freshwater UK PLC
Annual Report and Accounts 2013

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Financial and Operational Highlights for the year ended 31 August 2013

Financial Highlights

	2013	2012
Turnover	£3.98m	£4.77m
Revenue	£3.15m	£3.53m
*Headline EBITDA	£0.45m	£0.46m
Operating profit / (loss)	£0.15m	(£1.60m)
Profit / (loss) before income tax	£0.12m	(£1.66m)
Net cash flow from operating activities (before tax and interest)	£0.11m	£0.36m
Reduced net debt balance	£0.27m	£0.30m
Reduced earn-out liabilities balance	£0.01m	£0.06m
Earnings per share	0.97p	(8.61p)

* See note 5 in the Notes to the Financial Statements for details on the Headline EBITDA calculation

Operational Highlights

- Provided services to more than 200 clients across the UK
- Implemented a strategy of creating a cross-media group with three principal drivers – communication consultancy, creative media production and communication products
- Focused the business on markets with the greatest potential, especially London and larger clients with multiple requirements
- Appointed Angharad Neagle to the new post of group managing director to take responsibility for the group's revenue generating teams
- Secured our largest-ever retained contract with Thompsons Solicitors to provide an integrated, multi-channel communications and marketing service
- Delivered 46% growth in the group's conference and training business, Waterfront
- Launched Wales World Wide, an online global business networking site, creating a new revenue stream
- Improved revenue per full time equivalent employee to £69,273 (2012: £69,192)
- Delivered a further £0.25m in annual cost savings by moving to a smaller but more central office in London, further reducing office space in Cardiff, and closing unprofitable offices in Leeds and Birmingham

Chief Executive's & Chairman's Statement

David Howell,
Non-Executive Chairman

Steve Howell,
Chief Executive

Introduction

Freshwater continued to improve profitability and reduce liabilities in 2012-13 as it focused on its strongest markets and winning commercially sustainable work.

The group increased operating profit to £0.15m from £0.07m (before goodwill impairment) in the previous year and generated earnings per share of 0.97p, a positive figure for the first time since 2008-9.

Liabilities from bank borrowings and deferred consideration decreased from £0.36m to £0.28m, and headline EBITDA – calculated after one-off restructuring costs – was £0.45m compared to £0.46m in the previous year (see note 5).

Though revenue decreased from £3.53m to £3.15m, this was almost entirely accounted for by the closure of unprofitable offices in Leeds and Birmingham and the previously-reported ending of the company's contract with National Grid.

Revenue held up well or grew in most other areas and sectors, with notable increases coming from healthcare, conferences and professional services (the latter due to winning a substantial contract with Thompsons Solicitors).

Financial Review

The operating profit of £0.15m was achieved in a year in which the group was continuing to restructure its operations leading to one-off costs of £0.21m (including restructuring costs and losses on disposal of fixed assets – see note 5).

With these and depreciation/amortisation added back, the group's headline EBITDA was £0.45m or 14% of revenue.

Administrative expenses decreased from £3.46m to £2.99m and are now down to an annualised level of just over £2.70m on the basis of existing offices and staff numbers.

Meanwhile, revenue in the last three years (excluding National Grid) has been relatively stable at £3.15m (2011), £3.36m (2012) and £3.15m (2013).

Over the same three-year period, the company has also seen a marked reduction in its net debt balance and earn-out liabilities from £1.37m on 31 August 2010 to £0.28m on 31 August 2013.

The group has restructured its loan arrangements with NatWest. The overdraft facility has now been reduced from £0.50m to £0.10m with the balance being transferred to a new £0.30m term loan, commencing on 1 April 2013 and repayable over 2.5 years. This arrangement provides a manageable and cost-effective basis for the elimination of the company's remaining debt.

We made a positive operating cashflow of £0.08m and reduced net current liabilities by 64% from £0.58m to £0.21m.

Chief Executive's & Chairman's Statement

Dividend

The board's priority is to continue to improve the group's cash position and balance sheet. However, the board will be proposing a resolution to restructure the company's share premium account in order to facilitate payment of a dividend as soon as conditions permit.

Operational Review

Freshwater has repositioned itself as a media group to emphasise broader services such as video production, web development, conferences and training. However, communications consultancy (including PR, public affairs and stakeholder communications) continues to be the group's core business, accounting for just over 75% of revenue.

The group provided services to 207 clients in 2012-13, with the largest being Thompsons Solicitors (14% of revenue). The ten biggest clients accounted for 39% of revenue. As well as Thompsons, they were: Randox Health, Welsh Government, Specsavers, Weston Area Health NHS Trust, NHS Surrey, bonprix, Port of London Authority, Pitmain Estate Ltd and Organic Centre Wales.

The number of people employed by the group decreased from 53 (50 FTE) on 1 September 2012 to 50 (46 FTE), the reduction being due to the closure of two small offices in Leeds and Birmingham. Those regions are now being covered by two experienced retained consultants who have worked with Freshwater for a number of years.

Revenue per employee of £69,273 was at its highest level since 2006-07 (£70,963). However, average employment costs were also higher at £40,534 than both the previous year (£38,228) and 2006-07 (£38,631). Employment costs were 58.5% of revenue against a target (and industry benchmark) of 55%.

The group has a broad base of revenue, which can be broken down as follows:

	2013	***2012**
Private sector	62.7%	60.3%
Public sector	24.8%	29.2%
Voluntary/not-for-profit	3.7%	5.0%
Waterfront conference sales	8.8%	5.5%
WWW sales (included in private sector)		

Private sector work has held up well, despite the loss of revenue from National Grid. Revenue from clients in the public sector has dropped from £1.03m to £0.78m, which is mainly due to a specific project being discontinued.

The breakdown by type of business is as follows:

	2013	***2012**
Professional & business services	24.2%	13.7%
Consumer & retail	22.9%	27.4%
Healthcare	14.9%	7.7%
Transport	13.5%	11.8%
Leisure & hospitality	7.1%	9.0%
Education	6.6%	7.8%
Industry (including energy & technology)	5.5%	15.4%
Housing and property	5.3%	7.2%

* Percentages for 2012 have been re-stated to align with the 2013 sectoral and type of business analysis.

Operational Review (continued)

Revenue from the professional and business services has grown 57% due to Freshwater's new contract with Thompsons Solicitors. Healthcare and transport revenue have grown 73% and 2% respectively. While other areas have decreased, they remain significant markets in which Freshwater has a good reputation.

Major new business wins during the year include: NHS Property Services Ltd, Imperial College Healthcare NHS Trust, Medway NHS Foundation Trust, First TransPennine, BT Plc, Unite and University of South Wales.

Freshwater's conference and training business, Waterfront, increased revenue 47% to £0.28m (2012: £0.19m). The division has expanded into the education market, developed new training and conference packages, held conferences in more locations and developed its marketing activity, including a new website with transactional facilities.

Wales World Wide ('WWW'), an online business networking site for SMEs, was launched in September 2013 at an event in Cardiff addressed by Shadow Secretary of State for Wales, Owen Smith MP, and the director of the South Wales Chamber of Commerce. In its first full year, WWW attracted 16,000 unique visitors from 145 countries with 750 signing up for membership. The site generated a modest revenue from membership, sponsorship and advertising sales of £0.03m.

Outlook

The board believes the group has a sound platform for growth following the difficult years of the recession. Freshwater has an experienced management team, a strong presence in several key sectors and the 'multi-channel' expertise increasingly demanded by clients.

The group is giving greater emphasis to the London market, which is more buoyant than most of the regions. While we have a strong London-based team, including specialists in public affairs, stakeholder communications and media relations, we will also be able to improve profitability by servicing much of the work won in London from Cardiff and other offices.

The board is encouraged by Waterfront's growth and sees potential for this to continue. We also believe WWW can build on a solid first year, especially through its developing partnerships with business support organisations and universities in Wales.

The group is not, however, chasing growth at any price. We believe the slowly improving economic situation creates potential to be more selective about business and to ensure that what we charge provides a realistic return relative to our costs. Trading in the first quarter of the current year is in line with board expectations.

The board is grateful to all our staff for their hard work during the year and to shareholders for their continuing support. We look forward to reporting further progress in 12 months' time.

Steve Howell	**David Howell**
Chief Executive	Chairman

10 January 2014

Board of Directors

David Howell, Non-Executive Chairman

David Howell was appointed to the board of the company in 2004 and served as chairman until March 2007. David remained as a non-executive of the company until his resignation on 8 June 2009. David was re-appointed to the board as a non-executive director on 1 October 2010. On 29 September 2011 David replaced Marie-Louise Windeler as non-executive chairman. He is the Executive chairman of Profile Consultancy Limited, a specialist commercial property consultancy providing service charge, property management and building consultancy services to many of the UK's FTSE 100 companies. He is also managing director of privately-owned Hillco Investments (UK) Limited, which holds a diverse portfolio of assets and investments.

Steve Howell, Chief Executive

Steve Howell founded the business as a PR consultancy in 1997 and has led its development into a diverse media group. A former newspaper and BBC broadcast journalist, Steve provides communications consultancy to a number of key Freshwater clients and has been a media adviser at four Ryder Cups, including the Wales-hosted 2010 Ryder Cup. He is also a monthly business columnist for the Western Mail newspaper and a board member of the South Wales Chamber of Commerce. He graduated in Economic and Social History from the University of Sheffield and is a fellow of the Chartered Institute of Public Relations.

Haydn Evans, Finance Director

Haydn Evans was appointed to the board in May 2003. He has 15 years experience in the telecommunications sector having worked for Mitel Networks Corporation and Nortel Networks Corporation in the UK and Paris. Immediately prior to joining Freshwater he was a finance leader within Canadian-based Nortel, heading a 20-strong business team in the UK, Switzerland and Toronto and reporting directly to the vice president of finance. He has been responsible for the due diligence on and the financial integration of the thirteen acquisitions undertaken by Freshwater since his appointment.

John Underwood, Executive Director

John Underwood was appointed to the board in June 2006. In the 1980s, he was an award-winning TV reporter and presenter and worked for the BBC, ITV and Channel Four before becoming director of Communications for the Labour Party. He founded Clear Communications in 1991 and built it into one of the leading communication agencies in the healthcare sector. In addition to his work for Freshwater, John holds an honorary chair at the University of Glasgow and is the director of the Centre for Health Communications Research & Excellence at Bucks New University.

Marie-Louise Windeler, Non-Executive Director

Marie-Louise Windeler is an experienced senior Executive and PR professional, with over 25 years' experience in the PR industry. A former journalist with ITN and the Daily Express, Marie-Louise was CEO of one of the UK's largest PR agencies, Hill and Knowlton UK, where she was responsible for its multi-million pound fee revenue and 275 staff. Marie-Louise has held non-executive directorships at Prime Focus London Plc and VMA Search and is a director of Windeler Cohen Associates LLP which provides strategic management consultancy to a portfolio of clients. She is also a member of the prestigious Marketing Group of Great Britain.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 August 2013.

Principal Activities

The Freshwater group ('the group' or 'Freshwater') comprises Freshwater UK Plc (the 'company') and its subsidiary undertakings. The group's principal activity is the provision of public relations and marketing services. The company operates as a service company providing staff and administrative services to other group members.

Business Review

A review of the group's business and the likely future developments therein is provided in the chief executive's and chairman's statement. The business has always used financial and other key performance indicators ('KPI') including revenue per full time employee as referenced in the chief executive's and chairman's statement to facilitate the understanding of the development, performance and position of the group's business. The principal risks and uncertainties faced by the group remain unchanged from previous years and can be categorised as follows:

Client loss

Our business is all about client relationships which are fundamental to the business' success. Some turnover, however, is normal and to be expected. The business puts a good deal of effort into ensuring a good spread of clients across regions, specialisms and sectors to reduce the risk of any one area having an overly large dominance on the business, and to mitigate the impact of any individual loss. In the year ended 31 August 2013, Freshwater provided services to over 200 clients with only 5 accounting for more than 3% of revenue.

Economic

Our industry like others has not been immune to the prolonged economic downturn particularly as our client base is almost exclusively UK based, and at a macro level there is increased competition to satisfy reduced demand from a rapidly changing market place. We believe, however, that Freshwater is well placed to compete in these difficult times and is helped in this by its exposure to defensive sectors such as transport and energy coupled with a strong regional network.

Staff loss

As a people-based business our staff play a critical role in our client offering, and the loss of key staff could be a risk to our client relationships. To offset this risk, we have developed a team based approach to client service, so that where possible no one member of staff is the sole point of contact with any given client. The group additionally seeks to pursue employment practices that attract, retain and develop the talent it needs for its ongoing success.

Results and Dividends

The group's results are on page 15. The company cannot pay any dividends in 2013 (2012: nil).

Post Balance Sheet Events

The board is planning to seek approval to cancel all or part of the company's share premium account. See note 26 for further details.

Directors' Report (continued)

Directors

The following individuals served as directors of the company during the year:

	Appointed	Resigned	Position
S B Howell	25 August 2000	-	Chief Executive
J H Evans	1 May 2003	-	Finance Director
J M Underwood	1 June 2006	-	Executive Director
D Howell	1 October 2010	-	Non-Executive Chairman
M-L Windeler	23 November 2007	-	Non-Executive Director

Ken J Tilley a former non-executive director served as company secretary throughout the year. As permitted by the Companies Act 2006, Freshwater UK Plc has directors' and officers' liability insurance.

Directors' Interests

The interests of the directors in the ordinary shares of 10p each of the company at the end of the financial year compared to the prior financial year end were:

	No. of ordinary shares held at		% of ordinary share capital held	
	31 August 2012	31 August 2013	31 August 2012	31 August 2013
S B Howell	1,761,695	1,761,695	8.67%	8.67%
J H Evans	158,890	158,890	0.78%	0.78%
J M Underwood	908,261	908,261	4.47%	4.47%
D Howell	3,150,000	3,150,000	15.51%	15.51%
M-L Windeler	58,308	58,308	0.29%	0.29%

The above interests include the interests of the individuals' immediate families. S B Howell's and J H Evans' interests include their interests in ordinary shares held by the Freshwater UK Pension Fund. S B Howell's interest additionally includes his interest in ordinary shares held by Isca Mercatura Limited. J M Underwood's interest includes his interest in ordinary shares held by the Underwood Pension Trust Mattioli Woods SIPP.

D Howell was appointed non-executive director on 1 October 2010. Prior to his appointment, David already held 2,725,000 shares privately, through Hillco Investments UK Ltd, and via the HLM pension fund, representing 14.37% of the share capital. D Howell is related to S B Howell.

Other than as above none of the company's directors at the end of the financial year had an interest in the shares or debentures of group members. The holdings of the directors in the shares and debentures of group members have remained unchanged since the year end.

J H Evans is interested in options to subscribe for 44,000 ordinary shares in the company as a result of entering share option contracts in previous financial years. S B Howell and J M Underwood are interested in options to subscribe for 5,000 ordinary shares each in the company as a result of entering share option contracts in previous financial years. None of the other directors at the end of the financial year were interested in options over shares or debentures in group members at the year end. All the options granted to J H Evans, S B Howell and J M Underwood have been on similar terms to those advanced to other employees of the group. Further information on the share option contracts entered into by the group is provided in note 28 to the financial statements. No director exercised options during the financial year. This has remained the case since the year end.

Creditor Payment Policy

The group agrees payment terms with its suppliers when it enters into binding purchase contracts. The group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The group seeks to treat all of its suppliers fairly. At the end of the financial year creditor days based on undisputed balances were at 56 for the company (2012: 61) and 55 for the group (2012: 66).

Political and Charitable Donations

During the year the group made political and charitable donations of £2,166 (2012: £nil). The Political Parties, Elections and Referendums Act 2000 (the 'Act') requires disclosure of any donations to an EU political organisation (including a registered political party in the UK) or EU political expenditure in excess of £200. The terms 'donation', 'EU political organisation' and 'EU political expenditure' are given broad definitions by the Act. Whilst the group does not make donations to political parties or incur political expenditure within the normal meaning of those expressions, as part of its normal work on behalf of clients and as part of its own marketing, the group can need to attend or sponsor events which are organised by political parties or other political organisations for which a charge is made.

Financial Instruments

A commentary on the financial instruments held by the group and the group's exposure to credit, interest rate and liquidity risk is provided in note 16 to the financial statements.

Corporate Governance

The company is not required to comply with the 'UK Corporate Governance Code' by the Financial Reporting Council and does not report on how it has applied the principles therein or on the extent to which it has complied with the provisions therein throughout the year. The company's directors are however committed to ensuring a high standard of corporate governance in a manner proportionate to the group's size. An insight into the company's current corporate governance practice is provided below.

Board of Directors

The members of the company's board of directors ('the board') are listed above. The board includes both Executive and non-executive directors. The roles of chairman and chief executive officer are held by separate individuals. In the situation where Executive directors take on non-executive roles the board considers that this does not necessarily affect their independence. In determining whether there are any such issues the board takes into account the previous experience / background of the individual concerned. The board meets regularly and its responsibilities include formulating, reviewing and approving strategy, budgets, acquisitions, capital expenditure and senior personnel appointments.

Corporate Governance (continued)

Audit Committee

The responsibilities of the audit committee include monitoring the integrity of the company's and the group's financial statements, reviewing the external auditor's independence, objectivity and effectiveness and making recommendations to the board in relation to the appointment, reappointment and removal of the external auditor. The following individuals served as members of the audit committee during the year.

	Appointed	Resigned
D Howell	1 October 2010	-
M-L Windeler	1 October 2008	-

Other individuals including other directors of the company and the company's auditor may attend meetings of the audit committee at its request.

Remuneration Committee

The responsibilities of the remuneration committee include reviewing the performance of the company's Executive directors and setting the scale and structure of their remuneration and the basis of their service agreements and appointment with due regard to the interests of shareholders. The remuneration committee also determines the bonuses to be paid to Executive directors. The following non-executive directors served as members of the remuneration committee during the year:

	Appointed	Resigned
D Howell	1 October 2010	-
M-L Windeler	8 June 2009	-

Other individuals including other directors of the company and the company's auditor may attend meetings of the remuneration committee at its request.

The remuneration of non-executive directors is determined by the Executive directors who consider it essential, notwithstanding the size of the company, to recruit and retain individuals of the highest calibre. The Executive directors believe it is in the interests of shareholders that non-executive directors should be able to acquire shares and be provided with share options in addition to the fees they receive for their services.

Attendance Record

The remuneration committee did not meet in the year as there were no increases to executive pay. The number of board meetings and committee meetings attended during the year by board and committee members was:

	Board meetings	Audit Committee	Remuneration Committee
S B Howell	5 (5)	-	-
D Howell	5 (5)	2 (2)	- (-)
J H Evans	5 (5)	-	-
J M Underwood	5 (5)	-	-
M-L Windeler	5 (5)	2 (2)	- (-)

Figures in brackets indicate the number of meetings during the year for which the individual was a board or committee member. The company secretary attended all board and audit committee meetings during the year.

Going Concern

The directors, at the time of approving the financial statements, have determined that there is a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future.

In reaching this conclusion the directors noted that the company and the group had net current liabilities at 31 August 2013 and considered the company's and the group's recent and forecast financial performance. The current economic environment is difficult. However, after taking into account a range of variances in the company's and group's forecast financial performance and the arrangements in place with the company's and the group's bankers described in note 19 to the financial statements, the directors consider that the company and the group has, and should continue to have, adequate working capital to meet its requirements for the foreseeable future. For this reason the directors have adopted the going concern basis in preparing the financial statements.

Auditor and Disclosure of Information to Auditor

As far as the directors are aware there is no relevant audit information of which the company's auditor is unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

PKF (UK) LLP have merged their business into BDO LLP and accordingly have signed their auditor's report in the name of the merged firm. A resolution to appoint BDO LLP as auditor to the company will be put to the Annual General Meeting.

This report was approved by the board on 10 January 2014 and signed on its behalf by:

J H Evans
Finance Director

Statement of Directors' responsibilities for the year ended 31 August 2013

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as 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 affairs of the group and company and of the profit or loss of the group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditor's report to the members of Freshwater UK Plc

We have audited the financial statements of Freshwater UK Plc for the year ended 31 August 2013 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company statements of cash flows and the related notes. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 statement of directors' responsibilities, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion;

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 August 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters 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.

Timothy Smith (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Cardiff
United Kingdom
10 January 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income for the year ended 31 August 2013

	Note	2013 £	2012 £
TURNOVER		**3,978,335**	4,765,502
REVENUE		**3,145,001**	3,528,815
Exceptional administrative expenses	**6**	**-**	(1,665,211)
Other administrative expenses		**(2,992,270)**	(3,458,719)
OPERATING PROFIT / (LOSS)		**152,731**	(1,595,115)
Finance costs	**8**	**(32,913)**	(60,300)
PROFIT / (LOSS) BEFORE INCOME TAX	**5**	**119,818**	(1,655,415)
Income tax credit / (expense)	**9**	**76,326**	(29,504)
PROFIT / (LOSS) AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**196,144**	(1,684,919)
Basic earnings per share	**29**	**0.97p**	(8.61)p
Diluted earnings per share	**29**	**0.97p**	(8.61)p

The notes on pages 22 to 46 are an integral part of these financial statements.

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent statement of comprehensive income. The company's profit for the financial year was £89,866 (2012: £1,873,485 loss).

Consolidated statement of financial position at 31 August 2013

	Note	2013 £	2012 £
ASSETS			
Non-current assets			
Property, plant and equipment	11	249,333	355,340
Intangible assets	12	7,675,226	7,690,359
Deferred tax asset	24	106,479	30,153
		8,031,038	8,075,852
Current assets			
Trade and other receivables	17	647,935	1,257,249
Total assets		8,678,973	9,333,101
EQUITY			
Issued equity capital	25	2,030,855	2,030,855
Share premium	26	7,424,494	7,424,494
Other reserves	25	20,000	20,000
Sustained losses		(1,787,971)	(1,984,115)
		7,687,378	7,491,234
LIABILITIES			
Non-current liabilities			
Long term borrowings	22	133,856	8,140
Current liabilities			
Bank overdraft	19	12,186	259,529
Trade and other payables	20	659,001	1,408,282
Deferred consideration	18	10,000	55,000
Derivative financial instruments	21	52,233	76,983
Short-term borrowings	22	124,319	33,933
		857,739	1,833,727
Total liabilities		991,595	1,841,867
Total equity and liabilities		8,678,973	9,333,101

The notes on pages 22 to 46 are an integral part of these financial statements. The financial statements were approved and authorised for issue by the board and were signed on its behalf on 10 January 2014 by:

S B Howell
Chief Executive

J H Evans
Finance Director

Company statement of financial position at 31 August 2013

	Note	2013 £	2012 £
ASSETS			
Non-current assets			
Property, plant and equipment	11	249,333	355,340
Intangible assets	12	6,355,880	6,356,876
Investments in subsidiary undertakings	13	1,623,125	1,623,125
Deferred tax asset	24	95,778	-
		8,324,116	8,335,341
Current assets			
Trade and other receivables	17	635,532	392,273
Total assets		8,959,648	8,727,614
EQUITY			
Issued equity capital	25	2,030,855	2,030,855
Share premium	26	7,424,494	7,424,494
Other reserves	25	20,000	20,000
Sustained losses		(2,456,510)	(2,546,376)
		7,018,839	6,928,973
LIABILITIES			
Non-current liabilities			
Long term borrowings	22	133,856	8,140
Current liabilities			
Bank overdraft	19	298,138	379,785
Trade and other payables	20	1,322,263	1,244,800
Deferred consideration	18	10,000	55,000
Derivative financial instruments	21	52,233	76,983
Short-term borrowings	22	124,319	33,933
		1,806,953	1,790,501
Total liabilities		1,940,809	1,798,641
Total equity and liabilities		8,959,648	8,727,614

The notes on pages 22 to 46 are an integral part of these financial statements. The financial statements were approved and authorised for issue by the board and were signed on its behalf on 10 January 2014 by:

S B Howell
Chief Executive

J H Evans
Finance Director

Consolidated statement of changes in equity for the year ended 31 August 2013

	Note	Ordinary shares £	Share premium £	Share option £	Retained earnings £
31 August 2011		**1,896,104**	**7,415,515**	**20,000**	**(299,196)**
Loss and total comprehensive income for the year		-	-	-	(1,684,919)
Issue of ordinary shares	**25,26**	134,751	8,979	-	-
Transactions with owners		**134,751**	**8,979**	-	-
31 August 2012		**2,030,855**	**7,424,494**	**20,000**	**(1,984,115)**
Profit and total comprehensive income for the year		-	-	-	196,144
31 August 2013		**2,030,855**	**7,424,494**	**20,000**	**(1,787,971)**

Company statement of changes in equity for the year ended 31 August 2013

	Note	Ordinary shares £	Share premium £	Share option £	Retained earnings £
31 August 2011		**1,896,104**	**7,415,515**	**20,000**	**(672,891)**
Loss and total comprehensive income for the year		-	-	-	(1,873,485)
Issue of ordinary shares	**25,26**	134,751	8,979	**-**	**-**
Transactions with owners		**134,751**	**8,979**	-	-
31 August 2012		**2,030,855**	**7,424,494**	**20,000**	**(2,546,376)**
Profit and total comprehensive income for the year		-	-	-	89,866
31 August 2013		**2,030,855**	**7,424,494**	**20,000**	**(2,456,510)**

Consolidated statement of cash flows for the year ended 31 August 2013

	Note	2013 £	2012 £
Operating profit / (loss)		**152,731**	(1,595,115)
Depreciation of property, plant and equipment	**11**	**90,970**	174,432
Amortisation of other intangible assets	**12**	**17,131**	996
Impairment of goodwill	**6,12**	**-**	1,665,211
Unrealised gains on derivative financial instrument	**21**	**(24,750)**	(8,705)
Losses on disposal of fixed assets	**11**	**18,525**	63,899
Change in trade and other receivables		**609,314**	(199,960)
Change in trade and other payables		**(749,281)**	256,513
		114,640	357,271
Interest paid		**(32,913)**	(60,300)
Income tax rebate		**-**	15,518
Net cash flow from operating activities		**81,727**	312,489
Development costs of internally generated asset	**12**	**(1,998)**	(64,540)
Proceeds from disposals of property, plant and equipment		**24,100**	2,917
Purchase of property, plant and equipment	**11**	**(27,588)**	(6,438)
Net cash flow from investing activities		**(5,486)**	(68,061)
Payment of deferred consideration		**(45,000)**	(236,140)
Proceeds from the issue of share capital	**25**	**-**	143,730
Receipt of bank loan		**300,000**	-
Repayment of borrowings		**(83,898)**	(69,693)
Net cash flow from financing activities		**171,102**	(162,103)
Increase in cash and cash equivalents		**247,343**	82,325
Cash and cash equivalents at the start of the period	**19**	**(259,529)**	(341,854)
Cash and cash equivalents at the end of the period	**19**	**(12,186)**	(259,529)

Company statement of cash flows for the year ended 31 August 2013

	Note	2013 £	2012 £
Operating profit / (loss)		**27,001**	(1,889,465)
Depreciation of property, plant and equipment	**11**	**90,970**	174,432
Amortisation of other intangible assets	**12**	**996**	996
Impairment of goodwill	**12**	**-**	1,634,750
Impairment of investments	**13**	**-**	582,254
Unrealised gains on derivative financial instrument	**21**	**(24,750)**	(8,705)
Losses on disposal of fixed assets	**11**	**18,525**	63,899
Change in trade and other receivables		**29,837**	(9,650)
Change in trade and other payables		**(79,299)**	(138,064)
		63,280	410,447
Interest paid		**(32,913)**	(60,300)
Net cash flow from operating activities		**30,367**	350,147
Proceeds from disposals of property, plant and equipment		**24,100**	2,917
Purchase of property, plant and equipment		**(27,588)**	(6,438)
Dividends received from subsidiary undertakings	**13**	**-**	48,258
Net cash flow from investing activities		**(3,488)**	44,737
Payment of deferred consideration		(45,000)	(236,140)
Proceeds from the issue of share capital	**25**	-	143,730
Receipt of bank loan		300,000	-
Repayment of borrowings		(83,898)	(69,693)
Change in intra group funding		(116,334)	1,271,686
Net cash flow from financing activities		**54,768**	1,109,583
Increase in cash and cash equivalents		**81,647**	1,504,467
Cash and cash equivalents at the start of the period	**19**	**(379,785)**	(1,884,252)
Cash and cash equivalents at the end of the period	**19**	**(298,138)**	(379,785)

Notes to the financial statements for the year ended 31 August 2013

1. Freshwater Group

The Freshwater group ('the group') comprises Freshwater UK Plc (the 'company') and its subsidiary undertakings. The company is a limited liability company incorporated and domiciled in the United Kingdom. The company's registered number is 4059741 (England and Wales) and its registered office is Raglan House, Cardiff Gate Business Park, Cardiff, CF23 8BA.

2. Authorisation of financial statements and statement of compliance

The group and company financial statements for the year ended 31 August 2013 ('the financial statements') were authorised for issue by the company's board on 10 January 2014 and signed on the board's behalf by S B Howell and J H Evans.

3. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union ('EU') and in accordance with applicable provisions of the Companies Act 2006.

The directors, at the time of approving the financial statements, have determined that there is a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the directors noted that the company and the group had net current liabilities on 31 August 2013 of £1,171,421 (2012: £1,398,228) and £209,804 (2012: £576,478) respectively and considered the company's and the group's recent and forecast financial performance. The current economic environment is difficult. However, after taking into account a range of variances in the company's and group's forecast financial performance and the arrangements in place with the company's and the group's bankers described in note 19 to the financial statements, the directors consider that the company and the group has, and should continue to have, adequate working capital to meet its requirements for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

a) Basis of consolidation

The following standards, amendments and interpretations are mandatory for the group for the current accounting period, and did not have a material effect in these consolidated financial statements:

- IAS 1 Presentation of Financial statements (amendment) - effective for annual periods beginning on or after 1 July 2012

b) Standards and Interpretations issued but not yet applied or are effective

The following standards, amendments and interpretations have been issued but are not yet effective. Application of these standards, amendments and interpretations is not currently expected to have a material impact on the financial statements in the future. However, the directors have not completed their evaluation of the impact of adoption on the disclosures in the financial statements.

- IAS 12 Income taxes (amendment) – effective for annual periods beginning on or after 1 January 2015
- IAS 19 Employee benefits (revised) - effective for annual periods beginning on or after 1 January 2013
- IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures amendments in order to align them with the new standards (IFRS 10, IFRS 11 and IFRS 12) - effective for annual periods beginning on or after 1 January 2013
- IAS 32 Financial Instruments: Presentation (amendment) - effective for annual periods beginning on or after 1 January 2014
- IFRS 7 Financial Instruments: Disclosure (amendment) - effective for annual periods beginning on or after 1 January 2013
- IFRS 9 Financial Instruments: Recognition and measurement (new standard) – effective for annual periods beginning on or after 1 January 2015
- IFRS 10 Consolidated Financial Statements (new standard) - effective for annual periods beginning on or after 1 January 2013
- IFRS 11 Joint Arrangements (new standard) - effective for annual periods beginning on or after 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities (new standard) - effective for annual periods beginning on or after 1 January 2013
- IFRS 13 Fair Value Measurement (new standard) - effective for annual periods beginning on or after 1 January 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for annual periods beginning on or after 1 January 2013
- IFRIC 21 Levies - effective for annual periods beginning on or after 1 July 2014

Notes to the financial statements for the year ended 31 August 2013 (continued)

4. Significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies were consistently applied. The functional currency and presentational currency of the company and each of its subsidiary companies is Sterling.

a) Basis of consolidation

The group financial statements consolidate the financial statements of the company and the entities that it controls (its subsidiaries) drawn up to 31 August each year. Control comprises the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of subsidiaries are incorporated from the date of their acquisition, being the date on which control passed to the group, and continue to be included until the date that such control ceases. The effects of intra-group transactions and intra-group balances are eliminated in full.

b) Revenue and turnover

Revenue comprises professional fees and mark-ups and is stated exclusive of value added tax. The group's revenue relates wholly to the rendering of services and is measured using the stage of completion method. A contract's stage of completion determines the proportion of services delivered (under the contractual terms) and hence the revenue that should be recognised. Specific methods adopted to determine the stage of completion reliably, vary between contracts that involve a significant act of fulfilment and contracts that are earned over a period of time. Where the group is party to a single service contract that takes place over time, revenue is recognised as performance takes place. In this situation costs are measured proportionately to work done and to the total cost of the contract. In some scenarios a contract involves an indeterminate number of acts over a specified time. In accordance with IAS 18 Revenue, for practical purposes, revenue is recognised on a straight line basis unless there is evidence that some other method gives a better reflection of the stage of completion at each year end. In such situations, costs are recognised as incurred and neither accrued nor deferred, unless they qualify for recognition as a liability or an asset. Where the group is party to a contract that implies a significant act, revenue is recognised at the time the act has occurred. This arises when recognising revenue relating to an event management day or a conference.

Turnover (billings) is revenue stated gross of marginal costs such as print costs and the purchase of advertising space that are incurred in providing a service and that in accordance with industry practice are marked up and passed on to clients. Turnover is stated exclusive of value added tax. Amounts billed to clients in advance are carried in the statement of financial position as deferred income until the related service has been provided or the related cost incurred. Work carried out and costs incurred that are to be marked up and passed on to clients that have yet to be invoiced are included in accrued income.

c) Operating segments

IFRS 8 requires that segmental information be disclosed on the basis of information reported to the chief operating decision maker. The group considers that the role of chief operating decision maker is performed by the group's board of directors. IAS 14 required segmental information to be reported for business segments and geographical segments based on assets and operations that provide products and services subject to different risks and returns.

Although the group has within it different entities located around the United Kingdom operating as wholly-owned subsidiaries, all their primary activities focus on the provision of public relations and marketing services. It is on this basis the directors consider the group to be one business segment assessable only by its performance as a whole and for the purpose of making decisions about its resources.

d) Dividends

Dividends are recognised in the period in which they are considered to have become no longer at the discretion of the company. Interim dividends are recognised in the period in which they are paid. Final dividends are recognised in the period in which they are appropriately authorised.

e) Pension Costs

The group operates a defined contribution plan. A defined contribution plan is one where the group pays fixed contributions into a separate entity. These contributions are expensed in the period in which they accrue.

f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The residual values of property, plant and equipment are reassessed annually and when there is an indication of a change in residual value. Property, plant and equipment is depreciated so as to write off cost less estimated residual value over its expected life on the following bases:

- Leasehold land and buildings – 33% straight line
- Plant and Machinery – 25% reducing balance
- Motor Vehicles – 25% on cost
- Fittings and equipment – 10% - 25% reducing balance or on a straight line basis over the lease period where applicable

g) Business combinations outside the scope of IFRS 3 (revised) – Business Combinations

Certain business combinations fall outside the scope of IFRS 3 including combinations that involve entities or businesses under common control (e.g. group restructurings). IFRS does not provide specific guidance on how to account for such combinations. In the absence of such guidance, the group refers to IFRS 3 and other elements of generally accepted accounting practice and explicitly discloses the accounting treatment it has followed.

4. Significant accounting policies (continued)

h) Goodwill

Goodwill is otherwise stated at cost less accumulated impairment losses. Goodwill acquired in a business combination is allocated from the date of acquisition to the cash generating units (CGU's) that are expected to benefit from the synergies of the combination. In the event of the subsequent reorganisation of the cash generating units to which it has been allocated, goodwill is correspondingly reallocated. Cash generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. An impairment review consists of comparing the carrying value of the cash generating unit including goodwill to its recoverable amount. The recoverable amount of a cash generating unit is the higher of its fair value less costs to sell and its value in use being an estimate of the present value of the future cash flows it is expected to generate. If the carrying amount exceeds the recoverable amount an impairment loss is recognised, firstly, by reducing the carrying amount of goodwill, and then by reducing the carrying value of the other assets of the cash generating unit on a pro rata basis. Impairment losses are recognised in the statement of comprehensive income. Impairments of goodwill are not subsequently reversed.

i) Other intangible assets, Internally generated intangible assets and Research and Development

Other intangible assets are as stated in accordance with IAS 38 Intangible Assets, at historical cost less accumulated amortisation and accumulated impairment losses. Expenditures on the development of internally generated intangible assets are capitalised only when it is probable that future economic benefit will result from the asset and the following criteria are met:

- Technical feasibility of the asset has been ascertained;
- Adequate technical, financial and other resources are available to complete and sell or use the intangible asset;
- Generation of future economic benefit and the ability to sell or use the asset can be demonstrated;
- Management's intention to complete the intangible asset and use or sell it; and
- The cost of the intangible asset can be measured reliably.

If any of the above criteria are not met development expenditure is expensed to the statement of comprehensive income in the same manner as research expenditure in accordance with IAS 38 Intangible Assets.

Where intangible assets' useful lives are indefinite they are reviewed for impairment whenever changes in circumstances indicate their carrying value may not be recoverable. Where their useful lives are finite, they are amortised from the date they are available for use over their useful economic lives.

Useful lives applicable are as follows:

- Intellectual property – 20 years
- Internally generated intangible assets – 4 years

Amortisation is included in administrative expenses in the consolidated statement of comprehensive income. Internally generated assets are distinguished from other intangible assets with their respective useful lives clearly defined as either finite or indefinite for each class of intangible asset.

j) Trade receivables

Trade receivables are stated at the original invoice amount less allowances made for doubtful receivables. Provision is made where there is objective evidence that the group will be unable to recover balances in full. Trade receivables are not discounted as the effect would not be material.

k) Derivative financial instruments

The group uses derivative financial instruments to reduce its exposure to interest rate movements. No derivatives are held for financial trading purposes. Derivative financial instruments are initially recognised at fair value at the contract date and continue to be stated at fair value at the statement of financial position date with gains and losses on revaluations being recognised immediately in the statement of comprehensive income. Derivatives are carried as assets where this fair value is positive and as liabilities where fair value is negative.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The group overdraft facility is an integral part of the group's cash management strategy and is considered to form part of cash and cash equivalents for the purposes of the statement of cash flows.

m) Trade payables

Trade payables are stated at cost. They are not discounted as the effect would not be material.

n) Borrowings

Borrowings are initially recognised at fair value and are subsequently measured at amortised cost calculated in accordance with the effective interest method.

4. Significant accounting policies (continued)

o) Leases

Where the use of an asset is funded by leasing arrangements that give rights over the asset approximating to ownership, the asset is accounted for as if it has been purchased and recognised at the lower of fair value and the present value of the minimum lease payments, where the discounted effect between fair value and present value is material. The capital element of the obligations, under the associated leasing arrangements, is shown as obligations under finance leases, and lease payments are apportioned between interest which is charged to the statement of comprehensive income and liability which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations. All other leases are considered operating leases and payments therefore are recognised as expenses in the statement of comprehensive income on a straight line basis over the lease term.

p) Deferred taxation

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. Deferred tax liabilities are recognised for all taxable temporary differences. 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. Exceptionally such assets and liabilities are not recognised if the temporary difference arises from the recognition of goodwill or the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

q) Share-based payments

The cost of equity settled share option contracts is measured as the fair value of the associated options at the date of their grant. Fair value is calculated using the recognised Black–Scholes–Merton methodology. This cost is expensed on a straight line basis over the associated vesting period in a manner that reflects the expectation of the number of options that will eventually vest. More particularly at each statement of financial position date before vesting the cumulative charge that should have been expensed in view of the extent to which the vesting period has expired and management's then best estimate of the number of equity instruments that will ultimately vest is calculated. The movement in the cumulative expense since the previous statement of financial position date is then recognised as an expense in the statement of comprehensive income with a corresponding entry in equity.

r) Accounting estimates and judgements

In applying the accounting polices detailed above, decisions sometimes have to be made as to the likely outcome of future events. Those judgements and estimates made in preparing the financial statements are based on historical experience and assumptions that the directors believed were reasonable in the circumstances.

The directors consider the key judgements and estimates made in preparing the financial statements to have been those relating to:

- the recognition of revenue in relation to contracts which straddle the year end; and
- the valuation of goodwill, investments and other intangible assets

These judgements and estimates are discussed in more detail both above and in the relevant notes to the financial statements.

Notes to the financial statements for the year ended 31 August 2013 (continued)

5. Profit / (loss) before income tax

Profit / (loss) before income tax is stated after charging / (crediting) the following:

	2013	2012
	£	£
Depreciation of property, plant and equipment	**90,970**	174,432
Amortisation of other intangible assets	**17,131**	996
Amounts payable under operating leases	**218,824**	287,526
Losses on disposal of property, plant and equipment	**18,525**	63,899
Unrealised gains on derivative contract	**(24,750)**	(8,705)
Employee costs	**1,840,258**	1,949,624
Restructuring costs	**187,186**	154,886
Goodwill impairment	**-**	1,665,211
Provision for settlement of contractual issues	**-**	(200,000)

Within depreciation of property, plant and equipment is £4,548 (2012: £4,551) relating to assets held under finance leases during the year. Amounts payable under operating leases primarily relate to leases entered into in order to occupy office premises.

Reconciliation of profit / (loss) before tax to Headline EBITDA

The group considers itself to be one business segment assessable only by its performance as a whole and for the purpose of making decisions about its resources. See note 4c in reference to the group's adoption of IFRS 8 Operating segments. The chief operating decision maker assesses the group's performance by reference to 'Headline EBITDA'. The following reconciliation describes the difference between Headline EBITDA and profits and losses before tax with reference to the consolidated statement of comprehensive income – see page 15.

	2013	2012
	£	£
Profit / (loss) before income tax	**119,818**	(1,655,415)
Finance costs	**32,913**	60,300
Depreciation of property, plant and equipment	**90,970**	174,432
Losses on disposal of property, plant and equipment	**18,525**	63,899
Amortisation of other intangible assets	**17,131**	996
Goodwill impairment	**-**	1,665,211
Unrealised gains on derivative financial instrument	**(24,750)**	(8,705)
Bank overdraft arrangement fees	**5,625**	1,500
Trading foreign exchange losses	**3,519**	7,447
Restructuring costs	**187,186**	154,886
Headline EBITDA	**450,937**	464,551

6. Exceptional administrative expenses

	2013	2012
	£	£
Goodwill impairment loss	**-**	1,665,211

As a result of the impairment review conducted on the carrying value of goodwill as at 31 August 2013, as detailed in note 12 no expense was recognised in the consolidated statement of comprehensive income (2011-12: £1,665,211).

7. Employee costs

	2013	2012
	£	£
Wages and salaries	**1,599,897**	1,709,813
Social security costs	**161,189**	187,533
Other pension costs	**79,172**	52,278
	1,840,258	1,949,624

The company remains the main employer within the group. Bonuses are paid dependent upon the achievement of certain financial and non-financial targets and become payable to qualifying employees following the end of a financial year. Bonuses were paid to the value of £nil during the current year (2011-12: £6,750). The group's holiday year runs from 1 January to 31 December and employees are entitled to accumulate holiday not taken within a leave cycle subject to a maximum of five days. This must be taken within 12 months of the end of the associated leave cycle.

The group offers qualifying employees the opportunity to enter into a group personal pension contract that provides money purchase benefits, at the directors' discretion. More generally, at the request of a qualifying employee, the group will contribute an amount equal to 3% of their basic salary to a personal pension arrangement of their choice.

The average number of employees during the year including Executive directors was as follows:

	2013	2012
Directors	**5**	5
Administrative	**6**	7
Public Relations and Marketing Services	**39**	43
	50	55

8. Finance costs

	2013	2012
	£	£
Interest payable and charges on borrowings and overdrafts	**32,116**	52,761
Finance lease interest payable	**797**	7,539
	32,913	60,300

Notes to the financial statements for the year ended 31 August 2013 (continued)

9. Taxation

	2013	2012
	£	£
Deferred taxation		
Origination and reversal of temporary differences	**(95,778)**	(28,022)
Realised losses writing down deferred tax asset	**19,452**	57,526
Income tax (credit) / expense	**(76,326)**	29,504
Profit / (loss) before income tax	**119,818**	(1,655,415)
Effective tax rate	**(63.70%)**	(1.78%)
Profit / (loss) before tax at the standard rate of UK corporation tax of 20.00% (2012: 25.16%)	**23,964**	(416,502)
Goodwill impairment	**-**	17,008
Non-deductible expenses	**(31,786)**	281,420
Capital allowances in excess of depreciation	**15,117**	17,544
Realised losses writing down deferred tax asset	**(19,452)**	(57,526)
Deferred tax asset not recognised	**32,248**	124,573
Movement on deferred tax balances	**(76,326)**	29,504
Other timing differences	**(20,091)**	33,483
Income tax (credit) / expense	**(76,326)**	29,504

The effective tax rate of (63.70%) for the year ended 31 August 2013 reflects the measurement of a deferred tax asset relating to losses carried forward from the year ended 31 August 2012, losses arising in the year ended 31 August 2013 and temporary differences arising from disclaiming capital allowances. The effective tax rate of (1.78%) for the year ended 31 August 2012 reflects the measurement of a deferred tax asset relating to tax losses carried forward from the year ended 31 August 2011 and the taxation of a significant goodwill impairment in 2011-12.

10. Auditor's remuneration

	2013	2012
	£	£
Fees payable by the company to the company's auditor for the audit of the company's annual accounts	**3,900**	7,500
Fees payable by the group to the company's auditor for other services:		
Audit of the company's subsidiaries	**13,600**	26,500
Tax Services	**4,000**	7,250
Other services	**500**	500
	22,000	41,750

The directors considered the auditor to be best placed to provide the services other than audit services above. The audit committee reviews the nature of non-audit services to ensure independence is maintained.

11. Property, plant and equipment

Group and company

	Leasehold land and buildings	Plant and machinery	Motor Vehicles	Fittings and equipment	Total
	£	£	£	£	£
Cost					
31 August 2011	**157,572**	**310,152**	**54,875**	**2,066,985**	**2,589,584**
Additions	-	-	-	6,438	**6,438**
Disposals	(15,310)	(23,627)	-	(445,630)	**(484,567)**
31 August 2012	**142,262**	**286,525**	**54,875**	**1,627,793**	**2,111,455**
Additions	-	-	-	27,588	**27,588**
Disposals	(15,051)	-	(15,000)	(159,452)	**(189,503)**
31 August 2013	**127,211**	**286,525**	**39,875**	**1,495,929**	**1,949,540**
Depreciation					
31 August 2011	**154,070**	**299,000**	**37,430**	**1,508,934**	**1,999,434**
Disposals	(15,310)	(21,940)	-	(380,501)	**(417,751)**
Charge for the year	3,502	2,456	4,551	163,923	**174,432**
31 August 2012	**142,262**	**279,516**	**41,981**	**1,292,356**	**1,756,115**
Disposals	(15,051)	-	(15,000)	(116,827)	**(146,878)**
Charge for the year	-	1,568	4,548	84,854	**90,970**
31 August 2013	**127,211**	**281,084**	**31,529**	**1,260,383**	**1,700,207**
Net book value					
31 August 2013	**-**	**5,441**	**8,346**	**235,546**	**249,333**
31 August 2012	**-**	**7,009**	**12,894**	**335,437**	**355,340**
31 August 2011	**3,502**	**11,152**	**17,445**	**558,051**	**590,150**

Apart from assets held under a finance lease the company is the legal owner of all property, plant and equipment within the group.

Disposals

Disposals during 2011-12 and 2012-13 relate to property, plant and equipment, disposed of by the company as a result of various strategies to relocate staff to new offices and as cost cutting measures.

As a result of the disposals in 2012-13 a total of £24,100 was received as proceeds of sale. The losses of £18,525 are recognised in the statement of comprehensive income within administrative expenses.

As a result of the disposals in 2011-12 a total of £2,917 was received as proceeds of sale. Losses as a result of these disposals are realised at £63,899 in the statement of comprehensive income within administrative expenses.

11. Property, plant and equipment (continued)

Finance leased assets

The net book value of assets held under outstanding finance leases by the Company included above is:

	2013	2012
	£	£
Motor vehicles	**8,346**	12,894

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. To the extent that assets held under outstanding finance leases relate to the £18,203 finance lease as described in note 22, on completion of the lease subject to using the company's option to purchase the assets, title will transfer to the company.

12. Intangible fixed assets

a) Group

			2013			2012
	Goodwill	**Other**	**Total**	Goodwill	Other	Total
	£	**£**	**£**	£	£	£
Cost						
Opening balance	**10,606,755**	**146,252**	**10,753,007**	10,775,615	81,712	10,857,327
Business combinations	**-**	**-**	**-**	(168,860)	-	(168,860)
Internally generated asset	**-**	**1,998**	**1,998**	-	64,540	64,540
Closing balance	**10,606,755**	**148,250**	**10,755,005**	10,606,755	146,252	10,753,007
Amortisation and impairment						
Opening balance	**2,984,980**	**77,668**	**3,062,648**	1,319,769	76,672	1,396,441
Impairment	**-**	**-**	**-**	1,665,211	-	1,665,211
Amortisation	**-**	**17,131**	**17,131**	-	996	996
Closing balance	**2,984,980**	**94,799**	**3,079,779**	2,984,980	77,668	3,062,648
Carrying value at end of year	**7,621,775**	**53,451**	**7,675,226**	7,621,775	68,584	7,690,359
Carrying value at start of year	**7,621,775**	**68,584**	**7,690,359**	9,455,846	5,040	9,460,886

The group's goodwill is classified as having an indefinite useful life. See below notes on measurement of goodwill. Other intangible assets consist of Intellectual Property and an Internally generated asset recognised during 2011-12. See note 12b for further details on the Internally generated asset. Amortisation charges relating to Intellectual Property is £996 (2011-12: £996) and relating to the Internally generated asset is £16,135 (2011-12: £nil). All amortisation charges are recognised as expenses in the statement of comprehensive income within administrative expenses. No intangible assets are pledged as security for the group's liabilities.

12. Intangible fixed assets (continued)

b) Internally generated asset

The group's internally generated asset relates to the development of the Wales World Wide website. Its useful life is assessed by the directors to be four years and will be measured using the cost model. This assessment takes account of the directors view of the stability of the market the website operates within, changes in market demand for the products and services output from the website that generate revenue and the risk of technological obsolescence without significant further investment in the website. As at 31 August 2012 development expenses capitalised in the group's statement of financial position totalled £64,540. During 2012-13, the asset incurred amortisation charges of £16,135. Also during 2012-13, a further £1,998 of development expenses were capitalised as a reliable measurement of wage costs that the group invested over the financial year improving the website's functions for its intended use. These development expenses are deductible for tax purposes.

c) Company

			2013			2012
	Goodwill	**Other**	**Total**	Goodwill	Other	Total
	£	**£**	**£**	£	£	£
Cost						
Opening balance	**8,791,586**	**20,000**	**8,811,586**	6,634,149	20,000	6,654,149
Business combinations	**-**	**-**	**-**	(168,860)	-	(168,860)
Group restructuring	**-**	**-**	**-**	2,326,297	-	2,326,297
Closing balance	**8,791,586**	**20,000**	**8,811,586**	8,791,586	20,000	8,811,586
Amortisation and impairment						
Opening balance	**2,439,302**	**15,408**	**2,454,710**	804,552	14,412	818,964
Impairment	**-**	**-**	**-**	1,634,750	-	1,634,750
Amortisation	**-**	**996**	**996**	-	996	996
Closing balance	**2,439,302**	**16,404**	**2,455,706**	2,439,302	15,408	2,454,710
Carrying value at end of year	**6,352,284**	**3,596**	**6,355,880**	6,352,284	4,592	6,356,876
Carrying value at start of year	**6,352,284**	**4,592**	**6,356,876**	5,829,597	5,588	5,835,185

There are no intangible assets classified as having an indefinite useful life in the company other than goodwill. See below notes on measurement of goodwill.

The other intangible assets represent Intellectual Property. None are individually material to the company's financial statements. The remaining amortisation periods of these assets are between three to four years. No intangible assets are pledged as security for the company's liabilities.

Notes to the financial statements for the year ended 31 August 2013 (continued)

12. Intangible fixed assets (continued)

d) Impairment reviews

Cash generating units

The group comprises of two CGU's, the group excluding the trade of Wales World Wide Limited and Wales World Wide Limited. Wales World Wide Limited's exclusion from the group's main CGU is based on it trading as a new venture beginning in 2011-12 and its only attached intangible asset is its website, born out of capitalised development costs during 2011-12 and 2012-13. See note 12b for further details.

Current year impairment testing of cash generating units to which goodwill has been allocated

In accordance with the group's accounting policy, the carrying value including the goodwill in the group's consolidated statement of financial position, has been tested for impairment. This was done in a similar manner to the prior year with the recoverable amount being taken as value in use calculated based on certain key assumptions. The key assumptions were identical to those applied to 2011-12.

Projected returns are calculated based on a detailed forecast for two years, and growth assumptions based on expected overall sector growth for up to 10 years (2012: 10 years). Expected future cash flows were based on the group's detailed budget excluding Wales World Wide Limited's cash flows for the financial years ending 31 August 2014 and 31 August 2015 and the assumption that cash flows will grow steadily thereafter at 2.5% per annum (2012: 2.5%). The directors are content that this growth is achievable, in light of a greater level of retained revenue visibility, to be earned from 2013-14 onwards. In calculating value in use the present value was calculated using a pre-tax discount factor of 9.0% (2012: 9.0%). In determining the assumptions used in this year's impairment review management considered the same range of factors that were taken into account in 2011-12, but also looking forward in considering how the group's performance is likely to react to the economic climate.

As a result of the impairment review, the group's carrying value of goodwill is unchanged from its carrying value recognised as at 31 August 2012, as its recoverable value exceeds the carrying value.

Goodwill changes in the prior year

Goodwill in the company's statement of financial position increased by £2,185,893 in the prior year as a result of one of the company's subsidiaries, Freshwater Consumer Limited, transferring its trade to another group member. This transfer was done so as to help the group reduce its administrative costs by centralising its operations in a smaller number of companies. The transfer constituted a business combination involving entities under common control. IFRS does not provide specific guidance on how such combinations should be accounted for. In accounting for the transfer, the carrying value in the company's statement of financial position of its investments in the subsidiaries was reduced by the goodwill carried in the group's consolidated statement of financial position in relation to this entity. Goodwill in the company's statement of financial position was increased by a corresponding amount. The accounting, which served to reflect the transfers of value between the company's subsidiaries, had no impact on goodwill recognised in the group's consolidated statement of financial position.

Goodwill in the company's statement of financial position also increased by £140,404 due to a transfer of residual goodwill from Freshwater Consumer Limited. Further details on this related party transaction are contained within note 31.

Goodwill in the group and company's statement of financial position decreased by £168,860 as a result of completing the accounting for the Life Communications business combination.

Notes to the financial statements for the year ended 31 August 2013 (continued)

12. Intangible fixed assets (continued)

Prior year impairment testing of cash generating units to which goodwill has been allocated

In accordance with the group's accounting policy, the carrying value including the goodwill in the group's consolidated statement of financial position, was tested for impairment. This was done with the recoverable amount being taken as value in use calculated based on certain key assumptions. The key assumptions applied were as the follows:

- Future time period – 10 years
- The use of an EBITDA forecast, being a reasonable estimate for future cash flow
- A positive growth rate of 2.5%
- A discount factor of 9.0%

Projected returns are calculated based on a detailed forecast for two years, and growth assumptions based on expected overall sector growth for up to 10 years (2011: 10 years). Expected future cash flows were based on the group's detailed budget excluding Wales World Wide Ltd's cash flows for the financial years ending 31 August 2013 and 31 August 2014 and the assumption that cash flows will grow steadily thereafter at 2.5% per annum (2011: 2.5%). The directors were content that this growth is achievable, in light of implementation of significant cost savings towards the end of the year ended 31 August 2012 in what remains a difficult economic climate. In calculating value in use the present value was calculated using a pre-tax discount factor of 9.0% (2011: 7.5%). In determining the assumptions used in the impairment review management considered the same range of factors that were taken into account in 2010-11, but also looking forward in considering how the group's performance is likely to react to the economic climate.

As a result of the impairment review, the group's carrying value of goodwill was reduced in the statement of financial position to its recoverable amount through recognition of an impairment loss of £1,665,211. The impairment loss has been recognised in the statement of comprehensive income as an exceptional item.

The events and circumstances that led to the recognition of the impairment loss were the group's trading in a difficult economic climate, cuts in public spending, resolving matters relating to outstanding debts, earn-out liabilities and other one-off occurrences during the financial year. The change in discount rate, using 9.0% increased from 7.5%, reflects the group's reduced debt position and changing market expectations on investment return within the public relations and marketing sector. No other class of asset within the group's accounts was impaired other than goodwill. In the parent company accounts, the impairment was allocated against goodwill and investments.

Accumulated consolidated goodwill impairment

	£
Opening balance at 1 September 2011	1,319,769
Impairment loss	1,665,211
Opening balance at 1 September 2012	2,984,980
Impairment loss	-
Closing balance at 31 August 2013	**2,984,980**

Goodwill impairment sensitivity analysis

Different assumptions could have resulted in adjustments to the impairment review outcome in the year. Using a growth factor of 1% rather than 2.5% would have resulted in a total impairment of £467,153 (2012: £2,145,122), or using a discount factor of 11% would have resulted in an impairment of £812,141 (2012: £2,491,086).

13. Investments in subsidiary undertakings

	2013	2012
	£	£
Opening balance	**1,623,125**	4,391,272
Business combinations (note 15b and 12d)	**-**	(2,185,893)
Impairment	**-**	(582,254)
Closing balance	**1,623,125**	1,623,125

No impairment of has been recognised in line with the 2012-13 impairment review carried out at group level (2011-12: £582,254).

In 2012-13 the parent company did not receive any dividends from subsidiaries. In 2011-12 the parent company received a dividend of £48,258 from Freshwater Consumer Limited recognising it as a gain.

14. Subsidiary undertakings

The company owns 100% of the ordinary share capital and controls 100% of the voting rights in the following companies. The companies are registered in England and Wales. All the companies primarily operate in the UK, apart from Freshwater (UK Regions) Limited which also operates in the Republic of Ireland.

Entity	Acquired / Formed	Principal activity
Merlin Marketing and Creative Limited	July 2006	Public Relations and Marketing Services
Freshwater (UK Regions) Limited	November 2007	Public Relations
Waterfront Conference Company Limited	December 2007	Conferences
Wales World Wide Limited	October 2011	Online business networking, advertising

The following subsidiaries have been dissolved either during 2011-12 or 2012-13. Prior to dissolution, these entities had been dormant their trades having been transferred to other group members to help the group reduce its administrative costs by centralising its operations in a smaller number of companies. The transferred trades continue as going concerns within other subsidiaries.

Entity	Acquired	Dissolved
Merlin Marketing & Public Relations Limited	February 2008	October 2011
Profileplus UK Limited	March 2010	October 2011
Freshwater Public Affairs Limited	December 2007	April 2012
Freshwater Healthcare Limited	May 2006	March 2012
Freshwater Scotland Limited	November 2004	May 2012
Freshwater Consumer Limited	February 2007	August 2013 (see note 15b)

15. Business combinations

a) Profileplus UK Limited

During 2012-13 contingent consideration of £45,000 was settled in cash with the vendor, leaving a £10,000 balance remaining as at 31 August 2013. In September 2013 the £10,000 balance was settled.

b) Freshwater Consumer Limited

On 1 September 2011, as part of the group restructuring plan, Freshwater Consumer Limited transferred its trade including its associated assets and liabilities to Freshwater (UK Regions) Limited, a fellow wholly-owned subsidiary of the company. The transferred trade continues as a going concern within Freshwater (UK Regions) Limited. The transfer was done to help the group reduce its administrative costs by centralising its operations in a smaller number of companies. The transfer constituted a business combination involving a business under common control. IFRS 3 does not provide specific guidance on how such combinations should be accounted for. In the absence of such guidance assets and liabilities were transferred at book value and trades for nil value.

c) Merlin Marketing and Creative Limited

On 1 September 2013, continuing the group's restructuring plan, Merlin Marketing and Creative Limited transferred its trade including its associated assets and liabilities to Freshwater (UK Regions) Limited. The transferred trade continues as a going concern within Freshwater (UK Regions) Limited. Similar to the transfer described in note 15b the transfer was done to help the group reduce its administrative costs by centralising its operations in a smaller number of companies. The transfer constituted a business combination involving a business under common control. IFRS 3 does not provide specific guidance on how such combinations should be accounted for. In the absence of such guidance assets and liabilities were transferred at book value and trades for nil value.

16. Financial assets and liabilities

The tables below analyse the carrying value of financial assets and financial liabilities in the group and company statements of financial position. Further information on the classes that make up each category is provided in the notes indicated. The carrying value of each category is considered a reasonable approximation of its fair value. Other than borrowings all amounts are due within one year. A maturity analysis of the group's and company's borrowings is provided in note 22.

a) Group

	Note	2013 £	2012 £
Loans and receivables			
Trade receivables	17	443,123	792,359
Other receivables	17	245	211,652
Financial assets		443,368	1,004,011
Bank overdraft	19	12,186	259,529
Trade payables	20	286,207	755,397
Other payables and accruals	20	102,666	153,496
Borrowings	22	258,175	42,073
Financial liabilities at amortised cost		659,234	1,210,495
Derivative financial instrument	21	52,233	76,983
Financial liabilities at fair value through profit or loss		52,233	76,983
Financial liabilities		711,467	1,287,478

b) Company

	Note	2013 £	2012 £
Loans and receivables			
Other receivables	17	245	11,652
Amounts owed by group undertakings	31	698,755	296,593
Financial assets		699,000	308,245
Bank overdraft	19	298,138	379,785
Trade payables	20	93,079	154,592
Other payables and accrued expenses	20	180,137	76,055
Amounts owed to group undertakings	31	1,155,263	998,501
Borrowings	22	258,175	42,073
Financial liabilities at amortised cost		1,984,792	1,651,006
Derivative financial instrument	21	52,233	76,983
Financial liabilities at fair value through profit or loss		52,233	76,983
Financial liabilities		2,037,025	1,727,989

Notes to the financial statements for the year ended 31 August 2013 (continued)

16. Financial assets and liabilities (continued)

During the year ended 31 August 2013 the group and the company faced credit risk, interest rate risk and liquidity risk as a result of their financial assets and liabilities. Neither faced significant currency risk, being the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. There were no significant changes in the risks, the objectives, processes and policies for managing the risks or the methods used to measure the risks during the year ended 31 August 2013.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The group faces credit risk as a result of offering credit terms to its customers and holding cash and cash equivalents with financial institutions. The company faces credit risk as a result of advancing funds to other group members and as a result of holding cash and cash equivalents with financial institutions. The group seeks to mitigate the risk that arises from offering credit terms by performing credit checks before terms are advanced and thereafter actively monitoring amounts receivable and denying additional credit when appropriate. Funds advanced by the company to other group members are repayable on demand. The company looks to mitigate the risk that arises from advancing such funds by monitoring group members' financial position and performance on an ongoing basis and denying additional credit where appropriate. The risk that arises as a result of holding cash and cash equivalents with financial institutions is mitigated by both the group and the company holding the majority of such amounts with the same recognised UK high street bank that provides the group's overdraft facility and that provided the company's floating rate borrowings. Both the group's and the company's maximum exposure to credit risk is equal to the value of loans and receivables.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group and the company primarily face interest rate risk as a result of the company's floating rate borrowings, a derivative contract entered into by the company and through holding cash and cash equivalents with financial institutions. See notes 19, 21 and 22.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The group's financial liabilities include its borrowings and trade and other payables. See notes 20 and 22. Within the group the responsibility for monitoring liquidity risk and for ensuring that group members are adequately funded has been centralised and lies with the ultimate parent undertaking, Freshwater UK Plc, which leads all capital raising activities. Contractual maturity analysis for financial liabilities is shown in notes 20, 21 and 22.

Notes to the financial statements for the year ended 31 August 2013 (continued)

17. Trade and other receivables

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Gross trade receivables	**445,595**	806,373	**-**	-
Provision for impairment	**(2,472)**	(14,014)	**-**	-
Unimpaired trade receivables	**443,123**	792,359	**-**	-
Accrued income	**101,832**	49,250	**-**	-
Prepayments	**102,735**	203,988	**65,598**	84,028
Other receivables	**245**	211,652	**245**	11,652
	204,812	464,890	**65,843**	95,680
Gross amounts owed by group undertakings	**-**	-	**698,755**	296,593
Provision for impairment	**-**	-	**(129,066)**	-
Unimpaired amounts owed by group undertakings	**-**	-	**569,689**	296,593
	647,935	1,257,249	**635,532**	392,273

In October 2012, the group received £200,000 from a client in settlement of contractual issues that existed as at 31 August 2012. This transaction was accounted for in accordance with IAS 10 Events after the reporting period as an adjusting event. In 2011-12 the debtor was recognised within other receivables in the statement of financial position, and the income was recognised within administrative expenses in the statement of comprehensive income.

Provisions for impairment

An analysis of the movement in the provision for impairment of gross trade receivables is provided below.

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Opening balance	**14,014**	22,557	-	-
Provision for impairment	**2,472**	14,014	-	-
Trade receivables written off	**(14,014)**	(22,557)	-	-
Closing balance	**2,472**	14,014	-	-

17. Trade and other receivables (continued)

None of the balances bear interest. An aged analysis of unimpaired trade receivables is provided below. An amount is considered past due if the counterparty has failed to make payment when contractually due. All other receivables are due within one year.

		Not past due	Past due but not impaired			
	Total	or impaired	< 30 days	30-60 days	60-90 days	> 90 days
	£	£	£	£	£	£
31 August 2013	**443,123**	**305,804**	**94,947**	**28,571**	**3,651**	**10,150**
31 August 2012	792,359	524,052	175,957	41,333	43,761	7,256

18. Deferred consideration

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
	10,000	55,000	**10,000**	55,000

Deferred consideration payable of £10,000 at 31 August 2013 is confirmed to be the remaining liability the company had to pay as a result of the second year earn-out arrangements associated with the company's purchase of the business and assets of Profileplus UK Limited. In September 2013 this liability was settled. The group and company have no other outstanding earn-out related obligations.

19. Cash and cash equivalents

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Current account balances	**(12,186)**	(259,529)	**(298,138)**	(379,785)

Each group member's primary current account is with the same recognised UK high street bank. During the early part of 2012-13 it was agreed that due to the group experiencing difficult trading conditions the £500,000 overdraft facility put in place in March 2011 would continue on the same basis, to support its working capital requirements.

In April 2013, the group revisited its borrowing arrangements with its bankers, reviewing trading to that point and to the year ending 31 August 2013 and beyond. A restructure of its bank borrowings was agreed, with the bank injecting a £300,000 term loan and putting in place a lower overdraft facility of £150,000 expiring on 30 May 2013 reducing to a £100,000 facility thereon.

The new term loan is repayable in equal instalments over 30 months starting in April 2013, and can be repaid earlier if the group has the means and the bank is in agreement. Interest is payable at 4% over base, and loan arrangement fees were payable of £4,500.

The loan agreement includes a financial covenant which measures the group's net operational cash flow to its debt servicing. The loan agreement also includes a condition that dividends are not payable without the bank's consent.

To pass the covenant test the group's net operational cash is required to exceed its debt servicing using a ratio of 1.30 to 1, testing firstly a nine month period ending 31 August 2013 and then testing a twelve month rolling period on a quarterly basis. The group's first covenant test calculation for the nine month period ended 31 August 2013 achieved a pass.

The overdraft facilities agreed in April 2013 allowed the aggregate of the group members' primary current accounts to go overdrawn by £150,000 up to and including 30 May 2013, reducing to £100,000 thereon, subject to the aggregate of individual overdrawn balances not exceeding £1.0 million. Interest is payable at 4% over base on all overdrawn balances. The agreement expired on 30 August 2013 and incurred a £1,125 arrangement fee.

In September 2013, the group agreed with its bankers' to roll-over the existing £100,000 overdraft facility on identical terms to the previous agreement agreed in April 2013. The new agreement cost £1,000 and expires on 1 March 2014.

All overdraft and loan arrangements referred to above are secured by unlimited intercompany composite guarantees (under which group members are jointly and severally liable for amounts outstanding) and various debentures by group members in favour of the counterparty bank. On the date of issue of all of the above overdraft and loan agreements the base rate was 0.5%.

20. Trade and other payables

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Trade payables	**286,207**	755,397	**93,079**	154,592
Other taxes and social security	**158,983**	173,495	**22,850**	15,652
Other payables and accrued expenses	**102,666**	153,496	**51,071**	76,055
Deferred income	**111,145**	325,894	**-**	-
Amounts owed to group undertakings	-	-	**1,155,263**	998,501
	659,001	1,408,282	**1,322,263**	1,244,800

Group trade payables included no cash held on behalf of clients (2012: £165,211) as at 31 August 2013. None of the balances bear interest. An aged analysis of unimpaired trade payables is provided below. An amount is considered past due if the group has failed to make payment when contractually due. All other payables are due within one year.

a) Group

	Total	Due or due in less than 1 month	Due between 1 to 3 months	Due between 3 months to 1 year
	£	**£**	**£**	**£**
31 August 2013	**286,207**	**115,659**	**123,413**	**47,135**
31 August 2012	755,397	438,603	170,571	146,223

b) Company

	Total	Due or due in less than 1 month	Due between 1 to 3 months	Due between 3 months to 1 year
	£	**£**	**£**	**£**
31 August 2013	**93,079**	**39,252**	**43,718**	**10,109**
31 August 2012	154,592	28,159	76,230	50,203

21. Derivative financial instruments

The company currently has one derivative financial instrument; a free standing ten year sterling denominated amortising base rate swap to mitigate the group's exposure to interest rate risk as a result of the company's floating rate borrowings. This contract was entered into in March 2007. This base rate swap has been fair valued based on data supplied directly by the counterparty, and is effectively the market surrender value of the policy. Under the swap which had an initial nominal value of £900,000 the company pays interest at a fixed rate of 5.6% in exchange for the counterparty bank's (floating) base rate. It does not qualify for hedge accounting and associated gains or losses are recognised in the group's consolidated statement of comprehensive income under administrative expenses.

The following table provides an analysis of this financial instrument measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- **Level 1** fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group and company

Total derivative financial liabilities	Total	Level 1	Level 2	Level 3
	£	£	£	£
Base rate swap as at 31 August 2013	**52,233**	**52,233**	**-**	**-**
Base rate swap as at 31 August 2012	76,983	76,983	-	-

The profile by maturity of the base rate swap as at 31 August 2013 and 31 August 2012 is as follows.

Group and company

Base rate swap	Within 1 year	2 – 5 Years	5 – 10 years	Over 10 years
	£	£	£	£
As at 31 August 2013	**52,233**	**-**	**-**	**-**
As at 31 August 2012	76,983	-	-	-

The derivative financial liability has been shown as a current liability as it is not possible to accurately estimate how the derivative will unwind. Gains and losses are presented in the statement of comprehensive income as follows (see note 5). The gains are unrealised.

	2013	2012
	£	£
Base rate swap gains	**24,750**	8,705

22. Borrowings

Group and company

31 August 2013	Current £	> 1 but < 2 yrs £	> 2 but < 5 yrs £	> 5 yrs £	Non current £	Total £
Fixed rate						
£18,203 finance lease	**4,319**	**3,856**	**-**	**-**	**3,856**	**8,175**
Floating rate						
£300,000 term loan	**120,000**	**120,000**	**10,000**	**-**	**130,000**	**250,000**
Total capital	**124,319**	**123,856**	**10,000**	**-**	**133,856**	**258,175**
Interest payable	8,750	3,008	38	-	3,046	**11,796**
Total repayments	**133,069**	**126,864**	**10,038**	**-**	**136,902**	**269,971**

31 August 2012	Current £	> 1 but < 2 yrs £	> 2 but < 5 yrs £	> 5 yrs £	Non current £	Total £
Fixed rate						
£18,203 finance lease	**3,984**	**4,319**	**3,821**	**-**	**8,140**	**12,124**
Floating rate						
£180,000 term loan	**29,949**	**-**	**-**	**-**	**-**	**29,949**
Total capital	**33,933**	**4,319**	**3,821**	**-**	**8,140**	**42,073**
Interest payable	1,815	461	128	-	589	**2,404**
Total repayments	**35,748**	**4,780**	**3,949**	**-**	**8,729**	**44,477**

The above interest payable amounts are estimates made at each point in time. The group's borrowings on 31 August 2013 and 31 August 2012 lay entirely within the company. Individual capital amounts outstanding are equal to the respective carrying values aggregating to current and non-current balances in the statement of financial position. Carrying value is considered a fair approximation of fair value.

Apart from the finance lease identified above, the group's borrowings on 31 August 2013 are with a single counterparty bank, and secured by unlimited intercompany composite guarantees (under which group members are jointly and severally liable for amounts outstanding) and various debentures by group members in favour of the counterparty bank. The interest rates and repayment terms associated with the group's borrowings on 31 August 2013 were:

Fixed rate	**Interest rate**	**Repayment terms**
£18,203 finance lease	8%	Level monthly payments of capital and interest over 4.0 years
Floating rate	**Interest rate**	**Repayment terms**
£300,000 term loan	Base + 4%	Level monthly payments of capital and interest over 2.5 years

In March 2007, the company entered a free standing ten year sterling denominated amortising base rate swap to mitigate the group's exposure to interest rate risk as a result of its floating rate borrowings. Since entering the swap the group has been exposed to interest rate risk through its floating rate borrowings to the extent that they have exceeded the swap's amortised nominal value. See note 21.

22. Borrowings (continued)

	2013	2012	2011
	£	£	£
Floating rate borrowings	**250,000**	29,949	65,955
Amortised nominal value of swap at year end	**(369,130)**	(410,270)	(451,936)
	(119,130)	(380,321)	(385,981)

Throughout the years ended 31 August 2011 through to 31 August 2013 the company has been fully hedged. Consequently, taking into account the effect of the base rate swap, had interest rates differed during the last two financial years the group's reported losses would remain unchanged.

IFRS 7 requires an estimate of remaining interest charges payable over the remaining contractual terms, where borrowings do not carry a fixed rate of interest. Floating rate borrowings consist only of a £250,000 balance of a £300,000 term loan as at 31 August 2013. Estimated interest charges for the remaining contractual term are £16,188 taking into account interest rates being 200 points higher than current interest rates.

23. Operating & finance lease commitments

Operating leases

The minimum lease payments under non-cancellable operating leases were as follows:

	Group		**Company**	
	2013	2012	**2013**	2012
	£	£	**£**	£
Payable < 1 year	**161,763**	136,861	**161,763**	83,415
Payable > 1 year < 5 years	**50,615**	139,969	**50,615**	43,902
	212,378	276,830	**212,378**	127,317

The disclosed values relate to operating leases entered into in order to occupy office premises.

23. Operating & finance lease commitments (continued)

Finance leases

The only remaining finance lease contract is in the name of the company, and is therefore the same for the group.

Further detail on how the leasing liabilities correspond with the group's total borrowings is contained in note 22.

A reconciliation of the total minimum lease payments at the end of the reporting period, and their present value at the end of the reporting period is shown below.

Gross finance lease liabilities – minimum lease payments:

	Group & Company	
	2013	2012
	£	£
Payable < 1 year	**4,319**	3,984
Payable > 1 year < 5 years	**3,856**	8,140
	8,175	12,124

The present value of minimum lease payments, are as follows, discounted at a pre-tax rate of 7.5%:

	Group & Company	
	2013	2012
	£	£
Payable < 1 year	**4,319**	3,984
Payable > 1 year < 5 years	**3,587**	7,324
	7,906	11,308

The only remaining finance lease is a non-cancellable lease as defined by IAS 17 cancellable only upon the occurrence of some remote contingency; with the permission of the lessor; if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

All finance lease commitments have been capitalised based on their fair value where the net present value of the minimum lease payments is lower than the fair value, but the effect in discounting to present value is not material.

24. Deferred taxation

	Group		**Company**	
	2013	2012	**2013**	2012
	£	£	**£**	£
Opening balance	**(30,153)**	(59,657)	**-**	28,022
Expense (credit) for the year	**(76,326)**	29,504	**(95,778)**	(28,022)
Closing balance	**(106,479)**	(30,153)	**(95,778)**	-

The company and the group's provision for deferred taxation relates to capital allowances and the future recoverability of tax losses carried forward.

25. Share capital and other reserves

	Allotted, called up and fully paid Ordinary No	Par
31 August 2011	18,961,039	10p
Authorised / issued	1,347,508	
31 August 20112	20,308,547	10p
Authorised / issued	-	
31 August 2013	**20,308,547**	**10p**

There have been no changes to the group's share capital since 31 August 2012. During 2011-12 the company raised additional funding through means of an open offer and placing issuing 1,347,508 ordinary shares at 12p each to multiple investors. As a result, share capital increased by £134,751 based on 10p per share.

Other reserves

Other reserves of £20,000 (2012: £20,000) are in relation to a share option reserve.

26. Share premium

There have been no changes to the group's share premium account since 31 August 2012.

During the year ended 31 August 2012 £17,971 of costs directly attributable to the issue of ordinary shares in the company were capitalised within the share premium account. As a result of the open offer and placing, the share premium account increased by £26,950 based on 2p per share.

Post balance sheet event

The board of directors are planning to seek approval to cancel all or part of the company's share premium account. While the company cannot use the amounts standing to the credit of the share premium account when making distributions to its Shareholders, the Companies Act 2006 does permit the company (subject to approval of Shareholders and the consent of the Court) to cancel its share premium account and credit the resulting sums to the company's profit and loss account where they will be set off against the existing sustained losses.

Subject to the approval of the Shareholders and the consent of the Court, the reduction in capital will result in sufficient sums being credited to the company's profit and loss account to: (i) eliminate the accumulated sustained losses; and (ii) to create reserves that the company may be able to use for the purpose of making any future distributions to the Shareholders.

It should be noted that the reduction in capital is not being undertaken in order to permit any specific, planned distribution to the Shareholders immediately following the reduction in capital but rather to facilitate any distribution to Shareholders that the company may choose to make in the future following the reduction in capital.

27. Dividends

The directors have proposed no final ordinary dividend for 2013 (2012: nil).

28. Share options

The company entered into share option contracts with employees of the group under the umbrella of an Enterprise Management Incentive Scheme in February 2005, January 2006, July 2006, July 2007, June 2008 and July 2010. The contracts provide employees with the option to acquire ordinary shares in the company at a fixed exercise price. An employee's ability to exercise this option is not subject to any vesting criteria other than the passage of time and his or her continued employment by the group. Exceptionally the occurrence of certain defined control events may cause the options under the contracts to fully vest immediately. All the contracts have a ten year term and lapse inter alia upon an employee either giving or receiving notice of the termination of his or her employment with the group. Any obligations arising under the contracts are to be settled by the company through the issue of new shares at the relevant exercise price.

28. Share options (continued)

The company determines the fair value of the share option contracts it enters on the grant date, adjusts this to reflect its expectation of the options that will ultimately vest and then expenses the calculated balance on a straight line basis through its statement of comprehensive income over the expected vesting period with a corresponding credit to its share option reserve. Subsequent changes to the expectation of the number of options that will ultimately vest are dealt with prospectively such that the cumulative amount charged to the statement of comprehensive income is consistent with latest expectations. Subsequent changes in what is considered to have been the fair value of options at the grant date do not impact the amount charged to the statement of comprehensive income.

The company determines the fair value of the share option contracts it enters using the recognised Black-Scholes-Merton methodology.

There is no share based payment charge in either the current or the prior year and the fair value of share options in issue at 31 August 2013 is disclosed in the statement of financial position as other reserves.

29. Earnings per share

Basic and diluted earnings per share

	2013 **£ / no.**	2012 £ / no.
Profit / (loss) and total comprehensive income attributable to ordinary shareholders	**196,144**	(1,684,919)
Weighted average number of ordinary shares	**20,308,547**	19,578,647
Basic and diluted earnings per share	**0.97p**	(8.61)p

All potential shares are considered anti-dilutive.

30. Capital management

Capital is defined as equity plus borrowings. The group's capital structure is driven by the parent company which drives all assessment of risk and leads in all capital raising activity. The group is not subject to any externally imposed capital requirements. In managing its capital structure the group's objective is to safeguard the group's ability to continue as a going concern, managing cash flows so that it can continue to provide returns for shareholders. In order to maintain or adjust the capital structure the group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Changes in economic conditions impact on the risk assessment the group takes in conjunction with its primary objectives. During 2013-14 the board of directors are planning to seek approval to cancel all or part of the company's share premium account to facilitate the group's ability to make distributions to Shareholders in the future. See note 26 for further details.

The group refers to a variety of ratios when considering its capital structure including the gearing ratio defined as borrowings divided by total capital and interest cover defined as operating profit divided by net interest expense. The table below identifies these ratios at the end of the current and prior financial year. It should be noted that these ratios are dynamic and that in the case of the group which is growing, and whose capital structure is constantly evolving, are best considered over a period of time as opposed to at a given point in time.

	2013 **£**	2012 £
Borrowings	**258,175**	42,073
Equity	**7,687,378**	7,491,234
Capital	**7,945,553**	7,533,307
Gearing ratio	**3.4%**	0.6%
Interest cover	**4.6**	(26.5)

31. Related party disclosures

a) Group

Key management personnel

The group's key management personnel are those persons having the authority and responsibility for planning, directing and controlling the significant elements of the group's activities. Details of the compensation that became payable during the year to the group's key management personnel are provided below:

	Directors of the Company		Other	
	2013	2012	**2013**	2012
	£	£	**£**	£
Wages, salaries	**292,808**	296,102	**189,000**	237,744
Social security costs	**32,788**	33,141	**22,117**	28,050
Other pension costs	**42,476**	13,875	**6,766**	7,215
	368,072	343,118	**217,883**	273,009

b) Company

Key management personnel

Details of the compensation that became payable during the year to the company's directors are disclosed above. The highest paid director received compensation including pension contributions of £118,181 (2012: £115,286). During the year contributions became payable by the group in relation to a money purchase pension scheme for 3 directors (2012: 3). The contributions that became payable by the group in relation to the highest paid director amounted to £35,025 (2012: £7,650).

Transactions with other Group members

Since 1 September 2006, the company has functioned as a service company providing labour and administrative services to other group members. The company is the group's main employer. During the year ended 31 August 2013 the company charged other group members £1,767,817 (2012: £2,002,057) for the provision of labour and £479,199 (2012: £497,485) for the provision of administrative services. The company additionally settled other group members' VAT liabilities and received dividends of £nil from other group members (2012: £48,258).

During 2011-12, as part of a continuing restructuring plan to reduce the number of subsidiaries within the group, Freshwater Consumer Limited's trade and certain residual assets and liabilities were transferred to Freshwater (UK Regions) Limited. This resulted in goodwill in the company's statement of financial position increasing in value and its corresponding investment decreasing in value. Freshwater Consumer Limited also transferred a residual carrying value of goodwill to Freshwater UK Plc ('the company'). See note 12 for further details on prior year movements in the company's goodwill carrying value.

On 1 September 2013, continuing the group's restructuring plan, Merlin Marketing and Creative Limited's trade and certain residual assets and liabilities were transferred to Freshwater (UK Regions) Limited. See note 15b for further details on this business combination.

The table below shows the amounts outstanding at the year end between the company and other group members. Full provision has been made against the £129,066 amount owed by Wales World Wide Limited to the company (see note 17). The movement on prior year balances is the result of cash transfers to/from the company from/to other group members. All amounts are unsecured and payable on demand, to be settled in cash. The company as parent of the group guarantees that any subsidiaries with negative net assets will honour the associated debts.

	Amounts owed by Group undertakings		Amounts owed to Group undertakings	
	2013	2012	**2013**	2012
	£	£	**£**	£
Wales World Wide Limited	**129,066**	18,463	**-**	**-**
Merlin Marketing and Creative Limited	**382,964**	121,464	**-**	-
Freshwater (UK Regions) Limited	**-**	-	**1,155,263**	998,501
Waterfront Conference Company Limited	**186,725**	156,666	**-**	-
	698,755	296,593	**1,155,263**	998,501

Company Information

Directors	D Howell (Non-Executive Chairman) S B Howell (Chief Executive) J H Evans (Finance Director) M-L Windeler (Non-Executive Director) J M Underwood (Executive Director)
Secretary	K J Tilley
Company number	4059741 (England and Wales)
Registered office	Raglan House Cardiff Gate Business Park Cardiff CF23 8BA
Auditor	BDO LLP Helmont House Churchill Way Cardiff CF10 2HE
Bankers	Royal Bank of Scotland South Wales Commercial Office 3rd Floor One Kingsway Cardiff CF10 3AQ
Registrars	Capita Asset Services Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA
Solicitors	SGH Martineau 1 Colmore Square Birmingham B4 6AA