HUNTSWORTH

HUNTSWORTH PLC

report and accounts 2005

Huntsworth is an international public relations group.

Our company portfolio comprises public relations expertise in the consumer, financial, healthcare, public affairs and technology sectors, together with a broad based offering in healthcare communications.

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Highlights*

- Continuing revenue of £108.3 million (2004: £42.8 million). Revenue on a twelve-month basis for the businesses we owned at 31 December 2005 was £136.2 million. Public relations now represents 90 per cent of Group revenue.
- Like-for-like revenue growth from continuing operations of 2.8 per cent with public relations businesses up 4.4 per cent.
- Continuing operating profit before highlighted items** increased to £12.9 million (2004: £5.2 million).
- After highlighted items of £42.9 million, the operating loss from continuing operations was £30.0 million (2004: profit £2.4 million). Highlighted items include a charge of £29.6 million for the impairment of goodwill and other intangibles.
- Continuing operating margins before central costs and highlighted items** of 18.6 per cent. Public relations achieved margins of 19.1 per cent.
- Annualised savings in central costs of £5 million which is double the forecast reduction of £2.5 million forecast at the time of the merger.
- Proposed final dividend of 1.2 pence per share which will result in an increased total dividend of 1.7 pence. This is the highest dividend for Huntsworth's shareholders for 15 years.
- Net cash flow from continuing operations before non-recurring items of £18.0 million. Net debt reduced in second half to £23.4 million. The percentage of operating profit before highlighted items turned into cash is 139 per cent. Net cash from operations of £11.6 million.
- Strong start to 2006. In the first quarter, over £17 million of net revenues won which will be recognised in 2006. Operating margins to date for existing businesses have continued to improve and we expect to reach our target of 20 per cent during 2007.

* The 2005 results include eight months' contribution from Incepta with whom the Group merged on 29 April 2005 and the marketing services businesses until divestment on 4 November 2005.

** Highlighted items of £42.9 million charged to continuing operating profit/loss comprise amortisation and impairment of intangible assets, merger, restructuring and other non-recurring costs, and share option charges.

Chief executive's review

Introduction

Huntsworth operates in three main areas:

- full service public relations consultancy;
- financial and corporate communications and public affairs consultancy; and
- integrated healthcare communications.

Public relations represents some 90 per cent of our revenue.

During the year we have simplified and shortened the management reporting structure to enable the Board to establish comprehensive controls and to communicate and drive our strategy. We operate with a small management team at the centre and remain committed to keeping central costs to a minimum, consistent with good corporate governance and controls.

Over this year of very significant change – the merger with Incepta and the sale of the marketing services division – we have concentrated on improving operating margins, particularly in the PR businesses.

Our target is to have all our businesses with an operating margin run rate of 20 per cent during 2007. In 2005 we made good progress towards this goal. Operating margins before central costs and highlighted items were 18.6 per cent and in our public relations businesses we achieved 19.1 per cent. Some 70 per cent of all our PR businesses are now at or above the operating margin target.

Margin management remains a key focus. Several of the companies which we have acquired either made losses or barely broke even before we acquired them – Trimedia, hatch, AvenueHKM – but now, in a relatively short period, they have either reached, or are within striking distance of, the Group margin target.

There are still underperforming companies in the Group including some of our research and events businesses. In the current year we are concentrating on raising the margins for these companies.

I am particularly pleased to report that growth on a like-for-like basis across all our companies was 2.8 per cent and in our public relations businesses growth was 4.4 per cent. Some 70 per cent of our PR fees are either on retainer or annual repeat business. During the first three months of 2006, we estimate that we have added over £17 million of net revenues which will be recognised in the year.

In recent months, the order book has been strong across all our businesses and we are particularly encouraged by the size of the new business contracts, the level of co-operation across companies and the number of multi-office account wins.

The appointment of Human Resources Director Tracey Reid is an indication of the importance we place on attracting and retaining the best people. We are determined to make Huntsworth the best place for communications professionals to work and to find a satisfying and rewarding career.

Overall, therefore, following dramatic and far-reaching change, we now have a solid platform on which we expect to build a record year during 2006.

Finally, I would like to thank all our staff around the world for making this successful and transformational year happen. It is due to their hard work and co-operation that we enter 2006 with such confidence.

Operational review

Full service public relations

Our full service brands have continued to develop their business by increasing practice area focus.

Special interest teams to enjoy particular success include Property and Regeneration who have secured the opportunity to promote the exciting new residential and leisure development in Dubai, called Dubai Sports City here in the UK; Food & Nutrition where we are working with Nescafé in Switzerland on consumer brand launches and brand extensions and RHM Group in the UK with a corporate PR and crisis management remit; Public Sector where we have been appointed by Aimhigher to facilitate cross-agency communication to widen participation in higher education in the UK; Energy and Utilities where we have been appointed by Logica CMG UK to manage corporate relations and to provide dedicated support to vertical sectors such as Energy and Utilities and Environment where we have been re-appointed by Envirowise to promote resource efficiency to key business audiences.

We are seeing an increasing number of teams working together across practice areas and geographies to land multi-market clients:

Leading Chinese company, Alibaba.com Corporation has appointed us as agency of record in the US and in Asia.

We have been appointed by Diageo to co-ordinate corporate PR for the Asia region which is being led by our Singapore office.

In Europe we have successfully landed the pan-European consumer, trade and B2B PR remit for Hertz Europe Limited. This accounts for over 500 corporate offices and rental stations across Belgium, France, Germany, Italy, the Netherlands, Spain, Switzerland and the UK.

Financial and corporate communications and public affairs

The majority of our business in this division comes from retained clients which provide a core stream of revenue for the Group.

Our corporate and public affairs teams are increasingly pitching a combined offer to multi-national corporations who have a need for total stakeholder communications. Some of the biggest companies around the world are clients of this division, such as Telefónica, ITV, Next, Compass and LUKOIL. This revenue is augmented by income generated from transactions and other corporate activities.

The buoyant equity market in 2005 has brought new and existing clients to our financial communications companies for their expertise in M&A and IPOs. Major transactions included Pernod Ricard's successful bid for Allied Domecq, Telefónica's offer for O2 and Easynet's acquisition by BSkyB. This trend has continued into the first quarter of 2006. Projects include the IPO of QinetiQ, National Grid's acquisition of Keyspan, Westbury's receipt of an offer from Persimmon plc and the conclusion of Skandia's defence against Old Mutual.

Healthcare communications

Our healthcare business continued to develop its offering, responding to an increasingly tough and competitive pharmaceutical sector, by providing an integrated communications mix to most of the world's major pharmaceutical companies. In the pharmaceutical sector, we are seeing a strong shift towards a more integrated approach. Huntsworth Health division includes public relations, medical education, advertising and research and is utilising its cross discipline expertise successfully to address client needs.

Clients such as Pfizer, Novartis, Sanofi-Aventis and Abbott are utilising multiple parts of the Huntsworth Health division. Shire Pharmaceuticals achieved 'European Launch of the Year' for a new dermatology product with the advice of four Huntsworth companies.

Financial performance

All statutory figures are reported under International Financial Reporting Standards ('IFRS').

Revenue from continuing operations for the 12 months to 31 December 2005 was £108.3 million compared with £42.8 million in the 12 months to 31 December 2004. Revenue on a full twelve-month basis for the businesses we owned at 31 December 2005 was £136.2 million.

Operating profit from continuing operations before highlighted items (described in detail below) was £12.9 million, compared with £5.2 million in the 12 months to 31 December 2004. In addition there was operating profit (before highlighted items) included within the discontinued operations line in the income statement of £2.7 million.

Operating loss from continuing operations was £30.0 million (2004: profit £2.4 million), after highlighted items of £42.9 million which includes the write-down and amortisation of goodwill and other intangibles, and merger, restructuring and other non-recurring items, and share option charges.

Earnings and operating margins

Losses attributable to ordinary shareholders amounted to £36.0 million (2004: profit £1.3 million), after net finance costs of £3.0 million, profit of associates of £0.1 million, tax credit of £2.9 million, discontinued operations (losses on disposal/closure less trading profits) of £5.5 million and minority interests of £0.6 million.

Adjusted earnings per share (excluding discontinued operations and highlighted items) were 5.9 pence (2004 adjusted for share consolidation: 7.3 pence). Basic and diluted losses per share from continuing operations were 20.9 pence (2004 adjusted for share consolidation: earnings basic 2.1 pence and diluted 2.0 pence).

Adjusted earnings per share, as reported above, was adversely affected in the year by two major elements. First, trading profits from discontinued operations have been excluded and no benefit has been taken from interest on the cash proceeds from the marketing services disposal for their period of ownership until 4 November 2005. This benefit would have amounted to approximately £1.6 million. Second, we have not had the full benefit of central cost savings, the impact in the year being £1.7 million. The aggregate of these two elements, less tax, reduced the adjusted earnings per share by 1.8 pence. Crediting these items back to adjusted earnings would produce a notional adjusted earnings per share of 7.7 pence (2004: 7.3 pence).

Operating margins, before central costs and highlighted items, achieved by the continuing operations were 18.6 per cent. The margin in public relations was 19.1 per cent.

With central costs now reduced our operating margins after central costs were 11.9 per cent in 2005. In 2006 we expect to continue to make progress towards a margin target of at least 15 per cent. This compares favourably to our Small Cap peer group.

Highlighted items (including IFRS related charges)

The introduction of International Financial Reporting Standards ('IFRS') has been reflected in both the 2005 and 2004 results. Acquisitions are accounted for under IFRS from 1 January 2004. This has had a particularly significant effect at Huntsworth because a substantial part of the Group has been acquired since that date.

The total of highlighted items (including finance items) is £42.7 million, and is made up as follows: £29.6 million for the impairment of goodwill and other intangibles, £3.4 million for the amortisation of intangibles, £0.5 million for share option charges, a net credit of £0.2 million for imputed interest on the deferred consideration less revaluation of a put option over minority interest, and £9.4 million for merger, restructuring and other non-recurring costs.

Head office and regional cost savings

At the time of the announcement of the merger of Huntsworth and Incepta, the Group estimated that annualised pre-tax cost savings of at least £2.5 million would be achieved in 2006. As previously reported, the Group has now achieved annualised savings of some £5 million, comprising reductions in staff costs of £3.4 million, property costs of £1.0 million and in administrative costs of £0.6 million.

It is expected that central costs will be maintained at around £5.5 million in 2006. This compares, in broad terms, with £10.6 million of the combined Incepta and Huntsworth head office costs at the time of the merger.

Treasury

In the year, Huntsworth generated positive operating cash flow from continuing operations before non-recurring costs of £18.0 million (2004: £6.6 million). The percentage of operating profit before highlighted items turned into cash is 139 per cent. The consolidation of the Incepta cash flow from 1 May 2005 gave a one off benefit to the cash in the year, as the heavy cash outflows in the first four months from bonuses etc had already been paid.

The net cash inflow from operations, including discontinued operations and non-recurring costs was £11.6 million. The other principal movements in net debt during the year were as follows: payments for net interest, tax and tangible fixed assets of £8.9 million, acquisitions (including net debt acquired and Incepta dividend) of £69.2 million, dividends of £1.2 million and translation differences of £2.5 million. These were offset by the inflow from the disposal of the marketing services division of £53.3 million, resulting in an increase in net debt of £16.9 million, from £6.5 million to £23.4 million.

Huntsworth has protected its US dollar and Euro earnings for 2006 by entering into average rate option arrangements. It has also partially protected itself against the effects of interest rate increases for the period to July 2007 with an interest rate cap over £5 million.

Tax and minority interests

The tax credit of £2.9 million on continuing operations comprises a charge of £0.6 million in respect of profit before highlighted items, less £3.5 million for tax credits on highlighted items. The charge of £0.6 million includes non-recurring tax credits of £1.3 million, and thus the underlying tax rate on continuing operations was 19.4 per cent. Our US tax losses are £26 million, but with brought forward tax losses in other jurisdictions not available across all companies, tax as a percentage of profits will increase to an estimated 30 per cent in 2006.

Minority interests in continuing operations amounted to £0.6 million for the period.

Discontinued operations

Discontinued operations mainly comprise the marketing services businesses sold to Media Square PLC on 4 November 2005, together with non-core businesses closed in the year as part of the post merger integration. The loss of £5.5 million comprises trading profits of £2.7 million, less restructuring and other non-recurring costs, amortisation of intangibles and share option charges of £2.4 million, losses on disposal and closures of £5.3 million, net finance costs of £0.3 million and a tax charge of £0.2 million.

Balance sheet, acquisition payments and bank facilities

Net bank debt at 31 December 2005 was £20.2 million, compared with £4.1 million at 31 December 2004. Shareholders' funds at 31 December 2005 increased to £136.0 million, compared with £43.4 million at 31 December 2004. Acquisition costs totalled £7.9 million in the period. Net debt acquired with subsidiaries totalled £59.3 million which was wholly related to Incepta. Net debt after the merger with Incepta peaked in excess of £80 million. A total of 129.9 million shares (adjusted for share consolidation where issued prior to 14 July 2005), with a value of £130.2 million, were issued in respect of acquisitions in the year.

Huntsworth has a committed, unsecured term overdraft and guarantee facility totalling £60 million in place until April 2008. EBITDA interest cover (excluding discontinued operations, provisions discount and highlighted items) was five times in the year.

Earn-out payments

Future earn-out payments are estimated at £9.4 million, comprising £5.6 million payable in cash or in shares at Huntsworth's option, £2.1 million in shares and £1.7 million in cash. The timing of the aggregate of these payments is £4.2 million in 2006, £3.9 million in 2007 and £1.3 million in 2008.

Dividend

The Board will propose at the forthcoming AGM on 4 July 2006 a final dividend of 1.2 pence per share, which will provide an increased total dividend of 1.7 pence. The record date for this dividend will be 7 July 2006 and it will be payable on 15 September 2006. A scrip dividend alternative will also be available.

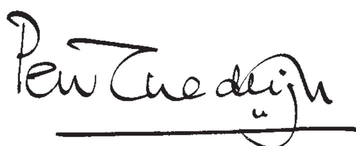
Board changes

It was announced at the time of the merger that Roger Selman would continue as Finance Director until after the integration of the two groups and the implementation of the strategic review. He will be retiring as Finance Director at the end of May 2006. The Board has appointed Sally Withey, who is currently Chief Operating Officer, as Group Finance Director with effect from 1 June 2006.

Furthermore, a committee, under the Chairmanship of the Senior Independent Director, Robert Alcock, has started the process of finding a new non-executive Chairman to replace Jon Foulds who will retire this year. We will give a further update to shareholders at the 2006 AGM.

Outlook for 2006

With central costs significantly reduced, operating margins moving towards the 20 per cent target and a strong new business book, the Board is confident that we will have a strong first half which should exceed market expectations and which, in turn, will give us an excellent platform for the full year.



Lord Chadlington
Chief Executive
22 May 2006

International public relations trends survey

Introduction

To understand the investment opportunities which Huntsworth presents, it is important to understand the markets in which we operate.

Public relations is a nebulous industry. It has very low barriers to entry. But while, for example, there are 3000 public relations firms in the UK alone, there are less than a dozen firms worldwide which have genuine global reach and can offer a full public relations service to clients.

It is in this specific market that Huntsworth aims to become established as the most professional and best-managed business in the sector.

The research which we introduce today is the first of a series of monographs prepared by Paul Holmes, the international journalist who has specialised in reporting on the global public relations industry for more than 20 years.

He considers the size and growth of the global PR market; which sectors and regions can be expected to show exceptional growth and public relations in the marketing mix.

But why are public relations firms showing robust health all around the world?

We live in an age of transparency. Commercial organisations, governments and non-profit organisations are under increasing scrutiny from the media, from NGOs, from consumers, even from their own employees and are increasingly vulnerable to news on the internet which is often untrue and exaggerated.

In the United States for example, according to the Pew Research Center for the People and the Press, favourable ratings for corporations are 20 points lower than they were just four years ago. Similarly, favourable ratings for the federal government in Washington fell from 59 per cent to 45 per cent.

These trust levels are little better in Europe, where there is a steady decline in trust in business and in governments of all colours and persuasions. Yet research shows that consumers are willing to act on their distrust. More than three out of four American consumers (77 per cent) believe companies have a responsibility to support good causes and that they will reward those businesses sensitive to these issues with increased customer loyalty.

Public relations is about rebuilding trust and corporate reputation by obtaining independent public endorsement for clients in the media, in government and amongst trade and professional bodies.

Huntsworth is becoming one of the major global players in this growing marketplace with member companies that are leaders in full-service public relations, healthcare communications, financial and corporate communications and public affairs.

The pages which follow summarise some key facts in the research. It should be noted that the survey represents independent research undertaken by Paul Holmes and has not been verified or substantiated by Huntsworth PLC. Some numbers contained within the report may not be representative of the industry as a whole. The PR Week survey, for example, is self-selecting where firms that experience revenue declines may choose not to participate and are therefore unrepresentative. The survey is an analysis of trends and therefore should be read over a number of years.

In future years we will be monitoring quantifiable trends in the marketplace and will include the findings of a focus group of clients who are significant users of public relations consultancies.

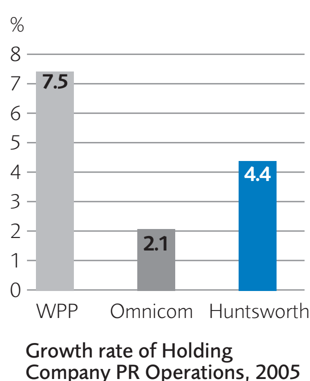
Lord Chadlington
Chief Executive

The state of the public relations industry

Prepared by Paul A. Holmes, Editor, The Holmes Report

Key findings

- The size of the global public relations market is probably in the region of $6.5 billion. The size of the US public relations market is estimated at $3.75 billion.
- The US public relations market is expected to grow at approximately 9 per cent per annum between now and the end of the decade, with smaller firms far more likely to enjoy double digit growth.
- The global public relations market is expected to grow at approximately 11 per cent per annum between now and the end of the decade, with the developing markets – India and China and Eastern Europe in particular – driving global growth. Huntsworth and its peer groups may show lower rates of growth resulting from the varying rates of growth from region to region where their revenues are represented. The global public relations market includes very small companies who have the ability to produce high rates of growth from a small base.
- The average percentage of total PR budgets (as opposed to fees) allocated to agencies increased by 25 per cent in 2005, continuing a three-year trend.
- The greatest future growth is expected to come in China and India, with good prospects for growth in Eastern Europe (particularly those countries recently admitted to the European Union) and in the Middle East (albeit from a very small base).
- The hottest growth sectors are expected to include healthcare and pharmaceutical public relations, consumer marketing, and financial communications. Public affairs, crisis communications and (again, from a very small base) employee communications are also expected to see growth.
- The US continues to account for more than half of the global public relations business, although that is expected to change by the end of the decade, as developing markets – particularly in Asia – grow more rapidly.
- Public relations is likely to claim a larger share of consumer marketing budgets (currently 2 to 3 per cent) as companies are increasingly successful measuring the return on investment from PR activities.
- Trust in corporations and other large institutions will continue to decline, increasing the dependence of these organisations on effective reputation management.



Growth rate of Holding Company PR Operations, 2005

Growth of the public relations market

Reliable data regarding the size of the global public relations consultancy industry has always been hard to come by. The problem has been exacerbated by the impact of Sarbanes-Oxley governance reforms in the United States.

The holding companies do provide some financial information, however:

WPP reported that in 2005 public relations accounted for approximately 10 per cent of its revenues (£540 million in PR revenues), representing 7.5 per cent like-for-like growth over 2004.

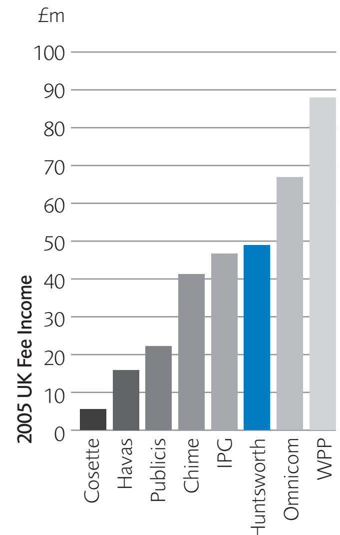
Omnicom reported that public relations accounted for $1.045 billion, around 10 per cent of its revenues, up about 2.1 per cent over 2004.

International public relations trends survey (continued)

Growth of the public relations market (continued)

Meanwhile, the trade magazine PR Week continues to produce rankings of independent firms in each of the two major markets for public relations services – the US and the UK. In the US, more than 200 firms submitted audited numbers and the average growth (for firms submitting in both 2004 and 2005 including the impact of acquisitions) was an impressive 17 per cent (a number that might be skewed by the fact that firms with declining revenues are less likely to submit numbers to rankings) and the top ten independents in the US now represent more than $500 million in public relations fees.

In the UK, which is the world's second largest public relations market, more than 150 consultancies participated in the PR Week survey with 70 per cent of the top 150 posting growth in double figures including the impact of acquisitions, despite the fact that the UK economic recovery generally has been less robust than the recovery in the US.



PR Week Top 150 PR Consultancies 2006
'Top groups by fee income'

Growth patterns by sector

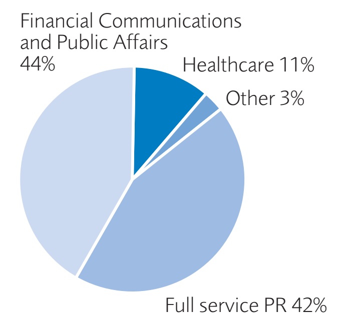
Public relations agency leaders are bullish on the prospects for growth across almost all sectors. Members of the US–based Council of Public Relations Firms, surveyed at the end of the year, reported particularly strong growth in consumer products and services, healthcare, and – to a lesser extent – professional services.

Discussions with the leaders of global public relations firms reveal enthusiasm for several key sectors:

Healthcare enjoyed robust and consistent growth during the first half of the new decade, sustaining many agencies at a time when the consumer and technology sectors were suffering from serious budget cuts. The trend toward greater consumer involvement in healthcare choices is seen as gathering momentum on a global basis, necessitating more direct-to-consumer communication, which can be accomplished more easily through third parties in markets where paid drug advertising is restricted. At the same time, pharmaceutical companies are expected to face continuing reputation challenges – over pricing, safety, and the delivery of drugs in developing countries – which require proactive public relations.

Consumer marketing is undergoing a transformation, with companies prepared to pay a premium for authenticity and credibility – two elements public relations can deliver more effectively than advertising. The rise of word-of-mouth as a marketing medium presents a particular opportunity, as does consumer interest in cause-related marketing and social responsibility.

Financial communications is likely to be another growth area, fuelled by the increase in mergers and acquisition activity as companies are pressured to put cash reserves to use; by the need to deal with activist investors increasingly sophisticated in their own use of the media to bring pressure to bear on targeted companies; and by a range of governance issues, including CEO compensation, that require greater management sensitivity to the concerns of business owners.



Huntsworth
Revenues by Sector

Public affairs will also grow in importance as NGOs and others continue to call on lawmakers to regulate business activity. Areas where increased activity can be expected include the environment (global warming issues in particular) and obesity, with increasing calls for governments to end the marketing of "unhealthy" foods to children.

Crisis communications – and particularly crisis planning and preparedness, including simulations – will likewise take on increased importance. Global issues, including terrorism and more recently the potential for an avian flu epidemic, are fuelling new interest in crisis preparedness.

Regional growth

Patterns of growth vary dramatically from region to region. US private investment firm Veronis Suhler Stevenson sees current growth of 10 per cent in the US market, and future growth of around 9 per cent until the end of the decade. But growth in developing markets is likely to be considerably higher.

Many public relations agencies are focused in particular on the so-called BRIC countries (Brazil, Russia, India, China) with India and China attracting the lion's share of their attention.

A number of public relations firms saw their Chinese operations double in size in 2005, and are bullish on the prospects for future growth. While few have experienced similar growth in India, there is a widespread feeling that the sub-continent – with a younger, better educated workforce – could be an even more exciting growth opportunity over the next decade.

In contrast, many firms remain wary of the opportunity in Russia, weighing the size and likely growth of the market against what they perceive as significant political risk. So far, they have elected to invest greater time, money and energy in some of the smaller Eastern European nations, and particularly those that were recently admitted to the European Union (the Czech Republic and Poland have probably seen the greatest interest, followed by Hungary, Slovakia and Slovenia).

For the next few years, the Asia-Pacific region is expected to grow considerably more rapidly than North America – 20 per cent growth across the region is a reasonable expectation – as are Latin America and the Middle East, although from relatively modest current levels. Growth in continental Europe is more difficult to predict: while there is clearly opportunity for expansion, the fortunes of the PR business will likely remain linked to overall economic growth in Europe.

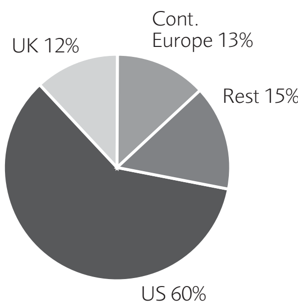
Overall, the industry is likely to grow more rapidly outside the United States, at a rate between 11 and 15 per cent (depending on what happens in Europe). By the end of the decade, the US will account for less than 50 per cent of the global public relations agency market.

Regional breakdown

The public relations industry is significantly more mature in the Anglo-Saxon world (the US and the UK in particular) than in other markets.

WPP derives 39 per cent of its total worldwide revenues from North America and 15 per cent from the UK, 27 per cent from continental Europe and 19 per cent from the rest of the world.

Omnicom draws 55 per cent of its total revenues from the US, 10.5 per cent from the UK, 20.5 per cent from continental Europe and 14 per cent from the rest of the world.



Top PR Brands Estimated Revenues by Region

Publicis Groupe has 40 per cent of its total revenues in Europe; 43 per cent in North America; 10.5 per cent in Asia-Pacific, and 6.5 per cent in the rest of the world.

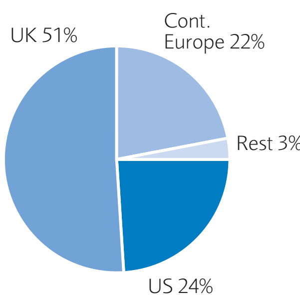
The eight largest public relations brands between them derive an estimated 60 per cent of their revenues from North America; 25 per cent from Europe, 12 per cent from the Asia-Pacific; and the remaining 3 per cent from Latin America.

Those ratios are probably close to representative of the industry as a whole, although the major holding companies are probably slightly under-represented, as a proportion of the market as a whole, in Continental Europe (particularly France and Germany) and Japan, which has proven especially difficult for Western PR firms to penetrate.

If the US is a $3.75 billion market for public relations, Europe is probably a $1.75 billion market, and the Asia-Pacific region a $900 million market.

Public relations in the marketing mix

Historically, public relations has played only a supporting role in most consumer marketing campaigns.



Huntsworth Revenues by Region

Industry experts estimate that PR typically accounts for just 2 or 3 per cent of the average marketing budget. US consumer products giant Procter & Gamble (P&G), by some standards the world's most influential marketer, currently spends as little as 1 per cent of its marketing budget on public relations.

The USC Public Relations Generally Accepted Practices Study found that public relations budgets in the United States amounted to just 1.28 per cent of advertising budgets, on average.

But a recent study by P&G suggests that public relations could play a more important role in the company's marketing in the future. The company has developed an analytical tool it calls PREvaluate, which draws on marketing-mix models and detailed data on earned media coverage.

P&G tested the tool on marketing programmes for six brands and found that PR produced a higher return on investment than any other discipline for four out of the six and came in second for the other two. Following the release of that study, P&G's global external relations officer, Charlotte Otto, indicated that the company could increase its spending on PR as a result.

Paid advertising has grown more expensive in recent years, even as the audience delivered by most national television networks and newspapers has been declining. Moreover, there are indications that consumers are increasingly resistant to advertising and other paid media.

The 2005 Trust Barometer survey, conducted by international public relations firm Edelman, found that 90 per cent of consumers across North America, Europe, and the Asia-Pacific said they were more likely to believe the information conveyed in news stories than those in paid advertising messages. That credibility is likely to command a premium in a world increasingly saturated by marketing messages.

The above is an extract from a full report which can be viewed on our website www.huntsworth.com.

Directors and advisors

H Jon Foulds
Non-executive Chairman
(Joint Deputy Chairman from 12 May 2005 to 26 September 2005)
Jon Foulds has been a director of Huntsworth PLC for five years and is non-executive Chairman. He 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 a director of a number of private companies.

Lord Chadlington
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 and the company was publically listed in 1984. He established Shandwick as the largest PR consultancy in the UK, holding that position for the next 17 years. He built the firm overseas and it was sold to The Interpublic Group of Companies in 1998, forming the group that became the largest PR consultancy in the world. Peter 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.

Tracey Reid
Human Resources Director
Tracey Reid joined Huntsworth in 2005 as Human Resources Director from Capital Radio plc, now GCap Media plc. Her career in media started with advertising agency Bartle Bogle Hegarty. She subsequently moved to Capital Radio in 1994, where she built and shaped the HR function as the business expanded and was transformed through a series of acquisitions.

Roger Selman
Finance Director
Roger Selman is a chartered accountant with over 20 years' sector experience. He was Group Finance Director of Shandwick from 1994 to 1999, subsequently transferring to The Interpublic Group of Companies. He has also worked as a finance director in other marketing services companies. He will be retiring as Finance Director at the end of May 2006.

Company Secretary
Tymon Broadhead

Registered Office
15-17 Huntsworth Mews
London
NW1 6DD
020 7408 2232

Registered Number
1729478

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Solicitors
Slaughter & May
One Bunhill Row
London
EC1Y 8YY

Robert Alcock

Senior independent non-executive director

Robert Alcock is Chairman of the Audit Committee, Chairman of the Nominations Committee and a member of the Remuneration Committee. He had been a member of the Board of directors of Incepta since 2001and joined the Huntsworth Board on 12 May 2005 following Huntsworth's merger with Incepta. He is currently a non-executive director of Simon Group plc, where he chairs the Audit Committee and is a member of the Remuneration Committee. He is also Chairman of Anglo & Overseas Trust plc and Chairman of Next Pension Trustees Limited. Previous positions include Group Managing Director of Norcros plc, European Finance Director of RJR Nabisco Inc., Chief Financial Officer and Senior Vice President of Black & Decker Inc., non-executive director of Capita Group plc and Director of Strategic Planning for Gulf Oil's international operations.

Eugene Beard

Independent non-executive director

Eugene Beard is a director of Mattel, Inc., 59 W. Street Funds, Old Westbury Funds, Catalina Marketing Corp. and MARC USA. Eugene Beard retired as Vice Chairman, Finance and Operations of the global marketing services group, The Interpublic Group of Companies, Inc. (IPG), in December 1999, remaining as a Special Advisor until December 2003.

Anthony Brooke

Independent non-executive director

Anthony Brooke is Chairman of the Remuneration Committee and a member of the Audit Committee. He is a partner of Fauchier Partners LLP and a non-executive director of Quintessentially (UK) Limited. He is a former Vice Chairman of S.G.Warburg & Co. Ltd and Managing Director of BZW Limited.

Charles Good

Independent non-executive director

Charles Good is a member of the Audit Committee. He had been a member of the Board of directors of Incepta since 1997 and joined the Huntsworth Board on 12 May 2005 following Huntsworth's merger with Incepta. He is Investment Director of Rathbone Investment Management Limited and Chairman of three companies – AI Claims Solutions plc, Blooms of Bressingham Holdings plc and Hurricane Exploration plc. He is a qualified chartered accountant.

The directors shown above served throughout the year ended 31 December 2005 with the exception of Robert Alcock and Charles Good, who were appointed on 12 May 2005 following the merger with Incepta Group plc and Tracey Reid who was appointed on 26 September 2005.

In addition, The Rt. Hon. Francis Maude MP served as a non-executive director and deputy Chairman from 12 May 2005 to 1 March 2006 and Richard Nichols served as a director from 12 May 2005 to 18 October 2005.

Stockbrokers
Numis Securities Ltd
Cheapside House
138 Cheapside
London
EC2V 6LH

Bankers
Lloyds TSB Bank plc
25 Gresham Street
London
EC2V 7HN

The Royal Bank of Scotland plc
280 Bishopsgate
London
EC2M 4RB

Registrars & Transfer Office
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

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 2005.

Activity

The principal activity of the Group is that of public relations.

Review of business and future developments

The consolidated income statement is set out on page 28 and shows a loss attributable to shareholders of £36,034,000 (2004: profit of £1,262,000).

A more detailed review of the business and future developments is included in the Chief Executive's Review on pages 3 to 7.

Dividends

The directors recommend a final dividend of 1.2 pence per share for the year ended 31 December 2005. An interim dividend of 0.5 pence per share was paid on 13 December 2005, making a total of ordinary dividends of 1.7 pence per share for the year (2004: 1.0 pence per share). The Company offers a scrip dividend alternative to the payment of dividends in cash.

Because of the implementation of International Financial Reporting Standards ('IFRS'), dividends are now recognised in the accounts in the year in which they are paid, or in the case of a final dividend when approved by shareholders, such that the amount recognised in the 2005 accounts comprises last year's special second interim and this year's interim.

Going concern

After reviewing the Group's performance and future cash flows, the directors consider 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

Biographical details of the directors in office at 22 May 2006 are set out on pages 12 to 13. The following directors held office during the year:

H Jon Foulds, Lord Chadlington, Robert Alcock (appointed 12 May 2005), Eugene Beard, Anthony Brooke, Charles Good (appointed 12 May 2005), Francis Maude (appointed 12 May 2005; resigned 1 March 2006), Richard Nichols (appointed 12 May 2005; resigned 18 October 2005), Tracey Reid (appointed 26 September 2005), Roger Selman.

The interests of the directors in office at 31 December 2005 in the shares of the Company and its subsidiary undertakings together with their remuneration are set out in the Report of the Directors on Remuneration on pages 21 to 25.

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

As at 22 May 2006, the Company had been notified of the following interests of 3 per cent or more in its share capital:

	% of shares	Number of shares
Aberforth Partners	17.11	33,174,898
Lloyds TSB Group	5.03	9,766,089
Goldman Sachs Group (acting as custodian)	3.10	6,009,496

Share capital

Changes in the Company's share capital during the year are given in Note 23 to the Financial Statements.

Employees

Huntsworth is committed to the continuous development of its employees. Its policy for the selection of employees for recruitment, training, development and promotion is determined solely on their skills, abilities and other requirements which are relevant to the job. The Company's equal opportunities policy is designed to ensure that disabled people are given the same consideration as others and enjoy the same training, development and prospects as other employees. Where existing employees become disabled it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training. The Company operates a number of other policies and procedures designed to support its employees at work and in their career progression.

The Company makes use of its intranet as a communication tool to provide employees with the information they need to understand and achieve the objectives of the Group, and regular training sessions are held to keep staff up to date with developments in the public relations sector and provide additional skills in areas outside their immediate responsibilities. In addition regular meetings are held between local management and employees to allow a free flow of information and ideas.

Employees are encouraged to participate in the success of the business through invitation to join the Group's Matched Share Plan and Save As You Earn share option scheme. In addition the Company has introduced a Performance Share Plan and is proposing to extend its operation to directors of the Company and a wider category of employees at the Annual General Meeting in 2006.

Donations

During the year the Group (including discontinued operations) made charitable donations of £80,000 (2004: £17,000).

The Political Parties, Elections and Referendums Act 2000 (the 'Act') requires disclosure of any donations made by companies to an EU Political Organisation (including a registered political party in the UK) or any EU Political Expenditure incurred which is in excess of £200. 'EU Political Organisation' and 'EU Political Expenditure' are both defined in the Act.

Although the Company does not make donations to political parties within the normal meaning of that expression, as part of its normal work on behalf of clients and as part of its own marketing, the Company's public affairs subsidiary, GCG Citigate Public Affairs, needs to attend or sponsor events which are organised by political parties or other political organisations, for which a charge is made.

The Company also from time to time invites clients and prospective clients to attend events that fall within the meaning of the Act's provisions. The Act defines 'donations' very broadly such that this sort of activity falls within its ambit. It similarly defines EU Political Organisation widely such that it includes, for example, bodies concerned with policy review and law reform, with representation of the business community or with the representation of their communities or special interest groups, which the Company may wish to support.

During the year, the Group's government relations consultancy, GCG Citigate Public Affiars, made the following payments by way of sponsorship, attendance costs, or permitting staff paid time off to campaign in the United Kingdom General Election that fall within the definition of 'political donation' introduced by the Political Parties Elections and Referendums Act: £23,630 to the Labour Party; £3,720 to the Conservative Party; and £1,548 to the Liberal Democrat Party.

Payment of creditors
The Group's subsidiaries are mainly agency businesses and third party costs are incurred principally on behalf of clients and 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 2005, the Company's trade creditors represented the equivalent of 59 days' invoicing by suppliers (2004: 34 days).

Auditors
Ernst & Young LLP have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Post balance sheet events
On 15 February 2006 the Company announced that it had reached an agreement to sell Citigate Sard Verbinnen ('CSV') by the end of 31 December 2009. Shareholders approved the sale on 6 March 2006. Under the sale agreements, 51% will be acquired by certain executives of CSV on 1 January 2007 for $2.5 million (£1.4 million) and the remaining 49% will be acquired no later than 31 December 2009 for a total cash consideration of a further $17.5 million (£10.2 million) (such amounts to have an aggregate present value of $20 million (£11.6 million) as at 1 January 2006). This will be reduced by the amount of cash distributions from CSV from 1 January 2006.

On 16 February 2006 the Company announced the acquisition of 100% of Eurotandem SAS, a leading independent public relations consultancy based in Paris, for an initial consideration of €4.1 million (£2.8 million) in cash and the issue of 1,469,455 new ordinary shares of Huntsworth PLC with a fair value of £1.3 million. Further consideration is dependent on the future financial performance of Eurotandem. The maximum consideration payable is €8.65 million (£6.0 million).

On 6 March 2006 the Company announced the sale of the business and assets of nxtMOVE LLC, formerly trading as Citigate Global Intelligence, for $1.6 million (£0.9 million) to Optimisa PLC. The sales proceeds have been used to reduce debt.

By order of the Board

Tymon Broadhead
Company Secretary
22 May 2006

The Board is committed to high standards of corporate governance and 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 on Corporate Governance which is annexed to the Listing Rules of the Financial Services Authority (the 'Code').

The Board and its Committees

The Board

The Board comprises the independent non-executive Chairman, the Chief Executive, the Finance Director, the Human Resources Director and four independent non-executive directors. The Board considers that, notwithstanding their interests in the shares and share options of the Company as set out in the Report of the Directors on Remuneration on pages 21 to 25 and the length of service of Charles Good (nine years with Incepta/Huntsworth), the current non-executive directors are independent of the management of the Group and are free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Huntsworth PLC Non-executive Directors Share Option Scheme provided a basis for aligning the interests of the non-executive directors with those of the Company's shareholders. It is not intended to make any further awards under this scheme. Charles Good has been a non-executive director of Incepta Group plc since 1997. Nothwithstanding the length of his involvement with the Group, the Board believe that he is independent of character and judgement in his position within the enlarged Huntsworth Group following the merger with Incepta.

One of the non-executive directors, Robert Alcock, has the role of senior independent director.

The biographies of the directors appear on pages 12 to 13. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which are vital to the success of the Group.

At the time of the merger with Incepta, Lord Chadlington, who had previously been Chief Executive, became Executive Chairman of the Group and Richard Nichols became Chief Executive. The Board's reasons for appointing the Chief Executive as Chairman were explained to shareholders in the Listing Particulars at the time and centred around the need for the skills and experience of these two individuals to be brought together to facilitate the merger. Following the disposal of the marketing services businesses to Media Square plc and the departure of Richard Nichols in October 2005, this matter was resolved through a restructuring of the Board and the reappointment of Jon Foulds as non-executive Chairman and the reappointment of Lord Chadlington as Chief Executive.

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 20 and a statement on going concern is given on page 14.

The Board has a formal schedule of matters specifically reserved to it for decision-making. The Board generally 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. Monthly Board papers containing current and forecast trading results, treasury and shareholder information are distributed in advance of the meetings to allow time for preparation by directors and minutes of the meetings are circulated to all directors. The Board also receives presentations from executive directors and from divisional management on specific issues as well as having direct access to senior operational management within the Group 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 senior independent director ensures that the directors have access to independent professional advice, if required, at the Company's expense.

All directors are subject to reappointment by shareholders at the first Annual General Meeting after their appointment and thereafter one third of the Board retire annually by rotation. Non-executive directors are appointed for an initial period of three years, subject to reappointment.

Attendance at meetings

Details of attendances of directors and Committee members at the principal Board and Committee meetings in 2005 are as follows:

	Board	Audit	Remuneration
H Jon Foulds	11 of 12	1 of 1	3 of 3
Francis Maude (appointed 12 May 2005)	6 of 8	—	—
Lord Chadlington	12 of 12	—	—
Roger Selman	12 of 12	—	—
Anthony Brooke	11 of 12	3 of 3	7 of 7
Eugene Beard	8 of 12	—	—
Robert Alcock (appointed 12 May 2005)	6 of 8	1 of 2	3 of 5
Charles Good (appointed 12 May 2005)	7 of 8	2 of 2	—
Tracey Reid (appointed 26 September 2005)	3 of 3	—	—
Richard Nichols (appointed 12 May 2005, resigned 18 October 2005)	5 of 6	—	—

The Board and its Committees (continued)

Board performance evaluation

The performance of the Board is assessed informally by the Chairman and the Chief Executive and the strengths and weaknesses identified are discussed at meetings of the Board.

In addition, for 2005 the Board has introduced a more formalised system using performance evaluation questionnaires. Any improvements required are implemented based on the results.

Committees of the Board

The following committees deal with specific aspects of the Group's affairs and all the committees have specific terms of reference which can be obtained from the Company Secretary.

Audit Committee

The Audit Committee is chaired by the Company's senior independent director, Robert Alcock, and its other members are Anthony Brooke and Charles Good. Members of the Audit Committee have broad financial experience which has been gained in a variety of disciplines and which the Board considers appropriate to enable the committee to carry out its responsibilities.

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. There is provision for the external auditors to discuss any concerns they may have with the Committee in the absence of management if necessary.

The Audit Committee is responsible for reviewing a wide range of matters including the interim and annual financial statements 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. In particular the Audit Committee oversees the nature and amount of non-audit work undertaken by the auditors each year to ensure that external auditor independence is safeguarded.

Nominations Committee

The Nominations Committee is chaired by Robert Alcock and its other members are Jon Foulds and Lord Chadlington. The Nominations Committee meets as necessary and is responsible for reviewing and making proposals to the Board on the appointment of directors.

The appointment of the non-executive directors following the merger with Incepta was based on nominations of non-executives from each company in order to provide continuity and balance to the enlarged group's Board. Following the merger, the Nominations Committee was established and proposed the appointment of Tracey Reid as Human Resources Director during the year.

Remuneration Committee

The Remuneration Committee is chaired by Anthony Brooke and its other member is Robert Alcock. Meetings are also attended, by invitation, by the Human Resources Director and the Chief Executive. 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 and other senior executives of the Group, including performance related bonus schemes, share-based incentive plans and pension rights. Such recommendations are determined after a review of the performance of the individual and by reference to the Company's financial results. In the case of the executive directors, other than the Chief Executive, the Committee seeks the advice of the Chief Executive in any review. The Board itself determines the remuneration of the non-executive directors. External advice from a leading firm of remuneration consultants is sought when necessary.

Further details of the Company's policies on remuneration, service contracts, and share-based incentive plans are given in the Report of the directors on remuneration on pages 21 to 25.

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for 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 order to create an ongoing process to fulfil this responsibility the Board has established a number of measures in order to identify, evaluate and manage the key financial, operating and compliance risks faced by the Group and these have been in place throughout the year and up to the date of the signing of the accounts. These measures are summarised below:

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. 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 and 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 findings of the Audit Committee are communicated to the Board.

The Group currently does not have a formal internal audit function because it employs a Head Office team of finance managers who visit the Group operating companies and review their key controls and reporting systems. This team reports to the Group Finance Director and appropriate actions are taken to address any weaknesses in internal controls that are identified.

During the year, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. A risk review report, which identifies key risks, the impact should they occur, and actions being taken to manage those risks to the desired level, is produced at least annually by each business unit and by each Group departmental head. In addition, proposed improvements to the way that risks are managed are also reported. It is designed to manage rather than to eliminate the risks inherent in achieving the Group's business objectives and can therefore provide only reasonable and not absolute assurance against material misstatement or loss.

Detailed internal financial procedures are set out for operating units. Self-certification control questionnaires are completed by the head of finance at each operating unit and are reviewed by Group Finance and the results are reported to the Audit Committee.

The directors are satisfied that the procedures in place throughout the year ensured full compliance with the internal control requirements of the Combined Code.

Relations with shareholders

The Company maintains an active dialogue with its institutional shareholders and city analysts through regular meetings and presentations, the outcome of which are reported to the Board to ensure it keeps in touch with their views.

All shareholders are welcome to attend the Company's Annual General Meeting and are encouraged to take advantage of the opportunity to direct questions to members of the Board. An overview of the Company's results and future development plans is given by the Chairman at the Annual General Meeting prior to the commencement of the formal business of the meeting.

Statement by the directors on compliance with the provisions of the Combined Code

Except as noted above in the section on the Board regarding Lord Chadlington becoming Executive Chairman of the Group having previously been Chief Executive, and also as noted above in the section on the Nominations Committee regarding the appointment of non-executive Directors following the merger with Incepta, the Company has been in full compliance with the provisions set out in the Code throughout the year.

On behalf of the Board

Tymon Broadhead
Company Secretary
22 May 2006

Statement of directors' responsibilities for the group financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that year. In preparing those financial statements, the directors are required to:

a) Select suitable accounting policies and then apply them consistently;

b) Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

c) Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other than events and conditions on the entity's financial position and financial performance; and

d) State that the Group has complied with IFRS subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the directors on remuneration

The directors present their remuneration report for the year ended 31 December 2005. The disclosures on pages 21 to 25 relating to the Remuneration Committee, remuneration policy, short term and long term incentive plans, directors' interests in contracts and other transactions with Group companies, directors' service contracts, directors' interests in shares and shareholder value are not subject to audit. All other disclosures have been audited.

Remuneration Committee

The composition, chairmanship and activities of the Remuneration Committee are set out on page 18. The members of the Committee are both shareholders and option holders and receive remuneration as set out in this report. They abstain from participating where their own interests are concerned and have no involvement in the day-to-day management of the Group's operations.

Remuneration policy

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 of executive directors consists of five elements: base salary, short term incentive plan (annual bonus), benefits-in-kind (car, car allowance, medical expenses insurance, life insurance, permanent health insurance), long term equity incentives and pension provision. A significant proportion of executive directors' remuneration is performance related through the long term equity incentive schemes. The Board considers that packages of this nature are consistent with prevailing practice and are necessary to attract, retain and reward executives of the calibre the Group requires.

Remuneration details for each director are given on page 23.

Short term incentive plan

The Company operates a short term incentive plan providing a cash bonus. These awards are entirely at the discretion of the Remuneration Committee and are based on the delivery of key performance targets.

Long term incentive plans

The Company currently operates option schemes for both the executive directors and non-executive directors. It is not intended to make any further awards under the Huntsworth PLC Non-executive Directors Share Option Scheme.

The Company has also put in place the Huntsworth Matched Share Plan for UK and certain overseas based staff, which includes the executive directors. Under this plan employees and directors are invited to purchase existing ordinary shares in the Company on terms such that for each ordinary share purchased, employees or directors will receive at no further cost to them, one further ordinary share (each a 'matched share'). Subject to certain limited exceptions employees and directors must remain in employment with the Huntsworth Group for a period of three years to achieve the matching benefit but otherwise no performance criteria apply. There were no transactions under the Huntsworth Matched Share Plan in 2005.

The Company has introduced a Performance Share Plan and is proposing to extend its operation to directors of the Company and a wider category of employees at the Annual General Meeting in 2006. This will be used to incentivise senior executives across the Group and will operate both in the UK and overseas.

Directors' interests in contracts and other transactions with Group companies

No director has a material interest in any contract with any Group company other than a service contract.

Directors' service contracts

Executive directors

Executive directors are employed under the terms of written service agreements which set out their responsibilities and obligations to the Company and the terms of their employment.

The service contract of Lord Chadlington was varied by letter on 16 February 2005 so that it would be terminable on twelve months' notice and extend the period of his service beyond the AGM in 2006 which it was recognised would be Lord Chadlington's normal retirement date. Lord Chadlington has given assurances to the Board that he will remain committed to the Group on a full time basis until at least the end of 2008.

The service contract of Roger Selman was varied by letter on 16 February 2005, so that it would be terminable on twelve months' notice on either side.

The service contract of Tracey Reid was agreed on 31 March 2006 and is terminable on twelve months' notice on either side.

	Date of original contract	Notice period
Executive directors		
Lord Chadlington	27 April 2001	1 year
Roger Selman	19 September 2001	1 year
Tracey Reid (appointed 26 September 2005)	31 March 2006	1 year

Non-executive directors

None of the non-executive directors have service contracts. Letters of appointment provide for an initial period of three years, or two years in the case of Eugene Beard. The letter of appointment for Jon Foulds has been extended from 10 April 2006 to the 2007 Annual General Meeting and Eugene Beard's was extended from 31 January 2006 to the 2007 Annual General Meeting. The remuneration of the non-executive directors takes the form solely of fees, which are set by the Board. Certain non-executive directors have historically participated in the Huntsworth PLC Non-executive Directors Share Option Scheme. It is not intended to make any further awards under this scheme.

Details of the letters of appointment of the non-executive directors are set out below.

	Date of original letter	Date of expiry	Notice period
H Jon Foulds	11 April 2001	AGM 2007	3 months
Anthony Brooke	11 April 2001	10 April 2007	3 months
Eugene Beard	1 February 2004	AGM 2007	3 months
Robert Alcock (appointed 12 May 2005)	12 May 2005	30 April 2007	6 months
Charles Good (appointed 12 May 2005)	12 May 2005	AGM 2006	6 months

Directors' interests in shares

The directors were interested (all beneficially unless otherwise stated) in the following number of ordinary shares of 50 pence each in the Company:

	22 May 2006	**31 December 2005**	31 December 2004 or date of appointment*
H Jon Foulds	**510,061**	**510,061**	460,000
Lord Chadlington**	**2,683,617**	**1,725,457**	1,719,410
Roger Selman***	**71,903**	**71,903**	71,625
Anthony Brooke	**190,000**	**190,000**	190,000
Eugene Beard	**250,000**	**176,669**	176,669
Robert Alcock (appointed 12 May 2005)	**34,209**	**34,209**	34,045
Charles Good (appointed 12 May 2005)	**392,494**	**392,494**	717,494
Francis Maude (appointed 12 May 2005; resigned 1 March 2006)	**n/a**	**6,273**	6,273
Tracey Reid (appointed 26 September 2005)****	**31,938**	**—**	—

* restated to reflect the share consolidation on 14 July 2005.

** of this amount 533,142 are conditionally beneficially held under the Matched Share Scheme as at 22 May 2006, and 54,062 were conditionally beneficially held on 31 December 2005 and 31 December 2004.

*** of this amount 10,812 are conditionally beneficially held under the Matched Share Scheme (31 December 2004: 10,812) and 16,759 are non-beneficial interests (31 December 2004: 16,666).

**** of this amount 15,969 are conditionally beneficially held under the Matched Share Scheme.

Shareholder value

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Index also measured by total shareholder return, on a daily basis. The FTSE All Share Index was selected as it represents a broad equity market index in which the Company is a constituent member.

Both lines show total return rebased to 25 on 1 January 2001.
Source: Perfect Analysis

Directors' emoluments

2005	Salary & fees £000	Bonus £000	Benefits £000	Compensation for loss of office £000	Total £000	Pension £000
Non-executive Chairman						
H Jon Foulds	**68**	—	—	—	**68**	—
Deputy Chairman						
Francis Maude (appointed 12 May 2005; resigned 1 March 2006)	**34**	—	—	—	**34**	—
Executive						
Lord Chadlington	**425**	**200**	**54**	—	**679**	—
Richard Nichols (appointed 12 May 2005; resigned 18 October 2005)	**182**	—	**5**	**410**	**597**	**11**
Tracey Reid (appointed 26 September 2005)	**31**	—	**4**	—	**35**	**3**
Roger Selman	**160**	**125**	**15**	—	**300**	**20**
Non-executive						
Robert Alcock (appointed 12 May 2005)	**26**	—	—	—	**26**	—
Eugene Beard	**25**	—	—	—	**25**	—
Anthony Brooke	**31**	—	—	—	**31**	—
Charles Good (appointed 12 May 2005)	**19**	—	—	—	**19**	—
Total 2005	**1,001**	**325**	**78**	**410**	**1,814**	**34**
2004						
Chairman						
H Jon Foulds	40	—	—	—	40	—
Executive						
Lord Chadlington	300	125	61	—	486	—
Roger Selman	140	95	15	—	250	18
Non-executive						
Anthony Brooke	25	—	—	—	25	—
Eugene Beard (appointed 1 February 2004)	23	—	—	—	23	—
Total 2004	528	220	76	—	824	18

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.

Pensions

Roger Selman is entitled to an annual pension allowance of 12.5% of his basic salary. Tracey Reid is also entitled to an annual pension allowance of 12% of her basic salary.

Highest paid director

The aggregate emoluments of the highest paid director were £679,000 for the year (2004: £486,000).

Directors' interests in share options

The Company has three option schemes by which the current executive directors are able to subscribe for ordinary shares in the Company, none of which have performance targets. The interests of the current executive directors at 31 December 2005 were as follows:

Scheme	At 1 January 2005	Granted prior to share consolidation	Share consolidation*	Granted post share consolidation	**At 31 December 2005**	Exercise price (pence)**	Option period
Lord Chadlington							
Huntsworth (Executive Directors) Unapproved Scheme	4,569,893	—	(3,655,914)	—	**913,979**	58.125p	Jul 2006 – Jul 2013
Huntsworth (Executive Directors) Unapproved Scheme	4,569,892	—	(3,655,914)	—	**913,978**	58.125p	Jul 2007 – Jul 2013
Enterprise Management Incentive Scheme	430,108	—	(344,086)	—	**86,022**	58.125p	Jul 2006 – Jul 2013
Enterprise Management Incentive Scheme	430,107	—	(344,086)	—	**86,021**	58.125p	Jul 2007 – Jul 2013
Huntsworth Savings Related Share Option Scheme	66,222	—	(52,978)	—	**13,244**	56p	Dec 2006 – May 2007
Huntsworth Savings Related Share Option Scheme	12,105	—	(9,684)	—	**2,421**	76.3p	Sept 2007 – Feb 2008
Total Lord Chadlington	10,078,327	—	(8,062,662)	—	**2,015,665**		
Roger Selman							
Unapproved Executive Scheme	569,893	—	(455,914)	—	**113,979**	58.125p	Jul 2006 – Jul 2013
Unapproved Executive Scheme	569,892	—	(455,914)	—	**113,978**	58.125p	Jul 2007 – Jul 2013
Huntsworth (Executive Directors) Unapproved Scheme	1,000,000	—	(800,000)	—	**200,000**	58.125p	Jul 2006 – Jul 2013
Huntsworth (Executive Directors) Unapproved Scheme	1,000,000	—	(800,000)	—	**200,000**	58.125p	Jul 2007 – Jul 2013
Enterprise Management Incentive Scheme	430,108	—	(344,086)	—	**86,022**	58.125p	Jul 2006 – Jul 2013
Enterprise Management Incentive Scheme	430,107	—	(344,086)	—	**86,021**	58.125p	Jul 2007 – Jul 2013
Huntsworth Savings Related Share Option Scheme	66,222	—	(52,978)	—	**13,244**	56p	Dec 2006 – May 2007
Huntsworth Savings Related Share Option Scheme	12,105	—	(9,684)	—	**2,421**	76.3p	Sept 2007 – Feb 2008
Total Roger Selman	4,078,327	—	(3,262,662)	—	**815,665**		
Total executive directors' share options	14,156,654	—	(11,325,324)	—	**2,831,330**		

* On 14 July 2005 the Company carried out a 1 for 5 share consolidation.

** Adjusted for share consolidation.

Tracey Reid does not hold any share options.

Directors' interests in share options (continued)

The Company has one option scheme by which non-executive directors are able to subscribe for ordinary shares in the Company, being the Huntsworth PLC Non-executive Directors Share Option Scheme which has no performance targets.

The interests of the non-executive directors at 31 December 2005 were as follows:

	At 1 January 2005	Granted/ rolled over prior to share consolidation	Share consolidation*	Granted post share consolidation	**At 31 December 2005**	Exercise price (pence)**	Option period
Huntsworth PLC Non-executive Directors Share Option Scheme							
H Jon Foulds	375,000	—	(300,000)	—	**75,000**	58.125p	Jul 2006 – Jul 2013
H Jon Foulds	375,000	—	(300,000)	—	**75,000**	58.125p	Jul 2007 – Jul 2013
Anthony Brooke	250,000	—	(200,000)	—	**50,000**	58.125p	Jul 2006 – Jul 2013
Anthony Brooke	250,000	—	(200,000)	—	**50,000**	58.125p	Jul 2007 – Jul 2013
Eugene Beard	500,000	—	(400,000)	—	**100,000**	126.25p	Mar 2007 – Mar 2014
Eugene Beard	500,000	—	(400,000)	—	**100,000**	126.25p	Mar 2008 – Mar 2014
Incepta Save As You Earn Scheme							
Francis Maude	n/a	—	—	—	**—**	n/a	n/a
Robert Alcock ***	n/a	17,100	(13,680)	—	**3,420**	88.63p	Jan 2008 – Jun 2008
Charles Good ***	n/a	17,100	(13,680)	—	**3,420**	88.63p	Jan 2008 – Jun 2008
Total non-executive directors' share options	2,250,000	34,200	(1,827,360)	—	**456,840**		

* On 14 July 2005 the Company carried out a 1 for 5 share consolidation.

** Adjusted for share consolidation.

*** Under the terms of the merger with Incepta, holders of certain options over ordinary shares in Incepta Group plc were allowed to roll over into equivalent options over ordinary shares in Huntsworth PLC, subject to scheme rules and the practicalities of compliance with appropriate securities law requirements.

The market price of the shares at 31 December 2005 was 84.5 pence and the range during 2005 was 73.0 pence to 116.5 pence (all prices have been adjusted for the share consolidation in July 2005).

This report was approved by the Board on 22 May 2006.

Anthony Brooke
Chairman, Remuneration Committee
22 May 2006

Independent auditors' report

to the members of Huntsworth PLC

We have audited the Group financial statements of Huntsworth PLC for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Change in Equity and the related Notes 1 to 30 . These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Huntsworth PLC for the year ended 31 December 2005 and on the information in the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union as set out in the Statement of directors' responsibilities for the Group financial statements.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the Group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 Group'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 Group financial statements. The other information comprises only the Corporate statement, the Chief executive's review, the International public relations trends survey, the Report of the directors, the Corporate governance statement, the Report of the directors on remuneration and the Five year financial summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its loss for the year then ended; and
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Ernst & Young LLP
Registered auditor
London
22 May 2006

Consolidated income statement

for the year ended 31 December 2005

Continuing operations	Notes	2005 £000	2004 £000
Turnover		**154,872**	60,911
Revenue	4	**108,347**	42,806
Operating expenses – excluding highlighted items	5	**(95,419)**	(37,637)
Operating expenses – highlighted items	5, 6	**(42,958)**	(2,811)
Operating expenses – total	5	**(138,377)**	(40,448)
Operating profit before highlighted items	4	**12,928**	5,169
Highlighted items – operating expenses	6	**(42,958)**	(2,811)
Operating (loss)/profit		**(30,030)**	2,358
Finance income	7	**710**	75
Finance costs	7	**(3,753)**	(621)
Share of profit of associates	16	**142**	—
Profit before tax and highlighted items		**9,787**	4,623
Highlighted items – operating expenses	6	**(42,958)**	(2,811)
Highlighted items – finance items	7	**240**	—
(Loss)/profit from continuing operations before tax		**(32,931)**	1,812
Taxation credit/(charge)	9	**2,947**	(353)
(Loss)/profit for the year from continuing operations		**(29,984)**	1,459
(Loss)/profit from discontinued operations	11	**(5,451)**	181
(Loss)/profit for the year		**(35,435)**	1,640
Attributable to:			
Parent company's equity shareholders		**(36,034)**	1,262
Minority interests		**599**	378
		(35,435)	1,640
(Loss)/earnings per share from continuing operations:	12		
Basic – pence		**(20.9)**	2.1
Diluted – pence		**(20.9)**	2.0
Adjusted basic – pence*		**5.9**	7.3
Adjusted diluted – pence*		**5.7**	6.9
(Loss)/earnings per share from continuing and discontinued operations:	12		
Basic – pence		**(24.6)**	2.4
Diluted – pence		**(24.6)**	2.3

* Adjusted basic and diluted earnings per share from continuing operations is calculated based on (loss)/profit for the year from continuing operations adjusted for highlighted items charged to continuing operations and the related tax effects (Note 12).

Consolidated balance sheet

as at 31 December 2005

	Notes	2005 £000	2004 £000
Non-current assets			
Intangible assets	13	**194,641**	62,261
Property, plant and equipment	14	**7,148**	2,680
Investment in associates	16	**238**	—
Deferred tax	21	**3,316**	13
		205,343	64,954
Current assets			
Work in progress		**1,277**	1,148
Trade and other receivables	17	**45,326**	18,046
Cash and short term deposits	27(c)	**9,277**	2,773
		55,880	21,967
Current liabilities			
Bank loans and overdrafts	27(c)	**(126)**	(141)
Loan notes payable	27(c)	**(2,790)**	(2,080)
Obligations under finance leases	19, 27(c)	**(142)**	(135)
Trade and other payables	18	**(46,419)**	(18,088)
Corporation tax payable		**(7,074)**	(1,312)
Provisions	20	**(13,470)**	(4,402)
		(70,021)	(26,158)
Non-current liabilities			
Bank loans and overdrafts	27(c)	**(29,373)**	(6,727)
Obligations under finance leases	19, 27(c)	**(224)**	(162)
Provisions	20	**(11,753)**	(8,001)
Trade and other payables	18	**(6,399)**	—
Deferred tax liabilities	21	**(6,239)**	(1,792)
		(53,988)	(16,682)
Net assets		**137,214**	44,081
Equity			
Called up share capital	23	**96,070**	30,444
Share premium account		**22,921**	23,615
Merger reserve		**73,729**	7,902
Foreign currency translation reserve	25	**2,710**	(183)
Investment in own shares	25	**(691)**	(8)
Potential acquisition of minority interests	25	**(4,168)**	—
Retained earnings		**(54,545)**	(18,388)
Equity attributable to equity holders of the parent		**136,026**	43,382
Minority interests		**1,188**	699
Total equity		**137,214**	44,081

The financial statements were approved by the directors on 22 May 2006 and signed on their behalf by:

Lord Chadlington **Roger Selman**

Consolidated cash flow statement

for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Cash inflow from operating activities			
Cash generated from operations	27(a)	**11,604**	4,635
Interest paid		**(3,750)**	(570)
Interest received		**248**	75
Corporation tax paid		**(1,877)**	(522)
Net cash inflow from operating activities		**6,225**	3,618
Cash inflow/(outflow) from investing activities			
Acquisitions of subsidiaries		**(7,956)**	(18,164)
Special dividend paid to Incepta shareholders		**(2,100)**	—
Disposal of subsidiaries	11	**53,817**	—
Purchases of property, plant and equipment		**(3,649)**	(380)
Proceeds from sale of property, plant and equipment		**186**	65
Proceeds from sale of fixed asset investments		**55**	—
Net cash acquired with subsidiaries		**25,920**	927
Net cash disposed of with subsidiaries	11	**(512)**	—
Net cash inflow/(outflow) from investing activities		**65,761**	(17,552)
Cash (outflow)/inflow from financing activities			
Proceeds from issue of ordinary shares		**62**	20,886
Purchase of treasury shares		**—**	(3)
Repayment of finance lease liabilities		**(199)**	(272)
Repayment of loan notes		**(5,636)**	—
Net repayment of borrowings		**(58,048)**	(3,303)
Dividends paid to minority interests		**(163)**	(130)
Dividends paid to equity holders of the parent		**(1,231)**	(467)
Net cash (outflow)/inflow from financing activities		**(65,215)**	16,711
Increase in cash and cash equivalents		**6,771**	2,777
Movements in cash and cash equivalents			
Net increase in cash and cash equivalents		**6,771**	2,777
Effects of exchange rate fluctuations on cash held		**(252)**	(99)
Cash and cash equivalents at 1 January		**2,632**	(46)
Cash and cash equivalents at 31 December	27(c)	**9,151**	2,632

Consolidated statement of changes in equity

for the year ended 31 December 2005

	Called up share capital £000	Share premium account £000	Merger reserve £000	Foreign currency translation reserve £000	Investment in own shares £000	Potential acquisition of minority interest £000	Retained earnings £000	Total £000	Minority interests £000	Total equity £000
At 1 January 2004	16,309	13,148	3,459	—	(5)	—	(19,458)	13,453	—	13,453
Currency translation differences	—	—	—	(183)	—	—	—	(183)	—	(183)
Total income and expense recognised directly in equity for the year	—	—	—	(183)	—	—	—	(183)	—	(183)
Profit for the year	—	—	—	—	—	—	1,262	1,262	378	1,640
Total recognised income and expense for the year	—	—	—	(183)	—	—	1,262	1,079	378	1,457
Shares issued for cash consideration	9,969	11,927	—	—	—	—	—	21,896	—	21,896
Additions to minority interests	—	—	—	—	—	—	—	—	451	451
Acquisitions of subsidiaries for shares	4,166	—	4,443	—	—	—	—	8,609	—	8,609
Movement in investment in own shares	—	—	—	—	(3)	—	—	(3)	—	(3)
Share issue costs	—	(1,460)	—	—	—	—	—	(1,460)	—	(1,460)
Credit for share-based payments	—	—	—	—	—	—	244	244	—	244
Deferred tax on share-based payments	—	—	—	—	—	—	30	30	—	30
Equity dividends	—	—	—	—	—	—	(466)	(466)	—	(466)
Dividends to minority interests	—	—	—	—	—	—	—	—	(130)	(130)
Balance at 1 January 2005	30,444	23,615	7,902	(183)	(8)	—	(18,388)	43,382	699	44,081
Impact of adoption of IAS 32 and IAS 39 on 1 January 2005	—	—	—	—	—	(4,168)	—	(4,168)	—	(4,168)
Currency translation differences	—	—	—	2,893	—	—	—	2,893	(4)	2,889
Total income and expense recognised directly in equity for the year	—	—	—	2,893	—	—	—	2,893	(4)	2,889
(Loss)/profit for the year	—	—	—	—	—	—	(36,034)	(36,034)	599	(35,435)
Total recognised income and expense for the year	—	—	—	2,893	—	—	(36,034)	(33,141)	595	(32,546)
Shares issued for cash consideration	50	12	—	—	—	—	—	62	—	62
Acquisitions of subsidiaries for shares	65,556	—	65,827	—	—	—	—	131,383	240	131,623
Disposal of minority interests	—	—	—	—	—	—	—	—	(183)	(183)
Movement in investment in own shares	—	—	—	—	(683)	—	—	(683)	—	(683)
Share issue costs	—	(721)	—	—	—	—	—	(721)	—	(721)
Credit for share-based payments	—	—	—	—	—	—	1,164	1,164	—	1,164
Deferred tax on share-based payments	—	—	—	—	—	—	(21)	(21)	—	(21)
Scrip dividend	20	15	—	—	—	—	(35)	—	—	—
Equity dividends	—	—	—	—	—	—	(1,231)	(1,231)	—	(1,231)
Dividends to minority interests	—	—	—	—	—	—	—	—	(163)	(163)
Balance at 31 December 2005	**96,070**	**22,921**	**73,729**	**2,710**	**(691)**	**(4,168)**	**(54,545)**	**136,026**	**1,188**	**137,214**

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted in the European Union and as applied in accordance with the provisions of the Companies Act 1985. On 22 May 2006 the consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the directors.

The transition date for the Group's application of IFRS is 1 January 2004 and the comparative figures for 31 December 2004 have been restated accordingly. Changes in accounting policies on adoption of IFRS and details of first-time adoption together with reconciliations of the income statement, balance sheet and net equity from previously reported UK GAAP to IFRS are shown in Note 30.

2. Significant accounting policies

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments which have been measured at fair value. The Group's significant accounting policies are listed below:

Basis of consolidation

Huntsworth PLC (the Company) is a limited company incorporated and domiciled in the United Kingdom. The Group financial statements consolidate the financial statements of Huntsworth PLC and all of its subsidiaries.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements from the date of acquisition or to the date of 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.

Turnover and revenue

Group turnover represents amounts received or receivable from clients, exclusive of value added tax, for the rendering of services and comprises charges for fees, commissions, rechargeable expenses incurred on behalf of clients and sales of marketing products.

Group revenue is turnover less amounts payable on behalf of clients to external suppliers where they are retained to perform part of a specific client project or service, and represents fees, commissions and mark-ups on rechargeable expenses and marketing products.

Turnover and revenue reflect the fair value of the proportion of the work carried out in the year by recording turnover and related costs as service activity progresses.

Public relations

Revenue is derived from retainers and fees for services provided. Revenue is recognised when the service is performed in accordance with the contract and the stage of completion.

Non public relations

Revenue is in the form of commissions on media placements and fees for creative and production services provided. Revenue is recognised as the services are performed. The majority of the Group's marketing services businesses, which represented most of the non public relations segment, were sold during the year.

Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Associates are accounted for under the equity method of accounting, where the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of the operations of the associate after tax. Associates have 31 December reporting dates and their accounting policies conform to those used by the Group.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short term deposits. Bank overdrafts are an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Goodwill and intangible fixed assets

Goodwill arising on consolidation, being the excess of the fair value of the consideration paid over the net fair value of the identifiable assets, liabilities and provisions for contingent liabilities acquired, is capitalised as an asset in the balance sheet. As described in Note 30, the Group has taken advantage of the first-time adoption exemptions in IFRS 1 and consequently goodwill arising before the date of transition to IFRS was retained at its carrying value as at 1 January 2004.

Goodwill is reviewed for impairment annually and in any periods in which events or changes in circumstances indicate the carrying value may not be recoverable. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combinations. Impairment testing is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. If the recoverable amount is less than the carrying amount of the cash generating unit, the impairment loss is allocated first to reduce the carrying amount of the goodwill and then to other assets of the unit.

Determining whether goodwill is impaired requires an estimation of the value in use of cash generating units to which the goodwill is allocated. The value in use calculation requires the entity to estimate future cash flows expected to arise from the cash generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at the balance sheet date was £174.5 million (2004: £55.4 million). More details are given in Note 13.

Intangible fixed assets comprise acquired separable corporate brand names and customer relationships. Intangible fixed assets are amortised systematically over their estimated useful lives, which vary from 3 to 20 years depending on the nature of the asset. These intangible assets are reviewed for impairment in any periods in which events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment less the estimated residual value, on a straight line basis, over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

Motor vehicles	25%
Equipment, fixtures and fittings	15% – 35%

Leasehold improvements are amortised over the period of the lease.

Depreciation is provided on freehold property over the useful economic life of between 30 and 70 years.

The carrying values of property, plant and equipment are reviewed for impairment periodically 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 third party costs incurred on behalf of clients which have still to be recharged. This is credited to turnover when the relevant part of the service has been performed.

Taxation

The tax charge for the period represents the sum of the tax currently payable and deferred tax.

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

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

2. Significant accounting policies (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the amounts involved are material, provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects the current market assessment of the time value of money and, when appropriate, the risks specific to the liability. Where discounting is applied to provisions, the increase in the value of the provision due to the passage of time is recognised as a finance cost.

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.

Acquisitions made by the Group typically involve an earn-out arrangement whereby the consideration payable includes a deferred element that is contingent on the future financial performance of the acquired entity. No material contingent consideration will become payable unless the acquired entity delivers greater revenues or profits during the earn-out period than those used for calculating the initial consideration. The provision for contingent consideration for acquisitions represents the directors' best estimate of the amount expected to be payable in cash or shares. The estimated value of contingent consideration payable by the issue of new ordinary shares in the Company of £7,912,000 (2004: £7,157,000) is included in the balance sheet within provisions (Note 20).

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the income statement over the periods of the finance leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term. Sublet income on operating leases is recognised on a straight line basis over the lease term.

Foreign currencies

Sterling is the functional currency of Huntsworth PLC and the presentational currency of the Group. The functional currency of subsidiaries is the local currency of the economic environment in which they operate. Transactions denominated in foreign currencies are initially translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All gains and losses are recorded in the income statement, with the exception of gains and losses relating to borrowings that provide a hedge against a net investment in a foreign entity, in which case they are recorded in equity until the disposal of the net investment to which they relate at which time they are recognised in the income statement.

The financial statements of subsidiaries are translated into the presentational currency of the Group on consolidation. Assets and liabilities are translated at the exchange rate ruling at the balance sheet date with items in the income statement being translated at the average rate for the period. Exchange differences arising on consolidation are recorded in a separate component of equity, but are recognised in the consolidated income statement on disposal of the subsidiary to which they relate.

Goodwill and fair value adjustments arising on the acquisition of an overseas subsidiary are treated as assets and liabilities of the overseas subsidiary and translated at the closing rate.

Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposure to foreign exchange and interest rate movements. The Group does not hold or issue derivative financial instruments for financial trading purposes but derivatives that do not qualify for hedge accounting are accounted for at fair value through the income statement. Derivative financial instruments are initially recognised at fair value at the contract date and continue to be stated at fair value at the balance sheet date with gains and losses on revaluation being recognised immediately in the income statement.

Option agreements that allow holders of equity instruments of subsidiaries to require the Group to purchase their minority interest are treated as derivatives over equity instruments and are recorded in the balance sheet at fair value and the valuation is re-measured at each period end. The financial liability relating to the potential purchase of the minority interest is recorded at its estimated fair value with a corresponding debit entry to equity. Movements in the fair values of the option agreements and the financial liabilities are recognised as finance income or expense in the income statement.

Borrowing costs and finance income

Borrowing costs are recognised as an expense when incurred. Finance income is recognised as the interest accrues (using the effective interest rate method).

Share-based payments

The Group issues equity-settled share-based payments to certain employees. The Group has used a binomial share option valuation model for the purposes of calculating the fair value of the share options granted to employees. The cost of share-based payments is recognised in the income statement as an expense spread over the relevant vesting period, with a corresponding increase in equity.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The fair value of options in acquired companies which are rolled over into the Group's option schemes is pro-rated between the pre- and post-acquisition periods in accordance with the vesting period.

In accordance with the first-time adoption exemptions available under IFRS 1, the Group has elected to fair value only equity instruments that have been granted after 7 November 2002 that had not vested by 1 January 2005.

Employee benefits

All accumulating employee compensated absences that are unused at the balance sheet date are recognised as a liability.

Dividends

Interim dividends are recognised as a deduction from equity in the period in which they are paid. Final dividends are recognised in the period in which they are approved by the Company in general meeting.

Pensions

The Group operates defined contribution money purchase pension schemes and makes contributions to individual employees' personal pension schemes. The Group's contributions are charged against profits in the year in which the related employee services are performed.

The employees of Trimedia Communications Suisse SA, a subsidiary of the Group, belong to a multi-employer defined benefit pension plan. Because the administrator of the plan has been unable to provide sufficient information for the Group to identify its share of the underlying financial position and performance of the plan, the Group accounts for the plan as if it were a defined contribution scheme in accordance with IAS 19.

Employee share ownership plans

Consideration to acquire shares in Huntsworth PLC through Employee Benefit Trusts has been deducted from equity.

Adoption of new standards and amendments

The IASB and IFRIC have issued a number of standards and interpretations with an effective date after the date of these financial statements. The Group has not applied any of these standards and interpretations in these financial statements. The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

3. Acquisitions

The following acquisitions were made during the year:

i) Incepta Group plc

On 29 April 2005 the Group acquired 100% of the issued share capital of Incepta Group plc, an international marketing and communications group, through a share for share exchange in which 3.13654 ordinary 10p Huntsworth PLC shares were issued for every Incepta ordinary share of 5p each. The fair value of the consideration given for the acquisition of the Incepta shares was £126.6 million based on the issue of 633,086,083 Huntsworth 10p ordinary shares at the quoted market bid price of 20p at the date of acquisition (after the share consolidation on 14 July 2005 this equates to 126,617,217 Huntsworth 50p ordinary shares at a market price of £1). There were also related acquisition costs incurred of £3.0 million that are included in the total cost of acquisition.

Carrying value and fair value of the net liabilities at date of acquisition were as follows:

	Carrying value £000	Recognised on acquisition £000
Intangible fixed assets	—	36,075
Property, plant and equipment	8,462	7,609
Associates and other investments	161	135
Work in progress	2,783	2,783
Trade and other receivables	55,032	54,418
Deferred tax asset	3,018	3,409
Cash and cash equivalents	24,985	24,985
Bank loans	(78,536)	(78,536)
Loan notes & finance leases	(6,481)	(6,481)
Trade and other payables	(46,991)	(47,076)
Corporation tax payable	(10,520)	(11,564)
Other creditors & provisions	(4,885)	(14,377)
Deferred tax liability	(388)	(11,209)
Net liabilities acquired	(53,360)	(39,829)
Goodwill arising on acquisition		169,468
		129,639
Discharged by:		
Fair value of shares issued		126,617
Costs associated with acquisition		3,022
Total consideration		129,639
Net cash inflow arising on acquisition:		
Transaction costs		(3,022)
Cash and cash equivalents		24,985
		21,963

All fair values are provisional awaiting final determination of the balances acquired. The goodwill arising on acquisition is principally attributable to the value of client loyalty and the talent and expertise of employees in the acquired companies.

From the date of acquisition to 31 December 2005, Incepta Group plc and its subsidiaries have contributed revenue of £85.7 million to the Group, of which £34.1 million relates to discontinued operations. In the same period Incepta Group plc and its subsidiaries have contributed operating profit before highlighted items of £9.1 million, of which £2.6 million relates to discontinued operations, and operating loss after highlighted items of £33.8 million, of which £4.5 million relates to discontinued operations. It is not practicable to allocate interest and tax to the acquired businesses as the Group's treasury and tax operations are managed centrally and these arrangements were fundamentally restructured following the merger with Incepta.

ii) Other acquisitions

Sinclair Mason Limited

On 23 February 2005 the Group acquired 100% of the issued share capital of Sinclair Mason Limited for an initial consideration of £1.1 million satisfied by £620,000 of cash and £480,000 of Huntsworth shares. Additional deferred consideration is payable dependent on the next three years' trading profits up to a maximum of £2.8 million.

Neisser Communications

On 26 May 2005 the Group acquired the brand and associated client and staff contracts of Neisser Communications for an initial consideration of €139,000 (£96,000) satisfied 50% in cash and the balance by the issue of Huntsworth shares. Additional deferred consideration based on financial performance over the next three years is payable up to a maximum of €1.1 million (£753,000).

Zahner and Partner AG

On 1 July 2005 the Group acquired 100% of the issued share capital of Zahner and Partner AG for an initial consideration of CHF2.1 million satisfied by CHF1.2 million (£548,000) of cash and CHF900,000 (£411,000) of Huntsworth shares. Additional deferred consideration is payable dependent on the three years' trading profits from January 2006 up to a maximum of CHF1.1 million (£485,000).

Context Research International Limited

On 12 August 2005 the Group acquired 100% of the issued share capital of Context Research International Limited for an initial consideration of £3.0 million satisfied by £1.8 million of cash and £1.2 million of Huntsworth shares. Additional deferred consideration is payable dependent on the next three years' trading profits up to a maximum of £3.6 million.

Brand Health International Limited

On 12 August 2005 the Group acquired 100% of the issued share capital of Brand Health International Limited for an initial consideration of £33,000 satisfied in cash. Additional deferred consideration is payable dependent on the next four years' trading profits up to a maximum of £5 million.

The Anne McBride Company Inc.

On 17 August 2005 the Group acquired 100% of the issued share capital of The Anne McBride Company Inc. for an initial consideration of $2.7 million (£1.5 million) satisfied by the issue of 1,263,501 Huntsworth ordinary shares. Additional deferred consideration is payable dependent on the two years' trading profits from September 2006 up to a maximum of $2.3 million (£1.3 million).

Aggregate carrying value and fair value of the net assets at date of acquisition were as follows:

	Carrying value £000	Recognised on acquisition £000
Intangible fixed assets	—	103
Property, plant and equipment	225	225
Work in progress	79	79
Trade and other receivables	1,270	1,258
Cash and cash equivalents	935	935
Trade and other payables	(1,369)	(1,369)
Other creditors, provisions and finance leases	(241)	(284)
Deferred tax liability	(24)	(62)
Net assets acquired	875	885
Goodwill arising on acquisition		7,518
Total consideration		8,403
Discharged by:		
Fair value of shares issued		3,627
Cash consideration		2,970
Costs associated with acquisition		370
Deferred consideration		1,436
		8,403
Net cash outflow arising on acquisition:		
Cash consideration and costs associated with acquisition		(3,271)
Cash and cash equivalents		935
		(2,336)

3. Acquisitions (continued)

ii) Other acquisitions (continued)

In total 3,301,565 shares (based on post share consolidation shares) were issued to acquire these companies, and the fair value of the shares issued was the average quoted mid market price in the period immediately preceeding the date of acquisition.

All fair values are provisional awaiting final determination of the balances acquired. The goodwill arising on acquisition is attributable to the value of client loyalty and the talent and expertise of employees in the acquired companies. These companies contributed £1.6 million of revenue and £0.3 million of operating profit between the date of acquisition and 31 December 2005. It is not practicable to allocate interest and tax to the acquired businesses as the Group's treasury and tax operations are managed centrally.

If all the acquisitions in the year had taken place at the beginning of the year, the operating loss of the Group would have been £46.5 million after highlighted items of £60.2 million (this includes discontinued operations) and revenue from continuing operations would have been £136.2 million. It is not practicable to allocate interest and tax to the acquired businesses for the reasons noted above.

4. Segmental analysis

The Group offers its clients a range of public relations services. Following the disposal of the marketing services division during the year, a review of the companies presented in the Group's internal reporting was undertaken to determine whether those companies constituted business segments to be disclosed separately. Services were considered under a number of criteria (nature of services, type or category of clients, methods of distribution and supply of services, nature of regulatory environment), and it was concluded that the Group's public relations businesses generally have similar risks and returns and therefore represent a business segment. The Group also has a small number of other non public relations businesses which operate in areas such as events and advertising and have different risks and returns from public relations and these are treated separately, as set out below.

Business segments

The following table analyses the revenue and operating profit/(loss) and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2005:

	Public relations £000	Non public relations £000	Eliminations £000	**Total continuing operations £000**
Revenue				
External	94,972	13,375	—	**108,347**
Intra-group	(4)	97	(93)	**—**
Total revenue	94,968	13,472	(93)	**108,347**
Operating profit/(loss)				
Segment operating profit from continuing operations before highlighted items	18,164	1,939	—	**20,103**
Unallocated expenses				**(7,175)**
Operating profit before highlighted items				**12,928**
Highlighted items – operating expenses	(34,769)	(8,189)		**(42,958)**
Operating loss				**(30,030)**
Net finance costs				**(3,043)**
Share of profit of associates	142	—		**142**
Loss before tax				**(32,931)**
Taxation				**2,947**
Loss for the year from continuing operations				**(29,984)**
Assets and liabilities				
Segment assets	214,387	40,389		**254,776**
Interests in associates	238	—		**238**
Unallocated assets				**6,209**
Total assets				**261,223**
Segment liabilities	(50,965)	(29,913)		**(80,878)**
Unallocated liabilities				**(43,131)**
Total liabilities				**(124,009)**

	Public relations £000	Non public relations £000	Eliminations £000	**Total continuing operations £000**
Other segment information				
Capital expenditure – property, plant and equipment	2,927	127		**3,054**
Capital expenditure – intangible fixed assets	198,820	14,344		**213,164**
Depreciation of fixed assets	1,803	237		**2,040**
Amortisation of intangible fixed assets	3,208	194		**3,402**
Impairment losses	23,364	6,207		**29,571**

Inter-segment sales are arm's length transactions at prevailing market rates. The loss from discontinued activities of £5,451,000 relates to businesses in the non public relations segment and is disclosed in detail in Note 11.

The following table analyses the revenue and operating profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2004:

	Public relations £000	Non public relations £000	Eliminations £000	Total continuing operations £000
Revenue				
External	36,310	6,496	—	42,806
Intra-group	36	—	(36)	—
Total revenue	36,346	6,496	(36)	42,806
Operating profit				
Segment operating profit from continuing operations before highlighted items	6,279	1,974	—	8,253
Unallocated expenses				(3,084)
Operating profit before highlighted items				5,169
Highlighted items – operating expenses	(2,646)	(165)		(2,811)
Operating profit				2,358
Net finance costs				(546)
Share of profit of associates				—
Profit before tax				1,812
Taxation				(353)
Profit for the year from continuing operations				1,459
Assets and liabilities				
Segment assets	72,135	13,723		85,858
Unallocated assets				13
Total assets – continuing operations				85,871
Discontinued operations				1,050
Total assets				86,921
Segment liabilities	(28,410)	(1,677)		(30,087)
Unallocated liabilities				(10,217)
Total liabilities – continuing operations				(40,304)
Discontinued operations				(2,536)
Total liabilities				(42,840)
Other segment information				
Capital expenditure – property, plant and equipment	503	10		513
Capital expenditure – intangible fixed assets	33,088	3,739		36,827
Depreciation of fixed assets	937	102		1,039
Amortisation of intangible fixed assets	387	61		448

The profit from discontinued activities of £181,000 relates to businesses in the non public relations segment and is disclosed in detail in Note 11.

4. Segmental analysis (continued)

Geographical segments

The following tables analyse the Group's revenue and operating profit before highlighted items together with certain asset information by geographical segments for the years ended 31 December 2005 and 31 December 2004:

	2005 £000	2004 £000
Revenue		
United Kingdom	**58,293**	29,673
Other European	**22,857**	9,050
USA	**24,035**	3,645
Rest of World	**3,162**	438
Total	**108,347**	42,806
Operating profit before highlighted items		
United Kingdom	**11,504**	6,415
Other European	**4,000**	1,201
USA	**3,945**	524
Rest of World	**654**	113
Segment operating profit from continuing operations before highlighted items	**20,103**	8,253
Unallocated expenses	**(7,175)**	(3,084)
Operating profit before highlighted items	**12,928**	5,169
Carrying amount of segment assets		
United Kingdom	**142,540**	71,577
Other European	**51,920**	9,388
USA	**52,406**	4,483
Rest of World	**8,148**	410
Unallocated assets	**6,209**	13
Discontinued	**—**	1,050
Total	**261,223**	86,921
Additions to property, plant and equipment		
United Kingdom	**1,562**	443
Other European	**483**	36
USA	**898**	13
Rest of World	**111**	21
Discontinued	**831**	5
Total	**3,885**	518

5. Operating expenses

Operating expenses are stated after charging/(crediting):

Continuing operations	2005 £000	2004 £000
Auditors' remuneration:		
Audit services	**555**	237
Non-audit services	**247**	50
Depreciation of owned property, plant and equipment	**1,955**	871
Depreciation of property, plant and equipment held under finance leases	**85**	168
Loss on disposal of property, plant and equipment	**779**	5
Net foreign exchange loss/(gain)	**256**	(74)
Operating lease rentals:		
Lease payments	**6,145**	2,934
Sublet income	**(818)**	(150)
Employee costs (Note 8)	**67,402**	25,283
Other administration costs	**18,813**	8,313
Operating expenses – excluding highlighted items	**95,419**	37,637
Highlighted items (Note 6)	**42,958**	2,811
	138,377	40,448

Discontinued operations	2005 £000	2004 £000
Auditors' remuneration:		
Audit services	**25**	11
Depreciation of owned property, plant and equipment	**852**	20
(Profit)/loss on disposal of property, plant and equipment	**(35)**	62
Net foreign exchange (gain)/loss	**(4)**	16
Operating lease rentals:		
Lease payments	**1,398**	214
Sublet income	**(106)**	(22)
Employee costs (Note 8)	**22,933**	1,544
Other administration costs	**8,356**	685
Operating expenses – excluding highlighted items	**33,419**	2,530
Highlighted items (Note 6)	**2,379**	(188)
	35,798	2,342

Non-audit fees disclosed above principally relate to tax compliance, interim review and other attestation services. In addition, £170,000 (2004: £1,050,000) has been capitalised within goodwill and intangible fixed assets, being costs of acquisition and £134,000 (2004: £nil) has been included within highlighted items (Note 6), being IFRS implementation work.

6. Highlighted items charged to operating (loss)/profit

The following highlighted items have been recognised in arriving at operating (loss)/profit:

Continuing operations	2005 £000	2004 £000
Amortisation of intangible assets	**3,402**	448
Impairment of goodwill and intangible assets	**29,571**	—
Share options charge	**576**	244
Merger, restructuring and other non-recurring costs	**9,409**	2,119
	42,958	2,811

Highlighted items charged to operating (loss)/profit comprise significant non-cash charges and non-recurring items which are highlighted in the income statement because separate disclosure is considered helpful in understanding the underlying performance of the business.

6. Highlighted items charged to operating (loss)/profit (continued)

Impairment of goodwill and intangible assets

Of the impairment charge for goodwill and intangible assets, £12.5 million relates to the write-down of Citigate Sard Verbinnen to the recoverable amount following the signing of an agreement to sell the business as announced on 15 February 2006 and as approved by shareholders at the Extraordinary General Meeting on 6 March 2006. A further £1.8 million relates to writing down to recoverable amounts non-core businesses sold after the year end and £15.3 million relates to impairments following a strategic review and a review of the future prospects of certain companies.

Merger, restructuring and other non-recurring costs

Merger, restructuring and other non-recurring costs comprise expenses relating to the integration and restructuring of businesses within the Group together with certain other non-recurring costs. The components are: employee severance costs (£4.5 million), property charges (£2.7 million), integration costs (£1.2 million), closures (£0.2 million) and other non-recurring costs (£0.8 million). In 2004 the components were: restructuring costs (£1.8 million), property charges (£0.1 million) and other non-recurring costs (£0.2 million).

Discontinued operations	2005 £000	2004 £000
Amortisation of intangible assets	**1,192**	—
Impairment of goodwill and intangible assets	**616**	—
Share options charge	**136**	—
Merger, restructuring and other non-recurring costs	**435**	(188)
	2,379	(188)

7. Finance costs and income

Continuing operations	2005 £000	2004 £000
Bank interest payable	**3,207**	536
Loan note interest	**66**	39
Finance lease interest	**30**	42
Other net interest payable	**—**	4
Provision discount adjustment	**240**	—
Highlighted item – IFRS imputed interest on deferred consideration	**210**	—
Finance costs	**3,753**	621
Bank interest receivable	**(227)**	(75)
Highlighted item – revaluation of put option over minority interest	**(450)**	—
Other net interest receivable	**(33)**	—
Finance income	**(710)**	(75)
	3,043	546

Highlighted items charged/(credited) to finance costs and income comprise IFRS related non-cash items which are highlighted in the income statement because separate disclosure is considered helpful in understanding the underlying performance of the business.

Highlighted finance items of £240,000 comprise the net of the revaluation credit on the put option over minority interests of £450,000, which under IFRS has been credited to the income statement, and the IFRS imputed interest charge on deferred consideration payable in cash or shares of £210,000, where notwithstanding the Company's option to settle in shares, under IFRS the expected amounts are recognised as a financial liability and discounted accordingly.

Discontinued operations	2005 £000	2004 £000
Bank interest payable	**—**	1
Finance lease interest	**7**	—
Other net interest payable	**249**	—
Finance costs	**256**	1
Bank interest receivable	**(4)**	—
Finance income	**(4)**	—
	252	1

8. Employee information

Average number of employees during the year was:

Continuing operations	2005 Number	2004 Number
Public relations	**1,167**	537
Non public relations	**113**	23
	1,280	560

Discontinued operations		
Non public relations	**530**	36

Continuing operations	2005 £000	2004 £000
Employee costs, including highlighted items, of all employees included in continuing operations:		
Wages and salaries	**58,824**	22,205
Social security costs	**6,002**	2,079
Pension contributions	**2,000**	755
Share options charge	**576**	244
	67,402	25,283

Discontinued operations		
Employee costs, including highlighted items, of all employees included in discontinued operations:		
Wages and salaries	**20,065**	1,396
Social security costs	**2,129**	136
Pension contributions	**603**	12
Share options charge	**136**	—
	22,933	1,544

	2005 £000	2004 £000
Directors' emoluments	**1,814**	824
Number of directors accruing benefits under:		
Defined contribution schemes	**3**	1

The Group makes contributions to employees' personal defined contribution pension plans.

The information on directors' emoluments and share options set out on pages 21 to 25 forms part of these financial statements.

9. Taxation

The major components of income tax expense for the year ended 31 December 2005 are:

	2005 £000	2004 £000
Consolidated income statement		
Current income tax		
Current income tax charge	**2,230**	663
Adjustments in respect of current income tax for prior years	**(203)**	—
	2,027	663
Deferred income tax		
Relating to the origination and reversal of temporary differences	**(4,834)**	(285)
Adjustments in respect of deferred income tax for prior years	**87**	—
Income tax (credit)/expense reported in the consolidated income statement	**(2,720)**	378
Less: income tax expense relating to discontinued operations	**(227)**	(25)
Income tax (credit)/expense relating to continuing operations	**(2,947)**	353
Consolidated statement of changes in equity		
Deferred income tax related to items credited directly to equity		
Net revaluation of share-based remuneration	**21**	(30)
Income tax expense/(credit) reported in equity	**21**	(30)

Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below.

	2005 £000	2004 £000
(Loss)/profit before tax from continuing operations	**(32,931)**	1,812
(Loss)/profit before tax from discontinued operations	**(5,224)**	206
(Loss)/profit on ordinary activities before tax	**(38,155)**	2,018
Corporation tax (credit)/charge at 30%	**(11,446)**	605
Effects of:		
Expenses not deductible for tax purposes	**9,278**	366
Losses on disposal not deductible for tax	**2,550**	—
Capital allowances for year less than/(in excess) of depreciation	**103**	(33)
Origination and reversal of temporary differences not recognised	**1,014**	(113)
Higher tax rates on overseas earnings	**199**	3
Tax losses not utilised/(utilised)	**329**	(165)
Current income tax charge for the year	**2,027**	663
Deferred tax credit to the income statement	**(4,747)**	(285)
Current tax (credit)/charge for the year	**(2,720)**	378
Current tax (credit)/charge for the year relating to continuing operations	**(2,947)**	353
Current tax charge for the year attributable to discontinued operations	**227**	25
	(2,720)	378

10. Dividends

	2005 £000	2004 £000
Equity dividends on ordinary shares:		
Interim dividend for year ended 2003 – 0.5p*	—	163
Interim dividend for year ended 2004 – 0.5p*	—	303
Special second interim dividend for year ended 2004 – 0.5p*	**306**	—
Interim dividend for year ended 2005 – 0.5p	**960**	—
	1,266	466

* Adjusted for share consolidation on 14 July 2005.

A final dividend of 1.2 pence per share has been proposed for approval at the Annual General Meeting in 2006 and has not been recognised as a liability at 31 December 2005.

11. Discontinued operations

During 2005 subsidiaries in the marketing services division (part of the non public relations segment) have been sold and other subsidiaries in that segment have been closed. The results for the year of the discontinued operations are analysed as follows:

	2005 £000	2004 £000
Profit for the marketing services subsidiaries for the year	**1,271**	347
Loss on disposal of marketing services subsidiaries	**(5,407)**	—
Results for the operations closed in the year	**(1,315)**	(166)
(Loss)/profit from discontinued operations	**(5,451)**	181

i) Sale of marketing services subsidiaries

On 4 November 2005 the Company sold its marketing services businesses to Media Square plc for £55 million in cash. After costs of disposal of £3.2 million, this resulted in a net loss to the Group of £5.3 million. The attributable income tax charge was £152,000 leaving a post-tax loss of £5.4 million.

The results for the marketing services businesses for the period 1 January 2005 (or 29 April 2005 for those businesses which were acquired as part of the acquisition of Incepta Group plc) to 4 November 2005 are as follows:

	2005 £000	2004 £000
Revenue	**35,114**	1,575
Operating expenses	**(32,240)**	(1,506)
Operating profit excluding highlighted items	**2,874**	69
Highlighted items	**(1,324)**	279
Operating profit	**1,550**	348
Finance income	**4**	—
Finance costs	**(244)**	(1)
Profit before tax	**1,310**	347
Taxation	**(39)**	—
Profit for the period	**1,271**	347

The majority of the businesses disposed of were acquired in the Incepta Group plc acquisition on 29 April 2005 (Note 3). During the period ended 4 November 2005, the disposal group contributed £2.9 million (2004: £0.1 million) to the Group's net operating cash flows and paid £0.8 million (2004: £nil) in respect of investing activities.

11. Discontinued operations (continued)

i) Sale of marketing services subsidiaries (continued)

The net assets of the disposal group at the date of disposal were:

	4 November 2005 £000
Intangible assets	12,516
Property, plant and equipment	3,623
Trade and other receivables	37,048
Cash and cash equivalents	512
Trade and other payables	(26,689)
Other creditors and provisions	(4,332)
Minority interests	(183)
Attributed goodwill	34,760
Net identifiable assets and liabilities	57,255
Loss on disposal	(5,255)
Total consideration	52,000
Satisfied by:	
Cash consideration received	55,000
Completion adjustment	233
Transaction costs	(3,233)
	52,000
Net cash inflow arising on disposal:	
Cash consideration received	55,000
Transaction costs	(1,183)
	53,817
Cash and cash equivalents disposed of	(512)
Net cash inflow	53,305

ii) Closure of subsidiaries

Following a strategic review the Group closed a number of non-core non public relations businesses. The results for the year of these discontinued operations were as follows:

	2005 £000	2004 £000
Revenue	967	974
Operating expenses	(1,179)	(1,024)
Operating loss excluding highlighted items	(212)	(50)
Highlighted items	(1,055)	(91)
Operating loss	(1,267)	(141)
Finance income	—	—
Finance costs	(12)	—
Loss before tax	(1,279)	(141)
Taxation	(36)	(25)
Loss for the period	(1,315)	(166)

The closed subsidiaries would have been classified within the non public relations segment. During the year ended 31 December 2005, the closed subsidiaries produced net operating cash outflows of £0.3 million (2004: £0.4 million) and contributed £0.1 million (2004: £nil) in respect of investing activities.

12. (Loss)/earnings per share

The data used in the calculations of the (loss)/earnings per share numbers is summarised in the table below:

	2005		2004*	
	(Loss)/ earnings £'000	**Weighted average number of shares 000's**	(Loss)/ earnings £'000	Weighted average number of shares 000's
Continuing operations:				
Basic	**(30,583)**	**146,579**	1,081	51,591
Diluted	**(30,583)**	**146,579****	1,081	53,929
Adjusted basic	**8,598**	**146,579**	3,742	51,591
Adjusted diluted	**8,598**	**149,970**	3,742	53,929
Continuing and discontinued operations:				
Basic	**(36,034)**	**146,579**	1,262	51,591
Diluted	**(36,034)**	**146,579****	1,262	53,929

* The weighted average number of shares has been restated to reflect that the Company's existing 10p ordinary shares were consolidated on the basis of one new 50p ordinary share for five existing 10p ordinary shares on 14 July 2005.

** Because basic EPS results in a loss per share the diluted EPS is calculated using the undiluted weighted average number of shares.

The basic earnings per share calculation is based on the (loss)/profit for the year attributable to parent company shareholders divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated based on the (loss)/profit for the year attributable to parent company shareholders divided by the weighted average number of ordinary shares outstanding during the year adjusted for the potentially dilutive impact of employee share option schemes and shares to be issued as part of deferred consideration on acquisitions of subsidiaries.

Adjusted earnings per share is calculated in order to provide information to shareholders about continuing trading performance and is based on the profit attributable to parent company shareholders excluding discontinued operations and highlighted items together with related tax effects as set out below:

(a) From continuing operations

The calculation of basic and diluted (loss)/earnings per share attributable to parent company shareholders is based on the following:

	2005 £000	2004 £000
Earnings:		
(Loss)/profit for the year attributable to parent company's shareholders	**(36,034)**	1,262
Add/(less): Loss/(profit) from discontinued operations	**5,451**	(181)
(Loss)/earnings for basic and diluted earnings per share from continuing operations	**(30,583)**	1,081
Highlighted items	**42,718**	2,811
Tax on highlighted items	**(3,537)**	(150)
Adjusted earnings	**8,598**	3,742

	2005 000's	2004 000's
Number of shares:		
Weighted average number of ordinary shares – basic and adjusted	**146,579**	51,591
Effect of share options in issue	**1,743**	2,338
Effect of deferred consideration	**1,648**	—
Weighted average number of ordinary shares – diluted	**149,970**	53,929

(b) From continuing and discontinued operations

Earnings for basic and diluted (loss)/earnings per share from continuing and discontinued operations is the (loss)/profit for the year attributable to parent company shareholders. The number of shares is the same as those detailed for continuing operations.

(c) From discontinued operations

Basic (loss)/earnings per share for the discontinued operations is a loss of 3.7 pence per share (2004: profit of 0.4 pence per share) and diluted earnings per share is a loss of 3.7 pence per share (2004: profit of 0.3 pence per share), based on the loss for the year from the discontinued operations of £5,451,000 (2004: gain of £181,000) and denominators above for both the basic and diluted (loss)/earnings per share.

13. Intangible fixed assets

	Brands £000	Customer relationships £000	Goodwill £000	Total £000
Cost				
At 1 January 2005	5,597	1,721	55,391	62,709
Arising on acquisitions in the year	21,512	14,666	176,986	213,164
Adjustment to prior year acquisitions	(201)	—	(767)	(968)
Arising on disposal of subsidiaries in the year	(7,900)	(5,808)	(38,836)	(52,544)
Exchange differences	689	380	5,220	6,289
At 31 December 2005	**19,697**	**10,959**	**197,994**	**228,650**
Amortisation and impairment charges				
At 1 January 2005	193	255	—	448
Charge for the period	1,068	3,526	—	4,594
Arising on disposal of subsidiaries in the year	(236)	(956)	—	(1,192)
Impairment	4,698	1,999	23,490	30,187
Exchange differences	(6)	(22)	—	(28)
At 31 December 2005	**5,717**	**4,802**	**23,490**	**34,009**
Net book value at 31 December 2005	**13,980**	**6,157**	**174,504**	**194,641**
Net book value at 31 December 2004	5,404	1,466	55,391	62,261

Brands and customer relationships are being amortised over their useful economic lives of between 3 and 20 years. The amounts recognised above for intangible assets arising on acquisitions in the period are provisional awaiting final determination in accordance with the time limit allowed in IFRS 3. Details of acquisitions made during the period are set out in Note 3.

Adjustments to brands on prior year acquisitions represent minor reallocations to goodwill. Adjustments to goodwill on prior year acquisitions principally represent decreases to consideration payable.

Impairment testing for cash-generating units containing goodwill

Goodwill acquired through business combinations is allocated to cash generating units ('CGU') for impairment testing as follows:

	2005 £000	2004 £000
Public relations	**157,613**	47,025
Non public relations	**16,891**	8,366
At 31 December 2005	**174,504**	55,391

The recoverable amount of CGU's are determined based on value in use calculations, using cash flow projections based on the 2006 budgets approved by management. Cash flows for the next five years are extrapolated using growth rates of between 1.0% and 2.5% which are considered reasonable based on past experience. A pre-tax discount rate of 10.0% (2004: 10.0%) has been used in discounting the projected cash flows. Forecast future cash flows are inherently uncertain and could change materially over time due to the impact of, inter alia, market growth and discount rates. Management believes that running reasonably possible sensitivities in the key assumptions on which the value in use calculations are based would not cause the carrying value of the CGU's to exceed their recoverable amount.

Details of the impairments in the year are set out in Note 6.

14. Property, plant and equipment

	Land and buildings £000	Equipment fixtures & fittings £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2005	960	3,817	364	5,141
Acquisitions	3,187	4,327	320	7,834
Additions	1,306	2,487	92	3,885
Disposal of subsidiaries	(1,162)	(3,822)	(232)	(5,216)
Disposals	(602)	(551)	(206)	(1,359)
Exchange differences	122	118	3	243
At 31 December 2005	**3,811**	**6,376**	**341**	**10,528**
Depreciation				
At 1 January 2005	233	2,129	99	2,461
Charge for the period	646	2,097	149	2,892
Disposal of subsidiaries	(133)	(1,414)	(46)	(1,593)
Disposals	(168)	(148)	(92)	(408)
Exchange difference	5	23	—	28
At 31 December 2005	**583**	**2,687**	**110**	**3,380**
Net book value at 31 December 2005	**3,228**	**3,689**	**231**	**7,148**
Net book value at 31 December 2004	727	1,688	265	2,680

Land and buildings comprise improvements to leasehold properties.

Motor vehicles held under finance leases had a net book value at 31 December 2005 of £129,000 (2004: £192,000). Equipment, fixtures and fittings held under finance leases had a net book value at 31 December 2005 of £137,000 (2004: £160,000).

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

15. Subsidiaries

Details of the Company's principal operating subsidiary undertakings at 31 December 2005, which are all registered and operating in Great Britain, unless indicated otherwise, are set out below. Shares held by an intermediate holding company are indicated with an asterisk(*):

Subsidiary undertaking:	Proportion of nominal value of issued ordinary shares held	Principal activity
Avenue Healthcare Knowledge Management Limited	*90%	Public relations consultants
Brand Health International Limited (previously Context Research International Limited)	*100%	Healthcare communications and research
Brand Health International Validation Limited (previously Brand Health International Limited)	*100%	Healthcare communications and research
CapitalBridge Inc (7)	*100%	Public relations consultants
CapitalBridge Limited	*100%	Public relations consultants
Citigate Broad Street Inc (7)	*100%	Marketing services consultants
Citigate Cunningham LLC (7)	*100%	Public relations consultants
Citigate Demuth GmbH (10)	*100%	Public relations consultants
Citigate Dewe Rogerson GmbH (10)	*100%	Public relations consultants
Citigate Dewe Rogerson (Beijing) Consulting Services Co. Ltd	*100%	Public relations consultants
Citigate Dewe Rogerson Communications Private Limited (14)	*80%	Public relations consultants
Citigate Dewe Rogerson i.MAGE Pte Ltd (3)	*100%	Public relations consultants
Citigate Dewe Rogerson Limited	100%	Public relations consultants
Citigate First Financial B.V. (13)	*100%	Public relations consultants
Citigate & Trimedia Norden AB (11)	*100%	Public relations consultants
Citigate S.r.l (previously Citigate Gunpowder S.r.l) (12)	*100%	Public relations consultants
Citigate Holdings GmbH (10)	*100%	Sub-holding company
Citigate Public Affairs Limited	*100%	Public relations consultants
Citigate Sanchis, S.L. (8)	*100%	Public relations consultants
Citigate Sard Verbinnen LLC (7)	*100%	Public relations consultants
CMC Corporate & Marketing Communications Investments AG (1)	100%	Sub-holding company
Elizabeth Hindmarch Public Relations Limited	*100%	Public relations consultants
Ergo Communication Services Limited	100%	Public relations consultants
Grayling SA (2)	*70%	Public relations consultants
Grayling Asia Pte Limited (3)	*70%	Public relations consultants
Grayling China Limited (4)	*70%	Public relations consultants
Grayling Gilmore Limited (5)	*70%	Public relations consultants
Grayling International Limited	70%	Sub-holding company
Grayling UK Limited	*70%	Public relations consultants
Harrison Cowley Limited	*100%	Public relations consultants
Haslimann Taylor Limited	*100%	Public relations consultants
Hatch Group Limited	*100%	Public relations consultants
Hatch International Limited	*100%	Public relations consultants
Huntsworth Financial Inc (7)	*92%	Sub-holding company
HF Global Consulting Group Inc (7)	*92%	Public relations consultants
HF Global Consulting Group Limited	*92%	Public relations consultants
Hudson Sandler Limited	60%	Public relations consultants
Huntsworth Financial Global Consulting Group SL (8)	*92%	Public relations consultants
Huntsworth Financial Group Limited	*92%	Sub-holding company
Huntsworth Healthcare Group Limited	90%	Sub-holding company
Huntsworth Investments Limited	100%	Sub-holding company
Incepta Group plc	100%	Sub-holding company
Incepta Holdings Limited	*100%	Sub-holding company
Incepta Middle East (15)	*100%	Public relations consultants
Jago Pearce Healthcare Limited	*90%	Public relations consultants
nxtMove LLC (7)	*100%	Risk consultants
Park Avenue Productions plc	*100%	Marketing services consultants
PBC Marketing Limited	*90%	Healthcare communications and research

Subsidiary undertaking:	Proportion of nominal value of issued ordinary shares held	Principal activity
PR Force Nederland B.V. (13)	*100%	Public relations consultants
PR Force Public Relations & Press Relations N.V. (2)	*100%	Public relations consultants
Root Market Research Limited	*90%	Healthcare communications and research
Rose & Kindel Inc. (7)	*92%	Public relations consultants
Sinclair Mason Limited	100%	Public relations consultants
Strategy Communications Limited	100%	Public relations consultants
The RED Consultancy Limited	*100%	Public relations consultants
Trimedia (International) AG (1)	*100%	Sub-holding company
Trimedia Communications Austria GmbH (9)	*100%	Public relations consultants
Trimedia Communications Deutschland GmbH (10)	*100%	Public relations consultants
Trimedia Communications France SAS (6)	*100%	Public relations consultants
Trimedia Communications Suisse SA (1)	*100%	Public relations consultants
Trimedia Munchen GmbH (10)	*51%	Public relations consultants
Trimedia Communications UK Limited	*100%	Public relations consultants
VB Communications Limited	*90%	Healthcare advertising

1 Incorporated in Switzerland
2 Incorporated in Belgium
3 Incorporated in Singapore
4 Incorporated in Hong Kong
5 Incorporated in Ireland
6 Incorporated in France
7 Incorporated in the United States of America
8 Incorporated in Spain
9 Incorporated in Austria
10 Incorporated in Germany
11 Incorporated in Sweden
12 Incorporated in Italy
13 Incorporated in The Netherlands
14 Incorporated in India
15 Incorporated in UAE

16. Investment in associates

Details of the Group's associates at 31 December 2005 are as follows:

Name of associate	Ownership	Principal activity
Capital Communications Kft	40%	Public relations
NBS Spolka z.o.o	40%	Public relations
Bachler & Partners AG	35%	Public relations
Trimedia Public Affairs	27%	Public relations

The following table illustrates summarised financial information of the Group's combined investment in associates:

	2005 £000	2004 £000
Share of the associates' balance sheet:		
Total assets	**464**	—
Total liabilities	**(226)**	—
Net assets	**238**	—
Share of the associates' revenue and profit:		
Revenue	**422**	—
Profit after tax	**142**	—
Carrying amount of the investment	**238**	—

17. Trade and other receivables

	2005 £000	2004 £000
Trade debtors	**32,777**	13,649
Other debtors	**1,913**	1,638
Prepayments and accrued income	**6,958**	2,759
Corporation & withholding tax debtor	**2,894**	—
VAT receivable	**759**	—
Balances receivable from associates	**25**	—
	45,326	18,046

18. Trade and other payables

Current

	2005 £000	2004 £000
Trade creditors	**11,787**	5,901
Taxation and social security	**5,440**	3,479
Accruals and deferred income	**26,189**	7,825
Other creditors	**3,003**	883
	46,419	18,088

Non-current

	2005 £000	2004 £000
Put options over minority interests	**3,718**	—
Other creditors	**2,681**	—
	6,399	—

19. Amounts due under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2005 £000	2004 £000	2005 £000	2004 £000
Amounts payable:				
Within one year	**153**	163	**142**	135
In two to five years	**238**	168	**224**	162
	391	331		
Less: finance charges allocated to future periods	**(25)**	(34)		
Present value of lease obligations	**366**	297	**366**	297

20. Provisions

	2005 £000	2004 £000
Deferred consideration	**9,412**	7,359
Provision for property	**10,400**	2,362
Provision for reorganisation	**5,411**	2,682
	25,223	12,403

The movement in the year on Group provisions comprises:

	Deferred consideration £000	Property £000	Reorganisation £000	Total £000
At 1 January 2005				
Current	618	1,292	2,492	4,402
Non-current	6,741	1,070	190	8,001
	7,359	2,362	2,682	12,403
Provisions upon acquisition	2,988	9,195	1,990	14,173
Release of provision not utilised	(1,164)	(95)	(653)	(1,912)
Arising during the year	1,178	618	4,224	6,020
Exchange differences	(81)	79	1	(1)
Utilised	(1,078)	(1,954)	(2,878)	(5,910)
Unwind of discount	210	195	45	450
At 31 December 2005	**9,412**	**10,400**	**5,411**	**25,223**
Current	4,174	4,143	5,153	13,470
Non-current	5,238	6,257	258	11,753

Deferred consideration for acquisitions

Acquisitions made by the Group typically involve an earn-out arrangement whereby the consideration payable includes a deferred element, payable in cash or shares at the Company's option, that is contingent on the future financial performance of the acquired entity. The Group anticipates settling the majority of the deferred consideration provisions over the next three years.

Property provision

Provision for property represents amounts set aside in respect of property leases which are vacant or onerous. The quantification of these provisions depends upon the Group's ability to exit the leases early or to sublet the properties and have been determined based on external professional advice. In general, property costs are expected to be incurred over periods for which individual properties remain vacant or, where occupied, to the termination of the leases in question, which range from one to eight years.

Reorganisation provision

As a result of acquisitions and the merger with Incepta, the Group has implemented a number of restructuring initiatives.
At 31 December 2005, the balance principally represents severance and other integration costs which are anticipated to be substantially utilised within one year.

21. Deferred tax

	Consolidated balance sheet		Consolidated income statement	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Deferred income tax assets				
Decelerated depreciation for tax purposes	**777**	—	**—**	25
Share-based remuneration	**—**	13	**(13)**	(25)
Provisions	**64**	—	**(948)**	(39)
Holiday pay	**272**	—	**274**	—
Tax losses	**2,203**	—	**(930)**	(121)
Adjustments in respect of earlier periods	**—**	—	**87**	—
	3,316	13		
Deferred income tax liabilities				
Amortisation and impairment of intangible assets	**(6,041)**	(1,847)	**(3,385)**	(125)
Share-based remuneration	**—**	55	**—**	—
Unremitted overseas earnings	**(198)**	—	**168**	—
	(6,239)	(1,792)		
Deferred income tax credit			**(4,747)**	(285)

Deferred tax has been calculated using rates that are expected to apply when the asset is expected to be realised or settled. The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. There are other deferred tax assets totalling £20.6 million (2004: £3.4 million) that have not been recognised on the basis that their future economic benefit is uncertain.

22. Financial instruments

Financial instruments, policies and strategies

The Group's principal financial instruments comprise bank loans, bank overdrafts, loan notes, finance leases and cash and short term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group has financed its business through an overdraft facility and a revolving credit facility arranged with Lloyds TSB Bank plc (Note 27(c)).

The main risks arising from the Group's financial instruments are interest rate and foreign exchange. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments should be undertaken. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk profile of financial liabilities

The interest rate risk profile, by maturity, of the financial instruments of the Group as at 31 December 2005 was as follows:

At 31 December 2005	Within 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Total £000
Fixed rate:						
Obligations under finance leases	(142)	(169)	(21)	(17)	(17)	(366)
Floating rate:						
Cash	9,277	—	—	—	—	9,277
Bank overdrafts	(117)	—	(10,449)	—	—	(10,566)
Bank loans	(9)	—	(18,924)	—	—	(18,933)
Loan notes	(2,790)	—	—	—	—	(2,790)
	6,219	**(169)**	**(29,394)**	**(17)**	**(17)**	**(23,378)**

The other financial instruments of the Group that are not included in the above table are non-interest bearing and are therefore not subject to interest rate risk.

Floating rate surplus cash earns interest based on relevant local LIBID equivalents. Bank overdrafts bear interest based on the Lloyds TSB base rate. The bank loans and loan notes payable bear interest based on LIBOR. The Group's exposure to the risk of changes in the interest rate relates primarily to the bank overdraft and bank loan. In August 2004 the Group put in place an interest rate cap at a rate of 6.5%. The cap, linked to base rate, is for a principal sum of £5 million and expires in July 2007.

Currency exposures

In certain rare circumstances, clients are billed in a currency other than the local currency whilst some purchasing takes place with overseas suppliers who bill in local currency.

In order to manage the Group's currency translation exposures, the Group entered into Sterling Average Rate Options in respect of $8.0m and €4.5m at exchange rates of 1.85 and 1.45 respectively, which expired on 30 December 2005. On 19 December 2005 the Group entered into Sterling Average Rate Options in respect of $9.0m and €4.0m at exchange rates of 1.81 and 1.45 respectively, which expire on 29 December 2006.

Fair values of financial liabilities and assets

The following table provides a comparison by category of the book values and the fair values of the Group's financial liabilities and assets at 31 December 2005. 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.

Financial liabilities	2005 Book value £000	2005 Fair value £000
Bank overdrafts	**10,566**	**10,566**
Bank loans	**18,933**	**18,933**
Obligations under finance leases	**366**	**391**
Loan notes	**2,790**	**2,790**
Deferred consideration – cash	**1,710**	**1,710**
Deferred consideration – cash or shares	**7,702**	**7,702**

Financial assets	2005 Book value £000	2005 Fair value £000
Cash and bank balances	**9,277**	**9,277**
Interest rate cap	**—**	**—**
Sterling Average Rate Options	**54**	**54**

The fair values have been calculated by discounting the expected future cash flows at prevailing interest rates.

Credit risk

There is no concentration of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

2004 Financial instruments

As IAS 32 and IAS 39 were adopted from 1 January 2005, the Group's financial instrument disclosures for 2004 are shown in the format required under UK GAAP and FRS 13 'Derivative and Other Financial Instruments: Disclosure'.

Interest rate risk profile and foreign currency exposures of financial liabilities and assets

The interest rate risk profile and foreign currency exposure of the financial liabilities of the Group as at 31 December 2004 was as follows:

Financial liabilities	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Sterling	13,782	8,807	293	4,682
US Dollar	804	—	—	804
Euro	6,375	141	—	6,234
Other currencies	687	—	4	683
At 31 December 2004	21,648	8,948	297	12,403

Sterling floating rate liabilities at 31 December 2004 comprised a bank overdraft that bears interest based on the Lloyds TSB base rate and loan notes payable that bear interest based on LIBOR. In August 2004 the Group put in place an interest rate cap at a rate of 6.5%. The cap, linked to base rate, is for a principal sum of £5 million and expires in July 2007.

The weighted average period until maturity of fixed rate financial liabilities is 18 months and their weighted average interest rate is 6%. Financial liabilities on which no interest is paid as at 31 December 2004 comprise provisions for deferred consideration, property and reorganisation costs, details of which are set out in Note 20. The weighted average period until maturity of financial liabilities on which no interest is paid is 1.83 years.

22. Financial instruments (continued)

Currency exposures

In certain rare circumstances, clients are billed in a currency other than the local currency whilst some purchasing takes place with overseas suppliers who bill in local currency. As at 31 December 2004 the Group had foreign currency exposures as shown above in relation to financial liabilities and below in relation to financial assets.

The Group has entered into Sterling Average Rate Options in respect of $2.0m and €2.5m at exchange rates of 1.85 and 1.45 respectively. These options are for the period 4 January 2005 to 30 December 2005.

The interest rate risk profile and foreign currency exposure of the financial assets of the Group as at 31 December 2004 was as follows:

Financial assets	Cash and bank £000
Sterling	633
US Dollar	247
Euro	1,276
Swiss Franc	356
Other currencies	261
At 31 December 2004	2,773

Floating rate surplus cash earns interest based on relevant local LIBID equivalents.

Maturity analysis

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

	Bank overdrafts £000	Finance leases £000	Provisions for liabilities £000
Repayable:			
Within one year or on demand	141	135	4,402
Between one and two years	—	162	1,295
Between two and five years	6,727	—	6,416
After five years	—	—	290
	6,868	297	12,403

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 2004. 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 cash flows at prevailing interest rates.

	Book value £000	Fair value £000
Bank loans and overdrafts	141	141
Committed overdraft repayable between one and two years	6,727	6,727
Obligations under finance leases	297	331
Property provisions	2,362	2,362
Reorganisation provisions	2,682	2,682
Deferred consideration – cash	202	202
Deferred consideration – shares	7,157	7,157
Financial assets		
Cash and bank balances	2,773	2,773
Derivative financial instruments held to manage the interest rate profile		
Assets	26	2
Derivative financial instruments held to manage foreign exchange exposure		
Assets	48	50

23. Called up share capital

	Number of shares	Nominal value £000
Authorised at 1 January 2005 – ordinary shares of 10p each	400,000,000	40,000
Increase in authorised capital at an EGM on 11 April 2005	700,000,000	70,000
Five for one share consolidation on 14 July 2005	(880,000,000)	—
Authorised at 31 December 2005 – ordinary shares of 50p each	**220,000,000**	**110,000**

	Number of shares	£000
Called up, fully allotted and fully paid:		
At 1 January 2005 – ordinary shares of 10p each	304,441,075	30,444
Issued to acquire Sinclair Mason Limited	2,165,400	217
Issued to acquire Incepta Group plc	633,086,083	63,309
Issued to acquire Neisser Communications	233,321	23
Issued on exercise of employee share options	110,000	11
Five for one share consolidation on 14 July 2005	(752,028,704)	—
Issued to acquire Zahner and Partner AG	416,610	208
Issued to acquire Context Research International Limited	1,141,710	571
Issued to acquire Anne McBride Company Inc.	1,263,501	632
Issued as final consideration for the acquisition of Redmandarin Limited	1,192,523	596
Scrip dividend	39,063	20
Issued on exercise of employee share options	78,647	39
Issued at 31 December 2005 – ordinary shares of 50p each	**192,139,229**	**96,070**

During the year the following shares were issued:

- In February 2005, 2,165,400 ordinary shares of 10p each with an aggregate value of £480,000 were issued at a price of 22p each, as consideration for the acquisition of Sinclair Mason Limited, resulting in a merger reserve of £263,460;
- From April to July 2005, 633,086,083 ordinary shares of 10p each with an aggregate value of £126,617,217 were issued at a price of 20p each, as consideration for the acquisition of Incepta Group plc, resulting in a merger reserve of £63,308,608;
- In June 2005, 233,321 ordinary shares of 10p each with an aggregate value of £47,831 were issued at a price of 20.5p each, as consideration for the acquisition of Neisser Communications, resulting in a merger reserve of £24,499;
- On 14 July 2005 the Company's existing 10p ordinary shares were consolidated on the basis of 1 new 50p ordinary share for 5 existing 10p ordinary shares. In total, 940,035,879 10p ordinary shares were consolidated into 188,007,175 50p ordinary shares;
- In July 2005, 416,610 ordinary shares of 50p each with an aggregate value of £411,402 were issued at a price of 98.75p each, as consideration for the acquisition of Zahner and Partner AG, resulting in a merger reserve of £203,097;
- In August 2005, 1,141,710 ordinary shares of 50p each with an aggregate value of £1,221,630 were issued at a price of £1.07p each, as consideration for the acquisition of Context Research International Limited, resulting in a merger reserve of £650,775;
- In August 2005, 1,263,501 ordinary shares of 50p each with an aggregate value of £1,465,661 were issued at a price of £1.16p each, as consideration for the acquisition of Anne McBride Company Inc., resulting in a merger reserve of £833,911;
- In November 2005, 1,192,523 ordinary shares of 50p each with an aggregate value of £1,138,859 were issued at a price of 95.5p each, as final consideration for the acquisition of Redmandarin Limited, resulting in a merger reserve of £542,598;
- The scrip dividend relates to the scrip alternative taken up on the interim dividend of 0.5 pence per share in December 2005, resulting in a share premium of £14,856; and
- In 2005, 110,000 ordinary shares of 10p and 78,647 ordinary shares of 50p each were issued for cash consideration as a result of the exercise of options under the Company's various Share Option Schemes, resulting in a share premium of £11,518.

24. Share-based payments

The share option schemes for employees of the Group are summarised in the following table:

Name of share option scheme	Length of share option	Exercise period	Exercise price* (pence)	Exercise conditions
Huntsworth share options schemes				
Huntsworth Approved Executive Share Option Scheme	10 years	Dec 1999 – Nov 2015	50.0 – 192.0	50% after 3 years service, 50% after 4 years service
Huntsworth Unapproved Executive Share Option Scheme	10 years	July 2006 – Nov 2015	58.1 – 117.5	50% after 3 years service, 50% after 4 years service
Huntsworth (Executive Directors) Unapproved Scheme	10 years	July 2006 – July 2013	58.1	50% after 3 years service, 50% after 4 years service
Huntsworth Enterprise Management Incentive Scheme	10 years	Nov 2005 – Oct 2015	58.1 – 117.5	50% after 3 years service, 50% after 4 years service
Huntsworth PLC Non – Executive Directors Unapproved Scheme	10 years	July 2006 – Nov 2014	58.1 – 126.3	50% after 3 years service, 50% after 4 years service
Huntsworth PLC Savings Related Share Option Scheme	3/5 years	Nov 2005 – Feb 2010	56.0 – 76.3	100% after 3/5 years service
Incepta Group share options schemes				
Incepta Group plc Employee Share Option Scheme	10 years	Jan 1999 – Jan 2006	79.7	100% after 3 years service
Incepta Group plc Executive Share Option Plan	10 years	Nov 2005 – July 2013	119.5	100% after 3 years service
Incepta Group plc Executive Long Term Incentive Plan	10 years	Nov 2005 – Nov 2014	103.9 – 106.8	100% after 3 years service
Incepta Group plc Savings Related Share Option Scheme	3 years	Nov 2005 – Jun 2008	88.6 – 146.0	100% after 3 years service

* Adjusted for share consolidation on 14 July 2005.

The following share options were outstanding under the six Huntsworth share option schemes at 31 December 2005 and 31 December 2004:

	2005*		2004*	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	**7,742,719**	**78.0p**	5,139,790	60.0p
Granted during the year	**306,400**	**89.2p**	2,974,173	110.0p
Forfeited during the year	**(602,528)**	**83.3p**	(305,802)	87.0p
Exercised during the year	**(87,474)**	**58.7p**	(65,442)	58.0p
Outstanding at the end of the year	**7,359,117**	**78.3p**	7,742,719	78.0p
Exercisable at the end of the year	**122,091**	**70.0p**	26,200	76.1p

* Adjusted for share consolidation on 14 July 2005.

The weighted average share price at the date of exercise for share options exercised during the year was 88.2p (2004: 112.8p). The options outstanding at the end of the year have a weighted average remaining life of 7.4 years (2004: 9.3 years).

During 2005 share options were granted on 3 November 2005, and the estimated fair value of the options granted on that date is 37.7p (2004: 32.5p – 48.7p).

The following share options were outstanding under the Incepta Group plc share option schemes at 31 December 2005:

	Number of share options*	Weighted average exercise price*
On acquisition of subsidiary	**6,338,368**	**106.5p**
Forfeited during the year	**(229,110)**	**112.0p**
Exercised during the year	**(13,173)**	**79.7p**
Outstanding at the end of the year	**6,096,085**	**106.3p**
Exercisable at the end of the year	**2,905,217**	**105.9p**

* Adjusted for share consolidation on 14 July 2005

The weighted average share price at the date of exercise for share options exercised during the year was 84.8p. The options outstanding at the end of the year have a weighted average remaining life of 5.0 years.

Fair value of share options

The fair value of share options granted in 2005 and 2004 were calculated using the binomial option pricing model. The inputs to the model are:

	2005	2004
Weighted average share price	**92.50 pence**	109.1 pence
Weighted average exercise price	**89.25 pence**	110.2 pence
Expected volatility	**36%**	36%
Expected life	**3–10 years**	3–10 years
Expected life – Savings Related Share Option Scheme	**—**	3–5.5 years
Risk free rate	**4.4%**	4.0–4.75%
Expected dividend yield	**1.5%**	1.0%

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The Group recognised total expenses of £1,164,000 (2004: £244,000) related to equity-settled share-based transactions during the year, of which £576,000 arose within the continuing operations.

25. Other reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of overseas subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

Investment in own shares

Investment in own shares represents shares acquired in the Company by the Huntsworth Employee Benefit Trusts and other Employee Benefit Trusts (the 'Trusts'). The purpose of the Trusts is to facilitate and encourage the ownership of shares by employees, by acquiring shares in the Company and distributing them in accordance with employee share schemes. The Trusts may operate in conjunction with the Company's existing share option schemes and other share schemes that may apply from time to time.

At 31 December 2005 the Trusts held 720,547 shares (2004: 15,500 shares (adjusted for share consolidation)) in the Company which had a market value at 31 December 2005 of £609,000 (2004: £17,000).

Potential acquisition of minority interests

On adoption of IAS 32 and IAS 39, the fair value of the estimated future amounts payable in respect of option agreements requiring the Group to purchase a minority interest has been recorded as a financial liability in the balance sheet. The corresponding debit entry has been recorded in equity as potential acquisition of minority interest.

26. Commitments and contingent liabilities

Operating leases – Group as a lessee

The Group has entered into commercial property leases and leases on certain items of office furniture and equipment.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2005 £000	2004 £000
One year	**7,520**	2,937
Two to five years	**19,207**	6,005
Over five years	**9,509**	2,994
	36,236	11,936

Operating leases – Group as a lessor

The Group has entered into commercial property leases consisting of the Group's surplus office buildings.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2005 £000	2004 £000
One year	**772**	124
Two to five years	**510**	251
Over five years	**157**	214
	1,439	589

Contingent liabilities

Under the terms of certain acquisition agreements, additional consideration is payable by the Company and certain of its subsidiary undertakings contingent on the future financial performance of the acquired entities. The estimated amount of such contingent consideration is included in 'Provisions', see Note 20.

27. Cash flow analysis

(a) Reconciliation of operating profit to net cash inflow from operations

	2005 £000	2004 £000
Operating (loss)/profit from continuing operations	**(30,030)**	2,358
Operating profit from discontinued operations	**283**	207
Depreciation	**2,892**	1,059
Share option charge	**712**	244
Loss on write-down of associated undertaking	**—**	151
Property, plant and equipment written off	**—**	50
Loss on disposal of property, plant & equipment	**744**	67
Amortisation of intangible assets	**4,594**	448
Impairment of goodwill and intangible assets	**30,187**	—
Decrease in work in progress	**394**	214
Decrease/(increase) in debtors	**2,781**	(1,611)
Increase in creditors	**3,208**	1,757
Decrease in provisions	**(4,161)**	(309)
Net cash inflow from operations	**11,604**	4,635

Net cash inflow/(outflow) from operations is analysed as follows:

	2005 £000	2004 £000
Before highlighted items and discontinued operations	**17,960**	6,591
Highlighted items	**(10,728)**	(1,610)
Discontinued operations	**4,372**	(346)
	11,604	4,635

(b) Reconciliation of net cash flow to movement in net debt

	2005 £000	2004 £000
Increase in cash and cash equivalents in the year	**6,771**	2,777
Cash outflow from debt repayment	**58,048**	3,303
Bank loans and overdrafts acquired	**(78,536)**	—
Loan notes acquired	**(6,325)**	—
Loan notes repaid	**5,636**	—
Repayment of capital element of finance leases	**199**	272
Change in net debt resulting from cash flows	**(14,207)**	6,352
Loan notes issued	**—**	(2,080)
Finance leases acquired with subsidiaries	**(159)**	(60)
New finance leases	**(236)**	(137)
Disposal/cancellation of finance leases	**131**	43
Translation differences	**(2,435)**	(99)
(Increase)/decrease in net debt	**(16,906)**	4,019
Net debt at beginning of year	**(6,472)**	(10,491)
Net debt at end of year	**(23,378)**	(6,472)

27. Cash flow analysis (continued)

(c) Analysis of net debt

	1 January 2005 £000	Cash flow £000	Other £000	**31 December 2005 £000**
Cash and short term deposits	2,773	6,751	(247)	**9,277**
Bank loans and overdrafts	(141)	20	(5)	**(126)**
Net cash and cash equivalents	2,632	6,771	(252)	**9,151**
Bank loans and overdrafts	(6,727)	(20,488)	(2,158)	**(29,373)**
Obligations under finance leases	(297)	199	(268)	**(366)**
Loan notes payable	(2,080)	(689)	(21)	**(2,790)**
Net debt	(6,472)	(14,207)	(2,699)	**(23,378)**

Prior to the merger with Incepta, the Group had a committed overdraft facility with Lloyds TSB Bank plc for a total of £15 million with an expiry date of June 2007. Following the merger, the Group arranged new bank facilities with Lloyds TSB Bank plc including an £80 million unsecured revolving multi-currency facility and a £15 million overdraft facility. The facilities bear interest between 0.75% and 1.75% above LIBOR and Base rates respectively. Both facilities are due to expire in April 2008. Following the disposal of the marketing services companies for £55 million in cash to Media Square plc on 4 November 2005, the revolving credit facility was reduced to £45 million.

At 31 December 2005 the Group had an undrawn committed facility of £27.7 million available in respect of which all conditions precedent had been met at that date.

(d) Major non-cash transactions

During the year shares and loan notes were issued as deferred consideration for acquisitions made in the current and prior years (Note 3).

28. Related party transactions

The ultimate controlling party of the Group is Huntsworth PLC (incorporated in the United Kingdom). The Group has a related party relationship with its subsidiaries (Note 15), associates (Note 16), and with directors and executive officers.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this Note. Details of transactions between the Group and other related parties are disclosed below.

Compensation of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below:

	2005 £000	2004 £000
Short term benefits	**1,404**	824
Post-employment benefits	**34**	18
Termination benefits	**410**	—
Share-based payments	**96**	48
	1,944	890

Transactions with associated undertakings

The Group and its associates during the year carried out work on behalf of each other's clients. Aggregate amounts included in turnover and cost of sales in the consolidated income statement in respect of transactions with Bachler & Partners AG were £7,000 and £10,000 respectively (2004: £nil). At 31 December 2005, there was a trading balance due from Bachler & Partners AG of £6,000 (2004: £nil).

There was a dividend due of £21,000 from the Group's associate, Capital Communications Kft (2004: £nil).

29. Post balance sheet events

On 15 February 2006 the Company announced that it had reached an agreement to sell Citigate Sard Verbinnen ('CSV') by the end of 31 December 2009. Shareholders approved the sale on 6 March 2006. Under the sale agreements, 51% will be acquired by certain executives of CSV on 1 January 2007 for $2.5 million (£1.4 million) and the remaining 49% will be acquired no later than 31 December 2009 for a total cash consideration of a further $17.5 million (£10.2 million) (such amounts to have an aggregate present value of $20 million (£11.6 million) as at 1 January 2006). This will be reduced by the amount of cash distributions from CSV from 1 January 2006.

On 16 February 2006 the Company announced the acquisition of 100% of Eurotandem SAS, a leading independent public relations consultancy based in Paris, for an initial consideration of €4.1 million (£2.8 million) in cash and the issue of 1,469,455 new ordinary shares of Huntsworth PLC with a fair value of £1.3 million. Further consideration is dependent on the future financial performance of Eurotandem. The maximum consideration payable is €8.65 million (£6.0 million).

On 6 March 2006 the Company announced the sale of the business and assets of nxtMOVE LLC, formerly trading as Citigate Global Intelligence, for $1.6 million (£0.9 million) to Optimisa PLC. The sales proceeds have been used to reduce debt.

30. Explanation of transition to IFRS

The accounting policies in Note 2 have been applied in preparing the comparative financial statements for the year ended 31 December 2004 and the preparation of the opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening balance sheet and comparative information for the year ended 31 December 2004, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

An explanation of the principal changes in accounting policies and how the transition from UK GAAP to IFRS has affected the Group's income statement, balance sheet and net equity is set out in the tables and accompanying notes below.

IFRS 1 First-time adoption of IFRS

In making the transition to IFRS, the following optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

(1) Business combinations – the Group has chosen not to restate business combinations which completed prior to the transition date of 1 January 2004;

(2) Share-based payments – the Group has elected to fair value only equity instruments that have been granted after 7 November 2002 that had not vested by 1 January 2005;

(3) Cumulative translation differences – the Group has chosen to reset all translation reserves to £nil as at 1 January 2004; and

(4) Recognition, measurement and disclosure of financial instruments – the Group has opted not to apply IAS 32 and IAS 39 for the periods to 31 December 2004 and has adopted these standards from 1 January 2005.

Goodwill and intangible assets

The Group's application of IAS 38 to acquisitions after 1 January 2004 has resulted in the recognition of intangible assets that did not qualify for recognition under UK GAAP, and were instead subsumed into goodwill. These intangibles, which include the fair value of brands and customer relationships, are amortised over their useful economic lives, which vary depending on the individual characteristics of the intangible assets.

Under IAS 36 remaining goodwill is tested annually for impairment, unless there is any indication of impairment before that time.

Share-based payments

IFRS 2 requires that the costs of share-based payments are recognised in the income statement as an expense spread over the relevant vesting period. The Group has used a binomial share option valuation model for the purposes of calculating the fair value of these share options granted to employees.

30. Explanation of transition to IFRS (continued)

Dividends

IAS 10 requires that interim dividends are recognised as a deduction from equity in the period in which they are paid, and final dividends are recognised in the period in which they are approved by the Company in general meeting. Consequently dividends proposed or declared after the balance sheet date do not represent a present obligation of the entity at that date. Therefore certain prior year dividends have been de-recognised on transition to IFRS and have been disclosed as a movement in shareholders' equity.

Employee benefits

Short term employee benefits are payable within one year after the end of the period in which the services have been rendered and in accordance with IAS 19 employee holiday pay owing at the end of a financial period is now being recorded as a current liability.

Cumulative translation differences

Under IAS 21 'The Effects of Changes in Foreign Exchange Rates', cumulative translation differences are separately accounted for within reserves and are recycled from equity to the income statement on disposal of a foreign operation.

Deferred tax

Under IFRS deferred tax is provided in full using the balance sheet liability method, on the basis of temporary differences between the carrying value of assets and liabilities in the balance sheet and their tax bases used in the computation of taxable profit. Deferred tax assets are recognised only to the extent that it is probable that they can be utilised against future taxable profits. The principal items that result in adjustments to deferred tax between UK GAAP and IFRS are fair value accounting for share-based payments and acquired intangible assets.

Financial instruments: recognition and measurement

The Group uses derivative financial instruments to reduce its exposure to foreign exchange and interest rate movements. The Group does not hold or issue derivative financial instruments for financial trading purposes but derivatives that do not qualify for hedge accounting are accounted for at fair value through the income statement. Derivative financial instruments are initially recognised at fair value at the contract date and continue to be stated at fair value at the balance sheet date with gains and losses on revaluation being recognised immediately in the income statement.

Shares to be issued

Shares to be issued as contingent consideration for acquisitions, previously shown in equity, have been reclassified to current and non-current liabilities, and discounted where material.

(a) IFRS reconciliation of income statement comparatives

Continuing operations	Notes	2004 Published UK GAAP* £000	2004 IFRS adjustments £000	2004 Restated under IFRS £000
Turnover		60,911	—	60,911
Revenue		42,806	—	42,806
Operating expenses – excluding highlighted items		(37,637)	—	(37,637)
Operating expenses – highlighted items		(2,531)	(280)	(2,811)
Operating expenses – total		(40,168)	(280)	(40,448)
Operating profit before highlighted items		5,169	—	5,169
Highlighted items – operating expenses				
Amortisation of intangibles	1, 2	(413)	(35)	(448)
Share option charge	3	—	(244)	(244)
Merger, restructuring and other non-recurring costs		(2,118)	(1)	(2,119)
Operating profit		2,638	(280)	2,358
Finance income		75	—	75
Finance costs		(621)	—	(621)
Profit before tax and highlighted items		4,623	—	4,623
Highlighted items – operating expenses		(2,531)	(280)	(2,811)
Profit from continuing operations before tax		2,092	(280)	1,812
Taxation (charge)/credit	4	(503)	150	(353)
Profit for the year from continuing operations		1,589	(130)	1,459
Profit from discontinued operations		182	(1)	181
Profit for the year		1,771	(131)	1,640
Attributable to:				
Parent company's equity shareholders		1,393	(131)	1,262
Minority interests		378	—	378
		1,771	(131)	1,640
Earnings per share from continuing operations:				
Basic – pence		2.3	(0.2)	2.1
Diluted – pence		2.2	(0.2)	2.0
Adjusted basic – pence		7.3	0.0	7.3
Earnings per share from continuing and discontinued operations:				
Basic – pence		2.7	(0.3)	2.4
Diluted – pence		2.6	(0.3)	2.3

* As amended for the presentation of the profit from discontinued operations as a single line item in the income statement and the renaming of other line items to be consistent with the IFRS presentation.

30. Explanation of transition to IFRS (continued)
(b) IFRS reconciliation of balance sheet comparatives

	Notes	31 December 2004 Published UK GAAP* £000	IFRS adjustments £000	Restated under IFRS £000
Non-current assets				
Intangible assets	1	60,043	2,218	62,261
Property, plant and equipment		2,680	—	2,680
Deferred tax	5	—	13	13
		62,723	2,231	64,954
Current assets				
Work in progress		1,148	—	1,148
Trade and other receivables		18,046	—	18,046
Cash and short term deposits		2,773	—	2,773
		21,967	—	21,967
Current liabilities				
Bank overdrafts		(141)	—	(141)
Loan notes payable		(2,080)	—	(2,080)
Obligations under finance leases		(135)	—	(135)
Trade and other payables	2	(18,106)	18	(18,088)
Corporation tax payable		(1,312)	—	(1,312)
Provisions	4, 8	—	(4,402)	(4,402)
		(21,774)	(4,384)	(26,158)
Non-current liabilities				
Bank loans and overdrafts		(6,727)	—	(6,727)
Obligations under finance leases		(162)	—	(162)
Provisions	4, 8	(5,215)	(2,786)	(8,001)
Deferred tax liabilities	3	—	(1,792)	(1,792)
		(12,104)	(4,578)	(16,682)
Net assets		50,812	(6,731)	44,081
Equity				
Called up share capital		30,444	—	30,444
Share premium account		23,615	—	23,615
Merger reserve		7,902	—	7,902
Foreign currency translation reserve	6	—	(183)	(183)
Shares to be issued	8	7,157	(7,157)	—
Investment in own shares		(8)	—	(8)
Retained earnings	7	(18,997)	609	(18,388)
Equity attributable to equity holders of the parent		50,113	(6,731)	43,382
Minority interests		699	—	699
Total equity		50,812	(6,731)	44,081

* As amended for the renaming of line items to be consistent with the IFRS presentation.

(c) Reconciliation of net equity

	1 January 2004 £000	31 December 2004 £000
Net equity under UK GAAP	16,306	50,113
Impact of changes in accounting under IFRS:		
Add back goodwill amortisation	—	413
Amortisation of intangible assets	—	(448)
Holiday pay accrual	(48)	(50)
Reclassification of shares to be issued to provisions	(2,995)	(7,157)
Deferred tax on intangibles, holiday pay and share-based payments	27	207
Write back of proposed dividends	163	304
Net equity under IFRS	13,453	43,382

Explanatory notes to the UK GAAP to IFRS reconciliations

Income statement

1. Under UK GAAP goodwill was, where considered appropriate, amortised through the income statement on a straight line basis whereas under IFRS 3 goodwill is not amortised through the income statement but is instead subject to an annual impairment test. This change results in a credit of £413,000 to the income statement for the year ended 31 December 2004.
2. Under IAS 38 and the transitional provisions of IFRS 1 being adopted by the Group, acquisitions made after 1 January 2004 result in recognition of intangible assets including brands and customer relationships that did not qualify for recognition under UK GAAP and were subsumed into goodwill. These intangible assets are being amortised over their useful economic lives and the charge for the year ended 31 December 2004 is £448,000.
3. IFRS 2 requires the expensing of employee share options to the income statement that were not previously charged to profit under UK GAAP and these amount to £244,000 for the year ended 31 December 2004. The charge relates to the share options granted after 7 November 2002.
4. Under IAS 12 deferred tax is recognised on the basis of temporary differences between balance sheet amounts of assets and liabilities and their corresponding tax bases rather than the UK GAAP approach of recognising deferred tax assets and liabilities for the estimated future tax effects of all timing differences that have originated but not reversed at the balance sheet date and are expected to crystallise a tax asset or liability in the future. The above differences relate to fair value accounting for share options, acquired intangible assets and holiday pay. A £150,000 deferred tax credit has been recognised in the year ended 31 December 2004.
5. Under IAS 10 equity dividends are not recognised until they are paid or formally approved whereas under UK GAAP dividends relating to a period were recognised at the balance sheet date even if they were declared or approved after the balance sheet date. Accordingly certain dividends have been de-recognised in prior periods and a credit of £141,000 has been reflected for the year ended 31 December 2004.

30. Explanation of transition to IFRS (continued)

Balance sheet

1. The £2,218,000 net debit to intangible assets in the 31 December 2004 balance sheet consists of additional goodwill arising on the reversal of goodwill previously charged to profit of £413,000, £448,000 of amortisation of brands and customer relationships, additional goodwill of £267,000 recognised as a result of provisions made for holiday pay in businesses acquired during the period and deferred tax liabilities arising on brands and customer relationships of £1,986,000.
2. The £18,000 debit to trade and other payables in the 31 December 2004 balance sheet consists of £286,000 of holiday pay accruals less the £304,000 debit arising on the de-recognition of the proposed dividend.
3. The £1,792,000 credit to deferred tax liabilities represents the additional deferred tax liabilities of £1,851,000 arising from the recognition of brands and customer relationships less a £59,000 debit in respect of deferred tax relief on share-based payments.
4. Under IFRS provisions previously shown under UK GAAP as provisions for liabilities and charges have been reclassified to show the analysis of provisions that are current liabilities and those that are payable beyond one year. The amounts reclassified from provisions due after more than one year to provisions due within one year are £3,753,000 at 31 December 2004. The balance of £31,000 credited to provisions due within one year at 31 December 2004 represents the cost of providing for long term staff benefits.
5. The debit to deferred tax at 31 December 2004 arises from deferred tax relief on share-based payments of £13,000.
6. In accordance with IAS 21, cumulative translation differences are separately accounted for within reserves and are recycled from equity to the income statement on disposal of a foreign operation. The adjustments of £183,000 for the year ended 31 December 2004 represents a reclassification of a balance previously shown in retained earnings under UK GAAP.
7. The net credit to retained earnings of £609,000 for the year ended 31 December 2004 consists of the following: a £304,000 credit arising from dividend de-recognition, a holiday pay charge of £50,000, deferred tax relief credit on share options and holiday pay of £72,000, a credit of £413,000 in respect of the reversal of previously amortised goodwill, a charge of £448,000 for goodwill on brands and customer relationships and a £135,000 deferred tax credit arising on the recognition of brands and customer relationships. In addition £183,000 of cumulative foreign exchange losses have been reclassified to a separate reserve (Note 6 above).
8. Under IFRS shares to be issued in respect of deferred consideration, previously shown under UK GAAP within equity, are regarded as liabilities and have therefore been reclassified to current and non-current liabilities as provisions. The amounts reclassified from shares to be issued to provisions due within one year at 31 December 2004 are £618,000 and the amounts reclassified from shares to be issued to provisions due in more than one year at 31 December 2004 are £6,539,000.

Cash flow

There are no material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

Five year financial summary

	IFRS 2005 £000	IFRS 2004 £000	UK GAAP 2003 £000	UK GAAP 2002 £000	UK GAAP 2001 £000
Revenue*	**144,428**	45,356	22,221	15,036	9,914
Operating profit before highlighted items*	**15,590**	5,188	2,019	1,024	383
Highlighted items – operating expenses*	**(45,337)**	(2,623)	(349)	(2,037)	(1,760)
Net finance costs*	**(3,295)**	(547)	(441)	(305)	(394)
Share of profit of associates*	**142**	—	4	—	—
(Loss)/profit before tax*	**(32,900)**	2,018	1,233	(1,318)	(1,771)
Non-current assets	**205,343**	64,954	28,188	22,045	20,003
Net current (liabilities)/assets	**(14,141)**	(4,191)	491	(720)	(5,381)
Net assets	**137,214**	44,081	16,306	12,418	11,170
Equity shareholders' funds	**136,026**	43,382	16,306	12,418	11,170
Minority interests	**1,188**	699	—	—	—
Basic (loss)/earnings per share**	**(24.6)p**	2.4p	4.0p	(6.5)p	(14.0)p
Diluted (loss)/earnings per share**	**(24.6)p**	2.3p	4.0p	(6.5)p	(14.0)p
Adjusted basic earnings per share**	**5.9p**	7.3p	6.0p	5.0p	1.5p
Share price – high**	**116.5p**	126.3p	107.5p	137.5p	262.5p
Share price – low**	**73.0p**	86.3p	42.5p	55.5p	100.0p

* Includes continuing and discontinued operations.
** Adjusted for share consolidation on 14 July 2005.

Independent auditors' report to the shareholders of Huntsworth PLC

We have audited the parent company financial statements of Huntsworth PLC for the year ended 31 December 2005 which comprise the Balance Sheet, and the related Notes 1 to 15. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Huntsworth PLC for the year ended 31 December 2005.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been 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 parent company financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Corporate statement, the Chief executive's review, the International public relations trends survey, the Report of the directors, the Corporate governance statement, the unaudited part of the Directors' remuneration report and the Five year financial summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered auditor
London
22 May 2006

Statement of directors' responsibilities for the company financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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 of the profit or loss of the Company 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 judgements 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; and

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.

Company balance sheet

as at 31 December 2005

	Notes	2005 £000	2004* £000
Fixed assets			
Tangible fixed assets	4	**464**	307
Investments	5	**249,548**	55,292
		250,012	55,599
Current assets			
Debtors	6	**47,877**	34,835
Cash and short term deposits		**81**	5
		47,958	34,840
Creditors due within one year	7	**(75,948)**	(3,670)
Net current (liabilities)/assets		**(27,990)**	31,170
Total assets less current liabilities		**222,022**	86,769
Creditors due after more than one year	8	**(18,618)**	(16,030)
Provisions for liabilities	9	**(8,344)**	(7,188)
Net assets		**195,060**	63,551
Capital and reserves			
Called up share capital	11	**96,070**	30,444
Share premium account	13	**22,921**	23,615
Other reserves	13	**73,729**	7,902
Investment in own shares	13	**(636)**	(8)
Retained earnings	13	**2,976**	1,598
Total shareholders' funds		**195,060**	63,551

* Restated following the adoption of new accounting standards (Note 2).

The financial statements were approved by the directors on 22 May 2006 and signed on their behalf by:

Lord Chadlington **Roger Selman**

1. Basis of preparation

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, with the exception of the new accounting standards applied, as noted below. As permitted by Section 230 of the Companies Act 1985, Huntsworth PLC has not presented its own profit and loss account. The Company's significant accounting policies are set out below.

2. Significant accounting policies

Introduction of new accounting standards

The following Financial Reporting Standards ('FRS'), which came into effect for accounting periods beginning on or after 1 January 2005, have been adopted in preparing these financial statements.

FRS 20 'Share-based payments' requires that the costs of share-based payments are recognised in the profit and loss account as an expense spread over the relevant vesting period. The change in accounting policy has resulted in a profit and loss account charge of £88,000 for the year ended 31 December 2005 and £45,000 for the year ended 31 December 2004.

FRS 21 'Events after the Balance Sheet Date' requires that final dividends are recognised in the period in which they are approved by the Company in the general meeting. The change in accounting policy has resulted in a prior period adjustment, such that the final dividend for the 2003 financial year of £163,000 has been removed from the 2003 profit and loss account and recorded in the 2004 profit and loss account instead. In addition, the final dividend for the 2004 financial year of £304,000 has been removed from the 2004 profit and loss account and recorded in the 2005 profit and loss account.

FRS 22 'Earnings per Share' and FRS 24 'Financial Reporting in Hyperinflationary Economies' came into effect for accounting periods beginning on or after 1 January 2005. However, they have no impact on these financial statements.

FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement' require that shares to be issued are classified as liabilities rather than equity instruments. Accordingly the £7.2 million of shares to be issued at 1 January 2005 have been reclassified to 'Provisions'. In addition, option agreements which require the Company to purchase the minority interest in a subsidiary are treated as derivatives over equity instruments and are recorded in the balance sheet at fair value and the valuation is re-measured at each period end.

FRS 23 'The Effects of Changes in Foreign Exchange Rates' has been adopted but has not resulted in any changes in accounting policy.

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 less the estimated residual value, on a straight line basis, over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

Motor vehicles	25%
Equipment, fixtures and fittings	15% – 33%

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

2. Significant accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the amounts involved are significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects the current market assessment of the time value of money and when appropriate the risks specific to the liability. Where discounting is applied to provisions, the increase in the value of the provision due to the passage of time is recognised as a finance cost.

Where a leasehold property substantially ceases to be used for the Company'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.

Acquisitions made by the Company typically involve an earn-out arrangement whereby the consideration payable includes a deferred element that is contingent on the future financial performance of the acquired entity. No material contingent consideration will become payable unless the acquired entity delivers greater revenues or profits during the earn-out period than prior to acquisition. The provision for contingent consideration for acquisitions represents the directors' best estimate of the amount expected to be payable in cash or shares. The estimated value of contingent consideration payable by the issue of new ordinary shares in the Company of £7,912,000 (2004: £7,157,000) is included in the balance sheet within provisions (Note 9).

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives or lease terms, whichever is shorter. The capital elements of future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the finance leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

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

Foreign currencies

Sterling is the functional currency and presentational currency of the Company. Transactions denominated in foreign currencies are initially translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All gains and losses are recorded in the profit and loss account, with the exception of gains and losses relating to borrowings that provide a hedge against a net investment in a foreign entity, in which case they are recorded in equity until the disposal of the net investment to which they relate at which time they are recognised in the profit and loss account.

Derivative financial instruments

The Company uses derivative financial instruments to reduce its exposure to foreign exchange and interest rate movements. The Company does not hold or issue derivative financial instruments for financial trading purposes but derivatives that do not qualify for hedge accounting are accounted for at fair value through the profit and loss account. Derivative financial instruments are initially recognised at fair value at the contract date and continue to be stated at fair value at the balance sheet date with gains and losses on revaluation being recognised immediately in the profit and loss account.

Option agreements that allow holders of equity instruments of subsidiaries to require the Company to purchase the minority interest are treated as derivatives over equity instruments and are recorded in the balance sheet at fair value and the valuation is re-measured at each period end. Movements in the fair values of the option agreements are recognised as finance income or expense in the profit and loss account.

Employee share ownership plans

Shares in the Company held by Employee Benefit Trusts have been included within equity and are stated at cost.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. The Company has used a binomial share option valuation model for the purposes of calculating the fair value of the share options granted to employees. The cost of share-based payments to Company employees is recognised in the profit and loss account as an expense spread over the relevant vesting period, with a corresponding increase in equity.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

In accordance with the first-time adoption exemptions available under FRS 20, the Group has elected to fair value only equity instruments that have been granted after 7 November 2002 that had not vested by 1 January 2005.

Dividends
Interim dividends are recognised as a deduction from equity in the period in which they are paid. Final dividends are recognised in the period in which they are approved by the Company in general meeting, as required by FRS 21.

Cash flow statement
The Company has applied the exemption available under FRS 1(Revised) and has not presented a cash flow statement. The cash flow statement has been presented in the Group financial statements.

Related party transactions
In accordance with FRS 8 Related Party Disclosures, the Company is exempt from disclosing transactions with entities that are part of the Huntsworth PLC Group, or investees of the Group qualifying as related parties, as it is a parent publishing consolidated financial statements.

3. Profit attributable to members of Huntsworth PLC
The profit for the year of £2,617,000 (2004: profit before the payment of dividends £912,000) attributable to the shareholders of Huntsworth PLC has been dealt with in the financial statements of that Company.

The auditors' remuneration for audit services to the Company was £90,000 (2004: £48,000).

Details of executive and non-executive directors emoluments and their interest in shares and options of the Company are shown within the Directors' report.

4. Tangible fixed assets

	Equipment fixtures & fittings £000	Motor vehicles £000	Total £000
Cost			
At 1 January 2005	789	116	905
Additions	313	—	313
At 31 December 2005	**1,102**	**116**	**1,218**
Depreciation			
At 1 January 2005	575	23	598
Charge for the period	128	28	156
At 31 December 2005	**703**	**51**	**754**
Net book value at 31 December 2005	**399**	**65**	**464**
Net book value at 31 December 2004	214	93	307

Motor vehicles held under finance leases had a net book value at 31 December 2005 of £65,000 (2004: £94,000). Equipment, fixtures and fittings held under finance leases had a net book value at 31 December 2005 of £23,000 (2004: £47,000).

5. Investments

	Shares at cost £000	Long term debt at cost £000	Total £000
At 1 January 2005	41,102	14,190	55,292
Additions	199,361	—	199,361
Sold to subsidiary holding companies	(5,105)	—	(5,105)
At 31 December 2005	**235,358**	**14,190**	**249,548**

5. Investments (continued)

Details of the Company's principal operating subsidiary undertakings at 31 December 2005, which are all registered and operating in Great Britain, unless indicated otherwise, are set out below. Shares held by an intermediate holding company are indicated with an asterisk(*):

Subsidiary undertaking:	Proportion of nominal value of issued ordinary shares held	Principal activity
Avenue Healthcare Knowledge Management Limited	*90%	Public relations consultants
Brand Health International Limited (previously Context Research International Limited)	*100%	Healthcare communications and research
Brand Health International Validation Limited (previously Brand Health International Limited)	*100%	Healthcare communications and research
CapitalBridge Inc [7]	*100%	Public relations consultants
CapitalBridge Limited	*100%	Public relations consultants
Citigate Broad Street Inc [7]	*100%	Marketing services consultants
Citigate Cunningham LLC [7]	*100%	Public relations consultants
Citigate Demuth GmbH (10)	*100%	Public relations consultants
Citigate Dewe Rogerson GmbH [10]	*100%	Public relations consultants
Citigate Dewe Rogerson (Beijing) Consulting Services Co. Ltd	*100%	Public relations consultants
Citigate Dewe Rogerson Communications Private Limited [14]	*80%	Public relations consultants
Citigate Dewe Rogerson i.MAGE Pte Ltd [3]	*100%	Public relations consultants
Citigate Dewe Rogerson Limited	100%	Public relations consultants
Citigate First Financial B.V. [13]	*100%	Public relations consultants
Citigate & Trimedia Norden AB [11]	*100%	Public relations consultants
Citigate S.r.l (previously Citigate Gunpowder S.r.l) [12]	*100%	Public relations consultants
Citigate Holdings GmbH [10]	*100%	Sub-holding company
Citigate Public Affairs Limited	*100%	Public relations consultants
Citigate Sanchis, S.L. [8]	*100%	Public relations consultants
Citigate Sard Verbinnen LLC [7]	*100%	Public relations consultants
CMC Corporate & Marketing Communications Investments AG [1]	100%	Sub-holding company
Elizabeth Hindmarch Public Relations Limited	*100%	Public relations consultants
Ergo Communication Services Limited	100%	Public relations consultants
Grayling SA [2]	*70%	Public relations consultants
Grayling Asia Pte Limited [3]	*70%	Public relations consultants
Grayling China Limited [4]	*70%	Public relations consultants
Grayling Gilmore Limited [5]	*70%	Public relations consultants
Grayling International Limited	70%	Sub-holding company
Grayling UK Limited	*70%	Public relations consultants
Harrison Cowley Limited	*100%	Public relations consultants
Haslimann Taylor Limited	*100%	Public relations consultants
Hatch Group Limited	*100%	Public relations consultants
Hatch International Limited	*100%	Public relations consultants
Huntsworth Financial Inc [7]	*92%	Sub-holding company
HF Global Consulting Group Inc [7]	*92%	Public relations consultants
HF Global Consulting Group Limited	*92%	Public relations consultants
Hudson Sandler Limited	60%	Public relations consultants
Huntsworth Financial Global Consulting Group SL [8]	*92%	Public relations consultants
Huntsworth Financial Group Limited	*92%	Sub-holding company
Huntsworth Healthcare Group Limited	90%	Sub-holding company
Huntsworth Investments Limited	100%	Sub-holding company
Incepta Group plc	100%	Sub-holding company
Incepta Holdings Limited	*100%	Sub-holding company
Incepta Middle East [15]	*100%	Public relations consultants
Jago Pearce Healthcare Limited	*90%	Public relations consultants
nxtMove LLC [7]	*100%	Risk consultants
Park Avenue Productions plc	*100%	Marketing services consultants
PBC Marketing Limited	*90%	Healthcare communications and research

Subsidiary undertaking:	Proportion of nominal value of issued ordinary shares held	Principal activity
PR Force Nederland B.V. (13)	*100%	Public relations consultants
PR Force Public Relations & Press Relations N.V. (2)	*100%	Public relations consultants
Root Market Research Limited	*90%	Healthcare communications and research
Rose & Kindel Inc. (7)	*92%	Public relations consultants
Sinclair Mason Limited	100%	Public relations consultants
Strategy Communications Limited	100%	Public relations consultants
The RED Consultancy Limited	*100%	Public relations consultants
Trimedia (International) AG (1)	*100%	Sub-holding company
Trimedia Communications Austria GmbH (9)	*100%	Public relations consultants
Trimedia Communications Deutschland GmbH (10)	*100%	Public relations consultants
Trimedia Communications France SAS (6)	*100%	Public relations consultants
Trimedia Communications Suisse SA (1)	*100%	Public relations consultants
Trimedia Munchen GmbH (10)	*51%	Public relations consultants
Trimedia Communications UK Limited	*100%	Public relations consultants
VB Communications Limited	*90%	Healthcare advertising

1 Incorporated in Switzerland
2 Incorporated in Belgium
3 Incorporated in Singapore
4 Incorporated in Hong Kong
5 Incorporated in Ireland
6 Incorporated in France
7 Incorporated in the United States of America
8 Incorporated in Spain
9 Incorporated in Austria
10 Incorporated in Germany
11 Incorporated in Sweden
12 Incorporated in Italy
13 Incorporated in The Netherlands
14 Incorporated in India
15 Incorporated in UAE

6. Debtors

	2005 £000	2004 £000
Amounts owed by subsidiary undertakings	**47,193**	33,360
Other debtors	**81**	816
Prepayments and accrued income	**603**	659
	47,877	34,835

7. Creditors due within one year

	2005 £000	2004* £000
Loan notes payable	**—**	2,080
Obligations under finance leases	**24**	30
Trade creditors	**2,276**	223
Amounts owed to subsidiary undertakings	**71,093**	—
Taxation and social security	**65**	427
Accruals and deferred income	**1,950**	709
Other creditors	**540**	201
	75,948	3,670

*Restated for the adoption of FRS 21 'Events after the Balance Sheet Date'.

8. Creditors due after more than one year

	2005 £000	2004 £000
Bank loans and overdrafts	**18,545**	15,928
Obligations under finance leases	**73**	102
	18,618	16,030

9. Provisions for liabilities and charges

The movement in the year on provisions comprises:

	Deferred consideration £000	Property £000	Reorganisation £000	Total £000
At 1 January 2005 (as restated for the adoption of FRS 25 & 26)				
Current	618	—	31	649
Non-current	6,539	—	—	6,539
	7,157	—	31	7,188
Arising during the year	2,828	401	—	3,229
Utilised	(983)	—	—	(983)
Release of provision not utilised	(1,236)	—	—	(1,236)
Exchange differences	(64)	—	—	(64)
Unwind of discount	210	—	—	210
At 31 December 2005	**7,912**	**401**	**31**	**8,344**
Current	2,773	186	31	2,990
Non-current	5,139	215	—	5,354

Deferred consideration for acquisitions

Acquisitions made by the Company typically involve an earn-out arrangement whereby the consideration payable includes a deferred element, payable in cash or shares at the Company's option, that is contingent on the future financial performance of the acquired entity. The Company anticipates settling the majority of the deferred consideration provisions over the next three years.

Property provision

Provision for property represents amounts set aside in respect of property leases which are vacant or onerous. In general, property costs are expected to be incurred over periods for which individual properties remain vacant or, where occupied, to the termination of the lease.

Reorganisation provision

The reorganisation provision relates to residual potential liabilities on old pension schemes which were closed in prior years.

10. Financial instruments

Financial instruments, policies and strategies

The Company's principal financial instruments comprise bank overdraft, finance leases and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Company and its subsidiary's operations. The Company has various other financial assets and liabilities such as debtors and creditors, which arise directly from its operations. During the year the Company has financed its business through an overdraft facility and a revolving credit facility arranged with Lloyds TSB Bank plc.

The main risk arising from the Company's financial instruments are interest rate and foreign exchange. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments should be undertaken. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk profile of financial liabilities

The interest rate risk profile, by maturity, of the financial instruments of the Company as at 31 December 2005 and 31 December 2004 was as follows:

At 31 December 2005	**Within 1 year £000**	**1–2 years £000**	**2–3 years £000**	**3–4 years £000**	**4–5 years £000**	**Total £000**
Fixed Rate:						
Obligations under finance leases	**(24)**	**(73)**	**—**	**—**	**—**	**(97)**
Floating Rate:						
Cash	**81**	**—**	**—**	**—**	**—**	**81**
Bank loans and overdrafts	**—**	**—**	**(18,545)**	**—**	**—**	**(18,545)**
	(57)	**(73)**	**(18,545)**	**—**	**—**	**(18,561)**

At 31 December 2004	Within 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	Total £000
Fixed Rate:						
Obligations under finance leases	(30)	(29)	(73)	—	—	(132)
Floating Rate:						
Cash	5	—	—	—	—	5
Bank loans and overdrafts	—	—	(15,928)	—	—	(15,928)
Loan notes	(2,080)	—	—	—	—	(2,080)
	(2,105)	(29)	(16,001)	—	—	(18,135)

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Floating rate surplus cash earns interest based on relevant local LIBID equivalents. Bank loans and overdrafts bear interest based on the Lloyds TSB base rate. The loan notes payable bear interest based on LIBOR. The Company's exposure to the risk of changes in the interest rate relates primarily to the bank overdraft. In August 2004 the Company put in place an interest rate cap at a rate of 6.5%. The cap, linked to base rate, is for a principal sum of £5 million and expires in July 2007.

Currency exposures

In order to manage the Group's currency translation exposures, the Company entered into Sterling Average Rate Options in respect of $8.0m and €4.5m at exchange rates of 1.85 and 1.45 respectively, which expired on 30 December 2005. On 19 December 2005 the Company entered into Sterling Average Rate Options in respect of $9.0m and €4.0m at exchange rates of 1.81 and 1.45 respectively, which expire on 29 December 2006.

10. Financial instruments (continued)

Fair values of financial liabilities and assets

The following table provides a comparison by category of the book values and the fair values of the Company's financial liabilities and assets at 31 December 2005 and at 31 December 2004. 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.

	2005		2004	
Financial liabilities	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Bank loans and overdrafts	**18,545**	**18,545**	15,928	15,928
Obligations under finance leases	**97**	**102**	132	147
Loan notes	**—**	**—**	2,080	2,080
Deferred consideration – cash or shares	**7,912**	**7,912**	7,157	7,157
Financial assets				
Cash and bank balances	**81**	**81**	5	5
Derivative financial instruments held to manage the interest rate profile				
Assets	**—**	**—**	26	2
Derivative financial instruments held to manage the foreign exchange exposure				
Assets	**54**	**54**	48	50

The fair values have been calculated by discounting the expected future cash flows at prevailing interest rates.

Credit risk

There is no concentration of credit risk. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

11. Called up share capital

	Number of shares	Nominal value £000
Authorised at 1 January 2005 – ordinary shares of 10p each	400,000,000	40,000
Increase in authorised capital at an EGM on 11 April 2005	700,000,000	70,000
Five for one share consolidation on 14 July 2005	(880,000,000)	—
Authorised at 31 December 2005 – ordinary shares of 50p each	**220,000,000**	**110,000**

	Number of shares	£000
Called up, fully allotted and fully paid:		
At 1 January 2005 – ordinary shares of 10p each	304,441,075	30,444
Issued to acquire Sinclair Mason Limited	2,165,400	217
Issued to acquire Incepta Group plc	633,086,083	63,309
Issued to acquire Neisser Communications	233,321	23
Issued on exercise of employee share options	110,000	11
Five for one share consolidation on 14 July 2005	(752,028,704)	—
Issued to acquire Zahner and Partner AG	416,610	208
Issued to acquire Context Research International Limited	1,141,710	571
Issued to acquire Anne McBride Company Inc.	1,263,501	632
Issued as final consideration for the acquisition of Redmandarin Limited	1,192,523	596
Scrip dividend	39,063	20
Issued on exercise of employee share options	78,647	39
Issued at 31 December 2005 – ordinary shares of 50p each	**192,139,229**	**96,070**

During the year the following shares were issued:

- In February 2005, 2,165,400 ordinary shares of 10p each with an aggregate value of £480,000 were issued at a price of 22p each, as consideration for the acquisition of Sinclair Mason Limited, resulting in a merger reserve of £263,460;
- From April to 14 July 2005, 633,086,083 ordinary shares of 10p each with an aggregate value of £126,617,217 were issued at a price of 20p each, as consideration for the acquisition of Incepta Group plc, resulting in a merger reserve of £63,308,608;
- In June 2005, 233,321 ordinary shares of 10p each with an aggregate value of £47,831 were issued at a price of 20.5p each, as consideration for the acquisition of Neisser Communications, resulting in a merger reserve of £24,499;
- On 14 July 2005 the Company's existing 10p ordinary shares were consolidated on the basis of 1 new 50p ordinary share for 5 existing 10p ordinary shares. In total, 940,035,879 10p ordinary shares were consolidated into 188,007,175 50p ordinary shares;
- In July 2005, 416,610 ordinary shares of 50p each with an aggregate value of £411,402 were issued at a price of 98.75p each, as consideration for the acquisition of Zahner and Partner AG, resulting in a merger reserve of £203,097;
- In August 2005, 1,141,710 ordinary shares of 50p each with an aggregate value of £1,221,630 were issued at a price of £1.07p each, as consideration for the acquisition of Context Research International Limited, resulting in a merger reserve of £650,775;
- In August 2005, 1,263,501 ordinary shares of 50p each with an aggregate value of £1,465,661 were issued at a price of £1.16p each, as consideration for the acquisition of Anne McBride Company Inc., resulting in a merger reserve of £833,911;
- In November 2005, 1,192,523 ordinary shares of 50p each with an aggregate value of £1,138,859 were issued at a price of 95.5p each, as final consideration for the acquisition of Redmandarin Limited, resulting in a merger reserve of £542,598;
- The scrip dividend relates to the scrip alternative taken up on the interim dividend of 0.5 pence per share in December 2005, resulting in a share premium of £14,856; and
- In 2005, 110,000 ordinary shares of 10p and 78,647 ordinary shares of 50p each were issued for cash consideration as a result of the exercise of options under the Company's various Share Option Schemes, resulting in a share premium of £11,518.

12. Share-based payments

The share option schemes for employees of the Company and its subsidiaries are summarised in the following table:

Name of share option scheme	Length of share option	Exercise period	Exercise price* (pence)	Exercise conditions
Huntsworth share options schemes				
Huntsworth Approved Executive Share Option Scheme	10 years	Dec 1999 – Nov 2015	50.0 – 192.0	50% after 3 years service, 50% after 4 years service
Huntsworth Unapproved Executive Share Option Scheme	10 years	July 2006 – Nov 2015	58.1 – 117.5	50% after 3 years service, 50% after 4 years service
Huntsworth (Executive Directors) Unapproved Scheme	10 years	July 2006 – July 2013	58.1	50% after 3 years service, 50% after 4 years service
Huntsworth Enterprise Management Incentive Scheme	10 years	Nov 2005 – Oct 2015	58.1 – 117.5	50% after 3 years service, 50% after 4 years service
Huntsworth PLC Non-Executive Directors Unapproved Scheme	10 years	July 2006 – Nov 2014	58.1 – 126.3	50% after 3 years service, 50% after 4 years service
Huntsworth PLC Savings Related Share Option Scheme	3/5 years	Nov 2005 – Feb 2010	56.0 – 76.3	100% after 3/5 years service
Incepta Group share options schemes				
Incepta Group plc Employee Share Option Scheme	10 years	Jan 1999 – Jan 2006	79.7	100% after 3 years service
Incepta Group plc Executive Share Option Plan	10 years	Nov 2005 – July 2013	119.5	100% after 3 years service
Incepta Group plc Executive Long Term Incentive Plan	10 years	Nov 2005 – Nov 2014	103.9 – 106.8	100% after 3 years service
Incepta Group plc Savings Related Share Option Scheme	3 years	Nov 2005 – Jun 2008	88.6 – 146.0	100% after 3 years service

*Adjusted for share consolidation on 14 July 2005.

12. Share-based payments (continued)

The following share options were outstanding under the six Huntsworth share option schemes at 31 December 2005 and 31 December 2004:

	2005*		2004*	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	**7,742,719**	**78.0p**	5,139,790	60.0p
Granted during the year	**306,400**	**89.2p**	2,974,173	110.0p
Forfeited during the year	**(603,728)**	**83.3p**	(305,802)	87.0p
Exercised during the year	**(86,274)**	**58.7p**	(65,442)	58.0p
Outstanding at the end of the year	**7,359,117**	**78.3p**	7,742,719	78.0p
Exercisable at the end of the year	**122,091**	**70.0p**	26,200	76.1p

*Adjusted for share consolidation on 14 July 2005.

The weighted average share price at the date of exercise for share options exercised during the year was 88.2p (2004: 112.8p). The options outstanding at the end of the year have a weighted average remaining life of 7.4 years (2004: 9.3 years).

During 2005 share options were granted on 3 November 2005, and the estimated fair values of the options granted on that date is 37.7p (2004: 32.5p – 48.7p).

The following share options were outstanding under the Incepta Group plc share option schemes at 31 December 2005:

	Number of share options*	**Weighted average exercise price***
On acquisition of subsidiary	**6,338,368**	**106.5p**
Forfeited during the year	**(229,110)**	**112.0p**
Exercised during the year	**(13,173)**	**79.7p**
Outstanding at the end of the year	**6,096,085**	**106.3p**
Exercisable at the end of the year	**2,095,217**	**105.9p**

* Adjusted for share consolidation on 14 July 2005.

The weighted average share price at the date of exercise for share options exercised during the year was 84.8p. The options outstanding at the end of the year have a weighted average remaining life of 5.0 years.

Fair value of share options

The fair value of share options granted in 2005 and 2004 were calculated using the binomial option pricing model. The inputs to the model are:

	2005	2004
Weighted average share price	**92.50 pence**	109.1 pence
Weighted average exercise price	**89.25 pence**	110.2 pence
Expected volatility	**36%**	36%
Expected life	**3–10 years**	3–10 years
Expected life – Savings Related Share Option Scheme	**—**	3–5.5 years
Risk free rate	**4.4%**	4.0–4.75%
Expected dividend yield	**1.5%**	1.0%

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The Company recognised total expenses of £88,000 (2004: £40,000) related to equity-settled share-based transactions during the year.

13. Reserves

	Share premium account £000	Other reserves £000	Shares to be issued £000	Investment in own shares £000	Retained earnings £000	Total £000
At 1 January 2005	23,615	7,902	7,157	(8)	1,294	39,960
Changes in accounting policy relating to adoption of FRS 20 & 21	—	—	(7,157)	—	304	(6,853)
Restated at 1 January 2005	23,615	7,902	—	(8)	1,598	33,107
Shares issued for cash consideration	12	—	—	—	—	12
Acquisition of subsidiaries for shares	—	65,827	—	—	—	65,827
Share issue costs	(721)	—	—	—	—	(721)
Movement in investment in own shares	—	—	—	(628)	—	(628)
Credit for share-based payments	—	—	—	—	123	123
Profit for the year	—	—	—	—	2,617	2,617
Exchange movements	—	—	—	—	(96)	(96)
Scrip dividend	15	—	—	—	(35)	(20)
Dividends paid	—	—	—	—	(1,231)	(1,231)
At 31 December 2005	**22,921**	**73,729**	**—**	**(636)**	**2,976**	**98,990**

Investment in own shares

Investment in own shares represent shares acquired in the Company by the Huntsworth Employee Benefit Trust (the 'Trust'). The purpose of the Trust is to facilitate and encourage the ownership of shares by employees, by acquiring shares in the Company and distributing them in accordance with employee share schemes. The Trust may operate in conjunction with the Company's existing share option schemes and other share schemes that may apply from time to time.

At 31 December 2005 the Trust held 612,034 shares (2004: 15,500 shares (adjusted for share consolidation)) in the Company which had a market value at 31 December 2005 of £517,000 (2004: £17,000).

14. Commitments and contingent liabilities

Operating leases

31 December 2005	Property in use £000	Equipment £000
Annual net commitments in respect of non-cancellable operating leases expiring in:		
One year	**8**	**5**
Two to five years	**173**	**—**
	181	**5**

31 December 2004	Property in use £000	Equipment £000
Annual net commitments in respect of non-cancellable operating leases expiring in:		
One year	8	8
Two to five years	—	—
Over five years	173	—
	181	8

14. Commitments and contingent liabilities (continued)

Contingent liabilities

(i) Under the terms of certain acquisition agreements, additional consideration is payable by the Company and certain of its subsidiary undertakings contingent on the future financial performance of the acquired entities. The estimated amount of such contingent consideration is included in 'Provisions' (Note 9).

(ii) 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 £136,000 (2004: £72,000).

(iii) In connection with the Group's banking and borrowing facilities with Lloyds TSB Bank plc, the Company and certain of its subsidiary undertakings have entered into cross-guarantee and indemnity arrangements with Lloyds TSB Bank plc and The Royal Bank of Scotland plc.

15. Post balance sheet events

On 15 February 2006 the Company announced that it had reached an agreement to sell Citigate Sard Verbinnen ('CSV') by the end of 31 December 2009. Shareholders approved the sale on 6 March 2006. Under the sale agreements, 51 per cent will be acquired by certain executives of CSV on 1 January 2007 for $2.5 million (£1.4 million) and the remaining 49 per cent will be acquired no later than 31 December 2009 for a total cash consideration of a further $17.5 million (£10.2 million) (such amounts to have an aggregate present value of $20 million (£11.6 million) as at 1 January 2006). This will be reduced by the amount of cash distributions from CSV from 1 January 2006.

On 16 February 2006 the Company announced the acquisition of 100 per cent of Eurotandem SAS, a leading independent public relations consultancy based in Paris, for an initial consideration of €4.1 million (£2.8 million) in cash and the issue of 1,469,455 new ordinary shares of Huntsworth PLC with a fair value of £1.3 million. Further consideration is dependent on the future financial performance of Eurotandem. The maximum consideration payable is €8.65 million (£6.0 million).

On 6 March 2006 the Company announced the sale of the business and assets of nxtMOVE LLC, formerly trading as Citigate Global Intelligence, for $1.6 million (£0.9 million) to Optimisa PLC. The sales proceeds have been used to reduce debt.

2006 financial calendar

30 June	2006 financial half year end
4 July	2006 Annual General Meeting
September	Announcement of 2006 interim results
31 December	2006 financial year end

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