AUKETT SWANKE GROUP PLC

interim report

FOR THE SIX MONTHS
ENDED 31 MARCH 2014

Aukett Swanke
is an international practice of architects
and interior design specialists who design
and deliver commercial projects
throughout Europe, the Middle East,
Russia and South America

aukett swanke

Highlights

Much improved trading performance and outlook, particularly in the UK

Successful acquisition of Swanke Hayden Connell Europe

Group revenues rise to £7.58m with pre-tax profit of £750,000

Revenue from pre-acquisition operations up 58% to £5.39m

First time revenue contribution for three months from Swanke Hayden Connell of £2.19m

£749,000 of pre-tax profit from pre-acquisition operations (2013: loss of £79,000)

UK pre-tax profit £945,000 (2013: £127,000)

£82,000 of pre-tax profit from newly acquired Swanke Hayden Connell Turkey operation

Middle East delivers returns to profit with activity levels picking up

All three jointly owned Continental Europe operations in profit, producing a total of £176,000 (2013: £134,000)

Earnings per share of 0.31p (2013: loss of 0.02p)

Group net funds £1.33m at 31 March 2014 (30 September 2013: £1.08m)

Interim dividend of 0.1p per share to be paid in July

Nicholas Thompson, Chief Executive Officer commented:

"We are extremely pleased by a very strong performance in the UK coupled with improving performances in Continental Europe and the new Turkish operation, all of which offer good signs of progress from previous turnover levels.

The UK will continue to grow in profitability for the foreseeable future and the associated cash generation should provide the group with funding to invest in new opportunities.

As a result of this performance we are pleased to confirm the continuation of an interim dividend payment to shareholders

Interim Statement

Overview

The first half of this year has produced a group profit before tax of £750,000 which is an extremely pleasing outcome when compared with the last year's loss for the same period of £79,000 and the full year's profit of £550,000. The overall result is well above our original expectations and in line with the most recent trading update, and includes a breakeven result from Swanke Hayden Connell for a three month period.

The driving force has been the on-going recovery in the UK market which began some eighteen months ago and which we see continuing well into 2015 and beyond.

Against this strong UK market other areas have found life more difficult, but we remain committed to our operations in both Russia, and the Middle East where we believe operational readjustments and an improving economic background will bear fruit. Indeed our operation in the Middle East has returned a small profit. Turkey is a strategically placed operation which offers much promise and similarly our jointly owned operations in Germany and Czech Republic are also doing well given local economic circumstances.

> "The overall result is well above our original expectations . . .

Operations

First half pre-tax profits in the UK rose significantly to £945,000 (2013: £127,000) on revenues of £6.08m. The first half saw some extra costs as the UK reinstated salaries and other benefits across the board and paid a Christmas bonus for the first time in five years. The first half also saw the first integration costs relating to SHC being absorbed which in the main will be self-financing over the next three years, or recovered against second half property savings. Within these figures SHC's UK operations made a loss in the period of £105,000 as a result of a delay in the instruction of a major project, which commenced at the end of the second quarter, and holding excess property space, which has subsequently been sub-let.

A clear change in the UK property market could be seen in the first half with the return of the speculative office market development outside of London - a phenomenon that has been absent since 2009. We now have schemes underway in Cambridge (150,000 sq ft), Reading (470,000 sq ft), Oxford (campus 1,000,000 sq ft) and Birmingham (195,000 sq ft) with three other schemes awaiting further instructions: Norwich (140,000 sq ft), Bristol (170,000 sq ft) and Sheffield (70,000 sq ft). That they total over 2m sq ft is news in itself but that some phases are being instructed to construction gives a far more positive view of the economic upturn in our sector and in developer confidence. Our client base behind these projects is at the premium end of the market.

> "First half pre-tax profits in the UK rose significantly to £945,000 (2013: £127,000) on revenues of £6.08m

Despite this regional upturn, the main stay of the first half's income relates to London centric projects – as earlier instructions than regional UK - they are feeding through to revenues sooner and with values that are a multiple of the new build cost in the regions. Interestingly Veretec, our executive architect business, is seeing its best growth in many years and is the fastest growing part of the London business which reflects the intent of developers to build as the office leasing market and residential accommodation stock build-up gathers momentum and the UK service industry emerges rapidly from the recession.

Against this the performance of our pre-acquisition Russian operation was disappointing although largely due to outside factors. First half losses widened to £323,000 (2013: loss of £245,000) which includes a goodwill impairment write down of £125,000. Whilst losses continue, we remain hopeful of a move into profit in this important and large market. The losses were due principally to variability in workload along with project deferrals, delays in decisions and the need to maintain staffing levels at client required levels rather than a lack of actual work opportunities. We are implementing a plan to correct this position by the end of the year which includes the co-location of our pre-acquisition team with that of SHC's Moscow operation. This newly acquired operation made a modest profit in the period of £24,000. It should be noted that the troubles in Ukraine have had no visible impact on enquiries or our day to day activities in Russia.

Turkey is a new, wholly-owned operation arising from the acquisition of SHC and has been established for 16 years in Istanbul. Its profit contribution is welcome at £110,000 (before intangible amortisation of £28,000) on revenues of £441,000. This profit was well ahead of original expectations when the SHC acquisition was being negotiated. We see Turkey as strategically important in our network linking Moscow and the Middle East. The office is in the process of completing the forty four storey Palladium tower in the financial district of Istanbul.

The Middle East remains under-resourced, mainly due to registration issues as we have moved to Dubai from our existing licenced location of Abu Dhabi. Dubai has the far more active market of the two for our breadth of services. At present we have relied on third parties to manage the registration issue and we are actively looking to resolve this situation. We have a single project at present with Majid Al Futtaim, but there are numerous bids in progress and the small profit of £4,000 (2013: loss of £54,000) is a credible achievement by local management given the high operating cost exposure. Once the licensing issue is resolved we can embark upon an expansion of our resourcing which should then lead to a regular contribution to profit.

Continental Europe is the group's second best performer at present with all three of the jointly owned operations in profit. The overall result at £176,000 (2013: £135,000) reflects a slightly lower performance by Berlin (25% owned) but a considerable uplift in Frankfurt (50% owned) and a return to profit in Prague (50% owned) – a pleasing result given the low market activity levels in the Czech Republic.

In South America we have embarked upon a process of identifying a collaboration partner in Brazil on the basis of a limited amount of direct investment by the group.

Board

We have seen a number of new joiners to the board during the period. Andrew Murdoch, David Hughes and Nick Pell all joined as executive directors in December last year, David and Nick as part of the acquisition of SHC. We welcome them all to the board and feel sure that they will add much to the group. Since the period end John Bullough has joined the board in a non-executive capacity and we welcome him similarly.

John Vincent retired in March after a long career with the group and Duncan Harper, the Group Finance Director, has announced his decision to resign after six and a half years' service, though he will remain with the group during his notice period to ensure an orderly handover to his successor. The board has begun a process of finding a replacement and further announcements will be made in due course.

Prospects

Undoubtedly the UK is and will remain the greatest source of the group's future profit, based on the growth in the pipeline of opportunities and improving rate of conversions. The London market has provided much of the pick-up in activity to date, though we expect the regional UK market to begin to contribute meaningfully in the second half and into 2015. Coupled with a full contribution to second half revenues by SHC and with the start of property savings which should more than offset the integration costs of the 2013 transaction, we expect that total UK profits will continue to perform well despite some cost inflation in the second half which will marginally lower returns until volumes lift further.

> "The London market has provided much of the pick-up in activity to date, though we expect the regional UK market to begin to contribute meaningfully in the second half and into 2015

Outside the UK the drive to revive revenue generation in Russia and resolve our Middle East organisational issues should further assist the group to build on current performance.

Overall therefore we take an optimistic view of the profit potential of the group for the foreseeable future in our traditional areas of expertise and, as we have said before, we will continue to review and evaluate opportunities to expand the business.

Meanwhile, as our underlying business returns to full strength, the board is also actively considering alternative strategies to both counter the cyclical nature of our revenue streams and find ways to diversify away from our single revenue discipline. This will have the twin-fold benefit of providing greater revenue visibility and broader growth opportunities in order to preserve longer term profitability.

In recognition of trading year to date and our much improved outlook we are delighted to be paying an interim dividend of 0.1p per share on Monday 28 July 2014 to shareholders on the register at close of business on Friday 11 July 2014.

Nicholas Thompson
Chief Executive Officer

29 June 2014

Consolidated income statement

For the six months ended 31 March 2014

	Note	Unaudited six months to 31 March 2014 £'000	Unaudited six months to 31 March 2013 £'000	Audited year to 30 September 2013 £'000
Revenue	3	7,575	3,403	8,406
Sub consultant costs		(1,015)	(580)	(1,290)
Revenue less sub consultant costs		6,560	2,823	7,116
Personnel related costs		(4,270)	(2,064)	(4,751)
Property related costs		(997)	(630)	(1,256)
Other operating expenses		(842)	(455)	(1,027)
Other operating income		132	121	217
Operating profit / (loss)		583	(205)	299
Finance income		-	-	1
Finance costs		(9)	(8)	(14)
Profit / (loss) after finance costs		574	(213)	286
Share of results of associate & joint ventures		176	134	264
Profit / (loss) before tax	3	750	(79)	550
Taxation		(255)	52	(176)
Profit / (loss) for the period attributable to equity holders of the company		495	(27)	374
Earnings / (losses) per share				
Basic	4	0.31p	(0.02)p	0.26p
Diluted	4	0.31p	(0.02)p	0.26p

Consolidated statement of comprehensive income

For the six months ended 31 March 2014

	Unaudited six months to 31 March 2014 £'000	Unaudited six months to 31 March 2013 £'000	Audited year to 30 September 2013 £'000
Profit / (loss) for the period	495	(27)	374
Other comprehensive income:			
Currency translation differences	(42)	37	(2)
Currency translation differences recycled on discontinued operation	-	-	1
Other comprehensive income for the period	(42)	37	(1)
Total comprehensive income for the period attributable to equity holders of the company	453	10	373

Consolidated statement of financial position

At 31 March 2014

	Note	Unaudited at 31 March 2014 £'000	Unaudited at 31 March 2013 £'000	Audited at 30 September 2013 £'000
Non current assets				
Goodwill		1,890	1,494	1,369
Other intangibles		599	-	-
Property, plant & equipment		355	287	326
Investment in associate and joint ventures		297	231	229
Deferred tax		411	685	454
Total non current assets		3,552	2,697	2,378
Current assets				
Trade and other receivables		5,620	2,399	3,515
Current tax		15	193	117
Cash and cash equivalents	6	1,522	724	1,343
Total current assets		7,157	3,316	4,975
Total assets		10,709	6,013	7,353
Current liabilities				
Trade and other payables		(5,320)	(2,904)	(4,005)
Short term borrowings	6	(150)	(150)	(150)
Provisions		(260)	(100)	(50)
Current tax		(25)	-	-
Total current liabilities		(5,755)	(3,154)	(4,205)
Non current liabilities				
Investment in joint ventures		-	(1)	-
Long term borrowings	6	(38)	(188)	(113)
Provisions		(136)	-	-
Deferred tax		(72)	(5)	(6)
Total non current liabilities		(246)	(194)	(119)
Total liabilities		(6,001)	(3,348)	(4,324)
Net assets		4,708	2,665	3,029
Capital and reserves				
Share capital		1,652	1,456	1,456
Merger reserve		1,176	-	-
Foreign currency translation reserve		(13)	67	29
Retained earnings		(403)	(1,300)	(898)
Other distributable reserve		2,296	2,442	2,442
Total equity attributable to equity holders of the company		4,708	2,665	3,029

Consolidated statement of cash flows

For the six months ended 31 March 2014

	Note	Unaudited six months to 31 March 2014 £'000	Unaudited six months to 31 March 2013 £'000	Audited year to 30 September 2013 £'000
Cash flows from operating activities				
Cash from / (used in) operations	5	367	(6)	646
Interest paid		(9)	(8)	(14)
Taxation received		94	-	61
Net cash from / (used in) operating activities		452	(14)	693
Cash flows from investing activities				
Purchase of property, plant & equipment		(70)	(30)	(157)
Sale of property, plant & equipment		-	4	4
Acquisition of subsidiary, net of cash acquired		(57)	-	-
Interest received		-	-	1
Dividends received from associate		104	83	210
Net cash (used in) / from investing activities		(23)	57	58
Net cash flow before financing activities		429	43	751
Cash flows from financing activities				
Repayment of bank loan		(75)	(75)	(150)
Payment of asset finance liabilities		(2)	-	-
Dividends paid		(146)	-	-
Net cash used in financing activities		(223)	(75)	(150)
Net change in cash, cash equivalents and bank overdraft		206	(32)	601
Cash, cash equivalents and bank overdraft at start of period		1,343	739	739
Currency translation differences		(27)	17	3
Cash, cash equivalents and bank overdraft at end of period	6	1,522	724	1,343

Consolidated statement of changes in equity

For the six months ended 31 March 2014

	Share capital £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Other distributable reserve £'000	Unaudited Total £'000
At 1 October 2013	1,456	-	29	(898)	2,442	3,029
Profit for the period	-	-	-	495	-	495
Other comprehensive income	-	-	(42)	-	-	(42)
Dividends	-	-	-	-	(146)	(146)
Share issue	196	1,176	-	-	-	1,372
At 31 March 2014	1,652	1,176	(13)	(403)	2,296	4,708

For the six months ended 31 March 2013

	Share capital £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Other distributable reserve £'000	Unaudited Total £'000
At 1 October 2012	1,456	-	30	(1,276)	2,442	2,652
Profit for the period	-	-	-	(27)	-	(27)
Other comprehensive income	-	-	37	-	-	37
Share based payment value of employee services	-	-	-	3	-	3
At 31 March 2013	1,456	-	67	(1,300)	2,442	2,665

For the year ended 30 September 2013

	Share capital £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Other distributable reserve £'000	Unaudited Total £'000
At 1 October 2012	1,456	-	30	(1,276)	2,442	2,652
Profit for the period	-	-	-	374	-	374
Other comprehensive income	-	-	(1)	-	-	(1)
Share based payment value of employee services	-	-	-	4	-	4
At 30 September 2013	1,456	-	29	(898)	2,442	3,029

Notes to the interim report

1 Basis of preparation

The financial information presented in this interim report has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the EU that are expected to be applicable to the financial statements for the year ending 30 September 2014 and on the basis of the accounting policies expected to be used in those financial statements.

2 Business combination

On 18 December 2013 the group acquired 100% of the issued share capital of Swanke Hayden Connell Europe Ltd, a major firm of architects and interior designers with offices in London, Moscow, Istanbul and Sheffield.

The total consideration for the acquisition was £1.58m comprising a cash payment of £209,053 with the balance satisfied by the issue of 19,594,959 new shares at a price of 7.00 pence per share.

The fair values of the identifiable assets and liabilities acquired have only been provisionally determined and are subject to adjustment during the measurement period.

3 Operating segments

The Group comprises a single business segment and five separately reportable geographical segments (together with a group costs segment). Geographical segments are based on the location of the operation undertaking each project.

Segment revenue	Pre-acquisition operations £'000	Acquired operations £'000	Total £'000
Unaudited six months to 31 March 2014			
United Kingdom	4,817	1,260	6,077
Russia	154	484	638
Turkey	-	441	441
Middle East	419	-	419
Continental Europe	-	-	-
Total	5,390	2,185	7,575

Unaudited six months to 31 March 2013			
United Kingdom	2,287	-	2,287
Russia	942	-	942
Turkey	-	-	-
Middle East	174	-	174
Continental Europe	-	-	-
Total	3,403	-	3,403
Audited year to 30 September 2013			
United Kingdom	6,160	-	6,160
Russia	1,875	-	1,875
Turkey	-	-	-
Middle East	371	-	371
Continental Europe	-	-	-
Total	8,406	-	8,406

Segment result before tax	Pre-acquisition operations £'000	Acquired operations £'000	Total £'000
Unaudited six months to 31 March 2014			
United Kingdom	1,050	(105)	945
Russia	(323)	24	(299)
Turkey	-	82	82
Middle East	4	-	4
Continental Europe	176	-	176
Group costs	(158)	-	(158)
Total	749	1	750
Unaudited six months to 31 March 2013			
United Kingdom	127	-	127
Russia	(245)	-	(245)
Turkey	-	-	-
Middle East	(54)	-	(54)
Continental Europe	135	-	135
Group costs	(42)	-	(42)
Total	(79)	-	(79)
Audited year to 30 September 2013			
United Kingdom	961	-	961
Russia	(395)	-	(395)
Turkey	-	-	-
Middle East	(132)	-	(132)
Continental Europe	260	-	260
Group costs	(144)	-	(144)
Total	550	-	550

4 Earnings / (losses) per share

The calculations of basic and diluted earnings / (losses) per share are based on the following data:

Earnings / (Losses)	Unaudited six months to 31 March 2014 £'000	Unaudited six months to 31 March 2013 £'000	Audited year to 30 September 2013 £'000
Profit / (Loss) for the period	495	(27)	374

Number of shares	Unaudited six months to 31 March 2014 '000	Unaudited six months to 31 March 2013 '000	Audited year to 30 September 2013 '000
Weighted average number of shares	157,616	145,619	145,619
Effect of dilutive options	394	-	-
Diluted weighted average number of shares	158,010	145,619	145,619

5 Reconciliation of profit / (loss) before tax to net cash from / (used in) operations

	Unaudited six months to 31 March 2014 £'000	Unaudited six months to 31 March 2013 £'000	Audited year to 30 September 2013 £'000
Profit / (Loss) before tax	750	(79)	550
Currency translation differences recycled	-	-	1
Share based payment value of employee services	-	3	4
Finance income	-	-	(1)
Finance costs	9	8	14
Share of results of associate & joint ventures	(176)	(134)	(264)
Goodwill written off	125	-	125
Depreciation	106	62	149
Amortisation	36	-	-
Loss on disposal of property, plant & equipment	-	(4)	(4)
Change in trade & other receivables	70	161	(1,022)
Change in trade & other payables	(506)	198	1,365
Change in provisions	(47)	(221)	(271)
Net cash from / (used in) operations	367	(6)	646

6 Analysis of net funds

	Unaudited at 31March 2014 £'000	Unaudited at 31 March 2013 £'000	Audited at 30 September 2013 £'000
Cash and cash equivalents	1,522	724	1,343
Secured bank overdraft	-	-	-
Cash, cash equivalents and bank overdraft	1,522	724	1,343
Secured bank loan	(188)	(338)	(263)
Net funds	1,334	386	1,080
Cash and cash equivalents	1,522	724	1,343
Short term borrowings	(150)	(150)	(150)
Long term borrowings	(38)	(188)	(113)
Net funds	1,334	386	1,080

7 Status of interim report

The interim report covers the six months ended 31 March 2014 and was approved by the board of directors on 29 June 2014. The interim report is unaudited.

The interim condensed set of consolidated financial statements in the interim report are not statutory accounts as defined by Section 434 of the Companies Act 2006.

Comparative figures for the year ended 30 September 2013 have been extracted from the statutory accounts of the group for that period.

The statutory accounts for the year ended 30 September 2013 have been reported on by the group's auditors and delivered to the Registrar of Companies. The audit report thereon was unqualified, did not include references to matters which the auditors drew attention by way of emphasis without qualifying the report, and did not contain a statement under Section 498 of the Companies Act 2006.

8 Further information

Copies of the interim report will be dispatched by post to holders of 10,000 or more shares in due course. An electronic version will be available on the Group's website (www.aukettswanke.com).

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