



22 January 2008

Zetar Plc

("Zetar" or the "Group")

Results for the six months ended 31 October 2007

Zetar Plc, the AIM listed confectionery and snack foods group, announces its unaudited results for the six months ended 31 October 2007.

Highlights

- Turnover up 26% to £48.0m (2006: £38.2m)
- EBITDA* up 17% to £3.5m (2006: £3.0m)
- Operating profit £2.0m (2006: £1.9m)
- Adjusted operating profit** £2.4m (2006: £2.2m)
- Basic earnings per share 7.3p (2006: 9.2p)
- Adjusted diluted earnings per share 9.9p (2006: 10.9p) – excluding Baked Snacks operating losses and related financing costs, adjusted diluted earnings per share 13.0p
- Zetar enters the emerging healthier baked snacks sector via the acquisition of the business and assets of Britannia in May 2007
- Since 31 October 2007:
 - Acquisition of Lir on 17 December 2007 for up to €8.0m (£5.7m)
 - Placing of 714,285 new shares at £5.60 per share to raise £4.0m (gross)
 - Turnover for eight months to 31 December 2007 of £68m (2006: £56m)
- The Group's operating performance remains in line with the Board's expectations for the current year

* *Earnings before interest taxation depreciation and amortisation of intangible assets, stated before share-based payment costs*

** *Adjusted operating profit is stated before amortisation of intangible assets and share-based payment costs*

Ian Blackburn, Chief Executive said:

"During the period under review our focus has been on consolidation, integration and investment for future sustained earnings growth. We are pleased that despite the challenging market conditions, and excluding Baked Snacks' initial losses, the Group has maintained its record of successful year-on-year progress.

Whilst, as expected, Baked Snacks incurred losses in its start up period, we have achieved considerable progress during the period bringing it to a position whereby it has launched products to several new customers in early 2008.

In December 2007 the support of existing shareholders and the introduction of Lincoln Vale, a new long term strategic shareholder, enabled the Group to raise £4.0 million and complete the Lir acquisition. Lir is a manufacturer of luxury indulgent boxed chocolates, including in particular a range of liqueur chocolates under the Baileys brand.

We are confident that strong foundations have been established across the Group on which the Board can continue to pursue its organic and acquisitive growth strategy, with a current focus on establishing a European operational platform.”

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Notes to Editors

Zetar Plc listed on AIM in January 2005. Zetar's objective is to build a Group with a balanced portfolio of niche snack and confectionery products with an emphasis on healthier options and/or premium products, based primarily in the UK with operations in Europe.

To date six acquisitions have established two strong operating divisions - Confectionery and Natural & Premium Snacks ("N & PS"):

<i>Date:</i>	<i>Acquisition:</i>	<i>Division:</i>	<i>Funded by:</i>
April 2005	Kinnerton	Confectionery	Placing at £2.00 per share
March 2006	Readifoods	N & PS	Placing at £3.50 per share
July 2006	Humdinger	N & PS	Placing at £4.00 per share
October 2006	Horsley Hick & Flower	Confectionery	Bank facilities
May 2007	Britannia Biscuits Company	N & PS	Bank facilities
December 2007	Lir	Confectionery	Placing at £5.60 per share

The Group will continue to concentrate on companies that, among other commercial considerations, focus on healthier options, quality products, innovation and service at competitive prices.

For the year ended 30 April 2007 Zetar reported sales up 64% to £94.9m (2006: £57.9m), adjusted profit before tax up 69% to £6.6m (2006: £3.9m), and adjusted diluted earnings per share up 22% to 40.5 pence (2006: 33.3 pence).

For further information please visit www.zetarplc.com.

Operational review

Overview

The interim results of Zetar Plc ("Zetar" or the "Group") are for the six months ended 31 October 2007.

Zetar listed on AIM in January 2005. The six acquisitions completed since then have established strong positions in both the UK niche and premium indulgent sectors of the chocolate market and also in the healthier snacks market, including dried fruit and nuts. Following high levels of corporate activity in Zetar's first two years of operation, the past six months have been a period of consolidation, integration and investment for future sustained earnings growth.

The Group operates through its two divisions, Confectionery and Natural & Premium Snacks, both of which have performed satisfactorily in the period under review in what were challenging market conditions. Overall the Group has recorded sales of £48.0 million and adjusted operating profits of £2.4 million, an increase of 26 per cent and 11 per cent respectively, compared to the corresponding period last year.

The Board believes there is substantial long term potential for the development and growth in the healthier snacks sector. In order to access this potential, The Baked Snacks Company Limited ("Baked Snacks") was established to acquire the assets and business of Britannia Biscuits Company (International) Limited ("Britannia"), a manufacturer of low fat, low sugar, low salt, savoury and sweet biscuits and crisps. Following significant investment, Britannia had been unable to complete the commissioning of its factory. The acquisition on 24 May 2007 and subsequent commissioning of Britannia's factory provided the Group with the opportunity to enter the emerging healthier baked snacks sector more quickly than would have been possible via a greenfield development. Initial consideration for the acquisition was £4.7 million, funded by a new five year £5.0 million bank loan. Additional consideration may become payable dependent on the results of this business over the three year period ending September 2010.

The acquisition of Lir Chocolates Limited ("Lir"), an Irish manufacturer of luxury brand and private label boxed chocolates, completed after the period end in December 2007, extended the Confectionery division's product portfolio into the growing luxury indulgent boxed chocolate market. Importantly it has also given the Group access to the global 'Baileys' brand for a range of adult confectionery products in Ireland, the UK, Iceland, Denmark, the Benelux countries and Russia. Total consideration of up to €8.0 million (£5.7 million) is payable, comprising an initial consideration of €3.3 million (£2.4 million) and deferred consideration of up to €4.7 million (£3.4 million), payable dependent on the performance of Lir in the four years ending 30 April 2011. In connection with the Lir acquisition, the Group raised £3.8 million (net of expenses) from a placing of 714,285 new Zetar shares at £5.60 per share.

As at 31 October 2007 the Group employed 1,330 people, including 380 agency staff across eight UK sites.

Financial review

Group sales in the six months ended 31 October 2007 were £48.0 million (2006: £38.2 million) an increase of 26 per cent. Group adjusted operating profit for the period (stated before amortisation of intangible assets of £0.3 million (2006: £0.2 million) and share-based payments of £0.1 million (2006: £0.1 million)), increased by 11 per cent to £2.4 million (2006: £2.2 million). Excluding Baked Snacks' £0.4 million start-up operating losses, the Group adjusted operating profit for the period was £2.8 million, an increase of 28 per cent over the comparative period.

Total finance costs in the period amounted to £0.9 million (2006: £0.6 million). Included in this total are movements on foreign exchange and interest rate financial instruments, which in the period under review resulted in a charge of £87,000 (2006: credit of £15,000) and the amortisation of the discount on deferred consideration payments of £62,000 (2006: £90,000). Underlying net interest payable increased to £0.7 million (2006: £0.5 million), principally as a result of the new bank facilities arranged for the acquisition of Britannia, which added £0.16 million to finance costs incurred during the period.

The tax charge for the period is based on the estimated effective tax rate on profits for the full year, which is in line with that for the year ended 30 April 2007 of 28.4 per cent.

Adjusted diluted earnings per share for the period were 9.9p (2006: 10.9p) a reduction of 9 per cent reflecting the impact of the start-up losses at Baked Snacks and the associated funding costs of the Britannia acquisition. Excluding these items, adjusted diluted earnings per share for the period would have shown a 19 per cent increase to 13.0p.

The Group's working capital requirement peaked, as usual, just before the period end, reflecting a seasonal swing on total net debt of some £12 million. This seasonal working capital movement is anticipated to reverse before the April 2008 year end. The working capital increase, together with the Britannia acquisition funding of £4.7 million and capital expenditure of £2.1 million (principally regarding increased capacity), resulted in total net borrowings at 31 October 2007 of £26.4 million (31 October 2006: £19.9 million).

Since the period end, £9.0 million of the amount included in the 31 October 2007 balance sheet as debt due within one year has been re-classified, in accordance with terms agreed with the Group's bankers, as debt due after more than one year.

Business review

Results by division were as follows:

Natural & Premium Snacks division

	Six months ended 31 October	
	<u>2007</u>	<u>2006</u>
	£'000	£'000
Sales	21,332	14,732
Adjusted operating profit	1,108	1,105

The 45 per cent increase in sales over the period reflects a combination of the inclusion of Humdinger for the full six months and organic growth within the division, including the first sales to a major new UK retail customer for the division. The first sales to European retailers were realised towards the end of the period. A significant commitment has been made to training and the improvement of quality control procedures in the nut factory and additional roasting / flavouring capacity was installed at a cost of £0.5 million.

Baked Snacks contributed sales of £0.7 million and operating losses of £0.4 million in the period. Significant progress was made in integrating the Britannia business and upgrading its factory systems, which are now fully accredited to supply conventional and organic products to potential retail customers. An intensive programme of product development and customer negotiations (including trial production runs) are continuing.

Confectionery division

	Six months ended 31 October	
	<u>2007</u>	<u>2006</u>
	£'000	£'000
Sales	26,717	23,490
Adjusted operating profit	1,312	1,066

Sales in the period increased by 14 per cent, principally as a result of growth in the Group's customer base for chocolate and yoghurt covered fruit and nut products and new contracts to supply other major chocolate manufacturers.

A new Easter egg packing facility was installed at a cost of £0.6 million to accommodate an anticipated increase in volumes this coming Easter and a similar amount was incurred in building the new Horsley Hick & Flower factory, tripling capacity, which became operational in December 2007.

During the period there has been a general increase in the cost of raw materials across both operating divisions. This has had limited impact on margins due to the Group's policy of forward purchase commitments to cover major ingredients, including specific cover for retailer committed seasonal programmes. Going forward, customer price increases are being negotiated as the impact of higher raw material costs feeds through.

Accounting standards

This is the first period for which the Group has been required to present financial statements prepared under International Financial Reporting Standards ("IFRS"). As set out in more detail in the notes to the interim financial statements, results and net assets previously reported under UK Generally Accepted Accounting Principles ("UK GAAP") for the comparative periods since 1 May 2006 have been restated, with reconciliations between the UK GAAP and IFRS presentations set out in the notes. It should be emphasised that the amended presentation of results and net assets under IFRS has no impact on underlying cash flows or intrinsic values. Furthermore the implementation of IFRS has had no impact on the Group's reported adjusted operating profit, which is stated before charges for amortisation of intangible assets and share-based payments.

Net assets as at 30 April 2007 have been increased under the IFRS presentation to £32.7 million (previously reported under UK GAAP: £31.8 million). This is principally as a result of the reversal of prior year amortisation of goodwill arising on acquisitions (net of amortisation of intangible assets now recognised under IFRS as forming part of the net assets acquired) and recognition of a deferred tax asset associated with future corporation tax relief which is expected to be available when certain employee share options are exercised. The increase is net of a UK GAAP adjustment made as part of an overall accounting policies review alongside the IFRS transition. This adjustment relates to discounting the fair value of deferred consideration provisions to their net present value at the time of acquisition.

Outlook

The Group continues to have a second half bias to its trading with part of Christmas and all of Easter trading falling in the six months to 30 April.

The Confectionery division has received orders for Easter which, provided customers do not scale back requirements following their Christmas trading experience, are above those of last year. The integration of Lir into this division is already underway, including initial investments in increasing efficiency and expanding capacity. The first orders for a new Baileys Easter egg have already been received, with Kinnerton managing the majority of these sales in the UK.

We are pleased to report that Baked Snacks gained four significant new customer listings for deliveries starting in January and February 2008 and several others are expected to be finalised before the end of the current year. This should enable Baked Snacks to break even on a monthly basis around the end of the current financial year in line with our initial expectations. In the event that Baked Snacks continues to convert customer interest into orders we anticipate a need to invest in more factory space to accommodate additional production capacity, different packaging solutions and warehousing over the next three years.

The Group's operating performance remains in line with the Board's expectations for the current year. The Board notes, however, that the recent turbulence in credit markets has resulted in sterling LIBOR interest rates remaining at inflated levels for an extended period, such that the Group's interest cost for the second half of the year is now likely to be higher than previously expected and similar to that reported in the first half.

The Board is confident that the foundations for sustainable profit growth have been established. It remains committed to its strategy of combining organic and acquisitive growth and has a current focus on establishing a European operational platform.

Ian Blackburn
Chief Executive

**Consolidated income statement
for the six months ended 31 October 2007**

£000's	Notes	Unaudited six months ended 31 October 2007	31 October 2006*	Unaudited year ended 30 April 2007*
Revenue				
Continuing operations		47,305	38,222	94,945
Acquired operations		744	-	-
Total revenue	2	48,049	38,222	94,945
Cost of sales		(37,275)	(28,735)	(68,862)
Gross profit		10,774	9,487	26,083
Distribution costs		(1,774)	(1,266)	(4,175)
Administrative expenses				
Amortisation of intangible assets		(333)	(182)	(515)
Share-based payment charge		(125)	(125)	(249)
Other administrative expenses		(6,580)	(6,050)	(14,265)
Operating profit				
Continuing operations		2,328	1,864	6,879
Acquired operations - loss		(366)	-	-
	2	1,962	1,864	6,879
Adjusted operating profit[†]	2	2,420	2,171	7,643
Finance costs	3	(875)	(566)	(1,094)
Profit on ordinary activities before taxation		1,087	1,298	5,785
Tax on profit on ordinary activities	4	(301)	(422)	(1,682)
Profit on ordinary activities after taxation		786	876	4,103
Basic earnings per share	6	7.3p	9.2p	40.9p
Diluted earnings per share	6	6.4p	8.1p	35.3p
Adjusted diluted earnings per share	6	9.9p	10.9p	40.5p

*Results are restated for the impact of transition to International Financial Reporting Standards. See note 1.

[†]Adjusted operating profit is stated before the charges for amortisation of intangible assets and share-based payments.

All of the profit on ordinary activities after taxation for the six months ended 31 October 2007 was attributable to shareholders of Zetar Plc; for the six months ended 31 October 2006 £20,000 was attributable to minority shareholders in subsidiary undertakings (year ended 30 April 2007: £2,000).

**Consolidated balance sheet
at 31 October 2007**

£000's	Unaudited 31 October 2007	Unaudited 31 October 2006*	Unaudited 30 April 2007*
Non-current assets			
Goodwill	28,131	31,087	28,072
Other intangible assets	509	1,178	844
Property, plant & equipment	16,330	10,264	10,747
Deferred tax asset	292	130	273
	45,262	42,659	39,936
Current assets			
Inventories	15,662	12,854	9,060
Trade and other receivables	25,718	23,699	16,857
Other financial assets	-	-	50
Cash at bank	1,879	710	3,712
	43,259	37,263	29,679
Total assets	88,521	79,922	69,615
Current liabilities			
Trade and other payables	23,661	23,734	19,549
Performance related deferred consideration	1,049	1,882	213
Current tax liabilities	458	852	872
Other financial liabilities	37	49	-
Obligations under finance leases	401	308	421
Borrowings and overdrafts	27,413	16,463	6,787
	53,019	43,288	27,842
Net current (liabilities) / assets	(9,760)	(6,025)	1,837
Non-current liabilities			
Obligations under finance leases	502	712	417
Borrowings	-	3,143	5,903
Deferred tax liabilities	959	731	1,107
Performance related deferred consideration	674	2,875	1,662
	2,135	7,461	9,089
Total liabilities	(55,154)	(50,749)	(36,931)
Net assets	33,367	29,173	32,684
Equity			
Share capital	1,076	1,071	1,073
Share premium amount	22,717	22,634	22,673
Merger reserve	3,229	3,229	3,229
Equity reserve	740	390	621
Retained earnings	5,605	1,828	5,088
Total shareholders' equity	33,367	29,152	32,684
Minority interest	-	21	-
Total equity	33,367	29,173	32,684

*Balance sheets are restated for the impact of transition to International Financial Reporting Standards. See note 1.

**Consolidated cash flow statement
for the six months ended 31 October 2007**

£000's	Notes	Unaudited six months ended		Unaudited
		31 October 2007	31 October 2006	year ended 30 April 2007
Cash flow from operating activities:				
Profit on ordinary activities before taxation		1,087	1,298	5,785
Finance costs		875	566	1,094
Depreciation		1,078	803	1,651
Amortisation charges		333	182	515
Loss on sale of tangible fixed assets		11	-	17
Share-based payment charge		125	125	249
Increase in working capital		(11,214)	(9,806)	(3,497)
Cash (used in) / generated from operations		(7,705)	(6,832)	5,814
Interest paid		(729)	(353)	(1,356)
Tax paid		(889)	(532)	(1,425)
Net cash flow from operating activities		(9,323)	(7,717)	3,033
Cash flow from investing activities:				
Purchase of property, plant and equipment		(2,136)	(516)	(1,902)
Proceeds from sale of plant and equipment		-	-	40
Acquisitions		(4,972)	(9,782)	(9,782)
Cash and cash equivalents acquired		-	(1,217)	(1,217)
Net cash outflow from investing activities		(7,108)	(11,515)	(12,861)
Cash flows from financing activities:				
Net proceeds from issue of ordinary share capital		47	10,915	10,955
Purchase of own shares		(300)	-	-
Proceeds from new borrowings		5,290	1,517	5,523
Repayment of borrowings		(2,525)	(2,570)	(6,258)
Finance lease repayments		(225)	(191)	(375)
Minority interest dividends paid		-	(5)	(8)
Net cash flow from financing activities		2,287	9,666	9,837
Net (decrease) / increase in cash and cash equivalents	8	(14,144)	(9,566)	9
Cash and cash equivalents at the beginning of the period		917	908	908
Cash and cash equivalents at the end of the period		(13,227)	(8,658)	917
Cash and cash equivalents consist of:				
Cash at bank		1,879	710	3,712
Bank overdraft		(15,106)	(9,368)	(2,795)
		(13,227)	(8,658)	917

**Consolidated statement of changes in equity
for the six months ended 31 October 2007**

£000's	Share capital	Share premium account	Merger reserve	Equity reserve	Retained earnings	Minority interest	Total
Six months ended 31 October 2006							
Deferred tax on share-based payments	-	-	-	18	-	-	18
Exchange differences	-	-	-	-	(15)	-	(15)
Net income recognised directly in equity	-	-	-	18	(15)	-	3
Profit for the period	-	-	-	-	856	20	876
Total recognised income and expense for the period	-	-	-	18	841	20	879
Share-based payment charge	-	-	-	125	-	-	125
Minority interest dividends paid	-	-	-	-	-	(5)	(5)
Issue of new ordinary shares	321	10,630	1,491	-	-	-	12,442
Balance at 1 May 2006	750	12,004	1,738	247	987	6	15,732
Balance at 31 October 2006	1,071	22,634	3,229	390	1,828	21	29,173
Year ended 30 April 2007							
Deferred tax on share-based payments	-	-	-	125	-	-	125
Net income recognised directly in equity	-	-	-	125	-	-	125
Profit for the period	-	-	-	-	4,101	2	4,103
Total recognised income and expense for the period	-	-	-	125	4,101	2	4,228
Share-based payment charge	-	-	-	249	-	-	249
Minority interest dividends paid	-	-	-	-	-	(8)	(8)
Issue of new ordinary shares	323	10,669	1,491	-	-	-	12,483
Balance at 1 May 2006	750	12,004	1,738	247	987	6	15,732
Balance at 30 April 2007	1,073	22,673	3,229	621	5,088	-	32,684
Six months ended 31 October 2007							
Deferred tax on share-based payments	-	-	-	(6)	-	-	(6)
Exchange differences	-	-	-	-	31	-	31
Net income recognised directly in equity	-	-	-	(6)	31	-	25
Profit for the period	-	-	-	-	786	-	786
Total recognised income and expense for the period	-	-	-	(6)	817	-	811
Share-based payment charge	-	-	-	125	-	-	125
Purchase of own shares	-	-	-	-	(300)	-	(300)
Issue of new ordinary shares	3	44	-	-	-	-	47
Balance at 1 May 2007	1,073	22,673	3,229	621	5,088	-	32,684
Balance at 31 October 2007	1,076	22,717	3,229	740	5,605	-	33,367

**Notes to the interim financial statements
for the six months ended 31 October 2007**

1. Basis of preparation

The unaudited interim financial statements have been prepared using the recognition and measurement principles of International Financial Reporting Standards (“IFRS”) and in accordance with IFRS1, “First-time adoption of International Financial Reporting Standards”. The Annual Report and Accounts for the year ending 30 April 2008 will contain the Group’s first audited financial statements prepared in accordance with IFRS. In accordance with IFRS1, the effective date of the Group’s transition to IFRS was 1 May 2006.

As required by IFRS1, detailed reconciliations between previously reported amounts under UK Generally Accepted Accounting Principles (“UK GAAP”) and restated comparative amounts under IFRS are presented in note 10.

The directors have elected not to apply IAS34, “Interim financial reporting”. For this reason and because they do not represent full financial statements the interim financial statements are not fully compliant with IFRS.

The interim financial information for the six months ended 31 October 2007 and the six months ended 31 October 2006 has not been audited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The information for the year ended 30 April 2007 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985, but is based on the statutory accounts for that year restated under IFRS. The statutory accounts, on which the Group’s auditors gave an unqualified report, were prepared under UK GAAP and have been filed with the Registrar of Companies.

2. Segmental information

£000’s	Unaudited six months ended		Unaudited year ended
	31 October 2007	31 October 2006	30 April 2007
Business segments			
Turnover			
Confectionery	26,717	23,490	61,417
Natural & Premium Snacks	21,332	14,732	33,528
	48,049	38,222	94,945
Operating profit			
Confectionery	1,153	988	4,969
Natural & Premium Snacks	809	876	1,910
	1,962	1,864	6,879
Adjusted operating profit			
Confectionery	1,312	1,066	5,226
Natural & Premium Snacks	1,108	1,105	2,417
	2,420	2,171	7,643
Turnover by destination			
UK	42,966	34,754	88,164
Europe	1,906	1,191	2,570
Australasia	1,206	957	2,450
Rest of the world	1,971	1,320	1,761
	48,049	38,222	94,945

3. Finance costs

£000's	Unaudited six months ended		Unaudited year ended
	31 October 2007	31 October 2006	30 April 2007
Net bank interest payable and similar charges	726	491	1,039
Discount charge on deferred consideration provisions	62	90	169
Change in market value of derivatives	87	(15)	(114)
	<u>875</u>	<u>566</u>	<u>1,094</u>

4. Taxation

The income tax expense for the six months ended 31 October 2007 has been calculated on the basis of the estimated effective tax rate on profits for the full year.

5. Dividends

The directors do not propose to pay a dividend for the period (2006: £Nil).

6. Earnings per share

	Unaudited Six months ended 31 October 2007			Unaudited Six months ended 31 October 2006			Unaudited Year ended 30 April 2007		
	Earnings (£000's)	Weighted average no. of shares (000's)	Per share amount (pence)	Earnings (£000's)	Weighted average no. of shares (000's)	Per share amount (pence)	Earnings (£000's)	Weighted average no. of shares (000's)	Per share amount (pence)
Basic earnings per share	786	10,742	7.3p	856	9,310	9.2p	4,101	10,015	40.9p
Diluted earnings per share	786	12,272	6.4p	856	10,548	8.1p	4,285	12,128	35.3p
Adjusted basic earnings per share	1,221	10,742	11.4p	1,150	9,310	12.4p	4,725	10,015	47.2p
Adjusted diluted earnings per share	1,221	12,272	9.9p	1,150	10,548	10.9p	4,909	12,128	40.5p

The calculation of basic earnings per share is based on the profit after tax and minority interest and the weighted average number of shares during each period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. Potentially dilutive ordinary shares arise from share options and warrants and, prior to April 2007, from convertible loan notes issued by Zetar Plc.

An adjusted basic earnings per share and an adjusted diluted earnings per share have also been calculated as in the opinion of the Directors this allows shareholders to gain a clearer understanding of the sustainable trading performance of the Group.

The calculation of earnings used in the calculation of adjusted earnings per share was as follows:

£000's	Unaudited six months ended		Unaudited year ended
	31 October 2007	31 October 2006	30 April 2007
Profit for the period	786	856	4,101
Amortisation of intangible assets	333	182	515
Share-based payments	125	125	249
Discount charge on deferred consideration provisions	62	90	169
Change in market value of derivatives	87	(15)	(114)
Tax charge relating to the above items	(172)	(88)	(195)
Adjusted earnings	1,221	1,150	4,725

The earnings used for diluted earnings per share for the year ended 30 April 2007, are after adding back the interest payable on convertible loan notes (net of tax) of £184,000 to the earnings base. The loan notes were anti-dilutive for the six months ended 31 October 2006 and were redeemed in full in April 2007, so have no impact on the six month period ended 31 October 2007.

7. Business combinations

On 23 May 2007, via a newly incorporated subsidiary undertaking, The Baked Snacks Company Limited ("Baked Snacks"), the Group acquired the assets and business of Britannia Biscuits Company (International) Limited for an initial cash consideration of £4.7 million. Additional consideration may become payable dependent on the results of this business over the three year period ending September 2010.

Baked Snacks acquired a fully equipped factory and a small amount of related inventories at fair values of £4.5 million and £0.2m, respectively. Professional fees and related costs of £58,000 have been included in the cost of the business combination.

Performance related deferred consideration, in relation to the acquisitions of Readifoods, Humdinger and Horsley, Hick & Flower is payable within the next two years, dependent on the results of these businesses. Performance related deferred consideration of £214,000 was paid during the six months ended 31 October 2007 in relation to the Readifoods acquisition.

8. Reconciliation of net cash flow to movement in net debt

£000's	Unaudited six months ended		Unaudited year ended
	31 October 2007	31 October 2006	30 April 2007
(Decrease) / Increase in cash and cash equivalents	(14,144)	(9,566)	9
Cash (inflow) / outflow from movement in debt financing	(2,765)	1,053	735
Cash outflow from movement in lease financing	225	191	375
Movement in net debt arising from cash flows	(16,684)	(8,322)	1,119
Other non-cash changes	63	(2,345)	(1,686)
Debt acquired with subsidiary	-	(244)	(244)
Net debt brought forward	(9,816)	(9,005)	(9,005)
Net debt carried forward	(26,437)	(19,916)	(9,816)

Other non-cash changes relate to the issue of loan notes in connection with elements of the consideration payable for acquisitions of subsidiary undertakings and movements in related interest accruing thereon.

9. Analysis of net debt

£000's	Unaudited six months ended		Unaudited year
	31 October 2007	31 October 2006	ended 30 April 2007
Cash at bank	1,879	710	3,712
Bank overdraft	(15,106)	(9,368)	(2,795)
Cash and cash equivalents	(13,227)	(8,658)	917
Debt due within one year	(12,307)	(7,095)	(3,992)
Debt due after more than one year	-	(3,143)	(5,903)
Finance leases	(903)	(1,020)	(838)
Net debt	(26,437)	(19,916)	(9,816)

Since the period end £9.0 million of the amount included above at 31 October 2007 as debt due within one year has been re-classified as debt due after more than one year, in accordance with terms agreed with the Group's bankers.

10. Explanation of transition to IFRS

This is the first financial period for which the Group has presented financial information under IFRS. The following disclosures are required in the period of transition. The last financial statements under UK GAAP were for the year ended 30 April 2007 and the date of transition to IFRS was 1 May 2006.

Reconciliation of equity at 1 May 2006 (date of transition to IFRS)

£000's	UK GAAP As previously reported	UK GAAP Adjustments (Note a)	IFRS adjustment Share-based payments (Note b)	IFRS adjustment Derivatives (Note c)	IFRS As restated
Non current assets					
Goodwill	18,917	(263)	-	-	18,654
Intangible assets	3	-	-	-	3
Property, plant & equipment	9,023	-	-	-	9,023
Deferred tax asset	74	-	-	-	74
	28,017	(263)	-	-	27,754
Current assets					
Inventories	4,380	-	-	-	4,380
Trade and other receivables	10,886	-	-	-	10,886
Cash at bank	2,925	-	-	-	2,925
	18,191	-	-	-	18,191
Total assets	46,208	(263)	-	-	45,945
Current liabilities					
Trade and other payables	(14,944)	-	-	-	(14,944)
Performance related deferred consideration	(1,713)	49	-	-	(1,664)
Financial liabilities	-	-	-	(64)	(64)
Current tax liabilities	(443)	-	-	-	(443)
Obligations under finance leases	(303)	-	-	-	(303)
Borrowings	(4,640)	-	-	-	(4,640)
	(22,043)	49	-	(64)	(22,058)
Net current liabilities	(3,852)	49	-	(64)	(3,867)
Long term liabilities					
Performance related deferred consideration	(1,000)	103	-	-	(897)
Obligations under finance leases	(675)	-	-	-	(675)
Deferred tax liabilities	(290)	-	-	19	(271)
Borrowings	(6,312)	-	-	-	(6,312)
	(8,277)	103	-	19	(8,155)
Total liabilities	(30,320)	152	-	(45)	(30,213)
Net assets	15,888	(111)	-	(45)	15,732
Equity					
Share capital	750	-	-	-	750
Share premium account	12,004	-	-	-	12,004
Equity reserve	-	-	247	-	247
Merger reserve	1,738	-	-	-	1,738
Retained earnings	1,390	(111)	(247)	(45)	987
Total shareholders' equity	15,882	(111)	-	(45)	15,726
Minority interest	6	-	-	-	6
Total equity	15,888	(111)	-	(45)	15,732

Reconciliation of equity at 31 October 2006 (date of last Interim Report under UK GAAP)

	UK GAAP	UK GAAP adjustments	IFRS adjustment	IFRS adjustment	IFRS adjustment	IFRS
£000's	As previously reported	(Note a)	Share-based payments (Note b)	Derivatives (Note c)	Goodwill / Intangible assets (Note d)	As restated
Non current assets						
Goodwill	31,846	(469)	-	-	(290)	31,087
Intangible assets	3	-	-	-	1,175	1,178
Property, plant & equipment	10,264	-	-	-	-	10,264
Deferred tax asset	112	-	18	-	-	130
	42,225	(469)	18	-	885	42,659
Current assets						
Inventories	12,854	-	-	-	-	12,854
Trade and other receivables	23,699	-	-	-	-	23,699
Cash at bank	710	-	-	-	-	710
	37,263	-	-	-	-	37,263
Total assets	79,488	(469)	18	-	885	79,922
Current liabilities						
Trade and other payables	(23,734)	-	-	-	-	(23,734)
Performance related deferred consideration	(1,900)	18	-	-	-	(1,882)
Other financial liabilities	-	-	-	(49)	-	(49)
Current tax liabilities	(852)	-	-	-	-	(852)
Obligations under finance borrowings	(308)	-	-	-	-	(308)
	(16,463)	-	-	-	-	(16,463)
	(43,257)	18	-	(49)	-	(43,288)
Net current liabilities	(5,994)	18	-	(49)	-	(6,025)
Long term liabilities						
Performance related deferred consideration	(3,125)	250	-	-	-	(2,875)
Obligations under finance leases	(712)	-	-	-	-	(712)
Deferred tax liabilities	(392)	-	-	14	(353)	(731)
Borrowings	(3,143)	-	-	-	-	(3,143)
	(7,372)	250	-	14	(353)	(7,461)
Total liabilities	(50,629)	268	-	(35)	(353)	(50,749)
Net assets	28,859	(201)	18	(35)	532	29,173
Equity						
Share capital	1,071	-	-	-	-	1,071
Share premium account	22,634	-	-	-	-	22,634
Equity reserve	-	-	390	-	-	390
Merger reserve	3,229	-	-	-	-	3,229
Retained earnings	1,904	(201)	(372)	(35)	532	1,828
Total shareholders' equity	28,838	(201)	18	(35)	532	29,152
Minority interest	21	-	-	-	-	21
Total equity	28,859	(201)	18	(35)	532	29,173

Reconciliation of income for the 6 months ended 31 October 2006 (date of last Interim Report under UK GAAP)

£000's	UK GAAP As previously reported	UK GAAP adjustments (Note a)	IFRS adjustment Derivatives (Note c)	IFRS adjustment Goodwill / Intangible assets (Note d)	IFRS As restated
Revenue	38,222	-	-	-	38,222
Cost of sales	(28,735)	-	-	-	(28,735)
Gross profit	9,487	-	-	-	9,487
Distribution costs	(1,266)	-	-	-	(1,266)
Administrative expenses					
Amortisation of intangible assets	(660)	-	-	478	(182)
Share-based payment charge	(125)	-	-	-	(125)
Other administrative expenses	(6,050)	-	-	-	(6,050)
Operating profit	1,386	-	-	478	1,864
Finance costs	(491)	(90)	15	-	(566)
Profit on ordinary activities before taxation	895	(90)	15	478	1,298
Tax on profit on ordinary activities	(471)	-	(5)	54	(422)
Profit on ordinary activities after taxation	424	(90)	10	532	876
Minority interest	(20)	-	-	-	(20)
Profit for the period	404	(90)	10	532	856

Reconciliation of income for the year ended 30 April 2007 (date of last audited financial statements under UK GAAP)

£000's	UK GAAP As previously reported	UK GAAP adjustments (Note a)	IFRS adjustment Derivatives (Note c)	IFRS adjustment Goodwill / Intangible assets (Note d)	IFRS As restated
Revenue	94,945	-	-	-	94,945
Cost of sales	(68,862)	-	-	-	(68,862)
Gross profit	26,083	-	-	-	26,083
Distribution costs	(4,175)	-	-	-	(4,175)
Administrative expenses					
Amortisation of intangible assets	(1,371)	-	-	856	(515)
Share-based payment charge	(249)	-	-	-	(249)
Other administrative expenses	(14,265)	-	-	-	(14,265)
Operating profit	6,023	-	-	856	6,879
Finance costs	(1,039)	(169)	114	-	(1,094)
Profit on ordinary activities before taxation	4,984	(169)	114	856	5,785
Tax on profit on ordinary activities	(1,802)	-	(35)	155	(1,682)
Profit on ordinary activities after taxation	3,182	(169)	79	1,011	4,103
Minority interest	(2)	-	-	-	(2)
Profit for the period	3,180	(169)	79	1,011	4,101

Reconciliation of equity at 30 April 2007 (date of last audited financial statements under UK GAAP)

£000's	UK GAAP As previously reported	UK GAAP adjustments (Note a)	IFRS adjustment Share-based payments (Note b)	IFRS adjustment Derivatives (Note c)	IFRS adjustment Goodwill / Intangible assets (Note d)	IFRS As restated
Non current assets						
Goodwill	28,120	(469)	-	-	421	28,072
Intangible assets	2	-	-	-	842	844
Property, plant & equipment	10,747	-	-	-	-	10,747
Deferred tax asset	149	-	124	-	-	273
	39,018	(469)	124	-	1,263	39,936
Current assets						
Inventories	9,060	-	-	-	-	9,060
Trade and other receivables	16,857	-	-	-	-	16,857
Other financial assets	-	-	-	50	-	50
Cash at bank	3,712	-	-	-	-	3,712
	29,629	-	-	50	-	29,679
Total assets	68,647	(469)	124	50	1,263	69,615
Current liabilities						
Trade and other payables	(19,549)	-	-	-	-	(19,549)
Performance related deferred consideration	(214)	1	-	-	-	(213)
Current tax liabilities	(872)	-	-	-	-	(872)
Obligations under finance	(421)	-	-	-	-	(421)
Borrowings	(6,787)	-	-	-	-	(6,787)
	(27,843)	1	-	-	-	(27,842)
Net current assets	1,786	1	-	50	-	1,837
Long term liabilities						
Performance related deferred consideration	(1,850)	188	-	-	-	(1,662)
Obligations under finance leases	(417)	-	-	-	-	(417)
Deferred tax liabilities	(840)	-	-	(14)	(253)	(1,107)
Borrowings	(5,903)	-	-	-	-	(5,903)
	(9,010)	188	-	(14)	(253)	(9,089)
Total liabilities	(36,853)	189	-	(14)	(253)	(36,931)
Net assets	31,794	(280)	124	36	1,010	32,684
Equity						
Share capital	1,073	-	-	-	-	1,073
Share premium account	22,673	-	-	-	-	22,673
Equity reserve	-	-	621	-	-	621
Merger reserve	3,229	-	-	-	-	3,229
Retained earnings	4,819	(280)	(497)	36	1,010	5,088
Total shareholders' equity	31,794	(280)	124	36	1,010	32,684
Minority interest	-	-	-	-	-	-
Total equity	31,794	(280)	124	36	1,010	32,684

Notes to reconciliation between previously reported UK GAAP and IFRS

a UK GAAP adjustments

The following adjustment has been made as part of an overall accounting policies review conducted concurrently with the IFRS transition. It represents a UK GAAP adjustment and is not strictly an IFRS adjustment.

Deferred consideration

In the previously reported UK GAAP financial statements provisions for deferred consideration arising from business combinations were not discounted. The directors have amended this policy so that such provisions are recorded at their expected net present value with the unwinding of the discount included as a charge to the income statement. This treatment is consistent with FRS7 "Fair Values in Acquisition Accounting" under UK GAAP and also with IFRS3 "Business Combinations".

b Share-based payments

IFRS2 requires share-based payments to be charged to the income statement and credited to an equity reserve. In its UK GAAP financial statements the Group credited share-based payments to retained earnings. A reclassification has therefore been made from retained earnings into the equity reserve in order to comply with IFRS 2.

IAS12 requires that a deferred tax asset is recognised in respect of temporary differences arising from all share options and other incentives in respect of which the Group is expected to obtain a future tax benefit. Under UK GAAP, the Group recognised a deferred tax asset equal to the expected tax rate multiplied by the cumulative share-based payment charge in the Group's income statement. In order to comply with IAS12 an adjustment has been made to recognise deferred tax assets in respect of the temporary differences arising from all share-based incentives.

c Derivatives

The Group manages its exposure to interest rate and exchange rate fluctuations by entering into derivative financial instruments, including interest rate swaps and forward foreign exchange contracts. As required by IAS39, these financial instruments have been included at their fair value in the balance sheet of the Group. The movement in the fair value of these instruments has been charged or credited to the income statement and included within finance costs.

In accordance with IAS12, deferred tax assets or liabilities have been recognised in respect of the derivative liabilities and assets, with the movement in these items also accounted for through the income statement.

d Goodwill / intangible assets

Under IFRS3, goodwill is carried at cost subject to impairment review. The previous UK GAAP treatment was for goodwill to be amortised over its useful economic life. Under the transitional arrangements of IFRS1 the Group has exercised the option of applying IFRS3 prospectively from the date of transition to IFRS. Accordingly goodwill arising on acquisitions prior to 1 May 2006 is retained at its net book value at that date. However, for acquisitions subsequent to 1 May 2006 goodwill amortisation has been written back and the resultant goodwill balance subjected to an impairment review under IAS36. No impairments were identified.

IAS38 requires certain intangible assets acquired in business combinations since the date of transition to IFRS to be recognised in the balance sheet separately from goodwill and amortised over their useful economic lives. The directors have identified several customer relationships that on this basis should be treated as intangible assets. These assets have been recognised at their fair value and are being amortised over periods of between 1.5 and 3 years.

In accordance with IAS12, deferred tax liabilities have been recognised in respect of the customer relationship assets acquired in business combinations.