



our company in
transformation

Flying Brands Limited



Interim Report
2011

Flying Brands is a home shopping retailer, which is increasingly focusing on online retailing. During 2010 the Group made a number of acquisitions to strengthen its online presence and strengthen its product offering in its core Garden and Gifts divisions.

In these areas the Group is a multi brand, multi channel retailer trading directly with our customers through our websites, catalogue promotions and call centre.

We have built a customer database of nearly 4 million households of whom more than **600,000** have ordered products from us in the last 12 months.

Financial Headlines

- Revenue from continuing business of £15.77m (2010: £15.86m)
- Loss from continuing operations of £0.48m
- Loss from discontinued business of £1.49m giving a Group loss of £1.97m (2010: profit £0.40m)
- Successfully renegotiated banking arrangements
- Reduced risk profile of the Group by restructuring the terms of investment in Dealtastic, no future funding commitments

Chairman's Statement

Business Summary

The first half of this year was a very difficult one for Flying Brands.

The poor trading performance in both our major divisions in the first quarter meant that sales and profits for this period were materially below our expectations. As a consequence we needed to renegotiate the terms of our banking arrangements and we have now successfully concluded discussions with our lenders.

We have renegotiated the covenants on our main term loan to take account of the worse than expected performance in the first half of this year and our reduced expectations for the rest of the year. We have also negotiated a short-term overdraft facility until 31 December 2011 and have re-scheduled the payment of the additional consideration due for the acquisition of Flowers Direct with final instalment now being paid in January 2012.

Our reduced cash position plus the slower-than-expected sales growth at Dealtastic means that we do not believe that it is appropriate for us to continue to fund a start-up Internet company. We have accordingly renegotiated the terms of our investment in Dealtastic so that we have no future funding commitments. The timing of this restructuring, before the expected pick up in sales in the second half leading up to Christmas, together with a more difficult than expected trading environment means that our share of the losses of Dealtastic was considerably more than we budgeted but we believe that a reduction in the risk profile of the Group was appropriate in our current financial circumstances.

We will continue to have a 25% share in Dealtastic going forward with a right to share disproportionately in the first £500,000 of profits in the future. Our obligation to issue shares as further consideration has been cancelled and we are now effectively back to the position we were in when we made the initial investment in Dealtastic.

The poor trading performance together with the requirements of reaching a new bank deal mean that there will be no interim dividend paid this year. The Board very much regrets this particularly bearing in mind that the Company had only recently returned to paying dividends.

In line with our strategy of increasing our emphasis on retail partnerships and corporate business, particularly in our Gifts Division, we have recently concluded a number of agreements in addition to our previously announced agreement to offer wedding flowers in conjunction with Debenhams.

We have entered into an agreement with Hephallump.com, one of the UK's leading independent online personalised card companies, whereby we each will promote the other's products on our respective sites. Cards and flowers are a natural fit and this partnership will enable us to offer a wide range of personalisable products to our customers buying flowers for a special occasion such as a birthday or anniversary. Hephallump customers will also be able to buy a bouquet of flowers along with their greetings cards.

This is the first step in broadening our online gifts offering and we are in discussions with a number of potential partners that operate in complementary areas.

Drake Algar has also agreed with Abahna, to jointly create and market a range of exclusive designer bouquets packaged with British made, luxury bath, body & home fragrance products created using essential

oils and organic botanical extracts. The award winning Abahna brand is sold in many of the world's most prestigious stores including Liberty, Fortnum & Mason, Fenwick and Heal's in the UK.

In our Garden Division, we have entered into an agreement with STV to design and operate an STV-branded site featuring our complete range of gardening products. The site is planned to launch later this year and will be fully operational for next year's main Spring selling season. The site will provide a wide range of plants and hardware as well as useful tips and advice all aimed specifically at gardeners in the STV franchise areas in central and northern Scotland. This site will be one of a growing range of consumer-focused services offered by STV to digital audiences.

Financial results

Dealtastic has been treated as a discontinued business in presenting these results.

Flying Brands delivered a loss before tax of £0.21m compared with a profit of £1.39m in 2010 on revenue from the continuing businesses of £15.77m (2010: £15.85m). This excluded one-off redundancy costs (£0.05m), the costs associated with the restructuring of our loans (£0.10m), goodwill write off (£0.09m), the legal cost associated with acquisition (£0.04m) and the Greetings Direct profit (£0.11m).

The loss from Dealtastic including the write off of our initial investment amounts to £1.49m giving a Group loss for the period of £1.97m compared to a profit last year of £0.40m.

The basic loss per share of 6.04p compares to the basic earnings per share of 1.47p in 2010. Our gross cash balance at the end of the half-year was £0.07m (2009: £1.15m) with bank loans of £1.89m (2010: £1.36m). There is also an outstanding loan note of £1.49m (2010: £1.45m) relating to the deferred consideration of Flowers Direct. We therefore had net debt at the end of the period of £3.31m (2010: £1.66m).

Current trading and outlook

We believe that the prospects for our Garden Division remain bright despite the disappointing first half performance. Although the business did suffer from generally difficult economic conditions, we do believe that much of the under-performance was due to mistakes we made early in the season. These principally concerned our marketing plans and the impact from change of our courier providers; this is covered in more detail in the Business Review section. We have taken steps to rectify these and have seen an improvement in performance since we started to implement them. www.gardencentreonline.co.uk had a very good start to the season but has seen demand soften as consumer sentiment has worsened in recent weeks. However, it is still trading ahead of last year on a like-for-like basis.

Trading conditions remain very challenging in the direct-to-consumer business in our Gifts Division but we are encouraged by our recent third party deals and we are currently in negotiations for further significant contracts. We have also seen a recent increase in corporate sales in this division and we believe that these can be a significant contributor to profits in the future.

Tim Trotter
Chairman
29 July 2011

Business Review

Operating results for the period

Continuing business

Operating loss, excluding one-off items (acquisition costs, banking arrangement fees, impairment of goodwill and redundancy and reorganisation costs) and profit from Greetings Direct, from the continuing operations was £0.14m compared with a profit of £1.44m in 2010 and net cash used in operating activities was £1.01m against £0.40m in 2010. Revenue from continuing operations for the period was £15.77m compared to £15.86m in 2010.

Garden Division

	2011 £m	2010 £m
Divisional revenue	9.95	11.06
Gardening	7.45	8.93
Bird food and hardware	2.50	2.13
Segment profit	0.69	1.73
Gardening	0.71	1.34
Bird food and hardware	(0.02)	0.39
Contribution margin %	22.0%	27.1%
Gardening	24.0%	25.8%
Bird food and hardware	16.3%	32.5%
	2011	2010
Active Database	279,000	372,000
On-line revenue as % of sales	35.0%	26.3%

Sales in the Garden Division were £9.95m compared to £11.06m. Operating profit was £0.69m compared to £1.73m last year. An explanation of these adverse variances is given in the sections headed "Gardening" and "Bird food and hardware" below.

The Internet now accounts for 35.0% of sales in this division (2010: 26.3%)

Gardening

Sales in our core Gardening Direct business were considerably below last year at £7.45m compared to £8.93m in 2010. This shortfall was a result primarily of the very poor performance of one particular catalogue in February and of our decision to cut back on poorly performing off-the-page advertising for a period in February/March. Together these resulted in a drop in sales from last year of £1.48m. In fact our other catalogues and online channel performed better than last year. We changed the marketing team for this brand in April and although the bulk of the season was over by then we did see an improvement in performance in the second quarter.

We also moved our plant deliveries away from Jersey Post and Royal Mail to a new courier provider. This was because of continuing price rises and lack of visibility as to likely pricing in the future. We did experience increased complaints with certain products because of changes in handling but we have changed some of our packaging and made improvements to the new courier's processes and we are confident that our normal very high standards of delivery are now back in place.

Overall we still saved money by switching our delivery provider but additional refunds and replacements together with additional fuel costs and extra wastage as a result of lower sales meant that our contribution margin in Gardening declined from 25.8% in 2010 to 24.0%.

The temporary reduction in off-the-page recruitment advertising also resulted in a reduction in our customer database.

Bird food and hardware

Garden Bird Supplies and www.gardencentreonline.co.uk are now managed together and are despatched out of our distribution centre in Melton Mowbray. Our bird food business saw very challenging trading conditions in the first quarter with a marked increase in competition from low cost providers such as the supermarkets and garden centres and an increase in the number of entrants to the online market. First quarter sales were down 33.5% on the previous year. We re-focused our marketing efforts on our area of strength, bulk bags of premium quality bird food, and we have seen a marked improvement in the performance of this brand. Sales for the first half were down 26.4% with sales in May and June a very considerable improvement on the previous months' performance. We are still seeing a reduction in gross margins as a result of increased commodity prices, the increase in VAT and continuing aggressive price competition but overall the performance of this brand picked up considerably in the second quarter.

www.gardencentreonline.co.uk had a satisfactory first half in terms of sales and we are now working on improving margins in this brand.

Gifts Division

	2011 £m	2010 £m
Divisional revenue	5.03	3.70
Segment profit	(0.83)	(0.32)
Contribution margin %	16.0%	11.4%
	2011	2010
Active Database	247,000	304,000
On-line revenue as % of sales	66.2%	50.1%

Revenue for this division was £5.03m this year compared to £3.70m in 2010 and contribution margin improved from 11.4% to 16.0%. However, the figures for this year include Flowers Direct (which was acquired only in May of 2010) and Drake Algar (which was not acquired until the second half of last year). Overall losses increased from £0.32m in 2010 to £0.83m.

The performance of our Gifts Division over the important first quarter was materially below our expectations in what is currently our main direct-to-consumer (DTC) business. Our DTC businesses have been impacted, like many retailers, by weak consumer confidence. We have also experienced increasing competition from general retailers and more discounting from other specialist flower companies. Mother's Day trading in the three weeks prior to that event was particularly difficult with sales materially below our expectations.

Flying Flowers is now focused firmly on its traditional, beautiful, great value flowers and we have seen an increased contribution from this brand in the second quarter after a very disappointing Mother's Day performance. Flowers Direct has seen a slight improvement in its DTC business in the second quarter but not enough to make up for its disappointing first quarter.

The performance of the relay network continues to improve and the Internet now accounts for 66.2% of sales in this division.

Entertainment Division

This now consists solely of Listen2 and it performed in line with our expectations.



Condensed Consolidated Income Statement

for the 26 weeks ending 1 July 2011

	Notes	Total Group 26 weeks 1.7.11 £'000	Total Group 26 weeks 2.7.10 £'000	Total Group 52 weeks 31.12.10 £'000
Continuing operations				
Revenue	4	15,768	15,855	28,037
Cost of sales		(11,839)	(11,600)	(20,979)
Gross profit		3,929	4,255	7,058
Operating expenses		(4,254)	(2,879)	(6,560)
Operating (loss)/profit		(325)	1,376	498
Finance expense		(72)	(60)	(139)
Finance income		5	12	9
Loss from associate		-	-	(149)
(Loss)/profit before tax	4	(392)	1,328	219
Taxation	3	(91)	(76)	(52)
(Loss)/profit from continuing operations		(483)	1,252	167
(Loss) from discontinuing operation (net of tax)	10	(1,485)	(849)	(561)
(Loss)/profit for the period		(1,968)	403	(394)
Loss attributable to non-controlling interest		(297)	-	-
(Loss)/profit attributable to the Group		(1,671)	403	(394)
(Loss)/earnings per share expressed in pence per share				
Basic	6	(6.04)	1.47	(1.43)
Diluted	6	(5.89)	1.44	(1.40)
Basic – continuing operations		(1.75)	4.56	0.61
Diluted – continuing operations		(1.70)	4.47	0.60

Consolidated Statement of Comprehensive Income

for the 26 weeks ending 1 July 2011

	26 weeks 1.7.11 £'000	26 weeks 2.7.10 £'000	52 weeks 31.12.10 £'000
(Loss)/profit for the period	(1,968)	403	(394)
Other comprehensive income			
Foreign currency translation differences on foreign operations	-	44	44
Total comprehensive (loss)/income for the period	(1,968)	447	(350)

Condensed Consolidated Balance Sheet

as at 1 July 2011

	Notes	1.7.11 £'000	2.7.10 £'000	31.12.10 £'000
Non-current assets				
Goodwill	9	5,325	4,781	5,410
Intangible assets	9	3,013	3,224	3,307
Property, plant and equipment		4,223	4,575	4,467
Investment in associate		-	-	1
Deferred tax		167	129	261
Total non-current assets		12,728	12,709	13,446
Current assets				
Inventory		917	702	704
Current income tax receivable		29	116	233
Trade and other receivables		1,040	151	1,305
Receivable from associate		-	-	850
Prepayments		626	323	256
Cash		72	1,149	2,291
Assets classified as held for sale	10	569	1,500	-
Total current assets		3,253	3,941	5,639
Current liabilities				
Bank loan and overdrafts		(1,891)	(1,128)	(2,850)
Trade payables		(3,352)	(1,745)	(3,378)
Accruals and other payables		(3,037)	(2,353)	(2,944)
Current liabilities		(8,280)	(5,226)	(9,172)
Net current liabilities		(5,027)	(1,285)	(3,533)
Non-current liabilities				
Loans and borrowings		-	(231)	-
Total non-current liabilities		-	(231)	-
Net assets		7,701	11,193	9,913
Equity				
Ordinary shares		282	282	282
Share premium		18,059	18,059	18,059
Capital reserve		(17)	(17)	(17)
Capital redemption reserve		22	22	22
Foreign reserve		-	-	-
Retained earnings		(10,348)	(7,153)	(8,433)
Non-controlling interest		(297)	-	-
Total equity		7,701	11,193	9,913

Consolidated Statements of Changes in Shareholders' Equity

for the 26 weeks 1 July 2011

	Share capital £'000	Share premium £'000	Capital reserve £'000	Capital redemption reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 January 2010	280	17,916	(17)	22	(44)	(7,596)	-	10,561
Profit for the period	-	-	-	-	-	403	-	403
Foreign currency translation differences on foreign operations	-	-	-	-	44	-	-	44
Total comprehensive income	-	-	-	-	44	403	-	447
Transactions with owners recorded directly in equity								
Employee share incentives	-	-	-	-	-	40	-	40
Shares issued	2	143	-	-	-	-	-	145
Total transactions with owners	2	143	-	-	-	40	-	185
Balance at 2 July 2010	282	18,059	(17)	22	-	(7,153)	-	11,193
Loss for the period	-	-	-	-	-	(797)	-	(797)
Total comprehensive loss	-	-	-	-	-	(797)	-	(797)
Transactions with owners recorded directly in equity								
Employee share incentives	-	-	-	-	-	(48)	-	(48)
Deferred tax on employee share incentives	-	-	-	-	-	8	-	8
Dividends	-	-	-	-	-	(443)	-	(443)
Total transactions with owners	-	-	-	-	-	(483)	-	(483)
Balance at 31 December 2010	282	18,059	(17)	22	-	(8,433)	-	9,913
Loss for the period	-	-	-	-	-	(1,671)	(297)	(1,968)
Total comprehensive loss	-	-	-	-	-	(1,671)	(297)	(1,968)
Transactions with owners recorded directly in equity								
Employee share incentives	-	-	-	-	-	(20)	-	(20)
Deferred tax on employee share incentives	-	-	-	-	-	(2)	-	(2)
Dividends	-	-	-	-	-	(222)	-	(222)
Total transactions with owners	-	-	-	-	-	(244)	-	(244)
Balance at 1 July 2011	282	18,059	(17)	22	-	(10,348)	(297)	7,701

Cash Flow Statement

for the 26 weeks ending 1 July 2011

	Notes	26 weeks 1.7.11 £'000	26 weeks 2.7.10 £'000	52 weeks 31.12.10 £'000
(Loss)/profit for the period		(1,968)	403	(394)
Adjustment for				
Profit on sale of trade and assets of subsidiary		-	-	(230)
Profit less losses on sale of property, plant and equipment		(13)	-	(2)
Taxation		91	76	(104)
Loss from associate		-	-	149
Impairment of goodwill	9	959	-	92
Depreciation		360	368	741
Amortisation		316	84	387
Unrealised exchange gains		-	44	-
(Increases)/decreases in inventories		(194)	1,005	1,081
(Increases)/decreases in receivables		(134)	519	442
Decreases in payables		(621)	(2,879)	(902)
Net finance expenditure		67	53	135
Share based payments		(20)	40	(8)
Cash (used in)/generated from operations		(1,157)	(287)	1,387
Interest received		5	12	9
Interest paid		(72)	(70)	(123)
Tax received/(paid)		213	(51)	(120)
Net cash (used in)/generated from operating activities		(1,011)	(396)	1,153
Cash flows from investing activities				
Purchase of property, plant and equipment		(127)	(168)	(352)
Purchases of intangible asset – software		(23)	(357)	(741)
Disposal proceeds		25	-	752
Acquisition of investment in associate		-	-	(150)
Acquisition of subsidiaries (net of cash)	8	99	(1,450)	(2,066)
Loan to associates		-	-	(850)
Net cash used in investing activities		(26)	(1,975)	(3,407)
Financing activities				
Net proceeds from issued of ordinary share capital		-	145	145
New loans raised		-	-	1,618
Repayment of borrowings		(960)	(950)	(1,100)
Dividend paid to shareholders	5	(222)	-	(443)
Net cash used in financing activities		(1,182)	(805)	220
Net decrease in cash and cash equivalents		(2,219)	(3,176)	(2,034)
Cash and cash equivalents at the beginning of the period		2,291	4,325	4,325
Cash and cash equivalents at the end of the period		72	1,149	2,291

Notes to the Condensed Consolidated Interim Financial Statements

for the 26 weeks 1 July 2011

1 Accounting policies

1.1 Reporting entity

These Financial Statements are the unaudited Condensed Consolidated Interim Financial Statements (hereafter "the Interim Financial Statements" of Flying Brands Limited, a company registered in Jersey, and its subsidiaries (hereafter "the Group") for the 26 weeks 1 July 2011 (hereafter "the interim period").

These Interim Financial Statements have been prepared under IFRS applying the accounting policies published in the Group's IFRS Financial Statements for the 52 weeks ending 31 December 2010, published on 10 March 2011, except as discussed below.

1.2 Statement of compliance

These Interim Financial Statements have been prepared on the basis of the recognition and measurement requirements of IFRS in issue that are either endorsed by the EU and effective (or available for early adoption) at 31 December 2010. These Interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting.

These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the 52 weeks ending 31 December 2010 (hereafter "the Annual Report and Accounts"), as they provide an update of previously reported information. They were approved for issue by the Board of Directors on 10 March 2011.

The comparative figures for the 52 weeks ending 31 December 2010 are not the Company's statutory accounts for the financial year. These accounts have been reported on by the Company's auditors and delivered to both the UK Financial Services Authority and the Jersey Financial Services Commission. The report of the auditors was (i) unqualified, (ii) did not include any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498(2) or (3) of the UK Companies Act 2006.

1.3 Significant accounting policies

Except as described below, the accounting policies applied by the Group in these Interim Financial Statements are the same as those applied by the Group in its Annual Report and Accounts as at and for the 52 weeks ending 31 December 2010.

1.4 Estimates

The preparation of Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the date of the Interim Financial Statements. If in future such estimates and assumptions, which are based on management's best judgement at the date of the Interim Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

The Group operates in a sector where significant seasonal or cyclical variations in total sales and profits are experienced during the financial year.

1.5 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results, for which discrete financial information is available, is reviewed regularly by the Group's Board to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Group's Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly one-off charges, interest and income tax assets and liabilities.

2 Basis of preparation

The Company's 2010 Annual Report and Accounts which was approved by the Board on the 10 March 2011, included information on the business environment in which the Group operates, including the factors that are likely to impact the future prospects of the Group, together with the principal risks and uncertainties that the Group faces. In addition, the notes to the consolidated financial statements set out the Group's objectives, policies and processes for managing its financial and capital risk and its exposure to credit, market and liquidity risk. Many of the risks, and uncertainties reported in the 2010 Annual Report and Accounts are such that the potential to impact the Group's operations are inherent and remain valid as regards to their potential impact during the second half of 2011. The impact of the economic environment in which the Group's businesses operate are considered in the Chairman's Statement and Business Review on pages 1 to 3.

The Group has a treasury loan facility with Barclays Wealth on which there is £1,891,000 outstanding at 1 July 2011 (31 December 2010: £2,850,000). During the first half of 2011 the Group breached its banking covenants on this loan. Barclays Wealth has waived these breaches of covenant in respect of the first half of 2011 and the Group have renegotiated its future covenant position for the remainder of 2011 and the first quarter of 2012. The Group has also negotiated an overdraft facility with Barclays Wealth of £800,000 for the period until 31 December 2010 (see note 11).

The Group also has an amount owing of £1,500,000 to the previous owners of Flowers Direct (Palatine Private Equity LLP) in relation to deferred consideration. This amount becomes payable on 31 August 2011. The Group has renegotiated the payment profile of this amount and will pay £500,000 in September 2011 and £1,000,000 in January 2012. The outstanding amount will carry interest at 7% from 1 July 2011.

As part of the banking negotiations the Directors have prepared trading and cash flow forecasts for a period of at least one year from the date of approval of these Interim Financial Statements. The forecast is based on assumptions based on the current business performance but also recognises the changing nature of the Group's core businesses, the potential corporate and third party contract income and the changes in the management structure. On the basis of this forecast the Directors have a reasonable expectation, subject to the conditions in the general economic environment remaining consistent, that the Group has adequate cash headroom to meet its future liabilities and expects to meet all banking covenant requirements. The Directors have also considered the impact of further deterioration in the general economic environment and have produced a sensitised forecast allowing for certain downside scenarios. To mitigate these potential downsides, the Directors are continuing to pursue a number of actions to strengthen the Group's financial position in the longer term. Accordingly, they continue to adopt a going concern basis in preparing the financial statements of the Group.

3 Income tax expenses

The interim tax charge has been estimated based on a full year forecast tax rate of nil% for underlying tax (2010: 11%). The charge of £91,000 in the Condensed Consolidated Income Statement is a deferred tax charge of which £86,000 is a result of a release of deferred tax losses which the Directors believe are no longer recoverable.

Notes to the Condensed Consolidated Interim Financial Statements

for the 26 weeks 1 July 2011

4 Segment reporting

The Group has five reportable segments as described below which are the Groups' strategic business units. These business units offer different products and services, and are managed separately because they require different marketing and operational strategies.

For each of the strategic business units the Group's Board reviews internal management reports on a monthly basis.

Segment result

26 weeks 1 July 2011	Garden £'000	Gifts Flowers £'000	Entertainment £'000	Greetings Direct £'000	Continuing operations £'000	Discontinued Entertainment £'000	Discontinued Dealtastic £'000	Total Group £'000
Revenue	9,948	5,026	642	152	15,768	-	773	16,541
Reportable segment profit before interest and tax	685	(830)	(1)	107	(39)	-	(611)	(650)
Redundancy and reorganisation					(53)	-	-	(53)
Banking arrangement costs (see note 11)					(104)	-	-	(104)
One-off acquisition costs (see note 10)					(44)	-	-	(44)
Impairment of goodwill (see note 9)					(85)	-	(874)	(959)
Interest payable					(72)	-	-	(72)
Interest receivable					5	-	-	5
Profit before tax					(392)	-	(1,485)	(1,877)

Segment result

26 weeks 2 July 2010	Garden £'000	Gifts Flowers £'000	Entertainment £'000	Greetings Direct £'000	Continuing operations £'000	Discontinued Entertainment £'000	Discontinued Dealtastic £'000	Total Group £'000
Revenue	11,064	3,696	831	264	15,855	1,270	-	17,125
Reportable segment profit before interest and tax	1,730	(316)	25	212	1,651	59	-	1,710
Redundancy and reorganisation					(168)	-	-	(168)
One-off acquisition costs					(107)	-	-	(107)
Fair value stock write down					-	(903)	-	(903)
Interest payable					(60)	(5)	-	(65)
Interest receivable					12	-	-	12
Profit before tax					1,328	(849)	-	479

5 Dividends

A final dividend of 0.8p (2010: nil) per share was paid in May 2011, which absorbed £222,000 of shareholders' funds. No interim dividend (2010: 1.6p) is proposed due to the performance of the Group in the first half of 2011.

6 (Loss)/earnings per share

Basic

Basic (loss)/earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of Ordinary shares in issue during the period, excluding Ordinary shares purchased by the Company and held as treasury shares.

	1.7.11 £'000	2.7.10 £'000	31.12.10 £'000
(Loss)/profit attributable to equity holders of the Company	(1,671)	403	(394)
Weighted average number of shares in issue, less weighted average number of treasury shares ('000)	27,671	27,471	27,546
Basic (loss)/earnings per share	(6.04)p	1.47p	(1.43)p

Adjusted

Adjusted (loss)/earnings per share which excludes one-off items is presented in addition to that required by IAS 33 Earnings per share as the Directors consider that this gives a more appropriate indication of underlying performance.

	1.7.11 £'000	2.7.10 £'000	31.12.10 £'000
(Loss)/earnings used to calculate basic and diluted EPS	(1,671)	403	(394)
Profit attributable to Greetings Direct after tax	(107)	(212)	(371)
Redundancy and reorganisation costs	38	120	120
One-off acquisition costs	44	77	247
Banking arrangement fee	104	-	-
Impairment of goodwill	85	-	92
Discontinuing operations	1,188	849	561
(Loss)/earnings before exceptional items	(319)	1,237	255
Basic (loss)/earnings per share before exceptional items	(1.15)p	4.50p	0.93p

Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. The Company has one category of dilutive potential Ordinary shares: LTIP awards.

The calculation is performed for the LTIP awards to determine the number of Ordinary shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share awards. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share awards.

	1.7.11 £'000	2.7.10 £'000	31.12.10 £'000
(Loss)/profit attributable to equity holders of the Company	(1,671)	403	(394)
Weighted average number of shares in issue ('000)	27,671	27,471	27,546
Adjustment for options ('000)	699	556	544
Weighted average number of ordinary shares for diluted eps ('000)	28,370	28,027	28,090
Diluted (loss)/earnings per share	(5.89)p	1.44p	(1.40)p

Notes to the Condensed Consolidated Interim Financial Statements

for the 26 weeks 1 July 2011

7 Related party transactions

All material related third party transactions were consistent to those disclosed in the 2010 Annual Report and Accounts.

8 Acquisition of the majority shareholding in Dealtastic Holdings Limited

On 20 January 2011 (with an effective date of 1 January 2011) the Group acquired a further 30% of the share capital of the Group's associate Dealtastic Holdings Limited, taking its ownership share to 80%. At the same time Dealtastic Holdings Limited acquired a further 50% of Dealtastic and Promomachine that it did not own. The Group therefore acquired a controlling interest in the Dealtastic Group of 80%, with the remaining 20% owned by Mr Jonathan Ruff.

The consideration payable for the additional 30% was contingent of the Dealtastic Group's performance in the 12 months to 31 December 2011. The maximum consideration was £1,100,000 if profits of £760,000 were achieved. The consideration would have been paid in Flying Brands units at a price of £0.75 per unit.

This purchase was intended to strengthen the Group's Internet retailing position further and add to the Group's expertise in online marketing enabling the Group to improve its existing web businesses.

In the six months since acquisition the Dealtastic Group contributed revenue of £773,000 and a loss of £611,000. On the basis of this performance it is extremely unlikely that the profit figure to trigger any contingent consideration will be achieved and therefore goodwill has been calculated based on Enil consideration. Any potential liability was extinguished on the signing of the agreement to dispose of the assets and trade of the business on 26 July 2011.

The consideration paid and goodwill arising on this transaction is shown below.

Consideration and Goodwill	£'000
Cash paid	-
Fair value of contingent consideration	-
Fair value of share in associate	-
Total consideration	-
Fair value of net liabilities acquired	(1,406)
Goodwill	1,406

The net liabilities acquired are shown below.

	Balance Sheet Value £'000	Fair value adjustments £'000	Adjusted balance sheet £'000
Stock	91	(34)	57
Prepayments	21	(13)	8
Cash	99	-	99
Trade payables	(145)	-	(145)
Other payables	(45)	-	(45)
Loans to minority interests	(1,168)	636	(532)
Loans to other subsidiary undertakings	(848)	-	(848)
Fair value of net liabilities acquired	(1,995)	589	(1,406)

The stepped acquisition method has been used and therefore as a result a loss on the write off of the investment in associate of £1,000 has been recognised in the Condensed Consolidated Income Statement.

On the Group acquiring the additional 30% of Dealtastic Holdings Mr Ruff waived £636,000 of loans outstanding to him. No non-controlling interest has been recognised at acquisition in the Group's balance sheet due to the fair value balance sheet at acquisition having net liabilities of £1,406,000.

9 Goodwill and intangible assets

As a result of the difficult trading conditions during the 26 weeks ending 1 July 2011 the Directors reviewed the carrying value of goodwill and intangible assets for its main cash generating units. The tests were carried out using the following assumptions:

- Forecasts were prepared taking into account historical trading performance, anticipated changes in future market conditions and anticipated changes in the taxation rate in Jersey and the UK.
- The Gifts Division forecast included an element of revenue and profits relating to new third party concessions and corporate contracts.
- For Garden Bird Supplies best estimates of future projections have been based on the trading conditions seen in the first half of 2011 and in previous financial periods.
- The Directors also considered that the carrying value of Silverminds had been impaired at 31 December 2010 and that the prevailing market conditions and the future estimated trading life of this brand meant that a further impairment was likely. The assumptions will continue to be reviewed by the Directors particularly in the current uncertain economic climate. As a result of the test carried out at 1 July 2011, the Directors have impaired the carrying value of Silverminds by a further £85,000 to £323,000.

The Directors also believe that due to the performance of the Dealtastic Group to date and due to the Group's lack of available funds to invest in the growth of this business that the goodwill in Dealtastic should be impaired at 1 July 2011. Therefore, an impairment of £874,000 has been charged to the profit and loss account.

The Directors believe at 1 July 2011 there is no requirement to impair the carrying value of other goodwill or intangible assets.

A summary of goodwill by segment is shown below.

Goodwill by segment	Garden £'000	Gifts £'000	Entertainment £'000	Asset held for sale	
				Group £'000	Dealtastic £'000
At 31 December 2010	3,585	1,417	408	5,410	-
Additions	-	-	-	-	1,406
Impairment	-	-	(85)	(85)	(847)
At 1 July 2011	3,585	1,417	323	5,325	532

The Dealtastic Goodwill is held as assets held for sale (see note 10).

Notes to the Condensed Consolidated Interim Financial Statements

for the 26 weeks 1 July 2011

10 Discontinued operations

The Directors have decided that the Dealtastic operation can no longer be funded from the Group's available cash flow and therefore at the balance sheet date the Board were seeking to divest their interest in the business. As a result at the balance sheet date the segment has been classified as held for sale and a discontinued operation.

On 26 July 2011 the Group sold the trade and assets of the Dealtastic business for £50,000 acquiring a 25% stake in the new venture. The deal will complete on 30 July 2011. The Group will sell the remaining stock and the Dealtastic web site. The remaining liabilities, except those relating to the non-controlling interest, will be settled by the Group. The Group will share disproportionately in the first £500,000 of profit, receiving 100% of the first £200,000 and 50% of the next £300,000. The loans attributable to the non-controlling interest of £532,000 will be waived as part of this transaction.

As Dealtastic was not consolidated in the Group's financial statements in 2010 there is no impact on comparatives. The discontinued operation in 2010 related to the Benham operation.

As a result of this the carrying value of goodwill has been written down from £1,406,000 to £532,000 the carrying value of the loans owed to the minority non-controlling interest.

Results of the discontinued operations

	2011 £'000	2010 £'000
Revenue	773	–
Expenses	(2,258)	–
Results from operating activities	(1,485)	–
Tax	–	–
Effect on profit for the period	(1,485)	–
Basic loss per share	(4.29)p	–
Diluted loss per share	(4.19)p	–
Cash flow from discontinued operations		
Net cash used in operating activities	(650)	–

Assets held for sale

	Carrying value at 1 July 2011 £'000
Goodwill	532
Inventory	37
Assets held for sale	569

11 Post balance sheet events

On 28 July 2011, the Group obtained a waiver from Barclays Wealth for the breach of its banking covenants on its treasury loan facility for the first half of 2011. The Group also had its covenants for the second half of 2011 and financial year 2012 reset. The debt service covenant and net interest covenants have been disapplied until Q1 2012 and Q2 2012 respectively. An absolute EBITDA and cash test have been introduced based on a sensitised forecast. These will remain in place until Q4 2012.

On 8 July 2011, the Group arranged with Barclays Wealth an overdraft facility of £800,000 until 31 December 2011. The interest rate on this is 4% above base rate and is secured against the Group's freehold property in Jersey. The arrangement cost for this facility was £104,000 (see note 4).

On 13 July 2011, the Group agreed with Palatine Private Equity LLP the rescheduling of the £1,500,000 of deferred consideration which was due on 31 August 2011. This amount will now be paid in three tranches with £500,000 falling due on 30 September 2011, £500,000 on 3 January 2012 and £500,000 on 31 January 2012.

Responsibility Statement of the Directors in respect of the Condensed Consolidated Interim Financial Statements

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.
- the interim management report includes a fair review of the information required by:
 - a. DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the 26 weeks of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties in the remaining 26 weeks of the year; and
 - b. DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during the period; and any changes in the related party transactions described in the last annual report that could do so.

S S Cook
Chief Executive
29 July 2011

A M Gee
Finance Director
29 July 2011

Shareholder Notes

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Company number

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Garden

www.gardeningdirect.co.uk
www.gardenbird.co.uk
www.gardencentreonline.co.uk

Gifts

www.flyingflowers.co.uk
www.flowersdirect.co.uk
www.drakealgar.com

Entertainment

www.listen2online.co.uk