INCEPTA GROUP PLC
ANNUAL REPORT & ACCOUNTS
28 FEBRUARY 2005



Registered number 2005521

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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 2005.

Principal activities

Incepta is an international marketing and communications group, its principal activities being marketing services, financial & corporate communications and specialist advertising. Incepta Group plc itself is the ultimate holding company of the Group.

The Group's results for the year reflect the continued stabilisation in our markets. There has been a strengthening in underlying gross income, whilst operating profits have benefited from the restructuring of a number of underperforming businesses. Following the return to growth in the first half of the year, the fourth quarter was negatively impacted by continued underperformance in Park Avenue, the Group's UK events business, and a more difficult trading environment in Specialist Advertising. Underlying cash generation has been strong resulting in year end debt levels in line with our expectations.

On 3 March 2005, the Company announced the proposed acquisition of the Group by Huntsworth plc to create a major international marketing and communications group with public relations at its core. On 29 April 2005, the merger was declared unconditional in all respects.

Results and dividends

The Group made a loss attributable to shareholders for the year of £3,843,000 (2004 – attributable loss of £4,411,000). The directors recommended a special dividend of 1.05 pence per ordinary share (2004 – 1.0 pence) which was paid on 12 May 2005 to shareholders on the register as at 18 March 2005.

Directors and their interests

The following served as directors during the year:

Francis Maude
Richard Nichols
Mike Butterworth
Anthony Carlisle
Robert Alcock
Charles Good
Christian Strenger

Francis Maude was appointed as a director on 1 March 2004. Mike Butterworth and Christian Strenger resigned on 13 May 2005. Roger Selman was appointed as a director on 20 July 2005.

The interests of directors in the share capital of the Company are shown below.

	As at 1 March 2004	As at 28 February 2005
Executive		
Richard Nichols	270,580	**272,866**
Mike Butterworth	32,851	**35,130**
Anthony Carlisle	1,611,433	**1,611,433**
Non-executive		
Francis Maude*	n/a	**10,000**
Robert Alcock	51,034	**53,805**
Charles Good	1,143,765	**1,143,765**
Christian Strenger	72,000	**72,000**

* Appointed to the board on 1 March 2004

The above shareholdings were all 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.

The interests of directors in share options and awards are set out in the Remuneration Report on pages 34 to 42.

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 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 £99,000 (2004 – £74,000).

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 made donations within the meaning of the Act amounting to £4,500 to the Labour Party for seats at the Party's Annual Conference Dinner; £15,701 to the Conservative Party representing paid annual leave for one staff member to campaign for the Party during the European Parliament elections, sponsorship of a reception, and for an advertisement in a Party publication; and £200 to the Liberal Democrat Party for two seats at the Party's Annual Conference Dinner. In addition, Silver Bullet Group Limited, a marketing services subsidiary, made a donation to the Conservative Party of £10,000.

Share capital
Changes in the Company's share capital during the year are given in note 20 to the Financial Statements.

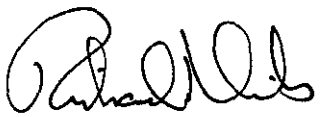
Policy on payment to creditors
The Company agrees the terms and conditions under which business transactions with suppliers are conducted. It complies with these payment terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions. The number of days taken by the Company to pay suppliers, calculated on the basis of trade creditors as at 28 February 2005 and average daily purchases for the year ended 28 February 2005, is 20 days (2004 – 18 days).

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

Auditors
The auditors, 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

Richard Nichols
Chief Executive



1 September 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 28 FEBRUARY 2005

		2005			2004		
	Note	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						
Continuing operations		236,470	–	236,470	235,416	–	235,416
Discontinued operations		7,280	–	7,280	9,225	–	9,225
		243,750	–	243,750	244,641	–	244,641
Rechargeable media and production costs		(62,657)	–	(62,657)	(62,564)	–	(62,564)
Revenue		181,093	–	181,093	182,077	–	182,077
Cost of sales		(30,516)	–	(30,516)	(28,058)	–	(28,058)
Gross income (gross profit)	2, 3	150,577	–	150,577	154,019	–	154,019
Administrative expenses (including goodwill)		(145,126)	(3,323)	(148,449)	(145,251)	(8,414)	(153,665)
Other operating income	4	1,424	–	1,424	1,132	–	1,132
Operating profit before goodwill and fixed asset impairments	2, 3						
Continuing operations		16,188	(3,323)	12,865	17,486	(4,781)	12,705
Discontinued operations		(2,173)	–	(2,173)	(2,907)	(536)	(3,443)
		14,015	(3,323)	10,692	14,579	(5,317)	9,262
Goodwill and fixed asset impairments		(7,140)	–	(7,140)	(4,679)	(3,097)	(7,776)
Operating profit		6,875	(3,323)	3,552	9,900	(8,414)	1,486
Loss on sale or termination of businesses	8	–	(1,066)	(1,066)	–	–	–
Net interest payable	6	(3,918)	–	(3,918)	(2,949)	–	(2,949)
Profit on ordinary activities before goodwill, fixed asset impairments and tax		10,097	(4,389)	5,708	11,630	(5,317)	6,313
Goodwill and fixed asset impairments		(7,140)	–	(7,140)	(4,679)	(3,097)	(7,776)
Profit/(loss) on ordinary activities before tax	2, 3, 7	2,957	(4,389)	(1,432)	6,951	(8,414)	(1,463)
Tax on profit/(loss) on ordinary activities	9	(2,612)	490	(2,122)	(3,839)	850	(2,989)
Profit/(loss) on ordinary activities after tax		345	(3,899)	(3,554)	3,112	(7,564)	(4,452)
Minority interests	22	(289)	–	(289)	41	–	41
Profit/(loss) attributable to group shareholders		56	(3,899)	(3,843)	3,153	(7,564)	(4,411)
Dividend	10			(1,919)			(1,886)
Retained loss for the financial year	21			(5,762)			(6,297)
(Loss)/earnings per share							
Basic	11			(2.01)p			(2.76)p
Diluted	11			(2.01)p			(2.76)p
Basic before goodwill and exceptional items	11			3.76p			4.90p
Diluted before goodwill and exceptional items	11			3.64p			4.45p

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

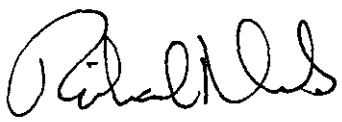
CONSOLIDATED BALANCE SHEET
AS AT 28 FEBRUARY 2005

	Note	2005 £'000	2004 (restated)* £'000
Fixed assets			
Intangible assets	12	**282,245**	290,185
Tangible assets	13	**9,370**	10,096
		291,615	300,281
Investments:			
Investment in associates	14	**81**	62
Other investments	14	**81**	81
		162	143
		291,777	300,424
Current assets			
Work in progress		**1,477**	1,385
Debtors	15	**58,438**	55,927
Cash at bank and in hand	25	**6,810**	7,000
		66,725	64,312
Creditors: amounts falling due within one year	16	**(59,745)**	(64,174)
Net current assets		**6,980**	138
Total assets less current liabilities		**298,757**	300,562
Creditors: amounts falling due after more than one year	17	**(54,857)**	(54,962)
Provisions for liabilities and charges	19	**(5,205)**	(9,360)
Net assets	2	**238,695**	236,240
Capital and reserves			
Called up share capital	20	**10,035**	9,358
Share premium account	21	**69,265**	63,020
Shares to be issued	21	**2,333**	5,546
Merger reserve	21	**164,378**	166,354
Profit and loss account	21	**(7,631)**	(8,175)
Equity shareholders' funds		**238,380**	236,103
Minority interests (equity)	22	**315**	137
Total equity capital employed		**238,695**	236,240

*Restated for the adoption of UITF Abstract 38 (see Note 1(2)).

These financial statements were approved by the board of directors on 1 September 2005 and were signed on its behalf by:

Richard Nichols
Chief Executive



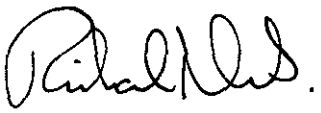
COMPANY BALANCE SHEET
AS AT 28 FEBRUARY 2005

	Note	2005 £'000	2004 (restated)* £'000
Fixed assets			
Tangible assets	13	**2,016**	2,412
Investments:			
Investment in subsidiary undertakings	14	**496,666**	506,476
Other investments	14	**81**	81
		496,747	506,557
		498,763	508,969
Current assets			
Debtors: due after more than one year	15	**6,908**	7,411
Debtors: due within one year	15	**34,053**	35,369
		40,961	42,780
Cash at bank and in hand		**945**	161
		41,906	42,941
Creditors: amounts falling due within one year	16	**(183,731)**	(187,562)
Net current liabilities		**(141,825)**	(144,621)
Total assets less current liabilities		**356,938**	364,348
Creditors: amounts falling due after more than one year	17	**(53,542)**	(54,718)
Provisions for liabilities and charges	19	**(1,373)**	(3,788)
Net assets		**302,023**	305,842
Capital and reserves			
Called up share capital	20	**10,035**	9,358
Share premium account	21	**69,265**	63,020
Shares to be issued	21	**2,333**	5,546
Merger reserve	21	**209,745**	211,721
Profit and loss account	21	**10,645**	16,197
Equity shareholders' funds		**302,023**	305,842

*Restated for the adoption of UITF Abstract 38 (see Note 1(2)).

These financial statements were approved by the board of directors on 1 September 2005 and were signed on its behalf by:

Richard Nichols
Chief Executive



CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2005

	Note	2005 £'000	2004 £'000
Cash inflow from operating activities		8,302	13,647
Dividends received from associates		27	17
Dividends paid to minority interests		(150)	–
Returns on investments and servicing of finance	23	(3,461)	(3,059)
Taxation	23	240	(1,412)
Capital expenditure and financial investment	23	(3,378)	(3,756)
Acquisitions	23	(4,178)	(23,325)
Equity dividends paid		(1,695)	(882)
Net cash outflow before financing		(4,293)	(18,770)
Financing	23	5,208	17,538
Increase/(decrease) in cash in the year		915	(1,232)

Reconciliation of operating profit to cash inflow from operating activities

Continuing operations

	2005 £'000	2004 £'000
Operating profit	6,371	5,292
Goodwill	6,494	4,316
Depreciation	4,012	4,747
Net loss/(profit) on disposal of tangible fixed assets	76	(76)
Other non-cash items	(26)	1,156
(Increase)/decrease in work in progress	(102)	346
Increase in debtors	(4,076)	(2,403)
(Decrease)/increase in creditors	(1,811)	1,432
Net cash inflow from operating activities	10,938	14,810

Discontinued operations

	2005 £'000	2004 £'000
Operating loss	(2,819)	(3,806)
Exceptional loss on sale or termination of businesses	(1,066)	–
Goodwill	646	363
Depreciation	63	126
Other non-cash items	–	2,053
Decrease/(increase) in work in progress	14	(20)
Decrase/(increase) in debtors	382	(206)
Increase in creditors	144	327
Net cash outflow from operating activities	(2,636)	(1,163)
Total net cash inflow from operating activities	8,302	13,647

Reconciliation of net cash flow to movement in net debt

	Note	2005 £'000	2004 £'000
Increase/(decrease) in cash in the year		915	(1,232)
Cash outflow from decrease in debt	23	1,324	7,942
Issue costs of new bank loans		462	527
Movement in net debt resulting from cash flows	25	2,701	7,237
Inception of finance leases		(86)	(61)
Issue of loan notes for non-cash consideration		(4,023)	(3,345)
Other non-cash changes		(530)	(371)
Effect of foreign exchange	25	1,472	6,563
Movement in net debt		(466)	10,023
Opening net debt	25	(52,133)	(62,156)
Closing net debt	25	(52,599)	(52,133)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 28 FEBRUARY 2005

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
(Loss)/profit attributable to group shareholders	**(3,843)**	(4,411)	**(8,822)**	5,267
Exchange differences on foreign currency net investments	**1,121**	(11,341)	**4**	(912)
Total recognised gains and losses	**(2,722)**	(15,752)	**(8,818)**	4,355

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 28 FEBRUARY 2005

		Group		Company	
		2005	2004 (restated)*	2005	2004 (restated)*
	Note	£'000	£'000	£'000	£'000
(Loss)/profit attributable to group shareholders		**(3,843)**	(4,411)	**(8,822)**	5,267
Dividend		**(1,919)**	(1,886)	**(1,919)**	(1,886)
		(5,762)	(6,297)	**(10,741)**	3,381
Exchange differences on foreign currency net investments		**1,121**	(11,341)	**4**	(912)
Issue of shares net of issue costs		**10,014**	52,448	**10,014**	52,448
Net movement in estimated value of shares to be issued as consideration for acquisitions	21	**(3,213)**	(25,408)	**(3,213)**	(25,408)
Shares purchased by AESOP and employee benefit trusts		**(6)**	(98)	**(6)**	(98)
Employee share schemes credits		**123**	80	**123**	80
Net change to equity shareholders' funds		**2,277**	9,384	**(3,819)**	29,491
Opening equity shareholders' funds		**236,103**	227,092	**305,842**	276,710
Prior year adjustment for adoption of UITF Abstract 38 (Note 1)		**–**	(373)	**–**	(359)
Opening equity shareholders' funds (as restated)		**236,103**	226,719	**305,842**	276,351
Closing equity shareholders' funds		**238,380**	236,103	**302,023**	305,842

*Restated for the adoption of UITF Abstract 38 (see Note 1(2)).

NOTES TO THE FINANCIAL STATEMENTS

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 accounting policy

During the year UITF Abstract 38: 'Accounting for ESOP Trusts' came into effect and has been adopted in these financial statements. This has resulted in the reclassification of the Group's investment in own shares from investments to shareholders' funds. Following the implementation of UITF Abstract 38, the Group has restated its balance sheet for the prior year, resulting in a reduction in net assets of £373,000. There has been no impact on the profit and loss account in either the current or prior year.

(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, cost of sales and revenue recognition

Turnover comprises the gross amounts billed to clients in respect of commission based income together with the total of other fees earned.

Rechargeable media and production costs

Rechargeable media and production costs comprises media payments and third party production costs for those services that the Group is arranging for its clients in its capacity as an intermediary. The Group contracts directly with suppliers and is responsible for their payment, recharging its clients for all costs incurred. Although the Group bears credit risk in respect of these activities, the arrangements with its clients are such that, in effect, it acts as an intermediary on behalf of its client. Where the Group acts as an intermediary, costs incurred with external suppliers are excluded from revenue.

Revenue

Revenue comprises fees, and commissions earned in respect of turnover. Revenue is recognised when services are performed, in accordance with the terms of arrangements reached with each client. Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

Financial & Corporate Communications and 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.

Cost of sales

Cost of sales include amounts payable to external suppliers where they are retained at the Group's discretion to perform part of a specific client project or service where the Group has full exposure to the benefits and risks of the contract with the client.

(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.

1 Accounting policies (continued)

(6) Leases

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

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

(7) Fixed assets

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

Short leasehold property – Life of lease

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

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

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

(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 £243.1 million as at 28 February 2005 (2004 – £268.8 million). If this goodwill were to be amortised over a period of 20 years, the operating profit for the year ended 28 February 2005 would have decreased by £12.2 million (2004 – increase in operating loss of £13.4 million). During the year the useful life of certain acquisitions were shortened due to difficult market conditions. The impact on the profit and loss account was to decrease operating profit by £2.9 million in the current year.

(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

The Group uses The All Employee Share Ownership Plan (AESOP) and Employee Benefit Trusts (EBT's) to acquire shares to satisfy the requirements of certain employee share schemes. UITF Abstract 38 – Accounting for ESOP trusts, which replaces UITF 13 and was issued on 15 December 2003, requires the group to show the consideration paid for investments in its own shares as a deduction in arriving at shareholders' funds, rather than included within fixed asset investments.

Any gains/(losses) on disposal of shares by the AESOP and EBT's are credited/(debited) directly to reserves.

1 Accounting policies (continued)

(14) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provisions for permanent diminution in value.

During the year the trade and net assets of the following subsidiary undertakings were transferred to another of the Company's subsidiary undertakings, Incepta Marketing Intelligence Limited, at their book value, which was less than their fair value:
Citigate DVL Smith Limited;
Hauck Research Services Limited.

The cost of the Company's investments in the aforementioned entities reflected the underlying fair value of their net assets and goodwill at the time of acquisition. As a result of these transfers, the value of the Company's investments in these companies fell below the amount at which they were stated in the Company's accounting records. Schedule 4 to the Companies Act 1985 requires that the investments be written down accordingly and that the amount be charged as a loss in the Company's profit and loss account. However, the directors consider that, as there has been no overall loss to the Company, it would fail to give a true and fair view to charge that diminution to the Company's profit and loss account for the year and it should instead be re-allocated to its cost of investment in Incepta Marketing Intelligence Limited.

The effect of this departure is to increase the Company's profit for the financial year by £12.0 million and to increase by the same amount the value of the Company's investment in subsidiary undertakings in the Company's balance sheet.

2 Segmental information

Classes of business

	Turnover		*Revenue*		Gross income *(gross profit)*		Profit/(loss) on ordinary *activities before tax*	
	2005	2004 (restated)	**2005**	2004 (restated)	**2005**	2004 (restated)	**2005**	2004 (restated)
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Financial & Corporate Communications								
– *continuing*	**82,681**	78,239	**76,212**	75,867	**63,604**	64,753	**8,649**	7,066
– discontinued	**7,170**	9,109	**7,170**	9,109	**6,329**	7,503	**(2,000)**	(2,705)
	89,851	87,348	**83,382**	84,976	**69,933**	72,256	**6,649**	4,361
Marketing Services								
– continuing	**110,397**	109,912	**79,601**	77,267	**63,415**	60,915	**5,742**	7,978
– *discontinued*	**110**	116	**34**	30	**30**	25	**(173)**	(202)
	110,507	110,028	**79,635**	77,297	**63,445**	60,940	**5,569**	7,776
Specialist Advertising	**50,801**	57,771	**21,051**	23,524	**18,274**	21,707	**1,797**	2,442
Intra-group trading	**(7,409)**	(10,506)	**(2,975)**	(3,720)	**(1,075)**	(884)	**–**	–
	243,750	244,641	**181,093**	182,077	**150,577**	154,019	**14,015**	14,579
Goodwill amortisation							**(7,140)**	(4,679)
Net interest payable							**(3,918)**	(2,949)
							2,957	6,951
Exceptional items (note 8)								
– restructuring costs							**(3,323)**	(5,317)
– fixed asset impairments							**–**	(3,097)
– loss on sale or termination of businesses							**(1,066)**	–
							(1,432)	(1,463)

Following the consolidation of the Group's market research operations into a single entity through the formation of Incepta Marketing Intelligence, the results of certain market research businesses have been reclassified from Financial & Corporate Communications to Marketing Services. Prior period comparatives have been restated accordingly.

	Exceptional restructuring costs		Net assets	
	2005	2004	**2005**	2004 (restated)
	£'000	£'000	**£'000**	£'000
Financial & Corporate Communications	**973**	2,616	**87,276**	85,582
Marketing Services	**1,573**	816	**23,322**	37,314
Specialist Advertising	**431**	361	**31,523**	23,017
Parent company and non-operational	**346**	1,524	**96,574**	90,327
	3,323	5,317	**238,695**	236,240

2 Segmental information (continued)

Geographical segments

	Turnover by origin		Revenue		Gross income (gross profit)		Profit/(loss) on ordinary activities before tax	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
UK								
– continuing	145,137	134,916	108,120	100,084	83,319	79,052	9,090	9,093
– discontinued	327	303	327	303	327	242	(746)	(846)
	145,464	135,219	108,447	100,387	83,646	79,294	8,344	8,247
Rest of the world								
– continuing	98,742	111,006	68,744	76,575	61,974	68,323	7,098	8,393
– discontinued	6,953	8,922	6,877	8,835	6,032	7,286	(1,427)	(2,061)
	105,695	119,928	75,621	85,410	68,006	75,609	5,671	6,332
Intra-group trading	(7,409)	(10,506)	(2,975)	(3,720)	(1,075)	(884)	–	–
	243,750	244,641	181,093	182,077	150,577	154,019	14,015	14,579
Goodwill amortisation							(7,140)	(4,679)
Net interest payable							(3,918)	(2,949)
							2,957	6,951
Exceptional items (note 8)								
– restructuring costs							(3,323)	(5,317)
– fixed asset impairments							–	(3,097)
– loss on sale or termination of businesses							(1,066)	–
							(1,432)	(1,463)

	Turnover by destination		Exceptional restructuring costs		Net assets	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 (restated) £'000
UK	126,523	116,631	1,113	3,014	182,787	177,357
Rest of the world	117,227	128,010	2,210	2,303	55,908	58,883
	243,750	244,641	3,323	5,317	238,695	236,240

3 Analysis of the results of discontinued operations

	2005			2004		
	Continuing operations £'000	Discontinued operations £'000	Total £'000	Continuing operations £'000	Discontinued operations £'000	Total £'000
Turnover	236,470	7,280	243,750	235,416	9,225	244,641
Rechargeable media and production costs	(62,581)	(76)	(62,657)	(62,478)	(86)	(62,564)
Revenue	173,889	7,204	181,093	172,938	9,139	182,077
Cost of sales	(29,671)	(845)	(30,516)	(26,447)	(1,611)	(28,058)
Gross income (gross profit)	144,218	6,359	150,577	146,491	7,528	154,019
Administrative expenses (including goodwill and exceptional restructuring costs)	(139,271)	(9,178)	(148,449)	(142,331)	(11,334)	(153,665)
Other operating income	1,424	–	1,424	1,132	–	1,132
Operating profit before goodwill, fixed asset impairments and exceptional restructuring costs	16,188	(2,173)	14,015	17,486	(2,907)	14,579
Goodwill and fixed asset impairments	(6,494)	(646)	(7,140)	(7,413)	(363)	(7,776)
Exceptional restructuring costs (note 8)	(3,323)	–	(3,323)	(4,781)	(536)	(5,317)
Operating profit/(loss)	6,371	(2,819)	3,552	5,292	(3,806)	1,486
Loss on sale or termination of businesses	–	(1,066)	(1,066)	–	–	–
Net interest payable	(3,728)	(190)	(3,918)	(2,863)	(86)	(2,949)
Profit/(loss) on ordinary activities before tax	2,643	(4,075)	(1,432)	2,429	(3,892)	(1,463)

4 Other operating income

Other operating income of £1,424,000 (2004 – £1,132,000) 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:

	2005	2004 (restated)
Financial & Corporate Communications	814	876
Marketing Services	895	833
Specialist Advertising	318	320
Head Office	26	29
	2,053	2,058

Following the consolidation of the Group's market research operations into a single entity through the formation of Incepta Marketing Intelligence, the results of certain market research businesses have been reclassified from Financial & Corporate Communications to Marketing Services. Prior period comparatives have been restated accordingly.

The aggregate payroll costs of these persons were as follows:

	2005 £'000	2004 £'000
Wages and salaries	87,718	88,722
Social security costs	8,910	8,897
Other pension costs	2,791	2,803
	99,419	100,422

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

	2005 £'000	2004 £'000
Wages and salaries	2,045	2,508
Social security costs	92	85
Other pension costs	24	123
	2,161	2,716

Information on directors' emoluments and share options is set out in the Renumeration Report on pages 34-42.

6 Net interest payable

	2005 £'000	2004 £'000
Interest payable:		
Group		
– on bank loans and overdrafts	3,858	2,917
– on loan notes	250	241
– in respect of finance leases	16	11
Associates		
– on bank loans and overdrafts	4	1
	4,128	3,170
Interest receivable:		
Group		
– on bank deposits	(209)	(217)
Associates		
– on bank deposits	(1)	(4)
	(210)	(221)
	3,918	2,949

7 Profit/(loss) on ordinary activities before tax

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

	2005 £'000	2004 £'000
Staff costs (note 5)	**99,419**	100,422
Depreciation of tangible fixed assets:		
– owned assets	**4,019**	4,831
– assets held under finance leases	**56**	42
Net loss(profit) on disposal of tangible fixed assets	**76**	(76)
Rent and other operating lease rentals	**9,969**	9,533
Exchange losses/(gains)	**154**	(147)
Group audit fees and expenses	**585**	555

Of the Group audit fee, the parent company fee was £74,000 (2004 – £73,000).
Fees paid to KPMG Audit Plc and its associates for non-audit services were £272,500 (2004 – £588,000) of which £111,500 (2004 – £409,000) arose in the UK. Of the total non-audit fees, £nil (2004 – £327,000) has been debited to the share premium account, being costs of the capital raising in August 2003 and £nil (2004 – £55,000) has been capitalised within intangible fixed assets, being costs of acquisitions; the remainder has been charged to the profit and loss account and principally relates to taxation compliance work, interim review and other attestation services.

8 Exceptional items

	2005 £'000	2004 £'000
Restructuring costs:		
– redundancy (note 5)	**2,161**	2,716
– property	**991**	2,166
– other	**171**	435
	3,323	5,317
Fixed asset impairments	**–**	3,097
Loss on sale or termination of businesses	**1,066**	–
	4,389	8,414

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

Fixed asset impairments relate to the write down of the carrying value of fixed assets held on the Group balance sheet following the directors' annual impairment review.

Loss on sale or termination of businesses relates primarily to termination costs on the closure of the Citigate Data Consulting operation in Europe.

9 *Tax on profit/(loss) on ordinary activities*

	2005 £'000	2004 £'000
UK corporation tax		
Current tax on income for the year	1,908	1,583
Adjustments in respect of prior years	(1,048)	(475)
	860	1,108
Double taxation relief	(401)	(351)
	459	757
Foreign tax		
Current tax on income for the year	781	1,607
Adjustments in respect of prior years	(120)	362
	661	1,969
Total current tax charge	1,120	2,726
Deferred tax (note 19)		
Origination and reversal of timing differences	977	107
Decrease in discount	18	149
	995	256
Share of associates' tax	7	7
Tax on profit/(loss) on ordinary activities	2,122	2,989

Included above is a tax credit on exceptional items amounting to £490,000 (2004 – £850,000).

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% *(2004 – 30%). The differences are explained below:*

	2005 £'000	2004 £'000
Current tax reconciliation		
Loss on ordinary activities before tax	(1,432)	(1,463)
Current tax credit at 30% (2004 – 30%)	430	439
Effects of:		
Expenses (including goodwill) not deductible for tax purposes	(2,160)	(1,754)
Depreciation in excess of capital allowances	104	5
Utilisation of tax losses	208	129
Unrecognised tax credits in respect of overseas losses	(752)	(1,610)
Higher tax rates on overseas earnings	(118)	(48)
Adjustments to tax charge in respect of previous years	1,168	113
Total current tax charge	(1,120)	(2,726)

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

10 **Dividend**

	2005 £'000	2004 £'000
Special dividend declared	2,100	–
Final dividend proposed	–	1,886
Overprovision in prior year	(181)	–
	1,919	1,886

A special dividend of 1.05 pence per 5p ordinary share (2004 – final dividend of 1 pence per ordinary share) is declared, and was paid on 12 May 2005 to shareholders on the register as at 18 March 2005.

11 Earnings/(loss) per share

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

	2005 (Loss)/ earnings £'000	2005 Weighted average number of shares	2004 (Loss)/ earnings £'000	2004 Weighted average number of shares
Basic EPS	(3,843)	191,443,890	(4,411)	159,966,222
Diluted EPS	(3,843)	191,443,890*	(4,411)	159,966,222*
Basic EPS before goodwill, fixed asset impairments and exceptional items	7,196	191,443,890	7,832	159,966,222
Diluted EPS before goodwill, fixed asset impairments and exceptional items	7,196	197,799,546	7,832	175,839,432

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

	2005 (Loss)/ earnings £'000	2005 Weighted average number of shares	2005 (Loss)/earnings per share p	2004 (Loss)/ earnings £'000	2004 Weighted average number of shares	2004 (Loss)/earnings per share p
Basic EPS	(3,843)	191,443,890	(2.01)	(4,411)	159,966,222	(2.76)
Dilutive effect of:						
Options		2,024,828	–*		1,878,302	–*
Shares to be issued as consideration for acquisitions		4,330,828	–*		13,994,908	–*
Diluted EPS	(3,843)	197,799,546	(2.01)	(4,411)	175,839,432	(2.76)*
Earnings per share before goodwill, fixed asset impairments and exceptional items						
Basic EPS	(3,843)	191,443,890	(2.01)	(4,411)	159,966,222	(2.76)
Goodwill and fixed asset impairments	7,140		3.73	7,776		4.86
Exceptional items (post tax)	3,899		2.04	4,467		2.80
Basic EPS before goodwill, fixed asset impairments and exceptional items	7,196	191,443,890	3.76	7,832	159,966,222	4.90
Adjustment for discontinued operations (post tax)	2,031		1.06	1,538		0.96
Basic EPS for continuing operations before goodwill, fixed asset impairments and exceptional items	9,227	191,443,890	4.82	9,370	159,966,222	5.86
Diluted EPS	(3,843)	191,443,890	(2.01)	(4,411)	159,966,222	(2.76)
Adjustment to treat potential shares as dilutive		6,355,656	0.07		15,873,210	0.25
Goodwill and fixed asset impairments	7,140		3.61	7,776		4.42
Exceptional items (post tax)	3,899		1.97	4,467		2.54
Diluted EPS before goodwill, fixed asset impairments and exceptional items	7,196	197,799,546	3.64	7,832	175,839,432	4.45
Adjustment for discontinued operations (post tax)	2,031		1.03	1,538		0.87
Diluted EPS for continuing operations before goodwill, fixed asset impairments and exceptional items	9,227	197,799,546	4.67	9,370	175,839,432	5.33

*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 2004	334,150
Goodwill arising on acquisitions in the year	225
Net adjustment to goodwill arising on prior year acquisitions	(777)
Foreign exchange	(560)
At 28 February 2005	333,038
Amortisation	
At 1 March 2004	43,965
Charge for the year	7,140
Foreign exchange	(312)
At 28 February 2005	50,793
Net book value	
At 28 February 2005	282,245
At 29 February 2004	290,185

The adjustment to goodwill arising on prior year acquisitions comprises a decrease to consideration payable.

The directors' impairment review of goodwill used a discount rate of 7.0% 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 2004	131	9,763	20,852	30,746
Additions	–	1,043	2,680	3,723
Disposals	(20)	(190)	(1,640)	(1,850)
Foreign exchange	3	(86)	(180)	(263)
At 28 February 2005	114	10,530	21,712	32,356
Depreciation				
At 1 March 2004	124	5,314	15,212	20,650
Charge for the year	2	983	3,090	4,075
Disposals	(20)	(114)	(1,378)	(1,512)
Foreign exchange	4	(55)	(176)	(227)
At 28 February 2005	110	6,128	16,748	22,986
Net book value				
At 28 February 2005	4	4,402	4,964	9,370
At 29 February 2004	7	4,449	5,640	10,096

The net book value of assets at 28 February 2005 includes an amount of £487,000 in respect of assets held under finance leases (2004 – £473,000).

13 Tangible fixed assets (continued)

Company

	Freehold and long leasehold *property* £'000	Short leasehold *property* £'000	Fixtures, fittings, vehicles & *equipment* £'000	Total £'000
Cost				
At 1 March 2004	–	5,565	1,002	6,567
Additions	–	135	119	254
At 28 February 2005	–	5,700	1,121	6,821
Depreciation				
At 1 March 2004	–	3,453	702	4,155
Charge for the year	–	397	253	650
At 28 February 2005	–	3,850	955	4,805
Net book value				
At 28 February 2005	–	1,850	166	2,016
At 29 February 2004	–	2,112	300	2,412

14 Fixed asset investments

Group

	Investment in associates £'000	Other investments: Own shares £'000	Other £'000	Total £'000
Cost				
At 1 March 2004	62	1,710	711	2,421
Prior year adjustment for adoption of UITF Abstract 38 (Note 1)	–	(1,710)	–	(1,710)
At 1 March 2004 (restated)	62	–	711	711
Additions	–	–	–	–
Share of profits less dividends for the year	4	–	–	–
Foreign exchange	15	–	–	–
At 28 February 2005	81	–	711	711
Provisions				
At 1 March 2004	–	1,319	630	1,949
Prior year adjustment for adoption of UITF Abstract 38 (Note 1)	–	(1,319)	–	(1,319)
At 1 March 2004 (restated)	–	–	630	630
Provisions for the year	–	–	–	–
At 28 February 2005	–	–	630	630
Net book value				
At 28 February 2005	81	–	81	81
At 29 February 2004 (restated)	62	–	81	81

The investment in associates represents the Group's 40% holding in Capital Communications Kft and 34% holding in NBS Spolka z.o.o., financial & corporate communications 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 amount shown as other investments at 28 February 2005 represents the Company's investment in USU Software AG (formerly USU-Openshop AG), a German technology company. It is a listed investment on an overseas stock exchange and its market value at 28 February 2005 was £58,000 (2004 – £48,000).

14 Fixed asset investments (continued)

Company

	Investment in subsidiary undertakings £'000	Other investments		
		Own shares £'000	Other £'000	Total £'000
Cost				
At 1 March 2004	520,423	1,696	711	2,407
Prior year adjustment for adoption of UITF Abstract 38 (Note 1)	–	(1,696)	–	(1,696)
At 1 March 2004 (restated)	520,423	–	711	711
Additions	314	–	–	–
Adjustment to deferred consideration	(1,383)	–	–	–
Foreign exchange	(1,497)	–	–	–
At 28 February 2005	517,857	–	711	711
Provisions				
At 1 March 2004	13,947	1,319	630	1,949
Prior year adjustment for adoption of UITF Abstract 38 (Note 1)	–	(1,319)	–	(1,319)
At 1 March 2004 (restated)	13,947	–	630	630
Provisions released in the year	(6,200)	–	–	–
Provisions for the year	13,444	–	–	–
At 28 February 2005	21,191	–	630	630
Net book value				
At 28 February 2005	496,666	–	81	81
At 29 February 2004 (restated)	506,476	–	81	81

Loans to Group undertakings are included in debtors.

Principal subsidiary undertakings and associates are listed in note 30. A full list of subsidiary undertakings and associates will be annexed to the Company's next annual return.

15 *Debtors*

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts falling due within one year:				
Trade debtors	**44,725**	41,156	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**31,520**	33,188
Amounts owed by associates – dividends receivable	**43**	13	**–**	–
Corporation tax	**2,106**	879	**1,426**	1,143
Withholding tax recoverable	**–**	237	**–**	–
Deferred tax asset (note 19)	**2,505**	4,658	**56**	69
Other debtors	**1,864**	2,198	**513**	551
Prepayments and accrued income	**7,195**	6,786	**538**	418
	58,438	55,927	**34,053**	35,369
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	**–**	–	**6,908**	7,411
	58,438	55,927	**40,961**	42,780

16 Creditors: amounts falling due within one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans and overdrafts	**227**	1,365	**1,327**	1,188
Loan notes (note 18)	**5,473**	2,875	**5,473**	2,875
Obligations under finance leases	**31**	44	**–**	–
Trade creditors	**13,588**	13,853	**181**	476
Amounts owed to subsidiary undertakings	**–**	–	**171,000**	171,664
Corporation tax	**9,892**	7,483	**–**	–
Other taxes and social security	**4,810**	4,662	**1,530**	1,023
Proposed dividend	**2,100**	2,074	**2,100**	2,074
Other creditors	**3,018**	3,968	**396**	91
Consideration for acquisitions	**99**	6,458	**17**	5,228
Accruals and deferred income	**20,507**	21,392	**1,707**	2,943
	59,745	64,174	**183,731**	187,562

Included within Other creditors for the Group is £178,000 (2004 – £180,000) 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	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans	**52,085**	50,106	**52,079**	50,084
Loan notes (note 18)	**1,463**	4,634	**1,463**	4,634
Obligations under finance leases	**130**	109	**–**	–
Other creditors	**1,179**	113	**–**	–
	54,857	54,962	**53,542**	54,718

Bank loans are stated net of unamortised issue costs of £558,000 (2004 – £626,000). Issue costs of £462,000 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 £530,000 (2004 – £371,000) 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 or by way of guarantee. Loan notes bear interest at the following rates:

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Secured				
LIBOR plus 1.75%	1,700	225	1,700	225
LIBOR plus 1.5%	–	1,875	–	1,875
LIBOR plus 1.0%	–	300	–	300
Bank base rate less 2.5%	320	241	320	241
2.15%	3,298	3,210*	3,298	3,210*
Nil	1,463*	1,424*	1,463*	1,424*
	6,781	7,275	6,781	7,275
Unsecured				
Bank base rate less 1.5%	155	234	155	234
	6,936	7,509	6,936	7,509

*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 2004	3,280	2,709	3,011	360	9,360
Charged to profit and loss account	–	(1,158)	991	36	(131)
Paid during the year	(1,221)	–	(1,675)	–	(2,896)
Net movement in estimated contingent consideration payable for acquisitions in prior years	(1,042)	–	–	–	(1,042)
Transferred to Creditors: amounts falling due within one year	(51)	–	–	–	(51)
Foreign exchange	–	–	(35)	–	(35)
At 28 February 2005	966	1,551	2,292	396	5,205

Company

	Contingent consideration for acquisitions £'000	Vacant property £'000	Other £'000	Total £'000
At 1 March 2004	3,076	670	42	3,788
Charged to profit and loss account	–	455	–	455
Paid during the year	(1,067)	(467)	–	(1,534)
Net movement in estimated contingent consideration payable for acquisitions in prior years	(1,319)	–	–	(1,319)
Transferred to Creditors: amounts falling due within one year	(17)	–	–	(17)
At 28 February 2005	673	658	42	1,373

19 Provisions for liabilities and charges (continued)

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 £1.6 million (2004 – £2.8 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	**403**	**306**	**204**	**306**
In more than one year but not more than two years	**563**	**1,340**	**469**	**1,340**
	966	**1,646**	**673**	**1,646**

In addition to the above amounts, Creditors falling due within one year and Shares to be issued include consideration for acquisitions of £0.1 million (2004 – £6.5 million) and £0.7 million (2004 – £2.7 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 2005.

No acquisitions were made during the current year.

The maximum potential contingent cash and loan note consideration payable under all earn-out arrangements ongoing as at 28 February 2005 is £24.5 million.

Deferred tax

The elements of deferred tax are as follows:

	Group		Company	
	2005 £'000	*2004* £'000	*2005* £'000	*2004* £'000
Difference between accumulated depreciation/amortisation and tax depreciation	**(1,356)**	(2,341)	**56**	69
Other timing differences	**1,240**	2,808	**–**	–
Tax losses	**499**	893	**–**	–
Undiscounted net deferred tax asset	**383**	1,360	**56**	69
Effect of discounting	**571**	589	**–**	–
Discounted net deferred tax asset	**954**	1,949	**56**	69
The net deferred tax asset /(liability) comprises:				
Deferred tax asset (note 15)	**2,505**	4,658	**56**	69
Deferred tax liability	**(1,551)**	(2,709)	**–**	–
	954	1,949	**56**	69

19 Provisions for liabilities and charges (continued)

The movements on deferred tax are as follows:

	Group	
	Asset £'000	Liability £'000
At 1 March 2004	4,658	(2,709)
(Debit)/credit to profit and loss account	(2,153)	1,158
At 28 February 2005	2,505	(1,551)

A deferred tax asset has been recognised in respect of 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 2005, in addition to the deferred tax balances recognised above, the Group had potential deferred tax assets of £12,483,000 (2004 – £12,786,000) 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.

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 2005. The Group's contribution to the scheme for the year was £36,000.

20 Called up share capital

	2005 £'000	2004 £'000
Authorised		
Ordinary shares of 5p each 262,000,000 (2004 – 262,000,000)	**13,100**	13,100
Allotted and fully paid		
Ordinary shares of 5p each 200,699,095 (2004 – 187,168,310)	**10,035**	9,358

Other share capital movements

A total of 3,853,246 ordinary shares were issued as deferred consideration for the acquisitions of The RED Consultancy Group Limited, Markowitz & McNaughton Inc., PR Force Public Relations & Press Relations NV and 30% of B.V. PR Force Nederland and Karen Earl Limited, made during prior years.

In addition, 9,465,140 ordinary shares were issued by way of a placing at 70.5 pence per share, raising £6.7 million (before costs).

A total of 10,779 ordinary shares were issued during the year under the Company's share option schemes for total consideration of £6,368.

The Company offered the shareholders the option to receive ordinary shares instead of a cash dividend. 201,620 ordinary shares were issued as a scrip dividend alternative.

Subsequent to the year end 1,000,000 ordinary shares were issued as deferred consideration for the acquisition of Sard Verbinnen & Co., Inc. In addition, 3,326 ordinary shares were issued under the Company's share option schemes for a total consideration of £2,023.

The total number of shares in issue as at 29 April 2005, the date the merger with Huntsworth plc was declared unconditional in all respects, was 201,702,416.

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 2005 (note 21).

The Company has shareholder authority to purchase its own shares, to a maximum of 28,393,579 shares.

Options

As at 28 February 2005, certain employees including directors held options over ordinary shares of 5p under the following schemes:

	Options held 2005	Exercise prices (per share)	Options held 2004	Exercise prices (per share)	Exercise periods (various dates)
Employee Share Option Scheme	**266,915**	**50p to 101.90p**	291,068	50p to 101.9p	Up to 29/10/2007
Executive Share Option Plan	**2,479,537**	**74.97p to 614.08p**	2,648,639	74.97p to 614.08p	Up to 4/7/2013
Executive Long Term Incentive Plan	**12,002,373**	**65.16p to 614p**	4,238,648	67p to 614p	Up to 14/10/2013
Performance Share Plan	**801,130**	**nil**	526,130	nil	Between 1/11/2005 and 1/11/2012
2001 Savings Related Share Option Scheme	**147,214**	**140.4p to 185.4p**	182,631	140.4p to 185.4p	Up to 30/6/2005
2002 Savings Related Share Option Scheme	**764,777**	**57.6p to 60.9p**	901,328	57.6p to 60.9p	Between 1/1/2006 and 30/6/2006
2003 Savings Related Share Option Scheme	**551,282**	**91.6p to 97.3p**	672,297	91.6p to 97.3p	Between 1/1/2007 and 30/6/2007
2004 Savings Related Share Option Scheme	**412,235**	**55.6p to 59.1p**	–	–	Between 1/1/2008 and 30/6/2008
	17,425,463		9,495,190		

Further details of share options granted, exercised and lapsed are shown in the Remuneration Report on pages 34 to 42.

21 Reserves

Group

	Share premium account £'000	Shares to be issued £'000	Merger reserve £'000	Profit and loss account £'000
At 1 March 2004	63,020	5,546	166,354	(7,784)
Prior year adjustment for adoption of UITF Abstract 38 (Note 1)	–	–	–	(391)
At 1 March 2004 (restated)	63,020	5,546	166,354	(8,175)
Retained loss for the year	–	–	–	(5,762)
Exchange differences on foreign currency net investments	–	–	–	1,121
Shares purchased by AESOP and employee benefit trusts	–	–	–	(6)
Employee share schemes credits	–	–	–	123
Release of reserves against investment provisions	–	–	*(5,068)*	*5,068*
Premium on shares issued as consideration for acquisitions	–	–	3,092	–
Premium on share placing	6,200	–	–	–
Premium on scrip dividend	187	–	–	–
Premium on shares issued under share option schemes	5	–	–	–
Share issue costs	(147)	–	–	–
Net movement in estimated value of shares to be issued as consideration for acquisitions	–	(3,213)	–	–
At 28 February 2005	*69,265*	*2,333*	*164,378*	*(7,631)*

Shares to be issued comprises £687,500 (2004 – £2,719,000) of consideration for acquisitions in respect of completed earn-out periods for which consideration is due but not yet settled as at 28 February 2005, and £1,645,916 of consideration for acquisitions contingent on future financial performance (note 19).

A merger reserve has been created in relation to 3,853,246 5p ordinary 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 (2004 – £46,150,000).*

Included in the profit and loss account reserve is £274,000 relating to Own Shares.

Company

	Share premium account £'000	Shares to be issued £'000	Merger reserve £'000	Profit and loss account £'000
At 1 March 2004	63,020	5,546	211,721	16,574
Prior year adjustment for adoption of UITF Abstract 38 (Note 1)	–	–	–	*(377)*
At 1 March 2004 (restated)	63,020	5,546	211,721	16,197
Retained loss for the year	–	–	–	(10,741)
Shares purchased by AESOP and employee benefit trusts	–	–	–	(6)
Employee share schemes credits	–	–	–	123
Release of reserves against investment provisions	–	–	(5,068)	5,068
Exchange differences on foreign currency net investments	–	–	–	4
Premium on shares issued as consideration for acquisitions	–	–	3,092	–
Premium on share placing	*6,200*	–	–	–
Premium on scrip dividend	187	–	–	–
Premium on shares issued under share option schemes	5	–	–	–
Share issue costs	(147)	–	–	–
Net movement in estimated value of shares to be issued as consideration for acquisitions	–	(3,213)	–	–
At 28 February 2005	69,265	2,333	209,745	10,645

Included in the profit and loss account reserve is £261,000 relating to Own Shares.

22 Minority interests

	£'000
At 1 March 2004	137
Additions	23
Minority interests' share of results for the year	289
Minority interests' share of dividends	(150)
Minority interests' share of exchange differences on foreign currency net investments	16
At 28 February 2005	315

23 Analysis of cash flows

	2005 £'000	2004 £'000
Returns on investments and servicing of finance		
Interest received	272	238
Interest paid	(3,255)	(2,754)
Issue costs of new bank loans	(462)	(527)
Interest element of finance lease payments	(16)	(16)
	(3,461)	(3,059)
Taxation		
UK tax paid	(388)	(2,224)
Overseas tax refunded/(paid)	628	812
	240	(1,412)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(3,614)	(4,558)
Disposal of tangible fixed assets	262	900
Purchase of other fixed asset investment	(26)	(98)
	(3,378)	(3,756)
Acquisitions		
Purchase of subsidiary undertakings	(3,577)	(20,469)
Purchase of businesses	(601)	(2,918)
Net cash acquired with subsidiary undertakings and businesses	–	59
Proceeds from sale of minority interest	–	3
	(4,178)	(23,325)
Financing		
Issue of shares:		
Proceeds from issue of ordinary share capital	6,679	27,737
Share issue costs	(147)	(2,257)
	6,532	25,480
Increase in debt:		
Repayment of bank loans	(20,293)	(44,428)
Draw-down of bank loans	23,770	44,065
Capital element of finance lease payments	(78)	(83)
Repayment of loan notes	(4,723)	(7,496)
	(1,324)	(7,942)
	5,208	17,538

Acquisitions
The cash flows in respect of acquisitions all relate to acquisitions made during prior years.

Exceptional restructuring costs
Net cash inflow from operating activities includes an outflow of £4,624,000 (2004 – £4,785,000) in respect of exceptional restructuring costs (note 8).

24 Major non-cash transactions

During the year shares and loan notes were issued as deferred consideration for acquisitions made in prior years. See notes 18 and 20.

25 Analysis of net debt

	At 1 March 2004 £'000	Cash flows £'000	Exchange movements £'000	Other movements £'000	At 28 February 2005 £'000
Cash at bank and in hand	7,000	(224)	34	–	6,810
Overdrafts	(1,349)	1,139	–	–	(210)
Loan notes					
– amounts falling due within one year	(2,875)	4,723	(88)	(7,233)	(5,473)
– amounts falling due after more than one year	(4,634)	–	(39)	3,210	(1,463)
Bank loans					
– amounts falling due within one year	(16)	–	(1)	–	(17)
– amounts falling due after more than one year	(50,106)	(3,015)	1,566	(530)	(52,085)
Finance leases					
– amounts falling due within one year	(44)	70	–	(57)	(31)
– amounts falling due after more than one year	(109)	8	–	(29)	(130)
	(52,133)	2,701	1,472	(4,639)	(52,599)

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. 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 2005:

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
Sterling	14,641	130	445	15,216
EU currencies (excluding Sterling)	29	3,307	1,932	5,268
US dollars	39,638	19	329	39,986
Other currencies	–	4	–	4
	54,308	3,460	2,706	60,474

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Months	Weighted average period until maturity Months
Sterling	10.5	40	4
EU currencies (excluding Sterling)	2.2	3	18
US dollars	8.9	12	10
Other currencies	3.4	7	–
	2.5	4	15

26 Financial instruments (continued)

Interest rate risk profile of financial liabilities (continued)

As at 29 February 2004:

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
Sterling	15,442	81	5,916	21,439
EU currencies (excluding Sterling)	–	3,261	4,114	7,375
US dollars	38,710	41	1,286	40,037
Other currencies	–	20	–	20
	54,152	3,403	11,316	68,871

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Months	Weighted average period until maturity Months
Sterling	11.9	54	1
EU currencies (excluding Sterling)	2.2	15	28
US dollars	8.5	21	6
Other currencies	3.1	16	–
	2.5	16	11

Interest rate risk profile of financial assets

	2005			2004		
Currency	Other fixed asset investments £'000	Cash at bank and in hand £'000	Total £'000	Other fixed asset investments (restated) £'000	Cash at bank and in hand £'000	Total (restated) £'000
Sterling	–	307	307	–	458	458
EU currencies (excluding Sterling)	81	3,062	3,143	81	2,959	3,040
US dollars	–	1,783	1,783	–	2,213	2,213
Other currencies	–	1,658	1,658	–	1,370	1,370
	81	6,810	6,891	81	7,000	7,081
No interest	81	1,698	1,779	–	113	113
Floating rate	–	4,886	4,886	–	6,017	6,017
Fixed rate	–	226	226	–	870	870
	81	6,810	6,891	81	7,000	7,081

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

Maturity of Group financial liabilities

	2005			2004		
	Borrowings and finance leases £'000	Consideration for acquisitions £'000	Total £'000	Borrowings and finance leases £'000	Consideration for acquisitions £'000	Total £'000
In one year or less or on demand	5,731	485	6,216	4,284	7,457	11,741
In more than one year but not more than two years	1,555	580	2,135	53,348	–	53,348
In more than two years but not more than five years	52,123	–	52,123	1,501	2,281	3,782
	59,409	1,065	60,474	59,133	9,738	68,871

26 Financial instruments (continued)

Maturity of Company borrowings and finance leases

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

	2005 £'000	2004 £'000
In one year or less or on demand	6,800	4,063
In more than one year but not more than two years	1,463	53,294
In more than two years but not more than five years	52,079	1,424
	60,342	58,781

Borrowing facilities

The Group had an undrawn committed facility of £39.9 million available at 28 February 2005 (2004 – £42.4 million) in respect of which all conditions precedent had been met at that date. This relates to an unsecured £82.5 million revolving loan multi-currency facility arranged through Lloyds TSB Bank plc which bears interest of between 1% and 3.1% above LIBOR and is due to expire in March 2007.

In addition the Group has a £9.5 million loan note guarantee facility with Lloyds TSB Bank plc, which is due to expire in March 2007. 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 2005 and 29 February 2004.

Currency exposures

Gains and losses arising from currency exposures on the Group's net investments overseas 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 2005:

	Net foreign currency monetary assets/(liabilities)				
Functional currency of Group operation	Sterling £'000	EU currencies (excluding Sterling) £'000	US dollars £'000	Other currencies £'000	Total £'000
Sterling	–	(2,136)	(377)	929	(1,584)
EU currencies (excluding Sterling)	69	–	(26)	–	43
US dollars	(29)	–	–	(77)	(106)
Other currencies	71	–	(680)	–	(609)
Total	111	(2,136)	(1,083)	852	(2,256)

27 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 £43,000 due from Capital Communications Kft relating to prior years as at 28 February 2005.

During the year the Group purchased certain creative and design services on behalf of clients from Brand Bank Communications Limited, a company owned by Ghilly Raku, the wife of Anthony Carlisle (a director of Incepta Group plc) to the value of £262,000 (2004 – £47,000). At 28 February 2005, £37,000 (2004 – £47,000) was payable in respect of those purchases.

There were no further related party transactions during the year.

28 Commitments

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

Group

	2005		2004	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
within one year	2,459	247	786	132
within two to five years	6,346	406	6,606	488
after five years	2,051	9	1,630	2
	10,856	662	9,022	622

Company

	2005		2004	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
within one year	–	24	–	49
within two to five years	577	88	538	87
after five years	273	–	273	–
	850	112	811	136

29 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, JPMorganChase, Scotiabank Europe plc and The Co-operative Bank plc.

30 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 2005			
Citigate Dewe Rogerson Limited	England		FCC
Citigate Public Affairs Limited	England		FCC
Citigate DVL Smith Limited	England	✓	FCC
Citigate Smarts (Birmingham) Limited (formerly Citigate Communications Limited)	England	✓	FCC
Citigate MARCHCom Limited	England	✓	FCC
Citigate Albert Frank Limited	England		Adv
Finex Communications Group plc	England	✓	MS
Dynamo Marketing Limited	England	✓	MS
Hauck Research Services Limited	England	✓	MS
Incepta Marketing Intelligence 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
Silver Bullet Group Limited	England	✓	MS
Incepta Online Limited	England		H
Citigate SMARTS Limited	Scotland		FCC, Adv, MS
Citigate Northern Ireland Limited	Northern Ireland		FCC, MS
Citigate Holdings GmbH	Germany	✓	H
Citigate Dewe Rogerson GmbH	Germany	#	FCC
Citigate SEA GmbH & Co KG	Germany		Adv
Citigate Demuth GmbH	Germany		FCC, Adv, MS
Hoffman Schalt Werbeagentur GmbH	Germany		Adv
Citigate Gramma AB	Sweden	✓	FCC
Citigate Training & Internal Communication Srl	Italy	✓	Adv
Citigate Gunpowder Srl	Italy	✓	MS
Citigate Sanchis SL	*Spain*	✓	FCC
Citigate First Financial B.V.	The Netherlands	✓	FCC
PR Force Nederland B.V.	The Netherlands	*	FCC
PR Force Public Relations & Press Relations NV	Belgium	✓	FCC
Incepta Group Inc	USA	✓	H
Citigate Inc	USA		
– Citigate Albert Frank[1]	USA		Adv, MS
Citigate Sard Verbinnen Inc	USA		FCC
Citigate Cunningham Inc	USA		FCC
Citigate Dewe Rogerson Inc (trading as Citigate Financial Intelligence)	USA		FCC
Citigate Global Intelligence & Security, LLC	USA		FCC
Citigate Hudson Inc	USA		FCC
Citigate Broad Street Inc	USA		MS
Citigate Markowitz & McNaughton, Inc.	USA		FCC
Cosmic Blender, Inc.	USA		MS
Citigate Asia Limited	Hong Kong		
– Citigate Dewe Rogerson[2]	Hong Kong		FCC
– Citigate Lloyd Northover[2]	Hong Kong		MS
Citigate Albert Frank Limited	Hong Kong		Adv
Citigate Dewe Rogerson i.MAGE Pte Ltd	Singapore	✓	FCC
Citigate Su Yeang Design Pte Ltd	Singapore	✓	MS
Citigate Dewe Rogerson Communications Private Limited	India	✓	FCC
Citigate South Africa (Pty) Limited	South Africa		FCC, Adv, MS
Associates at 28 February 2005			
Capital Communications Kft	Hungary		FCC
NBS Spolka z.o.o.	Poland		FCC

[1] Trades as a division of Citigate Inc
[2] Trades as a division of Citigate Asia Limited
* Owned 5% directly and 95% indirectly
* Owned 30% directly and 70% indirectly

FCC = Financial & Corporate Communications
Adv = Specialist Advertising
MS = Marketing Services
H = Holding Company

All of the above subsidiary undertakings are wholly owned with the exception of Citigate Albert Frank Limited Hong Kong (90% owned), Citigate South Africa (Pty) Limited (75% owned), Silver Bullet Group Limited (51% owned) and Citigate Dewe Rogerson Communications Private Limited (80% owned).

All the above 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.

31 Post balance sheet events

On 3 March 2005, the Company announced the proposed acquisition of Incepta Group plc by Huntsworth plc to create a major international marketing and communications group with Public Relations at its core. On 29 April 2005, the transaction was declared unconditional in all respects.

Following this change of control, the Group's bank facilities of £82.5 million and £9.5 million became repayable on 29 May 2005. These facilities were replaced in full on 27 May 2005 from new facilities totalling £95 million obtained by the enlarged group.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF INCEPTA GROUP PLC

We have audited the financial statements on pages 4 to 32. 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 2, 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 read the other information contained in the Annual Report, including 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 2005 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

1 September 2005

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. In the year to 28 February 2005, the Remuneration Committee was chaired by Robert Alcock and also comprised Francis Maude, Charles Good and Christian Strenger. 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. KPMG LLP is a member firm of KPMG International, a Swiss cooperative of which KPMG Audit Plc, the Company's auditor, is also a member.

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 fifty per cent of annual basic salary is payable for achieving target earnings per share. In addition, the Committee may also award individual discretionary bonuses with total 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 and his continued employment within the Group. 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 and his continued employment within the Group.

Pensions
Pension contributions are made to the executive directors' pension plans. Richard Nichols and Mike Butterworth participated in a company money purchase pension plan.The Company contributed 15 per cent of annual salary to their pension plans. The Committee allowed 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 received a contribution of 20 per cent of annual salary from the Company, which was paid into his personal pension scheme arrangements.

Share options

The Committee decided to award share options to executive directors and 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 and whose quantum are not subject to any limit per individual, 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 and whose quantum are not subject to any limit per individual, 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

Share awards under this plan are awarded in the form of share options with a nil exercise price and are limited in quantum to 150 per cent of an individuals relevant earnings (being salary plus bonus) in the relevant year unless the Committee believes there are exceptional circumstances, in which *case no limit applies. The awards 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 and Anthony Carlisle 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. Mike Butterworth resigned from the Company on 13 May 2005.

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), 4 January 2002 & 1 November 2004	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

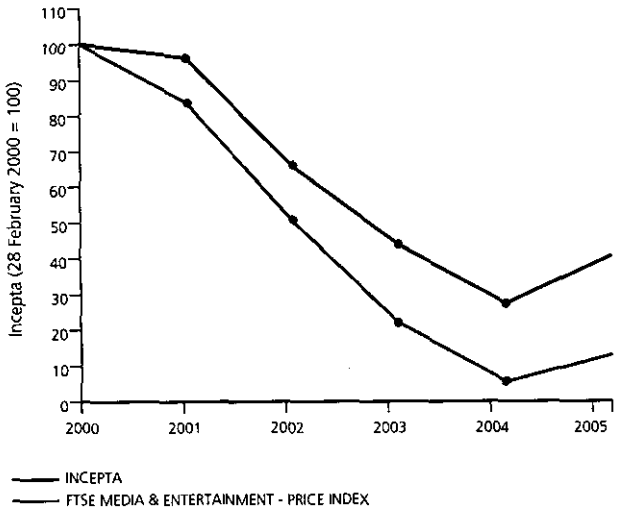
The Group expects that executive directors will operate under full time service contracts and will only accept appointments outside of the Group provided the time commitment is limited, and if it is felt that a non-Group appointment will broaden the management experience of the executives concerned. 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. Frances Maude, Robert Alcock, Charles Good and Christian Strenger signed a letter of appointment on 30 April 2004 which is for a fixed initial term of three years (one year in the case of Charles Good) terminable by either party on six months notice. Prior to 30 April 2004, Robert Alcock, Charles Good and Christian Strenger had signed a letter of appointment terminable by either party on six months notice to expire at any time.

Performance graph

The following graph illustrates the Company's total shareholder return since 1 March 2000 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 2005, 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 2005 was as follows:

		Basic salary/ fees £	Bonus £	Cash value of benefits in kind £	Total emoluments 2005 £	Total emoluments 2004 £	Pension contributions 2005 £	Pension contributions 2004 £
Executive directors								
Richard Nichols	(1)	360,000	–	13,590	373,590	294,705	54,000	34,167
Mike Butterworth	(2)	200,000	–	11,090	211,090	180,122	30,000	20,562
Anthony Carlisle	(3)	420,000	100,000	1,590	521,590	501,728	84,000	80,000
Non-executive directors								
Francis Maude		80,000	–	–	80,000	–	–	–
Robert Alcock	(4)	45,000	–	–	45,000	35,000	–	–
Charles Good	(4)	35,000	–	–	35,000	25,000	–	–
Christian Strenger	(4)	35,000	–	–	35,000	25,000	–	–
David Wright*	(4)	–	–	–	–	120,000	–	–
		1,175,000	100,000	26,270	1,301,270	1,181,555	168,000	134,729

*resigned from the board on 29 February 2004

(1) Richard Nichols, under his service contract, was paid an annual salary of £360,000 for the year under review. The Company also contributed 15% 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 £200,000 for the year under review. The Company also contributed 15% 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 £420,000 for the year to 28 February 2005. 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 and his continued employment within the Group.

(4) In their capacity as non-executive directors to the Group, Charles Good and Christian Strenger received annual fees of £35,000. In his capacity as non-executive Chairman, Francis Maude received annual fees of £80,000. In his capacity as non-executive Deputy Chairman, Robert Alcock received annual fees of £45,000.

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

	As at 1 March 2004	As at 28 February 2005
Executive		
Richard Nichols	270,580	**272,866**
Mike Butterworth	32,851	**35,130**
Anthony Carlisle	1,611,433	**1,611,433**
Non-executive		
Francis Maude*	n/a	**10,000**
Robert Alcock	51,034	**53,805**
Charles Good	1,143,765	**1,143,765**
Christian Strenger	72,000	**72,000**

* *Appointed to the board on 1 March 2004*

The above shareholdings were all 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 2004	Exercised during the year	Lapsed during the year	Held on 28 February 2005	Exercise price per share	Exercisable between
Employees						
Total by exercise price	8,403	**(8,403)**	–	**–**	59.50p	31 January 1998-2005
	189,000	–	–	**189,000**	50.00p	5 January 1999-2006
	30,665	–	–	**30,665**	97.60p	18 July 1999-2006
	63,000	–	**(15,750)**	**47,250**	101.90p	29 October 2000-2007
	291,068	**(8,403)**	**(15,750)**	**266,915**		

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 2004	Granted during the year	Lapsed during the year	Held on 28 February 2005	Exercise price per share	Exercisable between
Directors						
Richard Nichols	210,065	–	–	**210,065**	116.63p	4 May 2002-2009
	178,570	–	–	**178,570**	74.97p	4 July 2006-2013
Mike Butterworth	105,041	–	–	**105,041**	74.97p	4 July 2006-2013
Employees						
Total by	123,350	–	(2,100)	**121,250**	110.68p	*22 September 2001-2008*
exercise price	325,595	–	(31,509)	**294,086**	116.63p	4 May 2002-2009
	326,651	–	(135,493)	**191,158**	264.2p	12 October 2002-2009
	19,112	–	–	**19,112**	614.08p	20 October 2003-2010
	15,754	–	–	**15,754**	170.18p	16 October 2004-2011
	1,344,501	–	–	**1,344,501**	74.97p	4 July 2006-2013
	2,648,639	–	(169,102)	**2,479,537**		

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 2004	Granted during the year	Lapsed during the year	Held on 28 February 2005	Exercise price per share	Exercisable between
Directors						
Richard Nichols	63,088	–	–	**63,088**	170p	16 October 2004-2011
	–	600,000	–	**600,000**	89.17p	21 May 2007-2014
Mike Butterworth	62,931	–	–	**62,931**	348p	18 June 2004-2011
	42,058	–	–	**42,058**	170p	16 October 2004-2011
	–	125,000	–	**125,000**	89.17p	21 May 2007-2014
Anthony Carlisle	63,088	–	–	**63,088**	170p	16 October 2004-2011
Employees						
Total by	432,566	–	(89,289)	**343,277**	614p	20 October 2003-2010
exercise price	1,102,018	–	(50,466)	**1,051,552**	170p	16 October 2004-2011
	41,964	–	–	**41,964**	112p	15 August 2005-2012
	984,935	–	(21,520)	**963,415**	67p	12 November 2005-2012
	1,446,000	–	–	**1,446,000**	102.66p	14 October 2006-2013
	–	7,200,000	–	**7,200,000**	65.16p	2 November 2007-2014
	4,238,648	7,925,000	(161,275)	**12,002,373**		

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.

	Held on 1 March 2004	Granted during the year	Held on 28 February 2005	Exercise price per share	Exercisable between
Directors					
Richard Nichols	105,227	–	**105,227**	nil	1 November 2005-2012
	–	**200,000**	**200,000**	nil	21 May 2007-2014
Mike Butterworth	52,613	–	**52,613**	nil	1 November 2005-2012
	–	**75,000**	**75,000**	nil	21 May 2007-2014
Anthony Carlisle	105,227	–	**105,227**	nil	1 November 2005-2012
Employees					
Total	263,063	–	**263,063**	*nil*	1 November 2005-2012
	526,130	**275,000**	**801,130**		

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 six 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 current schemes.

Incepta Group plc 2001 Savings Related Share Option Scheme

	Held on 1 March 2004	Lapsed during the year	Exercised during the year	Held on 28 February 2005	Exercise price per share	Exercisable between
Employees						
Total by exercise price	176,265	**(33,962)**	–	**142,303**	140.4p	1 January-30 June 2005
	6,366	**(1,455)**	–	**4,911**	185.4p	1 January-30 June 2005
	182,631	**(35,417)**	**–**	**147,214**		

Incepta Group plc 2002 Savings Related Share Option Scheme

	Held on 1 March 2004	Lapsed during the year	Exercised during the year	Held on 28 February 2005	Exercise price per share	Exercisable between
Directors						
Richard Nichols	4,921	–	–	**4,921**	57.6p	1 January-30 June 2006
Mike Butterworth	4,921	–	–	**4,921**	57.6p	1 January-30 June 2006
Employees						
Total by exercise price	689,974	**(134,175)**	**(2,376)**	**553,423**	57.6p	1 January-30 June 2006
	201,512	–	–	**201,512**	60.9p	1 January-30 June 2006
	901,328	**(134,175)**	**(2,376)**	**764,777**		

Incepta Group plc 2003 Savings Related Share Option Scheme

	Held on 1 March 2004	Exercised during the year	Lapsed during the year	Held on 28 February 2005	Exercise price per share	Exercisable between
Directors						
Richard Nichols	3,826	–	–	**3,826**	91.6p	1 January-30 June 2007
Mike Butterworth	5,639	–	–	**5,639**	91.6p	1 January-30 June 2007
Employees						
Total by exercise price	510,443	–	(121,015)	**389,428**	91.6p	1 January-30 June 2007
	152,389	–	–	**152,389**	97.3p	1 January-30 June 2006
	672,297	–	(121,015)	**551,282**		

Incepta Group plc 2004 Savings Related Share Option Scheme

	Granted during the year	Lapsed during the year	Held on 28 February 2005	Exercise price per share	Exercisable between
Directors					
Richard Nichols	**1,704**	–	**1,704**	55.6p	1 January-30 June 2008
Francis Maude	**5,453**	–	**5,453**	55.6p	1 January-30 June 2008
Robert Alcock	**5,453**	–	**5,453**	55.6p	1 January-30 June 2008
Charles Good	**5,453**	–	**5,453**	55.6p	1 January-30 June 2008
Employees					
	331,029	–	**331,029**	55.6p	1 January-30 June 2008
	63,143	–	**63,143**	59.1p	1 January-30 June 2007
	412,235	–	**412,235**		

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 2005 were as follows;

	Entitlement to shares on 1 March 2004	Purchased during the year	Entitlement to shares on 28 February 2005
Directors			
Richard Nichols	686	**368**	**1,054**
Mike Butterworth	582	**368**	**950**
Robert Alcock	629	**368**	**997**

Directors entitlement to dividend shares as at 28 February 2005 were as follows;

	Entitlement to shares on 1 March 2004	Purchased during the year	Entitlement to shares on 28 February 2005
Directors			
Richard Nichols	36	**49**	**85**
Mike Butterworth	20	**42**	**62**
Robert Alcock	28	**45**	**73**

The number of matching and dividend shares held by the trust at 28 February 2005 was 61,935 with a market value of £38,090.

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.

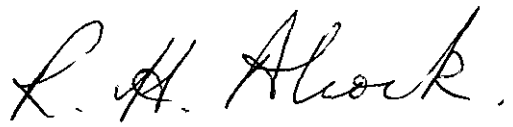
As a result of the deferred consideration payable under the acquisition of Citigate Communications Group Limited, the Citigate Employee Share Trust also issued the following unapproved share options on 1 July 1998.

Citigate Communications Group Limited Unapproved Executive Share Option Scheme

	Held on 1 March 2004	**Held on 28 February 2005**	Exercise price per employee	Exercisable between
Employees	50,000	**50,000**	£1	1 February 1999-1 July 2005

Share price
The market price of Incepta Group plc shares as at 28 February 2005 was 61.5 pence per share. The price ranged from 61 pence per share to 127.25 pence per share during the financial year.

This report was approved by the Board of Directors on 1 September 2005 and signed on its behalf by:



Robert Alcock

Chairman, Remuneration Committee
1 September 2005