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[1]: £10.2m)
- Gross profits of £8.2m (2010 restated[1]: £8.6m)
- Headline operating profit of £0.8m (2010 restated[1]: £1.2m)
- Headline PBT of £0.7m (2010 restated[1]: £1.2m)
- Headline basic EPS of 2.4p (2010 restated[2]: 3.7p)
- Reported basic loss per share, including £5.4m Interel sale goodwill impairment, 21.0p (2010 restated[2]: 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."

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

Unaudited Consolidated Statement of Comprehensive Income
Six months ended 30 June 2011

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

Unaudited Consolidated Statement of Financial Position
At 30 June 2011

	Note	30 Jun 11	Restated 30 Jun 10	Audited 31 Dec 10
		£'000	£'000	£'000
Non-current assets				
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
		24,967	34,458	35,229
Current assets				
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**	-	-
		16,639	8,310	9,177
Total assets		**41,606**	42,768	44,406
Current liabilities				
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)**	-	-
		(13,503)	(10,893)	(12,088)
Net current assets/ (liabilities)		**3,136**	(2,583)	(2,911)
Non-current liabilities				
Obligations under finance leases		**-**	(150)	(113)
Borrowings		**(4,014)**	(3,673)	(3,044)
Deferred consideration		**(371)**	(925)	(742)
Deferred tax liability		**(752)**	(418)	(770)
		(5,137)	(5,166)	(4,669)
Total liabilities		**(18,640)**	(16,059)	(16,757)
Net assets		**22,966**	26,709	27,649
Equity				
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
Total equity		**22,966**	26,709	27,649

Unaudited Consolidated Statement of Changes in Equity
Six months ended 30 June 2011

	Share capital £000	Share premium account £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2010	2,383	14,959	2,352	7,671	27,365
Effect of change in accounting for deferred taxation (note 2)	-	-	-	(309)	(309)
As restated	2,383	14,959	2,352	7,362	27,056
Profit for the period	-	-	-	706	706
Other comprehensive income for the period	-	-	(1,102)	-	(1,102)
Total comprehensive income for the period	-	-	(1,102)	706	(396)
Credit to equity for equity-settled share based payments	-	-	-	49	49
Balance at 30 June 2010	2,383	14,959	1,250	8,117	26,709
Profit for the period	-	-	-	517	517
Other comprehensive income for the period	-	-	508	-	508
Total comprehensive income for the period	-	-	508	517	1,025
Dividends			-	(119)	(119)
Credit to equity for equity-settled share based payments			-	34	34
Balance at 31 December 2010	2,383	14,959	1,758	8,549	27,649
Profit for the period	-	-	-	(5,016)	(5,016)
Other comprehensive income for the period	-	-	278	-	278
Total comprehensive income for the period	-	-	278	(5,016)	(4,738)
Credit to equity for equity-settled share based payments	-	-	-	55	55
Balance at 30 June 2011	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	**6 months to 30 Jun 11 £'000**	6 months to 30 Jun 10 £'000	Audited Year ended 31 Dec 10 £'000
Cash generated by operations	6	**1,415**	1,984	3,498
Tax paid		**(205)**	(412)	(903)
Net cash from operating activities		**1,210**	1,572	2,595
Cash flows from investing activities				
Interest paid		**(124)**	(81)	(211)
Interest received		**1**	9	2
Purchase of property, plant and equipment		**(154)**	(408)	(850)
Expenditure on product development		**(230)**	(132)	(315)
Payment of deferred consideration		**(803)**	(565)	(1,273)
Net cash used in investing activities		**(1,310)**	(1,177)	(2,647)
Cash flows from financing activities				
Dividend paid		**-**	-	(119)
Drawdown of borrowings		**1,792**	-	-
Repayment of borrowings		**(813)**	(522)	(588)
(Decrease)/ increase in revolving loan		**(2,009)**	-	83
Net cash outflow from financing activities		**(1,030)**	(522)	(624)
Net decrease in cash and cash equivalents		**(1,130)**	(127)	(676)
Cash and cash equivalents at start of period		**(467)**	290	290
Effect of foreign exchange rate changes		**(256)**	(90)	(81)
Cash and cash equivalents at end of period		**(1,853)**	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 unders 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:

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

3. Segmental analysis

	6 months to 30 Jun 11		6 months to 30 Jun 10		Year ended 31 Dec 10	
	Turnover £'000	**Operating profit £'000**	Turnover £'000	Operating profit £'000	Turnover £'000	Operating profit £'000
By division:						
Public Affairs and Strategic Communications	**6,541**	**685**	6,560	472	13,132	1,183
Digital and Communication Services	**10,490**	**836**	10,210	1,245	22,226	2,055
Discontinued operations	**(6,541)**	**(685)**	(6,560)	(472)	(13,132)	(1,183)
	10,490	**836**	10,210	1,245	22,226	2,055
Unallocated corporate (expense)/ income		**-**		-		267
Share option charge		**(55)**		(49)		(93)
Exceptional costs		**(481)**		(353)		(496)
Profit from continuing operations		**300**		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 30 Jun 11 £'000	6 months to 30 Jun 10 £'000	Year ended 31 Dec 10 £'000
Earnings for the purposes of basic earnings per share being net profit	**(5,016)**	706	1,457
	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	**23,831**	23,831	23,831
Effect of dilutive potential ordinary shares:			
Share options	**292**	461	292
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**24,123**	24,292	24,123

Headline earnings per share

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

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

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

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

	6 months to 30 Jun 11 £'000	**6 months to 30 Jun 10 £'000**	**Year ended 31 Dec 10 £'000**
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 or by request from the Registered Office at: 6th Floor, Number One, First Street, Manchester, M15 4FN.