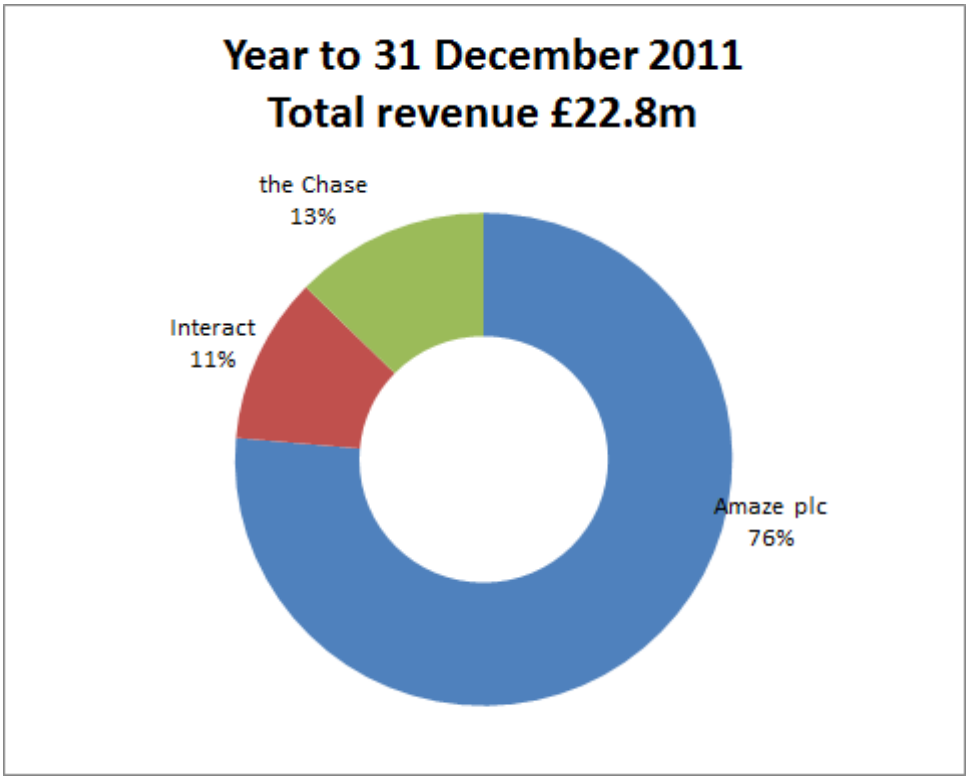
Hasgrove plc *Annual Report* The year to December 2011

What we do.

Hasgrove is the holding company for a group of digital and communication services companies concentrated into three divisions: Amaze plc, Interact, the Chase.

Revenue by division



Highlights[1,2]

Revenue up 2.4% to £22.8m (2010: £22.2m)

Gross profit of £16.5m (2010: £17.1m)

Headline operating profit £0.9m (2010: £2.2m)

Headline pre tax profit £0.7m (2010: £2.0m)

Reported pre tax loss £3.0m (2010: profit £1.1m)

Headline basic EPS 1.7p (2010: 7.2p)[3]

Basic loss per share 12.9p (2010: earnings per share 2.6p) [3]

Proposed dividend doubled to 1.0p per share (2010: 0.5p per share)

Public affairs and strategic communications division, Interel sold in July 2011 for a total of €9.5m.

Net debt at 31 December 2011 substantially reduced to £1.5m (2010: £6.7m)

Cash generated by operations of £2.2m (2010: £3.5m)

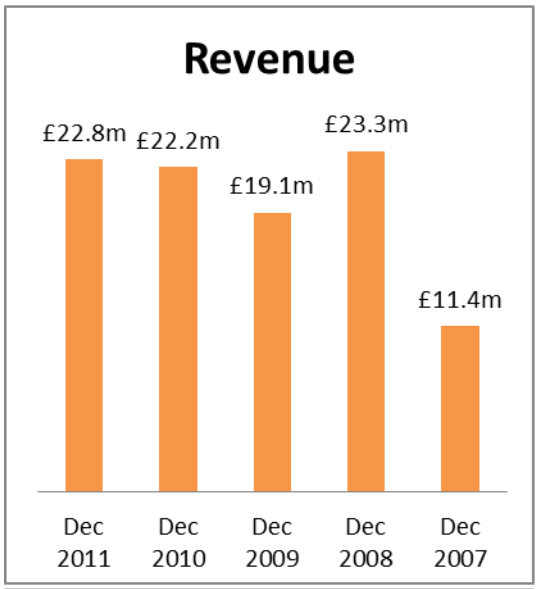
Headline operating cash conversion rate of 239% (2010: 157%)

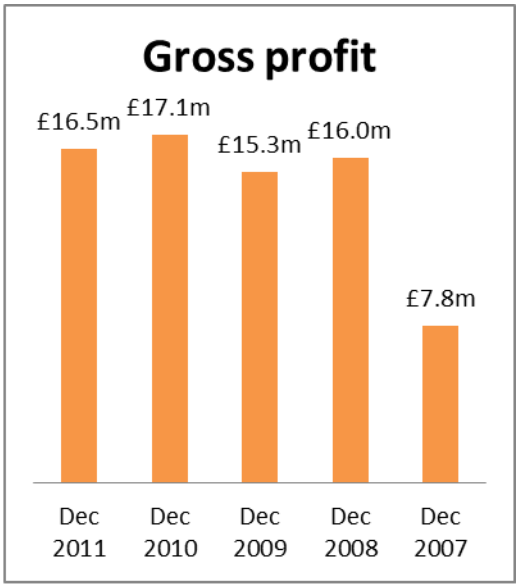
Refocusing of Group as digital communications services business

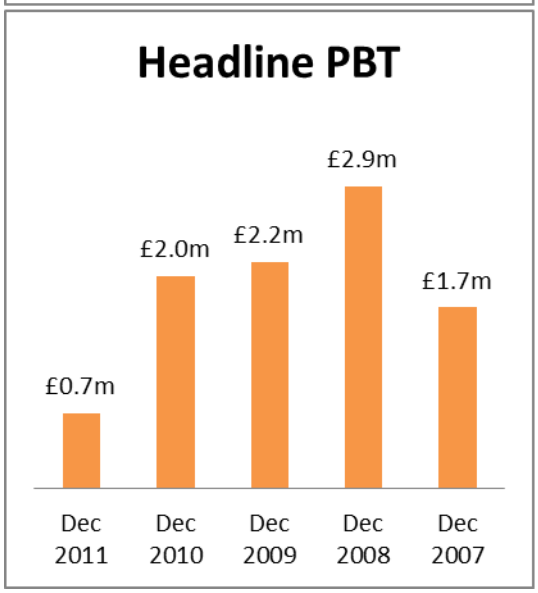
Commencing share buy-back programme

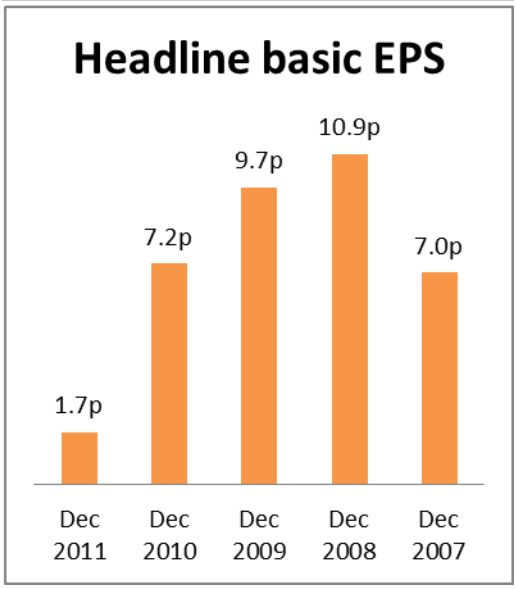
1) All results in this statement are before taking account of separately identified items unless otherwise indicated. These comprise share option charges, exceptional costs, goodwill impairment, notional finance costs on deferred consideration and non-cash deferred tax on goodwill timing differences and are set out in the consolidated income statement on page 18.
2) The consolidated income statement for 2010 has been restated to exclude discontinued operations – see note 5.
3) Earnings based on continuing operations unless otherwise stated

The numbers at a glance [1]









1) Prior year figures have been restated to exclude discontinued operations – see note 5.

FROM GODFREY TAYLOR, CHAIRMAN

Economic uncertainty and volatility will be with us for the foreseeable future. Accordingly, the Board decided to concentrate on our digital consultancy businesses and become a strong niche operator with good growth prospects even in difficult markets. This resulted in us selling Interel in July.

However, at the same time, we had insufficient focus and control of a number of projects in Amaze and this caused a disappointing profit warning in November. Following Rod Hyde's retirement, the Board asked management to complete a review of our businesses with a view to improved project control, profit growth and cash generation.

I am pleased to say that management action has led to a significant improvement in group profitability during the first quarter to March 2012 and net cash receipts of £1.9m during the six months to 31 March 2012. At the same time, Amaze has won significant new clients including Coats plc and East Coast Rail.

Interact is now performing well in the UK and is expanding in the US through a new joint venture and its own sales force. Its ability continually to grow annual recurring fees for customer software support underpins its future profitability.

I would like to thank management and staff for their considerable effort and expertise in a year of change.

The dividend is being doubled this year to 1p per share to reflect the reduction in earn out payments and the recent strong cash generation. This will be increased again in the future in accordance with cash generation. In addition the company will commence the share buy-back program.

Please contact me with comments or requests for further information (godfrey.taylor@hasgrove.com)

FROM PAUL SANDERS, CHIEF EXECUTIVE

Following the sale of the group's Public Affairs and Strategic Communications division, Interel, in July 2011, Hasgrove plc is now a focused Digital and Communication Services group operating under the Amaze, Interact and Chase brands. There are now more than 260 personnel in the Group, serving a broad base of over 500 clients.

2011 was a very disappointing year for the Group, albeit in a difficult economic environment. The Group suffered as a result of a combination of delayed client spending and overruns on two significant business solutions projects. As a result, changes have been made to the way that the Group operates and in particular, how it monitors project delivery and profitability.

Hasgrove has now completed its restructuring and all office moves have now taken place. No further exceptional costs relating to the restructuring are expected. The Group's borrowings were refinanced following the Interel disposal, reducing considerably the Group's net debt. The Group can place a renewed focus on servicing its clients and improving operational efficiencies.

The progress of a number of significant projects that began towards the end of 2011 is encouraging. In the first quarter of 2012 these projects entered the main development phase and have been closely managed to ensure both client service and profitability is maintained.

The Board is also pleased to see continued momentum in both the number and average size of sales of Interact Intranet both in the UK and the US.

More than 25% of the Group's forecast profits for 2012 have been generated in the first quarter, which is substantially more than in previous years.

Amaze

Amaze is a leading pan-European integrated marketing and technology company, specialising in global digital strategy and communications, web-based business solutions and public relations. Amaze delivered revenues of £17.4m (2010: £16.4m) with operating profits before separately identified items and central costs of £0.8m (2010: £1.4m). The gross profit was £11.9m (2010: £12.3m). The reduced profits resulted from delayed client spend and overruns on certain projects.

In 2011 Amaze continued the consolidation and simplification of the business units that had previously been acquired. In particular, the Communications and Design and Build teams merged into one business, removing management tiers and developing a stronger, more focused and controlled business.

Following a detailed review of the business in September and October, a new Amaze Board was formed led by Natalie Gross, now the CEO of Amaze. Amaze Technology was merged into the core business and the technical team has been strengthened and now operates across the business.

As the digital sector continues to grow, Amaze has focused on developing strong points of differentiation to position the business for future growth. This has focused primarily on key strategic services including:

- Digital strategy driven by the launch of a planning and insight centre, which specialises in business platforms and audience research and analysis;
- Technical consulting including SharePoint 2010;
- Global implementation and roll-out services. Amaze delivers business solutions across 104 countries, 4 continents and covers more than 28 languages; and
- Strong user experience involving creative and interactive development skills for large technology projects.

This approach has enabled the company to attract global clients with global solution requirements.

Following this repositioning, Amaze has focused on growing existing clients such as Unilever and delivering next generation digital platforms, including mobile, for Lexus and Toyota.

The second half of 2011 saw a number of major new client wins including Coats plc, East Coast Mainline and ODEON Cinemas. This has helped to strengthen capabilities in key growth areas such as e-commerce, transaction-led solutions and mobile. For these types of projects Amaze is regularly bidding against leading management consultancies as well as the top interactive agencies.

Amaze also saw significant growth in their B2B client base and an increased number of digital communications clients such as Laterooms and Saucy Fish.

As part of the success in winning global clients, Amaze has also strengthened its technology partnerships with market leaders such as Enterprise Web Content Management developer, SDL Tridion and has developed strategic alliances with global management consultancies.

The company is also focussed on developing products and its own intellectual property under the AmazeOne brand, with an analytics toolset currently in development.

In 2011 Amaze opened its new offices in London, moving into a prime location on Dean Street in Soho, which will allow for growth to strengthen Amaze’s presence in the core areas of client services and consultancy.

Amaze is currently ranked 15th in the UK's Top 100 Interactive Agencies by New Media Age and fifth in the website design and build category. The company is also positioned 10th in Marketing's 2011 Digital Agency League Table.

Interact

Interact delivered revenues of £2.5m (2010: £2.0m) with operating profits before central costs of £0.4m (2010: £0.4m). Gross profit improved to £2.4m (2010: £2.0m).

2011 saw a substantial increase in overall revenue with key increases in new business software sales, existing customer sales and recurring revenue.

In spite of the increased sales operating profits were flat due to further investment totalling £0.4m, including additional sales and marketing staff, advertising and promotion in both the UK and the US and software development.

Intranet new business software sales increased by over 90% and reflected the repositioning of Interact as an Enterprise platform with new wins from G4S, Arriva, Yodel, UKAR (formally Bradford and Bingley and Northern Rock), Northampton NHS, Superdrug and Park Plaza.

It was encouraging to see customer sales, excluding recurring support revenue, increase substantially by 350%. These sales relate to extra licences and additional modules of functionality, both of which are a very valuable source of revenue.

Recurring support and software updates revenue increased by 28% to £0.6m and retention rates of customers stayed well above the 95% level of 2010. Based on current projections the level of recurring support and software updates revenue should exceed the fixed costs within the next three years.

In 2011 Interact strengthened its technical partnerships with other software companies to facilitate integration of Interact Intranet with other web based business tools. Such partnerships included Basecamp (leading web-based project management and collaboration tool) and Mailchimp (leading e-mail newsletter portal) in order to strengthen the focus on one platform.

Interact is uniquely placed in the Intranet market between pure play 'social' platforms, such as Yammer, and more traditional document management systems like SharePoint. Organisations are now seeing the benefit that intelligent social Intranets can play and want to have one platform to connect content, processes and people – the key USP of Interact.

Development of the Interact Intranet platform in 2011 further strengthened its position within the global intranet market with significant development in both product intelligence and social business. The successful launch of these additional features and functionality, such as Interact Teams, has enabled customers to derive more value and has increased adoption.

Interact's 2011 US sales success culminated in the recruitment of an established Dallas based intranet implementer in February 2012, which marked a significant milestone in our controlled US expansion strategy. Interact now has a firm sales, support and implementation base in the US to service its existing US customers and substantially grow sales in 2012 and beyond.

Interact's average intranet sales value has also tripled over the last four years, which is a reflection of the move to working with larger enterprise organisations. This trend is gathering pace and is expected to continue.

The Chase

The Chase is an award winning creative design agency. It experienced a difficult year due to significant delays in client projects with revenues reducing to £2.9m (2010: £3.8m) and operating profits before central costs dropping to £0.1m (2010: £0.7m). Gross profit reduced to £2.1m (2010:£2.9m).

An encouraging performance in the second half of the year improved a first half loss of £125,000 into a full year profit due to cost restructuring and improved client engagement.

Awards in 2011 included a Cannes Gold and Gold at the New York Festivals. The Chase continues to be highly placed in the UK creative leagues tables: second in branding and print and fourth overall.

FROM STEVE COLLINS, GROUP FINANCE DIRECTOR

The results for the Group are presented based on the continuing operations of Amaze, Interact and The Chase, with the Interel business, the Group's Public Affairs and Strategic Communications division, presented as discontinued following its sale in July 2011. The commentary below relates to the Group's continuing business, unless otherwise stated.

The Group's revenue increased by 2.4 % to £22.8m (2010: £22.2m), with gross profits of £16.5m (2010: £17.1m).

Headline operating profit, as defined in the consolidated income statement, was £0.9m (2010: £2.2m), a decrease of 58%.

The operating loss was £2.8m (2010: profit £1.4m) after charging separately identified items totalling £3.6m (2010: £0.7m).

The separately identified items include a non-cash element amounting to £2.7m in respect of goodwill impairment, primarily associated with the design business, the Chase. In addition, the Group incurred a further £0.9m of exceptional charges primarily associated with redundancy costs arising from cost cutting and business consolidation, completion of office moves which commenced in 2010 and bank refinancing during the year.

Headline profit before tax was £0.7m (2010: £2.0m) after charging interest of £0.2m (2010:£0.2m).

Group loss before tax was £3.0m (2010: profit £1.1m) after separately identified items.

The loss on disposal of discontinued operations associated with the sale of Interel amounted to £7.1m. Total consideration was €9.5m, of which €7.6m was paid on completion, a further €0.8m payable in 2 equal instalments in July 2012 and July 2013 and the remaining €1.1m payable in July 2013 which is secured via a charge on 1,163,149 ordinary shares in the Company held by Interel Holdings SA, the buyer. Net assets disposed of amounted to £3.4m and goodwill written off amounted to £12.9m.

Headline basic earnings per share from continuing operations was 1.7p (2010: 7.2p) and reported basic loss per share was 40.9p (2010: earnings per share 6.1p).

The Board is proposing to double the dividend to 1.0p per share (2010: 0.5p per share). Subject to shareholder approval, the dividend will be paid on 18 July 2012 to all shareholders on the register at 22 June 2012. The Company's shares go ex-dividend on 20 June 2012.

Cash generated by operations was encouraging at £2.2m (2010: £3.5m), representing a headline operating profit conversion rate of 239% (2010: 157%) due to a continued focus on working capital management.

The Group's year end net debt reduced to £1.5m (31 December 2010: £6.7m), largely as a result of the Interel sale.

Following the sale of Interel, the Group refinanced with Barclays resulting in total facilities of £3.4m. The Facilities include a €2.9m term loan repayable between October 2012 and January 2015.

Earn-outs paid during the year amounted to £0.9m with the estimate of future earn-outs at the year end being £0.9m (2010: £2.3m) of which £0.8m is due in 2012.

Directors' Report for the year ended 31 December 2011

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2011.

Principal activities

The principal activities of the Group comprise the provision of services in the areas of marketing, graphic design, web design, intranet solutions, online marketing and advertising.

The subsidiary undertakings principally affecting the profits and net assets of the Group in the year are listed in note 5 to the company financial statements.

Business review

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found within the Chairman's, Chief Executive's and Group Finance Director's reviews, the key performance indicators on page 3 and the Statement of Corporate Governance, all of which are incorporated in this report by reference. These pages also include an overview of activities and performance, details of the key performance indicators that management uses and information on expected future developments in the business of the Group.

Principal risks and uncertainties

The Group's principal risks and uncertainties are identified as: dependence on key personnel and relationships with clients; management of growth; failure of information systems; competition in the provision of services; fluctuations of revenues, expenses and operating results; and currency rate risk. Further details on the measures that have been established to identify, evaluate and manage the key risks faced by the Group are set out in the Statement of Corporate Governance.

Financial instruments

Information about the use of financial instruments by the Company and its subsidiaries is given in note 3 to the financial statements.

Dividends

The Directors recommend a dividend of 1.0p per ordinary share which, subject to shareholder approval, will be paid on 18 July 2012 to ordinary shareholders on the register at 22 June 2012. The dividend will be paid out of distributable reserves resulting from post year end dividends received from subsidiaries.

Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 27 and note 28. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 32.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association and the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Statement of Corporate Governance.

Under its Articles of Association, the Company has authority to issue 8,045,201 ordinary shares; this authority expires at the date of the next AGM.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Directors' Report for the year ended 31 December 2011

Directors

Godfrey Taylor (59), Chairman and Non-executive Director

Godfrey is the Non-executive Chairman. Godfrey was the Senior Partner of Deloitte & Touche LLP (and formerly Arthur Andersen) in Manchester from 1997 to 2003 with responsibility for 30 partners and 700 personnel. Godfrey subsequently branched out into his own enterprises, developing property and sports interests.

Godfrey was a founding Director of Hasgrove (November 2004).

Paul Sanders (47), Chief Executive

Paul is a member of the Institute of Chartered Accountants in England and Wales. Paul has been Finance Director of a number of public and private companies, including SSL International plc and Baltimore Technologies plc and was also acting CEO of the latter.

Stephen Collins (44), Group Finance Director

Stephen is a member of the Institute of Chartered Accountants in England and Wales. Stephen was appointed Finance Director of Amaze plc in 2008 having previously held a number of Board and Senior Finance positions over the past 10 years in both public and privately owned businesses.

Peter Cookson (66), Non-executive Director

Peter has worked closely with the Group since November 2007. Peter is a Chartered Accountant and has a wealth of Corporate Finance experience. Over many years he has operated as a Finance Director for both public and private companies.

Jean-Léopold Schuybroek (63), President of Interel and Non-executive Director

Jean-Léopold was a founding partner of Interel. He is past President of ICCO, the worldwide public relations consultancy association, and of ABCRP, the Belgian Association of Public Relations Consultancies.

He is currently a member of the executive committee of ICCO and Chairman of the membership and governance committee of ICCO. He is also one of the three members of the executive committee of the ABCRP.

Directors' interests

The Directors who held office at 31 December 2011 had the following interests in the ordinary shares of the Company:

Name of Director	31 Decemer 2011 (No.)	31 December 2010 (No.)	15 April 2012 (No.)
Godfrey Taylor	2,300,000	2,300,000	2,400,000
Jean-Léopold Schuybroek	1,000,000	1,268,755	1,000,000
Peter Cookson	457,246	457,246	457,246
Paul Sanders	141,000	56,000	141,000
Stephen Collins	-	-	10,000

Directors' Report for the year ended 31 December 2011

Directors' interests (continued)

Directors' share options

Share options issued under the Executive scheme are dependent on certain time-based criteria.

The Directors had interests in the following share options:

Name of holder	Scheme	1 Jan 2010	Granted	Exercised	31 Dec 2010	Exercise Price
Paul Sanders	Executive	35,000	-	(35,000)	-	£0.10
	Executive	175,000	-	-	175,000	£0.475
Stephen Collins	Executive	80,000	-	-	80,000	£0.475

The Company has adopted a share dealing code for Directors and relevant employees and has taken appropriate steps to ensure compliance by the Directors and those employees.

The Company has entered into service agreements with each of its Directors. Details of the amounts paid under these service agreements are set out below.

The Directors who served throughout the year and thereafter, except as noted, were as follows:

Directors' emoluments	Salary and fees	Pension	Benefits	Compensation for loss of office	Year to 31 Dec 2011	Year to 31 Dec 2010
	£	£	£	£	£	£
Rhoderick Hyde*	120,000	-	-	76,699	196,699	160,000
Paul Sanders	144,000	-	-	-	144,000	144,000
Stephen Collins**	26,250	1,312	1,500	-	29,062	-
Godfrey Taylor	24,000	-	-	-	24,000	24,000
Peter Cookson	15,000	-	-	-	15,000	15,000
Fredrik Lofthagen ***	85,500	-	-	-	85,500	171,000
Jean-Léopold Schuybroek ****	65,217	-	-	-	65,217	129,000
	479,967	1,312	1,500	76,699	559,478	643,000

* Resigned 28 September 2011

** Appointed 28 September 2011

*** Fredrik Lofthagen is employed by Interel through a management company, which is paid €200,000 per annum for his services. Fredrik resigned on 17th July 2011

**** Jean-Léopold Schuybroek is employed by Interel through a management company, which is paid €150,000 per annum for his services. As of 14th July 2011 Jean-Léopold is no longer remunerated by the Hasgrove group.

During the year, gains on share option exercises were as follows:

Name of holder	Exercised	Exercise price	Gain
Paul Sanders	35,000	£0.10	£8,750
Rod Hyde	40,000	£0.10	£10,000

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 agreement.

During the year the Interel group of companies was sold to a newly formed company of which both Fredrik Lofthagen and Jean-Léopold Schuybroek are both investors and Directors. Details of the disposal are set out in note 34 and an independent opinion on the value achieved in the sale was given by Peel Hunt LLP, the Group's nominated advisor.

Directors' Report for the year ended 31 December 2011

Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction and to ensure that suppliers are made aware of the terms of payment. Trade payables of the Group at 31 December 2011 were equivalent to 35 (2010: 35) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Disabled employees

The Group'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 Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings.

Charitable and political contributions

The Group made no political or charitable donations during either the current or prior year.

Substantial shareholdings

The Company has been notified of the following interests representing 3% or more of the issued share capital of the Company at 15 April 2012:

Name of holder	Percentage of voting rights and issued share capital	No. of ordinary shares
Octopus Asset Management	13.0%	3,147,025
Godfrey Taylor	9.9%	2,400,000
Ben Casey	6.4%	1,554,171
Stephen Rodgers	6.2%	1,500,000
Vikki Ashton	5.5%	1,332,322
Unicorn Asset Management	5.2%	1,250,300
Interel Holdings SA	4.8%	1,163,149
Jean-Léopold Schuybroek	4.1%	1,000,000
Rhoderick Hyde	3.3%	798,750

Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418(3) of the Companies Act 2006.

A resolution to reappoint Deloitte LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

6th Floor
Number One First Street
Manchester
M15 4NF

By order of the Board,

S P Collins

Company Secretary

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Company and the Group and of the profit or loss of the Company and Group for that period.

In preparing those financial statements, the Directors are required to:

- properly select and apply accounting policies;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make an assessment of the company's ability to continue as a going concern;

The Directors are responsible for keeping adequate accounting records that show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Chief Executive Officer	Group Finance Director
P A Sanders	S P Collins

Statement of Corporate Governance

The Company is committed to the principles of corporate governance contained in the Corporate Governance Code issued by the Financial Reporting Council and although, as an AIM-listed company, Hasgrove plc is not bound by the corporate governance rules and codes, the Directors adopt them as they believe appropriate having regard to the Group's size and nature and so far as they consider practicable and appropriate. This statement is not intended to be a statement of compliance with the Corporate Governance Code but sets out the key components of the Group's corporate governance policies and procedures.

The Board

The Group is managed by a Board which comprises the Non-executive Chairman, Chief Executive, Group Finance Director and Non-executive Directors.

The Board will be responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions. The Board generally meets at least six times a year and has a schedule of matters specifically referred to it for decision. Given the size of the Company, the appointment of new Directors is a matter reserved for the Board as a whole rather than a separate Nomination Committee.

The Company Secretary, through the Chairman, is responsible for advising the Board on all governance matters. 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.

The Chairman and Chief Executive review the performance of the Board informally which is considered appropriate for the size of the Group.

A Director will retire from office at the third Annual General Meeting following his appointment or following his last re-appointment by shareholders at an Annual General Meeting and if willing, be deemed to have been re-appointed unless it is expressly resolved not to fill the vacancy or a resolution for the re-appointment of the Director is put to the meeting and not passed.

Board Committees

The Company has established Audit and Remuneration Committees.

Audit Committee

The Audit Committee comprises the Non-executive Directors chaired by Godfrey Taylor. Members of the Committee have a wide financial experience and the Chairman is a chartered accountant who has held senior roles in the profession.

The Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for reviewing the auditor's reports relating to accounts and internal control systems. The Audit Committee meets at least once a year to review the full year report.

At this stage in the development of the Group, the board does not consider it would be appropriate to have its own internal audit function. Each operating company has its own finance function led by a Finance Director. The Group Finance Director regularly reviews the operating companies' key controls and reporting systems. The need for an internal audit function will continue to be reviewed periodically.

Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors and is chaired by Godfrey Taylor. It is responsible for determining and agreeing with the Board the framework for the remuneration of all Executive Directors and such other members of the executive management as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director including, where appropriate, performance related bonuses, incentive payments and share options. No director is involved in setting his own remuneration.

Going concern

The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion, the directors have considered forecasts of future performance and the Group's bank facilities. Further detail is given in note 3 to the consolidated financial statements.

Internal control

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

Statement of Corporate Governance

Internal control (continued)

The Group's individual companies are managed with a clearly defined responsibility for the operation of the businesses to meet standards required by both the Group and appropriate regulatory authorities. In addition, annual plans and longer-term overviews of objectives are prepared by each business management team and reviewed at meetings attended by at least one Executive Director.

Individual business management teams are also responsible for assessing and minimising all business risks, supported by Group personnel able to provide specific assistance in matters relating to regulatory compliance, health and safety, and quality systems.

Monthly accounts, including comparison with planned performance, together with key ratio analysis and working capital information, are prepared in accordance with Group accounting policies and principles. They are reviewed by the Board to monitor overall performance and facilitate appropriate management intervention.

The Board confirms that it has established the procedures necessary to implement the guidance "Internal Control: Guidance for Directors on the Combined Code".

Relations with shareholders

The Board maintains constructive dialogue with shareholders through regular meetings, news releases and presentations.

The Company's Annual General Meeting is an opportunity for all shareholders to meet and direct questions to members of the Board. Prior to the formal business of the meeting, the Board will present an overview of the Group's results.

On behalf of the Board

P A Sanders

Director

Independent Auditor's Report to the Members of Hasgrove plc

We have audited the financial statements of Hasgrove plc for the year ended 31 December 2011, which comprise the Consolidated and Parent Company Income Statements, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 34 to the consolidated financial statements and notes 1 to 13 of the Parent Company financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's and the parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

William Smith (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
26 April 2012

Consolidated Income Statement
Year ended 31 December 2011

	Note	2011 £000	2010 Restated (Note 5) £000
Continuing operations			
Revenue	6	22,759	22,226
Cost of sales		(6,297)	(5,087)
Gross profit		16,462	17,139
Administrative expenses before separately identified items		(15,530)	(14,906)
Headline operating profit		932	2,233
Share option charge		(89)	(93)
Exceptional costs	8	(902)	(736)
Goodwill impairment	17	(2,709)	-
Total administrative expenses		(19,230)	(15,735)
Operating (loss)/profit	8	(2,768)	1,404
Finance income	12	1	2
Notional finance cost on deferred consideration		(19)	(106)
Finance costs		(214)	(202)
Total finance costs	12	(233)	(308)
Headline profit before tax		719	2,033
Share option charge		(89)	(93)
Exceptional costs		(902)	(736)
Goodwill impairment		(2,709)	-
Notional finance cost on deferred consideration		(19)	(106)
(Loss)/profit before tax		(3,000)	1,098
Tax	13	(75)	(480)
(Loss)/profit for the financial year from continuing operations		(3,075)	618
Discontinued operations			
(Loss)/profit from discontinued operations	14	(6,680)	839
(Loss)/profit for the financial year		(9,755)	1,457
Basic (loss)/ earnings per share (pence) - from continuing operations	16	(12.9)p	2.6p
Diluted (loss)/ earnings per share (pence) - from continuing operations	16	(12.9)p	2.6p
Basic (loss)/ earnings per share (pence) - total	16	(40.9)p	6.1p
Diluted (loss)/ earnings per share (pence) - total	16	(40.9)p	6.0p

Consolidated Statement of Comprehensive Income
Year ended 31 December 2011

	2011 £000	2010 £000
(Loss)/profit for the financial year	(9,755)	1,457
Other comprehensive income		
Gains on hedges of net investments taken to equity	-	191
Exchange differences on translation of foreign operations	-	(786)
Other comprehensive income for the year	-	(595)
Total comprehensive (expense)/income for the year	(9,755)	862

Consolidated Statement of Financial Position
At 31 December 2011

	Note	2011 £000	2010 £000
Non-current assets			
Goodwill	17	17,064	32,701
Other intangible assets	18	613	582
Property, plant and equipment	19	1,117	1,706
Deferred tax asset	24	73	240
		18,867	35,229
Current assets			
Inventories		-	57
Trade and other receivables	21	5,965	9,120
Corporation tax receivable		63	-
Cash and cash equivalents	21	1,069	-
		7,097	9,177
Total assets		25,964	44,406
Current liabilities			
Trade and other payables	25	(5,377)	(6,722)
Current tax liabilities		-	(241)
Obligations under finance leases		(131)	(101)
Borrowings	22	(241)	(3,476)
Deferred consideration	26	(764)	(1,548)
		(6,513)	(12,088)
Net current assets/(liabilities)		584	(2,911)
Non-current liabilities			
Obligations under finance leases		-	(113)
Borrowings	22	(2,175)	(3,044)
Deferred consideration	26	(90)	(742)
Deferred tax liability	24	(929)	(770)
		(3,194)	(4,669)
Total liabilities		(9,707)	(16,757)
Net assets		16,257	27,649
Equity			
Share capital	27	2,414	2,383
Share premium account	28	15,079	14,959
Translation reserve	29	-	1,758
Retained earnings	30	(1,236)	8,549
Total equity		16,257	27,649

The financial statements of Hasgrove plc, registered number 05247414, were approved by the board of Directors and authorised for issue on 26 April 2012. They were signed on its behalf by:

P A Sanders S P Collins

Consolidated Statement of Changes in Equity
Year Ended 31 December 2011

	Share capital £000	Share premium account £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2010	2,383	14,959	2,353	7,118	26,813
Profit for the year	-	-	-	1,457	1,457
Other comprehensive income for the year	-	-	(595)	-	(595)
Total comprehensive income for the year	-	-	(595)	-	862
Dividends	-	-	-	(119)	(119)
Credit to equity for equity-settled share based payments	-	-	-	93	93
Balance at 31 December 2010	2,383	14,959	1,758	8,549	27,649
Loss for the year	-	-	-	(9,755)	(9,755)
Total comprehensive income for the year	-	-	-	(9,755)	(9,755)
Transfer on disposal of foreign operations	-	-	(1,758)	-	(1,758)
Issue of share capital	31	120	-	-	151
Dividends	-	-	-	(119)	(119)
Credit to equity for equity-settled share based payments	-	-	-	89	89
Balance at 31 December 2011	2,414	15,079	-	(1,236)	16,257

Consolidated Statement of Cash Flows
Year ended 31 December 2011

	2011 £000	2010 £000
Cash generated by operations (note 31)	2,226	3,498
Income taxes paid	(53)	(903)
Net cash from operating activities	2,173	2,595
Investing activities		
Interest paid	(214)	(211)
Interest received	1	2
Purchase of property, plant and equipment	(591)	(850)
Expenditure on product development	(321)	(315)
Payment of deferred consideration	(912)	(1,273)
Disposal of subsidiary (note 34)	5,177	-
Net cash generated from/ (used in) investing activities	3,140	(2,647)
Financing activities		
Dividends paid	(119)	(119)
New loan received	2,522	-
Repayments of borrowings	(6,136)	(588)
Increase/ (decrease) in bank overdrafts and revolving credit facility	-	83
Net cash outflow from financing activities	(3,733)	(624)
Net increase/(decrease) in cash and cash equivalents	1,580	(676)
Cash and cash equivalents at beginning of year	(467)	290
Effect of foreign exchange rate changes	(44)	(81)
Cash and cash equivalents at end of year	1,069	(467)

1. General information

Hasgrove plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 63. The nature of the Group's operations and its principal activities are set out in the Chief Executive's statement.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised Standards

Standards not affecting the financial statements

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 (amended)	Disclosures – Transfers of Financial Assets
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

3. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with the Companies Act 2006, IFRSs adopted for use in the European Union and IFRIC interpretations. The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

3. Significant accounting policies (continued)

Going concern

The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future, despite the uncertainties arising from the current economic environment. In reaching this conclusion, the directors have considered forecasts of future performance and the Group's bank facilities. At December 2011, the group had committed facilities totalling £3,416,000. Of this, £1 million was in the form of an overdraft – none of which was being utilised at 31 December 2011. The Group's forecasts indicate that there will be no requirement to use this facility in the forthcoming 12 months. The remaining £2,416,000 is in the form of a Euro-denominated loan. The continued availability of that loan requires that the Group complies with certain financial covenants. The directors have performed prospective tests of those covenants based on the Group's forecasts and there is no indication that any will be breached in the foreseeable future, nor do the Directors consider that these would be breached in the event that what they consider to be reasonably possible changes in the Group's results were to occur. In light of these facts, the Directors have concluded that the going concern basis of preparation is appropriate. Further details of the Group's facilities and their associated terms are given in note 22 to the consolidated financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisitions are measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. A review of the provisional fair value of assets and liabilities is made in the hindsight period and any adjustments required are recognised in goodwill.

Goodwill

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

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

Internally generated intangible assets – development expenditure

An internally generated intangible asset arising from the Group's software development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probably that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight line basis over their useful lives.

Segmental reporting

A business segment is a group of assets and operations engaged in providing services that are that are regularly reviewed and monitored by the chief executive officer. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3. Significant accounting policies (continued)

Deferred consideration

The terms of an acquisition or disposal may provide that the value of the purchase consideration, which may be payable in cash, shares or other securities at a future date, depends on uncertain future events such as the future performance of the acquired company. Where it is not possible to estimate the amounts payable or receivable with any degree of certainty, the amounts recognised in the financial statements represent a reasonable estimate at the year end date of the amounts expected to be paid or received. The deferred consideration is discounted to fair value. The difference between the fair value of the liabilities or assets and the actual amounts payable or receivable are charged to the income statement as notional finance costs over the life of the associated liability. Changes in the estimated value of deferred consideration in respect of historical acquisitions taking place prior to the adoption of IFRS 3 (Revised 2008) are recognised in goodwill. Where deferred consideration may be settled by either the issue of shares or loan notes, it is classified in the statement of financial position in accordance with the substance of the transaction. Where the agreement gives rise to an obligation that is settled by the delivery of a variable number of shares to meet a monetary defined liability, these amounts are disclosed as debt.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is recognised in line with the provision of services based on work performed during the year where the outcome can be assessed with reasonable certainty.

Where contracts involve the provision of more than one separable type of service or goods, revenue is attributed to the separable elements rateably based on the fair value of the goods or services.

For maintenance support income, only that proportion of revenue is recognised which relates to the part of the maintenance period falling within the financial year.

Income recognised in revenue but not invoiced at the year end is recorded in prepayments and accrued income within trade and other receivables. Where invoices are raised in advance of the provision of services they are recorded as accruals and deferred income in trade and other payables.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

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

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

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

3. Significant accounting policies (continued)

Foreign currencies

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group Company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each year end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on year end date.

Exchange differences are recognised in the income statement in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the income statement on disposal of the net investment.

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

Goodwill, fair value adjustments and deferred consideration arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Operating profit

Operating profit is stated before investment income and finance costs.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Presentation of the income statement

Certain items in the Group financial statements are separately disclosed by virtue of their size or incidence where the Directors consider that such presentation is required to enable a full understanding of the Group's financial performance.

3. Significant accounting policies (continued)

Taxation

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

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

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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Fixtures and equipment	10% —33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Leasehold improvements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment of tangible and intangible assets excluding goodwill

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Issue costs are offset against the proceeds of such instruments.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position are cash balances and deposits held at call with banks with original maturities of three months or less. For the purposes of the cash flow statement, cash and cash equivalents also include the overdrafts repayable on demand, on the basis that these form an integral part of the Group's cash management.

Trade receivables

Trade receivables do not carry any financial income and are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group has only one class of shares in existence; see note 26.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at their fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Hedge accounting

Following the disposal of Interel during 2011, the Group has ceased to apply hedge accounting for its foreign currency debt. Gains on hedges of net investments and exchange differences on translation of foreign operations up to the date of disposal of Interel have been taken to the income statement rather than to the statement of comprehensive income. The amounts are not material

Provisions

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

Inventories

Inventories, comprising work-in-progress on customer contracts, are stated at the lower of cost and net realisable value.

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based Payment.*

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

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty and critical accounting judgements

- application of revenue recognition policies in respect of contracts that straddle the year end;
- contingent deferred payments in respect of acquisitions;
- valuation and recoverability of receivables balances; and
- valuation of intangible assets, including impairment of goodwill.

These estimates are based on historical experience and various other assumptions that management and the Board of Directors believe are reasonable under the circumstances and are discussed, to the extent necessary, in more detail in their respective notes.

5. Restatement of comparatives

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the comparative information of the relevant disposal groups has been restated. The impact of the restatement is shown in the following table. In addition, the 2010 cost of sales and administrative expenses have been adjusted to reclassify certain labour costs. The Directors consider that the adjusted presentation better reflects the nature of the costs.

Income Statement	**31 December 2010 as previously reported £000**	**Transfer to discontinued operations £000**	**Reallocation £000**	**31 December 2010 Restated £000**
Revenue	35,358	(13,132)	-	22,226
Cost of sales	(8,167)	1,899	1,181	(5,087)
Gross profit	27,191	(11,233)	1,181	17,139
Administrative expenses before separately identified items	(23,735)	10,010	(1,181)	(14,906)
Headline operating profit	3,456	(1,223)	-	2,233
Share option charge	(93)	-	-	(93)
Exceptional costs	(921)	185	-	(736)
Total administrative expenses	(24,749)	10,195	(1,181)	(15,735)
Operating profit	2,442	(1,038)	-	1,404
Finance income	2	-	-	2
Notional finance cost on deferred consideration	(106)	-	-	(106)
Finance costs	(211)	9	-	(202)
Total finance costs	(317)	9	-	(308)
Headline profit before tax	3,247	(1,214)	-	2,033
Share option charge	(93)	-	-	(93)
Exceptional costs	(921)	185	-	(736)
Notional finance cost on deferred consideration	(106)	-	-	(106)
Profit before tax	2,127	(1,029)	-	1,098
Tax	(670)	190	-	(480)
Profit for the financial year	1,457	(839)	-	618

6. Revenue

An analysis of the Group's revenue is as follows:

	2011 £000	Restated 2010 £000
Continuing Operations		
Sales of services	22,759	22,226
Finance income	1	2
	22,760	22,228
Discontinued Operations		
Sales of services	6,903	13,132
Finance income	-	-
Total income as defined in IAS 18	29,663	35,360

7. Business and geographical segments

Business segments

As disclosed in note 14, the Group disposed of Interel during the year which previously constituted the Group's Public Affairs and Strategic Communications segment.

Following the disposal, for management purposes, the Group is now organised into three operating divisions – Amaze, Interact and the Chase. These divisions are the basis on which the Group reports its primary segment information and details of each are set out in the Chief Executive's report on pages 5 to 7

Segment information about these businesses is presented below.

2011	**Amaze**	**Interact**	**The Chase**	**Consolidated**
Continuing Operations	**£000**	**£000**	**£000**	**£000**
Revenue				
External sales	17,386	2,485	2,888	22,759
Result				
Segment result pre central costs	838	447	93	1,378
Central cost allocation [1]	(280)	(60)	(70)	(410)
Segment result	558	387	23	968
Unallocated corporate expenses				(36)
Headline operating profit				932
Share option charges				(89)
Exceptional costs [2]				(902)
Goodwill impairment[3]				(2,709)
Finance income				1
Notional finance costs on future deferred consideration				(19)
Finance costs				(214)
Loss before tax				(3,000)
Tax				(75)
Loss after tax				(3,075)

1) Represents management charges recharged by the parent company
2) Exceptional costs can be analysed as £552,000 for Amaze, £36,000 for Interact, £38,000 for the Chase and £276,000 for Hasgrove
3) Goodwill impairment relates to The Chase segment

7. Business and geographical segments (continued)

2011 Other information	Amaze £000	Interact £000	The Chase £000	Eliminations £000	Consolidated £000
Capital additions	426	29	49	-	504
Depreciation and amortisation	360	194	75	-	629
Assets					
Segment assets	14,592	2,924	1,734	(916)	18,334
Unallocated corporate assets					7,630
Consolidated total assets					25,964
Liabilities					
Segment liabilities	7,967	579	566	(3,441)	5,671
Unallocated corporate liabilities					4,036
Consolidated total liabilities					9,707

2010	Amaze £000	Interact £000	The Chase £000	Consolidated £000
Revenue				
External sales	16,404	2,044	3,778	22,226
Result				
Segment result pre central costs	1,354	419	689	2,463
Central cost allocation [1]	(280)	(60)	(70)	(410)
Segment result	1,074	359	619	2,052
Unallocated corporate income				181
Headline operating profit				2,233
Share option charges				(93)
Exceptional costs [2]				(736)
Finance income				2
Notional finance costs on future deferred consideration				(106)
Finance costs				(202)
Profit before tax				1,098
Tax				(480)
Profit after tax				618

1) Represents management charges recharged by the parent company
2) Exceptional costs can be analysed as £490,000 for Amaze, £20,000 for Interact, £226,000 for the Chase.

7. Business and geographical segments (continued)

2010 Restated Other information	Amaze £000	Interact £000	The Chase £000	Discontinued operations £000	Eliminations £000	Consolidated £000
Capital additions	633	427	68	172	-	1,300
Depreciation and amortisation	205	18	69	261	-	553
Assets						
Segment assets	17,569	2,393	3,553	8,617	(4,052)	28,080
Unallocated corporate assets						16,326
Consolidated total assets						44,406
Liabilities						
Segment liabilities	8,071	477	1,211	2,987	(4,355)	8,391
Unallocated corporate liabilities						8,366
Consolidated total liabilities						16,757

Geographical segments

The Group's operations are located in the United Kingdom and Europe.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the services, which is not significantly different:

	Sales revenue by geographical market	
	2011 £000	2010 £000
United Kingdom	16,060	16,263
Rest of Europe	5,912	5,812
Other	787	150
	22,759	22,226

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2011 £000	2010 £000	2011 £000	2010 £000
United Kingdom	25,508	36,255	507	1,128
Rest of Europe	456	8,151	84	172
	25,964	44,406	591	1,300

8. Operating (Loss)/profit for the year

Operating (Loss)/p(rofit for the year has been arrived at after (crediting)/charging:

	2011 £000	Restated 2010 £000
Net foreign exchange gains	(140)	(64)
Amortisation of intangibles	290	99
Depreciation of owned property, plant and equipment	351	239
Depreciation of property, plant and equipment held under finance leases	26	52
Loss on disposal of property, plant and equipment	-	162
Exceptional costs	902	736
Goodwill impairment	2,709	-
Staff costs (see note 10)	10,420	10,815
Operating lease rentals – property	551	294
Operating lease rentals – other	104	22

Exceptional costs comprise; redundancy costs of £417,000 (2010: £460,000), relocation expenses of £101,000 (2010: £276,000) reorganisation costs of £107,000, exceptional bad debts of £128,000 and bank refinancing costs of £149,000. Research and development costs are disclosed in note 18.

9. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2011 £000	2010 £000
Fees payable to the Company's Auditor for:		
- Audit of the parent company	10	10
- Audit of subsidiary companies	30	30
Total audit fees	40	40
Audit related assurance services	3	3
Other services pursuant to legislation		
- Tax services	10	10
Other non-audit services not covered above	11	-
Total non-audit fees	24	13

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

10. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2011 Number	Restated 2010 Number
Direct	217	239
Administrative	50	52
	267	291

	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	9,029	9,410
Social security costs	1,003	1,070
Other pension costs	388	335
	10,420	10,815

Wages and salaries included share-based payments of £89,000 (2010: £93,000).

11. Directors' emoluments

The Directors' aggregate emoluments in respect of qualifying services were:

	2011 £000	2010 £000
Salaries and fees	559	647

Included in the above is £197,000 (2010: £171,000) of emoluments in respect of the highest paid Director. None of the Directors are accruing retirement benefits under Money Purchase pension schemes (2010: same).

The Directors are also considered to be the Key Management Personnel of the Group, as defined in IAS 24. The charge for share-based payments in respect of the Directors was £89,000 (2010: £93,000).

12. Net finance costs

	2011 £000	2010 £000
Finance income		
Interest on bank deposits	1	2

	2011 £000	2010 £000
Finance costs		
Interest on bank overdrafts and loans	214	202
Notional finance cost on deferred consideration	19	106
	233	308

13. Tax

	2011 £000	Restated 2010 £000
Current tax	30	300
Deferred tax	137	23
Under provision of corporation tax in previous year	(92)	157
	75	480

Corporation tax is calculated at 26.5% (2010: 28%) of the estimated assessable profit for the year.

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

The tax charge in 2010 of £670,000 is made up of £190,000 reclassified to discontinued operations and £480,000 relating to continuing operations.

The charge for the year can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	2011 £000	Restated 2010 £000
(Loss)/ profit before tax from continuing operations	(3,000)	1,098
Tax at the UK corporation tax rate of 26.5% (2010: 28%)	(795)	307
Effect of tax losses not provided	-	(54)
Effect of expenses that are not deductible in determining taxable profit	113	70
Enhanced R&D expenditure	(64)	-
Deferred tax not recognised on losses arising in the year	153	-
Effect of change in rate of deferred tax	(67)	-
Adjustments in respect of previous years	22	157
Goodwill impairment	713	-
Tax charge for the year	75	480

14. Discontinued operations

On 14 July 2011, the Group entered into an agreement to dispose of the Interel group of companies, which carried out all of the group's Public Affairs and Corporate Communications operations. The disposal was completed on 14 July 2011, on which date control of Interel passed to the acquirer.

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

	Period ended 14 July 2011 £000	Year ended 2010 £000
Revenue	6,903	13,132
Expenses	(6,329)	(12,103)
Profit before tax	574	1,029
Attributable tax expense	(175)	(190)
Profit for the year from discontinued operations	399	839
Loss on disposal of discontinued operations (see note 34)	(7,079)	-
Net loss attributable to discontinued operations (attributable to owners of the Company)	(6,680)	839

During the year, Interel contributed £399,000 (2010: £839,000) to the group's net operating cash flows, paid £nil (2010: £nil) in respect of investing activities and paid £nil (2010: £9,000) in respect of financing activities.

A loss of £7,079,000 arose on the disposal of Interel, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill.

The effect of discontinued operations on 2010 segment results is disclosed in note 7. There was no impact on 2011 as Interel was previously presented as a separate segment.

15. Dividends

	2011 £000	2010 £000
Proposed final dividend for the year ended 31 December 2011 of 1.00p (2010: 0.5p) per share.	230	119

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

16. (Loss)/earnings per share

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

(Loss)/earnings

	2011 £000	2010 £000
Continuing and discontinued operations		
Earnings for the purposes of total basic (loss)/ earnings per share being net (loss)/ profit	(9,755)	1,457
Continuing operations		
Earnings for the purposes of continuing basic (loss)/ earnings per share being net (loss)/ profit	(3,075)	618

	Number 000's	Number 000's
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	23,863	23,831
Effect of dilutive potential ordinary shares:		
Share options	280	292
Weighted average number of ordinary shares for the purposes of diluted earnings per share	24,143	24,123

In accordance with IAS 33, antidilutive potential ordinary shares have been disregarded in the calculation of diluted EPS.

Headline earnings per share

The calculation of headline basic and headline diluted earnings per share is based on the earnings after adjustments as follows:

	2011 £000	2010 £000
(Loss)/ profit for the financial year	(9,755)	1,457
Share option charges	89	93
Exceptional costs (net of tax relief)	663	691
Goodwill impairment	2,709	-
Notional finance cost on deferred consideration	19	106
Deferred tax timing difference on acquired goodwill	-	218
Discontinued operations	(399)	(839)
Loss on disposal of subsidiary	7,079	-
Headline earnings	405	1,726

17. Goodwill

	£000
Cost	
At 1 January 2010	33,503
Exchange differences	(556)
Fair value adjustments to consideration	(246)
At 1 January 2011	32,701
Exchange differences	(8)
Fair value adjustments to consideration	(8)
Disposal of Subsidiary	(12,912)
At 31 December 2011	19,773
Accumulated impairment losses	
At 1 January 2010	-
Impaired during the year	(2,709)
At 31 December 2011	(2,709)
Carrying amount	
At 31 December 2011	17,064
At 31 December 2010	32,701

Fair value adjustments to consideration represent reassessments of deferred consideration payable on acquisitions taking place prior to the introduction of IFRS 3 (Revised).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The 2010 balances have been restated to reflect the change in the Group's reportable segments as detailed in note 7. After recognition of impairment losses, the carrying amount of goodwill had been allocated to each business segment as follows:

	2011 £000	Restated 2010 £000
Amaze	12,765	12,946
Interact	3,124	3,124
The Chase	1,175	3,719
Interel	-	12,912
	17,064	32,701

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows following this period based on an average estimated growth rate of 2 per cent. This rate does not exceed the average long-term growth rate for the relevant markets.

17. Goodwill (continued)

The rate used to discount the forecast cash flows is the Group's estimated weighted average cost of capital of 12.0% (2010: 9.5%).

Having reviewed the cash flow forecasts in light of recent results and changes in expectations, the Group has reduced the carrying amount of Goodwill at the year end, to its value in use based on the revised forecasts. Accordingly, the Group has recognised £2,709,000 of impairment loss primarily against The Chase.

The value in use of the Group's goodwill exceeds its carrying amount by £1.7m. An increase of 0.9% in the discount rate or a decrease in the long term growth rate to 0.5% per annum would result in the value in use of the Group's goodwill being reduced to its carrying amount.

18. Other intangible assets

	Development expenditure £000
Cost	
At 1 January 2010	421
Additions	315
At 1 January 2011	736
Additions	321
At 31 December 2011	1,057
Accumulated amortisation	
At 1 January 2010	55
Charge for the year	99
At 1 January 2011	154
Charge for the year	290
Carrying amount	444
At 31 December 2011	613
At 31 December 2010	582

The amortisation period for development costs incurred on the Group's intranet development is four years.

19. Property, plant and equipment

	Leasehold improvements £000	Fixtures and equipment £000	Total £000
Cost			
At 1 January 2010	561	4,047	4,608
Additions	550	440	990
Exchange differences	(14)	(86)	(100)
Disposals	(162)	(1,387)	(1,549)
At 1 January 2011	935	3,014	3,949
Additions	207	384	591
Disposal of subsidiary	(342)	(1,748)	(2,090)
Disposals	(8)	(46)	(54)
At 31 December 2011	792	1,604	2,396
Accumulated depreciation			
At 1 January 2010	224	2,916	3,140
Charge for the year	87	466	553
Exchange differences	(8)	(55)	(63)
Eliminated on disposals	(30)	(1,357)	(1,387)
At 1 January 2011	273	1,970	2,243
Charge for the year	137	420	557
Disposal of subsidiary	(220)	(1,267)	(1,487)
Eliminated on disposals	(8)	(26)	(34)
At 31 December 2011	182	1,097	1,279
Carrying amount			
At 31 December 2011	610	507	1,117
At 31 December 2010	662	1,044	1,706

The Group's obligations under finance leases are secured by the lessors' title to the leased assets. All of the assets held under finance leases are fixtures and equipment and have a carrying amount of £168,000 (2010: £224,000).

20. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 5 to the Company's separate financial statements.

21. Other financial assets

Trade and other receivables

	2011 £000	2010 £000
Trade receivables	4,546	7,222
Other debtors	1,077	617
Prepayments and accrued income	342	1,281
	5,965	9,120

Trade receivables
The average credit period given on sales of services is 40 days (2010: 40 days).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Of the trade receivables balance at the end of the year, £1,175,000 (2010: £520,000) is due from the Group's 4 largest customers. The Group monitors the credit quality of these customers and any changes are reflected in the carrying value of the related trade receivable. There are no other customers who individually represent more than 5 per cent of the total balance of trade receivables. The level of provision is based on a review by the Directors, taking into account objective evidence around the credit quality of the counterparties and any other observable changes in economic conditions.

Included in the Group's trade receivable balance is £720,000 (2010: £654,000) which was past due at the reporting date for which the Group had not provided as there had not been a significant change in credit quality and the amounts were still considered recoverable and amounts were recovered in full after the balance sheet date The Group did not hold any collateral over these balances. The average age of these receivables is 57 days (2010: 94 days).

Ageing of past due but not impaired receivables	2011 £000	2010 £000
30-60 days	300	-
60-90 days	160	280
90-120 days	159	274
Greater than 120 days	101	100
Total	720	654

Movement in the allowance for doubtful debts	2011 £000	2010 £000
Balance at the beginning of the year	142	118
Written off	-	(28)
Disposed of with subsidiary	(120)	-
Recognised in the year	32	52
Balance at the end of the year	52	142

Ageing of impaired trade receivables

	2011 £000	2010 £000
Greater than 120 days	52	142

The Group has recorded an exceptional bad debt write off of £128,000 in the year (2010:nil) in respect of one customer which entered into Administration and subsequently ceased trading.

21. Other Financial Assets (continued)

Cash and cash equivalents

	2011 £000	2010 £000
Cash and cash equivalents	1,069	-

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

22. Borrowings

	2011 £000	2010 £000
Secured borrowing at amortised cost		
Bank overdraft and revolving credit facility	-	2,476
Bank loans	2,416	4,044
	2,416	6,520
Total borrowings		
Amount due for settlement within 12 months	241	3,476
Amount due for settlement after 12 months	2175	3,044

	Sterling £000	Euros £000	Total £000
Analysis of borrowings by currency:			
31 December 2011			
Bank loans	-	2,416	2,416
31 December 2010			
Bank overdraft and revolving credit facility	2,192	284	2,476
Bank loans	1,500	2,544	4,044
	3,692	2,828	6,520

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

(i) The bank loan is secured by a fixed and floating charge over the assets of the Group. The loan is repayable in quarterly instalments of €290,000 commencing October 2012. The loan carries interest at 2.6% above LIBOR.

(ii) The Group has available committed overdraft facilities of £1 million.

Undrawn borrowing facilities
At 31 December 2011, the Group had available £1 million (2010: £Nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Financial risk management policy and objectives

The Group's principal financial instruments comprise bank loans and overdrafts and finance leases. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also has various other financial instruments that arise directly from its operations, such as trade receivables and payables.

22. Borrowings (continued)

Throughout the year and subsequently it has been the Group's policy that no trading in financial instruments is undertaken.

Interest rate risk

The Group's operations are cash generative and it funds acquisitions through a combination of retained profits and borrowings. The Group's variable rate borrowings are exposed to interest rate risk.

If interest rates had been 50 basis points higher and all other variables were held constant, the Group's loss for the year ended 31 December 2011 would increase and net assets at that date would decrease by £41,000 (2010: profits and net assets would decrease by £24,000).

Currency risk

The Group has borrowings and undertakes certain transactions denominated in Euros and exposures to exchange rate fluctuations therefore arise. If the Euro exchange rate had been 10 per cent higher and all other variables were held constant, the Group's loss for the year ended 31 December 2011 would increase by £240,000 (2010: profit would increase by £116,000) and net assets at that date would decrease by £240,000 (2010: decrease by £768,000)

Liquidity risk

The Group maintains a mixture of short and long-term borrowings to manage this risk. The Group seeks to ensure sufficient liquidity is available to meet foreseeable needs.

Capital management

The primary objective of the Group's capital management is to support its business and maximise shareholder value. The Group manages its capital structure and makes changes to it in the light of changes in economic conditions and business requirements. To maintain or adjust the capital structure, the group may raise additional or pay down debt finance, adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

23. Operating lease commitments

As at 31 December the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
In one year or less	660	60	1,723	180
Between one and five years	2,399	89	3,231	96
In five years or more	438	-	985	-
	3,497	149	5,939	276

24. Deferred tax

The following are the major deferred tax (liabilities) and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Tax losses £000	Accelerated capital allowances £000	Development cost timing differences £000	Goodwill timing differences £000	Total £000
At 1 January 2010	-	45	-	(552)	(507)
Release/(charge) to income	195	-	-	(218)	(23)
At 1 January 2011	195	45	-	(770)	(530)
Release/(charge) to income	-	10	(195)	54	(131)
Disposed of with subsidiary	(195)	-	-	-	(195)
At 31 December 2011	-	55	(195)	(716)	(856)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting:

	2011 £000	2010 £000
Deferred tax liabilities	(929)	(770)
Deferred tax assets	73	240
	(856)	(530)

Finance Act 2011, which was substantively enacted in July 2011, included provisions to reduce the rate of corporation tax to 26% with effect from 1 April 2011 and 25% with effect from 1 April 2012. Accordingly, deferred tax balances have been revalued to the lower rate of 25% in these accounts which has resulted in a credit to the profit & loss account of £67,000.

On 21 March 2012, the government announced that it intends to further reduce the rate of corporation tax to 24% with effect from 1 April 2012, 23% from 1 April 2013 and 22% from 1 April 2014. As this legislation was not substantively enacted by 31 December 2011, the impact of the anticipated rate changes have not been reflected in the tax provisions reported in these accounts. If the deferred tax assets and liabilities of the Hasgrove group were all to reverse after 1 April 2014, the effect of the future changes from 25% to 22% would be to reduce the net deferred tax liability by £103,000. To the extent that the deferred tax reverses more quickly than this the impact on the net deferred tax liability will be reduced.

25. Trade and other payables

	2011 £000	2010 £000
Trade payables	1,800	2,400
Social security and other taxes	908	1,113
Accruals and deferred income	2,669	3,209
	5,377	6,722

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

The average credit period on purchases of goods and services is 35 (2010: 35) days, based on the average daily amount invoiced by suppliers during the year.

26. Provisions

	Deferred consideration £000
At 1 January 2011	2,290
Disposed of with Subsidiary	(384)
Settled in the year	
Cash	(912)
Shares	(144)
Adjustment to consideration on previous acquisitions	(12)
Notional finance charge on future deferred consideration	16
At 31 December 2011	854
Included in current liabilities	764
Included in non-current liabilities	90
	854

The Directors consider that the carrying amount of the above liabilities approximate to their fair value. There was no change in the year to the notional interest rate used of 5.5% for Sterling denominated deferred consideration and 3.5% for Euro denominated deferred consideration.

The deferred consideration will be settled by a mixture of cash, loan notes and new ordinary shares, dependent on the terms of the relevant sale and purchase agreement. Total estimated earn-out payments, including shares, are £764,000 in 2011, with the remainder due over the following three years.

27. Share capital

	2011 £000	2010 £000
Issued and fully paid:		
24,135,604 (2010: 23,831,000) ordinary shares of £0.10 each	2,414	2,383

The Company has one class of ordinary shares which carry no right to fixed income.

28. Share premium account

	£000
Balance at 1 January 2010 and 1 January 2011	14,959
Premium arising on issue of equity shares	120
Balance at 31 December 2011	15,079

29. Translation reserve

	£000
Balance at 1 January 2010	2,353
Exchange differences on translation of foreign operations	(786)
Gain recognised on net investment hedge	191
Balance at 1 January 2011	1,758
Transfer to income statement on disposal of subsidiary	(1,758)
Balance at 31 December 2011	-

30. Retained earnings

	£000
Balance at 1 January 2010	7,118
Net profit for the year	1,457
Credit to equity for equity-settled share-based payments	93
Dividend paid	(119)
Balance at 1 January 2011	8,549
Net loss for the year	(9,755)
Credit to equity for equity-settled share-based payments	89
Dividend paid	(119)
Balance at 31 December 2011	(1,236)

31. Notes to the consolidated statement of cash flows

	2011 £000	2010 £000
Operating (loss)/ profit for the year	(2,768)	2,442
Adjustments for:		
Operating profit from discontinued operations	574	-
Depreciation of property, plant and equipment	557	553
Amortisation	290	99
Share-based payment expense	89	93
Loss on disposal of fixed assets	-	162
Impairment of goodwill	2,709	-
Operating cash flows before movements in working capital	1,451	3,349
Decrease) / (increase) in inventories	57	(16)
(Increase) in receivables	(301)	(676)
Increase in payables	1,019	841
Cash generated by operations	2,226	3,498

Additions to fixtures and equipment during the year amounting to £nil were financed by new finance leases (2010: £135,000).

Cash and cash equivalents in the statement of financial position and the cash flow statement are cash balances and deposits held at call with banks with original maturities of three months or less. It also includes the overdrafts repayable on demand, on the basis that these form an integral part of the Group's cash management and there exists a right of offset. Cash and cash equivalents are made up as follows:

	2011 £000	2010 £000
Cash balances and deposits	1,347	-
Overdrafts repayable on demand	(278)	(467)
Cash and cash equivalents	1,069	(467)

32. Share-based payments

Equity-settled share option scheme

The Company has share option schemes for employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of five years from the date of grant the options expire. Options are forfeited if the employee leaves the Group. Details of the share options outstanding during the year are as follows.

	2011		2010	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at beginning of year	1,649,000	50p	1,554,000	70p
Granted during the year	-		710,000	49p
Lapsed during the year	-		(615,000)	98p
Exercised during the year	(75,000)	10p	-	
Outstanding at the end of the year	1,574,000	51p	1,649,000	50p
Exercisable at the end of the year	615,000	52p	615,000	50p
Average remaining life of outstanding options	7 years		8 years	

The Group recognised total expenses of £89,000 and £93,000 related to equity-settled share-based payment transactions in 2011 and 2010 respectively.

The inputs into the Black-Scholes model are as follows:

Year of grant	2007	2008	2008	2008	2009	2009	2010
Weighted average share price	142.5p	105.0p	123.5p	102.0p	90.0p	90.0p	48.5p
Weighted average exercise price	142.5p	105.0p	123.5p	102.0p	10.0p	90.0p	48.5p
Expected volatility	6.9%	5.4%	5.0%	4.9%	4.7%	4.7%	4.5%
Expected life	4 years	4 years	4 years	4 years	4 years	4 years	4 years
Risk-free rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

33. Retirement benefits

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. The total cost charged to income of £389,000 (2010 restated: £335,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans.

34. Disposal of subsidiary

As referred to in note 14, on 14 July 2011 the group disposed of its interest in Interel.

The net assets of Interel at the date of disposal and at 31 December 2010 were as follows:

	14 July 2011 £	31 December 2010 £
Property, plant and equipment	604	651
Inventories	3,898	3,787
Trade receivables	-	852
Bank balances and cash	1,224	1,175
Deferred tax asset	195	195
Current tax liability	(175)	(192)
Trade payables	(2,376)	(1,996)
	3,370	4,472

Attributable goodwill	12,912
Accumulated translation differences	(1,758)
Loss on disposal	(7,079)
Total consideration	7,445
Satisfied by:	
Cash and cash equivalents	6,401
Deferred cash consideration	1,289
Costs of disposal	(245)
	7,445
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	6,401
Less: cash and cash equivalents disposed of	(1,224)
	5,177

The deferred cash consideration will be settled by the purchaser on or before 31 July 2013.

The impact of Interel on the group's results in the current and prior periods is disclosed in note 14.

Company Income Statement
Year ended 31 December 2011

	Note	2011 £000	2010 £000
Continuing operations			
Operating Revenue			
- Management charges	12	379	851
- Dividends from subsidiaries		2,398	1,101
Administrative expenses before separately identified items		(723)	(558)
Headline operating profit		2,054	1,394
Exceptional costs	2	(276)	-
Investment Impairment	5	(2,500)	-
Total administrative expenses		(3,499)	(558)
Operating (loss)/profit	2	(722)	1,394
Finance costs	3	(233)	(252)
(Loss)/profit before tax		(955)	1,142
Tax	4	-	(22)
Net (loss)/profit attributable to equity shareholders		(955)	1,120

Company Statement of Comprehensive Income
Year ended 31 December 2011

	2011 £000	2010 £000
(Loss)/profit for the year	(955)	1,120
Other comprehensive income		
Gains on a hedge of a net investment taken to equity	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	(955)	1,120

Company Statement of Financial Position
At 31 December 2011

	Note	2011 £000	2010 £000
Non-current assets			
Investment in subsidiaries	5	12,333	17,807
Property, plant and equipment		5	4
		12,338	17,811
Current assets			
Amounts due from other Group entities		9,885	10,846
Trade and other receivables	6	6	121
		9,891	10,967
Total assets		22,229	28,778
Current liabilities			
Amounts due to other Group entities		(1,491)	-
Trade and other payables	7	(271)	(83)
Cash and cash equivalents - overdraft	7	(279)	(3,145)
Borrowings	7	(241)	(3,009)
Provisions	8	(350)	(1,241)
Net current liabilities		(2,632)	(7,478)
Non-current liabilities			
Borrowings	7	(2,175)	(3,044)
Total liabilities		(4,807)	(10,522)
Net assets		17,422	18,256
Equity			
Share capital	9	2,414	2,383
Share premium account	9	15,079	14,959
Translation reserve	11	-	(643)
Retained earnings	10	(71)	1,557
Total equity		17,422	18,256

The financial statements of Hasgrove plc registered number 05247414 were approved by the board of Directors and authorised for issue on 26 April 2012. They were signed on its behalf by:

P A Sanders

S P Collins

Company Statement of Changes in Equity
Year Ended 31 December 2011

	Share capital £000	Share premium account £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2010	2,383	14,959	(810)	630	17,162
Profit for the year	-	-	-	1,120	1,120
Reclassification of currency movement	-	-	167	(167)	-
Total comprehensive income for the year	-	-	167	953	1,120
Dividends	-	-	-	(119)	(119)
Credit to equity for equity-settled share based payments	-	-	-	93	93
Balance at 31 December 2010	2,383	14,959	(643)	1,557	18,256
Loss for the year	-	-	-	(955)	(955)
Total comprehensive income for the year	-	-	-	(955)	(955)
Issue of share capital	31	120	-	-	151
Dividends	-	-	-	(119)	(119)
Credit to equity for equity-settled share based payments	-	-	-	89	89
Reclassification on disposal of foreign currency investment	-	-	643	(643)	-
Balance at 31 December 2011	2,414	15,079	-	(71)	17,422

Company Statement of Cash Flows
Year ended 31 December 2011

	2011 £000	2010 £000
Cash (used in)/generated by operations (see note 13)	(204)	215
Income taxes paid	-	(77)
Net cash (used in)/generated by operating activities	(204)	138
Investing activities		
Interest paid	(233)	(185)
Purchase of property, plant and equipment	-	(2)
Payment of deferred consideration	(849)	(574)
Net cash used in investing activities	(1,082)	(761)
Financing activities		
Dividends paid	(119)	(119)
Repayments of borrowings	(6,053)	(500)
New borrowings	2,522	-
Cash received from Group undertakings	7,824	479
Decrease in revolving credit facility	-	83
Net cash inflow/(outflow)/from financing activities	4,174	(57)
Net increase/ (decrease) in cash and cash equivalents	2,888	(680)
Cash and cash equivalents at beginning of year	(3,145)	(2,465)
Cash and cash equivalents at end of year	(279)	(3,145)

1. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Revenue from dividends and management charges is recognised when the Company has the unconditional right of receipt.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

2. Operating (loss)/profit

Operating (Loss)/Profit for the year has been arrived at after (crediting)/charging:

	2011 £000	2010 £000
Depreciation of owned property, plant and equipment	1	1
Auditor's remuneration	10	10
Exceptional Costs	276	-
Staff Costs	404	460

Exceptional costs comprise redundancy and reorganisation costs £127,000 and bank refinancing costs £149,000

3. Finance costs

	2011 £000	2010 £000
Interest on borrowings	230	185
Notional finance charge on deferred consideration	3	67
	233	252

4. Tax

	2011 £000	2010 £000
Current tax	-	-
Under-provision in prior year	-	22
	-	22

Corporation tax is calculated at 26.5% (2010: 28%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the (loss)/profit per the company income statement as follows:

	2011 £000	2010 £000
(Loss)/profit before tax	(955)	1,142
Tax at the UK corporation tax rate of 26.5% (2010: 28%)	(253)	320
Tax effect of income that is not taxable in determining taxable profit	(635)	(308)
Tax effect of expenses that are not deductible in determining taxable profit	663	19
Losses group relieved/(group relief received)	128	(31)
Losses not relieved	97	
Adjustment in respect of prior years	-	22
Tax charge for the year	-	22

Details to future changes in tax rates are set out in note 24 of the Consolidated Financial Statements

5. Subsidiaries

	£000
Cost	
At 1 January 2010	17,961
Fair value adjustments to consideration	(154)
At 1 January 2011	17,807
Fair value adjustments to consideration	
Transferred to group undertakings	(3,000)
Impairment of investment	(2,500)
Fair value adjustment to consideration	26
At 31 December 2011	12,333

Fair value adjustments to consideration represent reassessments of deferred consideration payable on acquisitions taking place prior to the introduction of IFRS 3 (Revised).

The impairment in the carrying value of its investment in subsidiaries follows a review by the Company of the cash flow forecasts of it's subsidiaries as detailed in note 17 to the consolidated financial statements.

Details of the Company's subsidiaries at 31 December 2011 are as follows:

		Proportion of the Ordinary Shares and voting rights held by:	
Name	**Principal activity in the year**	**Company**	**Subsidiaries**
Amaze Communications Services (Holdings) Limited	Intermediate holding company	-	100%
Amaze Communications Services Limited	Strategic marketing, creative advertising and technical internet software solutions	-	100%
Amaze (Europe) Limited	Software solutions	-	100%
Amaze (Holdings) Limited	Intermediate holding company	-	100%
Amaze plc	Advertising and marketing agents	100%	-
Amaze Technology Limited	Digital technical consultancy	-	100%
The Chase Creative Consultants Limited	Graphic design	100%	-
Chase Digital Limited	Digital design	-	100%
Hailstones Creative SCRL (Registered in Belgium)	Corporate design	-	100%
Hasgrove UK Limited (formerly Interel Holdings Limited)	Intermediate holding company	100%	-
Landmarks SA (Registered in Belgium)	Corporate design	-	100%
Odyssey Interactive Limited trading as Interact	Intranet provider	100%	-
Underwired Amaze Limited	eCRM and digital services	-	100%

The above list excludes details of non-trading dormant subsidiaries, although all subsidiaries are included in the consolidated financial statements. Except where indicated, all companies are incorporated in the United Kingdom.

6. Trade and other receivables

	2011 £000	2010 £000
Other debtors	-	73
Prepayments and accrued income	6	48
	6	121

7. Other financial liabilities

Trade and other payables	2011 £000	2010 £000
Trade and other payables	183	23
Social security and other taxes	3	6
Accruals and deferred income	85	54
	271	83

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

Borrowings

	2011 £000	2010 £000
Secured borrowing at amortised cost		
Cash and cash equivalents - Overdraft	279	3,145
Bank loans due within one year	241	3,009
Bank loans due after one year	2,175	3,044
	2,695	9,198
Total borrowings		
Amount due for settlement within 12 months	520	6,154
Amount due for settlement after 12 months	2,175	3,044

Details of the bank loans are given in note 22 to the consolidated financial statements.

8. Provisions

	Deferred consideration £000
At 1 January 2011	1,241
Settled in the year	
Cash	(461)
Shares	(144)
Adjustment to consideration on previous acquisitions	26
Transferred to group undertakings	(315)
Notional finance charge on future deferred consideration	3
At 31 December 2011	350
Included in current liabilities	350
Included in non-current liabilities	-
	350

The Directors consider that the above liabilities approximate to their fair value. There was no change in the year to the notional interest rate used of 5.5% for Sterling denominated deferred consideration and 3.5% for Euro denominated deferred consideration.

The deferred consideration will be settled by a mixture of cash, loan notes and new ordinary shares, dependent on the terms of the relevant sale and purchase agreement.

9. Share capital and share premium account

The movements on these items are disclosed in notes 27 and 28 to the consolidated financial statements.

10. Retained earnings

	£000
Balance at 1 January 2010	630
Profit for the year	1,120
Share option charge	93
Dividends paid	(119)
Transfer to translation reserve	(167)
Balance at 1 January 2011	1,557
Loss for the year	(955)
Share option charge	89
Dividends paid	(119)
Transfer from translation reserve	(643)
Balance at 31 December 2011	(71)

11. Translation reserve

	Total £000
Balance at 1 January 2011	(643)
Transfer to retained earnings	643
Balance at 31 December 2011	-

12. Related parties

Transactions with related parties include management charges for services provided to the subsidiary companies, as disclosed on the face of the Company's income statement. Amounts owed by subsidiary companies are as disclosed on the face of the Company's statement of financial position.

13. Notes to the Company statement of cash flows

	2011 £000	2010 £000
Operating (loss)/ profit for the year	(722)	1,394
Adjustments for:		
Depreciation	1	1
Dividends received	(2,398)	(1,101)
Foreign exchange losses/ (gains)	23	(166)
Share-based payment expense	89	93
Impairment of cost of investment	2,500	-
Operating cash flows before movements in working capital	(507)	221
Decrease/(increase) in receivables	115	(24)
Increase in payables	188	18
Cash (used in)/ generated by operations	(204)	215

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less. Cash and cash equivalents in the cash flow statement are made up as follows:

	2011 £000	2010 £000
Overdrafts repayable on demand	(279)	(3,145)
Cash and cash equivalents in the cash flow statement	(279)	(3,145)

Professional Advisers

Company registration number 5247414

Nominated Adviser and Stockbroker
Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET

Auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
United Kingdom

Solicitors
Semple Fraser LLP
1 Portland Street
Manchester
M1 3BE

Bankers
Barclays Corporate
1 St Paul's Place
121 Norfolk Street
Sheffield
S1 2JW

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Financial PR
College Hill
78 Cannon Street
London
EC4N 6HH

Calendar

30 June	2012 Financial Half Year
29 June	2012 Annual General Meeting
18 July	Dividend payment
September	Announcement of 2012 interim results
31 December	2012 financial year end

Contact Details

Registered and head office
6th Floor
Number One First Street
Manchester
M15 4FN

Telephone number:
0161 242 5650

Website:
www.hasgrove.com

Chairman
Godfrey Lionel Fozard Taylor
godfrey.taylor@hasgrove.com

Chief Executive
Paul Antony Sanders
paul.sanders@hasgrove.com

Group Finance Director & Company Secretary
Stephen Collins
s.collins@amaze.com