BY APPOINTMENT
TO HER MAJESTY THE QUEEN
SHOPFITTERS
HAVELOCK EUROPA PLC
DALGETY BAY

Havelock Europa PLC

Interim Report 2006

retail ■ financial ■ point of sale ■ accommodation ■ education ■ healthcare

Havelock Europa PLC

HIGHLIGHTS

- Operating profit up 14 per cent to £1.2 million
- Pre-tax profit up 116 per cent to £462,000
- Pre-tax profit excluding amortisation of intangibles up 62 per cent to £646,000
- Basic and diluted earnings per share up 200 per cent
- Interim dividend increased by 11.1 per cent

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Havelock Europa PLC

"creating smart solutions for people and products, based on the excellence and consistency of our service, quality and innovative design"

Havelock Europa is the UK leader in the design, manufacture and installation of educational and commercial interiors, educational supplies and point of sale merchandising displays. The Group's customers are mainly large businesses, such as major retailers, banks, construction companies, hotels and local authorities. It specialises in large-scale projects throughout the UK and overseas and is often the only business with sufficient resources to handle a number of major projects simultaneously.

profile

Interim Report 2006

Chairman's Statement

Havelock has increased its pre-tax profit in the first half, which is historically much the quieter of the two periods, and has good prospects for the second half, 2007 and beyond.

FINANCIAL REVIEW

Group revenue for the six months ended 30 June 2006 increased to £42.1 million (2005 : £40.3 million), a rise of 4.5%. This reflected a particularly strong performance from the educational businesses, where revenue grew by 21.6%. Group operating profit at £1.2 million (2005 : £1.0 million) was up 14.3%. Group profit before tax, was £462,000 (2005 : £214,000). Basic and diluted earnings per share were 0.9 pence (2005 : 0.3 pence). Pre-tax profit, after adding back the amortisation of intangibles, increased by 62% to £646,000 (2005 : £398,000).

Although working capital requirements increased, reflecting higher activity levels, net debt at 30 June 2006 reduced to £21.4 million (2005 : £22.2 million). Interest cover, excluding pension scheme interest, for the half year improved by 15% to 1.5 (2005 : 1.3) and is expected to show an improvement in the full year (2005 : 4.0).

DIVIDEND

The Board is pleased to declare an interim dividend of 1.0 pence per share (2005: 0.9 pence), an increase of 11%. This dividend will be paid on 27 December 2006 to shareholders on the register at 10 November 2006.

SALE OF INVESTMENT IN MIDDLE EASTERN ASSOCIATE

The Group disposed of its remaining 17% investment in Havelock AHI Holdings Limited, during the first half of the year, resulting in a non-taxable gain on sale of £98,000 and net proceeds after costs of £943,000. The business was established in 1998 as a 50/50 joint venture with a Bahraini-based retailer, aimed at exploiting the opportunities in the emerging storefitting and hotel refurbishment markets. A partial divestment took place in 2003, generating a non-taxable gain in that year of £0.9m and net proceeds of £2.6m, when HSBC Private Equity Middle East (HPEME) took a controlling stake in the business. The sale of Havelock's remaining interest to HPEME marks a natural conclusion to this process.

TRADING REVIEW

Education Furniture and Supplies

ESA McIntosh, the UK market leader in fitted furniture and equipment for schools, achieved record order intake, both in the core "direct to schools" market and in the PFI sector, which augurs well for the second half results. TeacherBoards, specialising in classroom accessories, traded in a similar range to last year; whilst sales at Clean Air, which manufactures fume cupboards, benefited from a strong showing in the university market. Revenue within Education rose to £13.6 million (2005 : £11.2 million), an increase of 21.6%.

Point of Sale Display

The Point of Sale Display Division broadly maintained its revenue at £11.6 million (2005 : £11.8 million) despite the loss of a major customer as a result of the sale of Kwik Save by Somerfield, during the first quarter of the year, which was referred to in the Preliminary Announcement of 4 April 2006. Early action was undertaken to consolidate the two Print operations at Letchworth and Bristol under the management team of Showcard Print. An extensive redundancy programme has now been completed which will generate significant savings in the second half and this, together with the rationalisation of both property and plant, will help to mitigate the effect on profit of the reduction in revenue. At Letchworth, both orders and sales have run at a substantially higher level than last year as a result of the addition of new customers.

Retail Interiors

In the Retail Interiors Division, the level of activity has been strong, maintaining revenue broadly at the same level as last year at £16.9 million (2005 : £17.3 million) but with a much increased order book and a high volume of work in hand at the period end. Marks & Spencer has returned as a significant customer. Activity in the financial services area has been robust, with a major inflow of work from Bank of Scotland (Ireland) and substantially enhanced levels of business with The Royal Bank of Scotland. The diversification of the customer base within this Division and the entry, last year, into the healthcare market have created a wider spread of opportunity and some lowering of exposure to retail volatility.

PROSPECTS

As pointed out on earlier occasions, the requirement under IFRS to recognise revenue after completion of the installation process, particularly in the education businesses, continues to weight the seasonal bias towards the second half of the year, during which period substantially all of the Group's pre-tax profit will be earned.

Within the education businesses, ESA McIntosh's level of activity remains particularly buoyant. Order flow in the core "direct to schools" market has continued at good levels into the second half, whilst, within the PFI sector, work is well underway on 15 projects. In addition, a further PFI project is being handled by the Retail Interiors

Division, making 16 in all. Of these projects, seven are likely to have additional work for 2007. Whilst the start of the "Building Schools for the Future" (BSF) programme in England has been delayed, with only a small amount of revenue likely to be available during 2007, the volume of work under Phase II of the PFI programme for Scotland continues to rise and prospects for 2007 are encouraging.

At TeacherBoards, revenues are likely to be modestly up on the prior year but more substantially so at Clean Air, which, like ESA McIntosh, is benefiting from the marked uplift in PFI activity. New management teams are in place within both businesses, following the retirement of the vendors.

July and August have proved brisker months in the point of sale sector than in previous years. Although the level of contribution from this Division is likely to be lower in 2006, compared to 2005, as a consequence of the reduction in business with Somerfield, following its sale of Kwik Save, and the cost of the resulting redundancy programme at Bristol, there has been an encouraging amount of new business generated at both plants and within the Display operation at Letchworth. The savings generated from the integration of the management teams of the two print businesses, along with property rationalisation at both Bristol and Letchworth, will, in the medium term, be highly beneficial.

The Retail Interiors Division is performing strongly, as a result of continuing success in financial services and the diversification of its customer base. Revenues are likely to be ahead of last year, as is contribution to the overall Group result. The integration of the accounting and manufacturing disciplines of the Retail Interiors Division at Dalgety Bay with those of the education furniture business at Kirkcaldy, is continuing to improve the procurement of raw materials, productivity and capacity utilisation at both plants.

It is pleasing to report that changes made in the last 15 months to the Group's senior management structure have had a positive impact on performance and leave the Group well placed to manage further expansion.

The Board remains optimistic about the opportunities in the Group's chosen markets. The temporary hiatus in the PFI education sector, which followed the withdrawal of Jarvis, in late 2004, is now over and there appear to be good indications from Government of continuing commitment towards the refurbishment and renewal of education infrastructure well beyond 2008.

Further progress is expected in the full year with additional growth in 2007 and beyond, both organically and, where appropriate, through acquisition.

J. Malcolm Gourlay

Malcolm Gourlay
Chairman 26 September 2006

HIGHLIGHTS

- Operating profit up 14 per cent to £1.2 million
- Pre-tax profit up 116 per cent to £462,000
- Pre-tax profit excluding amortisation of intangibles up 62 per cent to £646,000
- Basic and diluted earnings per share up 200 per cent
- Interim dividend increased by 11.1 per cent

Consolidated income statement

For the 6 months ended 30 June 2006 (unaudited)

	Note	**Unaudited 6 months ended 30.06.06 £000**	Unaudited 6 months ended 30.06.05 £000	Audited year ended 31.12.05 £000
Revenue		**42,122**	40,310	100,194
Cost of sales		**(34,065)**	(32,949)	(78,790)
Gross profit		**8,057**	7,361	21,404
Administrative expenses		**(6,967)**	(6,322)	(15,290)
Non-recurring pension curtailment		**-**	-	1,389
Operating profit before financing costs and gain on disposal of associate		**1,090**	1,039	7,503
Gain on sale of interest in associate	9	**98**	-	-
Operating profit before financing costs		**1,188**	1,039	7,503
Expected return on defined benefit pension plan assets		**730**	623	1,259
Financial expenses – on bank borrowings and finance leases		**(750)**	(807)	(1,616)
Interest on defined benefit pension scheme liabilities		**(730)**	(711)	(1,411)
Net financing costs		**(750)**	(895)	(1,768)
Share of profit of associate		**24**	70	294
Profit before tax		**462**	214	6,029
Income tax expense	2	**(141)**	(117)	(1,839)
Profit for the period attributable to equity holders of the parent		**321**	97	4,190
Basic earnings per share	3	**0.9p**	0.3p	12.3p
Diluted earnings per share	3	**0.9p**	0.3p	12.1p

Consolidated statement of recognised income and expense

For the 6 months ended 30 June 2006 (unaudited)

	Unaudited 6 months ended 30.06.06 £000	Unaudited 6 months ended 30.06.05 £000	Audited year ended 31.12.05 £000
Exchange differences on translation of overseas associate	**-**	40	63
Actuarial gain/(loss) on defined benefit pension plan	**2,173**	(1,357)	(1,039)
Tax on actuarial (gain)/loss	**(668)**	407	312
Cash flow hedges:			
Effective portion of changes in fair value	**211**	(235)	(153)
Net income/(expense) recognised directly in equity	**1,716**	(1,145)	(817)
Profit for the period	**321**	97	4,190
Total recognised income and expense for the period attributable to equity holders of the parent	**2,037**	(1,048)	3,373

Consolidated balance sheet

As at 30 June 2006 (unaudited)

	Note	**Unaudited as at 30.06.06 £000**	Unaudited as at 30.06.05 £000	Audited as at 31.12.05 £000
Assets				
Non-current assets				
Property, plant and equipment		**13,131**	13,066	12,902
Intangible assets	5	**12,630**	14,321	12,852
Investments in associates		**-**	722	-
Deferred tax asset		**1,650**	3,000	2,318
Total non-current assets		**27,411**	31,109	28,072
Current assets				
Inventories	6	**15,361**	13,337	8,923
Trade and other receivables	7	**22,334**	16,596	20,261
Cash and cash equivalents		**-**	-	2,089
Total current assets		**37,695**	29,933	31,273
Non-current asset classified as held for sale		**-**	-	842
Total assets		**65,106**	61,042	60,187
Liabilities				
Current liabilities				
Bank overdraft		**(5,675)**	(5,385)	-
Other interest-bearing loans and borrowings		**(2,997)**	(2,418)	(6,817)
Derivative financial instruments		**(107)**	(400)	(318)
Income tax payable		**(518)**	(947)	(590)
Trade and other payables	8	**(23,234)**	(18,558)	(22,069)
Total current liabilities		**(32,531)**	(27,708)	(29,794)
Non-current liabilities				
Interest-bearing loans and borrowings		**(12,686)**	(14,431)	(9,331)
Retirement benefit obligations		**(5,500)**	(10,000)	(7,725)
Deferred tax liabilities		**(1,072)**	(742)	(1,072)
Total non-current liabilities		**(19,258)**	(25,173)	(18,128)
Total liabilities		**(51,789)**	(52,881)	(47,922)
Net assets		**13,317**	8,161	12,265
Equity				
Issued share capital		**3,484**	3,476	3,479
Share premium		**2,017**	1,971	1,987
Other reserves		**3,072**	3,177	2,881
Revenue reserves		**4,744**	(463)	3,918
Total equity attributable to equity holders of the parent	10	**13,317**	8,161	12,265

Consolidated statement of cash flows
For the 6 months ended 30 June 2006 (unaudited)

	Unaudited 6 months ended 30.06.06 £000	Unaudited 6 months ended 30.06.05 £000	Audited year ended 31.12.05 £000
Cash flows from operating activities			
Profit before tax	**462**	214	6,029
Adjustments for:			
Depreciation	**912**	940	1,826
Amortisation of intangible assets	**222**	236	510
Loss/(gain) on sale of property, plant and equipment	**11**	-	(26)
Net financing costs	**750**	895	1,768
Share of profit of associate	**(24)**	(70)	(294)
Gain on sale of interest in associate	**(98)**	-	-
Operating cash flows before changes in working capital	**2,235**	2,215	9,813
(Increase)/decrease in trade and other receivables	**(2,073)**	181	(3,484)
(Increase)/decrease in inventories	**(6,438)**	(3,708)	706
Increase/(decrease) in trade and other payables	**432**	(2,508)	2,954
Movement relative to defined benefit pension scheme	**(52)**	(55)	(1,924)
IFRS 2 charge	**-**	-	70
Cash (absorbed by)/generated from operations	**(5,896)**	(3,875)	8,135
Interest paid	**(761)**	(737)	(1,768)
Income taxes paid	**(213)**	(231)	(1,392)
Net cash from operating activities	**(6,870)**	(4,843)	4,975
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**35**	-	26
Proceeds from sale of interest in associate	**993**	-	-
Acquisition of property, plant and equipment	**(1,187)**	(320)	(1,041)
Acquisition of intangible assets	**-**	(88)	(125)
Repayment of loan notes and deferred consideration	**(778)**	(1,274)	(1,185)
Dividends received from associate	**-**	-	127
Net cash from investing activities	**(937)**	(1,682)	(2,198)
Cash flows from financing activities			
Proceeds from the issue of share capital	**35**	210	228
Increase in bank loans	**782**	1,255	1,244
Purchase of own shares and proceeds from exercise of share options	**(59)**	(291)	(374)
Repayment of bank borrowings	**(625)**	(625)	(1,250)
Repayment of finance lease liabilities	**(36)**	(36)	(72)
Dividends paid	**-**	-	(1,145)
Net cash from financing activities	**97**	513	(1,369)
Net (decrease)/increase in cash and cash equivalents	**(7,710)**	(6,012)	1,408
Cash and cash equivalents at 1 January	**2,035**	627	627
Cash and cash equivalents at end of period	**(5,675)**	(5,385)	2,035

Notes to the financial statements

1. Principal accounting policies

Havelock Europa PLC is a company domiciled in the United Kingdom. The consolidated interim financial statements for the six months ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in its associate. The directors approved the consolidated interim financial statements on 26 September 2006.

Basis of preparation

This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2005.

Status of financial information

The figures for the financial year ended 31 December 2005 are not the Company's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2005, which were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors (i) was unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2. Income tax

A charge for current taxation has been included at 30% (2005: 33%), being the effective rate likely to be applied to the result for the full year to 31 December 2006. The results of the associate, being a Middle East entity, are not subject to taxation.

3. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the period ended 30 June 2006 was based on the profit attributable to ordinary shareholders of £321,000 (2005: £97,000) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2006 of 34,173,249 (2005:33,832,907), calculated as follows:

Profit attributable to ordinary shareholders

	Unaudited 6 months ended 30.06.06 £000	Unaudited 6 months ended 30.06.05 £000	Audited year ended 31.12.05 £000
Profit for the period	**321**	97	4,190
Weighted average number of ordinary shares *In thousands of shares*			
Issued ordinary shares at 1 January	**34,789**	34,300	34,300
Effect of own shares held	**(656)**	(691)	(673)
Effect of shares issued in 2005	**-**	224	351
Effect of shares issued in 2006	**40**	-	-
Weighted average number of ordinary shares at end of period	**34,173**	33,833	33,978

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2006 was based on profit attributable to ordinary shareholders of £321,000 (2005: £97,000) and a weighted average number of dilutive ordinary shares outstanding during the period ended 30 June 2006 of 34,560,754 (2005: 34,529,434), calculated as follows:

Weighted average number of ordinary shares
In thousands of shares

Weighted average number of ordinary shares	**34,173**	33,833	33,978
Effect of share options on issue	**388**	696	713
Weighted average number of ordinary shares (diluted) at end of period	**34,561**	34,529	34,691

4. Equity dividends

The directors declared an interim dividend per equity share of 1.0p after the balance sheet date. In accordance with IFRS accounting requirements, this dividend has not been accrued in the interim consolidated financial statements.

5. Intangible assets

Carrying amount	**Unaudited as at 30.06.06 £000**	Unaudited as at 30.06.05 £000	Audited as at 31.12.05 £000
Computer software	**144**	238	184
Goodwill	**11,173**	12,403	11,173
Brands	**601**	675	638
Customer relationships	**260**	389	323
Contracted customer relationships	**42**	64	53
Non-compete clauses	**48**	144	96
Design rights	**362**	408	385
	12,630	14,321	12,852

The amortisation charge in the consolidated income statement in respect of these items was £222,000 (June 2005: £236,000; December 2005: £510,000).

Notes to the financial statements

6. Inventories

	Unaudited as at 30.06.06 £000	Unaudited as at 30.06.05 £000	Audited as at 31.12.05 £000
Raw materials and consumables	**3,615**	3,545	3,371
Work in progress	**6,233**	2,442	2,176
Finished goods	**5,513**	7,350	3,376
	15,361	13,337	8,923

7. Trade and other receivables

	Unaudited as at 30.06.06 £000	Unaudited as at 30.06.05 £000	Audited as at 31.12.05 £000
Trade receivables	**20,320**	15,076	18,761
Other receivables	**446**	560	336
Prepayments	**1,568**	960	1,164
	22,334	16,596	20,261

8. Trade and other payables

	Unaudited as at 30.06.06 £000	Unaudited as at 30.06.05 £000	Audited as at 31.12.05 £000
Amounts disclosed in current liabilities			
Trade payables	**15,299**	12,156	15,222
Other taxes and social security	**1,568**	1,330	3,441
Accruals	**5,427**	2,787	3,160
Dividends	**940**	823	-
Deferred consideration relating to business combination	**-**	1,462	246
	23,234	18,558	22,069

9. Sale of interest in associate

On 27 April 2006, the Group sold its remaining investment in Havelock AHI Holdings Limited to HSBC Private Equity Middle East. The gain on sale was calculated as follows:

	£000
Investment at 1 January 2006	**842**
Share of profit for the period	**24**
Investment at disposal	**866**
Proceeds of sale less expenses	**943**
Release of translation reserve	**21**
Gain on sale	**98**

10. Reconciliation of changes in equity

	Unaudited 6 months ended 30.06.06 £000	Unaudited 6 months ended 30.06.05 £000	Audited year ended 31.12.05 £000
Total equity at beginning of period	**12,265**	10,278	10,278
Implementation of IAS 32 and IAS 39	**-**	(165)	(165)
Adjusted equity at beginning of period	**12,265**	10,113	10,113
Total recognised income and expense for the period	**2,037**	(1,048)	3,373
Ordinary dividends	**(940)**	(823)	(1,145)
Issue of ordinary shares	**35**	210	228
Release of translation reserve on disposal of interest in associate	**(21)**	-	-
Movements relating to share-based payments and ESOP trust	**(59)**	(291)	(304)
Total equity at end of period	**13,317**	8,161	12,265

Independent review report to Havelock Europa PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the Consolidated Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.
This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

KPMG Audit Plc

Chartered Accountants
191 West George Street
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G2 2LJ
26 September 2006

Havelock Europa PLC

www.havelockeuropa.com

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Chief Executive	Hew Balfour
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Non-Executive Director*†	Robert Duncan
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*Member of the Audit Committee
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