the right direction

Interim Report 2005

the right products

the right markets

the right manufacturing

the right acquisitions

the right licences

Chairman's statement

I am pleased to announce the interim results for the six months to 30th September 2005. Turnover for the period grew by 36% to £83.8 million, with operating profit increasing by 9% to £6.7 million. Interest payable during the period increased to £0.7 million from nil last year, resulting in profit before tax of £6.0 million, marginally below last year's £6.1million. Adjusted *profit before taxation increased by 6% to £6.7 million. Basic earnings per share for the period were 9.6p (six months to 30th September 2004: 10.1p), whilst adjusted *earnings per share increased from 10.5p to 10.9p.

The above figures include turnover of £16.9 million, interest payable of £0.4 million and profit before tax of £1.8 million attributable to the acquisition of Anker International PLC, a design, import and distribution business, which was acquired for £35.5 million in May this year. Excluding Anker's figures, turnover increased 8% to £66.8 million with operating profit before exceptional items of £4.6 million (six months to 30 September 2004: £6.1 million). This reduction in operating profit is purely a reflection of the seasonality of the Group's business and highlights the fact that the first six month figures are not a reliable indicator of the anticipated full year figures. The months of September and October account for approximately 35% of the Group's anticipated annual turnover, and the interim results are therefore extremely sensitive to the timing of deliveries at that time.

Anker's integration into the Group has proceeded smoothly. The business is performing in line with expectations and we continue to explore synergy benefits and integration opportunities which will deliver further value to the Group. Subsequent to the period end, we have concluded the sale and leaseback of Howard House, Anker's head office and warehouse, for £19 million. This sale will generate an exceptional profit of approximately £2.1 million, which will be reflected in the results for the full year to 31st March 2006.

There are a number of restructuring changes to the Group's operations planned to occur during the period to 31st March 2006, which will help ensure our business maintains its competitiveness and efficiency. We are currently in the process of merging our licensed stationery business, Copywrite Designs, based in Duxford, into Anker's operations in Newport Pagnell. Hoomark, our Dutch subsidiary, has merged its European sales force with that of our UK gift wrap division and, following last year's relocation of our greetings card and tag division to Latvia, additional manufacturing machinery is being relocated there. The exceptional costs of these restructuring changes, primarily redundancy and relocation costs, are estimated to be approximately £1.8 million, most of which will be incurred during the six month period to 31st March 2006. Overseas, our US division has performed well during the period, with sales growing by 40%. We have also continued our penetration into Europe, and expect to see continued strong growth in both of these geographical regions for the foreseeable future.

* figure excludes amortisation of goodwill of £520,000 (6 months to 30th September 2004: £182,000, 12 months to 31st March 2005: £443,000) and exceptional item of £121,000 (6 months to 30th September 2004: £nil, 12 months to 31st March 2005: £738,000).

Design and licensed merchandise continues to play an important role in our business. In addition to the recently announced Little Britain licence, we have launched licensed ranges of stationery for this year's Disney Christmas film, The Chronicles of Narnia: The Lion, The Witch and The Wardrobe, which recently premiered in London.

Current Trading

The retail sector, particularly in the UK, has gone through a difficult period of trading during the spring and summer seasons and the trend in recent years for consumers to carry out their Christmas shopping later each year continues. The bulk of our sales take place in the second half of the year and, whilst we are not immune to the current challenging retail climate, we have now completed the majority of the season's deliveries to our customers.

We remain clearly focused on developing sales opportunities in all our markets, particularly overseas and have commenced working on the creative design and range developments for the Christmas 2006 season with all our major retail customers.

Reflecting our confidence in the outcome for the full year and in our business model of organic growth coupled with highly focused acquisitions, we are proposing to pay an interim dividend of 2p a share, an increase of 14% over last year. The dividend will be paid on 20 January 2006 to all shareholders on the register on 23 December 2005.

John Elfed Jones CBE DL
Chairman

Consolidated profit and loss account

for the six months to 30th September 2005

	Note	Unaudited 6 months to 30th September 2005 £000 Continuing Operations	£000 Acquisition – Note 2	£000 Total	Unaudited 6 months to 30th September 2004 £000	Audited 12 months to 31st March 2005 £000
Turnover		**66,841**	**16,930**	**83,771**	61,781	143,689
Operating profit before exceptional item		**4,645**	**2,169**	**6,814**	6,140	13,391
Exceptional item	3	**(121)**	**–**	**(121)**	–	(738)
Operating Profit		**4,524**	**2,169**	**6,693**	6,140	12,653
Net interest payable		**(295)**	**(375)**	**(670)**	(30)	(36)
Profit before taxation		**4,229**	**1,794**	**6,023**	6,110	12,617
Taxation	5			**(1,716)**	(1,809)	(3,098)
Profit for the financial year				**4,307**	4,301	9,519
Earnings per share	4					
Basic				**9.6p**	10.1p	22.4p
Diluted				**9.4p**	10.0p	22.1p

Statement of recognised gains and losses

for the six months to 30th September 2005

	Unaudited 6 months to 30th September 2005 £000	Unaudited 6 months to 30th September 2004 £000	Audited 12 months to 31st March 2005 £000
Profit for the period	**4,307**	4,301	9,519
Currency translation differences arising on foreign currency net investments	**703**	99	(160)
Total recognised gains and losses relating to the period	**5,010**	**4,400**	9,359

Consolidated balance sheet

at 30th September 2005

	Note	Unaudited 30th September 2005 £000	Unaudited 30th September 2004 £000 (restated – see note 1)	Audited 31st March 2005 £000 (restated – see note 1)
Fixed assets				
Intangible assets – goodwill		**22,318**	2,557	5,113
Tangible assets		**46,381**	25,484	30,853
Investments		**170**	–	–
		68,869	28,041	35,966
Current assets				
Stocks		**59,605**	39,110	24,178
Debtors		**68,045**	45,873	16,477
Investments		**58**	–	–
Cash at bank and in hand		**3**	5	6,490
		127,711	84,988	47,145
Creditors: amounts falling due within one year		**(120,477)**	(59,512)	(22,956)
Net current assets		**7,234**	25,476	24,189
Total assets less current liabilities		**76,103**	53,517	60,155
Creditors: amounts falling due after more than one year		**(1,599)**	(1,999)	(1,611)
Provisions for liabilities and charges		**(1,888)**	(199)	(380)
Deferred income		**(4,382)**	(2,656)	(4,575)
Net assets		**68,234**	48,663	53,589
Capital and reserves				
Called up share capital		**2,306**	2,129	2,140
Share premium account		**15,079**	2,515	2,704
Potential issue of shares		**672**	413	926
Other reserves		**724**	280	21
Profit and loss account		**49,453**	43,326	47,798
Equity shareholders' funds	6	**68,234**	48,663	53,589

Consolidated cash flow statement

for the six months to 30th September 2005

	Note	**Unaudited 6 months to 30th September 2005 £000**	Unaudited 6 months to 30th September 2004 £000	Audited 12 months to 31st March 2005 £000
Net cash (outflow)/inflow from operating activities	7	**(47,311)**	(28,585)	14,398
Returns on investments and servicing of finance	8	**(483)**	(21)	(54)
Taxation		**(1,642)**	(1,399)	(3,600)
Capital expenditure	8	**(4,145)**	(3,408)	(8,793)
Acquisitions and disposals	8	**(13,145)**	(1,520)	(5,984)
Equity dividends paid		**(2,652)**	(2,126)	(2,872)
Cash (outflow) before financing		**(69,378)**	(37,059)	(6,905)
Financing	8	**(76)**	(1,276)	(1,180)
(Decrease) in cash		**(69,454)**	(38,335)	(8,085)

Reconciliation of net cash flow to movement in net (debt)/funds

for the six months to 30th September 2005

	Unaudited 6 months to 30th September 2005 £000	Unaudited 6 months to 30th September 2004 £000	Audited 12 months to 31st March 2005 £000
(Decrease) in cash in the period	**(69,454)**	(38,335)	(8,085)
Cash outflow from debt and lease financing	**117**	1,438	1,541
Change in net (debt) resulting from cash flows	**(69,337)**	(36,897)	(6,544)
Translation differences	**(564)**	(276)	66
Movement in net (debt) in the period	**(69,901)**	(37,173)	(6,478)
Net funds at beginning of period	**3,790**	10,268	10,268
Net (debt)/funds at end of period	**(66,111)**	(26,905)	3,790

Notes

1. Basis of preparation

The interim statement has been prepared under the same accounting policies as those used for the financial statements for the year ended 31st March 2005.

The comparative figures for the year ended 31st March 2005 are an abridged version of the published accounts, as restated, and are not the company's statutory accounts for that financial year. Those accounts have been reported on without qualification by the auditors, and without any statement under Section 237 (2) or (3) of the Companies Act 1985, and have been delivered to the Registrar of Companies.

Following adoption of FRS21 (Events after the balance sheet date), the comparative figures as at 30th September 2004 and 31st March 2005 have been restated to exclude the proposed dividend of £745,000 and £2,112,000 respectively, with a corresponding increase in the profit and loss account balance.

2. Acquisitions

On 27th May 2005, the Group acquired 100% of the issued share capital of Anker International PLC, an international design, import and distribution business, for a total consideration of up to £35.5m. £25m was paid on completion, of which £12.5m was represented by the issue of 3,294,242 new ordinary shares, and £12.5m in cash. The remaining £10.5m is payable in cash on 27th May 2006, of which £0.5m is dependent on Anker achieving a certain level of profitability. During the period from 27th May 2005 to 30th September 2005, the Group's results include turnover of £16.9m, interest payable (including interest on cash consideration) of £0.4m and profit before tax of £1.8m attributable to the acquisition of Anker

3. Exceptional Item

The exceptional item of £121,000 during the six months to 30th September 2005 and £738,000 during the year ended 31st March 2005 represents the costs associated with the transfer of manufacturing of greetings cards and tags from Hatfield to a new facility in Latvia.

4. Earnings per share

	Unaudited 6 months to 30th September 2005	Unaudited months to 30th September 2004	Audited 12 months to 31st March 2005
Adjusted basic earnings per share excluding goodwill and exceptional item	**10.9p**	10.5p	24.5p
Loss per share on goodwill	**(1.1p)**	(0.4p)	(0.9p)
Loss per share on exceptional item	**(0.2p)**	–	(1.2p)
Basic earnings per share	**9.6p**	10.1p	22.4p
Diluted earnings per share	**9.4p**	10.0p	22.1p

The calculation of basic earnings per share is based on 45,002,232 (6 months to 30th September 2004: 42,378,290, 12 months to 31st March 2005:42,529,155) ordinary shares being the average number of shares in issue during the period. The calculation of diluted earnings per share is based on 45,822,342 (6 months to 30th September 2004: 42,883,669, 12 months to 31st March 2005: 43,165,480) ordinary shares. The difference of 820,110 (6 months to 30th September 2004: 505,379, 12 months to 31st March 2005: 636,325) represents the dilutive effect of outstanding employee share options which have been calculated in accordance with FRS 14.

Adjusted basic earnings per share excluding goodwill and exceptional item is calculated after adjusting for amortisation of goodwill of £520,000 (6 months to 30th September 2004: £182,000, 12 months to 31st March 2005: £443,000) with attributable tax relief of £24,000 (6 months to 30th September 2004: £22,000, 12 months to 31st March 2005: £48,000) and the exceptional item of £121,000 (6 months to 30th September 2004: £nil, 12 months to 31st March 2005: £738,000) with attributable tax relief of £36,000 (6 months to 30th September 2004: £nil, 12 months to 31st March 2005: £221,000).

Notes

5 Taxation

The taxation charge for the six months ended 30th September 2005 is based on the estimated tax rate for the full year.

6. Reconciliation of movement in shareholders' funds

	Unaudited 6 months to 30th September 2005 £000	Unaudited 6 months to 30th September 2004 £000 (restated – see note 1)	Audited 12 months 31st March 2005 £000 (restated – see note 1)
Profit for the period	**4,307**	4,301	9,519
Dividend	**(2,652)**	(2,126)	(2,872)
	1,655	2,175	6,647
Other recognised gains and losses relating to the period (net)	**703**	99	(160)
New share capital subscribed	**12,541**	829	1,029
Potential issue of shares	**(254)**	(667)	(154)
Net addition to shareholders' funds	**14,645**	2,436	7,362
Opening shareholders' funds (restated – see note 1)	**53,589**	46,227	46,227
Closing shareholders' funds	**68,234**	48,663	53,589

7. Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	Unaudited 6 months to 30th September 2005 £000	Unaudited 6 months to 30th September 2004 £000	Audited 12 months to 31st March 2005 £000
Operating profit before exceptional item	**6,814**	6,140	13,391
Exceptional item	**(121)**	–	(738)
Depreciation charge	**2,592**	2,102	4,472
(Increase) in stocks	**(29,500)**	(16,129)	(1,251)
(Increase) in debtors	**(44,241)**	(34,364)	(3,366)
(Decrease) in provision for liabilities	**(269)**	–	–
Increase in creditors	**17,087**	13,634	2,001
Grant income	**(193)**	(150)	(554)
Goodwill amortisation	**520**	182	443
Net cash (outflow)/inflow from operating activities	**(47,311)**	(28,585)	14,398

Notes

8 Gross Cash Flows

	Unaudited 6 months to 30th September 2005 £000	Unaudited 6 months to 30th September 2004 £000	Audited 12 months to 31st March 2005 £000
Returns on investment and servicing of finance			
Net interest paid	**(474)**	(11)	(13)
Interest element of finance lease repayments	**(9)**	(10)	(41)
	(483)	(21)	(54)
Capital expenditure			
Purchase of tangible fixed assets	**(4,335)**	(3,438)	(11,262)
Disposal of tangible fixed assets	**190**	30	146
Grants received in relation to capital expenditure	**–**	–	2,323
	(4,145)	(3,408)	(8,793)
Acquisitions and disposals			
Acquisition cost	**(13,114)**	(1,520)	(5,984)
Net overdraft acquired with subsidiary	**(31)**	–	–
	(13,145)	(1,520)	(5,984)
Financing			
New shares issued	**41**	162	361
Repayment of amounts borrowed	**(48)**	(1,269)	(1,256)
Capital element of finance lease payments	**(69)**	(169)	(285)
	(76)	(1,276)	(1,180)

9. Analysis of movement in net (debt)/funds

	At 31st March 2005 £000	Cash Flow £000	Exchange Movement £000	**At 30th September 2005 £000**
Cash at bank and in hand	6,490	(6,698)	211	**3**
Overdrafts	(672)	(62,756)	(659)	**(64,087)**
	5,818	(69,454)	(448)	**(64,084)**
Banks loans	(1,233)	48	(91)	**(1,276)**
Finance leases	(795)	69	(25)	**(751)**
	(2,028)	117	(116)	**(2,027)**
Total net (debt)/funds	3,790	(69,337)	(564)	**(66,111)**

Design by www.luminous.co.uk

International Greetings PLC
Belgrave House
Hatfield Business Park
Frobisher Way
Hatfield AL10 9TQ

Tel +44 (0) 1707 630 630
Website www.internationalgreetings.co.uk