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CONFECTIONERY DIVISION

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NATURAL & PREMIUM SNACKS DIVISION

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Station Road
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Interim Report and Accounts

FOR THE SIX MONTHS ENDED
31ST OCTOBER 2006

CONFECTIONERY & SNACKFOODS
FOR THE FUTURE

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Directors:

Non-executive Chairman
David Williams

Chief Executive
Ian Blackburn

Managing Director
Clive Beecham

Non-executive
Marion Sears

Advisers

Nominated Adviser and Broker
Altium Capital Limited

Auditors
Grant Thornton UK LLP

Solicitors
DLA Piper Rudnick Gray Cary UK LLP

Financial PR
Financial Dynamics

Bank
Barclays Bank plc

Highlights

Unaudited £000's	Six months ended 31st October 2006	2005*	Year ended 30th April 2006*
Turnover	38,222	21,907	57,864
EBITDA (excluding FRS 20 costs)	2,974	1,318	6,295
Operating profit before goodwill amortisation and FRS20 costs	2,171	739	4,933
Operating profit	1,386	212	3,890
Profit/(loss) on ordinary activities before taxation	895	(304)	2,240
Diluted earnings/(loss) per share	3.8p	(5.3)p	17.0p
Adjusted diluted earnings per share**	10.9p	1.7p	35.7p

The figures above include contributions from the acquisitions made within the period.

- Group sales and operating profit up:
 - Natural & Premium Snacks first contribution of £14.7 million sales and £0.8 million operating profit.
 - Confectionery sales and operating profit up 7% to £23.5 million and 1.8 times to £0.6 million respectively
- Completed acquisitions of Humdinger and Salamanda for aggregate consideration of up to £15.7 million.
- Placed 2.8 million new ordinary shares at £4 per share to raise £11.2 million.
- Appointed Dale Mullins as Group Finance Director.
- Sales for eight months to 31st December 2006 in excess of £56 million (2005: £32 million)
- Board confident in prospects for the remainder of the year.

* Prior periods restated for FRS20.

** Basis of calculation explained in 'Financial Results' on page 4.



ZETAR Plc Operational Review



The interim results of Zetar Plc (“Zetar” or “the Group”) are for the six months ended 31 October 2006.

Zetar listed on AIM in January 2005 and the four acquisitions completed to date have allowed it to establish strong positions initially in the UK niche and novelty chocolate market and more recently, in the dried fruit and nuts and healthier snacks sector. As at 31 October 2006 the Group employed 819 full time and 306 part time agency employees across seven UK sites.

The results for the period include first time contributions from Readifoods for the full six months; Humdinger for three and a half months; and Horsley, Hick & Flower (“Salamanda”), which was bought just before the period end, for two weeks. The integration of these businesses into the Group is progressing to plan and the first benefits of intra Group cooperation are being realised.

Financial Results

Group adjusted operating profit, before goodwill amortisation of £660,000 (2005: £411,000) and the cost of share options of £125,000 (2005: £116,000), for the six months to 31 October 2006 was £2,171,000 (2005: £739,000) on sales of £38.2 million (2005: £21.9 million) an increase of two times and 74% respectively on the previous period. The Natural & Premium Snacks division contributed £14.7 million to sales and £0.8 million to operating profit. The results also reflect a robust performance by the Confectionery

division where despite a seasonally quieter first quarter, sales and operating profit advanced to £23.5 million and £0.6 million respectively.

Net interest payable in the period amounted to £491,000 (2005: £516,000) despite general market interest rates being 0.5% higher on average, reflecting the improved terms of the Group’s borrowing facilities renegotiated in December 2005.

The second half bias of the Group’s profitability has been reduced by the less seasonal nature of Readifoods’ and Humdinger’s trading patterns, contributing towards a first half profit on ordinary activities before tax of £895,000 compared to last year’s interim loss on ordinary activities before tax of £304,000. Similarly adjusted diluted earnings per share of 10.9p in 2006 compares to 1.7p in 2005 and 35.7p for the year to 30 April 2006. The adjusted diluted earnings per share is calculated from the profit after tax and minority interests excluding goodwill, FRS 20 charges and non recurring items. It includes the dilutive effect of share options, but excludes any dilution relating to the potential conversion of £4,289,350 “A” loan notes on the basis that these will actually be redeemed in cash.

The enlarged Group’s working capital requirement continues to peak just before the half year end, resulting in a seasonal swing on borrowings of some £10 million. This is the primary reason for total borrowings at the half year of almost £20 million. The working capital movement is anticipated to reverse before the year end.



Accounting Standards

The Group will be required to report under International Financial Reporting Standards (“IFRS”) for the year ending 30 April 2008 and thereafter, however this 2006/7 Interim Statement has been prepared under UK GAAP.

One of the requirements of both UK GAAP and IFRS is to charge to the profit and loss account the fair value of options outstanding during the relevant period (FRS 20) and this accounting policy has been adopted for the first time in this Interim Statement. This resulted in a non-cash charge of £125,000 in the period and a charge of £116,000 in the comparative period in 2005.

Acquisitions & Share Issues

During the period the Group has completed the acquisitions of:

- Humdinger Limited (“Humdinger”) Humdinger is a major UK supplier of premium dried fruit and nuts and other fruit snacks. Initial consideration of £10 million was paid on 18 July 2006, comprising £8.772 million in cash or loan notes and 0.3 million ordinary shares, with up to a further £2.975 million payable dependent upon operating profits in the two years ending 30 September 2008.
- Horsley Hick & Flower Limited (trading as “Salamanda”) Salamanda specialises in the development and manufacture of chocolate and yoghurt coated products known as “dragees”, including yoghurt coated raspberries, chocolate coated strawberries and cocoa dusted caramelised almonds. Initial consideration of £1.2 million was paid on 23 October 2006, comprising £900,000



ZETAR Plc

Operational Review

continued

cash and 67,000 ordinary shares, with up to a further £1.05 million payable dependent upon operating profits in the two years ending 30 April 2009.

Funding of Acquisitions

The cash element of the acquisitions, together with the aggregate borrowings of approximately £1.3 million within the two businesses acquired has been funded from the Group's debt resources and the placing, at £4.00 per share, of 2.8 million new ordinary shares.

Following these transactions and the exercise of 44,000 share options at 31 October 2006 the Company had 10,713,165 shares in issue. At a share price of £5.30 on 19 January 2007, this capitalises the Company at £56.8 million.

Business Review

The Group aims to achieve above industry average sales growth by positioning itself in growth segments of its markets and a high level of innovation. In the current year the Group is on track to launch well in excess of 300 new products. Whilst there is already a significant investment in this area the Group is committed to invest further resources, particularly in the recruitment of additional product and marketing personnel, and to commit to improved factory capability in the UK to sustain its programme of product launches and manufacturing excellence.



Capital expenditure in the period was £500,000, which included commissioning the Hull fruit bar manufacturing unit, and is expected to approach £2 million for the full year. In the second half we will complete the first phase of the capacity increase and factory improvement project at Readifoods and begin the expansion of Salamanda's production area and investment in quality control systems.

Confectionery division

As anticipated earlier in the year, a reduction in third party sales and a relatively warm and extended summer combined to produce a seasonally quiet first quarter. However as the Christmas season began, customer and product initiatives have delivered an improved seasonal performance across both Kinnerton brand and private label business. In addition to the ever popular Barbie and Simpsons range of Advent Calendars and other gifting products we have also had a successful season with Pirates of the Caribbean and Thomas the Tank Engine.

The Cocoa Deli Range was extended with the launch of several new chocolate enrobed products and Christmas chocolate gift sets. The first of several extruded chocolate bars,



manufactured on our new line have been launched in private label format and we expect to follow this up in 2007 with the launch of the first Cocoa Deli Easter Range.

The initial reception from customers to the first Salamanda product presentations has been very encouraging. We are confident that Salamanda's product knowledge and Kinnerton's sales and marketing skills will combine to good effect in the coming year.

Natural & Premium Snacks division

Overall the trading and financial performance of both businesses in this newly established division is in line with expectations set at the time of their acquisition.

Readifoods continues to supply its principal customer with a range of nut mixes and flavourings across the category. Several new snacking and organic products have been launched in the period and further initiatives are being explored for the coming year.

Since joining the Group, Humdinger has had an active programme of product launches. These have been associated primarily with premium dried fruit, extending their private label organic offering and introducing their fruit snacks, including fruit bars and high natural juice content fruit strings to their retail customers. In addition to the well established Sunsweet distribution arrangement and the Crazy Jack co-packing partnership, Humdinger has recently introduced a range of Ocean Spray cranberry dried fruit mixes to the UK market.

In both companies we have inherited dynamic entrepreneurial management teams who have already demonstrated a commitment to



ZETAR Plc

Operational Review

continued

differentiating their product in the market and provide us with grounds for optimism over their future growth.

Strategic Development

As the Group develops, organic sales and profit growth increasingly become our top priorities. There are many exciting opportunities emerging from our operations and it is important that we ensure the infrastructure and organisation of the businesses are adequately prepared to realise their potential.

We are continuously seeking further acquisitions that meet our criteria in terms of complementary products positioned within growth sectors of the food market, as well as having good management and financial track records. Potential acquisitions may fit within our established divisions or form a new division.

Confectionery

The increased focus on adult premium chocolates and supermarket private label sales has underpinned the recent growth of the Confectionery division resulting in an improved Christmas and continuing into a strong Easter performance. The future drive will be to enhance sales of “all year round” products. The addition of Salamanda’s premium chocolate and yoghurt coated products has widened the division’s offering and added a healthier snacking concept to be developed and marketed in the coming year.

Natural & Premium Snacks

A firm foundation has been established in this growth food sector through the acquisitions of Readifoods and Humdinger. Both businesses are leading suppliers of an expanding range of organic dried fruit and nuts, both supermarket

private label and branded products. We aim to extend the customer base of both businesses and widen their healthier snacking concepts. In this regard production of natural fruit bars has commenced ‘in house’ with the opening of a unit in Hull.

Director Appointment

We are pleased to announce the appointment of Dale Mullins as Group Finance Director, a newly created role to meet the requirements of the expanding Group. Further details of the appointment, which is effective as of 1 February 2007, are contained in an announcement released separately.

Outlook

All Group operations continue to trade well; Group sales for the eight months to 31 December 2006 were in excess of £56 million (2005: £32 million). The Confectionery division’s Spring order book, together with the consistent trading pattern of the Natural & Premium Snacks division, support our sales expectations for the remainder of the year. Accordingly we are confident that this will be another good year for the Group and that it is well positioned for the future.

Ian Blackburn
Chief Executive



Summarised Consolidated Profit and Loss Account

£000's	Note	Unaudited Six months ended 31st 2006	Unaudited October 2005*	Unaudited Year ended 30th April 2006*
Turnover				
– Continuing activities		30,625	21,907	57,864
– Acquired activities		<u>7,597</u>	–	–
Total	2	38,222	21,907	57,864
Operating profit before goodwill amortisation and FRS20 costs				
– Continuing activities		1,482	739	4,933
– Acquired activities		<u>689</u>	–	–
Total		2,171	739	4,933
Total operating profit				
– Continuing activities		864	212	3,890
– Acquired activities		<u>522</u>	–	–
Total	2	1,386	212	3,890
Net interest payable and similar charges	3	(491)	(516)	(1,650)
Profit/(loss) on ordinary activities before taxation		895	(304)	2,240
Tax on profit/(loss) on ordinary activities	6	(471)	(41)	(952)
Profit/(loss) for the period		424	(345)	1,288
Minority interests		<u>(20)</u>	(19)	(8)
Profit/(loss) for the period		<u>404</u>	<u>(364)</u>	<u>1,280</u>
Basic earnings/(loss) per share	8	<u>4.3p</u>	<u>(5.3)p</u>	<u>18.6p</u>
Diluted earnings/(loss) per share	8	<u>3.8p</u>	<u>(5.3)p</u>	<u>17.0p</u>

* Restated for the implementation of FRS20

Summarised Consolidated Balance Sheet

£000's	Note	Unaudited		Audited
		2006	At 31st October 2005*	At 30th April 2006*
Fixed assets				
Intangible assets	4	31,849	16,043	18,920
Tangible assets		<u>10,264</u>	<u>7,831</u>	<u>9,023</u>
		42,113	23,874	27,943
Current assets				
Stocks		12,854	6,478	4,380
Debtors		23,699	11,643	10,886
Cash at bank and in hand		<u>710</u>	<u>900</u>	<u>2,925</u>
		37,263	19,021	18,191
Creditors:				
Amounts falling due within one year	9	<u>(43,257)</u>	<u>(24,692)</u>	<u>(22,043)</u>
Net current liabilities		<u>(5,994)</u>	<u>(5,671)</u>	<u>(3,852)</u>
Total assets less current liabilities		36,119	18,203	24,091
Creditors:				
Amounts falling due after more than one year	10	(3,855)	(4,591)	(6,987)
Provisions for liabilities	11	<u>(3,405)</u>	<u>(2,270)</u>	<u>(1,216)</u>
Net assets		<u><u>28,859</u></u>	<u><u>11,342</u></u>	<u><u>15,888</u></u>
Capital and reserves				
Called up share capital	13	1,071	682	750
Share premium account		25,863	11,425	13,742
Profit and loss account		<u>1,904</u>	<u>(787)</u>	<u>1,390</u>
Shareholders' funds		28,838	11,320	15,882
Equity minority interests		<u>21</u>	<u>22</u>	<u>6</u>
		<u><u>28,859</u></u>	<u><u>11,342</u></u>	<u><u>15,888</u></u>

* Restated for the implementation of FRS20

Summarised Consolidated Cash Flow Statement

£000's	Unaudited		Unaudited
	Six months ended 2006	31st October 2005	Year ended 30th April 2006
Net cash (outflow)/inflow from operating activities	(6,837)	(6,925)	5,328
Returns on investment and servicing of finance			
Interest and finances charges paid	(385)	(524)	(996)
Interest received	<u>32</u>	<u>59</u>	<u>100</u>
	(353)	(465)	(896)
Taxation	(532)	(6)	(333)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(516)	(263)	(1,328)
Acquisitions and disposals			
Purchase of subsidiaries	(12,273)	—	(3,913)
Debt acquired with subsidiaries	<u>(1,296)</u>	<u>—</u>	<u>(1,244)</u>
	<u>(13,569)</u>	<u>—</u>	<u>(5,157)</u>
Net cash flow before financing	(21,807)	(7,659)	(2,386)
Financing			
Issue of shares net of costs	10,915	—	2,242
Increase/(decrease) in bank borrowings (including expenses)	1,517	—	(4,226)
(Decrease)/increase in lease liability	<u>(191)</u>	<u>2,869</u>	<u>(412)</u>
	<u>12,241</u>	<u>2,869</u>	<u>(2,396)</u>
Decrease in cash	(9,566)	(4,790)	(4,782)
Net cash at beginning of period	<u>908</u>	<u>5,690</u>	<u>5,690</u>
Net (overdraft)/cash at end of period	<u><u>(8,658)</u></u>	<u><u>900</u></u>	<u><u>908</u></u>

Notes to the Interim Financial Report

1. Basis of preparation

Financial information presented here is unaudited but has been reviewed by the Group's auditors. The review opinion is published below.

Accounting policies

The interim consolidated financial statements do not include all information and disclosures required in the financial statements. They have, however been prepared using the same accounting policies as used in the preparation of the Group's financial statements for the 72 weeks ended 30 April 2006 except as noted below. The figures for the year ended 30 April 2006 are extracted from the financial statements for the 72 weeks ended 30 April 2006, copies of which are available from the Company's registered office.

The interim results for the six months to 31 October 2006 include an FRS 20 charge in respect of share options. FRS 20 'Share Based Payment' requires the recognition of equity-settled share-based payments at fair value at the date of the grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Company's estimate of the shares that will eventually vest. In accordance with the transitional provisions of FRS 20, the Standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2006, and the results for the 6 months ended 31 October 2005 and the year ended 30 April 2006 have been restated accordingly (note 5).

The Group has adopted FRS 22 in respect of the EPS calculations within these financial statements and previous periods' EPS figures have been restated where appropriate.

2. Segmental information

For management purposes the Group is currently organised into two operating divisions, namely Confectionery and Natural & Premium Snacks.

£000's	Unaudited		Unaudited Year ended 30th April 2006
	Six months ended 31st October 2006	2005	
Business segments			
Turnover			
Confectionery	23,490	21,907	57,063
Natural & Premium Snacks	14,732	–	801
	<u>38,222</u>	<u>21,907</u>	<u>57,864</u>
Operating profit			
Confectionery	592	212	3,859
Natural & Premium Snacks	794	–	31
	<u>1,386</u>	<u>212</u>	<u>3,890</u>
Geographical segments			
Turnover by destination			
UK	34,754	20,132	53,201
Europe	757	474	1,589
Australasia	957	880	2,396
Rest of the World	1,754	421	678
Total	<u>38,222</u>	<u>21,907</u>	<u>57,864</u>
Turnover by origin			
UK	37,265	21,027	55,468
Australasia	957	880	2,396
Total	<u>38,222</u>	<u>21,907</u>	<u>57,864</u>

3. Net interest payable and similar charges

£000's	Unaudited		Unaudited Year ended 30th April 2006
	Six months ended 31st October 2006	2005	
Interest paid re bank and finance lease facilities	(313)	(422)	(755)
Interest accrued on convertible loan notes	<u>(210)</u>	<u>(153)</u>	<u>(360)</u>
Total interest payable excluding non-recurring charges payable on bank loans and overdrafts	(523)	(575)	(1,115)
Non-recurring charges	–	–	(635)
Total interest and charges payable	<u>(523)</u>	<u>(575)</u>	<u>(1,750)</u>
Interest received	<u>32</u>	<u>59</u>	<u>100</u>

4. Intangible assets

£000's	Goodwill
Costs	
At 1st May 2006	19,725
Additions	<u>13,589</u>
At 31st October 2006	<u>33,314</u>
Amortisation	
At 1st May 2006	805
Charge for period	<u>660</u>
At 31st October 2006	<u>1,465</u>
Net book value	
31st October 2006	<u>31,849</u>
30th April 2006	<u>18,920</u>
31st October 2005	<u>16,043</u>

Additions to goodwill relate to the goodwill on consolidation arising on the purchase of Humdinger Limited and Horsley, Hick & Flower Limited as follows:

	Total
Consideration	15,701
Net assets acquired	(2,234)
Provisional fair value adjustments	<u>122</u>
Goodwill	<u>13,589</u>

5. FRS 20

£000's	Unaudited		Unaudited Year ended 30th April 2006
	Six months ended 31st October 2006	2005	
Charge for period	<u>125</u>	<u>116</u>	<u>238</u>

6. Tax

Tax at 30% has been provided on the profit on ordinary activities before taxation, adjusted for tax purposes.

7. Dividends

The directors do not propose to pay a dividend for the period.

8. Earnings per share

Earning per share for the periods are as follows:

	Unaudited		Unaudited Year ended 30th April 2006
	Six months ended 31st October 2006	2005	
Basic earnings/(loss) per share	4.3p	(5.3)p	18.6p
Basic diluted earnings/(loss) per share	3.8p	(5.3)p	17.0p

The basic earnings per share for the six months ended 31st October 2006 is calculated from the profit after tax and minority interest of £404,000 (2005: £364,000 loss) divided by the weighted average number of shares in issue for the period of 9,309,947 (2005: 6,815,000). The fully diluted number of shares was 10,547,714 (2005: 7,343,436). There was no dilution of the basic loss per share in the six months ended 31 October 2005.

9. Creditors : amounts falling due within one year

£000's	2006	Unaudited At 31st October		Audited At 30th April 2006
		2005	2006	2006
Bank loans and overdrafts	10,015	6,500		2,131
Finance leases	308	3,366		303
Trade creditors	16,432	6,594		8,456
Loan notes	6,449	–		2,509
Other creditors	28	201		169
Corporation tax	852	164		443
Taxes and social security	2,412	1,798		2,214
Accruals	4,861	3,658		4,105
Performance related deferred consideration	1,900	2,411		1,713
	<u>43,257</u>	<u>24,692</u>		<u>22,043</u>

The loan notes are subordinated to the bank loan but secured on the assets of Zetar International Limited.

10. Creditors : amounts falling due after more than one year

£000's	2006	Unaudited At 31st October		Audited At 30th April 2006
		2005	2006	2006
Bank loans	3,143	–		2,158
Finance leases	712	570		675
Loan notes	–	4,021		4,154
	<u>3,855</u>	<u>4,591</u>		<u>6,987</u>

The loan notes are subordinated to the bank loan but secured on the assets of Zetar International Limited.

11. Provision for liabilities

£000's	2006	Unaudited At 31st October		Audited At 30th April 2006
		2005	2006	2006
Performance related deferred consideration	3,125	1,713		1,000
Deferred taxation	280	557		216
	<u>3,405</u>	<u>2,270</u>		<u>1,216</u>

12. Total borrowings

£000's	2006	Unaudited At 31st October		Audited At 30th April 2006
		2005	2006	2006
Cash at bank	710	900		2,925
Bank overdraft	<u>(9,368)</u>	–		<u>(2,017)</u>
Net (overdraft)/cash at period end	(8,658)	900		908
Bank loans	(3,789)	(6,500)		(2,272)
Finance leases	(1,020)	(3,936)		(978)
Loan notes	<u>(6,449)</u>	<u>(4,021)</u>		<u>(6,663)</u>
	<u>(19,916)</u>	<u>(13,557)</u>		<u>(9,005)</u>

13. Share capital

£000's	Number	Unaudited At 31st October		Audited At 30th April 2006
		2006	2005	2006
Authorised ordinary shares of 10p	<u>16,000,000</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>
Allotted, issued and fully paid	<u>10,713,165</u>	<u>1,071</u>	<u>682</u>	<u>750</u>

Independent review report to Zetar Plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 31st October 2006 which comprises the Summarised Consolidated Profit and Loss Account, the Summarised Consolidated Balance Sheet, the Summarised Consolidated Cash Flow Statement and related notes set out on pages 12 to 14. We have read the other information contained in the interim report which comprises only the Highlights and Operational Review and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the company in accordance with guidance contained in APB Bulletin 1999/4 "Review of Interim Financial Information". Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The interim report including the financial information contained therein is the responsibility of, and has been approved by, the directors. They are responsible for preparing the interim report in accordance with UK GAAP and AIM rules and ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards of Auditing (UK & Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31st October 2006.

GRANT THORNTON UK LLP
CHARTERED ACCOUNTANTS
Norwich

19th January 2007