

SC212277

Report of the Directors and
Financial Statements for period ended
31 December 2011

SpaceandPeople plc

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SpaceandPeople plc

Highlights

- Revenue up 19% to 10.66mn on a like for like basis.
- Operating profit before non-recurring costs up 23% to £1.83mn on a like for like basis.
- Basic EPS up 30% to 6.49p on a like for like basis.
- Proposed dividend up 30% to 2.90p on an annualised basis.
- Largest operator in each of the 4 countries we are present in with weekly footfall of over 63mn people in the UK and Germany alone.
- Strong balance sheet with net assets of £7.66mn including cash of £1.43mn.

SpaceandPeople plc

Contents

| | Page |
|--|------|
| Chairman's Statement | 3 |
| Group Chief Executive Officer's Review | 4 |
| Company Information | 6 |
| Report of the Directors | 7 |
| Report of the Independent Auditors | 11 |
| Consolidated Group Statement of Comprehensive Income | 12 |
| Consolidated Group Statement of Financial Position | 13 |
| Company Statement of Financial Position | 14 |
| Consolidated Group Statement of Cash Flows | 15 |
| Company Statement of Cash Flows | 16 |
| Consolidated Group Statement of Changes in Equity | 17 |
| Company Statement of Changes in Equity | 18 |
| Notes to the Financial Statements | 19 |

SpaceandPeople plc

Chairman's Statement

For the 12 months ended 31 December 2011

Overview

It gives me great pleasure to present the annual results for 2011. This is the first full trading year for the enlarged group following the acquisition of Retail Profile in May 2010 and the benefits of that acquisition are increasingly apparent.

A major restructuring of the UK sales functions has merged the RMU and promotions teams into eight regional teams, providing closer contact with the clients and a better understanding of their aspirations. New sales methods have improved the RMU revenue and helped drive the UK business forwards. The executive team is to be commended for securing some major new contracts such as Land Securities and First Great Western and successfully renewing a number of existing deals.

SpaceandPeople continues to be the market leader for mall promotions and retail merchandising units in the UK and Germany. The German business has benefited from the introduction of RMUs. Although the roll out has been slower than forecast, the revenue yield has surpassed the initial estimates, which bodes well for the future.

The management team continues to explore ways of introducing the business into new markets and I am pleased to report a significant contribution from our Russian licensee partner as well as a maiden profit in our Indian associate.

Financial Results

Despite challenging economic conditions, trading has been strong across all parts of the business with group revenues up 19% to £10.66mn and group operating profit up 23% to £1.83mn, both on a like for like basis, reinforcing the benefits of the Retail Profile acquisition.

Basic non diluted earnings per share before non-recurring costs were 6.49p compared with a like for like figure of 5.00p for the equivalent period in 2010.

The balance sheet remains strong with £1.43mn of cash at the year end after repayment of £1.98mn of borrowings during the year, including the £1.53mn vendor loan note. The Group also has a long term £1mn borrowing facility with Lloyds TSB giving us significant headroom to continue our growth strategy.

People

There have been no changes at board level this year and I would like to express my gratitude to all the employees for the enthusiastic way in which they have embraced new working methods. We are fortunate to have such a loyal and committed team. I would like to add a special acknowledgement for Andrew Kinross who celebrated 10 years with the company earlier this year and is our longest serving employee.

Dividend

Recognising the excellent progress made by the Group your Board is proposing a dividend of 2.90p per share, an increase of 30% on last year on an annualised basis, payable on 27 April 2012 to shareholders on the register on 30 March 2012.

Outlook

SpaceandPeople has added a significant number of new venues to the service during the year and now represents over 600 venues in the UK and Germany, up from 374 at the end of last year, with a combined footfall of over 63m customers a week.

There are challenges to the business in the UK, but the Group is countering these by securing new contracts and expanding into new territories. Consequently we start the year on a positive note and confident of growing revenue and profitability in 2012.

David Henderson-Williams
Chairman

SpaceandPeople plc

Chief Executive Officer's Review

For the 12 months ended 31 December 2011

The past year has been an excellent period for the SpaceandPeople Group. The amalgamation of the UK promotional and retail businesses has gone well and is delivering impressive results, the German businesses are both performing well and our Indian associate continues to expand at an accelerating rate and is now delivering significant profits. Overall, every area of the business has made a significant contribution to the record turnover, which is up 19% and profit before tax and one-off costs which is up 23% both on a like for like basis.

During the past year, we have continued to improve the business by increasing the number of venues we cover exclusively, developing strategic partnerships with key complementary businesses and strengthening our relationships with venue owners, promoters and retailers.

United Kingdom

Our key objective in 2011 was to complete the integration of the promotions and retail businesses that had previously operated separately as SpaceandPeople and Retail Profile. This was the first year in which Retail Profile had been a part of the Group for the whole year and I am delighted with how well this integration has gone and the results that it is already producing for both the Group and for venue owners. The objective was to present a "one stop shop" to venues that would drive our ability to offer a complete commercialisation solution to them. This integration was completed during 2011 and is already driving additional revenue for venue owners with overall promotional revenues up by 10% compared with like for like 2010 figures and Retail Merchandising Unit ("RMU") revenue up by 7% compared with 2010 on a like for like basis. As a result, the overall UK business saw revenue growth of 10% to £8.56mn on a like for like basis compared with 2010. In doing this, we have also addressed the historic decline in RMU rental levels and have increased individual RMU profitability by 9% through utilising the dedicated sales team to create demand and competition for the units. As a result of this, operating profit before non-recurring costs, on a like for like basis, rose by 10% to £1.21mn. We have made a significant investment in Venue Development and Sales staff during 2011 with the average number of employees in this area in the UK increasing from 24 in 2010 to 36 in 2011.

The UK venues stream continues to develop well, both in relation to shopping centres and retail parks, but also in continuing to develop other venues that offer a large and targeted audience and customer base for our promoters and retailers. Central to the expansion into new shopping centres has been the recent agreement of a long-term, exclusive contract to provide RMU and promotional services to Land Securities, the UK's largest commercial property owner, in their portfolio of shopping centres and retail parks. The ability to provide a unique and bespoke onsite delivery team was key to establishing this partnership. We have also recently joined forces with CBS Outdoor to win the concession to manage experiential and immersive activity campaigns at First Great Western's (FGW) 210 train stations with a weekly footfall of over 2.6mn people. We have also secured a number of other contracts to provide campaigns in a number of additional diverse venues and we now represent 526 venues with a combined footfall of over 40mn customers per week.

The development of our sales and customer services team, our new partnerships and the availability of additional venues means that the Board expects to see continued strong growth in the UK operations in 2012 and the coming years.

Germany

The German businesses continue to grow strongly with the original investment now showing strong returns. SpaceandPeople Germany has increased like for like revenues by 10% to £1.22mn and operating profit before non-recurring costs by 42% to £510k compared with the annualised results for 2010. We have also recently expanded their sales and management teams in order to drive business into new venues during the coming year. By the end of 2011, the business managed 86 venues with a weekly combined footfall of almost 16mn on behalf of ECE, up from 77 venues last year.

Retail Profile Germany, from a standing start at the end of 2010, now has 48 RMUs in place at 10 centres throughout the North and West of Germany. The rate of expansion has been slightly slower than anticipated due to this being a relatively new concept in the German market. However, this has allowed us to define the quality and diversity of the market and as a consequence, achieve a high level of revenue from each RMU. I would like to commend and thank the Retail Profile management and staff for their considerable effort and professionalism in getting the business established with such

strong foundations. The speed of roll-out will continue to gather pace in 2012 with the expectation of us having 110 RMUs operating throughout the country by the end of the year.

Russia

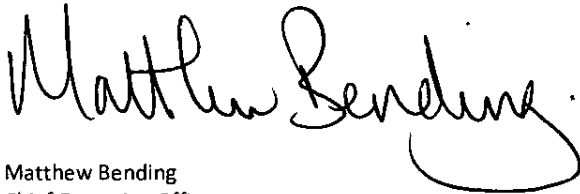
Over the past year, great effort has been made by both the SpaceandPeople Group and Retail Profile Russia, the independent Russian company with which we have a licensing agreement, to forge even stronger relations, with both businesses benefiting greatly from the combined experience and knowledge. This relationship will go from strength to strength in the coming years with Retail Profile Russia expected to continue to grow strongly.

India

Our associate business in India, SpaceandPeople (India) in which the Group has a 44.6% interest, saw business growth that resulted in revenue of over £1.7mn to its venue clients in 2011 and made a first annual operating profit before non-recurring costs of £108k. The business is going well and now has a total of 48 staff in 9 cities and continues to grow strongly, both in terms of revenue and profitability and venue numbers with more than 60 centres now represented throughout the country.

Prospects

2011 has been a very strong year for the Group, however, I believe that the foundations laid in the year will lead to even stronger growth and profitability in forthcoming years. We have a stable and experienced team in place throughout and have strong cash reserves and long term facilities with our bankers that will enable us to drive the business forward to even greater results. 2012 has started strongly and the recent announcement of the Group winning a five year, exclusive contract for the entire Land Securities UK property portfolio in March shows how effective the group has become at being able to meet property owners' commercialisation needs.

A handwritten signature in black ink that reads "Matthew Bending". The signature is written in a cursive style with a large, sweeping flourish at the end of the word "Bending".

Matthew Bending
Chief Executive Officer

SpaceandPeople plc

Company Information

For the 12 months ended 31 December 2011

| | |
|--|---|
| Directors: | D A Henderson-Williams – Non-executive chairman M J Bending – Chief executive officer N J Cullen – Chief operating officer G R Dunlay – Chief financial officer M D Kemp – Executive director C G Stainforth – Director M H Helfgott – Non-executive director R A Chadwick – Non-executive director A P Stirling – Non-executive director |
| Secretary: | G R Dunlay |
| Registered office: | 2 nd Floor 100 West Regent Street Glasgow G2 2QD |
| Registered number: | SC 212277 |
| Nominated advisors and brokers: | Seymour Pierce Limited 20 Old Bailey London EC4M 7EN |
| Registrars: | Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA |
| Auditors: | Campbell Dallas LLP Chartered Accountants & Registered Auditors Titanium 1 King's Inch Place Glasgow G51 4BP |
| Bankers: | Lloyds TSB Bank plc 25 Gresham Street London EC2V 7HN |
| Solicitors: | Sherrards Solicitors LLP 7 Swallow Place London W1B 2AG |

SpaceandPeople plc

Report of the Directors

For the 12 months ended 31 December 2011

The directors present their report with the audited financial statements of the Group for the period ended 31 December 2011.

Principal activity

The principal activity of the Group in the period under review was that of marketing and selling promotional and retail merchandising space on behalf of shopping centres and other venues.

Review of business and future developments

The results for the period and financial position of the Group are as shown in the annexed financial statements. The review of business and summary of future developments are included in the Chairman's Statement and Chief Executive Officer's Review. In continued uncertain market conditions, all areas of the business in both the United Kingdom and abroad have increased revenues and profitability. The UK operations have continued to develop due to the acquisition of new venues and improved customer service. The German promotions business continues its impressive rate of growth and the German retail business has delivered over €1million of sales in its first full year of trading. Income from our Russian licensee partner is strong and continued to growth is anticipated.

Business environment

The Group works for property owners, helping them create revenue from common areas by selling the space and opportunity to meet consumers and customers. The Group surveys, markets and sells this space as a media and retail opportunity, receiving commissions and rental for these activities respectively. As the first company to develop the media idea, it has had considerable success in driving sales into these venues and has worked hard at developing processes and strategies to win marketing budgets to utilise this vibrant effective platform. In the current environment, property owners are seeking to maximise revenues, advertisers are looking for value for money from their advertising and marketing budgets and speciality retailers are looking for a cost effective way to engage with a large customer base. SpaceandPeople is well placed to help all these groups achieve their objectives.

Strategy

The business itself is simple and therefore its strategies are simple, sign up more malls and other venues, and sell more advertisers and merchandisers into them. The strategy is finessed by the fact the venues require considerable customer service and this is reflected by transparency of the service in the level of reporting and one to one meetings held with them.

Key performance indicators

SpaceandPeople maintains records of every booking ever undertaken and constantly monitors several key areas;

- sales, against target and prior year;
- profitability, against target and prior year;
- venues, their performance, the pipeline of new venues and venue attrition;
- advertisers/retailers against type, against prior year, and the cycles of the different sectors which are monitored; and
- commission rates and occupancy rates.

Research and development

The Group continuously researches more effective ways of doing business, new products and services to offer customers, and new markets in which to operate. Of key importance is the multi-language, multi-currency e-commerce site that allows sales staff to react quickly to customers' needs, cuts down on administration and allows them to sell more, quicker. This platform is continuously improved using website developers employed by our associate company in India.

Future outlook

The future outlook is strong. The UK business continues to acquire new venues and the restructured sales and venues teams have improved effectiveness and reduced costs. Despite the continued uncertain economic environment, advertiser demand remains strong. Similarly rental income from retail is benefiting from strong demand for prime shopping centres. The German businesses are expected to make further significant contributions in the coming year as growth continues in the promotions business and the RMU business continues its rollout programme.

SpaceandPeople plc

Report of the Directors

For the 12 months ended 31 December 2011

Principal risks and uncertainties

The key risks relate to the business environment, market conditions and the retention of key employees. Competing companies may seek to attract venues away from the Group by offering incentives, or mall owners may seek to attract advertisers or merchandisers themselves. Advertisers have recognised the effectiveness of the Group's service and value for money that taking promotional space in one or more venues represents. In addition, the Group offers high standards of customer service through regular meetings with venue owners and managers, each of which has a contract with the Group, setting out the terms and conditions for the provision of services. Retail Profile's major opportunity and therefore risk continues to be the rollout plan for Retail Profile Europe GmbH in Germany. The business is still new to the German market and securing successful retailers remains key to its success. Key employees are retained and incentivised through uncapped commission rates and the granting of share options.

Dividends

The dividend paid in May 2011 was £505,208 (2010 - £233,132) which was 2.60p per share (2010 - 2.00p per share). The directors recommend a dividend of £563,501 being 2.90p per share, which will be payable on 27 April 2012 to all shareholders on the share register as at 30 March 2012 subject to approval at the AGM.

Directors

The directors who served during the period under review were:

D A Henderson-Williams – Non-executive chairman

M J Bending – Chief executive officer

N J Cullen – Chief operating officer

G R Dunlay – Chief financial officer

M D Kemp – Executive director

R A Chadwick – Non-executive director

M H Helfgott – Non-executive director

C G Stainforth – Director

A P Stirling – Non-executive director

The beneficial interests of the directors holding office on 31 December 2011 in the issued share capital of the Group were as follows:

| Ordinary 1p shares | 31 December 2011 | 31 December 2010 |
|------------------------|------------------|------------------|
| D A Henderson-Williams | 40,000 | 40,000 |
| M J Bending | 2,064,500 | 2,061,000 |
| N J Cullen | 1,533,000 | 1,533,000 |
| M D Kemp | 198,064 | 198,064 |
| R A Chadwick | 42,500 | 42,500 |
| M H Helfgott | 1,033,894 | 1,033,894 |
| C G Stainforth | 128,984 | 128,984 |
| A P Stirling | 985,818 | 985,818 |

25,000 share options have been issued to D A Henderson-Williams under an unapproved share option scheme with an exercise price of £0.65. A total of 582,829 share options have been issued to C G Stainforth under an unapproved share option scheme with an exercise price of £0.886. No options have been granted to the other directors.

SpaceandPeople plc

Report of the Directors

For the 12 months ended 31 December 2011

Substantial shareholdings

At the date of this report, the following substantial shareholdings representing more than 3% of the Group's issued share capital, other than those held by the directors, have been notified to the Group:-

| Ordinary 1p shares | Number | % |
|---|-----------|-------|
| Gresham House plc | 2,062,500 | 10.61 |
| Michael Bennett | 1,599,277 | 8.23 |
| Maurice Bennett | 1,599,277 | 8.23 |
| The Gresham House Number 1 Pension Scheme | 1,186,000 | 6.10 |
| Julia Langkraehr | 847,052 | 4.36 |
| Roy Mitchell | 680,202 | 3.50 |

A P Stirling is a trustee of The Gresham House Number 1 Pension Scheme (of which he is also a beneficiary). R A Chadwick is a director of Gresham House plc.

Statement of director's responsibilities

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and to 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for preparing the annual report and financial statements in accordance with the Companies Act 2006. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the group for that period.

In preparing the financial statements the directors are required to:

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

The financial statements are published on the Group's website. The maintenance and integrity of this website is the responsibility of the directors. The work carried out by the Auditors does not involve consideration of these matters and accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to Auditors

At the date of this report, as far as each of the directors is aware:

- there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's Auditors are unaware; and
- each director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

SpaceandPeople plc

Report of the Directors

For the 12 months ended 31 December 2011

Going concern

After making enquiries, the directors have formed a judgement that at the time of approving the financial statements there is a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern basis in preparing the financial statements.

Supplier payment policy

Whilst no formal code is adopted, the Group's current policy concerning the payment of its creditors is to:

- settle the terms of payment with creditors when agreeing the terms of each transaction;
- ensure that those creditors are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

Charitable donations

There were no donations to charitable organisations during the period.

Corporate governance

The directors fully support the recommendations of the Combined Code on Corporate Governance, although due to the Group's AIM listed status, there is no requirement to provide Corporate Governance Disclosure. As the Group continues to grow, the directors will review their compliance with the code from time to time and will adopt such of the provisions as they consider to be appropriate to the size of the company.

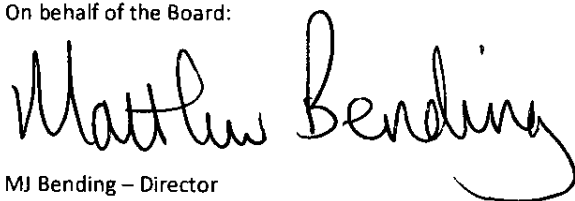
Financial risk review

Detailed financial risk management objectives and policies are disclosed in note 23 in the accounts.

Auditors

The Auditors, Campbell Dallas LLP, have expressed their willingness to continue in office as Auditors and will be proposed for re-appointment at the Annual General Meeting.

On behalf of the Board:



MJ Bending – Director
21 March 2012

Independent Auditor's Report to the Shareholders of SpaceandPeople plc

We have audited the financial statements of SpaceandPeople plc for the year ended 31 December 2011 which comprise the Statement of Total Comprehensive Income, the Group and parent company Statement of Financial Position, the Group and parent company Statement of Changes in Equity, the Group and parent company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, 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). These 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 misstatements, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Richard M Patterson (Senior Statutory Auditor)
for and on behalf of Campbell Dallas LLP
Chartered Accountants & Registered Auditors
Titanium 1
King's Inch Place
Glasgow
G51 4BP

Date: 22 March 2012

SpaceandPeople plc

Consolidated Group Statement of Comprehensive Income

For the 12 months ended 31 December 2011

| | Notes | 12 months to 31 December '11 £'000 | 14 months to 31 December '10 £'000 |
|--|-------|--|--|
| Revenue | 4 | 10,660 | 7,772 |
| Administration expenses | | (8,905) | (6,116) |
| Other operating income | | 73 | 9 |
| Operating profit before non-recurring costs | 4 | 1,828 | 1,665 |
| Non-recurring costs | 5 | (95) | (331) |
| Operating profit | 6 | 1,733 | 1,334 |
| Finance income | 8 | - | 1 |
| Finance costs | 8 | (145) | (75) |
| Profit before taxation | | 1,588 | 1,260 |
| Taxation | 9 | (397) | (415) |
| Profit after taxation | | 1,191 | 845 |
| Other comprehensive income | | | |
| Foreign exchange differences on translation of foreign operations | | (49) | (9) |
| Total comprehensive income for the period | | 1,142 | 836 |
| Earnings per share | | | |
| | 27 | | |
| Basic – before non-recurring costs | | 6.49p | 7.15p |
| Basic – after non-recurring costs | | 6.13p | 5.38p |
| Diluted – before non-recurring costs | | 6.09p | 6.72p |
| Diluted – after non-recurring costs | | 5.75p | 5.06p |

SpaceandPeople plc

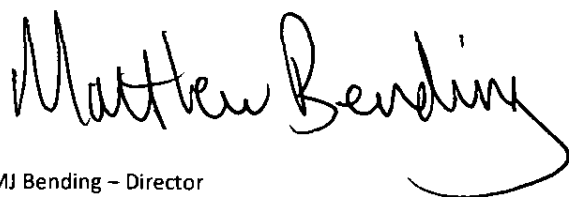
Consolidated Group Statement of Financial Position

At 31 December 2011

Company number SC212277

| | Notes | 31 December '11 £'000 | 31 December '10 £'000 |
|---------------------------------|-------|--------------------------|--------------------------|
| Assets | | | |
| Non-current assets: | | | |
| Goodwill | 12 | 7,981 | 7,981 |
| Investment in associates | 14 | 156 | 156 |
| Other intangible assets | 15 | 26 | 88 |
| Property, plant & equipment | 16 | 1,220 | 666 |
| Deferred tax assets | 17 | - | 203 |
| | | 9,383 | 9,094 |
| Current assets: | | | |
| Trade & other receivables | 18 | 3,015 | 2,642 |
| Cash & cash equivalents | 19 | 1,433 | 1,981 |
| | | 4,448 | 4,623 |
| Total assets | | 13,831 | 13,717 |
| Liabilities | | | |
| Current liabilities: | | | |
| Trade & other payables | 20 | 4,219 | 3,049 |
| Current tax payable | 20 | 246 | 493 |
| Other borrowings | 21 | 738 | 1,985 |
| | | 5,203 | 5,527 |
| Non-current liabilities: | | | |
| Deferred tax liabilities | 17 | 10 | 27 |
| Long term loan | 22 | 958 | 1,140 |
| | | 968 | 1,167 |
| Total liabilities | | 6,171 | 6,694 |
| Net assets | | 7,660 | 7,023 |
| Equity | | | |
| Share capital | 26 | 194 | 194 |
| Share premium | | 4,816 | 4,816 |
| Special reserve | | 233 | 233 |
| Retained earnings | | 2,417 | 1,780 |
| Shareholders equity | | 7,660 | 7,023 |

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2012.
Signed on behalf of the Board of Directors by:



MJ Bending - Director

SpaceandPeople plc

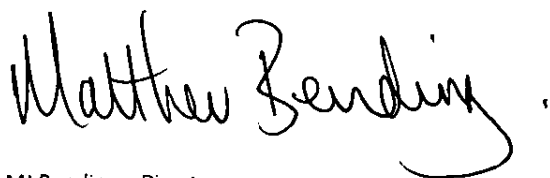
Company Statement of Financial Position

At 31 December 2011

Company number SC212277

| | Notes | 31 December '11 £'000 | 31 December '10 £'000 |
|---------------------------------|--------|--------------------------|--------------------------|
| Assets | | | |
| Non-current assets: | | | |
| Investment in subsidiaries | 12, 13 | 4,799 | 4,788 |
| Loan notes | 12, 13 | 1,728 | 1,728 |
| Investment in associates | 14 | 156 | 156 |
| Other intangible assets | 15 | 26 | 88 |
| Property, plant & equipment | 16 | 88 | 81 |
| Deferred tax assets | 17 | - | 203 |
| | | 6,797 | 7,044 |
| Current assets: | | | |
| Trade & other receivables | 18 | 2,268 | 1,964 |
| Cash & cash equivalents | 19 | 191 | 452 |
| | | 2,459 | 2,416 |
| Total assets | | 9,256 | 9,460 |
| Liabilities | | | |
| Current liabilities: | | | |
| Trade & other payables | 20 | 2,711 | 1,240 |
| Current tax payable | 20 | (18) | 340 |
| Other borrowings | 21 | 283 | 1,530 |
| | | 2,976 | 3,110 |
| Non-current liabilities: | | | |
| Long term loan | 22 | 265 | - |
| Total liabilities | | 3,241 | 3,110 |
| Net assets | | 6,015 | 6,350 |
| Equity | | | |
| Share capital | 26 | 194 | 194 |
| Share premium | | 4,816 | 4,816 |
| Special reserve | | 233 | 233 |
| Retained earnings | | 772 | 1,107 |
| Shareholders equity | | 6,015 | 6,350 |

The Financial statements were approved by the Board of directors and authorised for issue on 21 March 2012.
Signed on behalf of the Board of Directors by:



MJ Bending – Director

SpaceandPeople plc

Consolidated Group Statement of Cash Flows

For the 12 months ended 31 December 2011

| | Notes | 12 months to 31 December '11 £'000 | 14 months to 31 December '10 £'000 |
|--|-------|--|--|
| Cash flows from operating activities | | | |
| Cash generated from operations | | 2,738 | 1,688 |
| Interest paid | | (145) | (75) |
| Taxation | | (458) | (210) |
| Net cash inflow from operating activities | | 2,135 | 1,403 |
| Cash flows from investing activities | | | |
| Interest received | | - | 1 |
| Purchase of intangible assets | 15 | (4) | (2) |
| Purchase of property, plant & equipment | 16 | (745) | (355) |
| Cash paid on acquisition of subsidiary | | - | (1,375) |
| Cash received on acquisition of subsidiary | | - | 561 |
| Investment in associates | | - | (86) |
| Net cash (outflow) from investing activities | | (749) | (1,256) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 1,200 |
| Funding costs on acquisition of subsidiary | | - | (185) |
| Repayment of bank loan / loan notes | 21 | (1,977) | (289) |
| New Bank Loan received | 22 | 265 | - |
| Dividends paid | 11 | (505) | (233) |
| Net cash inflow (outflow) from financing activities | | (2,217) | 493 |
| Increase / (decrease) in cash and cash equivalents | | (831) | 640 |
| Cash and cash equivalents at beginning of period | | 1,981 | 1,341 |
| Cash and cash equivalents at end of period | 19 | 1,150 | 1,981 |
| Reconciliation of operating profit to net cash flow from operating activities | | | |
| Operating profit | | 1,733 | 1,334 |
| Amortisation of intangible assets | 15 | 66 | 82 |
| Depreciation of property, plant & equipment | 16 | 191 | 147 |
| Effect of foreign exchange rate moves | | (49) | (9) |
| Write off of investment in associate | | - | 47 |
| (Increase) / decrease in receivables | | (373) | (224) |
| Increase / (decrease) in payables | | 1,170 | 311 |
| Cash flow from operating activities | | 2,738 | 1,688 |

SpaceandPeople plc

Company Statement of Cash Flows

For the 12 months ended 31 December 2011

| | Notes | 12 months to 31 December '11 £'000 | 14 months to 31 December '10 £'000 |
|--|-----------|--|--|
| Cash flows from operating activities | | | |
| Cash generated from operations | | 1,543 | 3 |
| Interest paid | | (40) | (6) |
| Taxation | | (214) | (130) |
| Net cash inflow (outflow) from operating activities | | 1,289 | (133) |
| Cash flows from investing activities | | | |
| Interest received | | - | 1 |
| Purchase of intangible assets | 15 | (4) | (2) |
| Purchase of property, plant & equipment | 16 | (48) | (76) |
| Cash paid on acquisition of subsidiary | 13 | (11) | (1,375) |
| Investment in associates | | - | (86) |
| Net cash (outflow) from investing activities | | (63) | (1,538) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 1,200 |
| Funding costs on acquisition of subsidiary | 21 | (1,530) | (185) |
| Bank loan drawn down in year | | 265 | - |
| Dividends paid | 11 | (505) | (233) |
| Net cash inflow (outflow) from financing activities | | (1,770) | 782 |
| Increase / (decrease) in cash and cash equivalents | | (544) | (889) |
| Cash and cash equivalents at beginning of period | | 452 | 1,341 |
| Cash and cash equivalents at end of period | 19 | (92) | 452 |
| Reconciliation of operating profit to net cash flow from operating activities | | | |
| Operating profit | | 301 | 314 |
| Amortisation of intangible assets | 15 | 66 | 82 |
| Depreciation of property, plant & equipment | 16 | 41 | 47 |
| Effect of foreign exchange rate moves | | (32) | (9) |
| Write off of investment in associate | | - | 47 |
| (Increase) / decrease in receivables | | (304) | (546) |
| Increase / (decrease) in payables | | 1,471 | 68 |
| Cash flow from operating activities | | 1,543 | 3 |

SpaceandPeople plc

Group Statement of Changes in Equity

For the 12 months ended 31 December 2011

| | Share capital £'000 | Share premium £'000 | Special reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---------------------------------------|---------------------------|---------------------------|-----------------------------|-------------------------------|--------------------------|
| At 1 November 2009 | 117 | 266 | 233 | 1,177 | 1,793 |
| Comprehensive income: | | | | | |
| Foreign currency translation | - | - | - | (9) | (9) |
| Profit for the period | - | - | - | 845 | 845 |
| Total comprehensive income | - | - | - | 836 | 836 |
| Transactions with owners: | | | | | |
| Shares Issued | 77 | 4,735 | - | - | 4,812 |
| Costs of issuing equity | - | (185) | - | - | (185) |
| Dividends paid | - | - | - | (233) | (233) |
| Total transactions with owners | 77 | 4,550 | - | (233) | 4,394 |
| At 31 December 2010 | 194 | 4,816 | 233 | 1,780 | 7,023 |
| Comprehensive income: | | | | | |
| Foreign currency translation | - | - | - | (49) | (49) |
| Profit for the period | - | - | - | 1,191 | 1,191 |
| Total comprehensive income | - | - | - | 1,142 | 1,142 |
| Transactions with owners: | | | | | |
| Dividends paid | - | - | - | (505) | (505) |
| Total transactions with owners | - | - | - | (505) | (505) |
| At 31 December 2011 | 194 | 4,816 | 233 | 2,417 | 7,660 |

SpaceandPeople plc

Company Statement of Changes in Equity

For the 12 months ended 31 December 2011

| | Share capital £'000 | Share premium £'000 | Special reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---------------------------------------|---------------------------|---------------------------|-----------------------------|-------------------------------|--------------------------|
| At 1 November 2009 | 117 | 266 | 233 | 1,177 | 1,793 |
| Comprehensive income: | | | | | |
| Foreign currency translation | - | - | - | (9) | (9) |
| Profit for the period | - | - | - | 172 | 172 |
| Total comprehensive income | - | - | - | 163 | 163 |
| Transactions with owners: | | | | | |
| Shares issued | 77 | 4,735 | - | - | 4,812 |
| Costs of issuing equity | - | (185) | - | - | (185) |
| Dividends paid | - | - | - | (233) | (233) |
| Total transactions with owners | 77 | 4,550 | - | (233) | 4,394 |
| At 31 December 2010 | 194 | 4,816 | 233 | 1,107 | 6,350 |
| Comprehensive income: | | | | | |
| Foreign currency translation | - | - | - | (32) | (32) |
| Profit for the period | - | - | - | 202 | 202 |
| Total comprehensive income | - | - | - | 170 | 170 |
| Transactions with owners: | | | | | |
| Dividends paid | - | - | - | (505) | (505) |
| Total transactions with owners | - | - | - | (505) | (505) |
| At 31 December 2011 | 194 | 4,816 | 233 | 772 | 6,015 |

SpaceandPeople plc

Notes to the Financial Statements

For the 12 months ended 31 December 2011

1. General information

SpaceandPeople plc is a public limited company incorporated and domiciled in Scotland (registered number SC212277) which is listed on AIM (dealing code SAL).

2. Basis of preparation

The Group's financial statements for the period ended 31 December 2011 (12 months) and for the comparative period ended 31 December 2010 (14 months) have been prepared on a going concern basis under the historical cost convention in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, and with those part of the Companies Act 2006 applicable to companies reporting under IFRS.

The directors have, at the time of approving the financial statements, a reasonable expectation that SpaceandPeople has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Future accounting developments

New and revised IFRSs affecting amounts reported in the current period (and/or prior periods)

The following new and revised IFRSs have been applied in the current period and have affected the amounts reported in these financial statements.

New and revised IFRSs affecting presentation and disclosure only

| <u>Title</u> | <u>Implementation</u> | <u>Effect on Group</u> |
|--|---|--------------------------------|
| IFRS7: Financial Instruments : Disclosures : amendments to the nature and extent of risks arising from financial instruments | Annual periods beginning on or after 1 January 2011 | None |
| IFRS8: Operating Segments: amendments resulting from April 2009 annual improvements to IFRSs | Annual periods beginning on or after 1 January 2010 | Additional disclosure provided |

New and revised IFRSs applied with no material effect on the consolidated financial statements

| <u>Title</u> | <u>Implementation</u> | <u>Effect on Group</u> |
|--|---|------------------------|
| IAS12: Amendment to 'Income Taxes' : deferred tax accounting for investment properties | Annual periods beginning on or after 1 January 2012 | None |
| IAS19: Employee Benefits : Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects | Annual periods beginning on or after 1 January 2013 | None |
| IAS27: Consolidated and Separate Financial Statements : Reissued as IAS27 Separate Financial Statements (as amended in 2011) | Annual periods beginning on or after 1 January 2013 | None |
| IAS1: Presentation of Financial | Annual periods beginning on or after 1 | None |

| | | |
|--|---|------|
| Statements : amendments resulting from May 2010 annual improvements to IFRS | January 2011 | |
| IAS34: Interim Financial Reporting | Annual periods beginning on or after 1 January 2011 | None |
| IAS32: Financial Instruments : Presentation : Amendments to application guidance on the offsetting of financial assets and financial liabilities | Annual periods beginning on or after 1 January 2014 | None |
| IAS38: Intangible Assets : amendments resulting from April 2009 annual improvements to IFRSs | Annual periods beginning on or after 1 January 2010 | None |
| IAS39: Financial Instruments: Recognition and Measurement : amendments resulting from April 2009 annual improvements to IFRSs | Annual periods beginning on or after 1 January 2010 | None |
| IAS27: Consolidated and Separate Financial Statements : amendments resulting from May 2010 annual improvements to IFRSs | Annual periods beginning on or after 1 July 2010 | None |
| IAS1: Presentation of Financial Statements : amendments resulting from May 2010 annual improvements to IFRSs | Annual periods beginning on or after 1 January 2011 | None |
| IAS24: Related Party Disclosures : revised definition of Related Parties | Annual periods beginning on or after 1 January 2011 | None |
| IAS19: Amendment to IFRIC 14 : The limit on a defined benefit asset, minimum funding requirements and their interaction | Annual periods beginning on or after 1 January 2011 | None |
| IFRS7: Financial Instruments : Disclosures : amendments enhancing disclosure about transfers of financial assets | Annual periods beginning on or after 1 July 2011 | None |
| IFRIC13: Amendment to 'customer loyalty programmes' : fair value | Annual periods beginning on or after 1 January 2011 | None |
| IFRS9: Financial Instruments : Classification of financial assets and financial liabilities and Accounting for financial liabilities and derecognition | Annual periods beginning on or after 1 January 2015 | None |
| IFRS10: Consolidated Financial Statements | Annual periods beginning on or after 1 January 2013 | None |
| IFRS11: Joint Arrangements | Annual periods beginning on or after 1 January 2013 | None |
| IFRS12: Disclosure of Interests in Other Entities | Annual periods beginning on or after 1 January 2013 | None |
| IFRS13: Fair Value Measurement | Annual periods beginning on or after 1 | None |

January 2013

| | | |
|--|---|------|
| IFRS7: Amendments enhancing disclosures about offsetting of financial assets and financial liabilities | Annual periods beginning on or after 1 January 2013 | None |
|--|---|------|

| | | |
|---|---|------|
| IFRS7: Amendments requiring disclosure about the initial application of IFRS9 | Annual periods beginning on or after 1 January 2015 | None |
|---|---|------|

Management anticipate that the standards and interpretations in issue, but not yet effective will be adopted in the financial statements when they become effective and foresee currently no material impact by the adoptions on the financial statements of the Group in the period of initial application. However, this will be assessed further upon implementation.

3. Accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss of goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

The results, assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where there is no material difference between the cost of investment in an associate and the Groups share of its net assets no adjustment is made and the associate is carried at cost.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS36 Impairment of Assets as a single asset by comparing its recoverable amount (higher value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue

Revenue is measured at the fair value of consideration received or receivable. Revenue is shown net of value-added tax, rebates and discounts and after eliminating intergroup sales. Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when any specific delivery criteria have been met.

Commission

Revenue from commission is recognised when the following conditions are satisfied;

- Contract is agreed with promoter / merchant
- Venue acceptance of contract
- Invoice issued and no further input anticipated

Leasing Income

Revenue from leasing activities is recognised on a straight line basis over the term of the lease.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight line basis over the period of the agreement.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Leasing

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

Property, plant & equipment

Depreciation is provided at the annual rates below in order to write off each asset over its estimated useful life.

| | | |
|---------------------|---|---------------|
| Plant & equipment | - | 12.5% of cost |
| Fixtures & fittings | - | 25% of cost |
| Computer equipment | - | 25% of cost |

Property, plant & equipment is stated at cost less accumulated depreciation to date.

Intangible assets:

- **Website development costs** - The Group capitalises all costs directly attributable to further developing its websites, while costs which relate to on-going maintenance are expensed as they arise. The capitalised costs are depreciated over three years.
- **Foreign development** - The Group capitalises costs relating to the development of its process and service in certain foreign markets. Costs are only capitalised where the Group considers that there is a clearly definable project and in each case a process is separately identifiable which has its own individual value. Costs are capitalised in relation to countries where there is a reasonable expectation that future revenues will exceed capitalised costs. Where the criteria for capitalisation are not met, costs are written off in the year incurred. Capitalised costs are written off over five years.
- **Patents and trademarks**- The costs of obtaining patents and trademarks are capitalised and written off over the economic life of the asset acquired.
- **Impairment of non-current assets** - The need for any non-current asset impairment is assessed by comparison of the carrying value of the asset against the higher of realisable value and the value in use or, in the case of intangible assets, the anticipated future cash flows arising from the asset.

Leasing commitments

Rentals paid under operating leases are charged against profit as incurred. The group has no finance leases.

Taxation

The tax expense represents the sum of tax currently payable and deferred tax. Tax currently payable is based on the taxable profit for the period. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Foreign exchange

Items included in the Group's financial statements are measured using Pounds Sterling, which is the currency of the primary economic environment in which the Group operates, and is also the Group's presentational currency.

Transactions denominated in foreign currencies are translated into Sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates at that date. These translation differences are dealt with in the profit and loss account.

The income and expenditure of overseas operations are translated at the average rates of exchange during the period. Monetary items on the balance sheet are translated into Sterling at the rate of exchange ruling on the balance sheet date and fixed assets at historical rates. Exchange difference arising are treated as a movement in reserves.

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when it becomes a party to the contractual provisions of the instrument.

Trade and other receivables are carried at original invoice value less an allowance for any uncollectable amounts. An allowance for bad debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off in the income statement when identified.

Cash and cash equivalents are carried in the balance sheet at cost and comprise cash in hand, cash at bank and deposits with banks.

Trade and other payables are carried at amortised costs and represent liabilities for goods or services provided to the Group prior to the period end that are unpaid and arise when the Group becomes obliged to make future payments in respect of these goods and services.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Share based payments

The Group operates a number of equity settled share based payment schemes under which share options are issued to certain employees. The fair value determined at the grant date of the equity settled share based payment, where material, is expensed on a straight line basis over the vesting period. For schemes with only market based performance conditions, those conditions are taken into account in arriving at the fair value at grant date.

Pensions

The Group pays contributions to the personal pension schemes of certain employees. Contributions are charged to the income statement in the period in which they fall due.

Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. IFRS also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The areas where significant judgements and estimates have been made in the preparation of these financial statements are the useful lives and impairment of non-current and intangible assets, impairment of the value of investment in associates and taxation. Explanations of the methodology and the resultant assumptions are detailed in the relevant accounting policies above and the respective notes to the financial statements.

Borrowing costs

Borrowing costs are amortised over the duration of the loan and recognised throughout the term of the loan.

4. Segmental reporting

The Group maintains its head office in Glasgow and a branch office in Hamburg, Germany. These are reported separately. In addition Retail Profile has an office in London and a subsidiary in Germany. The Group has determined that these are the principal operating segments as the performance of these segments is monitored separately and reviewed by the Board.

The following tables present revenues, results and asset and liability information regarding the Group's two business segments - Promotional Sales and Retail, split by geographic area:

| | Promotion UK £'000 | Promotion Germany £'000 | Retail UK £'000 | Retail Germany £'000 | Group £'000 |
|--|--------------------------|-------------------------------|-----------------------|----------------------------|----------------|
| Segment revenues and results for 12 months to 31 December '11 | | | | | |
| Continuing operations revenue | 2,440 | 1,218 | 6,125 | 877 | 10,660 |
| Administrative expenses | (2,555) | (719) | (4,796) | (835) | (8,905) |
| Other revenue | - | 11 | | 62 | 73 |
| Segment operating profit / (loss) | (115) | 510 | 1,329 | 104 | 1,828 |
| Non-recurring costs | (33) | (62) | - | - | (95) |
| Segment operating profit / (loss) | (148) | 448 | 1,329 | 104 | 1,733 |
| Finance costs | (41) | - | (104) | - | (145) |
| Segment profit / (loss) before taxation | (189) | 448 | 1,225 | 104 | 1,588 |
| Segment assets and liabilities as at 31 December '11 | | | | | |
| Total segment assets | 7,757 | 1,413 | 3,447 | 1,214 | 13,831 |
| Total segment liabilities | (2,242) | (214) | (3,213) | (502) | (6,171) |
| Total net assets | 5,515 | 1,199 | 234 | 712 | 7,660 |

| <u>Segment revenues and results for 14 months to 31 December '10</u> | Promotion UK £'000 | Promotion Germany £'000 | Retail UK £'000 | Retail Germany £'000 | Group £'000 |
|--|--------------------------|-------------------------------|-----------------------|----------------------------|----------------|
| Continuing operations revenue | 2,568 | 1,237 | 3,945 | 22 | 7,772 |
| Administrative expenses | (2,298) | (871) | (2,920) | (27) | (6,116) |
| Other revenue | - | 9 | - | - | 9 |
| Segment operating profit / (loss) | 270 | 375 | 1,025 | (5) | 1,665 |
| Non-recurring costs | (331) | - | - | - | (331) |
| Segment operating profit / (loss) | (61) | 375 | 1,025 | (5) | 1,334 |
| Finance income | - | 1 | - | - | 1 |
| Finance costs | (6) | - | (69) | - | (75) |
| Segment profit / (loss) before taxation | (67) | 376 | 956 | (5) | 1,260 |

| <u>Segment assets and liabilities as at 31 December '10</u> | Promotion UK £'000 | Promotion Germany £'000 | Retail UK £'000 | Retail Germany £'000 | Group £'000 |
|---|--------------------------|-------------------------------|-----------------------|----------------------------|----------------|
| Total segment assets | 8,367 | 1,093 | 4,205 | 52 | 13,717 |
| Total segment liabilities | (2,459) | (651) | (3,527) | (57) | (6,694) |
| Total net assets | 5,908 | 442 | 678 | (5) | 7,023 |

5. **Non-recurring costs**

Expenses relating to the prior year of £82,548 were charged against current year income. Non-recurring costs also includes re-organisation costs of £12,322 relating to the restructuring of the UK business following the acquisition of Retail Profile Holdings Limited in the prior period.

6. **Operating profit**

The operating profit is stated after charging:

| | 12 months to December '11 £'000 | 14 months to December '10 £'000 |
|---|---------------------------------------|---------------------------------------|
| Motor vehicle leasing | 35 | 27 |
| Property leases | 184 | 176 |
| Foreign exchange gains / (losses) | - | 7 |
| Amortisation of intangible assets | 66 | 82 |
| Depreciation of property, plant and equipment | 191 | 147 |
| Auditors remuneration: | | |
| Fees payable for: | | |
| Audit of Company | 22 | 17 |
| Audit of subsidiary undertakings | 11 | 10 |
| Tax services | 4 | 3 |
| Corporate finance | - | 26 |
| Other services | 15 | 5 |
| | 52 | 61 |
| Directors remunerations | 474 | 333 |
| | 474 | 333 |

Details of directors' remuneration

| 12 months to December 2011 | Salary and fees £'000 | Pensions and other Insurances £'000 | Total £'000 |
|--------------------------------|-----------------------------|--|----------------|
| Executive directors | | | |
| M J Bending | 130 | 2 | 132 |
| N J Cullen | 100 | 2 | 102 |
| G R Dunlay | 92 | 1 | 93 |
| M D Kemp | 120 | 2 | 122 |
| C G Stainforth | 25 | - | 25 |
| Non-executive directors | | | |
| R A Chadwick | 15 | - | 15 |
| M H Helfgott | 25 | - | 25 |
| D A Henderson-Williams | 10 | - | 10 |
| A P Stirling | 8 | - | 8 |
| | 525 | 7 | 532 |

| 14 months to December 2010 | Salary and fees £'000 | Pensions and other Insurances £'000 | Total £'000 |
|-----------------------------|-----------------------------|--|----------------|
| Executive directors | | | |
| M J Bending | 120 | 2 | 122 |
| N J Cullen | 104 | 2 | 106 |
| M D Kemp (from 24 May 2010) | 70 | 1 | 71 |
| C G Stainforth | 34 | - | 34 |
| Non-executive directors | | | |
| R A Chadwick | 26 | - | 26 |
| M H Helfgott | 17 | - | 17 |
| D A Henderson-Williams | 10 | - | 10 |
| A P Stirling | 8 | - | 8 |
| | 389 | 5 | 394 |

7. Staff costs

The average number of employees in the Group during the period was as follows:

| | 12 months to December '11 | 14 months to December '10 |
|-----------------------|---------------------------------------|---------------------------------------|
| Executive directors | 5 | 3 |
| Administration | 20 | 15 |
| Telesales | 34 | 22 |
| Commercial | 16 | 10 |
| Maintenance | 6 | 5 |
| | 81 | 55 |
| | 12 months to December '11 £'000 | 14 months to December '10 £'000 |
| Wages and salaries | 2,926 | 2,126 |
| Social Security costs | 332 | 230 |
| Pensions | - | 1 |
| | 3,258 | 2,357 |

8. Finance income and costs

| | 12 months to December '11 £'000 | 14 months to December '10 £'000 |
|---------------------|---------------------------------------|---------------------------------------|
| Finance income: | | |
| Interest receivable | - | 1 |
| Finance costs: | | |
| Interest payable | (145) | (75) |

9. Taxation

| | 12 months to December '11 £'000 | 14 months to December '10 £'000 |
|--|---------------------------------------|---------------------------------------|
| UK corporation tax: | | |
| Corporation tax | 408 | 307 |
| Adjustment in respect of prior period | (219) | - |
| Foreign tax: | | |
| Current tax on foreign income for the period | 27 | 321 |
| Deferred tax: | | |
| Relating to the origination of timing differences | 181 | (213) |
| Income tax expense as reported in the Income Statement | <u>397</u> | <u>415</u> |

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

| | 12 months to December '11 £'000 | 14 months to December '10 £'000 |
|---|---------------------------------------|---------------------------------------|
| Profit on ordinary activities before tax | 1,588 | 1,260 |
| Profit on ordinary activities at the standard rate of corporation tax in the UK of 26.5% - Jan – Mar:28% Apr – Dec: 26% (2010: 28%) | 421 | 353 |
| Tax effect of: | | |
| - Expenses not deductible for tax purposes | - | 58 |
| - Difference due to foreign taxation rates | (7) | 13 |
| - Deferred tax | (17) | (9) |
| Income tax expense as reported in the Income Statement | <u>397</u> | <u>415</u> |

10. Profit for the period

The Company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own Income Statement in these financial statements. The Group profit for the period includes a Company profit after tax and before dividends of £202,276 (2010: £171,842) which is dealt with in the financial statements of the parent company.

11. Dividends

| | 12 months to December '11 £'000 | 14 months to December '10 £'000 |
|----------------------------|---------------------------------------|---------------------------------------|
| Paid during the period | 505 | 233 |
| Recommended final dividend | 564 | 505 |

Equity – 2.60p per ordinary share proposed and paid for 2010. Recommended final dividend for 2011 – 2.90p per ordinary share.

The recommended final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in the financial statements.

12. Goodwill

| | £'000 |
|---|--------------|
| Cost | |
| At 31 October 2009 | - |
| Additional amounts arising from business combinations occurring | 3,933 |
| Additions | 4,048 |
| At 31 December 2010 | <u>7,981</u> |
| Additions | - |
| At 31 December 2011 | <u>7,981</u> |
| Accumulated impairment losses | |
| At 31 October 2009 | - |
| Charge for the period | - |
| At 31 December 2010 | <u>-</u> |
| Charge for the period | - |
| At 31 December 2011 | <u>-</u> |
| Net book value | |
| At 31 October 2009 | - |
| At 31 December 2010 | <u>7,981</u> |
| At 31 December 2011 | <u>7,981</u> |

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGUs) that are expected to benefit from that business combination. The Directors consider that the business of Retail Profile Holdings Limited is the only identifiable CGU and the carrying amount of Goodwill is allocated in full against this CGU.

The recoverable amount of the cash generating unit is determined on a value in use calculation which uses cash flow projections based on financial budgets approved by the Board covering a 20 year period and a discount rate of 6% per annum. Cash flow projections during the budget period are based on a steady 5% growth in EBITDA which the Directors consider to be very conservative given the plans for the business and the potential increased returns. The Directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit. The discounted cash flows exceed the carrying value in Year 4.

Goodwill was calculated on the acquisition of Retail Profile Holdings Limited as follows:

| | £'000 |
|-----------------------------------|----------------|
| Consideration paid: | |
| Share capital acquired | 4,788 |
| Loan notes acquired | 1,728 |
| Net identifiable assets acquired: | <u>(2,468)</u> |
| Goodwill | <u>4,048</u> |

13. Investment in subsidiaries

The Company movement in investment in subsidiaries was:

| | £'000 |
|------------------------|-------|
| As at 31 October 2009 | - |
| Additions | 6,516 |
| As at 31 December 2010 | 6,516 |
| Additions | 11 |
| As at 31 December 2011 | 6,527 |

The additions of £11,000 in 2011 represent the par value of the initial shares issued on incorporation of SpaceandPeople GmbH for a consideration of €12,500. The initial share capital of S&P consult Limited and MacPherson & Valentine Limited were acquired at par for £1 and £1 respectively.

None of the subsidiary companies incorporated during 2011 traded in the year.

Fixed asset investments of the Company (or subsidiary undertaking where indicated *) include the following:

| <u>Name of subsidiary</u> | <u>Principal activity</u> | <u>Place of incorporation and operation</u> | <u>Proportion of ownership interest and voting power held by the Group</u> | |
|---------------------------------|--|---|--|------------|
| | | | 31 Dec '11 | 31 Dec '10 |
| S & P Consult Limited | Consultancy | United Kingdom | 100% | n/a |
| MacPherson & Valentine Limited | Licensing of intellectual property | United Kingdom | 100% | n/a |
| SpaceandPeople GmbH | Media | Germany | 100% | n/a |
| Retail Profile Holdings Limited | Leasing of Retail Merchandising Units (RMUs) | United Kingdom | 100% | 100% |
| * Retail Profile Europe Limited | Leasing of RMUs | United Kingdom | 100% | 100% |
| * Retail Products Limited | Dormant | United Kingdom | 100% | 100% |
| * Retail Profile GmbH | Leasing of RMUs | Germany | 100% | 100% |
| * Retail Profile Limited | Dormant | United Kingdom | 100% | 100% |

14. Investment in Associates

Details of the Group's associates at the end of the reporting period are as follows:

| <u>Name of associate</u> | <u>Principal activity</u> | <u>Place of incorporation and operation</u> | <u>Proportion of ownership interest and voting power held by the Group</u> | |
|------------------------------------|---------------------------|---|--|--------------------------|
| | | | 31 December '11 | 31 December '10 |
| SpaceandPeople (Hong Kong) Limited | Dormant | Hong Kong | 35.3% | 35.3% |
| SpaceandPeople (India) Limited | Media | India | 44.6% | 49.0% |
| | | | 31 December '11 £'000 | 31 December '10 £'000 |
| SpaceandPeople (Hong Kong) Ltd | | | - | - |
| SpaceandPeople (India) Ltd | | | 156 | 156 |
| | | | 156 | 156 |

Summarised financial information in respect of the Group's associates is set out below.

| | 31 December '11 £'000 | 31 December '10 £'000 |
|---|--------------------------|--------------------------|
| Revenue | 507 | 215 |
| Profit / (loss) | 68 | (19) |
| | 31 December '11 £'000 | 31 December '10 £'000 |
| Total assets | 499 | 364 |
| Total liabilities | (149) | (160) |
| Net assets | 350 | 204 |
| Group's share of net assets of associates | | |
| SpaceandPeople (Hong Kong) Ltd | - | - |
| SpaceandPeople (India) Ltd | 156 | 100 |
| | 156 | 100 |

The group's share of the net assets of its associate company is not materially different from cost of the investment and therefore no adjustment has been made to the carrying value.

15. Other intangible assets – Group and Company

| Cost | Website development £'000 | Product development £'000 | Patents & trademarks £'000 | Total £'000 |
|---------------------|---------------------------------|---------------------------------|----------------------------------|----------------|
| At 31 October 2009 | 282 | 137 | 6 | 425 |
| Additions | 2 | - | - | 2 |
| At 31 December 2010 | 284 | 137 | 6 | 427 |
| Additions | - | - | 4 | 4 |
| At 31 December 2011 | 284 | 137 | 10 | 431 |

| Amortisation | Website development £'000 | Product development £'000 | Patents & trademarks £'000 | Total £'000 |
|-----------------------|---------------------------------|---------------------------------|----------------------------------|----------------|
| At 31 October 2009 | 197 | 54 | 6 | 257 |
| Charge for the period | 50 | 32 | - | 82 |
| At 31 December 2010 | 247 | 86 | 6 | 339 |
| Charge for the period | 27 | 38 | 1 | 66 |
| At 31 December 2011 | 274 | 124 | 7 | 405 |

| Net book value | Website development £'000 | Product development £'000 | Patents & trademarks £'000 | Total £'000 |
|-----------------------|---------------------------------|---------------------------------|----------------------------------|----------------|
| At 31 October 2009 | 85 | 83 | - | 168 |
| At 31 December 2010 | 37 | 51 | - | 88 |
| At 31 December 2011 | 10 | 13 | 3 | 26 |

16. Property, plant and equipment

The Group movement in property, plant & equipment assets was:

| Cost | Plant & equipment £'000 | Fixture & fittings £'000 | Computer equipment £'000 | Total £'000 |
|-------------------------|----------------------------|-----------------------------|-----------------------------|----------------|
| At 31 October 2009 | - | 97 | 125 | 222 |
| Acquired on acquisition | 351 | 47 | 8 | 406 |
| Additions | 266 | 73 | 16 | 355 |
| At 31 December 2010 | 617 | 217 | 149 | 983 |
| Additions | 681 | 8 | 56 | 745 |
| At 31 December 2011 | 1,298 | 225 | 205 | 1,728 |

| Depreciation | Plant & equipment £'000 | Fixture & fittings £'000 | Computer equipment £'000 | Total £'000 |
|-----------------------|----------------------------|-----------------------------|-----------------------------|----------------|
| At 31 October 2009 | - | 67 | 103 | 170 |
| Charge for the period | 84 | 39 | 24 | 147 |
| At 31 December 2010 | 84 | 106 | 127 | 317 |
| Charge for the period | 138 | 30 | 23 | 191 |
| At 31 December 2011 | 222 | 136 | 150 | 508 |

| Net book value | Plant & equipment £'000 | Fixture & fittings £'000 | Computer equipment £'000 | Total £'000 |
|---------------------|----------------------------|-----------------------------|-----------------------------|----------------|
| At 31 October 2009 | - | 30 | 22 | 52 |
| At 31 December 2010 | 533 | 111 | 22 | 666 |
| At 31 December 2011 | 1,076 | 89 | 55 | 1,220 |

The Company movement in property, plant & equipment assets was:

| Cost | Fixture & fittings £'000 | Computer equipment £'000 | Total £'000 |
|---------------------|-----------------------------|-----------------------------|----------------|
| At 31 October 2009 | 97 | 125 | 222 |
| Additions | 63 | 13 | 76 |
| At 31 December 2010 | 160 | 138 | 298 |
| Additions | 8 | 40 | 48 |
| At 31 December 2011 | 168 | 178 | 346 |

| Depreciation | Fixture & fittings £'000 | Computer equipment £'000 | Total £'000 |
|-----------------------|-----------------------------|-----------------------------|----------------|
| At 31 October 2009 | 67 | 103 | 170 |
| Charge for the period | 29 | 18 | 47 |
| At 31 December 2010 | 96 | 121 | 217 |
| Charge for the period | 24 | 17 | 41 |
| At 31 December 2011 | 120 | 138 | 258 |

| Net book value | Fixture & fittings £'000 | Computer equipment £'000 | Total £'000 |
|---------------------|-----------------------------|-----------------------------|----------------|
| At 31 October 2009 | 30 | 22 | 52 |
| At 31 December 2010 | 64 | 17 | 81 |
| At 31 December 2011 | 48 | 40 | 88 |

17. Deferred tax

| | Group 31 December 2011 £'000 | Company 31 December 2011 £'000 | Group 31 December 2010 £'000 | Company 31 December 2010 £'000 |
|---|---------------------------------------|---|---------------------------------------|---|
| Deferred tax asset: | | | | |
| Tax charged on revenue not yet recognised | - | - | 203 | 203 |
| Deferred tax liability: | | | | |
| Accelerated capital allowances | 10 | - | 27 | - |
| Movement on deferred tax position: | | | | |
| Opening balance | 27 | - | - | - |
| Acquired on acquisition | - | - | 36 | - |
| Released in the period | (17) | - | (9) | - |
| Closing balance | 10 | - | 27 | - |

18. Trade and other receivables

| | Group 31 December 2011 £'000 | Company 31 December 2011 £'000 | Group 31 December 2010 £'000 | Company 31 December 2010 £'000 |
|----------------------------------|---------------------------------------|---|---------------------------------------|---|
| Trade debtors | 2,419 | 2,106 | 2,137 | 1,847 |
| Other debtors | 27 | 26 | 77 | 96 |
| Prepayments | 391 | 30 | 286 | 21 |
| Accrued revenue | 178 | 19 | 142 | - |
| Amounts due from related parties | - | 87 | - | - |
| Total | 3,015 | 2,268 | 2,642 | 1,964 |

The ageing of trade debtors:

| | Current £'000 | 0 – 30 Days £'000 | 31 – 60 Days £'000 | 61 Days + £'000 | Total £'000 |
|----------------------------|------------------|----------------------|-----------------------|--------------------|----------------|
| Group – 31 December 2011 | 909 | 745 | 331 | 434 | 2,419 |
| Company – 31 December 2011 | 791 | 648 | 288 | 379 | 2,106 |
| Group – 31 December 2010 | 957 | 648 | 288 | 244 | 2,137 |
| Company – 31 December 2010 | 827 | 560 | 249 | 211 | 1,847 |

19. Cash and cash equivalents

| | Group 31 December 2011 £'000 | Company 31 December 2011 £'000 | Group 31 December 2010 £'000 | Company 31 December 2010 £'000 |
|--------------------------|---------------------------------------|---|---------------------------------------|---|
| Cash at bank and on hand | 1,433 | 191 | 1,981 | 452 |
| Bank overdraft | (283) | (283) | - | - |
| | 1,150 | (92) | 1,981 | 452 |

20. Trade and other payables

| | Group 31 December 2011 £'000 | Company 31 December 2011 £'000 | Group 31 December 2010 £'000 | Company 31 December 2010 £'000 |
|---------------------------------|---------------------------------------|---|---------------------------------------|---|
| Trade creditors | 479 | 141 | 466 | 98 |
| Other creditors | 1,401 | 1,397 | 896 | 640 |
| Social Security and other taxes | 302 | 77 | 477 | 241 |
| Accrued expenses | 1,391 | 381 | 672 | 261 |
| Deferred income | 646 | 5 | 538 | - |
| Amounts due to related parties | - | 710 | - | - |
| Trade and other payables | 4,219 | 2,711 | 3,049 | 1,240 |
| Corporation tax | 246 | (18) | 493 | 340 |
| Total | 4,464 | 2,693 | 3,542 | 1,580 |

21. Other borrowings

As a part of the consideration for Retail Profile Holdings Limited, a loan note of £1,530,000, secured by a fixed and floating charge over the assets of Retail Profile Holdings Limited and its subsidiaries, was issued to the vendors carrying a coupon of 3.5% over base rate per annum. The loan note was repaid on 13 July 2011.

At 31 December 2011, Retail Profile Holdings Limited had a bank loan of £1,147,718 (of which £455,004 is included in current liabilities being repayable within 12 months) – See note 22.

| | Group 31 December 2011 £'000 | Company 31 December 2011 £'000 | Group 31 December 2010 £'000 | Company 31 December 2010 £'000 |
|----------------|------------------------------------|--------------------------------------|------------------------------------|--------------------------------------|
| Bank overdraft | 283 | 283 | - | - |
| Loan note | - | - | 1,530 | 1,530 |
| Bank loan | 455 | - | 455 | - |
| | 738 | 283 | 1,985 | 1,530 |

22. Non-current liabilities

At 31 December 2011, Retail Profile Holdings Limited had a bank loan of £1,147,718 (of which £455,004 is included in current liabilities being repayable within 12 months) repayable in monthly instalments of £37,917 with interest at a fixed rate of 6.5% on £1,000,000 of the loan, and base rate, subject to a cap of 3%, plus a margin of 3% on the balance. The loan note is secured by a fixed and floating charge over the assets of SpaceandPeople and its subsidiaries.

In addition as at 31 December 2011, SpaceandPeople plc. had drawn down £265,000 of its agreed bank facility of £1,000,000. The amount drawn is part of a revolving credit facility with repayment due in July 2014.

23. Financial instruments and risk management

The Group has no material financial instruments other than cash, current receivables and liabilities, in both this and the prior period, all of which arise directly from its operations. The net fair value of its financial assets and liabilities is the same as their carrying value as detailed in the balance sheet and related notes.

Credit risk – The Group's credit risk relates to its receivables and is managed by undertaking regular credit evaluations of its customers.

Liquidity risk – The group operates a cash-generative business, holds net funds, and has an overdraft facility of £1m. The directors consider the funding structure to be adequate for the Group's current funding requirements.

Borrowing facilities – The Group has an agreed facility of £1m, of which £735k was not utilised at the year end, at a rate of 3.50% over base rate secured by an omnibus guarantee and set off agreement. The facility has not been fully drawn but improves the financial flexibility of the group

Financial assets – These comprise cash at bank and in hand. All bank deposits are floating rate.

Financial liabilities – These include short term creditors and a revolving credit facility of £1,000,000 at 3.5% above base rate. See note 22 regarding details of outstanding Retail Profile Holdings Limited Loan.

Foreign currency risk – The Group is exposed to foreign exchange risk primarily from Euros due to its German operations and Euro denominated licensing income as detailed in note 4 Segmental Reporting. The Group monitors its foreign currency exposure and hedges the position where appropriate. In addition, the Group has investments in an associate in India.

24. Operating lease commitments

At the period end date, SpaceandPeople plc had outstanding commitments for future lease payments which fall due as follows:

| | Group 31 December 2011 £'000 | Company 31 December 2011 £'000 | Group 31 December 2010 £'000 | Company 31 December 2010 £'000 |
|---------------------------------|------------------------------------|--------------------------------------|------------------------------------|--------------------------------------|
| Within 1 year | 2,294 | 50 | 152 | 42 |
| Between 2 and 5 years inclusive | 3,825 | 280 | 3,783 | 149 |
| Greater than 5 years | 41 | 41 | 141 | - |

25. Related party transactions

Non-executive directors' fees

During the period, fees amounting to £58,000 (2010 - £61,001 – 14 months) were paid to individuals for their services as non-executive directors as follows:

| | 12 months to 31 December '11 £'000 | 14 months to 31 December '10 £'000 |
|---|--|--|
| D A Henderson-Williams | 10 | 10 |
| R A Chadwick (as non-executive director) | 15 | 14 |
| R A Chadwick (on RP acquisition) | - | 12 |
| A P Stirling (paid to Friars Management Services Ltd) | 8 | 8 |
| M H Helfgott (paid to Amery Capital Ltd) | 25 | 17 |
| | <u>58</u> | <u>61</u> |

Transactions with key management personnel

Key management of the Group are considered to be the executive directors of the Group. There are no transactions with the directors other than their remuneration (see note 6) and interests in shares as shown in the Directors' report.

26. Called up share capital

| | | | 31 December '11 | 31 December '10 |
|----------|---------------|--------|-----------------|-----------------|
| Class | Nominal value | | | |
| Ordinary | 1p | £ | 194,311 | 194,311 |
| | | Number | 19,431,063 | 19,431,063 |

27. Earnings per share

| | 12 months to 31 December '11 Pence per share | 14 months to 31 December '10 Pence per share |
|-----------------------------------|--|--|
| Basic earnings per share | | |
| Before non-recurring costs | 6.49 | 7.15 |
| After non-recurring costs | 6.13 | 5.38 |
| Diluted earnings per share | | |
| Before non-recurring costs | 6.09 | 6.72 |
| After non-recurring costs | 5.75 | 5.06 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 12 months to 31 December '11 £'000 | 14 months to 31 December '10 £'000 |
|---|--|--|
| Profit after tax for the period excluding non-recurring costs | 1,261 | 1,123 |
| Profit after tax for the period including non-recurring costs | 1,191 | 845 |

| | 12 months to 31 December '11 '000 | 14 months to 31 December '10 '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 19,431 | 15,707 |

Diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

| | 12 months to 31 December '11 £'000 | 14 months to 31 December '10 £'000 |
|---|--|--|
| Profit after tax for the period excluding non-recurring costs | 1,261 | 1,123 |
| Profit after tax for the period including non-recurring costs | 1,191 | 845 |

| | 12 months to 31 December '11 '000 | 14 months to 31 December '10 '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 20,712 | 16,718 |

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows.

| | 12 months to 31 December '11 '000 | 14 months to 31 December '10 '000 |
|--|---|---|
| Weighted average number of shares in issue during the period | 19,431 | 15,707 |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share deemed to be issued for no consideration in respect of employee options | 1,281 | 1,011 |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share | 20,712 | 16,718 |

28. Share options

The Group has established an EMI option scheme under which the maximum number of ordinary shares exercisable that can be granted is restricted to such number of shares the aggregate market value of which cannot exceed £120,000 per employee at the date of grant. Senior executives and certain eligible employees are entitled to participate in the EMI option scheme at the discretion of the Board which is advised on such matters by the Remuneration Committee.

In aggregate, share options have been granted under the EMI option scheme over 90,418 ordinary shares exercisable within the dates and at the exercise prices shown below, being the market value at the date of the grant.

| Date of grant | Number | Option period | Price |
|-----------------|--------|-----------------------------------|-------|
| 30 October 2005 | 14,000 | 30 October 2008 – 29 October 2012 | 50.5p |
| 30 October 2006 | 20,500 | 30 October 2009 – 29 October 2013 | 75p |
| 16 January 2008 | 11,611 | 16 January 2011 – 15 January 2015 | 155p |
| 14 January 2009 | 32,000 | 14 January 2012 – 13 January 2016 | 50p |
| 1 June 2009 | 12,307 | 1 June 2012 – 30 May 2015 | 65p |

The movement in the number of options outstanding under the EMI option scheme over the period is as follows:

| | 12 months to 31 December '11 | 14 months to 31 December '10 |
|---|------------------------------------|------------------------------------|
| Number of options outstanding as at the beginning of the period | 90,418 | 139,966 |
| Granted | - | - |
| Exercised | - | (15,000) |
| Forfeited | - | (34,548) |
| Number of options outstanding as at the end of the period | <u>90,418</u> | <u>90,418</u> |

Share options have also been granted previously under an unapproved option scheme, to DA Henderson-Williams as shown below.

| Date of grant | Number | Option period | Price |
|------------------|--------|-------------------------------------|-------|
| 5 September 2006 | 25,000 | 5 September 2009 – 5 September 2013 | 65p |

In addition, on 22 October 2009, 500,000 options were conditionally granted and a further 665,658 options conditionally granted on 21 May 2010, half to an employee and half to C Stainforth, at a price of 88.6p. These options were granted in three tranches conditional on the Group achieving compound growth of 25% pa in basic earnings per share over the relevant performance period, as shown below.

| Number | Option period | Performance period |
|---------|-----------------------------------|-----------------------------------|
| 386,998 | 1 November 2012 – 31 October 2014 | 1 November 2009 – 31 October 2012 |
| 389,330 | 1 November 2013 – 31 October 2015 | 1 November 2010 – 31 October 2013 |
| 389,330 | 1 November 2014 – 31 October 2016 | 1 November 2011 – 31 October 2014 |

In total, 1,281,076 options were outstanding at 31 December 2011 (1,281,076 at 31 December 2010) with a weighted average exercise price of 86.9p (86.9p at 31 December 2010). Of these, 71,111 were exercisable (59,500 at 31 December 2010) with a weighted average exercise price of 79.7p (65.0p at 31 December 2010).

The Black Scholes model was used to obtain the fair value of the share options. The main assumptions made were as follows:

| | |
|---|------------|
| Average option price | 86.9p |
| Average market price at grant of option | 70.0p |
| Expected volatility | 17% |
| Average expected vesting period from 31.12.11 | 4.69 years |
| Risk free rate | 0.34% |
| Dividend yield | 5.58% |

The expected volatility was determined by calculating the historical volatility of the Company's share price over the last year.

Based on these assumptions, the average fair value per option was 0.24p. The performance related conditions in respect of the 1,165,658 options that are subject to such conditions have been reflected by adjusting the number of options expected to vest based on the likelihood of the performance criteria being met. This reduces the average fair value per option to 0.22p.

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