



FINDEL PLC

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Findel plc  
Interim Report  
2010

## CHAIRMAN'S STATEMENT

I am pleased to report that in the 26 weeks ended 1 October 2010 we have begun to make real progress towards improving the group's performance and profitability and securing its longer-term success.

The performance of the group's continuing operations during the half year to 1 October 2010 was ahead of the equivalent prior year period, with operating profit from continuing operations (before exceptional items) of £6.2m versus the prior year result of £3.3m, a significant improvement albeit from a low base. It is particularly pleasing to see these results being delivered against a difficult economic environment and given the challenges our businesses have faced.

As announced in July, we have undertaken a Full Potential Review of all of the group's operations, which has identified the potential for significant enhancement in performance of all of our businesses. The Full Potential Review sets ambitious targets but the actions required to improve performance stem largely from improved operating disciplines and investment in core areas of the business. These actions are tangible and within our control and therefore, we believe, achievable.

Implementation of these operational improvements will require approximately £35m of new funding. In addition, as we highlighted at the time of announcing our preliminary results, the level of debt in the group is too high and the board has been working with its advisers to examine alternatives for restructuring the balance sheet. Following discussions with the group's lenders and its major shareholders, the company intends to raise approximately £80m of new equity, intended to be by way of rights issue, the proceeds of which will be used to fund the operational improvements identified by the Full Potential Review and restructure our debt. This restructuring is subject to finalisation, credit committee approval and completion of binding documentation. Further details of this restructuring of the group's balance sheet are set out below.

### **FULL POTENTIAL REVIEW**

We announced in July that we had instigated a Full Potential Review of all of the group's continuing operations. This process is now complete and has included a bottom-up review of the strategy and operations of each major business and the group as a whole.

We believe the group's current challenges stem largely from having paid insufficient attention to its existing businesses, with a previous strategy focused on acquisitions leading to underinvestment in key areas. In spite of this, the businesses now remaining in the group are profitable and cash generative at the operating level and in many cases enjoy market leading positions. The board believes that, with the right focus and investment, these businesses are all capable of generating significantly increased profits.

Clear plans have been developed for each business to improve performance. More details are set out below, but the core plans revolve around:

- "Back to Basics" – focus on enhancing operations;
- Investment – improving systems and processes;
- Leveraging the benefits of scale in procurement; and
- Implementation of a cultural change through the empowerment of divisional management.

## Home Shopping

### Express Gifts

Express Gifts, our core credit-based home shopping business, is a major player in the UK direct mail order market. It is a strong business, which has suffered from a lack of investment, particularly in systems. Despite this, it remains profitable and we believe that with the right strategy, focus and investment the business can be improved substantially.

The marketplace in which Express Gifts operates has become increasingly competitive. High street retailers' catalogue and online offerings, and pure online players, now compete with traditional catalogue operators in the home shopping market. At the same time, customers' expectations of the home shopping experience have grown significantly, with immediate feedback and multiple service options the norm. Whilst the business has an efficient and low-cost distribution capability, our existing systems platform both on and off-line has been underinvested and has not been able to compete effectively in this fast-moving environment.

We see significant opportunities to improve the performance of this business through investment in three key areas:

- *Systems* – Despite our current success in maintaining our customer base, historical underinvestment needs to be reversed. We will undertake a major project to upgrade existing systems onto an integrated set of market leading applications. This programme will be completed over the next three years, requiring investment of approximately £7m.

This investment will provide real time information to customers and throughout the business, create a common customer view for all sales channels and enable us to exploit the many opportunities created by the ability to interact online with consumers. It will be implemented on a modular basis to reduce risk and enable earlier realisation of certain benefits. The project will also encompass the re-engineering of our supply chain and customer facing processes.

As well as improving revenue, through a significantly enhanced customer experience and better stock availability, this investment is expected to reduce both product and operating costs. Potential benefits are estimated to be at least £3m per annum.

- *Credit management* – We will implement behavioural scoring of our home shopping credit customers. This dynamic technique, already used by our major competitors, will analyse customer behaviour patterns to predict future outcomes. This will allow us to increase sales to more credit-worthy customers whilst reducing bad debt and costs through more effective credit limit, authorisation and collection strategies. This will require investment of approximately £0.6m over one year, leading to estimated benefits of approximately £2m per annum from the following year.
- *Buying processes* – We will be improving our buying and merchandising processes to address sales decline in some of our more established ranges. Given the funding constraints placed on the group, buying practices have of necessity been sub-optimal and generally short-term. Once the balance sheet is restructured, however, it is our intention to work with our suppliers to improve procurement efficiency. In addition, we have identified a need to buy in a more focused, but deeper manner. In the short-term, we have identified opportunities to re-profile our stock buying to allow us to fulfil a greater number of orders and provide a better service

## CHAIRMAN'S STATEMENT

experience – the business has suffered “stock outs” with a degree of regularity and it is estimated that in 2009 this resulted in lost sales totalling over £20m. We believe that there is an opportunity to recover up to 25% of unmet demand.

In addition to these investments, pricing tests carried out as part of the Full Potential Review have demonstrated that response rates can be significantly increased by increasing the value in our offer, without detriment to overall contribution. This strategy fits the economic challenges currently facing our customers and, as such, we will roll out the increased value proposition across our product offering in 2011. As well as the immediate benefit to sales, improved response rates will provide us with a higher base of active customers with which we can engage.

### **Kitbag**

Kitbag is a UK market leader and occupies a unique niche in a structurally attractive marketplace with a very favourable competitive landscape. The success of our contract with Everton FC, where we manage all their retail and online channels, has proven that our outsourcing model creates value for our customers, their shirt sponsor and their kit supplier.

The benefits this model can bring are of increasing attraction to football and other sports clubs seeking to raise revenue whilst recognising that their retail operations are a small part of their overall business. Moreover, replica kit sales, which are the core of Kitbag's product ranges, are currently a small part of the turnover of the major sports brands who wish to encourage high quality retailers to carry their replica kits to maintain the status of their much higher volume sports fashion products.

We believe that there are few, if any, other operators that can match Kitbag's track record and sophisticated brand management and multi-channel retail capabilities.

The Full Potential Review has identified an opportunity to accelerate the roll out of this model of outsourced retail management to other football clubs. We have already established such relationships with Manchester City FC and Nottingham Forest FC and have identified a clear pipeline of other potential partnerships which we are actively pursuing. We estimate that this pipeline over the next three years could contain at least 15 further opportunities, with annual revenue potential from each opportunity ranging from £3m to over £10m in revenue. We therefore believe Kitbag has the potential to become a significantly larger business in the future and it will become an increasingly important contributor to overall group performance.

### **Kleeneze**

Our Kleeneze network marketing business operates across the UK and Ireland selling a wide range of household, health and beauty items. The business utilises much of the infrastructure and resources of the Express Gifts business and benefits from this operational leverage, with potential significant profit benefits flowing from increasing sales throughput.

The Full Potential Review has concluded that increasing distributor numbers is the most effective way of increasing sales revenues, and has identified a number of geographic areas within the UK which will support significantly increased numbers of distributors. We have been trialling a variety of recruitment offers to grow the distributor base and are preparing to launch the most effective offers in the New Year to begin to re-grow the business.

## **Education Supplies**

Our Education Supplies Division remains a UK market leader in the supply of resources (excluding IT and publishing) to schools. Our estimates indicate that Findel has an 8% market share in an overall market worth approximately £1.5bn. Our business has, however, been losing market share for several years due to a general failure to meet customer needs on a consistent basis in terms of price, range and service. Actions have already been taken to change a significant proportion of the management team and the board is confident that improved performance can be delivered.

The Full Potential Review has identified a wide range of opportunities to improve business performance, many of which require comparatively limited investment. Specific areas of focus include:

- Improving supply chain management and leveraging benefits of scale – we are in the process of updating and improving our stock forecasting processes, which will drive a significant reduction in the number of deliveries it takes to fulfil a customer order. We are also rationalising our product range to reduce unnecessary complexity in the range, making it easier for the customer to shop and also offering us cost price reduction opportunities as we buy larger unit volumes from our suppliers.
- Enhancing customer contact processes – we are reviewing all of the processes that touch our customers and streamlining them so that we can provide improved service at lower cost. This will require fundamental changes to the way we work and is in line with our renewed commitment to giving customers what they want in all aspects, in an effective and cost efficient way.
- Improving pricing and category management – following a rationalisation of the product range and a continued reduction in size of the supplier base, we are in the process of renegotiating 2011 cost prices to ensure we remain competitive in the marketplace. In parallel with this, we have now implemented Category Management for all product ranges, ensuring a much more focused approach to range development and in-season trading.

We believe this programme can allow us to deliver a return on sales of up to 9%, in line with other sector players. The speed of recovery will reflect the natural annual cycle in the business with the majority of sales made in late Summer and early Spring, reflecting the school calendar.

The Government's Comprehensive Spending Review has changed the market environment, but the sector remains attractive and is likely to offer opportunities for businesses with scale. This stems from the emergence of new school models, an increased emphasis on innovative procurement channels, such as e-procurement, and a growing requirement for "best value". In addition, the ending of the Building Schools for the Future programme, in which we had limited participation, is expected to increase the requirement for refurbishment and re-equipment of existing schools.

## **Healthcare**

Our Healthcare Division is the largest provider of outsourced Integrated Community Equipment Services ("ICES") to NHS trusts and local authorities. It operates in a growing market with favourable demographics and an increasing transfer of services provision from the public to the private sector (it is estimated that the outsourced proportion of this market in England is only 28%). The Government's Comprehensive Spending Review

## CHAIRMAN'S STATEMENT

will increase pressure on healthcare budgets, which in turn will increase pressure on public bodies to save money. We believe that these trends are likely to accelerate the move to outsourcing, from which our Healthcare Division is well placed to benefit. The pipeline of new ICES contracts expected to come to market has expanded significantly over the last twelve months, with £35m annual contract value identified over the next two years compared to £17m at the same time last year.

As a market leader, NRS is well positioned to capitalise on this opportunity but has historically suffered from underfunding and a lack of investment. The Full Potential Review process has identified a number of key areas of investment required to realise the business' growth potential – in particular supporting the working capital and capital expenditure required when taking on new contracts.

We believe that the envisaged restructuring of the group's balance sheet (outlined below) will have a significant beneficial impact on this business and that it will give customers greater confidence to sign long-term supply contracts with the Healthcare Division.

### **Summary**

The Full Potential Review has been a comprehensive review across the group. Significant opportunities exist to grow revenue and profitability in each of our businesses. These opportunities for the most part lie within our control, and so we have developed a back-to-basics, "self-help" plan.

To deliver our full potential will take time, with our expectations being that it will take at least three to four years to achieve our goals. It will also require some investment, with an incremental funding requirement of approximately £35m. This investment will be employed across our businesses to deliver systems upgrades, new contract wins and efficient management of projects and resources. It will allow us to release the pressure on our supply chain and manage this important area, bringing improvements for our suppliers and the group.

### **BALANCE SHEET RESTRUCTURING**

As highlighted in the announcement of the full year results in July, and alongside the development of the Full Potential Review, the board has been examining ways to reduce debt and provide a more appropriate balance sheet structure for the group going forward.

The group's existing facilities expire in January 2012. These facilities were agreed in July 2010 and provide adequate funding for the group's immediate needs. They are, however, inappropriately structured to meet the long-term needs of the group and support delivery of the actions identified by the Full Potential Review.

The key objective of restructuring the group's balance sheet is to put in place a strong platform to allow successful delivery of the operational improvements identified. This requires:

- £35m of new funding: to fund the growth initiatives outlined above;
- Longer-term debt facilities and greater financial flexibility (in terms of covenant headroom and liquidity); and
- Reduced debt levels.

The group has therefore accelerated discussions with its lenders to renegotiate the existing facilities and, at the same time, engaged with its two largest shareholders to seek their support for an injection of additional equity capital into the business.

The group's two largest shareholders (Toscafund and Schroders, who collectively control over 50% of the issued share capital) have confirmed that they are supportive of the proposed restructuring and have indicated that they intend to support the equity raising subject to finalisation of the restructuring. Appropriate resolutions, including the opportunity to participate in the new funding, will be put to all shareholders in due course. In conjunction with this, we are awaiting approval of a term sheet which has been negotiated with our banking group to amend the group's existing facilities.

Once these processes have been completed, it is intended that the financial restructuring will be undertaken on the following basis:

- The group will undertake an equity fundraising of a gross amount of approximately £80m (intended to be undertaken by way of rights issue, resulting in approximately £75m being received by the group, after estimated equity issuance costs).
- £35m of the proceeds will be retained within the business to fund the Full Potential Review initiatives.
- £40m of the proceeds will be paid to the group's lenders to be applied in reducing the existing debt of the group.
- Net debt will reduce by approximately £110m as a result of the restructuring.
- The group's lenders will receive share price performance linked equity warrants over approximately 10% of the enlarged equity. These warrants will become exercisable only when the projected benefits of the Full Potential Review have been fully realised.
- The group will enter into amended credit facilities totalling £197m, with a five year term to mid-2016 and commercial pricing. The group will seek to hedge a significant proportion of its interest costs.
- In addition, the term of the group's securitisation facility will also be extended to be coterminous with the term of the group's senior credit facilities.

Of the £80m of new equity to be raised, the group has already received indications of underwriting support from the two largest shareholders in respect of up to £59m. The company has also spoken to a number of its other larger shareholders and potential new shareholders and is encouraged by the indications of support received.

Whilst there is no certainty that this financial restructuring will be completed as envisaged, significant progress has been made in this regard and the board intends to move forward quickly. The board intends to progress to finalise the structure and terms of the equity capital raising and amendments to the group's credit facilities in coming weeks, with a view to launching the equity issue early in the New Year.

## **BOARD AND GOVERNANCE**

Several changes have been made to the group's senior management team during the period under review with the objective of strengthening the team for the next stage of the group's development.

On 15 September, Roger Siddle was appointed Chief Executive of the group. Roger was previously Chief Executive of BPP Holdings plc, one of Europe's largest professional training and education companies, and is a former Managing Partner of the UK business

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of Bain & Company, the leading global business consulting firm. Roger initially led the Full Potential Review as a consultant to the group and, having identified the potential in the group's businesses, the board is delighted that he has decided to lead the delivery of the plan.

Philip Maudsley, the previous Chief Executive, remains on the board as Managing Director of the Home Shopping Division. The renewed focus he is now able to bring to this area is already proving invaluable.

Together with the appointment of Tim Kowalski as Group Finance Director on 2 August, as noted in the last annual report, this completes the strengthening of Executive Management at board level. Tim's previous experience includes roles as Group Finance Director at N Brown plc and Homestyle Group plc. We believe that we now have the right management team in place to implement the turnaround of the group.

We are also continuing to strengthen the board's governance structures. As part of this we are pleased to welcome Laurel Powers-Freeling who joined on 1 October as an independent Non-Executive Director. Laurel is a director of Bank of Ireland (U.K.) and BBA LIBOR Ltd and is a senior adviser to the Bank of England.

Following the discovery of fraud in our Education Supplies Division earlier this year we have continued to strengthen internal controls and the oversight of the Audit Committee. As part of this process we have strengthened our internal audit function and put our external audit out to tender. The result of the latter process is that KPMG have been appointed as auditors to the group, replacing Deloitte.

### GROUP PERFORMANCE

#### Financial performance

Group sales from continuing operations\* for the 26 weeks to 1 October 2010 were £255.8m (2009 restated: £260.0m). In line with our stated policy of increasing the transparency of our results we have changed our presentation to focus on operating profit and away from benchmark profit. Last year's results have also been restated in line with this change. Operating profit on continuing operations\* was £6.2m (2009 restated: £3.3m), with loss before tax on the same basis in the first 26 weeks being £3.6m (2009 restated: £7.2m). The statutory result for the period, which was a loss before tax of £15.5m (2009 restated: £22.7m), also included £7.9m of costs arising from the debt refinancing in July 2010 and other exceptional items, and the £3.9m loss resulting from the terminated operations in the period.

As reported in the recent trading update, the board has decided to adopt a more prudent approach to certain forecast non-trading items, including property gains, pensions and foreign exchange. The aggregate net impact of these changes reduces the expected outturn for the year by an additional £4m.

As previously announced, the group has exited from its remaining non-core and loss-making operations. Webb Group Limited was sold on 8 June 2010 and the combined businesses of CWIO Limited (formerly Findel Direct Limited), Confetti Network Limited and I Want One of Those.com Limited were sold on 11 August 2010. The loss before tax incurred by these businesses in the 26 weeks to 1 October 2010 was £2.6m and the group incurred a loss on disposal of £1.3m.

Net bank debt at 1 October 2010 was £249.6m (2009: £263.0m). In addition, amounts outstanding under the securitisation programme stood at £87.2m (2009: £91.5m).

The decrease in cash and cash equivalents in the 26 weeks to 1 October 2010 was £22.3m, which was primarily driven by the seasonal increase in working capital ahead of the group's busiest trading period and the exceptional costs associated with the refinancing in July. The net cash used in operations of £19.6m compared favourably to the cash used in the same period of the previous financial year of £28.6m reflecting a tighter control of working capital. As the group moves forwards it anticipates that continuing operating profit will translate more directly into operating cash flow.

### **Home Shopping**

Performance in our Home Shopping Division was maintained versus prior year. Sales from continuing businesses\* were £152.3m (2009 restated: £152.5m). Continuing operating profit\* was £1.9m (2009 restated: £0.9m).

Total sales (excluding terminated operations) in the 34 weeks to 26 November were 2% below the same period last year.

### **Express Gifts**

Within our core credit based home shopping subsidiary, Express Gifts, product sales per customer increased by 1.4% versus the prior year period. This increase came from a lower starting customer base, reflecting our decision last year to introduce stricter credit procedures which reduced the number of new customers we accepted by 5%. Following initial customer responses towards the end of the reporting period it was decided to realign the overall value proposition of our product offering. As a consequence, we entered our key trading period with a renewed focus on value, which has seen momentum build over recent weeks. Product sales in the six weeks since the launch of the new offer are running 5% ahead of the same period last year.

The stricter customer acceptance procedures we put in place last year are now showing through in benefits to bad debt. The charge for the 26 weeks to 1 October 2010 was £1m lower than in the previous year. The proportion of our trading debt book in arrears is currently running at its lowest level in six years. The stricter limits led to rejection of 15,000 customers in the current year we would historically have accepted. It is notable, however, that the proportion of previous customers shopping with us again in the current year is also tracking above last year and as a result we expect the customer base at calendar year end to be very similar to last year at 1.1m – even with tighter credit procedures maintained.

We continue to see growth in sales of clothing in the current year, and this now represents our largest individual product range. Our clothing sales rose by 16% in the first 26 weeks versus the same period last year, and have continued to perform strongly in the second half of the year (as compared to the same period last year). As reported at the full year, we have seen encouraging results from recruiting new customers on a clothing-based product offering. These encouraging results have continued into the current year and now represent a significant new and cost effective recruitment methodology which we will gradually roll out to reduce our reliance on the Autumn/Winter trading period.

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### **Kleeneze**

In Kleeneze, our direct selling brand, the UK business was impacted in the first half of the year by a lower response to advertising and a drop in conversion rates as a result of caution many people exercised pre and post-election and in light of the emergency budget. The Irish business also suffered heavily in line with their economic situation and impacted overall sales and distributor numbers. Pilot testing of new recruitment offers in the second half of the year to date has been very encouraging, with the number of new distributors recruited in November 2010 29% higher than in the same period last year. We will be launching a full programme of the most effective recruitment offers in the New Year.

### **Kitbag**

Kitbag continued to demonstrate strong sales and operating profit growth in the first half of the year. The Everton FC contract, where we are also responsible for design and procurement of merchandise, saw revenue and unique website users increase by 45% and 75% respectively in the first twelve months of operation by Kitbag. The success of this contract has proved the model for our future development in partnership contracts and we are well positioned to take advantage of the increasing opportunities for multi-channel outsourced retail management for football and other sports clubs. The model has now been extended to similar contracts with both Manchester City and Nottingham Forest football clubs, both initiated during the period.

### **Education Supplies**

Continuing operating profit\* increased by 77% to £3.0m (2009 restated: £1.7m) in the first half although divisional sales in the period were 7% lower at £70.8m (2009 restated: £76.5m). This significant uplift in operating profit was primarily attributable to an improvement in gross margin together with the benefits of a rationalisation programme implemented last year. The decline in sales reflects the ongoing loss of market share during our last financial year. In the recent trading statement we reported that the group's expectations for the second half of the year included profits of over £3m from projects that have experienced delays and which, if won, the board now expects will most likely fall into the next financial year.

Our examination of the business as part of the Full Potential Review has identified that the Education Supplies Division currently faces a number of operational challenges and a plan to implement a full turnaround has been developed. A significant proportion of the senior management team has been changed over the last twelve months and the plan is already being implemented.

Short-term actions are already bearing fruit, with improvements already made, for instance, in overall service levels and in providing enhanced websites for our customers. In addition, with the closure of the Building Schools for the Future programme by the UK Government earlier this year, and the inherent risk and uncertainty involved in actively pursuing major school programmes internationally, the decision was taken to close the Special Projects department. Overall, however, there remains a significant amount of work to be done.

Divisional sales in the 34 weeks to 26 November are 6% below the comparable period last year.

## Healthcare

Divisional sales revenues increased by 6% to £32.6m (2009 restated: £30.9m) producing a continuing operating profit\* of £1.3m (2009 restated: £1.1m).

In August we were awarded a three year mobility care contract covering three London Boroughs, and this month a small three year community equipment contract with Shropshire Council. We have submitted tenders for three additional ICES contracts with a combined annual value in excess of £10m with expected start dates of April 2011. We are also in the process of retendering for two of our existing contracts which are due to expire next year.

The Primary Care element of the business, which sells assistive technology products to professionals and end users through catalogues and the internet has continued to show modest growth despite the pressure on customers' budgets. This has been achieved through the introduction of new products and expansion of the customer base.

Divisional sales in the 34 weeks to 26 November are 4% ahead of the comparable period last year.

\*before exceptional items and terminated operations

## Dividend

As previously indicated in our last Annual Report, due to insufficient distributable reserves the board is not proposing to pay an interim dividend for the current year.

## Outlook

We are pleased that our trading performance for the reporting period is ahead of last year and that current trading for our business during this critical pre Christmas period is in line with our expectations.

Whilst in the short-term the business faces many ongoing challenges the board is confident that the planned initiatives outlined above and a new management team, if combined with a more secure funding base, will produce substantial benefits for all stakeholders in the longer-term.

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David Sugden  
Chairman

30 November 2010

# CONDENSED CONSOLIDATED INCOME STATEMENT

26 week period ended 1 October 2010

	Before exceptional items and terminated operations £000	Exceptional items £000	Terminated operations £000	Total £000
<b>Revenue</b>	255,798	—	8,161	263,959
Cost of sales	(137,305)	—	(4,973)	(142,278)
<b>Gross profit</b>	118,493	—	3,188	121,681
Trading costs	(112,261)	—	(5,535)	(117,796)
Exceptional operating costs (net)				
– Other exceptional items	—	(5,107)	(251)	(5,358)
– Pension curtailment gain	—	—	—	—
Share of result of associate	—	—	—	—
Analysis of operating profit/(loss):				
– <b>EBITDA</b>	11,401	(5,107)	(2,121)	4,173
– Depreciation and amortisation	(4,829)	—	(477)	(5,306)
– Impairment	(1,193)	—	—	(1,193)
– Profit on disposal of land and buildings	853	—	—	853
<b>Operating profit/(loss)</b>	6,232	(5,107)	(2,598)	(1,473)
Loss on disposal of businesses	—	—	(1,336)	(1,336)
Analysis of finance costs:				
– Movement on fair value of derivatives	(217)	—	—	(217)
– Other	(12,555)	(2,835)	—	(15,390)
Finance costs	(12,772)	(2,835)	—	(15,607)
Finance income	2,914	—	—	2,914
<b>Loss before tax</b>	(3,626)	(7,942)	(3,934)	(15,502)
Income tax income	—	—	—	—
<b>Loss for the period</b>	(3,626)	(7,942)	(3,934)	(15,502)
<b>Loss per share</b>				
Basic	(0.75)p			(3.21)p
Diluted	(0.75)p			(3.21)p

All results are from continuing operations.

# CONDENSED CONSOLIDATED INCOME STATEMENT

26 week period ended 3 October 2009

	Before exceptional items and terminated operations £000 (Restated)*	Exceptional items £000 (Restated)*	Terminated operations £000 (Restated)*	Total £000 (Restated)*
<b>Revenue</b>	259,957	—	13,632	273,589
Cost of sales	(135,837)	—	(7,252)	(143,089)
<b>Gross profit</b>	124,120	—	6,380	130,500
Trading costs	(120,389)	—	(8,830)	(129,219)
Exceptional operating costs (net):				
– Other exceptional items	—	(986)	(196)	(1,182)
– Pension curtailment gain	—	—	—	—
Share of result of associate	(434)	—	—	(434)
Analysis of operating profit/(loss):				
– <b>EBITDA</b>	8,165	(986)	(1,906)	5,273
– Depreciation and amortisation	(4,868)	—	(740)	(5,608)
– Impairment	—	—	—	—
– Profit on disposal of land and buildings	—	—	—	—
<b>Operating profit/(loss)</b>	3,297	(986)	(2,646)	(335)
Finance costs	(16,178)	(11,892)	—	(28,070)
Analysis of finance income:				
– Movement on fair value of derivatives	1,868	—	—	1,868
– Other	3,848	—	—	3,848
Finance income	5,716	—	—	5,716
<b>Loss before tax</b>	(7,165)	(12,878)	(2,646)	(22,689)
Income tax income	2,006	3,298	—	5,304
<b>Loss for the period</b>	(5,159)	(9,580)	(2,646)	(17,385)
<b>Loss per share</b>				
Basic	(2.29)p			(7.70)p
Diluted	(2.29)p			(7.70)p

All results are from continuing operations.

\*Details of restatement are included within notes 2 and 3.

## CONDENSED CONSOLIDATED INCOME STATEMENT

52 week period ended 2 April 2010

	Before exceptional items and terminated operations £000	Exceptional items £000	Terminated operations £000	Total £000
<b>Revenue</b>	547,013	—	53,162	600,175
Cost of sales	(284,695)	—	(32,192)	(316,887)
<b>Gross profit</b>	262,318	—	20,970	283,288
Trading costs	(229,334)	—	(85,230)	(314,564)
Exceptional operating costs (net):				
– Other exceptional items	—	(16,319)	(376)	(16,695)
– Pension curtailment gain	—	5,409	—	5,409
Share of result of associate	(434)	—	—	(434)
Analysis of operating profit/(loss):				
– <b>EBITDA</b>	45,728	(10,910)	(2,005)	32,813
– Depreciation and amortisation	(11,018)	—	(2,445)	(13,463)
– Impairment	(2,160)	—	(60,186)	(62,346)
– Profit on disposal of land and buildings	—	—	—	—
<b>Operating profit/(loss)</b>	32,550	(10,910)	(64,636)	(42,996)
Finance costs	(31,266)	(12,157)	—	(43,423)
Analysis of finance income:				
– Movement on fair value of derivatives	3,213	—	—	3,213
– Other	7,082	—	—	7,082
Finance income	10,295	—	—	10,295
<b>Profit/(loss) before tax</b>	11,579	(23,067)	(64,636)	(76,124)
Income tax income/(expense)	(3,242)	3,803	—	561
<b>Profit/(loss) for the period</b>	8,337	(19,264)	(64,636)	(75,563)
<b>Earnings/(loss) per share</b>				
Basic	2.21p			(20.02)p
Diluted	2.21p			(20.02)p

All results are from continuing operations.

The income statement presentation has been restated, see note 2.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

26 week period ended 1 October 2010

	26 weeks to 1.10.2010 £000	26 weeks to 3.10.2009 £000 (Restated)*	52 weeks to 2.4.2010 £000
Loss for the period	(15,502)	(17,385)	(75,563)
Currency translation loss arising on consolidation	(103)	(473)	(590)
<b>Total comprehensive income for the period</b>	<b>(15,605)</b>	<b>(17,858)</b>	<b>(76,153)</b>

The total comprehensive income for the period is attributable to the equity shareholders of the parent company Findel plc.

\*Details of restatement are included within note 3.

# CONDENSED CONSOLIDATED BALANCE SHEET

At 1 October 2010

	1.10.2010 £000	3.10.2009 £000 (Restated)*	2.4.2010 £000
<b>Non-current assets</b>			
Goodwill	47,299	83,786	47,299
Other intangible assets	67,374	83,328	70,757
Property, plant and equipment	39,432	53,358	44,295
Retirement benefit asset	383	—	—
	<b>154,488</b>	<b>220,472</b>	<b>162,351</b>
<b>Current assets</b>			
Inventories	88,077	99,791	73,607
Trade and other receivables	214,589	254,732	210,355
Derivative financial instruments	—	88	—
Cash at bank and in hand	21,994	48,021	44,331
	<b>324,660</b>	<b>402,632</b>	<b>328,293</b>
<b>Total assets</b>	<b>479,148</b>	<b>623,104</b>	<b>490,644</b>
<b>Current liabilities</b>			
Trade and other payables	81,507	111,764	81,269
Current tax liabilities	7,411	994	7,393
Obligations under finance leases	338	1,268	1,006
Bank loans	27,443	57,735	352,918
Derivative financial instruments	223	1,438	6
Provisions	1,790	—	1,661
	<b>118,712</b>	<b>173,199</b>	<b>444,253</b>
<b>Non-current liabilities</b>			
Bank loans	331,053	343,192	—
Obligations under finance leases	—	292	5
Provisions	4,097	—	5,019
Deferred tax liabilities	7,318	8,592	7,345
Retirement benefit obligation	—	7,119	449
	<b>342,468</b>	<b>359,195</b>	<b>12,818</b>
<b>Total liabilities</b>	<b>461,180</b>	<b>532,394</b>	<b>457,071</b>
<b>Net assets</b>	<b>17,968</b>	<b>90,710</b>	<b>33,573</b>
<b>Equity</b>			
Share capital	24,472	24,472	24,472
Capital reserves	111,493	110,335	111,493
Translation reserve	599	819	702
Accumulated losses	(118,596)	(44,916)	(103,094)
<b>Total equity</b>	<b>17,968</b>	<b>90,710</b>	<b>33,573</b>

\*Details of restatement are included within note 3.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

26 week period ended 1 October 2010

	26 weeks to 1.10.2010 £000	26 weeks to 3.10.2009 £000 (Restated)*	52 weeks to 2.4.2010 £000
<b>Operating activities</b>			
Loss for the period	(15,502)	(17,385)	(75,563)
Income tax income	—	(5,304)	(561)
Finance income	(2,914)	(5,716)	(10,295)
Finance costs	15,607	28,070	43,423
Loss on disposal of businesses	1,336	—	—
Operating loss	(1,473)	(335)	(42,996)
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	3,998	3,170	8,338
Impairment of property, plant and equipment and software and IT development costs	1,193	—	7,422
Amortisation of intangible assets	1,310	2,438	5,125
Impairment of goodwill and associated intangible assets	—	—	52,829
Share-based payment expense	—	510	2,186
(Profit)/loss on disposal of property, plant and equipment	(875)	203	(63)
Non-cash pension curtailment gain	—	—	(5,409)
Pension contributions less income statement charge	(1,068)	(1,513)	(3,158)
Share of result of associate	—	434	434
<b>Operating cash flows before movements in working capital</b>			
	3,085	4,907	24,708
(Increase)/decrease in inventories	(18,047)	(20,780)	5,040
(Increase)/decrease in receivables	(8,244)	(23,659)	16,403
Increase/(decrease) in payables	4,354	10,904	(21,280)
(Decrease)/increase in provisions	(793)	—	6,680
<b>Cash (used in)/generated from operations</b>			
	(19,645)	(28,628)	31,551
Income taxes (paid)/received	(10)	8,462	8,872
Interest paid	(7,248)	(12,397)	(20,034)
Exceptional financing costs paid	(8,345)	(7,892)	(12,157)
<b>Net cash (used in)/from operating activities</b>			
	(35,248)	(40,455)	8,232

	26 weeks to 1.10.2010 £000	26 weeks to 3.10.2009 £000 (Restated)*	52 weeks to 2.4.2010 £000
<b>Investing activities</b>			
Interest received	6	870	2,072
Proceeds on disposal of property, plant and equipment	5,393	452	474
Purchases of property, plant and equipment and software and IT development costs	(4,018)	(4,408)	(8,934)
Loan advanced to associate	—	(8,030)	(8,030)
Acquisition of subsidiaries	—	643	643
Net cash outflow from sale of terminated operations	(1,884)	—	—
<b>Net cash used in investing activities</b>	<b>(503)</b>	<b>(10,473)</b>	<b>(13,775)</b>
<b>Financing activities</b>			
Repayments of obligations under finance leases	(673)	(703)	(1,251)
Net proceeds from issue of shares	—	74,899	74,381
Bank loans drawn/(repaid)	21,555	42,167	(10,494)
Securitisation loan (repaid)/drawn	(7,470)	(2,304)	2,348
<b>Net cash from financing activities</b>	<b>13,412</b>	<b>114,059</b>	<b>64,984</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			
	<b>(22,339)</b>	<b>63,131</b>	<b>59,441</b>
Cash and cash equivalents at the beginning of the period	44,331	(15,046)	(15,046)
Effect of foreign exchange rate changes	2	(64)	(64)
<b>Cash and cash equivalents at the end of the period</b>	<b>21,994</b>	<b>48,021</b>	<b>44,331</b>

\*Details of restatement are included within note 3.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

26 week period ended 1 October 2010

	Share capital £000	Capital reserves £000	Translation reserve £000	Accumulated losses £000	Total equity £000
At 3 April 2010	24,472	111,493	702	(103,094)	33,573
Total comprehensive income for the period	—	—	(103)	(15,502)	(15,605)
Share-based payments	—	—	—	—	—
<b>At 1 October 2010</b>	<b>24,472</b>	<b>111,493</b>	<b>599</b>	<b>(118,596)</b>	<b>17,968</b>

	Share capital £000	Capital reserves £000	Translation reserve £000	Accumulated losses £000	Total equity £000
At 4 April 2009 (as previously reported)	4,257	54,290	1,292	(5,097)	54,742
Prior year adjustment	—	—	—	(22,434)	(22,434)
At 4 April 2009 (restated)	4,257	54,290	1,292	(27,531)	32,308
Total comprehensive income for the period (restated)*	—	—	(473)	(17,385)	(17,858)
Share issues	20,215	54,684	—	—	74,899
Share warrants issue	—	851	—	—	851
Share-based payments	—	510	—	—	510
<b>At 3 October 2009 (restated)*</b>	<b>24,472</b>	<b>110,335</b>	<b>819</b>	<b>(44,916)</b>	<b>90,710</b>

	Share capital £000	Capital reserves £000	Translation reserve £000	Accumulated losses £000	Total equity £000
At 4 April 2009 (restated)	4,257	54,290	1,292	(27,531)	32,308
Total comprehensive income for the period	—	—	(590)	(75,563)	(76,153)
Share issues	20,215	54,166	—	—	74,381
Share warrants issue	—	851	—	—	851
Share-based payments	—	2,186	—	—	2,186
<b>At 2 April 2010</b>	<b>24,472</b>	<b>111,493</b>	<b>702</b>	<b>(103,094)</b>	<b>33,573</b>

\*Details of restatement are included within note 3.

The total equity for the period is attributable to the equity shareholders of the parent company, Findel plc.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

The condensed consolidated financial statements have been approved by the board on 30 November 2010.

### *Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union ("EU") and the DTR of the UK FSA. As required by the latter, the interim financial statements have been prepared applying the accounting policies and presentation that were applied in the company's published consolidated financial statements for the 52 weeks ended 2 April 2010 except as described below. They do not include all the information required for full annual financial statements, and should be read in conjunction with the group's consolidated financial statements as at and for the 52 weeks ended 2 April 2010.

The financial information for the period ended 2 April 2010 is not the company's statutory accounts for that financial year. Those accounts which were prepared under IFRS as adopted by the EU ("adopted IFRS") have been reported on by the company's auditors and delivered to the Registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under sections 498(2) or (3) of the Companies Act 2006.

### *Going concern basis*

The group's primary bank facilities are due for renewal in January 2012. However, as more fully explained in the "Balance Sheet Restructuring" section of this statement the group is at an advanced stage of implementing an appropriate long-term financing package. As explained in that section there is no certainty that the negotiations will reach a successful conclusion. In the absence of agreement, the directors have considered the group's forecasts, which include downside scenario and exclude the benefit of any Full Potential Review initiatives that cannot be funded from the current facilities. These show that the group should be able to operate within its banking facilities and comply with its banking covenants. Although the level of covenant headroom is not large the directors currently believe it to be sufficient and have identified controllable mitigating actions should the board's expectations not be met.

Through its various business activities the group is exposed to a number of significant risks and uncertainties, referenced below, which could affect the group's ability to meet these forecasts and hence its ability to meet its banking covenants. The directors have considered the challenging economic conditions, the current competitive environment in which the group's businesses operate and associated credit risks, together with the available ongoing committed finance facilities and the potential actions that can be taken should revenues be worse than expected to protect operating profits and cash flows.

After making enquires, the directors have formed a judgement that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the interim financial information.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information continued

### *Risks and uncertainties*

The principal risks and uncertainties which could impact the group's long-term performance remain those detailed on pages 10 to 12 of the group's 2010 Annual Report and Accounts, a copy of which is available on the group's website, [www.findel.co.uk](http://www.findel.co.uk). These risks remain valid as regards their potential to impact the group during the second half of the current financial year:

The group has a comprehensive system of risk management installed within all parts of its business to mitigate these risks as far as is possible.

### *Seasonality*

Sales within the Express Gifts operating segment are more heavily weighted towards the second half of the financial year, with approximately 55%-60% of annual sales occurring during that period.

## 2. Accounting Policies

Except as described below, the accounting policies applied by the group in these condensed consolidated interim financial statements are the same as those applied by the group in its consolidated financial statements as at and for the 52 weeks ended 2 April 2010.

*Operating profit and exceptional items:* The income statement presentation has been amended in the current period to remove the reference to "benchmark profit" in favour of considering operating profit before exceptional items and terminated operations. Exceptional items are items which the directors consider to be significant, in aggregate, and are non-recurring in nature. In the current period, these items were restructuring costs, forensic accounting review costs and abortive disposal costs. In the prior year, these items were restructuring costs, warehouse reorganisation costs and onerous lease provisions. Terminated operations relate to businesses which have been sold or exited during the period.

From 3 April 2010 the group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations and the amendment to IAS 27 Consolidated and separate financial statements. The application of this standard and the amendment has not had any impact on the results of the group. There are no other new or revised standards in the period which have a material impact on the group.

### 3. Restatements in respect of prior years

#### *Education Supplies Division accounting irregularities restatement*

The impact of the Education Supplies Division accounting irregularities in the periods prior to 3 April 2009, on the group's balance sheet were as follows:

- Overstatement of revenue principally relating to incorrect recognition of overseas contracts reduced net assets at 3 April 2009 and 3 October 2009 by £5.4m.
- Incorrect recognition of purchasing rebate arrangements with suppliers together with associated inflated inventory pricing arrangements reduced net assets at 3 April 2009 and 3 October 2009 by £6.2m.
- Overstatement of receivables and prepayments arising on disposal of certain businesses and product lines, and understatement of credit notes reduced net assets at 3 April 2009 and 3 October 2009 by £3.4m.
- Incorrect capitalisation of non-current assets reduced net assets at 3 April 2009 and 3 October 2009 by £2.8m.
- The under accrual of certain customer rebate arrangements and other unrecorded liabilities reduced net assets at 3 April 2009 and 3 October 2009 by £2.8m.

#### *Other adjustments to prior years*

In preparing the financial statements for the period ended 2 April 2010 the directors reviewed the output of new financial systems and reports adopted by the Express Gifts business in respect of the accounting for cut off in respect of the direct dispatch of goods, and the impact of insurance costs and rebates received in pricing inventory. Following these improvements in financial reporting the directors decided to restate the comparatives in the financial statements. The impact was as follows:

- The change to cut off practice reduced net assets at 3 April 2009 by £0.9m and at 3 October 2009 by £1.5m. For the period ended 3 October 2009 revenue was reduced by £4.1m and cost of sales by £2.6m.
- The change to the pricing of inventory reduced inventory and net assets at 3 April 2009 and 3 October 2009 by £1.0m.

In addition, amortisation of capitalised finance costs of £885,000 and £1,771,000 have been reclassified from trading costs to finance costs in the periods ended 3 October 2009 and 2 April 2010 respectively.

### 4. Trading costs

	26 weeks to 1.10.2010 £000	26 weeks to 3.10.2009 £000 (Restated)*	52 weeks to 2.4.2010 £000
Selling and distribution costs	78,584	86,207	174,071
Administrative expenses	39,212	43,012	140,493
Trading costs	117,796	129,219	314,564

\* Details of restatement are provided in note 3.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. Segmental analysis

#### Operating segments

The board has been considering the information that is presented to them on each of the trading divisions. In view of this, information on reporting segments has been amended to reflect this accordingly. For management purposes, the group is currently organised into five operating segments: Express Gifts, Kleeneze, Kitbag, Education Supplies and Healthcare.

Segment information about these operating segments is presented below.

#### 26 weeks to 1 October 2010

#### Segmental revenue

	Home Shopping					Terminated £000	Total £000
	Express Gifts £000	Kleeneze £000	Kitbag £000	Education £000	Healthcare £000		
Continuing operations	94,763	31,416	26,128	70,848	32,643	—	255,798
Terminated operations	—	—	—	—	—	8,161	8,161
<b>Total revenue</b>	<b>94,763</b>	<b>31,416</b>	<b>26,128</b>	<b>70,848</b>	<b>32,643</b>	<b>8,161</b>	<b>263,959</b>

#### Loss after tax

	Home Shopping					Terminated £000	Unallocated £000	Total £000
	Express Gifts £000	Kleeneze £000	Kitbag £000	Education £000	Healthcare £000			
Continuing operating profit before exceptional items and terminated operations	(1,544)	2,074	1,367	3,048	1,287	—	—	6,232
Terminated operations	—	—	—	—	—	(2,347)	—	(2,347)
Other exceptional items	(1,027)	(209)	(205)	(1,274)	(442)	(251)	(1,950)	(5,358)
<b>Reportable segment result</b>	<b>(2,571)</b>	<b>1,865</b>	<b>1,162</b>	<b>1,774</b>	<b>845</b>	<b>(2,598)</b>	<b>(1,950)</b>	<b>(1,473)</b>
Loss on disposal of businesses								(1,336)
Finance income								2,914
Finance costs								(15,607)
Loss before tax								(15,502)
Tax								—
<b>Loss for the period</b>								<b>(15,502)</b>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**5. Segmental analysis** continued

**26 weeks to 3 October 2009**

**Segmental revenue**

	Home Shopping			Education £000 (Restated)	Healthcare £000 (Restated)	Terminated £000 (Restated)	Total £000 (Restated)
	Express Gifts £000 (Restated)	Kleeneze £000 (Restated)	Kitbag £000 (Restated)				
Continuing operations	97,664	32,517	22,356	76,510	30,910	—	259,957
Terminated operations	—	—	—	—	—	13,632	13,632
<b>Total revenue</b>	<b>97,664</b>	<b>32,517</b>	<b>22,356</b>	<b>76,510</b>	<b>30,910</b>	<b>13,632</b>	<b>273,589</b>

**Loss after tax**

	Home Shopping			Education £000	Healthcare £000	Terminated £000	Unallocated £000	Total £000
	Express Gifts £000	Kleeneze £000	Kitbag £000					
Continuing operating profit before exceptional items and terminated operations	(3,225)	3,050	1,076	1,720	1,110	—	—	3,731
Terminated operations	—	—	—	—	—	(2,450)	—	(2,450)
Other exceptional items	(267)	—	—	(719)	—	(196)	—	(1,182)
Share of result of associate	—	—	—	—	—	—	(434)	(434)
<b>Reportable segment result</b>	<b>(3,492)</b>	<b>3,050</b>	<b>1,076</b>	<b>1,001</b>	<b>1,110</b>	<b>(2,646)</b>	<b>(434)</b>	<b>(335)</b>
Finance income								5,716
Finance costs								(28,070)
Loss before tax								(22,689)
Tax								5,304
<b>Loss for the period</b>								<b>(17,385)</b>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**5. Segmental analysis** continued

**52 weeks to 2 April 2010**

**Segmental revenue**

	Home Shopping			Education £000 (Restated)	Healthcare £000 (Restated)	Terminated £000 (Restated)	Total £000 (Restated)
	Express Gifts £000 (Restated)	Kleeneze £000 (Restated)	Kitbag £000 (Restated)				
Continuing operations	229,040	64,356	48,309	141,800	63,508	—	547,013
Terminated operations	—	—	—	—	—	53,162	53,162
<b>Total revenue</b>	<b>229,040</b>	<b>64,356</b>	<b>48,309</b>	<b>141,800</b>	<b>63,508</b>	<b>53,162</b>	<b>600,175</b>

**Loss after tax**

	Home Shopping			Education £000	Healthcare £000	Terminated £000	Unallocated £000	Total £000
	Express Gifts £000	Kleeneze £000	Kitbag £000					
Continuing operating profit before exceptional items and terminated operations	20,197	6,449	1,715	2,074	2,549	—	—	32,984
Terminated operations	—	—	—	—	—	(64,260)	—	(64,260)
Other exceptional items	(3,325)	—	—	(10,093)	(470)	(376)	(2,431)	(16,695)
Pension curtailment gain	—	—	—	—	—	—	5,409	5,409
Share of result of associate	—	—	—	—	—	—	(434)	(434)
<b>Reportable segment result</b>	<b>16,872</b>	<b>6,449</b>	<b>1,715</b>	<b>(8,019)</b>	<b>2,079</b>	<b>(64,636)</b>	<b>2,544</b>	<b>(42,996)</b>
Finance income								10,295
Finance costs								(43,423)
Loss before tax								(76,124)
Tax								561
<b>Loss for the period</b>								<b>(75,563)</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 6. Exceptional items

The following is an analysis of the exceptional items arising during the period.

	26 weeks to 1.10.2010 £000	26 weeks to 3.10.2009 £000	52 weeks to 2.4.2010 £000
<b>Exceptional operating costs</b>			
Pension curtailment gain	—	—	(5,409)
Other exceptional items			
– Restructuring costs	2,743	1,182	5,827
– Warehouse reorganisation costs	333	—	4,188
– Onerous lease provisions	—	—	6,680
– Forensic accounting review costs	1,558	—	—
– Abortive disposal costs	724	—	—
	<b>5,358</b>	<b>1,182</b>	<b>11,286</b>
<b>Exceptional financing costs</b>			
Debt refinancing costs	<b>2,835</b>	<b>11,892</b>	<b>12,157</b>

Restructuring costs relate to the Express Gifts operating segment £245,000 (26 weeks ended 3 October 2009: £267,000; 52 weeks ended 2 April 2010: £1,557,000), the Kleeneze operating segment £63,000 (26 weeks ended 3 October 2009: £nil; 52 weeks ended 2 April 2010: £nil) and the Kitbag operating segment £74,000 (26 weeks ended 3 October 2009: £nil; 52 weeks ended 2 April 2010: £nil), the Education Supplies operating segment £926,000 (26 weeks ended 3 October 2009: £719,000; 52 weeks ended 2 April 2010: £1,989,000) and the Healthcare operating segment £278,000 (26 weeks ended 3 October 2009: £nil; 52 weeks ended 2 April 2010: £43,000), with £906,000 (26 weeks ended 3 October 2009: £nil; 52 weeks ended 2 April 2010: £1,862,000) not allocated to a specific operating segment. The remainder £251,000 related to terminated operations (26 weeks to 3 October 2009: £196,000; 52 weeks to 2 April 2010: £376,000).

Warehouse reorganisation costs in the 26 weeks to 1 October 2010 relate solely to the Express Gifts operating segment. In the 52 weeks ended 2 April 2010 warehouse reorganisation costs relate to the Express Gifts operating segment £1,768,000, the Education Supplies operating segment £1,701,000 and the Healthcare operating segment £427,000, with the remainder £292,000 not allocated to a specific operating segment.

The onerous lease provisions for the 52 weeks ended 2 April 2010 relate to the Education Supplies operating segment £6,403,000 with the remainder £277,000 not allocated to a specific operating segment.

Forensic accounting review costs relate to the Express Gifts operating segment £449,000, the Kleeneze operating segment £146,000, the Kitbag operating segment £131,000, the Education Supplies operating segment £348,000 and the Healthcare operating segment £164,000, with the remainder £320,000 not allocated to a specific operating segment.

The abortive disposal costs of £724,000 are not allocated to a specific operating segment.

Exceptional financing costs are discussed in note 10.

## 7. Loss on sale of terminated operations

Terminated operations comprise the Webb Group Limited sold on 8 June 2010, CWIO Limited (formerly Findel Direct Limited), Confetti Network Limited and I Want One of Those.com Limited sold on 11 August 2010, and The Cotswold Company and Letterbox terminated in 2009. All the terminated operations were part of the Home Shopping operating segment. The results of the terminated operations are presented in a separate column in the income statement.

	26 weeks to 1.10.2010 £000
<b>Consideration and costs</b>	
Consideration	600
Sale costs	(1,323)
	(723)
<b>Net assets sold</b>	613
<b>Loss on sale</b>	(1,336)
	(723)
<b>Net cash outflow from sale of terminated operations</b>	
Cash consideration	600
Sale costs paid	(1,323)
Cash and cash equivalents sold	(1,161)
	(1,884)

## 8. Taxation

Income tax for the 26 week period ended 1 October 2010 is at nil% of profit before tax based on the effective tax rate for the full year.

No tax credit has been recognised in the current period, as no deferred tax asset has been recognised in respect of tax losses arising in the period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 9. Earnings per share

	26 weeks to 1.10.2010 £000	26 weeks to 3.10.2009 £000 (Restated)	52 weeks to 2.4.2010 £000
Net loss attributable to equity holders of the parent for the purpose of basic and diluted earnings per share	(15,502)	(17,385)	(75,563)
Losses from terminated businesses (net of tax)	2,598	2,646	64,636
Loss on disposal of businesses (net of tax)	1,336	—	—
Other exceptional items (net of tax)	5,107	986	14,029
Exceptional pension curtailment gain (net of tax)	—	—	(3,894)
Exceptional finance costs (net of tax)	2,835	8,594	9,129
Net profit attributable to equity holders of the parent for the purpose of continuing earnings per share*	(3,626)	(5,159)	8,337
Weighted average number of shares	482,955,829	225,700,608	377,402,818
Loss per share – basic	(3.21)p	(7.70)p	(20.02)p
(Loss)/earnings per share – continuing* basic	(0.75)p	(2.29)p	2.21p
Loss per share – diluted	(3.21)p	(7.70)p	(20.02)p
(Loss)/earnings per share – continuing* diluted	(0.75)p	(2.29)p	2.21p

\* continuing operations before exceptional items and terminated operations.

## 10. Amended credit facilities

As a result of the accounting irregularities in the group's Education Supplies Division certain representations and warranties made in connection with the bank facilities entered into at the time of the refinancing in July 2009 were found to be untrue. In addition, certain other provisions contained in these facilities were breached. As a result of the breach to the banking covenants at 2 April 2010, all of the bank debt owed by the group was reclassified as falling due within one year in the consolidated balance sheet at 2 April 2010.

The group agreed amendments to the outstanding £250.0m and £77.3m credit facilities on 16 July 2010, the principal elements being:

- the facilities expire on 9 January 2012;
- as at 16 July 2010, the available facility under the £250.0m facility is an amount of £236.6m which will reduce (subject to short-term increases to fund working capital requirements) to an amount just in excess of £208.3m prior to the termination date of the £250.0m facility;
- as at 16 July 2010, the available facility under the £77.3m facility is £45.0m which will reduce (subject to short-term increases to fund working capital requirements) to an amount of £39.6m prior to the termination date of the £77.3m facility;
- the facilities require a commitment fee and charges interest at 5% over LIBOR to 31 December 2010 and 6.5% over LIBOR thereafter;
- new financial covenants have been agreed and permanent waivers obtained in relation to the breaches referred to above.

Under certain circumstances, additional fees from 14 January 2011 of up to a maximum of approximately £5.0m could become payable.

As a result of the above amendment to credit facilities, bank loans which were shown as being due for settlement within one year at 2 April 2010 are now due for settlement after one year.

Management have assessed the impact of the modification to the group's credit facilities in line with the guidance contained within IAS 39 and have concluded that it does not represent a significant modification. As part of this process the group incurred fees and transaction costs of £6,199,000. These costs have been capitalised and are being amortised using the effective rate of interest method. Costs incurred as a result of the increase in the effective interest rate, amounting to £689,000 have been treated as exceptional finance costs. A further £2,146,000 of fees were expensed immediately and treated as exceptional finance costs, see note 6.

In the 26 weeks ended 3 October 2009 and the 52 weeks ended 2 April 2010, fees of £11,892,000 and fees of £12,157,000 were expensed immediately to the income statement and treated as exceptional finance costs. These costs were incurred in relation to the group's debt refinancing carried out in July 2009, where management assessed the impact of the modification as significant.

The group has in addition a securitisation facility of up to £105.0m which expires on 9 January 2012, the amount of the available facility being dependent upon the level of certain debtor balances within Express Gifts Limited.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 11. Related party transactions

Transactions between the company and its subsidiaries, which are related parties of the company, are not discussed in this note.

There were no related party transactions to be disclosed for the 26 weeks to 1 October 2010.

During the period 4 April 2009 to 23 July 2009, the date on which the remaining 70% of the shares of the group's associate, Webb, were acquired, group purchases from Webb, on normal commercial terms amounted to £1,600,000 and in the same period the group supplied goods and services to its associate of £10,000. During the same period interest income of £853,000 was recognised on the loan to Webb.

The group had a trading relationship with Herbert Walker & Son (Printers) Limited, a commercial printing company which was controlled by Mr K Chapman, a former director (retired 1 April 2010). During the period to 3 October 2009, group purchases from Herbert Walker, on normal commercial terms amounted to £200,000 (52 weeks ended 2 April 2010: £470,000) and in the same period the group supplied goods and services to Herbert Walker of £90,000 (52 weeks ended 2 April 2010: £120,000). The group indebtedness to Herbert Walker at 3 October 2009 was £70,000 and at 2 April 2010 was £20,000, and that of Herbert Walker to the group at 3 October 2009 was £20,000 and at 2 April 2010 was £10,000.

The group had a trading relationship with Collisons Limited, a commercial printing company which was controlled by Mr K Chapman, a former director (retired 1 April 2010). During the period to 3 October 2009, group purchases from Collisons, on normal commercial terms amounted to £nil (52 weeks ended 2 April 2010: £20,000). There were no sales to Collisons in either period. The group indebtedness to Collisons at 3 October 2009 was £nil and at 2 April 2010 was £20,000.

The group leased the properties at Hyde, Nelson and Padiham as disclosed in notes 36 and 39 to the 2010 Annual Report and Accounts.

## 12. Contingent liability

### *Payment Protection Insurance ("PPI")*

One of the group's Home Shopping subsidiaries EGL is regulated by the FSA as an insurance intermediary and as such is permitted to sell insurance products, including PPI.

The FSA published its final policy statement (PS 10/12) concerning the assessment and redress of PPI complaints on 10 August 2010 and instructed firms to implement the measures contained in it by 1 December 2010. The new rules impose significant changes with respect to the handling of mis-selling PPI complaints. On 8 October 2010, the British Bankers' Association filed an application for judicial review of the FSA's policy statement and of related guidance issued by the Financial Ombudsman Service.

Relevant sales have been made by EGL although EGL ceased selling this product in August 2008. Total complaints received from customers remain low as a proportion of total PPI sales made – with 1,212 complaints received in the last year of which 51 were upheld. EGL is investigating the impact of the new requirements but at this time, in light of the uncertainty caused by the application for judicial review, it is not practical to evaluate the cases concerned, nor therefore to make a reliable estimate of the amount of provision, if any, that will be required. EGL will review the cases when the requirements become clearer.

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- (a) the condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union;
- (b) the interim Chairman's statement and condensed consolidated financial statements include a fair review of the information required by
  - (i) 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
  - (ii) 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.

By order of the board

R W J Siddle  
Group Chief Executive  
30 November 2010

T J Kowalski  
Group Finance Director  
30 November 2010

This document may contain forward looking statements. In particular, but without limitation, nothing contained in this document should be relied upon or construed as a promise or a forecast, including any projection or management estimate, any statements which contain the words "anticipate", "believe", "intend", "estimate", "expect", "forecast" and words of a similar meaning, reflect the management of the company's current beliefs and expectations and are subject to risks and uncertainties that may cause actual results to differ materially. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on such statements. Any forward looking statements speak only as at the date of this document, and except as required by applicable law, Findel plc undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information or otherwise.

# INDEPENDENT REVIEW REPORT BY KPMG AUDIT PLC TO FINDEL PLC

## **Introduction**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the period ended 1 October 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

## **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the period ended 1 October 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

**John Costello**  
**for and on behalf of KPMG Audit Plc**

Chartered Accountants  
St James' Square, Manchester, M2 6DS  
30 November 2010



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