

**Morson Group PLC**  
**(“Morson” or the “Group”)**  
**Interim results for the six months ended 30 June 2011**

Morson (AIM: MRN.L) the UK’s leading provider of technical contracting personnel to the aerospace and defence, nuclear and power, rail and other technical industries, is pleased to announce its interim results for the six months ended 30 June 2011.

**Highlights**

- Solid trading performance across all sectors in line with Directors’ expectations:
  - revenue up 11.0% to £246.3m (H1 2010: £221.8m);
  - net fee income (gross profit) up 11.4% to £18.6m (H1 2010: £16.7m);
  - operating profit down 30.1% to £3.8m (H1 2010: £5.4m);
  - profit before taxation down 40.8% to £3.1m (H1 2010: £5.3m);
  - adjusted profit before taxation\* down 7.3% to £3.9m (H1 2010: £4.2m);
  - basic EPS of 5.20p (H1 2010: 8.33p); and
  - adjusted EPS† of 6.55p (H1 2010: 7.05p).
- Net debt marginally increased during the period to £24.4m, up £1.2m from £23.2m at 31 December 2010, despite the acquisition of Wynnwith.
- All key contract renewals secured.
- New contract wins achieved including URENCO UK Ltd in the nuclear sector and others in the automotive sector.
- Acquisition of the outstanding minority stake in Morson Wynnwith in February 2011 for £4.0m with integration completed.
- Market conditions remain challenging but with positive longer term prospects.
- Interim dividend maintained at 2.0p per share (H1 2010: 2.0p per share).

\*Adjusted profit before taxation is profit before taxation of £3.1m (H1 2010: £5.3m), excluding the fair value charge on the derivative financial instrument of £0.3m (H1 2010: gain £0.5m), amortisation of intangible fixed assets £0.4m (H1 2010: £0.2m) and exceptional cost of £0.1m (H1 2010: income £0.7m).

† Adjusted EPS is net profit attributable to equity holders adjusted for exceptional items, amortisation of intangible fixed assets and fair value movement on the derivative financial instrument values as detailed in note 5.

Gerry Mason, Non Executive Chairman, said:

“As is well documented underlying market conditions during the year to date have remained poor, influenced by a lack of global capital expenditure and worldwide attempts to kick start investment activity. Despite this Morson produced a solid performance in line with our expectations.”

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## **Chairman's Statement**

### **Introduction**

As is well documented underlying wider market conditions during the year to date have remained poor, influenced by a lack of global capital expenditure and worldwide attempts to kick start investment activity.

Despite this Morson produced a solid performance in line with our expectations.

### **The Period in Review**

For Morson of particular note has been the significant reduction in activity caused by the UK Government's Strategic Defence Review (SDR). This impacted towards the end of 2010 and resulted in a fall in revenue of circa £15 million from our contract to supply XPS/BAE Systems during this first half year period. We are pleased to report that the levels of business in our Aerospace Division have since stabilised.

The Board note that yesterday market announcements from BAE Systems indicate some further potential redundancies within their staff base. We would comment that the sites at which much of this is to occur hold much reduced numbers of contractors already and emphasis seems to be on production, where we have less revenues, rather than maintenance areas.

Morson has shown resilience through ongoing existing organic trade improvements, a solid client base and the contribution from acquisitions in 2010, which are now fully integrated into the Group. We have won all re-tenders during this period and no key accounts are up for renewal until 2012.

The Board's view is that the UK economic environment will remain uncertain with pressure on margins continuing for the foreseeable future affecting Morson's trading despite the underlying engineering sectors in which we currently operate remaining sound. In response to these conditions the Board has invested in broadening our offering making selective investments into certain niche and emerging areas to develop income streams for the future for example Oil and Gas, Telecommunications, Professional Services, Overseas and IT. These disciplines sit alongside our key markets and clients and allow us to develop potential revenues. Additionally, we have enhanced our permanent recruitment capabilities.

We believe that we are well positioned and have the experience and expertise required to maintain and grow our market share and that this positions the Group well for improved performance in the coming years.

### **Sector review**

#### **Morson International Temporary and Permanent Recruitment Services**

##### **Aerospace and Defence**

Despite the impact of the SDR performance in this sector, which is the largest in the Group, has again been strong. It is pleasing to report that there has been increased activity within the general civil aviation market which has helped compensate for the SDR reductions. Major projects are being undertaken by clients providing opportunities requiring specialist skill sets both now and for the future including the Queen Elizabeth and Prince of Wales aircraft carriers and Airbus 350 and Bombardier Executive and passenger Jet programmes. Several aircraft modification programmes aimed at

delivering efficiency savings on fuel and engine maintenance are also contributing to demand. In addition we hold ongoing maintenance and support programmes within the naval and civil marine sub-sector industries and for fixed and rotary wing military assets.

Looking to the future the more recent increases in activity within defence include support for key customers Agusta Westland and Xchanging in connection with maintenance support including fixed wing platforms and Apache and EH101 Merlin Rotary products. Furthermore design and development work on Royal Navy "Successor" submarine at Barrow in Furness holds good potential for long term resource demand. On non-military work our civil aerospace activity has recently been complemented by an awarded contract with the National Composites Centre (NCC) in Bristol which will help keep Morson at the forefront of new technology and product development.

### **Nuclear and Power**

Whilst nuclear new build activity has marginally increased this remains a real focus for coming years and we remain excited about future opportunities to support this. Understandable delays to the UK Government's proposed programme after the Fukushima incident raised concerns and safety checks and reviews have been required. We believe there is great potential for growth in this sector and we are well positioned to play an important role in the engineering, installation, build, support, maintenance and ongoing commissioning and decommissioning of the UK's new and current nuclear power infrastructure. Finally, as previously advised, we note that the first half of 2010 benefited substantially from our Magnox contract which expired in June 2010. The sector activity in the period is thus below 1H 2010 levels but above those of 2H 2010.

### **Rail and Transport Infrastructure**

This sector has been quiet with some reductions in activity levels from the closing 2010 position. The Group benefits from provision of supply to both the London Underground and the National Overground Networks. Transport for London has consolidated operations previously let under Metronet and Tubelines companies and this has seen reduced workloads though we believe project activity should increase in the coming periods. The substantial Crossrail project is progressing and offers excellent long term and increasing opportunity for Morson. Over ground activity with Network Rail has been steady and here opportunity is provided by station improvements and track upgrades and maintenance.

### **Other developing markets**

Outside our core markets described above the Group provides engineering talent and expertise to a wide variety of business sectors. We continue to selectively invest in certain areas to develop future income streams. We are pleased to report trading improvements in IT and Telecoms are apparent. We expect permanent recruitment revenue to be higher this year than last but this will naturally take some time to deliver expected returns. We may make further investments if market indicators become more positive. Our overseas office network is increasing and developing and we now have operations in seven countries. In the period the total overseas recruitment office revenues were £6.9 million (2010: £1.1 million).

### **Morson Projects: Provision of Engineering Design Consultancy and Management Services**

Morson Projects has seen a period of record revenues and whilst this is encouraging and enhances our market position, the challenging trading environment has meant that, particularly within the Aerospace sector, margin pressure is very apparent. As a result operating margins have reduced during the period. There are large ongoing projects continuing through to early 2012 that will be impacted by this. However we believe that the investment made to achieve this revenue growth and the expertise and experience gained will position the company well to gain future work. For example work through the period has included a key contract for the Bombardier Learjet programme which was

largely undertaken in “composite material” design, a leading edge technology that is now being applied by all aircraft manufacturers.

Also the diversity across Nuclear, Energy and Power sectors offers us scope for future growth. This area of design activity has performed well, growing revenues and maintaining margins. We continue to bid for and win substantial levels of design engineering works for the Sellafield site where we have a significant presence, these being transferable skills and knowledge which we believe will also be needed for new build sites.

This design and consultancy capability is a market differentiator for us. As a Group we are uniquely positioned to take advantage of nuclear new build power generation and infrastructure spend by promoting and gaining business via the understanding, flexibility and expertise that we can provide.

### Integration of acquisitions

Last year saw the acquisition of the business of Wynwith Group and in February 2011 we acquired the non-controlling minority interest for a consideration of £4.0 million. I am pleased to report that the business levels have been maintained and fully integrated and we are seeing the expected move to profitability.

### Financial highlights

Net fee income for the first six months was £18.6 million, an increase of 11.4% from 2010 levels of £16.7 million. Revenues increased to £246.3 million, up 11.0% on the prior year comparative of £221.8 million. Adjusted profit from operations was £4.3 million which was in line with our expectations. The comparatives to the prior half year and preceding six month period are set out below:

	Six months ended 30.06.11	Six months ended 31.12.10	Six months ended 30.06.10			
	A	B	C	Change A-B	Change A-C	Change B-C
	£m	£m	£m	%	%	%
Revenue	246.3	235.8	221.8	4.5	11.0	6.3
Net Fee Income	18.6	18.4	16.7	1.5	11.4	9.8
Overheads	(14.3)	(14.1)	(11.8)	1.7	21.1	19.1
Amortisation	(0.4)	(0.4)	(0.2)	(2.9)	148.9	156.3
Exceptional net gain on acquisition of businesses	0.0	0.6	0.7			(16.6)
Exceptional restructuring costs	(0.1)	(0.4)	0.0	(72.8)		
Operating profit	3.8	4.0	5.4	(5.5)	(30.1)	(26.0)
Adjusted operating profit (excluding amortisation of intangible fixed assets and exceptional items)	4.3	4.3	4.9	0.9	(11.8)	(12.6)
Interest	(0.4)	(0.4)	(0.7)	(2.1)	(39.7)	(38.5)
Adjusted profit before taxation (excluding amortisation of intangible fixed assets, exceptional items and fair value adjustments)	3.9	3.9	4.2	1.3	(7.3)	(8.5)

Overheads in the period were £2.5 million higher than the comparative period in the prior year. The main reason for the increase is the impact of the Wynnwith acquisition. Overheads within the Wynnwith business prior to our acquisition were running at over £7.0m per annum (2010: £0.5m Wynnwith overhead recognised). Since acquisition we have achieved significant cost savings through integration and some of these have been re-invested in other areas. Operationally the acquired business is now fully integrated and reports as part of the wider recruitment activity.

Whilst we have continued to focus on controlling the overhead base throughout the business we have invested in certain areas as described above. In the period adjusted operating margins have declined to 1.8% (H1 2010: 2.2%) reflecting these cost issues and lost revenues from the SDR.

2011 exceptional costs of £0.1 million relate to the final restructuring steps within the Morson Wynnwith business. The exceptional income of £0.7 million in 2010 reflects the acquisition of the business of Wynnwith Group Limited.

Across the Group net fee income split (and percentage of total NFI) across temporary recruitment, permanent recruitment and engineering design consultancy was £14.8 million (79.6%), £0.7 million (3.7%) and £3.1 million (16.7%) respectively (H1 2010: £12.9 million (77.2%), £0.4 million (2.4%), £3.4 million (20.4%)).

The maintenance of profitable returns and stability shown by Morson is a reflection of the bias of the Group to the temporary recruitment market and demonstrates the business model adopted and differentiates us from companies that are focused primarily on permanent recruitment. Whilst this remains firmly in place we hope to increase permanent revenues slightly taking advantage of our existing client base.

Adjusted profit before taxation was £3.9 million, down 7.3% (H1 2010: £4.2 million). We consider that the measure of adjusted profit before tax gives a meaningful and informative comparator against the prior year's performance. Actual profit before tax after these matters was £3.1 million, a fall of £2.1 million or 40.8%. The Group's conversion ratio, calculated as the ratio of adjusted profit from operations to net fee income was 23.3% (H1 2010: 29.4%), which has reduced due to the more difficult trading environment. However, given current market conditions the Board feels this compares well with others in our sector.

Taxation in the period is at an effective rate of 23.4% (H1 2010: 24.5%; year ended 31 December 2010: 19.9%). This is a blended rate and reflects the underlying UK rate of 26.5%, expenses not allowable, tax on overseas income and research and development tax credits.

Our financing requirements increased during the period in large part due to the £4.0 million cash consideration paid for the Wynnwith transaction. During the period average net debt levels reflected this being £28.9 million (H1 2010: £19.4 million; H2 2010 £26.3 million). The Group's invoice discounting facility at the period end was drawn to £24.4 million (H1 2010: £20.0 million; H2 2010: £24.9 million) against committed facilities of £50.0 million. The Board believe this facility suits contract recruitment well and is widely used by companies providing similar services. It has proven to be efficient and cost effective finance and the Group has used such a facility over the last nineteen years. Our £5.0 million revolving credit facility was drawn to £2.0 million (2010: £nil) and the overdraft was £nil (H1 2010: £nil; H2 2010: £nil). Cash was £2.1 million (H1 2010: £1.2 million; H2 2010 £1.7 million).

As previously reported our existing core invoice discounting facility runs to 31 March 2014 and our additional £5 million revolving credit facility runs to 31 October 2013.

Net assets of the Group at 30 June 2011 were £58.7 million (H1 2010: £59.5 million; H2 2010 £62.0 million).

### **Going Concern**

The Directors are satisfied that this condensed set of financial statements should be prepared on a going concern basis and further details are included in note 1 to this half yearly report.

### **Dividends**

The Company is recommending an interim dividend of 2.0 pence per share (H1 2010: 2.0 pence per share) which reflects the Board's view of the solid future prospects of the business. This interim dividend is proposed to be paid on 28 October 2011 to shareholders on the register on 7 October 2011. The ex-dividend date will be 5 October 2011.

### **Current Trading and Outlook**

The Board believes that against a backdrop of a difficult market the results achieved are creditable. We recognise the challenges and have selectively invested to position the Group for growth in the future as demand for our services increases. There are large infrastructure engineering needs within the UK and our growth strategy remains unchanged. We will continue to seek long-term embedded client relationships and the delivery of savings and efficiencies with quality technical resource that Morson can deliver to its clients. We will also continue to appraise acquisition opportunities that can deliver the right prospects, opportunities, business synergies and future income streams that are in line with our core business activities.

The SDR was a rather unique and significant event that significantly impacted our financial results for the period. We have however remained resilient, benefiting from our long standing client relationships, growing our business and enhancing our service capability across our markets. Whilst further falls in some areas of defence revenues might occur, the wide spread of skills required by the industry and the strength of our civils business will help mitigate this.

We have sought to position the Group well for the future and believe that with our broad client base, our service offering including Morson Projects' design and outsourcing capabilities and selective strategic investments we will achieve growth when the economic outlook improves.

The world economy is in uncharted territory but we believe that the future will see demand for scarce engineering talent. Our team of dedicated and entrepreneurial management and staff are well equipped to enlarge our footprint and make measured decisions to manage the many challenges this presents. Our philosophy is to think innovatively and as a result we have consistently been profitable over several economic cycles.

We are currently positioning the Group to take advantage of future engineering programmes and activity and have confidence in the prospects for the Group and its long term future growth.

### **Gerry Mason**

Non-executive Chairman

28 September 2011

**Condensed consolidated income statement**  
*Six months ended 30 June 2011*

	Note	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
<b>CONTINUING OPERATIONS</b>				
Revenue		<b>246,317</b>	<b>221,841</b>	457,639
Cost of sales		<b>(227,677)</b>	<b>(205,110)</b>	(422,544)
<b>GROSS PROFIT</b>		<b>18,640</b>	<b>16,731</b>	35,095
Administrative expenses:				
– amortisation of intangible fixed assets		<b>(433)</b>	<b>(174)</b>	(620)
– exceptional items:				
– net gain on acquisition of businesses	2	—	681	1,249
– restructuring costs	3	<b>(110)</b>	—	(404)
– other administrative expenses		<b>(14,303)</b>	<b>(11,813)</b>	(25,880)
<b>OPERATING PROFIT</b>		<b>3,794</b>	<b>5,425</b>	9,440
Finance costs:				
- fair value movements on derivative financial instrument		<b>(272)</b>	<b>512</b>	1,063
- other finance costs		<b>(411)</b>	<b>(682)</b>	(1,102)
<b>PROFIT BEFORE TAXATION</b>		<b>3,111</b>	<b>5,255</b>	9,401
Taxation	4	<b>(728)</b>	<b>(1,285)</b>	(1,870)
<b>NET PROFIT FOR THE PERIOD/YEAR</b>		<b>2,383</b>	<b>3,970</b>	7,531
Attributable to:				
Equity holders of the parent		<b>2,313</b>	<b>3,712</b>	6,985
Non-controlling interests		<b>70</b>	<b>258</b>	546
		<b>2,383</b>	<b>3,970</b>	7,531
<b>EARNINGS PER SHARE</b>				
From continuing operations				
Basic (pence)	5	<b>5.20</b>	8.33	15.69
Diluted (pence)	5	<b>5.06</b>	8.19	15.42

All activity has arisen from continuing operations.

**Condensed consolidated statement of comprehensive income**  
*Six months ended 30 June 2011*

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
PROFIT FOR THE PERIOD/ YEAR	2,383	3,970	7,531
Exchange differences on translation of foreign operations	(3)	—	28
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/ YEAR</b>	<b>2,380</b>	<b>3,970</b>	<b>7,559</b>
Attributable to:			
Equity holders of the parent	2,310	3,712	7,013
Non-controlling interests	70	258	546
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/ YEAR</b>	<b>2,380</b>	<b>3,970</b>	<b>7,559</b>

**Condensed consolidated balance sheet**  
**At 30 June 2011**

	<b>Unaudited 30 June 2011 £'000</b>	Unaudited 30 June 2010 £'000	Audited 31 December 2010 £'000
<b>NON-CURRENT ASSETS</b>			
Goodwill	<b>33,513</b>	<b>32,945</b>	33,513
Other intangible assets	<b>2,217</b>	<b>565</b>	2,650
Property, plant and equipment	<b>3,978</b>	<b>3,790</b>	3,753
Deferred tax asset	<b>—</b>	<b>106</b>	—
	<b>39,708</b>	<b>37,406</b>	39,916
<b>CURRENT ASSETS</b>			
Trade and other receivables	<b>96,223</b>	<b>90,781</b>	85,939
Cash and cash equivalents	<b>2,096</b>	<b>1,238</b>	1,701
	<b>98,319</b>	<b>92,019</b>	87,640
<b>TOTAL ASSETS</b>	<b>138,027</b>	<b>129,425</b>	127,556
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<b>(51,687)</b>	<b>(47,968)</b>	(39,648)
Current tax liabilities	<b>(709)</b>	<b>(1,373)</b>	(602)
Obligations under finance leases	<b>(55)</b>	<b>(47)</b>	(37)
Bank overdrafts and loans	<b>(26,444)</b>	<b>(19,991)</b>	(24,897)
Derivative financial instrument	<b>(272)</b>	<b>(551)</b>	—
	<b>(79,167)</b>	<b>(69,930)</b>	(65,184)
<b>NET CURRENT ASSETS</b>	<b>19,152</b>	<b>22,089</b>	22,456
<b>NON-CURRENT LIABILITIES</b>			
<b>DEFERRED TAX LIABILITIES</b>	<b>(155)</b>	<b>—</b>	<b>(333)</b>
	<b>(155)</b>	<b>—</b>	<b>(333)</b>
<b>TOTAL LIABILITIES</b>	<b>(79,322)</b>	<b>(69,930)</b>	(65,517)
<b>NET ASSETS</b>	<b>58,705</b>	<b>59,495</b>	62,039
<b>EQUITY</b>			
Issued capital	<b>2,267</b>	<b>2,267</b>	2,267
Share premium account	<b>37,607</b>	<b>37,607</b>	37,607
Retained earnings	<b>19,527</b>	<b>20,074</b>	22,443
Other reserves	<b>(894)</b>	<b>(815)</b>	(928)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>58,507</b>	<b>59,133</b>	61,389
Non-controlling interest	<b>198</b>	<b>362</b>	650
<b>TOTAL EQUITY</b>	<b>58,705</b>	<b>59,495</b>	62,039

**Condensed consolidated cash flow statement**  
*Six months ended 30 June 2011*

		<b>Unaudited six months ended 30 June 2011 £'000</b>	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	Note 7	<b>5,348</b>	<b>3,168</b>	2,541
<b>INVESTING ACTIVITIES</b>				
Grant income received		—	—	479
Purchases of property, plant and equipment		<b>(693)</b>	<b>(1,350)</b>	(2,307)
Proceeds on disposal of property, plant and equipment		<b>35</b>	<b>30</b>	68
Acquisition of businesses		—	<b>(7,749)</b>	(10,104)
Acquisition of a non-controlling interest		<b>(4,025)</b>	—	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(4,683)</b>	<b>(9,069)</b>	(11,864)
<b>FINANCING ACTIVITIES</b>				
Dividends paid		<b>(1,779)</b>	<b>(1,783)</b>	(2,671)
Purchase of own shares		—	<b>(121)</b>	(262)
New bank loans raised		<b>2,000</b>	—	—
Repayments of obligations under finance leases		<b>(37)</b>	<b>(14)</b>	(24)
<b>NET CASH FROM/ (USED IN) FINANCING ACTIVITIES</b>		<b>184</b>	<b>(1,918)</b>	(2,957)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>849</b>	<b>(7,819)</b>	(12,280)
<b>EFFECTS OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>(1)</b>	—	18
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR</b>		<b>(23,196)</b>	<b>(10,934)</b>	(10,934)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR</b>		<b>(22,348)</b>	<b>(18,753)</b>	(23,196)

**Condensed consolidated statement of changes in equity**  
**Six months ended 30 June 2011**

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Translation Reserve £'000	Own shares £'000	Non- controlling interests £'000	Total equity £'000
At 1 January 2010 (audited)	2,267	37,607	18,087	—	(694)	104	57,371
Retained profit for the period	—	—	3,712	—	—	258	3,970
Dividends paid	—	—	(1,783)	—	—	—	(1,783)
Share-based payments	—	—	58	—	—	—	58
Purchase of own shares	—	—	—	—	(121)	—	(121)
<b>At 1 July 2010 (unaudited)</b>	<b>2,267</b>	<b>37,607</b>	<b>20,074</b>	<b>—</b>	<b>(815)</b>	<b>362</b>	<b>59,495</b>
Retained profit for the period	—	—	3,273	—	—	288	3,561
Dividends paid	—	—	(888)	—	—	—	(888)
Share-based payments	—	—	(16)	—	—	—	(16)
Purchase of own shares	—	—	—	—	(141)	—	(141)
Exchange differences on translating the net assets of foreign operations	—	—	—	28	—	—	28
At 1 January 2011 (audited)	2,267	37,607	22,443	28	(956)	650	62,039
Retained profit for the period	—	—	2,313	—	—	70	2,383
Dividends paid	—	—	(1,779)	—	—	—	(1,779)
Share-based payments	—	—	90	—	—	—	90
Exercise of share options	—	—	(37)	—	37	—	—
Exchange differences on translating the net assets of foreign operations	—	—	—	(3)	—	—	(3)
Acquisition of a non-controlling interest	—	—	(3,503)	—	—	(522)	(4,025)
<b>AT 30 JUNE 2011 (UNAUDITED)</b>	<b>2,267</b>	<b>37,607</b>	<b>19,527</b>	<b>25</b>	<b>(919)</b>	<b>198</b>	<b>58,705</b>

## **Notes to the condensed set of financial statements**

*Six months ended 30 June 2011*

### **1. Basis of preparation**

This unaudited condensed set of financial statements has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. Whilst the financial figures included in this half-yearly report have been computed in accordance with IFRSs applicable to interim periods, this half-yearly report does not contain sufficient information to constitute an interim report as that term is defined in IAS 34.

The comparative figures for the year ended 31 December 2010 are an abridged version of the Group's full financial statements and, together with other financial information contained in these interim results, do not constitute statutory financial statements of the Group as defined in Section 434 of the Companies Act 2006.

Those financial statements for the year ended 31 December 2010 have been delivered to the Registrar of Companies and include an auditor's report which was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

### **Going Concern**

The Directors are required to satisfy themselves as to whether the condensed set of financial statements of the Group should be prepared on a going concern basis. As part of the ongoing duties and activities of the Board there is continual assessment of the Group's financial and commercial performance. This review does consider business risks and uncertainties that exist and takes account of how wider economic circumstances can impact these. It includes due consideration and assessment of potentially adverse and testing situations. The Board looks forward and appropriate forecasts of financial performance and assessment of future business opportunities and challenges are regularly made. The Directors have also considered the financial support required for these anticipated income streams and note that the Group's current financing arrangements run until 31 March 2014 for its invoice discounting facility and until 31 October 2013 for its revolving credit facility. Having properly considered the matter the Directors conclude that they are satisfied that this condensed set of financial statements should be prepared on a going concern basis.

### **2. Acquisition of businesses**

During the year ended 31 December 2010, the Group made two acquisitions.

- 1) On 9 June 2010 the Group announced the formation of a 51% subsidiary, Recruit Now Limited, since renamed to Morson Wynnwith Limited. This subsidiary acquired the business and assets of Wynnwith Group Limited ("Wynnwith") and the issued share capital of Wynnwith SRL, its Italian trading subsidiary, out of administration. Wynnwith provides technical and engineering personnel to a range of blue-chip clients in the aerospace, defence, marine, electronics and rail industries and had been a well-established and respected competitor of the Group.
- 2) On 9 July 2010 the Group acquired the business, contracts and fixed assets of Acetech Personnel Limited ("Acetech"). Acetech is a wholly owned subsidiary of Babcock International Group PLC and provides recruitment and workforce services, on a preferred supplier basis, to Babcock's UK Marine and Rail businesses. Contracts have been agreed with Babcock for a minimum five-year term for the continuation of supply of contractors.

The values recognised in the audited financial statements for the year ended 31 December 2010 were as follows:

	Wynnwith £'000	Acetech £'000	Total £'000
Recognised amounts of identifiable assets acquired and liabilities assumed			
Financial assets	9,659	—	9,659
Property, plant and equipment	27	16	43
Identifiable intangible assets	725	1,806	2,531
Deferred tax asset	25	488	513
Financial liabilities	(987)	(35)	(1,022)
Deferred tax liability	(196)	(488)	(684)
	<u>9,253</u>	<u>1,787</u>	<u>11,040</u>
Total identifiable assets	9,253	1,787	11,040
Goodwill	(1,504)	568	(936)
	<u>7,749</u>	<u>2,355</u>	<u>10,104</u>
Total consideration	7,749	2,355	10,104
Satisfied by:			
Cash	7,749	2,355	10,104
	<u>7,749</u>	<u>2,355</u>	<u>10,104</u>
Total consideration transferred and net cash outflow arising on acquisition	7,749	2,355	10,104
	<u>7,749</u>	<u>2,355</u>	<u>10,104</u>
Acquisition-related costs	230	25	255
Release of negative goodwill from bargain purchase	(1,504)	—	(1,504)
	<u>(1,274)</u>	<u>25</u>	<u>(1,249)</u>
Total exceptional (gain)/ cost on acquisition of businesses	(1,274)	25	(1,249)

At 30 June 2010 the initial assessment of the fair value of the Wynnwith acquisition was considered to be provisional, at this time exceptional costs relating to the acquisition were £217,000, consisting largely of professional fees. These exceptional costs, combined with the release of negative goodwill, resulted in a reported net exceptional income of £681,000.

On 11 February 2011 Morson Group PLC acquired the remaining issued shares in Morson Wynnwith Limited for a cash consideration of £4,005,000 and stamp duty of £20,000, taking its shareholding to 100%. The difference between the fair value of the consideration and the carrying amount of the non-controlling interests is shown as a negative movement in the equity of Morson Group PLC

### 3. Exceptional restructuring costs

During the 6 months ended 30 June 2011 restructuring costs of £110,000 have been incurred following the further integration of the Wynnwith business. These redundancy costs were over and above those provided at 31 December 2010 and were not committed at that date.

During the year ended 31 December 2010 restructuring costs of £404,000 were incurred following the acquisition and integration of the Wynnwith and Acetech businesses (see note 2). This included an accrual for redundancy costs committed to at the balance sheet date.

#### 4. Taxation

Tax for the six month period is charged at 26.5% (six months ended 30 June 2010: 28%; year ended 31 December 2010: 28%). The effective rate of tax for the six months ended 30 June 2011 is 23.4% (six months ended 30 June 2010: 24.5%; year ended 31 December 2010: 19.9%) after taking into consideration expenses not deductible for tax purposes, income not taxable and the effect of tax on overseas income. The effective tax rate is also impacted by the recognition of research and development tax credits.

#### 5. Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares:

	<b>Unaudited six months ended 30 June 2011 £'000</b>	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Profit for the financial period/year used for the calculation of basic earnings per share	<b>2,313</b>	<b>3,712</b>	6,985
Exceptional items:			
– net gain on acquisition of businesses <sup>(a)</sup>	—	<b>(323)</b>	(625)
– restructuring costs <sup>(a)</sup>	<b>110</b>	—	244
Amortisation of intangible assets	<b>433</b>	<b>174</b>	569
Fair value movements on derivative financial instruments	<b>272</b>	<b>(512)</b>	(1,063)
Tax effect of adjustments <sup>(a)</sup>	<b>(216)</b>	<b>90</b>	149
<b>Earnings for the purposes of adjusted earnings per share</b>	<b>2,912</b>	<b>3,141</b>	6,259

<sup>(a)</sup> Adjustments have been made to these values to account for the share of non-controlling interests

Weighted average number of shares:

	<b>Unaudited six months ended 30 June 2011 Number</b>	<b>Unaudited six months ended 30 June 2010 Number</b>	Audited year ended 31 December 2010 Number
Weighted average number of shares for the purposes of basic earnings per share	<b>44,462,974</b>	<b>44,580,399</b>	44,520,191
Effect of potentially dilutive ordinary shares:			
– share options	<b>1,277,384</b>	<b>730,325</b>	794,207
<b>For diluted earnings per share</b>	<b>45,740,358</b>	<b>45,310,724</b>	45,314,398
Earnings per share:			
– basic (pence)	<b>5.20</b>	<b>8.33</b>	15.69
– diluted (pence)	<b>5.06</b>	<b>8.19</b>	15.42
Adjusted earnings per share:			
– basic (pence)	<b>6.55</b>	<b>7.05</b>	14.06
– diluted (pence)	<b>6.37</b>	<b>6.93</b>	13.81

The adjusted earnings per share has been calculated on the basis of continuing operations pre-amortisation, fair value movement on derivative financial instrument and exceptional items (see notes 2 and 3) as shown above. The Directors consider that the adjusted earnings per share calculation gives a better understanding of the Group's underlying earnings per share.

## 6. Dividends on equity shares

	<b>Unaudited six months ended 30 June 2011 £'000</b>	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Amounts recognised as distributions to equity holders in the period:			
– final dividend for the year ended 31 December 2010 of 4.0 pence per ordinary share	1,779	—	—
– interim dividend for the year ended 31 December 2010 of 2.0 pence per ordinary share	—	—	888
–final dividend for the year ended 31 December 2009 of 4.0 pence per ordinary share	—	1,783	1,783
	<b>1,779</b>	<b>1,783</b>	<b>2,671</b>

The Directors have proposed an interim dividend of 2.0 pence per share in respect of the six months ended 30 June 2011.

## 7. Notes to the Group Cash Flow Statement

### *Reconciliation of profit from operations to net cash from operations*

	<b>Unaudited six months ended 30 June 2011 £'000</b>	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Operating profit	3,794	5,425	9,440
Adjustments for:			
Exceptional net gain on acquisition of businesses	—	(681)	(1,249)
Exceptional restructuring costs	110	—	404
Depreciation of property, plant and equipment	441	381	829
Amortisation of intangible assets	433	174	620
Share-based payment expense	90	58	42
(Profit)/loss on disposal of property, plant and equipment	(8)	(17)	31
Operating cash flows before movements in working capital	4,860	5,340	10,117
(Increase) in receivables	(10,506)	(11,006)	(4,930)
Increase in payables	11,982	11,273	2,187
Decrease/(increase) in inventories	136	(815)	(1,830)
Cash generated by operations	6,472	4,792	5,544
Income taxes paid	(713)	(942)	(1,901)
Interest paid	(411)	(682)	(1,102)
Net cash generated from operating activities	<b>5,348</b>	<b>3,168</b>	<b>2,541</b>

## **Independent review report to Morson Group PLC**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and related notes 1 to 7. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with the accounting policies the group intends to use in preparing its next annual financial statements.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.

### **Deloitte LLP**

#### ***Chartered Accountants and Statutory Auditor***

Manchester, United Kingdom

28 September 2011