International Greetings PLC

Shaping the Future











Interim Report

2008

Chairman's Statement

Notwithstanding the challenges facing all businesses due to the economic climate we continue to focus on the two year recovery plan for the turnaround of our business. Our key objectives are cash management, overhead control and margin enhancement. I announce below the interim results for the six months to 30 September 2008.

Financial review

Turnover for the period was £100.5 million (2007: £91.7 million) with an adjusted operating profit, before significant items of £0.6 million (2007: £4.1 million). After significant items the operating loss was £4.3 million (2007: £4.1 million profit). Finance expenses during the period increased to £3.6 million from £1.7 million last year. The Group's share of profits of continuing associates was £0.1 million (2007: Nil) and after significant items this resulted in a loss before tax of £7.8 million (2007: £2.4 million profit). Basic loss per share for the period was 10.8 pence (2007: 3.0 pence earnings). Adjusted loss per share before significant items and discontinued operations was 1.0 pence (2007: 4.0 pence earnings).

In light of current trading conditions the Board is of the opinion that it would not be appropriate to recommend an interim dividend at this time (2007: 2.0 pence per share).

The increase in finance expenses reflects an increase in working capital required to support growth in turnover and interest rate changes. In addition, to ensure that funding was secured for the year, detailed financial reviews of the Group were undertaken, and specialist strategic and banking advice was taken. A significant item of £1.4 million relates to the associated costs of this advice. We enjoy the continuing support of our banks and have in place adequate facilities to provide the necessary working capital for the business for the foreseeable future.

Operational review

In the UK, the restructuring of the Greetings Division continued during the first half of this financial year with significant items of £1.6 million. These costs relate primarily to redundancies with 116 members of staff leaving the business. A further 83 have left since the period end. We anticipate that the restructuring will be concluded by the year end in March and that our business model will then be aligned with the current demands of the UK market place.

In Europe, the Hoomark manufacturing division is achieving its goals of maintaining market share, but with a clear focus on improving efficiency and, in turn, increasing margins.

In the US following last year's purchase of Glitterwrap, together with organic growth of the existing business, sales at the interim stage increased by 30%. This trend is expected to continue for the full year.

We continue to look for ways to become more efficient in how we manufacture and distribute goods to the US market place and have identified further rationalisation opportunities which will take place during the second half of the financial year. As previously announced, the investment in Halloween Express was sold on 30 April with a net $3.5 million being received for our share of the business.

In China we have completed a successful peak season of manufacturing at our plant. The equipment transferred from Latvia has now been installed and commissioned which increases the range of products we are now able to manufacture rather than outsource. In light of the economic conditions in the region we reassessed the value of this equipment which led to an impairment provision of £1.7 million. This will result in a reduced depreciation charge in the future.

By investing in our own factory we have reduced the risk to our business from the challenging supply situation currently facing businesses purchasing goods from China. With many factory closures in the region we, in common with others in our industry, have experienced disruption of supply. This also includes the loss of a large quantity of seasonal goods due to a fire at a supplier's premises. These problems have resulted in a significant loss in the period of £1 million. We shall be submitting an insurance claim to cover that loss. With greater control over our supply chain by increasing our own production we will minimise these problems in the future.

The investment in our associate Artwrap, Australia continues to meet our expectations. New business opportunities have been created by Artwrap offering the Group's large portfolio of products to its customers and we continue to realise synergy benefits from joint sourcing in China.

Board changes and management incentive

It is being separately announced today that Nick Fisher, our CEO, who has been a key player in the development and growth of the Group for the last 20 years, having successfully overseen the restructuring and management changes we have made over the last 12 months, has decided to resign from the Board with effect from 31 December 2008. He has agreed to act as a consultant to the Board for the foreseeable future and has indicated his intention to remain a shareholder.

On behalf of the Board and the shareholders, I thank Nick for his contribution to the business over many years and wish him well for the future. Paul Fineman, who joined the Board in 2005 and became Group Managing Director last January, will succeed Nick as CEO.

We believe strongly in the future potential of our business and the motivation of our Executive Directors and Senior Management is key to our success. To this end, the Board has approved a new share incentive scheme which will be implemented in due course. This scheme will ensure that as our business succeeds and corporate value is restored for our shareholders, our management will also benefit from their hard work and commitment.

Current trading and outlook

Our busiest trading period spans the half year end with substantial sales made during October and November. The bulk of deliveries have now been made for the Christmas season, in line with our expectations. Our sales teams are now actively in discussions with customers for next year's seasonal orders with a clear focus on margin growth. In addition we continue to secure orders for our growing counter cyclical spring and summer business which now accounts for approximately 50% of Group revenues.

Sales in the UK have remained stable year-on-year and we expect this trend to continue in the second half. It has been well publicised that a number of retailers have either closed or are in difficulty. The Board has taken steps to protect our position and to reduce the Group's exposure to these customers.

Although it is anticipated that the challenging retail environment is likely to persist for some time, consumers and retailers continue to purchase substantial volumes of our products in all geographical territories. With the restructuring and cost control initiatives announced last year we have not only prepared our business for the current economic climate but we will also be in a good position to reap the rewards when market conditions improve.

Keith James OBE
Chairman
11 December 2008

Consolidated income statement

For the six months ended 30 September 2008

	Unaudited six months ended 30 September 2008			Unaudited six months ended 30 September 2007	12 months to 31 March 2008		
	Before significant items £000	**Significant items (note 4) £000**	**Total £000**	£000	Before significant items £000	Significant items (note 4) £000	Total £000
Continuing operations							
Revenue	**100,503**	**–**	**100,503**	91,736	194,168	–	194,168
Cost of sales	**(77,433)**	**(2,477)**	**(79,910)**	(64,829)	(148,366)	(4,309)	(152,675)
Gross profit	**23,070**	**(2,477)**	**20,593**	26,907	45,802	(4,309)	41,493
Distribution expenses	**(9,097)**	**(958)**	**(10,055)**	(7,621)	(16,041)	(95)	(16,136)
Administration expenses	**(14,024)**	**(1,631)**	**(15,655)**	(15,920)	(30,096)	(3,324)	(33,420)
Other operating income	**628**	**–**	**628**	740	586	–	586
Profit on sales of fixed assets	**21**	**199**	**220**	–	31	257	288
Operating (loss)/profit	**598**	**(4,867)**	**(4,269)**	4,106	282	(7,471)	(7,189)
Finance expenses	**(2,255)**	**(1,379)**	**(3,634)**	(1,674)	(3,861)	–	(3,861)
Share of profit of associates (net of tax)	**126**	**–**	**126**	–	509	–	509
(Loss)/profit before tax	**(1,531)**	**(6,246)**	**(7,777)**	2,432	(3,070)	(7,471)	(10,541)
Income tax credit/(charge)	**1,081**	**1,549**	**2,630**	(552)	1,591	1,287	2,878
(Loss)/profit from continuing operations	**(450)**	**(4,697)**	**(5,147)**	1,880	(1,479)	(6,184)	(7,663)
Discontinued operations							
Profit/(loss) from discontinued operations (net of tax)	**48**	**–**	**48**	(462)	(1,411)	(2,964)	(4,375)
(Loss)/profit for the year attributable to equity holders of parent company	**(402)**	**(4,697)**	**(5,099)**	1,418	(2,890)	(9,148)	(12,038)
(Loss)/earnings per ordinary share							
Basic and Diluted			**(10.8p)**	3.0p			(25.7p)

Consolidated balance sheet
as at 30 September 2008

	Unaudited as at 30 September 2008 £000	Unaudited as at 30 September 2007 £000	12 months to 31 March 2008 £000
Non-current assets			
Property, plant and equipment	**41,034**	43,813	43,485
Intangible assets	**35,876**	32,502	35,544
Investment in associates	**3,217**	3,630	3,106
Deferred tax assets	**5,376**	–	4,169
Total non-current assets	**85,503**	79,945	86,304
Current assets			
Inventory	**72,862**	66,472	56,990
Tax receivable	**82**	–	918
Trade and other receivables	**81,662**	84,192	33,779
Cash and cash equivalents	**36**	20	2,137
Other financial assets	**427**	–	–
Assets classified as held for sale	**–**	–	1,718
Total current assets	**155,069**	150,684	95,542
Total assets	**240,572**	230,629	181,846
Equity			
Share capital	**2,353**	2,353	2,353
Share premium	**3,006**	3,007	3,006
Reserves	**17,451**	13,298	15,263
Retained earnings	**43,326**	63,100	48,425
Total equity attributable to equity holders of the parent company	**66,136**	81,758	69,047
Non-current liabilities			
Loans and borrowings	**8,632**	1,900	1,843
Deferred income	**4,276**	4,597	4,752
Provisions	**1,345**	1,345	1,345
Other financial liabilities	**924**	6,170	2,806
Total non-current liabilities	**15,177**	14,012	10,746
Current liabilities			
Bank overdraft	**104,147**	93,082	64,898
Loans and borrowings	**442**	256	241
Deferred income	**953**	954	954
Provisions	**512**	–	510
Tax payable	**–**	–	–
Trade and other payables	**34,641**	27,150	21,698
Income Tax liabilities	**34**	789	59
Other financial liabilities	**18,530**	12,628	13,693
Total current liabilities	**159,259**	134,859	102,053
Total liabilities	**174,436**	148,871	112,799
Total equity and liabilities	**240,572**	230,629	181,846

Consolidated cash flow statement

as at 30 September 2008

	Unaudited to 30 September 2008 £000	Unaudited to 30 September 2007 £000	12 months to 31 March 2008 £000
Cash flows from operating activities			
(Loss)/profit for the period/year	**(5,099)**	1,418	(12,038)
Adjustments for:			
Depreciation and impairment losses	**4,581**	2,833	6,759
Amortisation of intangible assets	**101**	–	221
Financial expenses	**3,634**	1,674	3,861
Share of (profit)/loss of associates	**(126)**	343	390
Gain on sale of property, plant and equipment	**(220)**	–	(288)
Equity settled share-based payments	**–**	65	(213)
Income tax (credit)/charge – continuing operations	**(2,630)**	552	(2,878)
Income tax charge/(credit) – discontinued operations	**29**	(54)	(1,731)
(Gain)/loss on discontinued associate included within assets held for sale	**(77)**	–	3,969
Negative goodwill recognised	**–**	–	(189)
Foreign exchange (losses)/gains	**–**	–	(70)
Operating profit/(loss) before changes in working capital and provisions	**193**	6,831	(2,207)
Change in trade and other receivables	**(43,048)**	(43,109)	7,834
Change in inventory	**(13,557)**	(14,402)	(3,222)
Change in trade and other payables	**13,578**	9,665	3,834
Change in provisions and deferred income	**477**	(416)	(478)
Cash (absorbed by)/generated from operations	**(42,357)**	(41,431)	5,761
Interest and similar charges paid	**(3,613)**	(2,074)	(4,191)
Tax received/(paid)	**861**	(497)	(1,533)
Net cash (outflow)/inflow from operating activities	**(45,109)**	(44,002)	37
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment	**750**	3,715	5,114
Acquisition of subsidiary, including overdrafts acquired	**(485)**	(10,555)	(11,187)
Acquisition of shares in associates	**(781)**	(791)	(8,252)
Net movement from the sale and purchase of intangible assets	**(107)**	–	50
Acquisition of property, plant and equipment	**(1,203)**	(3,785)	(7,295)
Receipt of government grants	**–**	1,962	1,960
Receipts from sales of investments	**1,796**	20	20
Net cash inflow/(outflow) from investing activities	**(30)**	(9,434)	(19,590)
Cash flows from financing activities			
Change in borrowings	**7,044**	(159)	(433)
Payment of finance lease liabilities	**(39)**	(48)	(132)
Dividends paid	**–**	(3,629)	(4,570)
Net cash inflow/(outflow) from financing activities	**7,005**	(3,836)	(5,135)
Net decrease in cash and cash equivalents	**(38,134)**	(57,272)	(24,688)
Cash and cash equivalents at beginning of period	**(62,761)**	(35,567)	(35,567)
Effect of exchange rate fluctuations on cash held	**(3,216)**	(223)	(2,506)
Cash and cash equivalents at end of period	**(104,111)**	(93,062)	(62,761)

Consolidated statement of changes in equity

For the six months ended 30 September 2008

September 2008	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Capital redemption reserve £000	Hedging reserve £000	Translation reserve £000	**Total equity attributable to equity holder of the parent company £000**
Balance at 1 April 2008	2,353	3,006	15,533	48,425	1,340	(125)	(1,485)	**69,047**
Effective changes in fair value of cash flow hedge (net of tax)	–	–	–	–	–	432	–	**432**
Exchange adjustment	–	–	–	–	–	–	1,756	**1,756**
Net income recognised directly in equity	–	–	–	–	–	432	1,756	**2,188**
Loss for the period	–	–	–	(5,099)	–	–	–	**(5,099)**
Total income and expense recognised for the period	–	–	–	(5,099)	–	432	1,756	**(2,911)**
Dividends paid	–	–	–	–	–	–	–	**–**
Equity settled share based payments	–	–	–	–	–	–	–	**–**
Shares issued	–	–	–	–	–	–	–	**–**
Balance at 30 September 2008	2,353	3,006	15,533	43,326	1,340	307	271	**66,136**

Consolidated statement of changes in equity

For the six months ended 30 September 2008

September 2007	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Capital redemption reserve £000	Hedging reserve £000	Translation reserve £000	**Total equity attributable to equity holder of the parent company £000**
Balance at 1 April 2007	2,317	2,515	13,416	65,246	1,340	–	(2,997)	**81,837**
Exchange adjustment	–	–	–	–	–	–	(578)	**(578)**
Net income recognised directly in equity	–	–	–	–	–	–	(578)	**(578)**
Profit for the period	–	–	–	1,418	–	–	–	**1,418**
Total income and expense recognised for the period	–	–	–	1,418	–	–	(578)	**840**
Dividends paid	–	–	–	(3,629)	–	–	–	**(3,629)**
Equity settled share based payments	–	–	–	65	–	–	–	**65**
Shares issued	36	492	2,117	–	–	–	–	**2,645**
Balance at 30 September 2007	2,353	3,007	15,533	63,100	1,340	–	(3,575)	**81,758**

Consolidated statement of changes in equity

For the six months ended 30 September 2008

March 2008	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Capital redemption reserve £000	Hedging reserve £000	Translation reserve £000	**Total equity attributable to equity holder of the parent company £000**
Balance at 1 April 2007	2,317	2,515	13,416	65,246	1,340	–	(2,997)	**81,837**
Effective changes in fair value of cash flow hedge (net of tax)	–	–	–	–	–	(125)	–	**(125)**
Exchange adjustment	–	–	–	–	–	–	1,512	**1,512**
Net income recognised directly in equity	–	–	–	–	–	(125)	1,512	**1,387**
Loss for the year	–	–	–	(12,038)	–	–	–	**(12,038)**
Total income and expense recognised for the year	–	–	–	(12,038)	–	(125)	1,512	**(10,651)**
Dividends paid	–	–	–	(4,570)	–	–	–	**(4,570)**
Equity settled share based payments	–	–	–	(213)	–	–	–	**(213)**
Shares issued	36	491	2,117	–	–	–	–	**2,644**
Balance at 31 March 2008	2,353	3,006	15,533	48,425	1,340	(125)	(1,485)	**69,047**

Notes

1 Accounting policies

Basis of preparation

The financial information contained in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies act and is unaudited.

The Group interim report has been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs."). The comparative figures for the financial year ended 31 March 2008 are based on the Group's statutory accounts for that financial year. 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 section 237 (2) or (3) of the Companies Act 1985.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in this Group interim report and in preparing an opening IFRS balance sheet at 1 April 2006 for the purposes of transition to Adopted IFRS.

The interim report has been prepared on the going concern basis notwithstanding the loss for the period of £5.1 million and net current liabilities at 30 September 2008 of £4.2 million. The Directors believe this to be appropriate because as in previous years, the Group relies primarily on an overdraft facility for its working capital needs and its principal bank has stated that, without prejudice to the on demand nature of the facility, it is their present intention that the facility will remain in place until 31 December 2009 when the renewal of the facility will be reviewed. The bank has also confirmed, assuming the business performs in line with expectations, that the facility will be renewed on 31 December 2009. The Directors consider that this will enable the company to continue to meet its liabilities as they fall due for payment. As with any company placing reliance on external entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of this interim report, they have no reason to believe it will not do so.

Adopted IFRS not yet applied

The following Adopted IFRSs were endorsed and available for early application but have not been applied by the Group in this interim report. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

IFRS 8 'Operating Segments' (mandatory for years commencing on or after 1 January 2009). The impact of this standard is to change the way operating segments are presented in the financial statements. The standard requires disclosure of segment information based on the internal reports regularly reviewed by Management in order to assess each segment's performance and to allocate resources to them. The Group is currently reviewing the way in which internal reports are presented and so no segmental analysis is presented in this report.

Measurement convention

The interim report is prepared on the historical cost basis except that financial instruments used for hedging are stated at their fair value.

1 Accounting policies continued

Foreign currency translation

The consolidated interim report is presented in pounds sterling, which is the Group's presentational currency.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to the translation reserve. They are released into the income statement upon disposal.

2 Taxation charge

Taxation for the six months to 30 September is based on the effective rate of taxation, which is estimated to apply in each country for the year ended 31 March 2009.

3 Earnings per share

	As at 30 September 2008 £000	As at 30 September 2007 £000	12 months to 31 March 2008 £000
Adjusted basic (loss)/earnings per share excluding significant items and discontinued operations	**(1.0p)**	4.0p	(3.2p)
Loss per share on significant items	**(9.9p)**	–	(13.2p)
Loss per share on discontinued operations	**0.1p**	(1.0p)	(9.3p)
Basic (loss)/earnings per share	**(10.8p)**	3.0p	(25.7p)
Diluted (loss)/earnings per share	**(10.8p)**	3.0p	(25.7p)

The basic loss per share is based on the loss of £5,099,000 (2007: £1,418,000 profit) and a weighted average number of ordinary shares in issue of 47,056,685 (2007: £46,600,114) calculated as follows:

Weighted average number of shares at the start of the year in thousands of shares	**September 2008**	September 2007	to 31 March 2008
Issued ordinary shares at start of period	**47,056**	46,330	46,330
Shares issued in respect of acquisitions	**–**	262	461
Shares issued in respect of exercising of share options	**–**	8	8
Weighted average number of shares at the end of the year	**47,056**	46,600	46,799

Adjusted basic loss per share excluded significant items charged of £6,246,000 (2007: Nil), the tax relief attributable to those items of £1,549,000 (2007: Nil), and the profit on discontinued operations (net of tax) of £48,000 (2007: £462,000 loss).

Share options have not been included in the calculation of fully diluted losses per share for 31 March 2008 because their inclusion would be anti-dilutive. There were no options outstanding at 30 September 2008.

4 Significant items

	Cost of sales £000	Distribution expenses £000	Administration expenses £000	Profit on disposal of plant and equipment £000	Financial expense £000	Total £000
Continuing operations for the period to 30 September 2008						
UK restructuring	**208**	**110**	**1,436**	**(199)**	**–**	**1,555**
Financial restructuring	**–**	**–**	**–**	**–**	**1,379**	**1,379**
UK retailer bad debt provisions	**–**	**408**	**–**	**–**	**–**	**408**
Latvia closure	**1,735**	**–**	**–**	**–**	**–**	**1,735**
Asian supplier disruption	**534**	**440**	**27**	**–**	**–**	**1,001**
Other significant restructuring measures across Group	**–**	**–**	**168**	**–**	**–**	**168**
	2,477	**958**	**1,631**	**(199)**	**1,379**	**6,246**
Continuing operations for the year ended 31 March 2008						
UK restructuring	1,507	95	1,085	–	–	2,687
Latvia closure	1,988	–	1,185	–	–	3,173
Integration of acquisitions	814	–	735	–	–	1,549
Aborted acquisition costs	–	–	319	–	–	319
Profit on disposal of plant and equipment	–	–	–	(257)	–	(257)
	4,309	95	3,324	(257)	–	7,471

UK restructuring costs, primarily staff redundancy, are due to the rationalisation currently being undertaken within the UK Greetings Division.

Financial restructuring relates to the facility fees and external advisor costs incurred in order to secure the Group's banking facilities required to provide the necessary working capital for the business for the foreseeable future.

The transfer of the equipment from Group's Latvian production facility to other parts of the Group announced last year has now been completed. In the light of current market conditions the economic value of this equipment has been reassessed which resulted in a one off impairment of £1.7 million.

After the half year end a significant UK high street retail customer went into administration, an increase in bad debt provisions of £0.4 million was made to cover the total amount unpaid prior to September. We are currently in negotiations with the administrators to recover some or all of the amounts due.

During the year the Group incurred significant additional costs due to disruption of the supply of goods from subcontractors based in Asia. The costs relate to the incremental expenditure incurred by switching to alternative suppliers and for air freight to customers. One supplier suffered a fire in a warehouse filled with our seasonal products ready for shipment. The Company will be submitting an insurance claim to cover these losses.

Other significant restructuring costs mainly relate to one off costs incurred due to the movement of production facilities within Europe.

design www.luminous.co.uk

International Greetings PLC

Belgrave House
Hatfield Business Park
Frobisher Way
Hatfield, Herts AL10 9TQ

Tel +44 (0) 1707 630 630

www.internationalgreetings.co.uk