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Making global connections...

Next Fifteen Communications Group plc

Annual Report 2010

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Introduction

Get connected...

Next Fifteen continues to look at the most effective way to communicate with its shareholders and other stakeholders. Following positive feedback, we have once again created an enhanced online annual report that can be found on our website, www.nextfifteen.com and would urge you to take a look at the case studies showing some of the work we do for our clients.

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It would be great to hear feedback from shareholders on the Annual Report or any other aspect of the business We would be happy to answer questions from shareholders at any time rather than waiting for the Annual General Meeting in January
We look forward to hearing from you

Tim Dyson, Chief Executive Officer

What do you think?

Visit our website www nextfifteen com and give us your thoughts

Our results

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Operational highlights

EBITDA increased to £8.4m from £5.5m last year

22% of clients are serviced in more than one country but they represent 63% of revenue

Acquired M Booth & Associates, a consumer-focused PR agency based in New York in August 2009

Acquired 55% of Upstream Asia to create Bite Asia in October 2009

Acquired a further 36% of US policy communications business, 463 Communications, taking stake to 76%

Created Beyond, a new digital consultancy by combining Context Analytics with acquired Type 3

Our global footprint

Making connections worldwide...

Next Fifteen has 48 offices in 19 countries, and a client list that includes many of the highest-profile international brands. The Group employs more than 900 people and has become one of the world's most respected communications groups.

The Group has achieved this level of global coverage largely through organic growth from its 1981 start up, but has in recent years supplemented that with some notable acquisitions The Group remains ambitious and is committed to international expansion, and intends to open more offices for existing brands, with the possibility of further acquisitions where the strategic fit and value are compelling

US and Canada

The headquarters of many of the world's largest companies are in the US, and so unsurprisingly it is our largest market for public relations Next Fifteen has 14 offices located in some of the US technology industry's major cities and one in Canada Our staff of over 300 provides some of the highest quality PR, media and analyst relations, public affairs, research, digital consultancy and financial communications in the marketplace

Brands operating in the US and Canada

Text 100	Bite	OutCast
463	Beyond	M Booth

United Kingdom

The United Kingdom remains an important market for the Group with more than 200 employees in five brands, providing PR, research and digital communications to some of the world's largest technology and consumer names, including IBM, AMD, Microsoft and Coca-Cola London is the headquarters of Next Fifteen, and is the Group's largest employment city

Brands operating in the United Kingdom

Text 100	Bite	Redshift Research
Lexis	Beyond	

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Europe and Africa

Next Fifteen has 12 offices and a licensed partner in Europe and Africa, with around 100 consultants providing services to companies of all sizes Many of our accounts in this region are multi-country engagements and Bite is seeking to extend its reach with the opening of an office in Germany in the coming year

Brands operating in Europe and Africa

Text 100 Bite

Asia Pacific

With 16 offices and three licensed partners, Next Fifteen has a considerable presence in a region where local knowledge is often the most vital criterion for success in business The Group's 275 staff and many licensed practitioners serve clients in ten countries across the region, these include some of the world's largest technology companies, but increasingly covers other sectors too

Brands operating in Asia Pacific

Text 100 Bite

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Visit our website www.nextfifteen com for more on our offices

Our global brands

Next Fifteen Communications Group plc is the holding company for a worldwide group of communications consultancies.

It comprises five independently operating subsidiary PR brands. Next Fifteen also owns a research business, a policy communications business and a digital consultancy.

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Text100

Text 100 is Next Fifteen's largest brand Founded in 1981, it now employs over 400 people in 26 offices in major commercial centres around the world It has built its reputation on an intimate knowledge of the technology industry, a painstaking focus on quality, a passion for new ideas, and a commitment to flawless execution These attributes, put into practice every day by high-quality professionals with immense local knowledge, enable Text 100 to work for some of the world's most powerful companies, including IBM, Lenovo, Cisco, Xerox and SanDisk

www text100 com

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Bite

Bite, which was founded in 1995, employs over 180 people from its offices in London, Stockholm, Paris, San Francisco, New York, Toronto, Beijing, Hong Kong, Shanghai, Singapore and Sydney Bite brings determination and zeal to its communications campaigns for its range of B2B and B2C clients Bite has built its business on a strategy of developing creative, results-oriented campaigns for market-leading brands and for fast-growing start-up brands Its client list includes AMD, HP, Microsoft and Sony

www.bitecommunications.com

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Lexis Public Relations

Next Fifteen bought a 25% stake in Lexis Public Relations in 2005, and in 2008 increased its ownership to 100% Now employing around 90 members of staff, Lexis is a full-service agency with consumer corporate, healthcare sport and youth divisions These provide in-depth PR expertise, supported by planning, creative, digital marketing, sponsorship and design specialists Lexis delivers award-winning campaigns for some of the UK's best-known brands, including Barclays, Boots, Coca-Cola, Dove and Unilever

www.lexispr com

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The OutCast Agency

Next Fifteen acquired The OutCast Agency in 2005 From its offices in New York and San Francisco, OutCast partners with some of the world's most innovative companies to devise smart communications strategies that amplify their unique narratives The agency works with clients of every size, in industries ranging from consumer gadgets to web services greentech to enterprise hardware, software to social networking, and more OutCast's clients include Amazon, EMC, Facebook, Intuit, salesforce com, Nike, Netflix, VMware and Yahoo!

www.theoutcastagency com

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M Booth

Next Fifteen acquired New York-based M Booth & Associates in August 2009, which expanded Next Fifteen's presence in the consumer-PR market M Booth specialises in building strong and powerful brands It represents some of the world's best-known corporations and products across several industries, including consumer goods, consumer health, beauty, fashion and retailing, travel and lifestyle, food and beverage, wine and spirits, online brands, corporate communications and technology Its client list includes JCPenney, Vaseline and US Virgin Islands

www mbooth.com

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463 Communications

Next Fifteen owns a 76% stake in 463, a communications consultancy based in Washington, DC This senior-level firm helps corporations, industry groups and other agency teams develop data-based communications campaigns around key issues that establish business, technology and public policy leadership and brand building

www.463 com

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Redshift Research

Redshift Research was established as a subsidiary of the Group in 2007 It is a full-service market research consultancy which conducts both business-to-business and consumer research It has a strong record in the consumer technology and IT sectors, particularly in support of PR research

www redshiftresearch.co.uk

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Beyond

Beyond is Next Fifteen's digital consultancy, launched in September 2010 by integrating Context Analytics (Next Fifteen's research and analytics business), Type 3 a recently acquired digital creative agency, and consultants from Bite Communications Beyond's mission is to rethink the traditional digital-agency approach and use a combination of earned, owned and paid media to maximise relevant traffic to brand properties and experiences Beyond had offices in San Francisco, London and New York

www.bynd com

Visit our website www nextfifteen com for more on our brands

Chairman's statement

Next Fifteen Communications Group plc ('Next Fifteen' or 'the Group'), the global public relations consultancy group, is pleased to report its results for the year to 31 July 2010 The Group has emerged from the global recession to produce record results and continues to trade well despite ongoing uncertainties in the western economies The Group has reported revenues up 10 6% to £72 3m (2009 £65 4m) Profitability has recovered well, with profit before tax up 68% to £5 3m (2009 £3 2m), while adjusted profit was up 26% to £6 6m (2009 £5 2m) (see note 5) Basic earnings per share rose 84% to 6 75p (2009 3 67p), with adjusted basic earnings per share up 30% at 8 45p (2009 6 48p) (see note 10) The Group continues to have a strong balance sheet, ending the year with net debt of £0 9m (2009 net cash of £1 8m) (see note 19), achieved after making £5 1m of acquisition-related payments In view of these results and the current trading, the Board has proposed a final dividend of 1 375p per share, which sees dividends increase 9% to 1 85p for the year (2009 1 70p) The Group has recently acquired an 85% stake in San Francisco-based The Blueshirt Group, LLC, an investor relations company that services the technology market (see note 29)

"The Group has emerged from the global recession to produce record results"

The Blueshirt acquisition will give opportunities for cross referrals between the Group's existing US businesses, whilst also opening up a revenue stream in a new sector of communications

Corporate activity

At the start of the financial year, the Group announced the acquisition of New York-based consumer agency M Booth & Associates, Inc. This was followed in October 2009 by the acquisition of the Asian PR assets of AIM-listed Upstream Marketing and Communications, Inc, which expands the Group's operations in Asia Pacific Upstream has been integrated into Bite's business, to complement its existing US and European operations During the year the Group purchased a further 36% stake in 463 Communications, LLC, a US-based policy communication consultancy, increasing its holding to 76% Just after the year end, the Group launched Beyond, a digital agency which has offices in London, New York and San Francisco This was created by combining the Group's existing Context Analytics business and Type 3 Limited, a digital agency acquired in August 2010 This new venture has already secured clients that include Google, Cisco, Hilton Hotels and Virgin America Lastly, the Group recently acquired OneXeno Limited, a digital marketing agency in Hong Kong, which has been integrated with Bite's operations in that region

See page 23 for more on our results.

Graphs removed

Segmental performance

The US and Canada PR business was strengthened by the addition of M Booth and now delivers around half the revenue for the Group and more than half its profits The UK PR segment remains the second biggest despite a year-on-year decline, but grew 7 5% in the second half, showing good momentum Europe and Africa had stable revenue aided by a stronger euro, and it was pleasing to see an improvement in the operating margin The Asia Pacific segment showed 30% revenue growth aided by stronger currency and the acquisition of Upstream, which added £2m of revenue, but as a break-even business it had the effect of reducing segment margins The Upstream business is now in profit, which will help segment margins improve in the future The other segments are research and digital consultancy, where good progress is being made

Client-base continues to improve

The Group has an impressive client-base that includes IBM, Microsoft, Cisco, Facebook, HP, AMD, Unilever and Coca-Cola This has been further improved by the addition of TiVo, Allied Bakeries, Hershey's, Alibaba, Bloom Energy, Trend Micro and Schneider Electric The top ten clients accounted for 32% of revenues at the year end this compares to 36% in 2009 Unlike some other marketing services groups, Next Fifteen has no direct exposure to government spending and will therefore be largely unaffected as western governments cut back on expenditure in this area

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Strategy

The Group continues to explore organic growth opportunities supported by selective acquisitions of specialist agencies in growth sectors, hence the acquisitions of M Booth, Upstream, OneXeno, Type 3 and Blueshirt mentioned above The creation of digital agency Beyond, which increases the Group's capabilities in social media and related digital services, is further evidence that the Group continues to focus on long-term growth
With strong cash-generation from operations and existing acquisition facilities, the Group remains well placed to make additional targeted acquisitions of a size that would maintain a strong balance sheet, an approach that the Board continues to feel is prudent given the current economic climate

Prospects

The Group has recovered well from the economic slowdown and has continued to invest in its future, while maintaining one of the most conservative balance sheets in the UK marketing services sector It remains highly ambitious and believes it has significant opportunities for growth over the medium term, through both organic growth and selective acquisitions The Group is experiencing an improvement in trading conditions, particularly in North America and Asia but will continue to manage the business in a way that reflects the general uncertainty that surrounds the pace of economic recovery That said, in the first two months of the current financial year, the Group has seen good momentum and the Board remains optimistic about prospects for the year

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Will Whitehorn

Chairman
12 November 2010

Chief Executive Officer's review

See pages 4-5 for more on our brands

Last year I wrote that there was no substitute for doing great work. I also referenced the growing role digital communications was playing in the marketing world In the last 12 months, digital has become the focus of all forms of marketing as companies grapple with the shift away from traditional media towards social networks, social media and the growing consumption of web-based content from both traditional and completely new sources This is a shift that creates a great opportunity for an agency group like ours It is forcing brands to completely rethink the way they tackle their marketing In the past, brands have 'controlled' their messaging and brand positioning through a series of controlled events, such as placed advertising, press conferences and product placement Today, consumers are starting their own conversations about products and brands on places such as Facebook or on vertical social networks through Ning or Grouply As a result, brands now have to figure out how to shape a conversation they didn't start and can't control These are, in short, exciting times

Digital from every angle

Against this backdrop of change, the agency world has had to cope with global economic uncertainty, making the bets we have had to take feel all the more challenging I'm pleased to report that as a Group our results show that we are already seeing returns on the investments made in digital, and I am excited to see the doors that digital is starting to open for our business We are approaching digital from every angle We are embedding digital thinking and products into our traditional services but we have also created a specialist digital agency to offer advanced digital services to all the Group's clients This new agency is called, appropriately, Beyond, and it has offices in London, San Francisco and New York It brings together traditional web developers, graphic designers, analysts, search specialists and PR consultants in the creation of a set of services that are closer to digital advertising than PR in the way they look, but fully embrace the influence model at the core of public relations This may be why it has already secured clients that include Cisco, Virgin America, Google and Hilton Hotels

More than just technology

When the dot com bubble burst in 2001, we were a technology specialist group Today, we derive a quarter of our revenues from clients that include Unilever, Boots, Hershey's and, most recently, Dyson (and no, I'm not related) In the next few years, we will look to invest in the corporate PR and healthcare arena, further diversifying our client-base, while still remaining highly specialised in the services we offer these customers These moves, coupled with the continued expansion of the technology industry, ensure that there is no reason why our business should stop expanding

732	48	854
Number of clients (2009 626)	Offices worldwide (2009 43)	Average number of staff (2009 847)

Global hasn't gone away

While our industry has been tackling digital, it can't ignore the importance of emerging markets and the desire of large companies to manage their communications globally These shifts are understandable First, the importance of markets such as China and India cannot be overstated right now Second, the shift towards the internet being the new platform for communications is breaking down traditional geographic borders, particularly in developed countries This is why we have continued to invest in emerging markets with the acquisitions of Upstream Asia that extends our Bite business into the Asia Pacific region, and of OneXeno, which adds to our ability to provide digital services in those markets

More growth to come

While there is still some uncertainty around the global economy, I am confident that our business will deliver robust growth in the coming year The investments of the last few years are already providing revenue growth and that will only continue, which should again lead to record results in the year to 31 July 2011 To be in this position is testament to the quality of the businesses that make up the Group and the decisions they've made I'm pleased to say that all of our businesses are set to expand, which should only be good news for our shareholders

To end this review, I would like to thank all the people who make up Next Fifteen for their efforts in the last year to deliver the strong recovery we achieved I would also like to thank you as shareholders for your continued support We have ambitious plans for the Group which we hope you will all be a part of

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"In the last 12 months, digital has become the focus of all forms of marketing as companies grapple with the shift away from traditional media"

Follow Tim on Twitter

@timdyson

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Tim Dyson

Chief Executive Officer
12 November 2010

Operational review

US and Canada

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£37.3m

Revenue

Introduction

The US market remains the most important for the Group, generating 52% of Group revenue in the year ended 31 July 2010 The year started with Bite having to adjust to the loss of its biggest client, Sun Microsystems, following Sun's takeover by Oracle Text 100 also started the year on the back foot with the focus rightly on client retention and cost containment Despite these challenges both businesses responded extremely positively, with Bite winning the HP corporate account (focusing on innovation and sustainability) and Text 100 winning Schneider Electric and a number of project assignments from existing large clients such as IBM, Lenovo and Cisco OutCast had the most successful year, developing new business and cultivating stronger relationships with existing clients such as AdMob, Intuit/Turbo Tax and Yahoo!, which significantly increased their budgets helping to drive 15% revenue growth for OutCast despite a faltering recovery in the US economy

Corporate activity

In August 2009, the Group welcomed New York-based consumer agency M Booth & Associates to its US interests, and it made a very successful start to life within the Next Fifteen family During the year the Group also increased its investment in policy communications company 463 Communications to 76% In August 2010, Beyond was formed by bringing together the existing Context Analytics business and combining it with the recently acquired Type 3, to create a specialist digital consultancy with a base in San Francisco and an office in New York.

In November 2010, the Group acquired 85% of The Blueshirt Group, LLC, a technology-focused financial communications company based in San Francisco and New York. These investments demonstrate the Group's commitment to and confidence in the US market The Group now has 15 offices in the US and Canada region and employs over 300 members of staff

Client wins and extended relationships

In tough economic times the focus is rightly on keeping existing clients happy However, to grow their business the Next Fifteen brands were also busy pitching and winning some exciting new clients M Booth added Schwan's, Pirate's Booty, Hershey's and Evenflo, whilst also extending its relationship with American Express OutCast won new clients including Acadia, Bloom Energy, kaChing, Netflix and VEVO and extended existing relationships with Autodesk, salesforce com and EMC Bite's year was dominated by bedding in the new global HP Corporate account but it also won new retainer accounts from EZShield, Mocana, Parallels and TiVo In addition to Schneider Electric, Text 100's other new clients included Communispace, Kroll Ontrack and NVIDIA

Key clients

American Express	IBM	Facebook
Xerox	Cisco	Yahoo!
HP	AMD	Lenovo
VMware	EMC	Intuit
salesforce com	JCPenney	Sybase

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It's You!

The OutCast Agency, San Francisco
Yahoo! set out to create a campaign in conjunction with its global brand launch and advertising campaign

Leveraging clear and consistent "It's You!" messaging throughout all events, OutCast debuted a pop-up Yodel Studio hosted by celebrity musicians in Times Square, London and Mumbai. The campaign also included an online yodel contest whereby users submitted over 21,000 yodels via yodelstudio yahoo com

The brand launch received more than 600 media placements in ten countries, with 81% key message resonance. Most significantly, the time spend on Yahoo! after the campaign rose by an average of 7%

Visit our website www nextfifteen com for more on this story

Operational review continued

US and Canada continued

Social media and digital communications

The biggest trend in the last year has been the widespread acceptance of digital and social media as a phenomenon that has changed the communication landscape forever Overall, clients' understanding of social media and digital communications has moved from a tactical consideration to a strategic imperative that underpins most, if not all, communications programmes Whether it is corporate and senior executive blogs, Facebook and Twitter management, building online communities, iPad and iPhone application launches or search-engine optimisation, clients are looking for better ways to engage with their target audiences and measure the return on investment from PR that is searchable and sociable As summed up by an OutCast senior executive, "We live and breathe social media everyday – from our work with Facebook, to building social media communities for Netflix, to pioneering new measurement tools We are all Social OutCasts!"

Working together

The Next Fifteen brands in the region have had a successful year working together M Booth is working with Bite to support AMD in its VISION technology work Beyond has supported M Booth in its work with American Express and Evenflo 463 Communications and Bite have worked together on Verisign's '25 years of com' campaign and 463 Communications also supported Text 100 in Schneider Electric's 'One Government' programme aimed at driving energy efficiency awareness among key stakeholders in Washington, DC On a broader front, OutCast used Text 100 in the international launch of the Amazon Kindle

Recognition

Doing great work is important for clients and rewarding when recognised by others Text 100 was honoured for corporate media relations work for 'Recasting IBM's Image for a Smarter Planet' and for business-to-business marketing with Xerox. Bite won SABRE's Hardware Technology Campaign of the Year for an AMD campaign on battery life

People

As the new financial year started there were two significant changes to the senior management in the US Firstly, The Outcast Agency welcomed Alex Constantinople who joined as a partner in the role of Chief Operating Officer from Conde Nast's WIRED Magazine, but that news was tempered by the decision of co-founder Margit Wennmachers to leave the agency for a career in venture capital with client Andreessen Horowitz. Over at Bite the search for a new leader of the US business was concluded with the appointment of Michelle Herman, who brings a wealth of experience from her roles both in-house and within the agency world, most recently at Waggener Edstrom

The year ahead

With the recent acquisition of The Blueshirt Group, LLC, Next Fifteen has a strong business in the financial PR field and the opportunity to offer a broader portfolio of skills to its clients in the US As calendar year 2010 unfolded, momentum was building and our expectation is that notwithstanding the economic risks the US businesses should see a progressive year with organic growth returning in the first half of the current financial year to add to the boost provided by the acquisitions of Blueshirt and Type 3

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Telling 500 million stories

Visit our website www.nextfifteen.com for more on this story

The Outcast Agency, San Francisco
Facebook appointed OutCast to promote the 500 million users milestone in a positive light, illustrating how Facebook plays a beneficial role in the lives of people around the world

Outcast partnered with developers to create a 'Facebook Stories' application for users to post unique and personal accounts about how they use Facebook

Operational review continued

United Kingdom

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£15.1m

Revenue

Introduction

The UK is the second most important revenue market for the Group, representing over 20% of total revenue It is also the place where the Group was founded back in 1981, and although Tim Dyson, the Group CEO, has been based in the US for the last 15 years, most of the remaining central functions are in London The UK had a tough calendar year 2009, which resulted in revenue for the year to 31 July 2010 being down 9 8% There was a focus on cost reduction so that the businesses can benefit faster from operational gearing as revenue growth returns

Client wins

Despite the economic climate and the clear need to deliver outstanding work to existing clients, there was still a desire to pitch and win new clients This resulted in new business from MTV, Psion, Kroll Ontrack, SafeNet, HP, Harman International and Allied Bakeries

Research

Research agency Redshift has a different business model, being almost exclusively reliant on ad hoc projects Therefore the success of this business depends on its ability to win, deliver and secure repeat commissions from clients Working with other parts of the Group was a key objective when Redshift was formed, and this has been extended of late through its work with M Booth in New York. Redshift now generates 30% of its revenue from international clients and the growth and effectiveness of its online consumer panel has been critical to this international expansion

Increased momentum in social media

With client budgets under pressure, greater emphasis was placed on return on investment and metrics to prove wise spending This has coincided with the industry reaching tipping-point in social media and digital communications, which are now embedded in over 90% of client PR programmes The mass penetration of the internet means that consumers can easily access opinion on organisations and their products Opinion became a critical factor in any purchase decision, and PR is ideally placed to influence opinion

Key clients

Boots	Coca Cola	Dove
Microsoft	HP	Harman
AMD	Sony	IBM
Unilever	NXP	Actavis
Barclays	Logica	Burton s Foods

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Bringing happiness and rewards

Visit our website www nextfifteen com for more on this story

Lexis

The brief was to associate Coca-Cola with happiness Lexis did this by creating a sequel to the hugely successful Happiness Machine film developed in the US, but with a uniquely British twist, through the integration of traditional, digital and social media

The campaign exceeded expectations with over 375,000 views in the first month and 1 million+ social media impressions

Operational review continued

United Kingdom continued

We are helping clients move from a siloed approach to marketing disciplines to one of truly integrated campaigns whereby traditional media, influencer engagement and social media work to complement the complete marketing mix Bite has embraced this change with its 'Point of View' methodology, which is a specialist-driven approach encompassing digital strategy and execution, sales and marketing programmes, design, and written and visual content creation The client's story is clearly defined in terms of the target community and the conversations they are having, with the aim of presenting relevant and compelling content across multiple channels

London hub

As well as being an important market in its own right, London acts as lead office for a number of pan-European and global programmes Text 100 delivers over 60% of its UK client campaigns across multiple markets, these campaigns including IBM, SanDisk and AMD, where it works alongside Bite – which itself runs significant European campaigns for new clients HP and Harman International from London

Recognition

The UK businesses have been through a difficult year but they all recognise the continued need to put HR at the heart of their business Talented people attract the best clients and that combination has again resulted in some great client work for brands such as NXP Semiconductors, Guinness World Records and Channel 4, which was shortlisted for awards Text 100, Lexis and Bite all featured in *The Sunday Times* 'Best Small Company to work for' list in the UK, with Bite coming 7th

The year ahead

The year ended 31 July 2010 has been difficult but the new financial year started with momentum The UK businesses of Next Fifteen have weathered the downturn and taken the right action, and are well positioned to benefit from the improving outlook, albeit with an increase in the level of project work rather than retainers Next Fifteen invested in the UK market with the recent Glasshouse Partnership acquisition for Lexis and the creation of Beyond, following the acquisition of Type 3, and the Group is confident that good progress will be achieved in the UK during the current financial year

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Turismo Madrid

Lexis

The region of Madrid is bidding to host the Ryder Cup in 2018 and is competing against France, Germany, Holland and Portugal

The brief was to drive pan-European awareness and positive messaging around Madrid's bid, particularly across media consumed by the Ryder Cup committee. Lexis created a 15-month marketing communications programme

Lexis has helped drive positive awareness of Madrid's bid, which is currently viewed as joint favourite along with France

Visit our website www nextfifteen com for more on this story

Operational review continued

Europe and Africa

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£9.7m

Revenue

Introduction

The Europe and Africa region represented 13 5% of Group revenue in the year ended 31 July 2010 Parts of the region were affected in a similar way to the United Kingdom in terms of client budget cuts in the calendar year 2009 although the overall impact was mitigated by pleasing performances from Paris, Madrid, Milan and Munich For Text 100, the region was restructured into two regions and resulted in senior staff being closer to the business and its key clients The Amsterdam office is now managed as a branch office of Paris and the three Nordic offices of Text 100 are now managed under a unified leadership structure The cost of making these changes had an impact on margins but has resulted in a stronger, growth-oriented culture and will benefit the business in the coming year

Clients become more global

The Group has a strong balance between local, regional and global client wins within the region Local clients include Litex in Norway and LG in Italy New regional clients included MTV, Kroll Ontrack and SafeNet New international client relationships in the region include Schneider Electric, a significant US client expanding into the Nordics The Johannesburg office started to work with Cisco, four years after Text 100 won the account in North America Cisco is its second-largest global account Europe is also a vital region for Bite's global clients HP and AMD

Clients become more social

Europe is no different to the rest of the world in the extent to which clients are embracing the need to adopt social media practices Digital activity is becoming integrated into daily client programmes rather than being just one-off creative executions Bite gained industry recognition for a campaign it ran for Nuance and Text 100 expanded its social media practice and now has a team of six specialists across the region

Ambitions grow in Europe

Europe is a key region, and the Group is investing through the Bite brand where the region has an important role to play in Bite's global network and its consistent approach to client experience Bite has a short-term plan to build a strong European offer based on offices in UK, France, Germany and Sweden The Swedish office is long established and, under new leadership, is providing strategic counsel to leading brands such as Warner, Xerox, Iomega and Checkpoint The French business has been launched as Soundbite Communications and already has HP and Parallels as founding clients The next piece of the European jigsaw is Germany, where a Bite office presence is anticipated in 2011, to complement the established Text 100 office

The year ahead

The Group has set modest growth expectations for the region There is recovery underway but it remains fragile and there is anxiety as to how the austerity measures imposed by many European governments will impact on our large technology clients The Group expects that a combination of a strong client list and a new office opening will generate revenue increases

Key clients

IBM	PC Tools	Panasonic
SanDisk	Symantec	NXP
Lenovo	Fujitsu	SafeNet
The Mathworks	Vodafone	Facebook
AMD	Xerox	Cadence

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Nordic appetites

Text 100

Seven years ago, Text 100 in the Nordics was represented by a single office in Stockholm. As it became apparent that multinational companies to a large extent wanted a Nordic arena, Text 100 decided to do something about this, and today there are 30 Text 100 consultants working in this region.

"Our clients love this. We get more and more business opportunities through the fact that we can offer a one point of contact solution to Nordic Marketing."

Sara Mondell, Managing Director of Text 100 in the Nordics region

Visit our website www.nextfifteen.com for more on this story

Operational review continued

Asia Pacific

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£10.2m

Revenue

Introduction

Asia Pacific represents one of our biggest opportunities but also one of our principal management challenges because of the geographic and cultural diversity of the region Asia Pacific increased its share of Group revenue from 12% in the year ended 31 July 2009 to 14% in the year ended 31 July 2010, with a reported growth rate of 30% This growth came largely from the acquisition of Upstream Asia in late October 2009 (see note 26), which has been integrated into Bite, but also from strong recovery in Australia, Singapore and Malaysia Next Fifteen now has 16 offices spread from India in the west to China in the north and Australia in the south, plus a further three licensed partners, and has a medium-term goal to increase the region's share of Group revenue to 20%, which will include ASEAN markets such as Thailand, Indonesia and Vietnam as they open up

Client activity

Both Text 100 and Bite have an established technology strength in the region For example Text 100 helped launch the FLIP pocket video camera for Cisco in Australia and Singapore, and in India helped to promote a successful visit from Yahoo!'s Carol Bartz On the more traditional technology front, IBM's SmarterPlanet has been a key thought leadership focus in the region and Bite has been working to promote Skype for business, mobile and video as well as CSR activities that took Skype into the education and healthcare sectors However, both brands extend beyond technology with clients in the automotive, consumer, food, healthcare, travel and financial sectors, which provides a greater scope for revenue growth

Social media and digital communications

The markets in the region are progressing at different speeds in the integration of social media into PR campaigns, but growth will continue in social media, networking and influencer campaigns as the blurring of lines between advertising, digital and PR continues Our businesses ensure that their consultants are trained to deliver integrated digital programmes Bite has also seen demand for dedicated social media and digital support, and so recently acquired digital marketing boutique OneXeno to help deliver this capability

The year ahead

Next Fifteen continues to believe in the long-term growth prospects in China and the Asia Pacific region China is a market in which organic growth has been difficult to achieve at a sufficient rate to improve market share, so further acquisition activity in this country is under review For the region as a whole, strong organic revenue growth is expected in the current year as the service capability and geographic spread continue to open up new growth opportunities

Key clients

Lenovo	Symantec	Nokia
IBM	Cisco	SanDisk
The Mathworks	NXP	PayPal
VMware	Swift	HTC
HP	Motorola	SunGard

Graphic removed

Taking HTC Beyond 'Quietly Brilliant' Technology

Visit our website www.nextfifteen.com for more on this story

Bite

Taiwan-based HTC needed to challenge mainstream brands in their approach to how consumers purchase and interact with their mobile devices

Bite developed a closely integrated communications programme that would consistently retell this message through product launches, product reviews, executive profiling, thought leadership, issues management and social media activity.

Financial review

Overview

The year to 31 July 2010, was a year which started in the wake of the world financial crisis but ended with an increasing momentum, as the Group saw more encouraging signs of optimism from some of its clients Full-year comparisons do not reveal the full story as the Group experienced little impact from the financial crisis until January 2009, the sixth month of the comparative period Revenue grew by 10 6% to £72 3m (2009 £65 4m) but when adjusting for the acquisitions of M Booth and Upstream Asia and currency movements, underlying activity was down 5 5% This reduced underlying activity came in the first half of the year and growth returned in the second half, by 3 6% There are a number of accounting adjustments that distort the underlying performance of the Group and in this review the adjusted profit and earnings numbers have been used Adjusted profit before income tax increased by 26%, to £6 6m (2009 £5 2m) (see note 5), and the adjusted EPS rose by 30%, to 8 45p (2009 6 48p) (see note 10) The Group EBITDA[1] was £8 4m (2009 £5 5m) and it generated £5 1m from operating activities (after tax) (2009 £4 8m) However, £5 1m expended on acquisition-related payments resulted in a Group net debt position of £0 9m compared to a positive net funds position of £1 8m in 2009[2] This level of debt represents gearing of only 3% and still leaves the Group with an extremely strong base from which to deliver further growth

Geographic and client analysis

The Group has 48 offices in 19 countries and a further four licensed partners

During the last year the proportion of the Group's revenue outside the UK was 79% US and Canada remained the largest geographic region, accounting for almost 52% of revenue, including digital and research With the UK share of revenue being 21%, the Group generated around 73% of its revenue in the two strongest markets for public relations and marketing services The US and Canada PR region grew by 19% to £36 3m (2009 £30 5m), following the acquisition of M Booth, which added £7 3m The UK PR revenue declined almost 10% on last year but when taking the second half over the first half, the UK PR business grew by 75%, showing that the region is clearly in recovery in calendar year 2010 In Europe and Africa, the businesses experienced a downturn in activity in the year but the stronger euro reduced the reported fall in revenue to only 0.5% at £9 7m (2009 £9 8m) The Asia Pacific region grew by 30%, to £10 2m (2009 £7 8m), thanks to the acquisition of Upstream Asia which added £2m, stronger currency translation and good results posted by our operations in Australia, Malaysia and Singapore

It is also pleasing to note that the concentration of the Group's key clients reduced further The top ten clients now represent approximately 32% of the revenue of the business (2009 36%), with no single client accounting for more than 6% of the total The Group still has an impressive list of global blue chip clients with all of the top ten clients generating annual fees in excess of £1 3m

The number of clients rose by 17% following the acquisitions referenced above but there was a more significant 34% rise in the number of project clients The average client size fell by 6% to £96,000 because of the increased number of projects but it was pleasing to see a 25% increase in the number of clients that we represent in more than one country These international clients represent 22% of total clients but more significantly they are almost three times the size of the average client, so provide a better opportunity for revenue growth

Foreign exchange risk

The Group has established treasury policies and procedures which monitor exposure to the US dollar and euro, which are the two main operating currencies other than sterling Following the world financial crisis and the sharp movement in currency rates, the Group reassessed its policy on placing forward cover The result is that cover periods have shortened and cover is now based on the expected surplus cash receipts returned to the UK within the current financial year only As a result of this policy change there should be much reduced volatility in the accounting charges arising from the requirement to fair value these contracts

[1] Operating profit before depreciation and amortisation

[2] See net debt analysis in the capital risk management section of note 19 of the financial statements

Key performance indicators

Graphs removed

Financial review continued

Margin performance

The adjusted profit before tax margin of the Group increased to 9 1% from 8 0% last year, following the recovery and increasing momentum in the second half of the financial year Excluding head office costs, the adjusted operating profit margin was 15 4%, compared to 16 7% last year The Group's businesses have worked very hard in difficult economic circumstances to remain close to the target minimum margin threshold of 16%, before head office costs The US and UK are operating above this level, at 20 1% and 16 5% respectively, but there is still much to achieve in some of the smaller and less sophisticated markets in the Asia Pacific region and in the small non-PR businesses The staff cost to revenue ratio is critical to managing margin performance but this increased to 68 8% (2009 67 0%), which is 3 8% higher than our medium-term target of 65% The main reasons for the increase in the year are increased bonus payments in some businesses, higher share scheme charges for the modified Long-Term Incentive Plan ('LTIP'), higher staff cost ratios in the acquired Upstream Asia business and salary pressures in some markets running ahead of client budgets

Cash flow

The net cash generated from operations (before tax payments) was strong once again at £6 6m (2009 £6 3m), which was 101% of operating profit The main investment activities in the year requiring a cash payment were £3 1m for the initial payment for M Booth in August 2009, £1 0m for the purchase of the increased 36% stake in 463 Communications and £0 7m for the purchase of Upstream Asia in October 2009 Dividends paid to Next Fifteen shareholders totalled £0 9m This has undoubtedly been a much more difficult year for working capital The Group has faced pressure on payment terms from some clients, particularly those financed by debt It would appear that they have turned to their suppliers for finance where bank refinancing has been more difficult and more expensive Typically, these are large companies with professional procurement teams who still offer a good credit risk but who unilaterally extend payment terms on a take it or leave it basis In the face of these pressures, the finance teams within the Group have done a great job in managing the debtor profile and bad debt exposure

Balance sheet

The key movements in the Group's balance sheet are the goodwill arising from the acquisitions of M Booth and Upstream Asia, and the increased receivables and payables consolidated following these acquisitions The cash balances were £7 3m compared to £7 1m last year with the acquisitions largely funded from drawing down £3m from the bank facilities described below The net debt position after deducting bank borrowings and finance leases was £0 9m (2009 £1 8m net cash) Net assets at 31 July 2010 were £27 6m (2009 £24 9m)

Treasury and funding

The Group has a revolving-credit facility from Barclays Bank of £5m until March 2011, which it used to fund the purchases of Lexis and OutCast The facility is available in a combination of sterling, US dollar, and euro at an interest rate of 1 25% over LIBOR In addition, the Group has a £6m revolving-credit facility with Barclays Bank, repayable in December 2011, to help fund any future acquisitions, at a rate of 2 25% over LIBOR, of which £2 6m was used to fund the initial consideration for the purchase of M Booth in August 2009 Also available is an overdraft facility of £1.5m, available in sterling, US dollar and euro All of the UK businesses are part of a composite accounting system which allows the offset of UK overdrawn and credit balances In the US, the Group has consolidated facilities with Wells Fargo, supported by a US$2 7m credit line for letters of credit and working capital purposes In addition Wells Fargo provided a US$1m loan facility at LIBOR plus 2 5% repayable over five years, to partly fund the purchase of the additional stake in 463 Communications The Group aims to return any surplus cash to the UK subject to any local transfer restrictions, and as far as possible to hold only moderate non-deposit cash balances in overseas subsidiaries, subject to working capital needs

Taxation

The total tax charge for the year is £1 6m (2009 £0 9m) on consolidated profit before tax of £5 3m (2009 £3 2m) This represents an effective tax rate of 30%, being 2% higher than last year, reflecting the higher tax rates in the US where an increasing proportion of our profits are made following the acquisition of M Booth There were also losses in some of the individual entities that make up Upstream Asia The higher tax charge also reflects a decline in the value of our UK deferred tax asset, as corporate tax rates are set to fall

Earnings

Basic earnings per share, adjusted for the highlighted items shown in note 5, rose 30% to 8 45p (see note 10) This rise reflects the increased profit levels but was mitigated by the worsening of the tax charge in the year and the increased number of shares used in the calculation This arises from shares issued in relation to the acquisition of a further stake in 463 Communications and also takes into account shares issued after the year end in relation to the M Booth contingent consideration earned during the year The calculation is also impacted by shares issued from the ESOP during the year when employees exercised share options

The diluted adjusted earnings per share rose by 17%, to 7.53p and this is 10 9% less than the adjusted basic figure This increased level of dilution is coming from the options and performance shares outstanding under the LTIP, which are now expected to vest following modifications to the scheme approved by shareholders at the AGM in January 2010 Dilution also arises as a result of taking into account shares that are expected to be issued in the future as part of the contingent consideration for the M Booth acquisition made in August 2009

Dividends

The proposed final ordinary dividend per share is 1 375p, which takes the total for the year to 1 85p, a 9% increase on the total dividend of 1 70p last year It will be paid on 4 February 2011, assuming that it is approved at the AGM on 25 January 2011 The Board continues to review its dividend policy over the medium term and aims to strike a balance between the relevance placed on dividends by shareholders and the needs of the Company to invest for future growth

"The Group has an extremely strong base from which to deliver further growth"

Graphs removed

Signature removed

David Dewhurst

Finance Director
12 November 2010

Board of Directors

Graphic removed

Graphs removed

1 **Will Whitehorn** – Chairman

2 **Tim Dyson** – Chief Executive Officer

3 **David Dewhurst** – Finance Director

4 **Ian Taylor** – Non-executive Director

1 **Will Whitehorn**
Chairman #*+ Aged 50

Will Whitehorn joined Virgin Group as Group Public Relations Manager in 1987 Over the following years, he was responsible for presenting Virgin's joint venture strategy and spent several months working in Japan and began to move into a more general management role Will worked on the strategy to expand the brand into new areas such as financial services and telecoms From 1995 onwards, Will became part of a team developing the Virgin-branded venture capital model for global expansion In 1997, he became a director of Virgin Rail Group and in 2000, he was appointed Brand Development and Corporate Affairs Director for Virgin In 2004, he became President of Virgin Galactic In 2007, he took on that role in an executive capacity and became a special adviser to Sir Richard Branson He is also a trustee of the Virgin Unite social entrepreneurship and environmental not-for-profit foundation

Will is a member of the Development Board of the University of Aberdeen In 2007, he was also invited to join the advisory board of the British National Space Centre He is also a member of the First Minister of Scotland's 'GlobalScot' business mentoring network. Will was appointed as non-executive Chairman of Next Fifteen Communications Group plc in January 2004 and is Chairman of the Nomination Committee

2 **Tim Dyson**
Chief Executive Officer + Aged 49

Tim joined the Group in 1984, straight from Loughborough University and became its CEO in 1992 As one of the early pioneers of tech PR, he has worked on major corporate and product campaigns with such companies as Cisco, Microsoft, IBM, Sun and Intel Tim oversaw the flotation of the Company on the London Stock Exchange and has managed a string of successful acquisitions by the Group in recent years, including M Booth in the US and Upstream in the Asia Pacific Tim moved from London to set up the Group's first US business in 1995 in Seattle, and is now based in Palo Alto, the heart of Silicon Valley Outside Next Fifteen, Tim is on the advisory boards of several emerging technology companies Tim also writes a blog at http//timdyson wordpress com/ where he comments on news and topical issues affecting the public relations industry

3 **David Dewhurst,** ACA
Finance Director Aged 47

David Dewhurst graduated from the University of Birmingham in 1984, with a B Com degree He then joined KPMG Peat Marwick as a trainee accountant, qualifying in 1987 David worked as a corporate accountant and business analyst for Hillsdown Holdings plc between 1988 and 1990, and was then Group Accountant for Premier Brands Limited, one of Hillsdown's subsidiaries In 1992, David became Group Finance Director for Strong & Fisher Holdings plc before being appointed, in 1997, to the same post at The Media Business Group plc He joined the Board of Next Fifteen Communications Group plc as Finance Director in 1999 to take the Company through its flotation in December 1999

4 **Ian Taylor,** MBE
Non-executive Director #*+ Aged 65

Ian Taylor graduated from Keele University with a degree in Economics, Politics and Modern History He spent 18 years in investment banking and development capital in London and Paris before being elected as Member of Parliament for Esher (now Esher and Walton) in 1987 He stood down at the 2010 General Election

He was Minister for Science and Technology at the Department of Trade and Industry from 1994–1997, during the last Conservative administration and subsequently chaired or was an officer of several all-party parliamentary committees, including those on science, information technology and space

Ian is a director of, or adviser to, a number of companies, especially in the technology, security and communication sectors

He joined the Board in 1999 and is Chairman of the Remuneration and Audit Committees

Member of the Audit Committee
* Member of the Remuneration Committee
+ Member of the Nomination Committee

Senior management team

Aedhmar Hynes – Text 100

Aedhmar Hynes is the CEO of Text 100, a global communications consultancy that counsels companies that use technology as a competitive advantage Under her leadership, Text 100 has evolved into the creative thought-partner of choice in public relations and integrated communications Aedhmar has worked with Text 100 for over 20 years Prior to her appointment as CEO, she was Regional Director of Text 100's US operations Based in New York, she is a Board Member of the Council of PR Firms, a Trustee of the Arthur W Page Society and a member of the Aspen Institute Roundtable on Technology She also serves as a Board Director of TechnoServe, a non-profit organisation dedicated to helping entrepreneurial men and women build businesses in the developing world In 2008, Aedhmar was voted one of the 25 most powerful PR people in the industry by *PRWeek* and named a Henry Crown Fellow of the Aspen Institute

Clive Armitage – Bite Communications

Clive joined the Group in 1990, working in Text 100's London office In 1994, he was seconded to Johannesburg, South Africa to help set up and establish Text 100's first presence in Africa He returned from South Africa in 1995 to help co-found Bite Communications Clive became CEO of Bite Communications in 1998 and subsequently moved to San Francisco in 2003 to manage the acquisition of Applied Communications and its subsequent integration into Bite Communications Clive is now based back in Bite's London office where he continues to oversee Bite's international growth Clive is also the non-executive Chairman of Bite's sister agency, Lexis PR Additionally, Clive is a member of the board of trustees of football charity, LionsRaw

Margot Raggett – Lexis Public Relations

Margot joined Lexis in 1993 as its first graduate trainee and rose through the ranks as the company grew She instigated and was part of a successful management buyout team in 2002, at which point she became Operations Director During her career she has advised clients ranging from Coca-Cola to Domino's Pizza, Boots to Early Learning Centre She has also been integral to the Unilever business which has grown with Lexis over the past six years Margot became CEO of Lexis in August 2007

Caryn Marooney – The OutCast Agency

As co-founder, partner and CEO of The OutCast Agency, Caryn is at the forefront of the communications industry's evolution, helping to create value in companies of every size, from early stage onward, as they navigate the new world of dynamic social media campaigns, direct consumer and user engagement, and emerging markets

She has worked with several of OutCast's long-term clients, including VMware, for more than seven years from early positioning, to acquisition to IPO, and salesforce com, for more than 11 years from early positioning around 'the end of software,' through a highly successful IPO, and more recently to its position as a cloud computing leader She works with cutting-edge digital clients including Amazon, leading a team that launched the original Kindle and Kindle DX, and Facebook, spearheading communications that led the company from 30 million to more than 500 million users

Caryn has also recently led teams for several start-ups that have gone on to achieve some of the most successful tech acquisitions in recent years, including AdMob, which was acquired by Googlefor US$750m, and Omniture, which was acquired by Adobe for US$1 5bn

Caryn holds a bachelor's degree from Cornell University

Margi Booth – M Booth

Margi Booth founded M Booth & Associates in 1985 to create innovative communications programs for highly respected consumer, lifestyle, and corporate brands Under her leadership, the agency's client roster has grown to include American Express, Unilever, JCPenney, Hershey's and eBay, among others In addition, the firm was recently named 2009 Creative Agency of the Year, and among the ten best places to work in public relations Prior to founding M Booth, Margi was a vice president at Ruder Finn where she headed up their broadcast department She was named one of the 50 most powerful women in the PR industry and is a New York Women in Communications Matrix Award recipient for career advancement in public relations She is a founding member of the Council of Public Relations Firms, and is a board member of The National Center for the Learning Disabilities, the Center For Palliative Care, and the Community Resource Exchange

Tom Galvin – 463 Communications

Tom Galvin's 20-year career has been spent at the highest level of both the corporate and political arenas Prior to founding 463 Communications, Tom served as Vice President of Corporate Communications and Government Relations at VeriSign and managed Cisco's corporate public relations team In that role, Tom served as a lead strategist on corporate communications initiatives and helped brand John Chambers as an elite CEO Tom also spent over a decade as a political journalist, participating in more than 10,000 interviews with over 1,000 newsmakers – from US Presidents and other world figures to business leaders and technology visionaries

David Hargreaves – Beyond

David joined the Group in 2005 following the acquisition of his boutique communications consultancy, Credo Communications, by Bite Prior to setting up Credo, David was Deputy Managing Director at 120-person technology agency, Firefly Communications

In May 2008, following a successful two-year period running and growing Bite UK, winning clients such as Facebook and LinkedIn, David moved to San Francisco to run Bite North America

In November 2009, David left his full-time role at Bite to set up Next Fifteen's new digital consultancy, overseeing the integration of Context Analytics into the new consultancy and then completing the acquisition of Type 3 to create Beyond, which launched in September 2010

Report of the Directors

The Directors present their annual report together with the audited financial statements of Next Fifteen Communications Group plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 July 2010

Principal activity
The principal activity of the Group during the year continued to be the provision of public relations services The Group's business is organised into four reportable segments, being the provision of public relations services in the US and Canada, UK, Europe and Africa, and Asia Pacific Within these segments, the Group operates five independent PR brands that operate as autonomous businesses, thus enabling them to service competing clients These are Text 100, Bite, The OutCast Agency, Lexis Public Relations and M Booth & Associates, Inc It also operates a policy communications business, 463 Communications, LLC

Other operating segments are research and digital consultancy Within these segments, the Group operates a research business, Redshift Research and a digital consultancy, Beyond

Review of business and future prospects
A detailed review of the business, current trading and future developments of the Group is given in the Chairman's statement, the Chief Executive Officer's review and the Financial review, the latter of which includes an overview of the key performance indicators of the business Details of the Group's principal risks and uncertainties are given in the Directors' statement on corporate governance

Results and dividends
The Group's financial statements for the year ended 31 July 2010 show that profit before tax for the financial year was £5,304,000 (2009 £3,158,000) The Group made a profit attributable to shareholders of the Company for the year of £3,675,000 (2009 £1,932,000) The interim dividend paid during the year was 0 475p per share (2009 0 45p) A final dividend of 1 375p per share (2009 1 25p) has been proposed, making the total for the year 1 85p per share (2009 1 70p)

Company's listing
The Company continues to be listed on the Alternative Investment Market (AIM) of the London Stock Exchange

Acquisitions
On 3 August 2009, the Company acquired New York-based M Booth & Associates, Inc The initial consideration paid on completion was US$4m Further consideration of up to a maximum of US$13 25m may be payable over the course of the next four years subject to the achievement of certain revenue and profit performance targets The total maximum consideration is therefore US$17 25m Any contingent consideration that may be payable may be satisfied by cash or up to 25% in the Company's shares, at the option of the Company

On 27 October 2009, the Company acquired the marketing communications trading subsidiaries of Upstream Marketing and Communications, Inc ('Upstream Asia'), a Hong Kong-based company The businesses trade in Hong Kong, Singapore, Australia and China and were integrated into Bite Communications Group The initial consideration was US$0 9m paid in cash and the assumption of US$0 2m of Upstream Asia's liabilities, making a total of US$1 1m The Company owns 55% of Bite Asia Holdings Limited (the parent company of the acquired Upstream Asia subsidiaries) and Asset Pioneer Limited ('Asset Pioneer') owns the residual 45% The Company entered into an option deed under which it has an obligation to acquire Asset Pioneer's shares over a five-year period based on the profitability of the acquired businesses

On 31 October 2009, the Company acquired a further 30% stake in 463 Communications, LLC ('463 Communications') This took the Company's total stake to 70% The Company paid consideration of US$2 14m in cash and shares of the Company

On 28 May 2010, the Company acquired a further 6% stake in 463 Communications This took the Company's total stake to 76% The Company paid consideration of US$120,000 in cash

Financial instruments
Information on both the Group's financial risk management objectives and the Group's policies on exposure to relevant risks in respect of financial instruments is set out in note 19

Directors
The names and biographical details of the Directors who held office at the date of this report appear on page 27

In accordance with the Company's Articles of Association, one-third of the Directors must retire by rotation each year David Dewhurst will retire from the Board at the next Annual General Meeting of the Company and offer himself for re-election As Ian has been a non-executive Director for eleven years, in accordance with good corporate governance, he will retire and offer himself for re-election every year Ian is engaged pursuant to a letter of appointment He continues to be an effective non-executive Director and demonstrates commitment to the role

Additional information relating to Directors' remuneration, service agreements and interests in the Company's shares is given in the Remuneration report

Other than service contracts, no Director has a material interest in any contract to which the Company, or any of its subsidiaries, is a party The Company has maintained insurance to cover Directors' and Officers' liabilities and costs for claims in connection with any act or omission by its Directors or Officers in the execution of their duties No claims have been made against this policy

Substantial shareholdings
On 12 November 2010 the following interests in 3% or more of the issued share capital had been notified to the Company

Name	Ordinary Shares of 2.5p each	% of Ordinary Share Capital
Liontrust Asset Management	7,796,465	14 05%
Tim Dyson	5,781,004	10 42%
Herald Investment Management	5,231,796	9 43%
BlackRock Investment Management (UK)	5,116,482	9 22%
Tom Lewis	3,074,538	5 54%
Octopus Investments	3,060,122	5 51%
Matt Ravden	3,004,294	5 41%
River and Mercantile Asset Management	2,723,644	4 91%

The market price of the Company's shares during the year was as follows

Price at 1 August 2009	48p
Highest price	71p
Lowest price	48p
Price at 31 July 2010	60p

Charitable donations
During the year the Group made charitable donations of £32,000 (2009 £19,000)

Political donations
It is the Group's policy not to make donations for political purposes

Payments to suppliers
It is the policy of the Group to agree suitable terms and conditions for its business transactions with all suppliers These terms and conditions range from standard written terms to individually drafted contracts Once such terms are agreed, it is the Group's policy to adhere fully to them, provided the supplier has also complied with the terms and conditions The number of days taken by the Company to pay suppliers, on the basis of trade creditors at 31 July 2010 and average daily purchases for the year, was 31 days (2009 28 days)

Report of the Directors continued

Employee involvement
The Group operates a policy of regularly informing all employees of the Group's financial performance, through a combination of meetings and electronic communications In addition, the Group's employee share option schemes, long-term incentive schemes and bonus schemes encourage employees at all levels to contribute to the achievement of the Group's short-term and long-term goals

Equal opportunities
The Group gives full and fair consideration to all applications for employment made by people with disabilities, having regard to their particular aptitudes and abilities The Group's policies for training, career development and promotion do not disadvantage such people The Group seeks to recruit, develop and employ throughout the organisation suitably qualified, capable and experienced people, irrespective of sex, age, race, religion or belief, marital or civil partnership status or sexual orientation

Health and safety
The Group recognises and accepts its responsibilities for health, safety and the environment The Group is committed to maintaining a safe and healthy working environment in accordance with applicable requirements at all locations in the UK and overseas The Finance Director is responsible for the implementation of the Group policy on health and safety Health and safety is included on the agenda of every Board meeting and all health and safety issues are fully considered

Annual General Meeting
The Annual General Meeting of the Company will be held at the Company's offices at The Triangle, 5-17 Hammersmith Grove, London W6 0LG on Tuesday 25 January 2011 at midday The notice convening the meeting is included in the mailing with this Annual Report for those shareholders who requested a hard copy, and is also available on the Company's website at www nextfifteen com

Subsequent events
On 4 August 2010, Beyond Corporation Limited acquired the entire issued share capital of UK-based Type 3 Limited, while Beyond International Corporation acquired the entire issued share capital of US-based Type 3 Limited Consideration of £300,000 in cash was paid on completion The Company owns 51% of both Beyond Corporation Limited and Beyond International Corporation (together referred to as 'Beyond'), while the residual is owned by three employee shareholders The Company has entered into a shareholders' agreement under which the non-controlling interest holders have the option to sell half of their shareholding back to the Company in either October 2013, October 2014 or October 2015, based on the profitability of each business The consideration is uncapped By October 2015, the Company will have acquired half of their shareholding, bringing the Company's holding to 75 5%

On 1 September 2010, Lexis Public Relations Limited ('Lexis') acquired the entire issued share capital of UK-based Glasshouse Partnership Limited The initial consideration paid on completion was £80,000 Contingent consideration may be payable in cash and the Company's shares over the course of the next two years subject to the achievement of certain revenue and staff metric performance targets

On 1 September 2010, Bite Communications Hong Kong Limited acquired the business and assets of OneXeno Limited, a Hong Kong company This business was integrated into Bite Communications Group Limited's Asia Pacific operations The initial consideration paid in cash on completion was HK$1,105,000, with further consideration payable based on the revenue of retained clients over the 12 months following completion

On 1 November 2010, the Group acquired an 85% stake in US-based investor relations company, The Blueshirt Group, LLC ('Blueshirt') The initial consideration paid in cash on completion was US$3m Contingent consideration will be paid over the course of four years based on a multiple of average profits and margin performance These contingent payments are estimated to total US$8m There is an option for the sellers to sell the remaining 15% stake in Blueshirt after five years from completion and an option for the Company to acquire the remaining 15% after six years from completion provided that the value of the business at the relevant time has reached a certain level

Corporate governance
The Company's statement on corporate governance is set out in pages 40 to 42 of these financial statements and forms part of this Directors' report

Additional information for shareholders
The following information is provided to shareholders as a result of the implementation of the European Directive on Takeover Bids (2004/25/EC) into English Law This is a summary only The relevant provisions of the Company's Articles of Association ('the Articles') and the Companies Act ('the Act') should be consulted if further information is required

Share capital
Details of changes in the issued ordinary share capital of the Company during the year are set out in note 20 of the financial statements

Rights and obligations attached to shares
The rights attached to the Company's Ordinary Shares, being the only share class of the Company, are set out in the Articles Subject to the Act and applicable law, shares may be issued with such rights and restrictions as the Company may by ordinary resolution determine (or if the Company has not determined, as the Board may determine) There is currently no applicable resolution in effect

Voting rights
At a general meeting of the Company, on a show of hands, every member present or by proxy shall have one vote On a poll, every member present in person or by proxy shall have one vote for every share of which he or she is a holder No member may attend or vote nor exercise any other rights conferred by being a holder of Ordinary Shares unless all calls or other sums payable on every share held have been paid A member may lose the entitlement to vote at a general meeting where that holder has failed to respond to a disclosure notice made by the Company under the Act with information concerning interests held in those shares

Restriction on transfer of shares
The Directors may refuse, provided such refusal does not prevent dealings in the shares of the Company from taking place in an open and proper manner, a transfer of certificated shares unless it is

i) in respect of a share which is fully paid,

ii) in respect of a share on which the Company has no lien,

iii) in respect of only one class of shares,

iv) in favour of a single transferee or not more than four joint transferees, and

v) duly stamped (if required) and delivered for registration at the place designated by the Board accompanied by the certificate of shares and such other evidence of title as may be reasonably required to show the right of the transferor to make the transfer

The Board may refuse the registration of a transfer of an uncertificated share in the circumstances set out in the Uncertificated Securities Regulations and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four

Dividends
Subject to the provisions of the Act, the Company may by ordinary resolution declare a final dividend to be paid to members according to their respective rights and interests in the profits of the Company, but no such dividend shall exceed the amount recommended by the Board The Board may pay such interim dividends as appear to the Board to be justified by the profits of the Company available for distribution

Report of the Directors continued

Appointment of Directors
Directors may be appointed by ordinary resolution or by the Board In addition to any power of removal under the Act, the Company may by ordinary resolution remove any Director before the expiration of his period of office

Power of the Directors
Subject to the Act, the Company's Memorandum of Association and the Articles and to any directions given by special resolution of the Company, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company whether relating to the management of the business or not

Amendment to the Articles
Amendment to the Articles may be made by special resolution of the Company in general meeting in accordance with the Act

Acquisition of the Company's own shares
The Company may purchase its own shares in accordance with the relevant provisions of the Act, subject to the resolution of the shareholders

Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the Company's issued share capital The Company has the power to buy back up to 5,488,839 during the period up to the next Annual General Meeting The maximum price per Ordinary Share which can be paid on any occasion is limited to 105% of the average of the middle-market quotations, as derived from the London Stock Exchange's Daily Official List, for the five business days prior to the date of the purchase being made

Auditors
All the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purpose of their audit and to establish that the auditors are aware of that information The Directors are not aware of any relevant audit information of which the auditors are unaware

The auditors, BDO LLP, have indicated a willingness to continue in office, and a resolution that they be reappointed will be proposed at the forthcoming Annual General Meeting

By order of the Board

David Dewhurst
Company Secretary
12 November 2010

Remuneration report

The Remuneration Committee (the 'Committee') and its role

For the year ended 31 July 2010, the Committee consisted of the Company's two non-executive Directors, Ian Taylor (Committee Chairman) and Will Whitehorn The Chief Executive attends certain meetings of the Committee by invitation to discuss other executives' performance, as appropriate During the year the Committee received advice from the Chief Executive in respect of the remuneration of the Finance Director The Committee takes professional advice as and when it considers this necessary

The Committee's principal function is to determine the remuneration packages of the Company's senior executives and executive Directors, and make recommendations to the Board concerning the allocation of bonuses and long-term incentive rewards to the two executive Directors and to senior executives in the Group In addition, it considers the objectives set for each senior executive and how he or she has performed against these targets Its key terms of reference are to

- determine and agree with the Board a general policy for the remuneration of the executive Directors and senior executives,
- determine the total individual remuneration package of each executive Director,
- determine the policy for, and scope of, pension arrangements for executive Directors, and
- determine and approve the long-term performance incentive arrangements for executive Directors and senior executives of the Group

It takes into consideration the performance of the senior executives and 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 one may participate in decisions regarding his or her own remuneration The Committee's terms of reference are published on the Company's website

Remuneration policy

The Group's remuneration policy aims are to

- attract, develop, motivate and retain at all levels, talented people, of the calibre required to continue the Group's growth and development,
- ensure that key executives are appropriately rewarded for their contribution to the Group, and
- encourage the holding of Company shares as an effective way of aligning the interests of employees with those of shareholders

In framing this policy, the Remuneration Committee and the Board have given consideration to the provision of the Combined Code on Corporate Governance and the QCA guidelines for Smaller Quoted Companies In arriving at its recommendations, the Committee considers salary surveys covering AIM, small cap, and international PR companies

Remuneration package for executive Directors

The policy for executive Directors' remuneration is to ensure they are fairly rewarded for their individual contribution to the Group's performance This is done through a combination of a competitive salary and the opportunity to increase remuneration with short-term and long-term incentives Executive remuneration packages are reviewed each year The remuneration package for executive Directors consists of a basic salary, benefits, an annual performance-related bonus, pension and participation in a long-term incentive plan Details for each Director are set out below As the Chief Executive has a large shareholding in the Company, this is also taken into consideration when decisions are made regarding short-term and long-term incentives for him

Short-term incentives

Executive Directors' remuneration includes an element of performance-related pay so that awards can be aligned to improvements in shareholders' value The level of bonuses is entirely at the discretion of the Remuneration Committee Bonuses are based on the performance of the Group as a whole, against budgets, and the Committee's assessment of the performance of individuals against the personal objectives they have been set

Remuneration report continued

Long-term incentives

The Remuneration Committee recommends the award of share options and performance shares to executive Directors and senior executives to incentivise and retain them The current plan in place is the Next Fifteen Communications Group plc Long-Term Incentive Plan ('LTIP'), which provides share option and performance share awards to Directors and senior employees

Under the terms of the LTIP, participants are either awarded share options with a grant price equal to the market price on the day before the grant date, or are awarded performance shares in the Company which are released to the participant upon both the satisfaction of certain performance conditions and the participant remaining an employee of the Group During the year, the following performance shares were awarded to Directors

Name of Director	Number of shares	Grant date	End of performance period
Executive Directors			
Tim Dyson	150,000	February 2010	31 July 2013
David Dewhurst	150,000	February 2010	31 July 2013

In October 2008, the Company granted performance shares to non-executive Directors but has not granted any new awards to them this year and following consultation with some shareholders, will not grant any such awards in the future

At the Next Fifteen General Meeting held on 26 January 2010, shareholder approval was obtained to modify the performance conditions relating to all new awards under the LTIP from February 2010 and to apply the changes to grants made in financial years ended 31 July 2008 and 31 July 2009 The new performance conditions will be based upon two measures – an adjusted earnings per share ('EPS') measure and a budgeted profit measure The performance shares under the LTIP are subject to the following new conditions

- The EPS growth of the Group must exceed the Retail Prices Index ('RPI') by an average of 10% or more per annum over the performance period for 50% of the award to vest
- If there is an average of between 3% and 10% EPS growth over RPI per annum over the performance period, between 10% and 50% of the award will vest on a straight-line basis
- If EPS does not grow an average of 3% or more over RPI per annum over the performance period, the full 50% of the award measured by reference to the EPS measure will lapse
- The remaining 50% of an award may vest if the profit of the particular business in which a participant is employed meets its budgeted profit before management charges, interest and tax targets over the performance period
- To the extent that the budgeted profit targets are not met, for every 1% below budget, 5% of an award will lapse on a straight-line basis
- If a business' adjusted profit before management charges, interest and tax is 10% or more below budget over the performance period, the full 50% of the award measured by reference to the budgeted profit measure will lapse

Performance will be measured over a period of four consecutive financial years of the Group, commencing with the financial year in which the award was granted The level of vesting will be determined using the best three of the four years' performance for each performance measure

EPS growth will be calculated from the information published in the Group's accounts The awards will vest when the preliminary results for the final financial year of the relevant performance period are released

Various employees and Directors still have options that were issued under previous Next Fifteen Executive Share Option Schemes Under such schemes, share options were issued at the market price on the day before the option was granted (or on another date no more than 30 days prior to the grant date) The share options become exercisable on the following dates

- The first one-third of the total number granted on the third anniversary of the date of granting
- The second one-third of the total number granted on the fourth anniversary of the date of granting
- The final one-third of the total number granted on the fifth anniversary of the date of granting

The share options will lapse on the date of cessation of the participant's employment with the Group or ten years after the date on which the options were granted

For all options granted after 30 November 1999 there is a performance criterion that the options may not be exercised unless the Group's EPS has, over a three-year period beginning not earlier than the financial year in which the option is granted and ending on the financial year preceding the year in which the option is exercised, grown by at least 30% Options granted before this date did not have specific performance criteria Share price growth was expected to be derived from EPS growth but without a hurdle-rate for exercise

For more information on share options and performance shares, see note 21 and 22

Directors' service contracts

All executive Directors have rolling contracts that are terminable on six months' notice There are no contractual entitlements to compensation on termination of the employment of any of the Directors other than payment in lieu of notice at the discretion of the Company The executive Directors are allowed to accept appointments and retain payments from sources outside the Group, provided such appointments are approved by the Board in writing Details of the executive Directors' current service contracts are

Executive Director	Date of current letter of contract	Notice period
Tim Dyson	1 June 1997	6 months
David Dewhurst	7 July 1999	6 months

Non-executive Directors

The executive Directors are responsible for setting the non-executive Directors' fees All non-executive Directors are engaged under letters of appointment terminable on three months' notice at any time Owing to his length of service as a non-executive Director, Ian Taylor has a letter of appointment that is renewable by the Company annually after each Annual General Meeting Non-executive Directors are not entitled to any pension benefit or any payment in compensation for early termination of their appointment Details of the date of the current letters of appointment for non-executive Directors are

Non executive Director	Date of current letter of contract	Notice period
Will Whitehorn	23 January 2007	3 months
Ian Taylor	27 January 2010	3 months

Remuneration report continued

Directors' remuneration

	Salary and fees 2010 £'000	Performance related bonus 2010 £'000	Pension contributions 2010 £'000	Other benefits 2010 £'000	Gains made on exercise of share options 2010 £'000	**Total 2010 £'000**	Total 2009 £'000
Executive Directors							
Tim Dyson	377	38	38	41	–	**494**	456
David Dewhurst	185	19	19	3	66	**292**	219
Non-executive Directors							
Will Whitehorn	104	–	–	–	–	**104**	104
Ian Taylor	39	–	–	–	–	**39**	39

Directors' share options

At 1 August 2009, the following Director held options to purchase 2.5p ordinary shares, but these were exercised before 31 July 2010

Name of Director	Unexercised options at 1 August 2009	Granted during year	Exercised during year	**Unexercised options at 31 July 2010**	Exercise price	Date from which exercisable
David Dewhurst	200,000	–	200,000	–	30.0p	22.10.2005

As at 31 July 2010, the following Directors held the following performance-share awards under the LTIP over ordinary shares of 2.5p each

Name of Director	Number of shares at 1 August 2009	Shares lapsing during year	**Number of shares at 31 July 2010**	Grant date	End of performance period
Executive Directors					
David Dewhurst	27,918	27,918	–	18.10.2006	31.7.2009
	45,860	–	**45,860**	09.11.2007	31.7.2011
	80,000	–	**80,000**	21.11.2008	31.7.2012
	–	–	**150,000**	09.02.2010	31.7.2013
Tim Dyson	–	–	**150,000**	09.02.2010	31.7.2013
Non-executive Directors					
Will Whitehorn	30,000	–	**30,000**	22.10.2008	31.7.2012
Ian Taylor	30,000	–	**30,000**	22.10.2008	31.7.2012

Directors' interests in the shares of Next Fifteen Communications Group plc

The interests of the Directors in the share capital of the Company at 1 August 2009 and 31 July 2010 are detailed below

	Ordinary Shares		Share options		LTIP performance shares	
	1 August 2009	**31 July 2010**	1 August 2009	**31 July 2010**	1 August 2009	**31 July 2010**
Executive Directors						
David Dewhurst	229,438	**299,438**	200,000	–	153,778	**275,860**
Tim Dyson	5,781,004	**5,781,004**	–	–	–	**150,000**
Non-executive Directors						
Will Whitehorn	1,000,126	**1,095,126**	–	–	30,000	**30,000**
Ian Taylor	65,000	**65,000**	–	–	30,000	**30,000**

Performance graph

The following graph illustrates the Group's total shareholder return since 31 July 2005 relative to the FTSE Media and Entertainment Index

Graph
removed

The graph looks at the value, by the end of July 2010, of £100 invested in the Company compared with £100 invested in the FTSE Media and Entertainment Index

On behalf of the Board

Ian Taylor
Chairman of the Remuneration Committee
12 November 2010

Directors' statement on corporate governance

The Board is accountable to the Company's shareholders for good corporate governance The Company is committed to high standards of corporate governance throughout the Group and has adopted appropriate measures for a Company of its size This report sets out the measures it has taken

The Board

The Board of Directors is responsible for the strategic direction, investment decisions and effective control of the Group As Tim Dyson, the Chief Executive, is located in San Francisco, the Board meets mainly by telephone conference (at least monthly and at other times when required) They meet face-to-face when possible and aim to do so at least quarterly There is a schedule of matters reserved for Board approval which is regularly reviewed and includes, among other things, the Group's annual budget, establishment of new subsidiaries, property leases, significant acquisitions or disposals of fixed assets, and significant client contracts During the year, 16 Board meetings were held, which included five face-to-face meetings (the others being by telephone conference) All Directors attended all meetings, save for Will Whitehorn who was unable to attend one meeting

The Audit Committee and Remuneration Committee comprise the two non-executive Directors, Ian Taylor (Committee Chairman) and Will Whitehorn The Nomination Committee comprises Will Whitehorn (Committee Chairman), Ian Taylor and Tim Dyson There were two Remuneration Committee meetings and two Audit Committee meetings during the year, and these were attended by all members

Prior to each Board meeting, every member of the Board receives an agenda, supporting documents and when relevant, monthly trading results, together with a detailed commentary The non-executive Directors are encouraged to ask for further information if necessary

The non-executive Directors held meetings during the year without the executives present to discuss, among other things, the performance of the Company and that of the executive Directors

Chairman and Chief Executive

The roles of the Chairman and Chief Executive are separate and clearly defined The Chairman, Will Whitehorn, is responsible for the leadership of the Board and the Chief Executive, Tim Dyson, is responsible for managing the Group's operations

Board balance and independence

There were no changes to the Board during the year to 31 July 2010 The Board comprises two executive Directors Tim Dyson, Chief Executive, and David Dewhurst, Finance Director There are two non-executive Directors Will Whitehorn, Chairman, and Ian Taylor, who is the Company's senior independent Director Biographies of all the Directors are set out on page 27 The Board considers that the current Board structure is appropriate, and it complies with the QCA guidelines for Smaller Quoted Companies which permits an independent Chairman to be counted as one of the two independent non-executive Directors The Board considers that notwithstanding their interests in the shares and performance shares of the Company as set out on page 39, the non-executive Directors are independent of the management of the Group The Long-Term Incentive Plan awards to the non-executive Directors in 2008 provide a basis for aligning the interests of the non-executive Directors with those of the Company's shareholders The Company has not granted any new performance shares to the non-executive Directors and will not grant any such awards in the future

The Board has considered whether the length of service of Ian Taylor (11 years) has compromised his independence Ian Taylor continues to be an effective Director and his long association with the Company has provided him with detailed understanding of the Company's operations, its market and the issues determining its success He constructively challenges recommendations made before making decisions The Board does not consider his long service as a Director to be detrimental to his objectivity and it should not raise any concerns about his ability to perform his duties

Appointments to the Board

Appointments to the Board are the responsibility of the Board upon recommendation of the Nomination Committee There was no requirement for a Nomination Committee meeting during the year

Information and professional development

The Directors have adopted a number of policies and procedures to help them operate effectively These include access to independent professional advice Appropriate training for new and existing Directors is provided where necessary

Re-election of Directors
In accordance with the Company's Articles of Association, one-third of the Directors must retire by rotation each year This year, David Dewhurst will retire and be subject to re-election As Ian has been a non-executive Director for 11 years, he will, in accordance with good corporate governance, retire and offer himself for re-election every year

Remuneration
The Remuneration report on pages 35 to 39 sets out details of the Directors' remuneration and the work of the Remuneration Committee

Financial reporting
The statement of the Directors' responsibilities in respect of the financial statements is set out on page 43 The Directors have reviewed the Group's budget and cash requirements for the year ending 31 July 2011 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

Internal control and principal risks
The Directors have responsibility for the system of internal control for the Group and for reviewing its effectiveness It is the responsibility of management to implement Board policies on risk and control The Group's system of internal control is designed to manage and reduce, rather than eliminate, risk

The Board assesses key areas of internal control and risk management and sets policies accordingly At least once a year each of the core businesses is given the task of identifying and setting out its own key risks The resulting document must contain a review of the extent and likelihood of each risk and the effectiveness of the controls that manage these risks The Board also requires the businesses to identify and report any significant risks that arise during the year as soon as they arise The Audit Committee reviews the businesses' risk documents and produces a significant-risks document for the Group which is considered and approved by the Board It identifies ways to manage and control these risks and sets policies accordingly

The Board can therefore confirm that there is a process for identifying, evaluating and managing the significant risks facing the Group It has been in place throughout the year, and is up-to-date (as at the date of approval of these financial statements) and is regularly reviewed

The Board considers the principal risks and uncertainties facing the Group to be

- Employee risk – the ability of the Group to continue to recruit new talent and retain existing employees As a public relations business, the Group is very reliant on highly skilled employees who are vital to its success Even in the current economic climate the competition for this talent is high Steps are continually taken to ensure high levels of staff motivation and development The Group's HR teams regularly consider the remuneration and benefits offered to employees and seek to ensure all businesses provide exciting and challenging career development
- Client risk – the loss of clients unpredictably or for reasons outside the Group's control The loss of significant clients continues to be a risk to the Group It has successfully reduced its reliance on a few key clients through a process of adding new businesses to the Group, but losing a major client unexpectedly can have a significant impact on resourcing and revenue Ensuring a good marketing plan and identifying new business opportunities is key to all businesses as is taking all appropriate steps to retain existing clients
- Currency risk – as a global business, currency fluctuations continue to be a feature of the Group's translated results Most of the Group's revenue is matched by costs arising in the same currency The Company is listed in the UK but makes much of its profit outside of the UK. The Board continues to consider if and when hedging policies should be in place and to take steps to reduce this risk where it is considered appropriate Ultimately, as a global business, the Group is well placed to take advantage of growth opportunities in the other parts of the world

The Board has considered the need for a separate internal audit function but has decided that, because of the size of the Group, this function will continue to be carried out by existing finance staff This decision will continue to be reviewed annually

Directors' statement on corporate governance continued

Audit Committee and auditors

The Audit Committee meets periodically and at least twice per year with the external auditors, and with other Directors and management attending by invitation The primary role of the Committee is to keep under review the Group's financial reporting procedures and financial systems and controls and to ensure the integrity of the financial information reported to shareholders Its key terms of reference are

- reviewing the findings of the audit work undertaken by the Group's auditors,
- reviewing the effectiveness of the financial reporting and internal control procedures,
- reviewing the relationship with external auditors, and
- determining the level of the auditors' fees

Its terms of reference are available on the Company's website at www nextfifteen com The independence and objectivity of the auditors is considered by the Committee on a regular basis The split between audit and non-audit work for the year is set out in note 4 to the financial statements The non-audit fees were in respect of non-audit tax services, advice on the Company's share option and long-term incentive schemes and corporate finance advisory work. This work is not considered to affect the independence or objectivity of the auditors The Committee also receives an annual confirmation of independence from the auditors

Environment

Due to the nature of its businesses, the Board considers that its direct or indirect impact on the environment is minimal and of low-risk. However, the Company still seeks to minimise the environmental impact of its activities and its business practices support environmental good practice, such as reducing paper wastage through reuse, recycling, use of electronic communications and reducing business travel by replacing face-to-face meetings with conference calls

Relations with shareholders

The Company meets regularly with its institutional shareholders and is keen to encourage shareholder participation at the Annual General Meeting, at which the Chief Executive makes a presentation summarising the progress of the Group throughout the year and invites any questions from attendees Proxy votes are disclosed following a show of hands on each resolution Shareholders were encouraged to submit questions to the Board throughout the year which were responded to promptly The Company also publishes its annual and interim reports on its website, as well as the Company's regulatory news announcements and some analyst reports The Company also adds video clips to its website when it announces its interim and full-year results to explain the results further These measures enable information on the Company to reach a greater number of investors and interested stakeholders

The Chairman, Chief Executive and Finance Director regularly attend one-to-one meetings with key institutional shareholders after the publication of the Company's interim and preliminary results While the other non-executive Director does not ordinarily attend meetings with major shareholders, he would do so if requested by the shareholders

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements The Directors are required to prepare the financial statements for the Group in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market The Directors have chosen to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice

International Accounting Standard 1 requires that financial statements present fairly for each financial period the Group's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards A fair presentation also requires the Directors to

- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and 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,
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Company will continue in business,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for keeping proper 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

Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions The maintenance and integrity of the Company's website is the responsibility of the Directors The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

By order of the Board

David Dewhurst
Company Secretary
12 November 2010

Independent auditors' report to the members of Next Fifteen Communications Group plc

We have audited the financial statements of Next Fifteen Communications Group plc for the year ended 31July 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated statement of changes in equity, the Consolidated statement of cash flow, the Company reconciliation of movements in shareholders' funds and the related notes The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial reporting framework that has been applied in preparation of the Parent Company financial statements 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 auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditors
As explained more fully in the statement of Directors' responsibilities, 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 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 Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31July 2010 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent Company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Scott McNaughton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
12 November 2010

BDO LLP

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Consolidated income statement

for the year ended 31 July 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Billings			**91,175**		77,287
Revenue	2		**72,328**		65,394
Staff costs	3	**49,757**		43,792	
Depreciation	4,12	**1,060**		1,168	
Amortisation and impairment	4,11	**878**		513	
Reorganisation costs	5	**-**		1,950	
Other operating charges		**14,125**		14,121	
Total operating charges			**(65,820)**		(61,544)
Operating profit	2,4		**6,508**		3,850
Finance expense	6		**(1,310)**		(839)
Finance income	7		**106**		147
Net finance expense			**(1,204)**		(692)
Profit before income tax	2,5		**5,304**		3,158
Income tax expense	8		**(1,591)**		(884)
Profit for the year			**3,713**		2,274
Attributable to					
Owners of the parent			**3,675**		1,932
Non-controlling interests			**38**		342
			3,713		2,274
Earnings per share	10				
Basic (pence)			**6.75**		3.67
Diluted (pence)			**6.02**		3.66

Consolidated statement of comprehensive income

for the year ended 31 July 2010

	Note	**2010 £'000**	2009 £'000
Profit for the year		**3,713**	2,274
Other comprehensive income:			
Exchange differences on translating foreign operations		**665**	1,540
Translation differences on long-term foreign currency intercompany loans		**459**	140
Net investment hedge	19	**(111)**	–
Other comprehensive income for the year		**1,013**	1,680
Total comprehensive income for the year		**4,726**	3,954
Total comprehensive income attributable to			
Owners of the parent		**4,688**	3,612
Non-controlling interests		**38**	342
		4,726	3,954

Consolidated balance sheet

as at 31 July 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Assets					
Property, plant and equipment	12	**2,269**		1,949	
Intangible assets	11	**27,111**		18,441	
Deferred tax assets	18	**1,531**		1,695	
Other receivables	13,19	**1,008**		533	
Total non-current assets			**31,919**		22,618
Trade and other receivables	13,19	**21,892**		14,595	
Cash and cash equivalents	19	**7,296**		7,130	
Corporation tax asset		**282**		1,115	
Total current assets			**29,470**		22,840
Total assets			**61,389**		45,458
Liabilities					
Loans and borrowings	19	**2,852**		4,922	
Deferred tax liabilities	18	**73**		42	
Other payables	14,19	**56**		73	
Provisions for other liabilities and charges	15	**-**		282	
Contingent consideration	17,19	**4,232**		–	
Share purchase obligation	17,19	**1,349**		–	
Total non-current liabilities			**(8,562)**		(5,319)
Loans and borrowings	19	**5,181**		156	
Trade and other payables	14,19	**17,085**		13,679	
Corporation tax liability		**475**		559	
Provisions for other liabilities and charges	15	**58**		-	
Contingent consideration	17,19	**1,880**		228	
Derivative financial liabilities	19	**419**		615	
Share purchase obligation	17,19	**150**		–	
Total current liabilities			**(25,248)**		(15,237)
Total liabilities			**(33,810)**		(20,556)
Total net assets			**27,579**		24,902
Equity					
Share capital	20	**1,401**		1,381	
Share premium reserve		**5,575**		5,157	
Merger reserve		**3,075**		3,075	
Share purchase reserve		**(1,359)**		-	
Foreign currency translation reserve		**2,014**		1,349	
Other reserves	24	**(868)**		(1,239)	
Retained earnings		**16,791**		14,424	
Total equity attributable to owners of the parent			**26,629**		24,147
Non-controlling interests			**950**		755
Total equity			**27,579**		24,902

These financial statements were approved and authorised by the Board on 12 November 2010

W Whitehorn
Chairman

D Dewhurst
Finance Director

Company number 01579589

Consolidated statement of changes in equity

for the year ended 31 July 2010

	Share capital £'000	Share premium reserve £'000	Merger reserve £'000	Share purchase reserve[1] £'000	Foreign currency translation reserve[2] £'000	Other reserves[3] £'000	Retained earnings £'000	Equity attributable to owners of the parent £'000	Non-controlling interests £'000	Total equity £'000
At 1 August 2008	1,354	5,157	2,659	(1,380)	(191)	(1,167)	12,960	19,392	246	19,638
Profit for the year	–	–	–	–	–	–	1,932	1,932	342	2,274
Other comprehensive income for the year	–	–	–	–	1,540	–	140	1,680	–	1,680
Total comprehensive income for the year	–	–	–	–	1,540	–	2,072	3,612	342	3,954
Dividends	–	–	–	–	–	–	(900)	(900)	–	(900)
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	(264)	(264)
Non-controlling interest on business combination	–	–	–	–	–	–	–	–	657	657
Shares issued on acquisitions	27	–	416	–	–	–	–	443	–	443
Movement in share purchase obligation	–	–	–	1,380	–	–	391	1,771	–	1,771
Movement in relation to share-based payments	–	–	–	–	–	–	(57)	(57)	–	(57)
Deferred tax on share-based payments	–	–	–	–	–	–	7	7	–	7
Movement due to ESOP share option exercises	–	–	–	–	–	19	44	63	–	63
Purchase of own shares	–	–	–	–	–	(91)	–	(91)	–	(91)
Non-controlling interest dividend	–	–	–	–	–	–	–	–	(226)	(226)
Revaluation of investment in associate	–	–	–	–	–	–	(93)	(93)	–	(93)
At 31 July 2009	1,381	5,157	3,075	–	1,349	(1,239)	14,424	24,147	755	24,902
Profit for the year	–	–	–	–	–	–	3,675	3,675	38	**3,713**
Other comprehensive income for the year	–	–	–	–	665	(111)	459	1,013	–	**1,013**
Total comprehensive income for the year	–	–	–	–	665	(111)	4,134	4,688	38	**4,726**
Dividends	–	–	–	–	–	–	(932)	(932)	–	**(932)**
Increase in shareholding of subsidiary	–	–	–	–	–	–	(1,235)	(1,235)	(361)	**(1,596)**
Non-controlling interest on business combination	–	–	–	–	–	–	–	–	774	**774**
Shares issued on acquisitions	20	418	–	–	–	–	–	438	–	**438**
Share purchase obligation arising on acquisitions	–	–	–	(1,359)	–	–	–	(1,359)	–	**(1,359)**
Movement in relation to share-based payments	–	–	–	–	–	–	606	606	–	**606**
Deferred tax on share-based payments	–	–	–	–	–	–	166	166	–	**166**
Movement due to ESOP share option exercises	–	–	–	–	–	482	(372)	110	–	**110**
Non-controlling interest dividend	–	–	–	–	–	–	–	–	(256)	**(256)**
At 31 July 2010	**1,401**	**5,575**	**3,075**	**(1,359)**	**2,014**	**(868)**	**16,791**	**26,629**	**950**	**27,579**

[1]The share purchase obligation for the current year relates to 463 Communications, LLC and Upstream Marketing and Communications Inc The movement in the prior year relates to the settlement of the share purchase obligation of Lexis Public Relations Limited in October 2008

[2]The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of overseas subsidiaries

[3]Other reserves include ESOP reserve treasury reserve and hedging reserve analysed in note 24

Consolidated statement of cash flow

for the year ended 31 July 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Cash flows from operating activities					
Profit for the year		**3,713**		2,274	
Adjustments for					
Depreciation	4,12	**1,060**		1,168	
Amortisation and impairment	4,11	**878**		513	
Finance income	7	**(106)**		(147)	
Finance expense	6	**1,310**		839	
Loss on sale of property, plant and equipment	4	**11**		5	
Income tax expense	8	**1,591**		884	
Share-based charge/(credit)	4,21	**606**		(57)	
Movement in fair value of forward foreign exchange contracts	4	**(158)**		(325)	
Net cash inflow from operating activities before changes in working capital			**8,905**		5,154
Change in trade and other receivables		**(1,006)**		2,999	
Change in trade and other payables		**(1,103)**		(2,174)	
(Decrease)/increase in provision	15	**(224)**		282	
Change in working capital			**(2,333)**		1,107
Net cash generated from operations			**6,572**		6,261
Income taxes paid			**(1,465)**		(1,476)
Net cash from operating activities			**5,107**		4,785
Cash flows from investing activities					
Acquisition of subsidiaries, net of cash acquired	26	**(4,076)**		(4,448)	
Acquisition costs	26,29	**(175)**		(101)	
Acquisition of property, plant and equipment		**(1,178)**		(415)	
Proceeds on disposal of property, plant and equipment		**19**		40	
Acquisition of intangible assets		**(302)**		(134)	
Net movement in long-term cash deposits		**(475)**		202	
Interest received	7	**68**		147	
Net cash outflow from investing activities			**(6,119)**		(4,709)
Net cash from operating and investing activities			**(1,012)**		76

Consolidated statement of cash flow continued

for the year ended 31 July 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Net cash from operating and investing activities			**(1,012)**		76
Cash flows from financing activities					
Proceeds from sale of own shares		**110**		63	
Acquisition of own shares	24	**-**		(91)	
Net movement in bank borrowings		**2,559**		(1,462)	
Capital element of finance lease rental repayment		**(150)**		(225)	
Interest paid	6	**(448)**		(489)	
Profit share paid to non-controlling interest partners	9	**(256)**		(226)	
Dividend paid to shareholders of the parent	9	**(932)**		(900)	
Net cash inflow/(outflow) from financing activities			**883**		(3,330)
Net decrease in cash and cash equivalents			**(129)**		(3,254)
Cash and cash equivalents at beginning of the year			**7,130**		9,525
Exchange gains on cash held			**295**		859
Cash and cash equivalents at end of the year	19		**7,296**		7,130

Notes to the accounts

for the year ended 31 July 2010

1 Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

A Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union ('adopted IFRS'), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs The consolidated financial statements have been prepared using the historical cost convention as modified by financial assets and liabilities (including derivative financial instruments) at fair value through profit and loss

The segment information for the year ended 31 July 2009 has been restated in line with IFRS 8, Operating Segments which replaces IAS 14 to present the segment information based on the internal reporting provided to the chief operating decision maker This restatement amends the disclosure of segmental performance and does not have any effect on the Group's overall reported results

B New and amended standards adopted by the Group

IFRS 3 (revised), Business Combinations is effective prospectively to business combinations made in the year to 31 July 2010 The revised standard was applied to the acquisition of M Booth & Associates, Inc ('M Booth') on 3 August 2009 and Upstream Marketing and Communications, Inc ('Upstream Asia') on 27 October 2009 Initial consideration paid in cash was recorded at fair value at the acquisition date with contingent consideration and share purchase obligation classified as debt to be subsequently re-measured through the income statement, which would previously have been recognised through equity Acquisition costs were also expensed, rather than being included within the cost of acquisition The Group has recognised the non-controlling interest in relation to the Upstream Asia business combination at its acquisition date fair value rather than the proportionate share of net assets

IAS 27 (revised), Consolidated and Separate Financial Statements, treats transactions with non-controlling interests where there is no change in control as transactions with equity owners of the Group which will no longer result in goodwill or gain and losses For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity The standard also specifies the accounting when control is lost, which has not occurred in the year Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss There have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, IAS 27 (revised) has been applied to the increased equity acquired in 463 Communications, LLC ('463 Communications')

IAS 1 (revised), Presentation of Financial Statements As a result of the application of this Amendment the Group has elected to present two separate statements, an income statement and a statement of comprehensive income, previously it presented an income statement and a statement of recognised income and expense In addition, a statement of changes in equity is now presented as a primary statement where previously the information was included in a note The Amendment does not change the recognition or measurement of transactions and balances in the financial statements

IFRS 8, Operating Segments Operating segments have been reported in a manner consistent with the internal reporting provided to the chief operating decision maker Comparative information has been restated in line with the revised standard The restatement amends the disclosure of segmental performance and does not have any effect on the Group's overall reported results The introduction of IFRS 8 has led to disclosure of an additional operating segment 'Other segments' as detailed in note 2 The segmental disclosures do not include total segment assets as they are not regularly reported to the chief operating decision maker, an exemption which has been adopted early following the 2009 IASB improvement project

No other standard or amendments that have become effective in the year have resulted in a material effect on the Group

C Basis of consolidation

The Group's financial statements consolidate the results of Next Fifteen Communications Group plc and all of its subsidiary undertakings using the acquisition method of accounting

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity

1 Accounting policies (continued)

C Basis of consolidation (continued)

In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date The results of acquired operations are included in the consolidated income statement from the date on which control is obtained

Where the Group obtains and recognises the power to govern the financial and operating policies of an associate undertaking, the associate becomes a subsidiary The assets, liabilities, contingent liabilities and results are accounted for in line with subsidiary accounting discussed above, effective from the date in which control is recognised (the acquisition date) Control can be gained where the right to purchase the majority shareholding exists, whether or not that right is exercised Where the recognition of control is accompanied with a purchase of a shareholding in the now subsidiary, goodwill is calculated at the acquisition date All acquisition costs are expensed

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets Non-controlling interests are subsequently measured as the amount of those non-controlling interests at the date of the original combination and the non-controlling interest's share of changes in equity since the date of the combination

Intercompany transactions, balances and unrealised gains on transactions between Group companies (Next Fifteen Communications Group plc and its subsidiaries) are eliminated Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred Accounting policies for subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group

D Merger reserve

Where the conditions set out in section 131 of the Companies Act 1985 (section 612 of the Companies Act 2006 after 1 October 2009) are met, shares issued as part of the consideration in a business combination are measured at their fair value in the consolidated balance sheet, and the difference between the nominal value and fair value of the shares issued is recognised in the merger reserve

E Revenue

Billings represents amounts receivable from clients, exclusive of VAT, sales taxes and trade discounts in respect of charges for fees, commission and rechargeable expenses incurred on behalf of clients

Revenue is billings less amounts payable on behalf of clients to external suppliers where they are retained to perform part of a specific client project or service, and represents fees, commissions and mark-ups on rechargeable expenses Revenue is recognised on the following basis

- Retainer and other non-retainer fees are recognised as the services are performed, in accordance with the terms of the contractual arrangement
- Project fees are recognised on a percentage of completion basis as contract activity progresses, if the final outcome can be assessed with reasonable certainty The stage of completion is generally measured on the basis of the services performed to date as a percentage of the total services to be performed
- Expenses are recharged to clients at cost plus an agreed mark-up when the services are performed

F Intangible assets

Goodwill Goodwill represents the excess of the fair value of consideration payable, the amount of any non-controlling interest in the acquiree and acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired The fair value of consideration payable includes assets transferred, liabilities assumed and equity instruments issued The amount relating to the non-controlling interest is measured on a transaction-by-transaction basis, at either fair value or the non-controlling interest's proportionate share of net assets acquired Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement

Notes to the accounts continued

1 Accounting policies (continued)

F Intangible assets (continued)

Software Licences for software that are not integral to the functioning of a computer are capitalised as intangible assets Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets Direct costs include software development employee costs

Amortisation is provided on software at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life of five to seven years

No amortisation is charged on assets in the course of construction until they are available for operational use in the business Capitalised computer software that is not an asset in the course of construction is amortised on a straight-line basis over its useful economic life Costs associated with maintaining computer software programmes are recognised as an expense as incurred

Trade names Trade names acquired in a business combination are recognised at fair value at the acquisition date Trade names have a finite useful life and are carried at costs less accumulated amortisation Amortisation is calculated using the straight-line method to allocate the cost of trade names over their estimated useful lives of 20 years

Customer relationships Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation Amortisation is calculated using the straight-line method over the expected life of the customer relationship of three to five years

G Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation Depreciation is provided on all property, plant and equipment at annual rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows

Short leasehold improvements	– Over the term of the lease, or until the first break clause
Office equipment	– 20% – 50% per annum straight-line
Office furniture	– 20% per annum straight-line
Motor vehicles	– 25% per annum straight-line

H Impairment

Impairment tests on goodwill are undertaken annually at the financial year end Other non-financial assets (including investments in associates but excluding deferred tax) are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable

Where the carrying value of an asset exceeds its recoverable amount, which is measured as the higher of value in use and fair value less costs to sell, the asset is impaired accordingly

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, defined as the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill

Impairment charges are included within amortisation in the consolidated income statement, except to the extent they reverse gains previously recognised in the consolidated statement of recognised income and expense An impairment loss recognised for goodwill is not reversed

1 Accounting policies (continued)

I Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the exchange rates ruling when the transactions occur Foreign currency monetary assets and liabilities are translated at the exchange rates ruling at the balance sheet date Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement Foreign exchange movements on intercompany loans with indefinite terms, and for which there is no expectation of a demand for repayment, are recognised directly in equity

On consolidation, the results of overseas operations are translated into sterling at the average exchange rates for the accounting period All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the exchange rates ruling at the balance sheet date Exchange differences arising on translating the opening net assets at opening rates and the results of overseas operations at average rates are recognised directly in the foreign currency translation reserve within equity The effective portion arising on the retranslation of foreign currency borrowings which are designated as a qualifying hedge is recognised within equity See hedging activities for more detail

On disposal of a foreign operation, the cumulative translation differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal

J Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors

K Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the asset or liability The Group's accounting policies for different types of financial asset and liability are described below

Trade receivables Trade receivables are initially recognised at fair value and will subsequently be measured at amortised cost less allowances for impairment An allowance for impairment of trade receivables is established when there is objective evidence (such as significant financial difficulties on the part of the counterparty, or default or significant delay in payment) that the Group will not be able to collect all amounts due according to the original terms of the receivables The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows associated with the impaired receivable Such provisions are recorded in a separate allowance account with the loss being recognised as an expense in the other operating charges line in the consolidated income statement On confirmation that the trade receivable will not be collectable, the gross carrying value is written off against the associated allowance

Cash and cash equivalents Cash and cash equivalents comprise cash in hand and short-term call deposits held with banks Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated balance sheet, except where there is a pooling arrangement with a bank that allows them to be offset against cash balances In such cases the net cash balance will be shown within cash and cash equivalents in the consolidated balance sheet

Derivative financial instruments Derivative financial instruments utilised by the Group are protection contracts on US dollar interest rate contracts (cap-and-collar) and US dollar and euro foreign exchange contracts Derivative financial instruments are initially recognised at fair value at the contract date and continue to be stated at fair value at the balance sheet date, with gains and losses on revaluation being recognised immediately in the consolidated income statement The fair value of derivative financial liabilities is determined by reference to third party market valuations

Hedging activities The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in fair values of hedged items

Notes to the accounts continued

1 Accounting policies (continued)
K Financial instruments (continued)
Where a foreign currency loan is designated as a qualifying hedge of the foreign exchange exposure arising on retranslation of the net assets of a foreign operation, any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income, so as to offset the foreign exchange differences arising on the retranslation of the foreign operation's net assets The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income/expense

Gains and losses accumulated in equity on retranslation of the foreign currency loan are recycled through the income statement when the foreign operation is partially disposed of or sold At this point the cumulative foreign exchange differences arising on the retranslation of the net assets of the foreign operation are similarly recycled through the income statement Where the hedging relationship ceases to qualify for hedge accounting, the cumulative gains and losses remain within the foreign currency translation reserve until control of the foreign operation is lost, subsequent gains and losses on the hedging instrument are recognised in the income statement Where there is a change in the ownership interest without effecting control, the exchange differences are adjusted within reserves

Bank borrowings Interest-bearing bank loans and overdrafts are recognised at their fair value net of direct issue costs and, thereafter, at amortised cost Finance costs are charged to the consolidated income statement over the term of the debt so that the amount charged is at a constant rate on the carrying amount Finance costs include issue costs which are initially recognised as a reduction in the proceeds of the associated capital instrument and unwound over the term of the debt

Share purchase obligation Put option agreements that allow the Group's equity partners to require the Group to purchase the non-controlling interest are recorded in the balance sheet as liabilities On initial recognition, the liability is measured at the present value of the ultimate expected payment with the corresponding debit included in the share purchase reserve Subsequent movements in the present value of the ultimate expected payment are recognised in the consolidated income statement

Trade payables Trade payables are initially recognised at fair value and, thereafter, at amortised cost

L Provisions for other liabilities and charges
Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation, and are discounted to present value where the effect is material

Provisions are created for vacant or sublet properties when the Group has a legal obligation for future expenditure in relation to onerous leases The provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date

M Retirement benefits
Pension costs which relate to payments made by the Group to employees' own defined contribution pension plans are charged to the consolidated income statement as incurred

N Share-based payments
The Group issues equity-settled share-based payments to certain employees The share-based payments are measured at fair value at the date of the grant and expensed on a straight-line basis over the vesting period The cumulative expense is adjusted for failure to achieve non-market performance vesting conditions

Fair value is measured by use of the Black-Scholes model on the grounds that there are no market-related vesting conditions The expected life used in the model has been adjusted, based on the Board's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

1 Accounting policies (continued)

O Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a 'finance lease'), the asset is treated as if it had been purchased outright The amount initially recognised as an asset is the lower of the fair value of the leased asset and the present value of the minimum lease payments payable over the term of the lease The corresponding lease commitment is shown as a liability Lease payments are analysed between capital and interest The interest element is charged to the consolidated income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability The capital element reduces the balance owed to the lessor

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term The aggregate benefit of lease incentives is recognised as a reduction to the rental expense over the lease term on a straight-line basis

The land and buildings elements of property leases are considered separately for the purposes of lease classification

Where Group assets are leased out under operating leases with the Group acting as lessor, the asset is included in the balance sheet and lease income is recognised over the term of the lease on a straight-line basis

P Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on

- the initial recognition of goodwill,
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit, and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the asset can be utilised

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered)

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either

- the same taxable group company, or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered

Where a temporary difference arises between the tax base of employee share options and their carrying value, a deferred tax asset should arise To the extent the future tax deduction exceeds the related cumulative IFRS 2 Share-Based Payments ('IFRS 2') expense, the excess of the associated deferred tax balance is recognised directly in equity To the extent the future tax deduction matches the cumulative IFRS 2 expense, the associated deferred tax balance is recognised in the consolidated income statement

Q Dividends

Equity dividends are recognised when they become legally payable Interim equity dividends are recognised when paid Final equity dividends are recognised when approved by the shareholders at an annual general meeting

Notes to the accounts continued

1 Accounting policies (continued)

R Employee Share Ownership Plan (ESOP)

As the Group is deemed to have control of its ESOP trust, the trust is treated as a subsidiary and consolidated for the purposes of the Group accounts The ESOP's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the Group financial statements The ESOP's investment in the Group's shares is deducted from equity in the consolidated balance sheet as if they were treasury shares and presented in the ESOP reserve

S Treasury shares

When the Group re-acquires its own equity instruments, those instruments (treasury shares) are deducted from equity No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's treasury shares Such treasury shares may be acquired and held by other members of the Group Consideration paid or received is recognised directly in equity

T Significant estimates and judgements

The preparation of the consolidated financial statements requires the Group to make certain estimates and assumptions that have an impact on the application of the policies and amounts reported in the consolidated financial statements Estimates and judgements are evaluated based on historical experiences and expected outcomes and are believed to be reasonable at the time such estimates and judgements are made, although actual experience may vary from these estimates

I Impairment of goodwill In line with IAS 36, Impairment of Assets, the Group is required to test the carrying value of goodwill, at least annually, for impairment As part of this review process the recoverable amount of the goodwill is determined using value-in-use calculations, which requires estimates of future cash flows and as such is subject to estimates and assumptions Further details are contained in note 11

II Taxation The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for income taxes The Group recognises assets/liabilities for anticipated tax issues based on estimates of the tax treatment Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions

The Group has provided in full for what it considers to be the likely outcome of ongoing overseas tax litigation based on the evidence available at the present time In the event that the overseas tax litigation is resolved in the Group's favour there will be a material credit to the Group's income statement tax charge in a future accounting period

III Contingent consideration, share purchase obligation and valuation of put options Contingent consideration and share purchase obligation relating to acquisitions has been included based on discounted management estimates of the most likely outcome The difference between the fair value of the liabilities and the actual amounts payable is charged to the income statement as notional finance costs over the life of the associated liability Where the agreement gives rise to an obligation that is settled by the delivery of a variable number of shares to meet a monetary defined liability, these amounts are disclosed as debt Changes in the estimates of contingent consideration payable and the share purchase obligation is recognised in finance income/expense

U New standards and amendments not applied Standards, interpretations and amendments to existing standards that have been published as mandatory for later accounting periods but are not yet effective and have not been adopted early by the Group are as follows

IAS 24, Related Party Transactions (effective for accounting periods beginning on or after 1 January 2011) clarifies and simplifies the definition of a related party

IFRS 9, Financial Instruments will eventually replace IAS 39 in its entirety IFRS 9 as issued on 12 November 2009 (effective for accounting periods beginning on or after 1 January 2013) addresses the classification and measurement of financial assets Classification of a financial asset is on the basis of an entity's business model for managing them and the contractual cashflows characteristic of the asset IFRS 9 outlines the conditions to measure a financial asset at amortised cost and subsequent measurement at amortised cost or fair value as well as subsequent reclassification between categories The held to maturity and available for sale classifications have been eliminated IFRS 9 requires that changes in the fair value of financial liabilities designated as at fair value through profit or loss which relate to changes in own credit risk should generally be recognised directly in other comprehensive income

All other standards, interpretations and amendments to existing standards published as mandatory for this accounting periods or later accounting period would not have a material effect

2 Segment information

Description of the types of services from which each reportable segment derives its revenues

The Board of Directors has identified the operating segments based on the reports it reviews as the chief operating decision maker to make strategic decisions, assess performance and allocate resources

The main activity of the Group is the provision of public relations services in key regions across the globe Other operating segments are research and digital consultancy

The Group's business is organised into four reportable segments, being the provision of public relations services in the UK, Europe and Africa, US and Canada, and Asia Pacific Within these segments the Group operates a number of separate competing businesses in order to offer services to clients in a confidential manner where otherwise there may be issues of conflict

Measurement of operating segment profit

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted operating profit before reorganisation costs and intercompany recharges, which reflects the internal reporting measure used by the Board of Directors This measurement basis excludes the effects of non-recurring charges, such as movement in fair value of financial instruments, unwinding of the discount on contingent and deferred consideration, unwinding of the discount on the share purchase obligation, amortisation of acquired intangibles, and goodwill impairment charges Other information provided to them is measured in a manner consistent with that in the financial statements

Head office costs relate to group costs before allocation of intercompany charges to the operating segments

Intersegment transactions have not been separately disclosed as they are not material The Board of Directors does not review the assets and liabilities of the Group on a segmental basis and therefore this is not separately disclosed

Segmental information for the year ended 31 July 2009 has been restated as a result of the change in accounting policy as explained in note 1

	UK PR	Europe and Africa PR	US and Canada PR	Asia Pacific PR	Other segments	Head Office	Total
£'000							
Year ended 31 July 2010							
Revenue	**14,484**	**9,723**	**36,261**	**10,208**	**1,652**	**-**	**72,328**
Segment adjusted operating profit	**2,385**	**1,237**	**7,296**	**154**	**73**	**(4,153)**	**6,992**
Year ended 31 July 2009 (restated)							
Revenue	16,055	9,774	30,456	7,843	1,266	-	65,394
Segment adjusted operating profit	3,012	1,156	6,308	405	35	(5,186)	5,730

Notes to the accounts continued

2 Segment information (continued)

A reconciliation of segment adjusted operating profit to profit before income tax is provided as follows

	2010 £'000	2009 £'000
Segment adjusted operating profit		
Reportable segments	**11,072**	10,881
Other segments	**73**	35
Head Office	**(4,153)**	(5,186)
	6,992	5,730
Reorganisation costs	**-**	(1,950)
Goodwill impairment charge	**(116)**	(116)
Amortisation of acquired intangibles	**(526)**	(139)
Movement in fair value of forward foreign exchange contracts	**158**	325
Total operating profit	**6,508**	3,850
Unwinding of discount on contingent and deferred consideration	**(659)**	(61)
Unwinding of discount on share purchase obligation	**(140)**	(34)
Change in estimate of future contingent consideration payable	**(63)**	-
Movement in fair value of interest rate cap-and-collar contract	**38**	(255)
Other finance expense	**(448)**	(489)
Other finance income	**68**	147
Profit before income tax	**5,304**	3,158

3 Employee information

	2010 £'000	2009 £'000
Staff costs for all employees, including Directors, consist of		
Wages and salaries	**44,414**	39,011
Social security costs	**3,673**	3,713
Pension costs	**1,064**	1,125
Share-based payment charge/(credit)	**606**	(57)
	49,757	43,792

	2010 Number	2009 Number
The average number of employees during the year, by geographical location, was as follows		
UK	**165**	201
Europe and Africa	**95**	115
US and Canada	**309**	278
Asia Pacific	**267**	232
Head Office	**18**	21
	854	847

Details of Directors' remuneration are set out in the Remuneration report

The share-based payment charge recognised in relation to Directors for the year ended 31 July 2010 is £34,000 (2009 £9,000 credit)

4 Operating profit

	2010 £'000	2009 £'000
This is arrived at after charging/(crediting)		
Depreciation of owned property, plant and equipment	**1,045**	1,130
Depreciation of assets held under finance leases	**15**	38
Amortisation and impairment of intangible assets	**878**	513
Reorganisation costs	**–**	1,950
Loss on sale of property, plant and equipment	**11**	5
Movement in fair value of forward foreign exchange contracts	**(158)**	(325)
Defined contribution pension cost	**1,064**	1,124
Share-based payment charge/(credit)	**606**	(57)
Operating lease income	**(198)**	(63)
Operating lease rentals – property	**4,502**	3,940
– plant and machinery	**196**	180
Foreign exchange loss	**504**	1,432
Fees payable to Group auditors	**436**	508

Auditors' remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and its associates

	2010 £'000	2009 £'000
Fees payable to the Company's auditor for the statutory audit of the Company's and consolidated annual statements	**95**	88
Other services		
The auditing of financial statements of the subsidiaries pursuant to legislation	**245**	187
Other services pursuant to legislation	**5**	5
Tax services	**61**	79
Other services	**30**	149
	436	508

Notes to the accounts continued

5 Reconciliation of pro forma financial measures

	2010 £'000	2009 £'000
Profit before income tax	**5,304**	3,158
Movement in fair value of interest rate cap-and-collar contract[1]	**(38)**	255
Movement in fair value of forward foreign exchange contracts[2]	**(158)**	(325)
Reorganisation costs[3]	**–**	1,950
Unwinding of discount on contingent and deferred consideration[4]	**659**	61
Unwinding of discount on share purchase obligation[5]	**140**	34
Change in estimate of future contingent consideration payable[6]	**63**	–
Impairment charge[7]	**116**	116
Amortisation of acquired intangibles[8]	**526**	–
Adjusted profit before income tax	**6,612**	5,249

Adjusted profit before income tax has been presented to provide additional information which may be useful to the reader, and for the performance calculation of the adjusted earnings per share used for the vesting of employee share options and performance shares

[1]Interest rate cap-and-collar contracts held by the Group are recognised at fair value on the balance sheet at each reporting date and the movement on such contracts is recognised within finance income/expense in the income statement These financial instruments comprise financial products used to manage the interest rate risks of the Group s long term debt obligations The movement in fair value of the interest rate cap and-collar contract since 31 July 2009 is a credit of £38 000 (2009 charge of £255 000)

[2]Forward foreign exchange contracts held by the Group are recognised at fair value on the balance sheet at each reporting date and the movement on such contracts is recognised within operating expenses in the income statement These financial instruments comprise financial products used for hedging currency exposure on US dollar and euro The movement in fair value of the forward foreign exchange contracts since 31 July 2009 is a credit of £158 000 (2009 credit of £325 000)

[3]Reorganisation costs in the year to 31 July 2010 are not considered significant The reorganisation costs of £1 950 000 in 2009 related to redundancies across the Group the closure of the Text 100 Seattle office and the costs associated with the merger of Inferno Communications Limited into Bite Communications Limited ('Bite') on 1 May 2009

[4]A finance expense of £645 000 has been recognised during the year in relation to the unwinding of the discount on the contingent consideration payable for M Booth a wholly owned subsidiary of the Group since August 2009 and £14 000 in relation to the unwinding of the discount on the deferred consideration payable for The OutCast Agency ('OutCast') a wholly owned subsidiary of the Group since June 2005 (2009 in relation to OutCast only) The final deferred consideration payment for OutCast was made in October 2009

[5]A finance expense of £140 000 has been recognised during the year in relation to the unwinding of the discount on the share purchase obligation for Upstream Asia (£92,000) and 463 Communications (£48,000) (2009 in relation to Lexis Public Relations Limited only)

[6]A finance expense of £63 000 has been recognised during the year in relation to a change in the estimate of the contingent consideration payable for M Booth

[7]The carrying value of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate impairment An impairment charge has been made for the goodwill recognised by Bite on acquisition of Credo Communications Limited ('Credo') on 31 December 2005 The operations were transferred into Bite and as a result the decision has been made to write down the goodwill by £116 000 As a result of this write down the Credo goodwill is now fully impaired

[8]A total amortisation of acquired intangibles charge of £526 000 has been recognised in the year in relation to M Booth (£334 000) 463 Communications (£125 000) AimPR Public Relations AB (£38 000) and Upstream Asia (£29,000) These are significant non-cash charges which arise as a result of acquisitions, and were not considered significant in the year to 31 July 2009

6 Finance expense

	2010 £'000	2009 £'000
Financial liabilities at amortised cost		
Bank interest payable	**428**	454
Financial liabilities at fair value through profit and loss		
Unwinding of discount on contingent and deferred consideration	**659**	61
Unwinding of discount on share purchase obligation	**140**	34
Change in estimate of future contingent consideration payable	**63**	–
Movement in fair value of interest rate cap-and-collar contract	**–**	255
Other		
Finance lease interest	**16**	35
Other interest payable	**4**	–
Finance expense	**1,310**	839

7 Finance income

	2010 £'000	2009 £'000
Financial assets at amortised cost		
Bank interest receivable	**53**	144
Financial assets at fair value through profit and loss		
Movement in fair value of interest rate cap-and-collar contract	**38**	–
Other		
Other interest receivable	**15**	3
Finance income	**106**	147

Notes to the accounts continued

8 Taxation

The major components of income tax expense for the year ended 31 July 2010 are

	2010 £'000	2009 £'000
Consolidated income statement		
Current income tax		
Current income tax expense	**2,361**	1,189
Adjustments in respect of over provision of current income tax in prior years	**(331)**	(201)
Deferred income tax		
Relating to the origination and reversal of temporary differences	**(351)**	(97)
Adjustments in respect of deferred tax for prior years	**(88)**	(7)
Income tax expense reported in the consolidated income statement	**1,591**	884
Consolidated statement of changes in equity		
Net revaluation of share-based remuneration	**(166)**	(7)
Income tax expense reported in equity	**(166)**	(7)
Factors affecting the tax charge for the year		
The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 28% (2009 28%) The difference is explained below		
Profit before income tax	**5,304**	3,158
Corporation tax expense at 28%	**1,485**	884
Effects of		
Disallowed expenses	**277**	167
Recognition and utilisation of previously unrecognised tax losses	**(215)**	(192)
Non-utilisation of tax losses	**158**	30
Higher rates of tax on overseas earnings	**708**	608
Deductions for overseas taxes	**(621)**	(597)
Adjustments in respect of prior years	**(201)**	(16)
	1,591	884

The Group's effective corporation tax rate for the year ended 31 July 2010 (30%) is slightly higher than the prior year (28%) and standard UK rates due to acquisitions undertaken by the Group in the year and the impact of the reduction in the UK corporation tax rate As a result of the acquisitions, a greater proportion of Group profit was generated in higher tax regimes and losses arose in territories in which it would not be prudent to recognise deferred tax assets

As a result of the reduction in the UK corporation tax rate from 28% to 27% that was substantively enacted on 27 July 2010 and effective from 1 April 2011, the UK deferred tax balances have been remeasured

Further reductions to the UK corporation tax rate have been announced The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 24% by 1 April 2014 These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in the financial statements

9 Dividend

	2010 £'000	2009 £'000
Dividends paid during the year		
Final dividend paid for prior year of 1 25p per ordinary share (2008 1 25p)	**675**	662
Interim dividend paid of 0 475p per ordinary share (2009 0 45p)	**257**	238
	932	900
Non-controlling interest dividend[1]	**256**	226

[1]The Group acquired control of 463 Communications as at 1 August 2008 During the year a profit share was paid to the holders of the non-controlling interest of £256 000 (2009 £226 000)

The ESOP waived its right to dividends in the financial year ended 31 July 2010 (£9,000) and the year ended 31 July 2009 (£18,000)

A final dividend of 1 375p per share (2009 1 25p) has been proposed This has not been accrued The interim dividend was 0 475p per share (2009 0 45p), making a total for the year of 1 85p per share (2009 1 70p) The final dividend, if approved at the AGM on 25 January 2011, will be paid on 4 February 2011 to all shareholders on the Register of Members on 7 January 2011 The ex-dividend date for the shares is 5 January 2011

10 Earnings per share

	2010 £'000	2009 £'000
Earnings attributable to ordinary shareholders	**3,675**	1,932
Movement in fair value of interest rate cap-and-collar contract after tax	**(27)**	184
Movement in fair value of forward foreign exchange contracts after tax	**(114)**	(234)
Reorganisation costs after tax	**–**	1,339
Unwinding of discount on contingent and deferred consideration after tax	**395**	–
Unwinding of discount on share purchase obligation	**140**	71
Change in estimate of future contingent consideration payable after tax	**38**	–
Impairment charge	**116**	116
Amortisation of acquired intangibles after tax	**377**	–
Adjusted earnings attributable to ordinary shareholders	**4,600**	3,408

	Number	Number
Weighted average number of ordinary shares	**54,444,622**	52,585,175
Dilutive share options/performance shares outstanding[1]	**4,767,099**	133,987
Other potentially issuable shares[2]	**1,866,697**	–
Diluted weighted average number of ordinary shares	**61,078,418**	52,719,162
Basic earnings per share	**6.75p**	3 67p
Diluted earnings per share	**6.02p**	3 66p
Adjusted earnings per share	**8.45p**	6 48p
Diluted adjusted earnings per share	**7.53p**	6 46p

Adjusted and diluted adjusted earnings per share have been presented to provide additional useful information The adjusted earnings per share is the performance measure used for the vesting of employee share options and performance shares The only difference between the adjusting items in this note and the figures in note 5 is the tax effect of those adjusting items

[1]Relates mainly to performance shares on which the performance criteria are expected to be met and will vest In the year to 31 July 2009 it was deemed that the performance criteria would not be met and therefore the performance shares were not expected to vest At the Next Fifteen Annual General Meeting held on 26 January 2010, shareholder approval was obtained to modify the performance conditions relating to all new awards under the Next Fifteen Long-Term Incentive Plan from February 2010 and to apply the changes to grants made in the financial years ended 31 July 2008 and 31 July 2009

[2]Relates to an estimate of the contingent consideration satisfied in shares payable to M Booth in years two to four following completion

Notes to the accounts continued

11 Intangible assets

	Software £'000	Trade name £'000	Customer relationships £'000	Goodwill £'000	Total £'000
Cost					
At 1 August 2008	1,829	–	–	15,432	17,261
Additions resulting from internal development	134	–	–	–	134
Acquired through business combinations	–	192	465	1,507	2,164
Exchange differences	62	25	51	1,253	1,391
At 31 July 2009	2,025	217	516	18,192	20,950
Additions resulting from internal development	302	–	–	–	302
Acquired through business combinations[1]	12	1,074	1,466	5,643	8,195
Exchange differences	60	100	139	824	1,123
At 31 July 2010	**2,399**	**1,391**	**2,121**	**24,659**	**30,570**
Amortisation and impairment					
At 1 August 2008	618	–	–	1,181	1,799
Charge for the year	258	10	129	–	397
Impairment charge	–	–	–	116	116
Exchange differences	47	–	(6)	156	197
At 31 July 2009	923	10	123	1,453	2,509
Charge for the year	236	67	459	–	762
Impairment charge	–	–	–	116	116
Exchange differences	5	1	10	56	72
At 31 July 2010	**1,164**	**78**	**592**	**1,625**	**3,459**
Net book value at 31 July 2010	**1,235**	**1,313**	**1,529**	**23,034**	**27,111**
Net book value at 31 July 2009	1,102	207	393	16,739	18,441

[1]On 3 August 2009 the Group acquired M Booth and acquired intangibles of £1 282 000 relating to customer relationships and £1,074,000 relating to trade name

On 27 October 2009, the Group acquired Upstream Asia and acquired intangibles of £184 000 relating to customer relationships

See note 26

Impairment testing for cash-generating units containing goodwill

Goodwill acquired through business combinations is allocated to groups of cash-generating units ('CGUs') for impairment testing as follows

	2010 £'000	2009 £'000
Bite (UK)	**1,512**	1,628
Lexis (UK)	**8,383**	8,383
OutCast (US)	**6,752**	6,377
Bite (US)	**340**	321
Context Analytics (US)	**32**	30
M Booth (US)	**4,983**	–
Bite Upstream (APAC)	**1,032**	–
	23,034	16,739

11 Intangible assets (continued)

The recoverable amounts of all CGUs have been determined from value-in-use calculations using a projection period of five years for each cash-generating unit The basis for this is the 2011 budget approved by the Board, with a further four years based on projected pre-tax cash flows extrapolated using a growth rate of 2 5% After the initial projection period, a steady long-term growth rate of 2 5% and no improvement in operating margin has been applied to the pre-tax cash flow forecast into perpetuity This is considered prudent based on experience and current expectations of the long-term industry growth rate A pre-tax discount rate, being the Group's weighted average cost of capital of 11 0% (2009 10 0%), has been used in discounting the projected cash flows

The Board has considered reasonable possible sensitivities in key assumptions on which the value-in-use calculations are based If growth rates reduced to 0%, or if the discount rate increased to 20%, this would not cause the carrying values of the groups of CGUs to exceed their recoverable amounts in all cases except for Lexis Sensitivity analysis shows that if the discount rate is increased in isolation to 18%, the estimated recoverable amount of Lexis is equal to carrying value

The goodwill impairment review performed at year end has resulted in an impairment charge for the goodwill recognised by Bite on acquisition of Credo on 31 December 2005, part of the Bite (UK) CGU The operations were transferred into Bite and as a result the decision has been made to write down the goodwill by £116,000 As a result of this write down, the Credo goodwill is now fully impaired

There was no other impairment of goodwill as the estimated recoverable amount exceeds the carrying value in all other cases

12 Property, plant and equipment

	Short leasehold improvements £'000	Office equipment £'000	Office furniture £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 August 2008	2,696	4,053	1,153	106	8,008
Exchange differences	219	491	141	6	857
Additions	111	309	29	6	455
Disposals	(88)	(264)	(116)	(59)	(527)
At 31 July 2009	2,938	4,589	1,207	59	8,793
Exchange differences	113	165	38	4	320
Additions	422	600	152	11	1,185
Acquired through business combinations	32	75	53	–	160
Disposals	(7)	(71)	(21)	(33)	(132)
At 31 July 2010	**3,498**	**5,358**	**1,429**	**41**	**10,326**
Accumulated depreciation					
At 1 August 2008	1,374	3,322	815	62	5,573
Exchange differences	105	349	98	4	556
Charge for the year	481	534	145	8	1,168
Disposals	(16)	(293)	(111)	(33)	(453)
At 31 July 2009	1,944	3,912	947	41	6,844
Exchange differences	46	184	35	2	267
Charge for the year	352	564	134	10	1,060
Disposals	(7)	(64)	(18)	(25)	(114)
At 31 July 2010	**2,335**	**4,596**	**1,098**	**28**	**8,057**
Net book value					
At 31 July 2010	**1,163**	**762**	**331**	**13**	**2,269**
At 31 July 2009	994	677	260	18	1,949

The net book value of property, plant and equipment for the Group includes assets held under finance lease contracts as follows £55,000 of short leasehold improvements (2009 £62,000) and £3,000 of office equipment and furniture (2009 £11,000)

Notes to the accounts continued

13 Trade and other receivables

	2010 £'000	2009 £'000
Current		
Trade receivables	**16,475**	10,684
Less provision for impairment of trade receivables	**(227)**	(201)
Trade receivables – net	**16,248**	10,483
Other receivables	**604**	729
Prepayments and accrued income	**5,040**	3,383
	21,892	14,595
Non-current		
Rent deposits	**1,008**	533

As of 31 July 2010, trade receivables of £227,000 (2009 £201,000) were impaired Movements in the provision are as follows

	2010 £'000	2009 £'000
At 1 August	**201**	233
Acquired through business combinations	**37**	–
Provision for receivables impairment	**155**	128
Receivables written off during the year as uncollectable	**(39)**	(115)
Reversed	**(135)**	(65)
Foreign exchange movements	**8**	20
At 31 July	**227**	201

The provision for receivables impairment has been determined by considering specific doubtful balances and by reference to historic default rates Owing to the immaterial level of the provision for impairment of receivables, no further disclosure is made The Group considers there to be no material difference between the fair value of trade and other receivables and their carrying amount in the balance sheet

As at 31 July, the analysis of trade receivables that were not impaired is as follows

	2010 £'000	2009 £'000
Not past due	**9,114**	5,272
Up to 30 days	**4,434**	3,573
31 to 60 days	**1,780**	1,131
Greater than 61 days	**920**	507
At 31 July	**16,248**	10,483

14 Trade and other payables

	2010 £'000	2009 £'000
Current		
Trade creditors	**2,762**	1,855
Finance lease obligation	**78**	194
Other taxation and social security	**1,350**	1,363
Short-term compensated absences	**1,584**	1,347
Other creditors	**3,646**	3,659
Accruals and deferred income	**7,665**	5,261
	17,085	13,679
Non-current		
Finance lease obligation	**56**	73

15 Provisions for other liabilities and charges

	2010 £'000	2009 £'000
At 1 August	**282**	–
Additions	**–**	282
Used during year	**(224)**	–
At 31 July	**58**	282
Current	**58**	–
Non-current	**–**	282

Provisions comprise liabilities where there is uncertainty about the timing of settlement, but where a reliable estimate can be made of the amount The provision covers the cost of rent, rates and dilapidations on an unoccupied leasehold property due to the merger of Inferno Communications Limited into Bite Communications Limited on 1 May 2009, for which the lease runs to December 2010 No reimbursement for a sub-lease is expected, and the effect of discounting is deemed immaterial

16 Amounts due under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Amounts payable				
Within one year	**80**	209	**78**	194
In two to five years	**60**	82	**56**	73
	140	291	**134**	267
Less finance charges allocated to future periods	**(6)**	(24)	**–**	–
Present value of lease obligations	**134**	267	**134**	267

Notes to the accounts continued

17 Other financial liabilities

	Deferred consideration[1] £'000	Contingent consideration[2] £'000	Share purchase obligation[3] £'000
At 1 August 2008	2,769	–	1,737
Arising during the year	100	–	–
Exchange differences	334	–	–
Utilised	(3,036)	–	(1,771)
Unwinding of discount	61	–	34
At 31 July 2009	228	–	–
Arising during the year	9	5,102	1,364
Exchange differences	(2)	302	78
Utilised	(249)	–	(83)
Unwinding of discount	14	708	140
At 31 July 2010	**–**	**6,112**	**1,499**
Current	–	1,880	150
Non-current	–	4,232	1,349

[1]Deferred consideration on acquisitions

In October 2009 US$312 000 (£199 000) of final deferred consideration was paid for The OutCast Agency, and SEK569,000 (£50 000) of final deferred consideration was paid for AimPR Public Relations AB These both settle the deferred consideration liability outstanding at 31 July 2009

[2]Contingent consideration on acquisitions

On 3 August 2009 the Group acquired 100% of the voting equity instruments of New York-based M Booth & Associates, Inc ('M Booth') The acquisition of M Booth includes a contingent consideration arrangement that requires additional consideration to be paid by the Company based on achievement of certain revenue and performance targets, over the course of the next four years

[3]Share purchase obligation

On 27 October 2009 the Group acquired 55% of Upstream Marketing and Communications Inc ('Upstream Asia') The Group has entered into an option deed under which it has an obligation to acquire the residual 45% over a five-year period based on the profitability of the acquired businesses leading to a share purchase obligation of US$1 213 000 (£736 000) arising on the acquisition date

On 31 October 2009 the Group acquired a further 30% holding in 463 Communications, taking the Group's total holding to 70% At this point the Group was obliged to purchase 100% of the business over a seven year period leading to a share purchase obligation of US$1 035 000 (£628 000) arising on the acquisition date A further 6% was acquired on 28 May 2010 for consideration of US$120 000 (£83,000)

See note 26

18 Deferred taxation

Temporary differences between the carrying value of assets and liabilities in the balance sheet and their relevant value for tax purposes result in the following deferred tax assets and liabilities

	Accelerated capital allowances £'000	Short-term compensated absences £'000	Share-based remuneration £'000	Provision for impairment of trade receivables £'000	Excess book basis over tax basis of intangible assets £'000	Derivative financial instruments £'000	Other temporary differences £'000	Total £'000
At 1 August 2008	534	494	126	41	(151)	189	203	1,436
Credit/(charge) to income	90	(183)	(63)	7	83	(17)	187	104
Exchange differences	46	62	–	7	(19)	–	10	106
Taken to equity								
Share option schemes	–	–	7	–	–	–	–	7
At 31 July 2009	670	373	70	55	(87)	172	400	1,653
Credit/(charge) to income	(116)	49	185	22	79	(59)	279	439
Exchange differences	25	17	–	4	(25)	–	55	76
Acquired through business combinations	–	–	–	–	–	–	10	10
Offset against goodwill	–	–	–	–	(886)	–	–	(886)
Taken to equity								
Share option schemes	–	–	166	–	–	–	–	166
At 31 July 2010	**579**	**439**	**421**	**81**	**(919)**	**113**	**744**	**1,458**

After netting off balances, the following are the deferred tax assets and liabilities recognised in the consolidated balance sheet

	2010 £'000	2009 £'000
Net deferred tax balance		
Deferred tax assets	**1,531**	1,695
Deferred tax liabilities	**(73)**	(42)
Net deferred tax asset	**1,458**	1,653

Deferred tax has been calculated using the anticipated rates that will apply when the assets and liabilities are expected to reverse based on tax rates enacted or substantively enacted by the balance sheet date The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned

19 Financial instruments

Financial risk management, policies and strategies

The Group's principal financial instruments comprise bank loans, finance leases, cash and short-term deposits and derivative financial instruments The main purpose of these financial instruments is to provide finance for the Group's operations The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from operations

The Group enters into derivative transactions, primarily cap-and-collar interest rate and forward foreign exchange contracts The purpose of such contracts is to protect the profits and surplus funds arising in principal markets from currency fluctuations and to manage the interest rate risks on the Group's sources of finance

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below

Notes to the accounts continued

19 Financial instruments (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates and cap-and-collar interest rate derivatives

The Group's policy is to manage its interest costs arising on variable rate debts by entering into interest rate cap-and-collar contracts These agreements are designated to protect underlying debt obligations against significant increases in interest rates as required under the terms of the Group's revolving loan facility with Barclays Bank At 31 July 2010 US$8m of US dollar borrowings have been capped at 6 25% through to March 2012

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax at 31 July 2010 based on year end balances and rates

	Movement in basis points	**2010 £'000**	2009 £'000
United Kingdom	+200	**(141)**	(5)
US	+200	**136**	143

A rise in US interest rates of 2% would give a positive movement of £148,000 (2009 £240,000) in the fair value of the interest rate cap-and-collar contract

The interest rate cap-and-collar contract is categorised as a level two financial instrument in the fair value hierarchy

Liquidity risk

The Group manages its risk to a shortage of funds with a mixture of long and short-term committed facilities As at 31 July 2010 the Group had undrawn committed facilities of £4,040,000 (2009 £6,000,000) In addition, the Group has an overdraft facility with Barclays Bank, of £1,500,000 (2009 £1,500,000) at a rate of 2 25% above Barclays Bank's base rate, available in sterling, US dollar and euro, and a credit line with Wells Fargo Bank of US$2,735,000 (£1,746,000) (2009 US$2,000,000 (£1,206,000)) at the prime rate (currently 3 25%) available in US dollars The Barclays Bank's overdraft facility is reviewed at the bank's discretion with no expiry date The Wells Fargo Bank's overdraft facility is reviewed on an annual basis and expires in January 2011 The following table summarises the maturity profile based on the remaining period at the balance sheet date to the contractual maturity date of the Group's financial liabilities at 31 July 2010 and 2009 based on contractual undiscounted payments

	Within one year £'000	**Greater than one year £'000**	**Total £'000**
As at 31 July 2010			
Financial liabilities	**23,623**	**9,932**	**33,555**
Derivative financial instruments – cash inflows	**–**	**–**	**–**
Derivative financial instruments – cash outflows	**244**	**152**	**396**
	23,867	**10,084**	**33,951**
As at 31 July 2009			
Financial liabilities	13,306	5,286	18,592
Derivative financial instruments – cash inflows	(2,870)	–	(2,870)
Derivative financial instruments – cash outflows	3,218	438	3,656
	13,654	5,724	19,378

19 Financial instruments (continued)

Currency risk

As a result of significant global operations, the Group's balance sheet can be affected significantly by movements in the foreign exchange rates against sterling This is largely through the translation of balances denominated in a currency other than the functional currency of an entity The Group has transactional currency exposures in the Europe, Africa and Asia Pacific region, including foreign currency bank accounts and intercompany recharges The Group uses currency derivatives to protect significant US dollar and euro currency exposures against changes in exchange rates

The following table demonstrates the sensitivity to reasonable possible changes in exchange rates, with all other variables held constant, of the Group's profit before tax at 31 July 2010 based on year end balances and rates

	Weakening against sterling	**2010 £'000**	2009 £'000
US dollar	20%	**(241)**	(2,955)
Euro	20%	**(564)**	73
Australian dollar	20%	**(282)**	(682)
Chinese renminbi	20%	**68**	(448)
Hong Kong dollar	20%	**46**	9
Indian rupee	20%	**(214)**	92
Japanese yen	20%	**(141)**	12
Singapore dollar	20%	**(4)**	(180)
South African rand	20%	**(32)**	(17)

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables which represent the Group's maximum exposure to credit risk in relation to financial assets The Group trades only with recognised, creditworthy third parties It is the Group's policy that customers who wish to trade on credit terms be subject to credit verification procedures In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts has not been significant The amounts presented in the balance sheet are net of provisions for impairment of trade receivables, estimated by the Group's management based on experience and their assessment of the current economic environment

The credit risk on liquid funds is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies, although the Board recognises that in the current economic climate these indicators cannot be relied upon exclusively

Maximum exposure to credit risk

	2010 £'000	2009 £'000
Total trade and other receivables	**22,900**	15,128
Cash and cash equivalents	**7,296**	7,130

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance Total capital of the Group is calculated as total equity as shown in the consolidated balance sheet, plus net debt Net debt is calculated as total borrowings and finance leases, less cash and cash equivalents

Notes to the accounts continued

19 Financial instruments (continued)
Capital risk management (continued)

	2010 £'000	2009 £'000
Total loans and borrowings	**8,033**	5,078
Obligations under finance leases	**134**	267
Less cash and cash equivalents	**(7,296)**	(7,130)
Net debt/(funds)	**871**	(1,785)
Total equity	**27,579**	24,902
Total capital	**28,450**	23,117

Externally imposed capital requirement
Under the terms of the Group's banking covenants the Group must meet certain criteria based on gross borrowings to earnings before interest, tax, depreciation, amortisation and impairment, interest cover and guarantee ratios on turnover, operating profit, total assets and total operating cash flows to consolidated gross financing costs There have been no breaches of the banking covenants in the current or prior year

Fair values of financial assets and liabilities
Fair value is the amount at which a financial instrument can be exchanged in an arm's-length transaction between informed and willing parties, other than a forced or liquidation sale

The book value of the Group's financial assets and liabilities equals the fair value of such items as at 31 July 2010, with the exception of obligations under finance leases The book value of obligations under finance leases is £134,000 (2009 £267,000) and the fair value is £140,000 (2009 £291,000)

19 Financial instruments (continued)

Financial instruments – detailed disclosures

Financial instruments recognised in the balance sheet

The IAS 39 categories of financial assets and liabilities included in the balance sheet and the heading in which they are included are as follows

	At fair value through profit and loss account £'000	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 July 2010				
Non-current financial assets				
Other receivables	–	–	1,008	1,008
	–	–	1,008	1,008
Current financial assets				
Cash and cash equivalents	–	–	7,296	7,296
Trade and other receivables	–	–	21,892	21,892
	–	–	29,118	29,118
Current financial liabilities				
Loans and borrowings	–	5,181	–	5,181
Trade and other payables	–	17,085	–	17,085
Provisions for other liabilities and charges	–	58	–	58
Contingent consideration[1]	–	1,880	–	1,880
Derivative financial liabilities	419	–	–	419
Share purchase obligation[1]	–	150	–	150
	419	24,354	–	24,773
Non-current financial liabilities				
Loans and borrowings	–	2,852	–	2,852
Obligations under finance leases	–	56	–	56
Contingent consideration[1]	–	4,232	–	4,232
Share purchase obligation[1]	–	1,349	–	1,349
	–	8,489	–	8,489

[1]See note 17

Notes to the accounts continued

19 Financial instruments (continued)
Financial instruments recognised in the balance sheet (continued)

	At fair value through profit and loss account £'000	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 July 2009				
Non-current financial assets				
Other receivables	–	–	533	533
	–	–	533	533
Current financial assets				
Cash and cash equivalents	–	–	7,130	7,130
Trade and other receivables	–	–	14,595	14,595
	–	–	21,725	21,725
Current financial liabilities				
Loans and borrowings	–	156	–	156
Trade and other payables	–	13,679	–	13,679
Deferred consideration[1]	–	228	–	228
Derivative financial liabilities	615	–	–	615
Share purchase obligation[1]	–	–	–	–
	615	14,063	–	14,678
Non-current financial liabilities				
Loans and borrowings	–	4,922	–	4,922
Obligations under finance leases	–	73	–	73
Provisions for other liabilities and charges	–	282	–	282
Deferred consideration[1]	–	–	–	–
	–	5,277	–	5,277

[1]See note 17

Interest-bearing loans and borrowings
The table below provides a summary of the Group's loans and borrowing as at 31 July 2010

	Effective interest rate	2010 £'000	2009 £'000
Current			
Obligations under finance leases	3.42%	**78**	194
Variable rate bank loan	Barclays Bank call-loan rate + 1.25%	**4,821**	156
Variable rate bank loan	6.50%	**96**	–
Variable rate bank loan	Wells Fargo Bank call-loan rate + 2.5%	**128**	–
Fixed rate bank loan	7.19%	**136**	–
Non-current			
Obligations under finance leases	3.42%	**56**	73
Variable rate bank loan	Barclays Bank call-loan rate + 1.25%	**–**	4,826
Variable rate bank loan	Barclays Bank call-loan rate + 2.25%	**2,139**	–
Variable rate bank loan	6.50%	**–**	96
Variable rate bank loan	Wells Fargo Bank call-loan rate + 2.50%	**464**	–
Fixed rate bank loan	7.19%	**249**	–

19 Financial instruments (continued)

Hedge of net investment in foreign entity

A proportion of the Group's US dollar-denominated borrowings amounting to US$4,000,000 is designated as a hedge of the net investment in the Group's US subsidiary M Booth & Associates, Inc The fair value of the borrowings at 31 July 2010 is US$4,000,000 (£2,554,000) The foreign exchange loss of £111,000 on translation of the borrowing to functional currency at the end of the reporting period is recognised in a hedging reserve, in shareholders' equity

20 Share capital

Called-up share capital

Ordinary shares of 2 5p each

	Number	**£'000**
Allotted, called up and fully paid		
At 1 August 2009	55,247,557	1,381
Issued in the year in respect of		
Further 30% stake in 463 Communications, LLC	805,095	20
At 31 July 2010	**56,052,652**	**1,401**

21 Share-based payments

The Group uses the Black-Scholes model to calculate the fair value of options on grant date for new issues and modifications At each year end the cumulative expense is adjusted to take into account any changes in estimate of the likely number of shares expected to vest Details of the relevant option schemes are given in note 22 All the share-based payment plans are subject to non-market performance conditions such as adjusted earnings per share targets and continued employment All schemes are equity-settled The key inputs are listed below and market price on each grant date is obtained from external, publicly available sources

	2010	2009
Risk-free rate	**4.75%**	4 13%
Dividend yield	**3.47%**	4 16%
Volatility[1]	**40%**	35%

[1]Volatility is based on the Group s share price movement between January 2003 and July 2010 In the opinion of the Directors this period is appropriate, given the Group's history of growth and acquisitions and external industry factors

The Group recognised a charge of £606,000 (2009 £57,000 credit)

Movement on options granted (represented in ordinary shares)

	Outstanding at 1 August 2009 Number ('000)	Granted number ('000)	Lapsed number ('000)	Exercised number ('000)	**Outstanding 31 July 2010 Number ('000)**	**Exercisable 31 July 2010 Number ('000)**
Executive share option scheme	1,276	–	289	318	**669**	**539**
Long-Term Incentive Plan – options	236	–	112	–	**124**	**94**
Long-Term Incentive Plan – performance shares	4,163	2,335	841	132	**5,525**	**–**
Restricted Stock Grant Agreement	–	263	–	–	**263**	**–**
	5,675	2,598	1,242	450	**6,581**	**633**
Weighted-average exercise price (p)	13 48	–	17 26	24 39	**6.71**	**49.71**

A total of 450,164 shares were exercised during the year ended 31 July 2010 at a weighted average market share price of 63 70p

Notes to the accounts continued

21 Share-based payments (continued)

Options over ordinary shares outstanding

Range of exercise prices (p)	0 – 215
Weighted average exercise price (p)	67 1
Weighted average contractual life (months)	29

The fair value of options granted in the year calculated using the Black-Scholes model

	February 2010	**June 2010**
Fair value of performance shares granted under the LTIP (p)	**43**	**46**
Share price at date of grant (p)	**60**	**64**
Risk-free rate (%)	**4.75**	**4.75**
Expected life (years)	**4**	**4**
Expected volatility (%)	**40**	**40**
Dividend yield (%)	**3.47**	**3.47**

The modification to the performance criteria on 26 January 2010 does not lead to an increase in the fair value at the date of modification therefore no incremental fair value is recognised The performance share grants which have been modified are set out in note 22

Performance shares issued by the Company under the Next Fifteen Communications Long-Term Incentive Plan are granted at a nil exercise price

22 Share options

The Company has issued options over its shares to employees as follows

Share option type	Number of shares	Option price per share	Option grant date
Next Fifteen Communications			
Executive Share Option Schemes	18,000	215p	22 November 2000
	82,000	60p	21 May 2001
	37,333	23 5p	23 October 2001
	73,333	30p	22 October 2002
	170,000	59 5p	22 October 2003
	380,666		
Next Fifteen Communications			
Californian Executive Share Option Schemes	80,000	30p	22 October 2002
	178,334	59 5p	22 October 2003
	30,000	63p	12 May 2004
	288,334		
Next Fifteen Communications			
Long-Term Incentive Plan	43,254	56p	16 June 2005
	50,892	56p	11 November 2005
	29,545	66p	10 April 2006
	123,691		

22 Share options (continued)

Performance shares	Number of shares	Performance period start date	Performance period end date	Performance share grant date
Next Fifteen Communications Long-Term Incentive Plan	533,496	1 August 2007	31 July 2011[1]	9 November 2007
	1,002,190	1 August 2007	31 July 2011[1]	2 June 2008
	60,000	1 August 2008	31 July 2012[1]	22 October 2008
	1,704,414	1 August 2008	31 July 2012[1]	21 November 2008
	80,000	1 May 2009	1 May 2011	1 May 2009
	2,110,000	1 August 2009	31 July 2013	9 February 2010
	35,000	1 August 2009	31 July 2013	4 June 2010
	5,525,100			
Restricted Stock Grant Agreement	262,796	3 August 2009	3 August 2012	3 August 2009

[1]Performance criteria modified on 26 January 2010

Under the Next Fifteen Executive Share Option Schemes, save as explained hereafter, all options are normally exercisable on or after the third anniversary of the date of grant and remain exercisable until the tenth anniversary of the date of the grant, to the extent that they have vested Options will vest in respect of one-third of the shares on each of the third, fourth and fifth anniversaries of their date of grant Options granted to employees in California from 23 October 2001 are exercisable at a rate of 20% per year over five years from the date of grant The vesting of all share options granted after 30 November 1999 is conditional on achievement of a performance criterion of the Group's earnings per share growing over a three-year period after the grant by at least 30%

4,915,432 share options/performance shares/conditional shares issued by the Company under the Next Fifteen Communications Executive Share Option Schemes, Long-Term Incentive Plan and Restricted Stock Grant Agreement are options/performance shares/conditional shares over unissued shares The remaining 1,665,155 options/performance shares/conditional shares will be largely satisfied by either shares held by the Employee Share Ownership Plan (500,897) or by shares held by the Company in treasury (1,164,258) (see note 23)

At the Next Fifteen General Meeting held on 26 January 2010, shareholder approval was obtained to modify the performance conditions relating to all new awards under the Next Fifteen Long-Term Incentive Plan from February 2010 and to apply the changes to grants made in the financial years ended 31 July 2008 and 31 July 2009 Performance will be measured over a period of four consecutive financial years of the Group, commencing with the financial year in which the award was granted The new conditions are based upon two measures – an adjusted earnings per share ('EPS') measure and a budgeted profit measure The level of vesting will be determined using the best three of the four years' performance for each performance measure The growth of adjusted EPS of the Group must exceed the Retail Price Index ('RPI') by an average of 10% or more per annum over the performance period for 50% of the award to vest If the growth of adjusted EPS over RPI is between an average of 3% and 10% per annum over the performance period, between 10% and 50% of the award will vest on a straight-line basis The remaining 50% of an award may vest if the profit of the particular business in which a participant is employed meets its budgeted profit targets over the performance period To the extent that the budgeted profit targets are not met, for every 1% below budget, 5% of the award will lapse on a straight-line basis Employees who work in group roles will be measured by reference to whole group performance, rather than any particular business unit

On 1 May 2009, Inferno Communications Limited ('Inferno'), a wholly owned subsidiary of the Group, merged into Bite Communications Limited ('Bite'), also a wholly owned subsidiary of the Group Following the merger there was a one-off grant of performance shares to two senior members of Inferno who transferred to Bite The extent to which the award would vest is determined by reference to the retention of key clients by Bite for which the participants are the key account directors On 1 May 2010, 60% of the award vested as the clients remained with Bite, and the final 40% will vest if the clients still remain on 1 May 2011

Notes to the accounts continued

22 Share options (continued)

On 3 August 2009 the Group acquired M Booth & Associates, Inc ('M Booth') and entered into a Restricted Stock Grant Agreement of US$200,000 The number of shares granted was determined by reference to the average of the mid-market price of the Company's shares for the ten trading day period ended four days prior to issuance, leading to a total of 262,796 shares granted The fair value of the shares was based on the market value at the date of grant The grant shares will vest in equal amounts on each of the first three anniversaries of the date of grant, provided that each participant remains a full-time employee of M Booth as of the anniversary vesting date

23 Investment in own shares

Employee share ownership plan (ESOP)

The purpose of the ESOP is to enable the Company to offer participation in the ownership of its shares to Group employees principally as a reward and incentive scheme Arrangements for the distribution of benefits to employees, which may be the ownership of shares in the Company or the granting of options over shares in the Company held by the ESOP, are made at the ESOP's discretion in such manner as the ESOP considers appropriate Administration costs of the ESOP are accounted for in the profit and loss account of the Company as they are incurred

At 31 July 2010 the ESOP held 500,897 (2009 951,061) Ordinary Shares in the Company, which represents 0 9% (2009 1 7%) of the Ordinary Share capital The ESOP reserve of £162,000 (2009 £644,000) represents the cost of these shares held by the ESOP in the Company at 31 July 2010 The nominal value of shares held was £12,522 (2009 £23,777), and the market value at 31 July 2010 was £300,538 (2009 £456,509) The right to receive dividends on all shares has been waived

During the year to 31 July 2010, a number of employees exercised their options In total 317,664 (2009 190,000) ESOP options were exercised, for proceeds of £109,800 (2009 £63,301), as were 132,500 performance shares

Treasury shares

The Group holds 1,164,258 (2009 1,164,258) treasury shares at a cost of £595,000 (2009 £595,000) The nominal value of shares held at 31 July 2010 was £29,106 (2009 £29,106), and the market value was £698,555 (2009 £558,844) The right to receive dividends on all shares has been waived

24 Other reserves

	ESOP reserve[1] £'000	Treasury shares[2] £'000	Hedging reserve £'000	Total other reserves £'000
At 1 August 2008	(663)	(504)	–	(1,167)
Movement due to ESOP share option exercises	19	–	–	19
Purchase of own shares	–	(91)	–	(91)
At 31 July 2009	(644)	(595)	–	(1,239)
Total comprehensive income for the year	–	–	(111)	(111)
Movement due to ESOP share option exercises	482	–	–	482
At 31 July 2010	**(162)**	**(595)**	**(111)**	**(868)**

[1]The ESOP Trust's investment in the Group's shares is deducted from equity in the consolidated balance sheet as if they were treasury shares and presented in the ESOP reserve

[2]When the Group re acquires its own equity instruments those instruments (treasury shares) are deducted from equity and presented in the treasury shares reserve

25 Commitments and contingent liabilities

Operating leases – Group as lessee

As at 31 July 2010, the Group's total future minimum lease rentals are as follows

	2010 Land and buildings £'000	**2010 Other £'000**	2009 Land and buildings £'000	2009 Other £'000
In respect of operating leases which will expire				
Within one year	**3,767**	**172**	3,374	208
In two to five years	**10,631**	**399**	6,797	254
After five years	**1,779**	**–**	2,642	–
	16,177	**571**	12,813	462

26 Acquisitions

1 On 3 August 2009, the Group acquired 100% of the share capital of New York-based M Booth & Associates, Inc ('M Booth'), a leading PR consultancy in North America, as part of the next step in the Group's strategy to build a global consumer agency The initial consideration paid in cash on completion was US$4,000,000 (£2,554,000) A balance of US$790,000 (£504,000) excess working capital acquired which was paid to the vendors is also treated as consideration Further consideration of up to a maximum of US$13,250,000 (£8,461,000) may be payable over the course of the next four years subject to the achievement of certain revenue and profit performance targets The total maximum consideration is therefore US$17,250,000 (£11,015,000), excluding the payment for excess working capital The first US$11,250,000 (£7,184,000) of contingent consideration that may be payable can be satisfied by cash or up to 25% in shares, at the option of the Group The final US$2,000,000 (£1,277,000) that may be payable can be satisfied 100% in shares, at the option of the Group

From 3 August 2009 to 31 July 2010, M Booth contributed US$11,500,000 (£7,343,000) to revenue and US$1,688,000 (£1,078,000) profit before tax

Acquisition costs of US$184,000 (£117,000) were paid in relation to the purchase of M Booth, US$154,000 (£98,000) recognised in the income statement for the year ended 31 July 2009 and US$30,000 (£19,000) recognised in the income statement for the year ended 31 July 2010

Goodwill arises from anticipated profitability and future operating synergies from combining the operations with the Group

The fair value of the assets acquired includes trade receivables of US$3,692,000 (£2,357,000) The gross amount due under contracts is equal to this balance, and is all expected to be collectable

Notes to the accounts continued

26 Acquisitions (continued)

The following table sets out the book values of the identifiable assets acquired and their fair value to the Group

	Book value at acquisition £'000	Fair value adjustments[1] £'000	Fair value to the Group £'000
Non-current assets			
Acquired intangible assets	–	2,547	2,547
Property, plant and equipment	91	–	91
Current assets			
Cash and cash equivalents	482	–	482
Other current assets	3,017	–	3,017
Current liabilities	(1,970)	–	(1,970)
Deferred tax liability	–	(691)	(691)
Net assets acquired	**1,620**	**1,856**	**3,476**
Goodwill			4,983
Consideration[2]			
Cash consideration			2,554
Excess working capital payment			504
Total contingent cash consideration			4,190
Total contingent equity consideration			1,211
			8,459

[1]The fair value adjustment relating to intangible assets is due to the recognition of US$1,818 000 (£1 161 000) in respect of the M Booth trade name and US$2 171 000 (£1,386 000) in respect of customer relationships which have been independently valued There is a related deferred tax liability fair value adjustment of US$1 082 000 (£691 000) The trade name will be amortised over its useful economic life of 20 years and the customer relationships will be amortised over five years

[2]The acquisition of M Booth includes a contingent consideration arrangement that requires additional consideration to be paid by the Group based on achievement of certain revenue and performance targets over the course of the next four years The range of undiscounted amounts the Group could pay under the contingent consideration agreement is between US$0 and US$13 250 000 The fair value of the contingent consideration recognised on the acquisition date of US$8 459 000 (£5 401 000) was estimated by applying the income approach by calculating the fair value of the future estimated payments.

2 On 31 October 2009, the Group acquired a further 30% stake in 463 Communications, LLC ('463 Communications'), taking the Group's total holding to 70% The Group is now obliged to purchase 100% of the business over a seven-year period The holding was acquired for a total consideration of US$2,139,000 (£1,365,000), of which US$1,426,000 (£910,000) was satisfied in cash and US$713,000 (£455,000) in shares (805,095 shares)

On 28 May 2010, the Group acquired a further 6% stake in 463 Communications, taking the Group's total holding to 76% The holding was acquired for a total consideration of US$120,000 (£77,000) which was satisfied in cash There were no acquisition costs incurred in relation to the further interest acquired

No goodwill has been recognised on the acquisition of the further equity interest in 463 Communications The effect of this transaction is recorded in equity as there is no change in control

3 On 27 October 2009, the Group acquired the marketing communications trading subsidiaries of Upstream Marketing and Communications, Inc ('Upstream Asia'), which has been integrated into the Bite Communications Group The initial consideration was US$900,000 (£575,000) paid in cash and the assumption of US$200,000 (£128,000) of Upstream Asia's liabilities (of which US$120,000 (£77,000) were paid on completion) The Group owns 55% of Upstream Asia, and a Hong Kong based company Asset Pioneer Limited ('Asset Pioneer') owns the residual 45% The Group has entered into an option deed under which it has a obligation to acquire Asset Pioneer's shares over a five-year period based on the profitability of the acquired businesses

In the post acquisition period, Upstream Asia contributed £2,016,000 to revenue and £18,000 loss before tax If the acquisition had been completed on the first day of the financial year, Group revenues for the year would have been £73,000,000 and profit before income tax would have been £5,298,000 These amounts have been calculated using the Group's accounting policies and pro-rating the nine-month results across 12 months

26 Acquisitions (continued)

Acquisition costs of US$123,000 (£79,000) were paid in relation to the acquisition of Upstream Asia, and recognised within the consolidated income statement

Goodwill arises from anticipated profitability and future operating synergies from the combination

The fair value of the assets acquired includes trade receivables of £549,000 The gross amount due under contracts totals £582,000, of which £549,000 is expected to be collectable

The following table sets out the book values of the identifiable assets acquired and their fair value to the Group

	Book value at acquisition £'000	Fair value adjustments[1] £'000	Fair value to the Group £'000
Non-current assets			
Acquired intangible assets	–	192	192
Software intangible assets	12	–	12
Property, plant and equipment	63	–	63
Current assets			
Cash and cash equivalents	388	–	388
Other current assets	1,054	–	1,054
Current liabilities	(1,263)	–	(1,263)
Deferred tax liability	–	(52)	(52)
Net assets acquired	**254**	**140**	**394**
Goodwill			1,032
Consideration			
Cash consideration			575
Assumption of liabilities paid on completion			77
			652
Fair value of non-controlling interest[2]			774
			1,426

[1] The fair value adjustment relating to intangible assets is due to the recognition of US$300 000 (£192,000) in respect of customer relationships which have been independently valued There is a related deferred tax liability fair value adjustment of US$82 000 (£52 000) The customer relationships will be amortised over five years

[2] The fair value of the non-controlling interest of £774 000 in Upstream Asia was estimated by calculating the fair value of the future payment obligations

4 On 9 October 2009, the Group paid US$312,000 (£199,000) in cash relating to the final deferred consideration for the purchase of The OutCast Agency ('OutCast') OutCast is a wholly owned subsidiary acquired in June 2005

5 On 30 October 2009, the Group paid SEK569,000 (£50,000) in cash relating to the final deferred consideration for the purchase of the business and certain assets of AimPR Public Relations AB, a company based in Stockholm, Sweden This business was integrated into Bite's existing Swedish operation

Notes to the accounts continued

27 Subsidiaries
The Group's principal subsidiaries at 31 July 2010 are listed below

Name	Country of incorporation	Directly owned by the Company	Percentage voting rights held by Group
August One Communications International Limited	England	✓	100
Beijing Text 100 Consulting Services Limited	China		100
Bite Communications (Canada) Limited	Canada		100
Bite Communications Corporation	USA		100
Bite Communications Group Limited	England	✓	100
Bite Communications Limited	England		100
Lexis Public Relations Limited	England		100
M Booth & Associates, Inc	USA		100
Next Fifteen Communications Corporation	USA	✓	100
Next Fifteen Communications Hong Kong Limited	Hong Kong	✓	100
The OutCast Agency	USA		100
Panther Communications Group Limited	England	✓	100
Proxima Public Relations SL	Spain		100
Redshift Research Limited	England	✓	100
Text 100 AB	Sweden		100
Text 100 BV	Netherlands		100
Text 100 Corporation	USA		100
Text 100 SARL	France		100
Text 100 GmbH	Germany	✓	100
Text 100 International Limited	England	✓	100
Text 100 Italy Srl	Italy		100
Text 100 Japan KK	Japan		100
Text 100 Limited	England		100
Text 100 Pte Limited	Singapore		100
Text 100 (Pty) Limited	South Africa		100
Text 100 Pty Limited	Australia		100
Text 100 SL	Spain		100
Text Hundred India Private Limited	India		100
Vox Public Relations India Private Limited	India		100
463 Communications, LLC	USA		76
Bite Asia Holdings Limited	England	✓	55
Bite Marketing Consulting Pte Limited	Singapore		55
Bite Communications Hong Kong Limited	Hong Kong		55
Bite Marketing Consulting Pty Limited	Australia		55
Upstream Asia (China) Consulting Limited	China		55
Beyond Corporation Limited	England	✓	51
Beyond International Corporation	USA		51

27 Subsidiaries (continued)
The above list does not include all the subsidiary companies of Next Fifteen Communications Group plc as the Directors consider that to give full particulars of all Group undertakings would lead to a statement of excessive length A full list of Group undertakings will be included in the next annual return

The principal activity of the subsidiary undertakings is public relations work specialising predominantly in the technology sector, except for Lexis Public Relations Limited and M Booth & Associates, Inc, which work for clients predominantly in non-technology sectors, Redshift Research Limited, which is a research company, and Beyond Corporation Limited and Beyond International Corporation, which are digital consultancies

All subsidiary undertakings operate in the country in which they have been incorporated

All subsidiary undertakings listed are included in the consolidated results

28 Related-party transactions
The ultimate controlling party of the Group is Next Fifteen Communications Group plc (incorporated in England and Wales) The Company has a related-party relationship with its subsidiaries (note 27) and with Directors and executive officers

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note

During the year to 31 July 2010 there were no other related-party transactions

29 Events after the balance sheet date
Type 3 Limited
On 4 August 2010, Beyond Corporation Limited (previously Project Metal Limited) acquired the entire issued share capital of UK-based Type 3 Limited, and on the same date, Beyond International Corporation (previously Context Analytics Corporation) acquired the entire issued share capital of US-based Type 3 Limited Both Type 3 companies offer a fully integrated web design service, and were acquired as part of the Group's strategy to build a digital consultancy The initial consideration paid in cash on completion was £300,000 The Group owns 51% of both Beyond Corporation Limited and Beyond International Corporation (together referred to as 'Beyond'), while the residual is owned by three employee shareholders The Group has entered into a shareholders' agreement under which the non-controlling interest holders have the option to sell half of their shareholding back to the Group in either October 2013, October 2014 or October 2015, based on the profitability of each business The consideration is uncapped By October 2015 the Group will have acquired half of their shareholding, bringing the Group holding to 75 5%

Acquisition costs of £89,000 were paid in relation to the purchase of Beyond, of which £76,000 were recognised in the consolidated income statement for the year ended 31 July 2010, and the remainder recognised in the consolidated income statement in August 2010

Glasshouse Partnership Limited
On 1 September 2010, Lexis Public Relations Limited ('Lexis') acquired the entire issued share capital of UK-based Glasshouse Partnership Limited ('Glasshouse'), a corporate communications and marketing agency The initial consideration paid in cash on completion was £80,000 Contingent consideration may be payable on the first and second anniversary of completion, subject to the achievement of certain revenue and staff metric performance targets The contingent consideration that may be payable will be satisfied by 60% cash and 40% Next Fifteen shares, and is uncapped On 1 October 2010, the trade and assets of Glasshouse were transferred to Lexis

Acquisition costs of £15,000 were paid in relation to the purchase of Glasshouse, and recognised within the consolidated income statement in August 2010

Notes to the accounts continued

29 Events after the balance sheet date (continued)

OneXeno Limited

On 1 September 2010, Bite Communications Hong Kong Limited ('Bite') acquired the trade and assets of digital marketing agency OneXeno Limited ('OneXeno'), a Hong Kong company The business was integrated into Bite Communications Group Limited's existing Asia Pacific operation, and will offer clients new levels of service, expertise and digital communications tools in the region The initial consideration paid in cash on completion was HK$1,105,000 (£91,000), with further uncapped consideration payable based on the revenue of retained clients over the 12 months following completion

Acquisition costs of HK$14,000 (£1,000) were paid in relation to the purchase of OneXeno, which were recognised in the consolidated income statement in the year ended 31 July 2010

The Blueshirt Group, LLC

On 1 November 2010, the Group acquired an 85% stake in US-based investor relations company The Blueshirt Group, LLC ('Blueshirt') The acquisition of Blueshirt complements the Group's existing businesses by providing financial and corporate communications expertise The initial consideration paid in cash on completion was US$3,000,000 (£1,916,000) Contingent consideration will be paid over the course of four years based on a multiple of average profits and margin performance These contingent payments are estimated to total US$8,000,000 (£5,108,000) There is an option for the sellers to sell the remaining 15% stake in Blueshirt after five years from completion and an option for Next Fifteen to acquire the remaining 15% after six years from completion provided that the value of the business at the relevant time has reached a certain level

Acquisition costs estimated at around US$85,000 (£54,000) were recognised in the consolidated income statement in the year ending 31 July 2011

Information required in order to calculate and recognise goodwill, fair value of assets and liabilities, non-controlling interest and acquired intangibles in relation to Type 3 Limited, Glasshouse, OneXeno and Blueshirt is not yet available, and will be shown in the Interim Report for the six months ending 31 January 2011

Company balance sheet

as at 31 July 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Fixed assets					
Tangible assets	3		**1,078**		1,013
Investments	4		**52,931**		15,031
			54,009		16,044
Current assets					
Debtors amounts falling due within one year	5	**8,563**		6,916	
Cash at bank and in hand		**1,507**		3,080	
		10,070		9,996	
Current liabilities					
Creditors amounts falling due within one year	6	**(13,075)**		(7,890)	
Net current assets			**(3,005)**		2,106
Debtors amounts falling due after more than one year		–		33,391	
Total assets less current liabilities			**51,004**		51,541
Creditors amounts falling due after more than one year	7		**(4,072)**		(35,409)
Net assets			**46,932**		16,132
Capital and reserves					
Called up share capital	8	**1,401**		1,381	
Share premium account	8	**5,575**		5,157	
Merger reserve	8	**3,075**		3,075	
Share-based payment reserve	8	**1,277**		671	
ESOP reserve	8	**(162)**		(644)	
Treasury shares	8	**(595)**		(595)	
Profit and loss account	8	**36,361**		7,087	
Equity shareholders' funds			**46,932**		16,132

These financial statements were approved and authorised for issue by the Board on 12 November 2010

W Whitehorn
Chairman

D Dewhurst
Finance Director

Company number 01579589

Reconciliation of movements in shareholders' funds

for the year ended 31 July 2010

	Company 2010 £'000	Company 2009 £'000
Profit/(loss) attributable to shareholders	**30,578**	(313)
Dividends	**(932)**	(900)
	29,646	(1,213)
Issue of shares	**438**	443
Movement on share-based payment reserve	**606**	(57)
Disposal of own equity shares held in ESOP	**110**	63
Treasury shares	**-**	(91)
Net addition to shareholders' funds	**30,800**	(855)
Opening shareholders' funds	**16,132**	16,987
Closing shareholders' funds	**46,932**	16,132

Notes forming part of the Company financial statements

for the year ended 31 July 2010

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards in the United Kingdom As permitted by section 408 of the Companies Act 2006 the Company has not presented its own profit and loss account

Merger reserve

In accordance with the provisions of merger relief under section 131 of the Companies Act 1985 (section 612 of the Companies Act 2006 after 1 October 2009), where the Company issues shares as part of an acquisition the Company records the cost of the investment at the nominal value of the shares issued and records the excess of fair value over nominal value as a merger reserve This is applicable where equity interest is greater than 90%

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation Depreciation is provided on all tangible fixed assets at annual rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows

Office equipment	20% – 50% per annum straight-line
Computer software	14% – 20% per annum straight-line

The carrying values of tangible fixed assets are reviewed for impairment periodically if events or changes in circumstances indicate the carrying value may not be recoverable

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are expressed in sterling at the rate of exchange ruling at the balance sheet date Foreign currency transactions are expressed in sterling at the rates of exchange ruling at the dates of the transactions Exchange gains and losses and translation differences are taken directly to the profit and loss account

Financial instruments

Derivative financial instruments utilised by the Company are interest rate cap-and-collar contracts and forward foreign exchange contracts The Company does not enter into speculative derivative contracts All such instruments are used to alter the risk profile of an underlying exposure of the Company in line with the Group's risk management policies Premiums payable under foreign exchange contracts are expensed over the life of the contract and any gains and losses arising on these contracts are deferred and are recognised in the profit and loss account only when the protected transaction has itself been reflected in the Company's financial statements

Leasing transactions

Assets held under finance leases are included in the balance sheet The amount capitalised is the present value of the minimum lease payments Depreciation on the relevant assets is charged to the profit and loss account over the shorter of the estimated useful economic life and the period of the lease The interest element on these obligations is charged to the profit and loss account so as to approximate a constant interest rate over the life of each agreement Operating lease rentals are charged to the profit and loss account in equal amounts over the lease term

Pension costs

Pension costs, which relate to payments made by the Company to employees' own defined contribution pension plans, are charged to the profit and loss account as incurred

Investments

Fixed asset investments are stated at cost less provisions for impairment

Notes forming part of the Company financial statements continued

1 Accounting policies (continued)

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries where there is no commitment to remit these earnings Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Share-based employee remuneration

There are share options granted prior to 7 November 2002 which remain outstanding at 31 July 2010 Details of all grants are disclosed in note 22 of the consolidated financial statements

Fair value is measured by use of a Black-Scholes model on the grounds that there are no market-related vesting conditions The expected life used in the model has been adjusted, based on the Board's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations Details of the risk-free rate and dividend yield used to underpin these assumptions are included in note 21 of the consolidated financial statements The market price on the grant date is obtained from external publicly available sources

Employee share ownership plan

The cost of the Company's shares held by the ESOP is deducted from shareholders' funds in the Company and Company balance sheet Any gain or loss made by the ESOP on disposal of the shares it holds is also recognised directly in shareholders' funds Other assets and liabilities of the ESOP (including borrowings) are recognised as assets and liabilities of the Company

Finance costs

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount Finance costs include issue costs which are initially recognised as a reduction in the proceeds of the associated capital instrument

Dividends

Equity dividends are recognised when they become legally payable Interim equity dividends are recognised when paid Final equity dividends are recognised when approved by the shareholders at an annual general meeting as required by FRS 21 Events After the Balance Sheet Date

Dividends receivable from investments are recognised in the profit and loss account in the period in which they are paid

Treasury shares

When the Company re-acquires its own equity instruments, those instruments (treasury shares) are deducted from equity No gain or loss is recognised in the profit and loss account on the purchase, sale, issue or cancellation of the Company's treasury shares Such treasury shares may be acquired and held by other members of the Group Consideration paid or received is recognised directly in equity

Cash flow statement

The Company has applied the exemption allowed under FRS 1 and has not presented a cash flow statement The cash flow statement has been presented in the Group financial statements

2 Profit and loss account of the Parent Company

The Parent Company's profit after tax for the financial year was £30,578,000 (2009 loss of £313,000) This includes a gain of £28,566,000 in relation to the waiver of amounts owed to subsidiary undertakings as part of an intercompany debt simplification exercise

3 Tangible assets

	Office equipment £'000	Computer software £'000	Total £'000
Cost			
At 1 August 2009	468	1,284	1,752
Additions	92	176	268
At 31 July 2010	**560**	**1,460**	**2,020**
Accumulated depreciation			
At 1 August 2009	454	285	739
Charge for the year	34	169	203
At 31 July 2010	**488**	**454**	**942**
Net book value			
At 31 July 2010	**72**	**1,006**	**1,078**
At 31 July 2009	14	999	1,013

4 Investments

	Company equity interest in subsidiaries £'000
Cost	
At 1 August 2009	15,031
Additional investment in subsidiary undertakings[1]	37,900
At 31 July 2010	**52,931**

[1]The additional investment relates to ordinary share capital issued by a subsidiary undertaking in exchange for the assignment by the Company of an amount due from a fellow subsidiary

The Directors consider the value of investments in subsidiary undertakings to be not less than that stated in the balance sheet of the Company

The Group's principal subsidiaries are listed in note 27 of the consolidated financial statements

5 Debtors

	Company 2010 £'000	Company 2009 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**8,336**	6,437
Other debtors	**93**	91
Prepayments and accrued income	**82**	78
Corporation tax recoverable	**–**	223
Deferred tax asset	**19**	39
Other taxation	**33**	48
	8,563	6,916
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings[1]	**–**	33,391
Total debtors	**8,563**	40,307

[1]The amounts due from subsidiary undertakings were assigned to a fellow subsidiary undertaking during the year ended 31 July 2010

Notes forming part of the Company financial statements continued

6 Creditors: amounts falling due within one year

	Company 2010 £'000	Company 2009 £'000
Overdraft	**2,907**	2,344
Bank loans[1]	**4,917**	156
Obligations under finance leases	**54**	118
Trade creditors	**227**	191
Amounts owed to subsidiary undertakings	**4,471**	5,015
Corporation tax	**389**	–
Other taxation and social security	**23**	34
Other creditors	**41**	32
Accruals and deferred income	**46**	–
	13,075	7,890

[1]The 2010 Company figure of £4 917 000 comprises £4,821 000 in relation to a £5,000 000 revolving loan facility at an interest rate of 1 25% above Barclays Bank's call-loan rate and £96 000 in relation to a £252 000 loan at an interest rate of 6 50%

7 Creditors: amounts falling due after more than one year

	Company 2010 £'000	Company 2009 £'000
Bank loan[1]	**2,139**	4,922
Obligations under finance leases	**19**	77
Amounts owed to subsidiary undertakings[2]	**1,914**	30,410
	4,072	35,409

[1]The 2010 Company figure of £2 139,000 is in relation to a £6 000 000 revolving loan facility at an interest rate of 2.25% above Barclays Banks call-loan rate

The bank loans are valued at the net proceeds drawn down at the exchange rates ruling at the time they are drawn The foreign currency element of the loans is revalued at the prevailing rate at 31 July 2010

[2]See note 2

8 Reserves

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	ESOP reserve £'000	Treasury shares £'000	Profit and loss account £'000	Total £'000
At 1 August 2008	1,354	5,157	2,659	728	(663)	(504)	8,256	16,987
Loss attributable to shareholders	–	–	–	–	–	–	(313)	(313)
Dividends	–	–	–	–	–	–	(900)	(900)
Shares issued on acquisitions[1]	27	–	416	–	–	–	–	443
Movement in relation to share-based payments	–	–	–	(57)	–	–	–	(57)
Investment in own shares	–	–	–	–	–	(91)	–	(91)
Movement due to ESOP share option exercises	–	–	–	–	19	–	44	63
At 31 July 2009	1,381	5,157	3,075	671	(644)	(595)	7,087	16,132
Profit attributable to shareholders	–	–	–	–	–	–	30,578	30,578
Dividends	–	–	–	–	–	–	(932)	(932)
Shares issued on acquisitions[2]	20	418	–	–	–	–	–	438
Movement in relation to share-based payments	–	–	–	606	–	–	–	606
Movement due to ESOP share option exercises	–	–	–	–	482	–	(372)	110
At 31 July 2010	**1,401**	**5,575**	**3,075**	**1,277**	**(162)**	**(595)**	**36,361**	**46,932**

[1]In respect of Lexis Public Relations Limited

[2]In respect of 463 Communications LLC

Five-year financial information

for the year ended 31 July 2010 (unaudited)

	2010 IFRS £'000	2009 IFRS £'000	2008 (restated) IFRS £'000	2007 IFRS £'000	2006 (restated) UK GAAP £'000
Profit and loss					
Billings	**91,175**	77,287	73,916	69,422	63,278
Net revenue	**72,328**	65,394	63,107	59,268	56,007
Operating profit before amortisation and impairment	**7,386**	4,363	6,230	5,737	3,995
Amortisation and impairment	**(878)**	(513)	(113)	(44)	(727)
Operating profit after amortisation and impairment	**6,508**	3,850	6,117	5,693	3,268
Net interest payable	**(1,204)**	(692)	(718)	(627)	(265)
Profit before income tax	**5,304**	3,158	5,516	5,122	3,003
Income tax expense	**(1,591)**	(884)	(1,655)	(1,781)	(1,494)
Profit for the year	**3,713**	2,274	3,861	3,341	1,509
Non-controlling interests	**(38)**	(342)	(198)	(241)	(179)
Profit attributable to owners of the parent	**3,675**	1,932	3,663	3,100	1,330
Dividend per share (p)	**1.85**	1 70	1 70	1 50	1 365
Balance sheet					
Non-current assets	**31,919**	22,618	20,206	18,442	14,343
Net current assets	**4,222**	7,603	5,303	5,224	7,233
Creditors amounts falling due after more than one year	**(8,562)**	(5,319)	(5,871)	(8,684)	(6,834)
Provisions for liabilities and other charges	**(58)**	(282)	–	–	–
Net assets	**27,579**	24,902	19,638	14,982	14,742
Total equity attributable to owners of the parent	**26,629**	24,147	19,392	14,784	14,742
Non-controlling interests	**950**	755	246	198	–
Total equity	**27,579**	24,902	19,638	14,982	14,742
Cash flow					
Group operating profit	**6,508**	3,850	6,117	5,693	3,094
Depreciation and amounts written off intangible assets	**1,938**	1,681	1,316	1,465	2,176
Other non-cash items and working capital	**(1,874)**	730	2,166	45	(322)
Cash flow from operating activities	**6,572**	6,261	9,599	7,203	4,948
Returns on investments and servicing of finance	**(380)**	(342)	(240)	(311)	(325)
Taxation	**(1,465)**	(1,476)	(1,090)	(1,992)	(2,430)
Capital expenditure and investing activities	**(1,461)**	(509)	(2,153)	(1,246)	(1,203)
Acquisitions and disposals	**(4,251)**	(4,549)	(829)	(1,959)	(2,354)
Equity dividends paid	**(932)**	(900)	(807)	(691)	(590)
Financing	**2,044**	(1,513)	(994)	1,193	2,919
Non-controlling interest dividend paid	**(256)**	(226)	–	–	–
(Decrease)/increase in cash for the year	**(129)**	(3,254)	3,486	2,197	965

Financial calendar

Final dividend		**Interim dividend**	
Ex-dividend date	5 January 2011	Interim results announcement	5 April 2011
Record date	7 January 2011	Ex-dividend date	13 April 2011
Annual General Meeting	25 January 2011	Record date	15 April 2011
Payment of 2010 final dividend	4 February 2011	Payment of 2011 interim dividend	16 May 2011

Preliminary results

Full-year results announcement	18 October 2011

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