

Cohort plc
INTERIM REPORT 2006

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CORPORATE STATEMENT

Cohort plc was established early in 2006 to take advantage of opportunities to grow a business in the international defence technical services market.

The business floated on AIM (the London Stock Exchange's specialist market for growth companies) in March 2006 following the merger with Systems Consultants Services Limited (SCS).

On 1 August 2006, the Group added its second subsidiary with the acquisition of Mass Consultants Limited. Further targeted acquisitions of complementary businesses will follow, with the aim of building shareholder value over the medium term.

HIGHLIGHTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2006

- Group turnover up 60% to £13.6m
- Operating profit £1.1m*
- Profit after tax £0.9m*
- Normalised earnings per share 3.12p
- Interim dividend of 0.4p per share

* excluding share of joint ventures, exceptional items and goodwill amortisation

CHAIRMAN'S STATEMENT



OVERVIEW

Cohort has made good progress in executing the strategy set out at the time of flotation in March 2006: namely to exploit the good opportunities for organic growth in its then sole subsidiary, Systems Consultants Services Limited (SCS), and to make acquisitions of complementary companies. SCS showed strong revenue growth in the first half of the financial year relative to the same period in 2005 and in August 2006 Cohort acquired Mass Consultants Limited (Mass).

FINANCIALS

In the six months ended 31 October 2006, Cohort achieved Group turnover of £13.6m (2005: £8.5m) representing a 60% increase. The turnover for the first half included £9.8m from SCS (which represented growth of 15.8% on 2005), and a maiden contribution of £3.8m from Mass for the three months from 1 August 2006.

Group operating profit before accounting for the share of joint ventures, exceptional items and goodwill amortisation was £1.1m (2005: £1.0m) and included central costs of £0.3m (2005: £nil) reflecting the costs of being a public company for the first time.

The operating profit included a maiden contribution from Mass of £0.5m for the period from 1 August to 31 October 2006.

SCS's operating profit for the first half was £0.9m (2005: £1.0m) on turnover of £9.8m (2005: £8.5m). This was marginally down on 2005, the higher turnover and margin being offset by an increase in staff costs as new revenue generating personnel and support staff were recruited in the second half of 2005 and the early part of 2006 to manage the increased scale of the business, provide a base for further expansion and meet the reporting and governance requirements of being part of a public company.

The Group incurred a small loss in its joint venture undertakings, reflecting the developmental nature of these businesses.

The normalised earnings per share (before exceptional items and goodwill amortisation) for the six months ended 31 October 2006 are 3.12 pence per ordinary share (2005: 4.36 pence), reflecting the impact of the flotation.

Net cash flow from operating activities was £1.0m (2005: £0.4m). The period ended with £3.6m of cash on the balance sheet, having paid out £11.7m in cash for the acquisition of Mass, £8.5m of which was funded from the net proceeds of an equity fundraising and the balance of £3.2m from Cohort's own cash resources.

SCS

Since the start of the year, SCS has built good momentum across most of its business areas. First half revenue of £9.8m was 15.8% ahead of the same period in 2005. While SCS's workload continues to be made up of a substantial number of relatively low value contracts, a number of more significant assignments have been booked. These include two important air defence programmes: the Land Environment Air Picture Provision project (working with Lockheed Martin), which could be worth more than £5m to SCS over a four-year period, and the Network-Enabled Air Defence and Surveillance project (working with the Advantage Business Group).

MASS

Cohort acquired Mass on 1 August 2006 for an initial consideration of £12.5m with up to an additional £0.5m payable against receipt of future major orders. The order book of Mass at acquisition was £33.3m. Mass delivers systems engineering, and software and electronic engineering services and solutions (including design and manufacture), primarily to defence and aerospace customers. Particular areas of expertise are in the management of secure IT services, electronic warfare and secure communication, especially for airborne platforms.

Since the acquisition, integration of Mass with Cohort and SCS has proceeded well and the company has traded in accordance with our expectations.

Mass has a greater export focus than SCS and also a stronger presence in air and sea sectors. These are complementary strengths and we see opportunities over time to exploit the market positions of SCS and Mass to the benefit of both companies.

DIVIDENDS

In accordance with the Group's progressive dividend policy, it plans to pay an initial interim dividend of 0.4 pence per ordinary share on 8 March 2007 to shareholders on the register at 9 February 2007.

OUTLOOK

The Group's order book at 31 October 2006 stood at £37.9m with £12.7m of this being deliverable in the second half. This, together with a strong pipeline of prospective business, provides confidence for continued progress in the full year.

The Cohort business model of providing technical advice and services to defence markets, independent of major producer interests, is strong and we intend to exploit it by capitalising on the organic growth opportunities available to both SCS and Mass and by making complementary acquisitions as available opportunities arise. The Board is positive about the overall outlook.

NICK PREST CBE
CHAIRMAN

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 October 2006

	Notes	Six months ended 31 October 2006 Unaudited £000	Six months ended 31 October 2005 Unaudited £000	Year ended 30 April 2006 Audited £000
Group turnover	2	13,596	8,477	17,823
Cost of sales		(10,151)	(6,302)	(13,318)
Gross profit		3,445	2,175	4,505
Administrative expenses	3	(2,537)	(1,195)	(2,708)
Group operating profit	2	908	980	1,797
Share of operating result of joint ventures		(116)	(70)	(148)
Total operating profit		792	910	1,649
Exceptional items:				
Net provision against joint venture investments and commitments		—	72	102
Provision against related party undertakings		—	(229)	(339)
Profit/(loss) on the sale of tangible fixed assets		3	—	(82)
		3	(157)	(319)
Profit on ordinary activities before interest		795	753	1,330
Interest receivable		119	61	105
Interest payable and similar charges		(10)	(44)	(76)
		109	17	29
Profit on ordinary activities before taxation		904	770	1,359
Tax on profit on ordinary activities	4	(333)	(236)	(440)
Profit on ordinary activities after tax		571	534	919
Basic earnings per share	5	2.41p	3.37p	5.47p
Diluted earnings per share	5	2.39p	3.37p	5.45p
Normalised basic earnings per share	5	3.12p	4.36p	6.76p

CONSOLIDATED BALANCE SHEET

As at 31 October 2006

	31 October 2006 Unaudited Notes £000	31 October 2005 Unaudited £000	30 April 2006 Audited £000
Fixed assets			
Goodwill	6	13,562	—
Tangible fixed assets		371	981
Net investment in joint ventures		(210)	(51)
		13,723	930
Current assets			
Stock		82	—
Debtors		7,622	5,498
Cash at bank and in hand		3,426	203
		11,130	5,701
Creditors: amounts falling due within one year		(5,167)	(3,342)
Net current assets		5,963	2,359
Total assets less current liabilities		19,686	3,289
Creditors: amounts falling due after more than one year		—	(447)
Provisions for liabilities and charges	6	(780)	(270)
Net assets		18,906	2,572
Capital and reserves			
Called up share capital		2,946	1
Share premium account		14,134	—
Profit and loss account		1,826	2,571
Equity shareholders' funds	7	18,906	2,572

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 October 2006

	Notes	Six months ended 31 October 2006 Unaudited £000	Six months ended 31 October 2005 Unaudited £000	Year ended 30 April 2006 Audited £000
Net cash flow from operating activities		970	391	893
Returns on investments and servicing of finance		132	24	28
Taxation paid		—	—	(603)
Capital expenditure and financial investment		(62)	(291)	463
Acquisitions:				
Purchase of shares in Mass Consultants Limited	6	(11,670)	—	—
Investment in joint ventures		—	—	(50)
		(11,670)	—	(50)
Equity dividend paid		(118)	(159)	(159)
Cash (outflow)/inflow before management of liquid resources and financing		(10,748)	(35)	572
Net management of liquid resources		2,118	—	(5,278)
Financing:				
Issue of ordinary shares (net of costs)		8,529	—	5,323
Net debt movement		54	(15)	(875)
		8,583	(15)	4,448
Decrease in cash in the period		(47)	(50)	(258)
Funds reconciliation		At 1 May 2006 £000	Cash flow £000	At 31 October 2006 £000
Cash and bank		313	(47)	266
Short-term deposits		5,278	(2,118)	3,160
		5,591	(2,165)	3,426
Finance lease		251	(54)	197
		5,842	(2,219)	3,623

The short-term deposits held by the Group are all less than one month in duration.

NOTES TO THE INTERIM REPORT

1. BASIS OF PREPARATION

The interim financial information has been prepared on a consistent basis using the accounting policies set out in the report and financial statements for the year ended 30 April 2006.

In accordance with Section 240(3) of the Companies Act 1985, the unaudited results do not constitute statutory financial statements of the Company. The six months results for both years are unaudited.

2. SEGMENTAL ANALYSIS

	Six months ended 31 October 2006 Unaudited £000	Six months ended 31 October 2005 Unaudited £000	Year ended 30 April 2006 Audited £000
Group turnover			
SCS	9,820	8,477	17,823
Mass (acquired 1 August 2006)	3,776	—	—
	13,596	8,477	17,823
Group operating profit			
SCS	911	980	1,907
Mass (acquired 1 August 2006)	464	—	—
Central costs	(296)	—	(110)
Goodwill amortisation	(171)	—	—
	908	980	1,797

Group turnover excludes the Group's share of joint venture turnover of £123,000 for the six months ended 31 October 2006 (£115,000 for the six months ended 31 October 2005; £185,000 for the year ended 30 April 2006).

3. ADMINISTRATIVE EXPENSES

Administrative expenses includes goodwill amortisation of £171,000 for the six months ended 31 October 2006 (six months ended 31 October 2005: £nil; twelve months ended 30 April 2006: £nil).

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Six months ended 31 October 2006 Unaudited £000	Six months ended 31 October 2005 Unaudited £000	Year ended 30 April 2006 Audited £000
Corporation tax charge:			
Current year	333	236	406
Deferred taxation	—	—	34
	333	236	440

The tax charge for the six months ended 31 October is based upon the anticipated charge for the full year.

NOTES TO THE INTERIM REPORT (CONTINUED)

5. EARNINGS PER SHARE

The earnings per share are calculated as follows:

	Six months ended 31 October 2006 Unaudited £000	Six months ended 31 October 2005 Unaudited £000	Year ended 30 April 2006 Audited £000
Earnings			
Basic and diluted earnings	571	534	919
Exceptional items (net of tax)	(3)	157	217
Goodwill amortisation	171	–	–
Basic and diluted earnings before exceptional items and goodwill amortisation (normalised earnings)	739	691	1,136

	Number	Number	Number
Weighted average number of shares			
For the purposes of basic earnings per share	23,650,201	15,840,000	16,791,727
Share options	194,539	–	65,311
For the purposes of diluted earnings per share	23,844,740	15,840,000	16,857,038

6. ACQUISITION OF MASS CONSULTANTS LIMITED

Cohort plc acquired Mass Consultants Limited on 1 August 2006.

	Acquisition balance sheet £000	Fair value adjustments £000	Fair value balance sheet £000
Fixed assets	365	(82)	283
Net current assets	(417)	(114)	(531)
Cash	–	–	–
Provisions	(40)	(20)	(60)
	(92)	(216)	(308)
Consideration			(13,000)
Costs of acquisition			(425)
Goodwill			(13,733)
Consideration and costs satisfied by:			
Issue of new shares			1,000
Cash			11,670
Creditors			255
Deferred consideration (included in provisions at 31 October 2006)			500
			13,425

7. EQUITY SHAREHOLDERS' FUNDS

	Six months ended 31 October 2006 Unaudited £000	Six months ended 31 October 2005 Unaudited £000	Year ended 30 April 2006 Audited £000
At 1 May	8,924	2,197	2,197
Profit after tax	571	534	919
Equity dividends paid	(118)	(159)	(159)
Issue of new 10p ordinary shares - AIM flotation	—	—	6,803
Costs of new share issue and placing - AIM flotation	—	—	(836)
Issue of new 10p ordinary shares - Mass acquisition	9,906	—	—
Cost of new share issue - Mass acquisition	(377)	—	—
At close of period	18,906	2,572	8,924

Cohort plc

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