MKM Group Plc

Report and Financial Statements

Year Ended

31 March 2009

GROUP PLC

MKM Group Plc

Annual report and financial statements for the year ended 31 March 2009

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Country of incorporation:
Incorporated in the United Kingdom

Legal form: Public limited company

Directors:
Mark Koch, Group Sales and Commercial Director
Brian Smillie, Chief Executive
Matthew Toynton, Group Finance Director
Richard Tenser, Non-executive Director

Secretary and registered office:
M Toynton, Nelson House, Park Road, Timperley, Cheshire WA14 5BZ

Company number:
4364235

Chartered accountants and registered auditors:
Deloitte 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

CHIEF EXECUTIVE'S STATEMENT

OVERVIEW

The financial year to 31 March 2009 was an eventful one that has defined the future direction of the Group and laid the foundations for its future growth. The UK based business has enjoyed a successful launch of its Airport Angel product and a revitalisation of its partnership and tactical products. In contrast, the Global macro-economic conditions have adversely affected the Australian operations to such a degree that the Group ceased trading the historical subsidiaries and associated activities were discontinued as of the balance sheet date. It has been possible to identify some salvageable activity in a new subsidiary (Salad Marketing PTY Ltd) whose trading is immaterial to the Group. As a result, the accounts are presented with the Australian trading being recorded as a discontinued operation. Post year-end the Group has sold 90 per cent of its interest in Promodus, the London based marketing consultancy business. These changes should benefit the Group in the long term and allows managerial focus upon the key growth opportunity areas.

The Airport Angel product and the StARS platform have been the cornerstone of securing new client contracts in the UK and have helped to strengthen existing client relationships via extending our product portfolio. The Group is now focussed upon leveraging these two areas and specifically exploiting the international nature of Airport Angel.

FINANCIAL REVIEW

The full year results of the continuing businesses show sales of £3.8m (2008: £3.8m) and a loss after tax of £898,000 (2008: £32,000). This result includes an impairment of the goodwill associated with the Promodus business of £430,000.

The results show an overall loss after tax of £8.3m as a result of the loss from discontinued operations of £7.4m in addition to the loss from continuing operations noted above. This loss from discontinued operations includes the trading loss associated with the Australian operations of £1.3m, de-recognition of the goodwill associated with the Australian businesses of £4.9m and impairment losses recognised on cessation of trade of £1.2m.

We ended the year with borrowings in excess of cash and cash equivalents of £172,000 (2008: deficit £208,000).

OPERATIONS

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.

The launch of Airport Angel in August 2008 has provided more opportunities to exhibit excellence in customer service as well as maintaining our long-standing focus upon perfect client delivery. As the Airport Angel membership base has increased since launch, the operational teams have implemented new processes, applying the methodologies of ISO 2001 as staff have been refocused upon new areas.

Airport Angel has been well received by the market and, as at the year end we had seven live corporate clients across four countries within the financial services sector and we are adding thousands of members every month.

The UK continuing operation has retained its ambitious plans for the development of Airport Angel and expects to continue to expand its geographical and industry sector client base over the next 12 months.

StARS

StARS, our web-based database programme has continued to be utilised across all of our product areas; Tactical Sales Promotions, Loyalty and Partnership programmes and Airport Angel. 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.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

OPERATIONS (CONTINUED)

Promodus

The Promodus business, which specialised in providing a full range of marketing services, had a very challenging year as many of its clients reduced their expenditure as a result of the Global economic downturn. The financial results show sales of £587,000 (2008: £464,000) against which a loss after tax has been recorded in the consolidated income statement of £106,000 (2008: profit of £20,000). Numerous interventions were made during the year to remove discretionary costs and to replace some of the lost sales. Unfortunately, these interventions were not wholly successful and post year–end, in August 2009 we were approached by Stripe Marketing Ltd to acquire the business. The Board evaluated the prospects of maintaining 100 per cent ownership or selling its majority stakeholding and concluded that a sale of 90 per cent of the share capital in Promodus would provide the best combination of financial return in the medium term and security for the staff and clients. The consideration received by the Group was 24,743 ordinary £1 shares in Stripe Marketing, representing 8 per cent of the issued share capital of Stripe Marketing, and the provision of design and office services to MKM for a limited period to a value of £32,620.

BUSINESS DEVELOPMENT

In the annual report last year we reported that I had taken on the management of the sales force internationally, thereby including more direct control on the UK tactical and Airport Angel revenue streams. This intervention has been strengthened further by my appointment as Chief Executive in November 2008. Since this point the Executive Directors have increased the focus for the entire organisation upon new sales or enhancing the current client service. Through the final months of the year ended March 2009 and since year-end I have been primarily based in the UK working closely with my fellow Directors; Mark Koch and Matthew Toynton. Together we have focussed upon expanding the reach of our Airport Angel product and revitalising the Partnership and Tactical offerings.

THE BOARD

The composition of the Board changed within the year. In November 2008, Richard Tenser changed his role to become a Non-executive Director, Brian Smillie became Chief Executive and Andrew Johnson became a Non-executive but maintained his Chairmanship. In January 2009, Andrew Johnson and Michael Squires resigned their posts as Non-executive Chairman and a Non-executive Director respectively. The Board would formally like to thank all the directors for their contribution to the Group.

STRATEGY

We have adapted our strategy for the future to incorporate the changing economic environment and to ensure that the key parts of our product portfolio receive the investment and resource they need to fully realise their potential. The changes to the Group have allowed significantly higher levels of managerial focus upon our agreed objectives and we are considering a number of possible alternative options for securing this investment in order to maximise value for shareholders.

CURRENT TRADING & PROSPECTS

The Group entered the current financial year with a good platform on which to build with Airport Angel, and Tactical and Partnership programmes in the UK and internationally.

Our entire product offering appeals to clients in the challenging current economic environment where customer retention, acquisition and loyalty are vitally important. We have strong international client relationships that are leading to cross-referrals and new business opportunities.

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

BRIAN SMILLIE
CHIEF EXECUTIVE

1 October 2009

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 UK business floated on the AIM market in 2004. In 2007 the Group acquired the Asia-Pacific business (Leisure World PTY Ltd and subsidiary undertakings, trading as the Leapfrog Group) and Promodus, a full service marketing agency in London specialising in clients in the financial services, B2B and technology sectors. The Group has since renamed its main UK trading company as The Leapfrog Group Limited and the Leapfrog name has been adopted as the main brand name behind Tactical Sales Promotions and Loyalty and Partnership Programmes.

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 three main categories: long term partnership and loyalty programmes designed to support clients seeking to reward their customers for their loyalty; shorter term promotional programmes to help clients achieve objectives such as the launch of a new product; and Airport Angel. 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. Most recently it has developed and launched an airport lounge access membership product, Airport Angel, that has an international offering and appeal. 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. 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.

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 . 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 Airport Angel product is the flag-ship reward provided to fee-paying bank account customers of Barclays, Co-op and Santander Bank across the UK and certain European countries. Leapfrog has brought innovation to this market sector and will continue to innovate to enhance our client and customer proposition that is built around 'taking the stress out of travelling'.

OPERATIONS AND INFORMATION TECHNOLOGY

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 delivers programmes utilising in-house contact centres, travel agency and fulfilment resources based in Manchester and has followed the methodologies of ISO 9001 for 3 years achieving accreditation 18 months ago.

DIRECTORS' REPORT

The directors present their annual report and financial statements of MKM Group plc for the year ended 31 March 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Group continues to be the provision of high added value Tactical sales promotions and Loyalty and Partnership programmes as described within the Business Overview section on page 4. In addition, the group has launched its Airport Angel product within the year. The primary region of activity is now Europe, following the cessation of the majority of our trading activities in Asia Pacific.

HEADLINE RESULTS

The results for the year ended 31 March 2009 are set out in the consolidated income statement on page 11. These show an operating loss from continuing operations of £898,000 (2008: £32,000) on revenue of £3,755,000 (2008: £3,808,000). This loss includes an expense of £430,000 relating to the impairment of goodwill on the Promodus business as detailed within note 14. As a result of the Australian operations ceasing to trade a loss from discontinued operations of £7,397,000 has also been recorded. This comprises a trading loss of £1,275,000, and a write down of the goodwill recognised on acquisition of the Australian subsidiaries of £4,944,000 and impairment losses recognised on cessation of trade of £1,178,000. Further details are included in note 11.

The consolidated balance sheet on page 13 shows net liabilities of £3,215,000 at 31 March 2009 (2008: net assets of £5,141,000). The movement in the year is predominantly attributed to the reduction in goodwill from £6,202,000 to £703,000 as a result of the impairments noted above.

The Directors are unable to recommend the payment of a dividend (2008: nil).

BUSINESS REVIEW AND PRINCIPAL RISKS AND UNCERTAINTIES

The Business Overview section on page 4 and the Chief Executive's Statement on pages 2 and 3 outline the fundamentals of the business and the Key Performance Indicators of revenue, profit and debt.

In addition to the KPI's noted above, the board regularly reviews the staffing levels (as disclosed within note 6) as a key factor to effect cost control and the creditor and debtor day positions (as disclosed within notes 17 and 19) as these are major factors impacting cashflow.

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 26 to the accounts.

DIRECTORS

The Board of Directors as at 1 October 2009 comprised:

Mark Koch, Group Sales and Commercial Director
Brian Smillie, Chief Executive
Richard Tenser, Non-executive Director
Matthew Toynton, Group Finance Director

Changes to the Board of Directors made during the year and to this date were as follows:

Andrew Johnson – resigned 21 January 2009
Michael Squires - resigned 21 January 2009

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:

	At 31 March 09 ordinary shares of 0.5p each	Date from which exercisable	Expiry date	Exercise price (pence)
Mark Koch (1)	900,000	20.02.09	20.02.16	6.25
Brian Smillie (2)	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 2009	Ordinary Shares of 0.5p each At 31 March 2008
Mark Koch	7,263,636	[illegible]263,636
Brian Smillie	22,618,919	[illegible]500,000
Richard Tenser	8,097,297	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 1 October 2009.

	No of Shares	%
Victor Koch	7,263,637	7.8%
Andrew Johnson	3,600,000	3.9%
W H Ireland Group plc	3,000,000	3.2%

SHARE CAPITAL

Details of the Group's share capital are shown in note 23 of the accounts. This note includes the share issues associated with settling the deferred consideration for the Australian business completed within the year.

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual 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.

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.

DIRECTORS' REPORT (Continued)

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records 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 for continuing operations at the year end represent 45 days (2008: 53 days).

CHARITABLE DONATION

The company made no charitable donations (2008: £100).

GOING CONCERN

Based upon a detailed review, the directors have a reasonable expectation that the Group as a whole will have adequate resources to continue in operational existence for the foreseeable future. This detailed review focussed upon three key areas:

- Preparation of forecast cashflow to October 2010 based on latest management information.
- Potential uncertainties within our future trading performance were incorporated through sensitivities applied within this forecast.
- Review of available financing arrangements.

Based upon the conclusion of this detailed review, the Group continues to adopt the going concern basis in preparing financial statements. Further details are provided in note 2 to the financial statements.

AUDITORS

Each of the persons who are directors 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 ought to have taken as a director in order to make himself 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 LLP has expressed its willingness to continue in office. The Directors will place a resolution before the Annual General Meeting to reappoint Deloitte LLP as auditors for the ensuing year.

By order of the Board.

MATTHEW TOYNTON
GROUP FINANCE DIRECTOR & COMPANY SECRETARY

1 October 2009

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. However, given the recent changes to the Board structure, there are certain areas where the Group is not at an optimal position with regards to Corporate Governance. 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 Chief Executive, two 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, the Company's lawyers and accountants and training is available for directors as necessary.

AUDIT COMMITTEE

The Audit Committee has historically included the Non-executive Directors. This year, the audit committee has included the Chief Executive and the Group Finance Director in all discussions with the auditors. The Committee considers matters relating to the financial accounting controls, the reporting of results and the effectiveness and cost of the audit. It has met infrequently only to review specific matters.

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 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. 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.

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 year. 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 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. This will 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.

MATTHEW TOYNTON
GROUP FINANCE DIRECTOR & COMPANY SECRETARY
1 October 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MKM GROUP PLC

We have audited the Group financial statements of MKM Group plc for the year ended 31 March 2009 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 28. 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 2009.

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 Chief Executive'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, 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 (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 2009 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 LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Manchester, United Kingdom
1 October 2009

MKM Group Plc – Group Financial Statements

Consolidated income statement for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
CONTINUING OPERATIONS			
Revenue	4	3,755	3,808
Cost of sales		(1,719)	(1,401)
Gross profit		**2,036**	**2,407**
Administrative expenses		(2,517)	(2,429)
Goodwill impairment	14a	(430)	-
Total administrative expenses		(2,947)	(2,429)
Operating loss	5	(911)	(22)
Finance expense	9	(6)	(22)
Finance income	9	3	41
Loss before tax		**(914)**	**(3)**
Tax	10	16	(29)
Loss for the year from continuing operations		**(898)**	**(32)**
DISCONTINUED OPERATIONS			
Trading loss for the year	11	(1,275)	(172)
De-recognition of goodwill on cessation of trade	11, 14a	(4,944)	-
Impairment losses recognised on cessation of trade	11	(1,178)	-
Loss for the year from discontinued operations net of tax		**(7,397)**	**(172)**
Attributable to the equity holders of the parent	24	**(8,295)**	**(204)**
Loss per share	12		
From continuing operations			
Basic and diluted (pence)		(0.96)	(0.05)
From continuing and discontinued operations			
Basic and diluted (pence)		(8.89)	(0.34)

The notes on pages 15 to 51 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 March 2009

	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 2008	365	2,647	86	1,767	(84)	671	(311)	5,141
Changes in equity for year ended 31 March 2009								
Loss for the year	-	-	-	-	-	-	(8,295)	(8,295)
Total recognised income and expense for the period	-	-	-	-	-	-	(8,295)	(8,295)
Equity charge in respect of share based payments	-	-	(21)	-	-	-	-	(21)
Issue of equity shares	102			445		(671)	-	(124)
Exchange rate loss on translation of overseas operations	-	-	-	-	(75)	-	-	(75)
Translation reserve reversal due to cessation of trade					159			159
Balance as at 31March 2009	467	2,647	65	2,212	-	-	(8,606)	(3,215)

	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 2008								
Loss for the year	-	-	-	-	-	-	(204)	(204)
Total recognised income and expense for the period	-	-	-	-	-	-	(204)	(204)
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

The notes on pages 15 to 51 form part of these financial statements.

Consolidated balance sheet as at 31 March 2009

	Notes	31 March 2009 £'000	31 March 2008 £'000
Non-current assets			
Property, plant & equipment	13	210	691
Goodwill	14a	703	6,202
Intangibles	14b	309	395
Deferred tax assets	16	140	185
		1,362	7,473
Current assets			
Trade and other receivables	17	723	2,635
Cash and cash equivalents	18	477	134
		1,200	2,769
Total assets		2,562	10,242
Current liabilities			
Trade and other payables	19	(4,123)	(4,068)
Borrowings	20	(649)	(342)
Loan stock	20	(450)	(450)
Provisions	22	(490)	(159)
		(5,712)	(5,019)
Non-current liabilities			
Borrowings	20	(65)	(82)
Total liabilities		(5,777)	(5,101)
Net (liabilities)/assets		**(3,215)**	**5,141**
Equity			
Share capital	23	467	365
Share premium	24	2,647	2,647
Share option reserve	24	65	86
Deferred share capital consideration	24	-	671
Merger reserve	24	2,212	1,767
Translation reserve	24	-	(84)
Retained earnings	24	(8,606)	(311)
(Deficit)/equity attributable to equity holders of the parent		**(3,215)**	**5,141**

The financial statements on pages 11 to 51 were approved by the Board of Directors on 1 October 2009 and were signed and authorised for issue on its behalf by:

Matthew Toynton
Group Finance Director

The notes on pages 15 to 51 form part of these financial statements.

MKM Group Plc – Group Financial Statements

Consolidated cash flow statement for the year ended 31 March 2009

	Year ended 31 March 2009 £'000	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000	Year ended 31 March 2008 £'000
CASHFLOWS FROM OPERATING ACTIVITIES				
(Loss)/profit after taxation	(8,295)		(204)	
Adjustments for				
Interest receivable	(3)		(41)	
Depreciation	235		148	
Amortisation	129		26	
Gain on deferred consideration	-		(97)	
Interest expense	6		68	
Impairment losses recognised on cessation of trade	1,178		-	
Goodwill impairment	5,374		-	
Tax credit not received	(16)		(45)	
Share option (credit)/charge	(21)		25	
Operating cashflow before movement in working capital		**(1,413)**		**(120)**
Decrease/(increase) in receivables	1,524		(596)	
(Decrease)/increase in payables	(144)		212	
Increase in provisions	252		154	
Cash generated by operations		**1,632**		**(230)**
Interest paid		(6)		(68)
Net cash generated from/(used in) operations		**213**		**(418)**
CASHFLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(26)		(378)	
Purchase of intangible assets	(180)		(247)	
Acquisition of share capital in new companies	-		(1,366)	
Costs associated with acquisition	-		(422)	
Cash within acquired companies	-		272	
Acquisition of subsidiary	-		(1,516)	
Interest received	3		41	
Net cash outflow from investing activities		**(203)**		**(2,100)**
CASHFLOWS FROM FINANCING ACTIVITIES				
Issue of ordinary share capital	-		475	
Increase in bank overdraft	307		342	
Net cash generated from financing activities		**307**		**817**
Net (decrease)/increase in cash and cash equivalents		**317**		**(1,701)**
Cash and cash equivalents at the beginning of the period		134		1,906
Effect of foreign exchange rate changes		26		(71)
Cash and cash equivalents at the end of the period		**477**		**134**
Net increase/(decrease) in cash and cash equivalents of continued operations		493		(1,528)
Net increase/(decrease) in cash and cash equivalents of discontinued operations		(176)		(173)

The notes on pages 15 to 51 form part of these financial statements.

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 Chief Executive's statement and Business overview on pages 2 to 4.

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. During the year, the Australian subsidiaries discontinued trading. Details of this can be found within note 11.

1. Adoption of new and revised standards

Two Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the first time in the current period. These are:

IFRIC 12	*Service Concession Arrangements*, effective for periods commencing on or after 1 January 2008.
IFRIC 14	*IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, issued in July 2007 effective for periods commencing on or after 1 January 2008.

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 (and in some cases had not yet been adopted by the EU):

Amendments to IAS 1	*Presentation of financial statements*, issued in September 2007 effective for periods commencing on or after 1 January 2009.
Amendments to IAS 23	*Borrowing costs*, issued in March 2007 effective for periods commencing on or after 1 January 2009.
Amendment to IAS 27	*Consolidated and separate financial statements*, issued in January 2008 effective for periods commencing on or after 1 July 2009.
Amendment to IAS 39	*Eligible hedged items*, issued in July 2008 effective for periods commencing or after 1 July 2009.
Amendments to IAS 32 and IAS 1	*Puttable financial instruments and obligations arising on liquidation*, issued in February 2008 effective for periods commencing on or after 1 January 2009.
Amendments to IAS 39 and IFRS 7	*Reclassification of financial assets*, issued in October 2008 effective for periods commencing on or after 1 July 2008.
Amendments to IFRS 1 and IAS 27	*Cost of investment in a subsidiary, jointly controlled entity or associate*, issued in May 2008 effective for periods commencing on or after 1 January 2009.
Amendment to IFRS 2	*Share-based payment: vesting conditions and cancellations*, issued in January 2008 effective for periods commencing on or after 1 January 2009.
Amendment to IFRS 2	*Group cash-settled share-based payment transactions*, issued in June 2009 effective for periods commencing on or after 1 January 2010.
IFRS 3 (Revised)	*Business combinations*, issued in January 2008 effective for periods commencing on or after 1 July 2009.
IFRS 8	*Operating segments*, issued in November 2006 effective for periods commencing on or after 1 January 2009.
Amendments to IFRS 7	*Improving disclosures about financial instruments*, issued in March 2009 effective for periods commencing on after 1 January 2009.

Improvements to IFRS 2008	*Improvements to IFRS 2008*, issued in May 2008 effective for periods commencing on or after 1 January 2009.
Improvements to IFRS 2009	*Improvements to IFRSs 2009*, issued in April 2009 effective for periods commencing on or after 1 July 2009.
Amendments to IFRIC 9 and IAS 39	*Improving Disclosures about Financial Instruments*, issued in March 2009 effective for annual periods ending on or after 30 July 2009.
IFRIC 11	*Distributions of non-cash assets to owners*, effective for periods commencing on or after 1 July 2009.
IFRIC 13	*Customer loyalty programmes*, effective for periods commencing on or after 1 July 2008.
IFRIC 15	*Agreements for the construction of real estate*, effective for periods commencing on or after 1 January 2009.
IFRIC 16	*Hedges of a net investment in a foreign operation*, effective for periods commencing on or after 1 October 2008.
IFRIC 18	*Transfers of assets from customers*, effective for transfers on or after 1 July 2009.

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.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed 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 preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's statement on pages 2 to 3. The Directors' report on pages 6 to 8 describes the financial position of the Group, its cash flows, liquidity position and borrowing facilities; the Group objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposure to credit risk and liquidity risk.

Going Concern

As noted on page 8 the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This has been based on a detailed review, focussed upon three key areas:

- Preparation of forecast cashflow to October 2010 based on latest management information.
- Potential uncertainties within our future trading performance were incorporated through sensitivities applied within this forecast.
- Review of available financing arrangements.

2. Significant accounting policies

Basis of preparation (continued)

As described in the Chief Executive's statement and the Directors' report, the current economic environment has been challenging, resulting in the cessation of trading of the Australian operations at 31 March 2009. In the UK this effect has been less significant and in recent months there has been increased demand for products supporting clients' customer retention objectives.

The launch of Airport Angel has positively affected the Group's cashflow position which is forecast to continue through the annual renewal revenue from existing members as well as new members joining the scheme each month.

The forecast cashflow has been prepared through to October 2010 on the basis of latest forecast results for the period. These take account of reasonably possible changes in trading performance and show the Group will be able to operate within the level of its current facility.

This Group has an overdraft facility to meet its day to day working capital requirements. The original facility agreement expired during 2008 since which time the Directors have been in active discussions with the Group's bankers to arrange a new facility for the same value. The bankers have recently confirmed that they have formally extended the facility to 14 October 2009 and from these discussions the Directors are satisfied that the facility will continue to be provided and can confirm that no matters have been drawn to their attention to suggest that this renewal may not be forthcoming on acceptable terms. Due to the nature of the facility the overdraft continues to be repayable on demand.

As a result of this detailed review, the directors have a reasonable expectation that the Company and Group as a whole have adequate resources to continue in operational existence for the foreseeable future and as such, they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

2. Significant accounting policies

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.

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. Revenue is recognised net of discounts, VAT and other sales related taxes.

When the Group completes the launch of a campaign that involves 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 revenue 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.

Revenue 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.

Revenue from the Group's Partnership and Loyalty campaigns is partly recognised as the programmes are launched with the remainder treated as deferred income in the balance sheet and released to revenue at a later date as the services are provided.

Revenue on the Group's Airport Angel product is partly recognised as each annual membership is initiated, with the remainder treated as deferred income in the balance sheet and recognised as revenue over the 12 month membership. Product offerings can vary slightly so accordingly this deferral and release is varied based upon a judgement of the extent to which the service has been provided under each arrangement. Visit revenue is recognised when the member visits a lounge.

2. Significant accounting policies (continued)

Leasing - *The Group as lessee*

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.

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.

Exceptional items

Where the Directors consider that there are specific one-off material items that have impacted operating profit in the period these are shown separately from administrative costs on the face of the consolidated income statements.

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.

2. Significant accounting policies (continued)

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.

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

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, fittings and equipment	-	25% reducing balance

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.

2. Significant accounting policies (continued)

Taxation (continued)

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 substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

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

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

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.

2. Significant accounting policies (continued)

Share-based payments (continued)

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.

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

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.

De-recognition 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 the balance sheet at £309,000. 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 £703,000.

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, Airport Angel and Marketing Consultancy within the UK.

Australia – Loyalty and Sales promotion within Australia, New Zealand and Singapore. The Group ceased trading the historical subsidiaries and all activities were discontinued as of the balance sheet date. It has been possible to identify some salvageable activity in a new subsidiary which commenced trading on 1 April 2009. The value of the result from within the Australia segment that relates to this continuing element is immaterial to the Group. On account of this the full value of the Australia segment result has been disclosed as discontinued with the exception of the assets and liabilities which were transferred to the new company, Salad Marketing PTY Ltd, which have been presented as relating to continuing activities at 31 March 2009. All other assets associated with the discontinued activities were impaired at this date as detailed in note 11.

4. Geographical and business segments (continued)

Geographical segments for the year ended 31 March 2009

		UK Continuing operations £'000	Australia Discontinued operations £'000	Total £'000
Revenue, all external		3,755	3,963	**7,718**
Total		3,755	3,963	**7,718**
Segment result		(761)	(1,275)	(2,036)
Unallocated administrative expenses		(150)		
Operating loss		**(911)**		
Finance income	9	3		
Finance expense	9	(6)		
Loss before tax		**(914)**		
Tax	10	16		
Loss for the year from continuing operations		**(898)**		
Loss on discontinued operations	11	(7,397)		
Attributable to the equity holders of the parent		**(8,295)**		

	UK Continuing operations £'000	Australia Continuing operations £'000	Total £'000
Balance sheet			
Assets	2,412	150	**2,562**
Liabilities	(3,306)	(2,471)	**(5,777)**
Net assets	(894)	(2,321)	**(3,215)**
Other			
Capital expenditure	26	-	**26**
Depreciation	(58)	(177)	**(235)**

The liabilities in the Australia segment include £2,034,000 in relation to discontinued operations – see note 11.

4. Geographical and business segments (continued)

Geographical segments for the year ended 31 March 2008

	Notes	UK Continuing operations £'000	Australia Discontinued operations £'000	Total £'000
Revenue, all external		3,808	3,162	**6,970**
Total		3,808	3,162	**6,970**
Segment result		68	(200)	**(132)**
Unallocated administrative expenses		(90)		
Operating loss		(22)		
Finance income	9	41		
Finance expense	9	(22)		
Loss before tax		(3)		
Tax	10	(29)		
Loss for the year from continuing operations		(32)		
Loss on discontinued operations	11	(172)		
Attributable to the equity holders of the parent		(204)		

	UK Continuing operations £'000	Australia Discontinued operations £'000	Total £'000
Balance sheet			
Assets	8,076	2,166	**10,242**
Liabilities	(2,225)	(2,876)	**(5,101)**
Net assets	5,851	(710)	**5,141**
Other			
Capital expenditure	-	378	**378**
Depreciation	(92)	(56)	**(148)**

4. Geographical and business segments (continued)

Business segments

The Group's operations are split into 4 segments: Airport Angel, Loyalty and Partnership, Tactical Sales Promotions and Marketing Consultancy.

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

	Continuing operations Revenue by business segment		Discontinued operations Revenue by business segment		Total Revenue by business segment	
	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue						
Airport Angel	945	-	-	-	945	-
Loyalty and Partnership	1,205	1,882	1,814	1,328	3,019	3,210
Tactical Sales Promotions	1,018	1,462	2,149	1,834	3,167	3,296
Marketing Consultancy	587	464	-	-	587	464
	3,755	3,808	3,963	3,162	7,718	6,970

The total Marketing Consultancy sales are within the UK primary segment reporting.

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

	Carrying amount of segment (liabilities)/assets		Additions to property, plant and equipment	
	Year ended 2009	Year ended 2008	Year ended 2009	Year Ended 2008
	£'000	£'000	£'000	£'000
Airport Angel	(297)	-	8	-
Loyalty and Partnership	(1,396)	2,851	10	283
Tactical Sales promotion	(1,337)	2,270	8	95
Marketing Consultancy	(185)	20	-	-
	(3,215)	5,141	26	378

5. Operating loss

	Continuing operations		Discontinued operations		Total	
	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000
This has been arrived at after charging/(crediting):						
Staff costs (note 6)	1,489	1,834	2,316	1,266	3,805	3,100
Depreciation of property, plant and equipment	58	92	177	56	235	148
Amortisation of intangible assets	73	26	56	-	129	26
Goodwill impairment charge	430	-	4,944	-	5,374	-
Operating lease expense					-	-
Property	46	102	18	143	64	245
Lease agreement settlement costs	106	-	-	-	106	-
Onerous lease provision	-	80	-	-	-	80
Restructuring costs	-	127	-	-	-	127
Gain on deferred consideration	-	(97)	-	-	-	(97)

The onerous lease provision above was included within trade and other payables at 31 March 2008 as the full amount was payable within one year from the balance sheet date.

6. Staff costs

	Continuing operations		Discontinued operations		Total	
	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000
Staff costs (including directors) comprise:						
Wages and salaries	1,311	1,577	2,035	1,179	3,346	2,756
Short-term monetary benefits	23	-	10	1	33	1
Defined contribution pension cost	6	40	155	-	161	40
Share-based payment (credit)/expense	*(21)*	*25*	-	-	*(21)*	25
Employer's national insurance contributions and similar taxes	170	192	116	86	286	278
	1,489	1,834	2,316	1,266	3,805	3,100

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

	2009	2008
Operations and fulfillment	36	38
Sales and client services	48	26
Finance and administration	23	19
	107	83

7. Directors' remuneration

	2009 £'000	2008 £'000
Directors' remuneration consists of:		
Salary and bonuses	396	489
Pension contributions	68	96
(Credit)/charge in relations to share based payments	(21)	25
Compensation for loss of office	-	102
	443	**712**
Remuneration in respect of the highest paid director:		
Salary and bonuses	124	60
Pension contributions	10	80
	134	**140**

Pension contributions were paid into a money purchase pension scheme on behalf of 3 directors (2008: 3). The highest paid director did not exercise any share options during the year.

8. Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	2009 £'000	2008 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	80	50
Fees payable to the company's auditors and their associates for other services to the Group		
The audit of the company's subsidiaries pursuant to legislation	67	25
Total audit fees	147	75
Other services pursuant to legislation	-	-
Tax services	15	15
Corporate finance services	-	105
Total non-audit fees	15	120

Fees payable to Deloitte 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

	Continuing operations		Discontinued operations		Total	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Finance expense						
On bank borrowings	(6)	(22)	-	(46)	(6)	(68)
Finance income						
Bank interest received	3	41	-	-	3	41

10. Tax

Corporation Tax is calculated at 28% (2008: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	Continuing operations 2009 £'000	Discontinued operations 2009 £'000	Total 2009 £'000	Continuing operations 2008 £'000	Discontinued operations 2008 £'000	Total 2008 £'000
Current tax expense						
UK Corporation Tax	-	-	-	28	-	28
Adjustment for under provision in prior periods	-	-	-	-	-	-
	-	-	-	28	-	28
Deferred tax expense						
Origination and reversal of temporary differences	(71)	-	(71)	(35)	(74)	(109)
Adjustment in respect of previous periods	15	-	15	18	-	18
Share based payments	-	-	-	18	-	18
Impact of discontinued operations	-	61	61	-	-	-
Non recognition of a deferred tax asset previously recognised	40	-	40	-	-	-
	(16)	61	45	1	(74)	(73)
Total tax (credit)/charge	(16)	61	45	29	(74)	(45)

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

	2009 £'000	2009 £'000	2009 £'000	2008 £'000	2008 £'000	2008 £'000
Loss before tax	(914)	(7,336)	(8,250)	(2)	(247)	(249)
Expected tax charge based on the standard rate of corporation tax in the UK of 28% (2008: 30%)	(256)	(2,054)	(2,310)	-	(74)	(74)
(Income not taxable)/expenses not deductible for tax purposes (net)	256	967	1,223	(26)	-	(26)
Adjustment to prior period tax	15	-	15	18	-	18
Non recognition of a deferred tax asset previously recognised	40	-	40	-	-	-
Impact of discontinued operations	-	61	61	-	-	-
Tax effect of share based payments	-	-	-	18	-	18
Deferred tax asset not recognised	(71)	1,087	1,016	19	-	19
Total tax (credit)/charge	(16)	61	45	29	(74)	(45)

11. Discontinued operations

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). Leisure World Pty Ltd is the parent company of a Group of companies involved in Loyalty and Tactical Sales promotion activities across Asia Pacific.

On 31 March 2009, Leisure World Pty Ltd and subsidiary undertakings ceased to trade. On this date a small element of the previous business was transferred to a new subsidiary, Salad Marketing PTY Ltd, also 100% owned by MKM Group PLC, which commenced trading on 1 April 2009. A thorough review has been completed of the assets and liabilities remaining in Leisure World Pty Ltd and subsidiary undertakings which were not transferred to Salad Marketing PTY Ltd and impairments recorded accordingly. A charge to the income statement has arisen due to the impairment of assets at 31 March 2009 as a result of the cessation of trade at this date.

Subsequent to the year end, the majority of companies within the Leisure World Group have commenced the liquidation process – see note 28. The liabilities associated with the discontinued operations remain in the balance sheet at 31 March 2009 as at that date, in accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', they had not been extinguished.

The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	Notes	2009 £'000	2008 £'000
Revenue		3,963	3,162
Expenses		(5,238)	(3,362)
Segment result	**4**	**(1,275)**	**(200)**
Finance income		-	-
Finance expense	9	-	(46)
Attributable tax credit		-	74
Trading loss for the year		(1,275)	(172)
De-recognition of goodwill on cessation of trade	14a	(4,944)	-
Impairment losses recognised on cessation of trade		(1,117)	-
Attributable tax charge	10	(61)	-
Net loss attributable to discontinued operations		**(7,397)**	**(172)**

During the year, Leisure World Pty Ltd recorded net cash operating cash outflows of £176,000, paid £22,000 in respect of investing activities and paid £35,000 in respect of financing activities. These values are contained within the Group's aggregate position as shown on page 14.

12. Loss per share

	Continuing operations 2009 £'000	Discontinued operations 2009 £'000	Total 2009 £'000	Continuing operations 2008 £'000	Discontinued operations 2008 £'000	Total 2008 £'000
Numerator						
(Loss) for the year	(898)	(7,397)	(8,295)	(32)	(172)	(204)
(Loss) used in basic EPS	(898)	(7,397)	(8,295)	(32)	(172)	(204)
(Loss) used in diluted EPS	(898)	(7,397)	(8,295)	(32)	(172)	(204)
Denominator						
Weighted average number of shares used in EPS	93,287,760	93,287,760	93,287,760	60,630,267	60,630,267	60,630,267
Basic and diluted loss per share (pence)	(0.96)	(7.92)	(8.89)	(0.05)	(0.28)	(0.34)

The basic loss per share has been calculated using the loss after tax, divided by the weighted average number of shares in issue of 93,287,760 (2008: 60,630,267).

As a result of the loss in the year to 31 March 2009 and the comparative period, the diluted earnings per share is the same as the basic earnings per share as the employee share options are anti-dilutive.

13. Property, plant and equipment

	Leasehold improvements £'000	Fixtures fittings and equipment £'000	Total £'000
At 31 March 2008			
Cost	489	575	1,064
Accumulated depreciation	(129)	(244)	(373)
Net book value	**360**	**331**	**691**
At 31 March 2009			
Cost	171	381	552
Accumulated depreciation	(148)	(194)	(342)
Net book value	**23**	**187**	**210**
Year ended 31 March 2008			
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)
Closing net book value	**360**	**331**	**691**
Year ended 31 March 2009			
Opening net book value	360	331	691
Additions	15	11	26
Disposals	-	(4)	(4)
Depreciation	(106)	(129)	(235)
Impairment losses recognised on cessation of trade	(246)	(22)	(268)
Closing net book value	**23**	**187**	**210**

14. Intangibles

14a. Goodwill

	£'000
Cost	
At 1 April 2007	703
Recognised on acquisition of subsidiaries:	
Leisure World Pty Limited	4,944
Promodus Limited	555
At 31 March 2008	6,202
De-recognition on cessation of trade	
Leisure World Pty Limited	(4,944)
Deferred consideration no longer payable	
Promodus Limited	(125)
At 31 March 2009	1,133
Accumulated impairment losses	
At 1 April 2007 and 31 March 2008	-
Impairment losses for the year	
Promodus Limited	(430)
At 31 March 2009	(430)
Carrying amount	
At 31 March 2009	703
At 31 March 2008	6,202
At 1 April 2007	703

14. Intangibles (continued)

14a. Goodwill (continued)

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:

	2009 £'000	2008 £'000
Leapfrog Australia	-	4,944
Leapfrog UK	703	703
Promodus	-	555
	703	6,202

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. This review has resulted in the impairment of the total goodwill for Promodus and the write off of the investment in the Australian business.

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.

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 using the Group's current cost of borrowing.

14. Intangibles (continued)

14b. Other intangible assets

	Website development £'000
At 31 March 2008	
Cost	433
Accumulated amortisation	(38)
Net book value	**395**
At 31 March 2009	
Cost	418
Accumulated amortisation	(109)
Net book value	**309**
Year ended 31 March 2008	
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
Closing net book value	**395**
Year ended 31 March 2009	
Opening net book value	395
Additions	180
Amortisation	(129)
Impairment losses recognised on cessation of trade	(137)
Closing net book value	**309**

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

15. Subsidiaries

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

Name	Country of incorporation	Proportion of ownership interest
The Leapfrog Group Limited	Great Britain	100%
Salad Marketing 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%

16. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%). 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:

	2009 £'000	2008 £'000
At 1 April	185	178
Acquired on acquisition of subsidiary	-	(15)
Profit and loss credit	16	73
De-recognition of deferred tax asset on cessation of trade	(61)	-
Share option reserve movement	-	(51)
At 31 March	140	185

A deferred tax asset of £139,000 (2008: £185,000) 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.

	Asset as at 2009 £'000	Asset as at 2008 £'000
Accelerated capital allowances	(1)	(11)
Other temporary and deductible differences	-	(7)
Available losses	141	203
	140	185

17. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	456	1,875
Other receivables	-	343
Prepayments and accrued income	267	417
	723	2,635

Trade receivables

The average credit period taken on sales of goods is 59 days. No interest is charged on the receivables. The Group provides for specific receivables that are not recoverable – at 31 March 2009 no provision was necessary (2008: same).

Included in the Group's trade receivable balance are debtors with a carrying amount of £39,000 (2008: £707,000) 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 91 days (2008: 94 days).

Ageing of past due but not impaired receivables

	2009 £'000	2008 £'000
60 - 90 days	13	160
90+ days	26	547
Total	39	707

18. Cash and cash equivalents

	2009 £'000	2008 £'000
Cash and cash equivalents	477	134

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. Cash and cash equivalents include £35,000 (2008: £45,000) that is classified as restricted cash as it is held for travel bonding purposes.

19. Trade and other payables

	2009 £'000	2008 £'000
Trade payables	1,194	1,047
Other tax and social security taxes	1,189	828
Other payables	94	80
Accruals and deferred income	1,646	1,923
Deferred consideration	-	190
	4,123	4,068

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 102 days (2008: 45 days).

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

20. Borrowings

	2009 £'000	2008 £'000
Current		
Unsecured loans - loan stock	450	450
Bank overdraft	649	342
	1,099	792
Non Current		
Unsecured loans - loans from related parties	65	82

The total borrowings are provided in UK Sterling.

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

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

(i) Bank overdrafts are repayable on demand. Overdrafts of £649,000 (2008: £342,000) have been secured by a charge over the UK subsidiaries' balance sheet. The average effective interest rate on bank overdrafts approximates 7% (2008: 7%) per annum and is determined based on an agreed rate.

(ii) Amounts repayable to related parties of the Group carry interest of 7% (2008: 7%) per annum charged on the outstanding loan balances.

20. Borrowings (continued)

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

	2009	2008
31 March 2009	%	%
Bank overdrafts	7.0	7.0
Loans from related parties	-	-
Loan stock	7.0	7.0
	6.1	6.3

Undrawn borrowing facilities

At 31 March 2009, the Group had available £228,000 (2008: £192,000) of undrawn borrowing facilities in respect of which all conditions precedent had been met.

Contingent liability

The bank has a debenture and cross guarantee of indebtedness with several subsidiaries in relation to the £400,000 facility which has been taken out by MKM Group PLC.

21. 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:

	2009 £'000	2008 £'000
Not later than one year	46	102
Later than one year and not later than five years	152	472
Later than five years	-	96
	198	670

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are now negotiated for an average term of 3 years and rentals have a defined increase each year for this period.

The Group exercised a break clause within its buildings lease on the 7 April 2009, entering into a new lease as from 8 April 2009. This new lease has the option to break after 18 months, subject to serving a minimum of six months notice on or before the twelfth month.

22. Provisions

	Employee benefit £'000
At 1 April 2008	159
Charged to the income statement in the year	331
At 31 March 2009	490

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.

23. Share capital

		Authorised		
	2009 Number	2009 £'000	2008 Number	2008 £'000
Ordinary equity shares of 0.5p each	180,000,000	900	180,000,000	900

		Issued and fully paid		
	2009 Number	2009 £'000	2008 Number	2008 £'000
Ordinary equity shares of 0.5p each				
As at 1 April	73,071,544	365	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
Deferred equity consideration issued 27th November 2008	20,216,216	102	-	-
As at 31 March	93,287,760	467	73,071,544	365

24. Reserves

	Share premium £'000	Share option £'000	Deferred share capital 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	2,647	86	671	1,767	(84)	(311)

	Share premium £'000	Share option £'000	Deferred share capital consideration £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000
At 1 April 2008	2,647	86	671	1,767	(84)	(311)
Equity charge in repect of share based payments	-	(21)	-	-	-	-
Loss for the year	-	-	-	-	-	(8,295)
Acquisition	-	-	(671)	445	-	-
Exchange rate differences on translation of overseas operations	-	-	-	-	(75)	-
Translation reserve taken to income statement for discontinued operations	-	-	-	-	159	-
At 31 March 2009	2,647	65	-	2,212	-	(8,606)

-

The merger reserve arose on the acquisition of Leisure World Pty Ltd and Promodus Ltd by MKM Group PLC. 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. The movement in the year relates to the issue of additional share capital to settle the deferred consideration arising in the Leisure World acquisition.

The Directors do not recommend the payment of a dividend (2008: nil).

The charge taken to the income statement in relation to the reversal of the translation reserve of £159,000 is included in the impairment losses recognised on the cessation of trade – see note 11.

25. 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.

	2009 Weighted average exercise price/pence	2009 Number	2008 Weighted average exercise price/pence	2008 Number
Outstanding at beginning of the year	5.3	9,093,181	5.3	8,318,181
Granted during the year	-	-	7.5	2,500,000
Forfeited during the year	5.0	5,000,000	7.1	1,725,000
Outstanding at the end of the year	6.3	4,093,181	5.6	9,093,181

The exercise price of options outstanding at the end of the year ranged between 5.5p and 7.5p (2008: 5p and 7.5p) and their weighted average remaining contractual life was 5.2 years (2008: 5.7 years).

Of the total number of options outstanding at the end of the year, 2,275,000 (2008: 5,000,000) had vested and were exercisable at the end of the year.

No options were exercised during the year (2008: nil).

The weighted average fair value of each option granted during the year was not applicable as no options were granted (2008: 1.3p).

25. Share based payments (continued)

The following information is relevant in the determination of the fair value of options granted under the equity-settled share based remuneration schemes operated by the Group. No options were granted in the year ended 31 March 2009.

Equity-settled

Option pricing model used	Black-Scholes
Weighted average share price at grant date	8.0
Exercise price	7.5
Weighted average expected contractual life/years	1.3
Expected volatility	70%
Discount versus Bid price expected at timing of exercise	30%
Expected dividend growth rate	0%
Risk-free interest rate	5.0%

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.

	2009 £'000	2008 £'000
The share-based remuneration (credit)/expense comprises:		
Equity-settled schemes	(21)	25
	(21)	25

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

26. 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 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 23 to 24.

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	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
AUS dollar	2,471	2,876	150	2,166

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. 10% 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	
	2009	2008
	£'000	£'000
Profit or loss	-	(36)

26. Financial instruments (continued)

Foreign currency risk management (continued)

The Group is exposed to a foreign exchange risk associated with the payments made to the airport lounges around the world that are included within the Airport Angel programme. This exposure is monitored closely and reviewed by the Board on a biannual basis.

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 2009 would decrease/increase by £3,700 (2008: £5,000). 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 year.

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.

27. 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

In 2008, the Group sourced travel activity from Leisure World Holidays PTY Ltd which is a company wholly owned by Richard Tenser and Brian Smillie, two Group Board Directors. As such, transactions and amounts owed have been disclosed as related party transactions. During the year ended 31 March 2009, travel activities have been sourced from a wholly owned subsidiary within the Group and therefore no related party transactions have occurred in the current year. The details of the transactions with related parties who are not members of the Group in the prior period are disclosed below:

	Purchase of goods		Amounts owed by related parties	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Leisure World Holidays PTY Ltd	-	570	-	96

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 20 to the accounts.

27. 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 5 to 7.

Directors' transactions

Related party	Related party relationship	Transaction amount 2009 £'000	2008 £'000	Balance owing 2009 £'000	2008 £'000
Andrew Johnson	Director	1	1	-	-
Mark Koch	Director	10	25	-	-
Brian Smillie	Director	1	-	-	-

All transactions within the year relate to personal travel bookings made through Concepts for Travel Ltd. All balances were settled as at 31 March 2009.

28. Post balance sheet events

On 2 September 2009, the Group disposed of 90% of its shareholding in Promodus Ltd. The Group received a consideration of 24,743 ordinary £1 shares in Stripe Marketing, representing 8% of the issued share capital of Stripe Marketing, and the provision of design and office services to the Group for a limited period to a value of £32,620. Stripe Marketing is a recently established private company which has not yet filed any audited accounts.

The following subsidiaries that had ceased to trade at year 31 March 2009 went into liquidation on the dates shown below:

- Leapfrog Loyalty and Rewards Solutions Pty Ltd – 17 June 2009;
- Aussie Breaks – 30 June 2009;
- Leisure World Pty Ltd – 30 June 2009; and
- Leapfrog Promotion and Incentive Solutions Pty Ltd – 4 August 2009.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MKM GROUP PLC FOR THE COMPANY

We have audited the parent company financial statements of MKM Group plc for the year ended 31 March 2009 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 2009.

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 Chief Executive'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 FOR THE COMPANY (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 2009;
- 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 LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Manchester, United Kingdom
1 October 2009

MKM Group plc – Company Financial Statements

Company Balance Sheet as at 31 March 2009

	Note	2009		2008	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	3		2,101		7,145
Current assets					
Debtors	4	106		-	
Deferred tax	6	-		40	
		106		40	
Creditors: amounts falling due within one year	5	(2,791)		(1,959)	
Net current assets			(2,685)		(1,919)
Net (liabilities)/assets			(584)		5,226
Capital and reserves					
Called up share capital	7		467		365
Share premium account	9		2,647		2,647
Deferred share capital consideration	9		-		671
Share option reserve	9		65		86
Merger reserve	9		2,212		1,767
Profit and loss account	9		(5,975)		(310)
Shareholders' (deficit)/funds	10		(584)		5,226

The financial statements on pages 54 to 60 were approved by the Board of Directors on 1 October 2009 and were signed and authorised for issue on its behalf by:

M Toynton

Group Finance Director

Notes forming part of the Company financial statements for the year ended 31 March 2009

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 £5,665,000 (2008: £51,000 loss). This includes costs incurred by the Company as a result of the cessation of trade of the Australian business, being an investment impairment of £4,489,000 (see note 3) and a write off of the intercompany debts due from Leisure World PTY Ltd and its subsidiary undertakings of £443,000. The Company has also impaired its investment in Promodus resulting in a cost of £430,000. Excluding these items, the Company recorded a loss of £303,000. This is stated after charging auditors' remuneration for the Company of £2,000 (2008: £2,000) 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.

3 Fixed asset investment

	Group undertakings £'000
Cost	
At 1 April 2008	7,145
Deferred consideration no longer payable	(125)
At 31 March 2009	7,020
Accumulated impairment losses	
At 1 April 2008	-
Impairment losses for the year	(4,919)
At 31 March 2009	(4,919)
Carrying value	
At 31 March 2009	2,101
At 31 March 2008	7,145

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 (ceased trading)	Australia	100%
Promodus Ltd	Great Britain	100%
Concepts for Travel Limited	Great Britain	100%
Yippee Experiences Limited	Great Britain	100%
Breeze Rewards Limited	Great Britain	100%
Hidden Retreats Limited	Great Britain	100%
Salad Marketing Pty Ltd	Australia	100%

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

Notes forming part of the Company financial statements for the year ended 31 March 2009 (continued)

4 Debtors

	2009 £'000	2008 £'000
Amounts receivable within one year:		
Amounts owed by Group undertakings	106	-
	106	-

5 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Accruals	404	30
Amounts due to subsidiary undertakings	1,542	1,218
Deferred consideration	-	187
Loan stock	450	450
Other creditors	40	74
Bank overdraft	355	-
	2,791	1,959

6 Deferred tax

The movement on the deferred tax account is as shown below:

	2009 £'000	2008 £'000
At 1 April	40	20
Profit and loss (charge)/credit	(40)	20
At 31 March	-	40

Deferred tax assets have been derecognised in respect of all tax losses and other temporary differences as it is no longer probable that these assets will be recovered. The total losses for which a deferred tax asset has not been recognised are £353,000 (2008: £112,000).

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:

	Reduction in Asset 2009 £'000	Charged to income 2009 £'000
Other temporary and deductible differences	(8)	(8)
Available losses	(32)	(32)
	(40)	(40)

7 Share capital

	Authorised			
	2009 Number	2009 £'000	2008 Number	2008 £'000
Ordinary equity shares of 0.5p each	180,000,000	900	180,000,000	900

	Issued and fully paid			
	2009 Number	2009 £'000	2008 Number	2008 £'000
Ordinary equity shares of 0.5p each				
As at 1 April	73,071,544	365	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
Issue of share capital 27th November 2008	20,216,216	102	-	-
As at 31 March	93,287,760	467	73,071,544	365

8 Share-based payment

The details of the schemes operated can be found within the Group Consolidated financial statements within note 25.

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 2008	365	2,647	86	671	1,767	(310)
Loss for the year	-	-	-	-	-	(5,665)
Share option expense	-	-	(21)	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-
Share capital issue within the year	102	-	-	(671)	445	-
As at 31 March 2009	467	2,647	65	-	2,212	(5,975)

The Directors do not recommend the payment of a dividend (2008: nil).

10 Reconciliation of movements in shareholders' (deficit)/funds

	2009 £'000	2008 £'000
Loss for the financial year	(5,665)	(51)
New share capital subscribed, net of issue costs	102	147
Premium on share issued	-	442
Share option (credit)/charge	(21)	25
Movement on deferred share capital reserve	(671)	671
Premium on shares issued, taken to merger reserve	445	1,767
(Reduction in)/addition to shareholders' funds	(5,810)	3,001
Opening shareholders' funds	5,226	2,225
Closing shareholders' (deficit)/funds	(584)	5,226

MKM Group Plc - Five Year Record

	2009 IFRS £'000	2008 IFRS £'000	2007 IFRS £'000	2006 IFRS £'000	2005 UK GAAP £'000
Continuing operations					
Turnover	**3,755**	**3,808**	**3,888**	**4,575**	**10,279**
(Loss)/profit from operations	(911)	(22)	404	(393)	(1,426)
(Loss)/profit before tax	(914)	(3)	456	(362)	(1,391)
(Loss)/profit after tax	**(898)**	**(32)**	**580**	**(358)**	**(1,160)**
	Pence	**Pence**	**Pence**	**Pence**	**Pence**
Basic loss per share	(0.96)	(0.05)	1.33	(1.19)	(10.80)
Discontinued operations					
(Loss)/profit after tax	**(7,397)**	**(171)**			
	Pence	**Pence**			
Basic loss per share	(7.92)	(0.28)			