



Next Fifteen Communications Group plc

Interim results for the six months ended 31 January 2011

Next Fifteen Communications Group plc ("Next Fifteen" or "the Group"), the global public relations consultancy group, today announces its results for the six months ended 31 January 2011.

Financial Highlights:

- Revenues increased by 19% to £40.8 million (2010: £34.2 million)
- Profit before tax increased by 19% to £2.49 million (2010: £2.08 million)
- Adjusted profit before tax increased by 62% to £3.69 million (2010: £2.28 million)
- Earnings per share increased by 8% to 2.79p (2010: 2.58p) (see note 7)
- Diluted adjusted earnings per share increased by 36% to 3.63p (2010: 2.66p)
- Interim dividend increased by 8.4% to 0.515p per share (2010: 0.475p)
- Net debt of £2.7m following £4.7m of acquisition related payments in the period (see note 8)
- EBITDA increased to £4.5m from £3.6m in the comparative period

Corporate Progress:

- Acquired 85% stake in US-based investor relations company, The Blueshirt Group
- Acquired Type 3, a fully-integrated web design company in London and San Francisco and merged it with Context Analytics and Project Metal to create Beyond, the group's first pure digital consultancy
- Lexis acquired Glasshouse Partnership to strengthen its corporate practice in London
- Bite acquired digital marketing agency, OneXeno in Hong Kong

Commenting on the results, Chairman of Next Fifteen, Will Whitehorn, said:

“These strong results reflect the opportunities the Group is experiencing as a result of the market transition to digital. Our deep heritage in technology and investments in digital have put us in a great position to grow both our core customer base and into adjacent markets. During the period we expanded and added relationships with clients that include Zynga, Facebook, American Express and Google. The Group is also experiencing increased demand for solutions that involve more than one of the Group's agencies as more and more of our customers look for a broader set of integrated services. The Group will continue to invest in expanding its digital offering and also the key geographies in which it operates.”

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Attached:

Chairman and Chief Executive's statement
Consolidated income statement
Consolidated statement of comprehensive income
Consolidated balance sheet
Consolidated statement of changes in equity
Consolidated statement of cash flow
Notes to the interim results

Chairman and Chief Executive's Statement

Next Fifteen Communications Group plc ("Next Fifteen" or "the Group"), the global public relations consultancy group, has reported strong results for the six months to 31 January 2011. During the period, the Group reported revenue up 19% at £40.8m (2010: £34.2m). On an organic basis, at constant currency rates, revenue grew by 7%. Profit before tax was up 19% to £2.49m (2010: £2.08m) and the adjusted profit was up 62% at £3.69m (2010: £2.28m) (see note 3). Basic earnings per share were up 8% to 2.79p (2010: 2.58p) and diluted adjusted earnings per share were up 36% to 3.63p (2010: 2.66p) (see note 7). During the period, the Group made acquisition-related payments of £4.7m primarily related to the acquisitions of The Blueshirt Group in San Francisco and Type 3 in London and San Francisco, and contingent consideration payments in respect of M Booth. As a result, the Group had a net debt of £2.69m at 31 January 2011. The Board has decided to increase the interim dividend by 8.4% to 0.515p (2010: 0.475p). This reflects the Board's overall confidence in current trading.

These strong results reflect the opportunities the Group is experiencing as a result of the market transition to digital. Our deep heritage in technology and investments in digital have put us in an excellent position to grow both our core customer base and into adjacent markets. During the period we expanded and added relationships with clients that include Zynga, Facebook, American Express and Google. The Group is also experiencing increased demand for solutions that involve more than one of the Group's agencies as more and more of our customers look for a broader set of integrated services. The Group will continue to invest in expanding its digital offering and also the key geographies in which it operates.

Organic growth

The strong organic growth experienced by the Group arose largely from its operations in the US. This region, which accounts for more than half of the Group's revenues, delivered organic growth of 11%. This growth arose from the rebounding of the US economy and the transition to digital. The UK and APAC have shown more modest organic growth at 4% while EMEA was flat.

Investments

The Group continues to demonstrate a strong track record on acquisitions. New York-based M Booth, which became a part of Next Fifteen eighteen months ago, has delivered strong organic growth thanks in part to its partnership with Next Fifteen's newly created digital agency Beyond. Beyond, the fastest growing agency in the Group, was bolstered during the period by the acquisition of Type 3, a boutique web build agency with offices in San Francisco and London. The Group recently acquired The Blueshirt Group, an investor and media relations agency with offices in San Francisco and New York. It too is performing well and is benefitting from the uptick in tech IPO activity in the US. The Group is still pursuing organic opportunities and recently opened an office for Bite in India. This agency has already secured Swift, Siemens and HP as clients.

Prospects

As stated above, the Group is continuing to experience strong organic revenue and profit growth across the business. The Group remains acquisitive and expects to complete at least one further deal within the next few months. With this in mind the Group is in the process of renewing its banking facilities to provide additional funding through to the end of 2014, which when combined with the strong cash generation of the business, gives it ample scope to carry out such transactions. The Group continues to believe that it should remain only modestly geared so as to maintain a strong balance sheet.

Chairman search

As stated at the AGM in January, Will Whitehorn intends to step down as Chairman of the Group by the end of this financial year. The process of recruiting his successor is progressing well and it is anticipated that a new Chairman will be appointed within the next few months.

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

		Six months ended 31 January 2011 (Unaudited)		Six months ended 31 January 2010 (Unaudited)		Year ended 31 July 2010 (Audited)	
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Billings			50,054	42,650		91,175	
Revenue	2		40,796	34,188		72,328	
Staff costs		28,087		23,769		49,757	
Depreciation		603		469		1,060	
Amortisation		482		503		878	
Other operating charges		8,163		6,816		14,125	
Total operating charges			(37,335)	(31,557)		(65,820)	
Operating profit	2		3,461	2,631		6,508	
Finance expense	6		(1,106)	(579)		(1,310)	
Finance income			133	31		106	
Net finance expense			(973)	(548)		(1,204)	
Profit before income tax	2,3		2,488	2,083		5,304	
Income tax expense	4		(746)	(625)		(1,591)	
Profit for the period			1,742	1,458		3,713	
Attributable to:							
Owners of the parent			1,532	1,384		3,675	
Non-controlling interests			210	74		38	
			1,742	1,458		3,713	
Earnings per share	7						
Basic (pence)			2.79	2.58		6.75	
Diluted (pence)			2.41	2.41		6.02	

NEXT FIFTEEN COMMUNICATIONS GROUP PLC**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE SIX MONTHS ENDED 31 JANUARY 2011**

	Six months ended 31 January 2011 (Unaudited)	Six months ended 31 January 2010 (Unaudited)	Year ended 31 July 2010 (Audited)
	£'000	£'000	£'000
Profit for the period	1,742	1,458	3,713
Other comprehensive income:			
Exchange differences on translating foreign operations	(362)	441	665
Translation differences on long-term foreign currency intercompany loans	282	181	459
Net investment hedge	84	-	(111)
Other comprehensive income for the period	<u>4</u>	<u>622</u>	<u>1,013</u>
Total comprehensive income for the period	<u>1,746</u>	<u>2,080</u>	<u>4,726</u>
Total comprehensive income attributable to:			
Owners of the parent	1,536	2,006	4,688
Non-controlling interests	210	74	38
	<u>1,746</u>	<u>2,080</u>	<u>4,726</u>

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED BALANCE SHEET

AS AT 31 JANUARY 2011

		31 January 2011 (Unaudited)		31 January 2010 (Unaudited)		31 July 2010 (Audited)	
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Property, plant and equipment		2,639		1,999		2,269	
Intangible assets		34,190		27,767		27,111	
Deferred tax asset		1,659		1,585		1,531	
Other receivables		1,008		673		1,008	
Total non-current assets			39,496		32,024		31,919
Trade and other receivables		22,914		21,484		21,892	
Cash and cash equivalents		7,973		5,951		7,296	
Corporation tax asset		918		870		282	
Total current assets			31,805		28,305		29,470
Total assets			71,301		60,329		61,389
Liabilities							
Loans and borrowings	8	681		7,035		2,852	
Deferred tax liabilities		100		1		73	
Other payables		27		87		56	
Provisions		-		309		-	
Contingent consideration	9	4,341		4,008		4,232	
Share purchase obligation	9	4,614		1,566		1,349	
Total non-current liabilities			(9,763)		(13,006)		(8,562)
Loans and borrowings	8	9,910		163		5,181	
Trade and other payables		17,974		17,916		17,085	
Corporation tax liability		958		693		475	
Provisions		16		-		58	
Contingent consideration	9	4,004		1,577		1,880	
Derivative financial liabilities		410		410		419	
Share purchase obligation	9	549		175		150	
Total current liabilities			(33,821)		(20,934)		(25,248)
Total liabilities			(43,584)		(33,940)		(33,810)
TOTAL NET ASSETS			27,717		26,389		27,579
Equity							
Share capital		1,416		1,401		1,401	
Share premium reserve		5,575		5,157		5,575	
Merger reserve		3,498		3,493		3,075	
Share purchase reserve		(4,648)		(1,684)		(1,359)	
Foreign currency translation reserve		1,652		1,790		2,014	
Other reserves		(694)		(1,237)		(868)	
Retained earnings		19,057		16,453		16,791	
Total equity attributable to owners of the parent			25,856		25,373		26,629
Non-controlling interests			1,861		1,016		950
TOTAL EQUITY			27,717		26,389		27,579

NEXT FIFTEEN COMMUNICATIONS GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 JANUARY 2011

	Share capital	Share premium reserve	Merger reserve	Share purchase reserve ¹	Foreign currency translation reserve ²	Other reserves ³	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2009 (audited)	1,381	5,157	3,075	-	1,349	(1,239)	14,424	24,147	755	24,902
Profit for the period	-	-	-	-	-	-	1,384	1,384	74	1,458
Other comprehensive income for the period	-	-	-	-	441	-	181	622	-	622
Total comprehensive income for the period	-	-	-	-	441	-	1,565	2,006	74	2,080
Increase in shareholding of subsidiary	-	-	-	-	-	-	-	-	187	187
Shares issued on acquisitions	20	418	-	-	-	-	-	438	-	438
Movement in share purchase obligation	-	-	-	(1,684)	-	-	-	(1,684)	-	(1,684)
Movement in relation to share-based payments	-	-	-	-	-	-	313	313	-	313
Deferred tax on share-based payments	-	-	-	-	-	-	249	249	-	249
Movement due to ESOP share option exercises	-	-	-	-	-	2	17	19	-	19
Non-controlling interest dividend	-	-	-	-	-	-	(115)	(115)	-	(115)
At 31 January 2010 (unaudited)	1,401	5,575	3,075	(1,684)	1,790	(1,237)	16,453	25,373	1,016	26,389
Profit for the period	-	-	-	-	-	-	2,291	2,291	(36)	2,255
Other comprehensive income for the period	-	-	-	-	224	(111)	278	391	-	391
Total comprehensive income for the period	-	-	-	-	224	(111)	2,569	2,682	(36)	2,646
Dividends	-	-	-	-	-	-	(932)	(932)	-	(932)
Increase in shareholding of subsidiary	-	-	-	-	-	-	(1,120)	(1,120)	(548)	(1,668)
Non-controlling interest on business combination	-	-	-	-	-	-	-	-	774	774
Movement in share purchase obligation	-	-	-	325	-	-	-	325	-	325
Movement in relation to share-based payments	-	-	-	-	-	-	293	293	-	293
Deferred tax on share-based payments	-	-	-	-	-	-	(83)	(83)	-	(83)
Movement due to ESOP share options exercises	-	-	-	-	-	480	(389)	91	-	91
Non-controlling interest dividend	-	-	-	-	-	-	-	-	(256)	(256)
At 31 July 2010 (audited)	1,401	5,575	3,075	(1,359)	2,014	(868)	16,791	26,629	950	27,579
Profit for the period	-	-	-	-	-	-	1,532	1,532	210	1,742
Other comprehensive income for the period	-	-	-	-	(362)	84	282	4	-	4
Total comprehensive income for the period	-	-	-	-	(362)	84	1,814	1,536	210	1,746
Non-controlling interest on business combination	-	-	-	(777)	-	-	-	(777)	777	-
Shares issued on acquisitions	15	-	423	-	-	-	-	438	-	438
Acquisition of subsidiary	-	-	-	(2,512)	-	-	-	(2,512)	-	(2,512)
Movement in relation to share-based payments	-	-	-	-	-	-	242	242	-	242
Deferred tax on share-based payments	-	-	-	-	-	-	198	198	-	198
Movement due to ESOP share options exercises	-	-	-	-	-	90	12	102	-	102
Non-controlling interest dividend	-	-	-	-	-	-	-	-	(76)	(76)
At 31 January 2011 (unaudited)	1,416	5,575	3,498	(4,648)	1,652	(694)	19,057	25,856	1,861	27,717

¹ The share purchase reserve movement for the current period relates to The Blueshirt Group, LLC ('Blueshirt'). In addition the share purchase reserve relates to 463 Communications LLC ('463 Communications') and Upstream Marketing and Communications Inc ('Upstream Asia').

² The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of overseas subsidiaries.

³ Other reserves include ESOP reserve, treasury reserve and hedging reserve.

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

	Six months ended 31 January 2011 (Unaudited)		Six months ended 31 January 2010 (Unaudited)		Year ended 31 July 2010 (Audited)	
	£'000	£'000	£'000	£'000	£'000	£'000
Cash flows from operating activities						
Profit for the period	1,742		1,458		3,713	
Adjustments for:						
Depreciation	603		469		1,060	
Amortisation	482		503		878	
Finance income	(133)		(31)		(106)	
Finance expense	1,106		579		1,310	
(Loss)/profit on sale of property, plant and equipment	(2)		3		11	
Income tax expense	746		625		1,591	
Share-based payment charge	242		313		606	
Movement in fair value of forward foreign exchange contracts	106		(215)		(158)	
Net cash inflow from operating activities before changes in working capital		4,892		3,704		8,905
Change in trade and other receivables	(1,623)		(6,102)		(1,006)	
Change in trade and other payables	2,003		5,223		(1,103)	
(Decrease)/increase in provision	(42)		27		(224)	
		338		(852)		(2,333)
Net cash generated from operations		5,230		2,852		6,572
Income taxes paid		(1,859)		(662)		(1,465)
Net cash inflow from operating activities		3,371		2,190		5,107
Cash flows from investing activities						
Acquisition of subsidiaries, net of cash acquired	(4,185)		(4,266)		(4,076)	
Acquisition costs	(85)		(83)		(175)	
Proceeds on disposal of property, plant and equipment	-		1		19	
Acquisition of property, plant and equipment	(872)		(481)		(1,178)	
Acquisition of intangible assets	(92)		(156)		(302)	
Net movement in long-term cash deposits	-		(117)		(475)	
Interest received	18		31		68	
Net cash outflow from investing activities		(5,216)		(5,071)		(6,119)

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED STATEMENT OF CASH FLOW (*Continued*)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

	Six months ended 31 January 2011 (Unaudited)		Six months ended 31 January 2010 (Unaudited)		Year ended 31 July 2010 (Audited)	
	£'000	£'000	£'000	£'000	£'000	£'000
Net cash outflow from investing activities b/f		(5,216)		(5,071)		(6,119)
Cash flows from financing activities						
Proceeds from sale of own shares	102		19		110	
Net movement in bank borrowings	2,755		1,905		2,559	
Capital element of finance lease rental repayment	(45)		(80)		(150)	
Interest paid	(238)		(227)		(448)	
Non-controlling interest dividend paid	(76)		(115)		(256)	
Dividends paid to shareholders of the parent	-		-		(932)	
Net cash inflow from financing activities		<u>2,498</u>		<u>1,502</u>		<u>883</u>
Net increase/(decrease) in cash and cash equivalents		653		(1,379)		(129)
Cash and cash equivalents at beginning of the period		7,296		7,130		7,130
Exchange gains on cash held		24		200		295
Cash and cash equivalents at end of the period		<u>7,973</u>		<u>5,951</u>		<u>7,296</u>

NOTES TO THE INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

1) BASIS OF PREPARATION

The financial information in these interim results has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The principal accounting policies used in preparing the interim results are those the Group expects to apply in its financial statements for the year ending 31 July 2011. The financial information for the six months ended 31 January 2011 and the six months ended 31 January 2010 has not been reviewed, is unaudited and does not constitute the Group's statutory financial statements for those periods, as defined under section 434 of the Companies Act 2006. The comparative financial information for the full year ended 31 July 2010 has, however, been derived from the audited statutory financial statements for that year. A copy of those statutory financial statements has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

As a result of the acquisitions made in the period (note 10), the Group has amended its operating segments to align them to the internal reporting measure used by the chief operating decision maker. The Group now has four operating segments:

- i) Provision of public relations services in the technology market;
- ii) Provision of public relations services in the consumer market;
- iii) Digital and research consultancy; and
- iv) Corporate communications consultancy.

Comparative information has been restated in line with the revised segments.

NOTES TO THE INTERIM RESULTS (*Continued*)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

2) SEGMENT INFORMATION

Description of the types of services from which each reportable segment derives its revenues

The Board of Directors has identified the operating segments based on the reports it reviews as the chief operating decision maker to make strategic decisions, assess performance and allocate resources.

The Group's business is organised into four reportable segments, being the provision of public relations services in the technology and consumer markets, digital and research consultancy, and corporate communications consultancy. Within some of these segments the Group operates a number of separate competing businesses in order to offer services to clients in a confidential manner where otherwise there may be issues of conflict.

Measurement of operating segment profit

The accounting policies of the operating segments are the same as those described in the Annual Report for the year ended 31 July 2010.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted operating profit before intercompany recharges, which reflects the internal reporting measure used by the Board of Directors. This measurement basis excludes the effects of non-recurring charges, such as movement in fair value of financial instruments, unwinding of the discount on contingent and deferred consideration, unwinding of the discount on the share purchase obligation, amortisation of acquired intangibles, and goodwill impairment charges. Other information provided to them is measured in a manner consistent with that in the financial statements.

Head office costs relate to group costs before allocation of intercompany charges to the operating segments.

Intersegment transactions have not been separately disclosed as they are not material. The Board of Directors does not review the assets and liabilities of the Group on a segmental basis and therefore this is not separately disclosed.

Segmental information for the periods ended 31 January 2010 and 31 July 2010 has been restated as a result of the amendment in operating segments explained in note 1.

	Technology PR £'000	Consumer PR £'000	Digital/research consultancy £'000	Corporate communications £'000	Head Office £'000	Total £'000
Six months ended 31 January 2011 (Unaudited)						
Revenue	29,218	7,658	2,068	1,852	-	40,796
Segment adjusted operating profit	3,908	1,454	255	338	(2,042)	3,913
Six months ended 31 January 2010 (Unaudited and restated)						
Revenue	25,524	6,787	696	1,181	-	34,188
Segment adjusted operating profit	3,470	1,077	128	309	(2,510)	2,474
Year ended 31 July 2010 (Unaudited and restated)						
Revenue	54,201	14,402	1,642	2,083	-	72,328
Segment adjusted operating profit	8,098	2,392	120	535	(4,153)	6,992

NOTES TO THE INTERIM RESULTS (Continued)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

2) SEGMENT INFORMATION (Continued)

A reconciliation of segment adjusted operating profit to profit before income tax is provided as follows:

	Six months ended 31 January 2011 (Unaudited)	Six months ended 31 January 2010 (Unaudited and restated)	Year ended 31 July 2010 (Restated)
	£'000	£'000	£'000
Segment adjusted operating profit	3,913	2,474	6,992
Goodwill impairment charge	-	(58)	(116)
Amortisation of acquired intangibles	(346)	-	(526)
Movement in fair value of forward foreign exchange contracts	(106)	215	158
Total operating profit	3,461	2,631	6,508
Unwinding of discount on contingent and deferred consideration	(393)	(302)	(659)
Unwinding of discount on share purchase obligation	(237)	(40)	(140)
Change in estimate of future contingent consideration and share purchase obligation payable	(238)	-	(63)
Movement in fair value of interest rate cap-and- collar contract	115	(10)	38
Other finance expense	(238)	(227)	(448)
Other finance income	18	31	68
Profit before income tax	2,488	2,083	5,304

The following table provides an analysis of the Group's revenue and adjusted operating profit by geographical market.

	UK	Europe and Africa	US and Canada	Asia Pacific	Head Office	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Six months ended 31 January 2011 (Unaudited)						
Revenue	8,329	4,713	21,497	6,257	-	40,796
Adjusted operating profit	1,406	260	4,184	105	(2,042)	3,913
Six months ended 31 January 2010 (Unaudited and restated)						
Revenue	7,229	4,782	17,575	4,602	-	34,188
Adjusted operating profit	1,233	415	3,260	76	(2,510)	2,474
Year ended 31 July 2010 (Unaudited and restated)						
Revenue	15,125	9,723	37,272	10,208	-	72,328
Adjusted operating profit	2,394	1,237	7,360	154	(4,153)	6,992

NOTES TO THE INTERIM RESULTS (*Continued*)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

3) RECONCILIATION OF PRO-FORMA FINANCIAL MEASURES

	Six months ended 31 January 2011 (Unaudited)	Six months ended 31 January 2010 (Unaudited)	Year ended 31 July 2010 (Audited)
	£'000	£'000	£'000
Profit before income tax	2,488	2,083	5,304
Movement in fair value of interest rate cap-and-collar contract ¹	(115)	10	(38)
Movement in fair value of forward foreign exchange contracts ²	106	(215)	(158)
Unwinding of discount on contingent and deferred consideration ³	393	302	659
Unwinding of discount on share purchase obligation ⁴	237	40	140
Change in estimate of future contingent consideration and share purchase obligation payable ⁵	238	-	63
Impairment charge	-	58	116
Amortisation of acquired intangibles ⁶	346	-	526
Adjusted profit before income tax	<u>3,693</u>	<u>2,278</u>	<u>6,612</u>

Adjusted profit before income tax has been presented to provide additional information which may be useful to the reader, and for the performance calculation of the adjusted earnings per share used for the vesting of employee share options and performance shares.

¹Interest rate cap-and-collar contracts held by the Group are recognised at fair value on the balance sheet at each reporting date and the movement on such contracts is recognised within finance income/expense in the income statement. These financial instruments comprise financial products used to manage the interest rate risks of the Group's long-term debt obligations. The movement in fair value of the interest rate cap-and-collar contract since 31 July 2010 is a credit of £115,000.

²Forward foreign exchange contracts held by the Group are recognised at fair value on the balance sheet at each reporting date and the movement on such contracts is recognised within operating expenses in the income statement. These financial instruments comprise financial products used for hedging currency exposure on US dollar and euro. The movement in fair value of the forward foreign exchange contracts since 31 July 2010 is a charge of £106,000.

³A finance expense of £291,000 has been recognised during the period in relation to the unwinding of the discount on the contingent consideration payable for M Booth & Associates, Inc ('M Booth'), a wholly owned subsidiary of the Group since August 2009, and £102,000 in relation to the unwinding of the discount on the contingent consideration payable for Blueshirt, an 85% owned subsidiary of the Group since 1 November 2010 (2010: in relation to M Booth and The OutCast Agency).

⁴A finance expense of £237,000 has been recognised during the period in relation to the unwinding of the discount on the share purchase obligation for Upstream Asia (£55,000), 463 Communications (£25,000), Blueshirt (£21,000) and Beyond Corporation Limited and Beyond International Corporation (together referred to as 'Beyond') (£136,000) (2010: in relation to 463 Communications and Upstream Asia).

⁵A finance expense of £238,000 has been recognised during the period in relation to a change in the estimate of the contingent consideration payable for M Booth (£86,000), and change in the estimate of the share purchase obligation for Upstream Asia (£264,000) and 463 Communications (credit of £112,000).

⁶A total amortisation of acquired intangibles charge of £346,000 has been recognised in the period in relation to M Booth (£167,000), 463 Communications (£63,000), AimPR Public Relations AB (£20,000), Upstream Asia (£19,000), Blueshirt (£64,000), Glasshouse Partnership Limited ('Glasshouse') (£8,000), and OneXeno Limited (£5,000).

NOTES TO THE INTERIM RESULTS (*Continued*)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

4) TAXATION

The tax charge is based on the forecast effective tax rate of 30% for the year. The Group's corporation tax rate for the year ending 31 July 2011 is expected to be higher than the standard UK rate due to acquisitions undertaken by the Group in previous financial years. As a result of the acquisitions, a greater proportion of Group profit is forecast to be generated in high tax regimes and losses are anticipated to arise in territories in which it would not be prudent to recognise deferred tax assets.

5) DIVIDENDS

An interim dividend of 0.515p (Interim 2010: 0.475p) per ordinary share will be paid on 16 May 2011 to shareholders listed on the register of members on 15 April 2011. Shares will go ex-dividend on 13 April 2011. The Employee Share Ownership Trust has waived its rights to dividends of £1,000 in the period ended 31 January 2011 (Interim 2010: £3,000; Full year 2010: £9,000).

6) FINANCE EXPENSE

	Six months ended 31 January 2011 (Unaudited)	Six months ended 31 January 2010 (Unaudited)	Year ended 31 July 2010 (Audited)
	£'000	£'000	£'000
Financial liabilities at amortised cost			
Bank interest payable	234	218	428
Financial liabilities at fair value through profit and loss			
Unwinding of discount on contingent and deferred consideration	393	302	659
Unwinding of discount on share purchase obligation	237	40	140
Change in estimate of future contingent consideration and share purchase obligation payable	238	-	63
Movement in fair value of interest rate cap-and-collar contract	-	10	-
Other			
Finance lease interest	4	9	16
Other interest payable	-	-	4
Finance expense	<u>1,106</u>	<u>579</u>	<u>1,310</u>

NOTES TO THE INTERIM RESULTS (Continued)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

7) EARNINGS PER SHARE

	Six months ended 31 January 2011 (Unaudited)	Six months ended 31 January 2010 (Unaudited)	Year ended 31 July 2010 (Audited)
	£'000	£'000	£'000
Earnings attributable to ordinary shareholders	1,532	1,384	3,675
Movement in fair value of interest rate cap-and-collar contract after tax	(83)	7	(27)
Movement in fair value of forward foreign exchange contracts after tax	77	(155)	(114)
Unwinding of discount on contingent and deferred consideration after tax	235	199	395
Unwinding of discount on share purchase obligation after tax	229	33	140
Change in estimate of future contingent consideration and share purchase obligation payable after tax	98	-	38
Impairment charge	-	58	116
Amortisation of acquired intangibles after tax	220	-	377
Adjusted earnings attributable to ordinary shareholders	2,308	1,526	4,600
	Number	Number	Number
Weighted average number of ordinary shares	54,826,142	53,585,842	54,444,622
Dilutive share options/performance shares outstanding ¹	6,242,072	3,843,456	4,767,099
Other potentially issuable shares ²	2,489,100	-	1,866,697
Diluted weighted average number of ordinary shares	63,557,314	57,429,298	61,078,418
Basic earnings per share	2.79p	2.58p	6.75p
Diluted earnings per share	2.41p	2.41p	6.02p
Adjusted earnings per share	4.21p	2.85p	8.45p
Diluted adjusted earnings per share	3.63p	2.66p	7.53p

Adjusted and diluted adjusted earnings per share have been presented to provide additional useful information. The adjusted earnings per share is the performance measure used for the vesting of employee share options and performance shares. The only difference between the adjusting items in this note and the figures in note 3 is the tax effect of those adjusting items.

¹Relates mainly to performance shares on which the performance criteria are expected to be met and will vest.

²Relates to an estimate of the contingent consideration satisfied in shares, payable to M Booth and Glasshouse, and share purchase obligation payable in shares to Beyond.

NOTES TO THE INTERIM RESULTS (*Continued*)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

8) NET DEBT

The Barclays Bank revolving credit facilities expire during 2011, and therefore the outstanding balance of £9,614,000 has been classified in current borrowings. The Group is in the process of renewing its banking facilities, to provide additional funding through to the end of 2014.

	31 January 2011 (Unaudited)	31 January 2010 (Unaudited)	31 July 2010 (Audited)
	£'000	£'000	£'000
Total loans and borrowings	10,591	7,198	8,033
Obligations under finance leases	73	184	134
Less: cash and cash equivalents	(7,973)	(5,951)	(7,296)
Net debt/(funds)	2,691	1,431	871

9) OTHER FINANCIAL LIABILITIES

	Deferred consideration	Contingent consideration ¹	Share purchase obligation ²
	£'000	£'000	£'000
At 1 August 2009 (Audited)	228	-	-
Arising during the period	9	4,998	1,663
Exchange differences	(2)	285	38
Utilised	(249)	-	-
Unwinding of discount	14	302	40
At 31 January 2010 (Unaudited)	-	5,585	1,741
Exchange differences	-	121	(259)
Utilised	-	-	(83)
Unwinding of discount	-	343	100
Change in estimate	-	63	-
At 31 July 2010 (Audited)	-	6,112	1,499
Arising during the period	-	4,226	3,311
Exchange differences	-	(133)	(36)
Utilised	-	(2,339)	-
Unwinding of discount	-	393	237
Change in estimate	-	86	152
At 31 January 2011 (Unaudited)	-	8,345	5,163
Current	-	4,004	549
Non-current	-	4,341	4,614

¹Contingent consideration on acquisitions

On 1 November 2010, the Group acquired 85% of the voting equity instruments of Blueshirt. The acquisition of Blueshirt includes a contingent consideration arrangement that requires additional consideration to be paid by the Company based on a multiple of average profits and margin performance. The fair value of the contingent consideration of US\$6,082,000 (£3,790,000) was recognised.

On 1 September 2010, Bite Communications Hong Kong Limited ('Bite') acquired the trade and assets of OneXeno. Contingent consideration payable based on the revenue of retained clients over the 12 months following completion has been recognised, estimated at £122,000 at acquisition.

On 1 September 2010, Lexis Public Relations Limited ('Lexis') acquired the entire issued share capital of Glasshouse. Contingent consideration payable based on the achievement of certain revenue and staff metric performance targets has been recognised, estimated at £222,000 at acquisition.

On 4 August 2010, Beyond acquired the UK and US-based Type 3 Limited companies. The excess working capital payment balance of £92,000 was recognised in contingent consideration.

NOTES TO THE INTERIM RESULTS (*Continued*)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

9) OTHER FINANCIAL LIABILITIES (*Continued*)

²Share purchase obligation

There is an option for the sellers to sell the remaining 15% stake in Blueshirt after five years from completion and an option for Next Fifteen to acquire the remaining 15% after six years from completion provided that the value of the business at the relevant time has reached a certain level, leading to a share purchase obligation of US\$1,245,000 (£777,000) arising on the acquisition date.

On 4 August 2010, the Group entered into an option deed under which the non-controlling interest holders of Beyond have the option to sell half of their shareholding back to the Group in either October 2013, October 2014 or October 2015, based on the profitability of each business. By October 2015 the Group will have acquired half of their shareholding, bringing the Group holding to 75.5%, leading to a share purchase obligation of £2,534,000 arising on the acquisition date.

See note 10.

10) ACQUISITIONS

1. On 4 August 2010, Beyond Corporation Limited (previously Project Metal Limited) acquired the entire issued share capital of UK-based Type 3 Limited, and on the same date, Beyond International Corporation (previously Context Analytics Corporation) acquired the entire issued share capital of US-based Type 3 Limited. On 1 September 2010 the trade and assets of the Type 3 companies were transferred into each acquiring company. Both Type 3 companies offer a fully integrated web design service, and were acquired as part of the Group's strategy to build a digital consultancy. The initial consideration paid in cash on completion was £300,000. A balance of £141,000 excess working capital acquired (of which £92,000 was paid after the reporting period date) is also treated as consideration. The Group owns 51% each of Beyond Corporation Limited and Beyond International Corporation (together referred to as 'Beyond'), while the residual is owned by three employee shareholders. The Group has entered into an option deed under which the non-controlling interest holders have the option to sell half of their shareholding back to the Group in either October 2013, October 2014 or October 2015, based on the profitability of each business. The consideration is uncapped. By October 2015 the Group will have acquired half of their shareholding, bringing the Group holding to 75.5%.

Acquisition costs of £89,000 were paid in relation to the purchase of Type 3, of which £76,000 were recognised in the consolidated income statement in the year ended 31 July 2010, and £13,000 were recognised in the consolidated income statement in the period to 31 January 2011.

Goodwill of £109,000 arises from anticipated profitability and future operating synergies from the combination. The initial accounting for this transaction has been estimated in the interim results and will be finalised in the annual report for the year ending 31 July 2011.

2. On 1 September 2010, Lexis Public Relations Limited ('Lexis') acquired the entire issued share capital of UK-based Glasshouse Partnership Limited ('Glasshouse'), a corporate communications and marketing agency which will strengthen the Lexis corporate practice and enhance business development options. On 1 October 2010, the trade and assets of Glasshouse were transferred to Lexis.

The initial consideration paid in cash on completion was £80,000, and a balance of £129,000 excess working capital acquired which was paid to the vendors is also treated as consideration. Contingent consideration may be payable on the first and second anniversary of completion, subject to the achievement of certain revenue and staff metric performance targets. The contingent consideration that may be payable will be satisfied by 60% cash and 40% Next Fifteen shares, and is uncapped.

Acquisition costs of £15,000 were paid in relation to the purchase of Glasshouse, and recognised within the consolidated income statement in the period to 31 January 2011.

Goodwill of £233,000 arises from anticipated profitability and future operating synergies from the combination.

Intangible assets of £60,000 have been recognised in respect of customer relationships, which will be amortised over three years.

NOTES TO THE INTERIM RESULTS (*Continued*)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

10) ACQUISITIONS (*Continued*)

3. On 1 September 2010, Bite Communications Hong Kong Limited ('Bite') acquired the trade and assets of digital marketing agency OneXeno Limited ('OneXeno'), a Hong Kong company. The business was integrated into Bite's existing Asia Pacific operation, and will offer clients new levels of service, expertise and digital communications tools in the region. The initial consideration paid in cash on completion was HK\$1,105,000 (£88,000), with further uncapped consideration payable based on the revenue of retained clients over the 12 months following completion.

Acquisition costs of HK\$14,000 (£1,000) were paid in relation to the purchase of OneXeno, which were recognised in the consolidated income statement in the year ended 31 July 2010.

Goodwill of £182,000 arises from anticipated profitability and future operating synergies from the combination.

Intangible assets of HK\$445,000 (£35,000) have been recognised in respect of customer relationships, which will be amortised over three years.

4. On 1 November 2010, the Group acquired an 85% stake in US-based investor and media relations company The Blueshirt Group LLC ('Blueshirt'). The acquisition of Blueshirt complements the Group's existing businesses by providing financial and corporate communications expertise. The initial consideration paid in cash on completion was US\$3,000,000 (£1,873,000). A balance of US\$448,000 (£280,000) excess working capital acquired which was paid to the vendors is also treated as consideration. Contingent consideration satisfied in cash will be made over the course of four years based on a multiple of average profits and margin performance. These contingent payments are estimated to total US\$8,000,000 (£4,994,000). There is an option for the sellers to sell the remaining 15% stake in Blueshirt after five years from completion and an option for Next Fifteen to acquire the remaining 15% after six years from completion provided that the value of the business at the relevant time has reached a certain level.

Acquisition costs of US\$91,000 (£57,000) were paid in relation to the purchase of Blueshirt, which were recognised in the consolidated income statement in the period ended 31 January 2011.

In the post acquisition period, Blueshirt contributed US\$1,567,000 (£996,000) to revenue and US\$312,000 (£198,000) profit before tax.

Goodwill arises from anticipated profitability and future operating synergies from combining the operations with the Group.

The following table sets out the estimated book values of the identifiable assets acquired and their fair value to the Group.

	Book value at acquisition £'000	Fair value adjustments ¹ £'000	Fair value to the Group £'000
Non-current assets			
Intangible assets	-	1,873	1,873
Property, plant and equipment	12	-	12
Current assets			
Cash and cash equivalents	336	-	336
Other current assets	377	-	377
Current liabilities	(150)	-	(150)
Deferred tax liability	-	(749)	(749)
Net assets acquired	575	1,124	1,699
Goodwill			5,028
Consideration²			
Cash consideration			1,873
Excess working capital payment			280
Total contingent cash consideration			3,797
			5,950
Fair value of non-controlling interest³			777
			6,727

NOTES TO THE INTERIM RESULTS (*Continued*)

FOR THE SIX MONTHS ENDED 31 JANUARY 2011

10) ACQUISITIONS (*Continued*)

¹The fair value adjustment relating to intangible assets is due to the recognition of US\$1,700,000 (£1,061,000) in respect of customer relationships and US\$1,300,000 (£812,000) in respect of the Blueshirt trade name, which have been independently valued. There is related deferred tax liability fair value adjustment of US\$1,200,000 (£749,000). The customer relationships will be amortised over five years, and the trade name will be amortised over its useful economic life of 20 years.

²The acquisition of Blueshirt includes a contingent consideration arrangement that requires additional consideration to be paid by the Group based on achievement of a multiple of average profits and margin performance, over the course of the four years post acquisition. The fair value of the contingent consideration recognised on the acquisition date of US\$6,082,000 (£3,797,000) was estimated by applying the income approach, by calculating the fair value of the future estimated payments.

³The fair value of the non-controlling interest of US\$1,245,000 (£777,000) was estimated by calculating the fair value of the future payment obligations.

5. On 29 October 2010, the Group paid US\$3,740,000 (£2,335,000) relating to year one earnings contingent consideration for the purchase of M Booth. US\$3,046,000 (£1,902,000) was satisfied in cash and US\$694,000 (£433,000) in shares (599,197 shares). M Booth is a wholly owned subsidiary acquired in August 2009.