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Hasgrove plc

Profits and earnings jump as integrated Group show good returns

Hasgrove plc (AIM: HGV, 'Hasgrove', "the Group"), the pan European marketing and communications services group, announces its interim results for the six month period to 30 June 2008.

Headlines

- Turnover increased by 62% to £16.4m (2007: £10.1m)
- Gross Profits increase to £13.1m (2007: £6.9m)
- Headline Operating Profits more than doubles to £2.5m (2007: £1.2m)
- Headline PBT jumps by 83% to £2.2m (2007: £1.2m)
- Headline basic EPS up by 67% to 7.7p (2007: 4.6p)
- Successful integration of Politics International following its acquisition in February 2008
- Net debt at 30 June 2008 £7.5m (31 December 2007: £4.9m)
- Merger of three digital businesses to create Amaze, a top 10 UK digital design and build agency

Rod Hyde, Group Chief Executive, said:

"The Public Affairs and Corporate Communications division, which has now been extensively integrated, made significant progress and is benefiting from the addition of a London office following the acquisition of Politics International in February.

"Our Digital and Communication Services operations, which have been integrated under the Amaze brand, are working well together and we are seeing a number of encouraging cross-functional wins.

"Despite the general market conditions the Group has continued to win and retain significant contracts due in part to the counter cyclical nature of crisis management as well as an increasing move to online marketing. We remain confident of another successful year, particularly given the high visibility of earnings."

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Overview

The key focus during 2008 has been on the integration of the businesses acquired over the last few years. Furthermore, the Group is now showing good growth in its financial performance with revenues and profits increasing strongly.

The integration programme is progressing well with the Public Affairs and Corporate Communications division now successfully operating in a number of major European cities. In June the Group merged three businesses to form *Amaze plc* with a specific aim to deliver a broader offering of marketing and digital technology services for larger international clients. During the first half of 2008 Hasgrove began to see the benefits from its integration policies, both within each operating division and also across the enlarged group.

The Group's strategy remains to focus on a small number of disciplines that are mutually supportive and from which it derives its synergy benefits: Public Affairs and Corporate Communications, Digital activities under the Amaze brand and Design.

Financial review

The Group delivered a strong performance in the first half of 2008. Turnover increased 62% to £16.4m (2007: £10.1m). Gross profits increased to £13.1m (2007: £6.9m).

The international activities of the Group are well-balanced with a broadly equal split of both sales and costs between sterling and the Euro.

Headline operating profits increased by 108% to £2.5m (2007: £1.2m). Interest charged increased to £0.35m (2007: £0.07m) partly as a result of the acquisitions in late 2007 and Politics International in 2008 and the payment of a number of earn-outs over the same period.

Headline profit before tax increased 83% to £2.2m (2007: £1.2m). After the non cash items of notional finance costs and share options charges, Group profit before tax was £2.0m (2007: £1.1m). The effective tax rate was 27%.

Headline basic earnings per share increased by 65% to 7.6p (2007: 4.6p). Diluted earnings per share were up 74% to 6.8p (2007: 3.9p). The Group is not paying an interim dividend.

Operating cash flows before tax doubled to £1.6m (2007: £0.8m) despite the increase in working capital following the acquisition of part of the trade and assets of Amaze in late 2007 and the growth in sales. The Group's net debt position at the half year was £7.5m (31 December 2007: £4.9m). Total bank facilities in place are £10.5m.

Cash collection has been very encouraging since the half year and will continue to be an area of focus.

At the half year the estimate of future earn-outs was £6.68m with up to £2m payable in shares at the Company's option and the balance in cash over the next four years. As previously indicated these earn-outs are dependent on performance and are self-funding.

Operational Overview

Public Affairs and Corporate Communications

The Public Affairs and Corporate Communications division consisting of Interel, Cabinet Stewart, Politics International and Odyssey showed good growth with revenues increasing to £7.0m (2007: £5.3m) and operating profit up 117% to £1.3m (2007: £0.6m). During the period the Cabinet Stewart and Interel EPA businesses were integrated under one management. The combined businesses then moved into a new office in the heart of the EU district of Brussels. Despite this level of disruption the division is reporting like for like revenue growth of 3%.

The European corporate affairs' offering is focused on public affairs, corporate communications and association management underpinned by a suite of online and offline creative services.

There have been a number of significant client wins in the period including:

- Coca Cola Enterprise, which is being serviced in both Paris and London;
- Bill & Melinda Gates Foundation, a pan-European account involving our offices in Brussels, London, Berlin and Paris;
- Danone, where the Group is providing PR advice and design in Brussels and Paris; and
- US Chamber of Commerce, which is the largest lobby in the US

The acquisition of Politics International has consolidated and enhanced Interel's position as one of the leading EU Public Affairs consultancies in Brussels and in Europe. Interel has made significant progress towards its mission of becoming a European leader in Public Affairs led Corporate Communications.

Odyssey, the Group's intranet software business, which was acquired in September 2007, continues to grow by winning new clients such as Waterstones. During the period Odyssey launched Interact 4.0, which incorporates Web 2.0 technologies, and is the first intelligent fourth Generation Intranet available on the market. There is already a healthy order book for Interact 4.0 from both existing and new customers.

Digital and Communication Services

The Digital and Communications division saw revenues increase by 214% to £6.6m (2007: £2.1m) with operating profit increasing by 450% to £1.1m (2007: £0.2m). The relatively small digital presence of the Group last year was significantly strengthened by the acquisitions of Pavilion and Amaze in September and November of last year. In the first half of 2007 this division consisted largely of traditional marketing services where trading conditions have been challenging. However the division has been able to maintain gross profit on a like for like basis.

In June, the Group merged its three digital businesses to create Amaze plc, a new marketing and technology company. Amaze is set to become one of the top ten UK digital agencies and the biggest in the North West. Due to the opportunities this merger creates the Group intends to invest in additional marketing support in the second half.

During the period the focus has been on integration and consolidation. This has been successful resulting in combined and enlarged projects for clients such as Lexus, where Hasgrove retained the account following a competitive tender. There has also been the first project delivered jointly with Interel where a website and online member community was developed for the International Council of Chemical Associations in Brussels.

Other notable wins and projects during the period include GMPTE (see below), Warners, Northern Rail and a number of healthcare clients.

Design

The Design division saw revenues static at £2.8m (2007: £2.8m) with operating profit decreasing to £0.4m (2007: £0.7m). Like for like growth in gross income was approximately 1%. The results have been impacted by significant delayed projects that have now been sanctioned by the clients.

The division is involved in activity ranging from strategic corporate consultancy through brand development and guardianship to brochure, point of sale and financial reports. Client sectors include automotive, financial, energy and utilities and the public sector. This business is characterised by regular repeat activity and many long term relationships.

The Design division, which now represents less than 15% of total Group fee income, is a good provider of work for the rest of the Group. In the period this has been evidenced by GMPTA (Greater Manchester Public Transport Authority) where the Group is providing branding advice, online and offline advertising, PR, website development and search engine optimisation.

Outlook

Although the emphasis in 2008 is on integration and exploiting operational and financial synergies, the Board will continue to seek acquisition prospects in its targeted sectors.

Approximately 85% of the Group's revenue is now generated by the Public Affairs and Corporate Communications, and Digital and Communication Services divisions. Research shows that online marketing will continue to grow with Forrester predicting double digit growth this year. PR is also taking a larger part of the communication spend. Moreover, Hasgrove has the benefit that corporate communication, including public affairs, is less susceptible to an economic downturn.

The Group has continued to trade in line with the Board's expectations and continues to generate important client wins across all disciplines.

Unaudited Consolidated Income Statement

Six months ended 30 June 2008

	Note	6 months to 30 Jun 08 £'000	6 months to 30 Jun 07 £'000	Audited Year to 31 Dec 07 £'000
Revenue	2	16,370	10,086	21,675
Cost of sales		(3,281)	(3,154)	(6,577)
Gross profit		13,089	6,932	15,098
Administrative expenses		(10,588)	(5,708)	(12,396)
Headline operating profit	2	2,501	1,224	2,702
Share option charges		(25)	(16)	(25)
Operating profit		2,476	1,208	2,677
Finance income		12	93	175
Notional finance cost on deferred consideration		(147)	(88)	(181)
Finance cost		(363)	(100)	(270)
Headline profit before tax		2,150	1,217	2,607
Share option charge		(25)	(16)	(25)
Notional finance cost on deferred consideration		(147)	(88)	(181)
Profit before tax		1,978	1,113	2,401
Tax		(535)	(368)	(730)
Profit for the financial period		1,443	745	1,671
Basic earnings per share (pence)	3	6.9p	4.0p	8.7p
Diluted earnings per share (pence)	3	6.8p	3.9p	8.5p

Unaudited consolidated statement of recognised income and expense

Six months ended 30 June 2008

	6 months to 30 Jun 08 £'000	6 months to 30 Jun 07 £'000	Audited Year to 31 Dec 07 £'000
(Losses)/ gains on a hedge of a net investment taken to equity	-	-	(122)
Exchange differences on translation of foreign operations	556	10	849
Net income/ (expense) recognised directly in equity	556	10	727
Profit for the period	1,443	745	1,671
Total recognised income and expense for the period	1,999	755	2,398

Unaudited Consolidated Balance Sheet

At 30 June 2008

	Note	30 Jun 08 £'000	30 Jun 07 £'000	Audited 31 Dec 07 £'000
Non-current assets				
Goodwill	5	31,244	14,875	27,888
Property, plant and equipment		1,303	663	785
Investments		10	10	10
		32,557	15,548	28,683
Current assets				
Inventories		93	94	55
Trade and other receivables		10,280	5,670	7,868
Cash and cash equivalents		2,390	5,126	2,955
		12,763	10,890	10,878
Total assets		45,320	26,438	39,561
Current liabilities				
Trade and other payables		(6,454)	(2,808)	(5,521)
Current tax liabilities		(1,046)	(711)	(610)
Obligations under finance leases		(84)	(32)	(14)
Borrowings		(7,275)	(613)	(5,300)
Provisions	6	(2,580)	(1,568)	(2,276)
		(17,439)	(5,732)	(13,721)
Net current assets		(4,676)	5,158	(2,843)
Non-current liabilities				
Borrowings		(2,537)	(2,351)	(2,500)
Long-term provisions	6	(4,074)	(4,567)	(4,922)
Obligations under finance leases		-	-	(22)
		(6,611)	(6,918)	(7,444)
Total liabilities		(24,050)	(12,650)	(21,165)
Net assets		21,270	13,788	18,396
Equity				
Share capital		2,137	1,865	2,068
Share premium account		13,164	9,628	12,382
Translation reserve		1,209	(64)	653
Retained earnings		4,760	2,359	3,293
Total equity		21,270	13,788	18,396

Unaudited Consolidated Cash Flow Statement
for the six months ended 30 June 2008

	Note	6 months ended 30 Jun 08 £'000	6 months ended 30 Jun 07 £'000	Audited Year ended 31 Dec 07 £'000
Cash generated by operations	7	1,571	785	1,087
Tax paid		(209)	(305)	(951)
Net cash from operating activities		1,362	480	136
Cash flows from investing activities				
Interest paid		(364)	(100)	(271)
Interest received		12	93	176
Purchase of property, plant and equipment		(585)	(103)	(297)
Sale of property, plant and equipment		27	-	-
Purchase of subsidiary undertakings		(2,072)	(1,459)	(7,979)
Net cash acquired with subsidiaries		380	393	1,640
Payment of deferred consideration		(848)	(655)	(1,765)
Net cash used in investing activities		(3,450)	(1,831)	(8,496)
Cash flows from financing activities				
Repayment of borrowings		(35)	(144)	(3,281)
Proceeds on issue of shares		-	5	5
New bank loans raised		-	-	3,000
Increase in revolving loan		13	-	4,800
Net cash from financing activities		(22)	(139)	4,524
Net (decrease)/increase in cash and cash equivalents		(2,110)	(1,490)	(3,836)
Cash and cash equivalents at start of period		2,955	6,626	6,626
Effect of foreign exchange rate changes		(6)	(10)	165
Cash and cash equivalents at end of period	7	839	5,126	2,955

Notes to financial information

1. Basis of preparation

These consolidated interim financial statements, which are condensed and unaudited for the six months ended 30 June 2008, have been prepared in accordance with the accounting policies which the Group expects to adopt in its 2008 Annual Report and are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2007. These accounting policies are based on the EU-adopted International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations that the Group expects to be applicable at that time. The IFRS and IFRIC interpretations that will be applicable at 31 December 2008, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

These consolidated interim financial statements for the six months ended 30 June 2008 have been prepared in accordance with the historical cost convention. The information relating to the six months ended 30 June 2008 and 30 June 2007 is unaudited and does not constitute statutory financial statements as defined in Section 240 of the Companies Act 1985. The comparative figures for the year ended 31 December 2007 have been extracted from the Group Report and Accounts, on which the auditors gave an unqualified opinion. The Group Report and Accounts for the year ended 31 December 2007 have been filed with the Registrar of Companies.

2. Segmental analysis

	6 months to 30 June 08		6 months to 30 Jun 07		12 months to 31 Dec 07	
	Turnover £'000	Operating profit £'000	Turnover £'000	Operating profit £'000	Turnover £'000	Operating profit £'000
By division:						
Public Affairs and Corporate Communications	7,038	1,298	5,263	562	10,711	1,312
Design Digital and Communication Services	2,778	448	2,754	684	4,744	528
	6,554	1,105	2,069	248	6,220	614
	16,370	2,851	10,086	1,494	21,675	2,454
Unallocated corporate (expense)/ income		(375)		(286)		223
Profit from operations		2,476		1,208		2,677

3. Earnings per share

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

Earnings

	6 months to 30 Jun 08 £'000	6 months to 30 Jun 07 £'000	Year ended 31 Dec 07 £'000
Earnings for the purposes of basic earnings per share being net profit	1,443	744	1,671
	No. 000's	No. 000's	No. 000's
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earning per share	20,896	18,626	19,184
Effect of dilutive potential ordinary shares:			
Share options	429	501	481
Weighted average number of ordinary shares for the purposes of diluted earnings per share	21,325	19,127	19,665

At 30 June 2008, there were outstanding share options issued under the Long Term Incentive Plan over 1,075,000 ordinary shares (31 December 2007 and 30 June 2007 1,075,000) which are not regarded as being dilutive and therefore these have not been included in the diluted earnings per share calculations.

Headline earnings per share

	6 months to 30 Jun 08 £'000	6 months to 30 Jun 07 £'000	Year ended 31 Dec 07 £'000
Net profit	1,443	745	1,671
Share option charges	25	16	25
Notional finance cost on deferred consideration	147	88	181
Headline earnings	1,615	849	1,877

4. Acquisitions

The acquisition of Politics International Limited ("PI") was completed on 11 February 2008. The estimated consideration payable is £3,065,000 plus legal and professional costs of £20,000. It is satisfied by an initial consideration of £1,524,000 paid in cash, £600,000 satisfied by the issue of 486,000 ordinary shares and estimated further deferred consideration of £941,000, which is dependent on the financial performance of PI in the period to 31 December 2010. The acquisition was funded from existing facilities.

At acquisition, the provisional fair value of net assets of PI amounted to £633,000 comprising fixed assets of £34,000 and net current assets of £599,000.

The results for the period from completion to 30 June 2008 were £883,000 turnover and £310,000 profit before interest and tax, which has been included within the consolidated results.

5. Goodwill

Goodwill arising on the acquisition of subsidiary undertakings or businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is recognised as an asset. Goodwill is reviewed for impairment at least annually.

6. Provisions

Provisions represent the accumulated amounts due under the deferred consideration arrangements with the vendors of the companies as calculated in accordance with IFRS.

7. Reconciliation of profit on ordinary activities before finance costs, income from investments and taxation to operating cash flow

	6 months to 30 June 08 £'000	6 months to 30 June 07 £'000	Year to 31 Dec 07 £'000
Profit on ordinary activities before finance costs, income from investments and taxation	2,476	1,208	2,677
Depreciation	234	137	314
Profit on disposal of fixed assets	(27)	-	-
Share option charge	25	16	25
(Increase)/decrease in inventories and work in progress	(38)	(10)	29
Decrease/(increase) in trade receivables	(1,790)	196	(750)
(Decrease)/ increase in trade payables	691	(762)	(1,208)
Operational cash flow	1,571	785	1,087

Cash and cash equivalents are made up of cash and cash equivalents as shown on the face of the balance sheet less bank overdraft of £1,551,000 (30 June 2007 and 31 December 2007: £Nil).

8. The Interim Statement was approved by the Board on 22nd September 2008.

9. Copies of this statement are available on our web site: www.hasgrove.com or by request from the Registered Office at: St Johns Court, Quay Street, Manchester, M3 3HN.