 2002	559	10,216	22,914	33,689
Fair value adjustments relating to prior year acquisitions	–	(39)	(229)	(268)
Acquisitions	–	13	318	331
Transfers between asset categories	(131)	131	–	–
Additions	–	962	4,395	5,357
Disposals	–	(818)	(4,147)	(4,965)
Foreign exchange	15	(350)	(907)	(1,242)
At 28 February 2003	443	10,115	22,344	32,902
Depreciation				
At 1 March 2002	314	4,043	12,493	16,850
Transfers between asset categories	(191)	191	–	–
Charge for the year	15	1,165	4,364	5,544
Disposals	–	(496)	(3,637)	(4,133)
Foreign exchange	12	(140)	(485)	(613)
At 28 February 2003	150	4,763	12,735	17,648
Net book value				
At 28 February 2003	293	5,352	9,609	15,254
At 28 February 2002	245	6,173	10,421	16,839

The net book value of assets at 28 February 2003 includes an amount of £510,000 in respect of assets held under finance leases (28 February 2002 – £667,000).

Company

Company	Freehold and long leasehold property £'000	Short leasehold property £'000	Fixtures, fittings, vehicles & equipment £'000	Total £'000
Cost				
At 1 March 2002	309	4,972	2,945	8,226
Additions	–	50	191	241
Transfers from subsidiary undertakings	–	–	9	9
Transfers to subsidiary undertakings	–	–	(83)	(83)
Disposals	–	–	(792)	(792)
At 28 February 2003	309	5,022	2,270	7,601
Depreciation				
At 1 March 2002	20	2,220	1,700	3,940
Charge for the year	6	519	669	1,194
Transfers from subsidiary undertakings	–	–	7	7
Transfers to subsidiary undertakings	–	–	(22)	(22)
Disposals	–	–	(774)	(774)
At 28 February 2003	26	2,739	1,580	4,345
Net book value				
At 28 February 2003	283	2,283	690	3,256
At 28 February 2002	289	2,752	1,245	4,286

14 Fixed asset investments

Group	Investment in associates £'000	Other investments		
		Own shares £'000	Other £'000	Total £'000
At 1 March 2002	78	988	81	1,069
Additions	–	623	508	1,131
Share of profits less dividends for the year	1	–	–	–
Foreign exchange	(1)	–	–	–
Charged to profit and loss account	–	(26)	–	(26)
Provision for impairment (note 8)	–	(1,212)	(508)	(1,720)
At 28 February 2003	78	373	81	454

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

The Group's investment in own shares is stated at cost less provision for impairment and represents 3,797,263 (2002 – 2,706,965) of the Company's ordinary shares (nominal value of 1 pence per share) held by employee share trusts. The trusts purchase shares on the open market for the benefit of employees using funds provided by the Company. Further details of these trusts are contained on pages 102 to 109. The market value of own shares at 28 February 2003 was £436,000 (2002 – £1,245,000).

The amount shown as other investments at 28 February 2003 represents the Company's investment in USU-Openshop AG, a German technology company. It is a listed investment on an overseas stock exchange and is shown at net realisable value, which represents market value at 28 February 2003.

Company

Company	Investment in subsidiary undertakings £'000	Other investments		
		Own shares £'000	Other £'000	Total £'000
At 1 March 2002	467,700	974	81	1,055
Additions	58,667	623	–	623
Charged to profit and loss account	–	(26)	–	(26)
Provision for impairment	(14,948)	(1,212)	–	(1,212)
Foreign exchange	(681)	–	–	–
At 28 February 2003	510,738	359	81	440

Loans to Group undertakings are included in debtors.

Principal subsidiary undertakings and associates are listed in note 31. A full list of subsidiary undertakings and associates will be annexed to the Company's next annual return.

The Company's investment in own shares is stated at cost less provision for impairment and represents 3,113,135 (2002 – 2,023,337) of the Company's ordinary shares (nominal value of 1 pence per share) held by employee share trusts. The trusts purchase shares on the open market for the benefit of employees using funds provided by the Company. Further details of these trusts are contained on pages 102 to 109. The market value of own shares at 28 February 2003 was £359,000 (2002 – £930,000).

15 Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due within one year:				
Trade debtors	40,674	47,975	–	–
Amounts owed by subsidiary undertakings	–	–	24,986	34,671
Amounts owed by associates – dividends receivable	11	11	–	–
Corporation tax	557	1,021	780	262
Withholding tax recoverable	243	104	–	–
Deferred tax asset (note 19)	3,832	2,804	26	–
Other debtors	2,605	3,161	486	655
Prepayments and accrued income	6,248	4,894	354	325
	54,170	59,970	26,632	35,913
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	–	–	15,543	54,575
	54,170	59,970	42,175	90,488

16 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	16	–	–	–
Loan notes (note 18)	8,271	21,453	8,271	21,453
Obligations under finance leases	63	145	–	–
Trade creditors	12,992	17,887	398	273
Amounts owed to subsidiary undertakings	–	–	172,277	172,908
Amounts owed to associates – trading balances	–	28	–	–
Corporation tax	5,816	6,871	–	–
Other taxes and social security	4,886	4,911	1,536	1,354
Proposed dividend	1,328	3,434	1,328	3,439
Other creditors	2,264	3,944	122	808
Consideration for acquisitions	22,402	10,086	21,357	9,172
Accruals and deferred income	24,109	34,549	3,728	6,329
	82,147	103,308	209,017	215,736

Included within Other creditors for the Group is £184,000 (2002 – £179,000) relating to liabilities and accrued obligations of the Citigate Communications Group Limited Employee Share Trust.

A maturity analysis of borrowings and finance leases is shown in note 26.

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank loans	57,695	29,525	57,656	29,525
Loan notes (note 18)	3,427	1,327	3,427	1,327
Obligations under finance leases	124	89	–	–
Corporation tax	–	97	–	–
Other creditors	227	574	–	–
	61,473	31,612	61,083	30,852

Bank loans are stated net of unamortised issue costs of £470,000 (2002 – £475,000). Issue costs of £170,000 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 £175,000 (2002 – £129,000) were charged to the profit and loss account during the year.

A maturity analysis of borrowings and finance leases is shown in note 26.

18 Loan notes

Loan notes have been issued as part of the consideration for certain acquisitions. Secured loan notes 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 and amount to £866,000 (2002 – £10,430,000). Loan notes bear interest at the following rates:

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Secured				
Bank base rate plus 1.75%*	225	–	225	–
Bank base rate plus 1.5%*	1,875	–	1,875	–
Bank base rate plus 0.25%	–	435	–	435
LIBOR less 1.5%	3,985	2,963	3,985	2,963
Bank base rate less 2.5%	2,933	15,488	2,933	15,488
Nil*	1,327	1,327	1,327	1,327
	10,345	20,213	10,345	20,213
Unsecured				
Bank base rate less 1.5%	1,353	2,567	1,353	2,567
	11,698	22,780	11,698	22,780

* Amounts falling due after more than one year.

19 Provisions for liabilities and charges**Group**

	Contingent consideration for acquisitions £'000	Deferred tax £'000	Vacant property £'000	Other £'000	Total £'000
At 1 March 2002	27,632	1,807	–	555	29,994
(Credited)/charged to profit and loss account	–	(180)	4,131	(240)	3,711
Paid during the year	(977)	–	(985)	–	(1,962)
Settled by issue of loan notes	(6,350)	–	–	–	(6,350)
Net movement in estimated contingent consideration payable for acquisitions in prior years	9,814	–	–	–	9,814
Estimated contingent consideration payable for current year acquisitions	5,974	–	–	–	5,974
Transferred to Creditors: amounts falling due within one year	(21,609)	–	–	–	(21,609)
Foreign exchange	–	–	(94)	–	(94)
At 28 February 2003	14,484	1,627	3,052	315	19,478

Company

	Contingent consideration for acquisitions £'000	Deferred tax £'000	Vacant property £'000	Other £'000	Total £'000
At 1 March 2002	26,452	118	–	250	26,820
(Credited)/charged to profit and loss account	–	(118)	351	(240)	(7)
Paid during the year	(849)	–	–	–	(849)
Settled by issue of loan notes	(6,350)	–	–	–	(6,350)
Net movement in estimated contingent consideration payable for acquisitions in prior years	9,727	–	–	–	9,727
Estimated contingent consideration payable for current year acquisitions	2,372	–	–	–	2,372
Transferred to Creditors: amounts falling due within one year	(21,285)	–	–	–	(21,285)
At 28 February 2003	10,067	–	351	10	10,428

Contingent consideration for acquisitions

Acquisitions made by the Group typically involve an earn-out arrangement whereby the consideration payable includes a deferred element that is contingent on the future financial performance of the acquired entity. No material contingent consideration will become payable unless the acquired entity delivers greater revenues or profits during the earn-out period than prior to acquisition.

The provision for contingent consideration for acquisitions represents the directors' best estimate of the amount expected to be payable in cash or loan notes. The estimated value of contingent consideration payable by issue of new ordinary shares in the Company of £12.4 million (2002 – £54.6 million) is included in the balance sheet within Shares to be issued (note 21).

Maturity of contingent consideration for acquisitions

	Group		Company	
	Cash or loan notes £'000	Shares to be issued £'000	Cash or loan notes £'000	Shares to be issued £'000
In one year or less	2,846	8,032	1,866	8,032
In more than one year but not more than two years	8,442	1,837	7,062	1,837
In more than two years but not more than five years	3,196	2,568	1,139	2,568
	14,484	12,437	10,067	12,437

The directors estimate that, in delivering the future financial performance required for the above amounts to become payable, the acquired entities will generate £15.2 million of operating cash inflows.

In addition to the above amounts, Creditors falling due within one year and Shares to be issued include consideration for acquisitions of £22.4 million (2002 – £10.1 million) and £18.5 million (2002 – £13.5 million) respectively in respect of completed earn-out periods for which consideration (payable in either cash, loan notes or by the issue of new shares) has become due but has not yet been settled as at 28 February 2003.

Details of each acquisition made during the current year are set out in note 27.

The maximum potential contingent cash and loan note consideration payable under all earn-out arrangements ongoing as at 28 February 2003 is £67.3 million.

19 Provisions for liabilities and charges (continued)**Deferred tax**

The elements of deferred tax are as follows:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Difference between accumulated depreciation/amortisation and tax depreciation	(1,935)	(2,722)	26	(118)
Other timing differences	1,885	1,287	—	—
Tax losses	1,517	1,517	—	—
Undiscounted net deferred tax asset/(liability)	1,467	82	26	(118)
Effect of discounting	738	915	—	—
Discounted net deferred tax asset/(liability)	2,205	997	26	(118)
The net deferred tax asset/(liability) comprises:				
Deferred tax asset (note 15)	3,832	2,804	26	—
Deferred tax liability	(1,627)	(1,807)	—	(118)
	2,205	997	26	(118)

The movements on deferred tax are as follows:

	Group	
	Asset £'000	Liability £'000
At 1 March 2002	2,804	(1,807)
Credit to profit and loss account	1,028	180
At 28 February 2003	3,832	(1,627)

A deferred tax asset has been recognised in respect of US trading losses to the extent that it is more likely than not that there will be sufficient taxable profits against which these losses can be offset.

At 28 February 2003, in addition to the deferred tax balances recognised above, the Group had potential deferred tax assets of £8,833,000 (2002 – £6,540,000) in relation to allowable tax losses. These assets have not been recognised in the financial statements as, in the opinion of the directors, there is insufficient evidence that they will be recoverable.

Assuming no material change in corporate tax rates or group structure, the overall tax rate is expected to reduce in the future as the benefits of various tax planning initiatives start to come through.

Vacant property

The vacant property provision represents the estimated future cost of the Group's unutilised leasehold properties, taking into account any future sublet income which is either known or reasonably expected to be obtained. The majority of the provision is expected to be utilised over the next two years.

Other

Other provisions comprise a provision for employer's National Insurance on unapproved share options granted since 6 April 1999 (Group and Company) and a provision for the unfunded liability on an overseas pension scheme (Group). This pension scheme relates to one individual and provides, on retirement, a fixed predetermined pension that is neither linked to final salary nor subject to any increases. The Group's liability under this scheme is substantially covered by an insurance policy. The liability has been determined using a discount rate of 5.5% by a qualified actuary as at 28 February 2003. The Group's contribution to the scheme for the year was £34,000.

20 Called up share capital

	2003 £'000	2002 £'000
Authorised		
Ordinary shares of 1p each 910,000,000 (2002 – 910,000,000)	9,100	9,100
Allotted and fully paid		
Ordinary shares of 1p each 530,967,931 (2002 – 471,584,047)	5,310	4,716

During the year 2,495,369 shares were issued as initial consideration for the acquisitions of Glover Associates International, Inc., PR Force Public Relations & Press Relations NV and PR Force Netherlands B.V., and Markowitz & McNaughton, Inc.

A total of 56,176,499 shares were issued as deferred consideration for the acquisitions of 5% of SEA Dewe Rogerson GmbH, Beaumark Limited, Financial Group S.r.l., Finex Communications Group plc, JKD Communications Limited, Dynamo Marketing Limited, Hauck Research Services Limited, and Gramma AB, made during prior years.

A total of 712,016 shares were issued during the year under the Company's share option schemes for total consideration of £121,000.

The Company offered the shareholders the option to receive Ordinary shares instead of a cash dividend. No shares were issued as a scrip dividend alternative.

Subsequent to the year end 55,050,000 shares were issued as deferred consideration for the acquisition of Sard Verbinnen & Co., Inc. and 5% of SEA Dewe Rogerson GmbH.

The total number of shares in issue as at 7 May 2003 is 586,017,931.

Further shares are to be issued, subject to future financial performance, as consideration for acquisitions. The estimated value of these shares is included in Shares to be issued at 28 February 2003 (note 21).

The Company has shareholder authority to purchase its own shares, to a maximum of 70,830,760 shares.

Options

As at 28 February 2003, certain employees including directors held options over ordinary shares of 1p under the following schemes:

	Options held		Exercise prices (per share)	Exercise periods (various dates)
	2003	2002		
Employee Share Option Scheme	1,586,000	1,956,000	10.5p to 31.0p	Up to 29 October 2007
Executive Share Option Plan	5,673,216	6,395,000	23.25p to 129.0p	Between 22 September 2001 and 16 October 2011
Executive Long Term Incentive Plan	14,441,000	10,024,000	14p to 129.0p	Between 20 October 2003 and 12 November 2012
Performance Share Plan	2,500,000	–	nil	Between 1 November 2005 and 1 November 2012
1998 Savings Related Share Option Scheme	–	228,163	15.2p	Between 1 January 2002 and 30 July 2002
1999 Savings Related Share Option Scheme	851,801	1,031,475	47.0p to 50.0p	Between 1 January 2002 and 30 June 2003
2000 Savings Related Share Option Scheme	207,034	511,537	103.6p to 110.0p	Between 1 January 2003 and 30 June 2004
2001 Savings Related Share Option Scheme	1,306,758	1,912,187	29.5p to 38.95p	Between 1 January 2004 and 30 June 2005
2002 Savings Related Share Option Scheme	4,965,612	–	12.1p to 12.5p	Between 1 January 2006 and 30 June 2006
	31,531,421	22,058,362		

A total of 12,519,386 options were granted, 664,264 exercised and 2,382,063 lapsed during the year under the above schemes. Further details are shown in the statement of directors' remuneration and interests on pages 105 to 109.

21 Reserves Group

	Share premium account £'000	Shares to be issued £'000	Merger reserve £'000	Profit and loss account £'000
At 1 March 2002	38,542	68,174	130,585	35,158
Retained loss for the year	-	-	-	(36,796)
Exchange differences on foreign currency net investments	-	-	-	2,990
Goodwill previously written off to reserves	-	-	-	109
Release of reserves against investment provisions	-	-	(7,625)	7,625
Contribution to Qualifying Employee Share Trust	-	-	-	(96)
Premium on shares issued as consideration for acquisitions	144	-	20,018	-
Premium on shares issued under share option schemes	215	-	-	-
Share issue costs	(6)	-	(35)	-
Net movement in estimated value of shares to be issued as consideration for acquisitions	-	(37,220)	-	-
At 28 February 2003	38,895	30,954	142,943	8,990

Shares to be issued comprises £18,517,000 of consideration for acquisitions in respect of completed earn-out periods for which consideration is due but not yet settled as at 28 February 2003, and £12,437,000 of consideration for acquisitions contingent on future financial performance (note 19).

A merger reserve has been created in relation to 58,337,203 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 £46,150,000 (2002 – £46,259,000).

Company

	Share premium account £'000	Shares to be issued £'000	Merger reserve £'000	Profit and loss account £'000
At 1 March 2002	38,542	68,174	175,952	12,615
Retained loss for the year	-	-	-	(5,374)
Release of reserves against investment provisions	-	-	(7,625)	7,625
Contribution to Qualifying Employee Share Trust	-	-	-	(96)
Exchange differences on foreign currency net investments	-	-	-	(1,529)
Premium on shares issued as consideration for acquisitions	144	-	20,018	-
Premium on shares issued under share option schemes	215	-	-	-
Share issue costs	(6)	-	(35)	-
Net movement in estimated value of shares to be issued as consideration for acquisitions	-	(37,220)	-	-
At 28 February 2003	38,895	30,954	188,310	13,241

22 Minority interests

	£'000
At 1 March 2002	77
Minority interests' share of results for the year	(47)
Net change in minority interests	76
Minority interests' share of exchange differences on foreign currency net investments	55
At 28 February 2003	161

23 Analysis of cash flows

	2003 £'000	2002 £'000
Returns on investments and servicing of finance		
Interest received	521	927
Interest paid	(2,729)	(2,619)
Issue costs of new bank loans	(170)	(131)
Interest element of finance lease payments	(23)	(47)
Dividends paid to minority interests	-	(66)
	(2,401)	(1,936)
Taxation		
UK tax paid	(3,497)	(6,432)
Overseas tax paid	(3,593)	(4,631)
	(7,090)	(11,063)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(5,236)	(6,750)
Disposal of tangible fixed assets	489	645
Purchase of other fixed asset investment	(1,834)	(273)
	(6,581)	(6,378)
Acquisitions		
Purchase of subsidiary undertakings	(9,573)	(13,283)
Purchase of businesses	(1,412)	(6,988)
Net cash acquired with subsidiary undertakings and businesses	462	2,199
Proceeds from sale of minority interest	60	-
	(10,463)	(18,072)
Financing		
Issue of shares:		
Proceeds from issue of ordinary share capital	121	363
Share issue costs	(41)	(76)
	80	287
Increase in debt:		
Repayment of bank loans	(34,659)	(17,000)
Draw-down of bank loans	63,293	23,000
Capital element of finance lease payments	(179)	(541)
Repayment of loan notes	(25,667)	(696)
	2,788	4,763
	2,868	5,050

Acquisitions

The cash flow in respect of acquisitions includes outflows of £3,973,000 within purchase of subsidiary undertakings and £127,000 within purchase of businesses relating to acquisitions made during prior years.

Acquisitions during the year accounted for £139,000 (2002 – £2,145,000) of cash flow from operating activities, £121,000 (2002 – £160,000) of taxation, and £45,000 (2002 – £308,000) of capital expenditure in the year. These amounts represent the cash flows of all acquisitions except Glover Associates International, Inc., and Lindquist Forensics & Partners Inc., as their cash flows are not separately identifiable from the cash flows of continuing operations.

Exceptional restructuring costs

Net cash inflow from operating activities includes an outflow of £5,620,000 (2002 – £4,663,000) in respect of exceptional restructuring costs (note 8).

24 Major non-cash transactions

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

25 Analysis of net debt

	At 1 March 2002 £'000	Cash flows £'000	Acquisitions (excluding cash) £'000	Exchange movements £'000	Other movements £'000	At 28 February 2003 £'000
Cash at bank and in hand	19,794	(12,648)	–	294	–	7,440
Loan notes						
– amounts falling due within one year	(21,453)	25,667	–	–	(12,485)	(8,271)
– amounts falling due after more than one year	(1,327)	–	–	–	(2,100)	(3,427)
Bank loans						
– amounts falling due within one year	–	–	(16)	–	–	(16)
– amounts falling due after more than one year	(29,525)	(28,464)	(44)	513	(175)	(57,695)
Finance leases						
– amounts falling due within one year	(145)	153	(9)	5	(67)	(63)
– amounts falling due after more than one year	(89)	26	(12)	5	(54)	(124)
	(32,745)	(15,266)	(81)	817	(14,881)	(62,156)

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 page 50. Accounting policies relevant to financial instruments are detailed in note 1(10).

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

Interest rate risk profile of financial liabilities

As at 28 February 2003:

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
Sterling	32,901	111	6,503	39,515
EU currencies (excluding Sterling)	–	56	16,027	16,083
US dollars	35,126	33	14,923	50,082
Other currencies	–	42	760	802
	68,027	242	38,213	106,482

Currency	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed Months	Weighted average period until maturity Months
Sterling	29.3	56	19
EU currencies (excluding Sterling)	5.0	41	7
US dollars	10.5	20	7
Other currencies	3.1	27	5
	16.5	43	9

26 Financial instruments (continued)**Interest rate risk profile of financial liabilities (continued)**

As at 28 February 2002:

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
Sterling	50,978	91	20,599	71,668
EU currencies (excluding Sterling)	–	–	16,642	16,642
US dollars	–	72	1,804	1,876
Other currencies	–	71	–	71
	50,978	234	39,045	90,257

Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Months	Financial liabilities on which no interest is paid Weighted average period until maturity Months
Sterling	9.4	14	14
EU currencies (excluding Sterling)	–	–	16
US dollars	11.7	17	15
Other currencies	3.5	38	–
	8.3	22	15

Interest rate risk profile of financial assets

Currency	Other fixed asset investments £'000	Cash at bank and in hand £'000	2003 Total £'000	Other fixed asset investments £'000	Cash at bank and in hand £'000	2002 Total £'000
Sterling	373	148	521	988	10,405	11,393
EU currencies (excluding Sterling)	81	3,584	3,665	81	5,969	6,050
US dollars	–	2,354	2,354	–	1,517	1,517
Other currencies	–	1,354	1,354	–	1,903	1,903
	454	7,440	7,894	1,069	19,794	20,863
No interest	454	82	536	1,069	1,080	2,149
Floating rate	–	7,233	7,233	–	18,465	18,465
Fixed rate	–	125	125	–	249	249
	454	7,440	7,894	1,069	19,794	20,863

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

Maturity of group financial liabilities

	Borrowings and finance leases £'000	Consideration for acquisitions £'000	2003 Total £'000	Borrowings and finance leases £'000	Consideration for acquisitions £'000	2002 Total £'000
In one year or less or on demand	8,350	25,248	33,598	21,598	15,185	36,783
In more than one year but not more than two years	2,161	8,442	10,603	67	12,215	12,282
In more than two years but not more than five years	59,085	3,196	62,281	30,874	10,318	41,192
	69,596	36,886	106,482	52,539	37,718	90,257

26 Financial instruments (continued)**Maturity of Company borrowings and finance leases**

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

	2003 £'000	2002 £'000
In one year or less or on demand	8,271	21,453
In more than one year but not more than two years	2,100	–
In more than two years but not more than five years	58,983	30,852
	69,354	52,305

Borrowing facilities

The Group had an undrawn committed facility of £34.8 million available at 28 February 2003 (2002 – £45.0 million) in respect of which all conditions precedent had been met at that date. This relates to an unsecured £92.5 million five year revolving loan multi-currency facility arranged through Lloyds TSB Bank plc which bears interest of between 1% and 2.6% above LIBOR and expires in September 2005. All other terms and conditions remain unchanged.

On 21 March 2003, the Group entered into a further £9.5 million loan note guarantee facility with Lloyds TSB Bank plc, which expires in September 2005. This facility can also be utilised by way of multi-currency revolving loans subject to a subsidiary guarantee arrangement being put in place prior to any loan utilisation.

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 2003 and 28 February 2002.

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 50. 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 2003:

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)				Total £'000
	Sterling £'000	EU currencies (excluding Sterling) £'000	US dollars £'000	Other currencies £'000	
Sterling	–	(6,940)	(7,571)	2,623	(11,888)
EU currencies (excluding Sterling)	(45)	–	(6)	–	(51)
US dollars	(460)	48	–	–	(412)
Other currencies	6	–	167	–	173
Total	(499)	(6,892)	(7,410)	2,623	(12,178)

As at 28 February 2002:

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)				Total £'000
	Sterling £'000	EU currencies (excluding Sterling) £'000	US dollars £'000	Other currencies £'000	
Sterling	–	(11,665)	8,456	(762)	(3,971)
EU currencies (excluding Sterling)	(119)	–	(4)	–	(123)
US dollars	(22)	6	–	–	(16)
Other currencies	2	–	140	(535)	(393)
Total	(139)	(11,659)	8,592	(1,297)	(4,503)

27 Acquisitions

On 1 March 2002, the Company acquired for total consideration of £1 the trade and assets of Hyperlink, an online and interactive marketing services agency.

On 1 August 2002, the Company purchased the entire issued and outstanding common stock of Markowitz & McNaughton Inc., a US based business intelligence consultancy, for initial consideration of US\$2,550,000 paid in cash and the issue of 940,278 new ordinary shares in the Company. A maximum of US\$7,000,000 will be paid in a mixture of cash and shares of the Company, dependent on future financial performance.

On the same day, the Company purchased the trade and assets of Glover Associates International, Inc., a security and investigations consultancy based in the US. Initial consideration comprised US\$540,000 in cash and 135,595 new ordinary shares in the Company. Maximum deferred consideration payable, subject to the Company's future performance, amounts to US\$600,000 payable in cash.

The Group acquired the entire issued and outstanding share capital of PR Force Public Relations & Press Relations NV, and PR Force Netherlands B.V., public relations consultancies based in Brussels and Amsterdam on 1 August 2002. The initial consideration amounted to €4,600,000 in cash and 1,419,496 new ordinary shares in the Company. Subject to future performance, a maximum deferred consideration of €14,400,000 will be paid in cash and shares in the proportion 57% and 43% respectively.

On 1 September 2002, the Company acquired the business and assets of Cosmic Blender, Inc., a Boston US based integrated marketing services company, for initial consideration of US\$1,000,000 in cash. A maximum of US\$4,000,000 of deferred consideration will be paid in cash dependent upon the Company's future performance.

On 1 October 2002, the Company purchased the entire issued and outstanding common stock of Lindquist Forensics & Partners Inc., a US based forensic accounting consultancy, for initial consideration of US\$800,000 paid in cash. Subject to future performance, maximum deferred consideration of US\$650,000 will be paid in cash.

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

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

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Tangible fixed assets	337	(6)	331
Work in progress	3	—	3
Debtors	1,631	(107)	1,524
Obligations under finance leases	(21)	—	(21)
Net cash at bank and in hand	462	—	462
Bank loans and overdrafts	(60)	—	(60)
Creditors	(1,549)	(16)	(1,565)
	803	(129)	674
Goodwill			14,615
Total cost			15,289
Comprising:			
Cash			6,341
Shares			662
Deferred contingent consideration			7,681
Costs			605
			15,289

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

28 Related party transactions

The Group and its associates from time to time carry out consultancy work on behalf of each other's clients. During the year no such transactions occurred.

There was a dividend of £11,000 due from Capital Communications Kft relating to prior years as at 28 February 2003.

There were no further related party transactions during the year.

29 Commitments

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

Group	2003		2002	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
within one year	517	209	662	181
within two to five years	6,472	556	6,778	331
after five years	2,468	8	2,501	18
	9,457	773	9,941	530
Company	2003		2002	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
within one year	–	22	–	–
within two to five years	–	152	–	9
	–	174	–	9

30 Contingencies**Consideration for acquisitions**

Under the terms of certain acquisition agreements, additional consideration is payable by the Company and certain of its subsidiary undertakings contingent on the future financial performance of the acquired entities. The estimated amount of such contingent consideration is included in Provisions for Liabilities and Charges and Shares to be issued (notes 19 and 21).

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.

31 Principal subsidiary undertakings and associates

Name	Country of incorporation/ principal operation	Directly owned by the Company	Class of business
Principal subsidiary undertakings at 28 February 2003			
Citigate Dewe Rogerson Limited	England		PR
– Citigate Technology ¹	England		PR
Citigate Public Affairs Limited	England		PR
Citigate DVL Smith Limited	England	✓	PR
Citigate Communications Limited	England	✓	PR
Citigate MARCHCom Limited	England	✓	PR
Citigate Albert Frank Limited	England		Adv
Finex Communications Group plc	England	✓	MS
Dynamo Marketing Limited	England	✓	MS
Hauck Research Services Limited	England	✓	MS
JKD Communications Limited	England	✓	MS
Karen Earl Sponsorship Limited	England	✓	MS
Park Avenue Productions plc	England	✓	MS
The RED Consultancy Group Limited	England	✓	MS
Redmandarin Limited	England	✓	MS
Citigate Lloyd Northover Limited	England		MS
Citigate Publishing Limited	England		MS
Incepta Online Limited	England		H
Citigate SMARTS Limited	Scotland		PR, Adv, MS
Citigate Northern Ireland Limited	Northern Ireland		PR, MS
Citigate Holdings GmbH	Germany	✓	H
Citigate Dewe Rogerson GmbH	Germany	#	PR
Citigate SEA GmbH & Co KG	Germany		Adv
Citigate Demuth GmbH	Germany		PR, Adv, MS
Citigate Gramma AB	Sweden	✓	PR
Citigate Italia Srl	Italy	✓	Adv
Citigate Gunpowder Srl	Italy	✓	MS
Citigate Sanchis SL	Spain	✓	PR
Citigate First Financial B.V.	The Netherlands	✓	PR
PR Force Netherlands B.V.	The Netherlands	*	PR
PR Force Public Relations & Press Relations NV	Belgium	✓	PR
Incepta Group Inc	USA	✓	H
Citigate Inc	USA		
– Citigate Albert Frank ²	USA		Adv, MS
Citigate Sard Verbinen Inc	USA		PR
Citigate Cunningham Inc	USA		PR
Citigate Dewe Rogerson Inc (trading as Citigate Financial Intelligence)	USA		PR
Citigate Global Intelligence & Security, LLC	USA		PR
Citigate Hudson Inc	USA		PR
Citigate Broad Street Inc	USA		MS
Citigate Markowitz & McNaughton, Inc.	USA		PR
Cosmic Blender, Inc.	USA		MS
Citigate Asia Limited	Hong Kong		
– Citigate Dewe Rogerson ³	Hong Kong		PR
– Citigate Lloyd Northover ³	Hong Kong		MS
Citigate Albert Frank Limited	Hong Kong		Adv
Citigate Dewe Rogerson i.MAGE Pte Ltd	Singapore	✓	PR
Citigate Su Yeang Design Pte Ltd	Singapore	✓	MS
Citigate Dewe Rogerson Communications Private Limited	India	✓	PR
Citigate South Africa (Pty) Limited	South Africa		PR, Adv, MS
Associates at 28 February 2003			
Capital Communications Kft	Hungary		PR
NBS Spolka z.o.o.	Poland		PR

¹ Trades as a division of Citigate Dewe Rogerson Limited

PR = Public Relations

² Trades as a division of Citigate Inc

Adv = Specialist Advertising

³ Trades as a division of Citigate Asia Limited

MS = Marketing Services

* Owned 5% directly and 95% indirectly

H = Holding Company

* Owned 30% directly and 70% indirectly

All of the above subsidiary undertakings are wholly owned with the exception of Citigate Albert Frank Limited Hong Kong (90% owned) and Citigate South Africa (Pty) Limited (75% owned).

All subsidiary undertakings and associates have financial year ends which are coterminous with that of Incepta Group plc with the exception of Capital Communications Kft and NBS Spolka z.o.o. which have 31 December year ends.

Report of the Independent Auditors

Report of the Independent Auditors to the members of Incepta Group plc

We have audited the financial statements on pages 72 to 98. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 70, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and 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 by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 100 to 101 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 and the part of the directors' remuneration report to be audited. 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 Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 28 February 2003 and of the loss of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

7 May 2003

Corporate Governance

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 2003, 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.

At the beginning of the financial year the board consisted of eight members, four of whom were non-executive. On 14 July 2002, with deep sadness, the Company announced that one of the non-executive directors died. He was not replaced. On 9 October 2002, the Executive Chairman changed his role to non-executive Chairman, reflecting the planned progression of responsibilities following the appointment of a new Chief Executive in March 2001. Following these changes the board now comprises three executive and four non-executive directors. Throughout the financial year, the offices of Chairman and Chief Executive were held by separate individuals. In the period to 9 October 2002, the office of Chairman was an executive role but since that date it is now a non-executive role. 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 52 and 53.

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 which in the case of Robert Alcock, Charles Good and Christian Strenger is terminable by either party on six months' notice to expire at any time. David Wright's appointment commenced on 9 October 2002 and is terminable by either party on six months' notice to expire at any time, subject to a minimum initial fixed period of twelve months.

At the beginning of the financial year, the Company had four independent (as defined in the Combined Code) non-executive directors, Robert Alcock, Charles Good, Christian Strenger and Neil Mackay, who attended monthly board meetings and who were all members of the Company's Audit Committee and Remuneration Committee. On 14 July 2002, Neil Mackay died and was not replaced. David Wright, whose responsibilities became non-executive on 9 October 2002, is not a member of the Audit or Remuneration Committees as he is not deemed to be independent due to his previous executive positions with the Company.

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 three times 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. In the period to 14 July 2002, the Committee comprised the four non-executive directors under the chairmanship of Robert Alcock. Following the death of one of the non-executive directors on 14 July 2002, the Committee has comprised the remaining three non-executive directors chaired by Robert Alcock. David Wright, whose responsibilities became non-executive on 9 October 2002, is not a member of the Audit Committee as he is not deemed to be independent.

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 and share award schemes. In the period to 14 July 2002, the Committee comprised the four non-executive directors under the chairmanship of Robert Alcock. Following the death of one of the non-executive directors on 14 July 2002, the Committee has comprised the remaining three non-executive directors chaired by Robert Alcock. David Wright, whose responsibilities became non-executive on 9 October 2002, is not a member of the Remuneration Committee as he is not deemed to be independent.

The Nomination Committee meets as necessary and is responsible for reviewing and making proposals to the board on the appointment of directors. In the period to 14 July 2002, the Committee consisted of Robert Alcock, Neil Mackay, Charles Good, David Wright and Richard Nichols and is chaired by David Wright. On 14 July 2002, Neil Mackay died and was not replaced.

Relationship with institutional investors

The Company has designated Richard Nichols and Mike Butterworth 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, 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 requires that the board reviews and reports on the effectiveness of the Group's system of internal control including controls covering financial, operational, compliance and risk management matters.

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 quarterly 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 2004 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

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 and awards to employees.

The Committee consists solely of non-executive directors. During the course of the financial year, the Remuneration Committee was chaired by Robert Alcock and also comprised Charles Good, Christian Strenger and Neil Mackay (up to 14 July 2002). The Committee has access to professional advice as and when it considers it necessary. During the year advice was received from time to time from KPMG LLP on remuneration matters.

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 designed to attract and retain executive directors of the highest calibre and to reflect their role and experience;
- provide incentive arrangements which are subject to challenging performance targets (typically based on real earnings per share growth), reflect the Company's objectives and recognise the importance of providing sustained motivation of management to focus on annual, as well as longer-term, performance; and
- align the interests of the executive directors with those of shareholders.

In order to achieve these objectives the Committee's approach is that a substantial proportion of the overall remuneration package should be linked to performance, through participation in short-term and long-term incentive schemes.

The Committee determines remuneration packages with regard to the prevailing pay and benefit conditions across the Group's markets.

The Committee's policy with regard to service contracts is to limit the contract and notice periods to twelve months or less and for no compensation to be payable in the event of early termination other than for payment in lieu of notice.

The above policy is expected to continue to be applied in respect of the forthcoming and subsequent years.

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 company cars, life assurance, permanent health and private medical insurance. The value of benefits is not pensionable.

Performance related bonus

For all executive directors, appropriate performance targets were approved by the Committee at the start of the financial year for which the bonus was payable. The performance measures were chosen by the Committee because each measure was a factor over which the individual had a direct impact and each of the measures are collectively good indicators of corporate performance that should link to long-term shareholder reward.

Richard Nichols and Mike Butterworth may be awarded an annual cash bonus up to a maximum of fifty per cent of annual basic salary, which is not pensionable, providing an incentive to achieve short-term performance targets related to earnings per share growth. A cash bonus of five per cent of annual basic salary is payable for achieving target earnings per share less ten per cent. A maximum cash bonus of fifty per cent of annual basic salary is payable for achieving target earnings per share plus twenty per cent. Cash bonuses of between five and fifty per cent of annual basic salary is payable on the achievement of earnings per share on a straight line basis between these two points. In addition, the Committee may also award individual discretionary bonuses not to exceed one hundred per cent of annual basic salary.

For the year under review, no bonuses were payable to Richard Nichols and Mike Butterworth in respect of meeting earnings per share growth targets for the year.

Anthony Carlisle may be awarded an annual cash bonus up to a maximum of one hundred per cent of annual basic salary, which is not pensionable, based on the operating profitability of the consultancy division of Citigate Dewe Rogerson in the UK for the year. For the year under review, a bonus of £100,000 was payable to Anthony Carlisle in respect of the financial performance of the consultancy division of Citigate Dewe Rogerson.

Pensions

Pension contributions are made to the executive directors' pension plans. Richard Nichols and Mike Butterworth 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 a contribution of 20% of annual salary from the Company, 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 and the Incepta Group All Employee Share Ownership Plan.

Share option awards may be made to executive directors under the Incepta Group plc Executive Long Term Incentive Plan. Options under this plan, which are issued at market price at the date of grant, 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. Currently, the performance conditions require earnings per share growth over the performance period of at least 3 per cent compound per annum in excess of the UK Retail Price Index. Options will vest in respect of one third of the shares in each of the third, fourth and fifth anniversaries of the date of grant.

Share option awards may also be made to executive directors under the Incepta Group plc Executive Share Option Plan. Options under this plan, which are issued at market price at the date of grant, may be exercised at any time between the third and tenth anniversary of their date of grant provided that performance conditions relating to earnings per share growth to which they are subject have been fulfilled. Currently, the performance conditions require earnings per share growth (adjusted to exclude non-operating exceptional items) over the performance period of at least 2 per cent compound per annum in excess of the UK Retail Price Index.

The Committee has chosen earnings per share as the performance conditions under these plans as it believes it is the most commonly accepted measurement of long-term shareholder return.

The earnings per share growth hurdles were considered to be appropriately demanding and consistent with market practice at the time the plans were created.

Performance Share Plan

The Committee decided to grant share awards to all the current executive directors and certain key executives in the core operating subsidiaries following the approval by shareholders of this Plan at the Annual General Meeting on 5 July 2002.

Share awards under this plan, which are awarded in the form of share options with a nil exercise price, may be exercised at any time between the third and tenth anniversaries of their date of grant, provided that the performance conditions relating to earnings per share growth to which they are subject have been fulfilled. Currently, the performance conditions require earnings per share growth over the performance period of at least 6 per cent for executive directors and 3 per cent for other key executives compound per annum in excess of the UK Retail Price Index. This is subject to diluted earnings per share growth (adjusted to exclude FRS3 exceptional items and goodwill) being at least 5 per cent compound per annum. Vesting will occur in four equal tranches, on the third anniversary of grant and on the three subsequent anniversaries of this date.

The Committee has chosen earnings per share as the performance conditions under this plan as it believes it is the most commonly accepted measurement of long-term shareholder return.

The earnings per share growth hurdle was considered to be appropriately demanding and consistent with market practice at the time the plan was created.

Service contracts

Richard Nichols, Mike Butterworth and Anthony Carlisle all have rolling twelve month service agreements with the Company which expire at normal retirement age unless terminated beforehand in accordance with the terms of the individual contracts.

Details of the service contracts of Executive Directors are as follows:

Name	Contract date	Notice period from Company	Notice period from director
Richard Nichols	19 March 1999 (amended 18 April 2001)	12 months	12 months
Mike Butterworth	2 March 2001	12 months	12 months
Anthony Carlisle	19 October 1998	12 months	12 months

There are no provisions in any of the above service contracts for compensation to be payable in the event of early termination other than for payment in lieu of notice.

Outside appointments

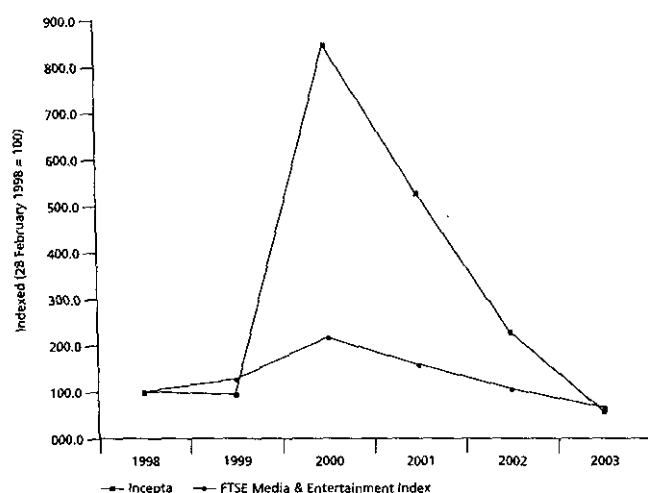
The Group expects that executive directors will operate under full time service contracts and would not normally accept appointments outside of the Group. It is recognised, however, that provided the time commitment is limited, a non-Group appointment may broaden the management experience of the executives 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. Robert Alcock, Charles Good and Christian Strenger have signed a letter of appointment terminable by either party on six months notice to expire at any time. David Wright has signed a letter of appointment which commenced on 9 October 2002 and is terminable by either party on six months notice, subject to a minimum initial fixed period of twelve months.

Performance graph

The following graph illustrates the Company's total shareholder return since 1 March 1998 relative to the FTSE Media & Entertainment Index. The Company is a member of the FTSE Media & Entertainment Index and the Committee considers that a comparison of the Company's total shareholder return relative to similar businesses is more appropriate than a comparison with a general FTSE Index, in order to reduce the impact of general stock market trends.



This graph looks at the value, by the end of February 2003, of £100 invested in the Company compared with that of £100 invested in the FTSE Media & Entertainment Index.

Directors' Remuneration & Interests

With the exception of the table of Director's Shareholdings and the details of employee options, the following sections of the Remuneration Report have been audited.

The remuneration of each director for the year ended 28 February 2003 was as follows:

		Basic salary/ fees	Bonus	Cash value of benefits in kind	Compensation for loss of office	Total emoluments 2003	Total emoluments 2002	Pension contributions 2003	Pension contributions 2002
		£	£	£	£	£	£	£	£
Executive directors									
Richard Nichols	(1)	275,000	—	13,323	—	288,323	252,708	27,500	25,000
Mike Butterworth*	(2)	165,000	—	10,615	—	175,615	111,026	16,500	10,930
Anthony Carlisle	(3)	360,000	100,000	1,437	—	461,437	332,880	72,000	66,000
Kevin Steeds**		—	—	—	—	—	307,104	—	9,748
Non-executive directors									
David Wright	(4)	250,763	—	2,148	324,391	577,302	351,576	21,917	35,000
Robert Alcock***	(5)	35,000	—	—	—	35,000	32,083	—	—
Charles Good	(5)	25,000	—	—	—	25,000	25,000	—	—
Christian Strenger***	(5)	25,000	—	—	—	25,000	22,916	—	—
Neil Mackay****	(5)	10,417	—	—	—	10,417	25,000	—	—
		1,146,180	100,000	27,523	324,391	1,598,094	1,460,293	137,917	146,678

- * appointed to the board on 18 June 2001
 ** resigned from the board on 12 September 2001
 *** appointed to the board on 1 April 2001
 **** deceased 14 July 2002

- (1) Richard Nichols, under his service contract, was paid an annual salary of £275,000 in the year to 28 February 2003. The Company also contributed 10% of annual salary to the executive's pension plan. No bonus was payable for the year under review.
- (2) Mike Butterworth, under his service contract, was paid an annual salary of £165,000 in the year to 28 February 2003. The Company also contributed 10% of annual salary to the executive's pension plan. No bonus was payable for the year under review.
- (3) Anthony Carlisle was the highest paid director for the year under review. Under his service contract, he was paid an annual salary of £340,000 for the period from 1 March 2002 to 31 October 2002 and £400,000 for the period from 1 November 2002 to 28 February 2003. The Company also contributed 20% of annual salary to the executive's pension plan. Anthony Carlisle was also awarded a bonus of £100,000 in relation to his performance for the consultancy division of Citigate Dewe Rogerson in the year.
- (4) David Wright, under his previous service contract, was paid an annual salary of £360,000 for the period from 1 March 2002 to 9 October 2002 (an amount of £219,173), when he changed his role from that of Executive Chairman to non-executive Chairman. During this period 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 £19,300 of his annual salary to his pension during the period. No bonus was payable for this period. In his capacity as non-executive Chairman for the period from 10 October 2002 to 28 February 2003, David Wright received annual fees of £80,000 (an amount of £31,590) but no further pension contributions were paid. In addition to his remuneration, David Wright was paid £324,391 as compensation for loss of office following the change in his role from that of Executive Chairman to non-executive Chairman, including £36,000 in respect of pension contributions.
- (5) In their capacity as non-executive directors to the Group, Charles Good and Christian Strenger received annual fees of £25,000. In his capacity as a non-executive Deputy Chairman, Robert Alcock received annual fees of £35,000. Neil Mackay received an annual fee of £25,000 for the period from 1 March 2002 to 14 July 2002, the date of his death.

Shareholdings

The directors who served during the year held interests in the ordinary share capital of the Company as follows:

	As at 1 March 2002	As at 28 February 2003	As at 7 May 2003
Executive			
Richard Nichols	1,080,195	1,288,156	1,290,914
Mike Butterworth	40,000	127,392	130,151
Anthony Carlisle	7,765,979	7,765,979	7,765,979
Non-executive			
David Wright	10,530,223	10,938,184	10,940,942
Robert Alcock	69,894	202,833	205,591
Charles Good	3,465,689	4,765,689	4,765,689
Christian Strenger	—	300,000	300,000

The above shareholdings were all beneficially held, except that, at 1 March 2002, of those included in the holdings of Charles Good, 2,109,276 were non-beneficially held. The table above includes directors' interest in shares acquired through the Incepta Group plc All Employee Share Ownership Plan.

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

Options

The directors' interests in share options under the Company's share option schemes 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 1 March 2002	Exercised during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Employees						
Total by exercise price	140,000	(60,000)	80,000	80,000	31.00p	1 September 1996-2003
	40,000	—	40,000	40,000	12.50p	31 January 1998-2005
	1,100,000	(200,000)	900,000	900,000	10.50p	5 January 1999-2006
	146,000	—	146,000	146,000	20.50p	18 July 1999-2006
	530,000	(110,000)	420,000	420,000	21.40p	29 October 2000-2007
	1,956,000	(370,000)	1,586,000	1,586,000		

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 (see details above).

	Held on 1 March 2002	Exercised during the year	Lapsed during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Director							
Richard Nichols	1,000,000	—	—	1,000,000	1,000,000	24.50p	4 May 2002-2009
Employees							
Total by exercise price	760,000	(52,784)	—	707,216	632,216	23.25p	22 September 2001-2008
	2,025,000	—	—	2,025,000	1,950,000	24.50p	4 May 2002-2009
	2,185,000	—	(410,000)	1,775,000	1,675,000	55.50p	12 October 2002-2009
	200,000	—	(200,000)	—	—	100.50p	25 January 2003-2010
	150,000	—	(59,000)	91,000	91,000	129.00p	20 October 2003-2010
	75,000	—	—	75,000	75,000	35.75p	16 October 2004-2011
	6,395,000	(52,784)	(669,000)	5,673,216	5,423,216		

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 (see details above). 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.

	Held on 1 March 2002	Granted during the year	Lapsed during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Directors							
David Wright	300,000	-	-	300,000	300,000	35.75p	16 October 2004-2011
Richard Nichols	300,000	-	-	300,000	300,000	35.75p	16 October 2004-2011
Mike Butterworth	300,000	-	-	300,000	300,000	73.00p	18 June 2004-2011
	200,000	-	-	200,000	200,000	35.75p	16 October 2004-2011
Anthony Carlisle	300,000	-	-	300,000	300,000	35.75p	16 October 2004-2011
Employees							
Total by exercise price	2,989,000	-	(450,000)	2,539,000	2,339,000	129.00p	20 October 2003-2010
	5,635,000	-	(90,000)	5,545,000	5,410,000	35.75p	16 October 2004-2011
	-	4,757,000	-	4,757,000	4,757,000	14.00p	12 November 2005-2012
	-	200,000	-	200,000	200,000	23.50p	15 August 2005-2012
	10,024,000	4,957,000	(540,000)	14,441,000	14,106,000		

Incepta Group Performance Share Plan

The Incepta Group Performance Share Plan was established by the Company at its Annual General Meeting on 5 July 2002, 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 the performance conditions relating to earnings per share growth to which they are subject have been fulfilled (see details above). Vesting will occur in four equal tranches, on the third anniversary of grant and on the three subsequent anniversaries of this date.

	Granted during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Directors					
Richard Nichols	500,000	500,000	500,000	nil	1 November 2005-2012
Mike Butterworth	250,000	250,000	250,000	nil	1 November 2005-2012
Anthony Carlisle	500,000	500,000	500,000	nil	1 November 2005-2012
Employees					
Total	1,250,000	1,250,000	1,250,000	nil	1 November 2005-2012
	2,500,000	2,500,000	2,500,000		

The above grants were made on 1 November 2002 when the market price of the Company's shares was 14 pence.

Savings Related Option Schemes

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 five years to enable every employee to participate in the growth of the Group. There are no performance conditions relating to this scheme. The tables below summarise the current options issued and outstanding under each of the five schemes.

Incepta Group plc 1998 Savings Related Share Option Scheme

	Held on 1 March 2002	Exercised during the year	Lapsed during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Employees							
Total by exercise date	215,417	(215,417)	-	-	-	15.2p	1 January-30 June 2002
	12,746	(12,746)	-	-	-	15.2p	1 February-30 July 2002
	228,163	(228,163)	-	-	-		

Incepta Group plc 1999 Savings Related Share Option Scheme

	Held on 1 March 2002	Exercised during the year	Lapsed during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Employees							
Total by exercise price	3,096	(3,096)	—	—	—	50.0p	1 January-30 June 2002
	1,028,379	(10,221)	(166,357)	851,801	851,801	47.0p	1 January-30 June 2003
	1,031,475	(13,317)	(166,357)	851,801	851,801		

Incepta Group plc 2000 Savings Related Share Option Scheme

	Held on 1 March 2002	Lapsed during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Employees						
Total by exercise price	373,052	(166,018)	207,034	199,741	103.6p	1 January-30 June 2004
	138,485	(138,485)	—	—	110.0p	1 January-30 June 2003
	511,537	(304,503)	207,034	199,741		

Incepta Group plc 2001 Savings Related Share Option Scheme

	Held on 1 March 2002	Lapsed during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Directors						
David Wright	10,305	—	10,305	10,305	29.50p	1 January-30 June 2005
Richard Nichols	10,305	(10,305)	—	—	29.50p	1 January-30 June 2005
Mike Butterworth	10,305	(10,305)	—	—	29.50p	1 January-30 June 2005
Employees						
Total by exercise price	1,635,121	(505,977)	1,129,144	1,090,502	29.50p	1 January-30 June 2005
	31,265	(924)	30,341	30,341	38.95p	1 January-30 June 2005
	214,886	(77,918)	136,968	136,968	31.50p	1 January-30 June 2004
	1,912,187	(605,429)	1,306,758	1,268,116		

Incepta Group plc 2002 Savings Related Share Option Scheme

	Granted during the year	Lapsed during the year	Held on 28 February 2003	Held on 7 May 2003	Exercise price per share	Exercisable between
Directors						
Richard Nichols	23,429	—	23,429	23,429	12.10p	1 January-30 June 2006
Mike Butterworth	23,429	—	23,429	23,429	12.10p	1 January-30 June 2006
Employees						
Total by exercise price	3,833,334	(67,162)	3,766,172	3,739,624	12.10p	1 January-30 June 2006
	1,182,194	(29,612)	1,152,582	1,152,582	12.50p	1 January-30 June 2006
	5,062,386	(96,774)	4,965,612	4,939,064		

Incepta Group plc All Employee Share Ownership Plan

In July 2001, the Company introduced an All Employee Share Ownership Plan (AESOP). The plan, which is open to all employees, offers a tax efficient way for employees to purchase Incepta Group plc shares. Under the terms of the plan and subject to certain limits, a trust purchases and holds shares on behalf of the participants, using contributions made by the participants. For every five shares purchased in this way (partnership shares) participants are entitled to one matching share, purchased from contributions made by the Company. The employees can withdraw the partnership shares from the plan at any time and the matching shares only after three years. There are no performance conditions relating to this plan.

Directors entitlement to matching shares as at 28 February 2003 were as follows; David Wright 1,641, Richard Nichols 1,641, Mike Butterworth 1,229 and Robert Alcock 1,464. The award of partnership shares occurs throughout the year. The average share price for the year is disclosed below.

The number of matching shares held by the trust at 28 February 2003 was 113,635 with a market value of £13,000.

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. There were no current options outstanding under the approved scheme.

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 1 March 2002	Held on 28 February 2003	Held on 7 May 2003	Exercise price per employee	Exercisable between
Employees	348,090	348,090	348,090	£1	1 February 1999-1 July 2005

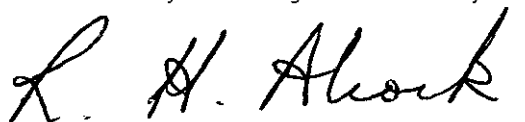
Share price

The market price of Incepta Group plc shares as at 28 February 2003 was 11.5 pence per share. The price ranged from 11.5 pence per share to 68.0 pence per share during the financial year.

This report was approved by the Board of Directors on 7 May 2003 and signed on its behalf by:

Robert Alcock

Chairman, Remuneration Committee
7 May 2003



Notice is hereby given that the Annual General Meeting of Incepta Group plc will be held at 26 Finsbury Square, London, EC2A 1SH on 4 July 2003 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 Mike Butterworth as a director of the Company, who retires by rotation in accordance with the Articles of Association.

Resolution 3

To receive and adopt the directors' report and financial statements of the Company for the year ended 28 February 2003.

Resolution 4

To approve and adopt the remuneration report for the year ended 28 February 2003.

Resolution 5

To re-appoint KPMG Audit Plc 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 determine their remuneration.

Resolution 6

To declare a final dividend of 0.2 pence net per ordinary share.

Resolution 7

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 £50,000 during the period ending on the date of the Company's Annual General Meeting in 2004. 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 Public Affairs Limited. 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 to Resolution 7

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 Public Affairs Limited, needs to attend or sponsor events which are organised by 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 £50,000 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 8

That the rules of the Incepta Group plc US Sharesave Scheme (the 'US Scheme'), in the form produced to the Meeting and initialled by the Chairman for the purposes of identification and summarised below be hereby approved; and the Directors and/or their designee(s), if any, be and are hereby authorised to do all such acts and things as they may consider necessary or expedient for implementing and giving effect to the US Scheme.

Explanation to Resolution 8

The Company currently operates an all employee share scheme, the Incepta Group plc International Sharesave Scheme (the 'International Scheme') which was approved by shareholders in 1998. Under the International Scheme, employees are granted options to acquire shares in the Company linked to deductions from their salary. It is proposed to introduce a new scheme, the US Scheme, which will be operated

in the same way as the International Scheme apart from the features required to obtain favourable tax treatment under the US Internal Revenue Code (the 'Code'). The principal features which are different or new are set out below.

Eligibility: A US employee must also work for more than 20 hours per week to be eligible.

Acquisition price: The price of the option must not be less than 85% of the fair market value of a share on the date of grant as opposed to not less than 80% under the International Scheme.

Savings contract: The savings limits are the same as the International Scheme but these will be converted into the local currency at the exchange rate applicable on the date the option is granted. The US Savings Contract will operate over a period of not more than 27 months.

Individual limits: The US Scheme imposes additional individual limits. In accordance with US law, no options shall be granted to an employee which (when considering any other shares held by the employee) would entitle the employee to obtain 5% or more of the total combined voting power or value of all classes of shares of the Company or any of its subsidiaries. In addition, no employee may hold options under the US Scheme (and any other section 423 plan) which would entitle the employee to purchase, in any calendar year, shares with an aggregate date-of-grant market value in excess of US\$25,000.

Exercise of options: Options may normally be exercised only during the three-month period immediately following the second anniversary of the date of grant. Options may, however, be exercised early in the same certain circumstances as the International Scheme but only for a three month period.

Plan limits: The maximum number of shares which may be allocated under the US Scheme is 4,063,770 shares, subject to any adjustment in respect of variations of capital on the occurrence of an issue or reorganisation of the share capital of the Company.

Amendment powers: Directors may amend the US Scheme as they consider appropriate. However, shareholder approval will be required to amend certain provisions to the advantage of option holders. These provisions relate to: eligibility, individual and plan limits; option price; rights attaching to options and shares and adjustment of options on variation in the Company's share capital and the amendment powers. Directors can make, without shareholder approval, amendments to obtain or maintain tax approval and/or to ensure compliance with the law. They can also make certain minor amendments, without shareholder approval.

Resolution 9

That the directors be and hereby are 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 £3,239,820 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 9

Resolution 9 which will be proposed as an ordinary resolution, would give the directors authority to allot shares up to a maximum nominal amount of £3,239,820 being the whole of the authorised but unissued share capital of the Company and representing 55.3% 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 2004 Annual General Meeting or 3 October 2004, whichever is the earlier. Save as set out above, the directors have no present intention of exercising this authority.

Resolution 10

That subject to the passing of Resolution 9, 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 9 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 £293,008

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 9 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 10

Resolution 10 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 £293,008, 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 2004 Annual General Meeting or 3 October 2004, whichever is the earlier.

Resolution 11

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 87,896,829;
- (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 2004 Annual General Meeting or 3 October 2004, 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 11

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 11, which will be proposed as a special resolution, seeks authority from shareholders to do so, such authority to expire on the date of the 2004 Annual General Meeting or 3 October 2004, 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 14.999% of the Company's issued share capital as at 7 May 2003 of 586,017,931) 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 11 above.

By order of the board

M G Butterworth
Company Secretary
7 May 2003

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 2 July 2003 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 (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;
 - (b) the register of interests of the directors (and their families) in the share capital of the Company; and
 - (c) the rules of the Incepta Group plc US Sharesave Scheme.

Please note that the rules of the US Sharesave Scheme will only be available for inspection until the conclusion of the Annual General Meeting.