

# Ideal Shopping Direct Plc

Half Year Report 2007



The Future Face of Shopping

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## Highlights

|                                      | First Half    |        | Growth  |
|--------------------------------------|---------------|--------|---------|
|                                      | 2007          | 2006   |         |
| Like-for-like revenues               | <b>£45.7m</b> | £40.7m | 12.3%   |
| Total revenues                       | <b>£46.4m</b> | £42.3m | 9.7%    |
| Gross margin                         | <b>£19.5m</b> | £17.3m | 13.2%   |
| Like for like profit before taxation | <b>£4.3m</b>  | £3.6m  | 19.8%   |
| Profit before taxation               | <b>£1.4m</b>  | £2.5m  | (44.0)% |
| Basic earnings per share             | <b>3.1p</b>   | 6.1p   | (49.2)% |
| Interim dividend                     | <b>1.75p</b>  | 1.5p   | 16.7%   |

- Strong core business revenue growth across retail and wholesale
- 9% growth in new retail customer acquisitions
- Underlying gross margin up 0.3%
- Net impact of higher carriage costs of extended Freeview contract and new Virgin (Telewest) channel approximately £2.5m
- Superstore acquisition delivering strong margin benefits and paying back ahead of expectations
- Interim dividend increased by 16.7%

## Chairman's Statement

2007 is an important year of transition for the Group. We are implementing a number of key initiatives to both strengthen the business and create a solid platform for its continuing growth.

We signalled previously that the results for the current year would reflect the initial higher rental costs of the extended Freeview contract and our reported half year results include 50% of the full year costs. However, I am highly encouraged that our adoption of a more aggressive marketing and promotional stance and the continuing introduction of new products and services have driven double digit like for like sales growth in the first half of the year whilst also improving our trading margins.

**David Williams**

*Chairman*

6 September 2007

## 2007 Interim Review

2007 is an important year of transition for the Group, and one which is seeing the implementation of a number of key initiatives to strengthen the business and create a solid platform for its continuing growth. We now operate in two distinct markets, retail sales which are TV focused yet with an increasingly important web presence, and Superstore which is wholesale based with a growing direct Far East supply chain. Strategically, we have made significant progress in the three areas that will enable the Group to leverage its position in the market.

Most importantly for Ideal World, we have commenced the first year of our extended Freeview contract which secures our position on this delivery platform until 2018 on Channel 22. Already, over 40% of our business originates from customers using Freeview, and with nearly 80% of all new digital TV households opting for Freeview (through set-top boxes, PVRs and integrated digital sets), this figure will only grow as the remaining 5.5m non-digital households switch over by 2012.

Our reported half year results reflect the negative impact of the higher Freeview carriage fee we are now paying. However, we are highly encouraged that we have continued to generate significant top-line growth from the business, and that our recent adoption of a more aggressive marketing and promotional stance has driven double digit like for like sales growth in the first half of the year. We have also attracted a record number of new customers with over 170,000 acquisitions in the same period. As a result, we believe we have increased our share of the TV shopping market to 10% in spending terms.

Freeview is now available to over 8 million households and together with our Sky and Virgin Media platforms, our total TV offering reaches 20 million homes. The security of these carriage contracts along with our investment in state of the art TV facilities, represents a strong competitive advantage and a significant barrier to entry in the TV shopping market.

Secondly, we have completed the improvement and upgrade of our IT systems in order to handle significantly higher volumes in the business. We have been preparing the systems changeover for over a year and we are pleased to report that we now have the systems in place to meet the key challenges of TV and online retailing – handling high volumes, fast turnaround, excellent customer service and reliable distribution.

Thirdly, we have continued the development of some strategic investments in the business, all of which have important parts to play in delivering our future potential. These include the ongoing development of our online business, which now accounts for nearly a quarter of our total retail sales. With the progressive convergence of TV and online technologies, we are particularly well placed to maximise the potential of these interrelated opportunities.

## 2007 Interim Review

*continued*

### PERFORMANCE

#### Revenues

Revenues for the Group for the 26 weeks to July 1 2007 were £46.4m, an increase of 9.7% compared to last year. On a like-for-like basis revenues were up 12.3% compared to the first half of 2006, which was itself up 10.1% on the previous year.

Our main TV channel, Ideal World, achieved strong growth in revenue through our 6 product categories, led by Fashion, Leisure and Craft. Our other categories, Home, Health & Beauty and Jewellery all grew, but at a lower rate as we changed the product mix on TV. Mesh Dual Core PCs have proved extremely popular with customers, with our value for money offering delivering over £1.5m sales and contributing to our first ever £1m day. We have also seen great success with innovative offerings, such as Virgin Hot Air Balloon Flights. Our traditional products, such as Bissell Carpet Cleaners and Kenwood Mixers have remained popular too. We have also continued successfully 'up selling' on such products.

Craft revenues, including our Create and Craft TV channel, are now the largest contributor to sales, fuelled in part by the continued growth of our successful Create and Craft Club. Our own 'Bundled Craft Packs', directly imported from China by Superstore all ready for warehouse dispatch, have been very successful. We had a record 'Pick of the Day' launch on craft during May where sales for one item exceeded £0.3m.

Online has become the fastest growing sales channel for the business, both as a means of ordering from the TV and as a channel in its own right, and now accounts for 23% of sales (2006: 20%).

Our sourcing and wholesale business, Superstore, commenced deliveries of craft and other products to Ideal, and craft products to Wilkinsons, in the first half with excellent early results. For the period, Superstore essentially broke even but with the new contracts now in place, and the continuing business with Asda, it will make a significant contribution to second half profit. Our highly successful 'Back to School' and 'Kids Craft & Colouring' ranges have proved popular and we continue to expand our offering of such items.

#### Margins

Despite a more aggressive stance in our promotional activity, from postage & packing offers to 'buy one get one free' specials, our underlying margin performance remains robust, increasing by 0.3% over the first half of 2006. With the elimination of Freeview sales commission costs in 2007 the headline margin increased to 42% from 41%. The full fixed carriage costs of Freeview are now in overheads. In the second half of 2007 we will begin to realise the margin benefits of Far East sourcing via Superstore.

## Overheads

During June, the business successfully migrated onto the new Sage-based systems platform, which will underpin the future growth of the Group as well as removing significant future web sales commission costs (2006: £0.5m).

As previously announced, 2007 is the first year of the extended Freeview carriage contract for our Ideal World TV channel. We chose to bring forward the 2008 cost review to gain three major advantages over the old contract; an overall lower fee increase (which is now annually RPI based), the removal of sales commission and an extended term now until 2018. This has meant an upward step change in overheads which affects 2007 profits.

However, from 2008 onwards as the new 'fixed term' nature of the costs become a decreasing proportion of our growing sales, we will begin to realise the financial upside of the extended contract terms.

We have also incurred additional carriage costs for extending our coverage onto the expanded Virgin TV network (which includes the old Telewest customer base). Sales are building steadily and the margin from these will offset the additional carriage cost for this platform in the second half of 2007.

We incurred just over £0.2m of costs associated with the board restructuring. There was also £0.1m of costs associated with the relocation of Superstore from Manchester to Peterborough.

Excluding these specific items, the underlying increase in overhead costs was 5.9%, mainly due to higher depreciation costs, increased marketing and web activity, warehouse logistics for the development of our supply chain and sourcing development within our buying department. These will prove to be a valuable investment in growing our business.

## Profits

Reported Profit before tax was £1.4m, down 44% on 2006. Basic EPS was 3.1p versus 6.1p.

These results reflect the impact of the additional Freeview and Virgin TV carriage costs which more than accounts for the shortfall in Profit Before Tax against the first half of last year. Last year we reported a first half profit of £3.6 million, before Jewellery Vault closure costs: this year, on a comparable basis, and before the extra carriage costs, profit before tax would have been up £0.7m to £4.3m, representing 19.8% growth.

## 2007 Interim Review

*continued*

### **Inventory**

Following the purchase of Superstore in June 2006, the business has focused increasingly on direct importing, mainly from China. This enhances our margins. This is associated with a different supply chain model whereby we carry greater inventory levels at certain times of the year to reflect the lead times for Far East sourcing.

As a result, at the end of the first half, we held £0.8m of additional inventory in our warehouse to support second half sales. There was also £1.8m of additional Superstore directly imported inventory to support Wilkinsons, Asda and the independent craft trade through the balance of the year.

Excluding these items, and on a basis comparable to last year, inventories increased by £1m to £6.4m, versus £5.4m in 2006. In total, overall stock amounted to £9.0m. With the seasonality of the sourcing model, this level will be significantly reduced by year end.

### **Cash**

Net cash balances were £10.6m (2006: £13.8m) after investing £2.6m in directly imported stock, a further £1.1m in working capital mainly for Superstore, and tax payments of £0.5m. This resulted in net cash outflow of £3.1m from operating activities. Capital expenditure was £1.6m in the half, and £0.8m was paid in dividends. The Group remains focused on generating cash from all activities and on consolidating its cash balances.

### **Dividend**

The Board is pleased to recommend an increased interim dividend of 1.75p per ordinary share (2006: 1.5p), to be paid on 19 October 2007 to shareholders on the register on 21 September 2007.

### **Superstore**

Superstore is proving an excellent addition to the Group and we continue to invest further to extend the sourcing function beyond craft to support other Ideal World ranges. As we envisaged, Superstore is playing an increasingly important part in delivering the advantages and margin benefits of direct sourcing to the Group.

We are on track to achieve payback by the end of this year – significantly sooner than originally expected and reflecting the speed with which we have realised operational synergies.

Superstore is also developing its existing profitable third-party wholesale business with major new customers such as Wilkinsons, alongside existing high profile customers like Asda. We are beginning to take these learnings to new retail customers in the high street.

### **Development**

We have been active in developing a number of new own brand ranges across our category mix, enhancing margins whilst improving quality and differentiating our ranges further. For example, we recently launched our own UK produced Beauty Skin Care Range called 'Skin Naturally' based on natural ingredients. This exciting range has been developed in conjunction with beauty expert Leanne Cooper, who will also be the face of the brand.

We have just completed the first large scale market research study of our market. The results of this are being used to focus activity in the balance of the year and to drive a review of the strategic growth opportunities available to the business, in particular through increasing the online component of our multi-channel proposition.

The strong growth in sales has confirmed the need to plan for additional logistics capacity over the next few years. We have developed an internal option of extending land adjacent to the existing premises, with an estimated capital cost of around £8m. With the changing nature of our supply chain and inventory mix, this is now being benchmarked against alternative logistic solutions before committing to the build.

### **Board & Staff**

We have successfully completed a restructuring of the Board in order to strengthen and balance the management team.

Paul Wright and Val Kaye stepped down in the first half and David Blake has recently joined us as finance director, taking over from Mike Camp who stepped down in July. Finally, David Williams became Chairman on July 13.

We would like to thank all our staff throughout the business for their efforts throughout this busy period. It is particularly pleasing that all the changes have been successfully delivered with no detrimental effect on the continuing rapid growth of the business.

### **Outlook**

Our revenue growth and robust margins in the first half have outstripped both the retail market in general, and our TV shopping competitors. Maintaining that superior performance will allow us to offset a significant proportion of our step change cost increase this year.

## 2007 Interim Review

*continued*

There are several factors that increase the second half weighting in 2007: a strong profit contribution from Superstore, the increasing penetration into the old Telewest customer base, the removal of web sales commission, and the realisation of the Far East sourcing benefits.

The second half began well, with continuing double-digit sales growth in July, but August has been more difficult. TV viewing figures were lower than expected, especially over the two hotter weekends, and August sales were actually down against last year. Total sales in the first 9 weeks of the second half were up 2%.

Although we have seen a return to double-digit growth more recently, we are taking a slightly more cautious view of second half prospects. We will continue to focus on controlling costs and driving sales aggressively and remain confident that the initiatives taken this year leave us well placed to profitably expand the Group's market position.

### **Andrew Fryatt**

*Chief Executive Officer*

6 September 2007

## Consolidated Interim Income Statement

For the 26 weeks ended 1 July 2007

|                               | <b>26 Weeks<br/>ended<br/>1 July<br/>2007<br/>£'000<br/>(unaudited)</b> | 26 Weeks<br>ended<br>2 July<br>2006<br>£'000<br>(unaudited) | 52 weeks<br>ended<br>31 December<br>2006<br>£'000<br>(audited) |
|-------------------------------|---|---|--|
| <b>Revenue</b>                | <b>46,392</b>   | 42,272  | 85,638   |
| Cost of sales                 | <b>(26,852)</b>   | (25,008)  | (50,255)   |
| Gross profit                  | <b>19,540</b>   | 17,264  | 35,383   |
| Administrative expenses       | <b>(18,412)</b>   | (15,007)  | (29,740)   |
| <b>Operating profit</b>       | <b>1,128</b>  | 2,257   | 5,643  |
| Finance costs                 | <b>(42)</b>   | (57)  | (97)   |
| Finance income                | <b>265</b>  | 310   | 594  |
| <b>Profit before taxation</b> | <b>1,351</b>  | 2,510   | 6,140  |
| Taxation                      | <b>(427)</b>  | (705)   | (1,733)  |
| <b>Profit for the period</b>  | <b>924</b>  | 1,805   | 4,407  |
| Earnings per share – basic    | <b>3.1p</b>   | 6.1p  | 15.0p  |
| Earnings per share – diluted  | <b>3.1p</b>   | 6.0p  | 14.8p  |

## Consolidated Interim Balance Sheet

As at 1 July 2007

|                                  | 1 July<br>2007<br>£'000<br>(unaudited) | 2 July<br>2006<br>£'000<br>(unaudited) | 31 December<br>2006<br>£'000<br>(audited) |
|----------------------------------|--|--|---|
| <b>ASSETS</b>                    |  |  |   |
| <b>Non-current assets</b>        |  |  |   |
| Property, plant and equipment    | 7,571                                  | 7,826                                  | 7,602                                     |
| Goodwill                         | 1,523                                  | 1,627                                  | 1,523                                     |
| Intangible assets                | 2,717                                  | 1,153                                  | 1,510                                     |
| Deferred tax assets              | 64                                     | 124                                    | 94  |
|                                  | <u>11,875</u>                          | <u>10,730</u>                          | <u>10,729</u>                             |
| <b>Current assets</b>            |  |  |   |
| Inventories                      | 9,019                                  | 5,359                                  | 5,310                                     |
| Trade and other receivables      | 3,922                                  | 2,454                                  | 2,595                                     |
| Cash and cash equivalents        | 13,008                                 | 16,631                                 | 18,684                                    |
|                                  | <u>25,949</u>                          | <u>24,444</u>                          | <u>26,589</u>                             |
| <b>Total assets</b>              | <u>37,824</u>                          | <u>35,174</u>                          | <u>37,318</u>                             |
| <b>LIABILITIES</b>               |  |  |   |
| <b>Non-current liabilities</b>   |  |  |   |
| Borrowings                       | 2,032                                  | 2,505                                  | 2,202                                     |
| Deferred tax liabilities         | 182                                    | 487                                    | 312                                       |
| Obligations under finance leases | 78                                     | –                                      | 260                                       |
| Provisions and other liabilities | 340                                    | 475                                    | 340                                       |
|                                  | <u>2,632</u>                           | <u>3,467</u>                           | <u>3,114</u>                              |
| <b>Current liabilities</b>       |  |  |   |
| Borrowings                       | 339                                    | 339                                    | 339                                       |
| Trade and other payables         | 15,588                                 | 13,322                                 | 14,860                                    |
| Current income tax liabilities   | 501                                    | 1,816                                  | 424                                       |
| Obligations under finance leases | 414                                    | 530                                    | 482                                       |
|                                  | <u>16,842</u>                          | <u>16,007</u>                          | <u>16,105</u>                             |
| <b>Total liabilities</b>         | <u>19,474</u>                          | <u>19,474</u>                          | <u>19,219</u>                             |
| <b>Total net assets</b>          | <u>18,350</u>                          | <u>15,700</u>                          | <u>18,099</u>                             |
| <b>EQUITY</b>                    |  |  |   |
| <b>Capital and reserves</b>      |  |  |   |
| Share capital                    | 893                                    | 888                                    | 888                                       |
| Share premium                    | 262                                    | 191                                    | 193                                       |
| Share option reserve             | 665                                    | 398                                    | 522                                       |
| Retained earnings                | 16,530                                 | 14,223                                 | 16,496                                    |
| <b>Total equity</b>              | <u>18,350</u>                          | <u>15,700</u>                          | <u>18,099</u>                             |

## Consolidated Interim Statement of Changes in Equity

|  | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Share<br>option<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>£'000 |
|--|---------------------------|---------------------------|-------------------------------------|-------------------------------|----------------|
| <b>Balance at 1 January 2006<br/>(unaudited)</b>   | <b>887</b>                | <b>180</b>                | <b>243</b>                          | <b>13,152</b>                 | <b>14,462</b>  |
| Profit for the 26 weeks<br>ended 2 July 2006       | –                         | –                         | –                                   | 1,805                         | 1,805          |
| Shares issued                                      | 1                         | 11                        | –                                   | –                             | 12             |
| Employee share option scheme                       | –                         | –                         | 155                                 | –                             | 155            |
| Dividends  | –                         | –                         | –                                   | (588)                         | (588)          |
| Deferred tax                                       | –                         | –                         | –                                   | (146)                         | (146)          |
| <b>Balance at 2 July 2006<br/>(unaudited)</b>      | <b>888</b>                | <b>191</b>                | <b>398</b>                          | <b>14,223</b>                 | <b>15,700</b>  |
| Profit for the 26 weeks<br>ended 31 December 2006  | –                         | –                         | –                                   | 2,602                         | 2,602          |
| Shares issued                                      | –                         | 2                         | –                                   | –                             | 2              |
| Employee share option scheme                       | –                         | –                         | 124                                 | –                             | 124            |
| Dividends  | –                         | –                         | –                                   | (442)                         | (442)          |
| Deferred tax                                       | –                         | –                         | –                                   | 113                           | 113            |
| <b>Balance at 31 December 2006<br/>(unaudited)</b> | <b>888</b>                | <b>193</b>                | <b>522</b>                          | <b>16,496</b>                 | <b>18,099</b>  |
| Profit for the 26 weeks<br>ended 2 July 2006       | –                         | –                         | –                                   | 924                           | 924            |
| Shares issued                                      | 5                         | 69                        | –                                   | –                             | 74             |
| Employee share option scheme                       | –                         | –                         | 143                                 | –                             | 143            |
| Dividends  | –                         | –                         | –                                   | (814)                         | (814)          |
| Deferred tax                                       | –                         | –                         | –                                   | (76)                          | (76)           |
| <b>Balance at 1 July 2007<br/>(unaudited)</b>      | <b>893</b>                | <b>262</b>                | <b>665</b>                          | <b>16,530</b>                 | <b>18,350</b>  |

## Consolidated Interim Cash Flow Statement

For the 26 weeks ended 1 July 2007

|   | <b>26 Weeks<br/>ended<br/>1 July<br/>2007<br/>£'000<br/>(unaudited)</b> | 26 Weeks<br>ended<br>2 July<br>2006<br>£'000<br>(unaudited) | 52 weeks<br>ended<br>31 December<br>2006<br>£'000<br>(audited) |
|---|---|---|--|
| <b>Operating activities</b>                         |   |   |  |
| Profit after tax                                    | 924   | 1,805   | 4,407  |
| Depreciation and amortisation                       | 435   | 376   | 752  |
| Transfer to share option reserve                    | 143   | 154   | 278  |
| Income tax paid                                     | (523)   | –   | (3,026)  |
| Changes in working capital:                         |   |   |  |
| Inventories   | (3,709)   | 109   | 159  |
| Trade and other receivables                         | (1,328)   | 475   | 191  |
| Trade and other payables                            | 1,152   | (2,625)   | 1,043  |
| <b>Net cash generated from operating activities</b> | <b>(2,906)</b>  | 294   | 3,804  |
| <b>Investing activities</b>                         |   |   |  |
| Purchases of property, plant and equipment          | (939)   | (485)   | (583)  |
| Purchases of intangible assets                      | (671)   | (64)  | (478)  |
| Purchase of subsidiary undertaking                  | –   | (1,647)   | (1,720)  |
| <b>Net cash used in investing activities</b>        | <b>(1,610)</b>  | (2,196)   | (2,781)  |
| <b>Financing activities</b>                         |   |   |  |
| Repayments of borrowings                            | (170)   | (167)   | (337)  |
| Repayments of finance lease obligations             | (250)   | (282)   | (543)  |
| Proceeds from share issue                           | 74  | 13  | 14   |
| Dividends paid                                      | (814)   | (588)   | (1,030)  |
| <b>Net cash used in financing activities</b>        | <b>(1,160)</b>  | (1,024)   | (1,896)  |
| <b>Net decrease in cash and cash equivalents</b>    | <b>(5,676)</b>  | (2,926)   | (873)  |
| Cash and cash equivalents at beginning of period    | 18,684  | 19,557  | 19,557   |
| <b>Cash and cash equivalents at end of period</b>   | <b>13,008</b>   | 16,631  | 18,684   |

## Notes to the Consolidated Interim Financial Statements

### 1. BASIS OF PREPARATION

The Group's consolidated financial statements, until 31 December 2006, were prepared in accordance with UK Generally Accepted Accounting Principles (GAAP). With effect from 1 January 2007, the Group is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

These consolidated interim financial statements are for the 26 weeks ended 1 July 2007. They have been prepared in accordance with recognition and measurement principles of IFRS because they form part of the period covered by the Group's first IFRS financial statements for the year ended 31 December 2007.

The principal IFRS accounting policies of the Group, together with reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS can be found on pages 17 to 31. The accounting policies have been consistently applied to all the periods presented in these consolidated interim financial statements.

UK GAAP differs in some areas from IFRS. In preparing these consolidated interim financial statements management has amended certain accounting and valuation methods, previously applied in UK GAAP financial statements, to comply with IFRS. Comparative figures presented in respect of 2006 have been restated to reflect these amendments.

These consolidated interim financial statements have been prepared under the historical cost convention, except in relation to share based payments which are stated at their fair value.

The financial information set out in these statements in respect of the year to 31 December 2006 does not constitute the Company's financial statements for that year. The statutory financial statements for the year ended 31 December 2006 have been delivered to the Registrar of Companies and the auditors' report thereon was unqualified and did not contain statements under section 240 of the Companies Act 1985. The financial statements for the 26 weeks ended 1 July 2007 and the six months ended 2 July 2006 are unaudited.

## Notes to the Consolidated Interim Financial Statements

continued

### 2. SEGMENT INFORMATION

At 1 July 2007 the Group was organised into wholesale and retail business segments, both operating within the UK.

Segment results for the 26 weeks to 1 July 2007 are as follows:

|                               | Retail<br>£'000 | Wholesale<br>£'000 | Consolidation<br>£'000 | Unallocated<br>£'000 | Group<br>£'000 |
|-------------------------------|-----------------|--------------------|------------------------|----------------------|----------------|
| <b>Revenue</b>                | 44,880          | 2,281              | (769)                  | –                    | 46,392         |
| <b>Operating profit</b>       | 1,079           | 49                 | –                      | –                    | 1,128          |
| Finance costs                 |                 |                    |                        | (42)                 | (42)           |
| Finance income                |                 |                    |                        | 265                  | 265            |
| <b>Profit before taxation</b> |                 |                    |                        | 223                  | 1,351          |
| Taxation                      |                 |                    |                        |                      | (427)          |
| <b>Profit for the period</b>  |                 |                    |                        |                      | <b>924</b>     |

### 3. SHARE ISSUES

During the period under review share options granted under the Company's share based compensation plan have been exercised. These share options increased ordinary shares issued and fully paid at the end of the period under review by £4,652.

#### 4. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

The calculation of diluted earnings per share is based on the basic earnings per share adjusted to allow for the issue of shares on the assumed conversion of dilutive options.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

|   | <b>26 Weeks<br/>ended<br/>1 July<br/>2007</b> | 26 Weeks<br>ended<br>2 July<br>2006 | 52 weeks<br>ended<br>31 December<br>2006 |
|---|---|-------------------------------------|--|
| Weighted average number of shares<br>in issue during the period | <b>29,508,196</b>                             | 29,423,846                          | 29,431,917                               |
| Impact of share options   | <b>156,545</b>                                | 543,830                             | 406,035                                  |
|   | <hr/>   | <hr/>                               | <hr/>                                    |
| Number of shares for diluted<br>earnings                        | <b>29,664,741</b>                             | 29,967,676                          | 29,837,952                               |
|   | <hr/>   | <hr/>                               | <hr/>                                    |
| Earnings attributable to ordinary<br>shareholders               | <b>£924,051</b>                               | £1,804,595                          | £4,406,597                               |
|   | <hr/>   | <hr/>                               | <hr/>                                    |
| Earnings per share – basic                                      | <b>3.1p</b>                                   | 6.1p                                | 15.0p                                    |
|   | <hr/>   | <hr/>                               | <hr/>                                    |
| Earnings per share – diluted                                    | <b>3.1p</b>                                   | 6.0p                                | 14.8p                                    |
|   | <hr/>   | <hr/>                               | <hr/>                                    |

#### 5. DIVIDENDS

An interim dividend on the ordinary shares of 1.5p per share in respect of the year ended 31 December 2006 was declared on 22 September 2006 and paid on 20 October 2006.

A final dividend on the ordinary shares of 2.75p per share in respect of the year ended 31 December 2006 was declared on 1 May 2007 and paid on 8 June 2007.



# **Transition to International Financial Reporting Standards**

## Transition to International Financial Reporting Standards

### TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AND SUMMARY OF SIGNIFICANT INTERNATIONAL FINANCIAL REPORTING ACCOUNTING POLICIES

#### 1. BASIS OF TRANSITION TO IFRS

The Group's financial statements for the year ended 31 December 2007 will be the first annual financial statements that comply with International Financial Reporting Standards (IFRS) as adopted by the European Union. Interim financial statements have been prepared for the 26 weeks to 1 July 2007 on the basis described in the Notes to the Consolidated Interim Financial Statements.

In accordance with IFRS 1 (First time adoption of International Financial Reporting Standards), the Group's accounting policies and recognition and measurement principles under IFRS have been applied retrospectively at the date of transition. A permitted exemption to retrospective application has been claimed in respect of IFRS 2 (Share based payment) which has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

The Group's date of transition to IFRS is 1 January 2006 and an IFRS opening balance sheet has been prepared at that date. A summary of the principal IFRS accounting policies follows these notes.

#### 2. RECONCILIATIONS BETWEEN IFRS AND UK GAAP

The following reconciliations, which provide quantification of the effect and details of the impact of the transition to IFRS, are attached:

- Profit for the 26 weeks to 2 July 2006
- Profit for the 52 weeks to 31 December 2006
- Equity at 1 January 2006 (Date of transition to IFRS)
- Equity at 2 July 2006
- Equity at 31 December 2006
- Schedule of movements in total equity

#### 3. EXPLANATIONS OF DIFFERENCES BETWEEN IFRS AND UK GAAP

##### Reclassification

Software development costs reclassified as intangible assets:

- At 1 January 2006 (**£1,059,000**)
- At 2 July 2006 (**£1,153,000**)
- At 31 December 2006 (**£1,510,000**)

Current asset investment reclassified as cash and cash equivalents at 31 December 2006 (**£10,000,000**).

##### Amortisation

Reversal of goodwill amortisation (**£89,000**), charged under UK GAAP in the year to 31 December 2006, not permitted under IFRS.

##### Deferred tax

The requirements of IAS 12 (Income Taxes) in respect of current tax are close to UK GAAP. IAS 12, however, takes a balance sheet approach to accounting for deferred tax based on temporary differences between the accounting base and tax base of assets and liabilities. This is conceptually different to UK GAAP treatment.

All taxation adjustments to the financial statements on the transition to IFRS relate to deferred tax.

**PRINCIPAL ACCOUNTING POLICIES**

The Group has adopted International Financial Reporting Standards (IFRS) from 1 January 2007, as adopted by the European Union (EU).

This document discloses the principal accounting policies applied in the preparation of the interim financial statements. These policies have been applied to all the periods presented in the interim financial statements.

**BASIS OF PREPARATION**

The Group's consolidated financial statements were prepared in accordance with the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 31 December 2006. The date of transition to IFRS was 1 January 2006. The comparative figures in respect of 2006 have been restated to reflect changes in accounting policies as a result of adoption of the recognition and measurement principles of IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in this document.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated financial statements.

Practice is continuing to evolve on the application and interpretation of IFRS. Standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC (International Financial Reporting Interpretations Committee). For this reason, it is possible that the financial information for the 26 weeks ended 1 July 2007 and the restated information for the year ended 31 December 2006 may be subject to change before their inclusion in the Group's 2007 annual report, which will contain the Group's first complete financial statements prepared in accordance with IFRS.

**IFRS TRANSITIONAL ARRANGEMENTS**

The Group adopted IFRS with a transition date of 1 January 2006. Comparative figures for the year ended 31 December 2006 and period to 2 July 2006, previously reported in accordance with UK GAAP have been restated to comply with IFRS.

## Transition to International Financial Reporting Standards

*continued*

### **PRINCIPAL ACCOUNTING POLICIES** *continued*

#### **BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 1 July 2007.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received.

#### **INTANGIBLE ASSETS**

Intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Carrying amounts are reduced by provisions for impairment where necessary.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Directly attributable costs relating to software development include employee costs and an appropriate portion of relevant overheads. The costs of internally generated software developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired licences. However, until completion of the development project, the assets are subject to impairment testing only.

**PRINCIPAL ACCOUNTING POLICIES** *continued*

Amortisation commences upon completion of the asset, and is shown within Administrative expenses in the Income Statement. Amortisation is currently at 20%.

Costs associated with maintaining computer software programmes in use are recognised as an expense when incurred.

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment comprises freehold land and buildings, fixtures, fittings and equipment and is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on the straight line basis, at the following rates, in order to write off the cost, less estimated residual value, of each asset, other than freehold land, over its expected useful economic life:

|                     |           |
|---------------------|-----------|
| Buildings           | 2%        |
| Motor vehicles      | 25%       |
| Plant and equipment | 10% – 33% |

Freehold land is not depreciated.

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Depreciation methods, residual values and useful lives are re-assessed annually and, if necessary, changes are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

## Transition to International Financial Reporting Standards

*continued*

### **PRINCIPAL ACCOUNTING POLICIES** *continued*

#### **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND INTANGIBLE ASSETS**

Property, plant and equipment and intangible assets with finite useful lives are reviewed for impairment at each reporting date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill and intangible assets with an indefinite useful life and those intangible assets not yet available for use are reviewed for impairment at least annually.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

#### **FOREIGN CURRENCIES**

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

Gains and losses arising on translation are included in the income statement for the period.

#### **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Other borrowing costs are expensed in the period in which they are incurred.

#### **INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price less further costs of disposal.

**PRINCIPAL ACCOUNTING POLICIES** *continued***TAXATION**

Current tax is the tax currently payable based on taxable profit for the year together with any adjustments to tax payable in respect of prior years.

Deferred tax is calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided in full, with no discounting.

Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Tax losses available to be carried forward are assessed for recognition as a deferred tax asset.

Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

**FINANCIAL ASSETS**

Financial Assets are divided into trade and other receivables and cash and cash equivalents. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables.

**EMPLOYEE BENEFITS**

The Group operates defined contribution pension schemes. Contributions payable are charged to the income statement in the period to which they relate. These contributions are invested separately from the Group's assets.

**PROVISIONS**

Provisions are recognised when a present legal or constructive obligation has arisen as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

## Transition to International Financial Reporting Standards

*continued*

### **PRINCIPAL ACCOUNTING POLICIES** *continued*

#### **REVENUE**

Revenue represents the total invoice value, excluding value added tax, of goods sold and services rendered during the period. Revenue is recognised for the sale of goods on dispatch to the customer. Provision is made for the profit on anticipated returns.

#### **FINANCIAL LIABILITIES**

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the income statement. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities categorised as at fair value through profit and loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

#### **LEASES**

##### **Finance leases**

Assets financed by leasing arrangements, which transfer substantially all the risks and rewards of ownership to the lessee, are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is shown as a finance lease obligation to the lessor.

Leasing repayments comprise both a capital and a finance element. The finance element is written off to the income statement so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

##### **Operating leases**

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals are charged to the income statement on a straight line basis over the period of the lease.

**PRINCIPAL ACCOUNTING POLICIES** *continued***CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

**SHARE BASED COMPENSATION ARRANGEMENTS**

The Company operates an equity settled share based compensation plan.

In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on estimates of the number of options that are expected to vest.

Fair value is determined by reference to Binomial probability models.

The expected life used in the model is adjusted, based on management's estimate for the effects of attrition rates and behavioural conditions.

At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable with the impact of any revision being recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

## Transition to International Financial Reporting Standards

*continued*

### RECONCILIATION OF PROFIT FOR THE 26 WEEKS ENDED 2 JULY 2006

|                               | UK GAAP<br>£'000 | Deferred<br>tax<br>£'000 | IFRS<br>£'000   |
|-------------------------------|------------------|--------------------------|-----------------|
| <b>Revenue</b>                | <b>42,272</b>    |                          | <b>42,272</b>   |
| Cost of sales                 | <b>(25,008)</b>  |                          | <b>(25,008)</b> |
| Gross profit                  | <b>17,264</b>    | –                        | <b>17,264</b>   |
| Administrative expenses       | <b>(15,007)</b>  |                          | <b>(15,007)</b> |
| <b>Operating profit</b>       | <b>2,257</b>     | –                        | <b>2,257</b>    |
| Finance costs                 | <b>(57)</b>      |                          | <b>(57)</b>     |
| Finance income                | <b>310</b>       |                          | <b>310</b>      |
| <b>Profit before taxation</b> | <b>2,510</b>     | –                        | <b>2,510</b>    |
| Taxation                      | <b>(752)</b>     | 47                       | <b>(705)</b>    |
| <b>Profit for the period</b>  | <b>1,758</b>     | 47                       | <b>1,805</b>    |

## RECONCILIATION OF PROFIT FOR THE 52 WEEKS ENDED 31 DECEMBER 2006

|                               | <b>UK GAAP</b><br><b>£'000</b> | Amorti-<br>sation<br>£'000 | Deferred<br>tax<br>£'000 | <b>IFRS</b><br><b>£'000</b> |
|-------------------------------|--------------------------------|----------------------------|--------------------------|-----------------------------|
| <b>Revenue</b>                | <b>85,638</b>                  |                            |                          | <b>85,638</b>               |
| Cost of sales                 | <b>(50,255)</b>                |                            |                          | <b>(50,255)</b>             |
| Gross profit                  | <b>35,383</b>                  | –                          | –                        | <b>35,383</b>               |
| Administrative expenses       | <b>(29,829)</b>                | 89                         |                          | <b>(29,740)</b>             |
| <b>Operating profit</b>       | <b>5,554</b>                   | 89                         | –                        | <b>5,643</b>                |
| Finance costs                 | <b>(97)</b>                    |                            |                          | <b>(97)</b>                 |
| Finance income                | <b>594</b>                     |                            |                          | <b>594</b>                  |
| <b>Profit before taxation</b> | <b>6,051</b>                   | 89                         | –                        | <b>6,140</b>                |
| Taxation                      | <b>(1,812)</b>                 |                            | 79                       | <b>(1,733)</b>              |
| <b>Profit for the period</b>  | <b>4,239</b>                   | 89                         | 79                       | <b>4,407</b>                |

## Transition to International Financial Reporting Standards

continued

### RECONCILIATION OF EQUITY AT 1 JANUARY 2006 (DATE OF TRANSITION TO IFRS)

|                                     | UK GAAP<br>£'000 | Reclassi-<br>fications<br>£'000 | Deferred<br>tax<br>£'000 | IFRS<br>£'000 |
|-------------------------------------|------------------|---------------------------------|--------------------------|---------------|
| <b>ASSETS</b>                       |                  |                                 |                          |               |
| <b>Non-current assets</b>           |                  |                                 |                          |               |
| Property, plant and equipment       | 8,794            | (1,059)                         |                          | 7,735         |
| Intangible assets                   | –                | 1,059                           |                          | 1,059         |
| Deferred tax assets                 | –                |                                 | 88                       | 88            |
|                                     | <u>8,794</u>     | <u>–</u>                        | <u>88</u>                | <u>8,882</u>  |
| <b>Current assets</b>               |                  |                                 |                          |               |
| Inventories                         | 5,254            |                                 |                          | 5,254         |
| Trade and other receivables         | 2,208            |                                 |                          | 2,208         |
| Cash and cash equivalents           | 19,557           |                                 |                          | 19,557        |
|                                     | <u>27,019</u>    | <u>–</u>                        | <u>–</u>                 | <u>27,019</u> |
| <b>Total assets</b>                 | <u>35,813</u>    | <u>–</u>                        | <u>88</u>                | <u>35,901</u> |
| <b>LIABILITIES</b>                  |                  |                                 |                          |               |
| <b>Non-current liabilities</b>      |                  |                                 |                          |               |
| Borrowings                          | 2,540            |                                 |                          | 2,540         |
| Deferred tax liabilities            | 259              |                                 | 232                      | 491           |
| Obligations under finance<br>leases | 754              |                                 |                          | 754           |
| Provisions and other liabilities    | 479              |                                 |                          | 479           |
|                                     | <u>4,032</u>     | <u>–</u>                        | <u>232</u>               | <u>4,264</u>  |
| <b>Current liabilities</b>          |                  |                                 |                          |               |
| Borrowings                          | 339              |                                 |                          | 339           |
| Trade and other payables            | 14,630           |                                 |                          | 14,630        |
| Current income tax liabilities      | 1,676            |                                 |                          | 1,676         |
| Obligations under finance<br>leases | 530              |                                 |                          | 530           |
|                                     | <u>17,175</u>    | <u>–</u>                        | <u>–</u>                 | <u>17,175</u> |
| <b>Total liabilities</b>            | <u>21,207</u>    | <u>–</u>                        | <u>232</u>               | <u>21,439</u> |
| <b>Total net assets</b>             | <u>14,606</u>    | <u>–</u>                        | <u>(144)</u>             | <u>14,462</u> |
| <b>EQUITY</b>                       |                  |                                 |                          |               |
| <b>Capital and reserves</b>         |                  |                                 |                          |               |
| Share capital                       | 887              |                                 |                          | 887           |
| Share premium                       | 180              |                                 |                          | 180           |
| Share option reserve                | 243              |                                 |                          | 243           |
| Retained earnings                   | 13,296           |                                 | (144)                    | 13,152        |
| <b>Total equity</b>                 | <u>14,606</u>    | <u>–</u>                        | <u>(144)</u>             | <u>14,462</u> |

**RECONCILIATION OF EQUITY AT 2 JULY 2006**

|                                  | <b>UK GAAP<br/>£'000</b> | Reclassi-<br>fications<br>£'000 | Deferred<br>tax<br>£'000 | <b>IFRS<br/>£'000</b> |
|----------------------------------|--------------------------|---------------------------------|--------------------------|-----------------------|
| <b>ASSETS</b>                    |                          |                                 |                          |                       |
| <b>Non-current assets</b>        |                          |                                 |                          |                       |
| Property, plant and equipment    | 8,979                    | (1,153)                         |                          | 7,826                 |
| Goodwill                         | 1,627                    |                                 |                          | 1,627                 |
| Intangible assets                | –                        | 1,153                           |                          | 1,153                 |
| Deferred tax assets              | –                        |                                 | 124                      | 124                   |
|                                  | <u>10,606</u>            | <u>–</u>                        | <u>124</u>               | <u>10,730</u>         |
| <b>Current assets</b>            |                          |                                 |                          |                       |
| Inventories                      | 5,359                    |                                 |                          | 5,359                 |
| Trade and other receivables      | 2,454                    |                                 |                          | 2,454                 |
| Cash and cash equivalents        | 16,631                   |                                 |                          | 16,631                |
|                                  | <u>24,444</u>            | <u>–</u>                        | <u>–</u>                 | <u>24,444</u>         |
| <b>Total assets</b>              | <u>35,050</u>            | <u>–</u>                        | <u>124</u>               | <u>35,174</u>         |
| <b>LIABILITIES</b>               |                          |                                 |                          |                       |
| <b>Non-current liabilities</b>   |                          |                                 |                          |                       |
| Borrowings                       | 2,505                    |                                 |                          | 2,505                 |
| Deferred tax liabilities         | 259                      |                                 | 228                      | 487                   |
| Provisions and other liabilities | 475                      |                                 |                          | 475                   |
|                                  | <u>3,239</u>             | <u>–</u>                        | <u>228</u>               | <u>3,467</u>          |
| <b>Current liabilities</b>       |                          |                                 |                          |                       |
| Borrowings                       | 339                      |                                 |                          | 339                   |
| Trade and other payables         | 13,322                   |                                 |                          | 13,322                |
| Current income tax liabilities   | 1,816                    |                                 |                          | 1,816                 |
| Obligations under finance leases | 530                      |                                 |                          | 530                   |
|                                  | <u>16,007</u>            | <u>–</u>                        | <u>–</u>                 | <u>16,007</u>         |
| <b>Total liabilities</b>         | <u>19,246</u>            | <u>–</u>                        | <u>228</u>               | <u>19,474</u>         |
| <b>Total net assets</b>          | <u>15,804</u>            | <u>–</u>                        | <u>(104)</u>             | <u>15,700</u>         |
| <b>EQUITY</b>                    |                          |                                 |                          |                       |
| <b>Capital and reserves</b>      |                          |                                 |                          |                       |
| Share capital                    | 888                      |                                 |                          | 888                   |
| Share premium                    | 191                      |                                 |                          | 191                   |
| Share option reserve             | 398                      |                                 |                          | 398                   |
| Retained earnings                | 14,327                   |                                 | (104)                    | 14,223                |
| <b>Total equity</b>              | <u>15,804</u>            | <u>–</u>                        | <u>(104)</u>             | <u>15,700</u>         |

## Transition to International Financial Reporting Standards

continued

### RECONCILIATION OF EQUITY AT 31 DECEMBER 2006

|                                  | UK GAAP<br>£'000 | Reclassi-<br>fications<br>£'000 | Amorti-<br>sation<br>£'000 | Deferred<br>tax<br>£'000 | IFRS<br>£'000 |
|----------------------------------|------------------|---------------------------------|----------------------------|--------------------------|---------------|
| <b>ASSETS</b>                    |                  |                                 |                            |                          |               |
| <b>Non-current assets</b>        |                  |                                 |                            |                          |               |
| Property, plant and equipment    | 9,112            | (1,510)                         |                            |                          | 7,602         |
| Goodwill                         | 1,434            |                                 | 89                         |                          | 1,523         |
| Intangible assets                | -                | 1,510                           |                            |                          | 1,510         |
| Deferred tax assets              | -                |                                 |                            | 94                       | 94            |
|                                  | <b>10,546</b>    | <b>-</b>                        | <b>89</b>                  | <b>94</b>                | <b>10,729</b> |
| <b>Current assets</b>            |                  |                                 |                            |                          |               |
| Inventories                      | 5,310            |                                 |                            |                          | 5,310         |
| Trade and other receivables      | 2,595            |                                 |                            |                          | 2,595         |
| Current asset investment         | 10,000           | (10,000)                        |                            |                          | -             |
| Cash and cash equivalents        | 8,684            | 10,000                          |                            |                          | 18,684        |
|                                  | <b>26,589</b>    | <b>-</b>                        | <b>-</b>                   | <b>-</b>                 | <b>26,589</b> |
| <b>Total assets</b>              | <b>37,135</b>    | <b>-</b>                        | <b>89</b>                  | <b>94</b>                | <b>37,318</b> |
| <b>LIABILITIES</b>               |                  |                                 |                            |                          |               |
| <b>Non-current liabilities</b>   |                  |                                 |                            |                          |               |
| Borrowings                       | 2,202            |                                 |                            |                          | 2,202         |
| Deferred tax liabilities         | 120              |                                 |                            | 192                      | 312           |
| Obligations under finance leases | 260              |                                 |                            |                          | 260           |
| Provisions and other liabilities | 340              |                                 |                            |                          | 340           |
|                                  | <b>2,922</b>     | <b>-</b>                        | <b>-</b>                   | <b>192</b>               | <b>3,114</b>  |
| <b>Current liabilities</b>       |                  |                                 |                            |                          |               |
| Borrowings                       | 339              |                                 |                            |                          | 339           |
| Trade and other payables         | 14,860           |                                 |                            |                          | 14,860        |
| Current income tax liabilities   | 424              |                                 |                            |                          | 424           |
| Obligations under finance leases | 482              |                                 |                            |                          | 482           |
|                                  | <b>16,105</b>    | <b>-</b>                        | <b>-</b>                   | <b>-</b>                 | <b>16,105</b> |
| <b>Total liabilities</b>         | <b>19,027</b>    | <b>-</b>                        | <b>-</b>                   | <b>192</b>               | <b>19,219</b> |
| <b>Total net assets</b>          | <b>18,108</b>    | <b>-</b>                        | <b>89</b>                  | <b>(98)</b>              | <b>18,099</b> |
| <b>EQUITY</b>                    |                  |                                 |                            |                          |               |
| <b>Capital and reserves</b>      |                  |                                 |                            |                          |               |
| Share capital                    | 888              |                                 |                            |                          | 888           |
| Share premium                    | 193              |                                 |                            |                          | 193           |
| Share option reserve             | 522              |                                 |                            |                          | 522           |
| Retained earnings                | 16,505           |                                 | 89                         | (98)                     | 16,496        |
| <b>Total equity</b>              | <b>18,108</b>    | <b>-</b>                        | <b>89</b>                  | <b>(98)</b>              | <b>18,099</b> |

**SCHEDULE OF MOVEMENTS IN TOTAL EQUITY**

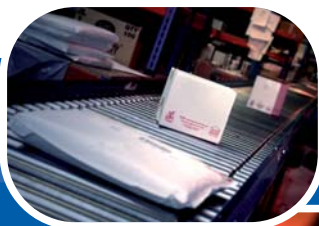
|  | <b>1 January</b> | <b>2 July</b> | <b>31 December</b> |
|--|------------------|---------------|--------------------|
|  | <b>2006</b>      | <b>2006</b>   | <b>2006</b>        |
|  | <b>£'000</b>     | <b>£'000</b>  | <b>£'000</b>       |
| Total equity under UK GAAP                                 | 14,606           | 15,804        | 18,108             |
| Reversal of goodwill amortisation charged<br>under UK GAAP | –                | –             | 89                 |
| Deferred tax   | (144)            | (104)         | (98)               |
|  | <hr/>            | <hr/>         | <hr/>              |
| Total equity under IFRS                                    | <b>14,462</b>    | <b>15,700</b> | <b>18,099</b>      |
|  | <hr/>            | <hr/>         | <hr/>              |

## Financial Calendar 2007

*(All dates subject to change)*

|                                       |              |
|---------------------------------------|--------------|
| Final results announcement            | 5 March      |
| Annual report issued                  | 5 April      |
| Annual general meeting                | 1 May        |
| Ex dividend date for final dividend   | 9 May        |
| Record date for final dividend        | 11 May       |
| Payment date for final dividend       | 8 June       |
| Interim results announcement          | 6 September  |
| Ex dividend date for interim dividend | 19 September |
| Record date for interim dividend      | 21 September |
| Date of payment of interim dividend   | 19 October   |
| Financial year end                    | 30 December  |





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