

2013 INTERIM REPORT RWS HOLDINGS PLC



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2009

RWS GROUP
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2	Executive Chairman's Statement
8	Condensed Consolidated Statement of Comprehensive Income
9	Condensed Consolidated Statement of Financial Position
10	Condensed Consolidated Statement of Changes in Equity
11	Condensed Consolidated Statement of Cash Flows
12	Notes to the Condensed Consolidated Financial Statements
17	Contact information

The Group has delivered an excellent performance in the first half of the current financial year, with most of the Group's global operating divisions performing well despite the lack of economic growth in the wider economy. In addition, we are pleased with the performance of inovia, in which we acquired an initial minority stake in October 2011 and which we expect to fully acquire in September 2013. Its acquisition adds a highly complementary and scalable web-based patent filing platform to our existing patent search and translation offerings.

The core patent translations business further enhanced its market leading position, underpinned by growth in demand from both new and existing clients, translation work transferred from inovia and strong demand for its services in China and Japan. Commercial translations saw good demand from medical clients as well as a strong turnaround in the Group's German and Swiss operations. Encouragingly, in the information services business, PatBase subscription revenues advanced by a further 11%.

■ Business Overview

RWS is the world's leading provider of patent translations and one of Europe's leading players in the provision of intellectual property support services and high level technical, medical, commercial, legal and financial translation services. Its main business – patent translation – translates well over 65,000 patents and intellectual property related documents each year. It has a blue chip multinational client base from Europe, North America and Asia, active in patent filing in the medical, pharmaceutical, chemical, aerospace, defence, automotive and telecoms industries, as well as patent agents acting on behalf of such clients. The Group has two principal business activities: Translations, which accounts for over 90% of sales and incorporates patent and commercial translation services, and Information, which includes a comprehensive range of patent search, retrieval and monitoring services as well as PatBase, one of the world's largest searchable commercial patent databases, access to which is sold exclusively as a subscription service.

■ Strategy

Our strategy is focused upon organic growth complemented by deploying our substantial cash holdings for selective acquisitions, providing they can be demonstrated to enhance shareholder value. Organic growth is driven by increases in the worldwide patent filing activities of our existing and potential multinational clients, the growing demand for language services and our ability to increase our market share by winning new clients attracted by our leading position and reputation, in an otherwise fragmented sector.

In terms of acquisitive growth, having been generally pleased with the return on acquisitions made to date, we continue to search for suitable potential acquisitions in the high level commercial translation and intellectual property support services spaces. We seek niche businesses capable of delivering well above industry average levels of profitability or highly complementary businesses capable of reinforcing our dominant position in intellectual property support services. This strategy was most recently demonstrated by the acquisition of PharmaQuest Limited on 1 May 2013, as described on page 6.

■ Results and Financial Review

Sales for the six months ended 31 March 2013 were up 9% at £36.7 million (H1 2012: £33.7 million). In constant currency terms, sales revenues would have been approximately £0.9 million higher.

After finance income of £0.1 million (2012: £0.4 million), which includes gains and losses on the fair value of forward foreign exchange contracts, profit before tax and amortization of intangibles was £10.6 million against £8.1 million in 2012, a rise of 31%. Adjusted diluted earnings per share were up 31% to 18.9p (2012: 14.4p).

At 31 March 2013, shareholder funds had reached £65.5 million (2012: £58.5 million), of which net cash represented £28.0 million (2012: £22.5 million).

Significant cash outlays included corporation tax and the final dividend for 2012, paid in February 2013, of £5.7 million (2012: £5.0 million). Free cash flow rose strongly from £6.4 million in 2012 to £8.8 million.

■ Currency Effects and Hedging

Sales revenues were up by 11.5% on a constant currency basis, but reported revenues were reduced by £0.9 million as a result of weaker average exchange rates for the Euro, the Swiss Franc and the Yen, whilst the US Dollar strengthened marginally. The £0.9 million revenue shortfall reduced reported profits by an estimated £0.3 million. The average rate used for conversion of the Euro was 83.3p to the € versus 84.25p in the first half of 2012. For the US dollar, the average rate was 1.578 dollars to the £ versus 1.585 dollars in the first half of 2012.

As a result of holding unhedged US\$ balances in anticipation of the purchase of the remaining two thirds of inovia in September 2013, and from gains on Euro

assets, the Group recorded a net favourable exchange variance of £1.6 million compared to the first half of 2012.

Looking forward, the Group has hedged its estimated net trading exposure to the Euro at 1 Euro = 85p from 1 April 2013 to 30 September 2013, and at 1 Euro = 87p from 1 October 2013 to 31 March 2014.

■ Dividend

The Directors have approved an interim dividend of 4.5 pence per share, an increase of 12% over the 2012 interim dividend of 4.0 pence, reflecting both the Group's strong performance to date and the Board's confidence in the Group's continued progress in the full financial year and beyond. This dividend will be paid on 26 July 2013 to those shareholders on the register on 28 June 2013. The Group remains committed to a progressive dividend policy, first announced at flotation in November 2003 and delivered in every year since then.

■ Operating Review

Translations

The Group's core patent translations business, which accounts for approximately 71% of Group sales, grew its revenues by 11% to £26.1 million (2012: £23.5 million) despite the anaemic growth rates prevailing in most of its markets. The Group continues to enhance its market leadership with a worldwide blue chip client base composed of many of the world's most active patent filers. Our clients include 12 of the top 20 applicants at the World Intellectual Property Office and 14 of the top 20 applicants at the European Patent Office during 2012. Significantly, in the first half of this financial year, both the development of relationships with clients won in 2012 and the transfer of translation business from the inovia foreign filing services have helped to drive revenues forward. Those wins included our first two substantial Japanese corporates for international patent translations, an important breakthrough for future business in the country. We have continued to invest in our direct sales presence in the US, the largest potential market for intellectual property services, and whilst competition remains strong we are seeing some good opportunities. Given strong demand for our patent translation services from European and North American corporates seeking to file patent applications in China, we have similarly invested in additional headcount in our Beijing office. Revenues in China grew 94% and profits grew 68%, demonstrating that RWS made a timely decision to establish operations in the country. An additional welcome source of revenues in China has been our growing relationship with international patent bodies seeking translation of Chinese patent prosecution documents. Our Japanese patent translation activities

also grew strongly. Both of these entities benefit significantly from business referred by other Group companies.

Our commercial translations business, which accounts for approximately 22% of Group sales, saw revenues increase by 4% to £8.0 million (2012: £7.7 million). This business includes all non-patent translations, a service sector which typically has greater exposure to competition and the economic cycle than patent related activities. Our focus, therefore, remains upon specialist niches where more attractive margins are available. In the half year we have enjoyed particularly good results from our medical translation activities and were pleased to see a turnaround in our businesses located in German speaking Europe, following corrective action and investment in customer support software.

Information

Our information business accounts for 7% of Group sales and grew very modestly during the half year (from £2.5 million in H1 2012 to £2.6 million in H1 2013). High margin revenues from PatBase subscriptions have increased by 11%, reflecting the database's continued market share gains, and driven by the Group's ongoing investment in its searchability and geographical coverage. The balance of information revenues are generated by our patent search and watch services, which have a greater sensitivity to the economic environment. As previously reported, demand has remained weak in this service line which accounts for just 2.5% of Group revenues but is a valuable additional service to many clients in the intellectual property sector.

Acquisitions

Progress on inovia Acquisition

In line with the Board's stated strategy, RWS announced on 11 October 2011 the acquisition of an initial one third interest in inovia Holdings Pty Limited ("inovia"), a leading provider of web-based international patent filing solutions, and an agreement to acquire the remaining share capital, for a maximum aggregate price of US\$31.2m.

The total cash consideration comprises an initial payment of US\$5.8 million (or £3.7 million) and deferred consideration for the remaining two thirds of the issued share capital, which will be calculated according to an agreed earnout formula and payable when we complete the acquisition, expected in September 2013. The earnout is based on three elements: inovia's sales, its EBITDA and the translation work it transfers to RWS.

For the year ended 30 June 2012, inovia's gross revenues were US\$19.3m, an increase of 28% over 2011 and it achieved a maiden EBITDA of US\$0.44m. In the nine months to 31 March 2013 its gross sales amounted to US\$18.2 million, a rise of 27.3% over the corresponding period in the prior year.

The inovia team continues to deliver on its promise to exploit new commercial opportunities and collaboration initiatives, including the transfer of translations work between inovia and RWS. In the six months to March 2013, inovia directed translation orders to RWS resulting in sales of approximately £1.9 million, somewhat ahead of our initial expectations.

Post Period Acquisition

On 1 May 2013, RWS acquired the whole of the issued share capital of PharmaQuest Limited ("PharmaQuest"), whose principal activity is the provision of high quality translation and linguistic validation of patient reported outcomes from global clinical trials, for a net cash consideration of £2.3 million. PharmaQuest's adjusted profit before tax for the year ended 31 March 2013 was £0.6 million and the acquisition will be immediately earnings enhancing.

■ Market and Regulatory Update

Patent Filing Statistics

In March, the World Intellectual Property Office (WIPO) published figures showing a 6.6% increase in the 2012 PCT filings to 194,400 (2011: 182,379). The European Patent Office (EPO) also published figures in January showing the total number of European patent filings increased by 5.2% to 257,744 (2011: 244,934). Both the WIPO and EPO figures established new records for numbers of filings.

European Union Patent

We have in the past drawn the market's attention to the proposed European Union Patent ("the Unitary Patent") and its potential impact upon the Group's sales and profits. Despite significant legal hurdles it now appears likely that the Unitary Patent will come into effect in late-2014, and that the first patents could be granted in 2015. It should be noted that a number of member states of the current European Patent system are not EU members, and that Spain and Italy remain implacably opposed to the Unitary Patent. Professional opinion remains highly sceptical both as regards jurisdiction and the fee structure.

Because the proposed Unitary Patent will run in parallel with the existing system and will have a new and untried litigation system, our research indicates that there is currently little interest amongst large corporates and their professional advisers

in using the new system. That being the case, we anticipate minimal loss of revenues in the first few years after the introduction of the Unitary Patent.

■ People

I would like to thank our staff for their ongoing commitment to providing and maintaining the high levels of service expected by our clients. Headcount has now reached 524 full time equivalents (2012: 485) and productivity continues to improve.

■ Directorate Change

RWS announced on 29 November 2012 that Mike McCarthy, who had served as Group Finance Director for 12 years, would retire on 31 December 2012. We also announced that Richard Thompson had joined the Board and would be appointed as Group Finance Director with effect from 1 January 2013.

■ Current Trading and Outlook

We have had a strong start to the second half of the year.

A combination of an encouraging pipeline in our core patent business, good momentum in the inovia business, the recent addition of PharmaQuest to our medical translations division and the continued weakness of sterling leave us confident of delivering strong progress in the remainder of the year.

Beyond the current year, we are well placed to continue increasing our share of the patent translation and intellectual property services market, and the completion of the inovia acquisition in September 2013 will further enhance our growth prospects.

Andrew Brode

Executive Chairman

10 June 2013

Condensed Consolidated Statement of Comprehensive Income

	Unaudited 6 months ended 31 March 2013	Audited Year ended 30 Sept. 2012	Unaudited 6 months ended 31 March 2012
Note	£'000	£'000	£'000
Revenue	36,666	68,825	33,690
Cost of sales	(21,522)	(39,614)	(19,719)
Gross profit	15,144	29,211	13,971
Administrative expenses	(5,048)	(13,035)	(6,541)
Profit from operations	10,096	16,176	7,430
Analysed as:			
Operating profit before charging:	10,436	16,773	7,710
Amortization of customer relationships and trademarks	(340)	(597)	(280)
Profit from operations	10,096	16,176	7,430
Finance income	78	405	427
Finance expense	(32)	(1)	–
Net finance income	46	404	427
Share in results of associate	107	18	(28)
Profit before tax	10,249	16,598	7,829
Taxation expense	(2,511)	(3,925)	(1,945)
Profit for the period	7,738	12,673	5,884
Other comprehensive income*			
Exchange gain/(loss) on retranslation of foreign operations	269	(694)	(370)
Exchange loss on retranslation of associate operations	–	(135)	(108)
Total other comprehensive income/(expense)	269	(829)	(478)
Total comprehensive income	8,007	11,844	5,406
Total comprehensive income attributable to:			
Owners of the parent	8,007	11,844	5,406
Basic earnings per Ordinary share (pence per share)	5	29.9	13.9

*Other Comprehensive Income includes only items that will be subsequently reclassified to Profit before tax when specific conditions are met.

Condensed Consolidated Statement of Financial Position

	Unaudited at 31 March 2013	Audited at 30 Sept. 2012	Unaudited at 31 March 2012
Note	£'000	£'000	£'000
Assets			
Non-current assets			
Goodwill	14,329	14,053	12,913
Intangible assets	4,041	4,274	3,220
Property, plant and equipment	13,141	13,285	13,532
Investment in associate	4,452	4,345	4,327
Deferred tax assets	225	228	249
	36,188	36,185	34,241
Current assets			
Trade and other receivables	14,666	14,612	14,021
Derivative financial instruments	228	260	366
Cash and cash equivalents	6	28,036	22,477
	42,930	39,968	36,864
Total assets	79,118	76,153	71,105
Liabilities			
Current liabilities			
Trade and other payables	8,116	8,015	8,267
Income tax payable	2,619	2,007	1,753
Put and call option liability	769	769	–
Provisions	336	336	336
	11,840	11,127	10,356
Non-current liabilities			
Other creditors	100	100	769
Provisions	530	530	547
Deferred tax liabilities	1,116	1,167	941
	1,746	1,797	2,257
Total liabilities	13,586	12,924	12,613
Total net assets	65,532	63,229	58,492
Equity			
Capital and reserves attributable to owners of the parent			
Share capital	2,116	2,116	2,116
Share premium	3,583	3,583	3,583
Reverse acquisition reserve	(8,483)	(8,483)	(8,483)
Foreign currency reserve	1,750	1,481	1,832
Retained earnings	66,566	64,532	59,444
Total equity	65,532	63,229	58,492

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Other reserves (see below)	Retained earnings	Total equity attributable to owners of the parent
	£'000	£'000	£'000	£'000	£'000
At 30 September 2011 (audited)	2,116	3,583	(6,173)	58,532	58,058
Profit for the period	–	–	–	5,884	5,884
Currency translation differences	–	–	(478)	–	(478)
Dividends	–	–	–	(4,972)	(4,972)
At 31 March 2012 (unaudited)	2,116	3,583	(6,651)	59,444	58,492
Profit for the period	–	–	–	6,789	6,789
Currency translation differences	–	–	(351)	–	(351)
Dividends	–	–	–	(1,701)	(1,701)
At 30 September 2012 (audited)	2,116	3,583	(7,002)	64,532	63,229
Profit for the period	–	–	–	7,738	7,738
Currency translation differences	–	–	269	–	269
Dividends	–	–	–	(5,704)	(5,704)
At 31 March 2013 (unaudited)	2,116	3,583	(6,733)	66,566	65,532

Other reserves	Reverse acquisition reserve	Foreign currency reserve	Total other reserves
	£'000	£'000	£'000
At 30 September 2011 (audited)	(8,483)	2,310	(6,173)
Currency translation differences	–	(478)	(478)
At 31 March 2012 (unaudited)	(8,483)	1,832	(6,651)
Currency translation differences	–	(351)	(351)
At 30 September 2012 (audited)	(8,483)	1,481	(7,002)
Currency translation differences	–	269	269
At 31 March 2013 (unaudited)	(8,483)	1,750	(6,733)

Condensed Consolidated Statement of Cash Flows

	Unaudited 6 months ended 31 March 2013	Audited Year ended 30 Sept. 2012	Unaudited 6 months ended 31 March 2012
Note	£'000	£'000	£'000
Cash flows from operating activities			
Profit before tax	10,249	16,598	7,829
Adjustments for:			
Depreciation of property, plant and equipment	307	593	293
Amortization of intangible assets	377	656	303
Finance income	(78)	(405)	(427)
Finance expense	–	1	–
Operating cash flow before movements in working capital and provisions	10,855	17,443	7,998
(Increase)/decrease in trade and other receivables	(178)	63	468
Increase in trade and other payables	101	391	710
Cash generated from operations	10,778	17,897	9,176
Income tax paid	(1,945)	(4,297)	(2,488)
Net cash inflow from operating activities	8,833	13,600	6,688
Cash flows from investing activities			
Interest received	127	98	65
Acquisition of subsidiary, net of cash acquired	–	(2,480)	–
Acquisition of share in associate	–	(3,693)	(3,693)
Purchases of property, plant and equipment	(148)	(363)	(302)
Purchases of intangibles (computer software)	(19)	(92)	(10)
Net cash outflow from investing activities	(40)	(6,530)	(3,940)
Cash flows from financing activities			
Dividends paid	(5,704)	(6,673)	(4,972)
Net cash outflow from financing activities	(5,704)	(6,673)	(4,972)
Net increase/(decrease) in cash and cash equivalents	3,089	397	(2,224)
Cash and cash equivalents at the beginning of the period	25,096	24,845	24,845
Exchange loss on cash and cash equivalents	(149)	(146)	(144)
Cash and cash equivalents at the end of the period 6	28,036	25,096	22,477
Free cash flow			
Analysis of free cash flow			
Net cash generated from operating activities	10,778	17,897	9,176
Net interest received	127	98	65
Income tax paid	(1,945)	(4,297)	(2,488)
Purchases of property, plant and equipment	(148)	(363)	(302)
Purchases of intangibles (computer software)	(19)	(92)	(10)
Free cash flow	8,793	13,243	6,441

1 Accounting policies

Basis of preparation

The interim financial statements were approved by the Board of Directors on 7 June 2013. The interim results for the half years ended 31 March 2013 and 31 March 2012 are neither audited nor reviewed by our auditors and the accounts in this interim report do not therefore constitute statutory accounts in accordance with Section 434 of the Companies Act 2006. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 September 2012.

The Group's statutory accounts for the year ended 30 September 2012 have been filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain any statements under s498 (2) or (3) of the Companies Act 2006 and did not contain any matters to which the auditors drew attention without qualifying their report.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the Group's latest annual audited financial statements except that in the current financial year, the Group has adopted a number of revised Standards and Interpretations. However, none of these has had a material impact on the Group's reporting.

2 Segmental reporting

The Group comprises two divisions, the Translation division (for management reporting analysed between UK and Overseas operations) providing patent and technical document translation, filing and localisation services in the UK, USA, Europe, Japan and China, and the Information division, which offers a full range of patent search, retrieval and monitoring services as well as an extremely comprehensive patent database service accessible by subscribers, known as PatBase.

The unallocated segment relates to corporate overheads, assets and liabilities.

The segment results for the six months ended 31 March 2013 are as follows:

	Translations UK £'000	Translations Overseas £'000	Information £'000	Unallocated £'000	Group £'000
Revenue	28,813	5,240	2,613	–	36,666
Operating profit/(loss) before charging:	8,656	1,049	1,090	(359)	10,436
Amortization of customer relationships and trademarks	(268)	–	(72)	–	(340)
Operating profit/(loss)	8,388	1,049	1,018	(359)	10,096
Finance income					78
Finance expense					(32)
Share in results of associate					107
Profit before tax					10,249
Taxation					(2,511)
Profit for the period					7,738

Overseas intercompany sales to the UK amounting to £2.4 million are eliminated on consolidation.

Segment assets	56,512	5,617	5,805	6,732	74,666
Investment in associate	–	4,452	–	–	4,452
Total assets	56,512	10,069	5,805	6,732	79,118
Segment liabilities	7,281	1,684	2,732	1,889	13,586
Net assets	49,231	8,385	3,073	4,843	65,532

The segment results for the year ended 30 September 2012 were as follows:

	Translations UK £'000	Translations Overseas £'000	Information £'000	Unallocated £'000	Group £'000
Revenue	53,250	10,596	4,979	–	68,825
Operating profit/(loss) before charging:	13,322	1,974	2,135	(658)	16,773
Amortization of customer relationships and trademarks	(549)	–	(48)	–	(597)
Operating profit/(loss)	12,773	1,974	2,087	(658)	16,176
Finance income					405
Finance expense					(1)
Share in results of associate					18
Profit before tax					16,598
Taxation					(3,925)
Profit for the year					12,673

Overseas intercompany sales to the UK amounting to £3.6 million were eliminated on consolidation.

	Translations UK	Translations Overseas	Information	Unallocated	Group
	£'000	£'000	£'000	£'000	£'000
Segment assets	49,081	5,310	4,527	12,890	71,808
Investment in associate	–	4,345	–	–	4,345
Total assets	49,081	9,655	4,527	12,890	76,153
Segment liabilities	7,237	1,728	1,970	1,989	12,924
Net assets	41,844	7,927	2,557	10,901	63,229

The segment results for the six months ended 31 March 2012 were as follows:

	Translations UK	Translations Overseas	Information	Unallocated	Group
	£'000	£'000	£'000	£'000	£'000
Revenue	26,050	5,204	2,436	–	33,690
Operating profit/(loss) before charging:	6,373	650	1,052	(365)	7,710
Amortization of customer relationships and trademarks	(280)	–	–	–	(280)
Operating profit/(loss)	6,093	650	1,052	(365)	7,430
Finance income	–	–	–	–	427
Share in results of associate	–	–	–	–	(28)
Profit before tax	–	–	–	–	7,829
Taxation	–	–	–	–	(1,945)
Profit for the period	–	–	–	–	5,884

Overseas intercompany sales to the UK amounting to £1.4 million were eliminated on consolidation.

Segment assets	48,008	3,885	6,088	8,797	66,778
Investment in associate	–	4,327	–	–	4,327
Total assets	48,008	8,212	6,088	8,797	71,105
Segment liabilities	7,140	1,250	2,519	1,704	12,613
Net assets	40,868	6,962	3,569	7,093	58,492

3 Finance income and expense	6 months ended 31 March 2013	Year ended 30 Sept. 2012	6 months ended 31 March 2012
	£'000	£'000	£'000
Finance income			
– Returns on short-term deposits	78	152	68
– Fair value of outstanding forward foreign currency contracts	–	253	359
Finance expense			
– Interest on deferred consideration relating to an acquisition	–	(1)	–
– Fair value of outstanding forward foreign currency contracts	(32)	–	–
Net finance income	46	404	427

4 Dividends	6 months ended 31 March 2013		Year ended 30 Sept. 2012		6 months ended 31 March 2012	
	Pence per share	£'000	Pence per share	£'000	Pence per share	£'000
Interim paid July	–	–	4.02	1,701	–	–
Final paid February	13.48	5,704	11.75	4,972	11.75	4,972
Dividends paid to shareholders	13.48	5,704	15.77	6,673	11.75	4,972

An interim dividend of 4.50 pence per Ordinary share will be paid on 26 July 2013 to Shareholders on the register at 28 June 2013. This dividend, declared by the Directors after the balance sheet date, has not been recognised in these financial statements as a liability at 31 March 2013. The interim dividend will reduce shareholders' funds by an estimated £1.9 million.

5 Earnings per Ordinary share

The Group shows both a basic and adjusted earnings per share figure as the Directors believe that this information will be of interest to the users of the accounts in measuring the Group's performance and underlying trends.

	6 months ended 31 March 2013		Year ended 30 Sept. 2012		6 months ended 31 March 2012	
	Earnings £'000	EPS Pence	Earnings £'000	EPS Pence	Earnings £'000	EPS Pence
Profit for the period	7,738	18.3	12,673	29.9	5,884	13.9
Amortization of customer relationships and trademarks (after tax)	257	0.6	460	1.1	207	0.5
Adjusted earnings	7,995	18.9	13,133	31.0	6,091	14.4

Basic earnings per share are based on the post-tax profit for the period and a weighted average number of Ordinary shares in issue during the period calculated as follows:

	Number of shares 6 months ended 31 March 2013	Number of shares Year ended 30 Sept. 2012	Number of shares 6 months ended 31 March 2012
	Weighted average number of Ordinary shares in issue for basic earnings	42,315,968	42,315,968

6 Cash and cash equivalents

	at 31 March 2013	at 30 Sept. 2012	at 31 March 2012
	£'000	£'000	£'000
Cash at bank and in hand	23,032	14,241	11,369
Short-term deposits	5,004	10,855	11,108
Cash and cash equivalents in the cash flow statement	28,036	25,096	22,477

Short-term deposits include deposits with a maturity of three months or less, or deposits that can be readily converted into cash. The fair value of these assets supports their carrying value.

7 Events since the reporting date

On 30 April 2013 the Group acquired the entire issued share capital of PharmaQuest Limited for a net cash consideration of £2,289,000.

Registration No. 3002645

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