

HASGROVE plc

Profits up 44% and maiden dividend proposed as Group integrates four acquisitions

Hasgrove plc (AIM: HGV, 'Hasgrove'), the pan European marketing and communications services Group, announces its preliminary audited results for the year ended 31 December 2007.

Headlines

- Turnover increased by 42% to £21.7m (2006: £15.3m*)
- Gross profits increase to £15.1m (2006: £10.3m*) – like for like up 6.7%
- Strong performance by Public Affairs and Corporate Communications and Digital divisions – operating profits up 63% and 22% respectively
- Headline PBT jumps by 44% to £2.6m (2006: £1.8m*)
- Headline basic EPS up by 6.5% to 9.8p (2006: 9.2p*)
- The Board is proposing a maiden dividend of 0.5p per share
- Net debt at 31 December 2007 £4.9m (2006: net cash £3.5m)
- Four substantial acquisitions, Cabinet Stewart, Odyssey, Pavilion and Amaze completed
- Acquisition of Politics International, a leading London based Public Affairs consultancy in February 2008

* Comparative figures for 2006 represent results from the ten months ended 31 December 2006.

Rod Hyde, Chief Executive, said:

“During 2007 we continued to develop rapidly with a particular focus on our public affairs and digital capabilities.

“The Public Affairs and Corporate Communications division made significant progress with profits increasing by 63%. We also launched an Interel branded European public affairs network with offices and partner consultancies across continental Europe to complement our operations in London and Washington.

“The Group has been very successful in growing its digital operations including acquiring two significant digital businesses. The Digital and Communication Services division employs around 170 people and on a combined basis is now one of the top 10 UK interactive agencies.

“The current year’s trading has started well with a number of key project wins. We remain confident of another successful year, particularly given the high visibility of earnings.”

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Hasgrove plc

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Strategic Overview

Since conception, Hasgrove has been guided by a consistent objective of building an organisation that is capable of capitalising on the rapidly changing world of communications. This objective is being achieved by building a pan European communications group operating in high growth, niche areas where it can be a market leader.

2007 proved to be a significant year with the Group seeing a sharp increase in profitability and overall operating performance. Hasgrove continued its rapid, focused acquisition program but equally importantly began to see the benefits from its integration policies, both within each operating division and also across the enlarged group.

Hasgrove remains focused on a small number of disciplines that are mutually supportive and from which it derives synergy benefits. Hasgrove is currently concentrating on Public Affairs and Corporate Communications, Design and Digital activities.

Financial Highlights

Group turnover for the 12 months increased by 42% to £21.7m compared to £15.3m for the 10 months to 31 December 2006.

Gross profits increased to £15.1m (2006: £10.3m*). On a like for like basis this represented an increase of 6.7%.

Operating profit has increased by 42% to £2.7m (2006: £1.9m) as the Group continued to keep a tight control of all costs during its rapid development.

Headline profit before tax, after adding back non cash charges for share options and notional finance costs, was up 44% to £2.6m (2006: £1.8m). Reported profit before tax has increased to £2.4m (2006: £1.7m). The headline effective tax rate was 28.0% whilst the reported tax rate was 30.4%. The difference reflects the non tax deductibility of the share based payments charge and the notional finance charge.

Headline basic earnings per share were up 6.5% to 9.8p (2006: 9.2p). Reported basic earnings per share were 8.7p (2006: 8.1p).

The Board has proposed to pay a maiden dividend of 0.5 pence per share on 15 July 2008 to all shareholders on the register at 27 June 2008. It is anticipated that proposed dividends will increase in line with the Group's profitable growth.

Operating cash flow of £1.1m was affected by the acquisition of part of the trade and assets of Amaze from the administrators. The Group's net debt position at 31 December 2007 was £4.9m (2006: net cash £3.5m).

During September 2007 the Group arranged a £10m bank facility to support its acquisition programme through KBC Bank NV. During the year £8.0m was invested as initial consideration for acquisitions. With effect from 1 April 2008 the Group has entered into global cash pooling arrangements with KBC Bank NV, which should significantly improve cash management.

Operational Review

Hasgrove Group

Although the three operating divisions are managed on a day to day basis independently, all the Group's businesses benefit from being part of a larger group in terms of: financial disciplines and resources; national and international managerial and operational expertise; and increasingly from synergy opportunities. The growth of the Group has resulted in an increase in revenue synergy opportunities which are now in the process of being converted into profitable growth. A number of initiatives are now underway to accelerate synergy growth including the consolidation of UK offices.

The Group has also launched the Hasgrove College with a training programme designed to equip its emerging leaders with the skills and knowledge to be able to operate more effectively within a rapidly growing international group.

Within the Group operating profits of £2.7m, there is recognised a head office profit, after the management recharges to each division, of £223,000

Public Affairs and Corporate Communications

The Public Affairs and Corporate Communications division consisting of Interel, Cabinet Stewart and Odyssey showed good growth with revenues increasing to £10.7m (2006: £5.9m) and operating profit after management charges up 63% to £1.3m (2006: £0.8m). Like for like growth in gross profit was 9.4%.

The European corporate affairs offering is focused on public affairs, strategic communications and association management. It is underpinned by a broad range of services, including government relations, association management, online communications, corporate design and media relations.

The acquisition of Cabinet Stewart 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. The strategy has been to build a strong Brussels hub supported by a significant London presence, a referral office in Washington and a network of smaller European offices.

During the year the division made a number of investments designed to enhance and extend its organic growth:

- Building an infrastructure to service efficiently the enlarged business included a number of senior hires;
- Developing a capability to build on-line communications solutions as part of Interel's overall service offering, drawing on the digital offering within the Hasgrove Group of companies;
- Scaling Interel's international public relations offering by establishing a new practice, benefiting from Interel's membership in the two most prominent international networks of PR consultancies, PROI and GFC Net; and
- Expanding Interel's association management capability by several strategic hires, coupled with IT infrastructure investments supporting the management of large scale events.

In September, Odyssey Interactive joined the Group adding an important digital capability to the Group's change and internal communications offering, which is an area of high growth. Formed in 1996 and based near Manchester, Odyssey has grown significantly in recent years due to its focus on providing Intranet solutions. Odyssey has many private and public sector clients and its Interact product is now the leading Intranet solution for the Housing Associations. There are now around 100 sites using the company's Interact product supporting over 100,000 users. In addition to generating strong repeat revenues from support contracts, the company is continually developing additional modules that are offered to the client base. Odyssey has performed strongly in the first quarter of 2008.

In February 2008 the Group acquired Politics International, a leading London based public affairs consultancy for a consideration expected to be between £2.7m to £3m.

The division now has offices in Brussels, Paris, London, Manchester, Washington, Prague, Berlin and Madrid. In addition to this office expansion, Interel also launched a European Public Affairs network comprising partner consultancies in Athens, Amsterdam, Budapest, Lisbon, Ljubljana, Rome, Stockholm and Warsaw.

Digital and Communication Services

The Digital and Communications division saw revenues increase by 44% to £6.2m (2006: £4.3m) with operating profit after management charges increasing by 22% to £614,000 (2006: £505,000).

As anticipated by the Board, trading conditions have been challenging for traditional marketing services with a reduction in like for like gross profit of about 2.9%. As a result, during the year there

was intense effort to find a high quality digital marketing agency with the right cultural fit that would lead the Group's move towards digitally focused marketing services.

The Group has been successful in growing the digital focus of its operations with a significant increase in revenue generated from integrated campaigns with an online contribution. In addition the Group made two substantial digital marketing acquisitions: Pavilion Communications and Amaze Europe. The division now employs around 170 people and on a combined basis would be a top ten UK interactive agency. The companies are integrating well, sharing services and developing combined client offerings.

In September, Pavilion Communications joined the Group. Formed in 1986, Pavilion has grown significantly in recent years with its focus on digital marketing. Pavilion has been working with the Co-op, ODEON Cinemas and The Learning and Skills Council for a number of years. It was also appointed by Siemens Enterprise Communications as its global lead agency in September 2006 following successful activity for Siemens carried out earlier that year. Pavilion has also developed its own intellectual property including a content management system and a digital signage solution that is used in over 1,700 Co-op stores in the UK.

In November, Amaze Europe joined the Group. Amaze Europe provides both international and national clients with a wide range of marketing solutions across all digital platforms, including the delivery of web technology solutions. Amaze has operations in Cheshire and London. Amaze has extensive experience in the automotive, professional services and public sectors.

The division is now capable of delivering a 'wider and deeper' offering that, according to Forrester Research, is required by larger international clients. The strategy is to build a pan European agency for the digital age with a focus on developing a reputation for creativity and excellence in execution.

Design

The division's revenue decreased from £5.0m to £4.7m. Adjusting for the tail-off of the print work for the Co-Op, underlying gross profit increased by 7.3%. Operating profit fell marginally to £528,000 from £601,000 partly due to the loss of the Co-Op business in 2007, which was known before the Chase business was acquired, with the impact mitigated within the earn-out structure.

The Group has identified opportunities for revenue growth from the growing number of organisations basing their European headquarters in Brussels. This year, all three of the Group's design companies (the Chase, Landmarks and Hailstones) have derived revenue in this area. Hailstones, a small consultancy acquired in June 2007, has worked closely with Landmarks for some time. The acquisition is the first stage of the Group's plan to expand its design offering in key continental European markets.

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.

Outlook

All operating units are gaining from being part of a larger Group both in terms of financial and operational scale. 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.

Over 85% of the Group's revenue is now generated by the Digital and Corporate Communications 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 in an economic downturn.

The Group has continued to trade in line with the Board's expectations and has made a good start to 2008 with a number of important client wins across all three operating divisions.

Hasgrove plc
Consolidated income statement
Year ended 31 December 2007

	Note	Year ended 2007 £000	10 Months ended 2006 £000
Revenue		21,675	15,302
Cost of sales		(6,577)	(5,006)
Gross profit		<u>15,098</u>	<u>10,296</u>
Administrative expenses		(12,396)	(8,412)
Headline operating profit		<u>2,702</u>	<u>1,884</u>
Share based payments		(25)	(23)
Operating profit		<u>2,677</u>	<u>1,861</u>
Finance income		175	49
Notional finance cost on deferred consideration		(181)	(131)
Finance costs		(270)	(112)
Headline profit before tax		2,607	1,821
Share based payments		(25)	(23)
Notional finance cost on deferred consideration		(181)	(131)
Profit before tax		<u>2,401</u>	<u>1,667</u>
Tax		(730)	(578)
Profit for the financial year		<u><u>1,671</u></u>	<u><u>1,089</u></u>
Basic earnings per share (pence)	3	<u>8.7p</u>	<u>8.1p</u>
Diluted earnings per share (pence)	3	<u>8.5p</u>	<u>7.7p</u>

Hasgrove plc
Consolidated statement of recognised income and expense
Year ended 31 December 2007

	Year ended 2007 £000	10 Months ended 2006 £000
(Losses)/ gains on a hedge of a net investment taken to equity	(122)	118
Exchange differences on translation of foreign operations	849	(192)
Net income/ (expense) recognised directly in equity	<u>727</u>	<u>(74)</u>
Profit for the period	<u>1,671</u>	<u>1,089</u>
Total recognised income and expense for the period	<u><u>2,398</u></u>	<u><u>1,015</u></u>

Hasgrove plc
Consolidated balance sheet
At 31 December 2007

	2007	2006
	£000	£000
Non-current assets		
Goodwill	27,888	12,771
Property, plant and equipment	785	662
Investments	10	10
	<u>28,683</u>	<u>13,443</u>
Current assets		
Inventories	55	84
Trade and other receivables	7,868	5,514
Cash and cash equivalents	2,955	6,626
	<u>10,878</u>	<u>12,224</u>
Total assets	<u>39,561</u>	<u>25,667</u>
Current liabilities		
Trade and other payables	(5,521)	(3,475)
Current tax liabilities	(610)	(494)
Obligations under finance leases	(14)	(31)
Borrowings	(5,300)	(610)
Provisions	(2,276)	(1,916)
	<u>(13,721)</u>	<u>(6,526)</u>
Net current (liabilities)/ assets	<u>(2,843)</u>	<u>5,698</u>
Non-current liabilities		
Borrowings	(2,500)	(2,476)
Long-term provisions	(4,922)	(3,649)
Obligations under finance leases	(22)	(5)
	<u>(7,444)</u>	<u>(6,130)</u>
Total liabilities	<u>(21,165)</u>	<u>(12,656)</u>
Net assets	<u>18,396</u>	<u>13,011</u>
Equity		
Share capital	2,068	1,859
Share premium account	12,382	9,629
Translation reserve	653	(74)
Retained earnings	3,293	1,597
	<u>18,396</u>	<u>13,011</u>
Total equity	<u>18,396</u>	<u>13,011</u>

Hasgrove plc
Consolidated cash flow statement
Year ended 31 December 2007

	Note	Year ended 2007 £000	10 Months ended 2006 £000
Cash generated by operations	4	1,087	1,474
Income taxes paid		(951)	(617)
Net cash from operating activities		<u>136</u>	<u>857</u>
Investing activities			
Interest paid		(271)	(112)
Interest received		176	49
Purchases of property, plant and equipment		(297)	(237)
Purchase of subsidiary undertakings		(7,979)	(4,934)
Net cash acquired with subsidiaries		1,640	2,082
Payment of deferred consideration		(1,765)	(563)
Net cash used in investing activities		<u>(8,496)</u>	<u>(3,715)</u>
Financing activities			
Repayments of borrowings		(3,281)	(314)
Proceeds on issue of shares		5	5,747
New bank loans raised		3,000	3,500
Increase in bank overdrafts and revolver		4,800	-
Net cash from financing activities		<u>4,524</u>	<u>8,933</u>
Net (decrease)/increase in cash and cash equivalents		<u>(3,836)</u>	<u>6,075</u>
Cash and cash equivalents at beginning of year		6,626	645
Effect of foreign exchange rate changes		165	(94)
Cash and cash equivalents at end of year		<u><u>2,955</u></u>	<u><u>6,626</u></u>

Hasgrove plc
Notes to the consolidated financial statements
Year ended 31 December 2007

1. Financial information

The financial information contained in this document does not constitute statutory financial statements within the meaning of section 240 Companies Act 1985. The figures for the year ended 31 December 2007 have been extracted from the audited statutory financial statements. The financial statements for the year ended 31 December 2007 (under IFRS) and the year ended 31 December 2006 (under UK GAAP) received unqualified auditors' reports which did not contain a statement under section 237 (2) or (3) Companies Act 1985.

Copies of the Company's financial statements will be posted to shareholders in May 2008 and after approval at the Annual General Meeting on 24 June 2008, will be delivered to the Registrar of Companies. Further copies will be available from the registered office of the Company.

2. Basis of accounting

The financial statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRSs). The directors consider that due to recent convergence of UK GAAP and IFRSs, no material adjustments to the financial statements have been necessary. The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis.

Hasgrove plc
Notes to the consolidated financial statements
Year ended 31 December 2007

3. Earnings per share

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

Earnings

	Year ended 2007 £000	10 Months ended 2006 £000
Earnings for the purposes of basic earnings per share being net profit	1,671	1,089
	Year ended 2007 No 000's	10 Months ended 2006 No 000's
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,184	13,518
Effect of dilutive potential ordinary shares: Share options	481	1,297
Weighted average number of ordinary shares for the purposes of diluted earnings per share	19,665	14,815

Headline earnings per share

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

	Year ended 2007 £000	10 Months ended 2006 £000
Net profit	1,671	1,089
Share option charges	25	23
Notional finance cost on deferred consideration	181	131
Headline earnings	1,877	1,243

Hasgrove plc
Notes to the consolidated financial statements
Year ended 31 December 2007

4. Notes to the cash flow statement

	Year ended 2007 £000	10 Months ended 2006 £000
Operating profit for the year	2,678	1,861
Adjustments for:		
Depreciation of property, plant and equipment	314	245
Share-based payment expense	25	23
	<hr/>	<hr/>
	3,017	2,129
Operating cash flows before movements in working capital		
Decrease in inventories	29	68
Increase in receivables	(750)	(634)
Decrease in payables	(1,209)	(89)
	<hr/>	<hr/>
Cash generated by operations	<u>1,087</u>	<u>1,474</u>

Additions to fixtures and equipment during the year amounting to £35,000 were financed by new finance leases.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

5. Other information

Other information regarding Hasgrove plc can be found at the Company's website, www.hasgrove.com