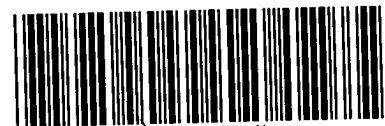


**THE GRASS ROOTS GROUP UK LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**THE GRASS ROOTS GROUP UK LIMITED**

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**COMPANY INFORMATION**

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<b>DIRECTORS</b>	A W Lister P A Bartlett I D Horsham I W Digby
<b>COMPANY SECRETARY</b>	M Evans
<b>REGISTERED NUMBER</b>	4155659
<b>REGISTERED OFFICE</b>	Pennyroyal Court Station Road Tring Hertfordshire HP23 5QY
<b>INDEPENDENT AUDITORS</b>	Ernst & Young LLP 400 Capability Green Luton Bedfordshire LU1 3LU
<b>BANKERS</b>	Lloyds TSB Bank plc Black Horse House Progression Centre 42 Mark Road Hemel Hempstead Hertfordshire HP2 7DW
<b>SOLICITORS</b>	Eversheds 115 Colmore Row Birmingham B3 3AL

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**THE GRASS ROOTS GROUP UK LIMITED**

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## THE GRASS ROOTS GROUP UK LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED DECEMBER 31, 2013

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#### INTRODUCTION

The directors present their strategic report for the year ended 31 December 2013.

#### BUSINESS REVIEW

The principal activity of the company during the year was the provision of employee, customer and channel engagement programmes and promotions. These services help our clients engage with their employees, channel partners, customers and prospects, to improve their business performance.

Our reputation is based on providing creative, innovative solutions that generate a measurable increase in sales, customer service, loyalty and productivity. We work for a broad range of clients across a number of different sectors. Delivering high quality services to clients continues to be our main focus.

The business services are divided into 3 divisions:

- Customer Engagement: Services to help clients connect with customers and enhance customer loyalty.
- Employee Solutions: Programmes to achieve better performance and productivity from the employees of our clients.
- Promotions & Incentives: Provision of programmes to help clients find the most effective incentives and promotions for their employees and customers.

The companies' key performance indicators were as follows:

Turnover decreased by 6.5% to £143 million, gross profit decreased by 6% to £28.9 million and gross profit margin increased from 20.01% to 20.1%. Operating profit for the year, prior to exceptional costs, was £7.0 million. Operating profit margin, operating profit prior to exceptional costs, expressed as a percentage of gross profit, increased from 22.0% to 24.2%.

Shareholders' funds have decreased by £7.3 million to £5.9 million due to the payment of dividends totalling £13 million during the year. Cash is transferred to the parent company and managed by a group treasury function in order to maximise returns. Residual cash funds held by the company at the balance sheet date were £2.0 million, a decrease of 21.7% on the previous year end.

During the past year, the company was part of the wider group restructuring exercise to ensure we are well placed for future growth. Whilst this resulted in reduced revenue the operating profit improved significantly.

Despite the competition we face and challenging economic conditions, the directors remain confident about the prospects for 2014.

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## THE GRASS ROOTS GROUP UK LIMITED

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### STRATEGIC REPORT (continued) FOR THE YEAR ENDED DECEMBER 31, 2013

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#### PRINCIPAL RISKS AND UNCERTAINTIES

The company's business does not expose it to any risks other than those associated with normal commercial trading. The group performs a comprehensive review of risks each year across all business. Each business leader is involved in the review and is tasked with identification of risks, actions to mitigate and implementing plans to address identified risks. The top two specific to the company are identified below:

Failure of our IT infrastructure may result in non-delivery of agreed services to clients resulting in loss of business reputational risks and potential legal claims. The company invests heavily in its IT infrastructure and employees to ensure this risk is mitigated.

As part of the trading activities the company receives money on behalf of clients. The directors recognise that there are specific issues when dealing with money on behalf of third parties.

The directors are satisfied that the procedures and controls that have been put in place are robust and appropriate for the nature of business in which Grass Roots engages.

The directors are pleased to announce that the company was successfully awarded ISO27001, Information Security Management, one of a few companies in our sector in the UK.

#### FUTURE PROSPECTS

Following the restructuring of the board the business started to implement our new and refined business strategy, Shareholders can look forward with confidence, to the future of Grass Roots under its new leadership team.

This report was approved by the board on

**25 SEP 2014**

and signed on its behalf.



**A W Lister**  
Director

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## THE GRASS ROOTS GROUP UK LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2013

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The directors present their report and the financial statements for the year ended December 31, 2013.

#### DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

#### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £5,737,000 (2012 - £4,139,000).

During the year, two interim dividends totalling £13,000,000 were paid.

#### DIRECTORS

The directors who served during the year and subsequently appointed were as follows:

I W Digby  
R King (appointed January 1, 2013 and resigned April 10, 2014)  
A W Lister (appointed February 18, 2013)  
I D Horsham (appointed March 1, 2013)  
P A Bartlett (appointed March 1, 2013)  
D W Evans (resigned February 18, 2013)  
A Sidbury (resigned March 1, 2013)  
J E White (resigned July 5, 2013)  
N P M Cover (resigned December 31, 2013)  
R Clutton (resigned March 31, 2014)

#### GOING CONCERN

After making enquiries, the directors have a reasonable expectation 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 annual report and accounts.

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## THE GRASS ROOTS GROUP UK LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2013

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#### EMPLOYEE INVOLVEMENT

The team remains as committed and enthusiastic as always. Grass Roots' increasingly successful profile allows it to attract and hire some of the best talent in the market place. The board of directors are committed to continue to invest time and resources in our most valuable asset, our people, and aspire to make Grass Roots one of the very best companies to work for in the UK. During the year the company was listed in the Times Top 100 Companies to work for.

#### QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the director's report. The maximum liability guaranteed on behalf of the directors is £5 million.

#### PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

#### AUDITORS

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on

**25 SEP 2014**

and signed on its behalf.



**A W Lister**  
Director

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## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE GRASS ROOTS GROUP UK LIMITED**

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We have audited the financial statements of The Grass Roots Group UK Limited for the year ended December 31, 2013, which comprise the Profit and loss account, the Balance sheet and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

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

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at December 31, 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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



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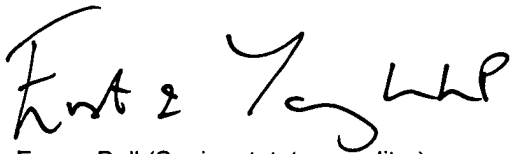
## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE GRASS ROOTS GROUP UK LIMITED

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### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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



Fraser Bull (Senior statutory auditor)  
for and on behalf of  
Ernst & Young LLP, Statutory auditor  
Luton

Date:

**25 SEP 2014**

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**THE GRASS ROOTS GROUP UK LIMITED**

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**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	Note	2013 £000	2012 £000
<b>TURNOVER</b>	1,2	<b>143,481</b>	<b>153,447</b>
Cost of sales		<u>(114,602)</u>	<u>(122,727)</u>
<b>GROSS PROFIT</b>		<b>28,879</b>	<b>30,720</b>
Administrative expenses		<b>(21,881)</b>	<b>(24,518)</b>
Exceptional costs		<u>-</u>	<u>(1,046)</u>
<b>OPERATING PROFIT</b>	3	<b>6,998</b>	<b>5,156</b>
Interest receivable and similar income	7	<u>284</u>	<u>238</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>7,282</b>	<b>5,394</b>
Tax on profit on ordinary activities	8	<u>(1,545)</u>	<u>(1,255)</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	16	<u><b>5,737</b></u>	<u><b>4,139</b></u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 or 2012 other than those included in the Profit and loss account.


The notes on pages 9 to 20 form part of these financial statements.


**THE GRASS ROOTS GROUP UK LIMITED**  
**REGISTERED NUMBER: 4155659**

**BALANCE SHEET**  
**AS AT DECEMBER 31, 2013**

	Note	£000	2013 £000	£000	2012 £000
<b>FIXED ASSETS</b>					
Tangible assets	9		543		677
Investments	10		50		50
			<u>593</u>		<u>727</u>
<b>CURRENT ASSETS</b>					
Stocks	11	3,090		4,397	
Debtors	12	60,792		63,767	
Cash at bank		1,957		2,500	
		<u>65,839</u>		<u>70,664</u>	
<b>CREDITORS:</b> amounts falling due within one year	13	(60,527)		(58,223)	
<b>NET CURRENT ASSETS</b>			<u>5,312</u>		<u>12,441</u>
<b>NET ASSETS</b>			<u>5,905</u>		<u>13,168</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	15		50		50
Profit and loss account	16		5,855		13,118
<b>SHAREHOLDERS' FUNDS</b>	17		<u>5,905</u>		<u>13,168</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

  
**A W Lister**  
 Director

  
**I W Digby**  
 Director

**25 SEP 2014**

The notes on pages 9 to 20 form part of these financial statements.

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**THE GRASS ROOTS GROUP UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**1. ACCOUNTING POLICIES**

**1.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

**1.2 Going concern**

After making enquiries, the directors have a reasonable expectation 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 annual report and accounts.

**1.3 Cash flow**

The company, being a subsidiary undertaking within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

**1.4 Revenue recognition**

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Revenue from reward and communication schemes is brought into account across the period of the campaign. Revenue from the sale of goods and vouchers is recognised when the significant risks and rewards of ownership of the goods and vouchers have passed to the buyer, usually on dispatch of the goods and vouchers.

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## THE GRASS ROOTS GROUP UK LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.5 Share based payments

###### Equity settled transactions

Share options in The Grass Roots Group PLC can be granted to senior executives of the company. The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement with a corresponding entry in equity.

For awards granted before 7 November 2002, the company recognises only the intrinsic value or cost of these potential awards as an expense. This is accrued over the performance period of each plan based on the intrinsic value of the equity settled awards.

##### 1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant and machinery	-	33%
Motor vehicles	-	25%
Fixtures and fittings	-	20%

##### 1.7 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

##### 1.8 Operating leases

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

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## THE GRASS ROOTS GROUP UK LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.9 Stocks

Vouchers for resale are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Amounts recoverable on contracts are valued at cost, which includes outlay incurred on behalf of clients on incomplete assignments. Provision is made for irrecoverable costs where appropriate.

##### 1.10 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

##### 1.11 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and loss account.

##### 1.12 Research and development

Research and development costs are written off as incurred. The costs relate to the development of IT-based rewards solutions.

##### 1.13 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

##### 1.14 Unredeemed Bonusbonds

Unredeemed Bonusbonds are stated in the balance sheet at the face value of Bonusbonds outstanding, less an estimate of discount payable by retailers on redemption and after excluding the value of bonds which, it is estimated by the directors, will never be presented for redemption.

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THE GRASS ROOTS GROUP UK LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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**2. REVENUE**

Turnover, which is stated net of value added tax, represents the value of management services provided in the normal course of business.

A geographical analysis of turnover is as follows:

	2013 £000	2012 £000
United Kingdom	142,053	152,510
Europe	1,428	937
	<u>143,481</u>	<u>153,447</u>

**3. OPERATING PROFIT**

The operating profit is stated after charging/(crediting):

	2013 £000	2012 £000
Depreciation of tangible fixed assets:		
- owned by the company (see note 9)	568	600
Operating lease rentals		
- plant and machinery	53	53
- land and buildings	417	637
Difference on foreign exchange	14	(4)
Research and development expenditure written off	47	86
(Gain) on disposal of fixed assets	(7)	(4)
	<u></u>	<u></u>

**4. AUDITORS' REMUNERATION**

	2013 £000	2012 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	61	56
Fees payable to the company's auditor and its associates in respect of:		
All other non-audit services not included above	2	-
	<u></u>	<u></u>

**THE GRASS ROOTS GROUP UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**5. STAFF COSTS**

Staff costs, including directors' remuneration, were as follows:

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	<b>13,687</b>	13,974
Social security costs	<b>1,408</b>	1,520
Other pension costs	<b>544</b>	1,179
	<b>15,639</b>	16,673

The average monthly number of employees, including the directors, during the year was as follows:

	<b>2013</b>	<b>2012</b>
	<b>No.</b>	<b>No.</b>
Business Development	<b>12</b>	32
Customer Service & Operations	<b>43</b>	85
Functional Specialist	<b>134</b>	181
Leadership	<b>6</b>	6
Relationship Management	<b>198</b>	105
	<b>393</b>	409

**6. DIRECTORS' REMUNERATION**

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Remuneration	<b>553</b>	900
Company pension contributions to defined contribution pension schemes	<b>62</b>	63
Compensation for loss of office	<b>171</b>	-

During the year retirement benefits were accruing to 2 directors (2012 - 6) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £206,000 (2012 - £234,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £22,936 (2012 - £23,000).



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**THE GRASS ROOTS GROUP UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**7. INTEREST RECEIVABLE**

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Interest receivable	<b>284</b>	<b>238</b>

**8. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of tax charge in the year</b>		
<b>Current tax</b> (see note below)		
UK corporation tax charge on profit for the year	<b>1,354</b>	<b>1,285</b>
Adjustments in respect of prior periods	<b>27</b>	<b>(30)</b>
<b>Total current tax</b>	<b>1,381</b>	<b>1,255</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	<b>121</b>	<b>(36)</b>
Rate Change	<b>43</b>	<b>36</b>
<b>Total deferred tax</b> (see note 14)	<b>164</b>	<b>-</b>
<b>Tax on profit on ordinary activities</b>	<b>1,545</b>	<b>1,255</b>

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2012 - *lower than*) the standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%). The differences are explained below:

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before tax	<b>7,282</b>	<b>5,394</b>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%)	<b>1,693</b>	<b>1,313</b>
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	<b>2</b>	<b>11</b>
Capital allowances for year in excess of depreciation	<b>(55)</b>	<b>5</b>
Adjustments to tax charge in respect of prior periods	<b>27</b>	<b>(30)</b>
Other timing differences leading to a (decrease) in taxation	<b>(48)</b>	<b>(32)</b>
Group relief received	<b>(238)</b>	<b>(12)</b>
<b>Current tax charge for the year</b> (see note above)	<b>1,381</b>	<b>1,255</b>

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**THE GRASS ROOTS GROUP UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)**

**Factors that may affect future tax charges**

The Chancellor announced in the 2013 budget that the main rate of UK Corporation Tax is to be reduced to 21% from 1 April 2014 and 20% from 1 April 2015. Finance Act 2013 received Royal Assent on 17 July 2013, with the rates being substantively enacted from 2 July 2013.

As the legislation was substantively enacted by the balance sheet date, the closing deferred tax balances have been calculated at 20%.

**9. TANGIBLE FIXED ASSETS**

	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
<b>Cost</b>				
At January 1, 2013	2,890	485	1,043	4,418
Additions	429	4	12	445
Disposals	(80)	(78)	-	(158)
At December 31, 2013	<u>3,239</u>	<u>411</u>	<u>1,055</u>	<u>4,705</u>
<b>Depreciation</b>				
At January 1, 2013	2,479	368	894	3,741
Charge for the year	390	61	117	568
On disposals	(80)	(67)	-	(147)
At December 31, 2013	<u>2,789</u>	<u>362</u>	<u>1,011</u>	<u>4,162</u>
<b>Net book value</b>				
At December 31, 2013	<u>450</u>	<u>49</u>	<u>44</u>	<u>543</u>
<i>At December 31, 2012</i>	<u>411</u>	<u>117</u>	<u>149</u>	<u>677</u>

**10. FIXED ASSET INVESTMENTS**

	Investments in subsidiary companies £000
<b>Cost or valuation</b>	
At January 1, 2013 and December 31, 2013	<u>50</u>
<b>Net book value</b>	
At December 31, 2013	<u>50</u>
<i>At December 31, 2012</i>	<u>50</u>

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**THE GRASS ROOTS GROUP UK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**10. FIXED ASSET INVESTMENTS (continued)**

**Subsidiary undertakings**

The following were subsidiary undertakings of the company:

<b>Name</b>	<b>Class of shares</b>	<b>Holding</b>
Projectlink Motivation Limited	Ordinary	100%

<b>Name</b>	<b>Business</b>	<b>Registered office</b>
Projectlink Motivation Limited	Dormant	United Kingdom

**11. STOCKS**

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Vouchers held for resale	2,647	3,370
Amounts recoverable on contracts	443	1,027
	<u>3,090</u>	<u>4,397</u>

**12. DEBTORS**

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	22,892	21,083
Amounts owed by group undertakings	36,776	41,269
Other debtors	209	86
Prepayments and accrued income	621	871
Deferred tax asset (see note 14)	294	458
	<u>60,792</u>	<u>63,767</u>

**13. CREDITORS:**  
**Amounts falling due within one year**

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	9,179	8,349
Amounts owed to group undertakings	22,144	15,676
Other taxation and social security	1,603	1,601
Other creditors	17,854	19,911
Accruals and deferred income	9,747	12,686
	<u>60,527</u>	<u>58,223</u>

**THE GRASS ROOTS GROUP UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**14. DEFERRED TAX ASSET**

	2013 £000	2012 £000
At beginning of year	458	458
Other movement (P&L)	(164)	-
At end of year	<u>294</u>	<u>458</u>

The deferred tax asset is made up as follows:

	2013 £000	2012 £000
Accelerated capital allowances	(278)	(374)
Other timing differences	(16)	(84)
	<u>(294)</u>	<u>(458)</u>

**15. SHARE CAPITAL**

	2013 £000	2012 £000
Allotted, called up and fully paid 50,000 Ordinary shares of £1 each	<u>50</u>	<u>50</u>

**16. RESERVES**

	Profit and loss account £000
At January 1, 2013	13,118
Profit for the year	5,737
Dividends: Equity capital	(13,000)
At December 31, 2013	<u>5,855</u>

**17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	2013 £000	2012 £000
Opening shareholders' funds	13,168	9,029
Profit for the financial year	5,737	4,139
Dividends (Note 18)	(13,000)	-
Closing shareholders' funds	<u>5,905</u>	<u>13,168</u>

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THE GRASS ROOTS GROUP UK LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
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18. DIVIDENDS

	2013 £000	2012 £000
Dividends paid on equity capital	13,000	-

19. OPERATING LEASE COMMITMENTS

At December 31, 2013 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2013 £000	2012 £000	2013 £000	2012 £000
Expiry date:				
Within 1 year	57	-	-	-
Between 2 and 5 years	459	-	-	-
After more than 5 years	-	637	53	53

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## THE GRASS ROOTS GROUP UK LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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#### 20. RELATED PARTY TRANSACTIONS

During the period the company entered into transactions, in the ordinary course of business, with related parties that are part of The Grass Roots Group PLC but not wholly owned. Transactions entered into, and trading balance outstanding at 31 December 2013, are as follows:

	Sales to related party £'000	Purchases from related party £'000	Amounts owed (to)/by related party £'000
GRG One Fee Limited			
Year ended 31 December 2013	220	50	41
Year ended 31 December 2012	1,310	210	777
GRG Public Resources Limited			
Year ended 31 December 2013	1	-	80
Year ended 31 December 2012	1	-	92
Grass Roots Digital Fibre Limited			
Year ended 31 December 2013	-	208	-
Year ended 31 December 2012	-	-	-

On 31 December 2013 the ownership of Grass Roots Digital Fibre Limited was transferred from the ultimate parent company The Grass Roots Group PLC to Torstein Sorlid, Managing Director.

Under the exemption available in FRS 8 the company has not disclosed transactions with other wholly owned companies of The Grass Roots Group PLC.

#### 21. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate and ultimate parent undertaking and controlling party is The Grass Roots Group PLC, a company registered in England and Wales. The group accounts for The Grass Roots Group PLC can be obtained from Pennyroyal Court, Station Road, Tring, Hertfordshire, HP23 5QY.

#### 22. CASH HELD ON BEHALF OF CLIENTS

At 31 December 2013 the company held £32,071,867 (2012: £28,529,721) in client accounts. These amounts are not included in the company's balance sheet.

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## THE GRASS ROOTS GROUP UK LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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#### 23. SHARE BASED PAYMENTS

Unapproved Scheme, Approved Scheme and EMI Scheme

Share options in the The Grass Roots Group PLC can be granted to senior executives of The Grass Roots Group UK Limited. The exercise price of the options is equal to the market value of the shares at the time that the option is granted. The options vest if and when the company's profit before tax reaches set levels. A failure to meet the set targets withing 3 years from the date of grant causes the options to lapse. The contractual life of each option granted is 10 years. There are no cash settlement alternatives.

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2013 was £nil (year ended 31 December 2012: £nil). The portion of that expense arising from equity-settled share-based payment transactions was £nil (year ended 31 December 2012: £nil).

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movement in, share options during the period.

	Year ended 31 December 2013 No.	Year ended 31 December 2013 Pence	Year ended 31 December 2012 No.	Year ended 31 December 2012 Pence
Outstanding as at 1 January	548,000	34	635,000	27
Grant during period	-	-	-	-
Exercised during period	461,000	24	-	-
Lapsed during the year	-	-	87,000	34
Outstanding as at 31 December	<u>87,000</u>	<u>34</u>	<u>548,000</u>	<u>34</u>

For the share options outstanding as at 31 December 2013, the weighted average remaining contractual life is 2.5 years (31 December 2012: 3.5 years).

There were no options granted under the Approved Scheme for the period ended 31 December 2013.

The inputs into the Black-Scholes model for options granted under the Approved Scheme are as follows:

Expected life (years)	5.00
Expected annualised volatility (%)	21.70
Expected annual rate of dividends (%)	9.57
Risk-free interest rate (%)	5.75
Vesting period (years)	3.00
Latest exercise date (years)	10.00

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not be the actual outcome.

No other features of options granted were incorporated into the measurement of fair value.