headlam
group plc

Europe's leading floorcovering distributor

Condensed Consolidated Interim Financial Statements **2010**

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Headlam markets, supplies and distributes an extensive range of floorcovering products to independent flooring retailers and contractors throughout the UK, France, Switzerland and the Netherlands.

Our operational strategy is focused on providing our customers with an up to date comprehensive range of competitively priced floorcovering products with the support of a next day delivery.

As part of this strategy, Headlam offers its suppliers the opportunity to achieve wide market penetration backed by cost effective distribution.

In implementing this strategy, Headlam has developed a diverse and autonomous structure with 49 businesses in the UK and a further five in Continental Europe.

A key factor contributing to the group's success is the individuality of experienced management teams who are responsible for the market presence, development and ultimate profitability of their business.

Each business is supported by the commitment to continued investment in people, product, facilities and IT. This commitment has provided the basis for the group's growth and performance enabling it to develop into Europe's leading floorcovering distributor.

www.crucial-trading.com

www.plantationrug.co.uk

Financial Highlights

	2010 £000	2009 £000	Change
Revenue	**254,884**	253,354	+0.6%
Underlying operating profit*	**9,350**	9,015	+3.7%
Profit before tax	**8,473**	7,701	+10.0%
Basic earnings per share	**7.3p**	6.7p	+9.0%
Dividend per share	**3.83p**	3.70p	+3.5%

Key Points

- UK revenues increased by 0.3% on a like for like basis
- Indicators suggest UK performance ahead of the market
- Continental European revenues increased by 0.9% on a like for like basis
- Earnings increased by 9.0%
- Dividend increased by 3.5% from 3.70p to 3.83p

* Underlying operating profit for 2010 is arrived at by adding back exceptional pension costs of £0.18 million to the operating profit for the first six months amounting to £9.17 million.

Chairman's Statement

I am pleased to report that whilst market conditions remain challenging, group revenue for the first six months of 2010 has shown improvement, increasing by 0.6% from £253.4 million to £254.9 million.

On a like for like basis, revenue increased in the UK by 0.3% and in Continental Europe by 0.9%. Trading in the UK was undoubtedly disrupted in January because of the unusually poor weather conditions and if we exclude this month, like for like revenue from February to June increased by 1.2%.

Underlying operating profit increased by 3.7% from £9.02 million to £9.35 million. Underlying operating profit for 2010 is arrived at by adding back exceptional pension costs of £0.18 million to the operating profit for the first six months, which amounted to £9.17 million.

Earnings and dividend

Basic earnings per share increased by 9.0% from 6.7p to 7.3p and the board have declared a 3.5% increase in the interim dividend from 3.70p to 3.83p. The dividend will be paid on 4 January 2011 to shareholders on the register at 3 December 2010.

UK operations

Through the group's UK structure of 49 autonomous businesses, we were able to improve our market position and increase share. The structure enables the group to out-perform the market when it is particularly challenging and provides opportunities for growth as conditions improve.

The 49 businesses operate from 18 distribution centres and 13 service centres and are positioned within five market sectors dependent upon their geographical focus or product offering. They are categorised as *regional multi-product, national multi-product, regional commercial, residential specialist and commercial specialist.*

This ensures that our high service levels to customers are maintained, which incorporates the ongoing launch of new products, a comprehensive stock holding and a distribution infrastructure to provide a next day delivery service.

With our autonomous management teams focused on their specific responsibilities, developing product with our suppliers and continually positioning new product into independent flooring retailers and contractors, indicators would suggest that our performance in the first half of 2010 exceeded the general market trend.

Our supplier base is well established and by working closely with them, we have launched 2,108 new products in the first half of 2010, supported by 393,478 new point of sale items positioned into independent flooring retailers and contractors. With the involvement and support of our suppliers, we have launched a new initiative under the Lifestyle Floors brand. This is initially focused on carpet products, but will be enhanced in the late autumn, by the addition of residential vinyl, wood and laminate. This initiative has been well received by independent flooring retailers and will further strengthen the group's market presence.

Customers, both in residential and commercial flooring, have maintained their market share with the number of active accounts, payment to terms and debtor days consistent with the previous year. The incidence of bad debts has slightly reduced compared with last year.

The overall product mix of carpet, residential vinyl, commercial flooring, wood, laminate and rugs, remained fairly constant during the first six months. However, there has been a moderate improvement in gross margin, due to an increased proportion of carpet cut length sales, rather than full rolls.

Continental Europe

Conditions in Continental Europe, particularly France and the Netherlands have been similar to the UK and these businesses have produced a satisfactory performance during the first half of 2010.

In Switzerland, we have produced a more positive result, particularly due to an increased proportion of commercial flooring, which has been developed over recent years.

The positive contribution from all three businesses has resulted in an increase in profitability in the first six months.

Board appointment

Andrew Eastgate, who was a partner at Pinsent Masons for nearly 20 years until 2004, was appointed to the board as a non-executive director on 17 May 2010. Andrew's extensive corporate knowledge and expertise complements the commercial and financial experience of our two other non-executive directors and we look forward to working with him in the future.

Investments

In May, we completed the purchase of a 110,000 square feet freehold distribution centre, located in Rochdale, to provide National Carpets with increased capacity to expand its activities. We are still progressing the project to relocate Faithfulls, our regional multi-product business in the southeast of England, to a development site in Hadleigh near Ipswich. We anticipate that the project to construct a 127,000 square feet purpose built freehold distribution centre, will now be completed late 2011.

There are no further plans in the medium term, for any additional major projects and therefore, capital expenditure will only relate to refurbishment.

Pensions

As mentioned in the 2009 Annual Report and Accounts, the company decided to offer deferred members of the UK defined benefit pension plan the opportunity to transfer out of the plan. This exercise has now completed with 54% of the members accepting the offer.

The total cost to the company in respect of the transfer will amount to £7.2 million of which, £1.2 million was expended before 30 June 2010. A further £5.0 million was transferred to accepting members during July and August 2010, with the balance to be transferred during September 2010.

The offer was made to reduce and limit the company's exposure to the future risk of escalating defined benefit pension liabilities. By way of illustration, the IAS19 deficit at 30 June 2010 would have been £25.2 million instead of the £18.2 million recorded in the Condensed Consolidated Interim Financial Statements and, on a buyout basis, the liability would have been £64.7 million instead of £47.6 million following the transfer.

Administration and actuarial costs associated with the exercise and included in the income statement for the first six months amounted to approximately £180,000. Further costs will be incurred during the second half of the year, but these are not expected to be significant.

Cash flow

Cash generated from operations, before changes in working capital, amounted to £11.9 million during the first six months of 2010 compared with £11.7 million in the corresponding period in 2009.

The net investment in working capital, £6.6 million, reverted back to a level more typically associated with the first six months of the year compared with the slightly more unusual cash inflow of £3.4 million which occurred during the first half of last year because of the reduction in revenue activity. This change in working capital cash flow meant that cash generated from operations during the first six months reduced from £15.1 million to £5.2 million.

Cash flows from investing activities were as anticipated and the net cash outflow from financing activities of £5.0 million, compared with the £2.8 million outflow last year, was mainly due to a repayment of borrowings and the cash outflow that occurred in connection with the offer made to deferred members of the UK defined benefit pension plan.

Overall, the first six months gave rise to a net decrease in cash of £10.3 million compared with £0.7 million decrease last year, the variance being principally due to the working capital cash flow as mentioned above. The group ended the first six months with net funds amounting to £0.4 million compared with net debt at 30 June 2009 amounting to £2.0 million and net funds at 31 December 2009 of £9.7 million.

Outlook

We will continue with our strategy of concentrating on floorcovering distribution in the UK and Continental Europe. Utilising the business and management structure through which we operate, we are well positioned to sustain our out-performance of the floorcovering market trend and develop our business, principally by organic growth and also appropriate strategic acquisitions.

Trading in July and August 2010 has continued to be positive against the corresponding period in 2009 and in line with our internal expectations. Therefore, with the traditional busier autumn period ahead of us, we remain confident of achieving our objectives for the year.

Graham Waldron
27 August 2010

Condensed Consolidated Interim Income Statement

unaudited

	Note	**Six months ended 30 June 2010 £000**	Six months ended 30 June 2009 £000	Year ended 31 December 2009 £000
Revenue	7	**254,884**	253,354	533,793
Cost of sales		**(177,358)**	(177,392)	(371,533)
Gross profit		**77,526**	75,962	162,260
Distribution expenses		**(51,117)**	(49,081)	(100,698)
Administrative expenses		**(17,237)**	(17,866)	(36,804)
Operating profit	7	**9,172**	9,015	24,758
Finance income	8	**2,186**	1,878	3,764
Finance expenses	8	**(2,885)**	(3,192)	(6,458)
Net finance costs		**(699)**	(1,314)	(2,694)
Profit before tax		**8,473**	7,701	22,064
Taxation	9	**(2,415)**	(2,156)	(6,168)
Profit for the period attributable to the equity shareholders	7	**6,058**	5,545	15,896
Dividend paid per share	11	**11.00p**	19.70p	19.70p
Earnings per share				
Basic	10	**7.3p**	6.7p	19.1p
Diluted	10	**7.3p**	6.7p	19.1p

All group operations during the financial periods were continuing operations.

Condensed Consolidated Interim Statement of Comprehensive Income

unaudited

	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Year ended 31 December 2009 £000
Profit for the period attributable to the equity shareholders	**6,058**	5,545	15,896
Other comprehensive income:			
Foreign exchange translation differences arising on translation of overseas operations	**(951)**	(3,614)	(1,808)
Actuarial gains and losses on defined benefit plans	**(4,230)**	(8,763)	(10,042)
Effective portion of changes in fair value of cash flow hedges	**(1)**	(53)	(157)
Transfers to profit or loss on cash flow hedges	**225**	290	781
Income tax on other comprehensive income	**1,184**	2,456	2,854
Other comprehensive expenses for the period	**(3,773)**	(9,684)	(8,372)
Total comprehensive income/(expenses) attributable to the equity shareholders for the period	**2,285**	(4,139)	7,524

Condensed Consolidated Interim Statement of Changes in Equity

unaudited

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009	4,268	53,512	88	7,105	(848)	(13,057)	110,066	161,134
Total comprehensive income for the period	–	–	–	(3,614)	237	–	(762)	(4,139)
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	132	132
Deferred tax on share options	–	–	–	–	–	–	1	1
Dividends to equity holders	–	–	–	–	–	–	(16,354)	(16,354)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	–	(16,221)	(16,221)
Balance at 30 June 2009	4,268	53,512	88	3,491	(611)	(13,057)	93,083	140,774
Balance at 1 July 2009	4,268	53,512	88	3,491	(611)	(13,057)	93,083	140,774
Total comprehensive income for the period	–	–	–	1,806	387	–	9,470	11,663
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	184	184
Deferred tax on share options	–	–	–	–	–	–	8	8
Total contributions by and distributions to equity shareholders	–	–	–	–	–	–	192	192
Balance at 31 December 2009	4,268	53,512	88	5,297	(224)	(13,057)	102,745	152,629

Condensed Consolidated Interim Statement of Changes in Equity continued

unaudited

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2010	4,268	53,512	88	5,297	(224)	(13,057)	102,745	152,629
Total comprehensive income for the period	–	–	–	(951)	224	–	3,012	2,285
Transactions with equity shareholders, recorded directly in equity								
Share-based payments	–	–	–	–	–	–	166	166
Deferred tax on share options	–	–	–	–	–	–	(12)	(12)
Dividends to equity holders	–	–	–	–	–	–	(9,132)	(9,132)
Total contributions by and distributions to equity shareholders	–	–	–	–	–	–	(8,978)	(8,978)
Balance at 30 June 2010	4,268	53,512	88	4,346	–	(13,057)	96,779	145,936

Condensed Consolidated Interim Balance Sheet

unaudited

	At 30 June 2010 £000	At 30 June 2009 £000	At 31 December 2009 £000
Assets			
Non-current assets			
Property, plant and equipment	**99,937**	102,063	96,530
Intangible assets	**13,210**	13,210	13,210
Deferred tax assets	**3,685**	3,712	4,731
	116,832	118,985	114,471
Current assets			
Inventories	**105,429**	106,399	99,637
Trade and other receivables	**98,026**	96,120	101,149
Cash and cash equivalents	**34,616**	34,977	45,737
Assets held for sale	**–**	–	2,275
	238,071	237,496	248,798
Total assets	**354,903**	356,481	363,269
Liabilities			
Current liabilities			
Bank overdraft	**–**	(1,198)	(758)
Other interest-bearing loans and borrowings	**(215)**	(5,749)	(900)
Trade and other payables	**(150,726)**	(149,452)	(143,216)
Employee benefits	**(2,545)**	(2,460)	(2,506)
Income tax payable	**(4,885)**	(7,057)	(8,615)
	(158,371)	(165,916)	(155,995)
Non-current liabilities			
Other interest-bearing loans and borrowings	**(33,958)**	(30,000)	(34,392)
Employee benefits	**(16,638)**	(19,791)	(20,253)
	(50,596)	(49,791)	(54,645)
Total liabilities	**(208,967)**	(215,707)	(210,640)
Net assets	**145,936**	140,774	152,629
Equity attributable to equity holders of the parent			
Share capital	**4,268**	4,268	4,268
Share premium	**53,512**	53,512	53,512
Other reserves	**(8,623)**	(10,089)	(7,896)
Retained earnings	**96,779**	93,083	102,745
Total equity	**145,936**	140,774	152,629

Condensed Consolidated Interim Cash Flow Statements

unaudited

	Note	**Six months ended 30 June 2010 £000**	Six months ended 30 June 2009 £000	Year ended 31 December 2009 £000
Cash flows from operating activities				
Profit before tax for the period		**8,473**	7,701	22,064
Adjustments for:				
Depreciation, amortisation and impairment		**2,578**	2,604	6,524
Finance income		**(2,186)**	(1,878)	(3,764)
Finance expense		**2,885**	3,192	6,458
Profit on sale of property, plant and equipment		**(38)**	(34)	(102)
Share-based payments		**166**	132	316
Operating profit before changes in working capital and other payables		**11,878**	11,717	31,496
Change in inventories		**(6,387)**	(904)	6,618
Change in trade and other receivables		**3,069**	7,135	3,028
Change in trade and other payables		**(3,321)**	(2,868)	2,511
Cash generated from the operations		**5,239**	15,080	43,653
Interest paid		**(618)**	(1,306)	(2,272)
Tax paid		**(3,927)**	(4,294)	(7,425)
Additional contributions to defined benefit plan		**(1,236)**	(1,305)	(2,607)
Net cash flow from operating activities		**(542)**	8,175	31,349
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**1,425**	38	664
Interest received		**284**	457	846
Acquisition of property, plant and equipment		**(6,530)**	(6,589)	(7,313)
Net cash flow from investing activities		**(4,821)**	(6,094)	(5,803)
Cash flows from financing activities				
(Repayment)/proceeds from borrowings		**(742)**	1,855	1,152
Pension buy-out initiative		**(1,159)**	–	–
Dividends paid		**(3,072)**	(4,649)	(16,354)
Net cash flow from financing activities		**(4,973)**	(2,794)	(15,202)
Net (decrease)/increase in cash and cash equivalents		**(10,336)**	(713)	10,344
Cash and cash equivalents at 1 January		**44,979**	35,193	35,193
Effect of exchange rate fluctuations on cash held		**(27)**	(701)	(558)
Cash and cash equivalents at end of period	12	**34,616**	33,779	44,979

Notes to the Condensed Consolidated Interim Financial Statements

unaudited

1 REPORTING ENTITY

Headlam Group plc the "company" is a company incorporated in the UK. The Condensed Consolidated Interim Financial Statements consolidate those of the company and its subsidiaries which together are referred to as the "group" as at and for the six months ended 30 June 2010.

The Consolidated Financial Statements of the group as at and for the year ended 31 December 2009 are available upon request from the company's registered office or the website.

The comparative figures for the financial year ended 31 December 2009 are not the group's statutory accounts for that financial year. Those accounts have been reported on by the group's auditor and delivered to the registrar of companies. The report of the auditor 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 section 498(2)or(3) of the Companies Act 2006.

These Condensed Consolidated Interim Financial Statements have not been audited or reviewed by the auditor pursuant to the Auditing Practices Board's Guidance on Financial Information.

2 STATEMENT OF COMPLIANCE

These Condensed Consolidated Interim Financial Statements have been prepared and approved by the directors in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as adopted by the EU (adopted IAS 34). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Consolidated Financial Statements of the group as at and for the year ended 31 December 2009.

These Condensed Consolidated Interim Financial Statements were approved by the board of directors on 27 August 2010.

3 SIGNIFICANT ACCOUNTING POLICIES

Impact of newly adopted accounting standards

The Condensed Consolidated Interim Financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the group's published Consolidated Financial Statements for the year ended 31 December 2009 except for the following accounting standards and interpretations which are effective for the group from 1 January 2010:

- International Accounting Standard (IAS) 27 'Consolidated and separate financial statements (revised 2008)'
- International Financial Reporting Standard (IFRS) 3 'Business combinations (revised 2008)'
- International Financial Reporting Interpretations Committee (IFRIC) 12 'Service concession arrangements'
- IFRIC 15 'Agreements for the construction of real estate'
- IFRIC 16 'Hedges of a net investment in a foreign operation'

As outlined in the audited Financial Statements for the year ended 31 December 2009, revised IFRS 3 'Business Combinations (2008)' incorporates certain changes that amend the group's current accounting policies in respect of business combinations, the main change being that transaction costs, other than share and debt issue costs, will be expensed as incurred. The adoption of amended IAS 27 'Consolidated and Separate Financial Statements (2008)' requires accounting for changes in ownership interests by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss.

All other new, revised or amended standards and interpretations have not had any material impact on the group's results or presentation of these Condensed Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements continued

unaudited

New standards and interpretations not yet adopted

The following standards and interpretations have been published, endorsed by the EU, and are available for early adoption, but have not yet been applied by the group in these Condensed Interim Financial Statements.

- Amendments to IAS 32 'Classification of Rights Issues' - requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' - deals with how entities should measure equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.

  The above new standards, amendments to standards or interpretations will become mandatory for the group's 2011 Consolidated Financial Statements and are not expected to have a material impact.

4 GOING CONCERN

The directors have reviewed current performance and forecasts, combined with borrowing facilities and expenditure commitments, including capital expenditure, pensions and proposed dividends. After making enquiries, the directors have a reasonable expectation that the group has adequate financial resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For these reasons, the going concern basis has been adopted in preparing the financial statements.

The group has in place £34.2 million of committed credit facilities and £44.8 million of uncommitted facilities. The uncommitted facilities are due to mature at various times during 2011 and the directors believe that appropriate replacements will be renewed in advance of the maturity date.

5 ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2009.

6 FINANCIAL RISK MANAGEMENT

All aspects of the group's financial risk management objectives and policies are consistent with that disclosed in the Consolidated Financial Statements as at and for the year ended 31 December 2009.

7 SEGMENT REPORTING

The group has 54 operating segments which represent the individual trading operations throughout the UK (49 segments) and Continental Europe (5 segments). Each of the operations is wholly aligned to the sales, marketing, supply and distribution of floorcovering products. The operating results of each are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Group Chief Executive. Discrete financial information is available for each and used by the Group Chief Executive to make decisions about resources to be allocated to the segment and assess its performance.

The operating segments have been aggregated to the extent that they have similar economic characteristics, with relevance to products/services, type and class of customer, methods of sale and distribution and the regulatory environment in which they operate. The group's internal management structure and financial reporting systems differentiate the operating segments on the basis of the differing regulatory and economic environment in the UK and Continental Europe and accordingly report these as two separate reportable segments. This distinction is embedded in the construction of operating reports reviewed by the Group Chief Executive, the board and the executive management team and forms the basis for the presentation of operating segment information given below.

Notes to the Condensed Consolidated Interim Financial Statements continued

unaudited

7 SEGMENT REPORTING continued

	UK			Continental Europe			Total		
	30 June 2010 £000	30 June 2009 £000	31 Dec 2009 £000	**30 June 2010 £000**	30 June 2009 £000	31 Dec 2009 £000	**30 June 2010 £000**	30 June 2009 £000	31 Dec 2009 £000
Revenue									
External revenues	**204,340**	202,827	429,646	**50,544**	50,527	104,147	**254,884**	253,354	533,793
Depreciation	**1,319**	1,406	2,834	**356**	321	733	**1,675**	1,727	3,567
Reportable segment result	**8,686**	8,449	23,106	**1,018**	837	2,487	**9,704**	9,286	25,593
Reportable segment assets	**218,205**	217,708	223,044	**44,783**	46,977	49,636	**262,988**	264,685	272,680
Capital expenditure	**441**	460	926	**384**	2,017	2,197	**825**	2,477	3,123
Reportable segment liabilities	**(122,181)**	(115,703)	(123,088)	**(22,486)**	(22,631)	(20,662)	**(144,667)**	(138,334)	(143,750)

During the periods shown above there have been no inter-segment revenues.

Reconciliations of reportable segment profit, assets and liabilities and other material items:

	30 June 2010 £000	30 June 2009 £000	31 December 2009 £000
Profit for the period			
Total profit for reportable segments	**9,704**	9,286	25,593
Impairment of assets	**–**	–	(1,211)
Unallocated (expense)/income	**(532)**	(271)	376
Operating profit	**9,172**	9,015	24,758
Finance income	**2,186**	1,878	3,764
Finance expense	**(2,885)**	(3,192)	(6,458)
Profit before taxation	**8,473**	7,701	22,064
Taxation	**(2,415)**	(2,156)	(6,168)
Profit for the period	**6,058**	5,545	15,896

Notes to the Condensed Consolidated Interim Financial Statements continued

unaudited

7 SEGMENT REPORTING continued

	30 June 2010 £000	30 June 2009 £000	31 December 2009 £000
Assets			
Total assets for reportable segments	**262,988**	264,685	272,680
Unallocated assets:			
Properties, plant and equipment	**88,231**	88,084	83,583
Deferred tax assets	**3,685**	3,712	4,731
Assets held for sale	**–**	–	2,275
Total assets	**354,904**	356,481	363,269
Liabilities			
Total liabilities for reportable segments	**(144,667)**	(138,334)	(143,750)
Unallocated liabilities:			
Employee benefits	**(19,183)**	(22,251)	(22,759)
Net borrowings	**(34,173)**	(35,749)	(35,292)
Income tax payable	**(4,884)**	(7,057)	(8,615)
Proposed dividend	**(6,060)**	(11,705)	–
Derivative liabilities	**–**	(611)	(224)
Total liabilities	**(208,967)**	(215,707)	(210,640)

	Reportable segment totals £000	Group items £000	Consolidated totals £000
Other material items 30 June 2010			
Capital expenditure	**825**	**5,704**	**6,529**
Depreciation	**1,675**	**903**	**2,578**
	2,500	**6,607**	**9,107**
Other material items 30 June 2009			
Capital expenditure	2,477	4,112	6,589
Depreciation	1,727	877	2,604
	4,204	4,989	9,193
Other material items 31 December 2009			
Capital expenditure	3,123	4,190	7,313
Depreciation	3,567	1,746	5,313
Impairment of assets	–	1,211	1,211
	6,690	7,147	13,837

Each segment is a continuing operation.

Notes to the Condensed Consolidated Interim Financial Statements continued

unaudited

8 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Year ended 31 December 2009 £000
Interest income:			
Bank interest	**179**	365	641
Other	**129**	66	62
Return on defined benefit plan assets	**1,878**	1,447	3,061
Finance income	**2,186**	1,878	3,764
Interest expense:			
Bank loans, overdrafts and other financial expenses	**(536)**	(1,171)	(2,256)
Interest on defined benefit plan obligation	**(2,349)**	(2,021)	(4,202)
Finance expenses	**(2,885)**	(3,192)	(6,458)

9 TAXATION

The group consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2010 was 28.5% *(for the six months ended 30 June 2009: 28%, for the year ended 31 December 2009: 28%).*

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% will be effective from 1 April 2011. If the rate change from 28% to 27% had been substantively enacted on or before the balance sheet date it would have had the effect of reducing the deferred tax asset recognised at that date by £132,000. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although it is expected to further reduce the company's future current tax charge and reduce the company's deferred tax assets accordingly.

Notes to the Condensed Consolidated Interim Financial Statements continued

unaudited

10 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Year ended 31 December 2009 £000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being profit attributable to equity holders of the parent	**6,058**	5,545	15,896

	2010	2009	2009
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**83,115,096**	83,115,096	83,115,096
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**83,115,096**	83,115,096	83,115,096
Share options	**982,135**	613,727	595,162
Number of shares that would have been issued at fair value	**(809,858)**	(540,301)	(500,540)
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**83,287,373**	83,188,522	83,209,718

11 DIVIDENDS

	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Year ended 31 December 2009 £000
Interim dividend for 2009 of 3.70p paid 4 January 2010	**3,072**	–	–
Final dividend for 2009 of 7.30p proposed	**6,060**	–	–
Interim dividend for 2008 of 5.60p paid 2 January 2009	**–**	4,649	4,649
Final dividend for 2008 of 14.10p proposed	**–**	11,705	11,705
	9,132	16,354	16,354

The final proposed dividend for 2009 of 7.30p per share was authorised by shareholders at the Annual General Meeting on 25 June 2010 and paid on 1 July 2010. The final proposed dividend for 2008 of 14.10p per share was authorised by shareholders at the Annual General Meeting on 26 June 2009 and paid on 1 July 2009.

Notes to the Condensed Consolidated Interim Financial Statements continued

unaudited

12 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

	At 30 June 2010 £000	At 30 June 2009 £000	At 31 December 2009 £000
Cash and cash equivalents per balance sheet	**34,616**	34,977	45,737
Bank overdrafts	**–**	(1,198)	(758)
Cash and cash equivalents per cash flow statements	**34,616**	33,779	44,979

13 CAPITAL COMMITMENTS

As at 30 June 2010, the group had contractual commitments relating to the purchase of property, plant and equipment of £53,000 *(30 June 2009: £122,000, 31 December 2009: £225,000)*. These commitments are expected to be settled prior to 31 December 2010.

14 RELATED PARTIES

The group has a related party relationship with its subsidiaries and with its directors. There have been no changes to the nature of related party transactions entered into since the last annual report.

Statement of Directors' Responsibilities

We confirm to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;

(b) the interim management report includes 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.

This report has been approved by the board of directors and signed on its behalf by

Graham Waldron
Chairman
27 August 2010

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