INCEPTA GROUP PLC.
FINANCIA STATEMENTS 2002.

2005521

Financial highlights

	2002	2001	
Turnover	£286.3m	£265.7m	up 8%
Gross revenue (gross profit)	£170.8m	£153.3m	up 11%
Group operating profit*	£27.8m	£27.8m	unchanged
Profit before tax*	£26.0m	£27.2m	down 4%
Diluted earnings per share*	3.19p	3.94p	down 19%
Full year dividend	0.70p	0.60p	up 17%
Cash inflow from operating activities**	£30.3m	£29.2m	up 4%

Continued growth in revenues to £170.8 million, up 11% on last year

Operating profitability* maintained at £27.8 million, despite the very difficult trading environment

Strong operating margins* of 16%, amongst the highest within Incepta's peer group

Profit before tax* falls marginally to £26.0 million (2001 – £27.2 million)

Exceptional restructuring charge of £8.5 million resulting in annualised cost savings of £7 million, through timely implementation of prudent cost management programmes

Strong financial position – operating cash flows** increased; interest cover* of 15 times

Recommended full year dividend increased 17% to 0.70 pence per share

Continued development of integrated global offering

* before goodwill and exceptional restructuring costs

** before exceptional restructuring costs

Directors' report

The directors of Incepta Group plc present their report together with the audited financial statements for the year ended 28 February 2002.

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

Incepta has a clear focus on the higher growth, higher value communications disciplines. The directors believe that, despite difficult trading conditions, the Group's performance during the year under review has demonstrated the resilience that its market positioning provides and clearly highlights the financial strength of the Group. Appropriate action has been taken to proactively manage the cost base while ensuring that this has not impaired the Group capitalising on its longer term growth potential. In addition, the Group completed a number of acquisitions during the year to strengthen its global positioning.

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

Results and dividends
The Group made a profit attributable to shareholders for the year of £3,813,000 (2001 – £16,471,000). The directors recommend a final dividend of 0.70 pence per ordinary share (2001 – 0.60 pence) to be paid on 15 July 2002 to shareholders on the register as at 17 May 2002.

Directors and their interests
The following served as directors during the year:

David Wright
Richard Nichols
Mike Butterworth (appointed 18 June 2001)
Anthony Carlisle
Kevin Steeds (resigned 12 September 2001)
Robert Alcock (appointed 1 April 2001)
Charles Good
Christian Strenger (appointed 1 April 2001)
Neil Mackay
Bob Morton (resigned 31 March 2001)

Brief biographical details of the directors at the date of this report are set out on pages 50 and 51.

The interests of directors in the share capital of the Company and in share options are set out in the statement of directors' remuneration and interests on pages 100 to 105.

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

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

Directors' report

Charitable and political donations
The Group made charitable donations during the year amounting to £77,000 (2001 – £47,000).

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

Although the Company does not make donations to political parties within the normal meaning of that expression, as part of its normal work on behalf of clients and as part of its own marketing, the Company's public affairs subsidiary, Citigate Public Affairs Limited, needs to attend or sponsor events which are organised by political parties or other political organisations, for which a charge is made.

The Company also from time to time invites clients and prospective clients to attend events that fall within the meaning of the Act's provisions. The Act defines 'donations' very broadly such that this sort of activity falls within its ambit. It similarly defines EU Political Organisation very widely such that it includes, for example, bodies concerned with policy review and law reform, with representation of the business community or with the representation of their communities or special interest groups which the Company may wish to support.

During the year the Company incurred no EU Political Expenditure. It made donations amounting to £4,400 to the Labour Party as payment for seats at the Party's Annual Conference Dinner.

Substantial shareholdings
As at 3 May 2002, the directors were aware of the following interest of 3 per cent. or more in the issued ordinary share capital of the Company and had not been notified, pursuant to the provisions of the Companies Act 1985, of any further such interests:

Shareholder	Percentage of issued share capital held %
Morley Fund Management Limited	11.00

Policy on payment to creditors
The Company agrees the terms and conditions under which business transactions with suppliers are conducted. It complies with these payment terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions. The number of days taken to pay suppliers, calculated on the basis of trade creditors as at 28 February 2002 and average daily purchases for the year ended 28 February 2002, is 21 days (2001 – 20 days).

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

Auditors
The audit of the Group was put out to competitive tender during the year. As a result of this process PricewaterhouseCoopers resigned as auditors and the directors appointed KPMG Audit Plc as auditors. A resolution appointing KPMG Audit Plc will be proposed at the Annual General Meeting. Special notice has been received for this resolution pursuant to section 388 of the Companies Act 1985.

By order of the board

Michael J Butterworth

Mike Butterworth
Company Secretary

7 May 2002

Consolidated profit and loss account

for the year ended 28 February 2002

	Note	Before exceptional restructuring costs £'000	Exceptional restructuring costs (Note 8) £'000	2002 Total £'000	2001 Total £'000
Turnover	2, 3				
Continuing operations		269,624	–	269,624	265,663
Acquisitions		16,645	–	16,645	–
		286,269	–	286,269	265,663
Cost of sales		(115,437)	–	(115,437)	(112,331)
Gross profit (gross revenue)	2, 3				
Continuing operations		161,222	–	161,222	153,332
Acquisitions		9,610	–	9,610	–
		170,832	–	170,832	153,332
Administrative expenses (including goodwill)		(149,224)	(8,512)	(157,736)	(126,614)
Other operating income	4	802	–	802	583
Group operating profit before goodwill	2, 3				
Continuing operations		25,613	(8,512)	17,101	27,792
Acquisitions		2,174	–	2,174	–
		27,787	(8,512)	19,275	27,792
Goodwill		(5,377)	–	(5,377)	(491)
Group operating profit					
Continuing operations		23,252	(8,512)	14,740	27,301
Acquisitions		(842)	–	(842)	–
		22,410	(8,512)	13,898	27,301
Share of operating profit of associates		26	–	26	59
Total operating profit: Group and share of associates		22,436	(8,512)	13,924	27,360
Net interest payable	6	(1,805)	–	(1,805)	(681)
Profit on ordinary activities before tax	2, 3, 7	20,631	(8,512)	12,119	26,679
Tax on profit on ordinary activities	9	(9,638)	1,281	(8,357)	(10,086)
Profit on ordinary activities after tax		10,993	(7,231)	3,762	16,593
Minority interests	22	51	–	51	(122)
Profit attributable to group shareholders		11,044	(7,231)	3,813	16,471
Dividend	10			(3,434)	(2,707)
Retained profit for the financial year	21			379	13,764

	Note	2002	2001
Earnings per share			
Basic	11	0.82p	4.02p
Diluted	11	0.74p	3.83p
Basic before goodwill and exceptional restructuring costs	11	3.52p	4.14p
Diluted before goodwill and exceptional restructuring costs	11	3.19p	3.94p

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

Consolidated balance sheet

as at 28 February 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	12	340,054	301,635
Tangible assets	13	16,839	15,089
		356,893	316,724
Investments:			
Investment in associates	14	78	70
Other investments	14	1,069	711
		1,147	781
		358,040	317,505
Current assets			
Work in progress		4,362	3,920
Debtors	15	59,970	60,578
Cash at bank and in hand	25	19,794	29,493
		84,126	93,991
Creditors: amounts falling due within one year	16	(103,308)	(87,921)
Net current (liabilities)/assets		(19,182)	6,070
Total assets less current liabilities		338,858	323,575
Creditors: amounts falling due after more than one year	17	(31,612)	(24,545)
Provisions for liabilities and charges	19	(29,994)	(33,913)
Net assets	2	277,252	265,117
Capital and reserves			
Called up share capital	20	4,716	4,487
Share premium account	21	38,542	33,789
Shares to be issued	21	68,174	67,277
Merger reserve	21	130,585	123,710
Profit and loss account	21	35,158	35,654
Equity shareholders' funds		277,175	264,917
Minority interests (equity)	22	77	200
Total equity capital employed		277,252	265,117

These financial statements were approved by the board of directors on 7 May 2002 and were signed on its behalf by:

Richard Nichols
Chief Executive

Mike Butterworth
Group Finance Director

Company balance sheet
as at 28 February 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Tangible assets	13	4,286	3,584
Investments:			
Investment in subsidiary undertakings	14	467,700	287,898
Other investments	14	1,055	711
		468,755	288,609
		473,041	292,193
Current assets			
Debtors: due after more than one year	15	54,575	61,090
Debtors: due within one year	15	35,913	24,450
		90,488	85,540
Cash at bank and in hand		9,878	10,033
		100,366	95,573
Creditors: amounts falling due within one year	16	(215,736)	(42,536)
Net current (liabilities)/assets		(115,370)	53,037
Total assets less current liabilities		357,671	345,230
Creditors: amounts falling due after more than one year	17	(30,852)	(23,527)
Provisions for liabilities and charges	19	(26,820)	(33,210)
Net assets		299,999	288,493
Capital and reserves			
Called up share capital	20	4,716	4,487
Share premium account	21	38,542	33,789
Shares to be issued	21	68,174	67,277
Merger reserve	21	175,952	169,077
Profit and loss account	21	12,615	13,863
Equity shareholders' funds		299,999	288,493

These financial statements were approved by the board of directors on 7 May 2002 and were signed on its behalf by:

Richard Nichols
Chief Executive

Mike Butterworth
Group Finance Director

Consolidated cash flow statement

for the year ended 28 February 2002

	Note	2002 £'000	2001 £'000
Cash inflow from operating activities		25,644	29,115
Dividends received from associates		34	49
Returns on investments and servicing of finance	23	(1,936)	(1,203)
Taxation	23	(11,063)	(9,894)
Capital expenditure and financial investment	23	(6,378)	(5,947)
Acquisitions	23	(18,072)	(33,253)
Equity dividends paid		(2,389)	(1,961)
Net cash outflow before financing		(14,160)	(23,094)
Financing	23	5,050	24,126
(Decrease)/increase in cash in the year		(9,110)	1,032

Reconciliation of group operating profit to cash flow from operating activities

	2002 £'000	2001 £'000
Group operating profit	13,898	27,301
Goodwill	5,377	491
Depreciation	6,471	4,304
Net loss on disposal of tangible fixed assets	172	11
Other non-cash items	(349)	84
(Increase)/decrease in work in progress	(732)	1,986
Decrease in debtors	7,760	9,839
Decrease in creditors	(6,953)	(14,901)
Net cash inflow from operating activities	25,644	29,115

Reconciliation of net cash flow to movement in net debt

	Note	2002 £'000	2001 £'000
(Decrease)/increase in cash in the year		(9,110)	1,032
Cash inflow from increase in debt	23	(4,763)	(4,515)
Issue costs of new bank loans		131	525
Movement in net debt resulting from cash flows	25	(13,742)	(2,958)
Debt acquired with subsidiary undertakings and businesses	25	(63)	(2,981)
Inception of finance leases		(105)	(119)
Issue of loan notes for non-cash consideration		(8,816)	(13,904)
Other non-cash changes		(129)	(114)
Effect of foreign exchange	25	(594)	369
Movement in net debt		(23,449)	(19,707)
Opening net (debt)/funds	25	(9,296)	10,411
Closing net debt	25	(32,745)	(9,296)

Statement of total recognised gains and losses
for the year ended 28 February 2002

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Profit attributable to group shareholders	3,813	16,471	2,757	5,763
Exchange differences on foreign currency net investments	(304)	875	–	–
Total recognised gains and losses	3,509	17,346	2,757	5,763

Reconciliation of movements in equity shareholders' funds
for the year ended 28 February 2002

	Note	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Profit attributable to group shareholders		3,813	16,471	2,757	5,763
Dividend		(3,434)	(2,707)	(3,434)	(2,707)
		379	13,764	(677)	3,056
Exchange differences on foreign currency net investments		(304)	875	–	–
Contribution to Qualifying Employee Share Trust		(571)	–	(571)	–
Issue of shares net of issue costs		11,857	143,973	11,857	143,973
Net movement in estimated value of shares to be issued as consideration for acquisitions	21	897	44,750	897	44,750
Net addition to equity shareholders' funds		12,258	203,362	11,506	191,779
Opening equity shareholders' funds		264,917	61,555	288,493	96,714
Closing equity shareholders' funds		277,175	264,917	299,999	288,493

Notes to the financial statements

28 February 2002

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

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

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

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

(2) Changes in presentation of financial information
Segmental information has been changed to more appropriately reflect the Group's operations with the result that Design & Branding, which was formerly a separate class of business, is now included in Marketing Services. Comparative figures for these two divisions have been aggregated accordingly.

The following Financial Reporting Standards ('FRS'), which came into effect this year, have been adopted in these financial statements:

The transitional rules of FRS 17, 'Retirement benefits', have been adopted but have not resulted in any material changes in presentation as the Group typically provides retirement benefits to eligible employees by way of defined contribution schemes.

FRS 18, 'Accounting policies', has been adopted but has not resulted in any changes in presentation.

FRS 19, 'Deferred tax', has been adopted and consequently deferred tax assets and liabilities have been recognised and the required disclosures have been included. The impact of applying FRS 19 to prior periods is immaterial, therefore no prior year adjustment has been made.

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

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

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

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

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

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

Notes to the financial statements

28 February 2002

1 Accounting policies (continued)

(7) Fixed assets

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

Short leasehold property – Life of lease

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

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

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

(8) Goodwill and intangible assets

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

In accordance with FRS 10: 'Goodwill and intangible assets', goodwill arising on acquisitions on or after 1 March 1998 is capitalised as an intangible fixed asset and amortised over its estimated useful economic life. Each acquisition is assessed with reference to its durability, ability to sustain long term profitability, proven ability to maintain market leadership and the Group's commitment to develop and enhance its value across its network of offices worldwide. Based on their assessment of acquisitions during the year and reassessment of certain prior year acquisitions, the directors are of the opinion that the intangible assets of the Group have economic lives ranging from 10 years to indefinite.

Goodwill previously written off directly to reserves has not been reinstated on the balance sheet in accordance with the transitional provisions of FRS 10. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill taken directly to reserves on acquisition and the net book value of any related goodwill capitalised in the balance sheet.

In accordance with FRS 10 and FRS 11: 'Impairment of fixed assets and goodwill', the carrying values of intangible assets are reviewed annually for impairment on the basis stipulated in FRS 11 and adjusted to the recoverable amount if required.

Where goodwill is treated as having indefinite economic life, the financial statements depart from the requirement of companies' legislation to amortise goodwill over a finite period, in order to give a true and fair view for the reasons outlined above. Capitalised goodwill regarded as having indefinite useful economic life amounted to £320.5 million as at 28 February 2002 (2001 – £290.5 million). If this goodwill were to be amortised over a period of 20 years, operating profit for the year ended 28 February 2002 would have decreased by £15.4 million (2001 – £10.4 million).

(9) Work in progress

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

(10) Financial instruments

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

(11) Pensions

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

(12) Tax

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

Notes to the financial statements

28 February 2002

2 Segmental information

Classes of business

	Turnover		Gross profit (gross revenue)		Profit on ordinary activities before tax	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Public Relations	113,867	114,115	85,479	83,292	11,456	14,981
Marketing Services	96,504	61,983	55,090	34,208	10,010	4,672
Advertising	86,700	98,367	33,345	36,618	6,321	8,139
Intra-group trading	(10,802)	(8,802)	(3,082)	(786)	–	–
	286,269	265,663	170,832	153,332	27,787	27,792
Goodwill					(5,377)	(491)
Share of operating profit of associates					26	59
Net interest payable					(1,805)	(681)
					20,631	26,679
Exceptional restructuring costs (note 8)					(8,512)	–
					12,119	26,679

	Exceptional restructuring costs		Net assets	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Public Relations	4,980	–	52,058	55,158
Marketing Services	1,277	–	19,349	21,728
Advertising	1,427	–	15,933	8,209
Parent company and non-operational	828	–	189,912	180,022
	8,512	–	277,252	265,117

The above analyses of turnover, gross profit (gross revenue), profit on ordinary activities before tax and net assets for the year ended 28 February 2002 include the following amounts in relation to acquisitions during the year:

	Turnover £'000	Gross profit (gross revenue) £'000	Profit/(loss) on ordinary activities before tax £'000	Net assets £'000
Public Relations	4,073	3,363	500	780
Marketing Services	12,572	6,247	1,674	2,857
	16,645	9,610	2,174	3,637
Goodwill			(3,016)	
Net interest payable			(25)	
			(867)	

Classes of business have been changed to more appropriately reflect the Group's operations with the result that Design & Branding, which was previously a separate class of business, is now included in Marketing Services. Comparative figures for these two divisions have been aggregated accordingly.

Notes to the financial statements

28 February 2002

2 Segmental information (continued)

Geographical segments

	Turnover by origin		Gross profit (gross revenue)		Profit on ordinary activities before tax	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
UK	146,320	132,910	86,756	77,911	14,140	16,430
Rest of the world	150,751	141,555	87,158	76,207	13,647	11,362
Intra-group trading	(10,802)	(8,802)	(3,082)	(786)	–	–
	286,269	265,663	170,832	153,332	27,787	27,792
Goodwill					(5,377)	(491)
Share of operating profit of associates					26	59
Net interest payable					(1,805)	(681)
					20,631	26,679
Exceptional restructuring costs (note 8)					(8,512)	–
					12,119	26,679

	Turnover by destination (including intra-group trading)		Exceptional restructuring costs		Net assets	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
UK	125,347	109,744	3,010	–	206,801	190,153
Rest of the world	171,724	164,721	5,502	–	70,451	74,964
	297,071	274,465	8,512	–	277,252	265,117

3 Analysis of the results of acquisitions

			2002	2001
	Continuing operations £'000	Acquisitions £'000	Total £'000	Continuing operations £'000
Turnover	269,624	16,645	286,269	265,663
Cost of sales	(108,402)	(7,035)	(115,437)	(112,331)
Gross profit (gross revenue)	161,222	9,610	170,832	153,332
Administrative expenses (including goodwill and exceptional restructuring costs)	(147,284)	(10,452)	(157,736)	(126,614)
Other operating income	802	–	802	583
Group operating profit before goodwill and exceptional restructuring costs	25,613	2,174	27,787	27,792
Goodwill	(2,361)	(3,016)	(5,377)	(491)
Exceptional restructuring costs (note 8)	(8,512)	–	(8,512)	–
Group operating profit/(loss)	14,740	(842)	13,898	27,301
Share of operating profit of associates	26	–	26	59
Net interest payable	(1,780)	(25)	(1,805)	(681)
Profit/(loss) on ordinary activities before tax	12,986	(867)	12,119	26,679

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

4 Other operating income

Other operating income of £802,000 (2001 – £583,000) consists of rental income from office space which has been sub-let.

Notes to the financial statements

28 February 2002

5 Employee numbers and remuneration

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

	2002	2001
Public Relations	997	780
Marketing Services	701	468
Advertising	400	407
Head Office	41	38
	2,139	1,693

The aggregate payroll costs of these persons were as follows:

	2002 £'000	2001 £'000
Wages and salaries	92,413	73,372
Social security costs	8,540	7,165
Other pension costs	2,573	2,077
	103,526	82,614

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

	2002 £'000	2001 £'000
Wages and salaries	4,506	–
Social security costs	340	–
Other pension costs	75	–
	4,921	–

The information on directors' emoluments and share options set out on pages 100 to 105 forms part of these financial statements.

6 Net interest payable

	2002 £'000	2001 £'000
Interest payable:		
Group		
– on bank loans and overdrafts	2,273	1,466
– on loan notes	420	267
– in respect of finance leases	47	33
Associates		
– on bank loans and overdrafts	6	–
	2,746	1,766
Interest receivable:		
Group		
– on bank deposits	(938)	(1,081)
Associates		
– on bank deposits	(3)	(4)
	(941)	(1,085)
	1,805	681

Notes to the financial statements

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7 Profit on ordinary activities before tax

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

	2002 £'000	2001 £'000
Staff costs (note 5)	103,526	82,614
Depreciation of tangible fixed assets:		
– owned assets	6,400	4,108
– assets held under finance leases	71	196
Net loss on disposal of tangible fixed assets	172	11
Rent and other operating lease rentals	11,048	7,493
Exchange (gains)/losses	(222)	326
Group audit fees and expenses – KPMG Audit Plc (2001 – PricewaterhouseCoopers)	430	430

Of the Group audit fee, the parent company fee was £67,000 (2001 – £65,000). *Fees paid to KPMG Audit Plc and its associates for non-audit services were £295,000 (2001* – PricewaterhouseCoopers £279,000) of which £25,000 (2001 – £153,000) arose in the UK. These fees all arose prior to their appointment as auditor. Of the total non-audit fees, £214,000 (2001 – £154,000) has been capitalised within intangible fixed assets, being costs of acquisitions.

8 Exceptional restructuring costs

	2002 £'000	2001 £'000
Restructuring costs:		
– redundancy (note 5)	4,921	–
– property	1,809	–
– other	1,782	–
	8,512	–

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

9 Tax on profit on ordinary activities

	2002 £'000	2001 £'000
UK corporation tax		
Current tax on income for the year	4,912	5,480
Adjustments in respect of prior years	168	(831)
	5,080	4,649
Double taxation relief	(31)	(122)
	5,049	4,527
Foreign tax		
Current tax on income for the year	5,727	5,542
Adjustments in respect of prior years	(1,031)	(1)
	4,696	5,541
Total current tax charge	9,745	10,068
Deferred tax (note 19)		
Origination and reversal of timing differences	(1,395)	–
Share of associates' tax	7	18
Tax on profit on ordinary activities	8,357	10,086

Included above is a tax credit on exceptional restructuring costs amounting to £1,281,000 (2001 – nil).

Notes to the financial statements

28 February 2002

9 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the current year

The total current tax charge for the year is higher than the standard rate of corporation tax in the UK of 30% (2001 – 30%). The differences are explained below:

	2002 £'000	2001 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	12,119	26,679
Current tax at 30% (2001 – 30%)	(3,636)	(8,004)
Effects of:		
Expenses (including goodwill) not deductible for tax purposes	(2,175)	(1,015)
Depreciation in excess of capital allowances	(227)	(119)
Utilisation of tax losses	152	–
Unrecognised tax credits in respect of overseas losses	(3,491)	(1,112)
Higher tax rates on overseas earnings	(1,231)	(650)
Adjustments to tax charge in respect of previous years	863	832
Total current tax charge	(9,745)	(10,068)

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

10 Dividend

	2002 £'000	2001 £'000
Final dividend proposed	3,453	2,707
Dividend receivable in respect of own shares held	(19)	–
	3,434	2,707

A final dividend of 0.70 pence per share (2001 – 0.60 pence per share) is recommended and, subject to approval by shareholders, will be paid on 15 July 2002 to shareholders on the register as at 17 May 2002.

11 Earnings per share

Earnings per share has been calculated using the following:

	2002 Earnings £'000	2002 Weighted average number of shares	2001 Earnings £'000	2001 Weighted average number of shares
Basic EPS	3,813	466,019,938	16,471	410,086,758
Diluted EPS	3,813	514,887,844	16,471	430,419,490
Basic EPS before goodwill and exceptional restructuring costs	16,421	466,019,938	16,962	410,086,758
Diluted EPS before goodwill and exceptional restructuring costs	16,421	514,887,844	16,962	430,419,490

Notes to the financial statements

28 February 2002

11 Earnings per share (continued)

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

	2002			2001		
	Earnings £'000	Weighted average number of shares	Earnings per share p	Earnings £'000	Weighted average number of shares	Earnings per share p
Basic EPS	3,813	466,019,938	0.82	16,471	410,086,758	4.02
Dilutive effect of:						
Options		7,237,251			12,178,004	
Shares to be issued as consideration for acquisitions		41,630,655			8,154,728	
Diluted EPS	3,813	514,887,844	0.74	16,471	430,419,490	3.83
Earnings per share before goodwill and exceptional restructuring costs						
Basic EPS	3,813	466,019,938	0.82	16,471	410,086,758	4.02
Goodwill	5,377			491		
Exceptional restructuring costs (post tax)	7,231			–		
Basic EPS before goodwill and exceptional restructuring costs	16,421	466,019,938	3.52	16,962	410,086,758	4.14
Diluted EPS	3,813	514,887,844	0.74	16,471	430,419,490	3.83
Goodwill	5,377			491		
Exceptional restructuring costs (post tax)	7,231			–		
Diluted EPS before goodwill and exceptional restructuring costs	16,421	514,887,844	3.19	16,962	430,419,490	3.94

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

12 Intangible fixed assets

	Goodwill £'000
Cost	
At 1 March 2001	302,126
Goodwill arising on acquisitions in the year (note 27)	44,666
Net adjustment to goodwill arising on prior year acquisitions	(870)
At 28 February 2002	345,922
Amortisation	
At 1 March 2001	491
Charge for the year	4,250
Impairment losses	1,127
At 28 February 2002	5,868
Net book value	
At 28 February 2002	340,054
At 28 February 2001	301,635

The net adjustment to goodwill arising on prior year acquisitions comprises a net decrease to consideration payable of £1,157,000 and fair value adjustments of £287,000.

Notes to the financial statements

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13 Tangible fixed assets

Group

	Freehold and long leasehold property £'000	Short leasehold property £'000	Fixtures, fittings, vehicles & equipment £'000	Total £'000
Cost				
At 1 March 2001	562	7,590	20,068	28,220
Acquisitions	–	212	1,894	2,106
Additions	95	2,493	4,268	6,856
Disposals	(109)	(122)	(3,540)	(3,771)
Foreign exchange	11	43	224	278
At 28 February 2002	559	10,216	22,914	33,689
Depreciation				
At 1 March 2001	144	3,011	9,976	13,131
Charge for the year	187	1,114	5,170	6,471
Disposals	(17)	(95)	(2,842)	(2,954)
Foreign exchange	–	13	189	202
At 28 February 2002	314	4,043	12,493	16,850
Net book value				
At 28 February 2002	245	6,173	10,421	16,839
At 28 February 2001	418	4,579	10,092	15,089

The net book value of assets at 28 February 2002 includes an amount of £667,000 in respect of assets held under finance leases (28 February 2001 – £770,000).

Company

	Freehold and long leasehold property £'000	Short leasehold property £'000	Fixtures, fittings, vehicles & equipment £'000	Total £'000
Cost				
At 1 March 2001	386	3,651	3,368	7,405
Additions	32	1,321	560	1,913
Transfers from subsidiary undertakings	–	–	61	61
Transfers to subsidiary undertakings	(109)	–	–	(109)
Disposals	–	–	(1,044)	(1,044)
At 28 February 2002	309	4,972	2,945	8,226
Depreciation				
At 1 March 2001	20	1,784	2,017	3,821
Charge for the year	17	436	675	1,128
Transfers from subsidiary undertakings	–	–	52	52
Transfers to subsidiary undertakings	(17)	–	–	(17)
Disposals	–	–	(1,044)	(1,044)
At 28 February 2002	20	2,220	1,700	3,940
Net book value				
At 28 February 2002	289	2,752	1,245	4,286
At 28 February 2001	366	1,867	1,351	3,584

Notes to the financial statements

28 February 2002

14 Fixed asset investments

Group

	Investment in associates £'000	Other investments Own shares £'000	Other £'000	Total £'000
At 1 March 2001	70	–	711	711
Additions	–	974	–	974
Reclassification of own shares held from Other debtors	–	14	–	14
Share of profits less dividends for the year	9	–	–	–
Foreign exchange	(1)	–	–	–
Provision for permanent diminution in value	–	–	(630)	(630)
At 28 February 2002	78	988	81	1,069

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

The Group's investment in own shares is stated at cost and represents 2,706,965 of the Company's ordinary shares (nominal value of 1 pence per share) held by employee share trusts. The trusts purchase shares on the open market for the benefit of employees using funds provided by the Company. Further details of these trusts are contained on pages 98 to 105. The market value of own shares at 28 February 2002 was £1,245,000.

The amount shown as other investments represents the Company's investment in Openshop Holding AG, a German technology company. It is a listed investment on an overseas stock exchange and is shown at market value at 28 February 2002.

Company

	Investment in subsidiary undertakings £'000	Other investments Own shares £'000	Other £'000	Total £'000
At 1 March 2001	287,898	–	711	711
Additions	29,522	974	–	974
Transfers from subsidiary undertakings	266,545	–	–	–
Transfers to subsidiary undertakings	(110,911)	–	–	–
Provision for permanent diminution in value	(5,354)	–	(630)	(630)
At 28 February 2002	467,700	974	81	1,055

Loans to Group undertakings are included in debtors.

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

The Company's investment in own shares is stated at cost and represents 2,023,337 of the Company's ordinary shares (nominal value of 1 pence per share) held by employee share trusts. The trusts purchase shares on the open market for the benefit of employees using funds provided by the Company. Further details of these trusts are contained on pages 98 to 105. The market value of own shares at 28 February 2002 was £930,000.

15 Debtors

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Amounts falling due within one year:				
Trade debtors	47,975	52,886	–	–
Amounts owed by subsidiary undertakings	–	–	34,671	22,916
Amounts owed by associates – dividends receivable	11	34	–	–
Corporation tax	1,021	672	262	761
Withholding tax recoverable	104	135	–	–
Deferred tax asset (note 19)	2,804	–	–	-
Other debtors	3,161	2,004	655	354
Prepayments and accrued income	4,894	4,847	325	419
	59,970	60,578	35,913	24,450
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	–	–	54,575	61,090
	59,970	60,578	90,488	85,540

Notes to the financial statements

28 February 2002

16 Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Loan notes (note 18)	21,453	14,660	21,453	14,642
Obligations under finance leases	145	474	–	7
Trade creditors	17,887	19,980	273	586
Amounts owed to subsidiary undertakings	–	–	172,908	16,121
Amounts owed to associates – trading balances	28	13	–	–
Corporation tax	6,871	7,988	–	–
Other taxes and social security	4,911	5,295	1,354	958
Proposed dividend	3,434	2,702	3,439	2,707
Other creditors	3,944	5,564	808	112
Consideration for acquisitions	10,086	–	9,172	–
Accruals and deferred income	34,549	31,245	6,329	7,403
	103,308	87,921	215,736	42,536

Included within Other creditors for the Group is £179,000 (2001 – £100,000) relating to liabilities and accrued obligations of the Citigate Communications Group Limited Employee Share Trust, representing its income tax liability, accrued professional fees and a provision against future commitments.

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank loans	29,525	23,527	29,525	23,527
Loan notes (note 18)	1,327	–	1,327	–
Obligations under finance leases	89	128	–	–
Corporation tax	97	423	–	–
Other creditors	574	467	–	–
	31,612	24,545	30,852	23,527

Bank loans are stated net of unamortised issue costs of £475,000 (2001 – £473,000). Issue costs of £131,000 were incurred in respect of the borrowing facilities described in note 26. They are allocated to the profit and loss account over the five year term of the facilities on a straight line basis. Issue costs of £129,000 (2001 – £62,000) were charged to the profit and loss account during the year.

18 Loan notes

Loan notes have been issued as part of the consideration for certain acquisitions. Secured loan notes are secured either on cash deposits, by guarantee or by way of a charge over the minority interests acquired. Cash deposits provided as security are included within cash at bank and in hand. Loan notes bear interest at the following rates:

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Secured				
Bank base rate plus 0.25%	435	736	435	736
Bank bid rate less 1.15%	–	2	–	2
LIBOR less 1.5%	2,963	–	2,963	–
Bank base rate less 2.5%	15,488	12,326	15,488	12,326
Nil	1,327	–	1,327	–
	20,213	13,064	20,213	13,064
Unsecured				
Bank base rate less 1.5%	2,567	1,596	2,567	1,578
	22,780	14,660	22,780	14,642

Notes to the financial statements

28 February 2002

19 Provisions for liabilities and charges

Group

	Contingent consideration for acquisitions £'000	Deferred tax £'000	Other £'000	Total £'000
At 1 March 2001	33,383	–	530	33,913
Paid during the year	(3,700)	–	–	(3,700)
Settled by issue of loan notes	(2,267)	–	–	(2,267)
Net movement in estimated contingent consideration payable for acquisitions in prior years	3,275	–	–	3,275
Other adjustments in relation to acquisitions in prior years	–	–	305	305
Estimated contingent consideration payable for current year acquisitions	6,246	–	–	6,246
Amounts arising from acquisitions in the year	–	94	–	94
Transferred (to)/from Creditors: amounts falling due within one year	(9,305)	304	–	(9,001)
Charged/(credited) to profit and loss account	–	1,409	(280)	1,129
At 28 February 2002	27,632	1,807	555	29,994

Company

	Contingent consideration for acquisitions £'000	Deferred tax £'000	Other £'000	Total £'000
At 1 March 2001	32,680	–	530	33,210
Paid during the year	(3,449)	–	–	(3,449)
Settled by issue of loan notes	(2,267)	–	–	(2,267)
Net movement in estimated contingent consideration payable for acquisitions in prior years	2,592	–	–	2,592
Estimated contingent consideration payable for current year acquisitions	5,996	–	–	5,996
Transferred to Creditors: amounts falling due within one year	(9,100)	–	–	(9,100)
Charged/(credited) to profit and loss account	–	118	(280)	(162)
At 28 February 2002	26,452	118	250	26,820

Contingent consideration for acquisitions

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

The provision for contingent consideration for acquisitions represents the directors' best estimate of the amount expected to be payable in cash or loan notes. The estimated value of contingent consideration payable by issue of new ordinary shares in the Company of £54.6 million (2001 – £66.4 million) is included in the balance sheet within Shares to be issued (note 21).

Maturity of contingent consideration for acquisitions

	Group		Company	
	Cash or loan notes £'000	Shares to be issued £'000	Cash or loan notes £'000	Shares to be issued £'000
In one year or less	5,099	6,167	4,949	6,167
In more than one year but not more than two years	12,215	34,991	12,037	34,991
In more than two years but not more than five years	10,318	13,489	9,466	13,489
	27,632	54,647	26,452	54,647

The directors estimate that, in delivering the future financial performance required for the above amounts to become payable, the acquired entities will generate £47.4 million of operating cash inflows.

In addition to the above amounts, Creditors falling due within one year and Shares to be issued include consideration for acquisitions of £10.1 million (2001 – nil) and £13.5 million (2001 – £0.9 million) respectively in respect of completed earn-out periods for which consideration (payable in either cash, loan notes or by the issue of new shares) has become due but has not yet been settled as at 28 February 2002.

Details of each acquisition made during the current year are set out in note 27.
The maximum potential contingent cash and loan note consideration payable under all earn-out arrangements ongoing as at 28 February 2002 is £87.8 million.

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19 Provisions for liabilities and charges (continued)

Deferred tax

The elements of deferred tax are as follows:

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Difference between accumulated depreciation/amortisation and tax depreciation	(2,722)	–	(118)	–
Other timing differences	1,287	–	–	–
Tax losses	1,517	–	–	–
Undiscounted net deferred tax asset/(liability)	82	–	(118)	–
Effect of discounting	915	–	–	–
Discounted net deferred tax asset/(liability)	997	–	(118)	–
The net deferred tax asset /(liability) comprises:				
Deferred tax asset (note 15)	2,804	–	–	–
Deferred tax liability	(1,807)	–	(118)	–
	997	–	(118)	–

The movements on deferred tax are as follows:

	Group	
	Asset £'000	Liability £'000
At 1 March 2001	–	–
Acquisitions	–	(94)
Reclassification from Creditors	–	(304)
Credit/(charge) to profit and loss account	2,804	(1,409)
At 28 February 2002	2,804	(1,807)

The impact of applying FRS19 to prior years is immaterial, therefore no prior year adjustment has been made.

During the current year, a reorganisation of the Group's US companies has given rise to an ability to more efficiently utilise tax losses arising in the US. This has resulted in a deferred tax asset being recognised in respect of US trading losses to the extent that it is more likely than not that there will be sufficient taxable profits against which these losses can be offset.

At 28 February 2002, in addition to the deferred tax balances recognised above, the Group had potential deferred tax assets of £6,540,000 (2001 – £1,289,000) in relation to allowable tax losses and £nil (2001 – £647,000) in relation to timing differences. These assets have not been recognised in the financial statements as, in the opinion of the directors, there is insufficient evidence that they will be recoverable.

Other

Other provisions comprise a provision for employer's National Insurance on unapproved share options granted since 6 April 1999 (Group and Company) and a provision for the unfunded liability on an overseas pension scheme (Group). This pension scheme relates to one individual and provides, on retirement, a fixed predetermined pension that is neither linked to final salary nor subject to any increases. The Group's liability under this scheme is substantially covered by an insurance policy. The liability has been determined using a discount rate of 6% by a qualified actuary as at 28 February 2002. The Group's contribution to the scheme for the year was £29,500.

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20 Called up share capital

	2002 £'000	2001 £'000
Authorised		
Ordinary shares of 1p each 910,000,000 (2001 – 610,000,000)	9,100	6,100
Allotted and fully paid		
Ordinary shares of 1p each 471,584,047 (2001 – 448,656,576)	4,716	4,487

Pursuant to an ordinary resolution passed at the Company's Annual General Meeting on 6 July 2001, the authorised share capital of the Company was increased from £6,100,000 to £9,100,000 by the creation of 300,000,000 ordinary shares of 1 pence each to rank pari passu in all respects with the existing ordinary shares of 1 pence each of the Company.

During the year 11,903,491 shares were issued as initial consideration for the acquisitions of First Financial Communications B.V., Gunpowder Srl, Karen Earl Limited, Media Strategy, Inc., and Media Strategy Training Centre, Inc., Global Intelligence & Security, LLC, Admaster, Inc., and Masterapproach, LLC.

A total of 8,307,757 shares were issued as deferred consideration for the acquisitions of Ballard & King Communications, Key Communications Limited, Su Yeang Design Pte Limited, DVL Smith Group Limited, Oaktree Communications (Pty) Limited and 5% of SEA Dewe Rogerson GmbH, made during prior years.

A total of 2,333,447 shares were issued during the year under the Company's share option schemes for total consideration of £357,000.

The Company offered the shareholders the option to receive Ordinary shares instead of a cash dividend. As a result, on 6 July 2001 the company issued 382,776 shares as a scrip dividend alternative.

Subsequent to the year end 199,07[illegible] shares were issued as deferred consideration for the acquisition of Beaumark Limited and 5% of SEA Dewe Rogerson GmbH, and 421,950 shares were issued under the Company's share option schemes.

The total number of shares in issue as at 7 May 2002 is 472,205,067.

Further shares are to be issued, subject to future financial performance, as consideration for acquisitions. The estimated value of these shares is included in Shares to be issued at 28 February 2002 (note 21).

The Company has shareholder authority to purchase its own shares, to a maximum of 45,123,377 shares.

Options

As at 28 February 2002, certain employees including directors held options over ordinary shares of 1p under the following schemes:

	Options held 2002	Options held 2001	Exercise prices (per share)	Exercise periods (various dates)
Employee Share Option Scheme	1,956,000	2,596,000	10.5p to 31.0p	Up to 29 October 2007
Executive Share Option Plan	6,395,000	6,535,000	23.25p to 129.0p	Between 22 September 2001 and 16 October 2011
Executive Long Term Incentive Plan	10,024,000	3,174,000	35.75p to 129.0p	Between 20 October 2003 and 16 October 2011
1998 Savings Related Share Option Scheme	228,163	1,961,695	15.2p	Between 1 January 2002 and 31 December 2002
1999 Savings Related Share Option Scheme	1,031,475	1,522,786	47.0p to 50.0p	Between 1 January 2002 and 30 June 2003
2000 Savings Related Share Option Scheme	511,537	1,227,967	103.6p to 139.5p	Between 1 January 2003 and 30 June 2004
2001 Savings Related Share Option Scheme	1,912,187	–	29.5p to 38.95p	Between 1 January 2004 and 30 June 2005
	22,058,362	17,017,448		

A total of 9,036,726 options were granted, 2,351,138 exercised and 1,644,674 lapsed during the year under the above schemes. Further details are shown in the statement of directors' remuneration and interests on pages 100 to 105.

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21 Reserves

Group

	Share premium account £'000	Shares to be issued £'000	Merger reserve £'000	Profit and loss account £'000
At 1 March 2001	33,789	67,277	123,710	35,654
Retained profit for the year	–	–	–	379
Exchange differences on foreign currency net investments	–	–	–	(304)
Contribution to Qualifying Employee Share Trust	–	–	–	(571)
Premium on shares issued as consideration for acquisitions	3,538	–	6,948	–
Premium on shares issued under share option schemes	904	–	–	–
Premium on shares issued in respect of scrip dividend	314	–	–	–
Share issue costs	(3)	–	(73)	–
Net movement in estimated value of shares to be issued as consideration for acquisitions	–	897	–	–
At 28 February 2002	38,542	68,174	130,585	35,158

Shares to be issued comprises £13,527,000 of consideration for acquisitions in respect of completed earn-out periods for which consideration is due but not yet settled as at 28 February 2002, and £54,647,000 of consideration for acquisitions contingent on future financial performance (note 19).

A merger reserve has been created in relation to 12,654,563 shares issued during the year as consideration for acquisitions, as permitted by section 131 of the Companies Act 1985.

Cumulative goodwill relating to acquisitions made up to and including 28 February 1998, which has been eliminated against reserves, amounts to £46,259,000 (2001 – £46,259,000).

Company

	Share premium account £'000	Shares to be issued £'000	Merger reserve £'000	Profit and loss account £'000
At 1 March 2001	33,789	67,277	169,077	13,863
Retained loss for the year	–	–	–	(677)
Contribution to Qualifying Employee Share Trust	–	–	–	(571)
Premium on shares issued as consideration for acquisitions	3,538	–	6,948	–
Premium on shares issued under share option schemes	904	–	–	–
Premium on shares issued in respect of scrip dividend	314	–	–	–
Share issue costs	(3)	–	(73)	–
Net movement in estimated value of shares to be issued as consideration for acquisitions	–	897	–	–
At 28 February 2002	38,542	68,174	175,952	12,615

22 Minority interests

	£'000
At 1 March 2001	200
Minority interests' share of results for the year	(51)
Minority interests' share of dividends	(66)
Minority interests' share of exchange differences on foreign currency net investments	(6)
At 28 February 2002	77

Notes to the financial statements

28 February 2002

23 Analysis of cash flows

	2002 £'000	2001 £'000
Returns on investments and servicing of finance		
Interest received	927	1,075
Interest paid	(2,619)	(1,698)
Issue costs of new bank loans	(131)	(525)
Interest element of finance lease payments	(47)	(33)
Dividends paid to minority interests	(66)	(22)
	(1,936)	(1,203)
Taxation		
UK tax paid	(6,432)	(5,874)
Overseas tax paid	(4,631)	(4,020)
	(11,063)	(9,894)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(6,750)	(5,317)
Disposal of tangible fixed assets	645	81
Purchase of other fixed asset investment	(273)	(711)
	(6,378)	(5,947)
Acquisitions		
Purchase of subsidiary undertakings	(13,283)	(38,915)
Purchase of businesses	(6,988)	(744)
Net cash acquired with subsidiary undertakings and businesses	2,199	6,406
	(18,072)	(33,253)
Financing		
Issue of shares:		
Proceeds from issue of ordinary snare capital	363	20,578
Share issue costs	(76)	(967)
	287	19,611
Increase in debt:		
Repayment of bank loans	(17,000)	(36,974)
Draw-down of bank loans	23,000	42,000
Capital element of finance lease payments	(541)	(397)
Repayment of loan notes	(696)	(114)
	4,763	4,515
	5,050	24,126

Acquisitions

The cash flow in respect of acquisitions includes outflows of £4,973,000 within purchase of subsidiary undertakings and £154,000 within purchase of businesses relating to acquisitions made during prior years.

Acquisitions during the year accounted for £2,145,000 (2001 – £7,786,000) of cash flow from operating activities, £160,000 (2001 – £3,138,000) of taxation, and £308,000 (2001 – £1,858,000) of capital expenditure in the year. These amounts represent the cash flows of all acquisitions except Beaumark Limited, MSI Strategy Communications, Admaster, Inc., and Masterapproach, LLC, as their cash flows are not separately identifiable from the cash flows of continuing operations.

Exceptional restructuring costs

Cash inflow from operating activities includes an outflow of £4,663,000 (2001 – £81,000) in respect of exceptional restructuring costs (note 8).

24 Major non-cash transactions

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

Notes to the financial statements

28 February 2002

25 Analysis of net debt

	At 1 March 2001 £'000	Cash flows £'000	Acquisitions (excluding cash) £'000	Exchange movements £'000	Other movements £'000	At 28 February 2002 £'000
Cash at bank and in hand	29,493	(9,110)	–	(589)	–	19,794
Loan notes						
– amounts falling due within one year	(14,660)	696	–	–	(7,489)	(21,453)
– amounts falling due after more than one year	–	–	–	–	(1,327)	(1,327)
Bank loans						
– amounts falling due after more than one year	(23,527)	(5,869)	–	–	(129)	(29,525)
Finance leases						
– amounts falling due within one year	(474)	434	(35)	(3)	(67)	(145)
– amounts falling due after more than one year	(128)	107	(28)	(2)	(38)	(89)
	(9,296)	(13,742)	(63)	(594)	(9,050)	(32,745)

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

26 Financial instruments

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

The Group's policies and strategies in relation to risk and financial instruments are explained in the Financial review on page 49. Accounting policies relevant to financial instruments are detailed in note 1(10).

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

Interest rate risk profile of financial liabilities
As at 28 February 2002:

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

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

Notes to the financial statements

28 February 2002

26 Financial instruments (continued)

Interest rate risk profile of financial liabilities (continued)

As at 28 February 2001:

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

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

Interest rate risk profile of financial assets

			2002			2001
Currency	Other fixed asset investments £'000	Cash at bank and in hand £'000	Total £'000	Other fixed asset investment £'000	Cash at bank and in hand £'000	Total £'000
Sterling	988	10,405	11,393	–	13,563	13,563
EU currencies (excluding Sterling)	81	5,969	6,050	711	10,067	10,778
US dollars	–	1,517	1,517	–	2,939	2,939
Other currencies	–	1,903	1,903	–	2,924	2,924
	1,069	19,794	20,863	711	29,493	30,204
No interest	1,069	1,080	2,149	711	1,652	2,363
Floating rate	–	18,465	18,465	–	27,785	27,785
Fixed rate	–	249	249	–	56	56
	1,069	19,794	20,863	711	29,493	30,204

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

Maturity of group financial liabilities

			2002			2001
	Borrowings and finance leases £'000	Consideration for acquisitions £'000	Total £'000	Borrowings and finance leases £'000	Consideration for acquisitions £'000	Total £'000
In one year or less or on demand	21,598	15,185	36,783	15,134	6,010	21,144
In more than one year but not more than two years	67	12,215	12,282	110	8,408	8,518
In more than two years but not more than five years	30,874	10,318	41,192	23,545	18,965	42,510
	52,539	37,718	90,257	38,789	33,383	72,172

Notes to the financial statements

28 February 2002

26 Financial instruments (continued)

Maturity of Company borrowings and finance leases

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

	2002 £'000	2001 £'000
In one year or less or on demand	21,453	14,649
In more than two years but not more than five years	30,852	23,527
	52,305	38,176

Borrowing facilities

The Group had an undrawn committed facility of £45.0 million available at 28 February 2002 (2001 – £51.0 million) in respect of which all conditions precedent had been met at that date. This relates to an unsecured £75.0 million five year revolving loan multi-currency facility arranged through Lloyds TSB Bank plc which bears interest of between 1% and 1.5% above LIBOR and expires in September 2005. In early May 2002 this facility was increased from £75.0 million to £92.5 million. All other terms and conditions remain unchanged.

Fair values of financial assets and liabilities

The fair values of primary financial instruments held or issued to finance the Group's operations, as determined by market values or calculated by discounting expected future cash flows at prevailing interest rates, were not materially different to their carrying values as at 28 February 2002 and 28 February 2001.

Currency exposures

The Group's objectives in managing the structural currency exposures arising from its net investments overseas are explained in the Financial review on page 49. Gains and losses arising from these currency exposures are recognised in the statement of total recognised gains and losses. The table below shows the Group's transactional currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures arise from monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating unit involved.

As at 28 February 2002:

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

As at 28 February 2001:

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

Notes to the financial statements

28 February 2002

27 Acquisitions

Effective 1 March 2001, the Company purchased the entire issued share capital of Beaumark Limited, a UK public affairs company, for initial consideration of £50,000 paid in cash. A maximum deferred consideration of £150,000 is payable 33% in cash and 67% in new ordinary shares of the Company, dependent on future financial performance.

Also effective 1 March 2001, the Company purchased the entire issued share capital of First Financial Communications B.V., an integrated financial communications consultancy in The Netherlands. Initial consideration comprised NLG7.5m in cash and 2,155,456 new ordinary shares in the Company. Maximum deferred consideration payable subject to future financial performance amounts to NLG10.5m, of which NLG5.25m is payable in cash.

The Group acquired the business and assets of Media Strategy, Inc. and Media Strategy Training Center, Inc., together known as MSI Strategy Communications, a Chicago based communications consultancy, effective 1 May 2001. Initial consideration amounted to US$728,000 in cash and 963,545 new ordinary shares in the Company. Subject to future financial performance, a maximum deferred consideration of US$1.6 million will be paid, of which US$832,000 is payable in cash.

Effective 1 June 2001, the Company acquired the business and assets of Gunpowder Srl, a Milan-based integrated marketing services company, for initial consideration of Lire 11.7 billion in cash and 4,214,666 in new ordinary shares in the Company. A maximum deferred consideration of Lire 19.2 billion will be paid, of which up to Lire 8.6 billion is payable in cash, dependent upon the company's future financial performance.

Effective 1 August 2001, the Company acquired 100% of the share capital of Karen Earl Limited and Redmandarin Limited, two leading UK sponsorship consultancies.

Karen Earl Limited was purchased for initial consideration of £1,789,000 in loan notes and 1,945,288 in new ordinary shares in the Company. Further consideration of £48,000 in new ordinary shares and £72,000 in loan notes is payable in July 2002. Subject to future financial performance a maximum deferred consideration of £3,480,000 will be paid in loan notes and/or new ordinary shares in the Company at its discretion.

Redmandarin Limited was purchased for initial consideration of £470,000 in loan notes and £80,000 in cash. Dependent upon future financial performance, a maximum deferred consideration of £2,950,000 will be paid in new ordinary shares in the Company and/or loan notes at its discretion.

Also effective 1 August 2001, the Group acquired The Wire Telephone Interviewing Services Limited, a UK company, for initial consideration of £1. A maximum deferred consideration of £473,000 will be paid in cash subject to future financial performance.

The Group purchased the trade and assets of Admaster, Inc. and Masterapproach, LLC, two New York based advertising and marketing services companies, effective 1 August 2001. Initial consideration was US$2,612,000 in new ordinary shares in the Company, of which US$1,306,000 are to be issued in January 2003, and cash of US$2,612,000.

The Company acquired the entire issued share capital of Sanchís Comunicación S.L., HM y Sanchís Consultores de Comunicación, S.L. and Sanchís Communicaçao Consultores de Imagem e Communicaçao, Ltda, effective 1 September 2001, a communications network in Spain and Portugal. The Company paid Euro 4,492,000 as initial consideration in cash. Dependent upon future financial performance, a maximum deferred consideration of Euro 15,943,000 is payable in cash and/or new ordinary shares of the Company at its discretion.

Effective 1 October 2001, the Company acquired 100% of the issued share capital of Hauck Research Services Limited, a UK research consultancy, for initial consideration of £1,037,000 in cash and loan notes of £2,963,000. A maximum deferred consideration of £8,350,000 is payable in cash, loan notes and new ordinary shares in the Company subject to the future financial performance of the company.

The Group purchased the trade and assets of Tangozebra Limited, an online digital marketing agency based in London, effective 6 November 2001, for consideration of £111,000 in cash.

Effective 1 January 2002, the Group acquired Global Intelligence & Security, LLC, a recently incorporated US business operating in the field of business intelligence. Initial consideration comprised US$3.0 million in cash and 764,459 new ordinary shares in the Company. Maximum future consideration of US$40.5m is payable, subject to future financial performance, in cash or a mixture of cash and shares at the discretion of the Company.

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

Notes to the financial statements

28 February 2002

27 Acquisitions (continued)

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

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Tangible fixed assets	2,184	(78)	2,106
Work in progress	5	–	5
Debtors	4,533	(292)	4,241
Obligations under finance leases	(63)	–	(63)
Net cash at bank and in hand	2,199	–	2,199
Creditors	(6,482)	(153)	(6,635)
Provisions	(94)	–	(94)
	2,282	(523)	1,759
Goodwill			44,666
Total cost			46,425

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

No material fair value adjustments were made during the year in respect of acquisitions in prior years.

28 Related party transactions

The Group and its associates during the year carried out consultancy work on behalf of each other's clients. Aggregate amounts included in turnover and cost of sales in the consolidated profit and loss account in respect of these transactions were: Capital Communications Kft (Turnover: £5,000; Cost of sales: nil), NBS Spolka z.o.o. (Turnover: nil; Cost of sales: £64,000).

There was a dividend of £11,000 due from Capital Communications Kft of which £6,000 relates to the current year, and a trading balance of £28,000 due to NBS Spolka z.o.o. as at 28 February 2002.

There were no further related party transactions during the year.

29 Commitments

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

	2002		2001	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Group				
Operating leases which expire:				
within one year	662	181	1,503	128
within two to five years	6,778	331	4,454	275
after five years	2,501	18	5,169	62
	9,941	530	11,126	465
Company				
Operating leases which expire:				
within one year	–	–	218	4
within two to five years	–	9	–	–
	–	9	218	4

30 Contingencies

Consideration for acquisitions

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

Guarantees

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

Notes to the financial statements

28 February 2002

31 Principal subsidiary undertakings and associates

Name	Country of incorporation/ principal operation	Directly owned by the Company	Class of business
Principal subsidiary undertakings at 28 February 2002			
Citigate Dewe Rogerson Limited	England		PR
– Citigate Technology[1]	England		PR
Citigate Public Affairs Limited (formerly Citigate Westminster Limited)	England		PR
Citigate DVL Smith Limited	England	✓	PR
Citigate Communications Limited (formerly Key Communications Limited)	England	✓	PR
Citigate MARCHCom Limited	England	✓	PR
Citigate Albert Frank Limited	England		Adv
Finex Communications Group plc	England	✓	MS
Dynamo Marketing Limited	England	✓	MS
Hauck Research Services Limited	England	✓	MS
JKD Communications Limited	England	✓	MS
Karen Earl Sponsorship Limited	England	✓	MS
Park Avenue Productions plc	England	✓	MS
The RED Consultancy Group Limited	England	✓	MS
Redmandarin Limited	England	✓	MS
Citigate Lloyd Northover Limited	England		MS
Citigate Publishing Limited	England		MS
Incepta Online Limited	England	✓	H
Citigate SMARTS Limited	Scotland		PR, Adv, MS
Citigate Northern Ireland Limited	Northern Ireland		PR, MS
Citigate Holdings GmbH	Germany	✓	H
Citigate Dewe Rogerson GmbH	Germany	#	PR
Citigate SEA GmbH & Co KG	Germany		Adv
Citigate Demuth GmbH	Germany		PR, Adv, MS
Citigate Gramma AB	Sweden	✓	PR
Citigate Italia Srl	Italy	✓	Adv
Citigate Gunpowder Srl	Italy	✓	MS
Citigate Sanchis	Spain	✓	PR
Citigate First Financial	The Netherlands	✓	PR
Incepta Group Inc	USA	✓	H
Citigate Inc	USA		
– Citigate Albert Frank[2]	USA		Adv, MS
Citigate Sard Verbinnen Inc	USA		PR
Citigate Cunningham Inc	USA		PR
Citigate Dewe Rogerson Inc	USA		PR
Citigate Global Intelligence & Security, LLC	USA		PR
Citigate Hudson Inc	USA		PR
Citigate Broad Street Inc	USA		MS
Citigate Asia Limited	Hong Kong		
– Citigate Dewe Rogerson[3]	Hong Kong		PR
– Citigate Lloyd Northover[3]	Hong Kong		MS
Citigate Window Creative Limited	Hong Kong		Adv
Citigate Dewe Rogerson i.MAGE Pte Ltd	Singapore	✓	PR
Citigate Su Yeang Design Pte Ltd	Singapore	✓	MS
Citigate Dewe Rogerson Communications Private Limited	India	✓	PR
Citigate South Africa (Pty) Limited	South Africa		PR, Adv, MS
Associates at 28 February 2002			
Capital Communications Kft	Hungary	N/A	PR
NBS Spolka z.o.o.	Poland	N/A	PR

[1] Trades as a division of Citigate Dewe Rogerson Limited
[2] Trades as a division of Citigate Inc
[3] Trades as a division of Citigate Asia Limited
Owned 5% directly and 95% indirectly

PR = Public Relations
Adv = Advertising
MS = Marketing Services
H = Holding Company

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

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

Report of the independent auditors

Report of the independent auditors to the members of Incepta Group plc
We have audited the financial statements on pages 68 to 94.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the directors' report and, as described on page 66, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 96 to 97 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group as at 28 February 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

7 May 2002

Corporate governance

for the year ended 28 February 2002

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

Statement of compliance

The board has reviewed the Company's compliance with the Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority ('the Combined Code'). The board confirms that, throughout the year ended 28 February 2002, the Company has been in compliance with Section 1 of the Combined Code and guidance issued by the Turnbull Committee relating to provision D.2.1 of that Code.

Application of principles of good governance

Board of directors

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

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

At the beginning of the financial year the board consisted of seven members, three of whom were non-executive. On 31 March 2001, the non-executive Chairman stepped down from the board and was replaced by one of the existing executive directors who became executive Chairman. The board was strengthened during the year by the appointment of a further two non-executive directors on 1 April 2001 and a further executive director on 18 June 2001. On 12 September 2001, one of the executive directors resigned from the board. Following these changes the board now comprises four executive and four non-executive directors. Throughout the financial year, the offices of Chairman and Chief Executive were held by separate individuals. In the period to 31 March 2001, the office of Chairman was a non-executive role but since that date it is now an executive role. The board has nominated Robert Alcock as the Company's senior independent director. Biographies of the current directors and their membership of the board and its committees are shown against the individual directors' names on pages 50 and 51.

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

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

Non-executive directors

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

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

Board committees

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

The Audit Committee ensures that an objective and professional relationship is maintained with the external auditors. The Committee meets three times a year to discuss accounting, audit and internal control matters, as well as reviewing the financial statements and compliance with accounting standards. The Group Finance Director is invited to attend part of each meeting. The external auditors may request a meeting with the Audit Committee at any time and one of their representatives is present at all meetings. There is provision for the external auditors to discuss any concerns they may have with the Committee in the absence of management if necessary. In the period to 31 March 2001, the Committee comprised the three non-executive directors under the chairmanship of Bob Morton. Since 1 April 2001, it is now chaired by Robert Alcock and comprises all of the four current non-executive directors.

Corporate governance

for the year ended 28 February 2002

The Remuneration Committee meets at least twice a year to review the remuneration packages and service contracts of the directors and certain senior executives. The Committee is also responsible for administering the Company's share option schemes. In the period to 31 March 2001, the Committee comprised the three non-executive directors under the chairmanship of Bob Morton. Since 1 April 2001, it is chaired by Robert Alcock and comprises all of the four current non-executive directors.

The Nomination Committee meets as necessary and is responsible for reviewing and making proposals to the board on the appointment of directors. In the period to 31 March 2001, the Committee consisted of Bob Morton, Neil Mackay and David Wright and was chaired by Bob Morton. Since 1 April 2001, it now comprises Robert Alcock, Neil Mackay, Charles Good, David Wright and Richard Nichols and is chaired by David Wright.

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

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

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

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

The Combined Code requires that the board reviews and reports on the effectiveness of the Group's system of internal control including controls covering financial, operational, compliance and risk management matters.

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

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

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

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

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

Going concern
The directors have reviewed the Group's budget and cash flow for the year ending 28 February 2003 and considered outline plans for the Group thereafter. The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Remuneration report

for the year ended 28 February 2002

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

The constitution and responsibility of the Remuneration Committee

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

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

The Committee consists solely of the non-executive directors, Bob Morton (Chairman of the Remuneration Committee up to 31 March 2001), Neil Mackay, Charles Good, Christian Strenger (from 1 April 2001) and Robert Alcock (Chairman of the Remuneration Committee from 1 April 2001). The Committee has access to professional advice as and when it considers it necessary.

Remuneration policy

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

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

Remuneration packages

Basic salary and benefits in kind

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

Performance related bonus

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

For the year under review, no bonuses were payable to the executive directors in respect of meeting earnings per share growth targets for the year.

Pensions

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

Share options

The Committee decided to award share options to Mike Butterworth in June 2001 on his appointment as a director in order to provide him with a competitive remuneration package and secure his services to the Group. In addition, in October 2001 the Committee decided to award share options to all the executive directors and certain key executives in the core operating subsidiaries, maintaining the commitment to the philosophy of wide and deep share ownership across the Group.

The executive directors are entitled to participate in the Incepta Group Savings Related Share Option Scheme and the Incepta Group All Employee Share Ownership Plan.

Remuneration report

for the year ended 28 February 2002

Performance Share Plan

Shareholder approval is now being sought to establish a Performance Share Plan, under which executive directors will, subject to the achievement of stretching performance targets over a substantial period of time, receive free shares. An explanation is set out in a separate letter to shareholders from the Chairman.

Service contracts

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

Outside appointments

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

Non-executive directors

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

Directors' remuneration and interests

for the year ended 28 February 2002

The remuneration of each director for the year ended 28 February 2002 was as follows:

		Basic salary/ fees £	Bonus £	Cash value of benefits in kind £	Compensation for loss of office £	Total emoluments 2002 £	Total emoluments 2001 £	Pension contributions 2002 £	Pension contributions 2001 £
Executive directors									
David Wright	(1)	350,000	–	1,576	–	351,576	603,065	35,000	30,000
Richard Nichols	(2)	250,000	–	2,708	–	252,708	360,134	25,000	18,000
Mike Butterworth*	(3)	109,295	–	1,731	–	111,026	–	10,930	–
Anthony Carlisle	(4)	330,000	–	2,880	–	332,880	502,469	66,000	60,000
Kevin Steeds**	(5)	98,050	–	2,194	206,860	307,104	351,686	9,748	17,500
Non-executive directors	(6)								
Neil Mackay		25,000	–	–	–	25,000	18,000	–	–
Charles Good		25,000	–	–	–	25,000	18,000	–	–
Robert Alcock***		32,083	–	–	–	32,083	–	–	–
Christian Strenger***		22,916	–	–	–	22,916	–	–	–
Bob Morton****		–	–	–	–	–	25,000	–	–
		1,242,344	–	11,089	206,860	1,460,293	1,878,354	146,678	125,500

Aggregate notional gains made by directors on share options exercised during the year ended 28 February 2002 were £284,353 (David Wright £11,969, Richard Nichols £86,792 and Kevin Steeds £185,592). Details of these are disclosed under the relevent share option schemes as set out on pages 102 to 105.

* appointed to the board on 18 June 2001
** resigned from the board on 12 September 2001
*** appointed to the board on 1 April 2001
**** resigned from the board on 31 March 2001

(1) David Wright was the highest paid director for the year under review. Under his service contract, he was paid a salary of £350,000 in the year to 28 February 2002. The Company also contributed 10% of annual salary to the executive's pension plan. Under the salary sacrifice arrangements in place, he elected to direct £16,300 of his annual salary to his pension. No bonus was payable for the year under review.

(2) Richard Nichols, under his service contract, was paid an annual salary of £250,000 in the year to 28 February 2002. The Company also contributed 10% of annual salary to the executive's pension plan. No bonus was payable for the year under review.

(3) Mike Butterworth joined the board on 18 June 2001. Accordingly the information in the table above reflects only eight and a half months of his actual annual remuneration. Under his service contract, he was paid an annual salary of £155,000 in the year to 28 February 2002. The Company also contributed 10% of annual salary to the executive's pension plan. No bonus was payable for the year under review.

(4) Anthony Carlisle, under his service contract, was paid an annual salary of £330,000 in the year to 28 February 2002. The Company also contributed 20% of annual salary to the executive's pension plan. No bonus was payable for the year under review.

(5) Kevin Steeds resigned from the board on 12 September 2001. Accordingly the information in the table above reflects only six and a half months of his actual annual remuneration. Under his service contract, he was paid an annual salary of £185,000 in the year to 28 February 2002. The Company also contributed 10% of annual salary to the executive's pension plan. Under the salary sacrifice arrangements in place, he elected to direct £9,250 of his annual salary to his pension.

In addition to his remuneration listed above, Kevin Steeds was paid £206,860 as compensation for loss of office as a director following his resignation, including £21,860 in respect of pension contributions.

(6) In their capacity as non-executive directors to the Group, Neil Mackay, Charles Good and Christian Strenger received annual fees of £25,000. In his capacity as a non-executive Deputy Chairman, Robert Alcock received annual fees of £35,000. The fees in respect of Robert Alcock and Christian Strenger were only payable for the period from 1 April 2001, the date of their appointment as non-executive directors, to 28 February 2002. No fees were payable to Bob Morton for the period from 1 March 2001 to 31 March 2001, the date of his resignation as a non-executive director.

Directors' remuneration and interests
for the year ended 28 February 2002

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

	As at 1 March 2001 or subsequent date of appointment	As at 28 February 2002	As at 7 May 2002
Executive			
David Wright	10,490,028	10,530,223	10,530,741
Richard Nichols	800,000	1,080,195	1,080,713
Mike Butterworth**	–	40,000	40,000
Anthony Carlisle	12,765,979	7,765,979	7,765,979
Kevin Steeds***	3,773,397	n/a*	n/a*
Non-executive			
Neil Mackay	508,181	560,182	560,182
Charles Good	3,265,689	3,465,689	3,465,689
Robert Alcock****	–	69,894	95,412
Christian Strenger****	–	–	–
Bob Morton*****	12,000,000	n/a*	n/a*

* not applicable as not a serving director at that date
** appointed to the board on 18 June 2001
*** resigned from the board on 12 September 2001
**** appointed to the board on 1 April 2001
***** resigned from the board on 31 March 2001

The above shareholdings were all beneficially held except for 2,109,276 ordinary shares attributable to Charles Good and 192,034 ordinary shares attributable to Neil Mackay which were non-beneficially held. Included in the holding of Bob Morton as at 1 March 2001 are 2,500,000 shares held by Southwind Limited, an investment company which is ultimately owned by a trust established by Mr Morton for the benefit of his children. The table above includes directors' interest in shares acquired through the Incepta Group plc All Employee Share Ownership Plan.

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

Directors' remuneration and interests

for the year ended 28 February 2002

Options

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

Incepta Group plc Employee Share Option Scheme

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

	Held on 1 March 2001	Exercised during the year	Held on 28 February 2002	Held on 7 May 2002	Exercise price per share	Exercisable between
Director						
Richard Nichols	120,000	(120,000)	–	–	21.40p	29 October 2000-2007
Employees						
Total by exercise price	140,000	–	**140,000**	**140,000**	31.00p	1 September 1996-2003
	40,000	–	**40,000**	**40,000**	12.50p	31 January 1998-2005
	1,500,000	(400,000)	**1,100,000**	**900,000**	10.50p	5 January 1999-2006
	146,000	–	**146,000**	**146,000**	20.50p	18 July 1999-2006
	650,000	(120,000)	**530,000**	**530,000**	21.40p	29 October 2000-2007
	2,596,000	(640,000)	1,956,000	1,756,000		

Richard Nichols made a notional gain of £72,720 on the exercise of the above share options during the year. The market price of the Company's shares at the date of exercise was 82.0 pence.

Incepta Group plc Executive Share Option Plan

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

	Held on 1 March 2001	Granted during the year	Exercised during the year	Lapsed during the year	Held on 28 February 2002	Held on 7 May 2002	Exercise price per share	Exercisable between
Director								
Richard Nichols	1,000,000	–	–	–	1,000,000	1,000,000	24.50p	4 May 2002-2009
Employees								
Total by exercise price	825,000	–	(55,000)	(10,000)	760,000	760,000	23.25p	22 September 2001-2008
	2,175,000	–	–	(150,000)	2,025,000	2,025,000	24.50p	4 May 2002-2009
	2,185,000	–	–	–	2,185,000	2,185,000	55.50p	12 October 2002-2009
	200,000	–	–	–	200,000	200,000	100.50p	25 January 2003-2010
	150,000	–	–	–	150,000	150,000	129.00p	20 October 2003-2010
	–	75,000	–	–	75,000	75,000	35.75p	16 October 2004-2011
	6,535,000	75,000	(55,000)	(160,000)	6,395,000	6,395,000		

Directors' remuneration and interests

for the year ended 28 February 2002

Incepta Group plc Executive Long Term Incentive Plan

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

	Held on 1 March 2001	Granted during the year	Lapsed during the year	Held on 28 February 2002	Held on 7 May 2002	Exercise price per share	Exercisable between
Directors							
David Wright	–	300,000	–	300,000	300,000	35.75p	16 October 2004-2011
Richard Nichols	–	300,000	–	300,000	300,000	35.75p	16 October 2004-2011
Mike Butterworth	–	300,000	–	300,000	300,000	73.00p	18 June 2004-2011
	–	200,000	–	200,000	200,000	35.75p	16 October 2004-2011
Anthony Carlisle	–	300,000	–	300,000	300,000	35.75p	16 October 2004-2011
Employees							
Total by exercise price	3,174,000	–	(185,000)	2,989,000	2,989,000	129.00p	20 October 2003-2010
	–	5,635,000	–	5,635,000	5,635,000	35.75p	16 October 2004-2011
	3,174,000	7,035,000	(185,000)	10,024,000	10,024,000		

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

Incepta Group plc 1998 Savings Related Share Option Scheme

	Held on 1 March 2001	Exercised during the year	Lapsed during the year	Held on 28 February 2002	Held on 7 May 2002	Exercise price per share	Exercisable between
Directors							
David Wright	38,240	(38,240)	–	–	–	15.2p	1 January-30 June 2002
Richard Nichols	38,240	(38,240)	–	–	–	15.2p	1 January-30 June 2002
Kevin Steeds	38,240	(38,240)	–	–	–	15.2p	1 January-30 June 2002
Employees							
Total by exercise date	1,826,581	(1,528,778)	(82,386)	215,417	45,487	15.2p	1 January-30 June 2002
	12,746	–	–	12,746	12,746	15.2p	1 February-30 July 2002
	7,648	(7,648)	–	–	–	15.2p	1 July-31 December 2002
	1,961,695	(1,651,146)	(82,386)	228,163	58,233		

During the year David Wright, Richard Nichols and Kevin Steeds made notional gains of £11,969, £14,072 and £13,499 respectively on the exercise of the above share options. The market price of the Company's shares at the date of the exercises was 46.5 pence, 52.0 pence and 50.5 pence respectively.

Directors' remuneration and interests

for the year ended 28 February 2002

Incepta Group plc 1999 Savings Related Share Option Scheme

	Held on 1 March 2001	Exercised during the year	Lapsed during the year	Held on 28 February 2002	Held on 7 May 2002	Exercise price per share	Exercisable between
Directors							
David Wright	5,771	–	(5,771)	–	–	47.0p	1 January-30 June 2003
Richard Nichols	5,771	–	(5,771)	–	–	47.0p	1 January-30 June 2003
Employees							
Total by exercise price	169,827	–	(166,731)	3,096	3,096	50.0p	1 January-30 June 2002
	1,341,417*	(4,992)	(308,046)	1,028,379	1,016,425	47.0p	1 January-30 June 2003
	1,522,786	(4,992)	(486,319)	1,031,475	1,019,521		

* includes 5,771 relating to Kevin Steeds who was a director of the Company at 1 March 2001 and resigned from the Board on 12 September 2001.

Incepta Group plc 2000 Savings Related Share Option Scheme

	Held on 1 March 2001	Lapsed during the year	Held on 28 February 2002	Held on 7 May 2002	Exercise price per share	Exercisable between
Directors						
David Wright	748	(748)	–	–	103.6p	1 January-30 June 2004
Richard Nichols	748	(748)	–	–	103.6p	1 January-30 June 2004
Kevin Steeds	748	(748)	–	–	103.6p	1 January-30 June 2004
Employees						
Total by exercise price	933,426	(560,374)	373,052	360,841	103.6p	1 January-30 June 2004
	281,183	(142,698)	138,485	134,749	110.0p	1 January-30 June 2003
	11,114	(11,114)	–	–	139.5p	1 January-30 June 2004
	1,227,967	(716,430)	511,537	495,590		

Incepta Group plc 2001 Savings Related Share Option Scheme

	Granted during the year	Lapsed during the year	Held on 28 February 2002	Held on 7 May 2002	Exercise price per share	Exercisable between
Directors						
David Wright	10,305	–	10,305	10,305	29.50p	1 January-30 June 2005
Richard Nichols	10,305	–	10,305	10,305	29.50p	1 January-30 June 2005
Mike Butterworth	10,305	–	10,305	10,305	29.50p	1 January-30 June 2005
Employees						
Total by exercise price	1,646,713	(11,592)	1,635,121	1,622,241	29.50p	1 January-30 June 2005
	34,212	(2,947)	31,265	31,265	38.95p	1 January-30 June 2005
	214,886	–	214,886	214,886	31.50p	1 January-30 June 2004
	1,926,726	(14,539)	1,912,187	1,899,307		

Directors' remuneration and interests

for the year ended 28 February 2002

Other schemes

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

Citigate Communications Group Limited Approved Executive Share Option Scheme

	Held on 1 March 2001	Exercised during the year	Held on 28 February 2002	Held on 7 May 2002	Exercise price per share	Exercisable between
Directors						
Kevin Steeds	216,098	(216,098)	–	–	4.86p	25 April 1998-2005

Kevin Steeds made a notional gain of £172,093 on the exercise of the above share options during the year. The market price of the Company's shares at the date of exercise was 84.5 pence.

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

Citigate Communications Group Limited Unapproved Executive Share Option Scheme

	Held on 1 March 2001	Held on 28 February 2002	Held on 7 May 2002	Exercise price per employee	Exercisable between
Employees	348,090*	348,090	348,090	£1	1 February 1999-1 July 2005

* includes 110,505 relating to Kevin Steeds who was a director of the Company at 1 March 2001 and resigned from the board on 12 September 2001.

Incepta Group plc All Employee Share Ownership Plan

In July 2001, the Company introduced an All Employee Share Ownership Plan (AESOP). The plan, which is open to all employees, offers a tax efficient way for employees to purchase Incepta Group plc shares. Under the terms of the plan and subject to certain limits, a trust purchases and holds shares on behalf of the participants, using contributions made by the participants. For every five shares purchased in this way (partnership shares) participants are entitled to one matching share, purchased from contributions made by the Company. The employees can withdraw the partnership shares from the plan at any time and the matching shares only after three years.

The number of matching shares held by the trust at 28 February 2002 was 23,337 with a market value of £10,735.

Share price

The market price of Incepta Group plc shares as at 28 February 2002 was 46.0 pence per share. The price ranged from 27.5 pence per share to 106.0 pence per share during the financial year.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Incepta Group plc will be held at 26 Finsbury Square, London, EC2A 1SH on 5 July 2002 at 12 noon for the transaction of the following business:

Ordinary Business

Resolution 1
To re-elect David Wright as a director of the Company, who retires by rotation in accordance with the Articles of Association.

Resolution 2
To re-elect Charles Good as a director of the Company, who retires by rotation in accordance with the Articles of Association.

Resolution 3
To re-elect Anthony Carlisle as a director of the Company, who retires by rotation in accordance with the Articles of Association.

Resolution 4
That the directors' report and financial statements of the Company for the year ended 28 February 2002 be received and adopted.

Resolution 5
Special notice having been received, to re-appoint KPMG Audit Plc as auditors of the Company to hold office until the next General Meeting at which the accounts are laid before the Company and to authorise the directors to determine their remuneration.

Explanation to Resolution 5
KPMG Audit Plc were appointed by the directors as auditors to fill the vacancy created by the resignation of PricewaterhouseCoopers. PricewaterhouseCoopers have stated that there are no circumstances connected with their resignation which they consider should be brought to the notice of the members of the Company. Special notice has been received by the Company to propose as an ordinary resolution this resolution to re-appoint KPMG Audit Plc as auditors and authorise the directors to determine their remuneration.

Resolution 6
To declare a final dividend of 0.70 pence net per ordinary share.

Resolution 7
That the Company be and is hereby authorised to:

a) make donations to EU Political Organisations; and

b) incur EU Political Expenditure

in an aggregate amount not exceeding £100,000 during the period ending on the date of the Company's Annual General Meeting in 2003. Such authority shall extend to enable any such donation to be made or expenditure to be incurred by the Company or by its wholly owned subsidiary, Citigate Public Affairs Limited. For the purposes of this resolution, 'donations', 'EU Political Organisations' and 'EU Political Expenditure' have the meanings set out in Part XA of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000).

Explanation to Resolution 7
Authority is sought to enable the Company to enter into financial arrangements with organisations which may fall within the definition of 'political organisations' under the Political Parties, Elections and Referendums Act 2000 (the 'Act') which came into force on 16 February 2001 and which contains restrictions on companies making donations or incurring expenditure in relation to EU Political Organisations. The Act requires companies to seek shareholder approval for donations to organisations within the European Union which are, or could be, categorised as EU Political Organisations as provided for by the Act.

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

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

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

Notice of Annual General Meeting

Special Business

Resolution 8

That the rules of the Incepta Group Performance Share Plan which are summarised in the Appendix to the Chairman's letter dated 31 May 2002, set out in the form of the draft document produced to the meeting and, for the purposes of identification signed by the Chairman of the meeting, be and are hereby approved and adopted.

Resolution 9

Subject to the approval of the Inland Revenue, that the directors be and are hereby authorised to amend Rule 5 of the Incepta Group plc Savings Related Share Option Scheme by deleting sub-rule 5.1(b).

Explanation of Resolutions 8 and 9

Each of these resolutions will be proposed as an ordinary resolution

A separate letter from the Chairman dated 31 May 2002 explains the background to resolutions 8 and 9. A summary of the principal features of the Performance Share Plan appears in the Appendix to the Chairman's letter.

Resolution 10

That the directors be and hereby are generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 ('the Act') to exercise all powers of the Company to allot, grant options over, deal with or dispose of any relevant securities (as defined in section 80(2) of the Act) to such persons, at such times and generally on such terms and conditions as the directors may determine up to an aggregate nominal amount of £4,377,949 provided that this authority shall expire, unless previously renewed, revoked or varied by the Company in general meeting, fifteen months after the passing of this resolution, or, if earlier, at the conclusion of the Annual General Meeting next following the passing of this resolution save that, before such expiry, the Company may make any offer or agreement which would or might require relevant securities to be allotted after such expiry and, notwithstanding such expiry, the directors may allot relevant securities in pursuance of any such offer or agreement, and provided further that all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked.

Explanation of Resolution 10

Resolution 10 which will be proposed as an ordinary resolution, would give the directors authority to allot shares up to a maximum nominal amount of £4,377,949 being the whole of the authorised but unissued share capital of the Company and representing 92.7% of the Company's current issued share capital. This amount of authority is required to provide the directors with flexibility to allot shares up to approximately one third of the Company's issued share capital in addition to allowing for the allotment of shares in respect of deferred consideration which may fall due pursuant to acquisitions, on the exercise of options and also on the issue of scrip dividends. The existing authority would be revoked and this authority would expire on the date of the 2003 Annual General Meeting or 4 October 2003, whichever is the earlier. Save as set out above, the directors have no present intention of exercising this authority.

Resolution 11

That subject to the passing of Resolution 10, the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 ('the Act') to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the general authority conferred on them by Resolution 10 as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with an offer of securities (whether by way of a rights issue, open offer or otherwise), open for acceptance for a period fixed by the directors, to holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory; and

(b) the allotment (otherwise than pursuant to paragraph (a) above) of securities up to an aggregate nominal amount of £236,102

and shall expire, unless previously renewed, revoked or varied by the Company in general meeting, at such time as the general authority conferred on the directors by Resolution 10 expires save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and, notwithstanding such expiry, the directors may allot equity securities in pursuance of any such offer or agreement.

Explanation of Resolution 11

Resolution 11 will be proposed as a special resolution and would renew the power of the directors to allot shares for cash as though the rights of pre-emption conferred by section 89(1) of the Companies Act 1985 did not apply:

(a) in respect of the whole of the authorised but unissued share capital in connection with an offer to existing shareholders (to allow the directors to take action to overcome certain practical difficulties which could arise in the case of such an offer), and

(b) up to a nominal amount of £236,102, being 5% of the current issued share capital of the Company (to give the directors some flexibility in financing business opportunities as they arise).

This power would expire on the date of the 2003 Annual General Meeting or 4 October 2003, whichever is the earlier.

Resolution 12

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

(a) the maximum number of ordinary shares hereby authorised to be purchased is 70,830,760;

(b) the minimum price which may be paid for any such ordinary share is 1 pence per share;

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(c) the maximum price which may be paid for any such ordinary share is, in respect of a share contracted to be purchased on any day, an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange on the ten business days immediately preceding the day on which any such ordinary share is contracted to be purchased; and

(d) the authority hereby conferred shall expire on the date of the 2003 Annual General Meeting or 4 October 2003, whichever is the earlier (but so that this power shall enable the Company to make offers or agreements before the expiry of this authority which would or might require ordinary shares to be purchased by the Company after the expiry of this power).

Explanation of Resolution 12

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 12, which will be proposed as a special resolution, seeks authority from shareholders to do so, such authority to expire on the date of the 2003 Annual General Meeting or 4 October 2003, whichever is the earlier. The directors intend to exercise this power only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be accordingly reduced.

This resolution specifies the maximum number of shares which may be acquired (being 14.999% of the Company's issued share capital as at 7 May 2002 of 472,205,067) and the maximum and minimum prices at which they may be bought.

The board unanimously recommends shareholders to vote in favour of Resolutions 1 to 12 above.

By order of the board

M G Butterworth
Company Secretary

7 May 2002

Registered Office:
3 London Wall Buildings
London Wall
EC2M 5SY

Notes

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company. Returning the Form of Proxy will not prevent a shareholder from attending in person and voting at the meeting.

2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a duly certified copy of such power or authority must be deposited with the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZL not later than 12 noon on 3 July 2002 being 48 hours before the meeting.

3. In the case of a Corporation, the Form of Proxy should be under its Common Seal, or under the hand of an officer of the Corporation duly authorised in that behalf.

4. Copies of the following documents, which are available for inspection at the Registered Office of the Company during usual business hours on any weekday (Saturday and public holidays excepted) will also be available for inspection at the place of the Annual General Meeting from 9 a.m. on the day of the meeting until the conclusion of the meeting:

   (a) copies of service contracts of the directors with the Company; and

   (b) the register of interests of the directors (and their families) in the share capital of the Company.