# INTERIM REPORT & ACCOUNTS

2010-11

printing.com plc®


**printing.com Store, Manchester.**

# CHAIRMAN'S & CHIEF EXECUTIVE'S STATEMENT

**Trading Results, Cash and Dividend**

During the Interim Period, covering the 6 months ended 30 September 2010, your Company recorded a Pre Tax Profit before exceptional costs of **£0.71m** (2009: £0.87m); a decrease of £0.16m. Exceptional costs incurred during the interim period in the acquisition of MFG BV of £0.09m reduced Pre Tax Profit to **£0.62m**

Total Retail Sales (TRS), the measure that we believe best indicates transactional volumes, decreased marginally by **0.8%** to **£13.07m** (2009: £13.18m). Turnover decreased by **0.4%** to **£7.10m** (2009: £7.13m).

At 30 September, the Company had cash-in-hand of **£1.61m** (2009; £1.79m). Cash generated by operating activities was **£1.17m** (2009: £0.99m). A Final Dividend of £0.93m was paid in the period (2009; Final £0.93m plus a special Dividend of £0.89m). During the Period working capital increased by £0.11m (2009: £0.25m) and capital expenditure was **£0.44m** (2009: £0.40m), principally being the ongoing investment in the Company's Flyerlink and system software. Net funds at the close of the period were **£1.08m** (2009: £0.58m).

Your Board is proposing to maintain the Interim Dividend of **1.05p** per share to be paid on 10 December 2010 to shareholders on the register at 19 November 2010.

In doing so, we are mindful that the dividend remains uncovered and that such a scenario cannot continue on an indefinite basis. Regard has been given to the cash requirements of your Company and consideration made to the 'falling away' of lease finance arrangements (of circa £0.70m per annum) during the first quarter of the next financial year.

With the advent of the new initiatives outlined in this statement, our priority remains the progression of earnings; in the first instance to the level where the dividend is once again covered.

**Trading Analysis**

Historically, whilst trading patterns across the UK undulate, on a region-by-region basis, the trading cycle has proved uniform. However, the performance over the period under review is polarised between London/South East and the rest of the UK. Over the Interim Period, London/South East showed growth of 5.9%, in comparison to the Interim Period of the previous year. On a similar basis, elsewhere across the UK, trading volumes contracted by 4.5%. Overall, UK volumes contracted by 2.6%. Operational margins slightly contracted reflecting ongoing promotional incentives.

We believe this reflects improved confidence within the SME community within the London/South East area, with the converse true in other regions of the UK. The figures do encourage the belief that as and when confidence improves in the SME community then volumes will indeed show a positive progression.

In Ireland, as reported last year, trading contracted sharply during the second half of the year. The trading pattern is now stable and volumes in the period under review are in line with the second half of last year. Encouragingly, and while still at an early stage, French trade increased by 40% and is now on the cusp of overtaking Ireland in terms of volumes.

**Current Trading**

Post the close of the interim period trading has continued to follow a similar pattern with London/South East exhibiting growth, but overall, volumes remain slightly below those of last year.

**Estate Development**

Notwithstanding the difficult trading conditions, during the period, your Company was able to record a net increase of outlets across the UK and Ireland.

| | **30 September 2010** | 30 September 2009 | 31 March 2010 |
|---|---|---|---|
| Company owned Stores | **8** | 7 | 8 |
| Territory Franchise Stores | **26** | 32 | 28 |
| Bolt-on & Boutique Franchises | **257** | 251 | 252 |
| **Total Outlets UK & Ireland** | **291** | 290 | 288 |

**Like for Like**

The Printing.com like for like metric takes into account the growth of turnover in defined Territories (in geographic terms outside of London these are typically the size of a county) embracing not only the Store, but also the Bolt-on Franchises under the umbrella of the Territory. Only Territories with Stores that have been operational for over three years are included.

Reflecting the more challenging trading conditions, like for like growth proved negative during the interim period **(0.2)%** versus contraction of (2.47)% for the similar period last year.

**Online Channels and the Targeting of Higher Value Clients**

The Company has now launched its online 'template-driven' solution 'Brand Demand' targeting larger clients. Previously, the Printing.com offering has been centred on the needs of the SME community. Accordingly, the Brand Demand system, offers the scope to open up a new domestic market for the Company.

This system delivers a strategic solution for larger businesses and public sector departments. The solution is aimed at clients with a higher annual spend of circa £20,000 to £100,000 per year. From the client's perspective, the elimination of job by job artwork cost and the speeding up of the procurement process are the principal benefits and the reason we believe the service will have appeal.

Whilst this service addresses the needs of a different market via an alternative online channel, the product remains the same. This provides the scope to deliver additional volumes through the Company's Manchester Hub.

Following initial marketing, the Company has a strong pipeline of interest, and anticipates the first Brand Demand systems going live imminently.

### Acquisition of Media Facility Group BV

Your Company previously reported that it would look for new ways to exploit its technology internationally. To this end, we are pleased to announce that the Company has completed the acquisition of Media Facility Group BV ("MFG"), a Netherland's-based supplier of a similar range of products to Printing.com. Consideration paid, comprising cash and the allotment of ordinary shares of the Company amounted to of €2.00 million.

MFG supplies, via online channels, the Dutch market with a range of flyers, leaflets, business stationery, posters and the like. MFG is the proprietor of Flyerzone.nl, Druckland.nl and Printrepublic.nl. MFG has annualised sales in the region of €6.7million.

The rationale for the acquisition reflects the synergies between Printing.com and MFG:-

- The Printing.com template system will be added to the MFG offering, enriching and commercially exploiting their infrastructure;
- MFG also has a number of resellers operating in its domestic marketplace. These, it is hoped, will form the basis for the establishment of 'Bolt-on' Franchises in the Netherlands;
- MFG does not presently manufacture, but relies upon contractual arrangements with commercial printers. This provides Printing.com the scope to supply some of the Dutch product directly from the Manchester Hub - thereby exploiting unutilised UK capacity.

### Other International Developments

Trading across our Master Licence partners in New Zealand and the US continues at similar levels. Further, we continue to actively explore the scope to establish Printing.com through similar arrangements in other territories.

### Outlook

The improved performance across London/South East reaffirms our belief that demand for the Company's core services, via its established channels, will move forward as and when economic conditions improve. However, given the ongoing uncertain economic outlook we must remain cautious as to the likelyhood of this happening in the short term. Without retracting from our established domestic market it is appropriate that we endeavour to engineer growth in other ways.

The integration of MFG and the launch of the Brand Demand platform represent important opportunities to generate incremental revenue from additional markets and accordingly, represent important steps in the development of your Company.

George Hardie

**George Hardie**
**Chairman**
8 November 2010

**Tony Rafferty**
**Chief Executive**
8 November 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

| | Note | **Unaudited Six months to 30 September 2010 £000** | Unaudited Six months to 30 September 2009 £000 | Year ended 31 March 2010 £000 |
|---|---|---|---|---|
| **Revenue** | | **7,095** | 7,131 | 14,456 |
| Changes in stocks of finished goods | | **6** | 8 | 31 |
| Raw materials and consumables used | | **(2,521)** | (2,417) | (5,002) |
| **Gross profit** | | **4,580** | 4,722 | 9,485 |
| Staff costs | | **(1,911)** | (1,866) | (3,571) |
| Other operating charges | | **(1,277)** | (1,300) | (2,809) |
| Depreciation and amortisation | | **(687)** | (684) | (1,361) |
| Exceptional costs | | **(86)** | - | - |
| **Operating profit** | | **619** | 872 | 1,744 |
| Financial income | | **20** | 37 | 55 |
| Financial expenses | | **(20)** | (39) | (95) |
| **Net financing (expense)/ income** | | **-** | (2) | (40) |
| **Profit before tax** | | **619** | 870 | 1,704 |
| Taxation | 4 | **(173)** | (244) | (429) |
| **Profit for the period** | | **446** | 626 | 1,275 |
| Other comprehensive income for the period | | - | - | - |
| **Total comprehensive income for the period** | | **446** | 626 | 1,275 |
| **Basic earnings per share** | 5 | **1.01p** | 1.41p | 2.87p |
| **Diluted earnings per share** | 5 | **1.00p** | 1.41p | 2.86p |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| AT 30 SEPTEMBER 2010 | **Unaudited 30 September 2010 £000** | Unaudited 30 September 2009 £000 | 31 March 2010 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | **3,288** | 4,044 | 3,672 |
| Intangible assets | **1,746** | 1,279 | 1,614 |
| Deferred tax assets | **3** | 2 | 3 |
| Other receivables | **75** | 192 | 103 |
| **Total non-current assets** | **5,112** | 5,517 | 5,392 |
| **Current assets** | | | |
| Inventories | **147** | 128 | 141 |
| Trade and other receivables | **3,152** | 3,715 | 3,239 |
| Cash and cash equivalents | **1,610** | 1,786 | 2,138 |
| **Total current assets** | **4,909** | 5,629 | 5,518 |
| **Total assets** | **10,021** | 11,146 | 10,910 |
| **Current liabilities** | | | |
| Other interest-bearing loans and borrowings | **(531)** | (679) | (653) |
| Trade and other payables | **(2,066)** | (2,291) | (2,118) |
| Current tax payable | **(370)** | (273) | (221) |
| Accruals and deferred income | **(865)** | (834) | (993) |
| Other liabilities | **(108)** | (95) | (145) |
| **Total current liabilities** | **(3,940)** | (4,172) | (4,130) |
| **Non-current liabilities** | | | |
| Other interest-bearing loans and borrowings | **-** | (531) | (200) |
| Deferred tax liabilities | **(513)** | (577) | (513) |
| **Total non-current liabilities** | **(513)** | (1,108) | (713) |
| **Total liabilities** | **(4,453)** | (5,280) | (4,843) |
| **Net assets** | **5,568** | 5,866 | 6,067 |
| **Equity** | | | |
| Share capital | **450** | 450 | 450 |
| Share premium | **3,881** | 3,881 | 3,881 |
| Merger reserve | **211** | 211 | 211 |
| Retained earnings | **1,026** | 1,324 | 1,525 |
| **Total equity** | **5,568** | 5,866 | 6,067 |

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (UNAUDITED)**

| | Share Capital £000 | Share Premium £000 | Merger reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| Opening shareholders' funds at 1 April 2009 | 450 | 3,881 | 211 | 2,524 | 7,066 |
| Profit for the period | - | - | - | 627 | 627 |
| Dividends paid | - | - | - | (1,818) | (1,818) |
| Total recognised income and (expense) | - | - | - | (1,191) | (1,191) |
| Foreign Exchange Differences | - | - | - | (9) | (9) |
| Own shares acquired | - | - | - | - | - |
| Shares issued from Treasury | - | - | - | - | - |
| Total movement in shareholders' funds | - | - | - | (1,200) | (1,200) |
| **Closing shareholders' funds at 30 September 2009** | **450** | **3,881** | **211** | **1,324** | **5,866** |
| Opening shareholders' funds at 1 October 2009 | 450 | 3,881 | 211 | 1,324 | 5,866 |
| Profit for the period | - | - | - | 648 | 648 |
| Dividends paid | - | - | - | (466) | (466) |
| Total recognised income and (expense) | - | - | - | 182 | 182 |
| Foreign Exchange Differences | - | - | - | 9 | 9 |
| Own shares acquired | - | - | - | - | - |
| Shares issued from Treasury | - | - | - | 10 | 10 |
| Total movement in shareholders' funds | - | - | - | 201 | 201 |
| **Closing shareholders' funds at 31 March 2010** | **450** | **3,881** | **211** | **1,525** | **6,067** |
| Opening shareholders' funds at 1 April 2010 | 450 | 3,881 | 211 | 1,525 | 6,067 |
| Profit for the period | - | - | - | 446 | 446 |
| Dividends paid | - | - | - | (932) | (932) |
| Total recognised income and (expense) | - | - | - | (486) | (486) |
| Foreign Exchange Differences | - | - | - | (13) | (13) |
| Own shares acquired | - | - | - | - | - |
| Shares issued from treasury | - | - | - | - | - |
| Total movement in shareholders' funds | - | - | - | (499) | (499) |
| **Closing shareholders' funds at 30 September 2010** | **450** | **3,881** | **211** | **1,026** | **5,568** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010**

| | **Unaudited Six months to 30 September 2010 £000** | Unaudited Six months to 30 September 2009 £000 | Year ended 31 March 2010 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | **446** | 626 | 1,275 |
| *Adjustments for:* | | | |
| Depreciation, amortisation and impairment | **687** | 684 | 1,361 |
| Financial income | **(20)** | (37) | (55) |
| Financial expense | **20** | 39 | 95 |
| Exchange gain/(loss) | **-** | - | (28) |
| Taxation | **173** | 244 | 429 |
| **Operating profit before changes in working capital and provisions** | **1,306** | 1,556 | 3,077 |
| Change in trade and other receivables | **115** | (342) | 224 |
| Change in inventories | **(6)** | (18) | (31) |
| Change in trade and other payables | **(217)** | 111 | 147 |
| **Cash generated from the operations** | **1,198** | 1,307 | 3,417 |
| Tax paid | **(24)** | (321) | (624) |
| **Net cash inflow from operating activities** | **1,174** | 986 | 2,793 |
| **Cash flows from investing activities** | | | |
| Interest received | **20** | 37 | 55 |
| Acquisition of property, plant and equipment | **(363)** | (197) | (268) |
| Capitalised development expenditure | **(74)** | (199) | (767) |
| Sale of property, plant and equipment | **-** | - | - |
| **Net cash outflow from investing activities** | **(417)** | (359) | (980) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | **-** | - | 10 |
| Interest paid | **(20)** | (38) | (67) |
| Payment of finance lease liabilities | **(321)** | (368) | (725) |
| Advances on finance leases | **-** | - | - |
| Payment of equity dividend | **(932)** | (1,818) | (2,284) |
| **Net cash outflow from financing activities** | **(1,273)** | (2,224) | (3,066) |
| Net decrease in cash and cash equivalents | **(516)** | (1,597) | (1,253) |
| Exchange differences on cash and cash equivalents | **(12)** | (8) | - |
| Cash and cash equivalents at start of period | **2,138** | 3,391 | 3,391 |
| **Cash and cash equivalents at end of period** | **1,610** | 1,786 | 2,138 |

# NOTES (forming part of the interim financial statements)

## 1. BASIS OF PREPARATION

Printing.com plc (the "Company") is a company incorporated and domiciled in the UK.

The Group financial statements are authorised for issue by the Board of Directors on 8 November 2010. European Union law (EULAW) (IAS Regulation EC 1606/2002) requires that the financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS). The financial statements have been prepared on the basis of the recognition and measurement requirements of EU-IFRS that are endorsed by the EU and effective at 30 September 2010.

These financial statements do not include all information required for full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 March 2010.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 March 2010.

## 3. SEGMENTAL ANALYSIS

The Group has two reportable segments, being Printing services and Franchise income. This disclosure correlates with the information which is presented to the Group's Chief Decision Maker, the CEO, which reviews revenues by segment, but margin, operating costs and assets at a consolidated level.

| | **Printing Services £000** | **Franchise Income £000** | **Total £000** |
|---|---|---|---|
| **Period ended 30 September 2009** | | | |
| Segment revenues | 6,620 | 511 | 7,131 |
| Operating expenses | | | (6,259) |
| Results from operating activities | | | 872 |
| Net finance costs | | | (2) |
| Profit before tax | | | 870 |
| Tax | | | (244) |
| **Profit for the period** | | | **626** |
| **Unallocated assets** | | | **5,866** |

# NOTES (forming part of the interim financial statements – continued)

| | Printing services £000 | Franchise Income £000 | Total £000 |
|---|---|---|---|
| **Period ended 30 September 2010** | | | |
| Segment revenues | 6,563 | 532 | 7,095 |
| Operating expenses | | | (6,390) |
| Results from operating activities | | | 705 |
| Net finance costs | | | - |
| Exceptional costs | | | (86) |
| Profit before tax | | | 619 |
| Tax | | | (173) |
| **Profit for the period** | | | **446** |
| **Unallocated assets** | | | **5,568** |

### 4. Taxation

The tax charge is based on the base tax rate of 28% (six month period ended 30 September 2009: 28%).

### 5. Earnings per share

The calculation of the basic earnings per share is based on the profit after taxation divided by the weighted average number of shares in issue, being 44,349,763 (period ended 30 September 2009:44,349,763; year ended 31 March 2010: 44,360,807).

The diluted earnings per share takes the weighted average number of ordinary shares in issue during the period and adjusts this for dilutive impact of share options existing at the period end. The diluted weighted average number of shares in the period ended 30 September 2010 was 44,821,450 (period ended 30 September 2009: 44,529,385; year ended 31 March 2010: 44,643,698). The profit used in the diluted earnings per share is based on profit after taxation.

# INDEPENDENT REVIEW REPORT TO PRINTING.COM PLC

## INTRODUCTION

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2010 which comprises Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Shareholders' equity, the Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

## DIRECTORS' RESPONSIBILITIES

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

## OUR RESPONSIBILITY

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2010 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU and the AIM Rules.

**Stuart Burdass**
**for and on behalf of KPMG Audit Plc**
Chartered Accountants
St James' Square
Manchester, M2 6DS


**Our automated logistics system SmartPack in operation at the Manchester Production Hub.**




**David Bellamy meets children during our Trees for Schools planting events.**

printing.com plc

Third Avenue | The Village | Trafford Park | Manchester | M17 1FG
t: 0870 758 3134 | f: 0161 848 5719
e: investors@printing.com
www.printing.com

XIR/PRG/EBM/11-10/R1