

Huntsworth PLC

Report and Accounts 2001

Creating **value** for our clients

Attracting and **motivating** talented people

Growing a **strong** company that **rewards** all of our stakeholders

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Chairman's Statement and Review

I am pleased to report that Huntsworth is back in the black after a year of steady and encouraging progress. The new strategy, introduced last year, with its focus on building a marketing services group serving the consumer, financial, healthcare, public affairs and technology markets, with public relations at its core, is progressing well. We now have a profitable and highly focused business, with a very strong blue chip client list and we are producing excellent work in different marketing areas.

PBC, Stephanie Churchill, and Woodside, which were all acquired at the half year, and Harrison Cowley which joined the Group two months later, have been successfully integrated, and are now contributing significantly to Group revenues and profits. In aggregate, they reported a 69% rise in operating profits compared with the pro-rata periods before acquisition.

We brought these new companies into the Group while closing down those which were not central to our strategy. The management, staff and the results of all these new acquisitions are giving us real confidence in our future. We are particularly pleased with our new business record from new clients and extensions to existing contracts.

Assignments were received from new clients including Alcatel, Boeing, Bristol Myers Squibb, Carlsberg, Continental Tyres, Etam, International Paper, Nortel, Roche, Saint Gobain and United Biscuits.

Existing clients who have awarded Group companies new assignments include Camelot/The National Lottery, Heinz, Janssen-Cilag, Kraft Foods, Novartis, Quaker and Sainsbury.

The original Huntsworth businesses inherited by the current management team had a very difficult year. Headcount was reduced from 180 to 75, space occupied was reduced from 31,000 square feet to 14,000 square feet and management has kept vigilant, downward pressure on all costs.

Despite all this traumatic change and adverse economic conditions, those original businesses which continue held revenues close to 2000 levels, boosting profits before central costs by 88% over the previous year.

Results

In February 2002, I commented that trading had been satisfactory; that is now borne out in the numbers. The year under review has been one of considerable change, influenced by corporate activity and also boosted by the injection of new funds through a share placing and open offer. Our greatly strengthened financial position, coupled with a programme of stringent cost control, provide a springboard for the future.

In the twelve months to December 2001 Huntsworth generated an operating profit of £383,000 before exceptional items and goodwill amortisation, compared with an operating loss of £1.7m in the 15 months to December 2000. After charging exceptional items of £1.7m and goodwill amortisation of £52,000, the loss on ordinary activities before interest was £1.4m (2000 – 15 months: loss £6.2m).

The adjusted earnings per share (after excluding discontinued operations, exceptional items and goodwill amortisation) were 0.2 pence, compared to a loss of 5.2 pence in the previous 15 months. Basic and diluted earnings per share were a loss of 2.8 pence (2000 – 15 months: a loss of 27.4 pence).

Huntsworth generated revenues, excluding discontinued operations, of £9.2m to December 31 2001 (£5.2m – 12 months to December 2000: £6.5m in the 15 months to December 2000).

Operating company margins, excluding discontinued operations and before central costs, were 17.1% – compared with 6.2% in the year to December 2000. Management is targeting operating company margins of 20% by the end of 2003 and 18.5% in the current year.

Cash generation is a key performance indicator for all managers in the Group. In the year, Huntsworth generated positive trading cash, excluding exceptional items, of £354,000. Net interest payable (before exceptional finance charges) fell to £242,000 from £466,000 in the previous 15 months.

The balance sheet at December 2001 shows bank debt down to £0.8m from £6.7m at December 2000 and positive shareholders' funds of £11.2m compared with a deficit of £10.5m a year earlier. In June 2001 cash amounting to £12.8 m (net of costs) was raised through a share placing and open offer.

A committed two-year credit line of £6.5m and a £2m overdraft have been agreed with Lloyds TSB. Loan notes of £4.4m are payable to the vendors of Harrison Cowley in April 2002.

All final payments for PBC, Woodside and Harrison Cowley can be met either in cash or shares at Huntsworth's option.

Strategy

Huntsworth has a clear and consistent strategy. We are focused on delivering growth from defined markets in public relations and marketing communications. This will be achieved through organic growth augmented by targeted acquisitions, particularly in the financial, public affairs and healthcare sectors. Our management teams are encouraged to operate with the individuality, flair and imagination that are essential for success in our industry. Huntsworth maintains control by strictly applying agreed budgets to maintain financial discipline.

Board and Employees

The Board, with Lord Chadlington's experienced leadership of the executive team, is totally committed to the successful implementation of our strategy and works closely with management throughout Huntsworth. We are happy to welcome Roger Selman, who joined us as Finance Director in September, bringing with him valuable experience of five years in a similar role at Shandwick. The acquisitions have brought over 150 new people with a broad range of key skills. We now have a vibrant team of high quality professionals throughout the company and I would like to thank each of them for their contribution to the progress of Huntsworth. Their commitment and competence have been exemplary.

Annual General Meeting

We will be seeking authority from our shareholders at the forthcoming Annual General Meeting, to be held on 17 June 2002, for the introduction of an Employee Benefit Trust for the purchase of shares that can then be made available to meet share option requirements, and an SAYE scheme that will allow our people to save and invest in our shares. We will also be asking shareholders to approve an amendment to our Articles of Association to permit Electronic Shareholder Communications. This will allow distribution of annual and interim reports electronically to any shareholder who gives authority for electronic delivery, enhancing efficiency and lowering cost.

Communication with Investors

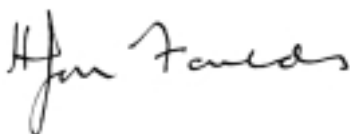
There are over 750 companies, or close to half the businesses quoted on the London Stock Exchange, each capitalised at below £50 million; it is disappointing that they attract such a disproportionately low level of press and broker coverage. In order to make sure that our loyal shareholders and potential investors are kept fully informed, we will issue occasional letters, in addition to the formal interim and preliminary statements. These letters will maintain the news flow and keep everyone up to date with developments at Huntsworth. Our web site www.huntsworth.com is another source of information, and includes links to the sites of our businesses.

Please register with the site if you wish to receive press releases and other information electronically.

Outlook – Prospects

Huntsworth has come a long way since the new team arrived. The return to profitability has been a milestone, something which many thought impossible when we took over. It represents the first critical stage in our strategy for Huntsworth and we have now established a solid base from which to continue growing the business.

I am particularly encouraged as our results for the first quarter of the new financial year show us ahead of our 2002 budget – but there is still a long way to go. There are a number of acquisition opportunities – large and small – which we are pursuing in support of our strategy, and exploring with care. We must also manage our existing portfolio to the best possible effect. If we are successful in the next twelve months we shall review our dividend policy – particularly as many of our long suffering shareholders have not received income from this company for more than a decade. But there is still much to do – and the UK economy could still have some surprises for us all in the year ahead.



Jon Foulds
Chairman
24 May 2002

Report of the Directors

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 31 December 2001.

Activity

The principal activity of the Group is that of marketing services, and its core activity is public relations.

Review of Business and Future Developments

The consolidated profit and loss account is set out on page 14 and shows a loss after taxation of £1,771,000. A more detailed review of the business and future developments is included in the Chairman's Statement and Review on pages 1 to 3.

Dividends

The directors do not recommend a dividend (2000 – £nil).

Financial Resources

Following the raising of finance during the year through the issues of shares and loan notes, and improved bank facilities, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Company's and the Group's financial statements.

Directors

Details of directors' remuneration are set out in the Report of the Directors on Remuneration.

Except as disclosed in the financial statements, none of the directors was materially interested during the period in any contract which was significant in relation to the business of the company.

Substantial Shareholdings

Apart from the interests of the directors set out in the Report of the Directors on Remuneration, according to the registers kept by the Company, the directors were aware of the following holdings of 3 per cent or more of the Company's ordinary shares of 10 pence each at 31 December 2001.

	number of shares
Lloyds TSB Development Capital Ltd	9,433,961
3i Group PLC	7,547,169
Mr David Heal	4,472,350
Mr Richard Sharp	3,773,584
Sir David Alliance	3,553,458
Mr David Rowley	2,831,493

Share Capital

It is proposed, in line with common practice, that the directors be authorised to allot up to £3,083,369 of relevant securities in the Company (equivalent to 30,833,690 ordinary shares of 10 pence each, representing 33 per cent of the Company's issued ordinary share capital as at 30 April 2002 without further reference to the Company in general meeting for a period ending at the conclusion of the Annual General Meeting in 2003.

Under Section 89(1) of the Companies Act 1985, where it is proposed to issue equity securities (which include the Company's ordinary shares of 10 pence each) for cash, they must first be offered to existing shareholders in proportion to their holdings. In some circumstances there may be good reasons to allot such securities for cash without first offering them in this way. The directors will therefore propose a special resolution at the Annual General Meeting which, if passed, will allow them to allot equity securities for cash as if Section 89(1) did not apply. This authority will lapse (unless renewed) after fifteen months or, if earlier, at the conclusion of the Annual General Meeting in 2003 and will be restricted to the allotment of equity securities in connection with a rights issue or the allotment of equity securities for cash up to an aggregate nominal value of £462,505 (equivalent to 4,625,054 ordinary shares of 10 pence each, representing 5 per cent of the Company's issue share capital as at 30 April 2002).

An ordinary resolution is to be proposed at the Annual General Meeting to allow the Company to purchase its own shares in the market for cancellation, in accordance with the provisions of the Companies Act 1985. Shareholders' consent is sought for the Company to purchase up to a maximum in aggregate of 4,625,054 ordinary shares of 10 pence each in the share capital of the Company, representing 5 per cent of the issued share capital as at 30 April 2002. The directors will exercise the

authority only if, in their opinion, the purchase by the Company of its own shares is in the best interests of the Company and its shareholders. The directors monitor on a regular basis whether such purchases are in the best interests of the Company and its shareholders.

In addition there are a number of resolutions proposed in relation to the amendment of the Company's existing share option schemes and the introduction of new share option schemes. Full details are set out in the Notes to the Notice of the Annual General Meeting.

Electronic communication and amendments to the Articles of Association

Under legislation passed by Parliament in 2000, companies are now allowed to use the internet, e-mail and other electronic means to send a variety of communications such as the Annual Report & Accounts and the Notice of Meetings to shareholders who have agreed to receive documents in this way. The Company intends to do this in the future. None of the changes proposed will oblige either the Company or any individual shareholder to send or receive documents or notices by electronic mail. The same legislation makes it possible for shareholders to lodge their proxy voting forms electronically should they wish to do so. Our current Articles of Association do not need to be amended to enable shareholders to take advantage of these opportunities because the legislation makes specific provision to allow companies to take advantage of electronic communications. However, it is thought appropriate that the Articles of Association should be amended to reflect the provisions contained in the new legislation and avoid any possible confusion. Shareholders are asked to approve appropriate amendments to the Articles of Association.

Donations

During the year the Group made charitable donations of £1,779 (2000 – £1,960). There were no political contributions made in the year (2000 – nil).

Auditors

A resolution for the reappointment of Ernst & Young LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Payment of Creditors

The Group's subsidiaries are mainly agency businesses and principally incur costs on behalf of clients which are recharged to them. It is the Group's policy, wherever possible, to pay outside suppliers when payment has been received from the clients concerned.

Against this background the Group's subsidiaries generally agree payment terms with their suppliers as set out above when entering binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not have a standard code which deals specifically with the terms of payment of suppliers.

As at 31 December 2001, the Company's trade creditors represented the equivalent of 36 days' invoicing by suppliers (2000 – 50 days).

By order of the Board

Philip Culver Evans
Secretary
24 May 2002

Corporate Governance

The Board is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance.

This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Combined Code appended to the Listing Rules of the Financial Services Authority.

Statement by The Directors on Compliance with the Provisions of the Combined Code

The Company has been in full compliance with the provisions set out in the Combined Code throughout the year with the following exceptions:

- (a) The requirement that the Audit Committee consist of at least three non-executive directors (provision D.3.1 of the Combined Code). Baroness Cumberlege, who was appointed a director on 27 April 2001, did not join the Audit Committee until 12 March 2002, and then participated in the meeting to consider the 2001 annual financial statements. Prior to 12 March 2002 the Audit Committee comprised the other two non-executive directors of the Company.
- (b) The requirement that directors' service contracts are for periods of no longer than one year (provision B.1.7 of the Combined Code). The service contracts of Lord Chadlington (Chief Executive) and Roger Selman (Finance Director) run to 31 December 2003, and no earlier than 14 October 2003 respectively. Since the balance sheet date the contracts of Lord Chadlington and Roger Selman have been amended to extend their term to the AGM of 2006, but subject to 12 months' notice at any time, and thus the contracts are now compliant.

The Workings of the Board and its Committees

The Board

The Board comprises the independent non-executive Chairman, the Chief Executive, the Finance Director and two other independent non-executive directors. One of the non-executive directors, Mr A L Brooke, has the role of senior non-executive director. The biographies of the directors appear on page 13. These demonstrate a range of experience and sufficient calibre to bring independent judgment on issues of strategy, performance, resources and standards of conduct, which are vital to the success of the Group. The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 8 and a statement on going concern is given on page 4.

The Board has introduced a formal schedule of matters specifically reserved to it for decision. The Board meets every month, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining acquisition possibilities and when appropriate, reporting to shareholders. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the Board to discharge its duties, all directors receive appropriate and timely information. The Chairman ensures that the directors take independent professional advice as required.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary ensures that the directors receive appropriate training as necessary.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The following committees deal with specific aspects of the Group's affairs.

Remuneration Committee

The Company's Remuneration Committee is chaired by the Company's non-executive Chairman, Mr H J Foulds and its other member is also a non-executive director, Mr A L Brooke. The Remuneration Committee is responsible for making recommendations to the Board, within agreed terms of reference on the company's framework of executive remuneration and its cost. The Remuneration Committee recommends to the Board the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, share options, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors. The Remuneration Committee seeks advice from a leading firm of remuneration consultants where appropriate.

Given the size of the Group the Board has decided not to introduce a Nominations Committee.

Further details of the Company's policies on remuneration, service contracts, share options and compensation payments are given in the Report of the Directors on Remuneration on pages 9 to 12.

Audit Committee

The Audit Committee which is chaired by Mr A L Brooke comprises all the non-executive directors. The Audit Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Chief Executive and the Finance Director.

The Audit Committee is responsible for reviewing a wide range of matters including the interim and annual financial statements before their submission to the Board and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

Internal Control

The Board is responsible for establishing and maintaining a sound system of internal control for the Group and reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

In fulfilling this responsibility the Group has established a number of measures in order to create an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The Board meets monthly, and is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks. Additionally, the Board reviews on an annual basis the effectiveness of the Group's system of internal control.

The board has put in place the procedures necessary to implement and comply with the guidance 'Internal Control: Guidance for Directors on the Combined Code' (The Turnbull Report). The Group has a budgetary process in which the key risks faced by the Group are identified. Performance is monitored and relevant action taken through the monthly reporting to the Board of variances from the budget, updated forecasts for the period together with information on the key risk areas. Capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board.

Responsibility levels are communicated throughout the Group including delegation of authority and authorisation levels, segregation of duties and other control procedures. Each operating company maintains a system of controls appropriate to its business.

The Audit Committee monitors controls which are in force and any perceived gaps in the control environment, and also considers and determines relevant action in respect of any control issues raised by the external auditors. The Group currently does not have an internal audit function. The Audit Committee reviews the need for an internal audit function from time to time. The findings of the Audit Committee are communicated to the Board.

Directors' responsibility statement

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

- a) Select suitable accounting policies and then apply them consistently;
- b) Make judgments and estimates that are reasonable and prudent;
- c) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d) Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

By order of the Board

Philip Culver Evans
Secretary
24 May 2002

Report of the Directors on Remuneration

Remuneration Committee

The Remuneration Committee comprises two of the Company's non-executive directors, Mr H J Foulds and Mr A L Brooke and is chaired by Mr H J Foulds.

The objective of the Remuneration Committee is to ensure that the executive directors of the Company and other senior executives of the Group are fairly rewarded for their individual contributions to the Group's performance and to ensure that their remuneration is commensurate with their duties and responsibilities.

The Remuneration Committee makes recommendations to the Board, within agreed terms of reference, on overall remuneration packages for executive directors and other senior executives of the Group. They are determined after a review of the performance of the individual. In the case of executive directors, other than the Chief Executive, the Remuneration Committee seeks the advice of the Chief Executive in any review.

The Remuneration Committee is also responsible for granting share options to executive directors of the Company and senior executives of the Group.

Directors' Emoluments

	Salary and Fees £000	Benefits £000	Termination Payments £000	Total 2001 £000
2001				
Chairman				
H J Foulds	–	–	–	–
Executive				
Lord Chadlington (4)	200	9	–	209
R M Selman (3)	28	2	–	30
P F Culver Evans (1)	84	10	–	94
Non-Executive				
A L Brooke	–	–	–	–
Baroness Cumberlege (2)	10	–	–	10
Total 2001	322	21	–	343
2000				
Chairman				
R T Hinaman (5)	19	–	6	25
Executive				
J F Holmes (5)	200	35	410	645
E W Jones (5)	157	26	319	502
I A Walter (5)	94	7	169	270
G M Holmes (5)	51	7	187	245
Non-Executive				
C A Scroggs (5)	14	–	4	18
Total 2000	535	75	1,095	1,705

Notes

(1) Appointed 13 March 2001 and resigned 19 September 2001.

(2) Appointed 27 April 2001.

(3) Appointed 19 September 2001.

(4) Lord Chadlington was awarded a discretionary bonus of £200,000 in the year, which he has waived.

(5) Removed from office 30 August 2000.

As previously indicated to shareholders, Mr. H J Foulds and Mr. A L Brooke drew no remuneration during the year. Salary and fees shown above include fees paid in respect of duties as directors. Benefits relate mainly to the provision of company cars or car allowances, fuel and medical insurance.

Highest Paid Director

The aggregate emoluments of the highest paid director were £209,000 for the year (2000 – £645,000, director removed from office 30 August 2000).

Directors' Pensions

Contributions were made in the year in respect of directors' personal pension plans as follows:

	£000
R M Selman	3
P F Culver Evans	6
	<u>9</u>

Service Contracts

Lord Chadlington's and Mr Selman's service contracts have been extended until the AGM of 2006 terminable on 12 months' notice. The Company's non-executive directors' contracts are terminable on 3 months' notice.

Directors' Interest in Share Options

Former Directors

The Company had two option schemes by which the former executive directors were able to subscribe for ordinary shares in the Company. All options outstanding at 31 December 2000 were exercised in the year.

	Exercised in year to 31 December 2001	Exercise price (pence)	Market value at date of exercise	Gain £000
J F Holmes	100,000	19p	51.5p	33
	500,000	10p	51.5p	207
E W Jones	100,000	19p	36.0p	17
	500,000	10p	36.0p	130
I A Walter	100,000	19p	45.0p	26
	100,000	10p	45.0p	35
G M Holmes	100,000	10p	43.5p	34
	<u>1,500,000</u>			<u>482</u>

Current Directors

The Company has three option schemes by which the current executive directors are able to subscribe for ordinary shares in the Company. The interests of the current executive directors at 31 December 2001 were as follows:

Scheme	At January 2001	Granted in Year	At 31 December 2001	Exercise price (pence)	Option Period
Lord Chadlington					
EMIS (1)	–	260,416	260,416	30.3p	Jun 2001 – Jun 2006
Huntsworth (Chief Executive) Unapproved Scheme	–	1,739,584	1,739,584	30.3p	Jun 2001 – Jun 2006
Huntsworth (Chief Executive) Unapproved Scheme (2)	–	4,000,000	4,000,000	38.4p	Jun 2001 – Jun 2011
Total Lord Chadlington	–	6,000,000	6,000,000		
R M Selman					
EMIS (1)	–	62,014	62,014	25.8p	Sept 2001 – Sept 2011
Unapproved Executive Scheme (3)	–	1,612,404	1,612,404	25.8p	Sept 2001 – Sept 2011
Total R M Selman	–	1,674,418	1,674,418		
Total Executive Directors' share options	–	7,674,418	7,674,418		

(1) Enterprise Management Incentive Scheme.

(2) Options may only be exercised after the share price exceeds the following price for a consecutive 30 day period: 1,000,000 shares 70p, 1,000,000 shares 100p, 1,000,000 shares 130p, 1,000,000 shares 160p.

(3) Options may only be exercised after the share price exceeds the following price for a consecutive 30 day period: 399,418 shares 70p, 425,000 shares 100p, 425,000 shares 130p, 425,000 shares 160p.

R M Selman was granted a further 325,582 EMI options at 25.8p on the 2nd January 2002, 300,000 exercisable between Jan 2002 and Jan 2012, and 25,582 performance related (exercisable after the share price exceeds 70p for a consecutive 30 day period). This completes his aggregate number of options in the amount of 2,000,000 as per his service contract.

Amendments to the above performance triggers have been proposed under Resolution 8 in the Notice of the AGM on page 42.

Lord Chadlington and R M Selman held no options at 31 December 2000 and exercised no options during the year.

The market price of the shares at 31 December 2001 was 23.5p and the range during 2001 was 20p to 52.5p.

Directors' Interests in Shares

The directors were interested (all beneficially unless otherwise stated) in the following number of ordinary shares of 10p each in the company:

	31 December	31 December
	2001	2000
Lord Chadlington**	7,608,926	4,866,633
H J Foulds	1,914,632	1,148,780
A L Brooke	704,760	327,402
R M Selman*	166,666	-
Baroness Cumberlege	34,678	-

* of this amount 83,333 are non beneficial interests.

** during the year Lord Chadlington transferred 47,170 shares to a charity and intends to donate 50,000 shares each year for the next 5 years to charitable causes.

Directors and Advisers

H Jon Foulds

Age 70, Chairman and non-executive director. Mr Foulds is Chairman of the Remuneration Committee and a member of the Audit Committee. Mr Foulds is a former Chairman of Halifax plc and was previously the Chief Executive of 3i plc. His previous directorships include Mercury Asset Management plc and Eurotunnel plc. He is currently a director of a number of private companies.

Lord Chadlington

Age 59, Chief Executive. Lord Chadlington has spent his entire working life in communications, as a journalist after graduating from Cambridge University and later in public relations both in-house and consultancy. He founded Shandwick in 1974, establishing it as the largest PR consultancy in the UK within seven years and holding that position, without interruption for the next 17 years. He built the firm overseas and sold it to The Interpublic Group of Companies in 1998, forming the group that became the largest PR consultancy in the world. Lord Chadlington is a former director of Halifax plc and has written and lectured extensively on communications, politics and public relations. He was created a life peer in 1996.

Roger M Selman

Age 58, Finance Director. Mr Selman is a chartered accountant with 18 years sector experience. He was Group Finance Director of International Public Relations plc (formerly Shandwick International plc) from 1994 to 1999, subsequently transferring to The Interpublic Group of Companies. He has also worked as finance director in other marketing services companies.

Anthony L Brooke

Age 55, senior independent non-executive director. Mr Brooke is Chairman of the Audit Committee and a member of the Remuneration Committee. Mr Brooke is a director of Fauchier Partners Limited and Chairman of comMedica Limited and of Merrill Lynch Global Equity Flows Advantage Limited. He is a former Managing Director of SBC Warburg.

Baroness Cumberlege

Age 59, non-executive director. Baroness Cumberlege is a former Health Minister in the House of Lords, Chairman of the South West Regional Health Authority, Chairman of the Brighton Health Authority and is a Vice President of the Royal College of Nursing. Baroness Cumberlege holds a number of other directorships, public appointments and consultancies in the healthcare industry.

Company Secretary

Philip Culver Evans

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Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Notes	2001			2000 (15 months)		
		Continuing Operations £000	Discontinued Operations £000	Total £000	Continuing Operations £000	Discontinued Operations £000	Total £000
Turnover							
Excluding acquisitions		8,441	1,069	9,510	11,859	8,486	20,345
Acquisitions		5,493	-	5,493	-	-	-
	3	<u>13,934</u>	<u>1,069</u>	<u>15,003</u>	<u>11,859</u>	<u>8,486</u>	<u>20,345</u>
Cost of sales		(4,722)	(367)	(5,089)	(5,310)	(3,597)	(8,907)
Revenue							
Excluding acquisitions		5,181	702	5,883	6,549	4,889	11,438
Acquisitions		4,031	-	4,031	-	-	-
		<u>9,212</u>	<u>702</u>	<u>9,914</u>	<u>6,549</u>	<u>4,889</u>	<u>11,438</u>
Operating Expenses – including exceptional items and goodwill							
Excluding acquisitions		(5,685)	(2,093)	(7,778)	(10,163)	(7,440)	(17,603)
Acquisitions		(3,513)	-	(3,513)	-	-	-
	4	<u>(9,198)</u>	<u>(2,093)</u>	<u>(11,291)</u>	<u>(10,163)</u>	<u>(7,440)</u>	<u>(17,603)</u>
Operating Profit/(Loss)	6						
Excluding acquisitions		(504)	(1,391)	(1,895)	(3,614)	(2,551)	(6,165)
Acquisitions		518	-	518	-	-	-
		<u>14</u>	<u>(1,391)</u>	<u>(1,377)</u>	<u>(3,614)</u>	<u>(2,551)</u>	<u>(6,165)</u>
Exceptional items	7	290	1,418	1,708	2,574	1,767	4,341
Goodwill amortisation and impairment		52	-	52	100	-	100
Operating Profit/(Loss) before exceptional items and goodwill							
Excluding acquisitions		(214)	27	(187)	(940)	(784)	(1,724)
Acquisitions		570	-	570	-	-	-
		<u>356</u>	<u>27</u>	<u>383</u>	<u>(940)</u>	<u>(784)</u>	<u>(1,724)</u>
Net bank and finance lease interest	5			(242)			(466)
Exceptional finance charge	5			(152)			(500)
Net interest payable				(394)			(966)
Loss on Ordinary Activities before Tax				<u>(1,771)</u>			<u>(7,131)</u>
Taxation				-			61
Retained Loss				<u>(1,771)</u>			<u>(7,070)</u>
Earnings Per Share:							
Basic and Diluted – pence	11			(2.8)			(27.4)
Adjusted – pence	11			0.2			(5.2)

There are no recognised gains or losses in either period other than the retained loss for each period.

Balance Sheets

as at 31 December 2001

		Group		Company	
	Notes	2001	2000	2001	2000
		£000	£000	£000	£000
Fixed assets					
Intangible assets	12	18,958	-	-	-
Tangible assets	13	1,045	395	29	18
Investments	14	-	-	33,527	11,069
		<u>20,003</u>	<u>395</u>	<u>33,556</u>	<u>11,087</u>
Current assets					
Work in progress		110	177	-	-
Assets held for resale	15	-	54	-	-
Debtors	16	4,950	2,891	6,317	4,002
Cash at bank and in hand		7	3	-	1,996
		<u>5,067</u>	<u>3,125</u>	<u>6,317</u>	<u>5,998</u>
Creditors due within one year					
Bank overdrafts	17	-	(6,703)	-	(6,917)
Other creditors	18	(10,448)	(3,627)	(5,153)	(306)
		<u>(10,448)</u>	<u>(10,330)</u>	<u>(5,153)</u>	<u>(7,223)</u>
Net current (liabilities)/assets		<u>(5,381)</u>	<u>(7,205)</u>	<u>1,164</u>	<u>(1,225)</u>
Total assets less current liabilities		<u>14,622</u>	<u>(6,810)</u>	<u>34,720</u>	<u>9,862</u>
Creditors due after more than one year					
Provisions for liabilities and charges	19	(784)	(500)	(1,440)	(500)
	20	(2,668)	(3,143)	(1,093)	(1,357)
		<u>11,170</u>	<u>(10,453)</u>	<u>32,187</u>	<u>8,005</u>
Capital and reserves					
Called up share capital	22	9,250	2,606	9,250	2,606
Share premium account	23	12,617	4,510	12,617	4,510
Other reserves	23	3,131	-	3,131	-
Profit and loss account	23	(19,340)	(17,569)	1,677	889
		<u>5,658</u>	<u>(10,453)</u>	<u>26,675</u>	<u>8,005</u>
Shares to be issued	24	5,512	-	5,512	-
Equity shareholders' funds	25	<u>11,170</u>	<u>(10,453)</u>	<u>32,187</u>	<u>8,005</u>

Consolidated Cash Flow Statement

for the year ended 31 December 2001

	Notes	2001 £000	£000	2000 £000	£000
Net cash outflow from operating activities	27		(2,382)		(2,686)
Returns on investment and servicing of finance					
Interest received		31		-	
Interest paid		(797)		(457)	
			(766)		(457)
Net cash outflow from returns on investments and servicing of finance					
Taxation					
Corporation tax paid			(128)		(60)
Capital expenditure and financial investment					
Disposal of tangible fixed assets		30		4	
Purchase of tangible fixed assets		(535)		(116)	
Disposal of assets held for resale		63		1,204	
			(442)		1,092
Acquisitions					
Purchase of subsidiary undertakings		(4,020)		-	
Purchase of unincorporated business		(296)		-	
Net cash acquired with subsidiaries		446		-	
Net cash outflow from acquisitions			(3,870)		-
Net cash outflow before financing			(7,588)		(2,111)
Financing and net cash outflow from financing					
Net proceeds from the issue of ordinary share capital		13,511		11	
Repayment of long term borrowings		-		(3,569)	
			13,511		(3,558)
Increase/(decrease) in cash in the period			5,923		(5,669)

Notes to the Financial Statements

1. Principal accounting policies

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom. The basis of preparation is consistent with the financial statements for previous periods, except as stated below. A summary of the more important accounting policies follows.

The group has adopted Financial Reporting Standard (FRS) 17 'Retirement Benefits' in the year. FRS17 requires certain disclosures relating to defined benefit schemes to be made for periods ending on or after 22 June 2001. These additional disclosures have been presented in Note 8.

Basis of consolidation

The Group financial statements consolidate the financial statements of Huntsworth PLC and all subsidiaries. As permitted by section 230 of the Companies Act 1985, Huntsworth PLC has not presented a profit and loss account.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements from or to the date of acquisition or disposal respectively. On acquisition of a business, all of the assets and liabilities of that business that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the date of acquisition, are charged to the post acquisition profit and loss account.

Turnover and Revenue

Group turnover represents amounts receivable from clients, exclusive of value added tax, in respect of charges for fees, commissions, rechargeable expenses and sales of marketing products.

Group revenue is turnover less cost of sales, and represents fees, commissions and mark ups on rechargeable expenses and marketing products.

Goodwill

Goodwill arising on consolidation, being the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired, is capitalised as an asset in the balance sheet. The directors review the estimated economic life of goodwill arising on each acquisition and, where this is considered finite, the goodwill is amortised on a straight line basis over the period of the economic life not exceeding 20 years. Where the directors are of the opinion that the goodwill arising in respect of an acquisition has an indefinite economic life due, inter alia, to the strength of its market position and long-term profitability outlook, the asset will not be amortised.

Following the first full year of ownership of an acquired business, the goodwill capitalised is reviewed for impairment. Goodwill having an indefinite economic life will be reviewed for impairment annually.

Where an indefinite economic life is appropriate, the financial statements depart from the specific requirement of companies' legislation to amortise goodwill over a finite period in order to give a true and fair view. Due to the infinite life of these assets, it is not possible to quantify the impact of this departure (see Note 12).

Tangible Fixed Assets

Tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost of tangible fixed assets, on a straight line basis, over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

Equipment, fixtures and fittings 15%-33%

Short leasehold land and buildings are amortised over the period of the lease.

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

Work in progress

Work in progress is stated at the lower of cost and net realisable value, and consists of the cost of materials and artwork incurred on behalf of clients which have still to be re-charged.

Deferred tax

Deferred tax is provided using the liability method on all timing differences, including those relating to pensions and other post-retirement benefits, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Vacant leasehold property

Where a leasehold property substantially ceases to be used for the Group's business, or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover the future obligations relating to the lease.

Leasing Commitments

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

The Group operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The scheme no longer has any active members and consequently any deficiencies identified as a result of actuarial valuations are recognised in the period in which they arise. Contributions to employees' personal pension plans are charged to the profit and loss account in the period in which they become payable.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

2. Acquisitions

The following acquisitions have been accounted for by the acquisition method:

(i) PBC Marketing Limited

On 8 June 2001 the Group acquired the whole issued share capital of PBC Marketing Limited. The fair value of the consideration given for the acquisition, including related costs, was £5,697,000. An initial payment of £3,230,000 was satisfied as to £1,615,000 in cash and £1,615,000 by the issue to shareholders in PBC Marketing Limited of 4,194,805 ordinary shares at a price of 38.5p. Costs relating to the acquisition amounted to £372,000.

Further contingent consideration is dependant on the profits of PBC Marketing Limited over the three years to 30 June 2004, and is capped at an amount of £4,270,000. Such consideration is payable after the profits for the three years have been agreed, in shares or cash at the option of Huntsworth. Of this amount £2,095,000 has been accrued at 31 December 2001, and is included within Shares to be Issued.

Goodwill of £5,551,000 in respect of this acquisition has been determined as having an indefinite economic life, based on its market position and expectations of long term profitability, and is therefore not being amortised.

Fair value of assets acquired:

	Book Value £000	Fair Value Adjustments £000	Fair Value £000
Assets and liabilities acquired:			
Tangible fixed assets	182	–	182
Debtors	1,107	(50)	1,057
Cash at bank and in hand	56	–	56
Creditors and provisions	(1,150)	–	(1,150)
Net assets acquired	195	(50)	145

Fair value adjustments relate to bad debt provisioning.

(ii) Woodside Communications Limited

On 8 June 2001 the Group acquired the whole issued share capital of Woodside Communications Limited. The fair value of the consideration given for the acquisition, including related costs, was £2,119,000. An initial payment of £1,888,000 was satisfied as to £944,000 in cash and £944,000 by the issue to shareholders in Woodside Communications Limited of 2,452,026 ordinary shares at a price of 38.5p. Costs relating to the acquisition amounted to £231,000.

Further contingent consideration is dependant on the profits of Woodside Communications Limited over the three years to 30 June 2004, and is capped at an amount of £2,712,000. Such consideration is payable after the profits for the three years have been agreed in shares or cash at the option of Huntsworth. None of this amount has been accrued at 31 December 2001.

Goodwill of £2,099,000 in respect of this acquisition has been determined as having an indefinite economic life, based on its market position and expectations of long term profitability, and is therefore not being amortised.

Fair value of assets acquired:

	Book Value	Fair Value Adjustments	Fair Value
	£000	£000	£000
Assets and liabilities acquired:			
Tangible fixed assets	39	(13)	26
Debtors	158	(35)	123
Cash at bank and in hand	115	-	115
Creditors and provisions	(243)	-	(243)
Net assets acquired	69	(48)	21

Fair value adjustments relate to the revaluing of certain assets and bad debt provisioning.

(iii) Stephanie Churchill

On 8 June 2001 the Group acquired the business and certain assets of Stephanie Churchill Public Relations. The fair value of the consideration given for the acquisition, including related costs, was £882,000. An initial payment of £186,000 was satisfied in cash, and a further net sum of £69,000 was paid in cash during the year. Costs relating to the acquisition amounted to £41,000.

Further contingent consideration is dependant on the revenues over the three years to 30 June 2004 from certain clients of Stephanie Churchill introduced by the vendor, and is capped at an amount of £745,000. Such consideration is payable in cash each year, after such revenues have been agreed for that year. Of this amount £586,000 has been accrued at 31 December 2001 and has been included within Provisions for liabilities and charges.

Goodwill of £1,034,000 in respect of this acquisition has been determined as having an economic life of 10 years, and is therefore being amortised over that period.

Fair value of assets acquired:

	Book Value	Fair Value Adjustments	Fair Value
	£000	£000	£000
Assets and liabilities acquired:			
Tangible fixed assets	60	(53)	7
Debtors	106	(9)	97
Cash at bank and in hand	7	-	7
Creditors and provisions	(264)	-	(264)
Net liabilities acquired	(91)	(62)	(153)

Fair value adjustments relate to the revaluing of certain assets and bad debt provisioning.

(iv) Harrison Cowley Limited

On 21 August 2001 the Group acquired the whole issued share capital of Harrison Cowley Limited. The fair value of the consideration given for the acquisition, including related costs, was £10,638,000. An initial payment of £6,511,000 was satisfied as to £300,000 in cash, £1,811,000 by the issue to shareholders in Harrison Cowley Limited of 5,750,000 ordinary shares at a price of 31.5p, and £4,400,000 by the issue of Loan Notes in that amount. Costs relating to the acquisition amounted to £709,000.

Further contingent consideration is dependant on the profits of Harrison Cowley Limited over the three years to 31 August 2004, and is capped at an approximate amount of £19,000,000. Such consideration is payable in two tranches. The First Deferred Consideration is payable after the profit for the year to 31 August 2002 has been agreed, and any such amount is payable 70% in cash and 30% in shares. The Second Deferred Consideration is payable after the profits for the three years to 31 August 2004 have been agreed, and any such amount is payable in shares or cash at the option of Huntsworth. Of these amounts no accrual has been made at 31 December 2001 in respect of the First Deferred Consideration, and £3,417,000 has been accrued at 31 December 2001 in respect of the Second Deferred Consideration, and is included within Shares to be Issued.

Goodwill of £10,326,000 in respect of this acquisition has been determined as having an indefinite economic life, based on its market position and expectations of long term profitability, and is therefore not being amortised.

Fair value of assets acquired:

	Book Value £000	Fair Value Adjustments £000	Fair Value £000
Assets and liabilities acquired:			
Tangible fixed assets	356	(5)	351
WIP	111	-	111
Debtors	1,537	(65)	1,472
Cash at bank and in hand	268	-	268
Creditors and provisions	(1,890)	-	(1,890)
Net assets acquired	382	(70)	312

Fair value adjustments relate to the revaluing of certain assets and bad debt provisioning.

3. Turnover and segmental analysis

Turnover represents the invoiced value of sales attributable to the year, exclusive of value added tax. The Group has one class of business, marketing services. Throughout the year ended 31 December 2001 it operated from the United Kingdom. The analysis of turnover by destination is as follows:

	Continuing Operations £000	2001 Discontinued Operations £000	Continuing Operations £000	2000 Discontinued Operations £000
United Kingdom	12,243	1,069	9,453	8,182
Other European	1,671	-	1,965	167
Rest of World	20	-	441	137
	13,934	1,069	11,859	8,486

4. Operating expenses

	Continuing Operations	2001 Discontinued Operations	Continuing Operations	2000 Discontinued Operations
	£000	£000	£000	£000
Operating expenses before exceptional items and goodwill:				
Excluding acquisitions	5,395	675	7,489	5,673
Acquisitions	3,461	–	–	–
Exceptional items and goodwill	342	1,418	2,674	1,767
Total operating expenses	<u>9,198</u>	<u>2,093</u>	<u>10,163</u>	<u>7,440</u>
Operating expenses before exceptional items and goodwill:				
Operating companies	7,632	675	5,990	5,673
Central costs	1,224	–	1,499	–
	<u>8,856</u>	<u>675</u>	<u>7,489</u>	<u>5,673</u>

5. Net interest payable

	2001 £000	2000 £000
Net bank and finance lease interest payable:		
Interest receivable	29	–
Interest payable on bank loans and overdrafts	268	466
Interest payable on finance leases	3	–
Interest payable	<u>271</u>	<u>466</u>
	<u>242</u>	<u>466</u>
Exceptional finance charges:		
Overdraft arrangement fee	–	500
Interest on acquisition loan notes	152	–
	<u>152</u>	<u>500</u>

The interest on acquisition loan notes in 2001 and the overdraft arrangement fee in 2000 have been treated as exceptional finance charges as they relate to material non-recurring items.

6. Operating profit/(loss)

Operating profit/(loss) before exceptional items, is stated after charging/(crediting):

	2001 £000	2000 £000
Auditors' remuneration:		
Audit services	95	85
Non-audit services	20	35
Depreciation of owned tangible fixed assets	199	261
Depreciation of tangible fixed assets held under finance leases	4	2
Loss on disposal of tangible fixed assets	9	–
(Profit) on disposal of assets held for resale	(9)	–
Operating lease rentals:		
Land and buildings	428	604
Equipment, including motor vehicles	458	890

Note: Non-audit fees paid to the auditors relating to and treated as acquisition or share issue costs amounted to £713,000.

7. Exceptional items

	2001	2000
	£000	£000
Property costs:		
Net provision against surplus leasehold properties	102	1,048
Fixed asset write offs at surplus leasehold properties	61	234
	<u>163</u>	<u>1,282</u>
Reorganisation costs:		
Directors' termination costs	–	1,095
Reorganisation and redundancy costs	1,387	1,362
Pension scheme deficit (Note 8)	–	525
Fixed assets written off	158	77
	<u>1,545</u>	<u>3,059</u>
	<u>1,708</u>	<u>4,341</u>

Reorganisation costs represent the costs of restructuring the Group to reflect its size and current trading position. The principal constituents are redundancy costs, professional fees and operating lease termination costs.

8. Employee information

	2001	2000
Average number of persons employed during the year was:	<u>157</u>	<u>171</u>
	2001	2000
	£000	£000
Employee costs, before exceptional items, of all employees included above:		
Gross wages and salaries	5,249	6,668
Social security costs	584	748
Other pension contributions	140	380
	<u>5,973</u>	<u>7,796</u>

(a) The Group makes contributions to employees' personal pension plans. The pension cost charged for such plans amounted to £140,000 (2000-£126,000) during the year. Outstanding contributions of £49,000 (2000-£2,000) were payable to such funds at 31 December 2001. Prepaid contributions of £4,000 (2000-£2,000) are included in prepayments.

(b) The Group's only defined benefit scheme is a funded scheme for which a full actuarial valuation was last carried out as at 1 February 2001 by Legal & General Assurance Society Limited using the attained age method. The Group assesses its pension costs and provisions in accordance with the advice of independent professionally qualified actuaries. The Group has presented below disclosures required by SSAP 24 'Accounting for pension costs' and FRS 17 'Retirement Benefits'. An updated valuation, using the projected unit method, was performed by Legal & General as at 31 December 2001 for the purposes of providing the required disclosures under FRS 17. The bases of the scheme valuation and the related assumptions under FRS 17 differ from those under SSAP 24, and therefore the pension liability (or surplus) can also differ.

SSAP 24 disclosures

The actuaries assessed the pension fund deficit at 1 February 2001 to be £398,000, based on assets of £4,011,000 and liabilities of £4,409,000. The principal assumptions made by the actuaries were that investment yields would be 8% per annum compound on gilts, and 9% per annum compound on equities, and that the retail price index would increase by 4% per annum compound.

There are no remaining employees in the scheme and it is the Group's intention to wind up the scheme as soon as practicable. Discussions are currently taking place with the trustees of the scheme on this basis. Consequently, the Group has provided in full for the deficit of £398,000, together with associated costs of winding up the scheme, as at 31 December 2001.

Contributions of £107,000 were made to the scheme during the year and charged to the pension provision, the balance of which at 31 December 2001 amounted to £418,000 included within reorganisation provisions.

FRS 17 disclosures

The assumptions used by the actuaries to calculate the deficit for the purposes of FRS 17 were as follows:

Inflation	2.6
Rate of increase for pensions in payment	2.6
Rate of increase in deferred pensions	2.6
Rate used to discount scheme liabilities	5.8

The company's contributions are invested under a with profits insurance contract held with Legal & General Insurance Society Limited. The value of this contract at 31 December 2001 was £3,809,000 with an expected rate of return of 6.5% per annum. In addition, there was a cash balance of £104,000 with an expected rate of return of 4% per annum. The Group has also purchased annuities to secure the present value of pensions currently in payment. The annuities had a value at 31 December 2001 of £1,864,000 and an expected rate of return of 5.8% per annum. The total value of the assets under the scheme at 31 December 2001 was £5,777,000.

The deficit under FRS 17 was assessed by the actuaries to be £499,000 as at 31 December 2001, calculated as follows:

	2001
	£000
Total market value of assets	5,777
Present value of liabilities	(6,276)
Net deficit in the scheme	<u>(499)</u>

Group reserves under full implementation of FRS 17 would be as follows:

	2001
	£000
Profit and loss account	(19,340)
Add back SSAP 24 pension provision	418
Profit and loss account excluding SSAP 24 provision	<u>(18,922)</u>
FRS 17 deficit	(499)
Profit and loss account including FRS 17 deficit	<u>(19,421)</u>

9. Taxation on loss on ordinary activities

The Group made no taxable profit during the year (2000 – nil).

The tax credit of £61,000 in 2000 is based on the loss on ordinary activities for the year and comprises the release of an over-provision for corporation tax.

10. Attributable result

A profit of £788,000 (2000 – loss of £1,536,000) of the consolidated result attributable to the shareholders of Huntsworth PLC has been dealt with in the financial statements of that company.

11. Earnings per share

The basic earnings per share calculation is based on the loss on ordinary activities after taxation of £1,771,000 (2000 – loss of £7,070,000) and on 62,993,541 ordinary shares (2000 – 25,813,097 ordinary shares) being the weighted average number of shares in issue during the year. Where appropriate, diluted earnings per share is calculated on the basis of full exercise of outstanding share options.

Adjusted earnings per share are calculated to provide information about continuing trading performance. The adjusted earnings per share calculation is based on the loss on ordinary activities after taxation, excluding discontinued operations, exceptional items and exceptional operating items, goodwill amortisation and impairment and exceptional finance charges, being a profit of £114,000 (2000 – loss of £1,345,000) and on 62,993,541 ordinary shares (2000 – 25,813,097 ordinary shares) being the weighted average number of shares in issue during the year.

12. Intangible fixed assets

The Group	Goodwill £000
Cost	
At 1 January 2001	–
Arising on acquisitions in the year	19,010
At 31 December 2001	19,010
Amortisation	
At 1 January 2001	–
Charge for the period	52
At 31 December 2001	52
Net book value at 31 December 2001	18,958
Net book value at 31 December 2000	–

Of the total cost of £19,010,000, £1,034,000 is being amortised over 10 years and £17,976,000 is not being amortised.

13. Tangible fixed assets

The Group	Short leasehold land and buildings £000	Equipment fixtures & fittings £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2001	217	2,322	–	2,539
Acquisitions	–	463	120	583
Additions	319	209	–	528
Disposals	–	(44)	(23)	(67)
Written off	(217)	(715)	–	(932)
At 31 December 2001	319	2,235	97	2,651
Depreciation				
At 1 January 2001	65	2,079	–	2,144
Charge for the period	30	157	16	203
Disposals	–	(18)	(10)	(28)
Written off	(74)	(639)	–	(713)
At 31 December 2001	21	1,579	6	1,606
Net book value at 31 December 2001	298	656	91	1,045
Net book value at 31 December 2000	152	243	–	395

Short leasehold land and building includes improvements to leasehold properties.

Motor vehicles held under finance leases had a net book value at 31 December 2001 of £23,000 (2000: nil). Equipment, fixtures and fittings held under finance leases had a net book value at 31 December 2001 of £4,000 (2000: nil).

The assets written off in the year comprise equipment and leasehold improvements no longer utilised as a result of reorganisation.

The Company	Equipment fixtures & fittings £000
Cost	
At 1 January 2001	385
Additions	26
At 31 December 2001	411
Depreciation	
At 1 January 2001	367
Charge for the period	15
At 31 December 2001	382
Net book value at 31 December 2001	29
Net book value at 31 December 2000	18

14. Investments: the Company

	Shares at cost £000	Long term debt at cost £000	Provision against subsidiary undertakings £000	Total £000
At 1 January 2001	17,075	–	(6,006)	11,069
Acquisitions	18,454	–	–	18,454
Additions Intra Group	2,270	–	(1,932)	338
Capitalisation of Group Companies' balances	3,666	–	–	3,666
Transfers to sub-holding company	(41,465)	–	7,938	(33,527)
Shares issued by sub-holding company	16,763	–	–	16,763
Debt issued by sub-holding company	–	16,764	–	16,764
At 31 December 2001	16,763	16,764	–	33,527

A reorganisation took place in the year which resulted in the transfer of ownership of all subsidiaries to a new sub-holding company, Huntsworth Investments Limited, for a mixture of shares and debt.

PBC Marketing Ltd, Woodside Communications Ltd and Harrison Cowley Ltd earned profits after tax of £256,000, £189,000 and £433,000 respectively in the years ended 31/12/00, 31/12/00 and 31/3/01 respectively, and the summarised profit and loss accounts for the subsequent periods up to the dates of acquisition are as follows:

	PBC £000	Woodside £000	Harrison Cowley £000
Turnover	1,505	323	3,196
Operating profit/(loss)	238	5	(355)
Profit/(loss) before tax	236	–	(376)
Taxation	(53)	–	–
Profit/(loss) after tax	183	–	(376)

Details of the Company's principal operating subsidiary undertakings, which are all registered and operating in Great Britain, are as follows. Shares held by an intermediate holding company are indicated with an asterisk(*):

	Description and amount of shares held	Proportion of nominal value of issued shares held	Principal activity
Alternate Resources PLC	50,000 ordinary shares of £1 each	*100%	Promotional marketing consultants
Harrison Cowley Limited	90 ordinary shares of £1 each	*100%	Public relations consultants
Holmes & Marchant Communications Limited	10,000 'A' ordinary shares of 10p each 3,000 'B' non-voting ordinary shares of 10p each	*100% *100%	Marketing and communications consultants
Holmes & Marchant Corporate Design Limited	100 ordinary shares of £1 each	*100%	Marketing and communications consultants
Holmes & Marchant International Limited (formerly Holmes & Marchant Graphics Limited)	1,001 ordinary shares of £1 each	*100%	Design and product development consultants
Huntsworth Group Limited (formerly Holmes & Marchant Healthcare Communications Limited)	1,000 ordinary shares of £1 each	*100%	Marketing and communications consultants
Huntsworth Investments Limited (formerly Holmes & Marchant Limited)	101 ordinary shares of £1 each	100%	Sub-holding company
PBC Marketing Limited	1,418 ordinary shares of 0.1p each	*100%	Healthcare communications and research
The Counsel Group Limited	20,001 ordinary shares of 50p each	*100%	Public relations consultants
Woodside Communications Limited	216 ordinary shares of £1 each	*100%	Public relations consultants

15. Assets held for resale

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Freehold land and buildings	-	54	-	-

16. Debtors

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Trade debtors	3,853	2,475	–	–
Amounts owed by subsidiary undertakings	–	–	5,668	3,398
Other debtors	376	70	618	517
Prepayments and accrued income	721	346	31	87
	4,950	2,891	6,317	4,002

17. Bank overdrafts

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Due within one year or on demand	–	6,703	–	6,917
Repayable between one and two years	784	–	1,440	–

The Group has a facility with Lloyds TSB Bank plc for a total of £8.5m, which provides for a 2 year committed overdraft limit of £6.5m with an expiry date of 31 July 2003, and an overdraft repayable on demand with a limit of £2m which is reviewable on 31 July 2002.

The facility is secured by a composite guarantee and debenture among the Group's principal subsidiaries, and is subject to certain financial covenants tested on a half yearly basis. Interest is payable at a margin of between 1% and 1.75% over the Lloyds TSB base rate, dependant upon certain financial ratios.

18. Creditors due within one year

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Trade creditors	1,782	1,669	37	87
Obligations under finance leases	18	–	–	–
Loan notes	4,400	–	4,400	–
Taxation and social security	732	337	76	19
Accruals and deferred income	2,285	1,358	633	199
Sundry creditors	1,231	263	7	1
	10,448	3,627	5,153	306

The Group creditor for taxation and social security includes provision for UK corporation tax amounting to £297,800 (2000 – £144,000). The Company creditor for taxation and social security includes UK corporation tax payable amounting to £nil (2000 – nil).

Finance charges allocated to future periods included within obligations under finance leases are immaterial.

The loan notes were issued in settlement of part of the cost of acquisition of Harrison Cowley Limited, and carry an interest rate of 5% p.a. They may be redeemed at any time after 30 April 2002, and are guaranteed by Lloyds TSB Bank plc (refer to Note 2(iv)).

19. Creditors due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Committed overdraft repayable between one and two years	784	–	1,440	–
Other creditors	–	500	–	500
	784	500	1,440	500

20. Provision for liabilities and charges

	2001	2000
The Group	£000	£000
Deferred taxation: Accelerated capital allowances	100	93
Deferred consideration	586	–
Provision for empty properties	555	1,657
Provision for reorganisation costs	1,427	1,393
	2,668	3,143

The movement in the year on Group provisions comprises:

	Deferred taxation £000	Deferred Consideration £000	Empty properties £000	Reorganisation £000	Total £000
At 1 January 2001	93	–	1,657	1,393	3,143
Provisions upon acquisition	–	586	–	437	1,023
Deferred tax upon acquisition	7	–	–	–	7
Charged to profit and loss account	–	–	552	717	1,269
Provisions released	–	–	(450)	–	(450)
Utilised	–	–	(1,204)	(1,120)	(2,324)
At 31 December 2001	100	586	555	1,427	2,668

(a) Deferred taxation represents provision for the full potential liability.

(b) Provision for empty property represents amounts set aside in respect of property leases which are vacant or onerous.

(c) The majority of the reorganisation provision is expected to be incurred within one year of the balance sheet date. In general, empty property costs are expected to be incurred over periods for which individual properties remain vacant.

(d) Deferred consideration relates to the acquisition of Stephanie Churchill (refer to Note 2(iii)).

	2001	2000
The Company	£000	£000
Deferred taxation: Accelerated capital allowances	61	–
Provision for empty properties	50	251
Provision for reorganisation costs	982	1,106
	1,093	1,357

The movement in the year on Company provisions comprises:

	Deferred taxation £000	Empty properties £000	Reorganisation £000	Total £000
At 1 January 2001	–	251	1,106	1,357
Transferred from subsidiary companies	61	–	–	61
Charged to profit and loss account	–	397	360	757
Utilised	–	(598)	(484)	(1,082)
At 31 December 2001	61	50	982	1,093

21. Financial instruments

Financial instrument, policies and strategies

During the year the Group has financed its business through an overdraft facility arranged with Lloyds TSB (refer to Note 17). In addition the Group raised funds during the year through share issues and the issue of loan notes, primarily to fund acquisitions. It is, and has been throughout the periods under review, the Group's policy that no trading in financial instruments should be undertaken. The main risk arising from the Group's financial instruments is interest rate risk.

Short term debtors and creditors have been excluded from the following disclosures, other than the disclosures on currency risk.

Interest rate risk profile of financial liabilities

The interest rate risk profile of the financial liabilities, excluding short term creditors, of the Group as at 31 December 2001 and 31 December 2000 was as follows:

	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000
At 31 December 2001	7,770	784	4,418	2,568
At 31 December 2000	10,253	6,703	–	3,550

Floating rate liabilities at 31 December 2001 and 31 December 2000 comprised the bank overdraft that bears interest based on the Lloyds TSB base rate (see Note 17).

The weighted average period until maturity of fixed rate financial liabilities is 4 months (2000 – nil) and their weighted average interest rate is 5% (2000 – nil).

Financial liabilities on which no interest is paid as at both 31 December 2001 and 31 December 2000 comprise other creditors due after more than one year and provisions for empty properties and reorganisation costs, details of which are set out in Notes 19 and 20. The weighted average period until maturity of financial liabilities on which no interest is paid is 1.44 years (2000 – 1.77 years).

Borrowing facilities (see Note 17)

Currency exposures

In certain rare circumstances, clients are billed in a currency other than sterling whilst some purchasing takes place with overseas suppliers who bill in local currency. As at 31 December 2001 the Group had no material foreign currency exposures (2000 – nil).

Maturity analysis

The maturity profile of the Group's financial liabilities is as follows:

Maturity analysis

	2001			
	Bank loans and overdrafts £000	Finance leases £000	Loan notes £000	Provisions for liabilities and charges £000
Repayable:				
Within one year or on demand	–	18	4,400	1,654
Between one and two years	784	–	–	357
Between two and five years	–	–	–	443
After five years	–	–	–	114
	784	18	4,400	2,568

	2000			
	Bank loans and overdrafts £000	Other creditors £000		Provisions for liabilities and charges £000
Repayable:				
Within one year or on demand	6,703	–		1,473
Between one and two years	–	500		391
Between two and five years	–	–		1,144
After five years	–	–		42
	6,703	500		3,050

Fair values of financial liabilities

The following table provides a comparison by category of the book values and the fair values of the Group's financial liabilities at 31 December 2001 and at 31 December 2000. Fair value is the amount at which a financial instrument can be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale, and excludes accrued interest. Fair values have been calculated using discounted cashflows at prevailing interest rates.

	2001		2000	
	Book Value	Fair Value	Book Value	Fair Value
	£000	£000	£000	£000
Bank loans and overdrafts	–	–	6,703	6,703
Bank borrowings due after more than one year	784	784	–	–
Finance leases	18	18	–	–
Loan notes	4,400	4,400	–	–
Other creditors due after more than one year	–	–	500	500
Empty property provisions	555	555	1,657	1,657
Reorganisation provisions	1,427	1,427	1,393	1,393
Deferred consideration	586	586	–	–

22. Called up share capital

	2001 Number	2000 Number	2001 Nominal Value £000	2000 Nominal Value £000
Ordinary shares of 10p each Authorised at 1 January 2001	35,000,000	35,000,000	3,500	3,500
Increase in Authorised Capital at AGM on 6 June 2001	115,000,000	–	11,500	–
Authorised at 31 December 2001	150,000,000	35,000,000	15,000	3,500

	Number of shares	£000
Ordinary shares of 10p each Called up, fully allotted and fully paid:		
At 1 January 2001	26,058,430	2,606
Issued on exercise of employee share options	1,561,000	156
Issued to acquire Woodside Communications Ltd	2,452,026	245
Issued to acquire PBC Marketing Ltd	4,194,805	419
Issued to acquire Harrison Cowley Ltd	5,750,000	575
Issue of shares on open offer	14,748,977	1,475
Issue of shares on placing	37,735,841	3,774
At 31 December 2001	92,501,079	9,250

During the year the following shares were issued:

- In June 2001, 2,452,026 ordinary shares of 10p each were issued at a price of 38.5p each, resulting in a share premium of £699,000, allocated to Merger Reserve as consideration for the acquisition of Woodside Communications Limited.
- In June 2001, 4,194,805 ordinary shares of 10p each were issued at a price of 38.5p each, resulting in a share premium of £1,196,000, allocated to Merger Reserve as consideration for the acquisition of PBC Marketing Limited.
- In June 2001, 14,748,977 ordinary shares of 10p each were issued at a price of 26.5p each, resulting in a share premium of £2,434,000, in respect of an open offer.
- In June 2001, 37,735,841 ordinary shares of 10p each were issued at a price of 26.5p each, resulting in a share premium of £6,226,000, in respect of a placing.
- In August 2001, 5,750,000 ordinary shares of 10p each were issued at a price of 31.5p each, resulting in a share premium of £1,236,000, allocated to Merger Reserve as consideration for the acquisition of Harrison Cowley Limited.
- 1,561,000 ordinary shares were issued for cash consideration as a result of the exercise of options under Company's Executive Share Option Schemes, resulting in a share premium of £27,000.

Share options

The following share options were outstanding under the original Executive Share Option Scheme at 31 December 2001 and 31 December 2000:

Exercise period:	2001		2000	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
June 1995 to June 2002	–	–	10,000	14.0p
January 1996 to January 2003	–	–	300,000	19.0p
May 1996 to May 2003	25,000	40.5p	25,000	40.5p
	25,000		335,000	

In November 1994, the Company's original Executive Share Option scheme ("the old scheme") expired in relation to the granting of further options. At an Extraordinary General Meeting held on 2 August 1996, shareholders adopted a new Approved Executive Share Option Scheme ("the Approved Scheme") and also an Unapproved Executive Share Option Scheme ("the Unapproved Scheme"), together "the new schemes". The Unapproved Scheme enables options to be granted in excess of the £30,000 limit currently allowed by the Inland Revenue. The new schemes are administered by the Company's Remuneration Committee.

In June 2001 the shareholders approved a new share option scheme, the Huntsworth (Chief Executive) Unapproved Scheme, specifically for Lord Chadlington. In 2001 the Company further took advantage of the provision of an Executive Management Incentive Scheme to award share options to senior executives in conjunction with other schemes.

The following share options were outstanding under the new Approved Scheme at 31 December 2001 and 31 December 2000:

Exercise period:	2001		2000	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
December 1999 to December 2006	100,000	10.0p	175,000	10.0p
January 2001 to January 2008	–	–	110,000	10.0p
December 2003 to December 2010	59,000	30.0p	118,000	30.0p
June 2004 to June 2011	878,000	38.4p	–	–
June 2004 to June 2011	80,000	39.1p	–	–
September 2004 to September 2011	63,000	25.8p	–	–
October 2004 to October 2011	1,000	24.6p	–	–
November 2004 to November 2011	246,000	24.5p	–	–
	1,427,000		403,000	

The following share options were outstanding under the new Unapproved Scheme at 31 December 2001 and 31 December 2000:

Exercise period:	2001		2000	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
August 1999 to August 2006	–	–	1,100,000	10p
May 2001 to May 2011	700,000	32.5p	–	–
June 2001 to June 2011	259,702	38.4p	–	–
November 2004 to November 2011	3,000	24.5p	–	–
November 2001 to November 2011	1,612,404	25.8p	–	–
	<u>2,575,106</u>		<u>1,100,000</u>	

The following share options were outstanding under the new Enterprise Management Incentive Scheme (EMIS) at 31 December 2001 and 31 December 2000:

Exercise period:	2001		2000	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
June 2001 to June 2006	260,416	30.3p	–	–
June 2001 to June 2011	740,298	38.4p	–	–
November 2001 to November 2011	62,014	25.8p	–	–
June 2004 to June 2011	200,000	38.4p	–	–
	<u>1,262,728</u>		<u>–</u>	

The following share options were outstanding under the new Huntsworth (Chief Executive) Unapproved Scheme at 31 December 2001 and 31 December 2000:

Exercise period:	2001		2000	
	Number of shares	Exercise price per share	Number of shares	Exercise price per share
June 2001 to June 2006	1,739,584	30.3p	–	–
June 2001 to June 2011	4,000,000	38.4p	–	–
	<u>5,739,584</u>		<u>–</u>	

23. Reserves

	Share premium account £000	Other reserves £000	Profit and loss account £000
The Group			
At 1 January 2001	4,510	–	(17,569)
Arising on share issues	8,687	3,131	–
Share issue costs	(580)	–	–
Deficit for the year	–	–	(1,771)
At 31 December 2001	12,617	3,131	(19,340)
The Company			
At 1 January 2001	4,510	–	889
Arising on share issues	8,687	3,131	–
Share issue costs	(580)	–	–
Surplus for the year	–	–	788
At 31 December 2001	12,617	3,131	1,677

The directors do not believe that the Other reserves which represent Merger reserves arising on acquisitions are distributable.

24. Shares to be issued

	2001 £000
At 1 January 2001	–
Accrued for acquisitions (See Note 2)	5,512
At 31 December 2001	5,512

25. Reconciliation of movements in shareholders' funds

	2001 £000	2000 £000
Opening shareholders' funds	(10,453)	(3,494)
Loss for the year	(1,771)	(7,070)
Shares issued on acquisitions	4,370	100
Shares to be issued on acquisitions	5,512	–
Shares issued for cash considerations	13,908	–
Shares issued for exercise of share options	184	11
Costs incurred for shares issued	(580)	–
Closing shareholders' funds	11,170	(10,453)

26. Commitments and contingent liabilities

Operating leases

	Group			Company	
	Property			Property	
	In use £000	Vacant/Sub-let £000	Equipment £000	In use £000	Equipment £000
2001					
Annual net commitments at 31 December 2001 in respect of non-cancellable operating leases expiring in:					
One year	7	–	109	–	–
Two to five years	172	218	73	–	54
Over five years	240	–	–	–	–
	419	218	182	–	54

	Group			Company	
	Property			Property	
	In use £000	Vacant/Sub-let £000	Equipment £000	In use £000	Equipment £000
2000					
Annual net commitments at 31 December 2000 in respect of non-cancellable operating leases expiring in:					
One year	–	–	147	–	28
Two to five years	–	185	379	–	54
Over five years	340	215	–	210	–
	340	400	526	210	82

Contingent liabilities

Company

(i) The Company is registered with HM Customs and Excise as a member of a group for VAT purposes and as a result is jointly and severally liable on a continuing basis for amounts owing by any other members of that group in respect of unpaid VAT. At the balance sheet date the outstanding liability to VAT in the other group companies amounted to approximately £338,818 (2000 – £48,820).

(ii) The Company is a guarantor of the bank borrowings of certain other group companies. At 31 December 2001 the maximum contingent liability in respect of their net borrowings amounted to £nil (2000 – £2,083,713).

27. Cash flow**Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities**

	2001	2001	2001	2000
	Before			
	Exceptionals	Exceptionals	Total	Total
	and goodwill	and goodwill		
	£000	£000	£000	£000
Operating profit/(loss)	383	(1,760)	(1,377)	(6,165)
Depreciation	203	-	203	261
Tangible fixed assets written off	-	219	219	311
Loss on disposal of tangible fixed assets	9	-	9	2
(Profit) on disposal of assets held for resale	(9)	-	(9)	(17)
Impairment of goodwill	-	-	-	100
Amortisation of goodwill	-	52	52	-
Decrease in work in progress	178	-	178	182
Decrease in debtors	690	-	690	2,478
Increase/(decrease) in creditors	(1,100)	410	(690)	(1,620)
Increase/(decrease) in provision for liabilities and charges	-	(1,657)	(1,657)	1,782
Net cash inflow/(outflow) from operating activities	354	(2,736)	(2,382)	(2,686)

The net cash outflow from operating activities in 2000 includes cash outflows of £2,032,000 in respect of exceptional items and £163,000 in respect of termination costs of discontinued operations.

Reconciliation of net cash flow to movement in net debt

	2001	2000
	£000	£000
Increase/(Decrease) in cash in the year	5,923	(5,669)
Cash outflow from debt repayment	-	3,569
Finance leases acquired with subsidiary	(18)	-
Loan notes issued	(4,400)	-
Decrease/(increase) in net debt	1,505	(2,100)
Net debt at beginning of year	(6,700)	(4,600)
Net debt at end of year	(5,195)	(6,700)

Analysis of net debt

	1 January	Cash flow	Other	31 December
	2001			2001
	£000	£000	£000	£000
Cash at bank and in hand	3	4	-	7
Bank overdrafts	(6,703)	6,703	-	-
Committed overdraft repayable between one and two years	-	(784)	-	(784)
Net cash	(6,700)	5,923	-	(777)
Finance leases acquired with subsidiary	-	-	(18)	(18)
Loan notes issued	-	-	(4,400)	(4,400)
Net debt	(6,700)	5,923	(4,418)	(5,195)

Purchase of subsidiary undertakings	2001
	Fair Value
	£000
Fair value of assets and liabilities acquired:	
Tangible fixed assets	566
Work in Progress	111
Debtors	2,750
Cash at bank and in hand	446
Creditors	(3,547)
Net assets acquired	<u>326</u>
Goodwill	19,010
Consideration	<u>19,336</u>
Satisfied by:	
Cash	4,316
Accrued costs of acquisition	152
Loan notes	4,400
Shares allotted	4,370
Contingent consideration – cash	586
Contingent consideration – shares	5,512
	<u>19,336</u>

28 Related party transactions

During the year the Group incurred consultancy costs of £35,400 (2000 – £36,800), at arm's length, from the Quiller Consultancy Limited, a company in which Lord Chadlington has a beneficial interest. None was outstanding at 31 December 2001 (2000 – £36,800).

Also during the year the group incurred consultancy costs, at arms length, in respect of services provided by Baroness Cumberlege amounting to £31,400. None was outstanding at 31 December 2001 (2000 - nil).

Independent Auditors' Report to the Members of Huntsworth PLC

We have audited the group's financial statements for the year ended 31 December 2001 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders' Funds and the related Notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed. We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures. We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement and Review, Report of the Directors', Corporate Governance Statement, Directors' Responsibility Statement and the Report of the Directors on Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
24 May 2002

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 15-17 Huntsworth Mews, London NW1 6DD on Monday, 17 June 2002 at 9.30 am for the following purposes:

Ordinary business

- 1 To receive and adopt the Report of the Directors and the audited Financial Statements for the year ended 31 December 2001.
- 2 To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:
 - (i) That Mr H J Foulds who has attained the age of 70 and is, in accordance with the Company's Articles of Association, now retiring, be and is hereby re-elected a director of the Company.
 - (ii) That Mr R M Selman a Director who had been appointed since the last Annual General Meeting and is, in accordance with the Company's Articles of Association, now retiring, be and is hereby re-elected a director of the Company.
 - (iii) That Mr A L Brooke a Director who is, in accordance with the Company's Articles of Association, now retiring, be re-elected a director of the Company.

Special Business

- 3 To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That Ernst & Young LLP be and are hereby appointed auditors to the Company to hold office until the conclusion of the next Annual General Meeting at which financial statements are laid before the Company and that the directors be and are hereby authorised to fix their remuneration.
- 4 To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the Huntsworth Employee Benefit Trust, as summarised in Appendix 1, be and is hereby approved and that the directors be and are hereby authorised to do all such acts as are necessary and desirable to establish the trust and give effect to its arrangements.
- 5 To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the directors be and are hereby authorised to establish, if they consider appropriate, the Huntsworth Savings Related Share Option Scheme in accordance with the terms summarised in Appendix 2 to the notice of Annual General Meeting and the directors be and hereby authorised to do all such acts as are necessary and desirable to give effect to the Huntsworth Savings Related Share Option Scheme.
- 6 To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the Huntsworth PLC Non-Executive Directors Share Option Scheme, as summarised in Appendix 3, be and is hereby approved and that the directors be and are hereby authorised to do all such acts as are necessary and desirable to give effect to that scheme.
- 7 To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the directors be and are hereby authorised pursuant to Section 80 of the Companies Act 1985, without prejudice to all subsisting authorities, to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of that Act) up to an aggregate nominal amount of £500,000 in connection with the Huntsworth PLC Non-Executive Directors Share Option Scheme provided that this authority shall expire on the day immediately before the fifth anniversary of the date this resolution is passed and the directors be and are hereby authorised to do all such acts as are necessary and desirable to give effect to these arrangements.

- 8 To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the changes to the Huntsworth PLC Approved Executive Share Option Scheme, the Huntsworth PLC 1996 Unapproved Executive Share Option Scheme and the Huntsworth Enterprise Management Incentive Scheme described in this notice be and are hereby approved and the directors be and are hereby authorised to do all such acts as are necessary and desirable to give effect to these arrangements.

- 9 To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the changes to the Huntsworth (Executive Directors) Unapproved Executive Share Option Scheme (formerly the Chief Executive Scheme) described in this notice be and are hereby approved and that the directors be and are hereby authorised to do all such acts as are necessary and desirable to give effect to these changes.

- 10 To consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution:

That the directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of that Act) without prejudice to all the subsisting authorities including the authority conferred by Resolution 7 up to an aggregate nominal amount of £3,083,369 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may make an offer or agreement before this authority expires which would or might require relevant securities to be allotted after this authority has expired and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

- 11 To consider and if thought fit pass the following resolution which will be proposed as a special resolution:

That the directors of the Company be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985, without prejudice to all subsisting authorities, to allot equity securities (as defined in Section 94 of that Act) pursuant to the authority conferred by the passing of Resolution 7 as if Section 89(1) of the Act did not apply to such allotment provided that this power:-

- (i) shall expire on the day immediately before the fifth anniversary of the date this resolution is passed; and
- (ii) shall be limited to the allotment of equity securities in connection with the Huntsworth PLC Non-Executive Directors Share Option Scheme up to an aggregate nominal value of £500,000.

- 12 To consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution:

That the directors be given power pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in section 94 of that Act) without prejudice to all the subsisting authorities including the authority conferred by resolution 11 as if Section 89(1) of that Act did not apply to the allotment. This power shall expire at the conclusion of the next Annual General Meeting of the Company or fifteen months from the date of this resolution whichever is the earlier save that the Company may make an offer or agreement before this authority expires which would or might require equity securities to be allotted after this authority has expired and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

This power shall be limited:

- a. to the allotment of equity securities in connection with a rights issue; and
- b. to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities to an aggregate nominal value of £462,505.

For the purpose of this resolution, “rights issue” means an offer of equity securities, open for acceptance for a period fixed by the directors, to holders in proportion (as nearly as may be) to their holdings of such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or requirements of any regulatory body or any stock exchange in, any territory).

13 To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

That the Company be and it is hereby authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each in the capital of the Company (“ordinary shares”) upon and subject to the following conditions:

(i) the maximum number of ordinary shares hereby authorised to be purchased is 4,625,054 (being 5 per cent of the issued share capital at 30 April 2002);

(ii) the maximum price at which ordinary shares may be purchased is 5 per cent above the average of the middle market quotation for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five dealing days immediately preceding the date of purchase and the minimum price which may be paid is 10p per share (being the nominal value), in each case exclusive of any relevant tax and expenses payable by the Company; and

(iii) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry enter into a contract to purchase ordinary shares under which such purchase would or might be executed wholly or partly after the expiration of such authority, and may make a purchase of ordinary shares in pursuance of any such contract.

14 To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

That the amendments contained in the printed document presented to the Meeting (and initialled by the Chairman for the purposes of identification) be, and are hereby approved as amendments to the Articles of Association of the Company.

By order of the Board
Philip Culver Evans
Secretary
24 May 2002

Registered office: 15-17 Huntsworth Mews, London NW1 6DD

Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A separate form of proxy is enclosed.

The following documents will be available for inspection at the Registered Office, during business hours from the date of this notice until the date of the Annual General Meeting, and on that day will be available for inspection at the place of the meeting:

- (i) Copies of contracts of service of the directors with the Company.
- (ii) The Register of Directors’ (and their family) interest in the share capital of the Company.
- (iii) Rules of the Company’s Approved Executive Share Option Scheme and 1996 Unapproved Executive Share Option Scheme.
- (iv) Rules of the Huntsworth (Executive Directors) Unapproved Share Option Scheme.
- (v) The Trust Deed for the Huntsworth Employee Benefit Trust.
- (vi) Draft Rules for the Company’s Non-Executive Directors Share Option Scheme.
- (vii) Amended version of the Articles of Association as referred to in Resolution 14.

Notes to Notice of Annual General Meeting

Notes to Resolutions 5 to 11

Your directors consider that an important factor in the Company's ability to attract and retain employees with the appropriate skills is the Company's share option schemes. Accordingly the Company is seeking your approval for an extension of those schemes by the introduction of:

- (i) an employee benefit trust, a summary of which is set out in Appendix 1 to this Notice. The Trust will be used primarily in conjunction with the existing employee share schemes;
- (ii) authority to introduce, if the directors consider it to be appropriate, an Inland Revenue approved savings-related share option scheme, the principal provisions of which are summarised in Appendix 2 to this Notice; and
- (iii) a share option scheme for the Company's non-executive directors based substantially on the Company's existing Unapproved Executive Share Option Scheme, which is summarised in Appendix 3 to this Notice. Under the scheme it is proposed that options will be granted to Jon Foulds, Anthony Brooke and Julia Cumberlege over 750,000, 500,000 and 250,000 shares respectively and these will be granted on the same terms as Lord Chadlington's second new option below.

In addition, the Company wishes to take this opportunity to make a number of amendments to its existing schemes.

The Huntsworth PLC (Chief Executive) Unapproved Share Option Scheme is to be extended so that any executive director of the Company may participate in the scheme and will therefore be renamed the Huntsworth PLC (Executive Directors) Unapproved Share Option Scheme.

It will also be amended so that three additional options under the scheme will be granted and the scheme will be extended to provide the scope for further option grants. First, Lord Chadlington, the Chief Executive of the Company, will be granted a new option over 2,000,000 shares which will be exercisable in the five year period following the date of grant at an exercise price at the higher of 26.5p or the price to be fixed shortly after the Annual General Meeting at the closing price on the day immediately preceding the date of grant.

He will also receive a second new option over 2,000,000 shares at an exercise price to be fixed shortly after the Annual General Meeting at the closing price on the day immediately preceding the date of grant which shall not be exercisable, except in circumstances of a change of control or cessation of employment by reason of the sale of a company or undertaking from the Group, unless the performance target is satisfied. The performance target is that the Company exceeds an adjusted earnings per share of 2 pence in any financial year of 12 months (or in the event of change of accounting date a pro rata period of 12 months as agreed by the auditors). For these purposes, the earnings per share will be calculated as per the adjusted earnings per share in the Company's Annual Report & Accounts for 2001. The option will be exercisable from the date the accounts in which the condition is met are finalised at any time before the tenth anniversary of the date of grant.

Thirdly, Roger Selman, will be granted an option over 2,000,000 shares on the same terms as Lord Chadlington's second new option.

Furthermore the scheme will be amended so that further options maybe granted by the Remuneration Committee without shareholder approval. However any new options granted after those described above will count towards the limits on new shares which maybe issued pursuant to options under the company's share schemes generally. This limit is currently set, following approval at last year's Annual General Meeting at an aggregate in any 10 year period at 20% of the current issued share capital.

As shareholders will be aware, a number of the options previously granted by the Company under its share option schemes, including the Enterprise Management Incentive Scheme, the Executive Directors Unapproved Share Option Scheme and the 1996 Unapproved Share Option Scheme, have been subject to performance targets based on the Company achieving a share price in excess of 70p, £1, £1.30 and £1.60. In recognition of the fact that the core

business, inherited by the current management, proved to be far weaker than originally anticipated, the Remuneration Committee is concerned that these options are not providing a real incentive and therefore it is proposed that these performance targets be waived. Where it applies, the exercise price of 38.5p remains unchanged and represents a significant hurdle before value can be realised.

The company also intends to amend the rules of the Approved Executive Share Option Scheme (subject to Inland Revenue approval) and the 1996 Unapproved Executive Share Option Scheme to replace the limit on options granted to any individual calculated by reference to four times salary, with an limit of twice salary in any year.

Finally, the Company's Approved Executive Share Option Scheme (subject to Inland Revenue approval), the Company's 1996 Unapproved Executive Share Option Scheme and the Company's Executive Directors Unapproved Share Option Scheme shall each be amended so that individuals will not be deemed to have ceased to have been employed by members of the Group until such time as they cease to be employed or hold any office with any member of the Group.

Appendix 1

The Huntsworth Employee Benefit Trust (the "Trust")

The Trust is to be established in Guernsey and the trustee will be RBC Trustees (Guernsey) Limited. The beneficiaries of the Trust are employees and former employees of any company in the Group (including any executive director) and the spouses and children or step children of such employees or former employees. The purpose of the Trust is to facilitate and encourage the ownership of shares by employees. This may be achieved by the trust acquiring shares in the Company and distributing such shares in accordance with employee share schemes of the Company. The Trust may operate in conjunction with the Company's existing Share Option Schemes and the Company's proposed Savings Related Share Option Scheme and other employee share schemes that may apply from time to time.

In accordance with trust law principles the duration of the Trust is 80 years.

The Trust may not at any time be the beneficial holder of more than 10% of the Company's issued ordinary share capital.

The Trust may be amended by the Company with the consent of the trustee provided that no amendment may have the effect of prejudicing the status of the Trust as an employee trust for the purposes of Section 86 of the Inheritance Act 1984 or result in the Trust being administered in the United Kingdom.

Appendix 2

Summary of the Huntsworth Savings-Related Share Option Scheme

1. Administration

The Scheme will be operated and administered by the directors.

2. Eligibility

All U.K. resident employees (including executive directors working 25 hours or more per week) who have 6 months (or such other period as the directors determine not in excess of 5 years) of continuous service with the company, or any subsidiary nominated to join in the Scheme, will be eligible to participate in any invitation. The directors have the discretion to vary or eliminate the period of qualifying service and/or to invite other employees of the Group to participate.

3. Options

Options will entitle the holder to acquire (either by purchase or subscription) ordinary shares in the company. Options will be personal to the optionholder and may not be transferred. No payment will be required for the grant of an option.

4. Timing

The first invitation to participate in the Scheme may be issued as soon as practicable following approval of the Scheme by the Inland Revenue. Thereafter invitations may normally only be issued in the period beginning three weeks before and ending six weeks after the announcement of the results of the Company for any period.

5. Exercise price

The exercise price may not be less than the higher of (i) an amount equal to 80% of the arithmetic average of the middle market quotations of an ordinary share, as derived from The Stock Exchange Daily Official List, for three consecutive dealing days selected by the directors in the thirty day period immediately preceding the date of grant and (ii) in the case of options to subscribe for shares, the nominal amount of an ordinary share.

6. Individual limit

Each eligible employee will be given the opportunity to apply for an option, the total exercise price of which does not exceed the monthly contributions and bonus repayable under the Save-as-You-Earn (SAYE) contract to be entered into as a condition of the grant of the option. The aggregate maximum monthly contribution payable by an employee under all SAYE contracts linked to the Scheme may not exceed such sum as may from time to time be permitted by the Income and Corporation Taxes Act 1988 and approved by the directors.

7. Scheme limits

The Scheme will be subject to the limit that on any date, the aggregate nominal amount of new ordinary shares in respect of which options may be granted may not, when added to the nominal amount of any new ordinary shares allocated in the previous 10 years under all of the Group's employee share schemes (excluding options granted under the Huntsworth (Executive Directors) Unapproved Share Option Scheme prior to the date of this notice or as described in this notice) exceed 20% of the issued share capital of the Company.

For these purposes, shares are allocated under an option scheme when the options are granted and under other schemes when the shares are issued. Options which lapse by reason of non-exercise or otherwise cease to count.

No options will be granted more than 10 years after the date on which options are first granted under the Scheme.

8. Exercise of options

In normal circumstances, an option may be exercised only during the period of six months starting on the bonus date. The bonus date is the date on which the bonus under the related SAYE contract is payable. In normal circumstances this will be the third, fifth or seventh anniversary of the starting date of the SAYE contract and will depend upon the election made by the optionholder at the time of grant. Earlier exercise of an option will be permitted:

- (i) if the optionholder's employment terminates by reason of death, injury, disability, redundancy or retirement at normal retirement age, or
- (ii) if the company by which the optionholder is employed leaves the group or if the business in which he works is sold outside the group;
- (iii) if the optionholder's employment terminates for any other reason except misconduct and the option has been held for at least three years.

If an employee ceases to be employed for any other reason, his option will normally lapse.

The exercise of options will also be permitted in the event of a change in control, a reorganisation, an amalgamation or a voluntary winding up of the Company. In the event of a change in control of the Company, optionholders may surrender their options in return for substitute options over shares in the acquiring company.

In all cases, an option may be exercised only to the extent of the amounts then paid under the related SAYE contract and any interest or bonus payable thereon.

9. Shares

The shares to be used for the purposes of the Scheme will be fully-paid ordinary shares in the Company.

Application will be made for admission to the Official List of new shares issued under the Scheme. Ordinary shares issued on the exercise of options will rank equally in all respects with existing ordinary shares except for rights attaching to ordinary shares by reference to a record date prior to the date of allotment. The Company will at all times keep available sufficient authorised and unissued share capital to satisfy outstanding options to subscribe for ordinary shares.

10. Variation of Capital

In the event of any capitalisation issue by the Company, or any consolidation, subdivision or reduction of the share capital of the Company or any other variation in its issued share capital, the number and nominal amount of ordinary shares subject to any option, the rights attached to any option and the exercise price may be adjusted by the directors in such manner as they determine to be appropriate subject to the auditors confirming in writing that such adjustment is, in their opinion, fair and reasonable.

11. Amendments

The directors may make such amendments to the Scheme as are necessary or desirable to obtain or retain the approval of the Board of Inland Revenue under the Income and Corporation Taxes Act 1988 or to take account of changes to that Act or other applicable legislation. The directors may also make such amendments to the Scheme and to any option as may be necessary or desirable to obtain or maintain favourable tax, exchange control or regulatory treatment for optionholders or for any company in the group.

Except as described above or for amendments designed to ease the administration of the Scheme, no amendment which is to the advantage of employees or optionholders may be made to the provisions dealing with eligibility, individual or Scheme limits, the terms of options or the adjustment of options without the prior approval of the Company in general meeting.

Appendix 3

Summary of the Huntsworth PLC Non-Executive Directors Share Option Scheme

The Scheme rules are based substantially on the rules of the Huntsworth 1996 Unapproved Executive Share Option Scheme but amended to reflect the fact that the Scheme is for non-executive directors rather than employees. A summary of the main terms is set out below.

1. Administration

The Scheme will be operated and administered by a Committee (the "Committee"), a majority of whose members are executive directors.

2. Eligibility

Participants in the Scheme will be selected by the Committee. Participants will be limited to non-executive directors of the Company and its subsidiaries.

3. Options

Options will entitle the holder to acquire by subscription ordinary shares in the Company. Options will be personal to the optionholder and may not be transferred. No payment will be required for the grant of an option.

4. Timing

Options may be granted, in the case of the first grant, as soon as practicable following approval of the Scheme by the Company in general meeting. Thereafter, options may normally only be granted in the six weeks following the announcement of the results of the Company for any period, or the four weeks following the annual general meeting.

5. Exercise price

The exercise price may not be less than an amount equal to the average of the middle market quotations of an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five dealing days ending with the day immediately preceding the date of grant or, if the Committee determine, equal to the middle market quotation of an ordinary share, as derived from the London Stock Exchange Daily Official List, for the dealing day immediately preceding the date of grant.

6. Scheme limits

The Scheme will be subject to the limit that the number of new ordinary shares in respect of which options may be granted under the Scheme may not exceed 5 million shares.

For the purposes of these limits options which lapse, by reason of non-exercise or otherwise, cease to count.

No options will be granted more than 10 years after the date on which options are first granted under the Scheme.

7. Exercise of options

Options will generally be granted under the Scheme in circumstances where, without prejudice to the right to exercise on a change of control or sale of the company or undertaking in which the director holds office, the option shall only be exercised in whole or in part as the case may be following such time as the performance condition imposed at grant is satisfied. Options may also be granted on terms that they are generally exercisable not earlier than 3 years nor later than 10 years after grant and normally only for so long as the optionholder remains employed in the group.

The exercise of options will be permitted in the event of a change of control, a reorganisation, an amalgamation or a voluntary winding up of the Company. In the event of a change of control of the Company, optionholders may surrender their options in return for substitute options over shares in the acquiring company.

8. Shares

The shares to be used for the purposes of the Scheme will be fully-paid ordinary shares in the Company.

Application will be made to the London Stock Exchange for admission to the Official List of new shares issued under the Scheme. Ordinary shares issued on the exercise of options will rank equally in all respects with existing ordinary shares except for rights attaching to ordinary shares by reference to a record date prior to the date of allotment.

The Company will at all times keep available sufficient authorised and unissued share capital to satisfy outstanding options to subscribe ordinary shares.

9. Variation of capital

In the event of any capitalisation or rights issue by the Company, or any consolidation, subdivision or reduction of the Company's share capital or any other variation in its issued share capital and in the case of the unapproved part, a demerger, the number and nominal amount of ordinary shares subject to any option, the rights attached to any option and the exercise price may be adjusted by the directors in such manner as they determine to be appropriate subject to the auditors confirming in writing that such adjustment is, in their opinion, fair and reasonable.

10. Amendments

The Committee may make such amendments to the Scheme as are necessary or desirable to take account of changes to applicable legislation. The Committee may also make such amendments to the Scheme and to any option as may be necessary or desirable to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the group.

Except as described above or for amendments designed to ease the administration of the Scheme, no amendment which is to the advantage of participants may be made to those provisions dealing with eligibility, individual or scheme limits, the terms of options or the adjustment of options without the prior approval of the Company in general meeting.

