

The Grass Roots Group UK Limited

Report and Financial Statements

Year ended 30 June 2004

4155659.



The Grass Roots Group UK Limited

Registered number - 4155659

Directors

D W Evans (Chairman)
R C Burrage
N P M Cover
I W Digby
N D Egerton-King
A N Sidbury
J E White
A C L Wright

Secretary

N D Egerton-King

Auditors

Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Bankers

Lloyds Bank Plc
Black Horse House
Progression Centre
42 Mark Road
Hemel Hempstead
Hertfordshire
HP2 7DW

Solicitors

Eversheds
115 Colmore Row
Birmingham
B3 3AL

Registered office

Pennyroyal Court
Station Road
Tring
Hertfordshire
HP23 5QZ

The Grass Roots Group UK Limited

Directors' Report

The directors present their report and audited financial statements for the year ended 30 June 2004.

Principal activity

The principal activity of the company during the year was the provision of services designed to influence positively the way that people think, feel and act towards our client organisations in their roles as employees, customers or members of channel partners.

Review of business and future developments

The company enjoyed an outstanding year which is a statement of the confidence placed in us by our clients. We have, for several years, been pursuing a strategy that combines client development with the refinement and growth of our service offering. This has resulted in us providing a wider range of programmes to more clients and is the cornerstone of our success. We have seen particularly strong growth in employee motivation, performance measurement, diversity awareness, flexible benefits and technology led customer communications. We have also seen a growing demand for multi-national programmes which has justified our investment in the development of international reward services and links well with the group's international strategy.

Our ability to provide innovative solutions and support these with excellent service delivery is a tribute to the people in our organisation and our ongoing investment in product development and infrastructure.

We are an ambitious team who wish to do more good work for ever more clients and our plans for the future reflect those ambitions.

Results and dividends

The profit for the year was £2,528,000 (2003: £1,152,000). The directors recommend an ordinary dividend of £1,250,000 (2003: £500,000).

Directors and their interests

The following directors held office during the year:

D W Evans (Chairman)
R C Burrage
N P M Cover
I W Digby
N D Egerton-King
A N Sidbury
J E White
A C L Wright

The directors had no interests in the share capital of the company, during the year.

The Grass Roots Group UK Limited

Directors' Report (continued)

Directors and their interests (continued)

The directors' interests in the share capital of the ultimate parent company, The Grass Roots Group PLC, were as follows:

	At 30 June 2003 Ordinary shares	At 30 June 2004 Ordinary shares
D W Evans	16,695,965	16,695,965
R C Burrage	718,800	1,038,800
N P M Cover	50,000	150,000
I W Digby	50,000	50,000
N D Egerton-King	400,000	700,000
A N Sidbury	320,000	320,000
J E White	150,000	150,000
A C L Wright	50,000	50,000

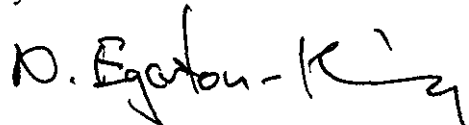
The ultimate parent company has two share option schemes, an approved scheme and an unapproved scheme which includes Enterprise Management Incentive options within it. The directors are able to subscribe for ordinary shares in the ultimate parent company and acquire shares in the ultimate parent company from The Grass Roots Group PLC Employee Share Scheme. The directors' interests in the share options of the ultimate parent company, The Grass Roots Group PLC, were as follows:

	At 1 July 2003 No.	Granted during the year No.	Exercised during the year No.	At 30 June 2004 No.
R C Burrage	1,132,000	600,000	(320,000)	1,412,000
N P M Cover	480,000	300,000	(100,000)	680,000
I W Digby	200,000	300,000	-	500,000
N D Egerton-King	600,000	750,000	(300,000)	1,050,000
A N Sidbury	210,000	300,000	-	510,000
J E White	380,000	300,000	-	680,000
A C L Wright	200,000	300,000	-	500,000

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



N D Egerton-King
Secretary

8 October 2004

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Grass Roots Group UK Limited

Independent Auditors' Report to the members of The Grass Roots Group UK Limited

We have audited the company's financial statements for the year ended 30 June 2004 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 17. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

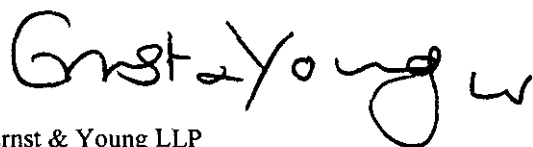
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 June 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Luton
8 October 2004

The Grass Roots Group UK Limited

Profit and loss account For the year ended 30 June 2004

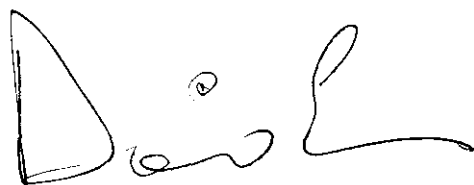
	Note	2004 £'000	2003 £'000
Turnover	2	43,523	38,520
Cost of sales		(29,507)	(27,761)
Gross profit		14,016	10,759
Administrative expenses		(10,620)	(9,131)
Operating profit	3	3,396	1,628
Interest receivable	5	97	60
Profit on ordinary activities before taxation		3,493	1,688
Tax on profit on ordinary activities	6	(965)	(536)
Profit on ordinary activities after taxation	16	2,528	1,152
Ordinary dividends on equity shares	7,16	(1,250)	(500)
Profit retained for the financial year		1,278	652

The company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

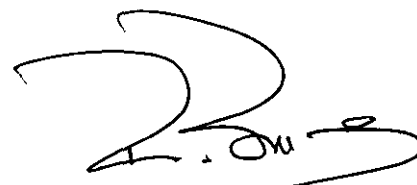
The Grass Roots Group UK Limited

Balance Sheet As at 30 June 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	8	<u>724</u>	<u>754</u>
Current assets			
Stocks	9	1,328	688
Debtors	10	14,141	12,364
Cash at bank and in hand		<u>4,984</u>	<u>13</u>
		20,453	13,065
Creditors: amounts falling due within one year	11	<u>(18,588)</u>	<u>(12,508)</u>
Net current assets		<u>1,865</u>	<u>557</u>
Total assets less current liabilities		<u>2,589</u>	<u>1,311</u>
Net assets		<u>2,589</u>	<u>1,311</u>
Capital and reserves			
Called up share capital	15	50	50
Profit and loss account	16	2,539	1,261
Equity shareholders' funds	16	<u>2,589</u>	<u>1,311</u>



D W Evans
Director



R C Burrage
Director

The Grass Roots Group UK Limited

Notes to the financial statements Year ended 30 June 2004

1) Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with currently applicable Accounting Standards in the United Kingdom.

The principal accounting policies adopted by the company are described below.

Turnover and basis of revenue recognition

Turnover comprises the value (excluding value added tax and trade discounts) of goods and services sold in the normal course of business. Income from the services provided is brought into account across the period of activity or, if applicable, the life of the campaign.

Tangible fixed assets

Fixed assets are shown at cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly on a straight line basis over its expected useful life as follows:

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

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

Stocks

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

Work in progress

Work in progress is valued on the basis of direct costs. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The Grass Roots Group UK Limited

Notes to the financial statements Year ended 30 June 2004

1) Accounting policies (continued)

Foreign currency

Transactions denominated in foreign currencies are recorded initially at the actual exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are retranslated at the rate of exchange prevailing at the year end (or, where appropriate, at the forward contract rate). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Operating leases

Rents payable under operating leases are charged to the profit and loss account in the year in which they are incurred.

Pension costs

The company contributes to various defined contribution schemes administered by a number of independent insurance companies. Contributions are charged to the profit and loss account in the period in which they arise.

Unredeemed bonds

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

Cash flow statement

The company is a subsidiary of The Grass Roots Group PLC. The cash flows of the company are included in the consolidated cash flow statement of The Grass Roots Group PLC. Consequently the company is exempt under the terms of FRS1 (revised) "Cash flow statements" from publishing a cash flow statement.

The Grass Roots Group UK Limited

Notes to the financial statements Year ended 30 June 2004

2) Turnover

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

An analysis of turnover by geographical market is given below:

	2004 £'000	2003 £'000
United Kingdom	43,212	38,077
Rest of World	311	443
	<u>43,523</u>	<u>38,520</u>

Turnover analysed by origin all arises in the United Kingdom.

3) Operating profit

	2004 £'000	2003 £'000
Operating profit is stated after charging:		
Depreciation	440	458
Rentals payable under operating leases - other	180	222
- plant and machinery	40	41
Auditors' remuneration - audit services	36	34
- non-audit services	-	15
	<u>-</u>	<u>15</u>

4) Employees' and directors' emoluments

	2004 £'000	2003 £'000
Wages and salaries	6,083	5,249
Social security costs	676	565
Other pension costs	370	211
	<u>7,129</u>	<u>6,025</u>

The average monthly number of persons (including directors) employed by the company during the year was:

	2004	2003
Administration	<u>190</u>	<u>185</u>

The Grass Roots Group UK Limited

Notes to the financial statements Year ended 30 June 2004

4) Employees' and directors' emoluments (continued)

Directors' emoluments	2004 £'000	2003 £'000
Aggregate emoluments	1,310	863
Value of company pension contributions to money purchase schemes	65	53

The aggregate emoluments of the highest paid director in the year was £247,000 (2003: £176,000) and pension contribution was £29,000 (2003: £29,000). There are 4 directors in the pension scheme (2003: 2).

5) Interest receivable	2004 £'000	2003 £'000
Bank interest	97	60

6) Tax on profit on ordinary activities	2004 £'000	2003 £'000
Current tax:		
UK corporation tax	972	544
Deferred tax:		
Origination and reversal of timing differences	(7)	(8)
Tax on profit on ordinary activities	965	536

The tax assessed for the year is lower (2003: higher) than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	3,493	1,688
Corporation tax rate of 30%	1,048	506
Effect of expenses not deductible for tax purposes	21	30
Decelerated/(accelerated) capital allowances	8	(6)
Other timing differences	3	14
Group relief accepted for no payment	(108)	-
Tax charge for the year	972	544

The Grass Roots Group UK Limited

Notes to the financial statements Year ended 30 June 2004

6) Taxation (continued)

Deferred tax	2004 £'000	2003 £'000
Deferred tax is as follows:		
Accelerated capital allowances	172	174
Other timing differences	23	14
Deferred tax asset	<u>195</u>	<u>188</u>
		£
At 1 July 2003		188
Profit and loss account movement arising during year		7
At 30 June 2004		<u>195</u>

7) Dividends	2004 £'000	2003 £'000
Equity dividends on ordinary shares:		
Final proposed	<u>1,250</u>	<u>500</u>

8) Tangible fixed assets	Plant and equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 July 2003	1,219	331	81	1,631
Additions	268	141	-	409
At 30 June 2004	<u>1,488</u>	<u>472</u>	<u>81</u>	<u>2,041</u>
Depreciation				
At 1 July 2003	712	149	16	877
Charge for the year	335	85	20	440
At 30 June 2004	<u>1,047</u>	<u>234</u>	<u>36</u>	<u>1,317</u>
Net Book Value				
At 30 June 2004	<u>441</u>	<u>238</u>	<u>45</u>	<u>724</u>
At 30 June 2003	<u>507</u>	<u>182</u>	<u>65</u>	<u>754</u>

The Grass Roots Group UK Limited

Notes to the financial statements Year ended 30 June 2004

9) Stocks	2004	2003
	£'000	£'000
Bonusbonds	77	46
Work in progress	781	218
Goods for resale	470	424
	<u>1,328</u>	<u>688</u>

10) Debtors	2004	2003
	£'000	£'000
Trade debtors	6,639	5,483
Amounts owed by group undertakings	7,026	6,455
Other debtors	64	35
Prepayments and accrued income	217	203
Deferred taxation (note 6)	195	188
	<u>14,141</u>	<u>12,364</u>

11) Creditors: amounts falling due within one year	2004	2003
	£'000	£'000
Trade creditors	2,523	1,381
Unredeemed Bonusbonds	7,132	5,754
Amounts owed to group undertakings	84	-
Corporation tax	461	343
Other taxes and social security costs	747	575
Other creditors	652	383
Accruals and deferred income	5,739	3,572
Proposed final dividend	1,250	500
	<u>18,588</u>	<u>12,508</u>

Included within accruals and deferred income is an amount of £13,000 (2003: £43,000) in respect of pension contributions.

12) Commitments under operating leases	2004	2004
	Other than land & buildings £'000	Other than land & buildings £'000
Operating leases which expire:		
Within one year	11	26
In two to five years	53	82
	<u>64</u>	<u>108</u>

The Grass Roots Group UK Limited

Notes to the financial statements

Year ended 30 June 2004

13) Cash held on behalf of clients

At 30 June 2004 the company held £2,024,000 (2003: £1,043,000) in client accounts.

14) Related party transactions

During the year purchases totalling £238,000 (2003: £253,000) at normal market prices were made from A1 Mail Limited, of which J E White's husband is a director and controlling shareholder.

Purchases of £1,000 (2003: £5,000), and sales of £301,000 (2003: £273,000), both at normal market prices have also been made with Incentives Direct Limited, of which J E White's sister is a director and controlling shareholder.

Purchases of £35,000 (2003: £nil) at normal market prices have also been made with Ideological Limited, of which J E White's sister is a director and controlling shareholder.

The balances outstanding at the year-end with these companies were a creditor of £21,000 (2003: £27,000), a debtor of £44,000 (2003: £47,000) and a creditor of £22,710 (2003: £nil) respectively.

The company has taken advantage of the FRS8 exemption for subsidiaries from disclosing related party transactions.

15) Share capital

	2004 £'000	2003 £'000
Authorised:		
50,000 (2003: 50,000) Ordinary shares of £1 each	<u>50</u>	<u>50</u>
Allotted, called up and fully paid:		
50,000 (2003: 50,000) Ordinary shares of £1 each	<u>50</u>	<u>50</u>

The Grass Roots Group UK Limited

Notes to the financial statements Year ended 30 June 2004

16) Reconciliation of shareholders' funds and movement on reserves	Share capital	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000
At 1 July 2002	50	609	659
Profit for the year	-	1,152	1,152
Dividends	-	(500)	(500)
At 1 July 2003	50	1,261	1,311
Profit for the year	-	2,528	2,528
Dividends	-	(1,250)	(1,250)
At 30 June 2004	50	2,539	2,589

17) Ultimate parent undertaking and controlling party

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