

Abbeycrest plc Condensed Consolidated
Interim Financial Statements
For the six months ended 31 August 2009





Chairman's Interim Statement

Business Review

I am pleased to advise shareholders that the Group achieved a profit after taxation for the period of £1.3m compared to a loss after taxation for the period to 31 August 2008 of £2.3m and a loss after taxation for the year ended 28 February 2009 of £10.2m. This result, which was heavily impacted by the exceptional operating profit for the period explained in further detail below, has been achieved on the planned, reduced revenue for the period of £17.9m compared to a revenue for the period ended 31 August 2008 of £23.5m and a revenue for the year ended 28 February 2009 of £53.1m. The Group made an operating profit for the period of £1.7m compared to an operating loss for the period to 31 August 2008 of £1.1m and an operating loss for the year ended 28 February 2009 of £7.1m.

The Group's results include an exceptional operating profit for the period of £1.5m as a result of the agreement with its landlord to grant an option to break the lease at the Group's former Head Office premises at Wilmington Grove in Leeds, in September 2011. During the period ended 31 August 2008 the Group incurred exceptional operating costs of £1.2m and for the year ended 28 February 2009 it incurred exceptional operating costs of £8.2m as part of the Straight Edge restructuring programme, originally outlined in the Annual Report and Financial Statements 2008.

As a consequence and as a result of the Group's strategy to improve operating margins, the Group made an operating profit, pre-exceptional profits, for the period of £0.2m compared to an operating profit, pre-exceptional losses, for the period to

31 August 2008 of £nil m and an operating profit, pre-exceptional losses, for the period ended 28 February 2009 of £1.1m.

I would like to remind shareholders that the key elements of the Straight Edge restructuring programme were:

- (i) achieving an improvement in underlying profitability;
- (ii) implementing step change reductions in working capital and net debt; and
- (iii) restructuring the business and the management team.

I am therefore happy to inform shareholders of on-going developments on all points.

As can be determined from the above results the break-even point of the Group has been significantly lowered. Inventories as a key determinant of working capital have been reduced by 40% at the end of the period to £8.5m compared to £14.2m at 31 August 2008 as a result of tighter management controls along with the on-going reduction in the number of stock-keeping units held by the Group. This further reduction in inventory has enabled net debt in the period to fall to £8.1m at the end of the period compared to £12.8m at 31 August 2008. In addition, as previously advised, the Group's board has been strengthened through the recruitment of two new main board directors: Graham Partridge was appointed as Group Finance and Operations Director on 23 March 2009 and Nick Hamley as Group Sales and Marketing Director on 8 May 2009.

The Group continues to build for the future through its Leading Edge programme which was outlined in the Annual Report and Financial Statements 2008.

The key elements of the Leading Edge programme are to:

- (i) distil the existing Abbeycrest operations supplying mainstream global markets into an Essentials division, targeting fewer customers with more focussed ranges;
- (ii) create a Brands division, incorporating Brown & Newirth, to grow higher end market share with branded jewellery collections; and
- (iii) shift the Group's thinking from "sell what we make" to "make what will sell" underpinned by new product development driven by market trends and consumer research.

The Group has now invested in Global Edge, its new brands portfolio business, and has launched three new jewellery collections – Gorgeous Gold®, Fluid® and Osare®. It has also recruited a new sales team, all with branded sales experience.

This phase remains in its early stages; however, the directors believe that moving the Group's portfolios towards less price-sensitive segments of the market is a positive direction to take in these uncertain economic times.

In order to support the Group's future development, repay the initial instalment of £0.75m due at the end of September to the Group's junior creditor Agile Master Fund Limited and reduce debt still further, the Group announced on 28 August 2009, its intention to raise £1.7m net of costs from a share placement. With the support of certain existing shareholders and some new

shareholders this was successfully achieved and approved by shareholders on 23 September 2009. The Group's shareholder base has been both broadened and deepened following significant new investments by certain major institutions including Gartmore Fund Managers and we would like to welcome all new shareholders and thank existing shareholders for their support in these challenging times.

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected historical results. The directors do not consider that there have been any material adverse changes to the principal risks and uncertainties included in the publication of the annual report for the year ended 28 February 2009. A detailed explanation of the risks relevant to the Group is on pages 14 to 17 of the annual report which is available at www.abbeycrest.co.uk.

The Group's performance during the first half of the year has been in-line with management expectations. Whilst this is encouraging, the key selling season for the Group is the period up to Christmas and, as ever, our performance will be dependent upon retail market conditions during this time, both in the UK and overseas.

Simon Ashton
Executive Chairman

Condensed Consolidated Interim Income Statement

For the six months ended 31 August 2009

		Six months to 31 August 2009	Six months to 31 August 2008	Year to 28 February 2009
	Note	Unaudited £'000	Unaudited £'000	Audited £'000
Revenue	4	17,852	23,529	53,052
Operating costs	2	(16,143)	(24,676)	(60,168)
Operating profit/(loss)		1,709	(1,147)	(7,116)
Finance income		–	6	6
Finance costs		(451)	(1,072)	(3,021)
Profit/(loss) before taxation		1,258	(2,213)	(10,131)
Analysis of profit/(loss) before taxation				
Loss before taxation and exceptional items		(241)	(1,023)	(984)
Exceptional items – operating costs	2	1,499	(1,190)	(8,191)
Exceptional items – finance costs	2	–	–	(956)
Profit/(loss) before taxation		1,258	(2,213)	(10,131)
Tax charge		–	(43)	(58)
Profit/(loss) for the period attributable to equity holders of the parent		1,258	(2,256)	(10,189)
Profit/(loss) per share – basic and diluted	3	4.4p	(8.3)p	(36.6)p

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 August 2009

		Six months to 31 August 2009	Six months to 31 August 2008	Year to 28 February 2009
		Unaudited £'000	Unaudited £'000	Audited £'000
Profit/(loss) for the period		1,258	(2,256)	(10,189)
Other comprehensive (costs)/income				
Cash flow hedges:				
Losses recognised directly in equity		–	(1)	(1)
Exchange (losses)/gains on retranslation of foreign operations		(770)	9	1,641
Other comprehensive (costs)/income		(770)	8	1,640
Total comprehensive income/(costs) for the period attributable to equity holders of the parent		488	(2,248)	(8,549)

Consolidated Statement of Changes in Equity

For the six months ended 31 August 2009

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 March 2009	2,922	5,665	199	2,424	–	(4,776)	6,434
Profit for the period	–	–	–	–	–	1,258	1,258
Cash flow hedges:							
Exchange losses on retranslation of foreign operations	–	–	–	(770)	–	–	(770)
Total comprehensive income for the period	–	–	–	(770)	–	1,258	488
Balance at 31 August 2009 (unaudited)	2,922	5,665	199	1,654	–	(3,518)	6,922

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 March 2008	2,662	5,619	199	783	1	5,413	14,677
Loss for the period	–	–	–	–	–	(2,256)	(2,256)
Cash flow hedges:							
Losses recognised directly in equity	–	–	–	–	(1)	–	(1)
Exchange gains on retranslation of foreign operations	–	–	–	9	–	–	9
Total comprehensive income for the period	–	–	–	9	(1)	(2,256)	(2,248)
Issue of share capital	260	46	–	–	–	–	306
Balance at 31 August 2008 (unaudited)	2,922	5,665	199	792	–	3,157	12,735

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 March 2008	2,662	5,619	199	783	1	5,413	14,677
Loss for the period	–	–	–	–	–	(10,189)	(10,189)
Cash flow hedges:							
Losses recognised directly in equity	–	–	–	–	(1)	–	(1)
Exchange gains on retranslation of foreign operations	–	–	–	1,641	–	–	1,641
Total comprehensive income for the period	–	–	–	1,641	(1)	(10,189)	(8,549)
Issue of share capital	260	46	–	–	–	–	306
Balance at 28 February 2009 (unaudited)	2,922	5,665	199	2,424	–	(4,776)	6,434

Condensed Consolidated Interim Balance Sheet

As at 31 August 2009

	31 August 2009 Unaudited £'000	31 August 2008 Unaudited £'000	28 February 2009 Audited £'000
Note			
Assets			
Non-current assets			
Goodwill	1,880	1,880	1,880
Other intangible assets	336	197	398
Property, plant and equipment	4,089	4,567	4,677
Deferred tax assets	102	73	102
	6,407	6,717	7,057
Current assets			
Inventories	8,519	14,192	9,344
Trade and other receivables	7,222	11,587	10,703
Cash and cash equivalents	233	603	99
	15,974	26,382	20,146
Liabilities			
Current liabilities			
Borrowings	(8,193)	(13,214)	(7,811)
Trade and other payables	(5,559)	(6,995)	(9,010)
Corporation tax	-	-	(197)
	(13,752)	(20,209)	(17,018)
Net current assets	2,222	6,173	3,128
Non-current liabilities			
Borrowings	(143)	(155)	(251)
Provisions	6 (1,564)	-	(3,500)
	(1,707)	(155)	(3,751)
Net assets	6,922	12,735	6,434
Shareholders' equity			
Share capital	2,922	2,922	2,922
Share premium account	5,665	5,665	5,665
Merger reserve	199	199	199
Cumulative translation reserves	1,654	792	2,424
Retained earnings	(3,518)	3,157	(4,776)
Total shareholders' equity	6,922	12,735	6,434

Condensed Consolidated Interim Cash Flow Statement

For the six months ended 31 August 2009

	Six months to 31 August 2009 Unaudited £'000	Six months to 31 August 2008 Unaudited £'000	Year to 28 February 2009 Audited £'000
	Note		
Cash flow from operating activities			
Profit/(loss) after tax	1,258	(2,256)	(10,189)
Tax charge	–	43	58
Depreciation and amortisation	436	464	951
Loss on sale of tangible fixed assets	–	–	199
Finance costs	451	1,072	1,457
Finance income	–	(6)	(6)
	2,145	(683)	(7,530)
Decrease in inventories	824	1,220	6,568
Decrease/(increase) in receivables	3,253	(517)	595
(Decrease)/increase in payables	(5,718)	(171)	5,785
Finance costs paid	(451)	(1,072)	(1,457)
Taxation paid	(66)	–	(160)
Net cash (outflow)/inflow from operating activities	(13)	(1,223)	3,801
Cash flow from investing activities			
Purchase of property, plant and equipment	(84)	(276)	(441)
Finance income received	–	6	6
Purchase of intangible fixed assets	(43)	–	(56)
Net cash used in investing activities	(127)	(270)	(491)
Cash flow from financing activities			
Issue of ordinary shares	–	306	306
Proceeds of borrowings	318	2,904	225
Repayment of borrowings	–	–	(3,288)
Leased gold facility movement	88	(1,996)	(1,241)
Capital element of finance lease rental payments	(270)	(88)	(160)
Net cash generated from/(used in) financing activities	136	1,126	(4,158)
Net decrease in cash:	(4)	(367)	(848)
Cash and cash equivalents at beginning of period	(118)	730	730
Cash and cash equivalents at end of period	(122)	363	(118)
Cash and bank overdrafts comprise:			
Cash and cash equivalents in the balance sheet	233	603	99
Bank overdrafts	(355)	(240)	(217)
	(122)	363	(118)

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 31 August 2009

1 Basis of preparation

1.1 Reporting entity

The condensed consolidated interim financial statements of Abbeycrest plc (the "Company") as at and for the six months ended 31 August 2009 comprises the Company and its subsidiaries (the "Group").

These primary statements and selected notes comprise the unaudited condensed consolidated interim financial results of Abbeycrest plc for the six months ended 31 August 2009 and 2008.

The financial information for the year ended 28 February 2009 does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 28 February 2009 were approved by the Board of Directors on 25 June 2009. The auditors' report on those accounts was unqualified and did not contain a statement under section 237(2)-(3) of the Companies Act 1985. The auditors' report did include reference to the material uncertainty in respect of the requirement for the Group to raise additional financing in excess of £1.7m before September 2009 and for the Group to agree a time to pay application with HM Revenue & Customs to which the auditors drew attention by way of emphasis without qualifying their report.

The Company announced its intention to raise £1.7m net of costs from a share placement on 28 August 2009 which was successfully achieved and approved by shareholders on the 23 September 2009. In addition the Company has now agreed a time to pay application with HM Revenue & Customs.

The consolidated financial statements of the Group as at and for the year ended 28 February 2009 are available upon request from the Company's registered office at 4100 Park Approach, Thorpe Park, Leeds, LS15 8GB or via the Company's website at www.abbeycrest.co.uk.

1.2 Statement of compliance

The directors, Simon Ashton, Graham Partridge, Nick Hamley and Albert Cheesebrough, confirm that to the best of their 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.

These condensed consolidated interim financial statements were approved by the Board of Directors on 22 October 2009.

These condensed consolidated interim financial statements have been neither audited nor reviewed pursuant to guidance issued by the Auditing Practices Board.

1.3 Changes in accounting policies

The interim financial statements have been prepared under the same accounting policies as last year except that in the current financial year, the Group has adopted IAS 1, "Presentation of Financial Statements" (Revised), IFRS 8, "Operating segments" and the amendments to IFRS 2, "Share-based payments: vesting conditions and cancellations".

IAS 1, Presentation of Financial Statements (Revised) includes the requirement to present a Statement of Changes in Equity as a primary statement and introduces the possibility of either a single Statement of Comprehensive Income (combining the Income Statement and a Statement of Comprehensive Income) or to retain the Income Statement with a supplementary Statement of Comprehensive Income. The second option has been adopted by Abbeycrest plc. As this standard is concerned with presentation only it does not have any impact on the results or net assets of the Group.

IFRS 8, Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM"). By contrast IAS 14, "Segmental Reporting" required business and geographical segments to be identified on a risks and rewards approach. The business segmental reporting bases used by the Company in previous years are those which are reported to the CODM, so the changes to the segmental reporting for 2009 are in respect of the additional disclosure only. Comparatives have been restated.

Amendment to IFRS 2, "Share-based payments: vesting conditions and cancellations" results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan. Management has concluded that so far there has been no impact on the results of the Group as a result of this amendment.

1.4 Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of the uncertainty of estimations were the same as those that applied to the consolidated financial statements as at and for the year ended 28 February 2009.

Notes to the Condensed Consolidated Interim Financial Statements

Continued

2 Exceptional items

Operating costs include the following exceptional income and costs:

	Six months to 31 August 2009 Unaudited £'000	Six months to 31 August 2008 Unaudited £'000	Year to 28 February 2009 Audited £'000
Exceptional items – operating costs			
Re-organisation costs	–	929	–
Stock reduction programme	–	261	2,386
Group restructuring	(1,499)	–	5,805
	(1,499)	1,190	8,191
Exceptional items – finance costs			
Re-financing costs	–	–	956
Total exceptional (income)/costs	(1,499)	1,190	9,147

The re-organisation costs relate to redundancy, professional and other costs arising from the fundamental review of the Group's business and structure.

The stock reduction programme relates to a stock clearance and liquidation programme associated with the Group's strategic withdrawal from relationships with certain of its UK customers as part of the downsizing of the operations in Leeds.

The Group restructuring costs for the year ended 28 February 2009 relate to redundancy related costs and a substantial onerous lease provision arising from the decision to vacate the Group's premises in Leeds. During the six months ended 31 August 2009 management negotiated a break clause in the onerous lease which has resulted in an exceptional profit for the period (note 6).

3 Profit/(loss) per share

Basic profit/(loss) per share and diluted earnings per share have been calculated using the weighted average number of shares in issue during the period of 28,623,641 (2008: 27,083,424).

4 Segmental analysis

The Group operates in the reportable segments shown below. The following shows the revenue and results by reportable segment in the six months ended 31 August 2009:

	Essentials division Unaudited £'000	Brands division Unaudited £'000	Total Unaudited £'000
Revenue	10,831	7,021	17,852
Segment result	359	417	776
Unallocated income			933
Finance costs			(451)
Profit before income tax			1,258
Tax charge			-
Profit for the period			1,258

Unallocated income relates to central costs and income.

Segmental assets as at 31 August 2009 were as follows:

	Essentials division Unaudited £'000	Brands division Unaudited £'000	Unallocated Unaudited £'000	Reconciliation £'000	Total Unaudited £'000
Total assets	30,319	16,335	20,975	(45,248)	22,381

The reconciling items relate to the elimination of intercompany balances and fixed asset investments on consolidation.

The following shows the revenues and results by reportable segment in the six months ended 31 August 2008:

	Essentials division Unaudited £'000	Brands division Unaudited £'000	Total Unaudited £'000
Revenue	16,238	7,291	23,529
Segment result	(1,047)	874	(173)
Unallocated costs			(974)
Finance income			6
Finance costs			(1,072)
Loss before income tax			(2,213)
Tax charge			(43)
Loss for the period			(2,256)

Unallocated costs relate to central costs.

Notes to the Condensed Consolidated Interim Financial Statements

Continued

4 Segmental analysis (continued)

Segmental assets as at 31 August 2008 were as follows:

	Essentials division Unaudited £'000	Brands division Unaudited £'000	Unallocated Unaudited £'000	Reconciliation £'000	Total Unaudited £'000
Total assets	40,942	14,968	21,847	(44,658)	33,099

The reconciling items relate to the elimination of intercompany balances and fixed asset investments on consolidation.

The following shows the revenues and results by reportable segment in the year ended 28 February 2009:

	Essentials division Unaudited £'000	Brands division Unaudited £'000	Total Unaudited £'000
Revenue	41,510	11,542	53,052
Segment result	(2,452)	388	(2,064)
Unallocated costs			(5,052)
Finance income			6
Finance costs			(3,021)
Loss before income tax			(10,131)
Tax charge			(58)
Loss for the period			(10,189)

Unallocated costs relate to central costs.

Segmental assets as at 28 February 2009 were as follows:

	Essentials division Unaudited £'000	Brands division Unaudited £'000	Unallocated Unaudited £'000	Reconciliation £'000	Total Unaudited £'000
Total assets	36,599	13,112	24,254	(46,762)	27,203

The reconciling items relate to the elimination of intercompany balances and fixed asset investments on consolidation.

5 Property plant and equipment

Acquisitions and disposals

During the six months ended 31 August 2009 the Group purchased property, plant and equipment with a cost of £84,000 (six months to 31 August 2008: £133,000).

Capital commitments

At 31 August 2009 the Group had no capital commitments (2008: £nil).

6 Provisions for liabilities and charges

	Six months to 31 August 2009 Unaudited £'000	Six months to 31 August 2008 Unaudited £'000	Year to 28 February 2009 Audited £'000
Onerous lease provision			
At 1 March 2009	3,500	–	–
(Credited)/charged to the income statement	(1,936)	–	3,500
At 31 August 2009	1,564	–	3,500

The Group had a tenancy agreement for property at Wilmington Grove, Leeds which did not expire until June 2021. As part of the reorganisation of the UK business during the year ended 28 February 2009, a decision was made to vacate the premises and management considered the tenancy agreement to be onerous.

Management have negotiated a break clause for September 2011 and have reassessed the onerous lease provision.

Management have assessed the obligations under the tenancy agreement and associated unavoidable costs of £1.7m. Management have not included any income against the cash outflows due to the sub-lease potential being assessed as low. The net cash outflows have been discounted at a rate of 4.5%, considered to be the markets current assessment of the time value of money.

7 Seasonality of operations

The Group is subject to seasonal fluctuations, particularly the effect of Christmas. As a consequence the first half year typically results in lower revenues than the second half year.

The Group attempts to minimise the seasonal impact through the management of inventories to meet demand.

8 Post balance sheet events

The Group announced its intention to raise £1.7m net of costs from a share placement on 28 August 2009. With the support of certain existing shareholders and the support of new shareholders this was successfully achieved and approved by shareholders on 23 September 2009.

