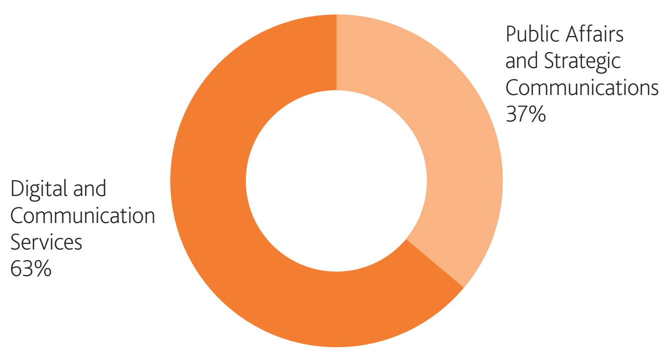
Hasgrove plc *Annual Report* The year to December 2010

What we do

Hasgrove is the holding company for a group of pan-European marketing and corporate communications companies concentrated into two divisions: Digital and Communication Services and Public Affairs and Strategic Communications.

Revenue by division

Year to 31 December 2010
Total revenue £35.4m



How we did it[1]

Turnover £35.4m (2009: £32.4m)

Gross profit of £27.2m (2009: £26.8m)

Headline operating profit £3.5m (2009: £2.9m)

Headline pre tax profit £3.2m (2009: £2.7m)

Reported pre tax profit £2.1m (2009: £1.5m)

Headline basic EPS 10.8p (2009: 9.0p)

Reported basic EPS 6.1p (2009 restated[2]: 3.9p)

Proposed dividend maintained at 0.5p per share

Net debt at 31 December 2010 of £6.5m (2009: £6.7m)

Cash flow from operating activities of £3.5m (2009: £3.4m)

Continued focus on cash collection resulted in cash conversion rate of 143% (2009: 190%)

Bank facilities increased and extended more than two years to 31 December 2014

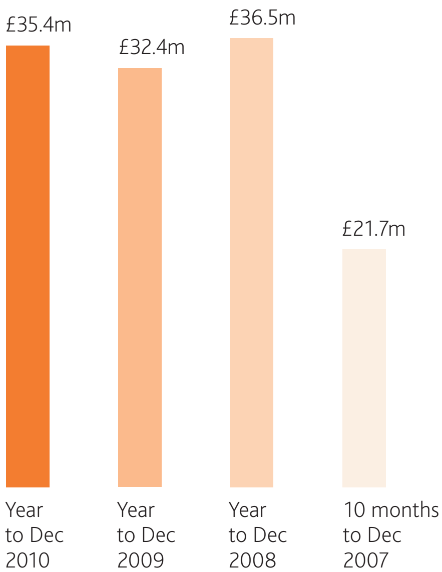
Significant digital client wins for 2011

1) All results in this statement are before taking account of separately identified items unless otherwise indicated. These comprise share option charges, exceptional costs, notional finance costs on deferred consideration and non-cash deferred tax on goodwill timing differences and are set out on the income statement on page 18.

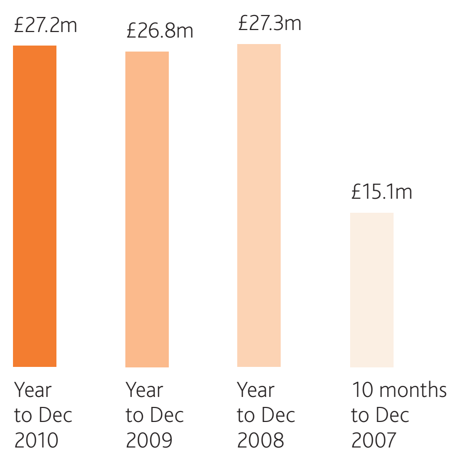
2) 2009 results have been restated for non-cash deferred tax charges on goodwill – see note 5.

The numbers at a glance

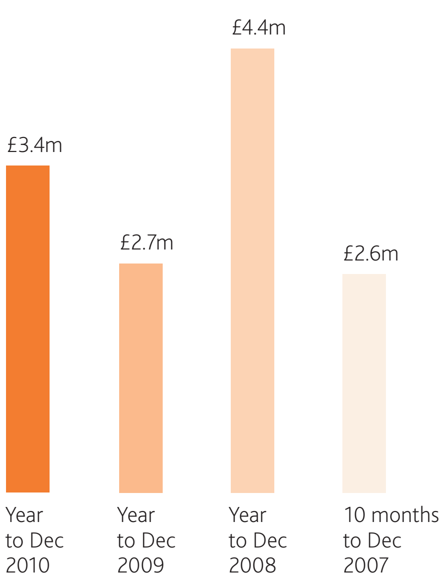
Turnover



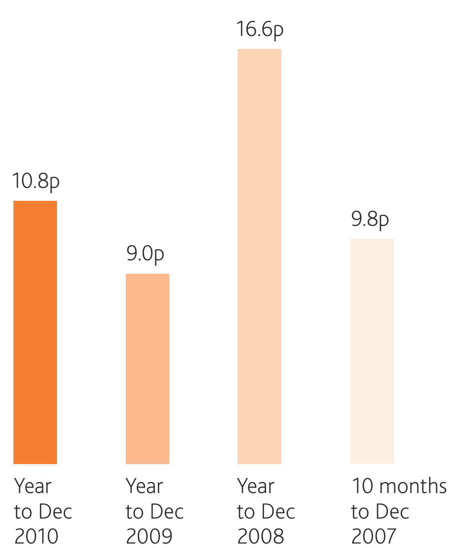
Gross profit



Headline PBT



Headline basic EPS



FROM GODFREY TAYLOR, CHAIRMAN

Our businesses benefited from the stabilisation of the economy in 2010 after the downturn in 2009 and this resulted in improved turnover and profit. Most importantly, new client wins have accelerated in the private sector to counteract the decline in public sector work as Government expenditure cuts impacted the second half of 2010.

We are well-positioned for 2011 as we are now being invited to tender for projects at some of the largest global companies. The most significant growth prospects are in our digital businesses as clients continue to focus on digital communication despite the stagnating Western economies. Our response has been to invest in our digital businesses to improve and deepen our technical capability. Amaze is expanding its London and Brussels offices in response to client demands.

Volatility and uncertainty are not going away as the global economy faces up to ongoing sovereign debt crises with related effects on bank liquidity and interest rates. Nevertheless, our people continue to show real skill and effort in adapting to this rapidly changing marketplace and that should help you share my confidence in your group.

We have decided to recommend that the dividend be left at its present level but this is planned to rise substantially next year as our earn out payments reduce and cash availability increases.

Please contact me with comments or requests for further information (godfrey.taylor@hasgrove.com).

FROM ROD HYDE, CHIEF EXECUTIVE

Hasgrove plc consists of two divisions: Digital and Communication Services, operating under the Amaze, Interact, Chase and Landmarks brands; and Public Affairs and Strategic Communications, operating as Interel. There are now more than 380 personnel in the Group, serving a broad base of over 600 clients.

The diversity of the operations of these divisions continues to benefit the Group in terms of discipline and geographical exposure. More than 45% of Group revenue is now generated outside the UK as a consequence of both UK exports and businesses based in continental Europe.

Profit growth has been achieved despite the reduction in public sector work, as expected in the second half of 2010, significant organic investment and underperformance in one area of Amaze which required further restructuring. This has been completed and good progress is now being made.

In the fourth quarter the Group experienced delays in client decisions due to extended procurement processes. The majority of the delayed contracts have now been converted.

2010 was a year of investment in the organic growth of the business. Interact, formerly Odyssey, the intranet product company, has developed a multi-language version of Interact Intranet, with its innovative use of social media in the workplace being a key differentiator. Interel has recovered significantly during 2010 and continued to build its global affiliate network. Amaze's focus on and investment in digital strategy and technology has been instrumental in winning a major global account, Unilever, at the end of the year, which will benefit 2011 and beyond. The Chase had another good year from both a financial and creative point of view.

2010 was a difficult year for Hasgrove but has been a period of continued recovery, particularly in the Public Affairs and Strategic Communications division. The challenging economic environment is likely to continue into 2011. However, the Board believes that there is a significant opportunity for growth in digital communications, where the Group is well positioned, particularly in the key areas of developing digital strategy for global organisations and global and pan-European rollouts. The Group will continue to invest in this area, including productising its offerings, building intellectual property and extending geographic coverage to satisfy client requirements.

As expected, 2011 has started slowly but recent business wins have given the Board confidence that the progress made in 2010 will continue.

Over the page we'll look at each division in detail.

Digital and Communication Services

Digital and Communication Services delivered revenues of £22.2m (2009: £19.2m) with operating profits at £2.1m (2009: £2.3m). The gross income was up to £16.0m (2009: £15.4m).

Amaze

Amaze is a leading pan-European integrated marketing and technology company, specialising in global digital strategy and communications, web-based business solutions, and PR.

2010 started well, with a strong demand for digital services, new client spend and higher than anticipated existing client activity. Towards the end of the first half, public sector cuts were announced and immediately had an impact. The severity and speed of implementation of these cuts surprised clients and had a significant impact on Amaze's revenue forecasts.

Amaze's new business activity had already been focussed on the private sector for some time, and the strong pipeline delivered sales to replace the majority of public sector work. The highlight of this activity was the Unilever appointment, and the pipeline for digital activity remains strong.

Amaze's team of connected specialists works with leading organisations, including Bridgestone, Coca-Cola, the Co-operative Group, Dyson, Eurocamp, Henri Lloyd, Lexus, ODEON Cinemas and Toyota to identify and maximise opportunities for audience engagement.

In addition to being ranked 15th in the UK's Top 100 Interactive Agencies by New Media Age, Amaze was ranked fifth in the website design and build category for the second consecutive year. Amaze was also positioned second in B2B Marketing's 2010 Marketing Communications Agency League Table, ninth in Marketing's 2010 Digital Agency League Table and fifth in YouGov's Agency Reputation Survey last year.

Amaze's new headquarters have now been established in Manchester, bringing three offices together. Amaze will be relocating its London office in 2011 to allow for the expansion generated by client demand. In addition Amaze has offices in Brussels, Liverpool and Belfast.

Amaze has recently announced the launch of a digital brand management tool, AmazeOne. This is Amaze's first product offering and is a diversification away from a purely services-oriented business. The product is designed to respond to the needs of multi-national clients who are faced with the challenge of managing their brands' presence across all digital channels. Amaze is ideally suited to fulfil market needs such as this due to the combination of strategy, insight and rapid technology skills.

During the year Landmarks, Hasgrove's design company in Brussels, joined Amaze. Brussels is a significant opportunity for Amaze with a wide ranging international and national client base.

Interact (formerly Odyssey)

2010 has been a transformational year for Interact and its intranet software, Interact Intranet. With a successful rebranding, the launch of a downloadable version aimed at the North American market and the establishment of a partner network, turnover has been maintained at 2009 levels against a tough economic climate that saw public sector customers significantly reducing spend.

Annual recurring revenue has increased by 28% with high retention rates of 95%. 2011 has started very well, with notable new clients of G4S group and Yodel using the enterprise version of Interact Intranet. Interact is also starting to benefit from the investment made in 2010 to increase global reach and is now receiving a similar level of enquiries globally as in the UK.

Interact now has a unique position in the Enterprise 2.0 intranet market, which is expected to return significant value in the medium term. Interact has a mature, stable product offering with which clients are increasingly keen to engage, combined with the knowledge and expertise to implement it effectively.

As companies are realising the commercial benefit in enterprise social networking Interact Intranet software is positioned to take advantage of its user base in the rapidly growing Enterprise 2.0 intranet market. Interact Intranet is uniquely placed to combine traditional intranet communication, business processes and knowledge management with decentralised collaboration and crowdsourcing.

The Chase

The Chase is a creative design business and had another good year from both a financial and creative point of view. Highlights include delivering two significant global initiatives for a major pharmaceutical company and creating the internal design for a new nationwide high street brand.

In addition The Chase has produced a second set of stamp designs for the Royal Mail and also designed the presentation pack for the Royal Wedding stamps.

Awards included a Cannes Gold, Best in Show at Design Week's Benchmark Awards and Roses Design Group of the Year. The Chase continues to be highly placed in the UK creative leagues tables: second in branding and print and fourth overall.

Public Affairs and Strategic Communications

The Group's Public Affairs and Strategic Communications brand, Interel, now has offices in Berlin, Brussels, London, Paris, Prague and Washington DC. Interel is an international consulting group specialising in Public Affairs, Strategic Communications and Association Management. An increasing number of its blue chip clients are now serviced by more than one office, reflecting the division's pan-European service.

The Public Affairs and Strategic Communications division generated revenues of £13.1m (2009: £13.2m) and operating profits of £1.2m (2009: £0.4m) after management charges. On a constant currency basis revenues were £12.7m. The increase in profit is due in part to the restructuring programme implemented in 2009/10 and an ongoing focus on business development, cost management, capacity optimisation and closer integration of the offices within the business, including:

• alignment of the brand across all practices, including the rebranding of the London based UK office to Interel Consulting UK;

• a split of the Belgian business into two separate practices focusing respectively on Strategic Communications & Public Affairs and Consumer PR. The split has provided a focus on Interel's core service offering whilst also creating an identity and appropriate cost base for the Consumer PR business, which has been branded Interel 402PR; and

• the establishment of a dedicated international health communications practice, drawing on capabilities in both the UK and the Brussels EU office, providing international campaign support to leading pharmaceutical companies and medical societies.

The Brussels-based European Affairs and Association Management practices have benefited from a strong focus on business development, resulting in a significant uplift in profit compared to 2009. The Association Management practice has also evolved into an established EU player within the international market.

The French, German and Czech Republic practices provide important coverage for pan-European opportunities while positioning Interel for new business in those locations. Likewise, the presence in Washington DC, combined with Interel's growing international network of affiliated companies, has continued to generate significant leads.

FROM PAUL SANDERS, GROUP FINANCE DIRECTOR

The Group's turnover increased by 9.3% to £35.4m (2009: £32.4m), with gross profits increasing by 1.5% to £27.2m (2009: £26.8m). On a constant currency basis, these increases were 10.9% and 3.0% respectively.

Headline operating profit, which excludes exceptional items and share option charges, was £3.5m (2009: £2.9m), an increase of 20.7%. Operating profit was £2.4m (2009: £1.8m). Within the Group operating profit there is a head office profit, after management recharges to each division, of £0.2m (2009: £0.2m). Interest charged was £0.2m (2009: £0.2m).

Headline profit before tax increased by 18.5% to £3.2m (2009: £2.7m); reported profit before tax increased by 40% to £2.1m (2009: £1.5m).

The exceptional charge of £0.9m consists of redundancy costs related to the continuing cost reduction programme and the cost of six office moves, bringing a number of business units together.

Group profit before tax was £2.1m (2009: £1.5m) after the exceptional items and the non-cash items of notional finance costs and share option charges. The effective tax rate was 31.5% (2009 restated: 37.8%). The 2010 and 2009 deferred tax charges include the recognition of a deferred tax liability in relation to goodwill, as required by IAS 12 *Income taxes*. Accordingly, the tax charges for those years have been increased by £218,000 and £267,000 respectively. This change in accounting and the corresponding £770,000 deferred tax provision on the balance sheet (2009 restated: £552,000) have no impact on current or future cash tax payable. These amounts have been added back for the purposes of assessing headline earnings per share.

Headline basic earnings per share were 10.8p (2009: 9.0p) and reported basic earnings per share were 6.1p (2009 restated: 3.9p).

The Board is proposing to maintain the dividend of 0.5p per share. The dividend will be paid on 20 July 2011 to all shareholders on the register at 24 June 2011.

Cash generated by operations was encouraging at £3.5m (2009: £3.4m), representing an operating profit conversion rate of 143% due to a continued focus on cash collection.

The Group's year end net debt increased to £6.7m (31 December 2009: £6.5m) largely due to earn out payments and exceptional costs. Total bank facilities in place at year end were £8.2m. The year end net debt to EBITDA ratio was 1.22, well within the bank's covenant.

In March 2011, the Group completed its refinancing, giving the Group additional headroom of £1.1m and the repayment profile has been extended from September 2011 and 2012 to 31 December 2014.

At the year end, the estimate of future earn-outs was £2.3m (2009: £3.7m). Total estimated earn-out payments, including shares, are £1.5m in 2011 with the remaining £0.8m due over the following three years. These earn-outs are dependent on performance of the relevant businesses and are self-funding.

Directors' Report for the year ended 31 December 2010

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2010.

Principal activities

The principal activities of the Group comprise provision of services in the areas of marketing, public affairs, public relations, graphic design, web design, intranet solutions, online marketing and advertising.

The subsidiary undertakings principally affecting the profits and net assets of the Group in the year are listed in note 5 to the company financial statements.

Business review

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found within the Chairman's, Chief Executive's and Group Finance Director's reviews, the key performance indicators on pages 1 and 3 and the Statement of Corporate Governance, which are incorporated in this report by reference. These pages also include an overview of activities and performance, details of the key performance indicators that management uses and information on expected future developments in the business of the Group.

Principal risks and uncertainties

The Group's principal risks and uncertainties are identified as: dependence on key personnel and relationships with clients; management of growth; failure of information systems; competition in the provision of services; fluctuations of revenues, expenses and operating results; and currency rate risk. Further details on the measures that have been established to identify, evaluate and manage the key risks faced by the Group are set out in the Corporate Governance Statement.

Financial instruments

Information about the use of financial instruments by the Company and its subsidiaries is given in note 3 to the financial statements.

Dividends

The Directors recommend a dividend of 0.5p per ordinary share to be paid on 20 July 2011 to ordinary shareholders on the register at 24 June 2011.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 31.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association and the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Statement on Corporate Governance.

Under its Articles of Association, the Company has authority to issue 7,943,623 ordinary shares; this authority expires at the date of the next AGM.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Directors

The Directors, who served throughout the year and thereafter except as noted, were as follows:

Godfrey Taylor (58), Chairman and Non-executive Director

Godfrey is the Non-executive Chairman. Godfrey was the Senior Partner of Deloitte & Touche LLP (and formerly Arthur Andersen) in Manchester from 1997 to 2003 with responsibility for 30 partners and 700 personnel. Godfrey subsequently branched out into his own enterprises, developing property and sports interests.

Godfrey was a founding Director of Hasgrove (November 2004).

Rod Hyde (61), Chief Executive

Rod is responsible for delivering the Board's strategy and is actively involved in acquisitions, integration and fund-raising. Rod spent his early career at ICI in various design and management roles. He then founded and managed a successful flight simulation games company that he sold in 2000.

Since then Rod has been involved in corporate finance activities, specialising in the technology sector. This work has included running large web-based market services operations.

Rod was a founding Director of Hasgrove (November 2004).

Paul Sanders (46), Group Finance Director

Paul is a member of the Institute of Chartered Accountants in England and Wales. Paul has been Finance Director of a number of public and private companies, including SSL International plc and Baltimore Technologies plc and was also acting CEO of the latter.

Peter Cookson (65), Non-executive Director

Peter has worked closely with the Group since November 2007. His particular focus has been on the performance of Amaze Europe. Peter is a Chartered Accountant and has a wealth of Corporate Finance experience. Over many years he has operated as a Finance Director for both public and private companies.

Fredrik Lofthagen (46), Chief Executive of Interel and Non-executive Director

Fredrik has been Chief Executive Officer of the Group's Interel companies since January 2006 and has overseen the significant organic and acquisitive growth of Interel since it was acquired by the Group in April 2006.

Stephen Rodgers (55), Non-executive Director (retired 6 May 2010)

Stephen began his career in advertising as a junior creative, before working through the disciplines of print buying, media and account handling. In 1990 Stephen joined the board of Brunnings, an advertising agency in Manchester, which he then left in 1993 to found Connectpoint, a specialist creative agency, which soon flourished into an integrated marketing services agency offering advertising, public relations and digital services.

Jean-Léopold Schuybroek (63), President of Interel and Non-executive Director

Jean-Léopold was a founding partner of Interel. He is past President of ICCO, the worldwide public relations consultancy association, and of ABCRP, the Belgian Association of Public Relations Consultancies.

He is currently a member of the executive committee of ICCO and Chairman of the membership and governance committee of ICCO. He is also one of the three members of the executive committee of the ABCRP.

Directors' interests

The Directors who held office at 31 December 2010 had the following interests in the ordinary shares of the Company:

Name of Director	31 December 2010 (No.)	15 April 2011 (No.)	31 December 2009 (No.)
Godfrey Taylor	2,300,000	2,300,000	2,100,000
Rhoderick Hyde	758,750	758,750	708,750
Jean-Léopold Schuybroek	1,268,755	1,268,755	1,268,755
Peter Cookson	507,246	507,246	507,246
Fredrik Lofthagen	258,317	258,317	258,317
Paul Sanders	56,000	56,000	10,000

Directors' share options

Share options issued under the Employee Management Incentive scheme (EMI) are dependent on certain time-based criteria.

Share options issued under the Executive scheme are dependent on certain time based criteria.

The Directors had interests in the following share options:

Name of holder	Scheme	1 Jan 2010	Granted	Surrendered	31 Dec 2010	Exercise Price
Rhoderick Hyde	Executive	40,000	–	–	40,000	£0.10
	Executive	100,000	–	(100,000)	–	£1.02
	Executive	–	100,000	–	100,000	£0.475
Paul Sanders	Executive	35,000	–	–	35,000	£0.10
	Executive	75,000	–	(75,000)	–	£1.02
	Executive	–	175,000	–	175,000	£0.475
	EMI	100,000	–	(100,000)	–	£0.78
Fredrik Lofthagen	Executive	40,000	–	–	40,000	£0.10
	Executive	60,000	–	(60,000)	–	£1.02
	Executive	–	60,000	–	60,000	£0.475

The Company has adopted a share dealing code for Directors and relevant employees and has taken appropriate steps to ensure compliance by the Directors and those employees.

The Company has entered into service agreements with each of its executive Directors. Details of the amounts paid under these service agreements are set out below:

Directors' emoluments	Salary and fees £	Performance related bonus £	Year to 31 Dec 2010 £	Year to 31 Dec 2009 £
Rhoderick Hyde	160,000	–	160,000	160,000
Paul Sanders	144,000	–	144,000	144,000
Godfrey Taylor	24,000	–	24,000	24,000
Peter Cookson	15,000	–	15,000	15,000
Fredrik Lofthagen*	171,000	–	171,000	175,000
Stephen Rodgers	–	–	–	15,000
Jean-Léopold Schuybroek**	129,000	–	129,000	133,000
	643,000	–	643,000	666,000

There were no pension contributions in the year (2009: Nil).

*Fredrik Lofthagen is employed by Interel through a management company, which is paid €200,000 per annum for his services.

**Jean-Léopold Schuybroek is employed by Interel through a management company, which is paid €150,000 per annum for his services.

Directors' interests in contracts and other transactions with Group companies

With the exception of relevant earn outs and the disclosures above no Director has a material interest in any contract with any Group company other than a service agreement.

During the year Fredrik Lofthagen and Jean-Léopold Schuybroek received earn outs in relation to the acquisition of Interel of £13,000 and £73,000 respectively.

Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction and to ensure that suppliers are made aware of the terms of payment. Trade creditors of the Group at 31 December 2010 were equivalent to 35 (2009: 35) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Disabled employees

The Group's equal opportunities policy is designed to ensure that disabled people are given the same consideration as others and enjoy the same training, development and prospects as other employees. Where existing employees become disabled it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings.

Charitable and political contributions

During the year the Group made no political or charitable donations.

Substantial shareholdings

The Company has been notified of the following interests representing 3% or more of the issued share capital of the Company at 15 April 2011:

Name of holder	Percentage of voting rights and issued share capital	No. of ordinary shares
Octopus Asset Management	11.6%	2,636,567
Godfrey Taylor	9.7%	2,300,000
Stephen Rodgers	6.3%	1,500,000
Ben Casey	5.6%	1,335,925
Vikki Ashton	5.6%	1,332,322
Jean-Léopold Schuybroek	5.3%	1,268,755
Unicorn Asset Management	5.2%	1,250,100
Rhoderick Hyde	3.2%	758,750

Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418(3) of the Companies Act 2006.

Deloitte LLP were appointed as the company's auditor during the year to fill a casual vacancy. A resolution to formally appoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

6th Floor
Number One First Street
Manchester
M15 4NF

By order of the Board,

T D Pennington-Brookfield
Company Secretary

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Company and the Group and of the profit or loss of the Company and Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Group and Parent Company financial statements have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board

Chief Executive Officer	Group Finance Director
R D Hyde	P A Sanders

Statement of Corporate Governance

The Company is committed to the principles of corporate governance contained in the Corporate Governance Code issued by the Financial Reporting Council and although as an AIM-listed company, Hasgrove plc is not bound by the corporate governance rules and codes, the directors adopt them as they believe appropriate having regard to the Group's size and nature and so far as it considers practicable and appropriate. This statement is not intended to be a statement of compliance with the Corporate Governance Code but sets out the key components of the Group's corporate governance policies and procedures.

The Board

The Group is managed by a Board which comprises the Non-executive Chairman, Chief Executive, Group Finance Director and Non-executive Directors.

The Board will be responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions. The Board generally meets at least six times a year and has a schedule of matters specifically referred to it for decision. Given the size of the Company, the appointment of new Directors is a matter reserved for the Board as a whole rather than a separate Nomination Committee.

The Company Secretary, through the Chairman, is responsible for advising the Board on all governance matters. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Currently, the Chairman and Chief Executive review the performance of the Board informally. As the Group develops a more formal review process will be adopted.

A Director will retire from office at the third Annual General Meeting following his appointment or following his last re-appointment by shareholders at an Annual General Meeting and if willing, be deemed to have been re-appointed unless it is expressly resolved not to fill the vacancy or a resolution for the re-appointment of the Director is put to the meeting and lost.

Board Committees

The Company has established Audit and Remuneration Committees.

Audit Committee

The Audit Committee comprises the Non-executive Directors chaired by Godfrey Taylor. Members of the Committee have a wide financial experience and the Chairman is a chartered accountant who has held senior roles in the profession.

The Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for reviewing the auditor's reports relating to accounts and internal control systems. The Audit Committee meets at least twice a year to review interim and full year reports.

At this stage in the development of the Group, the board does not consider it would be appropriate to have its own internal audit function. Each operating company has its own finance function led by a Finance Director. The Group Finance Director regularly reviews the operating companies' key controls and reporting systems.

Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors and is chaired by Godfrey Taylor. It is responsible for determining and agreeing with the Board the framework for the remuneration of all Executive Directors and such other members of the executive management as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director including, where appropriate, performance related bonuses, incentive payments and share options. No director is involved in setting his own remuneration.

Going concern

The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion, the directors have considered forecasts of future performance and the post-year end refinancing of the Group's bank facilities as referred to in the Group Finance Director's Report.

Internal control

The Directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. The risk management process and systems of internal control are designed to manage rather than eliminate the risks of failure to achieve the Group's strategic objectives. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can only provide reasonable and not absolute assurance. The Board has reviewed the operation and effectiveness of the system of internal control in operation during the year.

Internal control (continued)

The Group's individual companies are managed with a clearly defined responsibility for the operation of the businesses to meet standards required by both the Group and appropriate regulatory authorities. In addition, annual plans and longer-term overviews of objectives are prepared by each business management team and reviewed at meetings attended by at least one Executive Director.

Individual business management is also responsible for assessing and minimising all business risks, supported by Group personnel able to provide specific assistance in matters relating to regulatory compliance, health and safety, and quality systems.

Monthly accounts, including comparison with planned performance, together with key ratio analysis and working capital information, are prepared in accordance with Group accounting policies and principles. They are reviewed by the Board to monitor overall performance and facilitate appropriate management intervention.

The Board confirms that it has established the procedures necessary to implement the guidance "Internal Control: Guidance for Directors on the Combined Code". The Board has considered the need for an internal audit function but has concluded the size and complexity of the Group does not justify the expense at present. The need for an internal audit function will continue to be reviewed periodically.

Due to its importance to the Group, the Board has formulated an acquisition strategy and process which is tailored to reflect the size of the target and the desired speed of integration. When identifying medium to large targets for acquisition the following criteria are essential:

- Profitability
- High quality businesses with a proven track record
- Leading brands
- A history of and potential for significant organic growth
- Committed and experienced management in addition to the vendors
- Established blue chip clients
- Shared vision and culture

It is the intention that acquisitions should be structured as follows:

- An initial payment partly in cash and partly in shares;
- Self-funding earn out payments typically over three years dependent on performance, payable in cash, shares or loan notes.

During the acquisition process the Board establishes succession plans and identifies the next generation of management and ensures that there is sufficient strength in depth. Acquisitions will only proceed if the Board is satisfied with the long term integration plan.

Relations with shareholders

The Board proposes to maintain a constructive dialogue with shareholders through regular meetings, news releases and presentations.

The Company's Annual General Meeting is an opportunity for all shareholders to meet and direct questions to members of the Board. Prior to the formal business of the meeting, the Board will present an overview of the Group's results.

On behalf of the Board

P A Sanders
Director

Independent Auditor's Report to the Members of Hasgrove plc

We have audited the financial statements of Hasgrove plc for the year ended 31 December 2010, which comprise the Group and Parent Company Income Statements, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 13 to the Group financial statements and notes 1 to 32 of the Parent Company financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditor.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

William Smith (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
27 May 2011

Consolidated Income Statement
Year ended 31 December 2010

	Note	2010 £000	2009 Restated (Note 5) £000
Continuing operations			
Revenue	6	35,358	32,393
Cost of sales		(8,167)	(5,545)
Gross profit		27,191	26,848
Administrative expenses before separately identified items		(23,735)	(23,978)
Headline operating profit		3,456	2,870
Share option charge		(93)	(76)
Exceptional costs	8	(921)	(1,005)
Total administrative expenses		(24,749)	(25,059)
Operating profit	8	2,442	1,789
Finance income	12	2	40
Notional finance cost on deferred consideration	12	(106)	(126)
Finance costs	12	(211)	(230)
Total finance costs		(317)	(356)
Headline profit before tax		3,247	2,680
Share option charge		(93)	(76)
Exceptional costs		(921)	(1,005)
Notional finance cost on deferred consideration		(106)	(126)
Profit before tax		2,127	1,473
Tax	13	(670)	(559)
Profit for the financial year		1,457	914
Basic earnings per share (pence)	15	6.1p	3.9p
Diluted earnings per share (pence)	15	6.0p	3.8p

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 £000	2009 Restated (Note 5) £000
Profit for the financial year	1,457	914
Other comprehensive income:		
Gains on hedges of net investments taken to equity	191	336
Exchange differences on translation of foreign operations	(786)	(1,247)
Other comprehensive income for the year	(595)	(911)
Total comprehensive income for the year	862	3
Prior year adjustment – deferred tax (see note 5)	(267)	–
Total comprehensive income recognised since last annual report and financial statements	595	–

Consolidated Statement of Financial Position

At 31 December 2010

	Note	2010 £000	2009 Restated (Note 5) £000	2008 Restated (Note 5) £000
Non-current assets				
Goodwill	16	32,701	33,503	34,081
Other intangible assets	17	582	366	168
Property, plant and equipment	18	1,706	1,468	1,562
Deferred tax asset	23	240	45	82
		35,229	35,382	35,893
Current assets				
Inventories		57	41	62
Trade and other receivables	20	9,120	8,608	11,549
Cash and cash equivalents	20	–	290	2,149
		9,177	8,939	13,760
Total assets		44,406	44,321	49,653
Current liabilities				
Trade and other payables	24	(6,722)	(5,927)	(7,927)
Current tax liabilities		(241)	(497)	(892)
Obligations under finance leases		(101)	(89)	(67)
Borrowings	21	(3,476)	(2,989)	(3,159)
Deferred consideration	25	(1,548)	(2,344)	(3,418)
		(12,088)	(11,846)	(15,463)
Net current liabilities		(2,911)	(2,907)	(1,703)
Non-current liabilities				
Obligations under finance leases		(113)	(78)	(40)
Borrowings	21	(3,044)	(3,673)	(4,891)
Deferred consideration	25	(742)	(1,359)	(3,178)
Deferred tax liability	23	(770)	(552)	(285)
		(4,669)	(5,662)	(8,394)
Total liabilities		(16,757)	(17,508)	(23,857)
Net assets		27,649	26,813	25,796
Equity				
Share capital	26	2,383	2,383	2,251
Share premium account	27	14,959	14,959	14,034
Translation reserve	28	1,758	2,353	3,264
Retained earnings	29	8,549	7,118	6,247
Total equity		27,649	26,813	25,796

The financial statements of Hasgrove plc, registered number 05247414, were approved by the board of Directors and authorised for issue on 13 May 2011. They were signed on its behalf by:

R D Hyde

P A Sanders

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Share capital £000	Share premium account £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2009	2,251	14,034	3,264	6,532	26,081
Effect of change in accounting for deferred taxation (note 5)	–	–	–	(285)	(285)
As restated	2,251	14,034	3,264	6,247	25,796
Profit for the year	–	–	–	914	914
Other comprehensive income for the year	–	–	(911)	–	(911)
Total comprehensive income for the year	–	–	(911)	914	3
Issue of share capital	132	925	–	–	1,057
Dividends	–	–	–	(118)	(118)
Credit to equity for equity-settled share-based payments	–	–	–	75	75
Balance at 31 December 2009	2,383	14,959	2,353	7,118	26,813
Profit for the year	–	–	–	1,457	1,457
Other comprehensive income for the year	–	–	(595)	–	(595)
Total comprehensive income for the year	–	–	(595)	1,457	862
Dividends	–	–	–	(119)	(119)
Credit to equity for equity-settled share-based payments	–	–	–	93	93
Balance at 31 December 2010	2,383	14,959	1,758	8,549	27,649

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	2010 £000	2009 £000
Cash generated by operations (note 30)	3,498	3,441
Income taxes paid	(903)	(757)
Net cash from operating activities	2,595	2,684
Investing activities		
Interest paid	(211)	(230)
Interest received	2	40
Proceeds on disposal of property, plant and equipment	–	13
Purchase of property, plant and equipment	(850)	(561)
Purchase of subsidiary undertakings	–	(437)
Expenditure on product development	(315)	(274)
Net cash acquired with subsidiaries	–	239
Payment of deferred consideration	(1,273)	(1,861)
Net cash used in investing activities	(2,647)	(3,071)
Financing activities		
Dividends paid	(119)	(118)
Repayments of borrowings	(588)	(1,060)
Issue of shares	–	(4)
Increase/(decrease) in bank overdrafts and revolving credit facility	83	(55)
Net cash outflow from financing activities	(624)	(1,237)
Net decrease in cash and cash equivalents	(676)	(1,624)
Cash and cash equivalents at beginning of year	290	2,149
Effect of foreign exchange rate changes	(81)	(235)
Cash and cash equivalents at end of year	(467)	290

1. General information

Hasgrove plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 59. The nature of the Group's operations and its principal activities are set out in note 7.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised Standards

Standards not affecting the financial statements

The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

IFRS 3 (2008)	Business combinations
IAS 27 (2008)	Consolidated and separate financial statements
IFRIC 17	Distributions of non-cash assets to owners
IFRIC 18	Transfer of assets from customers
Improvements to IFRSs	Improvements to IFRSs 2009

Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 9 (November 2009, revised October 2010)	Financial Instrument:; Classification and Measurement
Improvements to IFRSs	Improvements to IFRSs 2010
IFRS 7 (May 2010)	Transfer of financial assets
IAS 12 (December 2010)	Deferred tax: recovery of underlying assets
IFRS 1 (December 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
Amendment to IAS 17	Leases

The adoption of IFRS 9, which the Group plans to adopt for the year beginning on 1 January 2013, will impact both the measurement and disclosures of Financial Instruments.

The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

3. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with the Companies Act 2006, IFRSs adopted for use in the European Union and IFRIC interpretations. The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

3. Significant accounting policies (continued)

Going concern

The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future, despite the uncertainties arising from the current economic environment. In reaching this conclusion, the directors have considered forecasts of future performance and the post-year end refinancing of the Group's bank facilities as referred to in the Group Finance Director's Report on page 8.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisitions are measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. A review of the provisional fair value of assets and liabilities is made in the hindsight period and any adjustments required are recognised in goodwill.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Internally generated intangible assets – development expenditure

An internally generated intangible asset arising from the Group's software development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probably that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight line basis over their useful lives.

Segmental reporting

A business segment is a group of assets and operations engaged in providing services that are regularly reviewed and monitored by the chief executive officer. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Deferred consideration

The terms of an acquisition may provide that the value of the purchase consideration, which may be payable in cash, shares or other securities at a future date, depends on uncertain future events such as the future performance of the acquired company. Where it is not possible to estimate the amounts payable with any degree of certainty, the amounts recognised in the financial statements represent a reasonable estimate at the year end date of the amounts expected to be paid. The deferred consideration is discounted to fair value. The difference between the fair value of the liabilities and the actual amounts payable are charged to the income statement as notional finance costs over the life of the associated liability. Changes in the estimated value of deferred consideration in respect of historical acquisitions taking place prior to the adoption of IFRS 3 (Revised 2008) are recognised in goodwill. Where deferred consideration may be settled by either the issue of shares or loan notes, it is classified in the statement of financial position in accordance with the substance of the transaction. Where the agreement gives rise to an obligation that is settled by the delivery of a variable number of shares to meet a monetary defined liability, these amounts are disclosed as debt.

3. Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is recognised in line with the provision of services based on work performed during the year where the outcome can be assessed with reasonable certainty.

Where contracts involve the provision of more than one separable type of service or goods, revenue is attributed to the separable elements rateably based on the fair value of the goods or services.

For maintenance support income, only that proportion of revenue is recognised which relates to the part of the maintenance period falling within the financial year.

Income recognised in turnover but not invoiced at the year end is recorded in prepayments and accrued income within trade and other receivables. Where invoices are raised in advance of the provision of services they are recorded as accruals and deferred income in trade and other payables.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group Company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each year end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on year end date.

Exchange differences are recognised in the income statement in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the income statement on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the year end date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill, fair value adjustments and deferred consideration arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. Significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Operating profit

Operating profit is stated before investment income and finance costs.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Exceptional items

Exceptional items in the Group financial statements are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Fixtures and equipment: 10% – 33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Leasehold improvements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Issue costs are offset against the proceeds of such instruments.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position are cash balances and deposits held at call with banks with original maturities of three months or less. For the purposes of the cash flow statement, cash and cash equivalents also include the overdrafts repayable on demand, on the basis that these form an integral part of the Group's cash management.

Trade receivables

Trade receivables do not carry any financial income and are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group has only one class of shares in existence; see note 26.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at their fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Hedge accounting

The Group designates certain foreign currency debt as hedges of net investments in foreign operations. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values of the hedged item.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately, and is included in the 'other gains and losses' line of the income statement.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation, along with the cumulative gain or loss arising on retranslation of the foreign operation described above.

3. Significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

Inventories

Inventories, comprising work-in-progress on customer contracts, are stated at the lower of cost and net realisable value.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

- application of revenue recognition policies in respect of contracts that straddle the year end;
- contingent deferred payments in respect of acquisitions;
- recognition of share-based payments;
- valuation and recoverability of receivables balances; and
- valuation of intangible assets, including impairment of goodwill.

These estimates are based on historical experience and various other assumptions that management and the Board of Directors believe are reasonable under the circumstances and are discussed, to the extent necessary, in more detail in their respective notes.

5. Prior Year Adjustment

The Directors have reconsidered the accounting treatment for deferred taxation arising on goodwill that is treated as deductible for tax purposes but is not amortised in the statutory accounts and have concluded that the appropriate treatment is to recognise a deferred tax liability on the temporary difference arising in line with the requirements of IAS 12 Income taxes. This change in accounting does not impact current or future tax payable. Comparatives have been restated:

Income Statement	Previously reported £000	Restatements £000	31 December 2009 Restated £000
Taxation	(292)	(267)	(559)
Profit for the year	1,181	(267)	914

Statement of Financial Position	Previously reported £000	Restatements £000	31 December 2009 Restated £000	Previously reported £000	Restatements £000	31 December 2008 Restated £000
Non-current liabilities						
Provisions	(1,359)	(552)	(1,911)	(3,178)	(285)	(3,463)
Shareholders' equity						
Retained earnings						
Brought forward	6,532	(285)	6,247	3,293	–	3,293
Profit for the year	1,181	(267)	914	3,315	(285)	3,030
Carried forward	7,670	(552)	7,118	6,532	(285)	6,247

6. Revenue

An analysis of the Group's revenue is as follows:

	2010 £000	2009 £000
Sales of services	35,358	32,393
Finance income	2	40
	35,360	32,433

7. Business and geographical segments

Business segments

For management purposes, the Group is currently organised into two operating divisions – Digital and Communication Services and Public Affairs and Strategic Communications. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2010	Digital and Communication Services £000	Public Affairs and Strategic Communications £000	Eliminations £000	Consolidated £000
Revenue				
External sales	22,226	13,132	–	35,358
Result				
Segment result pre central costs	2,465	1,624	–	4,089
Central cost allocation	(410)	(441)	–	(851)
Segment result	2,055	1,183	–	3,238
Unallocated corporate income				218
Headline operating profit				3,456
Share option charges				(93)
Exceptional costs				(921)
Finance income				2
Notional finance costs on future deferred consideration				(106)
Finance costs				(211)
Profit before tax				2,127
Tax				(670)
Profit after tax				1,457

Exceptional costs can be analysed as £735,000 for Digital and Communication Services and £186,000 for Public Affairs and Strategic Communications.

7. Business and geographical segments (continued)

2010	Digital and Communication Services £000	Public Affairs and Strategic Communications £000	Eliminations £000	Consolidated £000
Other information				
Capital additions	1,128	172	–	1,300
Depreciation and amortisation	292	261	–	553
Assets				
Segment assets	23,299	8,422	(3,641)	28,080
Unallocated corporate assets				16,326
Consolidated total assets				44,406
Liabilities				
Segment liabilities	9,758	2,987	(4,355)	8,390
Unallocated corporate liabilities				8,367
Consolidated total liabilities				16,757

Segmental information for the year ended 31 December 2009 (restated) is presented below:

2009	Digital and Communication Services £000	Public Affairs and Strategic Communications £000	Eliminations £000	Consolidated £000
Revenue				
External sales	19,158	13,235	–	32,393
Result				
Segment result pre central costs	2,700	864	–	3,564
Central cost allocation	(410)	(501)	–	(911)
Segment result	2,290	363	–	2,653
Unallocated corporate income				217
Headline operating profit				2,870
Share option charges				(76)
Exceptional costs				(1,005)
Finance income				40
Notional finance costs on future deferred consideration				(126)
Finance costs				(230)
Profit before tax				1,473
Tax				(559)
Profit after tax				914

Exceptional costs can be analysed as £504,000 for Digital and Communication Services and £501,000 for Public Affairs and Strategic Communications.

7. Business and geographical segments (continued)

2009	Digital and Communication Services £000	Public Affairs and Strategic Communications £000	Eliminations £000	Consolidated £000
Other information				
Capital additions	749	185	–	934
Depreciation and amortisation	351	260	–	611
Assets				
Segment assets	21,661	9,712	(5,831)	25,542
Unallocated corporate assets				18,779
Consolidated total assets				44,321
Liabilities				
Segment liabilities	9,327	2,678	(1,809)	10,196
Unallocated corporate liabilities				7,312
Consolidated total liabilities				17,508

Geographical segments

The Group's operations are located in the United Kingdom and Europe. The Group's Digital and Communication Services division is located in the United Kingdom and Europe. The Public Affairs and Strategic Communications division is located in the United Kingdom, Europe and has a small presence in the US.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the services, which is not significantly different:

	Sales revenue by geographical market	
	Year ended 2010 £000	Year ended 2009 £000
United Kingdom	18,875	16,595
Rest of Europe	12,162	12,540
Other	4,321	3,258
	35,358	32,393

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2010 £000	2009 £000	2010 £000	2009 £000
United Kingdom	36,255	35,422	1,128	750
Rest of Europe	8,151	8,899	172	184
	44,406	44,321	1,300	934

8. Profit for the year

Profit for the year has been arrived at after (crediting)/charging:

	2010 £000	2009 £000
Net foreign exchange gains	(100)	(19)
Amortisation of intangibles	99	55
Depreciation of owned property, plant and equipment	500	522
Depreciation of property, plant and equipment held under lease	53	89
Loss on disposal of property, plant and equipment	162	106
Exceptional costs	921	1,005
Staff costs (see note 10)	15,087	16,354
Operating lease rentals – property	1,437	1,570
Operating lease rentals – other	157	273

Exceptional costs comprise; redundancy costs of £645,000 and relocation expenses of £276,000 (2009: £1,005,000). Research and development costs are disclosed in note 17.

9. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2010 £000	2009 £000
Fees payable to the Company's Auditor for:		
– Audit services to the parent company	10	15
– Audit services to subsidiary companies	30	42
Total audit fees	40	57
Other services pursuant to legislation		
– Tax services	10	10
– Other assurance services	3	–
Total non-audit fees	13	10

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

10. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2010 Number	2009 Number
Direct	310	296
Administrative	67	61
	377	357

	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	12,756	13,833
Social security costs	1,985	2,130
Other pension costs	346	390
	15,087	16,353

Wages and salaries included share-based payments of £93,000 (2009: £78,000).

11. Directors' emoluments

The Directors' aggregate emoluments in respect of qualifying services were:

	2010 £000	2009 £000
Salaries and fees	647	666

Included in the above is £171,000 (2009: £175,000) of emoluments in respect of the highest paid Director. None of the Directors are accruing retirement benefits under Money Purchase pension schemes.

The Directors are also considered to be the Key Management Personnel of the Group, as defined in IAS 24. The charge for share-based payments in respect of the Directors was £93,000 (2009 – £76,000).

12. Net finance costs

	2010 £000	2009 £000
Finance income		
Interest on bank deposits	2	40

Finance costs

	2010 £000	2009 £000
Interest on bank overdrafts and loans	211	230
Notional finance cost on deferred consideration	106	126
	317	356

13. Tax

	2010 £000	2009 Restated (Note 5) £000
Current tax	490	310
Deferred tax	23	230
(Under)/overprovision of corporation tax in previous year	157	19
	670	559

Corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2010 £000	2009 Restated (Note 5) £000
Profit before tax	2,127	1,473
Tax at the UK corporation tax rate of 28% (2009: 28%)	596	412
Effect of tax losses not provided for	(145)	72
Effect of expenses that are not deductible in determining taxable profit	70	160
Effect of tax deductible expenses not in accounts	(8)	158
Effect of differences in GAAP applied in subsidiary companies	–	(262)
Adjustments in respect of previous years	157	19
Tax charge for the year	670	559

14. Dividends

	2010 £000	2009 £000
Proposed final dividend for the year ended 31 December 2010 of 0.5p (2009: 0.5p) per share.	119	119

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

15. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

	2010 £000	2009 Restated (Note 5) £000
Earnings for the purposes of basic earnings per share being net profit	1,457	914

	Number 000's	Number 000's
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	23,831	23,439
Effect of dilutive potential ordinary shares:		
Share options	292	322
Weighted average number of ordinary shares for the purposes of diluted earnings per share	24,123	23,761

Headline earnings per share

The calculation of headline basic and headline diluted earnings per share is based on the earnings after adjustments as follows:

	2010 £000	2009 £000
Net profit	1,457	914
Share option charges	93	76
Exceptional costs (net of tax relief)	691	724
Notional finance cost on deferred consideration	106	126
Deferred tax timing difference on acquired goodwill (note 5)	218	267
Headline earnings	2,565	2,107

16. Goodwill

	£000
Cost	
At 1 January 2009	34,081
Exchange differences	(951)
Recognised on acquisition of a subsidiary	1,036
Fair value adjustments to consideration	(663)
At 1 January 2010	33,503
Exchange differences	(556)
Fair value adjustments to consideration	(246)
At 31 December 2010	32,701
Accumulated impairment losses	
At 1 January 2009 and 31 December 2010	–
Carrying amount	
At 31 December 2010	32,701
At 31 December 2009	33,503

Fair value adjustments to consideration represent reassessments of deferred consideration payable on acquisitions taking place prior to the introduction of IFRS 3 (Revised).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to each business segment as follows:

	2010 £000	2009 £000
Digital and Communication Services	23,014	23,545
Public Affairs and Strategic Communications	9,687	9,958
	32,701	33,503

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows following this period based on an estimated growth rate of 2 per cent. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is the Group's estimated weighted average cost of capital of 9.5% (2009: 9.5%).

17. Other intangible assets

	Development expenditure £000
Cost	
At 1 January 2009	168
Additions	253
At 1 January 2010	421
Additions	315
At 31 December 2010	736
Accumulated amortisation	
At 1 January 2009 and 1 January 2010	55
Charge for the year	99
At 31 December 2010	154
Carrying amount	
At 31 December 2010	582
At 31 December 2009	366

The amortisation period for development costs incurred on the Group's intranet development is five years.

18. Property, plant and equipment

	Leasehold improvements £000	Fixtures and equipment £000	Total £000
Cost			
At 1 January 2009	1,052	4,192	5,244
Additions	129	552	681
Acquisition of subsidiary	–	8	8
Exchange differences	(30)	(200)	(230)
Disposals	(590)	(505)	(1,095)
At 1 January 2010	561	4,047	4,608
Additions	550	440	990
Exchange differences	(14)	(86)	(100)
Disposals	(162)	(1,387)	(1,549)
At 31 December 2010	935	3,014	3,949
Accumulated depreciation			
At 1 January 2009	626	3,056	3,682
Charge for the year	189	422	611
Acquisition of subsidiary	–	2	2
Exchange differences	(10)	(156)	(166)
Eliminated on disposals	(581)	(408)	(989)
At 1 January 2010	224	2,916	3,140
Charge for the year	87	466	553
Exchange differences	(8)	(55)	(63)
Eliminated on disposals	(30)	(1,357)	(1,387)
At 31 December 2010	273	1,970	2,243
Carrying amount			
At 31 December 2010	662	1,044	1,706
At 31 December 2009	337	1,131	1,468

The Group's obligations under finance leases are secured by the lessors' title to the leased assets, all of which are fixtures and equipment and have a carrying amount of £224,000 (2009: £163,000).

19. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 5 to the Company's separate financial statements.

20. Other financial assets

Trade and other receivables

	2010 £000	2009 £000
Trade receivables	7,222	6,367
Other debtors	617	594
Prepayments and accrued income	1,281	1,647
	9,120	8,608

Trade receivables

The average credit period taken on sales of services is 40 days (2009: 40 days).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Of the trade receivables balance at the end of the year, £520,000 (2009: £Nil) is due from the Group's largest customer. The Group monitors the credit quality of these customers and any changes are reflected in the carrying value of the related trade receivable. There are no other customers who individually represent more than 5 per cent of the total balance of trade receivables. The level of provision is based on a review by the Directors, taking into account objective evidence around the credit quality of the counterparties and any other observable changes in economic conditions.

Included in the Group's trade receivable balance are debtors with a carrying amount of £654,000 (2009: £809,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 94 days (2009: 97 days).

Ageing of past due but not impaired receivables

	2010 £000	2009 £000
60-90 days	280	310
90-120 days	274	286
Greater than 120 days	100	213
Total	654	809

Movement in the allowance for doubtful debts

	2010 £000	2009 £000
Balance at the beginning of the year	118	51
Written off	(28)	–
Recognised in the year	52	67
Balance at the end of the year	142	118

Ageing of impaired trade receivables

	2010 £000	2009 £000
Greater than 120 days	142	118

Cash and cash equivalents

	2010 £000	2009 £000
Cash and cash equivalents	–	290

Cash and cash equivalents recognised in the statement of financial position comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

21. Borrowings

	2010 £000	2009 £000
Secured borrowing at amortised cost		
Bank overdraft and revolving credit facility	2,476	1,989
Bank loans	4,044	4,673
	6,520	6,662
Total borrowings		
Amount due for settlement within 12 months	3,476	2,989
Amount due for settlement after 12 months	3,044	3,673

Analysis of borrowings by currency

	Sterling £000	Euros £000	Total £000
31 December 2010			
Bank overdraft and revolving credit facility	2,192	284	2,476
Bank loans	1,500	2,544	4,044
	3,692	2,828	6,520
31 December 2009			
Bank overdraft and revolving credit facility	700	1,289	1,989
Bank loans	2,000	2,673	4,673
	2,700	3,962	6,662

The other principal features of the Group's borrowings are as follows.

(i) The revolving credit facility is repayable 24 September 2011. The revolving credit facility carries interest at 1.75% above LIBOR.

(ii) The bank loan is secured by a fixed and floating charge over the assets of the Group. The loan is repayable in biannual instalments of £500,000. The loan carries interest at 1.75% above LIBOR for Sterling borrowings and 1.75% above EURIBOR for Euro borrowings.

In March 2011, the Group refinanced its bank borrowings, giving the Group additional headroom of £1.1 million and extending the repayment profile from September 2011 and 2012 to 31 December 2014.

Undrawn borrowing facilities
At 31 December 2010, the Group had available £Nil (2009: £Nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Financial risk management policy and objectives
The Group's principal financial instruments comprise bank loans and overdrafts and finance leases. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also has various other financial instruments that arise directly from its operations, such as trade receivables and payables.

Throughout the year and subsequently it has been the Group's policy that no trading in financial instruments is undertaken.

Interest rate risk
The Group's operations are cash generative and it funds acquisitions through a combination of retained profits and borrowings. The Group's variable rate borrowings are exposed to interest rate risk.

If interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2010 and net assets at that date would decrease by £24,000 (2009: £27,000).

21. Borrowings (continued)

Currency risk

The Group undertakes certain transactions denominated in Euros and exposures to exchange rate fluctuations therefore arise. If the Euro exchange rate had been 10 percent higher and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would decrease by £116,000 (2009: £14,000) and net assets at that date would decrease by £768,000 (2009: £697,000)

Liquidity risk

The Group maintains a mixture of short and long-term borrowings to manage this risk. The Group seeks to ensure sufficient liquidity is available to meet foreseeable needs.

Capital management

The primary objective of the Group's capital management is to support its business and maximise shareholder value. The Group manages its capital structure and makes changes to it in the light of changes in economic conditions and business requirements. To maintain or adjust the capital structure, the group may raise additional or pay down debt finance, adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

22. Operating lease commitments

As at 31 December the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2010		2009	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
In one year or less	1,723	180	982	281
Between one and five years	3,231	96	3,288	90
In five years or more	985	–	1,912	–
	5,939	276	6,182	371

23. Deferred tax

The following are the major deferred tax (liabilities) and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Tax losses £000	Accelerated capital allowances £000	Goodwill timing differences £000	Total £000
At 1 January 2009 as previously stated	–	82	–	82
Change in accounting for deferred taxation (note 5)	–	–	(285)	(285)
At 1 January 2009 (restated)	–	82	(285)	(203)
Charge to income	–	(37)	(267)	(304)
At 1 January 2010	–	45	(552)	(507)
Release/(charge) to income	195	–	(218)	(23)
At 31 December 2010	195	45	(770)	(530)

23. Deferred tax (continued)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting:

	2010 £000	2009 Restated (Note 5) £000	2008 Restated (Note 5) £000
Deferred tax liabilities	(770)	(552)	(285)
Deferred tax assets	240	45	82
	(530)	(507)	(203)

The government announced in June 2010 that it intended to reduce the rate of corporation tax from 28% to 24% over four years, and Finance Act 2010, which was substantively enacted in July 2010, included provisions to reduce the rate of corporation tax to 27% with effect from 1 April 2011. Accordingly, deferred tax balances have been recognised at the lower rate of 27% in these accounts.

On 23 March 2011 the government further announced that it intends to reduce the rate of corporation tax to 26% with effect from 1 April 2011 and then by 1% per annum to 23% by 1 April 2014. If the deferred tax assets and liabilities of the Group were all to reverse after 1 April 2014, the effect of the changes from 27% to 23% would be to reduce the net deferred tax liability by £79,000. To the extent that the deferred tax reverses more quickly than this the impact on the net deferred tax liability would be reduced.

24. Trade and other payables

	2010 £000	2009 £000
Trade payables	2,400	2,239
Social security and other taxes	1,113	833
Accruals and deferred income	3,209	2,855
	6,722	5,927

Trade payables and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

The average credit period on purchases of goods and services is 35 (2009: 35) days, based on the average daily amount invoiced by suppliers during the year.

25. Provisions

	Deferred consideration £000
At 1 January 2010	3,703
Settled in the year	
Cash	(1,273)
Adjustment to consideration on previous acquisitions	(246)
Notional finance charge on future deferred consideration	106
At 31 December 2010	2,290
Included in current liabilities	1,548
Included in non-current liabilities	742
	2,290

The Directors consider that the carrying amount of the above liabilities approximate to their fair value. There was no change in the year to the notional interest rate used of 5.5% for Sterling denominated deferred consideration and 3.5% for Euro denominated deferred consideration.

The deferred consideration will be settled by a mixture of cash, loan notes and new ordinary shares, dependent on the terms of the relevant sale and purchase agreement. Total estimated earn-out payments, including shares, are £1.5 million in 2011, with the remainder due over the following three years.

26. Share capital

	2010 £000	2009 £000
Authorised:		
40,000,000 ordinary shares of £0.10 each	4,000	4,000
Issued and fully paid:		
23,831,000 (2009: 23,831,000) ordinary shares of £0.10 each	2,383	2,383

The Company has one class of ordinary shares which carry no right to fixed income.

27. Share premium account

	Share premium £000
Balance at 1 January 2009	14,034
Premium arising on issue of equity shares	929
Expenses of issue of equity shares	(4)
Balance at 1 January 2010 and 31 December 2010	14,959

28. Translation reserve

	Total £000
Balance at 1 January 2009	3,264
Exchange differences on translation of foreign operations	(1,247)
Gain recognised on net investment hedge	335
Balance at 1 January 2010	2,353
Exchange differences on translation of foreign operations	(786)
Gain recognised on net investment hedge	191
Balance at 31 December 2010	1,758

29. Retained earnings

	£000
Balance at 1 January 2009 Restated (Note 5)	6,247
Net profit for the year Restated (Note 5)	914
Credit to equity for equity-settled share-based payments	76
Dividend paid	(118)
Balance at 1 January 2010 Restated (Note 5)	7,118
Net profit for the year	1,457
Credit to equity for equity-settled share-based payments	93
Dividend paid	(119)
Balance at 31 December 2010	8,549

30. Notes to the consolidated statement of cash flows

	2010 £000	2009 £000
Operating profit for the year	2,442	1,789
Adjustments for:		
Depreciation of property, plant and equipment	553	611
Amortisation	99	55
Share-based payment expense	93	76
Loss on disposal of fixed assets	162	106
Operating cash flows before movements in working capital	3,349	2,637
(Increase)/decrease in inventories	(16)	21
(Increase)/decrease in receivables	(676)	2,623
Increase/(decrease) in payables	841	(1,840)
Cash generated by operations	3,498	3,441

Additions to fixtures and equipment during the year amounting to £135,000 were financed by new finance leases (2009: £120,000).

Cash and cash equivalents in the statement of financial position are cash balances and deposits held at call with banks with original maturities of three months or less. For the purposes of the cash flow statement, cash and cash equivalents also include the overdrafts repayable on demand, on the basis that these form an integral part of the Group's cash management. Cash and cash equivalents in the cash flow statement are made up as follows:

	2010 £000	2009 £000
Cash balances and deposits	–	290
Overdrafts repayable on demand	(467)	–
Cash and cash equivalents in the cash flow statement	(467)	290

31. Share-based payments

Equity-settled share option scheme

The Company has share option schemes for employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of five years from the date of grant the options expire. Options are forfeited if the employee leaves the Group. Details of the share options outstanding during the year are as follows.

	Number of share options	2010 Weighted average exercise price	Number of share options	2009 Weighted average exercise price
Outstanding at beginning of year	1,554,000	70p	1,299,000	77p
Granted during the year	710,000	49p	345,000	45p
Lapsed during the year	(615,000)	98p	(90,000)	78p
Outstanding at the end of the year	1,649,000	50p	1,554,000	70p
Exercisable at the end of the year	615,000	50p	684,000	54p
Average remaining life of outstanding options	8 years		7 years	

The Group recognised total expenses of £93,000 and £76,000 related to equity-settled share-based payment transactions in 2010 and 2009 respectively.

The inputs into the Black-Scholes model are as follows:

Year of grant	2007	2008	2008	2008	2009	2009	2010
Weighted average share price	142.5p	105.0p	123.5p	102.0p	90.0p	90.0p	48.5p
Weighted average exercise price	142.5p	105.0p	123.5p	102.0p	10.0p	90.0p	48.5p
Expected volatility	6.9%	5.4%	5.0%	4.9%	4.7%	4.7%	4.5%
Expected life	4 years	4 years	4 years	4 years	4 years	4 years	4 years
Risk-free rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Other share-based payment plans

In addition to the employee share option schemes above the Group has outstanding options over nil ordinary shares under the Hasgrove plc Long Term Incentive Plan (2009: nil) following the surrender of nil options in the year (2009: 975,000 surrendered).

32. Retirement benefits

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. The total cost charged to income of £346,000 (2009: £390,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Company Income Statement

Year ended 31 December 2010

	Note	2010 £000	2009 £000
Continuing operations			
Operating income:			
Management charges	12	851	911
Dividends from subsidiaries		1,101	–
Administrative expenses		(558)	(747)
Operating profit	2	1,394	164
Finance costs	3	(252)	(280)
Profit/(loss) before tax		1,142	(116)
Tax	4	(22)	(55)
Net profit/(loss) attributable to equity shareholders		1,120	(171)

Company Statement of Comprehensive Income

Year ended 31 December 2010

	2010 £000	2009 £000
Profit/(loss) for the year	1,120	(171)
Other comprehensive income		
Gains on a hedge of a net investment taken to equity	–	257
Other comprehensive income for the year	–	257
Total comprehensive income for the year	1,120	86

Company Statement of Financial Position

At 31 December 2010

	Note	2010 £000	2009 £000
Non-current assets			
Investment in subsidiaries	5	17,807	17,961
Property, plant and equipment		4	3
		17,811	17,964
Loans from other Group entities		10,846	10,250
Trade and other receivables	6	121	97
		10,967	10,347
Total assets		28,778	28,311
Current liabilities			
Trade and other payables	7	(83)	(66)
Current tax liabilities		–	(55)
Borrowings	7	(6,154)	(5,454)
Provisions	8	(1,241)	(1,310)
Net current liabilities		(7,478)	(6,885)
Non-current liabilities			
Borrowings	7	(3,044)	(3,673)
Provisions	8	–	(591)
		(3,044)	(4,264)
Total liabilities		(10,522)	(11,149)
Net assets		18,256	17,162
Equity			
Share capital	9	2,383	2,383
Share premium account	9	14,959	14,959
Translation reserve	11	(643)	(810)
Retained earnings	10	1,557	630
Total equity		18,256	17,162

The financial statements of Hasgrove plc registered number 05247414 were approved by the board of Directors and authorised for issue on 13 May 2011. They were signed on its behalf by:

R D Hyde

P A Sanders

Company Statement of Changes in Equity

Year ended 31 December 2010

	Share capital £000	Share premium account £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2009	2,251	14,034	(1,067)	843	16,061
Loss for the year	–	–	–	(171)	(171)
Other comprehensive income for the year	–	–	257	–	257
Total comprehensive income for the year	–	–	257	(171)	86
Issue of share capital	132	925	–	–	1,057
Dividends	–	–	–	(118)	(118)
Credit to equity for equity-settled share-based payments	–	–	–	76	76
Balance at 31 December 2009	2,383	14,959	(810)	630	17,162
Profit for the year	–	–	–	1,120	1,120
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	1,120	1,120
Dividends	–	–	–	(119)	(119)
Credit to equity for equity-settled share-based payments	–	–	–	93	93
Balance at 31 December 2010	2,383	14,959	(643)	1,557	18,256

Company Statement of Cash Flows

Year ended 31 December 2010

	2010 £000	2009 £000
Cash generated by operations (see note 13)	215	224
Income taxes paid	(77)	–
Net cash generated by operating activities	138	224
Investing activities		
Interest paid	(185)	(216)
Purchase of property, plant and equipment	(2)	(2)
Payment of deferred consideration	(574)	(587)
Net cash used in investing activities	(761)	(805)
Financing activities		
Dividends paid	(119)	(118)
Repayments of borrowings	(500)	(1,000)
Proceeds on issue of shares	–	(4)
Cash received from Group undertakings	479	1,716
Decrease in revolving credit facility	83	(55)
Net cash (outflow)/inflow from financing activities	(57)	539
Net decrease in cash and cash equivalents	(680)	(42)
Cash and cash equivalents at beginning of year	(2,465)	(2,423)
Cash and cash equivalents at end of year	(3,145)	(2,465)

Notes to the Company Financial Statements
Year ended 31 December 2010

1. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

2. Operating profit

The auditor's remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

3. Finance costs

	2010 £000	2009 £000
Interest on borrowings	185	216
Notional finance charge on deferred consideration	67	64
	252	280

4. Tax

	2010 £000	2009 £000
Current tax	–	55
Under-provision in prior year	22	–
	22	55

Corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the company income statement as follows:

	2010 £000	2009 £000
Profit/(loss) before tax	1,142	(116)
Tax at the UK corporation tax rate of 28% (2009: 28%)	320	(33)
Tax effect of income that is not taxable in determining taxable profit	(308)	–
Tax effect of expenses that are not deductible in determining taxable profit	19	26
(Group relief received)/losses group relieved	(31)	62
Adjustment in respect of prior years	22	–
Tax charge for the year	22	55

5. Subsidiaries

	£000
Cost	
At 1 January 2009	22,613
Increase of investment in wholly owned subsidiary	3,950
Transferred to group undertakings	(8,403)
Fair value adjustments to consideration	(199)
At 1 January 2010	17,961
Fair value adjustments to consideration	(154)
At 31 December 2010	17,807

Fair value adjustments to consideration represent reassessments of deferred consideration payable on acquisitions taking place prior to the introduction of IFRS 3 (Revised).

5. Subsidiaries (continued)

Details of the Company's subsidiaries at 31 December 2010 are as follows:

Name	Principal activity in the year	Proportion of the Ordinary Shares and voting rights held by: Company	Subsidiaries
Amaze Communications Services (Holdings) Limited	Intermediate holding company	–	100%
Amaze Communications Services Limited	Strategic marketing, creative advertising and technical internet software solutions	–	100%
Amaze (Europe) Limited	Software solutions	–	100%
Amaze (Holdings) Limited	Intermediate holding company	–	100%
Amaze plc	Advertising and marketing agents	100%	–
Amaze Technology Limited	Digital technical consultancy	–	100%
The Chase Creative Consultants Limited	Graphic design	100%	–
Chase Digital Limited	Digital design	–	100%
Commento SA (Registered in Belgium)	Public relations	–	100%
Hailstones Creative SCRL (Registered in Belgium)	Corporate design	–	100%
Interel Association Management SA (Registered in Belgium)	Government relations and European affairs	–	100%
Interel Claudia Conrad GmbH (Registered in Germany)	Government relations and European affairs	–	100%
Interel Consulting Inc (Registered in US)	Government relations and European affairs	–	100%
Interel EPA & Corp (Registered in Czech Republic)	European public affairs	–	100%
Interel European Affairs Limited	Government relations and European affairs	–	100%
Interel European Affairs SA (Registered in Belgium)	Government relations and European affairs	–	100%
Interel Holdings Limited	Intermediate holding company	100%	–
Interel Management Group NV (Registered in Belgium)	Public affairs	–	100%
Interel PR & PA SA (Registered in Belgium)	Public affairs	–	100%
Interel SAS (Registered in France)	Public affairs consultancy	–	100%
Landmarks SA (Registered in Belgium)	Corporate design	–	100%
Odyssey Interactive Limited trading as Interact	Intranet provider	100%	–
Interel Consulting UK Limited (Formerly Politics International Limited)	Public and corporate affairs	100%	–
Underwired Amaze Limited	eCRM and digital services	–	100%

The above list excludes details of non-trading dormant subsidiaries, although all subsidiaries are included in the consolidated financial statements. Except where indicated, all companies are incorporated in the United Kingdom.

6. Trade and other receivables

	2010 £000	2009 £000
Other debtors	73	–
Prepayments and accrued income	48	97
	121	97

7. Other financial liabilities

Trade and other payables

	2010 £000	2009 £000
Trade and other payables	23	19
Social security and other taxes	6	34
Accruals and deferred income	54	13
	83	66

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

Borrowings

	2010 £000	2009 £000
Secured borrowing at amortised cost		
Bank overdraft	3,145	2,465
Bank loans due within one year	3,009	2,989
Bank loans due after one year	3,044	3,673
	9,198	9,127
Total borrowings		
Amount due for settlement within 12 months	6,154	5,454
Amount due for settlement after 12 months	3,044	3,673

Details of the bank loans are given in note 21 to the consolidated financial statements.

8. Provisions

	Deferred consideration £000
At 1 January 2010	1,901
Settled in the year	
Cash	(573)
Adjustment to consideration on previous acquisitions	(154)
Notional finance charge on future deferred consideration	67
At 31 December 2010	1,241
Included in current liabilities	1,241
Included in non-current liabilities	–
	1,241

The Directors consider that the above liabilities approximate to their fair value. There was no change in the year to the notional interest rate used of 5.5% for Sterling denominated deferred consideration and 3.5% for Euro denominated deferred consideration.

The deferred consideration will be settled by a mixture of cash, loan notes and new ordinary shares, dependent on the terms of the relevant sale and purchase agreement.

9. Share capital and share premium account

The movements on these items are disclosed in notes 26 and 27 to the consolidated financial statements.

10. Retained earnings

	£000
Balance at 1 January 2009	843
Loss for the year	(171)
Share option charge	76
Dividends paid	(118)
Balance at 1 January 2010	630
Profit for the year	953
Share option charge	93
Dividends paid	(119)
Balance at 31 December 2010	1,557

11. Translation reserve

	Total £000
Balance at 1 January 2009	1,067
Gain recognised on net investment hedge	(257)
Balance at 1 January 2010	810
Gain recognised on net investment hedge	(167)
Balance at 31 December 2010	643

12. Related parties

Transactions with related parties include management charges for services provided to the subsidiary companies, as disclosed on the face of the Company's income statement. Amounts owed by subsidiary companies are as disclosed on the face of the Company's statement of financial position.

13. Notes to the Company statement of cash flows

	2010 £000	2009 £000
Operating profit for the year	1,394	164
Adjustments for:		
Depreciation	1	1
Dividends received	(1,101)	–
Foreign exchange gains	(166)	–
Share-based payment expense	93	76
Operating cash flows before movements in working capital	221	241
(Increase)/decrease in receivables	(24)	172
Increase/(decrease) in payables	18	(189)
Cash generated by operations	215	224

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less. Cash and cash equivalents in the cash flow statement are made up as follows:

	2010 £000	2009 £000
Cash balances and deposits	–	–
Overdrafts repayable on demand	(3,145)	(2,465)
Cash and cash equivalents in the cash flow statement	(3,145)	(2,465)

Professional Advisers

Company registration number 5247414

Nominated Adviser and Stockbroker
KBC Peel Hunt Ltd
111 Old Broad Street
London
EC2N 1PH

Auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
United Kingdom

Solicitors
Semple Fraser LLP
1 Portland Street
Manchester
M1 3BE

Bankers
KBC Bank NV
111 Old Broad Street
London
EC2N 1PH

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Financial PR
College Hill
78 Cannon Street
London
EC4N 6HH

Calendar

30 June	2011 Financial Half Year
30 June	2011 Annual General Meeting
20 July	Dividend payment
September	Announcement of 2011 interim results
31 December	2011 financial year end

Contact Details

Registered and head office
6th Floor
Number One First Street
Manchester
M15 4FN

Telephone number
0161 242 5650

Website
www.hasgrove.com

Chairman
Godfrey Lionel Fozard Taylor
godfrey.taylor@hasgrove.com

Chief Executive
Rhoderick David Hyde
rod.hyde@hasgrove.com

Group Finance Director
Paul Antony Sanders
paul.sanders@hasgrove.com

Company Secretary
Thomas Donald Pennington-Brookfield
tom.pennington@hasgrove.com

Hasgrove plc

6th Floor
Number One First Street
Manchester
M15 4FN

0161 242 5650

Company registration
number 5247414

HASGROVE

www.hasgrove.com

Designed by The Chase