

**HAVELOCK EUROPA PLC**  
**(“Havelock” or the “Company”)**  
**Interim Results**

Havelock Europa (HVE.L), the retail and educational interiors and point of sale printing group, announces its results for the half year to 30 June 2011.

**Financial highlights**

- Group revenue increased by 4% to £42.9m (2010: £41.2m)
- Reported pre-tax loss reduced to £1.5m (2010 : £4.6m loss after exceptional costs of £2.1m)
- Group net debt decreased to £17.2m (December 2010 : £19.7m)

**Operational Highlights**

- Progress made in securing new business in overseas markets with high quality retailers
- Further projects secured in the UK with high street brands including Lloyds Banking Group, Marks and Spencer and Virgin Money
- Strengthened sales team with new appointment of a Sales and Business Development Director
- Project Horizon continues to deliver cost savings

**Outlook**

- The trading environment remains challenging and competitive
- Focus on growing our overseas business with major retailers
- An integrated approach to broaden the services provided to our existing customer base
- Continued emphasis on cost control and improvements in working capital

**Eric Prescott, Havelock CEO, said: I am pleased with the progress made across the entire group, and I would like to thank our workforce for their continuing commitment. In particular, we are seeing good growth internationally and we continue to work closely with strong blue chip partners.**

**Enquiries**

**Havelock Europa** 01383 820044  
Eric Prescott, Chief Executive  
Grant Findlay, Finance Director

**Investec** 020 7597 4000  
James Grace  
Keith Anderson

**Cardew Group** 020 7930 0777  
Rob Ballantyne  
Shan Shan Willenbrock  
Sophie Leigh Pemberton

**[www.havelockeuropa.com](http://www.havelockeuropa.com)**

## **INTERIM STATEMENT**

I am pleased to be able to report on a continued improved performance for the six months to 30 June 2011. The first half of our financial year is generally quieter. However, despite this, we have significantly reduced our losses compared to the same period last year. Our results show growth in revenue, which has been particularly driven by the performance of our high quality Retail customers. The operational performance of the business has been strong and, during the period, debt levels have been reduced through improved control of working capital.

### **FINANCIAL REVIEW**

Group revenue for the six months ended 30 June 2011 increased by 4% to £42.9m (2010: £41.2m). The loss before taxation was £1.5m (2010: £4.6m loss after exceptional costs of £2.1m). The loss per share was 3.0p (2010 : 8.9p loss, excluding exceptional items : 4.9p loss).

Group net debt decreased to £17.2m (December 2010: £19.7m), with improvements in working capital contributing to the reduction as a consequence of a successful programme to improve working capital efficiency which was implemented last year. In addition, the sale of a surplus property in Bristol for £0.7m was completed which offset a £1m payment on the digital press acquired in the previous period.

### **TRADING REVIEW**

#### **Interiors**

Revenue in the Interiors business increased by 9% to £29.1m (2010: £26.6m) on the comparable period last year. This reflected a continuing recovery in Retail and ongoing activity in the Education sector on larger schools programmes including the projects which were delayed by adverse weather in December 2010. Direct to school sales, however, remain weak with activity again declining in the first half.

During the period, the Group completed projects in China, Hong Kong, Ireland, the Netherlands and Germany. These overseas activities continue to be an important source of growth. Our business with Marks and Spencer has increased considerably as we have started to undertake store fit-out contracts as well as being a main shopfitting supplier. Since the end of the period, we have completed our first projects for Virgin Money and are working on future plans with this customer. Our performance in the Education sector continues to be robust. We have strengthened our new business development activities and have made an appointment to the new senior role in the Interiors Business of Sales & Business Development Director, as well as expanding our sales teams.

The operational performance of the business continued to improve throughout the period, with the factory achieving increasing levels of efficiency and our on-time deliveries to sites at levels above internal targets.

Further cost savings have been made during the period and Project Horizon, which is the focus for our performance improvement initiatives, continues to be active with further opportunities being developed.

#### **Educational Supplies**

Revenue in this segment was down 6% to £3.8m (2010: £4.0m) on the comparable period of 2010. The lower revenues reflect continuing fragility in the direct to school market. To compensate, the businesses are looking to increase their involvement with the commercial market and are achieving some success in this. We have generated cost savings and the businesses continue to operate more closely to ensure that sales leads are maximised and integrated product offerings are made, particularly to the large building contractors who are increasingly looking to shorten their supply chains.

## **Point of Sale Printing**

This division continues to operate strongly in a competitive market. Revenue fell slightly to £10.0m (2010 : £10.5m) reflecting the ending of our contract to supply Somerfield which terminated in the second half of last year following the takeover of Somerfield by the Co-op. Management at the business has successfully secured other customers to replace this business. The business is operating at full capacity at peak times and options to increase capacity are currently being reviewed.

## **DIVIDENDS**

As previously announced, the Board does not propose, at this stage, to pay any dividend in 2011.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks and uncertainties are set out in the notes to this statement and remain unchanged from those set out in the Annual Report for 2010.

## **GOING CONCERN**

The current economic conditions create uncertainty over the demand for the Group's products and services. The financial position of the Group, its cash flows and liquidity position are set out in the interim financial statement.

The Group operates under a bank facility which includes a term loan, a revolving credit, HP finance and an overdraft facility. The Group's bankers remain supportive and during the period the overdraft facility has been renewed and certain covenant conditions relaxed. As set out in the notes, the Group expects to be able to comply with the conditions of the Group's bank facilities based on its forecasts.

The Directors, therefore, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

## **CURRENT TRADING**

The trading environment remains challenging and competitive. However, we believe the actions we are taking will position us for further improvement and recovery. Our focus currently continues to be to broaden the range of services that we supply to our existing customer base. This does not involve us providing new services but simply ensuring that we adopt an integrated approach and offer services taken by one customer to all others. At the same time we are seeking to develop new customers, particularly in overseas markets, and, to this end, we have expanded our sales resources considerably.

Cost control continues to be a focus and we believe that there are opportunities to make further savings in a number of areas within the business. Cash control continues to improve, with further improvements in working capital being sought.

Overall, the Board is encouraged by the Group's recovery; however, it continues to look for further opportunities to improve the Group's trading performance as well as opportunities to reduce the Group's debts.

J Malcolm Gourlay  
Chairman

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
for the 6 months ended 30 June 2011

		<b>6 months ended 30.06.11 £000</b>	6 months ended 30.06.10 £000	year ended 31.12.10 £000
<b>Revenue</b>	<i>Note</i> 3	<b>42,939</b>	41,177	99,179
Cost of sales		<b>(36,310)</b>	(35,941)	(86,223)
<b>Gross profit</b>		<b>6,629</b>	5,236	12,956
Administrative expenses		<b>(7,540)</b>	(8,849)	(15,872)
<b>Operating loss</b>		<b>(911)</b>	(3,613)	(2,916)
Analysed as:				
Operating loss before exceptional items		<b>(911)</b>	(2,020)	575
Exceptional items	14	-	(1,593)	(3,491)
Operating loss		<b>(911)</b>	(3,613)	(2,916)
Expected return on defined benefit pension plan assets		<b>909</b>	919	1,824
Financial expenses – on bank borrowings and finance leases		<b>(617)</b>	(506)	(1,164)
Interest on defined benefit pension scheme liabilities		<b>(914)</b>	(932)	(1,862)
Exceptional finance costs	14	-	(489)	(437)
<b>Net financing costs</b>		<b>(622)</b>	(1,008)	(1,639)
<b>Loss before income tax</b>		<b>(1,533)</b>	(4,621)	(4,555)
Income tax credit	4	<b>399</b>	1,294	493
<b>Loss for the period (attributable to equity holders of the parent)</b>		<b>(1,134)</b>	(3,327)	(4,062)
Basic loss per share	5	<b>(3.0p)</b>	(8.9p)	(10.9p)
Diluted loss per share	5	<b>(3.0p)</b>	(8.9p)	(10.9p)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the 6 months ended 30 June 2011

	<b>6 months ended 30.06.11 £000</b>	6 months ended 30.06.10 £000	year ended 31.12.10 £000
<b>Loss for the period</b>	<b>(1,134)</b>	(3,327)	(4,062)
Actuarial gain/(loss) on defined benefit pension plan	<b>71</b>	(2,577)	251
Tax on items taken directly to equity	<b>(48)</b>	722	(121)
Cash flow hedges:			
Effective portion of changes in fair value	<b>111</b>	23	124
<b>Net income/(expense) recognised directly in equity</b>	<b>134</b>	(1,832)	254
 <b>Total comprehensive income for the period (attributable to equity holders of the parent)</b>	 <b>(1,000)</b>	 (5,159)	 (3,808)

**CONDENSED CONSOLIDATED BALANCE SHEET**  
as at 30 June 2011

	<i>Note</i>	as at <b>30.06.11</b> £000	as at 30.06.10 £000	as at 31.12.10 £000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	<b>9,994</b>	11,453	10,745
Intangible assets	8	<b>12,046</b>	14,402	12,265
Deferred tax asset		<b>2,332</b>	2,184	1,981
		<b>24,372</b>	28,039	24,991
<b>Current assets</b>				
Inventories	9	<b>13,139</b>	12,703	11,056
Non-current assets classified as held for sale	10	-	834	773
Trade and other receivables		<b>18,711</b>	23,193	25,756
Current income tax asset	4	-	1,480	-
Cash and cash equivalents	11	<b>6,416</b>	1,964	4,830
		<b>38,266</b>	40,174	42,415
<b>Total assets</b>		<b>62,638</b>	68,213	67,406
<b>Liabilities</b>				
<b>Current liabilities</b>				
Interest-bearing loans and borrowings	11	<b>(2,537)</b>	(2,592)	(2,581)
Derivative financial instruments		<b>(116)</b>	(328)	(227)
Trade and other payables		<b>(20,559)</b>	(20,589)	(23,096)
		<b>(23,212)</b>	(23,509)	(25,904)
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	11	<b>(21,046)</b>	(21,651)	(21,937)
Retirement benefit obligations		<b>(2,801)</b>	(7,800)	(2,992)
Deferred tax liabilities		<b>(501)</b>	(540)	(501)
		<b>(24,348)</b>	(29,991)	(25,430)
<b>Total liabilities</b>		<b>(47,560)</b>	(53,500)	(51,334)
<b>Net assets</b>		<b>15,078</b>	14,713	16,072
<b>Equity</b>				
Issued share capital		<b>3,853</b>	3,853	3,853
Share premium		<b>7,013</b>	7,013	7,013
Other reserves		<b>3,062</b>	2,850	2,951
Revenue reserves		<b>1,150</b>	997	2,255
<b>Total equity (attributable to equity holders of the parent)</b>		<b>15,078</b>	14,713	16,072

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the 6 months ended 30 June 2011

	<b>6 months ended 30.06.11 £000</b>	6 months ended 30.06.10 £000	year ended 31.12.10 £000
<b>Cash flows from operating activities</b>			
Loss for the period	(1,134)	(3,327)	(4,062)
Adjustments for:			
Depreciation of property, plant and equipment	856	907	1,803
Amortisation of intangible assets	267	276	561
Loss on disposal of assets classified as held for sale	48	-	-
Gain on sale of property, plant and equipment	-	-	(34)
Net financing costs	622	519	1,202
IFRS 2 charge relating to equity settled plans	6	10	18
Non-recurring pension credit	-	-	(1,205)
Impairment of goodwill	-	-	2,000
Income tax credit	(399)	(1,294)	(493)
<b>Operating cash flows before changes in working capital and provisions</b>			
	266	(2,909)	(210)
Decrease in trade and other receivables	7,045	5,238	2,675
Increase in inventories	(2,083)	(2,152)	(505)
Decrease in trade and other payables	(1,618)	(3,872)	(1,266)
Movement relative to defined benefit pension scheme	(125)	(69)	(869)
<b>Cash from/(used) in operations</b>	<b>3,485</b>	<b>(3,764)</b>	<b>(175)</b>
Interest paid	(536)	(427)	(1,184)
Income taxes received	-	1,785	1,785
<b>Net cash from/(used in) operating activities</b>	<b>2,949</b>	<b>(2,406)</b>	<b>426</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of assets classified as held for sale	725	-	-
Proceeds from sale of property, plant and equipment	-	-	34
Acquisition of property, plant and equipment	(1,105)	(414)	(541)
Acquisition of intangible assets	(48)	(37)	(185)
<b>Net cash outflow from investing activities</b>	<b>(428)</b>	<b>(451)</b>	<b>(692)</b>
<b>Cash flows from financing activities</b>			
Increase in bank loans	-	4,641	7,500
Repayment of bank borrowings	(634)	-	(2,293)
Repayment of finance lease liabilities	(301)	(281)	(572)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(935)</b>	<b>4,360</b>	<b>4,635</b>
Net increase in cash and cash equivalents	1,586	1,503	4,369
Cash and cash equivalents at 1 January	4,830	461	461
<b>Cash and cash equivalents at end of period</b>	<b>6,416</b>	<b>1,964</b>	<b>4,830</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 6 months ended 30 June 2011

	Share capital £000	Share premium £000	Merger Reserve £000	Hedging Reserve £000	Other Reserve £000	Revenue Reserve £000	Total £000
<b>Current interim period</b>							
At 1 January 2011	3,853	7,013	2,184	(227)	994	2,255	16,072
Total comprehensive income for the period	-	-	-	111	-	(1,111)	(1,000)
Movements relating to share-based payments and ESOP Trust	-	-	-	-	-	6	6
At 30 June 2011	3,853	7,013	2,184	(116)	994	1,150	15,078
<b>Previous interim period</b>							
At 1 January 2010	3,853	7,013	2,184	(351)	994	6,169	19,862
Total comprehensive income for the period	-	-	-	23	-	(5,182)	(5,159)
Movements relating to share-based payments and ESOP Trust	-	-	-	-	-	10	10
At 30 June 2010	3,853	7,013	2,184	(328)	994	997	14,713
<b>Prior year</b>							
At 1 January 2010	3,853	7,013	2,184	(351)	994	6,169	19,862
Total comprehensive income for the year	-	-	-	124	-	(3,932)	(3,808)
Movements relating to share-based payments and ESOP Trust	-	-	-	-	-	18	18
At 31 December 2010	3,853	7,013	2,184	(227)	994	2,255	16,072

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Basis of preparation

These interim financial statements represent the condensed consolidated financial information of the company and its subsidiaries (together referred to as “the Group”) for the 6 months ended 30 June 2011. They have been prepared in accordance with the Disclosure and Transparency Rules of the UK’s Financial Services Authority and the requirements of IAS 34 *Interim Financial Reporting* as adopted by the EU. The interim financial statements were approved by the Board of Directors on 6 September 2011. The interim financial statements do not include all of the information and disclosures required for full annual financial statements. They should be read in conjunction with the Annual Report 2010 which is available on request from the company’s registered office or to download from [www.havelockeuropa.com](http://www.havelockeuropa.com).

The financial information contained in this report in respect of the year ended 31 December 2010 has been extracted from the Annual Report 2010 which has been filed with the Registrar of Companies. The auditors report on these financial statements was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The Group has reported an operating loss for the period ended 30 June 2011 of £0.9 million and the current economic environment remains challenging. As at 30 June 2011, the net debt position was £17.2 million with headroom of £9.4 million on committed facilities at that point.

Cash flow forecasts have been prepared for the period through to 31 December 2012, including sensitivity analyses, taking account of the risks and uncertainties facing the Group as detailed in Note 15. The Group’s bankers remain supportive and during the period the directors have agreed a relaxation in certain covenant tests in relation to the relevant forecast period reviewed by directors. The Group is currently in compliance with these revised borrowing covenants, continues to operate within its facility requirements and is forecast to remain covenant compliant during the relevant forecast period, if necessary by taking mitigating steps in periods when the headroom is small. Notwithstanding this, the directors nevertheless believe the level of overall Group net debt should be reduced and are currently considering relevant options to give effect to this.

While the directors cannot envisage all possible circumstances that may impact the Group in the future, the directors believe that, taking account of the forecasts, sensitised forecasts, future plans and committed funding levels, the Group has sufficient resources to remain compliant with the relevant covenants and conditions attached to the Group’s banking facilities and to meet all debts as they fall due for the foreseeable future.

The interim financial statements are unaudited and have not been reviewed by the Company’s auditors.

## 2. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group as disclosed in its consolidated financial statements as at and for the year ended 31 December 2010 except for the impact of the standards disclosed below:

### New standards

The following standards and amendments to standards are effective for the first time in the current financial period and, where relevant, have been adopted by the Group with no impact on its consolidated results or financial position:

- IAS 24 Related Party Disclosures (revised 2009)
- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement
- Amendments to IFRS 1 First – time Adoption of IFRSs
- Amendment to IFRS 7 Financial Instruments: Disclosures
- Amendment to IAS 34 Interim Financial Reporting – Significant events and transactions
- Amendment to IFRIC 13 Customer Loyalty Programmes

## 3. Segmental reporting

Management information is presented to the main board (the chief operating decision maker) based upon business segments. The reported segments are:

- Interiors – design, manufacture and installation of interiors for schools, retail, financial services, hotels and other accommodation premises;

- Educational Supplies – design, manufacture, supply and installation teaching aids, display boards and fume cupboards for the education sector;
- Point of Sale – printing of promotional graphics for use in retail, financial services and branded goods businesses.

	<b>6 months ended 30.06.11 £000</b>	6 months ended 30.06.10 £000	year ended 31.12.10 £000
<b>Total revenue from external customers</b>			
Interiors	<b>29,111</b>	26,599	69,037
Educational Supplies	<b>3,822</b>	4,045	9,193
Point of Sale	<b>10,006</b>	10,533	20,949
<b>Total revenue from external customers</b>	<b>42,939</b>	41,177	99,179
<b>Inter-segment revenue</b>			
Interiors	-	(18)	6
Educational Supplies	<b>856</b>	795	1,410
Point of Sale	-	11	11
<b>Total inter-segment revenue</b>	<b>856</b>	788	1,427
<b>Total revenue</b>			
Interiors	<b>29,111</b>	26,581	69,043
Educational Supplies	<b>4,678</b>	4,840	10,603
Point of Sale	<b>10,006</b>	10,544	20,960
<b>Total revenue</b>	<b>43,795</b>	41,965	100,606
Eliminate inter-segment revenue	<b>(856)</b>	(788)	(1,427)
<b>Consolidated revenue</b>	<b>42,939</b>	41,177	99,179
<b>Segment result</b>			
Interiors	<b>(1,291)</b>	(2,681)	(1,321)
Educational Supplies	<b>(39)</b>	81	796
Point of Sale	<b>1,267</b>	1,444	2,813
Amortisation of intangibles (element relating to Educational Supplies segment)	<b>(100)</b>	(112)	(224)
<b>Total segment result from operations</b>	<b>(163)</b>	(1,268)	2,064
Unallocated expenses (excluding exceptional costs)	<b>(748)</b>	(752)	(1,489)
<b>(Loss)/profit from operations</b>	<b>(911)</b>	(2,020)	575
Net financing costs (excluding exceptional finance costs)	<b>(622)</b>	(519)	(1,202)
Loss before income tax and exceptional costs	<b>(1,533)</b>	(2,539)	(627)
Exceptional costs (note 14)	-	(2,082)	(3,928)
Loss before income tax	<b>(1,533)</b>	(4,621)	(4,555)
Income tax	<b>399</b>	1,294	493
<b>Loss for the period</b>	<b>(1,134)</b>	(3,327)	(4,062)
<b>Segment assets</b>			
Interiors	<b>32,981</b>	36,849	37,920
Educational Supplies	<b>10,776</b>	13,390	10,664
Point of Sale	<b>9,432</b>	11,967	11,185
Unallocated	<b>9,449</b>	6,007	7,637
<b>Total assets</b>	<b>62,638</b>	68,213	67,406

#### 4. Income tax

A credit for current taxation has been included at 26% (2010 28%), being the effective rate likely to be applied to the result for the full year to 31 December 2011.

The Budget on 23 March 2011 announced that the UK corporation tax rate will reduce from 26% to 23% over a period of 3 years from 2011. It has not yet been possible to quantify the full anticipated effect of this 3% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's net deferred tax asset accordingly.

## 5. Loss per share

The calculation of basic loss per share and underlying loss per share for the period ended 30 June 2011 is based on the profit attributable to ordinary shareholders as follows:

	<b>6 months ended 30.06.11 £000</b>	6 months ended 30.06.10 £000	year ended 31.12.10 £000	<b>6 months ended 30.06.11 EPS (pence)</b>	6 months ended 30.06.10 EPS (pence)	year ended 31.12.10 EPS(pence)
Basic	<b>(1,134)</b>	(3,327)	(4,062)	<b>(3.0)</b>	(8.9)	(10.9)
Adjusted for:						
Exceptional costs	-	2,082	3,928	-	5.5	10.5
Tax relief on exceptional costs	-	(583)	(552)	-	(1.5)	(1.4)
Adjusted	<b>(1,134)</b>	(1,828)	(686)	<b>(3.0)</b>	(4.9)	(1.8)
Diluted basic loss per share				<b>(3.0)</b>	(8.9)	(10.9)
Diluted adjusted loss per share				<b>(3.0)</b>	(4.9)	(1.8)

The weighted average number of ordinary shares used in each calculation is as follows:

### Basic earnings per share

	<b>6 months ended 30.06.11</b>	6 months ended 30.06.10	year ended 31.12.10
<i>In thousands of shares</i>			
Issued ordinary shares at 1 January	<b>38,532</b>	38,532	38,532
Effect of own shares held	<b>(1,225)</b>	(1,261)	(1,254)
Weighted average number of ordinary shares for the period	<b>37,307</b>	37,271	37,278

### Diluted earnings per share

	<b>6 months ended 30.06.11</b>	6 months ended 30.06.10	year ended 31.12.10
<i>In thousands of shares</i>			
Weighted average number of ordinary shares	<b>37,307</b>	37,271	37,278
Effect of share options in issue	<b>631</b>	1,058	632
Weighted average number of ordinary shares (diluted) for the period	<b>37,938</b>	38,329	37,910

## 6. Equity dividends

No dividends have been declared for 2011.

## 7. Property, plant and equipment

	<b>6 months ended 30.06.11 £000</b>	6 months ended 30.06.10 £000	year ended 31.12.10 £000
<b>Carrying amount</b>			
At beginning of the period	<b>10,745</b>	11,780	11,780
Additions at cost	<b>105</b>	1,414	1,541
Transferred to assets held for sale	-	(834)	(773)
Depreciation charge for the period	<b>(856)</b>	(907)	(1,803)
<b>At end of the period</b>	<b>9,994</b>	11,453	10,745

Contracts placed for future capital expenditure not provided in the financial statements amount to £3,000 (30 June 2010: £108,000, 31 December 2010: £nil)

## 8. Intangible assets

	<b>6 months ended 30.06.11 £000</b>	6 months ended 30.06.10 £000	year ended 31.12.10 £000
<b>Carrying amount</b>			
At beginning of the period	<b>12,265</b>	14,641	14,641
Additions	<b>48</b>	37	185
Amortisation for the period and impairment charges	<b>(267)</b>	(276)	(2,561)
<b>At end of the period</b>	<b>12,046</b>	14,402	12,265

## 9. Inventories

	<b>as at 30.06.11 £000</b>	as at 30.06.10 £000	as at 31.12.10 £000
Raw materials and consumables	<b>2,769</b>	3,549	3,459
Work in progress	<b>6,104</b>	4,575	2,208
Finished goods	<b>4,266</b>	4,579	5,389
	<b>13,139</b>	12,703	11,056

At 30 June 2011, interim applications outstanding and payments received in respect of contract work in progress amounted to £2,182,000 (30 June 2010: £699,000, 31 December 2010: £542,000).

## 10. Assets held for resale

On 30 June and 31 December 2010, a property at Cater Road in Bristol and certain items of machinery met the criteria for classification as non-current assets held for sale under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. As such, the relevant carrying values were reclassified from Property, plant and equipment to Non-current assets classified as held for sale. The sale of this property was completed on 30 June 2011.

## 11. Analysis of net cash and financial liabilities

	<b>as at 30.06.11 £000</b>	as at 30.06.10 £000	as at 31.12.10 £000
<b>Cash and cash equivalents per cash flow</b>	<b>6,416</b>	1,964	4,830
Secured bank loans	<b>(2,000)</b>	(2,000)	(2,000)
Finance lease obligations	<b>(537)</b>	(592)	(581)
<b>Current financial liabilities (excluding bank overdrafts)</b>	<b>(2,537)</b>	(2,592)	(2,581)
Secured bank loans	<b>(20,554)</b>	(20,622)	(21,188)
Finance lease obligations	<b>(492)</b>	(1,029)	(749)
<b>Non-current financial liabilities</b>	<b>(21,046)</b>	(21,651)	(21,937)
<b>Net cash and financial liabilities</b>	<b>(17,167)</b>	(22,279)	(19,688)

## 12. Related parties

### Transactions with key management personnel

Group key management personnel receive compensation in the form of salaries and short-term benefits, post-employment benefits and share-based payments. Group key management received total compensation of £ 864,000 for the six months ended 30 June 2011 (six months ended 30 June 2010: £ 1,114,000). This included £90,000 compensation for loss of office (six months ended 30 June 2010: £431,000).

## 13. Pension liabilities

During the period, the pension deficit, net of deferred tax, decreased to £2.1 million (December 2010: £2.2 million) as a result of an increase in the value of the fund's investments and a decrease in its liabilities.

## 14. Exceptional costs

An analysis of exceptional costs is as follows:

	6 months ended 30.06.11 £000	6 months ended 30.06.10 £000	year ended 31.12.10 £000
Cost of integration of business units (note(a))	-	732	1,301
Re-organisation of the Board (note (b))	-	462	462
Other restructuring costs (note (c))	-	399	933
Goodwill impairment (note 8)	-	-	2,000
Non-recurring pension curtailment gain	-	-	(1,205)
	-	1,593	3,491
Charged to financing costs (note (d))	-	489	437
Total exceptional costs	-	2,082	3,928

- (a) The integration of the Havelock Interiors business with ESA McIntosh, which commenced in 2009, was completed during the previous period. The costs comprise redundancy and exceptional operating costs directly related to the integration.
- (b) Compensation for loss of office and fees related to recruitment of a new CEO.
- (c) Redundancy and other costs were incurred in the closure of the Bristol Point of Sale Printing facility and the Paisley administration centre and in the restructuring of the Educational Supplies businesses.
- (d) Fees relating to and in connection with the renewal of banking facilities.

## 15. Principal risks and uncertainties

The Group's loan facilities contain covenants as to EBITDA, asset cover and cash performance. These covenants are tested quarterly and failure to meet these constitutes an event of default under the facility agreement, giving the Bank the right to require immediate repayment of all amounts loaned. The Group's financial forecasts show that these covenants can be met. However, any material disruption to operational and financial performance could result in a shortfall against the standard of performance required. The Group addresses this risk by detailed monitoring of financial performance and the expected outcome for each measurement period.

The Group's businesses have a strong seasonal element, with a peak of activity in the middle and second half of the year. This could result in peak output requirements exceeding the available capacity. The Group manages this risk by detailed and regular capacity planning reviews, with additional shifts and early production being planned.

In the current economic climate, there is less certainty for all businesses about future trading. This is particularly true in the retail sector, where customers may change their plans and programmes at short notice. The Group manages this risk by reviewing its trading outlook more frequently, including the review of weekly order intake figures.

The Retail Interiors business operates in a highly competitive market and deals with major customers which increasingly employ procurement strategies designed to ensure that all purchases, and not just those of stock items, are acquired at the lowest possible cost. The business is addressing this risk by seeking production cost savings including, where appropriate, procurement from lower cost overseas suppliers.

The Educational Interiors business is involved as a supplier to major construction projects which can be subject to time delays and slippage caused by both commercial and weather-related issues. The business addresses this risk by building allowance for slippage into its production forecasts and budgets.

The Retail and Educational Interiors businesses work as sub-contractors under industry standard written contracts. The risks involved in working under such contracts are controlled by the employment of qualified and knowledgeable contract managers and quantity surveyors.

The Point of Sale business operates in a market where new digital printing technology to produce the product is increasingly sophisticated and, unless regular investment takes place, the business could lose competitive advantage. The Group has an ongoing investment plan for the Point of Sale business which has seen the acquisition of new digital presses.

The largest element of working capital employed by the Group is trade receivables. These are subject to credit risk and, as a consequence, the Group employs credit insurance to cover the risk on most of its commercial debtors. However, in addition to debt owed by the public sector and local government, the Group bears the credit risk on a proportion of receivables where its credit insurers are unwilling to provide cover. At present, credit insurers continue to be prudent with the amount of cover they are willing to provide and consequently the level of uninsured debtors has increased. The Group's procedures require that material uninsured credit limits are approved by the Board. The Group also monitors the credit status of its major customers.

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

**Eric Prescott**  
Chief Executive

**Grant Findlay**  
Finance Director

**6 September 2011**