

30 September 2011

# Hasgrove plc

## Interim results

Hasgrove plc (AIM: HGV, "Hasgrove", "the Group"), the digital and communications services group, has published its interim results for the six month period to 30 June 2011.

### Headlines

- Turnover of £10.5m (2010 restated<sup>1</sup>: £10.2m)
- Gross profits of £8.2m (2010 restated<sup>1</sup>: £8.6m)
- Headline operating profit of £0.8m (2010 restated<sup>1</sup>: £1.2m)
- Headline PBT of £0.7m (2010 restated<sup>1</sup>: £1.2m)
- Headline basic EPS of 2.4p (2010 restated<sup>2</sup>: 3.7p)
- Reported basic loss per share, including £5.4m Interel sale goodwill impairment, 21.0p (2010 restated<sup>2</sup>: earnings per share 3.0p)
- Operating cash flow of £1.4m, representing a cash conversion of 170%
- Net debt £7.4m 30 June 2011 (31 December 2010: £6.7m)
- Sale of Interel on 14 July 2011 for £8.5m – day one cash inflow of £6.8m
- Net debt £2.1m after inclusion of cash from Interel disposal
- Future revenue pipeline remains strong across Group

The figures stated for 2011 relate to Continuing Operations

1 Restated to reflect sale of Interel on 14 July 2011

2 Restated for prior year adjustment relating to deferred tax on goodwill

**Paul Sanders**, Group Chief Executive, said:

***"Following the sale of Interel in July, we are now a focused digital and communications services group. Amaze, Interact and The Chase have been restructured over the last 12 months to focus on driving organic growth and improving efficiencies. This process will be completed in the second half."***

***"Our revenue pipelines remain strong across the Group. However, in the current economic climate our experience is that our clients' purchasing decisions are extended."***

### Enquiries:

#### Hasgrove plc

Paul Sanders, Group Chief Executive

**0161 242 5650**

#### College Hill

Adrian Duffield/Rozi Morris

**020 7457 2020**

#### Peel Hunt LLP (Nominated adviser and broker)

Richard Kauffer/Daniel Harris

**020 7418 8900**

## Overview

Hasgrove is now focused on three digital and communication services businesses, Amaze, Interact, and the Chase. There are over 280 personnel in the Group, serving a broad base of more than 300 clients.

2011 has continued to be a challenging year for the Group, although client retention remains strong and there have been a number of significant new client wins and new project briefs from existing clients.

The current economic climate means that new projects are subject to longer procurement cycles. However, a combination of the restructuring implemented over the last 12 months and the new client wins and project briefs from existing clients, means that the Group is well placed to deal with these challenges.

## Financial Highlights

Group turnover for continuing operations increased by 3% to £10.5m (2010: £10.2m). Gross Income was £8.2m (2010: £8.6m).

Headline operating profits, excluding exceptional items and the non cash items of notional finance costs and share option charges, were £0.8m (2010: £1.2m).

Headline profit before tax was £0.7m (2010: £1.2m).

The exceptional charge of £0.5m relates to redundancy costs (£0.3m), an office move (£0.1m) and an exceptional bad debt (£0.1m).

Group profit before tax was £0.1m (2010: £0.7m), after the exceptional items and the non cash items of notional finance costs and share options charges. The effective tax rate was 24%.

Headline basic earnings per share were 2.4p (2010: 3.7p) and reported basic losses per share were 21.0p (2010: earnings per share 3.0p) as a result of the £5.4m impairment of goodwill related to the sale of Interel.

Operating cash flows before tax was very strong at £1.4m (2010: £2.0m), representing a conversion rate of 170%.

The Group's net debt on 30 June 2011 was £7.4m (31 December 2010: £6.7m) but following the sale of Interel, the net debt is reduced to £2.1m.

At the period end, the estimate of future earn-outs was £1.5m. These earn-outs are dependent on performance of the relevant businesses and are self-funding.

Following the sale of Interel, the Group has completed a refinancing with Barclays Bank where the facility headroom has been increased by £1m compared to the previous facility.

## Operational Review

### Amaze

Amaze delivered a Gross profit of £6.0m.

Following the acquisitions made in 2005 to 2009, the business has now been rationalised and operates as a single operation from five offices in Manchester, London, Liverpool, Belfast and Brussels. Amaze has successfully replaced the public sector revenue of almost £1m on an annualised basis that ceased at the end of the first half last year.

Amaze has strengthened its reputation as specialists in working with central marketing teams to concept and deliver localisable solutions. This has led to successful new business activity with Amaze continuing to win and grow significant pan-European and global accounts, supporting the development of digital strategy, communications and infrastructure for large organisations.

Amaze is a leading full service marketing and technology company. Using its insights into consumer expectations, attitudes and motivations, Amaze delivers marketing and technology solutions – from strategy through to implementation – that enable organisations to identify and act upon the opportunities created by this changing digital world. Clients include Bridgestone, Coca-Cola, the Co-operative Group, Dyson, Eurocamp, Lexus, ODEON Cinemas, Toyota and Unilever.

In addition to being ranked 15th in the UK's Top 100 Interactive Agencies by New Media Age, Amaze was ranked 5th in the website design and build category for the second year in a row. In 2010, the company was also positioned 2nd in B2B Marketing's Marketing Communications Agency League Table and 9th in Marketing's Digital Agency League Table.

## **Interact**

Interact delivered a Gross profit of £1.2m.

Interact's sales of its flagship software, Interact Intranet, together with related services have increased by 59% compared to the first half of 2010. The transition of the business to be solely focused on intranet product development and delivery is almost complete with the result that lower margin web service revenue has more than halved and now represents less than 5% of total revenue.

The size and value of intranets sold has also increased with significant sales in the period to blue chip organisations including G4S, Yodel, Bradford and Bingley and Arriva.

Recurring income from support and software update contracts now represent over 25% of Interact's turnover.

Interact has invested significantly in resource in the UK to provide a stable focused platform that is needed for growth. The objective is to continue to increase revenue and leverage the software, resource and expertise Interact has in the fast growing social business software space.

## **The Chase**

The Chase delivered a Gross profit of £1.0m.

The Chase had a difficult start to the year due to delayed spend from major clients, particularly in the first quarter resulting in a shortfall of profit of £0.4m in comparison with the first half of 2010. As a result, annualised cost savings of £0.4m have been achieved, the benefit of which will take effect from 1 July 2011. More encouragingly, The Chase has recently won a number of new clients and long term clients have started to spend again. During the past 12 months, The Chase has achieved critical success, winning prestigious awards in New York, Cannes and London.

## **Outlook**

2011 has continued to be a challenging year, particularly in light of delayed spending decisions from clients, the diversion of senior management time to the sale of Interel and the reorganisation and integration of the continuing businesses. However, relationships with existing clients remain strong and the new business wins and supporting pipelines are very encouraging. If the Group converts most of the current opportunities, the Board believes it will be well placed to achieve its expectations for the full year.

## Unaudited Consolidated Income Statement

Six months ended 30 June 2011

|   | Note | 6 months to<br>30 Jun 11<br>£'000 | Restated<br>6 months to<br>30 Jun 10<br>£'000 | Audited<br>Restated<br>Year to<br>31 Dec 10<br>£'000 |
|---|------|-----------------------------------|---|--|
| <b>Continuing operations</b>                                  |      |                                   |   |  |
| Revenue   | 3    | <b>10,490</b>                     | 10,210  | 22,226   |
| Cost of sales   |      | <b>(2,332)</b>                    | (1,643)                                       | (6,252)  |
| Gross profit  |      | <b>8,158</b>                      | 8,567   | 15,974   |
| Administrative expenses before separately<br>identified items |      | <b>(7,322)</b>                    | (7,322)                                       | (13,652)   |
| <b>Headline operating profit</b>                              | 3    | <b>836</b>                        | 1,245   | 2,322  |
| Share option charges  |      | <b>(55)</b>                       | (49)  | (93)   |
| Exceptional costs   |      | <b>(481)</b>                      | (353)   | (496)  |
| Total administrative expenses                                 |      | <b>(7,858)</b>                    | (7,724)                                       | (14,241)   |
| <b>Operating profit</b>                                       | 3    | <b>300</b>                        | 843   | 1,733  |
| Finance income  |      | <b>1</b>                          | 9   | 2  |
| Notional finance cost on deferred consideration               |      | <b>(41)</b>                       | (74)  | (106)  |
| Finance cost  |      | <b>(124)</b>                      | (92)  | (202)  |
| Total finance costs   |      | <b>(164)</b>                      | (157)   | (306)  |
| Headline profit before tax                                    |      | <b>713</b>                        | 1,162   | 2,122  |
| Share option charge   |      | <b>(55)</b>                       | (49)  | (93)   |
| Exceptional costs   |      | <b>(481)</b>                      | (353)   | (496)  |
| Notional finance cost on deferred consideration               |      | <b>(41)</b>                       | (74)  | (106)  |
| <b>Profit before tax</b>                                      |      | <b>136</b>                        | 686   | 1,427  |
| Tax   |      | <b>(23)</b>                       | (313)   | (410)  |
| <b>Profit for the period from continuing<br/>operations</b>   |      | <b>113</b>                        | 373   | 1,017  |
| <b>Discontinued operations</b>                                |      |                                   |   |  |
| (Loss)/ profit for the period from Discontinued<br>Operations | 7    | (5,129)                           | 333   | 440  |
| <b>(Loss)/ profit for the period</b>                          |      | <b>(5,016)</b>                    | 706   | 1,457  |
| Basic (loss)/ earnings per share (pence)                      | 4    | <b>(21.0p)</b>                    | 3.0p  | 6.1p   |
| Diluted (loss)/ earnings per share (pence)                    | 4    | <b>(20.8p)</b>                    | 2.9p  | 6.0p   |

**Unaudited Consolidated Statement of Comprehensive Income**

Six months ended 30 June 2011

|   | <b>6 months to<br/>30 Jun 11<br/>£'000</b> | 6 months to<br>30 Jun 10<br>£'000 | Audited<br>Year to<br>31 Dec 10<br>£'000 |
|---|--|-----------------------------------|--|
| (Loss)/ profit for the period   | <b>(5,016)</b>                             | 706                               | 1,457                                    |
| Other comprehensive income<br>(Losses)/ gains on a hedge of a net investment<br>taken to equity | <b>(202)</b>                               | 395                               | 191                                      |
| Exchange differences on translation of foreign<br>operations                                    | <b>480</b>                                 | (1,497)                           | (786)                                    |
| <b>Other comprehensive income for the period</b>  | <b>278</b>                                 | (1,102)                           | (595)                                    |
| <b>Total comprehensive income for the period</b>  | <b>(4,738)</b>                             | <b>(396)</b>                      | <b>862</b>                               |
| Prior year adjustment – deferred tax  | -  | -                                 | (267)                                    |
| Total comprehensive income recognised since last<br>annual report and financial statements      | <b>(4,738)</b>                             | (396)                             | 595                                      |

## Unaudited Consolidated Statement of Financial Position

At 30 June 2011

|  | Note | 30 Jun 11<br>£'000 | Restated<br>30 Jun 10<br>£'000 | Audited<br>31 Dec 10<br>£'000 |
|--|------|--------------------|--------------------------------|-------------------------------|
| <b>Non-current assets</b>                        |      |                    |                                |                               |
| Goodwill   |      | 23,013             | 32,457                         | 32,701                        |
| Other intangible assets                          |      | 728                | 466                            | 582                           |
| Property, plant and equipment                    |      | 1,199              | 1,485                          | 1,706                         |
| Deferred tax asset                               |      | 27                 | 50                             | 240                           |
|  |      | <b>24,967</b>      | 34,458                         | 35,229                        |
| <b>Current assets</b>                            |      |                    |                                |                               |
| Inventories                                      |      | 155                | 114                            | 57                            |
| Trade and other receivables                      |      | 5,270              | 8,123                          | 9,120                         |
| Cash and cash equivalents                        |      | -                  | 73                             | -                             |
| Assets held for sale                             | 5    | 11,214             | -                              | -                             |
|  |      | <b>16,639</b>      | 8,310                          | 9,177                         |
| <b>Total assets</b>                              |      | <b>41,606</b>      | 42,768                         | 44,406                        |
| <b>Current liabilities</b>                       |      |                    |                                |                               |
| Trade and other payables                         |      | (4,586)            | (6,034)                        | (6,722)                       |
| Current tax liabilities                          |      | (63)               | (382)                          | (241)                         |
| Obligations under finance leases                 |      | (158)              | (115)                          | (101)                         |
| Borrowings                                       |      | (4,695)            | (2,018)                        | (3,476)                       |
| Deferred consideration                           |      | (1,116)            | (2,344)                        | (1,548)                       |
| Liabilities associated with assets held for sale | 5    | (2,885)            | -                              | -                             |
|  |      | <b>(13,503)</b>    | (10,893)                       | (12,088)                      |
| <b>Net current assets/ (liabilities)</b>         |      | <b>3,136</b>       | (2,583)                        | (2,911)                       |
| <b>Non-current liabilities</b>                   |      |                    |                                |                               |
| Obligations under finance leases                 |      | -                  | (150)                          | (113)                         |
| Borrowings                                       |      | (4,014)            | (3,673)                        | (3,044)                       |
| Deferred consideration                           |      | (371)              | (925)                          | (742)                         |
| Deferred tax liability                           |      | (752)              | (418)                          | (770)                         |
|  |      | <b>(5,137)</b>     | (5,166)                        | (4,669)                       |
| <b>Total liabilities</b>                         |      | <b>(18,640)</b>    | (16,059)                       | (16,757)                      |
| <b>Net assets</b>                                |      | <b>22,966</b>      | 26,709                         | 27,649                        |
| <b>Equity</b>                                    |      |                    |                                |                               |
| Share capital                                    |      | 2,383              | 2,383                          | 2,383                         |
| Share premium account                            |      | 14,959             | 14,959                         | 14,959                        |
| Translation reserve                              |      | 2,036              | 1,250                          | 1,758                         |
| Retained earnings                                |      | 3,588              | 8,117                          | 8,549                         |
| <b>Total equity</b>                              |      | <b>22,966</b>      | 26,709                         | 27,649                        |

## Unaudited Consolidated Statement of Changes in Equity

Six months ended 30 June 2011

|  | Share<br>capital<br>£000 | Share<br>premium<br>account<br>£000 | Translation<br>reserve<br>£000 | Retained<br>earnings<br>£000 | Total<br>£000 |
|--|--------------------------|-------------------------------------|--------------------------------|------------------------------|---------------|
| <b>Balance at 1 January 2010</b>                                 | 2,383                    | 14,959                              | 2,352                          | 7,671                        | 27,365        |
| Effect of change in accounting for deferred<br>taxation (note 2) | -                        | -                                   | -                              | (309)                        | (309)         |
| <b>As restated</b>   | 2,383                    | 14,959                              | 2,352                          | 7,362                        | 27,056        |
| Profit for the period  | -                        | -                                   | -                              | 706                          | 706           |
| Other comprehensive income for the<br>period                     | -                        | -                                   | (1,102)                        | -                            | (1,102)       |
| <b>Total comprehensive income for the<br/>period</b>             | -                        | -                                   | (1,102)                        | 706                          | (396)         |
| Credit to equity for equity-settled share<br>based payments      | -                        | -                                   | -                              | 49                           | 49            |
| <b>Balance at 30 June 2010</b>                                   | 2,383                    | 14,959                              | 1,250                          | 8,117                        | 26,709        |
| Profit for the period  | -                        | -                                   | -                              | 517                          | 517           |
| Other comprehensive income for the<br>period                     | -                        | -                                   | 508                            | -                            | 508           |
| <b>Total comprehensive income for the<br/>period</b>             | -                        | -                                   | 508                            | 517                          | 1,025         |
| Dividends  | -                        | -                                   | -                              | (119)                        | (119)         |
| Credit to equity for equity-settled share<br>based payments      | -                        | -                                   | -                              | 34                           | 34            |
| <b>Balance at 31 December 2010</b>                               | 2,383                    | 14,959                              | 1,758                          | 8,549                        | 27,649        |
| Profit for the period  | -                        | -                                   | -                              | (5,016)                      | (5,016)       |
| Other comprehensive income for the<br>period                     | -                        | -                                   | 278                            | -                            | 278           |
| <b>Total comprehensive income for the<br/>period</b>             | -                        | -                                   | 278                            | (5,016)                      | (4,738)       |
| Credit to equity for equity-settled share<br>based payments      | -                        | -                                   | -                              | 55                           | 55            |
| <b>Balance at 30 June 2011</b>                                   | 2,383                    | 14,959                              | 2,036                          | 3,588                        | 22,966        |

**Unaudited Consolidated Statement of Cash Flows**

for the six months ended 30 June 2011

|   | Note | <b>6 months to<br/>30 Jun 11<br/>£'000</b> | 6 months to<br>30 Jun 10<br>£'000 | Audited<br>Year ended<br>31 Dec 10<br>£'000 |
|---|------|--|-----------------------------------|---|
| Cash generated by operations                        | 6    | <b>1,415</b>                               | 1,984                             | 3,498                                       |
| Tax paid  |      | <b>(205)</b>                               | (412)                             | (903)                                       |
| <b>Net cash from operating activities</b>           |      | <b>1,210</b>                               | 1,572                             | 2,595                                       |
| <b>Cash flows from investing activities</b>         |      |  |                                   |   |
| Interest paid                                       |      | <b>(124)</b>                               | (81)                              | (211)                                       |
| Interest received                                   |      | <b>1</b>                                   | 9                                 | 2   |
| Purchase of property, plant and equipment           |      | <b>(154)</b>                               | (408)                             | (850)                                       |
| Expenditure on product development                  |      | <b>(230)</b>                               | (132)                             | (315)                                       |
| Payment of deferred consideration                   |      | <b>(803)</b>                               | (565)                             | (1,273)                                     |
| <b>Net cash used in investing activities</b>        |      | <b>(1,310)</b>                             | (1,177)                           | (2,647)                                     |
| <b>Cash flows from financing activities</b>         |      |  |                                   |   |
| Dividend paid                                       |      | -  | -                                 | (119)                                       |
| Drawdown of borrowings                              |      | <b>1,792</b>                               | -                                 | -   |
| Repayment of borrowings                             |      | <b>(813)</b>                               | (522)                             | (588)                                       |
| (Decrease)/ increase in revolving loan              |      | <b>(2,009)</b>                             | -                                 | 83  |
| <b>Net cash outflow from financing activities</b>   |      | <b>(1,030)</b>                             | (522)                             | (624)                                       |
| <b>Net decrease in cash and cash equivalents</b>    |      | <b>(1,130)</b>                             | (127)                             | (676)                                       |
| <b>Cash and cash equivalents at start of period</b> |      | <b>(467)</b>                               | 290                               | 290   |
| Effect of foreign exchange rate changes             |      | <b>(256)</b>                               | (90)                              | (81)  |
| <b>Cash and cash equivalents at end of period</b>   |      | <b>(1,853)</b>                             | 73                                | (467)                                       |

## 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 2011, have been prepared in accordance with the accounting policies which the Group expects to adopt in its 2011 Annual Report and are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2010. 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 2011, 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 condensed consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with the historical cost convention. The information relating to the six months ended 30 June 2011 and 30 June 2010 is unaudited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The comparative figures for the year ended 31 December 2010 have been extracted from the Group Report and Accounts. The auditors reported on those accounts, their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The Group Report and Accounts for the year ended 31 December 2010 have been filed with the Registrar of Companies.

### 2. Prior year adjustment

Consistent with the prior year adjustment made at 31 December 2010 in relation to the accounting treatment of deferred taxation arising on goodwill, the comparatives have been restated:

| Statement of Financial Position | 30 Jun 2010                 |                      | Restated<br>£000 |
|---------------------------------|-----------------------------|----------------------|------------------|
|                                 | Previously reported<br>£000 | Restatements<br>£000 |                  |
| <b>Non-current liabilities</b>  |                             |                      |                  |
| Deferred tax liability          | -                           | (418)                | (418)            |
| <b>Shareholders' equity</b>     |                             |                      |                  |
| Retained earnings               |                             |                      |                  |
| Brought forward                 | 7,671                       | (309)                | 7,362            |
| Profit for the year             | 815                         | (109)                | 706              |
| Carried forward                 | <u>8,535</u>                | <u>(418)</u>         | <u>8,117</u>     |

### 3. Segmental analysis

|  | 6 months to<br>30 Jun 11 |                              | 6 months to<br>30 Jun 10 |                              | Year ended<br>31 Dec 10 |                              |
|--|--------------------------|------------------------------|--------------------------|------------------------------|-------------------------|------------------------------|
|  | Turnover<br>£'000        | Operating<br>profit<br>£'000 | Turnover<br>£'000        | Operating<br>profit<br>£'000 | Turnover<br>£'000       | Operating<br>profit<br>£'000 |
| By division:                                       |                          |                              |                          |                              |                         |                              |
| <b>Public Affairs and Strategic Communications</b> | <b>6,541</b>             | <b>685</b>                   | 6,560                    | 472                          | 13,132                  | 1,183                        |
| <b>Digital and Communication Services</b>          | <b>10,490</b>            | <b>836</b>                   | 10,210                   | 1,245                        | 22,226                  | 2,055                        |
| <b>Discontinued operations</b>                     | <b>(6,541)</b>           | <b>(685)</b>                 | (6,560)                  | (472)                        | (13,132)                | (1,183)                      |
|  | <b>10,490</b>            | <b>836</b>                   | 10,210                   | 1,245                        | 22,226                  | 2,055                        |
| <b>Unallocated corporate (expense)/ income</b>     |                          | -                            |                          | -                            |                         | 267                          |
| <b>Share option charge</b>                         |                          | <b>(55)</b>                  |                          | (49)                         |                         | (93)                         |
| <b>Exceptional costs</b>                           |                          | <b>(481)</b>                 |                          | (353)                        |                         | (496)                        |
| <b>Profit from continuing operations</b>           |                          | <b>300</b>                   |                          | 843                          |                         | 1,733                        |

### 4. Earnings per share

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

#### Earnings

|   | 6 months to<br>30 Jun 11<br>£'000 | 6 months to<br>30 Jun 10<br>£'000 | Year ended<br>31 Dec 10<br>£'000 |
|---|-----------------------------------|-----------------------------------|----------------------------------|
| Earnings for the purposes of basic earnings per share being net profit                    | <b>(5,016)</b>                    | 706                               | 1,457                            |
|   | <b>No.<br/>000's</b>              | No.<br>000's                      | No.<br>000's                     |
| Number of shares  |                                   |                                   |                                  |
| Weighted average number of ordinary shares for the purposes of basic earning per share    | <b>23,831</b>                     | 23,831                            | 23,831                           |
| Effect of dilutive potential ordinary shares:   |                                   |                                   |                                  |
| Share options   | <b>292</b>                        | 461                               | 292                              |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | <b>24,123</b>                     | 24,292                            | 24,123                           |

## Headline earnings per share

|   | <b>6 months to<br/>30 Jun 11<br/>£'000</b> | 6 months to<br>30 Jun 10<br>£'000 | Year ended<br>31 Dec 10<br>£'000 |
|---|--|-----------------------------------|----------------------------------|
| Net profit  | <b>(5,016)</b>                             | 706                               | 1,457                            |
| Discontinued operations                             | <b>5,129</b>                               | (333)                             | (440)                            |
| Exceptional costs (net of tax relief)               | <b>361</b>                                 | 265                               | 372                              |
| Share option charges                                | <b>55</b>                                  | 49                                | 93                               |
| Notional finance cost on deferred consideration     | <b>41</b>                                  | 74                                | 106                              |
| Deferred tax timing difference on acquired goodwill | <b>-</b>                                   | 109                               | 218                              |
| <b>Headline earnings from continuing operations</b> | <b>570</b>                                 | 870                               | 1,588                            |

## 5. Current assets held for sale

On 30 June 2011 the board resolved to dispose of Interel, the group's Public Affairs and Strategic Communications operations and these operations were sold on 14 July 2011. These operations have been classified as a disposal group held for sale and presented separately in the balance sheet. The operations are included in Public Affairs and Strategic Communications in the segmental analysis in note 3. The proceeds of disposal were lower than the book value of the related net assets and accordingly the associated goodwill has been impaired and an impairment loss recognised on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

|   | <b>30 Jun 2011 £</b> |
|---|----------------------|
| Goodwill  | 5,584                |
| Property, plant and equipment   | 353                  |
| Trade and other receivables   | 3,761                |
| Cash and cash equivalents   | 1,516                |
| <b>Total assets classified as held for sale</b>                             | <b>11,214</b>        |
| Trade and other payables  | (2,570)              |
| Deferred consideration  | (315)                |
| <b>Total liabilities associated with assets classified as held for sale</b> | <b>(2,885)</b>       |
| <b>Net assets of disposal group</b>   | <b>8,329</b>         |

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

|   | <b>6 months to<br/>30 Jun 11<br/>£'000</b> | 6 months to<br>30 Jun 10<br>£'000 | Year to<br>31 Dec 10<br>£'000 |
|---|--|-----------------------------------|-------------------------------|
| Profit on ordinary activities before finance costs,<br>income from investments and taxation | <b>836</b>                                 | 1,253                             | 2,442                         |
| Depreciation  | <b>308</b>                                 | 283                               | 553                           |
| Amortisation  | <b>84</b>                                  | 45                                | 99                            |
| Share option charge   | <b>55</b>                                  | 49                                | 93                            |
| Profit on disposal of fixed assets  | -  | -                                 | 162                           |
| Increase in inventories   | <b>(98)</b>                                | (73)                              | (16)                          |
| (Increase)/ decrease in trade receivables   | <b>(85)</b>                                | 135                               | (676)                         |
| Increase in trade payables  | <b>315</b>                                 | 292                               | 841                           |
| <b>Operational cash flow</b>  | <b>1,415</b>                               | 1,984                             | 3,498                         |

## 7. Discontinued operations

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

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

|  | <b>6 months to<br/>30 Jun 11<br/>£'000</b> | <b>6 months to<br/>30 Jun 10<br/>£'000</b> | <b>Year ended<br/>31 Dec 10<br/>£'000</b> |
|--|--|--|---|
| Revenue  | 6,541                                      | 6,562                                      | 13,132                                    |
| Cost of sales                                    | (834)                                      | (964)                                      | (1,915)                                   |
| Administrative expenses                          | (5,023)                                    | (5,127)                                    | (10,083)                                  |
| Exceptional costs - impairment of goodwill       | (5,464)                                    | -  | -   |
| Exceptional costs - other                        | (148)                                      | (61)                                       | (425)                                     |
| Finance (costs)/ income                          | (40)                                       | 11   | (9)                                       |
| Profit before tax                                | (4,968)                                    | 421  | 700                                       |
| Attributable tax expense                         | (161)                                      | (88)                                       | (260)                                     |
| Profit after tax                                 | (5,129)                                    | 333  | 440                                       |
| Net loss attributable to discontinued operations | (5,129)                                    | 333  | 440                                       |

The effect of discontinued operations on segment results is included in note 3

8. The Interim Statement was approved by the Board on 29 September 2011.

9. Copies of this statement are available on our web site: [www.hasgrove.com](http://www.hasgrove.com) or by request from the Registered Office at: 6<sup>th</sup> Floor, Number One, First Street, Manchester, M15 4FN.