

**23 July 2008**

**Zetar Plc**  
**(“Zetar”, “the Company” or the “Group”)**

**Preliminary Results for the year ended 30 April 2008**

Zetar Plc, the AIM listed confectionery and snack foods group, announces its audited results for the year ended 30 April 2008.

**Financial highlights**

- Revenue and adjusted operating profit\* from continuing activities up by 12% to £106.0m (2007: £94.9m) and by 14% to £8.7m (2007: £7.6m) respectively
- Total revenue up 17% to £111.2m (2007: £94.9m)
- EBITDA\*\* up 8% to £10.0m (2007: £9.3m)
- Reported operating profit down 5% to £6.5m (2007: £6.9m)
- Adjusted operating profit\* up 3% to £7.8m (2007: £7.6m)
- Cash inflow from operations up 47% to £8.5m (2007: £5.8m)
- Good cash management held total net debt at 30 April 2008 to £14.6m (30 April 2007: £9.8m) following capital investment totalling £9.1m (including the acquisition of a production facility for Baked Snacks) to facilitate future growth (2007: £1.9m)
- Basic earnings per share down 28% to 29.5 pence (2007: 40.9 pence)
- Adjusted diluted earnings per share down 13% to 35.2 pence (2007: 40.5 pence)
- Excluding the adjusted post-tax losses at Baked Snacks, adjusted diluted earnings per share were up 5% to 42.5p

**Operational highlights**

- Entry into emerging healthier baked snacks market through The Baked Snacks Company, which incurred start-up adjusted operating losses of £0.9m in the eleven months to the year end
- Extension of Confectionery division product portfolio into growing luxury indulgent box chocolate market and Bailey’s brand chocolates through acquisition of Lir (Ireland)
- Solid start to the current year with sales in the first eleven weeks up 13%

*\* Adjusted operating profit represents operating profit before amortisation of intangible assets, share-based payment costs and non-recurring customer contract costs at Baked Snacks*

*\*\* Earnings before interest, taxation, depreciation and amortisation of intangible assets (EBITDA) is stated before share-based payment costs and non-recurring customer contract costs at Baked Snacks.*

Ian Blackburn, Chief Executive said:

“Given the tough market conditions, we are pleased with the good performance of Zetar’s core operations.

“For the foreseeable future the financial markets will make it difficult to grow the Group by acquisition. However, last year’s investment in manufacturing capacity and the Group’s entry into the emerging healthier baked snacks and growing luxury indulgent box chocolate sectors, as well as the addition of the Baileys licence for chocolate, will enable the Group to continue to grow organically. In the current year, attention will also focus on getting first profit contributions from Baked Snacks and Lir businesses.

“The Group has made a solid start to the year, despite the challenging trading environment, as we strive to create long term value for shareholders.”

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## **Chairman's Statement**

There is no doubt that the year ended 30 April 2008 has proved to be the Group's most challenging to date. The collapse in the credit markets last year, the knock on economic effects and the related negative stock market reaction have been, and are increasingly being, felt by all companies dependent upon consumer confidence, including those in the food sector. These and more company specific issues (discussed further below) have impacted the Company's value. Nevertheless the fall in the Company's share price from £5.69 per share at the date of my statement last year to £2.81 today is disappointing.

The Group's focus during the year under review was to build upon the excellent growth of its first two years whilst at the same time investing for the future. Both of these objectives have been achieved.

Firstly, I am pleased to be able to report that the sales and adjusted operating profit of the Group's continuing activities have increased by 12% to £106.0 million (2007: £94.9 million) and 14% to £8.7 million (2007: £7.6 million) respectively. These increases have been achieved despite general pressure on margins in a period of higher raw material costs and an early Easter depressing some seasonal Confectionery division sales.

Secondly, we have continued to invest in all of the Group's operations and also made important investments in new business lines. These investments have extended the Group's range of healthier snack products, enhanced its position in the luxury indulgent sector of the chocolate market and secured the licence to manufacture chocolates under the globally recognised Baileys brand.

Cash management has been a key focus throughout the year and, notwithstanding total capital investment of £9.1 million (including the purchase of the Baked Snacks factory for £4.5 million), total net debt at the year end was held to £14.6 million (30 April 2007: £9.8 million). We intend to maintain this focus on cash management as we work to grow the Group's customer base and product ranges.

The Group was founded to grow both organically and by acquisition. However, the currently depressed capital markets coupled with unchanged private vendor price aspirations mean that, at least in the short term, making accretive acquisitions will remain challenging.

However, the Board believes that the strong business established over the first three years of the Group's life and the on-going investments being made in the business provide the Group with an excellent platform for future organic growth.

Behind these results lies a lot of hard work from our management team and employees and I would like to thank every member of staff within the Group for their continued efforts and shareholders for their continued support.

The Group has made a solid start to the current year which, despite the challenging financial and trading environment, allows us to remain optimistic about its prospects.

**David Williams**  
**Non-executive Chairman**

## **Operational Review**

| <b>£m's</b>                             | <b>Year ended 30 April</b> |             |
|---|----------------------------|-------------|
|   | <b>2008</b>                | <b>2007</b> |
| <b>Sales</b>                            |                            |             |
| - continuing activities                 | 106.0                      | 94.9        |
| - acquisitions                          | 5.2                        | -           |
|   | <b>111.2</b>               | <b>94.9</b> |
| <b>Adjusted operating profit/(loss)</b> |                            |             |
| - continuing activities                 | 8.7                        | 7.6         |
| - acquisitions                          | (0.9)                      | -           |
|   | <b>7.8</b>                 | <b>7.6</b>  |

### **Overview**

The Group's third full year of operation has seen turnover exceed £100 million for the first time, increasing 17% to £111.2 million (2007: £94.9 million). Key to the Group's success is its continual focus on innovation, allowing us to offer a wider portfolio of products to customers and consumers. The launch of more than 400 new products in the year helped sales from continuing activities to grow by 12%.

Adjusted operating profit of £7.8 million (2007: £7.6 million) was struck after writing off £0.9 million of start-up losses relating to Baked Snacks and, therefore, masks a robust performance from continuing activities, which increased adjusted operating profits by 14% to £8.7 million (2007: £7.6 million). In common with many other businesses, the Group experienced increasing costs of raw materials and services, including, in particular, energy and transport costs, as well as other indirect costs across all its operations. As the year progressed, stocks and forward commitments were consumed and the Group increasingly sought to recover its higher costs through price increases. Accordingly, the adjusted operating margin for the Group's continuing activities was maintained at 8%.

The Group's continuing activities achieved record levels of sales and profits. We believe this clearly demonstrates the success of the Zetar business model of identifying entrepreneur and family run businesses operating in the more dynamic sectors of our target markets that can benefit from access to the Group's wider distribution channels, production and development expertise, as well as capital.

A combination of increased borrowings to fund the investment in Baked Snacks and higher than anticipated LIBOR interest rates, caused by the difficulties in credit markets, has increased the Group's financing charges. As a result, adjusted basic earnings per share decreased 15% to 40.1 pence (2007: 47.2 pence), and adjusted diluted earnings per share decreased 13% to 35.2 pence (2007: 40.5 pence). Excluding the adjusted post-tax losses at Baked Snacks, adjusted diluted earnings per share were up 5% to 42.5p. The Board is confident that the businesses acquired during the year will make positive contributions to the Group's earnings.

The current market environment is making it more difficult to expand the Group by acquisition. It is, therefore, even more important to ensure that our existing businesses are fully invested and continue to be able to grow profitably. To this end, more than £9.1 million was invested during the year, including completely new factories for HHF and Baked Snacks, a major increase in capacity at Readifoods and the commencement of a major extension and automation project at Lir in order to increase its capacity and productivity.

## Confectionery division

| £m's   | Year ended 30 |            |
|--|---------------|------------|
|  | 2008          | April 2007 |
| Sales from continuing activities                     | 65.3          | 61.4       |
| Adjusted operating profit from continuing activities | 5.6           | 5.2        |

In the year ended 30 April 2008, the Confectionery division's continuing activities, including HHF for a full year, contributed sales of £65.3 million (2007: £61.4 million) and adjusted operating profit of £5.6 million (2007: £5.2 million). These results represent another year of progress for the division, particularly reflecting a good performance from HHF which gained new retail customers from Kinnerton's distribution structure.

Strategically, the division realised its objective of diversifying its product portfolio and expanding into the adult and premium sectors of the chocolate market, which we believe provide key opportunities for future growth. This product diversification was achieved by the acquisition of Lir, which is referred to in the "Acquisitions" section of this operational review.

The division continues to drive innovation in relatively niche areas, focussing on our licensed brands (Baileys and Kinnerton characters), private label for key retailers in the UK and abroad and third party manufacturing. Our ever changing and re-invented product range allowed us some insulation against recent increases in raw material and utility prices and customers' increasing margin demands. The Board will continue to invest in manufacturing flexibility and excellence which it believes will keep the division competitive.

### ***Kinnerton***

We continued to invest in the Fakenham site in order to drive further efficiencies; previous investments in additional capacity and organic accreditation having proved fruitful in generating additional turnover. The character portfolio continued to perform well with the addition of new licences, such as High School Musical and Transformers, to a portfolio which already included Simpsons, Barbie, Thomas the Tank Engine, Winnie the Pooh and Spiderman. Competitive positioning of the right characters ensured that for Christmas 2007 Kinnerton was the UK market leader in terms of the number of chocolate advent calendars sold.

Easter 2008 occurred very early in the year, on 23 March, which generally depressed sales across the chocolate industry. Against this background, we are pleased to report that the Kinnerton brand had the highest percentage cash growth (source: Nielsen), ahead of both Lindt and Green & Black's, compared to the top three manufacturers who saw their share of the shell egg market decline. Private label sales also grew against a difficult backdrop, albeit by only 2%.

Sales to other manufacturers help to smooth out some of the seasonal demands made on the factory and we successfully broadened this customer base during the year. These sales are at lower margins but help in the recovery of overhead during periods of lower factory activity and, as such, remain an important strategic option. Export sales, particularly to the United States, continued to increase, despite sterling's strength versus the US dollar. We expect sales to the US to continue to grow. Kinnerton Australia continued to perform adequately.

Kinnerton's more developed infrastructure also acts as a resource for other members of the Group, for example in leveraging its character merchandising for our healthier snacking children's ranges and in advancing the trading relationships of new subsidiaries with the major retailers. Whilst it is difficult to quantify the impact, the Board believes that this platform is a valuable resource for the entire Group.

### ***Horsley, Hick & Flower (HHF)***

HHF, a manufacturer of premium chocolate covered fruit and nut products, has been successfully integrated into the division. The previous owners, who have a wealth of knowledge and experience in the manufacture of dragee products, continue to manage the business. In January 2008, HHF moved into a brand new 20,000 sq ft facility, just outside York. The capacity of the new factory is quadruple that of the original facility and meets the high standards demanded by UK supermarkets.

During the year, a range of private label products was launched with several new customers and there are more launches scheduled in the current financial year. By the end of the year HHF products will be found in most leading UK retailers. There is also potential for HHF to manufacture further products for the division's third party customers and for products to be included in Group branded ranges, such as Little Red Deli.

### **Natural & Premium Snacks division**

| <b>£m's</b>  | <b>Year ended 30</b> |                   |
|--|----------------------|-------------------|
|  | <b>2008</b>          | <b>April 2007</b> |
| Sales from continuing activities                     | 40.7                 | 33.5              |
| Adjusted operating profit from continuing activities | 3.1                  | 2.4               |

In the year ended 30 April 2008, the Natural & Premium Snacks division's continuing activities, including Humdinger for the full year, contributed sales of £40.7 million (2007: £33.5 million) and adjusted operating profit of £3.1 million (2007: £2.4 million). The division's successful year is a result of gaining new UK customers and winning new lines with some of the biggest supermarket retailers as consumer demand for tasty but healthier and nutritious snacks continues to increase. We are constantly working with our customers to introduce new and exotic varieties and to review their category ranges to ensure that they are consistent with these consumer trends.

During the year, the Humdinger and Readifoods managements were integrated into a unified team responsible for three production units, two in Hull and one in Heckington (Lincolnshire). Following the rapid growth of both businesses in recent years, a common management information system has been introduced and rolled out across the three sites to optimise operational efficiency and provide a robust platform to support continued growth.

In order to accommodate the significant volume increase experienced by the division, £1.0 million has been invested in additional capacity and packing options, as well as adding nut flavour and air roasting capabilities.

2007/8 was a difficult year as poor harvests in many countries caused unprecedented shortages of many dried fruits and nuts. The division's stock and policy of forward cover on many all year round volume products meant that we were able to protect our customers and consumers from significant price increases for the

first part of the year. However, product shortages and exceptionally high prices continued and, since the start of the 2008 calendar year, we have sought to pass on these cost increases. In the highly competitive UK market this is not always easy, particularly in a deteriorating economy. Nevertheless, the experience of our management team has enabled us to limit the number of out-of-stock situations for customers and to protect the quality of our business.

A principal objective for the division is to extend its current added-value snacking fruit options, to take advantage of the continuing consumer interest in healthier snacks. During the year, we finished assembling the infrastructure for the dedicated fruit bar production unit. Next year we aim to reduce unit cost of production by further automating manufacturing and packing. The “Humzinger” bar is now available in most leading retailers and accounted for 18% of the fruit bar sector last year (Source: Nielsen). New bar variants and other fruit snack products will be introduced to the market in the current year.

Most of the division’s sales are currently private label. Last year the division invested in two new brands – “Little Red Deli” and “Fruit Factory” - that will be launched this summer to address gaps in our distribution and to enhance existing brand strengths. Smaller retailers and export customers often require a brand, while larger retailers are sometimes unwilling to stock new products under their private label until volumes are known.

“Little Red Deli” has been created to offer premium fruit, nut, yoghurt and chocolate mixes to a wider, “grown-up” audience.

“Fruit Factory” has been conceived and developed as an umbrella brand to pull together a successful range of different fruit based snacks including bars, flakes, strings and those for children’s lunch boxes, thereby strengthening our existing portfolio of fruit snacking products and providing a stronger platform for new product development.

As we begin a new trading year these initiatives are expected to continue the division’s growth. Consumers and customers continue to look for tasty snack products that are nutritious and healthier. New listings of our core and new fruit snack lines, under both our brands and private label, have been gained for this summer and autumn. In addition, we have been able to harness the strengths of our combined operations in Hull and Heckington to commence the supply of eighteen lines of organic dried fruit and nuts to a European customer. More recently, our fruit bar operation has commenced deliveries of fruit bars with specially developed flavours for the US market.

## Acquisitions

| £m’s   | Year ended 30 April |      |
|--|---------------------|------|
|  | 2008                | 2007 |
| Sales from acquired activities                   | 5.2                 | -    |
| Adjusted operating loss from acquired activities | (0.9)               | -    |

In the year ended 30 April 2008 acquisitions, comprising Baked Snacks and Lir, contributed sales and adjusted operating losses of £5.2 million and £0.9 million.

## ***Baked Snacks***

The Board believes there is substantial long term potential for the development and growth in the healthier snacks market in general and the “baked not fried” snacks sector in particular. The healthier snacks sector is gaining market share within the overall snacks market and year on year growth amounted to 21% in the last fiscal year (Source: Worldpanel division of TNS 2008).

The Baked Snacks Company was established as a wholly owned subsidiary of the Group in May 2007 to exploit this opportunity and specifically to acquire the principal fixed assets and business of Britannia Biscuits Company (International) Limited, a company that had been set up to build a factory to produce low fat, low salt, savoury and sweet crisps and biscuits; but which had experienced financial difficulties. Since purchasing the factory, Zetar has invested a further £0.7 million to enhance the production and packing facilities and, in January 2008, to obtain organic accreditation.

The Baked Snacks business this year has, in effect, been a ‘start-up’. As expected, it incurred a loss during the year having maintained its operational infrastructure and manufacturing skills during a period of negligible turnover. During this period, the first production and packing lines were commissioned and initial product development programmes completed. However, the newly developed products were available later than originally planned, incurring a higher than expected loss of £0.9 million.

In January 2008, Baked Snacks successfully launched a range of private label organic biscuits and snacks into a major UK retailer and subsequently, several flavours of a savoury snack were launched for a global low calorie health brand in both the UK and Australia.

An encouraging level of interest continues to be shown by potential customers and, since June, Baked Snacks has launched products to several third party customers who distribute under their brands in France, Germany and the UK. The business is also poised to take advantage of the Group’s expertise in character confectionery by signing licences for Scooby Doo, The Simpsons, Barbie, Thomas the Tank Engine, The Mister Men and Marvel Heroes for the production and launch of healthier children’s snacks. The creation of portion controlled lunch box snacks that are low in saturated fats, targeted at 100 calories or less per portion and either green or amber on the Food Standard Agency’s Wheel of Health are market firsts and demonstrate the attributes that underpin Baked Snacks product development for children’s snacks.

Negotiations are also under way with several major retailers for private label ‘healthier eating’ opportunities and the business has received meaningful enquiries from a number of multi-national branded food producers looking to launch range extensions in both the UK and Export markets.

The process of establishing Baked Snacks and generating initial sales has taken longer and been more expensive than originally anticipated, but the Board believes that the prospects for the business remain un-diminished.

## ***Lir***

Lir, based in Navan (north of Dublin), has been a small, but high quality, manufacturer of premium Irish chocolates since 1987. More recently it has developed an initial range of Baileys luxury chocolates, including truffles, for sale under a brand licence with Diageo.

The acquisition of Lir in December 2007 extended the Confectionery division's products into branded and private label luxury box chocolates and added the Baileys chocolate licence for several European territories.

The Group intends to invest in this licence by introducing new products to the Baileys brand portfolio and to increase distribution significantly to new customers, particularly in export markets. A Baileys Easter egg, launched soon after completion of the acquisition, became the fifth largest brand in the premium egg market and this success bodes well for the planned range extensions in the current year.

Lir also places the division firmly in the adult premium boxed chocolate market for the first time and private label and organic offerings will accompany the more traditional Lir range of Premium Irish chocolates.

The Group has committed to an immediate £1.0 million investment programme to increase significantly the efficiency and capacity of its Irish factory. The investment includes new liquid chocolate holding tanks and handling capability, a major new moulding line and wrapping machinery, to be installed by this autumn.

The dramatic recent fall in the pound against the Euro has adversely affected Lir's UK sales capabilities. However, products are being re-engineered and investment in the factory will provide on-going efficiencies to counter the currency exchange impact.

### **Current trading and outlook**

Group sales in the first eleven weeks of the current year amounted to £14.0 million, an increase of 13% over the comparable period last year (2007: £12.4 million).

We recognise that current economic conditions will continue to provide a challenging trading environment for all Group businesses and that conditions in the capital markets, particularly for smaller companies, will significantly impact short term opportunities for acquisition led growth. The Group is fortunate in being able to fund its budgeted capital projects from its internal resources and its recently extended bank facilities. The Board's immediate focus is, therefore, on organic sales and profit growth and it is confident that, despite the challenging environment, the Group will continue to make progress in the current year.

## **Financial Review**

Total turnover has increased to £111.2 million (2007: £94.9 million); adjusted operating profit (before intangible asset amortisation, share-based payment charges, and non-recurring customer contract costs) was £0.2 million higher than last year at £7.8 million (2007: £7.6 million); and profit before tax was £1.0 million lower at £4.8 million (2007: £5.8 million). Excluding Baked Snacks' first period operating losses and related finance costs, profit before tax in 2008 increased by 8% to £6.2m. Non-recurring costs relate to significant costs incurred by Baked Snacks working on the development of a new product range for a potential customer. These costs were significantly higher than normal for development costs of a standard product. The launch did not proceed and these costs have been excluded from the adjusted results as they are not expected to recur.

Within total net finance costs, net interest payable and similar charges for the year amounted to £1.62 million (2007: £1.04 million). Net interest payable increased year on year by £0.6 million as a result of the new bank facilities arranged for the acquisition of the Baked Snacks business (£0.4 million) and the impact of the higher LIBOR-related interest rates experienced for much of the year after August 2007 (£0.2 million). Net interest was covered 4.8 times by adjusted operating profits (2007: 7.4 times) and 6.2 times by EBITDA (2007: 8.9 times).

### **Earnings per share**

The Group's adjusted basic earnings per share, including the impact of Baked Snacks' adjusted post-tax losses, were 40.1p (2007: 47.2p). Basic earnings per share were 29.5p (2007: 40.9p). Adjusted diluted earnings per share, reflecting the impact of potential ordinary shares from the exercise of options and warrants, were 35.2p (2007: 40.5p), reflecting the impact of Baked Snacks' results. Excluding Baked Snacks adjusted post-tax losses, adjusted diluted earnings per share were 42.5p.

### **Taxation**

The tax charge for the year was £1.5 million at an effective tax rate of 31.7% (2007: 29.1%) on total profit before tax. However, before the adjusting items set out in the income statement, the effective tax rate on adjusted profit before tax was 28.4% (2007: 28.4%). The net deferred taxation liability at 30 April 2008 was £1.3 million (2007: £1.1 million).

The UK government has announced its intention to abolish Industrial Buildings Allowances in a phased manner between the tax years 2008/9 and 2010/11. This measure had not been substantively enacted at 30 April 2008 and its expected future effects are therefore not permitted to be reflected in the Group's deferred tax liabilities at that date. If, as expected, the measure is enacted early in the Company's financial year ending 30 April 2009 then the tax charge will be impacted by a one-off charge of approximately £0.5 million, assuming that the government's current stated intentions are enacted in law.

### **Acquisition of Baked Snacks**

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; however the directors have assessed the fair value of this contingent consideration at nil. Baked Snacks acquired a substantially equipped

factory and some related inventories at fair values of £4.5 million and £0.2 million, respectively.

### **Acquisition of Lir**

On 17 December 2007 the Group completed the acquisition of Lir, for an initial consideration of €3.3 million (£2.4 million), comprising €3.0 million (£2.2 million) in cash and €0.3 million (£0.2 million) in Zetar Plc shares. Additional consideration of up to €4.0 million (£3.2 million) may become payable dependent upon the future financial performance of Lir for the three years ending 30 April 2009, 2010 and 2011. The directors have assessed the fair value of this contingent consideration, net of future discount charges, at €2.6 million (£2.1 million) which is provided in the balance sheet at 30 April 2008. Lir Chocolates was acquired towards the end of its principal Christmas trading period and hence, as expected, has not been a significant contributor to the 2007-08 results.

### **Equity funding**

In December 2007, 714,285 new shares were issued and placed with institutions at £5.60 per share to raise £4.0 million (£3.8 million net of costs of the issue) in connection with the funding for the Lir acquisition. In addition, the vendors of Lir were issued with 34,202 new Zetar Plc shares in partial settlement of the initial consideration payable. During the year 23,200 share options were exercised at £2.00 per share. In total, 771,687 shares have been issued in the year, increasing shareholders' equity by a total of £4.0 million (net of issue costs) and taking the number of total shares in issue at the year end to 11,505,395.

### **Cash flow**

The net cash generated from operating activities during the year was £8.5 million (2007: £5.8 million). Net working capital increased by £1.4 million during the year, reflecting the overall growth of the Group.

Net interest and similar charges paid in the year amounted to £1.65 million (2007: £1.36 million).

Payments of corporation tax during the year of £1.68 million (2007: £1.43 million) are higher than last year, reflecting the effects of the general growth of the Group and the requirement for acquired businesses to move into the quarterly tax payment on account regime for larger tax payers.

Capital expenditure during the year amounted to £4.6 million (£0.3 million of which was funded through finance leasing), plus £4.5 million for the purchase of Baked Snacks factory (2007: £1.9 million); contributing to the enhancement of manufacturing facilities and equipment to improve efficiency and capacity and accommodate production of new products. Further details are provided in the Operational Review.

### **Borrowings**

The Group's total net debt at 30 April 2008 amounted to £14.6 million (2007: £9.8 million), comprising net bank and other asset finance indebtedness. Within total net debt, £6.6 million (2007: £3.5 million) is due within one year (including net overdraft and cash at bank). During the year, all remaining loan notes issued to the vendors of the Kinnerton group and of Humdinger, together with accrued interest thereon, were redeemed in cash in accordance with the terms of these loan notes.

**Bank facilities**

At 30 April 2008, the Group's principal bank facilities comprised: a revolving credit / overdraft facility of £17 million (2007: £15 million), of which £10 million was unutilised; acquisition facilities, repayable by instalments over five years, with £7.2 million outstanding; and asset finance loans, repayable by instalments, over five years, with £3.2 million outstanding. These facilities have been provided by Barclays Bank PLC at rates between 0.75% and 2.00% above LIBOR. As yet unamortised costs at 30 April 2008 amounting to £167,000, associated with raising these facilities, are being written off over their respective five year lives. The Group also has various finance lease arrangements with £0.8 million outstanding at 30 April 2008, of which £0.6 million came with acquired businesses.

Since 30 April 2008, agreement has been reached in principle (subject only to finalisation of the relevant documentation) for the revolving credit / overdraft facility to be amended and increased to a total of up to £24.0 million by the partial substitution and addition of asset based lending facilities that vary seasonally with the Group's trade receivables and inventories (and hence are better matched to the Group's working capital requirements). These additional facilities, at rates between 1% and 2% above LIBOR, are primarily to fund the additional seasonal working capital requirements associated with the growth of the Group.

**International Financial Reporting Standards ("IFRS")**

This is the first year for which the Group has been required to present financial statements prepared under IFRS. As set out in more detail in the notes to the financial statements and previously in the October 2007 interim report, 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, inter alia, charges for amortisation of intangible assets.

Net assets as at 30 April 2007 have been increased under the IFRS presentation to £32.5 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.

**CONSOLIDATED INCOME STATEMENT**  
For the year ended 30 April 2008

| £'000  | Note     | 2008<br>Adjusted<br>results<br>(Note A) | 2008<br>Adjusting<br>items<br>(Note B) | 2008<br>Total  | 2007<br>Adjusted<br>results<br>(Note A) | 2007<br>Adjusting<br>items<br>(Note B) | 2007<br>Total |
|--|----------|---|--|----------------|---|--|---------------|
| <b>Revenue</b>                                       |          |   |  |                |   |  |               |
| Continuing operations                                |          | 106,001                                 | -                                      | 106,001        | 94,945                                  | -                                      | 94,945        |
| Acquisitions   |          | 5,229                                   | -                                      | 5,229          | -                                       | -                                      | -             |
| <b>Total revenue</b>                                 | <b>2</b> | <b>111,230</b>                          | <b>-</b>                               | <b>111,230</b> | <b>94,945</b>                           | <b>-</b>                               | <b>94,945</b> |
| Cost of sales  |          | (85,656)                                | (203)                                  | (85,859)       | (71,111)                                | -                                      | (71,111)      |
| <b>Gross profit</b>                                  |          | <b>25,574</b>                           | <b>(203)</b>                           | <b>25,371</b>  | <b>23,834</b>                           | <b>-</b>                               | <b>23,834</b> |
| Distribution costs                                   |          | (5,113)                                 | -                                      | (5,113)        | (4,175)                                 | -                                      | (4,175)       |
| Administrative expenses:                             |          |   |  |                |   |  |               |
| Amortisation of intangible assets                    |          | -                                       | (675)                                  | (675)          | -                                       | (515)                                  | (515)         |
| Share-based payment charges                          |          | -                                       | (377)                                  | (377)          | -                                       | (249)                                  | (249)         |
| Other administrative expenses                        |          | (12,693)                                | -                                      | (12,693)       | (12,016)                                | -                                      | (12,016)      |
| <b>Operating profit</b>                              |          |   |  |                |   |  |               |
| Continuing operations                                |          | 8,724                                   | (1,052)                                | 7,672          | 7,643                                   | (764)                                  | 6,879         |
| Acquisitions   |          | (956)                                   | (203)                                  | (1,159)        | -                                       | -                                      | -             |
|  | <b>2</b> | <b>7,768</b>                            | <b>(1,255)</b>                         | <b>6,513</b>   | <b>7,643</b>                            | <b>(764)</b>                           | <b>6,879</b>  |
| Interest income                                      | <b>3</b> | 116                                     | -                                      | 116            | 90                                      | -                                      | 90            |
| Finance costs  | <b>3</b> | (1,733)                                 | (144)                                  | (1,877)        | (1,129)                                 | (55)                                   | (1,184)       |
| <b>Profit on ordinary activities before taxation</b> |          | <b>6,151</b>                            | <b>(1,399)</b>                         | <b>4,752</b>   | <b>6,604</b>                            | <b>(819)</b>                           | <b>5,785</b>  |
| Tax on profit on ordinary activities                 | <b>4</b> | (1,747)                                 | 240                                    | (1,507)        | (1,877)                                 | 195                                    | (1,682)       |
| <b>Profit on ordinary activities after taxation</b>  |          | <b>4,404</b>                            | <b>(1,159)</b>                         | <b>3,245</b>   | <b>4,727</b>                            | <b>(624)</b>                           | <b>4,103</b>  |
| Attributable to:                                     |          |   |  |                |   |  |               |
| Equity holders of the parent                         |          | <b>4,404</b>                            | <b>(1,159)</b>                         | <b>3,245</b>   | <b>4,725</b>                            | <b>(624)</b>                           | <b>4,101</b>  |
| Minority interest                                    |          | -                                       | -                                      | -              | 2                                       | -                                      | 2             |
|  |          | <b>4,404</b>                            | <b>(1,159)</b>                         | <b>3,245</b>   | <b>4,727</b>                            | <b>(624)</b>                           | <b>4,103</b>  |
| Basic earnings per share                             | <b>5</b> |   |  | 29.5           |   |  | 40.9          |
| Diluted earnings per share                           | <b>5</b> |   |  | 25.9           |   |  | 35.3          |
| Adjusted basic earnings per share                    | <b>5</b> | 40.1                                    |  |                | 47.2                                    |  |               |
| Adjusted diluted earnings per share                  | <b>5</b> | 35.2                                    |  |                | 40.5                                    |  |               |

**Note A** - Excluding the items set out in Note B

**Note B** - Includes amortisation of intangible assets, non-recurring customer contract costs, share-based payments, discount charges on contingent consideration provisions and changes in the market value of derivatives, together with the related tax effects. These items are set out in note 5.

**CONSOLIDATED BALANCE SHEET**  
As at 30 April 2008

| £'000  | Note | 2008            | 2007            |
|--|------|-----------------|-----------------|
| <b>Non-current assets</b>  |      |                 |                 |
| Goodwill   | 7    | 32,363          | 28,120          |
| Other intangible assets  |      | 1,002           | 844             |
| Property, plant and equipment                                    |      | 18,545          | 10,747          |
| Deferred tax asset   |      | 167             | 273             |
|  |      | 52,077          | 39,984          |
| <b>Current assets</b>  |      |                 |                 |
| Inventories  |      | 13,364          | 9,060           |
| Trade and other receivables                                      |      | 15,253          | 16,857          |
| Derivative financial instruments                                 |      | 72              | 50              |
| Cash at bank   |      | 3,175           | 3,712           |
|  |      | 31,864          | 29,679          |
| <b>Total assets</b>  |      | <b>83,941</b>   | <b>69,663</b>   |
| <b>Current liabilities</b>                                       |      |                 |                 |
| Trade and other payables   |      | (20,337)        | (19,549)        |
| Performance related contingent consideration                     |      | (876)           | (213)           |
| Current tax liabilities  |      | (687)           | (872)           |
| Obligations under finance leases                                 | 8    | (470)           | (421)           |
| Borrowings and overdrafts  | 9    | (9,289)         | (6,787)         |
|  |      | (31,659)        | (27,842)        |
| <b>Net current assets</b>  |      | <b>205</b>      | <b>1,837</b>    |
| <b>Non-current liabilities</b>                                   |      |                 |                 |
| Performance related contingent consideration                     |      | (2,555)         | (1,662)         |
| Deferred tax liabilities   |      | (1,448)         | (1,329)         |
| Obligations under finance leases                                 | 8    | (369)           | (417)           |
| Borrowings   | 9    | (7,609)         | (5,903)         |
|  |      | (11,981)        | (9,311)         |
| <b>Total liabilities</b>   |      | <b>(43,640)</b> | <b>(37,153)</b> |
| <b>Net assets</b>  |      | <b>40,301</b>   | <b>32,510</b>   |
| <b>Equity</b>  |      |                 |                 |
| Share capital  | 10   | 1,151           | 1,073           |
| Share premium account  | 11   | 26,449          | 22,673          |
| Merger reserve   |      | 3,411           | 3,229           |
| Equity reserve   | 12   | 1,431           | 621             |
| Retained earnings  | 12   | 7,859           | 4,914           |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>40,301</b>   | <b>32,510</b>   |

**CONSOLIDATED CASH FLOW STATEMENT**  
**For the year ended 30 April 2008**

| <b>£'000</b>  | <b>2008</b>     | <b>2007</b>     |
|---|-----------------|-----------------|
| <b>Cash flow from operating activities</b>                    |                 |                 |
| Profit on ordinary activities before taxation                 | 4,752           | 5,785           |
| Interest income   | (116)           | (90)            |
| Finance costs   | 1,877           | 1,184           |
| Depreciation (including trademark amortisation)               | 2,271           | 1,651           |
| Amortisation charges (re customer relationships acquired)     | 675             | 515             |
| Loss on sale of plant and equipment                           | 6               | 17              |
| Share-based payment charge                                    | 377             | 249             |
| Net movement in working capital                               | (1,394)         | (3,497)         |
| Increase in inventories                                       | (2,966)         | (934)           |
| Decrease / (increase) in receivables                          | 3,443           | (1,378)         |
| Decrease in payables  | (1,871)         | (1,185)         |
| <b>Cash generated from operations</b>                         | <b>8,448</b>    | <b>5,814</b>    |
| Net interest paid   | (1,646)         | (1,356)         |
| Tax paid  | (1,682)         | (1,425)         |
| <b>Net cash flow from operating activities</b>                | <b>5,120</b>    | <b>3,033</b>    |
| <b>Cash flow from investing activities</b>                    |                 |                 |
| Purchase of property, plant and equipment                     | (4,266)         | (1,902)         |
| Proceeds from sale of plant and equipment                     | 26              | 40              |
| Total cash impact of acquisitions                             | (8,433)         | (10,999)        |
| Acquisitions of businesses                                    | (7,514)         | (9,782)         |
| Net borrowings assumed on acquisition                         | (919)           | (1,217)         |
| <b>Net cash outflow from investing activities</b>             | <b>(12,673)</b> | <b>(12,861)</b> |
| <b>Cash flows from financing activities</b>                   |                 |                 |
| Net proceeds from issue of ordinary share capital             | 3,851           | 10,955          |
| Purchase of own shares  | (300)           | -               |
| Proceeds from new borrowings                                  | 5,000           | 5,523           |
| Repayment of borrowings                                       | (4,819)         | (6,258)         |
| Finance lease repayments                                      | (472)           | (375)           |
| Minority interest dividends paid                              | -               | (8)             |
| <b>Net cash flow from financing activities</b>                | <b>3,260</b>    | <b>9,837</b>    |
| <b>Net (decrease) / increase in cash and cash equivalents</b> | <b>(4,293)</b>  | <b>9</b>        |
| Cash and cash equivalents at beginning of the year            | 917             | 908             |
| Effect of foreign exchange rate movements                     | 45              | -               |
| <b>Cash and cash equivalents at end of the year</b>           | <b>(3,331)</b>  | <b>917</b>      |
| <b>Cash and cash equivalents comprise:</b>                    |                 |                 |
| Cash at bank  | 3,175           | 3,712           |
| Bank overdraft  | (6,506)         | (2,795)         |
|   | <b>(3,331)</b>  | <b>917</b>      |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 April 2008**

| £'000   | Attributable to equity holders of the parent |                       |                |                |                   |                   | Total         |
|---|--|-----------------------|----------------|----------------|-------------------|-------------------|---------------|
|   | Share capital                                | Share premium account | Merger reserve | Equity reserve | Retained earnings | Minority interest |               |
| <b>Year ended 30 April 2007</b>                   |  |                       |                |                |                   |                   |               |
| Deferred tax on share-based payments              | -  | -                     | -              | 125            | -                 | -                 | 125           |
| Net income recognised directly in equity          | -  | -                     | -              | 125            | -                 | -                 | 125           |
| Profit for the year                               | -  | -                     | -              | -              | 4,101             | 2                 | 4,103         |
| Total recognised income and expense for the year  | -  | -                     | -              | 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            | 813               | 6                 | 15,558        |
| <b>Balance at 30 April 2007</b>                   | <b>1,073</b>                                 | <b>22,673</b>         | <b>3,229</b>   | <b>621</b>     | <b>4,914</b>      | <b>-</b>          | <b>32,510</b> |
| <b>Year ended 30 April 2008</b>                   |  |                       |                |                |                   |                   |               |
| Deferred tax on share-based payments              | -  | -                     | -              | (124)          | -                 | -                 | (124)         |
| Exchange gain on translation of foreign operation | -  | -                     | -              | 557            | -                 | -                 | 557           |
| Net income recognised directly in equity          | -  | -                     | -              | 433            | -                 | -                 | 433           |
| Profit for the year                               | -  | -                     | -              | -              | 3,245             | -                 | 3,245         |
| Total recognised income and expense for the year  | -  | -                     | -              | 433            | 3,245             | -                 | 3,678         |
| Share-based payment charge                        | -  | -                     | -              | 377            | -                 | -                 | 377           |
| Issue of new ordinary shares                      | 78   | 3,776                 | 182            | -              | -                 | -                 | 4,036         |
| Purchase of own shares                            | -  | -                     | -              | -              | (300)             | -                 | (300)         |
| Balance at 1 May 2007                             | 1,073  | 22,673                | 3,229          | 621            | 4,914             | -                 | 32,510        |
| <b>Balance at 30 April 2008</b>                   | <b>1,151</b>                                 | <b>26,449</b>         | <b>3,411</b>   | <b>1,431</b>   | <b>7,859</b>      | <b>-</b>          | <b>40,301</b> |

The minority interest was in Access Far East Limited. The business of this company was transferred to Kinnerton (Confectionery) Company Limited during 2007, which also purchased the minority interest.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 April 2008**

**1. BASIS OF PREPARATION**

The financial information in this announcement does not constitute the Group's statutory accounts for the years ended 30 April 2008 or 2007. The preliminary results for the year ended 30 April 2008 have been extracted from audited consolidated financial statements which have not yet been delivered to the Registrar of Companies. The auditors have reported on the Group's statutory accounts for the year ended 30 April 2008. The report was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The consolidated financial statements of Zetar Plc have been prepared in accordance with International Financial Reporting Standards ("IFRS's") as endorsed by the European Union, International Financial Reporting Interpretation Committee ("IFRIC") interpretations, and the Companies Act 1985 applicable to Companies reporting under IFRS and on the historical cost basis with the exception of derivative financial instruments and share based payments, that are incorporated using fair value. The financial information for the year ended 30 April 2007 is derived from the statutory accounts for that year except for restatements in respect of the transition to IFRS, substantially all of which are as set out in the Group's interim report for the six months ended 31 October 2007. Since the publication of the Group's interim report, a further IFRS transitional adjustment has been made regarding the recognition of deferred tax liabilities in respect of the carrying amounts of property, plant and equipment, which do not qualify for tax allowances and which were acquired by the Group by the way of business combinations. This adjustment has no impact on the reported results for the year ended 30 April 2007, but reduces retained profit and total equity by £174,000 at 30 April 2007 and 2006. In addition, without impacting the net result for the year ended 30 April 2007, certain direct costs of production totalling £2,249,000, which were previously included as administrative expenses within the results of one of the Group's subsidiary companies acquired in that year, have been reclassified as cost of sales to accord with the consistent treatment across the Group reported for the year ended 30 April 2008. The Group's statutory accounts include full details of these restatements, including the IFRS transitional adjustments previously set out in the Group's interim report for the six months ended 31 October 2007.

## 2. SEGMENTAL INFORMATION

For management purposes, the Group is organised into two divisions: Confectionery; and Natural & Premium Snacks. These divisions are the basis on which the group reports its primary segment information.

| Segment revenue and results            | Revenue       |               | Adjusted operating profit |               | Total results |
|--|---------------|---------------|---------------------------|---------------|---------------|
|  | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000             | 2007<br>£'000 | 2007<br>£'000 |
| Confectionery                          | 68,481        | 61,417        | 5,634                     | 5,226         | 4,969         |
| Natural & Premium Snacks               | 42,749        | 33,528        | 2,134                     | 2,417         | 1,910         |
|  | 111,230       | 94,945        | 7,768                     | 7,643         | 6,879         |
| Finance costs (net of interest income) |               |               |                           | (1,761)       | (1,094)       |
| Profit before tax                      |               |               |                           | 4,752         | 5,785         |
| Tax                                    |               |               |                           | (1,507)       | (1,682)       |
| Profit for the year                    |               |               |                           | 3,245         | 4,103         |

| Segment assets and liabilities | Segment total assets |               | Segment total liabilities |               |
|--------------------------------|----------------------|---------------|---------------------------|---------------|
|                                | 2008<br>£'000        | 2007<br>£'000 | 2008<br>£'000             | 2007<br>£'000 |
| Confectionery                  | 50,981               | 46,743        | 29,078                    | 23,502        |
| Natural & Premium Snacks       | 32,531               | 27,984        | 19,256                    | 9,838         |
| Total of all segments          | 83,512               | 74,727        | 48,334                    | 33,340        |
| Net unallocated (i)            | 429                  | (5,064)       | (4,694)                   | 3,813         |
| Eliminations                   | (11,532)             | (6,488)       | (11,532)                  | (6,488)       |
| Unallocated                    | 11,961               | 1,424         | 6,838                     | 10,301        |
| Consolidated                   | 83,941               | 69,663        | 43,640                    | 37,153        |

(i) Net unallocated assets and liabilities principally comprise centrally held assets and liabilities (which mainly include sundry receivables and bank loans), together with derivative financial instrument balances, intra-group debt, and deferred tax assets on share-based payments and derivative financial instruments.

| Other segment information | Depreciation and amortisation |               | Fixed asset additions |               |
|---------------------------|-------------------------------|---------------|-----------------------|---------------|
|                           | 2008<br>£'000                 | 2007<br>£'000 | 2008<br>£'000         | 2007<br>£'000 |
| Confectionery             | 1,666                         | 1,354         | 2,607                 | 1,575         |
| Natural & Premium Snacks  | 1,280                         | 812           | 1,950                 | 327           |
| Consolidated              | 2,946                         | 2,166         | 4,557                 | 1,902         |

## Geographical segments

The Group operates in four geographical areas - the United Kingdom, Europe, Australasia and the Rest of the World. The Group's revenue from external customers and its segment assets by geographical location are detailed below. Revenue from external customers is segmented by the geographical destination of sales and assets are segmented by their location.

|                   | Revenue from external customers |               | Segment assets |               | Acquisition of segment assets * |               |
|-------------------|---------------------------------|---------------|----------------|---------------|---------------------------------|---------------|
|                   | 2008<br>£'000                   | 2007<br>£'000 | 2008<br>£'000  | 2007<br>£'000 | 2008<br>£'000                   | 2007<br>£'000 |
| United Kingdom    | 99,795                          | 88,164        | 73,915         | 68,237        | 4,777                           | 12,684        |
| Europe            | 3,265                           | 2,570         | 9,025          | -             | 4,808                           | -             |
| Australasia       | 2,741                           | 2,450         | 984            | 1,407         | -                               | -             |
| Rest of the World | 5,429                           | 1,761         | 17             | 19            | -                               | -             |
|                   | <u>111,230</u>                  | <u>94,945</u> | <u>83,941</u>  | <u>69,663</u> | <u>9,585</u>                    | <u>12,684</u> |

\* Acquisition of segment assets comprises the fair value of net assets acquired, including the value of goodwill and intangible assets, arising on acquisitions during the year.

## 3. FINANCE COSTS AND INCOME

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <i>Finance costs</i>  |               |               |
| Interest payable on bank borrowings (including amortisation of issue costs)                               | 1,666         | 660           |
| Interest payable on obligations under finance leases  | 67            | 64            |
| Interest payable on loan notes  | -             | 405           |
| Total interest payable  | <u>1,733</u>  | <u>1,129</u>  |
| Unwinding of discount on provision for contingent consideration   | 166           | 169           |
| Change in fair value of financial assets / liabilities designated as at fair value through profit or loss | (22)          | (114)         |
| Net finance costs   | <u>1,877</u>  | <u>1,184</u>  |
| <i>Interest income</i>  |               |               |
| Interest revenue on bank deposits   | (116)         | (90)          |

#### 4. TAX

|  | <b>2008</b>  | <b>2007</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| <b>Current tax</b>   |              |              |
| UK corporation tax on profits for the period                                 | 1,444        | 1,510        |
| Adjustments in respect of prior periods                                      | 59           | (88)         |
| <hr/>  |              |              |
| Total current tax  | 1,503        | 1,422        |
| <b>Deferred tax</b>  |              |              |
| Origination and reversal of temporary differences                            | 4            | 260          |
| <hr/>  |              |              |
| <b>Tax on profit on ordinary activities</b>                                  | <b>1,507</b> | <b>1,682</b> |
| <hr/>  |              |              |
| <b>Reconciliation of tax charge</b>  |              |              |
| <hr/>  |              |              |
| Profit before tax  | 4,752        | 5,785        |
| <hr/>  |              |              |
| Tax at the UK corporation tax rate of 29.8% (2007: 30.0%)                    | 1,416        | 1,736        |
| Adjustments in respect of prior periods                                      | 59           | (88)         |
| Non taxable income / deductible costs not in income statement                | (34)         | -            |
| Tax effect of expenses that are not deductible in determining taxable profit | 113          | 86           |
| Utilisation of tax losses  | (47)         | (52)         |
| <hr/>  |              |              |
| <b>Tax expense for the period</b>  | <b>1,507</b> | <b>1,682</b> |
| <hr/>  |              |              |

The UK government has announced its intention to abolish Industrial Buildings Allowances in a phased manner between the tax years 2008/9 and 2010/11. This measure had not been substantively enacted at 30 April 2008 and its expected future effects are therefore not permitted to be reflected in the Group's deferred tax liabilities at that date. If, as expected, the measure is enacted early in the company's financial year ended 30 April 2009 then the tax charge will be impacted by a one-off charge of approximately £500,000, assuming that the government's current stated intentions are enacted in law.

## 5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

|                                     | 2008               |  |                          | 2007               |  |                          |
|-------------------------------------|--------------------|--|--------------------------|--------------------|--|--------------------------|
|                                     | Earnings<br>£'000s | Weighted<br>average<br>no. of<br>shares<br>000's | Per share<br>amount<br>p | Earnings<br>£'000s | Weighted<br>average<br>no. of<br>shares<br>000's | Per share<br>amount<br>p |
| Basic earnings per share            | 3,245              | 10,984   | 29.5                     | 4,101              | 10,015   | 40.9                     |
| Diluted earnings per share          | 3,245              | 12,515   | 25.9                     | 4,285              | 12,128   | 35.3                     |
| Adjusted basic earnings per share   | 4,404              | 10,984   | 40.1                     | 4,725              | 10,015   | 47.2                     |
| Adjusted diluted earnings per share | 4,404              | 12,515   | 35.2                     | 4,909              | 12,128   | 40.5                     |

Reconciliations between the various weighted average number of shares shown above are as follows:

| Weighted average number of:                                   | Year-ended 30 April 2008 |                            | Year-ended 30 April 2007 |                            |
|---|--------------------------|----------------------------|--------------------------|----------------------------|
|   | Basic earnings per share | Diluted earnings per share | Basic earnings per share | Diluted earnings per share |
| Ordinary shares   | 10,984,268               | 10,984,268                 | 10,015,526               | 10,015,526                 |
| Options (vested)  | -                        | 1,180,503                  | -                        | 1,110,057                  |
| Options (non-vested)  | -                        | 310,422                    | -                        | 272,199                    |
| Shares held by the Zetar Plc EBT                              | -                        | 40,130                     | -                        | -                          |
| Loan notes  | -                        | -                          | -                        | 729,934                    |
| Weighted average number of shares used for earnings per share | 10,984,268               | 12,515,323                 | 10,015,526               | 12,127,716                 |

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 year. Diluted earnings per share is calculated by adjusting the weighted average number of 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.

The earnings used for the diluted earnings per share in 2007 are after adding back the interest paid on convertible loan notes (net of tax) of £184,000 to the earnings base. The loan notes were redeemed in full in April 2007 and thus have no impact on the earnings per share for 2008.

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 provides shareholders with further information regarding trends in the Group's results.

The earnings used in the calculation of adjusted earnings per share are after adding back the following expenses / (income):

| <b>Items excluded from adjusted earnings</b>           | <b>2008</b>  | <b>2007</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| Amortisation of intangible assets                      | 675          | 515          |
| Share-based payments                                   | 377          | 249          |
| Non-recurring customer contract costs                  | 203          | -            |
| Discount charge on contingent consideration provisions | 166          | 169          |
| Change in market value of derivatives                  | (22)         | (114)        |
| Tax credit relating to the above items                 | (240)        | (195)        |
|  | <b>1,159</b> | <b>624</b>   |

## **6. BUSINESS COMBINATIONS**

### **The Baked Snacks Company Limited**

On 23 May 2007, via The Baked Snacks Company Limited ("Baked Snacks"), a newly incorporated subsidiary of the Group, the Group acquired the assets and business of Britannia Biscuit Company (International) Limited for an initial cash consideration of £4.7m. Additional consideration may become payable depending on the results of the business for the three years ending 30 September 2010. Baked Snacks acquired a factory, including its plant and machinery, and a small amount of related inventories at provisional fair values of £4.5m and £0.2m respectively. Professional fees and costs of £77,000 have been included in the cost of the business combination.

The net cash outflow arising from this acquisition was £4.8m. Baked Snacks contributed revenue of £2.0m and total operating losses of £1.2m in the year ended 30 April 2008, of which £0.2m related to non-recurring customer contract costs.

As the acquisition was completed during May 2007, when the business had low activity levels, there would have been no significant changes to Group revenue or operating profit had the acquisition been completed on 1 May 2007.

### **Lir Chocolates Limited**

On 17 December 2007, the Group acquired the entire issued share capital of Lir Chocolates Limited ("Lir"), a company engaged in chocolate manufacturing in the Republic of Ireland. The consideration payable was a maximum of €8.0m (£5.7m), comprising initial cash consideration of €3.3m (£2.4m), of which €3.0m (£2.2m) was in cash and €0.3m (£0.2m) in Zetar Plc shares; and contingent consideration of up to €4.7m (£3.3m) dependent on the financial results of Lir in the four years ending 30 April 2011. The provisional fair value of the contingent consideration has been estimated by the directors to be €2.6m (£2.1m).

The book value and provisional fair value of the net assets acquired and the goodwill arising are as follows:

|  | <b>Carrying<br/>amount before<br/>acquisition</b> | <b>Fair value<br/>adjustments</b> | <b>Provisional<br/>fair value</b> |
|--|---|-----------------------------------|-----------------------------------|
|  | <b>£'000</b>                                      | <b>£'000</b>                      | <b>£'000</b>                      |
| <b>Net assets acquired</b>                           |   |                                   |                                   |
| Intangible assets                                    | 85  | 674                               | 759                               |
| Property, plant and equipment                        | 962   | (56)                              | 906                               |
| Inventories  | 1,272   | (183)                             | 1,089                             |
| Trade and other receivables                          | 1,648   | 53                                | 1,701                             |
| Cash and cash equivalents                            | 105   | -                                 | 105                               |
| Trade and other payables                             | (2,286)   | (177)                             | (2,463)                           |
| Bank overdraft                                       | (1,024)   | -                                 | (1,024)                           |
| Finance leases and redeemable preference shares      | (498)   | -                                 | (498)                             |
| Deferred tax liabilities                             | -   | (92)                              | (92)                              |
|  | 264   | 219                               | 483                               |
| Consideration  |   |                                   | (4,808)                           |
| Comprising the fair value of:                        |   |                                   |                                   |
| Initial cash consideration                           |   |                                   | (2,227)                           |
| Zetar Plc shares issued to the vendors at completion |   |                                   | (185)                             |
| Contingent consideration                             |   |                                   | (2,102)                           |
| Acquisition costs                                    |   |                                   | (294)                             |
| Goodwill arising                                     |   |                                   | 4,325                             |
| Net cash outflow:                                    |   |                                   |                                   |
| Cash and cash equivalents acquired                   |   |                                   | 105                               |
| Bank overdraft assumed                               |   |                                   | (1,024)                           |
| Initial cash consideration paid                      |   |                                   | (2,227)                           |
| Acquisition costs                                    |   |                                   | (294)                             |
|  |   |                                   | (3,440)                           |

The fair value adjustments related principally to the recognition of intangible assets for customer relationships which were not recognised in the accounts of the acquiree, together with the related taxation adjustments.

The initial accounting for the acquisition of Lir was determined provisionally having regard to the timing of the acquisition within six months of the Group's year end and the extent of the contingent considerations.

The goodwill arising on the acquisition of Lir is attributable to the anticipated profitability and future operating synergies arising from the utilisation of the Group's sales channels and relationships to further the penetration of the Lir and Bailey's brands into the UK retailers market. The goodwill also relates to the intrinsic value of Lir's assembled workforce and business infrastructure.

Lir contributed revenue of £3.2m and operating profit of £nil during the year ended 30 April 2008. If the acquisition of Lir had taken place on 1 May 2007, Group revenue would have been £115m and Group adjusted operating profit would have been £7.5m.

Performance related contingent consideration in relation to the previous acquisitions of Readifoods and Horsley Hick & Flower is also payable within the next two years, dependent on the results of these businesses. Performance related contingent consideration of £0.2m was paid during the year ended 30 April 2008 in connection with the acquisition of Readifoods.

## 7. GOODWILL

| <b>Cost and carrying amount</b>  | <b>£'000</b>  |
|--|---------------|
| At 1 May 2006  | 18,654        |
| Recognised on acquisition of subsidiaries                              | 9,752         |
| Adjustment to contingent consideration payable                         | (286)         |
| <b>At 30 April 2007</b>  | <b>28,120</b> |
| Recognised on acquisition of subsidiaries                              | 4,402         |
| Adjustment to contingent consideration payable                         | (500)         |
| Exchange gain on translation of goodwill arising on acquisition of Lir | 341           |
| <b>At 30 April 2008</b>  | <b>32,363</b> |

Adjustments to contingent consideration payable set out above reflect the re-assessment of the amounts that have been paid or will be paid in respect of performance related contingent consideration for the acquisition of subsidiaries in previous years.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business acquisition.

| The carrying amount of goodwill by CGU is as follows: | <b>2008</b>   | <b>2007</b>   |
|---|---------------|---------------|
|   | <b>£'000</b>  | <b>£'000</b>  |
| Kinnerton   | 14,795        | 14,795        |
| Readifoods  | 3,361         | 3,573         |
| Humdinger   | 7,608         | 7,896         |
| Horsley Hick & Flower                                 | 1,856         | 1,856         |
| Baked Snacks  | 77            | -             |
| Lir   | 4,666         | -             |
|   | <b>32,363</b> | <b>28,120</b> |

## 8. OBLIGATIONS UNDER FINANCE LEASES

|  | Minimum lease payments |            | Present value of minimum lease payments |       |
|--|------------------------|------------|---|-------|
|  | 2008                   | 2007       | 2008                                    | 2007  |
|  | £'000                  | £'000      | £'000                                   | £'000 |
| On leases expiring:                            |                        |            |   |       |
| Within one year                                | 518                    | 445        | 470                                     | 421   |
| Between one and five years                     | 454                    | 387        | 369                                     | 341   |
| After more than five years                     | -                      | 100        | -                                       | 76    |
|  | 972                    | 932        | 839                                     | 838   |
| Less future finance costs                      | (133)                  | (94)       |   |       |
| <b>Present value of lease obligations</b>      | <b>839</b>             | <b>838</b> |   |       |
| Amount due for settlement within twelve months | 470                    | 421        |   |       |
| Amount due for settlement after twelve months  | 369                    | 417        |   |       |

The average lease term is 5.6 years (2007: 5.2 years). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling (except for £161,000, denominated in Euros). The carrying amount of the Group's finance lease liabilities approximates to their fair value.

The Group's obligations under finance leases are secured by the lessors' charges over the assets concerned. The average effective interest rate on finance leases was 5.4% (2007: 5.4%).

## 9. BORROWINGS AND OVERDRAFTS

|                           | <b>2008</b>  | <b>2007</b>  |
|---------------------------|--------------|--------------|
|                           | <b>£'000</b> | <b>£'000</b> |
| Bank loans and overdrafts | 16,898       | 10,493       |
| Loan notes                | -            | 2,197        |
|                           | <hr/> 16,898 | <hr/> 12,690 |

The borrowings are repayable as follows:

On demand or within one year:

|                           |             |             |
|---------------------------|-------------|-------------|
| Bank loans and overdrafts | 9,289       | 4,590       |
| Loan notes                | -           | 2,197       |
|                           | <hr/> 9,289 | <hr/> 6,787 |

Between one and two years:

|                           |       |       |
|---------------------------|-------|-------|
| Bank loans and overdrafts | 2,782 | 1,794 |
|---------------------------|-------|-------|

Between two and five years:

|                           |       |       |
|---------------------------|-------|-------|
| Bank loans and overdrafts | 4,827 | 4,109 |
|---------------------------|-------|-------|

|  |             |             |
|--|-------------|-------------|
| Amounts due for settlement after more than 12 months | <hr/> 7,609 | <hr/> 5,903 |
|--|-------------|-------------|

The weighted average interest rates paid on the above borrowings were:

|                           |      |      |
|---------------------------|------|------|
| Bank loans and overdrafts | 6.7% | 6.2% |
| Loan notes                | 6.3% | 6.5% |

The bank loans and overdrafts comprise amounts drawn down under a bank overdraft / revolving credit facility of £6,506,000 (2007: £2,795,000) and bank loans of £10,392,000 (2007: £7,698,000). These borrowings are secured on the assets of the Group. The directors consider that the carrying amount of bank loans and overdrafts and loan notes approximate to their fair value at the year-end. Bank loans and overdrafts and loan notes are denominated in sterling.

## 10. SHARE CAPITAL

|   | <b>2008</b>  | <b>2007</b>  |
|---|--------------|--------------|
|   | <b>£'000</b> | <b>£'000</b> |
| <b>Authorised</b>   |              |              |
| 20,000,000 (2007: 20,000,000) ordinary shares of £0.10 each | <hr/> 2,000  | <hr/> 2,000  |
| <b>Issued and fully paid</b>                                |              |              |
| 11,505,395 (2007: 10,733,708) ordinary shares of £0.10 each | <hr/> 1,151  | <hr/> 1,073  |

The movement in issued share capital during the period was as follows:

|  | Shares<br>000s | Share<br>capital<br>£'000 | Issue price<br>£ | Gross<br>issue<br>proceeds<br>£'000 |
|--|----------------|---------------------------|------------------|-------------------------------------|
| At start of the year                                     | 10,734         | 1,073                     |                  |                                     |
| Exercise of share options                                | 23             | 2                         | 2.00             | 47                                  |
| Issued in connection with funding the<br>Lir acquisition | 714            | 72                        | 5.60             | 4,000                               |
| Issued to Lir vendors                                    | 34             | 4                         | 5.42             | 185                                 |
| At end of the period                                     | 11,505         | 1,151                     |                  | 4,232                               |

During the year the company allotted the following ordinary shares: 714,285 shares for cash in connection with funding the acquisition of Lir; 34,202 shares to certain of the vendors of Lir in partial settlement of the initial consideration; and 23,200 shares in satisfaction of the exercise of share options.

### Share options

A total of 2,390,812 share options and warrants were outstanding at 30 April 2008 (2007: 2,414,012). In addition a maximum of 119,512 conditional share awards were outstanding under a Long Term Incentive Plan ("LTIP"). The appropriate proportion of the conditional share awards under the LTIP will vest, dependant on performance, after the publication of the results for the year ending 30 April 2010.

During the year 23,200 unapproved share options were exercised at £2.00, the weighted average price of these shares based on the respective dates of exercise was £5.65. As at the 30 April 2008 a total of 2,072,529 options and warrants were exercisable at £2.00 per share

### 11. SHARE PREMIUM ACCOUNT

|                  | £'000  |
|------------------|--------|
| At 1 May 2006    | 12,004 |
| Shares issued    | 11,042 |
| Costs of issue   | (373)  |
| At 30 April 2007 | 22,673 |
| Shares issued    | 3,972  |
| Costs of issue   | (196)  |
| At 30 April 2008 | 26,449 |

## 12. RESERVES

|   | Equity reserve                                |                            |       |                      |
|---|---|----------------------------|-------|----------------------|
|   | Foreign<br>currency<br>translation<br>reserve | Share-<br>based<br>payment | Total | Retained<br>earnings |
|   | Note (i)                                      | Note (ii)                  |       |                      |
|   | £'000   | £'000                      | £'000 | £'000                |
| At 1 May 2006                                       | -   | 247                        | 247   | 813                  |
| Share based payments charged to income              | -   | 249                        | 249   | -                    |
| Deferred tax asset arising on share options         | -   | 125                        | 125   | -                    |
| Profit for the year                                 | -   | -                          | -     | 4,101                |
| At 30 April 2007                                    | -   | 621                        | 621   | 4,914                |
| Share based payments charged to income              | -   | 377                        | 377   | -                    |
| Deferred tax asset arising on share options         | -   | (124)                      | (124) | -                    |
| Exchange gains on translation of foreign operations | 557   | -                          | 557   | -                    |
| Purchase of own shares                              | -   | -                          | -     | (300)                |
| Profit for the year                                 | -   | -                          | -     | 3,245                |
| At 30 April 2008                                    | 557   | 874                        | 1,431 | 7,859                |

The equity reserve comprises: (i) the exchange gain/loss arising on translation of the net assets of overseas operations Kinnerton (Confectionery) Australia Pty Limited and Lir Chocolates Limited into sterling at the balance sheet date(s); and (ii) share based payments charged to the income statement as well as the deferred tax effects arising on the recognition of deferred tax assets in respect of temporary differences related to all share based incentives.

The premium on shares issued to the vendors of Kinnerton (prior to 1 May 2006), of Humdinger (in the year ended 30 April 2007) and of Lir in the current year has been accounted for in the merger reserve. The consolidated statement of changes in equity includes details of the movements in the merger reserve.

## 13. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

|   | 2008     | 2007    |
|---|----------|---------|
|   | £'000    | £'000   |
| (Decrease) / increase in cash and cash equivalents      | (4,293)  | 9       |
| Cash (inflow) / outflow from movement in debt financing | (181)    | 735     |
| Cash outflow from movement in lease financing           | 472      | 375     |
| Movement in net debt arising from cash flows            | (4,002)  | 1,119   |
| Other non-cash changes                                  | (246)    | (1,686) |
| Debt acquired with subsidiary                           | (498)    | (244)   |
| Net debt at the start of the year                       | (9,816)  | (9,005) |
| Net debt at 30 April                                    | (14,562) | (9,816) |

Other non-cash changes in the current financial year are in respect of new finance leases for plant and machinery and foreign exchange movements; and in the year ended 30 April 2007 relate to the issue of loan notes in connection with elements of the consideration payable for the acquisition of subsidiary undertakings.

#### 14. ANALYSIS OF NET DEBT

|                          | <b>2008</b>  | <b>2007</b>  |
|--------------------------|--------------|--------------|
|                          | <b>£'000</b> | <b>£'000</b> |
| Cash at bank             | 3,175        | 3,712        |
| Bank overdraft           | (6,506)      | (2,795)      |
|                          | (3,331)      | 917          |
| Debt due within one year | (2,783)      | (3,992)      |
| Debt due after one year  | (7,609)      | (5,903)      |
| Finance leases           | (839)        | (838)        |
| Net debt at 30 April     | (14,562)     | (9,816)      |

#### 15. ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 12.00 noon on Thursday 25 September 2008 at the offices of DLA Piper UK LLP, 3 Noble Street, London EC2V 7EE.