# Optimisa plc

## Interim Report 2008
## For the six months ended 30 June 2008

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**Company No. 3860539**

# Index

# Chairman's statement

### Highlights

- As forewarned in our trading update on 22 May, trading conditions in the 2nd quarter were extremely difficult and we performed well below budget in all three of our major operating units.
- The re-organisation and integration of the EQ business acquired at the end of 2007 was completed. However, EQ did not make a positive contribution to earnings after interest costs.
- KAE Asia, with operations in Singapore and Shanghai, made a positive contribution in the first half.
- Revenue for the first 6 months was up to £9.1m from £4.7m, an increase of 94%.
- Gross profit increased to £6.2m up from £3.5m, an increase of 74%.
- Adjusted pre tax profit fell to £472,000 from £789,000.
- Adjusted EPS reduced to 3.93p per share from 12.41p per share.
- Net debt rose in H1 and peaked at £4.3m at the end of June.
- In order to increase the speed at which we reduce debt, we do not propose to pay an interim dividend.

The disappointing results for the six months to 30 June 2008 reflect the sudden deterioration in trading experienced across the major businesses in the UK market during this period as outlined in my trading update in May. Unfortunately our worst fears for business performance in the UK materialised. Even with an improvement in conversion rates since the 2nd quarter, it is clear that market conditions will continue to be difficult for some time to come.

The re-organisation and integration of the EQ companies into the group took longer and were more difficult than planned in part because of the speed and severity of the delays, reduction and cancellation of projects. As a consequence and even with a modest recovery of fortunes in the 2nd half of the year, the businesses acquired at the end of 2007 are not expected to be earnings enhancing during 2008 as was planned.

Similarly, KAE the major operating unit in Optimisa prior to the EQ acquisition has performed below the level of the exceptional first half delivered in 2007.

We expect that the overall markets in the US and UK to continue to contract in the 2nd half of 2008 and pressure on prices and the slow business pipeline conversion rate to continue, possibly well into 2009. However, in the face of these difficult market and operational conditions we have had a number of significant contract wins throughout the year and have succeeded in maintaining our business relationships with all of our major clients.

Against this challenging economic background we have acted quickly to reduce fixed costs in all areas of the business and have targeted operational changes that increase speed of project execution and overall efficiency so that we can deliver the same level of quality to our clients at lower cost. The benefits of the cost cutting programme we have undertaken, while having some impact in the 2nd half of 2008 will not be fully reflected until 2009. With these cost savings and a strong performance from KAE Asia we expect overall group margins to recover in the 2nd half.

# Chairman's statement (continued)

In our last trading statement we announced that new Managing Directors were appointed at both Buckingham and Quaestor in February and March respectively. Both have worked extremely hard to get to grips with their respective businesses and have played a significant part in the considerable change programme that has been undertaken. A significant part of this has been the expansion of 'cross-group' business development and execution and we have made considerable progress in this area with a wide range of projects involving KAE, Quaestor and Buckingham now being undertaken. In addition we have moved the offices of our specialist research team AIA, co-locating them in the KAE/Quaestor London office.

The consolidated group offer of combined research and consulting has been met with considerable positive reaction from our clients and we believe this, combined with our continued group wide investment in business development, will help us increase our market share in the UK during the rest of this year and facilitate more positive growth once the general market starts to recover.

Net debt for the group has increased to £4.3m at the half year. Working capital requirements have risen in line with the normal seasonality of the business. This has been exaggerated by reduced cash generation and the short term cash costs of re-organisation, the cost of strengthening the management teams and the investment made to develop KAE Asia.

We continue to prioritise reduction in our overall level of debt and as a consequence we have taken the decision not to recommend payment of an interim dividend this year in order to conserve cash. Improved operating cash flow in the 2nd half and the normal seasonal reduction in working capital requirements should ensure that net debt is on a downward trend throughout the 2nd half.

The reductions in staff costs we have already made, the decline in Sterling against the US$ and the continued success of our new business in Asia give us some confidence for the rest of this year. Despite the expected continued difficult economic conditions in our mature markets the actions we have taken should result in a better performance in the 2nd half in operating profits, PBT and EPS.

R F Littleboy
Chairman

# Unaudited consolidated income statement

| | Note | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|---|
| **Revenue** | 3 | **9,114** | 4,724 | 11,415 |
| Cost of sales | | **(2,961)** | (1,183) | (3,325) |
| **Gross profit** | | **6,153** | 3,541 | 8,090 |
| Administrative expenses excluding depreciation and amortisation | | **(5,337)** | (2,724) | (6,570) |
| Depreciation | 7 | **(152)** | (24) | (94) |
| Amortisation | 6 | **(92)** | (20) | (125) |
| Total administrative expenses | | **(5,581)** | (2,768) | (6,789) |
| **Operating profit** | | **572** | 773 | 1,301 |
| Finance income | | **4** | 14 | 51 |
| Finance costs | | **(174)** | (7) | (95) |
| **Profit before income tax** | | **402** | 780 | 1,257 |
| Income tax expense | | **(109)** | (132) | (253) |
| **Profit for the period** | | **293** | 648 | 1,004 |
| **Attributable to:** | | | | |
| Minority interests | | **13** | – | – |
| Equity holders of the parent | | **280** | 648 | 1,004 |
| **Profit for the period** | | **293** | 648 | 1,004 |
| **Earnings per share (pence) for the earnings attributable to equity holders of the company** | | | | |
| Basic | 5 | **3.14** | 12.24 | 16.65 |
| Diluted | 5 | **3.14** | 12.15 | 16.56 |

# Unaudited consolidated balance sheet

| | Note | **As at 30 June 2008 £'000** | As at 30 June 2007 £'000 | As at 31 December 2007 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 7 | **554** | 182 | 651 |
| Intangible assets – goodwill | 6 | **14,339** | 2,577 | 14,284 |
| Intangible assets – other | 6 | **522** | 144 | 599 |
| Deferred income tax assets | | **82** | 70 | 126 |
| **Total non-current assets** | | **15,497** | 2,973 | 15,660 |
| **Current assets** | | | | |
| Inventories – work in progress | | **43** | – | 198 |
| Current income tax recoverable | | **–** | – | 114 |
| Trade and other receivables | | **5,171** | 2,903 | 4,555 |
| Cash and cash equivalents | | **201** | 1,386 | 1,137 |
| **Total current assets** | | **5,415** | 4,289 | 6,004 |
| **Total assets** | | **20,912** | 7,262 | 21,664 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(3,081)** | (1,536) | (3,257) |
| Current income tax liabilities | | **(285)** | (106) | (487) |
| Borrowings | | **(1,765)** | – | (1,660) |
| Deferred consideration | | **(60)** | (111) | (101) |
| **Total current liabilities** | | **(5,191)** | (1,753) | (5,505) |
| **Non-current liabilities** | | | | |
| Borrowings | | **(2,765)** | – | (3,197) |
| Deferred consideration | | **(161)** | (596) | (155) |
| Deferred income tax liabilities | | **(134)** | (16) | (154) |
| **Total non-current liabilities** | | **(3,060)** | (612) | (3,506) |
| **Total liabilities** | | **(8,251)** | (2,365) | (9,011) |
| **Net assets** | | **12,661** | 4,897 | 12,653 |
| **Capital and reserves attributable to equity holders of the Company** | | | | |
| Ordinary shares | | **2,227** | 1,323 | 2,227 |
| Share premium | | **7,882** | 1,334 | 7,880 |
| Merger reserve | | **914** | 914 | 914 |
| Foreign currency translation reserve | | **(118)** | (144) | (115) |
| Retained earnings | | **1,754** | 1,470 | 1,747 |
| **Total equity** | | **12,659** | 4,897 | 12,653 |
| Minority interests | | **2** | – | – |
| **Equity attributable to equity shareholders of the parent** | | **12,661** | 4,897 | 12,653 |

# Unaudited consolidated statement of changes in equity

| | Number of shares | Ordinary Shares £'000 | Share Premium £'000 | Merger Reserve £'000 | Foreign Currency Translation Reserve £'000 | Retained Earnings £'000 | Minority Interests £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2007 | 882,151 | 1,323 | 1,334 | 914 | (99) | 954 | – | 4,426 |
| Profit for the period | – | – | – | – | – | 648 | – | 648 |
| Dividends paid | – | – | – | – | – | (132) | – | (132) |
| Foreign exchange translation differences | – | – | – | – | (45) | – | – | (45) |
| Balance at 30 June 2007 | 882,151 | 1,323 | 1,334 | 914 | (144) | 1,470 | – | 4,897 |
| Shares issued for warrants | 2,864 | 4 | – | – | – | – | – | 4 |
| Share issue | 600,000 | 900 | 6,546 | – | – | – | – | 7,446 |
| Share options | – | – | – | – | – | 10 | – | 10 |
| Dividends paid | – | – | – | – | – | (89) | – | (89) |
| 6 for 1 share sub-division | 7,425,075 | – | – | – | – | – | – | – |
| Profit for the period | – | – | – | – | – | 356 | – | 356 |
| Foreign exchange translation differences | – | – | – | – | 29 | – | – | 29 |
| Balance at 31 December 2007 | 8,910,090 | 2,227 | 7,880 | 914 | (115) | 1,747 | – | 12,653 |
| Minority interests in acquisitions | – | – | – | – | – | – | (11) | (11) |
| Profit for the period | – | – | – | – | – | 280 | 13 | 293 |
| Dividends paid | – | – | – | – | – | (267) | – | (267) |
| Own shares acquired | – | – | – | – | – | (42) | – | (42) |
| Own shares transferred | – | – | 2 | – | – | 36 | – | 38 |
| Foreign exchange translation differences | – | – | – | – | (3) | – | – | (3) |
| **Balance at 30 June 2008** | **8,910,090** | **2,227** | **7,882** | **914** | **(118)** | **1,754** | **2** | **12,661** |

The merger reserve, which is non-distributable, arose on the acquisition of kae: marketing intelligence Limited on 28 April 2005. The premium on the shares issued on acquisition were taken to the merger reserve in accordance with section 131 of the Companies Act.

# Unaudited consolidated cash flow statement

| | Note | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Profit before income tax | | **402** | 780 | 1,257 |
| Adjustments for: | | | | |
| Depreciation | 7 | **152** | 24 | 94 |
| Amortisation | 6 | **92** | 20 | 125 |
| Profit on disposal of property, plant and equipment | | **(3)** | – | – |
| Share option cost | | **–** | – | 10 |
| Foreign exchange losses on operating activities | | **(3)** | – | – |
| Finance income | | **(4)** | (14) | (51) |
| Finance costs | | **174** | 7 | 95 |
| **Operating cash flow before changes in working capital and provisions** | | **810** | 817 | 1,530 |
| Decrease in inventories | | **155** | – | 99 |
| Increase in trade and other receivables | | **(571)** | (1,072) | (787) |
| (Decrease)/increase in trade and other payables | | **(253)** | 343 | 63 |
| | | **141** | 88 | 905 |
| Interest paid | | **(183)** | (1) | (82) |
| Interest received | | **4** | 14 | 51 |
| Income tax paid | | **(175)** | (32) | (92) |
| **Net cash (used by)/generated from operating activities** | | **(213)** | 69 | 782 |
| **Cash flows from investing activities:** | | | | |
| Acquisition of subsidiaries, net of cash acquired | | **(28)** | (60) | (7,945) |
| Acquisition of property, plant and equipment (PPE) | | **(78)** | (65) | (103) |
| Proceeds from sale of PPE | | **36** | – | 11 |
| Payments to acquire intangible assets | | **(15)** | (8) | (12) |
| **Net cash used by investing activities** | | **(85)** | (133) | (8,049) |
| **Cash flows from financing activities:** | | | | |
| Proceeds from the issue of share capital | | **–** | – | 7,805 |
| Purchase of treasury shares | | **(42)** | – | – |
| Cost of share issue | | **–** | – | (355) |
| Proceeds from borrowings | | **–** | – | 3,686 |
| Repayments of borrowings | | **(253)** | – | (5,074) |
| Dividends paid to Company's shareholders | | **(267)** | (132) | (221) |
| **Net cash (used by)/generated from financing activities** | | **(562)** | (132) | 5,841 |
| **Net decrease in cash and cash equivalents** | | **(860)** | (196) | (1,426) |
| Opening cash and cash equivalents | | **173** | 1,596 | 1,596 |
| Exchange gain/(loss) on cash and cash equivalents | | **13** | (14) | 2 |
| **Closing cash and cash equivalents*** | | **(674)** | 1,386 | 172 |

* Cash and cash equivalents at 30 June 2008 comprises cash balances of £201,000 (31 December 2007: £1,137,000, 30 June 2007: £1,386,000) and bank overdraft balances of £875,000 (31 December 2007: £965,000, 30 June 2007: £nil).

# Notes to the unaudited interim results

## 1. Basis of preparation

The company is a public limited company domiciled in the UK and its shares are listed on the Alternative Investment Market.

The interim financial report for the six months ended 30 June 2008 has been prepared in accordance with IAS 34, 'Interim financial reporting', as adopted by the European Union. The interim financial report is unaudited and has not been reviewed by the auditors. The financial information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The comparative figures for the year ended 31 December 2007 have been extracted from the Group's financial statements, on which the auditors gave an unqualified opinion and did not make a statement under section 237 of the Companies Act 1985, were which approved by the Board on 21 April 2008 and delivered to the Registrar of Companies.

The interim financial report will be published on the Company's website, www.optimisaplc.com. The maintenance and integrity of the Company's website is the responsibility of the directors. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 2. Accounting policies

The interim financial report has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The same accounting policies and methods of computation are followed in the interim financial statements as the latest published accounts, which are available from the Company Secretary at 209-215 Blackfriars Road, London, SE1 8NL.

Of the new standards, amendments and interpretations that are in issue and mandatory for the financial year to 31 December 2008, there are no changes that are expected to have a material impact on the Group.

## 3. Segmental information

a) Primary reporting format – business segments

The directors regard the Group as operating in one primary segment, that being marketing consultancy.

b) Secondary reporting format – geographical segments

The Group's businesses are based in the UK, with the exception of nxtMOVE which is based in the US and KAE Asia which has offices in Singapore and Shanghai. All of the Group's businesses have customers based around the world, but the main areas where revenue is generated are the UK, the rest of Europe and the US. Sales to customers located in Asia are expected to increase following the acquisition of KAE Asia on 1 May 2008 (see note 8).

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| **Revenue** | | | |
| United Kingdom | **5,210** | 1,899 | 6,025 |
| Rest of Europe | **1,587** | 272 | 1,163 |
| US | **2,175** | 2,525 | 4,185 |
| Other countries | **142** | 28 | 42 |
| | **9,114** | 4,724 | 11,415 |

Revenue is allocated based on the country in which the customer is located.

# Notes to the unaudited interim results (continued)

## 3. Segmental information (continued)

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| **Total assets** | | | |
| United Kingdom | **19,655** | 6,094 | 20,577 |
| Rest of Europe | **–** | – | – |
| US | **1,073** | 1,168 | 1,087 |
| Other countries | **184** | – | – |
| | **20,912** | 7,262 | 21,664 |

Total assets are allocated based on where the assets are located.

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| **Capital expenditure** | | | |
| United Kingdom | **83** | 73 | 133 |
| Rest of Europe | **–** | – | – |
| US | **8** | – | 1 |
| Other countries | **1** | – | – |
| | **92** | 73 | 134 |

Capital expenditure is allocated based on where the assets are located.

## 4. Ordinary dividends

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| Equity – ordinary | | | |
| Final 2007: 3.0p per share (final 2006: 2.5p per share) | **267** | 132 | 132 |
| Interim 2007: 1.67p per share | **–** | – | 89 |
| | **267** | 132 | 221 |

The dividend per share figures prior to the 6 for 1 share sub-division on 22 October 2007 have been restated to reflect the dividend per share after the share sub-division enabling the dividend per share to be comparable over the three periods.

The directors do not recommend the payment of an interim dividend in 2008.

# Notes to the unaudited interim results (continued)

## 5. Earnings per share

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| Basic earnings per ordinary share (pence) | **3.14** | 12.24 | 16.65 |
| Diluted earnings per ordinary share (pence) | **3.14** | 12.15 | 16.56 |
| Adjusted earnings per share (pence) | **3.93** | 12.41 | 18.37 |

All earnings per share (EPS) information presented above has been calculated based on the number of shares following the 6 for 1 share sub-division.

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to reflect the assumption of conversion of all dilutive ordinary shares. The dilutive ordinary shares represent the share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

For adjusted EPS, the reported profit after tax is adjusted for the amortisation charge on customer contracts and customer relationships.

Reconciliations of basic EPS to diluted EPS and adjusted EPS are set out below:

| | **30 June 2008** | | 30 June 2007 | | 31 December 2007 | |
|---|---|---|---|---|---|---|
| | **Earnings £'000** | **Weighted average number of shares** | Earnings £'000 | Weighted average number of shares | Earnings £'000 | Weighted average number of shares |
| **Basic EPS** | | | | | | |
| Profit and weighted average number of ordinary shares for basic earnings per share | **280** | **8,910,090** | 648 | 5,292,906 | 1,004 | 6,031,243 |
| **Diluted EPS** | | | | | | |
| Adjustment for share options | **–** | **16,010** | – | 42,348 | – | 32,168 |
| Profit and weighted average number of shares for diluted earnings per share | **280** | **8,926,100** | 648 | 5,335,254 | 1,004 | 6,063,411 |
| **Basic EPS** | | | | | | |
| Profit and weighted average number of ordinary shares for basic earnings per share | **280** | **8,910,090** | 648 | 5,292,906 | 1,004 | 6,031,243 |
| **Adjusted EPS** | | | | | | |
| Adjustment for customer contracts and relationships amortisation | **70** | **–** | 9 | – | 104 | – |
| Profit and weighted average number of shares for adjusted earnings per share | **350** | **8,910,090** | 657 | 5,292,906 | 1,108 | 6,031,243 |

# Notes to the unaudited interim results (continued)

## 6. Intangible assets

| | Goodwill £'000 | Computer software £'000 | Customer contracts and relationships £'000 | Development £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2008 | 14,284 | 63 | 659 | 40 | 15,046 |
| Acquisition of subsidiaries | 45 | – | – | – | 45 |
| Additions | 9 | 15 | – | – | 24 |
| Currency movement | 1 | – | – | – | 1 |
| **At 30 June 2008** | **14,339** | **78** | **659** | **40** | **15,116** |
| **Accumulated amortisation** | | | | | |
| At 1 January 2008 | – | 26 | 130 | 7 | 163 |
| Charge for the year | – | 14 | 70 | 8 | 92 |
| **At 30 June 2008** | **–** | **40** | **200** | **15** | **255** |
| **Net book amount at 30 June 2008** | **14,339** | **38** | **459** | **25** | **14,861** |

## 7. Property, plant and equipment

| | Short Leasehold Property £'000 | Fixtures, fittings and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2008 | 148 | 435 | 218 | 801 |
| Acquisition of subsidiaries | 3 | 7 | – | 10 |
| Additions | 2 | 76 | – | 78 |
| Disposals | – | – | (40) | (40) |
| **At 30 June 2008** | **153** | **518** | **178** | **849** |
| **Accumulated depreciation** | | | | |
| At 1 January 2008 | 23 | 114 | 13 | 150 |
| Charge for the year | 19 | 96 | 37 | 152 |
| Disposals | – | – | (7) | (7) |
| **At 30 June 2008** | **42** | **210** | **43** | **295** |
| **Net book amount at 30 June 2008** | **111** | **308** | **135** | **554** |

# Notes to the unaudited interim results (continued)

## 8. Business combinations

The following acquisition was made during the period:

**KAE: Asia Pacific PTE Ltd**

On 1 May 2008, the Group exercised its option, as contained in an agreement entered into on 18 January 2008, to acquire 80% of the issued share capital of KAE Asia Pacific Pte. Ltd (KAE Asia), a company based and incorporated in Singapore. The consideration payable was the face value of the shares of SGD4,000 which translates to £1,492 at the exchange rate prevailing on 1 May 2008 of SGD2.681: £1.00.

KAE Asia provides marketing intelligence to a number of blue chip clients in Asia and has grown rapidly since its incorporation on 29 November 2007. KAE Asia has one 100% owned subsidiary, KAE Greater China Ltd, which to date has not operated.

KAE Asia contributed revenues of £155,000 and a profit before tax of £77,000 for the period from 1 May 2008 to 30 June 2008. The impact on the Group's revenue and profit would have been £315,000 and £62,000 if the acquisition had occurred on 1 January 2008.

The book value of each class of the acquiree's assets and liabilities at the acquisition date are set out below. No fair value adjustments have been made to these values and they and the resulting goodwill value are therefore provisional. A full assessment of the fair value of the assets and liabilities acquired will be carried out for inclusion in the Group's financial statements, with any adjustments resulting in a corresponding adjustment to the goodwill value.

| | **£'000** |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 10 |
| **Total non-current assets** | **10** |
| **Current assets** | |
| Trade and other receivables | 44 |
| Cash and cash equivalents | 26 |
| **Total current assets** | **70** |
| **Total assets** | **80** |
| **Current liabilities** | |
| Trade and other payables | (135) |
| **Total liabilities** | **(135)** |
| **Net liabilities** | **(55)** |
| Minority interests (20%) | (11) |
| **Net liabilities acquired** | **(44)** |
| Fair value of consideration | 1 |
| **Goodwill** | **45** |

The goodwill that has arisen on the combination can be partly attributed to the value in the workforce of KAE Asia, which at acquisition comprised 9 people, which cannot be recognised as an intangible asset under IAS 38, 'Intangible Assets'. Additionally there is expected to be an increase in activity resulting from membership in Optimisa Group for KAE Asia as its geographical location will enable it to win new and additional work from existing customers of the Optimisa Group.

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