McBride plc Half-Year Report 2010

# Passionate about Private Label

We are Europe's leading provider of Private Label Household and Personal Care products. We develop, produce and sell our products to leading retailers, primarily in the UK and across Continental Europe. We manage the business through three divisions – UK, Western Continental Europe and Central and Eastern Europe – with sales in all major European markets and a growing presence in the markets of South East Asia.

Our Mission and Vision are underpinned by a set of Principles which commit us to focus on our customers' needs, to engage our people fully and to drive for improved performance at all times. We are proud of our corporate and social responsibility and the way we do business.

# Highlights

- 2% revenue growth at constant currency driven by Central and Eastern Europe
- Reduction in operating profit driven by increasing raw material costs and time lag in recovery through selling price increases
- Net cash generated from operations in line with expectations at £27.2 million
- Net debt of 1.1x annualised EBITDA
- Recovery of 2010 material cost increases continues to be implemented, but more recent commodity market price increases are already feeding into our material costs

| | 2010 | 2009 | |
|---|---|---|---|
| Revenue | 407.9 | 412.4 | ▼ 1% |
| Revenue (constant currency) | 407.9 | 401.2 | ▲ 2% |
| Operating profit | 18.8 | 25.5 | ▼ 26% |
| Adjusted operating profit [1] | 20.2 | 26.5 | ▼ 24% |
| Diluted earnings per share | 6.4p | 9.2p | ▼ 30% |
| Adjusted diluted earnings per share [1] | 6.9p | 9.7p | ▼ 29% |
| Return on capital employed [1] | 20.7% | 26.6% | ▼ 5.9pts |
| Interim dividend per share [2] | 2.0p | 2.0p | – |
| Net debt | 72.2 | 69.4 | ▲ 4% |

(1) Adjusted operating profit, adjusted diluted earnings per share and return on capital employed are calculated before amortisation of intangible assets and exceptional items.
(2) See pages 7 and 8.

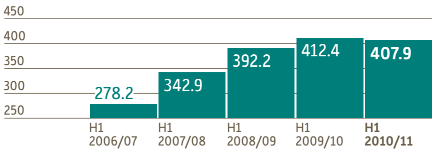
# Business review

"We have delivered good results in a challenging environment of increasing raw material costs in all geographies, and weak retail markets particularly in the UK. We have delivered growth in Central and Eastern Europe, and our recent acquisitions in Czech Republic and Malaysia have performed in line with expectations. The restructuring programmes, announced in 2010, are delivering in line with plan.

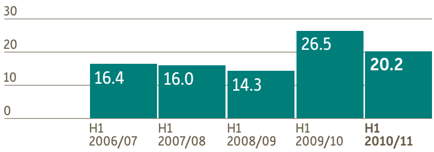
Our strategy review has identified significant opportunities to deliver shareholder value through focusing investment on growth categories, strengthening our relationships with key customers and improving our cost efficiency. We believe that the economic environment will cause consumers to be ever more price sensitive, and, by investing in improving our competitiveness, we expect to be able to continue to offer excellent products and value for money."

**Chris Bull**
Chief Executive

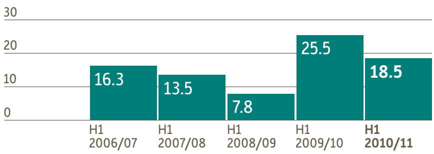
**Revenue** (£m)



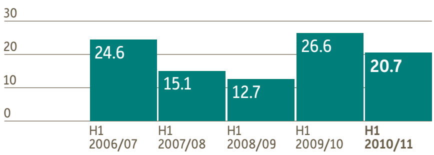

**Adjusted operating profit** (£m)




**Operating profit** (£m)




**Return on Capital Employed (%)**




## Outlook

Looking ahead, raw material price volatility and a weak retail environment are the key challenges for our business, particularly in the short term. The most recent market commodity price increases are already feeding into our material costs with the potential that material costs in the second half could increase by around £7 million.

The conclusions of the 'Refresh' strategy review are being communicated today, including our intention to carry out further supply chain re-structuring. This is likely to lead to an exceptional charge this year of around £20 million with annualised benefits of around £11 million. Longer term, we believe our strategy will ensure that the Company will emerge well placed to benefit as the more challenging economic conditions accelerate the switch to Private Label.

## Overview

From 1 July 2010, an internal re-organisation of the management structure has resulted in responsibility for operations in Luxembourg and Germany being transferred from Western Continental Europe to Central and Eastern Continental Europe (formerly Eastern Continental Europe). Following this re-organisation, the Group is managed on a geographical basis in the following regions – United Kingdom, Western Continental Europe and Central and Eastern Continental Europe. Operations in Developing & Emerging markets continue to be reported under Corporate. Further details are provided in note 3 of the Condensed Interim Financial Statements.

Overall the Group has delivered a robust performance despite an environment which has seen increased raw materials input prices and a competitive retail environment, particularly in the UK.

- Reported revenue was 1% below prior year. On a constant currency basis revenue increased 2%.

- In the light of the continuing and increasingly competitive trading environment, the Group continues to focus on cost efficiency with administrative costs 6% lower than prior year.
- Adjusted operating profit(1) for the first half was £20.2 million (2009: £26.5m).
- Adjusted operating profit(1) margin fell to 5.0% (2009: 6.4%) reflecting higher raw material input prices and the time lag in implementing selling price increases. As a result return on capital employed(1) fell to 20.7% (2009: 26.6%) and asset turnover fell slightly to 4.1 (2009: 4.2).
- Cash generated from operations, before exceptional items, was £27.2 million (2009: £48.8m).
- The UK division's revenue declined by 2% to £159.0 million (2009: £162.4m) impacted by a weak retail environment. Adjusted operating profit(1) declined 25% to £8.3 million (2009: £11.1m) driven by higher material input costs.
- The Western Continental Europe division's revenue declined by 5% to £203.4 million (2009 restated: £213.8m). Adjusted operating profit(1) declined 18% to £12.8 million (2009 restated: £15.7m). This reflects an adverse currency variance with revenue flat and adjusted operating profit(1) down 14% on a constant currency basis, driven by higher material input costs.
- Central and Eastern Continental Europe divisional revenues were up 20% to £67.6 million (2009 restated: £56.5m) and increased by 24% on a constant currency basis, while adjusted operating profit(1) was down slightly at £3.4 million (2009 restated: £3.5m).

(1) Adjusted operating profit and return on capital employed are calculated before amortisation of intangible assets and exceptional items.

### Strategy

McBride has a robust business model and operates in a competitive but growing market. It has considerable expertise and unrivalled scale in its chosen categories. Historically the Group has benefitted from these characteristics but its growth pattern has been uneven. The Board has now completed a review of the Group's business and strategy to identify areas of the business with the potential for improvement and increased profitability. The review has highlighted the need to improve our market positioning and operational efficiency in order to deliver more sustainable EPS growth and provide a solid platform for product development and geographic expansion. During the period in which the review was conducted, we have also experienced strong trading and raw material price headwinds which have only served to re-enforce the importance of continuing to re-engineer our business.

McBride continues to be the leading provider of Private Label Household and Personal Care products in Europe. The strategy review has confirmed that the Group's core strengths continue to be a strong commitment to Private Label category development, including investment in new product development, its scale, including the breadth and flexibility of its operations, strong operational and cash management and its people. It has also confirmed that, through improved resource allocation and execution, significant opportunities exist to drive growth in shareholder value. Four key areas of strategic actions have been identified as follows:

- Organisational changes are being implemented to enable these opportunities to be exploited. International customer teams are being established, with leadership at Group level in order to strengthen key relationships. A Group leader of R&D has been appointed and three centres of excellence identified for key categories. A Group-wide Supply Chain effectiveness and Lean Manufacturing programme is also being put in place. Rigorous measurement systems are being implemented to ensure these programmes are delivered.

- Growth opportunities in the core Household categories of Laundry Liquids, Machine Dish-wash, Specialist Cleaners and non-aerosol Air Care have been confirmed and will continue to be exploited. In Personal Care, an understanding of changing consumer trends has led to priority being given to Skincare, Male Grooming and Oral Care. Management expects that the planned investment in New Product Development and category management in these categories will lead to the Group's revenue growing ahead of the market.
- A detailed review of the Supply Chain has identified opportunities to rationalise the manufacturing footprint within the Divisions whilst balancing the need to improve the customer service levels with the economic distribution footprint of many of our products. Furthermore, significant opportunities have been identified to benefit from the implementation of a group-wide Lean Manufacturing programme and from complexity reduction.
- McBride will continue to expand in Developing and Emerging economies. Central and Eastern Europe continues to be a focus area. South East Asia and Australia remain attractive in the near term, with China and the Americas having the potential for Private Label expansion in the medium term.

## Strategy Implementation

We have already implemented a number of organisational changes arising from our strategic review with appointments being made to strengthen certain areas of the management team. The majority of the key actions will however be implemented over the course of the next 24 months. We are today outlining an indicative programme for these actions which we anticipate will give rise to an estimated exceptional charge of £20 million in the current financial year, and an anticipated recurring annual benefit of approximately £11 million. The cash cost of these measures is estimated at around £13 million with an anticipated payback within 30 months. Longer term, we see the potential for further material value-enhancing re-structuring initiatives, although these need to be the subject of further appraisal.

The Board anticipates that these initiatives will help deliver sustainable growth in earnings per share, a reduction in cyclicality and a return on capital in excess of the Group's long-run average. This should facilitate the maintenance of a progressive dividend policy.

## UK business review

The UK market has been characterised by a weak retail environment with subdued demand and branded promotional activity affecting some categories.

Revenue from the UK Household retail products market for the six months to end December 2010 was down 2% compared with the prior year, in line with the Private Label Household products market which also declined 2% by value and 1% by volume. Private Label's value market share at the end of December 2010 was 17%, with volume share of 29% compared to 31% at 30 June 2010, albeit still 2 percent ahead of the dip in Quarter 1. The strongest performing Private Label sectors included laundry tablets and sachets, bleach and Household cleaners.

In Personal Care, Private Label's value share of the market was stable at 18%. Product categories showing good Private Label growth included men's shaving products, styling aids, mouthwash and shower gel.

McBride's UK business saw a decline in total revenue by 2% to £159.0 million (2009: £162.4m). We have continued to focus on improving efficiencies and have successfully implemented the restructuring programme announced in June 2010. We also continue to develop innovative new products to meet the changing customer requirements.

(Source of market data: McBride estimates based on Kantar Europanel data.)

### Western Continental Europe business review

In McBride's Western Continental Europe business, revenue declined 5% to £203.4 million (2009 restated: £213.8m) although on a constant currency basis revenue was flat with growth in Household product sales offset by a decline in Personal Care.

Many markets in Western Europe have continued to experience the impact of a weak economic environment. Private Label has continued to perform strongly in a number of our key markets.

France is McBride's largest market in Western Continental Europe. In the year to September 2010 the total Household market grew 3%. Private Label value share remained stable at 22%.

In France, the Personal Care market in the 12 months to September grew by 2% in both value and volume, with Private Label volume share broadly flat at 33%. Liquid soap and men's shaving foams and gels were the best performing Private Label categories with volumes up 9% year on year.

In Spain, the decision to exit low margin business in 2010 has meant lower sales year on year.

(Source of market data: Kantar Europanel data; France based on supermarkets and hypermarkets data.)

### Central and Eastern Continental Europe business review

Growth of Private Label market share continues within the Eastern European countries including Poland, Czech Republic and Hungary, driven primarily by the continued expansion of the discount retailers in the region. In Central Europe, mainly Germany, Private Label market share fell slightly due to the traditional discount retailers losing market share.

Total revenue in the Central and Eastern Continental Europe division increased 20% to £67.6 million (2009: £56.5m). We expect the continuing expansion of multi-nationals into Central and Eastern Europe to drive further Private Label market share gains.

### Group financial review

*Revenue*

Group revenue declined 1% to £407.9 million (2009: £412.4m) which includes a 3% adverse currency impact partially offset by a 2% uplift from acquisitions, with organic revenue flat during the period.

On the revised segmental reporting basis (see note 3), UK revenues reduced by 2% to £159.0 million (2009: £162.4m) with Household sales, including contract manufacturing, being flat year on year but Personal Care showing a 9% decline. Western Continental Europe's revenues declined by 5% to £203.4 million (2009: £213.8m) with the majority of the impact related to an adverse currency variance. Revenues in the Western Continental Europe division saw a similar pattern of a decline in Personal Care sales year on year offset by increases in Household product sales. Central and Eastern Continental Europe's revenues increased by 20% to £67.6 million (2009: £56.5m), with growth year on year across all countries. Asia revenues were £5.3 million (2009: £0.6m) reflecting revenues from the recent acquisition in Malaysia.

### *Operating profit*

Group operating profit, before amortisation of intangible assets and exceptional items decreased 24% to £20.2 million (2009: £26.5m). The operating margin reduced from 6.4% to 5.0% reflecting increases in raw material prices and the time lag in recovery through selling price increases.

On the revised segmental reporting basis (see note 3), UK adjusted operating profit decreased 25% to £8.3 million (2009: £11.1m) and the operating margin fell from 6.8% to 5.2%. In Western Continental Europe, adjusted operating profit declined 18% to £12.8 million (2009: £15.7m) and the margin fell from 7.3% to 6.3%. In Central and Eastern Continental Europe, adjusted operating profit fell 3% to £3.4 million (2009: £3.5m) and the margin decreased from 6.2% to 5.0%.

### *Finance costs*

Net finance costs increased to £3.3 million (2009: £3.0m) mainly reflecting higher interest expense due to amortisation of the fees related to the revolver debt and a higher average net debt in the period.

### *Exceptional items and amortisation of intangible assets*

Exceptional charges of £0.3 million, relating to a restructuring programme in the Western Continental Europe division, announced in February 2010, were incurred in the period (2009: £nil). There was a £1.1 million amortisation of intangible assets charge in the period (2009: £1.0m).

### *Profit before tax and tax charge*

Profit before tax decreased 31% to £15.5 million (2009: £22.5m) and, excluding amortisation of intangible assets and exceptional items, decreased 28% to £16.9 million (2009: £23.5m). The £3.9 million tax charge (2009: £5.7m) reflects a 25% effective rate (2009: 25%).

### *Earnings per share and dividend*

Basic earnings per share (EPS) fell to 6.4 pence (2009: 9.3p) and adjusted basic EPS, before amortisation of intangible assets and exceptional items, fell to 7.0 pence (2009: 9.8p). On an adjusted basis, diluted EPS decreased 29% to 6.9 pence (2009: 9.7p). The weighted average number of shares in the period used in calculating basic and diluted earnings per share was 180.4 million (2009: 180.3m) and 182.6 million (2009: 182.3m) respectively.

On the 6 January 2011, the Board announced its intention to implement a 'B Share' scheme as a mechanism for making payments to shareholders. This would involve the issue of non-cumulative redeemable preference shares (known as 'B Shares') in place of a cash dividend. By issuing B shares instead of declaring a normal cash dividend, the Company would accelerate the recovery of the Group's surplus advance corporation tax and improve future cash flows, which would in turn benefit all shareholders. These new proposals will be put to shareholders at a General Meeting to be held on 24 March 2011. If approved, B Shares would be issued and credited as fully paid to shareholders who are on the register on 26 April 2011 such that they would receive 20 B Shares having an aggregate nominal amount of 2.0 pence for each ordinary share held. This would be coupled with an offer to elect to redeem these new shares for cash at their nominal value on 27 May 2011. These elections must be made by 16 May 2011.

The B Shares would not carry any voting rights in the capital of the Company (other than at a General Meeting at which a resolution to wind up the Company is to be considered) and would not be listed on the London Stock Exchange. Each shareholder's proportionate interest in the Company's issued ordinary share capital would therefore remain unchanged as a result of the issue of B Shares. As the B shares would constitute a separate class of share in the capital of the Company, the Company would need to amend its articles of association at the forthcoming annual General Meeting to set out the rights attaching to the B Shares. Further details of the proposed issue of B shares will be contained in an appendix accompanying the notice of General Meeting to be sent to shareholders on or about 24 February 2011.

### *Cash flow and net debt*

Net cash generated from operations, excluding cash flows relating to exceptional items, was £27.2 million (2009: £48.8m). There was a seasonal net working capital outflow in the first half of £6.2 million (2009: £7.8m inflow).

Capital expenditure in the period was £12.3 million (2009: £11.8m). Overall net debt at 31 December 2010 was £72.2 million compared to £60.0 million at 30 June 2010. The £12.2 million increase included £2.2 million of adverse currency effects, a £2.1 million payment for the acquisition of Dermacol a.s., in addition to £0.9 million of debt acquired as part of the transaction, £0.1 million of deferred consideration for the acquisition of Fortlab and a cash outflow of £3.5 million relating to exceptional items.

### *Balance sheet*

Group net assets of £133.9 million were £9.2 million higher compared to 30 June 2010. This was mainly due to the reduction of the deficit in the UK pension scheme and currency movements.

The pre-tax return on average capital employed, before amortisation of intangible assets and exceptional items, was 20.7% compared to 26.6% for the first half of the prior year and 25.9% for the full year. This reduction was caused by a reduction in operating profit margin, due to increased raw material input costs.

## Principal risks and uncertainties

The Group is subject to risk factors both internal and external to its business, and has a well established set of risk management procedures. The following risks and uncertainties are those that the directors believe could have the most significant impact on the Group's business. These risks, along with events in the financial markets and their potential impacts on the wider economy, remain the most likely to affect the Group in the second half of the year.

- Unrecovered cost inflation
- Serious loss of volume
- Operational disruption
- Product safety and quality
- Supplier failure
- Acquisition integration
- People risks
- Systems dependency and reliability
- Environmental risks
- Liquidity and capital resources
- Foreign currency risk

These risks are unchanged since the McBride plc Annual Report and Accounts 2010 was published. For greater detail of these risks, please refer to page 44 to 46 of that document, a copy of which is available on the Group's website www.mcbride.co.uk.

# Responsibility statement

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 *'Interim Financial Reporting'* as adopted by the EU;
- The interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

**The Board**

The Board of Directors that served during the six months to 31 December 2010 and their respective responsibilities can be found on pages 48 and 56 of the McBride plc Annual Report and Accounts 2010.

By order of the Board
7 February 2011

# Independent review report to McBride 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 six months ended 31 December 2010 which comprises condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated cash flow statement, 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 six months ended 31 December 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.

**Robert Brent**
for and on behalf of KPMG Audit Plc
*Chartered Accountants*
15 Canada Square, London E14 5GL
7 February 2011

# Condensed consolidated income statement

| | Note | Unaudited 6 months to 31 Dec 2010 £m | Unaudited 6 months to 31 Dec 2009 £m | Audited year ended 30 June 2010 £m |
|---|---|---|---|---|
| **Revenue** | 3 | **407.9** | 412.4 | 812.2 |
| Cost of sales | | **(268.5)** | (260.4) | (515.4) |
| **Gross profit** | | **139.4** | 152.0 | 296.8 |
| Distribution costs | | **(27.4)** | (27.8) | (54.0) |
| Administrative costs: | | | | |
| Before amortisation of intangible assets and exceptional items | | **(91.8)** | (97.7) | (192.8) |
| Amortisation of intangible assets | | **(1.1)** | (1.0) | (2.0) |
| Exceptional items | | **(0.3)** | – | (12.8) |
| Administrative costs including amortisation of intangible assets and exceptional items | | **(93.2)** | (98.7) | (207.6) |
| **Operating profit** | 3 | **18.8** | 25.5 | 35.2 |
| **Operating profit before amortisation of intangible assets and exceptional items** | | **20.2** | 26.5 | 50.0 |
| Financial income | | **2.1** | 1.8 | 3.8 |
| Financial expenses | | **(5.4)** | (4.8) | (9.4) |
| Net financing costs | | **(3.3)** | (3.0) | (5.6) |
| **Profit before tax** | | **15.5** | 22.5 | 29.6 |
| UK taxation | 6 | **(0.5)** | (1.6) | (1.9) |
| Overseas taxation | 6 | **(3.4)** | (4.1) | (5.6) |
| **Profit for the period** | 3 | **11.6** | 16.8 | 22.1 |
| **Earnings per ordinary share (pence)** | 7 | | | |
| Basic | | **6.4** | 9.3 | 12.3 |
| Diluted | | **6.4** | 9.2 | 12.1 |
| **Dividends** | | | | |
| Paid in period (£m) | | **8.7** | 7.8 | 11.4 |
| Paid in period (pence per share) | | **4.8** | 4.2 | 6.3 |
| Proposed (£m) | | **3.6** | 3.6 | 8.7 |
| Proposed (pence per share) | | **2.0** | 2.0 | 4.8 |

# Condensed consolidated statement of comprehensive income

| | Unaudited 6 months to 31 Dec 2010 £m | Unaudited 6 months to 31 Dec 2009 £m | Audited year ended 30 June 2010 £m |
|---|---|---|---|
| **Profit for the period** | **11.6** | 16.8 | 22.1 |
| **Other comprehensive income/(expense)** | | | |
| Foreign exchange translation differences | **5.1** | 6.1 | (3.1) |
| Net loss on hedge of net investment in foreign subsidiaries | **(3.9)** | (4.3) | 2.5 |
| Effective portion of changes in fair value of cash flow hedges | **(0.1)** | 0.1 | (2.0) |
| Net changes in fair value cash flow hedges transferred to profit or loss | **2.2** | 0.9 | 0.9 |
| Actuarial gain/(loss) | **3.7** | (3.4) | (4.3) |
| Taxation relating to components of other comprehensive income | **(1.6)** | 1.1 | 1.5 |
| **Total other comprehensive income/(expense)** | **5.4** | 0.5 | (4.5) |
| **Total comprehensive income for the period** | **17.0** | 17.3 | 17.6 |

# Condensed consolidated balance sheet

| | Note | Unaudited as at 31 Dec 2010 £m | Restated unaudited as at 31 Dec 2009 £m | Restated audited as at 30 June 2010 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | | **41.9** | 39.5 | 38.3 |
| Property, plant and equipment | | **192.0** | 193.4 | 179.9 |
| Other non-current assets | | **0.6** | 0.7 | 0.6 |
| Deferred tax | | **1.7** | 2.9 | 2.9 |
| | | **236.2** | 236.5 | 221.7 |
| **Current assets** | | | | |
| Inventories | | **75.7** | 76.5 | 69.9 |
| Trade and other receivables | | **141.8** | 135.7 | 140.8 |
| Current tax recoverable | | **0.9** | – | – |
| Cash and cash equivalents | | **3.1** | 6.0 | 5.0 |
| Assets classified as held for sale | | **3.0** | – | 2.9 |
| | | **224.5** | 218.2 | 218.6 |
| **Total assets** | 3 | **460.7** | 454.7 | 440.3 |
| **Current liabilities** | | | | |
| Interest bearing loans and borrowings | | **25.4** | 18.7 | 15.4 |
| Trade and other payables | | **207.7** | 208.7 | 205.3 |
| Current tax payable | | **0.1** | 5.2 | 3.5 |
| Provisions | | **2.3** | 1.4 | 5.1 |
| | | **235.5** | 234.0 | 229.3 |
| **Non-current liabilities** | | | | |
| Interest bearing loans and borrowings | | **49.9** | 56.7 | 49.6 |
| Pensions and other post-employment benefits | | **19.6** | 23.1 | 23.6 |
| Trade and other payables | | **8.3** | – | 0.6 |
| Provisions | | **0.8** | 0.3 | 1.1 |
| Deferred tax | | **12.7** | 12.8 | 11.4 |
| | | **91.3** | 92.9 | 86.3 |
| **Total liabilities** | 3 | **326.8** | 326.9 | 315.6 |
| **Net assets** | | **133.9** | 127.8 | 124.7 |
| **Equity** | | | | |
| Issued share capital | | **18.1** | 18.1 | 18.1 |
| Share premium account | | **143.5** | 143.5 | 143.5 |
| Other reserves | | **(0.5)** | 0.4 | (3.8) |
| Retained earnings | | **(27.8)** | (34.2) | (33.7) |
| **Equity attributable to owners of the Company** | | **133.3** | 127.8 | 124.1 |
| Non-controlling interests | | **0.6** | – | 0.6 |
| **Total equity and reserves** | | **133.9** | 127.8 | 124.7 |

# Condensed consolidated cash flow statement

| | Unaudited 6 months to 31 Dec 2010 £m | Unaudited 6 months to 31 Dec 2009 £m | Audited year ended 30 June 2010 £m |
|---|---|---|---|
| Profit before tax | **15.5** | 22.5 | 29.6 |
| Net financing costs | **3.3** | 3.0 | 5.6 |
| Pre-tax exceptional charge in the period | **0.3** | – | 12.8 |
| Share based payments | **0.8** | 0.4 | 1.7 |
| Loss on sale of property, plant and equipment | **–** | – | 0.1 |
| Depreciation | **12.4** | 14.1 | 26.6 |
| Amortisation of intangible assets | **1.1** | 1.0 | 2.0 |
| | **33.4** | 41.0 | 78.4 |
| Decrease/(increase) in receivables | **0.7** | 2.0 | (4.0) |
| Increase in inventories | **(2.6)** | (6.2) | (1.8) |
| (Decrease)/increase in payables | **(4.3)** | 12.0 | 12.5 |
| Cash outflow in respect of exceptional items | **(3.5)** | (1.5) | (4.4) |
| Cash generated from operations | **23.7** | 47.3 | 80.7 |
| Interest paid | **(2.3)** | (1.8) | (6.0) |
| Taxation paid | **(7.4)** | (3.6) | (7.8) |
| **Net cash from operating activities** | **14.0** | 41.9 | 66.9 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | **0.1** | 0.1 | 0.2 |
| Acquisition of property, plant and equipment | **(12.2)** | (11.8) | (24.2) |
| Acquisition of intangible assets | **(0.1)** | – | (0.1) |
| Acquisition of businesses, net of cash acquired | **(2.2)** | (4.7) | (8.4) |
| Interest received | **–** | – | 0.1 |
| Forward contracts used in net investment hedging | **0.2** | (1.5) | (1.4) |
| **Net cash used in investing activities** | **(14.2)** | (17.9) | (33.8) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | **–** | 0.3 | 0.3 |
| Repurchase of own shares | **–** | (0.9) | (1.4) |
| Increase in borrowings | **19.3** | 5.6 | 5.5 |
| Repayment of borrowings | **(11.7)** | (13.9) | (16.2) |
| Payment of finance lease liabilities | **(0.4)** | (0.4) | (0.7) |
| Dividends paid | **(8.7)** | (7.8) | (11.4) |
| **Net cash used in financing activities** | **(1.5)** | (17.1) | (23.9) |
| **Net (decrease)/increase in cash and cash equivalents** | **(1.7)** | 6.9 | 9.2 |
| Cash and cash equivalents at start of period | **(1.1)** | (10.3) | (10.3) |
| Effect of exchange rate fluctuations on cash held | **(0.5)** | (0.4) | – |
| **Cash and cash equivalents at end of period** | **(3.3)** | (3.8) | (1.1) |
| **Reconciliation of cash and cash equivalents per the balance sheet and cash flow statement** | | | |
| Cash and cash equivalents per the balance sheet | **3.1** | 6.0 | 5.0 |
| Overdrafts | **(6.4)** | (9.8) | (6.1) |
| Cash and cash equivalents per the cash flow statement | **(3.3)** | (3.8) | (1.1) |

# Condensed consolidated statement of changes in equity

| | Issued share capital £m | Share premium account £m | Other reserves £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity and reserves £m |
|---|---|---|---|---|---|---|---|
| **At 1 July 2009** | **18.0** | **143.5** | **(2.1)** | **(40.9)** | **118.5** | **–** | **118.5** |
| Half-year to 31 December 2009 | | | | | | | |
| Profit for the period | – | – | – | 16.8 | **16.8** | **–** | **16.8** |
| Other comprehensive income/(expense): | | | | | | | |
| Foreign exchange translation differences | – | – | 6.1 | – | **6.1** | **–** | **6.1** |
| Net loss on hedge of net investment in foreign subsidiaries | – | – | (4.3) | – | **(4.3)** | **–** | **(4.3)** |
| Effective portion of changes in fair value of cash flow hedges | – | – | 0.1 | – | **0.1** | **–** | **0.1** |
| Net changes in fair value cash flow hedges transferred to profit or loss | – | – | 0.9 | – | **0.9** | **–** | **0.9** |
| Actuarial loss | – | – | – | (3.4) | **(3.4)** | **–** | **(3.4)** |
| Taxation relating to components of other comprehensive income | – | – | (0.3) | 1.4 | **1.1** | **–** | **1.1** |
| Total comprehensive income/(expense) | – | – | 2.5 | 14.8 | **17.3** | **–** | **17.3** |
| Employee share schemes | – | – | – | 0.4 | **0.4** | **–** | **0.4** |
| Equity dividends | – | – | – | (7.8) | **(7.8)** | **–** | **(7.8)** |
| Own shares acquired and held as Treasury shares | – | – | – | (0.9) | **(0.9)** | **–** | **(0.9)** |
| Shares utilised to satisfy share option exercises | 0.1 | – | – | 0.2 | **0.3** | **–** | **0.3** |
| **At 31 December 2009** | **18.1** | **143.5** | **0.4** | **(34.2)** | **127.8** | **–** | **127.8** |
| Half-year to 30 June 2010 | | | | | | | |
| Profit for the period | – | – | – | 5.3 | **5.3** | **–** | **5.3** |
| Other comprehensive income/(expense): | | | | | | | |
| Foreign exchange translation differences | – | – | (9.2) | – | **(9.2)** | **–** | **(9.2)** |
| Net loss on hedge of net investment in foreign subsidiaries | – | – | 6.8 | – | **6.8** | **–** | **6.8** |
| Effective portion of changes in fair value of cash flow hedges | – | – | (2.1) | – | **(2.1)** | **–** | **(2.1)** |
| Actuarial loss | – | – | – | (0.9) | **(0.9)** | **–** | **(0.9)** |
| Taxation relating to components of other comprehensive income | – | – | 0.3 | 0.1 | **0.4** | **–** | **0.4** |
| Total comprehensive income/(expense) | – | – | (4.2) | 4.5 | **0.3** | **–** | **0.3** |
| Employee share schemes | – | – | – | 0.7 | **0.7** | **–** | **0.7** |
| Equity dividends | – | – | – | (3.6) | **(3.6)** | **–** | **(3.6)** |
| Own shares acquired and held as Treasury shares | – | – | – | (0.5) | **(0.5)** | **–** | **(0.5)** |
| Acquisition of businesses | – | – | – | – | **–** | **0.6** | **0.6** |
| Related tax movements | – | – | – | (0.6) | **(0.6)** | **–** | **(0.6)** |
| **At 30 June 2010** | **18.1** | **143.5** | **(3.8)** | **(33.7)** | **124.1** | **0.6** | **124.7** |

# Condensed consolidated statement of changes in equity continued

| | Issued share capital £m | Share premium account £m | Other reserves £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity and reserves £m |
|---|---|---|---|---|---|---|---|
| **At 1 July 2010** | **18.1** | **143.5** | **(3.8)** | **(33.7)** | **124.1** | **0.6** | **124.7** |
| Half-year to 31 December 2010 | | | | | | | |
| Profit for the period | – | – | – | 11.6 | **11.6** | **–** | **11.6** |
| Other comprehensive income/(expense): | | | | | | | |
| Foreign exchange translation differences | – | – | 5.1 | – | **5.1** | **–** | **5.1** |
| Net loss on hedge of net investment in foreign subsidiaries | – | – | (3.9) | – | **(3.9)** | **–** | **(3.9)** |
| Effective portion of changes in fair value of cash flow hedges | – | – | (0.1) | – | **(0.1)** | **–** | **(0.1)** |
| Net changes in fair value cash flow hedges transferred to profit or loss | – | – | 2.2 | – | **2.2** | **–** | **2.2** |
| Actuarial gain | – | – | – | 3.7 | **3.7** | **–** | **3.7** |
| Taxation relating to components of other comprehensive income | – | – | – | (1.6) | **(1.6)** | **–** | **(1.6)** |
| Total comprehensive income | – | – | 3.3 | 13.7 | **17.0** | **–** | **17.0** |
| Employee share schemes | – | – | – | 0.4 | **0.4** | **–** | **0.4** |
| Equity dividends | – | – | – | (8.7) | **(8.7)** | **–** | **(8.7)** |
| Related tax movements | – | – | – | 0.5 | **0.5** | **–** | **0.5** |
| **At 31 December 2010** | **18.1** | **143.5** | **(0.5)** | **(27.8)** | **133.3** | **0.6** | **133.9** |

# Notes to the condensed interim financial statements

### 1) Basis of preparation

This Half-Year Report has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Services Authority. The Half-Year Report has been prepared in accordance with IAS 34 '*Interim Financial Reporting*' and on the basis of the accounting policies and the recognition and measurement requirements of IFRS applied in the financial statements at 30 June 2010 and those standards that have been endorsed and will be applied at 30 June 2011. This report should be read in conjunction with the financial statements for the year ended 30 June 2010.

The results for each half-year are unaudited and do not represent the Group's statutory accounts. The comparative figures for the financial year ended 30 June 2010 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group'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 section 498 of the Companies Act 2006. Comparative figures for the periods ended 31 December 2009 and 30 June 2010 have been restated so as to be consistently presented with those of the period end.

The comparative information has been restated as follows:

- The segmental information has been restated to reflect an internal group reorganisation and the impact is disclosed in Note 3; and
- Acquisition accounting adjustments have been finalised in relation to the acquisitions of Homepride Limited and Fortlab Holdings Sdn Bhd. The comparative information has been restated in accordance with IFRS 3 '*Business Combinations*'. The impact of this restatement for 31 December 2009 is to increase trade and other payables and goodwill by £0.2 million and for 30 June 2010 is to reduce trade and other payables and goodwill by £0.1 million.

The interim financial statements were approved by the Board on 7 February 2011.

## 2) Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2010, with the exception of the adoption of the following amendments to Standards and interpretations:

- The minor amendments to a number of standards set out in the IASB's 2009 Annual Improvements project, including operating segments, share-based payments, leases, intangible assets and financial instruments;
- Amendment to IFRS 2 '*Share-based Payment – Group Cash-settled Share-based Payment Transactions*';
- Amendment to IAS 32 '*Financial Instruments: Presentation – Classification of Rights Issues*';
- IFRIC 17 '*Distributions of Non-Cash Assets to Owners*'; and
- IFRIC 19 '*Extinguishing Financial Liabilities with Equity Instruments*'.

The adoption of these amendments and interpretations has had no significant impact on the Group's results or net assets.

## 3) Segment information

In accordance with *IFRS 8 'Operating Segments'*, the identification of the Group's operating segments is based on internal management reporting as reviewed by the Group Management Team in order to assess performance and allocate resources. Transfer prices between segments are set on an arm's length basis. Segment revenue and profit include transfers between segments, which are eliminated on consolidation.

Segment operating profit is determined on an underlying basis, excluding amortisation of intangible assets, exceptional items and unallocated corporate expenses, as this is believed to be more representative of the underlying performance of the Group.

From 1 July 2010, an internal re-organisation of the management structure has resulted in responsibility for operations in Luxembourg and Germany being transferred from Western Continental Europe to Central and Eastern Continental Europe (formerly Eastern Continental Europe). Following this re-organisation, the Group is managed on a geographical basis in the following regions – United Kingdom, Western Continental Europe and Central and Eastern Continental Europe. The amounts shown for the 6 months ended 31 December 2009 and the year ended 30 June 2010 have been restated to reflect the new operating segments and the impact of the restatement is summarised below:

### *6 months to 31 December 2009*

Western Continental Europe's revenues and segment profit has reduced by £32.0 million and £2.1 million respectively, offset by an increase to revenue and segment profit of Central and Eastern Continental Europe by £38.6 million and £2.1 million respectively. The intersegment elimination of revenues has increased by £6.6 million.

### 3) Segment information continued

*Year ended 30 June 2010*

Western Continental Europe's revenue and segment profit has reduced by £70.4 million and £6.4 million respectively, offset by an increase to revenue and segment profit of Central and Eastern Continental Europe by £83.1 million and £6.4 million respectively. The inter-segment elimination of revenues has increased by £12.7 million.

| | Revenue by geographic origin | | | Revenue by business segment | | |
|---|---|---|---|---|---|---|
| | External revenue £m | Inter-segment revenue £m | Total segment revenue £m | Household £m | Personal Care £m | Total £m |
| **6 months to 31 December 2010** | | | | | | |
| United Kingdom | **155.8** | **3.2** | **159.0** | | | |
| Western Continental Europe | **183.3** | **20.1** | **203.4** | | | |
| Central and Eastern Continental Europe | **64.7** | **2.9** | **67.6** | | | |
| Eliminations/Asia* | **4.1** | **(26.2)** | **(22.1)** | | | |
| | **407.9** | **–** | **407.9** | **332.9** | **75.0** | **407.9** |
| **6 months to 31 December 2009 (restated)** | | | | | | |
| United Kingdom | 160.6 | 1.8 | 162.4 | | | |
| Western Continental Europe | 199.9 | 13.9 | 213.8 | | | |
| Central and Eastern Continental Europe | 51.9 | 4.6 | 56.5 | | | |
| Eliminations/Asia* | – | (20.3) | (20.3) | | | |
| | 412.4 | – | 412.4 | 336.1 | 76.3 | 412.4 |
| **Year ended 30 June 2010 (restated)** | | | | | | |
| United Kingdom | 316.9 | 3.4 | 320.3 | | | |
| Western Continental Europe | 384.4 | 29.6 | 414.0 | | | |
| Central and Eastern Continental Europe | 110.9 | 7.5 | 118.4 | | | |
| Eliminations/Asia* | – | (40.5) | (40.5) | | | |
| | 812.2 | – | 812.2 | 667.5 | 144.7 | 812.2 |

* Includes Asia sales of £5.3 million, of which £1.2 million are intergroup (6 months to 31 Dec 2009 £0.6 million all intergroup, year ended 30 June 2010 £1.0 million all intergroup).

## 3) Segment information continued

| | Segment profit | | |
|---|---|---|---|
| | **6 months to 31 Dec 2010 £m** | Restated 6 months to 31 Dec 2009 £m | Restated year ended 30 June 2010 £m |
| **By geographic origin** | | | |
| United Kingdom | **8.3** | 11.1 | 22.1 |
| Western Continental Europe | **12.8** | 15.7 | 28.2 |
| Central and Eastern Continental Europe | **3.4** | 3.5 | 8.9 |
| Eliminations/Asia | **0.1** | (0.2) | (0.4) |
| | **24.6** | 30.1 | 58.8 |
| **By business segment** | | | |
| Household | **21.9** | 26.4 | 51.4 |
| Personal Care | **2.7** | 3.7 | 7.4 |
| | **24.6** | 30.1 | 58.8 |

*Reconciliation of segment profit to reported profit before tax*

| | **6 months to 31 Dec 2010 £m** | 6 months to 31 Dec 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| Total segment profit | **24.6** | 30.1 | 58.8 |
| Amortisation of intangible assets | **(1.1)** | (1.0) | (2.0) |
| Corporate costs | **(4.4)** | (3.6) | (8.8) |
| Exceptional items | **(0.3)** | – | (12.8) |
| Reported operating profit | **18.8** | 25.5 | 35.2 |
| Net financing costs | **(3.3)** | (3.0) | (5.6) |
| Reported profit before tax | **15.5** | 22.5 | 29.6 |

*Segment assets*

| | **6 months to 31 Dec 2010 £m** | Restated 6 months to 31 Dec 2009 £m | Restated year ended 30 June 2010 £m |
|---|---|---|---|
| United Kingdom | **160.7** | 177.6 | 174.9 |
| Western Continental Europe | **212.7** | 211.4 | 191.1 |
| Central and Eastern Continental Europe | **72.5** | 58.7 | 52.9 |
| Segment assets | **445.9** | 447.7 | 418.9 |
| Corporate assets | **14.8** | 7.0 | 21.4 |
| Total assets | **460.7** | 454.7 | 440.3 |

## 3) Segment information continued

*Segment liabilities*

| | 6 months to 31 Dec 2010 £m | Restated 6 months to 31 Dec 2009 £m | Restated year ended 30 June 2010 £m |
|---|---|---|---|
| United Kingdom | **(101.5)** | (100.4) | (104.2) |
| Western Continental Europe | **(120.4)** | (125.0) | (133.9) |
| Central and Eastern Continental Europe | **(35.1)** | (21.3) | (19.4) |
| Segment liabilities | **(257.0)** | (246.7) | (257.5) |
| Corporate liabilities(1) | **(69.8)** | (80.2) | (58.1) |
| Total liabilities | **(326.8)** | (326.9) | (315.6) |

(1) Corporate liabilities include external debt and tax liabilities.

| | 6 months to 31 Dec 2010 £m | Restated 6 months to 31 Dec 2009 £m | Restated year ended 30 June 2010 £m |
|---|---|---|---|
| **Capital expenditure*** | | | |
| United Kingdom | **4.6** | 9.6 | 13.9 |
| Western Continental Europe | **6.1** | 6.2 | 14.2 |
| Central and Eastern Continental Europe | **12.4** | 1.5 | 2.9 |
| Corporate | **0.1** | 0.1 | 4.8 |
| Total | **23.2** | 17.4 | 35.8 |
| **Amortisation and depreciation** | | | |
| United Kingdom | **5.0** | 4.6 | 9.7 |
| Western Continental Europe | **5.9** | 7.8 | 13.6 |
| Central and Eastern Continental Europe | **2.4** | 2.6 | 5.2 |
| Corporate | **0.2** | 0.1 | 0.1 |
| Total | **13.5** | 15.1 | 28.6 |

* Capital expenditure includes property, plant and equipment, intangible assets and amounts payable (including contingent consideration) in respect of acquisitions. For the 6 months to 31 Dec 2010 the amounts payable in respect of the acquisition of Dermacol a.s. are shown in Central and Eastern Continental Europe. For the 6 months to 31 Dec 2009 the amount paid in respect of the acquisition of Homepride Limited is shown within United Kingdom. For the year ended 30 June 2010 the amounts payable in respect of the acquisitions of Homepride Limited and Fortlab Holdings Sdn Bhd are shown within United Kingdom and Corporate respectively.

### 3) Segment information continued

Segmental information is also presented below in respect of external revenue by destination.

| | **6 months to 31 Dec 2010 £m** | 6 months to 31 Dec 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| **External revenue by destination** | | | |
| United Kingdom | **144.3** | 151.0 | 296.2 |
| Foreign countries: | | | |
| France | **111.2** | 117.3 | 224.3 |
| Italy | **36.2** | 39.5 | 77.8 |
| Other Western Continental Europe | **42.4** | 48.3 | 91.4 |
| Central and Eastern Continental Europe and Rest of World | **73.8** | 56.3 | 122.5 |
| | **407.9** | 412.4 | 812.2 |

### 4) Acquisitions

*6 months ended 31 December 2010*

On 1 September 2010, the Group acquired a 70% of the share capital of Dermacol a.s., a manufacturer of skincare products based in the Czech Republic, for an expected consideration of £8.2 million (CZK 248 million), of which £2.3 million (CZK 70 million) was paid on completion, £2.0 million (CZK 60 million) is payable within one year and a further five payments are payable from 2013 to 2017 inclusive, based on Dermacol's sales during the period. The group has also agreed to purchase the remaining 30% of the shares in late 2017 for a consideration based on the operating profit of Dermacol a.s. in the 2017 financial year. The total consideration cannot exceed a maximum of £21.7 million (CZK 650 million). At the acquisition date, the amount accrued by the Group which discounts future contingent cash payments to their fair value at the date of acquisition was £9.4 million (CZK 281 million).

As noted above, the Group has committed to the purchase of the 30% of shares in Dermacol a.s. that it did not legally acquire at the acquisition date and has recognised a financial liability in relation to the deferred consideration payable for the purchase of the remaining shares. The Directors have elected to account for the non-controlling interests in Dermacol a.s. under the anticipated acquisition method. Under the anticipated acquisition method the interests of the non-controlling shareholder are derecognised when the Group's liability relating to the purchase of its shares is recognised. The recognition of the financial liability implies that the interests subject to the forward purchase are deemed to have been acquired already. Therefore the corresponding interests are presented as already owned by the Group even though legally they are still non-controlling interests. The £4.2 million (CZK 126 million) financial liability recognised by the Group forms part of the contingent consideration for the acquisition. All components of contingent consideration will be carried at fair value in accordance in future accounting periods and any adjustments arising reflected in the income statement.

## 4) Acquisitions continued

All incremental transaction costs related to the acquisition have been recognised in the income statement. The goodwill arising on the acquisition of Dermacol a.s. is mainly attributable to the workforce in place, a base for future growth of the Group's skincare business and access to a low cost location for production. Intangible assets acquired with Dermacol a.s. mainly relate to the fair value placed on customer relationships and software.

Dermacol a.s. contributed £2.5 million revenue and operating profit of less than £0.1 million for the period between the date of acquisition and 31 December 2010.

If the acquisition had been completed on the first day of the financial period, it would have contributed approximately £3.8 million of revenue and £0.1 million of operating profit to the Group.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

| | Dermacol a.s. | | |
|---|---|---|---|
| | Book value £m | Fair value adjustments £m | Fair value £m |
| Net assets acquired: | | | |
| Property, plant and equipment | 9.2 | (1.7) | 7.5 |
| Intangible assets | 0.2 | 0.3 | 0.5 |
| Working capital | 1.0 | (0.2) | 0.8 |
| Cash and cash equivalents | 0.2 | – | 0.2 |
| Debt | (0.9) | – | (0.9) |
| | **9.7** | **(1.6)** | **8.1** |

| | |
|---|---|
| Fair value of assets acquired | 8.1 |
| Goodwill on acquisition | 3.6 |
| **Total** | **11.7** |
| Satisfied by: | |
| Cash paid | 2.3 |
| Contingent consideration | 9.4 |
| **Cash consideration** | **11.7** |

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### 4) Acquisitions continued

*6 months ended 31 December 2009 (restated)*

On 4 December 2009, the Group acquired 100% of the share capital of Homepride Limited, a UK supplier of specialist household cleaning products, including Ovenpride, to a number of leading UK retailers for a gross consideration of £4.9 million.

The goodwill arising on the acquisition of Homepride is mainly attributable to additional sales volume acquired and operating synergies obtained from the acquisition, including those related to purchasing, customer service and distribution channels. Intangible assets acquired with Homepride relate to the fair value placed on the Ovenpride brand and customer relationships.

The fair value of Homepride's identifiable net assets at the acquisition date was £2.0 million and this resulted in the recognition of £2.9 million of goodwill.

*Year ended 30 June 2010 (restated)*

In addition to the acquisition of Homepride Limited as disclosed above, on 9 June 2010, the Group completed the acquisition of 85% of the share capital of Fortlab Holdings Shd Bhd ('FHSB'), a Malaysia-based manufacturer of personal care products in both Private Label and branded formats with operating facilities in Kuala Lumpur and Ho Chi Minh City, Vietnam for a consideration of up to £4.2 million (RM20.3 million Malaysian Ringgit), of which £4.0 million (RM19.3 million) was paid on completion and up to £0.2 million (RM1.0 million) is payable within one year. The amount accrued by the Group at 30 June 2010 is £0.1 million (RM0.4 million), being £0.1 million (RM0.6 million) lower than previously stated to reflect the consideration paid in the six months ended 31 December 2010.

The Group has entered into an option agreement to acquire the remaining shareholding in FHSB for up to £1.2 million (RM5.5 million). The consideration payable is dependent on the financial performance of the Fortlab business for the years ended 30 June 2012 or 30 June 2013, depending on the date on which the option is exercised. The amount payable under the terms of the option agreement will be at least £0.6 million (RM2.7 million). The amount accrued by the Group at 30 June 2010 is £0.6 million (RM2.7 million).

Under the terms of the put/call option, the holders of the remaining shares in FHSB will benefit from any appreciation in value of the shares but the value of its investment cannot fall below the prescribed minimum amount, whereas the Group has the risks and rewards of ownership of the remaining shares in FHSB even though it does not legally own them. Accordingly, the Directors have determined that the non-controlling shareholder in FHSB does not have present access to the economic benefits associated with the underlying ownership interests of the remaining FHSB shares and have accounted for the non-controlling interests in FHSB (except as outlined in the footnote below) under the anticipated acquisition method. Under the anticipated acquisition method the interests of the non-controlling shareholder holding the put option are derecognised when the Group's liability relating to the put option is recognised. The recognition of the financial liability implies that the interests subject to the put option are deemed to have been acquired already. Therefore the corresponding interests are presented as already owned by the Group even though legally they are still non-controlling interests. The £0.6 million financial liability recognised by the Group forms part of the contingent consideration for the acquisition.

## 4) Acquisitions continued

The goodwill arising on the acquisition of FHSB is mainly attributable to the workforce in place and operating synergies. Intangible assets acquired with FHSB mainly relate to the fair value placed on the customer relationships.

In aggregate, these acquired businesses contributed £3.0 million revenue and £1.0 million operating profit for the periods between their respective acquisition dates and 30 June 2010.

If these acquisitions had been completed on the first day of the financial year, they would have contributed approximately £10.9 million of revenue and £1.6 million of operating profit to the Group.

The acquisitions in the year ended 30 June 2010 had the following effect on the Group's assets and liabilities on their respective acquisition dates (see note 1 for details of changes to provisional fair values):

| | Homepride Limited | | Fortlab Holdings Shd Bhd | | Total | | |
|---|---|---|---|---|---|---|---|
| | Book value £m | Fair value adjustments £m | Book value £m | Fair value adjustments £m | Book value £m | Fair value adjustments £m | Fair value £m |
| Net assets acquired: | | | | | | | |
| Property, plant and equipment | – | – | 3.2 | 0.2 | 3.2 | 0.2 | 3.4 |
| Intangible assets | – | 1.4 | 0.1 | 0.1 | 0.1 | 1.5 | 1.6 |
| Working capital | 0.7 | (0.3) | 1.9 | (0.4) | 2.6 | (0.7) | 1.9 |
| Cash and cash equivalents | 0.2 | – | 0.3 | – | 0.5 | – | 0.5 |
| Net debt | – | – | (0.1) | – | (0.1) | – | (0.1) |
| Non-current liabilities | – | – | (0.3) | – | (0.3) | – | (0.3) |
| Non-controlling interests* | – | – | (0.5) | (0.1) | (0.5) | (0.1) | (0.6) |
| | **0.9** | **1.1** | **4.6** | **(0.2)** | **5.5** | **0.9** | **6.4** |
| Fair value of assets acquired | | 2.0 | | 4.4 | | | 6.4 |
| Goodwill on acquisition | | 2.9 | | 0.3 | | | 3.2 |
| **Total** | | **4.9** | | **4.7** | | | **9.6** |
| Satisfied by: | | | | | | | |
| Cash paid | | 4.9 | | 4.0 | | | 8.9 |
| Contingent consideration | | – | | 0.7 | | | 0.7 |
| **Cash consideration** | | **4.9** | | **4.7** | | | **9.6** |

* Fortune Organics (F.E.) Sdn Bhd is a 55% owned subsidiary of Fortlab Holdings Sdn Bhd which had net assets at the acquisition date at a book value of £1.1 million and with a fair value of £1.3 million. The Group has not entered into any agreement to acquire the remaining shares in this subsidiary.

### 5) Goodwill

| | 6 months to 31 Dec 2010 £m | Restated 6 months to 31 Dec 2009 £m | Restated year ended 30 June 2010 £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 July | **32.9** | 29.7 | 29.7 |
| Acquisitions | **3.6** | 2.9 | 3.2 |
| Exchange movements | **0.5** | 0.5 | – |
| At 31 December/30 June | **37.0** | 33.1 | 32.9 |

### 6) Taxation

The £3.9 million tax charge for the 6 months ended 31 December 2010 (6 months ended 31 December 2009: £5.7m, year ended 30 June 2010: £7.5m) consists of £0.5 million (6 months ended 31 December 2009: £1.6m, year ended 30 June 2010: £1.9m) of UK tax and £3.4 million (6 months ended 31 December 2009: £4.1m, year ended 30 June 2010: £5.6m) of overseas tax. The Group's consolidated effective tax rate for the 6 months ended 31 December 2010 was 25% (6 months ended 31 December 2009: 25%, year ended 30 June 2010: 25%).

### 7) Earnings per ordinary share

| | | 6 months to 31 Dec 2010 | 6 months to 31 Dec 2009 | Year ended 30 June 2010 |
|---|---|---|---|---|
| Total earnings (£m) | a | **11.6** | 16.8 | 22.1 |
| Weighted average number of ordinary shares | b | **180,379,683** | 180,271,520 | 180,276,613 |
| Basic earnings per share (pence) | a/b | **6.4** | 9.3 | 12.3 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on assumption of conversion of all potentially dilutive ordinary shares. The Company has two categories of potentially dilutive ordinary shares: share awards with no option price and shares allocated to an approved Save As You Earn scheme. In the prior year the Company additionally had share options issued whose exercise price was less than the average price of the Company's ordinary shares during the period.

| | | 6 months to 31 Dec 2010 | 6 months to 31 Dec 2009 | Year ended 30 June 2010 |
|---|---|---|---|---|
| Weighted average number of ordinary shares (million) | b | **180.4** | 180.3 | 180.3 |
| Effect of dilutive share awards (million) | | **1.1** | 1.0 | 1.6 |
| Effect of dilutive SAYE scheme shares (million) | | **1.1** | 1.0 | 1.3 |
| | c | **182.6** | 182.3 | 183.2 |
| **Diluted earnings per share (pence)** | a/c | **6.4** | 9.2 | 12.1 |

## 7) Earnings per ordinary share continued

Adjusted basic earnings per share applies to earnings excluding exceptional items and amortisation of intangible assets since the directors consider that this gives additional information as to the underlying performance of the Group.

| | | 6 months to 31 Dec 2010 £m | 6 months to 31 Dec 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|---|
| Earnings used to calculate basic and diluted EPS | a | **11.6** | 16.8 | 22.1 |
| Exceptional items after tax | | **0.2** | – | 9.6 |
| Amortisation of intangible assets after tax | | **0.8** | 0.8 | 1.5 |
| Earnings before exceptional items and amortisation of intangible assets | d | **12.6** | 17.6 | 33.2 |
| **Adjusted basic earnings per share (pence)** | d/b | **7.0** | 9.8 | 18.4 |
| **Adjusted diluted earnings per share (pence)** | d/c | **6.9** | 9.7 | 18.1 |

## 8) Reconciliation of net cash flow to movement in net debt

| | 6 months to 31 Dec 2010 £m | 6 months to 31 Dec 2009 £m | Year ended 30 June 2010 £m |
|---|---|---|---|
| (Decrease)/increase in cash and cash equivalents in the period | **(1.7)** | 6.9 | 8.7 |
| Cash (inflow)/outflow from movement in debt | **(7.6)** | 8.3 | 10.7 |
| Movement on finance leases | **0.4** | 0.4 | 0.7 |
| **Change in net debt resulting from cash flows** | **(8.9)** | 15.6 | 20.1 |
| Debt acquired with subsidiaries | **(0.9)** | – | 0.4 |
| Translation differences | **(2.4)** | (2.6) | 1.9 |
| **Movement in net debt in the period** | **(12.2)** | 13.0 | 22.4 |
| Net debt at the beginning of the period | **(60.0)** | (82.4) | (82.4) |
| **Net debt at the end of the period** | **(72.2)** | (69.4) | (60.0) |

# Financial calendar for the year ending 30 June 2011

### Dividends

| | | |
|---|---|---|
| Interim | Announcement | 8 February 2011 |
| | Payment | 27 May 2011 |
| Final | Announcement | September 2011 |
| | Payment | November 2011 |

### Results

| | | |
|---|---|---|
| Interim | Announcement | 8 February 2011 |
| Preliminary statement for full year | Announcement | September 2011 |
| Report and Accounts | Circulated | September 2011 |
| Annual General Meeting | To be held | October 2011 |

### Exchange rates

The exchange rates used for conversion to sterling were as follows:

| | **6 months to 31 Dec 2010** | 6 months to 31 Dec 2009 | Year ended 30 June 2010 |
|---|---|---|---|
| Average rate: | | | |
| Euro | **1.18** | 1.13 | 1.14 |
| Polish Zloty | **4.71** | 4.72 | 4.66 |
| Czech Koruna | **29.4** | 29.0 | 29.3 |
| Hungarian Forint | **330** | 305 | 309 |
| Malaysian Ringgit | **4.91** | n/a | 4.81 |
| Closing rate: | | | |
| Euro | **1.17** | 1.13 | 1.22 |
| Polish Zloty | **4.63** | 4.62 | 5.05 |
| Czech Koruna | **29.3** | 29.7 | 31.4 |
| Hungarian Forint | **325** | 304 | 348 |
| Malaysian Ringgit | **4.83** | n/a | 4.84 |

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