

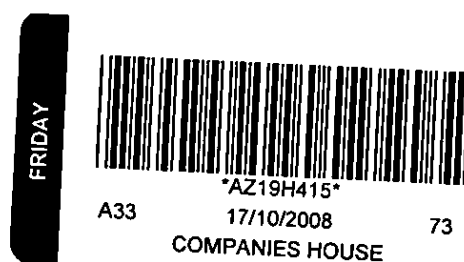
Companies House Filing Information	
Company name	MKM Group Plc
Company number	4364235
Registered address	Nelson House Park Road Timperley Cheshire WA14 5BZ
Year ended	31 March 2008
Filing due date	31 October 2008

**MKM Group Plc**

Report and Financial Statements

Year Ended

31 March 2008



**MKM**  
GROUP PLC

## **MKM Group Plc**

### **Annual report and financial statements for the year ended 31 March 2008**

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#### **Country of incorporation:**

Incorporated in the United Kingdom

**Legal form:** Public limited company

**Directors:** Andrew Johnson, Chairman  
Mark Koch, Director  
Brian Smillie, International Managing Director  
Matthew Toynton, Group Finance Director  
Michael Squires, Non-executive Director  
Richard Tenser, Director

#### **Secretary and registered office:**

HL Secretaries Limited, Nelson House, Park Road, Timperley, Cheshire WA14 5BZ

#### **Company number:**

4364235

#### **Chartered accountants and registered auditors:**

Deloitte & Touche LLP, 2 Hardman Street, PO Box 500, Manchester M60 2AT

#### **Solicitors:**

Halliwells LLP, St James's Court, Brown Street, Manchester M2 2JF

#### **Nominated Advisor:**

WH Ireland Limited, 11 St James' Square, Manchester, M2 6WH

#### **Bankers:**

Royal Bank of Scotland plc, St Ann's Street, Manchester M60 2SS

## CHAIRMAN'S STATEMENT

### OVERVIEW

The financial year to 31 March 2008 was a transformational one for the MKM Group. The acquisitions of the Leapfrog business in Australia in August 2007 and the Promodus business in London in October 2007 more than doubled the Group's size and have broadened our geographic reach and strengthened our market offering. We now employ approximately 100 people in offices in the UK, Australia and New Zealand.

The integration of both our acquisitions is now substantially complete. In the final quarter of the financial year, we adopted the Leapfrog name across our existing loyalty and sales promotion business, formerly MKM Concepts, and all our businesses now share common IT platforms and product development resources. These developments allow us to focus our development resources on core products such as StARS, thus improving the competitiveness of our client offer.

As our results show, following the acquisition of Leapfrog, some 60% of annual Group revenues are now generated in the Asia Pacific region, a growth region for our services. Additionally, our management focus has shifted substantially towards the delivery of longer term, multi-year loyalty and Customer Relationship Management ("CRM") programmes as opposed to shorter, tactical marketing campaigns. These longer term programmes allow us to build productive relationships with clients and provide greater visibility of earnings.

Whilst this strategic shift has been very positive for the business, the market environment deteriorated, and in the second half of the financial year sales across the business were below our expectations.

Since the financial year end, we have continued to implement the strategy announced at the time of the Leapfrog acquisition and have begun to see the sales position improve. An important development in the first quarter of the new financial year was the launch of a new flagship product, 'Airport Angel', which has strengthened our offering to customers. The launch was well received and I am pleased to report that we have secured some major contracts with large financial institutions.

## FINANCIAL REVIEW

The full year results of the combined business on a pro-forma basis assuming that the acquisition of both the Leapfrog and Promodus businesses had been completed on the first day of the financial year show sales of £10.3m and an operating profit of £686,000. The pro-forma operating profit is struck after taking into account one-off charges in the businesses acquired that are not expected to re-occur. The pro-forma sales of £10.3m are approximately 260% of the prior year statutory sales of £3.9m, illustrating the impact of the acquisitions on the size of the Group.

The audited results show sales of £6,970,000 (2007: £3,888,000) and include 7 months' contribution from the Leapfrog business and 6 months' contribution from Promodus, being the results generated since acquisition. The loss from operations of £222,000 (2007 profit: £404,000) was primarily associated with poor performance from the Leapfrog Australia business during the second half of the financial year, resulting from the loss of a major client and a reduction in the volume of promotional sales.

We ended the year with a total cash deficit of £208,000 (2007 surplus of £1,906,000). The cash reduction is primarily associated with the financing of the two acquisitions.

### OPERATIONS

The focus during the year has been on the completion of the two acquisitions and their subsequent integration into the Group. As part of this process, we have rebranded the UK business, previously MKM Concepts, as Leapfrog and also sought to simplify the structure of our Asia-Pacific operations. We continue to push ahead to fully integrate our businesses and exploit the benefits of their respective relationships with blue chip multinational clients. These initiatives allow us to significantly improve the solutions we build for our clients and maximise the benefits we gain from our key staff.

### StARS

Last year, the Group made a major investment in the development of StARS, its web-based database programme. The StARS programme allows us to hold comprehensive details of promotional offers on one database and readily supports the activity of multiple clients. StARS also enables our clients' consumers to access promotional offers easily and provides clients with enhanced management information on the results of marketing campaigns.

## **CHAIRMAN'S STATEMENT CONTINUED**

The launch of StARS represented a major step forward in the fulfilment of campaigns for clients and helped Leapfrog UK to win a number of accounts during the year. StARS is now being utilised to support all of our major clients in the UK and creates significant operational efficiencies.

Leapfrog Australia is now using StARS to support a number of significant new business pitches. We have continued to enhance StARS to meet the demands of new clients and the programme provides us with some significant advantages which allow us to differentiate ourselves from competitors.

### **Loyalty Schemes**

The acquisition of Leapfrog strengthened our capability in the management of point collection loyalty schemes. Following the year end we signed a major three year contract in New Zealand with Genesis, the government owned utility, to run its consumer loyalty programme, servicing 550,000 households.

### **Airport Angel**

After the year end, in May 2008 we launched Airport Angel. Airport Angel membership allows consumers to access airport lounges across the world and to receive a number of other support services aimed at enhancing their travel experience. The product includes an innovative text service which enables consumers to receive information on their mobile phones about their plane arrival and departure times.

We have ambitious plans for the development of Airport Angel and over the next 12 months will be developing the product and launching it to international markets. At present, sales of the product are primarily focused on the retail banking and financial services sector. In these sectors, the product becomes an integral part of our clients' offer to their consumer. This in turn helps to support our strategy of increasing the proportion of our revenues derived from long term contracts.

Airport Angel has been well received by the market and, since the financial year end, we have signed major contracts with UK based banks and are in discussions with a number of other major potential clients.

### **Promodus**

The Promodus business, which provides a full range of marketing services specialising in servicing clients in the financial services, B2B and technology sectors, finished the year on a very positive note hitting the targets agreed at the time of the acquisition. As a result of this we paid a second consideration £125,000.

Since the year end the Promodus business has been adversely affected by the economic slowdown. Their major financial service clients have cut budgets and in general are being more cautious with their expenditure.

## **BUSINESS DEVELOPMENT**

In February we reported that short term sales were disappointing but that the longer term pipeline remained strong. I am pleased to say that in the UK we have closed a number of the long term contracts that we were negotiating at that time and, since the financial year end, Leapfrog Australia has won a number of tactical marketing campaigns. Since the financial year end, the UK tactical business, which was under-performing, has been brought under the control of Brian Smillie who is now managing the sales force internationally.

## **THE BOARD**

The composition of the Board has changed with our acquisitions. In August 2007, we were pleased to welcome co-founders of the Leapfrog business, Brian Smillie and Richard Tenser, to the Board. Brian assumed the role of International Managing Director. In January 2008, Victor Koch stepped down from the Board and I would formally like to thank him on behalf of all the Directors for his contribution to the Group over many years.

## **STRATEGY**

In my statement last year I explained that the acquisition of Leapfrog Group gave us the opportunity to build a first rate and robust loyalty and sales promotion business with substantial potential for growth. We remain focused on this objective. Our recent contract wins and the successful launch of Airport Angel have confirmed the validity of this strategy. We continue to focus on securing long-term loyalty and CRM contracts which provide greater visibility of future earnings and a more solid platform upon which to build.

## **CHAIRMAN'S STATEMENT CONTINUED**

Last year I also stated that we would continue to search for an acquisition that would enable us to build a second leg for the Group. However, given the current market and economic environment our primary focus will be on organic growth. Whilst there are acquisition opportunities we will focus on those that strengthen our existing offer.

### **CURRENT TRADING & PROSPECTS**

The Company entered the current financial year with a larger and broader business base and greater critical mass in key areas such as information technology and product development. Whilst it has taken longer to achieve our targets than we had hoped at the time of the acquisitions, we now have a good platform upon which to build.

Traditionally, in a tough economic climate, the market focuses more on exploiting sales promotion and direct marketing tools which have measurable results. Thus whilst the economic slow down has increased the time taken to close large contracts, we believe that we will be able to build our business through providing clients with innovative and cost effective campaigns with measurable results.

We view prospects for the group positively despite the difficult economic environment.

A handwritten signature in black ink, appearing to read 'AJC', with a long horizontal stroke extending to the right.

**ANDREW JOHNSON  
CHAIRMAN**

**29 September 2008**

## **BUSINESS OVERVIEW**

### **HISTORY**

The UK loyalty and sales promotion business (previously known as MKM Concepts) was founded in 1989 with the objective of developing innovative travel and leisure sales promotion programmes. In 1994, a travel agency was established in order to manage the redemption of travel-related sales promotions.

The Asia-Pacific business (acquired as the Leapfrog Group) was established in 1997 in Sydney and followed a very similar development path to the UK business. Having successfully established the business in Australia, offices were subsequently opened in New Zealand in 2005 and in Singapore in 2007.

The UK business floated on the AIM market in 2004. The Group acquired the Leapfrog Group in 2007 and merged its operations with the Group's existing businesses under the Leapfrog brand name.

Today Leapfrog's expertise lies in the creation and management of innovative sales promotion, incentive, loyalty and reward programmes. Leapfrog offers global experience combined with local expertise to assist businesses in managing customer and consumer demand more effectively. Leapfrog's mission is to be the most innovative loyalty and sales promotion company in the world and prides itself on its heritage of innovative product development.

In 2007, the Group also acquired Promodus, a full service marketing agency in London specialising in clients in the financial services, B2B and technology sectors. Promodus was founded in 2004 and in a short time acquired a strong reputation for strategic and creative professional service, attracting well known clients such as AXA, Parcellforce and Your Move. By combining Promodus and Leapfrog services, Promodus is now able to offer a more 'end-to-end' solution, from strategic consultancy to creative execution to delivery of rewards. Early indications show that clients will find this more efficient approach attractive. The Promodus management team have also helped the Leapfrog UK business adopt a more solutions orientated approach to client development.

Leapfrog has successfully developed into the New Zealand market and is currently evaluating additional markets to open utilising a similar low cost model.

### **PRODUCTS AND SERVICES**

Leapfrog designs, develops and delivers loyalty and sales promotion programmes for large blue chip clients to help them acquire, develop and retain customers. Its business falls into two main categories: long term partnership and loyalty programmes designed to support clients seeking to reward their customers for their loyalty, and shorter term promotional programmes to help clients achieve objectives such as the launch of a new product. Leapfrog specialises in delivering programmes based around travel, leisure and lifestyle promotions utilising a product range that includes holiday and flight vouchers, experience days, pamper treats and restaurant and hotel offers.

Leapfrog's clients are primarily major branded companies with significant marketing budgets, particularly in the financial services and fast moving consumer goods sectors. In the partnership and loyalty area, Leapfrog maintains long-term contractual relationships with clients. Leapfrog supports the "Premier" and "Plus" account banking activities of HSBC Bank plc and the "firstdirectory" account for First Direct. Leapfrog also runs tactical programmes for fast moving consumer goods companies such as Procter & Gamble.

In order to develop these programmes, Leapfrog draws upon its database of independent and major branded partners who are interested in participating in sales promotions activity as an alternative sales channel, providing them with access to new customers. Leapfrog seeks to match the marketing objectives of its clients and partners, to their mutual benefit and to the benefit of consumers. The matching of client and partner consumer profiles and brand values is a key element of the solution development process.

## **BUSINESS OVERVIEW (continued)**

Leapfrog runs long-term reward programmes for corporate clients based on a points system which enables customers of such clients to qualify for rewards. Leapfrog provides a broad range of services such as programme design, reward management, database and website management and hosting, and help desk and account management.

Leapfrog has a number of established products that it can incorporate into client solutions. These include Yippee!, a range of “aspirational experiences” supplied by third parties, Hidden Retreats, a range of exclusive holidays, and Pamper Treats, a range of indulgence treats such as spa days. Leapfrog maintains websites for each of these products that enhance the consumer experience and minimise the cost of fulfilment.

During the last year the Group has maintained its focus on new product development with the launch of Airport Angel and the continuing development of StARS.

Airport Angel membership allows consumers to access airport lounges across the globe and receive a number of other support services aimed at enhancing their travel experience. The product includes an innovative text service which enables consumers to receive information on their mobile phones about their plane arrival and departure times. Consumers can buy the service directly at [www.airportangel.co.uk](http://www.airportangel.co.uk). The product is an ideal component for major financial service companies seeking to provide their consumers with added value services that increase consumer loyalty. The product has been launched in the UK and will be rolled out to international markets during the current financial year.

The StARS programme allows Leapfrog to hold comprehensive details on all their partner offers on one database and readily support the activity of multiple clients. StARS allows consumers to benefit from the improved presentation of the offers and clients to have access to enhanced management information. The programme was launched in November 2006 and represented a major step forward in the fulfilment of campaigns for clients. The programme helped Leapfrog UK to win a number of accounts during the year and is now being utilised to support all the major UK clients. Leapfrog Australia is now using StARS to support a number of significant new business pitches. We have continued to enhance StARS to meet the demands of new clients and the programme allows us to differentiate ourselves from competitors. StARS allows clients to link their sales promotion campaigns with their broader customer relationship management programmes.

## **OPERATIONS AND INFORMATION TECHNOLOGY**

As well as designing programmes, Leapfrog delivers programmes utilising in-house contact centres, travel agency and fulfilment resources based in Manchester and Sydney. Additional sales offices are based in Melbourne, Auckland, and Singapore. During the last two years considerable focus has been placed on improving operational delivery and quality control. In 2006, the UK business initiated a programme to achieve ISO 9001, the international reference standard for business-to-business quality management, and received accreditation in April 2007. The Asia-Pacific business is following a similar programme.

## **DIRECTORS' REPORT**

The directors present their annual report and financial statements of MKM Group plc for the year ended 31 March 2008

### **PRINCIPAL ACTIVITIES**

The principal activity of the Group continues to be the provision of high added value Loyalty and Sales Promotions programmes as described within the Business Overview section on page 5

### **HEADLINE RESULTS**

The results for the year ended 31 March 2008 are set out in the consolidated income statement on page 15. These show an operating loss of £222,000 (2007 profit of £404,000) on a revenue of £6,970,000 (2007 £3,888,000)

These results include part year financial performance for the two acquisitions completed in the year as detailed within note 23 of the accounts on page 45 and 46. If these acquisitions had been completed on the first day of the financial year, the combined group revenues for the period would have been £10,361,000 and the group operating profit would have been £686,000

This 'pro-forma' result illustrates the true size of the combined group business and the financial performance that has been delivered by the separate entities over the period. The pro-forma results have been derived from management information and have been adjusted for one-off items that are not expected to re-occur. In addition, and as described within the financial review of the period, has been included within the Chairman's Statement on pages 2 and 3, these results also confirm that the Australia Leapfrog business has seen the loss of a major client and a reduction in the volume of promotional sales. This has contributed to the business delivering a loss in this period.

The Directors do not recommend the payment of a dividend (2007 nil)

### **BUSINESS REVIEW AND PRINCIPAL RISKS AND UNCERTAINTIES**

The Business Overview section on pages 5 and 6 and the Chairman's Statement on pages 2 and 3 outline the fundamentals of the business and the Key Performance Indicators of Revenue, Profit and Cash progression.

The market for sales promotion activity remains highly competitive. The Group seeks to manage the risk of losing key clients through providing innovative solutions supported by high quality delivery.

The Group's credit risk is attributable to its trade debtors. This risk is managed through running credit

checks on new clients and through daily monitoring of payments versus contracted terms.

The Group monitors cash flow as part of its normal activities. Cash flow positions are discussed with the Board on a monthly basis to ensure that all possible treasury benefits are being taken and facilities are available if necessary.

The Group's risk associated with foreign exchange and interest rate risk is discussed within note 25 to the accounts.

### **DIRECTORS**

The Board of Directors as at 29 September 2008 comprised

Andrew Johnson  
Mark Koch  
Brian Smillie – appointed 29 August 2007  
Michael Squires  
Richard Tenser – appointed 29 August 2007  
Matthew Toynton

Changes to the Board of directors made during the year were as follows:

David Mond – retired 18 October 2007  
Victor Koch – resigned 1 February 2008  
Brian Smillie – appointed 29 August 2007  
Richard Tenser – appointed 29 August 2007



## DIRECTORS' REPORT (Continued)

### DIRECTORS' INTERESTS IN SHARES AND OPTIONS SHARES

#### OPTIONS

Under the rules of the Enterprise Management Incentive Scheme and the Unapproved Share Option Scheme, the executive directors have been granted an interest in options over ordinary shares of 0.5p each as follows

	Granted in the year number of ordinary shares of 0.5p each	At 31 March 08 ordinary shares of 0.5p each	Date from which exercisable	Expiry date	Exercise price (pence)
Andrew Johnson (2)		1,000,000	25 10 06	25 10 12	5
Andrew Johnson (1)		2,000,000	15 12 06	15 12 12	5
Andrew Johnson (2)		2,000,000	15 12 06	15 12 12	5
Mark Koch (1)		900,000	20 02 09	20 02 16	6.25
Brian Smillie (2)	1,375,000	1,375,000	29 06 08	29 06 10	7.5
Matthew Toynton (1)		1,818,181	30 06 09	30 06 16	5.5

(1) Granted under the EMI Option Scheme

(2) Granted under the Unapproved Share Option Scheme

No options were exercised in the year

#### SHARES

Directors' interests in the shares of the Company, including family interests, were as follows

	Ordinary Shares of 0.5p each At 31 March 2008	Ordinary Shares of 0.5p each At 31 March 2007
Andrew Johnson	3,600,000	3,500,000
Mark Koch	7,263,636	7,263,636
Brian Smillie	11,500,000	-
Michael Squires	400,000	400,000
Richard Tenser	9,000,000	-
Matthew Toynton	200,000	200,000

#### SUBSTANTIAL SHAREHOLDINGS

Other than the directors' interests already disclosed, the Group is aware of the following shareholders of 3% or more in the issued share capital at 29 September 2008

	No of Shares	%
Victor Koch	7,263,637	9.9%
W H Ireland Group plc	3,000,000	4.1%
David Mond	2,750,000	3.8%
ISIS EP LLP	2,300,000	3.1%

#### SHARE CAPITAL

Details of the Groups' share capital are shown in note 21 of the accounts. This note includes the share issues associated with the two acquisitions completed within the year.

#### DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985.

## DIRECTORS' REPORT (Continued)

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, directors are also required to

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

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company 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 directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

## POLICY ON PAYMENT TO CREDITORS

The Group agrees the terms and conditions under which business transactions with suppliers are conducted. It complies with these payment terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions.

The effect of the Group's payment policy is that its trade creditors at the year end represent 45 days (2007: 42 days).

## CHARITABLE DONATION

The company made a charitable donation during the year of £100 (2007: £75).

## AUDITORS

Each of the persons who is a director at the date of approval of this annual report confirms that

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

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP were appointed as auditors to fill a casual vacancy. The Directors will place a resolution before the Annual General Meeting to reappoint Deloitte & Touche LLP as auditors for the ensuing year.

By order of the Board



**MATTHEW TOYNTON**  
**GROUP FINANCE DIRECTOR & COMPANY SECRETARY**

29 September 2008

# CORPORATE GOVERNANCE STATEMENT

Information on the Corporate Governance of MKM Group plc has been provided voluntarily

## PRINCIPLES OF CORPORATE GOVERNANCE

The Group is committed to applying the highest principles of corporate governance. The Board has given consideration to the requirements of the combined code on Corporate Governance ("the Code") published in July 2003 and intends to comply with those aspects it considers relevant to the Group's size and circumstances. Below is a brief description of the role of the Board, including a statement regarding the Group's system of internal financial control.

## BOARD STRUCTURE

The Group is managed by a Board consisting of a Chairman and four Executive Directors and a Non-Executive Director who retain responsibility for the formulation of corporate strategy, approval of acquisitions, divestments and major capital expenditure and treasury policy. The appointment of new directors is a matter reserved for the Board as a whole rather than for a separate nomination committee.

The Board meets regularly and has a schedule of matters specifically referred to it for decision. All directors have access to advice from the Company Secretary and training is available for directors as necessary.

## AUDIT COMMITTEE

The Audit Committee consists solely of the Non-Executive Director, Michael Squires who chairs the committee. The Committee considers matters relating to the financial accounting controls, the reporting of results and the effectiveness and cost of the audit. It meets at least twice a year with the Chairman and Finance Director in attendance as required.

## INTERNAL CONTROL

The directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can only provide reasonable and not absolute assurance. The Board has reviewed the operation and effectiveness of the system of internal control in operation during the period.

The trading companies are managed locally with a clearly defined responsibility for the operation of the business to meet standards required by both the Group and appropriate regulatory authorities.

Management is also responsible for assessing and minimising all business risks. The Group Board has ultimate responsibility for ensuring the Group's business and financial risks are minimised and provides support to management in matters relating to regulatory compliance, health and safety, environment, quality systems and insurance cover for property and liability risks.

Monthly accounts with commentary on current period performance compared with planned performance, together with key ratio analysis and working capital information, are prepared in accordance with Group accounting policies and principles. They are consolidated and reviewed by the Board to monitor overall performance and appropriate management intervention.

Management monitors the funding requirements of, and the banking facilities provided to the Group in addition to the management of investment and treasury procedures. Capital and significant investment expenditure is approved against performance criteria through a structure of authority limits.

During the period the Board has reviewed the procedures necessary to implement the main principles embodied in the guidance "Internal Control Guidance for Directors on the Combined Code". This has resulted in the following actions:

- ☐ The Board performed a risk review to identify the main business risks and to identify appropriate actions to mitigate those risks.
- ☐ There is now an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

The Board has reviewed the effectiveness of the internal controls of the Group. The key process in this review includes discussions with executive management regarding the actions taken on problem areas identified by Board members or other key personnel.

Management control of the Group's operations is delegated to Executive Directors who exercise this control through an organisational structure with clearly defined levels of responsibility, authority and reporting.

Financial performance, on a Company and consolidated basis, is reported regularly throughout the period. Significant variances from budget and forecasts are investigated. Group financial policies are operated by the trading subsidiary and compliance is monitored by the Group Finance Director. The results of such reviews are reported to the audit committee.

## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

The Board has considered the need for an internal audit function but has concluded that the size and complexity of the Group does not justify the expense at present. The need for an internal audit function will continue to be reviewed periodically.

### **RELATIONS WITH SHAREHOLDERS**

The Board attaches great importance to maintaining good relationships with shareholders. The Board regards the Annual General Meeting as an opportunity to communicate directly with investors, who are encouraged to participate.

### **GOING CONCERN**

The directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board



**MATTHEW TOYNTON  
GROUP FINANCE DIRECTOR & COMPANY  
SECRETARY**

29 September 2008

## REMUNERATION REPORT

Information contained in this remuneration report has been provided by MKM Group plc voluntarily. Details of the Directors' remuneration are provided within note 7 of the accounts.

The directors have applied the principles of Good Governance relating to the Directors' remuneration as described below.

### REMUNERATION COMMITTEE

The Remuneration Committee is authorised on behalf of the Board to determine the Group's remuneration policy on Executive Directors' remuneration, including pension rights and share option awards and the terms of their service contracts. The Committee meets at least twice a year and supervises the operation of share schemes and other employee incentive schemes.

The remuneration and terms and conditions of appointment of the Non-executive Directors will be set by the Board. No Director shall participate in discussions relating to his own remuneration. The Remuneration Committee consists solely of the Non-executive Director, Michael Squires, who chairs the Committee. The Chairman and Finance Director participate as necessary.

### REMUNERATION POLICY

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain directors of the calibre necessary to develop the Group's position as a market leader and to reward them for enhancing shareholder value and return on investment. The remuneration should also reflect the Directors' responsibilities and contain incentives to deliver the Group's objectives.

The main elements of the Executive Directors' remuneration packages are as follows -

- basic salary,
- benefit package,
- share option incentives,
- pension

### SHARE OPTIONS

In 2004 the Group established an EMI Share Option plan to allow selected employees to share in the success of the Group and promote motivation and retention, through the award of tax efficient share options.

In 2005 the Company also established an Unapproved Share Option plan for those individuals not eligible to participate under the EMI Share Option plan and for the award of additional options to the recipients of awards under the EMI Share Option plan.

The details of the unapproved and approved EMI Share Option awards granted during the period, and as at 31 March 2008 are reflected within the Directors' Report.

Vesting of the share options awarded to directors under the EMI and Unapproved Share Option Plans is not subject to performance.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MKM GROUP PLC LIMITED**

We have audited the group financial statements of MKM Group plc for the year ended 31 March 2008 which comprise the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 27. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of MKM Group plc for the year ended 31 March 2008.

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**

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Overview that is cross referred from the Business Review and Headline Results section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group 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 group financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MKM GROUP PLC LIMITED**  
(continued)

**Opinion**

**In our opinion**

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its loss for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the group financial statements

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
Manchester, United Kingdom  
29 September 2008

## MKM Group Plc – Group Financial Statements

### Consolidated income statement for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Revenue	4	6,970	3,888
Cost of sales		(2,601)	(1,411)
<b>GROSS PROFIT</b>		<b>4,369</b>	<b>2,477</b>
Administrative expenses		(4,591)	(2,073)
<b>(LOSS)/PROFIT FROM OPERATIONS</b>	5	<b>(222)</b>	<b>404</b>
Finance expense	9	(68)	(1)
Finance income	9	41	53
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<b>(249)</b>	<b>456</b>
Income tax credit	10	45	124
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>(204)</b>	<b>580</b>
<b>Attributable to the equity holders of the parent</b>		<b>(204)</b>	<b>580</b>
Basic (loss)/earnings per share (pence)	11	(0 3)	1 3
Diluted (loss)/earnings per share (pence)	11	(0 3)	1 1

The notes on pages 19 to 57 form part of these financial statements



## MKM Group Plc – Group Financial Statements

### Consolidated statement of changes in equity for the year ended 31 March 2008

	Share capital £'000	Share premium £'000	Share option reserve £'000	Merger reserve £'000	Translation reserve £'000	Deferred share capital consideration £'000	Retained earnings £'000	Total £'000
Balance as at 1 April 2007	218	2,205	112	-	-	-	(107)	2,428
Changes in equity for year ended 31 March 2007								
Net loss for the period	-	-	-	-	-	-	(204)	(204)
Total recognised income and expense for the period	-	-	-	-	-	-	(311)	2,224
Equity credit in respect of share based payments	-	-	25	-	-	-	-	25
Deferred tax asset relating to share options	-	-	(51)	-	-	-	-	(51)
Issue of equity Shares	147	442	-	1,767	-	671	-	3,027
Exchange rate loss on translation of overseas operations	-	-	-	-	(84)	-	-	(84)
Balance as at 31 March 2008	365	2,647	86	1,767	(84)	671	(311)	5,141

### Consolidated statement of changes in equity for the year ended 31 March 2007

	Share capital £'000	Share premium £'000	Share option reserve £'000	Merger reserve £'000	Translation reserve £'000	Deferred share capital consideration £'000	Retained earnings £'000	Total £'000
Balance as at 1 April 2006	218	2,205	31	-	-	-	(687)	1,767
Changes in equity for year ended 31 March 2007								
Net profit for the period	-	-	-	-	-	-	580	580
Total recognised income and expense for the period	-	-	-	-	-	-	580	580
Equity credit in respect of share based payments	-	-	30	-	-	-	-	30
Deferred tax asset relating to share options	-	-	51	-	-	-	-	51
Balance as at 31 March 2007	218	2,205	112	-	-	-	(107)	2,428

The notes on pages 19 to 57 form part of these financial statements

# MKM Group Plc – Group Financial Statements

## Consolidated balance sheet as at 31 March 2008

		31 March 2008 £'000	31 March 2007 £'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	13	691	277
Intangibles	12	6,597	703
Deferred tax asset	18	185	178
		<u>7,473</u>	<u>1,158</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	15	2,635	806
Cash and cash equivalents		134	1,906
		<u>2,769</u>	<u>2,712</u>
<b>TOTAL ASSETS</b>		<u>10,242</u>	<u>3,870</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	(4,068)	(1,437)
Borrowings	17	(342)	-
Loan stock	17	(450)	-
Provisions	20	(159)	(5)
		<u>(5,019)</u>	<u>(1,442)</u>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	17	(82)	-
<b>TOTAL LIABILITIES</b>		<u>(5,101)</u>	<u>(1,442)</u>
<b>NET ASSETS</b>		<u><u>5,141</u></u>	<u><u>2,428</u></u>
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY</b>			
Share capital	21	365	218
Share premium	22	2,647	2,205
Share option reserve	22	86	112
Deferred share capital consideration	22	671	-
Merger reserve	22	1,767	-
Translation reserve	22	(84)	-
Retained earnings	22	(311)	(107)
<b>TOTAL EQUITY</b>		<u><u>5,141</u></u>	<u><u>2,428</u></u>

The financial statements on pages 15 to 57 were approved by the Board of Directors on 29 September 2008 and were signed and authorised for issue on its behalf by



Matthew Toynton

Group Finance Director

The notes on pages 19 to 57 form part of these financial statements

# MKM Group Plc – Group Financial Statements

## Consolidated cash flow statement for the year ended 31 March 2008

	Year ended 31 March 2008		Year ended 31 March 2007	
	£'000	£'000	£'000	£'000
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>				
(Loss)/profit before taxation	(249)		456	
Adjustments for				
Interest receivable	(41)		(53)	
Depreciation	174		80	
Gain on deferred consideration	(97)		-	
Interest expense	68		1	
Share option charge	25		30	
<b>Operating cashflow before movement in working capital</b>		<b>(120)</b>		<b>514</b>
Increase in receivables	(596)		(546)	
Increase in payables	212		278	
Increase/(decrease) in provisions	154		(16)	
Effect of foreign exchange rate changes	(71)		-	
<b>Movement in working capital</b>		<b>(301)</b>		<b>(284)</b>
Interest paid		(68)		(1)
<b>Net cash (used in)/generated from operations</b>		<b>(489)</b>		<b>229</b>
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(378)		(72)	
Purchase of intangible assets	(247)		-	
Acquisition of share capital in new companies	(1,366)		-	
Costs associated with acquisition	(422)		-	
Cash within acquired Company	272		-	
Acquisition of subsidiary	(1,516)		-	
Interest received	41		53	
<b>Net cash outflow from investing activities</b>		<b>(2,100)</b>		<b>(19)</b>
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>				
Issue of ordinary share capital	475		-	
<b>Net cash generated from financing activities</b>		<b>475</b>		<b>-</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,114)</b>		<b>210</b>
Cash and cash equivalents at the beginning of the period		1,906		1,696
<b>Cash and cash equivalents at the end of the period (note 27)</b>		<b>(208)</b>		<b>1,906</b>

The notes on pages 19 to 57 form part of these financial statements

## MKM Group Plc – Group Financial Statements

### Notes forming part of the financial statements for the year ended 31 March 2008

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#### General information

MKM Group plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the operating and financial review on pages 2 to 6.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out in note 2.

#### 1. Adoption of new and revised Standards

In the current year, the Group has adopted IFRS 7 *Financial Instruments Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 25). Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the first time in the current period. These are:

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*,

IFRIC 8 *Scope of IFRS 2*,

IFRIC 9 *Reassessment of Embedded Derivatives*, and

IFRIC 10 *Interim Financial Reporting and Impairment*.

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 3	<i>Business Combinations</i> , issued in January 2008 effective for periods commencing on or after 1 July 2009
IAS 23	<i>Borrowing Costs</i> , issued in March 2007 effective for periods commencing on or after 1 January 2009
IAS 1	<i>Presentation of Financial Statements</i> , issued in September 2007 effective for periods commencing on or after 1 January 2009
IAS 27	<i>Consolidated and Separate Financial Statements</i> , issued in January 2008 effective for periods commencing on or after 1 July 2009
IFRS 2	<i>Share-Based Payment Vesting Conditions and Cancellations</i> , issued in January 2008 effective for periods commencing on or after 1 January 2009
Amendments to IAS 32 and IAS 1	<i>Puttable financial instruments and obligations arising on liquidation</i> , issued in February 2008 effective for periods commencing on or after 1 January 2009
Amendments to IFRS 1 and IAS 27	<i>Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> , issued in May 2008 effective for periods commencing on or after 1 January 2009
Improvements to IFRS in 2008	<i>Improvements to IFRS 2008</i> , issued in May 2008 effective for periods commencing on or after 1 January 2009
IFRIC 12	<i>Service Concession Arrangements</i> , effective for periods commencing on or after 1 January 2008
IFRIC 13	<i>Customer Loyalty Programmes</i> , issued in June 2007 effective for periods commencing on or after 1 July 2008

## MKM Group Plc – Group Financial Statements

### Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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#### 1. Adoption of new and revised Standards (continued)

IFRIC 14	<i>IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> , issued in July 2007 effective for periods commencing on or after 1 January 2008
IFRIC 15	<i>Agreements for the Construction of Real Estate</i> , effective for periods commencing on or after 1 January 2009
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i> , effective for periods commencing on or after 1 October 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009

## **MKM Group Plc – Group Financial Statements**

### **Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)**

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#### **2. Significant accounting policies**

##### **Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted by the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of the subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

##### **Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Promodus Ltd had a year end date of 31 December 2007, for which audited accounts were completed. The financial results up to 31 March 2008 have been included based upon management account information.

##### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

**2. Significant accounting policies (continued)**

**Goodwill (continued)**

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

**Revenue recognition**

As the Group delivers loyalty and sales promotion campaigns it is providing a service to the client. The Group recognises revenue to the extent that this service has been provided.

When the group completes the sale of vouchers redeemable against holidays and flights sourced by the Group, then part of the revenue is treated as deferred income in the balance sheet and released to turnover at a later date. This deferral and release is based upon a judgement of the extent to which the service has been provided under each contract.

Turnover from the Group's activities as a tour operator and travel agent is recognised when the Group has fulfilled its contractual obligations connected with the sale.

**Leasing**

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

***The group as lessee***

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

## **MKM Group Plc – Group Financial Statements**

**Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)**

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### **2. Significant accounting policies (continued)**

#### **Foreign currencies**

For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the group's foreign currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### **Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

#### **Property, plant and equipment**

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs. The corresponding liability is recognised within provisions.

All other items of property, plant and equipment are carried at depreciated cost.

Freehold land is not depreciated. Depreciation is provided on all other items of property, plant and equipment to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Leasehold improvements	-	evenly over the length of lease
Fixtures and fittings	-	25% reducing balance
Computer equipment	-	25% reducing balance



**2. Significant accounting policies (continued)**

**Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

- the initial recognition of goodwill,
- goodwill for which amortisation is not tax deductible,
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

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

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

## **MKM Group Plc – Group Financial Statements**

**Notes forming part of the financial statements for the year ended 31 March 2008 (Continued)**

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### **2. Significant accounting policies (continued)**

#### **Taxation (continued)**

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

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

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

#### **Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

#### **Share-based payments**

The group has applied the requirements of IFRS 2 *Share-based Payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

#### **Financial instruments**

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

## **MKM Group Plc – Group Financial Statements**

**Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)**

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### **2. Significant accounting policies (continued)**

#### **Financial instruments**

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

#### ***Loans and receivables***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### ***Financial liabilities and equity***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

#### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

#### ***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**3. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying the group's accounting policies**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

**Revenue recognition**

The Group exercises its judgement in quantifying the initial revenue recognised and the subsequent recognition of the remaining revenue. There are various phases of service delivery that can vary by campaign. Management exercises judgement to allocate the revenue between these different phases, estimating the stage of completion associated with each stage.

The policy for revenue recognition is reviewed annually to ensure that it remains appropriate for all new contracts.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Recoverability of internally-generated intangible asset**

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £395,000. The internally-generated intangible assets are web-based databases and software used in client service delivery. The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

**Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £6,202,000.

## **MKM Group Plc – Group Financial Statements**

**Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)**

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### **4. Geographical and business segments**

#### **Geographical segments**

For management purposes, the group is currently organised into two geographical operating divisions – UK and Australia. These divisions are the basis on which the group reports its primary segment information.

Principal activities are as follows:

UK – Loyalty and Sales promotion and Marketing Consultancy within the UK

Australia – Loyalty and Sales promotion within Australia, New Zealand and Singapore

# MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

## 4. Geographical and business segments (continued)

	Geographical segments		Total
	UK	Australia	
	2008	2008	2008
	£'000	£'000	£'000
<i>Revenue</i>			
External	3,808	3,162	6,970
<b>Total</b>	<b>3,808</b>	<b>3,162</b>	<b>6,970</b>
<i>Result</i>			
Segment result	68	(200)	(132)
Unallocated administrative expenses			(90)
Operating loss			(222)
Finance income			41
Finance expense			(68)
Loss before tax			(249)
Tax			45
Loss After tax			(204)

	Geographical segments		Total
	UK	Australia	
	2008	2008	2008
	£'000	£'000	£'000
<i>Balance sheet</i>			
Assets	8,076	2,166	10,242
Liabilities	(2,225)	(2,876)	(5,101)
<b>Net assets</b>	<b>5,851</b>	<b>(710)</b>	<b>5,141</b>
<i>Other</i>			
Capital expenditure	-	378	378
Depreciation	(92)	(56)	(148)

# MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

## 4. Geographical and business segments (continued)

	Geographical segments		
	UK	Australia	Total
	2007	2007	2007
	£'000	£'000	£'000
<i>Revenue</i>			
External	3,888	-	3,888
<b>Total</b>	<b>3,888</b>	<b>-</b>	<b>3,888</b>
<i>Result</i>			
Segment result and operating profit	404	-	404
Finance income			53
Finance expense			(1)
Profit before tax			456
Income tax credit			124
Profit after tax			580

	Geographical segments		
	UK	Australia	Total
	2007	2007	2007
	£'000	£'000	£'000
<i>Revenue</i>			
External	3,888	-	3,888
<b>Total</b>	<b>3,888</b>	<b>-</b>	<b>3,888</b>
<i>Result</i>			
Segment result	404	-	404
Unallocated administrative expenses			-
Operating profit			404
Finance income			53
Finance expense			(1)
Profit before tax			456
Income tax credit			124
Profit after tax			580

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 4. Geographical and business segments (continued)

#### Business segments

The group's operations are split into 3 segments Loyalty and Partnership, Tactical Sales Promotion and Marketing Consultancy

The following table provides an analysis of the group's sales by segment, irrespective of the origin of the goods/services

	Sales revenue by business segment	
	2008 £'000	2007 £'000
<i>Revenue</i>		
Loyalty and Partnership	3,210	2,163
Tactical Sales promotion	3,296	1,725
Marketing Consultancy	464	-
	<u>6,970</u>	<u>3,888</u>

The total Marketing Consultancy Sales are within the UK primary segment reporting

The following table provides an analysis of the carrying value of segment assets and the investment in property, plant and equipment and intangible assets

	Carrying amount of segment net assets		Additions to property, plant and equipment and intangible assets	
	2008 £	2007 £	Year ended 2008 £	Year ended 2007 £
Loyalty and Partnership	2,850	1,351	283	40
Tactical Sales promotion	2,270	1,077	95	32
Marketing Consultancy	20	-	-	-
	<u>5,141</u>	<u>2,428</u>	<u>378</u>	<u>72</u>



## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 5. (Loss)/profit from operations

	2008 £'000	2007 £'000
This has been arrived at after charging		
Staff costs (see note 6)	3,099	1,448
Depreciation of property, plant and equipment (see note 13)	148	80
Amortisation of intangible assets (see note 12)	26	-
Operating lease expense (see note 19)		
Property	245	92
Onerous lease provision	80	-
Restructuring costs	127	-
Gain on deferred consideration	(97)	-

The lease provision above has been included within trade and other payables as the full amount is due within one year from the balance sheet date

### 6. Staff costs

	2008 £'000	2007 £'000
Staff costs (including directors) comprise		
Wages and salaries	2,756	1,247
Short-term monetary benefits	1	5
Defined contribution pension cost	40	13
Share-based payment expense (see note 24)	25	30
Employer's national insurance contributions and similar taxes	277	143
Employee bonus accrual	-	10
	<u>3,099</u>	<u>1,448</u>

The average monthly number of employees (including executive directors) was

	2008	2007
Operations and fulfillment	38	22
Sales and client services	26	12
Finance and administration	19	10
	<u>83</u>	<u>44</u>

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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### 7. Directors' remuneration

	2008 £'000	2007 £'000
Directors' remuneration consists of		
Salary and bonuses	489	445
Pension contributions	96	49
Share based payments	25	30
Compensation for loss of office	102	-
	<u>712</u>	<u>524</u>
Remuneration in respect of the highest paid director		
Salary and bonuses	60	61
Pension contributions	80	80
Share based payments	-	23
	<u>140</u>	<u>164</u>

Pension Contributions were paid into a money purchase pension scheme on behalf of 3 Directors (2007  
4) The highest paid director did not exercise any share options during the year

## MKM Group Plc – Group Financial Statements

### Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

#### 8. Auditors' remuneration

The analysis of auditors' remuneration is as follows

	2008 £'000	2007 £'000
Fees payable to the company's auditors for the audit of the company's financial statements	50	8
Fees payable to the company's auditors and their associates for other services to the Group		
- audit of the company's subsidiaries pursuant to legislation	25	22
Total audit fees	<u>75</u>	<u>30</u>
- tax services	15	35
- corporate finance services	105	-
Total non audit fees	<u>145</u>	<u>57</u>

The fees payable for Corporate Finance services are included within the cost of acquisition of Leisure World Pty Ltd

Fees payable for the year ended 31 March 2008 relate to Deloitte & Touche LLP, whereas the audit fees within the prior year were paid to BDO Stoy Hayward LLP

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis

#### 9. Finance income and expense

	2008 £'000	2007 £'000
<i>Finance expense</i>		
On bank borrowings	(68)	(1)
<i>Finance income</i>		
Bank interest receivable	41	53

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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### 10. Tax

	2008 £'000	2007 £'000
<i>Current tax expense</i>		
UK Corporation Tax	28	-
Adjustment for under provision in prior periods	-	3
	<u>28</u>	<u>3</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(109)	-
Adjustment in respect of previous periods	18	-
Share based payments	18	-
Previously unrecognised deferred tax assets assessed as recoverable at the end of the year	-	(127)
	<u>(73)</u>	<u>(127)</u>
<b>Total tax Credit</b>	<u><u>(45)</u></u>	<u><u>(124)</u></u>

Corporation tax is calculated at 30% (2007 30%) of the estimated assessable profit for the year

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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### 10. Tax (continued)

The charge for the year can be reconciled to the profit per the income statement as follows

	2008 £'000	2007 £'000
Profit/(Loss) before tax	<u>(249)</u>	<u>456</u>
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 30% (2007 30%)	(74)	137
(Income not taxable)/expenses not deductible for tax purposes (net)	(26)	3
Prior year adjustments	18	3
Tax effect of share based payments	18	(18)
Utilisation of unrecognized losses	-	(139)
Reassessment of deferred tax asset not previously provided	-	(110)
Deferred tax asset not recognised	19	-
<b>Total tax income</b>	<u><b>(45)</b></u>	<u><b>(124)</b></u>

In addition to the amount credited to the income statement, deferred tax relating to share based payments of £51,000 has been charged directly to equity (2007 £51,000 credited directly to equity)

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 11. Earnings per share

	2008 £'000	2007 £'000
<i>Numerator</i>		
(Loss)/profit for the year	<u>(204)</u>	<u>580</u>
(Loss)/earnings used in basic EPS	<u>(204)</u>	<u>580</u>
(Loss)/Earnings used in diluted EPS	<u>(204)</u>	<u>580</u>
<i>Denominator</i>		
Weighted average number of shares used in basic EPS	<u>60,630,267</u>	<u>43,744,545</u>
Effects of		
- employee share options		7,864,881
- deferred consideration shares		-
Weighted average number of shares used in diluted EPS		<u>51,609,426</u>
Basic (loss)/earnings per share (pence)	<u>(0.3)</u>	<u>1.3</u>
Diluted (loss)/earnings per share (pence)	<u>(0.3)</u>	<u>1.1</u>

The basic earnings per share has been calculated using the profit after tax, divided by the weighted average number of shares in issue of 60,630,267 (2007 43,744,545)

As a result of the loss in the year to 31 March 2008, the diluted earnings per share is the same as the basic earnings per share as the employee share options of 2,845,481 and deferred consideration shares of 20,216,216 are antidilutive

In the year to 31 March 2007, diluted earnings per share is calculated by adjusting the weighted average number of shares in issue on the assumption of conversion of all the potentially dilutive ordinary shares which are share options granted where the exercise price is less than the average price of the Company's ordinary shares during the period. The weighted average number of potentially dilutive share options at 31 March 2007 was 7,864,881

## MKM Group Plc – Group Financial Statements

### Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

#### 12. Intangibles

##### 12a. Goodwill

	£'000
<b>Cost</b>	
At 1 April 2006	<u>703</u>
At 1 April 2007	703
Recognised on acquisition of a subsidiary	5,499
At 31 March 2008	<u>6,202</u>
<b>Carrying amount</b>	
At 31 March 2008	<u>6,202</u>
At 1 April 2007	<u>703</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 carrying amount of goodwill has been allocated as follows:

	2008 £'000	2007 £'000
Leapfrog Australia	4,944	-
Leapfrog UK (formerly MKM Concepts)	703	703
Promodus	555	-
	<u>6,202</u>	<u>703</u>

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

## MKM Group Plc – Group Financial Statements

### Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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#### 12a. Goodwill (continued)

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of between 0 and 5% per cent. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from each of the CGUs is 7 per cent.

#### 12b. Other intangible assets

	Development Costs £'000
<i>At 31 March 2008</i>	
Cost	433
Accumulated amortisation	(38)
<b>Net book value</b>	<b>395</b>
<i>Year ended 31 March 2008</i>	
Opening net book value	-
Transfer from tangible assets	49
Depreciation on transferred assets	(32)
Acquired on acquisition of a subsidiary	161
Additions	247
Disposals	(24)
Amortisation	(26)
Amortisation on disposals	20
<b>Closing net book value</b>	<b>395</b>

There is a transfer between tangible fixed assets and intangible assets of £49,000 in respect of website costs as the directors deem this to be a fairer presentation of the assets. Prior to this, at 1 April 2006 and 31 March 2007 the cost and accumulated amortisation were £nil.

The lifetime of the intangible assets is defined as 3 years, and they are amortised on a straight line basis over this period. The amortisation is charged to administrative expenses.



## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 13. Property, plant and equipment

	Land and buildings £'000	Fixtures and fittings £'000	Total £'000
<i>At 1 April 2006</i>			
Cost	155	308	463
Accumulated depreciation	(56)	(122)	(178)
<b>Net book value</b>	<b>99</b>	<b>186</b>	<b>285</b>
<i>At 31 March 2007</i>			
Cost	161	374	535
Accumulated depreciation	(83)	(175)	(258)
<b>Net book value</b>	<b>78</b>	<b>199</b>	<b>277</b>
<i>At 31 March 2008</i>			
Cost	489	575	1,064
Accumulated depreciation	(129)	(244)	(373)
<b>Net book value</b>	<b>360</b>	<b>331</b>	<b>691</b>
<i>Year ended 31 March 2007</i>			
Opening net book value	99	186	285
Additions	6	66	72
Depreciation	(27)	(53)	(80)
<b>Closing net book value</b>	<b>78</b>	<b>199</b>	<b>277</b>
<i>Year ended 31 March 2008</i>			
Opening net book value	78	199	277
Acquisition of subsidiary	-	201	201
Additions	328	50	378
Transfer to intangible assets	-	(49)	(49)
Depreciation on transferred assets	-	32	32
Depreciation	(46)	(102)	(148)
<b>Closing net book value</b>	<b>360</b>	<b>331</b>	<b>691</b>

## **MKM Group Plc – Group Financial Statements**

**Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)**

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### **14. Subsidiaries**

The principal subsidiaries of MKM Group Plc, all of which have been included in these consolidated financial statements, are as follows

<b>Name</b>	<b>Country of incorporation</b>	<b>Proportion of ownership interest</b>
The Leapfrog Group Limited	Great Britain	100%
Leisure World Pty Limited	Australia	100%
Promodus Limited	Great Britain	100%
Concepts for Travel Limited	Great Britain	100%
Airport Angel Limited	Great Britain	100%
Green Suite Limited	Great Britain	100%
Yippee Experiences Limited	Great Britain	100%
Breeze Rewards Limited	Great Britain	100%
Hidden Retreats Limited	Great Britain	100%

The Leapfrog Group Limited was formerly known as MKM Concepts Limited

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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### 15. Other financial assets

#### Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	1,875	714
Other receivables	343	25
Prepayments and accrued income	417	67
	<u>2,635</u>	<u>806</u>

#### Trade receivables

The average credit period taken on sales of goods is 71 days. No interest is charged on the receivables. The Group has provided fully for all specific receivables that are not recoverable.

Included in the Group's trade receivable balance are debtors with a carrying amount of £707,000 (2007 £127,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 94 days (2007 94 days).

#### Ageing of past due but not impaired receivables

	2008 £'000	2007 £'000
60-90 days	160	29
90+ days	547	98
Total	<u>707</u>	<u>127</u>

#### Cash and cash equivalents

	2008 £'000	2007 £'000
Cash and cash equivalents	<u>134</u>	<u>1,906</u>

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (Continued)

### 16. Trade and other payables

	2008 £'000	2007 £'000
Trade payables	1,047	560
Other tax and social security taxes	828	187
Other payables	80	-
Accruals and deferred income	1,923	690
Deferred consideration	190	-
	<u>4,068</u>	<u>1,437</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days

The directors consider that the carrying amount of trade payables approximates to their fair value

### 17. Borrowings

	2008 £'000	2007 £'000
Current		
Unsecured loans - loan stock	450	-
Bank overdraft	<u>342</u>	<u>-</u>
	<u>792</u>	<u>-</u>
Non Current		
Unsecured Loans - loans from related parties	<u>82</u>	<u>-</u>

	UK sterling £'000	Australian dollars £'000	Total £'000
Analysis of borrowings by currency 31 March 2008			
Bank overdrafts	330	12	342
- Loans from related parties	-	82	82
- Loan stock	<u>450</u>	<u>-</u>	<u>450</u>
	<u>780</u>	<u>94</u>	<u>874</u>

The loan stock and loans from related parties have been provided by Brian Smillie and Richard Tenser

## MKM Group Plc – Group Financial Statements

### Notes forming part of the financial statements for the year ended 31 March 2008 (Continued)

#### 17. Borrowings (continued)

The other principal features of the group's borrowings are as follows

(i) Bank overdrafts are repayable on demand. Overdrafts of £330,000 (2007 nil) have been secured by a charge over the UK subsidiary's balance sheet. The average effective interest rate on bank overdrafts approximates 7% (2007 nil) per annum and is determined based on an agreed rate.

(ii) Amounts repayable to related parties of the Group carry interest of 7% (2007 nil) per annum charged on the outstanding loan balances.

The weighted average interest rates paid during the year were as follows

	2008	2007
	%	%
31 March 2008		
Bank overdrafts	7.0	-
Loans from related parties	-	-
Loan stock	7.0	-
	<u>6.3</u>	<u>-</u>

#### Undrawn borrowing facilities

At 31 March 2008, the group had available £70,000 (2007 £nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

#### 18. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007 30%). This follows enactment of the Finance Act 2007 in the period, which will cause the corporation tax rate to reduce to 28% with effect from 1 April 2008. Accordingly the deferred tax assets and liabilities have been stated below at 28% of the gross temporary difference.

The movement on the deferred tax account is as shown below

	Group	
	2008	2007
	£'000	£'000
At 1 April	178	-
Acquired on acquisition of a subsidiary	(15)	-
Profit and loss credit	73	127
Stock Option Reserve movement	(51)	51
At 31 March	<u>185</u>	<u>178</u>

A deferred tax asset of £185,000 (2007 £178,000) has been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 *(Continued)*

### 18. Deferred tax (continued)

Details of the deferred tax asset, amounts credited to the consolidated income statement and amounts credited to reserves are as follows

	(Reduction)/ Increase in Asset 2008 £'000	(Charged)/ Credited to income 2008 £'000	Charged to reserves 2008 £'000
Accelerated capital allowances	(12)	(12)	-
Share based payments	(69)	(18)	(51)
Other temporary and deductible differences	(17)	(17)	-
Available losses	120	120	-
	<u>22</u>	<u>73</u>	<u>(51)</u>

### 19. Operating lease arrangements

#### The group as lessee

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2008 £'000	2007 £'000
Not later than one year	102	92
Later than one year and not later than five years	472	368
Later than five years	96	184
	<u>670</u>	<u>644</u>

Operating lease payments represent rentals payable by the group for certain of its office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 20. Provisions

	Employee benefit £'000
At 1 April 2007	5
Credited in the year	154
At 31 March 2008	<u>159</u>

The provisions above relate to obligations linked to holiday pay and long service awards and as such the amounts are uncertain as they are derived from actual employee activity. The timing of the outflow is estimated by management to be in the period of 1-5 years from the balance sheet date.

### 21. Share capital

	2008 Number	Authorised 2008 £'000	2007 Number	2007 £'000
Ordinary equity shares of 0.5p each	<u>180,000,000</u>	<u>900</u>	<u>60,000,000</u>	<u>300</u>

	2008 Number	Issued and fully paid 2008 £'000	2007 Number	2007 £'000
Ordinary equity shares of 0.5p each				
As at 1 April	43,744,545	218	43,744,545	218
Placing offer on 29th August 2007	6,666,667	34	-	-
Share issue on acquisition				
Leisure World Pty Ltd - 29th August 2007	20,000,000	100	-	-
Promodus Limited - 9th October 2007	2,660,332	13	-	-
As at 31 March	<u>73,071,544</u>	<u>365</u>	<u>43,744,545</u>	<u>218</u>

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 22. Reserves

	Share premium £'000	Share option £'000	Deferred share capital consideration £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000
At 1 April 2006	2,205	31	-	-	-	(687)
Equity credit in respect of share based payments	-	30	-	-	-	-
Profit for the year	-	-	-	-	-	580
Share option deferred tax asset	-	51	-	-	-	-
At 31 March 2007	<u>2,205</u>	<u>112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(107)</u>

	Share Premium £'000	Share Option £'000	Deferred share Consideration £'000	Merger Reserve £'000	Translation Reserve £'000	Retained earnings £'000
At 1 April 2007	2,205	112	-	-	-	(107)
Equity credit in respect of share based payments	-	25	-	-	-	-
Share option deferred tax asset	-	(51)	-	-	-	-
Loss for the year	-	-	-	-	-	(204)
Acquisition	442	-	671	1,767	-	-
Exchange rate differences on translation of overseas operations	-	-	-	-	(84)	-
At 31 March 2008	<u>2,647</u>	<u>86</u>	<u>671</u>	<u>1,767</u>	<u>(84)</u>	<u>(311)</u>

The merger reserve arose on the acquisition of Leisure World Pty Ltd and Promodus Ltd by MKM Group. The merger reserve represents the difference between the fair value and nominal value of the share capital issued by MKM Group Plc in exchange for the total share capital of these entities.



## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 23. Acquisition of subsidiary

#### Leisure World

On 29 August 2007, the group acquired 100% of the issued share capital of Leisure World Pty Ltd (trading as the Leapfrog Group in Australia) for cash consideration of £1,250,000. Leisure World Pty Ltd is the parent company of a group of companies involved in Loyalty and Sales promotion activity across Asia Pacific. This transaction has been accounted for by the purchase method of accounting.

	Book value and fair value	
	£'000	£'000
<b>Fair value of assets and liabilities acquired</b>		
Property, plant and equipment	163	
Deferred tax asset	36	
Intangible assets	141	
Trade and other receivables	1,121	
Cash and cash equivalents	191	
Trade and other payables	(1,881)	
Current tax liabilities	(226)	
<b>Net liabilities on acquisition</b>		(455)
<b>Consideration paid</b>		
Initial cash consideration	1,250	
Initial 20 million ordinary shares	1,600	
Loan stock	450	
Deferred consideration	708	
Costs of acquisition	481	
<b>Total consideration</b>		4,489
<b>Goodwill</b>		<b>4,944</b>

The goodwill arising on the acquisition of Leisure World Pty Ltd is attributable to the anticipated future profitability that will be achieved as a result of distributing the Group's products into new markets and the anticipated future synergies that will be achieved throughout the Group as a result of bringing the businesses together.

The fair value of the shares issued as initial consideration was determined by reference to their published market price of 8p/share at the date of acquisition. The deferred consideration shares have not yet been issued and the original settlement terms are being renegotiated. The value above is based upon the number of shares that would have been issued under the original agreement terms but reflect a decrease in the fair value of the shares. Management has estimated the fair value by reference to the signed sale and purchase agreement between the parties, which in turn references the published price for the 30 days up to 30 June 2008. The renegotiation is also expected to deliver a gain of £97,000 through the award of a reduced number of shares (20,216,216) to settle this same value and this gain has been recognised within the income statement – see note 5.

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (Continued)

### 23. Acquisition of subsidiary (continued)

#### Leisure World (continued)

The net cash outflow on acquisition was £1,540,000 being the net of cash consideration and costs above partially offset by £191,000 cash within the acquired company. At the balance sheet date £74,000 of the costs of acquisition had not yet been settled.

Leisure World Pty Ltd contributed £3,162,000 revenue and a loss of £247,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of Leisure World Pty Ltd had been completed on the first day of the financial year, the revenue it would have contributed to group revenues for the period would have been £6,135,000 and group profit attributable to equity holders of the parent would have been £645,000.

The interim results to 30 September 2007 included provisional accounting for the deferred consideration of the acquisition. At this time a higher level of deferred consideration was expected to be awarded and the share price on 30 September 2007 was used to value the deferred consideration shares and as such the total goodwill was recorded as £6,506,000.

#### Promodus

On 9 October 2007, the group acquired 100% of the issued share capital of Promodus Ltd for cash consideration of £116,000. Promodus Ltd is the parent company of a group of companies involved in marketing consultancy. This transaction has been accounted for by the purchase method of accounting.

	Book value and fair value	
	£'000	£'000
<b>Fair value of assets and liabilities acquired</b>		
Property, plant and equipment	12	
Deferred tax asset	-	
Inventories	5	
Trade and other receivables	121	
Cash and cash equivalents	81	
Trade and other payables	(113)	
<b>Net assets on acquisition</b>		106
<b>Consideration paid</b>		
Initial cash consideration	116	
Initial 2.6 million ordinary shares	280	
First deferred cash consideration	125	
Second deferred share consideration	125	
Costs of acquisition	15	
<b>Total Consideration</b>		661
<b>Goodwill</b>		<u>555</u>

**23. Acquisition of subsidiary (continued)**

**Promodus (continued)**

The goodwill arising on the acquisition of Promodus Ltd is attributable to the anticipated profitability of the distribution of the Group's products in the new markets

The fair value of the shares issued as Initial consideration was determined by reference to their published market price of 10 53p/share at the date of acquisition. The deferred consideration is defined as an amount to be paid in either cash or shares at the discretion of the company. The level of consideration is dependent on profits generated by Promodus Ltd over the 1 year period up to 31 December 2008. The amount included above represents the directors' current best estimate of the amount payable.

The net cash outflow on acquisition was £50,000 being the net of cash consideration and costs above partially offset by £81,000 cash within the acquired company.

Promodus Ltd contributed £464,000 revenue and £48,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of Promodus Ltd had been completed on the first day of the financial year, the revenue it would have contributed to group revenues for the period would have been £882,000 and group profit attributable to equity holders of the parent would have been £136,000.

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 24. Share based payments

The company operates two equity-settled share based remuneration schemes for employees an inland revenue EMI approved share option scheme and an unapproved share option scheme. The schemes are only available to executive directors and certain senior management. The only vesting condition is that the individual remains an employee of the group over the vesting period and up until the options are exercised.

	2008 Weighted average exercise price/pence	2008 Number	2007 Weighted average exercise price/pence	2007 Number
Outstanding at beginning of the year	5.3	8,318,181	6.0	8,081,818
Granted during the year	7.5	2,500,000	5.5	1,818,181
Forfeited during the year	7.1	1,725,000	8.7	1,581,818
<b>Outstanding at the end of the year</b>	<b>5.6</b>	<b>9,093,181</b>	<b>5.3</b>	<b>8,318,181</b>

The exercise price of options outstanding at the end of the year ranged between 5p and 7.5p (2007: 5p and 6.25p) and their weighted average remaining contractual life was 5.7 years (2007: 7.4 years).

Of the total number of options outstanding at the end of the year, 5,000,000 (2007: 5,000,000) had vested and were exercisable at the end of the year.

No options were exercised during the year (2007: nil).

The weighted average fair value of each option granted during the year was 1.3p (2007: 1.7p).

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

### 24. Share based payments (continued)

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based remuneration schemes operated by the group

	2008 £'000	2007 £'000
<i>Equity-settled</i>		
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date	8.0	5.5
Exercise price	7.5	5.5
Weighted average expected contractual life/years	1.3	3.5
Expected volatility	70%	70%
Discount versus bid price expected at timing of exercise	30%	30%
Expected dividend growth rate	0%	0%
Risk-free interest rate	5.0%	4.8%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years

	2008 £'000	2007 £'000
The share-based remuneration expense (note 7) comprises		
Equity-settled schemes	25	30
	<u>25</u>	<u>30</u>

The group did not enter into any share-based payment transactions with parties other than employees during the current or previous period

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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### 25. Financial instruments

#### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 21 to 22.

#### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group has not entered into financial instruments to manage its exposure to interest rate and foreign currency risk during the period although it may implement foreign exchange hedging in the future.

#### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
AUS dollar	2,837	-	2,167	-

The Group is mainly exposed on a transactional basis to the New Zealand Dollar.

The following table details the Group's sensitivity to a 10% increase and decrease in the Sterling against the relevant foreign currencies. Ten % is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit where Sterling strengthens 10% against the relevant currency. For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be positive.

	New Zealand dollar currency impact	
	2008	2007
	£'000	£'000
Profit or loss	(36)	-

## **MKM Group Plc – Group Financial Statements**

**Notes forming part of the financial statements for the year ended 31 March 2008 (Continued)**

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### **25. Financial instruments (continued)**

#### **Interest rate risk management**

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by close monitoring at a Board level.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### **Interest rate sensitivity analysis**

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2008 would decrease/increase by £5,000 (2007: nil). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has been consistent during the current period.

#### **Credit risk management**

The group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings, taking into account local business practices, are then factored into any credit levels given.

#### **Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the group's forecast cash requirements.

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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### 26. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the group and its associates are disclosed below.

#### Trading transactions

During the year, group companies entered into the following transactions with related parties who are not members of the group:

	Purchase of goods		Amounts owed by related parties	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Leisure World Holidays Pty Ltd	570	-	96	-

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Leisure World Holidays is a related party of the group because it is wholly owned by Richard Tenser and Brian Smillie, two Group Board Directors.

Purchases were made at market price discounted to reflect the quantity of goods purchased.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

#### Loans from related parties

Details of loans from related parties are provided in note 17 to the accounts.



## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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### 26. Related party transactions (continued)

#### Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out in Note 7. Further information about the remuneration of individual directors is provided in the Directors' Report on pages 7 to 12.

#### Directors' transactions

Related party	Related party relationship	Transaction amount		Balance owing	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Andrew Johnson	Director	1	10	-	-
Mark Koch	Director	25	22	-	-
Victor Koch	Director	1	2	-	-
Michael Squires	Non-executive Director	-	8	-	-

## MKM Group Plc – Group Financial Statements

Notes forming part of the financial statements for the year ended 31 March 2008 (*Continued*)

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### 27. Notes to the cash flow statement

Cash and cash equivalents comprises:

	2008 £'000	2007 £'000
Cash available on demand	134	1,906
Short term borrowings	(342)	-
Total Cash Position	<u>(208)</u>	<u>1,906</u>
Net cash increase in cash and cash equivalents	(2,114)	210
Cash and cash equivalents at beginning of year	1,906	1,696
Cash and cash equivalents at end of year	<u>(208)</u>	<u>1,906</u>

The cash and cash equivalents shown above include £45,000 that is classified as restricted cash as it is held for travel bonding purposes

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MKM GROUP PLC LIMITED**

We have audited the parent company financial statements of MKM Group plc for the year ended 31 March 2008 which comprise the balance sheet and the related notes 1 to 10. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of MKM Group plc for the year ended 31 March 2008.

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**

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Overview that is cross referred from the Business Review and Headline Results section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company 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 parent company financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MKM GROUP PLC LIMITED**  
(continued)

**Opinion**

**In our opinion**

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
Manchester, United Kingdom  
29 September 2008

# MKM Group plc – Company Financial Statements

## Company Balance Sheet as at 31 March 2008

	Note	2008	2007
		£'000	£'000
<b>Fixed assets</b>			
Investments	3	<u>7,145</u>	<u>1,995</u>
<b>Current assets</b>			
Debtors	4	-	210
Deferred tax	6	<u>40</u>	<u>20</u>
		40	230
<b>Creditors: amounts falling due within one year</b>	5	<u>1,959</u>	<u>-</u>
<b>Net current (liabilities)/assets</b>		(1,919)	230
<b>Net assets</b>		<u>5,226</u>	<u>2,225</u>
<b>Capital and reserves</b>			
Called up share capital	7	365	218
Share Premium account	9	2,647	2,205
Deferred share capital consideration	9	671	-
Share Option Reserve	9	86	61
Merger Reserve	9	1,767	-
Profit and loss account	9	(310)	(259)
<b>Shareholders' funds</b>	10	<u>5,226</u>	<u>2,225</u>

The financial statements on pages 60 to 65 were approved by the Board of Directors on 29 September 2008 and were signed and authorised for issue on its behalf by



**M Toynnton**

**Group Finance Director**

## **MKM Group plc – Company Financial Statements**

**Notes forming part of the company financial statements for the year ended 31 March 2008**

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### **1 Accounting policies**

The financial statements have been prepared under the historical cost convention, and are in accordance with applicable UK accounting standards (UK GAAP). The following principal accounting policies have been applied consistently throughout the current and prior year.

#### ***Valuation of investments***

Investments held as fixed assets are stated at cost less any provision for impairment in value. Investments held as current assets are stated at the lower of cost and net realisable value.

#### ***Deferred taxation***

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

#### ***Pension costs***

Contributions to defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable.

#### ***Share-based payments***

Under FRS 20, the Company is required to reflect share-based payments in the profit and loss account. In the Company's case, share-based payments comprise share options awarded to Executive Directors. The credit for this charge is taken to the profit and loss reserve and reported in the reconciliation of movements in shareholders' funds.

### **2 Basis of preparation**

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The loss for the year is £51,000 (2007: £197,000 loss).

This is stated after charging auditors' remuneration for the Company of £2,000 (2007: £8,000) and remuneration of two directors which was not fully recharged to the subsidiary undertakings in the Group. Full details of auditors' remuneration and directors' remuneration can be found in notes 7 and 8 to the consolidated financial statements included within this Annual Report.

## MKM Group plc – Company Financial Statements

Notes forming part of the company financial statements for the year ended 31 March 2008

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### 3 Fixed asset investment

Company	Group undertakings
<i>Cost and net book value</i>	<b>£'000</b>
At 1 April 2007	1,995
Investments within the period	
Leisure World Pty Limited	4,489
Promodus Limited	661
At 31 March 2008	<b>7,145</b>

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated financial statements

Name	Country of incorporation	Proportion of ownership interest
The Leapfrog Group Limited	Great Britain	100%
Leisure World Pty Ltd	Australia	100%
Promodus Ltd	Great Britain	100%
Concepts for Travel Limited	Great Britain	100%
Airport Angel Limited	Great Britain	100%
Green Suite Limited	Great Britain	100%
Yippee Experiences Limited	Great Britain	100%
Breeze Rewards Limited	Great Britain	100%
Hidden Retreats Limited	Great Britain	100%

The Leapfrog Group Limited was formerly known as MKM Concepts Limited

For all undertakings listed above, the country of origin is the same as the country of incorporation

## MKM Group plc – Company Financial Statements

Notes forming part of the company financial statements for the year ended 31 March 2008

### 4 Debtors

	2008 £'000	2007 £'000
Amounts receivable within one year		
Amounts owed by group undertakings	-	210
	<u>-</u>	<u>210</u>

### 5 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Accruals	30	-
Amounts due to subsidiary undertakings	1,218	-
Deferred consideration	187	-
Loan stock	450	-
Other creditors	74	-
	<u>1,959</u>	<u>-</u>

### 6 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007 30%) This follows enactment of the Finance Act 2007 in the period, which will cause the corporation tax rate to reduce to 28% with effect from 1 April 2008 Accordingly the deferred tax assets and liabilities have been stated below at 28% of the gross temporary difference

The movement on the deferred tax account is as shown below

	Company	
	2008 £'000	2007 £'000
At 1 April	20	-
Profit and loss credit	20	20
At 31 March	<u>40</u>	<u>20</u>

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered



## MKM Group plc – Company Financial Statements

Notes forming part of the company financial statements for the year ended 31 March 2008

### 6 Deferred tax (continued)

The movements in deferred tax asset during the period are shown below

Details of the deferred tax asset, amounts credited to the profit and loss account and amounts credited to reserves are as follows

	Asset 2008 £'000	Credited to income 2008 £'000
Other temporary and deductible differences	(1)	(1)
Available losses	21	21
	<u>20</u>	<u>20</u>

### 7 Share capital

	2008 Number	Authorised 2008 £'000	2007 Number	2007 £'000
Ordinary equity shares of 0.5p each	<u>180,000,000</u>	<u>900</u>	<u>60,000,000</u>	<u>300</u>

	2008 Number	Issued and fully paid 2008 £'000	2007 Number	2007 £'000
<i>Ordinary equity shares of 0.5p each</i>				
As at 1 April	43,744,545	218	43,744,545	218
Placing offer on 29th August 2007	6,666,667	34	-	-
Share issue on acquisition				
Leisure World Pty Ltd - 29th August 2007	20,000,000	100	-	-
Promodus Limited - 9th October 2007	2,660,332	13	-	-
As at 31 March	<u>73,071,544</u>	<u>365</u>	<u>43,744,545</u>	<u>218</u>

## MKM Group plc – Company Financial Statements

Notes forming part of the company financial statements for the year ended 31 March 2008

### 8 Share-based payment

The details of the schemes operated can be found within the Group Consolidated financial statements within note 24

### 9 Reserves

Company	Share capital £'000	Share premium £'000	Share option £'000	Deferred share capital consideration £'000	Merger reserve £'000	Profit and loss £'000
At 1 April 2007	218	2,205	61	-	-	(259)
Loss for the year	-	-	-	-	-	(51)
Share option expense	-	-	25	-	-	-
Acquisition of subsidiaries	-	442	-	671	1,767	-
Share capital issue within the year	147	-	-	-	-	-
As at 31 March 2008	<u>365</u>	<u>2,647</u>	<u>86</u>	<u>671</u>	<u>1,767</u>	<u>(310)</u>

### 10 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Loss for the financial year	(51)	(197)
New share capital subscribed, net of issue costs	147	-
Share premium reserve	442	-
Share option charge	25	30
Deferred share capital reserve	671	-
Merger reserve	1,767	-
Addition to/(reduction in) shareholders' funds	3,001	(167)
Opening shareholders' funds	2,225	2,392
Closing shareholders' funds	<u>5,226</u>	<u>2,225</u>

## MKM Group Plc - Five Year Record

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>IFRS</b>	<b>IFRS</b>	<b>IFRS</b>	<b>UK GAAP</b>	<b>UK GAAP</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Turnover</b>	<b>6,970</b>	<b>3,888</b>	<b>4,575</b>	<b>10,279</b>	<b>6,452</b>
<b>Profit/(loss) from operations</b>	<b>(222)</b>	<b>404</b>	<b>(393)</b>	<b>(1,426)</b>	<b>672</b>
<b>Profit/(loss) before tax</b>	<b>(249)</b>	<b>456</b>	<b>(362)</b>	<b>(1,391)</b>	<b>666</b>
<b>Profit/(loss) after tax</b>	<b>(204)</b>	<b>580</b>	<b>(358)</b>	<b>(1,160)</b>	<b>477</b>
	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>	<b>£</b>
<b>Basic earnings per share</b>	<b>(0.3)</b>	<b>1.3</b>	<b>(1.2)</b>	<b>(10.8)</b>	<b>4,773.73</b>