

20<sup>th</sup> July 2010

**Findel plc ('Findel', 'the Company' or 'the Group')  
Annual Results for the financial period ended 2 April 2010**

Findel, one of the UK's leading home shopping and educational supplies businesses, today announces its Annual Results for the financial period ended 2 April 2010.

**Annual Results overview**

- Sales from continuing operations down 4% to £547.0m (2009 restated: £572.1m)
- Benchmark\* operating profit of £36.2m (2009 restated: £48.4m)
- Statutory loss before tax of £76.1m (2009 restated: £57.4m)
- Net debt £309.6m (2009: £376.1m)
- Trading performance of the group's continuing operations was, with the exception of the Education Supplies division, creditable in a difficult economic environment
- Discovery of unsubstantiated accounting entries in Education Supplies division – full scale review conducted, corrective action taken as previously announced

**Post period end highlights**

- David Sugden, appointed as Chairman on 1<sup>st</sup> April, and Phil Maudsley, new CEO, have instigated a Full Potential Review with results to be announced in the months ahead
- The Board engaged KPMG to review the accounts of all material businesses within the Group:
  - The review confirmed the issues are isolated to the Education Supplies business and there were no material misstatements in any of the Group's divisions other than Education Supplies
  - Financial systems and controls across the Group are being reviewed and will be strengthened
- Group is making progress at strengthening its corporate position:
  - There is a culture change initiative underway with a focus on governance
  - On 8 June 2010, the Group announced the disposal of Webb
  - On 16 July 2010, the Group entered into agreements for the provision of the Amended Credit facilities which stand for 18 months
- Current trading remains challenging – potential to improve performance:
  - The Group has a number of profitable and cash generative businesses, with significant potential for improved performance

David Sugden, Chairman of Findel said:

"The past year was undoubtedly a challenging period for the Group. Since being appointed Chairman, we have instigated a Full Potential Review of all the Group's continuing operations, with the intention to complete this review as quickly as possible so we can return the Group to profit growth.

"I am encouraged by the strength of the Group's continuing businesses and we have a portfolio including profitable, cash generative businesses with significant potential for improved performance. As this year progresses, we will implement the actions identified within the Full Potential Review to achieve an improvement in Group performance."

- Ends -

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## Chairman's Statement

### Overview

The financial year ended 2 April 2010 has represented a period of significant challenge for the group. The performance of the group's continuing operations has, with the exception of the Education Supplies division, been creditable in a difficult economic environment. However, the performance of the Education Supplies division itself has been very disappointing with significantly reduced turnover and profitability. This, coupled with the need to divest for nominal consideration a number of businesses acquired in recent years, has resulted in a profit outturn well below the board's expectations at this time last year.

Given the reduced level of profitability in the business and that some aspects of the previously announced debt reduction plan have not been achieved, strategies are being assessed to reduce borrowings.

In the period following my appointment as chairman on 1 April 2010 I have been taking stock of this situation and have instigated a Full Potential Review of all of the group's continuing operations. This includes a bottom-up review of the strategy and operations of each major business and the group as a whole. Whilst the Full Potential Review is not yet complete, I am encouraged by the strength of the group's businesses and the opportunities that we are identifying to improve performance. It is our intention to complete this review as quickly as possible and move quickly to implement its findings so that we can return to profit growth, move the group onto stronger financial foundations and restore shareholder value.

### Group Financial Results

Group sales from continuing operations declined by 4% to £547.0m. This decline is entirely attributable to the performance of the Education Supplies division where sales reduced by 15%. Our Home Shopping businesses managed to maintain sales at the same level as the prior year, despite the difficult economic climate and tighter customer acceptance criteria, with Kitbag recording a commendable 34% increase. Sales in our Healthcare division saw a small decline of 2%.

Group benchmark\* operating profit for the period to 2 April 2010 was £36.2m (2009 restated: £48.4m). Benchmark\* profit before tax for the period was £13.8m (2009 restated: £29.2m). These results reflect the challenging environment faced by our consumer credit business and the weak performance of our Education Supplies division.

The statutory result for the period to 2 April 2010 was a loss before tax of £76.1m (2009 restated: £57.4m). The difference between the benchmark\* and statutory result principally relates to charges of £52.8m in respect of the impairment of intangible assets for businesses which have either been sold or are currently held for resale, exceptional charges in respect of cost reduction programmes during the period of £16.7m (2009: £16.4m) and £12.2m of fees incurred in respect of the amendment of our credit facilities in July 2009.

Benchmark earnings per share were 2.60p (2009 restated: 17.36p) and the basic loss per share was 20.02p (2009 restated: 38.89p). Net debt at 2 April 2010 was £309.6m (2009: £376.1m), the reduction reflecting the receipt of £62.2m of net proceeds from the placing and open offer after deduction of expenses relating to the fund raising and amendment of credit facilities.

### Home Shopping

Sales from continuing businesses for the period to 2 April 2010 were in line with the prior year at £345.1m (2009 restated: £345.0m). Benchmark\* operating profit fell to £30.5m (2009 restated: £34.4m) primarily reflecting reduced financial services income in our core credit business where the challenging consumer conditions of the last two years and our more cautious lending policy have reduced customer numbers and, consequently, the credit balances from which this income stream is derived.

Whilst this has been a drag on profitability in the short term, the benefits through reduced bad debts should be seen in future years. We anticipate the actions taken to tighten credit criteria will further enhance these benefits as we move forward.

Statutory sales for the Home Shopping division were £398.3m (2009 restated: £383.7m) with a statutory operating loss of £38.4m (2009 restated: £29.2m).

Further details on the financial performance and key issues facing each of our Home Shopping businesses are set out below:

## *Core credit*

Sales for the core credit business for the period to 2 April 2010 fell to £221.4m (2009 restated: £228.6m). This performance represented a strong performance in product sales, which were up 2% on 2009 levels, reflecting the successful introduction of a clothing offering. Increased product sales were, however, offset by a decline of 11% in financial income. This is a natural consequence of reduced customer numbers, reflecting a more conservative lending policy as well as a challenging retail environment. The year on year improvement in product sales in the current period, as well as improved credit quality, should in time reverse this overall sales decline and provides a positive key performance indicator for future results.

Benchmark\* operating profit was £21.9m (2009 restated: £28.0m) reflecting the reduced level of high margin financial services income in the period.

The strategy for the core credit business will remain to expand the clothing offering to increase average order values and order frequency. Where appropriate this will be augmented by efficiency programmes and tactical investment in customer interfaces such as our call centres or internet sites.

## *Kleeneze*

Sales in Kleeneze, our direct selling brand, were £62.0m for the period to 2 April 2010 (2009: £65.1m). Benchmark\* operating profit for the period was £6.3m (2009: £6.1m) as a result of careful cost and margin management.

During the past year Kleeneze distributor numbers have stabilised, following several years of annual decline. The key strategic requirement for Kleeneze remains to increase the number of distributors and the success of recent direct TV campaigns provides appropriate support for the belief that this will be achieved in the future.

## *Kitbag*

Kitbag continued its recent strong performance with sales up 34% to £48.3m in the period to 2 April 2010 (2009: £36.0m). The strong sales performance fed through to a significant increase in benchmark\* operating profit to £1.9m from £0.6m in 2009.

The primary driver of growth in the period under review has been the success of the partner contract signed with Everton in 2009. Kitbag's future growth strategy is predicated on three objectives: firstly the organic growth of the kitbag.com brand; secondly the conversion of existing partner clubs to the full service model operated with Everton; and securing new partner clubs. The business is confident of announcing further successes in this respect in the near future.

## **Education Supplies**

The year under review has represented an extremely challenging one for the Education Supplies division and for those members of the senior management team who remain with the business after the discovery of unsubstantiated accounting entries detailed more fully below.

Sales in the Education Supplies division for the period to 2 April 2010 were £138.4m (2009 restated: £162.3m). Benchmark\* operating profit was £3.5m (2009 restated: £8.8m). Both the revenue and profit results for the prior period are after restatement for unsubstantiated accounting entries. The division incurred a statutory operating loss of £9.0m (2009 restated: £7.2m).

Whilst the decline in turnover and benchmark\* operating profit is disappointing, the key issue faced by the business is that the past misstatement of results has masked a material ongoing shortfall in underlying performance which has been continuing for some time. The masking of these performance issues has resulted in a delay in the implementation of appropriate corrective action. This is now being addressed but it will take some time to return the business to acceptable levels of profitability.

Despite these historical issues the potential for the business remains encouraging and strategic plans are being developed as part of the Full Potential Review targeted at stabilising revenues, improving product margins and reducing cost to sales ratios.

## Healthcare

Sales in the Healthcare division for the period to 2 April 2010 were £63.5m (2009: £64.8m). Benchmark\* operating profit was £2.6m (2009: £4.9m) primarily reflecting the reduction in gross margins where existing contracts have been re-tendered during the year. The division generated a statutory operating profit of £1.9m (2009: £4.3m).

Whilst the result in the year is disappointing, it is important to note that the uncertainty in the market over the last two years, whilst potential changes to the delivery model were considered by the government, appears to have come to an end and the list of potential new contracts is now substantial. In addition, the Primary Care element of the business, which sells assistive technology to professionals and end-users through catalogues and the internet continues to grow. This business has the potential to move from being a relatively small part of the division to becoming a meaningful contributor over the next three years.

## Other items

During the year the group incurred certain one-off charges which, consistent with prior years, have been grouped together as “other items” in the income statement. These charges have been excluded from benchmark\* results. The charges were incurred primarily as a result of the board’s strategy to exit non-core and loss-making operations. Additional charges were also incurred in implementing cost reduction programmes during the period and in amending the group’s credit facilities in July 2009.

Whilst the charge before tax in the income statement for the period was £89.9m the cash cost was £24.0m, being the trading results of discontinued businesses (£2.8m), other exceptional items (£9.0m) and refinancing fees (£12.2m). Of this cash cost, an element may be recovered through tax losses carried forward.

The primary elements of “other items” are:

- Intangible asset impairment (£52.8m) – Over the last two years the board has looked to dispose of or terminate non-core or loss-making operations. In 2009 this resulted in the closure of Cotswold and Letterbox.

In the current year, the operations of Webb, Confetti and IWOOT have either been sold or are in the process of being sold and, as such, are treated as “terminated operations” in the 2010 accounts. Based on a prudent approach to the consideration recoverable from these assets the board has written down the carrying value of intangibles. In respect of Webb the write-down reflects the known terms of the disposal.

- Asset impairments (£6.3m) – This charge represents the write down of tangible asset values including fixed assets, stock and debtors of the businesses of Webb, Confetti and IWOOT.
- Terminated operations or operations held for resale (£2.8m) – This expense represents the results of those businesses which have been treated as terminated in the financial statements. The losses are excluded from benchmark\* performance.
- Other exceptional operating charges (£16.7m) – Exceptional charges comprised costs incurred in relation to the restructuring exercise performed in the period under review with the objective of reducing the group’s cost base in line with overall reduced activity levels. The single largest item was a charge of £6.7m in respect of onerous lease provisions for warehouse space vacated during the period.
- Exceptional credit of £5.4m in respect of a pension curtailment gain.
- Financing costs (£12.2m) – This charge primarily relates to the fees incurred during the amendment of our credit facilities in July 2009.
- Finance income (£3.2m credit) – This credit relates to the reversal of the fair value liability that arose in the prior year for the impact of the fall in interest rates on the value of certain interest rate swaps.

## **Cash Generation**

The group's net cash inflow during the period under review was £59.4m. After taking account of the £74.4m net proceeds from the fund raising and the exceptional charges of £12.2m in respect of the refinancing process, the group was broadly cash neutral for the year at a trading level.

The cash flow in the year broadly reflects the benchmark\* profit before tax generated in the year of £13.8m net of the primary cash elements of "other items" which were exceptional charges (£9.0m) and the net trading results of discontinued activities (£2.8m).

Group cash generation has been lower than previously anticipated due to several factors including weaker trading performance and, significantly, the accounting issues identified in the Education Supplies division. Cash flow has also suffered from a delay in the reintroduction of trade credit insurance, which has resulted in additional borrowings under our credit facilities. Lower levels of cash generation by the group have also prevented debt being reduced by as much as the board had previously anticipated and this supports its view that the current level of debt is too high.

## **Unsubstantiated accounting entries in the Education Supplies division**

On 29 March 2010, we announced we were reviewing a number of accounting entries in our Education Supplies division which appeared not to be fully substantiated and had come to light following changes within the management team of that division.

This review, performed in conjunction with the company's auditors, was completed in June. The net impact on the company's results for the year ended 3 April 2009 was that benchmark\* and statutory profit before tax and net assets were overstated by £6.4m and £20.6m respectively. Details of the specific nature and quantum of the matters identified are provided in the Finance Director's report. There was no impact on the benchmark\* profit before tax for the period ended 2 April 2010.

The board engaged KPMG to perform a review of the accounts of all material businesses within the group to confirm that the assets and liabilities of each were correctly stated both at 3 April 2009 and 26 February 2010, the latter being the date of the most recent internal accounts at the time the review was performed. The first stage of the review confirmed that there were no material misstatements in any of the group's divisions other than Education Supplies. The board is taking steps to strengthen the finance function, improve internal controls and risk management as a key priority and has strengthened the internal audit function.

## **Amended Credit Facilities**

On 16 July 2010 the group entered into agreements for the provision of the Amended Credit facilities. These replace the previous credit facilities and comprise:

- A £250.0m revolving credit facility which terminates on 9 January 2012
- A £77.3m revolving credit facility which terminates on 9 January 2012

Further information on the Amended Credit facilities are set out in the Finance Director's Review. As a result of these amendments to the group's credit facilities, financing costs will rise significantly in the current year.

The need to enter into amended credit facilities so soon after the 2009 refinancing was brought about primarily by the accounting misstatements and the performance issues in the Education Supplies division as well as the ongoing inability to obtain credit insurance. Whilst the amended facilities are adequate for the group's current needs, your board is conscious that the level of debt remains high, particularly given what is now known about the profitability and cash generation of the group. The board is therefore working with the group's financial advisers to identify ways to remedy this situation.

## **Webb Group**

On 8 June 2010, the group announced it had disposed of the entire issued share capital of Webb. From 24 July 2009 to 2 April 2010, Webb contributed statutory operating profit of approximately £1.4m.

The decision to sell Webb was predicated primarily on two key changes in the working capital dynamics of Webb's business model. The first related to a rephrasing of the revenue profile from that proposed at the time of the refinancing in July 2009. As a result, Webb required increased facilities for a longer period than had been originally anticipated. The second and more significant change was the deferral of the reintroduction of trade credit which would have driven a significant increase in the level of borrowings in peak season.

The combined impact of both prolonged and higher borrowings relative to the overall level of profit generated by Webb led the board to conclude that the group's capital was better invested in higher margin lower risk activities elsewhere in the group.

## **Employees**

The last year has been a very difficult period for the group with the already challenging economic environment being exacerbated by the fund raising, refinancing and investigatory processes which were carried out.

On behalf of the board I would like to express my sincere thanks to all our employees for their efforts, contribution and support during this difficult period. I believe that as we move forward we will be able to put these difficult times behind us.

## **Board changes**

During the year under review, Patrick Jolly and Keith Chapman have stepped down from their positions as chief executive and chairman respectively. Chris Hinton will be stepping down as finance director on 2 August 2010. Gordon Craig, who has served the company for 12 years as a non-executive director, will also be stepping down at the annual general meeting. On behalf of the board I would like to thank them for their contribution to the group and wish them well for the future.

Tim Kowalski will be joining the board as finance director on 2 August 2010. Tim brings substantial relevant experience to the role having been group finance director of N Brown plc and group finance director of Homestyle Group plc. Tim joins Findel from HomeForm Group Limited, a Sun Capital investment, where he was chief financial officer.

## **Dividends**

The board continues to believe that the cash generated by the group should be used to pay down debt and invest in the group's operations. In addition, there remain restrictions within our credit facilities where dividend payments are dependent on certain leverage ratios being met and the company currently lacks distributable reserves from which to pay a dividend. As a consequence the board is not proposing a final dividend for the period ended 2 April 2010 (2009: nil) and does not expect to pay a dividend for the current financial year.

## **Outlook**

Despite the many distractions and the uncertain economic backdrop, performance in the first quarter of the current year has shown resilience although the key peak trading periods for both our Home Shopping and Education Supplies businesses are still to come. Higher interest charges will also impact the current financial year. At the heart of the group there are a number of good, profitable and cash generative businesses. As the year progresses we will be vigorously implementing the performance improvement actions identified by the Full Potential Review and, whilst many of these will take some time to be fully introduced, we believe there are a number of opportunities to enhance business performance across the group.

David Sugden  
Chairman  
20 July 2010

\* Benchmark results are defined as being before results from operations sold, to be sold or terminated at the time of reporting, exceptional stock rationalisation costs, amortisation of acquired intangibles arising on business combinations, share-based payments, other exceptional operating items (including asset impairment, one-off additional debtor provisions and other exceptional items including net restructuring charges and pension curtailment gains), derivative re-measurements and exceptional refinancing costs, together with the associated tax effect, but includes interest receivable from its former associate.

## Finance Director's Review

### Benchmark measure

In order to ensure consistency of reporting the group has, in common with other companies in its sector, identified a measure of benchmark operating profit, profit before tax and earnings per share which it believes will aid in understanding its business. Benchmark results are defined as being before results from operations sold, to be sold or terminated at the time of reporting, exceptional stock rationalisation costs, amortisation of acquired intangibles arising on business combinations, share-based payments, other exceptional operating items (including asset impairment, one-off additional debtor provisions and other exceptional items including net restructuring charges and pension curtailment gains) and derivative remeasurements, but includes interest receivable from its former associate.

### Revenue

Group revenues decreased by 2% to £600.2m (2009 restated: £610.8m) reflecting the challenging trading conditions experienced by the group during the period under review but also due to the disappointing performance of our Education Supplies division. Excluding the businesses sold, to be sold or terminated at the time of reporting, revenues decreased by 4% to £547.0m (2009 restated: £572.1m).

### Profit

Benchmark profit before tax decreased by 53% to £13.8m, reflecting the impact of the economic conditions prevailing in the period along with weaker trading in Education Supplies. The group recorded a loss before tax of £76.1m (2009 restated: £57.4m) on a statutory basis as a consequence of non-benchmark items, further details of which are provided in the Chairman's Statement.

### Divisional performance

Benchmark operating profit decreased in both the Home Shopping division (2010: £30.5m; 2009 restated: £34.4m) and the Educational Supplies division (2010: £3.5m; 2009 restated: £8.8m). In Home Shopping, performance fell due to the difficult consumer environment along with our more cautious lending policy which reduced customer numbers. Despite this reduced level of performance, average order values increased to £46 (2009: £43) during the period, as did retention rates at 72% (2009: 70%).

In the Education Supplies division, the decrease in performance resulted from a decline in both sales and gross margins, which was masked by the accounting misstatements reported elsewhere. Average order values improved slightly to £213 (2009: £210).

In the Healthcare division benchmark operating profit decreased to £2.6m (2009: £4.9m) primarily due to reduced gross margins on re-tendered contracts. On-time collections and deliveries improved to 96% (2009: 94%).

### Terminated operations

The results attributable to Webb, Confetti and IWOOT were £2.8m in the period, together with the impairment of associated goodwill and intangible assets and other assets of £59.1m.

### Unsubstantiated accounting entries in the Education Supplies division

As explained in the Chairman's Statement and mentioned above, a number of accounting entries within the group's Education Supplies division which appeared not to be properly substantiated came to light following changes within the management of that division. This has led to a restatement of prior year revenues, costs and profits, but has not had a negative impact on profits for the current period ended 2 April 2010. Furthermore, none of the above has impacted on the group's net debt position.

The impact on the group's results for the year ended 3 April 2009 has increased that year's loss before tax by £6.4m and reduced benchmark profit before tax by £6.4m, and have reduced net assets by £20.6m as at 3 April 2009.

Further to the announcements on 29 March 2010 and 23 April 2010, concerning unsubstantiated accounting entries in its Education Supplies division, the board of Findel plc engaged KPMG to conduct a review of the accounts of all its material businesses to confirm that the assets and liabilities of each was correctly stated at 3 April 2009 and 26 February 2010 and that all material accounting entries during that period have been properly substantiated. The directors were pleased to report on 21 June 2010 that no material issues have been identified in any of its other divisions following the first stage of the review by KPMG. The exercise to date did, however, highlight that the governance and control environment throughout the group needs to be strengthened and steps are being taken to address this.

## **Share of result of associate**

The group's share of the loss generated by its associate The Webb Group Limited, decreased from £4.3m to £0.4m. This was due to the company being fully consolidated in the group's results for the majority of the year, following completion of the acquisition of the 70% ordinary share capital of The Webb Group Limited not already owned by Findel on 23 July 2009 for nominal consideration. During the current period, interest income of £0.8m (2009: £4.3m) has been recognised in benchmark profit on the loan advanced to the associate to 23 July 2009.

On 8 June 2010 the group announced that it had completed the sale of The Webb Group Limited for nominal consideration to avoid the need to fund its increased working capital requirements and to allow focus on the group's core businesses.

## **Pensions**

In order to continue to improve the funding levels within these schemes, the group made voluntary additional contributions of £3.2m during the period. Furthermore, following the closure of the schemes to further accrual of benefits in January 2010, there was a £3.9m (net of tax) exceptional gain on curtailment of the schemes which has further improved the position.

The group remains committed to the reduction of the pension deficit.

## **Taxation**

The group's effective rate of tax, calculated on a benchmark\* basis, has increased slightly from 28.1% to 28.8%. The increase in the tax charge in the period reflects the proportionate impact of expenditure incurred within the normal course of business which is not eligible for tax relief. In future periods it is anticipated that the group's effective tax rate will return to broadly the main rate of UK corporation tax, which is expected to reduce from 28% to 24% by April 2014.

## **Equity and debt refinancing**

On 24 July 2009, the group announced the placing and open offer of 204.3m ordinary shares and the firm placing of 200.0m ordinary shares at 20p per share. This was approved at the company's Extraordinary General Meeting on 10 August 2009, and the shares were issued on 11 August 2009. Total proceeds raised were £80.9m, less £1.1m relating to shares transferred to the Employee Benefit Trust, and associated costs of the equity raising of £5.4m.

The group further entered into agreements for the provision of amended credit facilities on 24 July 2009, which replaced its previous credit facilities, and which comprised:

- a £250m revolving credit facility;
- a £77.3m revolving credit facility which was used to refinance the group's previous uncommitted bilateral overdraft facilities; and
- a £37.7m super senior facility which was used to refinance the balance of the group's previous uncommitted bilateral overdraft facilities and up to £20m to provide new working capital to the group. This has subsequently been repaid.

The group incurred exceptional costs in the period of £12.2m in respect of fees associated with this debt refinancing. Amounts drawn under the above facilities carried interest at a premium of 4% over LIBOR.

As a result of the accounting irregularities in the group's Education Supplies division certain representations and warranties made in connection with the bank facilities entered into at the time of the refinancing in July 2009 were found to be untrue. In addition, certain other provisions contained in these facilities have been breached. As a result of the breach to the banking covenants at 2 April 2010, all of the bank debt owed by the group was reclassified as falling due within one year on the consolidated balance sheet.

The group agreed amendments to the outstanding £250.0m and £77.3m credit facilities on 16 July 2010, the principal elements being:

- the facilities expire on 9 January 2012;
- as at 16 July 2010, the available facility under the £250.0m facility is an amount in excess of £236.6m which will reduce (subject to short-term increases to fund working capital requirements) to an amount just in excess of £208.3m prior to the termination date of the £250.0m facility;
- as at 16 July 2010, the available facility under the £77.3m facility is £45.0m which will reduce (subject to short-term increases to fund working capital requirements) to an amount just in excess of £39.6m prior to the termination date of the £77.3m facility;
- the facilities require a commitment fee and charges interest at 5% over LIBOR to 31 December 2010 and 6.5% over LIBOR thereafter;
- new financial covenants have been agreed and permanent waivers obtained in relation to the breaches referred to above.

Under certain circumstances, additional fees from 14 January 2011 of up to a maximum of approximately £5.0m could become payable.

The group has in addition a securitisation facility of up to £105.0m which expires on 9 January 2012, the amount of the available facility being dependent upon the level of certain debtor balances within Express Gifts Limited.

As a result of the above refinancing, bank loans which were shown as being due for settlement within one year are now due for settlement after one year. Had these new arrangements been in place at 2 April 2010 the group's balance sheet would have appeared as illustrated in the unaudited pro-forma consolidated balance sheet at the end of this statement.

### **Shareholder return and dividends**

Benchmark\* earnings per share were 2.60p compared to 17.36p (restated) last year. Basic loss per share was 20.02p compared to a figure of 38.89p (restated) in the comparative period. The board believes that the group's existing financial resources should be used to ensure liquidity and to invest in the group's operations. As such, the board has decided not to pay a final dividend for the 2009/10 financial period.

### **Net assets**

Consolidated net assets amounted to £33.6m at the period end (2009 restated: £32.3m), reflecting a combination of the equity raising mentioned above and the level of other items charged to the income statement during the period. These net assets are equivalent to 6.9p per share.

## **Restatements in respect of prior years**

The group has restated its 2009 results following identification of the accounting irregularities in the Education Supplies division.

Net assets were overstated at 3 April 2009 by £5.4m (2008: £2.4m) and revenue and cost of sales were overstated by £5.9m and £2.9m respectively due to incorrect recognition of overseas contracts. Cost of sales were understated by £2.7m and net assets were overstated at 3 April 2009 by £6.2m (2008: £3.5m) due to incorrect recognition of purchasing rebate arrangements with suppliers together with inflated inventory pricing arrangements. Net assets were also overstated at 3 April 2009 by £3.4m (2008: £3.6m), whilst cost of sales were overstated by £0.2m as a result of the overstatement of receivables and prepayments arising on disposal of certain businesses and product lines and understatement of credit notes. In addition, net assets were further overstated at 3 April 2009 by £2.8m (2008: £1.9m) with operating costs understated by £0.9m from the incorrect capitalisation of non-current assets. The under accrual of certain customer rebates and other unrecorded liabilities overstated net assets by £2.8m at both 3 April 2009 and 31 March 2008. There was no impact on the income statement in the period ended 3 April 2009 of this restatement.

Following improvements in the Express Gifts new financial systems, the group has decided to restate its 2009 results in respect of this business. A change to cut-off practice reduces net assets at 3 April 2009 by £0.9m (2008: £0.9m) with no impact on the income statement in the 2009 financial year. The recognition of certain transactions as an agent reduces both revenue and cost of sales in 2009 by £0.7m. In addition, a change to inventory pricing reduced inventory and net assets at 3 April 2009 by £1.0m (2008: £1.9m) and reduced cost of sales and increased 2009 operating profit by £0.9m.

## **Share price**

The share price of Findel ranged from a low of 23.75p per share to a high of 162.50p per share during the financial period. On 1 April 2010, the last trading of the financial year, the mid market price was 24.25p per share, giving a market capitalisation of £118.7m at that date.

## **Cash flow**

The group's net cash from operating activities was an inflow of £8.2m, compared with an inflow of £38.2m in the previous year. The reduction can be primarily attributed to the fact that a significant improvement in working capital was achieved in the previous year, which could not be repeated, combined with the impact of reduced availability of credit insurance to our suppliers.

The group continues to be focused on cash generation opportunities as a means of lowering group net borrowings. Additional contributions over and above the normal funding costs of the group's pension schemes decreased slightly from £3.5m to £3.2m. Tax repayments of £8.9m were received in the period resulting from the changes in accounting policy made in the prior period and the carry back of tax losses against profits of earlier periods (2009: payment of £2.8m).

Interest paid increased from £24.3m to £32.2m reflecting the £12.2m of exceptional refinancing fees incurred in the period offset by the decreased cost of borrowing as a result of the lower average borrowings throughout the year.

Net cash used in investing activities increased from £10.0m to £13.8m. Of the £13.8m outflow in the period, £8.0m related to funds advanced to the Webb Group, as an associate.

As noted earlier, the group raised £74.4m through an equity issue during the year.

## **Publication of unaudited financial information**

As part of the group's placing and open offer and firm placing of new ordinary shares in July 2009, certain financial disclosures were included in the prospectus dated 24 July 2009 ("the Prospectus") which were unaudited. Under the provisions of Listing Rule 9.2.18 "Publication of unaudited financial information", the company must:

- reproduce the unaudited information in the following year's Annual Report and Accounts (i.e. 2010 Annual Report and Accounts);
- disclose the actual figures for the same period covered by the reproduced information; and
- provide an explanation of any significant variations from the numbers actually achieved compared to those stated in the Prospectus.

The following unaudited financial information was included in the Prospectus:

"The Home Shopping division currently operates from seven warehouses across the north west of England. Plans are well advanced for the construction of a 55,000 pallet location high bay bulk storage warehouse to supply the division's major distribution site in Accrington. Leasing such a facility would enable the division to release five of its existing warehouses and is estimated to produce a tangible net cost saving of c.£3.3m a year. This facility will also release space in the Accrington site enabling the division to introduce a dynamic picking system, which, it is envisaged, will lead to further net cost savings of c.£2.5m a year. The construction and commissioning of the new high bay warehouse is expected to take around 18 months.

The Education Supplies division is positioning itself to grow market share. The division has recently installed a new computer system which is fully operational and has also constructed and occupied a new head office allowing administrative functions to be consolidated. This is estimated to produce a cost saving of £2.0m a year from the 2009/10 Financial Year. The rationalisation of stock keeping units and the product supply channel will result in a reduction in warehousing requirements producing further net cost savings of c.£2.0m per annum.

Continued uncertainty over public sector spending will lead schools to pay greater attention to price. The Education Supplies division has recognised this changing dynamic and has identified further efficiencies of approximately £2.0m that can be achieved. These efficiencies will enable the division to invest in and improve the customer offering. The board believes that these savings, together with the division's position as market leader, will enable it to become a low cost operator in the market and grow market share further."

In respect of the disclosures made above, the initial stage of the Full Potential Review has identified that the Education Supplies division has seen a continued loss of market share and plans are under development to address this situation. In the financial year ended 2 April 2010 the group achieved actual cost savings of £1.2m and £2.8m from restructuring actions implemented in the Home Shopping division and Education Supplies division respectively. On an annualised basis, the cost savings are £2.4m and £5.9m. Within the Home Shopping division, the construction of the bulk storage warehouse did not take place and the group has taken alternative action in consolidating warehouse space. The annualised cost saving achieved in the Education Supplies division is in line with the unaudited figure stated in the Prospectus.

## **Liquidity and funding**

The maturity and currency profile of the group's borrowings are shown in the annual report and accounts and further background is provided in the equity and debt refinancing section above.

## **Treasury and risk management**

The group's treasury function seeks to reduce or eliminate exposure to foreign exchange, interest rate and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It does not engage in speculative transactions and transacts only in relation to underlying business requirements.

## **Interest rate risk management**

The group's interest rate exposure is managed by the use of fixed and floating rate borrowings, and by the use of derivative arrangements as appropriate. There were no such arrangements outstanding at the period end.

At £31.4m, net interest costs were £8.8m higher than last year. This reflects the impact of several factors, notably the exceptional fees associated with the debt refinancing of £12.2m, the favourable movement on the fair value of derivative financial instruments of £6.6m and the £3.5m decrease in interest receivable from an associate. The benchmark net interest charge was covered 1.6 times by benchmark operating profit.

## **Currency risk management**

A proportion of the products sold principally through the group's Home Shopping division are procured through the group's Far East buying office. The currency of purchase for these goods is principally the US dollar, with a proportion being denominated in Hong Kong dollars. The group has a policy of hedging these foreign currency denominated transactions by entering into forward exchange purchase contracts. At the balance sheet date, the group had foreign exchange forward contracts covering future purchases of US\$14.0m in place.

## **Borrowing risk**

The group's exposure to borrowing and cash investment risk is managed by dealing only with banks and financial institutions with strong credit ratings, within limits set for each organisation.

## **Principal risks and uncertainties**

There are a number of risks and uncertainties that could impact the performance of the group over and above the treasury risks considered above. Group and divisional management, through the budgeting, forecasting and monthly review of actual results, review business risks and seek to mitigate these risks as far as possible. The risks relate to three key areas of review by the group being those specific to the group's divisions, economic and regulatory risks, and operational risks.

### *Risks specific to the group's divisions*

The business of the Home Shopping division is seasonal, and is more heavily weighted towards the second half of the financial year. In addition the division is reliant on credit scoring techniques in the recruitment of new customers. In the Education Supplies division, the September and March "Back-to-School" periods account for much of the market's annual sales and profits. The group is focused on delivering a high quality of service and being well prepared for managing peak demand in all of its businesses.

The Education Supplies division could be adversely affected if a local authority were to withdraw "Approved Supplier" status. Furthermore the Healthcare division may fail to successfully renew existing contracts or win new contracts. The group is focused on maintaining appropriate quality of service to ensure it retains this supplier status and retains and wins new contracts.

### *Economic and regulatory risks*

The group may be negatively affected by the impact of the recent economic downturn on consumer spending or the ability of its customers to service their debts. The group has a long track record of managing its customer base to achieve its twin goals of sales growth and customer credit risk management.

Any reduction in government spending on education or healthcare may adversely impact the performance of the Education Supplies or Healthcare divisions and may in turn have a material adverse effect on the group's business. As both divisions are large, efficient suppliers in their markets, this may widen the opportunities available to the group due to its scale and efficiency.

Continued or prolonged withdrawal of credit insurance traditionally provided to the group's suppliers could have an adverse effect on the group's business. In addition the failure of the group to meet its debt obligations or comply with the terms of its credit facilities could have a similar impact.

Interruptions in the availability or flow of stock from third party product suppliers or defaults by tenants on sub-let properties could have an adverse effect on the group's business. To mitigate this risk, the group purchases products from a wide variety of domestic and international third party product suppliers.

The group's operations may be adversely affected by legal, regulatory and other developments in countries in which it operates. The group is subject to a range of legal and regulatory requirements originating from the UK (particularly the Consumer Credit Act and Data Protection), the other countries in which it operates and in the European Union, particularly in areas of consumer protection, product safety, competition, provision of credit, selling of financial services and extended warranties, copyright royalties, levies, health and safety, taxation, environment, labour and employment practices (including pensions). The group manages these risks in conjunction with third party professionals, where appropriate.

Deteriorating markets and reputational risks could result in the impairment of goodwill, intangible assets (including brands) and property, plant and equipment, which may adversely affect the group's financial position. The group focuses on maintaining the highest quality of service to mitigate against any impairment in the value of its businesses.

#### *Operational risk*

The group is dependent on its senior management. The group has entered into employment contracts and taken other steps to encourage the retention of these individuals, and to identify and retain additional personnel.

The group's business may be affected by the default of third parties in respect of monies owing by them to the group. However the majority of amounts owed to the group comprise small balances spread across a large number of accounts and active consideration of credit risk is carried out throughout the group.

The group has funding risks relating to its defined benefit pension schemes. These schemes are subject to risks regarding the relative amount of each of the scheme's assets, which is affected by the value of investments held by the scheme and the returns derived from such investments, as compared to its liabilities, which are affected by changes in life expectancy, inflation and future salary increases. To improve the funding of these schemes the group has agreed funding plans with the schemes' trustees and as a result makes additional contributions to the schemes.

The group may fail to keep up with advances in internet technology. Furthermore information technology systems failure or disruption could impact the group's day-to-day operations. The group relies heavily on its information technology systems to record and process transactions and manage its operations as well as to enable its customers to purchase products on-line and over the phone. The group has seen significant growth in the proportion of its home shopping sales which are derived from the internet, and these now represent over 60% of the total sales of the Home Shopping division. The group is focused on investing appropriately in its information technology systems and maintaining its e-commerce capabilities.

The group is dependent on third parties for outsourcing functions. The group carries out extensive reviews of any potential outsourcing partner.

Loss of, or disruption to, the group's distribution centres and administrative sites would have a material adverse effect on the group's business. The group has established disaster recovery procedures designed to minimise the impact of any such disruption.

#### *Financial risk*

The group is reliant on the continued provision of credit facilities, and the ability to refinance them as they fall due, to support its operations as it seeks to reduce its net borrowings to a more appropriate level. The current facility agreements include various financial covenants which, if not complied with, would enable the lenders to seek immediate repayment of amounts outstanding under the outstanding credit facilities.

The group has renegotiated its financing facilities which in varying amounts are available until January 2012. Whilst the group has banking facilities contractually in place until January 2012 the directors have agreed to continue discussions with the group's bankers on new medium-term facilities on an ongoing basis. The Facility Agreement includes incentive arrangements to encourage the agreement of new medium-term facilities through a progressive charging structure.

#### **Accounting policies and standards**

The principal accounting policies applied by the group are shown in the annual report and accounts. These include the implementation this year of IFRS 8 "Segmental Reporting". With the exception of new standards adopted, the accounting policies have been applied consistently throughout the current and preceding periods.

## **Going concern basis**

In determining whether the group's financial statements for the period ended 2 April 2010 can be prepared on a going concern basis, the directors considered all factors likely to affect its future development, performance and its financial position, including cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities in the current economic climate. The financial position of the group, its cash flows, liquidity position and borrowing facilities and the key risks and uncertainties are set out in further detail above.

Principally as a result of the impairment charges of £62m arising in the period the current restriction set out in the Articles of Association in relation to the company's borrowing powers is no longer appropriate. The directors have requested a sanction from the shareholders of the company, by way of an ordinary resolution, to vary the company's borrowing limit by introducing a specified maximum borrowing limit which the board will keep under review. The directors have proposed an ordinary resolution at the forthcoming annual general meeting seeking shareholder approval to permit the current borrowing limit to be exceeded up to a maximum borrowing limit of £450m and to ratify and approve any and all infringements by the directors prior to the annual general meeting of their duties to restrict the company's borrowings.

The directors have reviewed the trading and cash flow forecasts as part of their going concern assessment, including reasonable downside sensitivities which take into account the uncertainties in the current operating environment including amongst other matters demand for the group's products, its available financing facilities, and movements in interest rates.

In forming their conclusions over the adoption of the going concern basis, the directors have considered the possibility of the ordinary resolution at the annual general meeting relating to the proposed variation of the company's borrowing limit not being approved by shareholders and consider this possibility to be remote.

Taking into account the above uncertainties and circumstances, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the group's annual consolidated financial statements.

Chris Hinton  
Group Finance Director  
20 July 2010

## Findel plc. Group Financial Information

### Condensed Consolidated Income Statement

Period ended 2 April 2010

	Notes	2010			2009		
		Benchmark results*	Other items	Total	Benchmark results*	Other items	Total
		£000	£000	£000	(Restated) £000	(Restated) £000	(Restated) £000
<b>Continuing operations</b>							
<b>Revenue</b>	2	547,013	53,162	600,175	572,096	38,670	610,766
<b>Cost of sales</b>							
Cost of sales before exceptional items		(284,695)	(32,192)	(316,887)	(278,171)	(21,260)	(299,431)
Exceptional stock rationalisation	3	-	-	-	-	(14,321)	(14,321)
<b>Total cost of sales</b>		<b>(284,695)</b>	<b>(32,192)</b>	<b>(316,887)</b>	<b>(278,171)</b>	<b>(35,581)</b>	<b>(313,752)</b>
<b>Gross profit</b>		<b>262,318</b>	<b>20,970</b>	<b>283,288</b>	<b>293,925</b>	<b>3,089</b>	<b>297,014</b>
Trading costs		(222,905)	(25,959)	(248,864)	(243,957)	(28,547)	(272,504)
Amortisation of intangible assets		(2,765)	(2,360)	(5,125)	(1,949)	(1,775)	(3,724)
Exceptional operating costs (net)	3						
- Impairment of goodwill and associated intangible assets		-	(52,829)	(52,829)	-	(17,346)	(17,346)
- Additional debtors provision		-	-	-	-	(14,429)	(14,429)
- Impairment of property, plant and equipment and current assets relating to terminated businesses		-	(6,302)	(6,302)	-	-	-
- Impairment of other property, plant and equipment and software and IT development costs		-	(3,215)	(3,215)	-	(3,075)	(3,075)
- Other exceptional items		-	(16,695)	(16,695)	-	(16,443)	(16,443)
- Pension curtailment gain		-	5,409	5,409	-	-	-
Operating costs		(225,670)	(101,951)	(327,621)	(245,906)	(81,615)	(327,521)
Share of result of associate		(434)	-	(434)	403	(4,743)	(4,340)
<b>Operating profit/(loss)</b>	2	<b>36,214</b>	<b>(80,981)</b>	<b>(44,767)</b>	<b>48,422</b>	<b>(83,269)</b>	<b>(34,847)</b>
Finance income		7,082	3,213	10,295	12,471	-	12,471
Finance costs	3	(29,495)	(12,157)	(41,652)	(31,693)	(3,361)	(35,054)
<b>Profit/(loss) before tax</b>		<b>13,801</b>	<b>(89,925)</b>	<b>(76,124)</b>	<b>29,200</b>	<b>(86,630)</b>	<b>(57,430)</b>
Income tax income/(expense)	5	(3,974)	4,535	561	(8,207)	18,609	10,402
<b>Profit/(loss) for the period attributable to the equity holders of the parent</b>		<b>9,827</b>	<b>(85,390)</b>	<b>(75,563)</b>	<b>20,993</b>	<b>(68,021)</b>	<b>(47,028)</b>
<b>Earnings/(loss) per share</b>							
	6						
Basic		2.60p		(20.02)p	17.36p		(38.89)p
Diluted		2.60p		(20.02)p	17.36p		(38.89)p

\* "Benchmark results" are defined as being before results from operations sold, to be sold or terminated at the time of reporting, exceptional stock rationalisation costs, amortisation of acquired intangible assets arising on business combinations, share-based payments, other exceptional operating items, derivative remeasurements and exceptional refinancing costs, together with the associated tax effect, but includes interest receivable from its former associate.

# FINDEL PLC

## Condensed Consolidated Statement of Comprehensive Income

Period ended 2 April 2010

	2010 £000	2009 £000 (Restated)
Loss for the period	(75,563)	(47,028)
Currency translation (loss)/gain arising on consolidation	(590)	1,783
<b>Total comprehensive income for the period</b>	<b>(76,153)</b>	<b>(45,245)</b>

The total comprehensive income for the period is attributable to the equity shareholders of the parent company Findel plc.

# FINDEL PLC

## Condensed Consolidated Balance Sheet At 2 April 2010

	2010 £000	2009 £000 (Restated)	2008 £000 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	47,299	54,073	64,431
Other intangible assets	70,757	78,175	85,042
Property, plant and equipment	44,295	52,784	55,043
Investments in associates	-	622	4,962
Loans and receivables due from associates	-	33,654	34,430
	<b>162,351</b>	<b>219,308</b>	<b>243,908</b>
<b>Current assets</b>			
Inventories	73,607	74,024	107,793
Trade and other receivables	210,355	229,580	265,783
Current tax receivable	-	1,954	-
Derivative financial instruments	-	-	457
Cash at bank and in hand	44,331	9,924	12,767
	<b>328,293</b>	<b>315,482</b>	<b>386,800</b>
<b>Total assets</b>	<b>490,644</b>	<b>534,790</b>	<b>630,708</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	81,269	98,290	106,987
Current tax liabilities	7,393	-	7,672
Obligations under finance leases	1,006	1,393	595
Bank overdrafts and loans	352,918	42,204	66,107
Derivative financial instruments	6	3,219	315
Provisions	1,661	-	-
	<b>444,253</b>	<b>145,106</b>	<b>181,676</b>
<b>Non-current liabilities</b>			
Bank loans	-	341,558	332,287
Obligations under finance leases	5	854	494
Provisions	5,019	-	-
Deferred tax liabilities	7,345	6,752	10,324
Retirement benefit obligation	449	8,212	11,887
	<b>12,818</b>	<b>357,376</b>	<b>354,992</b>
<b>Total liabilities</b>	<b>457,071</b>	<b>502,482</b>	<b>536,668</b>
<b>NET ASSETS</b>	<b>33,573</b>	<b>32,308</b>	<b>94,040</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	24,472	4,257	4,255
Capital redemption reserve	403	403	403
Share premium account	79,240	24,003	23,944
Merger reserve	29,518	29,518	29,518
Own shares	(2,047)	(976)	(2,974)
Liability for share-based payments	4,379	1,342	1,342
Translation reserve	702	1,292	(491)
(Accumulated losses)/retained earnings	(103,094)	(27,531)	38,043
<b>TOTAL EQUITY</b>	<b>33,573</b>	<b>32,308</b>	<b>94,040</b>

## Condensed Consolidated Cash Flow Statement

Period ended 2 April 2010

	2010 £000	2009 £000 (Restated)
<b>Operating activities</b>		
Operating loss	(44,767)	(34,847)
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	8,338	7,997
Impairment of property, plant and equipment and software and IT development costs	7,422	3,075
Amortisation of intangible assets	5,125	3,724
Impairment of goodwill and associated intangible assets	52,829	17,346
Share-based payment expense	2,186	-
(Profit)/loss on disposal of property, plant and equipment	(63)	1,440
Non-cash pension curtailment gain	(5,409)	-
Pension contributions less income statement charge	(3,158)	(3,543)
Share of result of associate	434	4,340
<b>Operating cash flows before movements in working capital</b>	<b>22,937</b>	<b>(468)</b>
Decrease in inventories	5,040	34,133
Decrease in receivables	18,174	40,333
Decrease in payables	(21,280)	(8,674)
Increase in provisions	6,680	-
<b>Cash generated from operations</b>	<b>31,551</b>	<b>65,324</b>
Income taxes received/(paid)	8,872	(2,797)
Interest paid (including £12,157,000 in respect of exceptional financing costs in the period ended 2 April 2010)	(32,191)	(24,344)
<b>Net cash from operating activities</b>	<b>8,232</b>	<b>38,183</b>
<b>Investing activities</b>		
Interest received	2,072	1,497
Proceeds on disposal of property, plant and equipment	474	209
Purchases of property, plant and equipment and software and IT development costs	(8,934)	(12,438)
Movements on loan with associate	(8,030)	776
Acquisition of subsidiaries	643	-
<b>Net cash used in investing activities</b>	<b>(13,775)</b>	<b>(9,956)</b>
<b>Financing activities</b>		
Dividends paid	-	(16,548)
Repayments of obligations under finance leases	(1,251)	(614)
Net proceeds on issue of shares	74,381	60
Movement on bank loans	(10,494)	(10,851)
Movement on securitisation loan	2,348	(5,729)
<b>Net cash from/(used in) financing activities</b>	<b>64,984</b>	<b>(33,682)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>59,441</b>	<b>(5,455)</b>
Cash and cash equivalents at the beginning of the year	(15,046)	(10,255)
Effect of foreign exchange rate changes	(64)	664
<b>Cash and cash equivalents at the end of the year</b>	<b>44,331</b>	<b>(15,046)</b>

## Condensed Consolidated Statement of Changes in Equity

Period ended 2 April 2010

	Share capital	Capital redemption reserve	Share premium account	Merger reserve	Own shares	Liability for share based payments	Translation reserve	(Accumulated) losses / retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 31 March 2008 (as previously reported)	4,255	403	23,944	29,518	(2,974)	1,342	(491)	54,985	110,982
Prior year adjustment	-	-	-	-	-	-	-	(16,942)	(16,942)
At 31 March 2008 (restated)	4,255	403	23,944	29,518	(2,974)	1,342	(491)	38,043	94,040
Total comprehensive income for the period (restated)	-	-	-	-	-	-	1,783	(47,028)	(45,245)
Share issues	2	-	59	-	-	-	-	-	61
Impairment of own shares	-	-	-	-	1,998	-	-	(1,998)	-
Dividends paid	-	-	-	-	-	-	-	(16,548)	(16,548)
At 3 April 2009 (restated)	4,257	403	24,003	29,518	(976)	1,342	1,292	(27,531)	32,308
	Share capital	Capital redemption reserve	Share premium account	Merger reserve	Own shares	Liability for share based payments	Translation reserve	(Accumulated) losses / retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 3 April 2009 (as previously reported)	4,257	403	24,003	29,518	(976)	1,342	1,292	(5,097)	54,742
Prior year adjustment	-	-	-	-	-	-	-	(22,434)	(22,434)
At 3 April 2009 (restated)	4,257	403	24,003	29,518	(976)	1,342	1,292	(27,531)	32,308
Total comprehensive income for the period (restated)	-	-	-	-	-	-	(590)	(75,563)	(76,153)
Share issues	20,215	-	55,237	-	(1,071)	-	-	-	74,381
Share warrants issue	-	-	-	-	-	851	-	-	851
Share-based payments	-	-	-	-	-	2,186	-	-	2,186
<b>At 2 April 2010</b>	<b>24,472</b>	<b>403</b>	<b>79,240</b>	<b>29,518</b>	<b>(2,047)</b>	<b>4,379</b>	<b>702</b>	<b>(103,094)</b>	<b>33,573</b>

## Findel plc Notes to the Group Financial Information

### 1. Basis of preparation of consolidated financial information

The financial information set out in this annual results announcement has been derived from the audited consolidated financial statements of the Group for the year ended 2 April 2010 (the "financial statements"). The financial statements were approved by the Board of directors on 20 July 2010.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRSs.

The financial information relating to the period ended 2 April 2010 comprises non-statutory accounts. The report of the auditors on the financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

The Group financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use within the European Union and in accordance with the accounting policies included in the Annual Report for the period ended 2 April 2010.

### New and amended accounting standards

The following relevant new standards are applicable to the group for the current financial year, and have not been previously implemented.

- IAS 1 (revised), "Presentation of financial statements". The most significant change within IAS 1 (revised) is the requirement to produce a statement of comprehensive income setting out all items of income and expense relating to non-owner changes in equity. There is a choice between presenting comprehensive income in one statement or in two statements comprising an income statement and a separate statement of comprehensive income. The group has elected to present comprehensive income in two statements. In addition, IAS 1 (revised) requires the statement of changes in shareholders' equity to be presented as a primary statement.
- IFRS 8, "Operating segments". IFRS 8 replaces IAS 14, "Segment reporting" and requires the disclosure of segment information on the same basis as the management information provided to the chief operating decision maker. The adoption of this standard has not resulted in a change in the group's reportable segments.
- IFRS 7, "Financial instruments; disclosures". The amendment required enhanced disclosures in respect of fair value measurement and liquidity risk.
- IAS 23 (revised) "Borrowing costs" and amendments to IFRS 2 "Share-based payments" have not had a material impact on the financial statements of the group.

### Restatements in respect of prior years

#### *Education Supplies division accounting irregularities restatement*

The impact of the Education Supplies division accounting irregularities noted on page 10 on the group's income statement and balance sheet were as follows:

- Overstatement of sales principally relating to incorrect recognition of overseas contracts reducing net assets at 3 April 2009 by £5.4m (2008: £2.4m). Revenue and cost of sales in 2009 were overstated by £5.9m and £2.9m respectively.
- Incorrect recognition of purchasing rebate arrangements with suppliers together with associated inflated stock pricing arrangements reducing net assets at 3 April 2009 by £6.2m (2008: £3.5m). Cost of sales in 2009 were understated by £2.7m.
- Overstatement of receivables and prepayments arising on disposal of certain businesses and product lines, and understatement of credit notes reducing net assets at 3 April 2009 by £3.4m (2008: £3.6m). Cost of sales in 2009 were overstated by £0.2m.
- Incorrect capitalisation of non-current assets reducing net assets at 3 April 2009 by £2.8m (2008: £1.9m). Operating costs in 2009 were understated by £0.9m.

- The under accrual of certain customer rebate arrangements and other unrecorded liabilities reducing net assets by £2.8m (2008 £2.8m), with no impact on the income statement in 2009.

#### *Other adjustments to prior years*

In preparing the 2010 financial statements the directors have reviewed the output of new financial systems and reports adopted by the Express Gifts business in respect of the accounting for cut off in respect of the direct dispatch of goods, the presentation of certain transactions as agent or principal, and the impact of insurance costs and rebates received in pricing inventory. Following these improvements in financial reporting the directors have decided to restate the comparatives in the financial statements. The impact is as follows:

- The change to cut off practice reduces net assets at 3 April 2009 by £0.9m (2008 £0.9m) with no impact on the income statement.
- The recognition of certain transactions as an agent reduces both revenue and cost of sales in the period ended 3 April 2009 by £0.7m.
- The change to the pricing of inventory reduced inventory and net assets at 3 April 2009 by £1.0m (2008 £1.9m) and reduced cost of sales and increased operating profit in 2009 by £0.9m.

#### **Going concern basis**

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the Going Concern basis of accounting in preparing the financial statements. Further detail is contained in the Finance Director's Review.

## 2. Segment analysis

For management purposes, the Group is currently organised into three operating divisions: Home Shopping, Education Supplies and Healthcare. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

### 52 weeks ended 2 April 2010

	Home shopping £000	Education £000	Healthcare £000	Unallocated £000	Total £000
<b>Revenue</b>					
Benchmark	345,102	138,404	63,507	-	547,013
Terminated operations	53,162	-	-	-	53,162
Total revenue	<u>398,264</u>	<u>138,404</u>	<u>63,507</u>	<u>-</u>	<u>600,175</u>
<b>Loss after tax</b>					
Benchmark operating profit (before associate result)	30,542	3,489	2,617	-	36,648
Terminated operations operating profit	(2,803)	-	-	-	(2,803)
Total	<u>27,739</u>	<u>3,489</u>	<u>2,617</u>	<u>-</u>	<u>33,845</u>
Share-based payment expense	-	-	-	(2,186)	(2,186)
Amortisation of intangible assets arising on business combinations	(1,400)	(930)	(30)	-	(2,360)
<i>Exceptional operating costs (net)</i>					
Impairment of goodwill and associated intangible assets	(52,829)	-	-	-	(52,829)
Impairment of property, plant and equipment and current assets relating to terminated businesses	(6,302)	-	-	-	(6,302)
Impairment of other property, plant and equipment and software and IT development costs	(1,487)	(1,511)	(217)	-	(3,215)
Other exceptional items	(3,701)	(10,093)	(470)	(2,431)	(16,695)
Pension curtailment gain	-	-	-	5,409	5,409
<i>Share of result of associate</i>					
Benchmark	(434)	-	-	-	(434)
Operating (loss)/profit	<u>(38,414)</u>	<u>(9,045)</u>	<u>1,900</u>	<u>792</u>	<u>(44,767)</u>
Finance income					10,295
Finance costs					<u>(41,652)</u>
Loss before tax					<u>(76,124)</u>
Tax					561
Loss after tax					<u>(75,563)</u>

## 2. Segment analysis (continued)

52 weeks ended 3 April 2009

	Home shopping £000 (Restated)	Education £000 (Restated)	Healthcare £000	Unallocated £000	Total £000 (Restated)
<b>Revenue</b>					
Benchmark	345,007	162,305	64,784	-	572,096
Terminated operations	38,670	-	-	-	38,670
Total revenue	<u>383,677</u>	<u>162,305</u>	<u>64,784</u>	<u>-</u>	<u>610,766</u>
<b>Loss after tax</b>					
Benchmark operating profit (before associate result)	34,403	8,751	4,865	-	48,019
Terminated operations operating profit	(11,137)	-	-	-	(11,137)
Total	<u>23,266</u>	<u>8,751</u>	<u>4,865</u>	<u>-</u>	<u>36,882</u>
Amortisation of intangible assets arising on business combinations	(815)	(930)	(30)	-	(1,775)
<i>Exceptional cost of sales</i>					
Stock rationalisation	(3,002)	(11,319)	-	-	(14,321)
<i>Exceptional operating costs</i>					
Impairment of goodwill and intangible assets	(17,346)	-	-	-	(17,346)
Additional debtors provision	(14,429)	-	-	-	(14,429)
Impairment of property, plant and equipment	(3,075)	-	-	-	(3,075)
Other exceptional items	(9,506)	(3,732)	(511)	(2,694)	(16,443)
<i>Share of result of associate</i>					
Benchmark	403	-	-	-	403
Other	(4,743)	-	-	-	(4,743)
Operating (loss)/profit	<u>(29,247)</u>	<u>(7,230)</u>	<u>4,324</u>	<u>(2,694)</u>	<u>(34,847)</u>
Finance income					12,471
Finance costs					<u>(35,054)</u>
Loss before tax					(57,430)
Tax					<u>10,402</u>
Loss after tax					<u>(47,028)</u>

## 3. Exceptional items

	2010 £000	2009 £000
<b>Exceptional cost of sales</b>		
Stock rationalisation	-	14,321
<b>Exceptional operating costs (net)</b>		
Impairment of goodwill and associated intangible assets	52,829	17,346
Additional debtors provision	-	14,429
Impairment of property, plant and equipment and current assets relating to terminated businesses	6,302	-
Impairment of other property, plant and equipment and software and IT development costs	3,215	3,075
Pension curtailment gain	(5,409)	-
Other exceptional items		
- Restructuring costs	5,827	9,739
- Warehouse reorganisation costs	4,188	1,881
- Costs in relation to business closures	-	4,823
- Onerous lease provisions	6,680	-
<b>Exceptional financing costs</b>		
Debt refinancing costs	12,157	-
	<u>85,789</u>	<u>65,614</u>

Restructuring costs relate to the Home Shopping business segment £1,933,000 (2009: £4,683,000), the Education Supplies business segment £1,989,000 (2009: £1,851,000) and the Healthcare business segment £43,000 (2009: £511,000), with the remainder £1,862,000 (2009: £2,694,000) not allocated to a specific business segment. Warehouse reorganisation costs relate to the Home Shopping business segment £1,768,000 (2009: £nil) and the Education Supplies business segment £1,701,000 (2009: £1,881,000), the Healthcare business segment £427,000 (2009: £nil) with the remainder unallocated £292,000 (2009: £nil). Costs in the prior year in relation to business closures relate to the Home Shopping business segment. The onerous lease provisions relate to the Education Supplies business segment £6,403,000 with the remaining cost of £277,000 not allocated to a specific business segment.

#### 4. Terminated businesses

In the current year, the operations of Webb, Confetti and IWOOT have been sold or are in the process of being sold and as such are treated as terminated operations in the 2010 accounts. Together with the terminated businesses in 2009, The Cotswold Company and Letterbox, these businesses have been separately disclosed within the "other items" column on the face of the income statement. All the businesses are from the Home Shopping business segment.

The decision to sell Webb was taken after 2 April 2010 and accordingly does not meet the criteria of IFRS 5, "Non-current assets held for sale and discontinued operations", Webb will be treated as a discontinued operation in the 2011 financial statements.

	Turnover		Loss before tax and exceptionals	
	2010 £000	2009 £000	2010 £000	2009 £000
Terminated businesses	<b>53,162</b>	38,670	<b>(2,803)</b>	(11,137)

#### 5. Tax expense

	2010 £000	2009 £000
Current tax	469	(6,830)
Deferred tax	<b>(1,030)</b>	<b>(3,572)</b>
	<b>(561)</b>	<b>(10,402)</b>

## 6. Earnings per share

	2010 £000	2009 £000 restated
Net loss attributable to equity holders of the parent for the purpose of basic and diluted earnings per share	(75,563)	(47,028)
Losses from terminated businesses (net of tax)	2,803	8,368
Exceptional stock rationalisation (net of tax)	-	10,311
Share-based payment expense and derivative remeasurements (net of tax)	(1,027)	3,361
Amortisation of intangible assets arising on business combinations (net of tax)	1,699	1,278
Impairment of goodwill and associated intangible assets (net of tax)	49,730	15,039
Additional debtor provision (net of tax)	-	10,389
Impairment of property, plant and equipment and current assets relating to terminated businesses (net of tax)	6,302	-
Impairment of other property, plant and equipment and software and IT development costs (net of tax)	3,215	2,214
Other exceptional items (net of tax)	14,405	12,978
Share of result of associate (non-benchmark)	-	4,744
Exceptional finance costs (net of tax)	12,157	-
Exceptional pension curtailment gain (net of tax)	(3,894)	-
Prior period adjustments in respect of tax on non-benchmark items	-	(661)
Net profit attributable to equity holders of the parent for the purpose of benchmark earnings per share	<u>9,827</u>	<u>20,993</u>
Weighted average number of shares in issue (as previously reported)	377,402,818	83,998,501
Equity issue adjustment	-	36,929,070
Weighted average number of shares (revised)	<u>377,402,818</u>	<u>120,927,571</u>
Loss per share - basic	(20.02)p	(38.89)p
Earnings per share – benchmark basic	2.60p	17.36p
Loss per share - diluted	(20.02)p	(38.89)p
Earnings per share – benchmark diluted	2.60p	17.36p

Following the placing and open offer and firm placing of 404,312,124 ordinary shares announced on 24 July 2009 and approved at the company's Extraordinary General Meeting on 10 August 2009, in accordance with paragraph 26 of IAS 33, 'Earnings per share', the Group has treated the discount element to the open offer part of the increase in share capital as if it were a bonus issue. The effect of this is to increase the weighted average number of shares for reported prior periods, with a resulting reduction in the reported basic and diluted earnings per share for the 52 weeks ended 3 April 2009.

## 7. Dividends

	2010 £000	2009 £000
<b>Amounts recognised as distributions to equity holders in the period</b>		
Final dividend for the year ended 3 April 2009 of nil p (2008: 17.50p) per share	-	14,700
Interim dividend for the period ended 2 April 2010 of nil p (2009: 2.20p) per share	-	1,848
	<u>-</u>	<u>16,548</u>

## 8. Related party transactions

Transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not discussed in this note.

During the period to 23 July 2009, the date on which the remaining 70% of the shares of the group's associate, Webb, were acquired, the group made purchases from its associate on normal commercial terms of £1.60m (2009: £6.91m) and in the same period the group supplied goods and services to its associate of £0.01m (£7.61m). As Webb was part of the group at 2 April 2010, there is no requirement to disclose the balances outstanding with other group companies at that date. Historically, the group's trade indebtedness to its associate was £1.74m at 3 April 2009 and that of its associate to the group was £6.70m at the same date. At 3 April 2009, the group had loans receivable from its associate of £33.65m. During the current period interest income of £0.86m (2009: £3.52m) has been recognised on the loan.

The group has a trading relationship with Herbert Walker & Son (Printers) Limited ("Herbert Walker"), a commercial printing company which is controlled by Mr K Chapman, a former director. During the period to 2 April 2010, group purchases from Herbert Walker on normal commercial terms amounted to £0.47m (2009: £0.32m) and in the same period the group supplied goods and services to Herbert Walker of £0.12m (2009: £0.11m). At 2 April 2010, the group indebtedness to Herbert Walker was £0.02m (2009: £0.04m) and that of Herbert Walker to the group was £0.01m (2009: £0.02m).

The group also has a trading relationship with Collisons Limited, a stationery supply company which is controlled by Mr K Chapman, a former director. In the period to 2 April 2010, purchases from Collisons amounted to £0.02m (2009: £0.03m). There were no sales to Collisons in either period. All transactions were made on normal commercial terms. At 2 April 2010, the group indebtedness to Collisons was £0.02m (2009: £0.03m).

On 1 April 2008, the company entered into a five-year agreement with A F K Nelson Limited on normal commercial terms in respect of premises at Nelson which it uses for warehouse and distribution. The annual rent is £175,000 and the lease is terminable on six months' notice by either party. The directors of A F K Nelson Limited are Jonathan Chapman and James Chapman, who are related to Mr K Chapman, a former director.

The company is currently party to a five-year lease with Shawbrook Developments Limited on normal commercial terms in respect of premises at Padiham which it uses for warehouse and distribution. The annual rent is £0.3m and the lease is terminable on six months' notice by either party. James Chapman is a director of, and shareholder in, Shawbrook Developments Limited and is related to Mr K Chapman, a former director.

During the year ended 3 April 2009 an initial deposit of £0.5m was repaid by Shawbrook Developments Limited in relation to a proposed joint venture property project to improve the warehouse and distribution capacity of the group. This was cancelled as a consequence of current market conditions.

## 9. Acquisition of business

On 23 July 2009, the Group acquired the remaining 70% of the issued share capital of the Webb Group Limited ("Webb") for a nominal consideration of £3. The transaction has been accounted for by the purchase method of accounting.

	Book value £000	Fair value £000
Goodwill	3,141	-
Intangible assets – software and IT development costs	529	529
Intangible assets – brands	-	1,989
Intangible assets – customer relationships	-	3,808
Property, plant and equipment	1,243	1,198
Inventories	5,121	4,797
Trade and other receivables	7,516	3,232
Cash and cash equivalents	643	643
Trade and other payables	(46,457)	(47,076)
Current tax payable	(6)	(6)
Obligations under finance leases	(16)	(16)
Bank loans	(2,273)	(2,273)
Deferred tax liabilities	-	(1,623)
Net Liabilities	(30,559)	(34,798)
Acquired net liabilities of existing interest		10,439
Net liabilities acquired		(24,359)
Goodwill arising on acquisition		24,359
Total consideration		-
Net cash outflow arising on acquisition		-
Cash consideration		-
Cash and cash equivalents acquired		643
		643

The goodwill associated with the original purchase of the 30% shareholding is £9,045,000. The adjustments to fair value of £1,583,000 relating to previously held interests has been treated as an impairment to intangible assets in the income statement, together with the subsequent impairment to goodwill of the Webb business reflecting its disposal on 8 June 2010 for consideration of £1. If the acquisition had occurred at the beginning of the year, Group revenue would have been £12,230,000 higher, and losses attributable to equity holders of the parent would have been £1,013,000 higher.

The goodwill arising on the acquisition of Webb is attributable to staff acquired as part of the business, strategic acquisition synergies, and other opportunities which are specifically excluded in the identification of intangible assets on acquisition by the relevant accounting standards.

## 10. Issue of shares and refinancing

On 24 July 2009, the Group announced the placing and open offer of 204,312,124 ordinary shares and the firm placing of 200,000,000 ordinary shares at 20p per share. This was approved at the company's Extraordinary General Meeting on 10 August 2009, and the shares were issued on 11 August 2009. Total proceeds raised were £80,862,000, less £1,071,000 relating to shares transferred to the Employee Benefit Trust, and associated costs of the equity raising of £5,422,000 resulted in net proceeds of £74,381,000.

The Group further entered into agreements for the provision of amended credit facilities on 24 July 2009, which replaced its previous credit facilities, and which comprised:

- a £250m revolving credit facility;
- a £77.3m revolving credit facility which was used to refinance the Group's previous uncommitted bilateral overdraft facilities; and
- a £37.7m super senior facility which was used to refinance the balance of the Group's previous uncommitted bilateral overdraft facilities and up to £20m to provide new working capital to the Group. This has subsequently been repaid.

As a result of the accounting irregularities in the group's Education Supplies division certain representations and warranties made in connection with the bank facilities entered into at the time of the refinancing in July 2009 were found to be untrue. In addition, certain other provisions contained in these facilities have been breached. As a result of the breach to the banking covenants at 2 April 2010, all of the bank debt owed by the group was reclassified as falling due within one year on the consolidated balance sheet.

The group agreed amendments to the outstanding £250.0m and £77.3m credit facilities on 16 July 2010, the principal elements being:

- the facilities expire on 9 January 2012;
- as at 16 July 2010, the available facility under the £250.0m facility is an amount in excess of £236.6m which will reduce (subject to short-term increases to fund working capital requirements) to an amount just in excess of £208.3m prior to the termination date of the £250.0m facility;
- as at 16 July 2010, the available facility under the £77.3m facility is £45.0m which will reduce (subject to short-term increases to fund working capital requirements) to an amount just in excess of £39.6m prior to the termination date of the £77.3m facility;
- the facilities require a commitment fee and charges interest at 5% over LIBOR to 31 December 2010 and 6.5% over LIBOR thereafter;
- new financial covenants have been agreed and permanent waivers obtained in relation to the breaches referred to above.

Under certain circumstances, additional fees from 14 January 2011 of up to a maximum of approximately £5.0m could become payable.

The group has in addition a securitisation facility of up to £105.0m which expires on 9 January 2012, the amount of the available facility being dependent upon the level of certain debtor balances within Express Gifts Limited.

As a result of the above refinancing, bank loans which were shown as being due for settlement within one year are now due for settlement after one year. Had these new arrangements been in place at 2 April 2010 the group's balance sheet would have appeared as illustrated in the unaudited pro-forma consolidated balance sheet included at the end of this statement.

## **11. Events after the balance sheet date**

On 8 June 2010, the Webb Group Limited was sold for £1 cash as described in the Chairman's Statement.

The group restructured its existing bank facilities on 16 July 2010 as described above.

### **By order of the board**

<b>P B Maudsley</b>	<b>C D Hinton</b>
<b>Chief executive</b>	<b>Finance director</b>
<b>20 July 2010</b>	<b>20 July 2010</b>

## **Directors' responsibility statement**

**We confirm to the best of our knowledge:**

- 1. the annual announcement, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and**
- 2. the Chairman's Statement and Finance Director's Review includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.**

## Pro-Forma Unaudited Consolidated Balance Sheet

At 2 April 2010

As a result of the breach to the banking covenants at 2 April 2010, all of the bank debt owed by the group was reclassified as falling due within one year on the consolidated balance sheet.

On 16 July 2010 the group agreed a restructuring of its facilities.

An unaudited pro-forma balance sheet below reflects the financial position of the business had the group not been in breach of its covenants as at the period end, together with the audited position as a comparison:

	2010	
	Group unaudited pro-forma £000	Group audited £000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Goodwill	47,299	47,299
Other intangible assets	70,757	70,757
Property, plant and equipment	44,295	44,295
	162,351	162,351
<b>Current assets</b>		
Inventories	73,607	73,607
Trade and other receivables	210,355	210,355
Cash at bank and in hand	44,331	44,331
	328,293	328,293
<b>Total assets</b>	490,644	490,644
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	81,269	81,269
Current tax liabilities	7,393	7,393
Obligations under finance leases	1,006	1,006
Bank overdrafts and loans	31,576	352,918
Derivative financial instruments	6	6
Provisions	1,661	1,661
	122,911	444,253
<b>Non-current liabilities</b>		
Bank loans	321,342	-
Obligations under finance leases	5	5
Provisions	5,019	5,019
Deferred tax liabilities	7,345	7,345
Retirement benefit obligation	449	449
	334,160	12,818
<b>Total liabilities</b>	457,071	457,071
<b>NET ASSETS</b>	<b>33,573</b>	<b>33,573</b>
<b>EQUITY</b>		
<b>Capital and reserves</b>		
Share capital	24,472	24,472
Capital redemption reserve	403	403
Share premium account	79,240	79,240
Merger reserve	29,518	29,518
Own shares	(2,047)	(2,047)
Liability for share-based payments	4,379	4,379
Translation reserve	702	702
(Accumulated losses)/retained earnings	(103,094)	(103,094)
<b>TOTAL EQUITY</b>	<b>33,573</b>	<b>33,573</b>