

Notes to the accounts continued

19 Deferred taxation

Temporary differences between the carrying value of assets and liabilities in the balance sheet and their relevant value for tax purposes result in the following deferred tax assets and liabilities:

	Total £'000	Accelerated capital allowances £'000	Short-term compensated absences £'000	Share-based remuneration £'000	Provision for impairment of trade receivables £'000	Excess book basis over tax basis of intangible assets £'000	Derivative financial instruments £'000	Other temporary differences £'000
At 1 August 2007	2,157	537	441	279	30	(55)	(21)	946
Credit/(charge) to income	(571)	(10)	53	9	10	(93)	210	(750)
Exchange differences	12	7	–	–	1	(3)	–	7
Taken to equity:								
Share option schemes	(162)	–	–	(162)	–	–	–	–
At 31 July 2008	1,436	534	494	126	41	(151)	189	203
Credit/(charge) to income	104	90	(183)	(63)	7	83	(17)	187
Exchange difference	106	46	62	–	7	(19)	–	10
Taken to equity:								
Share option schemes	7	–	–	7	–	–	–	–
At 31 July 2009	1,653	670	373	70	55	(87)	172	400

After netting off balances, the following are the deferred tax assets and liabilities recognised in the consolidated balance sheet:

	2009 £'000	2008 £'000
Net deferred tax balance		
Deferred tax assets	1,695	1,468
Deferred tax liabilities	(42)	(32)
Net deferred tax asset	1,653	1,436

Deferred tax has been calculated using the anticipated rates that will apply when the assets and liabilities are expected to reverse based on tax rates enacted or substantively enacted by the balance sheet date. The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned.

20 Financial instruments

Financial risk management, policies and strategies

The Group's principal financial instruments comprise bank loans, finance leases, cash and short-term deposits and derivative financial instruments. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from operations.

The Group enters into derivative transactions, primarily cap-and-collar interest rate and forward foreign exchange contracts. The purpose of such contracts is to protect the profits and surplus funds arising in principal markets from currency fluctuations and to manage the interest rate risks on the Group's sources of finance. At 31 July 2009 a total of \$2,400,000 and €1,875,000 was protected by the derivative foreign exchange transactions entered into by the Group.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

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20 Financial instruments (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates and cap-and-collar interest rate derivatives.

The Group's policy is to manage its interest costs arising on variable rate debts by entering into interest rate cap-and-collar contracts. These agreements are designated to protect underlying debt obligations against significant increases in interest rates as required under the terms of the Group's revolving loan facility with Barclays Bank. At 31 July 2009 all US dollar borrowings have been capped at 6.25%.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax at 31 July 2009 based on year end balances and rates.

	Movement in basis points	2009 £'000	2008 £'000
United Kingdom	+200	(5)	(18)
US	+200	143	180
Eurozone	+200	–	(8)

A rise in US interest rates of 2% would give a positive movement of £240,000 (2008: £260,000) in the fair value of the interest rate cap-and-collar contract.

Liquidity risk

The Group manages its risk to a shortage of funds with a mixture of long and short-term committed facilities. As at 31 July 2009 the Group had undrawn committed facilities of £6,000,000 (2008: £7,500,000). In addition, the Group has an overdraft facility of £1,500,000 at a rate of 2.25% above Barclays Bank's base rate, available in sterling, US dollar and euro, and an overdraft facility of £1,206,000 (\$2,000,000) at a rate of Wells Fargo Bank's prime rate or LIBOR +1.25%, available in US dollars. The Barclays Bank's overdraft facility is reviewed at the bank's discretion with no expiry date. The Wells Fargo Bank's overdraft facility is reviewed on an annual basis and expires in December 2009. The following table summarises the maturity profile based on the remaining period at the balance sheet to the contractual maturity date of the Group's financial liabilities at 31 July 2009 and 2008 based on contractual undiscounted payments:

	Within one year £'000	Greater than one year £'000	Total £'000
As at 31 July 2009			
Financial liabilities	14,587	132	14,719
Derivative financial instruments – cash inflows	(2,870)	–	(2,870)
Derivative financial instruments – cash outflows	3,218	438	3,656
	14,935	570	15,505
As at 31 July 2008			
Financial liabilities	20,161	6,727	26,888
Derivative financial instruments – cash inflows	(2,162)	(338)	(2,500)
Derivative financial instruments – cash outflows	2,620	654	3,274
	20,619	7,043	27,662

Notes to the accounts continued

20 Financial instruments (continued)

Currency risk

As a result of significant global operations, the Group's balance sheet can be affected significantly by movements in the foreign exchange rates against sterling. This is largely through the translation of balances denominated in a currency other than the functional currency of an entity. It is the Group's policy to manage these risks through the use of currency derivatives and spot transactions. The Group has transactional currency exposures in the Europe and Africa region, foreign currency bank accounts and inter-company recharges. The Group uses currency derivatives to protect significant US dollar and euro currency exposures against changes in exchange rates.

The following table demonstrates the sensitivity to reasonable possible changes in exchange rates, with all other variables held constant, of the Group's profit before tax at 31 July 2009 based on year end balances and rates.

	Weakening against sterling	2009 £'000	2008 £'000
US dollar	20%	(2,955)	1,497
Euro	20%	73	457
Australian dollar	20%	(682)	(278)
Chinese renminbi	20%	(448)	(92)
Hong Kong dollar	20%	9	(106)
Indian rupee	20%	92	(21)
Japanese yen	20%	12	(82)
Norwegian kroner	20%	(8)	(33)
Singapore dollar	20%	(180)	3
South African rand	20%	(17)	(69)

A movement in exchange rates of -20% would give a positive movement of £310,000 (2008: £840,000) on the US dollar currency derivatives and £340,000 (2008: £640,000) on the euro currency derivatives.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables which represent the Group's maximum exposure to credit risk in relation to financial assets. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that customers who wish to trade on credit terms be subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts has not been significant. The amounts presented in the balance sheet are net of provisions for impairment of trade receivables, estimated by the Group's management based on experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies, although the Board recognises that in the current economic climate these indicators cannot be relied upon exclusively.

Maximum exposure to credit risk:

	2009 £'000	2008 £'000
Total trade and other receivables	15,128	16,371
Cash and cash equivalents	7,130	9,525

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed below, cash and cash equivalents attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings disclosed in notes 21, 24 and 25.

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Capital risk management (continued)

	2009 £'000	2008 £'000
Cash and cash equivalents	7,130	9,525
Total loans and borrowings	(5,078)	(5,315)
Finance leases	(267)	(800)
Net funds	1,785	3,410
Equity attributable to equity holders of the parent	24,147	19,392
Total capital	25,932	22,802

Externally imposed capital requirement

Under the terms of the Group's banking covenants the Group must meet certain criteria based on gross borrowings to earnings before interest, tax, depreciation, amortisation and impairment, interest cover and guarantee ratios on turnover, operating profit, total assets and total operating cash flows to consolidated gross financing costs. There have been no un-waived breaches of the banking covenants in the current or prior years.

Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument can be exchanged in an arm's-length transaction between informed and willing parties, other than a forced or liquidation sale.

The book value of the Group's financial assets and liabilities equals the fair value of such items as at 31 July 2009, with the exception of obligations under finance leases. The book value of obligations under finance leases is £267,000 (2008: £800,000) and the fair value is £291,000 (2008: £896,000).

Financial instruments – detailed disclosures

Financial instruments recognised in the balance sheet

The IAS 39 categories of financial assets and liabilities included in the balance sheet and the heading in which they are included are as follows:

	At fair value through profit and loss account £'000	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 July 2009				
Non-current financial assets				
Other receivables	–	–	533	533
	–	–	533	533
Current financial assets				
Cash and cash equivalents	–	–	7,130	7,130
Trade and other receivables	–	–	14,595	14,595
	–	–	21,725	21,725
Current financial liabilities				
Loans and borrowings	–	156	–	156
Trade and other payables	–	13,679	–	13,679
Deferred consideration	–	228	–	228
Share purchase obligation	–	–	–	–
Derivative financial liabilities	615	–	–	615
	615	14,063	–	14,678
Non-current financial liabilities				
Loans and borrowings	–	4,922	–	4,922
Obligations under finance leases	–	73	–	73
Provisions	–	282	–	282
Deferred consideration	–	–	–	–
	–	5,277	–	5,277

Notes to the accounts continued

20 Financial instruments (continued)

Financial instruments recognised in the balance sheet (continued)

	At fair value through profit and loss account £'000	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 July 2008				
Non-current financial assets				
Other receivables	–	–	651	651
	–	–	651	651
Current financial assets				
Cash and cash equivalents	–	–	9,525	9,525
Trade and other receivables	–	–	15,720	15,720
	–	–	25,245	25,245
Current financial liabilities				
Trade and other payables	–	14,914	–	14,914
Deferred consideration	–	2,630	–	2,630
Share purchase obligation ¹	1,737	–	–	1,737
Derivative financial liabilities	685	–	–	685
	2,422	17,544	–	19,966
Non-current financial liabilities				
Loans and borrowings	–	5,315	–	5,315
Trade and other payables	–	385	–	385
Deferred consideration	–	139	–	139
	–	5,839	–	5,839

¹The share purchase obligation relates to Lexis Public Relations Limited ('Lexis'). This obligation was settled in October 2008 and Lexis became a wholly owned subsidiary of the Group.

Interest-bearing loans and borrowings

The table below provides a summary of the Group's loans and borrowing as at 31 July 2009:

	Effective interest rate	2009 £'000	2008 £'000
Current			
Obligations under finance lease	3.42%	194	415
Variable rate bank loan	Barclays Bank call-loan rate + 1.25%	156	–
Non-current			
Obligations under finance leases	3.42%	73	385
Variable rate bank loan	Barclays Bank call-loan rate + 1.25%	4,826	4,815
Variable rate bank loan	6.50%	96	–
Variable rate bank loan	Barclays Bank call-loan rate + 1.0%	–	500