Inter Link Foods PLC

Satisfaction in every bite

Interim Report 2007

Highlights

* Market up 4.7%
  (TNS data 52 weeks to 9 October 2006)
* Improved gross margins
* Capacity doubled at Soreen
* Further expansion in Poland
* Benefits of Central Distribution starting to be seen
* Programme of consolidation progressing satisfactorily
* Improved banking facilities
* Continued strengthening of management team
* Sales in November and December up 15%
* Considerable optimism regarding the outlook for the medium term

CONTENTS

executive
CHAIRMAN'S STATEMENT

During 2006, we have made a number of very important strategic moves as we sought to establish an organisation and operational infrastructure that is best able to continue the growth of our business. These have included:

* The continuation of our programme of site consolidation.
* Improving the level of cost-effectiveness with the development of larger, more efficient sites.
* The doubling of our capacity to produce the Soreen malt loaf.
* Finally, the most strategically significant move that we have ever made — the move to new central distribution arrangements.

All of these areas of development will be covered in more detail within this report and whilst the costs of these various initiatives are being incurred in the current financial year, the full financial benefits will not be seen until next year.

As reported in the Trading Statement of 9 November, sales in the first half of the financial year were lower than expected. This was in part due to the unprecedented high temperatures from July to October. In addition, there have been delays in Christmas orders going into stores compared with last year. However, sales for November and December saw a strong bounceback (+15% vs. last year) and this will bring the sales performance for the 8 months of this year back in line with last year.

Results

We have made no further acquisitions within the period so we are able to compare the results this year and last year very much on a "like for like" basis. Turnover in the period was down 6.8% to £62,554,000 (2005: £67,150,000), although we did see an encouraging increase in our gross margins from 36.6% last year to 37.2% this year. EBITDA calculated before exceptional costs has reduced by 14.6% to £5,729,000 (2005: £6,713,000). Profit before tax, exceptional costs and the amortisation of goodwill decreased by 47.8% to £1,934,000 (2005: £3,706,000) with basic earnings per share decreased to (10.8p) (2005: 15.0p) and adjusted earnings per share decreased by 48.9% to 11.9p (2005: 23.3p). The decline in profit before tax reflects an increase in depreciation, amortisation and interest charges of £785,000. We are reporting some significant exceptional costs that have been incurred within the period which in total amount to £2,689,000. These costs relate to 3 separate areas:

Hoppers closure	£1,175,000
Move to central distribution	£1,280,000
Management changes	£234,000
	£2,689,000

At the Half Year, the Group had net debt of £57,132,000 (6 May 2006: £39,514,000 and 5 November 2005: £45,380,000). The increase in net debt is partly a factor of the continuing level of capital expenditure within the Group, but more importantly it is as a result of the continued growth in our increasingly important Christmas business and the fact that our customers took delivery of this seasonal product slightly later than last year — again a factor of the unseasonably warm weather at the end of October. Capital expenditure in the period was £5,450,000 — £1,896,000 lower than in the same period last year. We anticipate that expenditure in the second half will also be significantly lower than last year. Whilst development expenditure of £1,906,000 was £1,044,000 higher than in the same period last year, it was £579,000 lower than in the previous 6 months and we expect expenditure in the second half to be lower than in the equivalent period last year. The increase in net debt has resulted in a seasonal peak in the gearing of 170% (2005: 134%), with this increase also being impacted by the implementation of FRS 20 in respect of Share Based Payments. As was the case a year ago, we do anticipate that the level of debt will fall during the second half as the working capital position unwinds, with the result that gearing will be significantly lower at the Year End. This pattern was in evidence last year with the year end gearing falling to 112.1%. The Group incurred a cash inflow of £7,478,000 (2005: £10,667,000 outflow), as a result of the refinancing of the Group's banking facilities.

Exceptional Costs

In July 2006 we announced the closure of the Hoppers Bakery in Herne Bay and the transfer of the business to our larger, more efficient sites in Blackburn. The closure will take place in February 2007 and will result in exceptional costs and asset write-offs in the region of £1,175,000. This was one of our largest facilities and, unlike the situation with some of our previous closures, it will be difficult to redeploy staff at an alternative bakery. However, we remain confident that the resultant cost savings will be in excess of £1m in the next financial year.

We have continued the process of transferring most of our major customers to our new central distribution centre in Warrington, and remain on course to transfer the remainder in January 2007. We announced some months ago that the transfer was taking longer than we had originally anticipated, and that this had resulted in cost duplication, as a result of less than optimal vehicle utilisation combined with delays in our being able to end existing storage and distribution arrangements. We also experienced some lost sales as a result of our not being able to satisfy in full the orders that had been placed by our customers during the first 3 months of the operation.

Whilst the pattern of cost duplication has continued into the second half of the year, as a result of a great deal of hard work by our own team and that of our partners, Christian Salvesen, we are now starting to see some operational benefits and improved customer service which should result in increased sales in the future. We have already announced that we are treating these "costs of duplication", together with the costs of implementing the associated organisation and administrative infrastructure, as exceptional. The results for the first half of the year include an exceptional charge of £1,280,000 and we anticipate that a further charge, at a lower level, will be incurred in the second half of the year. We remain absolutely confident that we will see net cost benefits and significant operational benefits from this move within the near future.

During the current financial year, we have seen the departure of both our previous Chief Executive, Paul Griffiths, and another senior executive. Exceptional costs of £234,000 have been incurred in connection with these departures.

Dividend

Whilst we have had a slower start to the year than we had hoped for, we do now anticipate that we will see further growth in the second half of the financial year, and in the light of this the Board has decided to increase the interim dividend by 4% to 2.60p (2005: 2.50p) which will be paid on 16 March 2007 to members on the register on 16 February 2007.

Strategy

Our objective for the business continues to be to grow organically and as a result of selective acquisitions. However, this is combined with our ongoing focus on creating a more efficient and cost-effective business, and to this end we will continue our programme of factory consolidation together with the development of our central operation and logistical infrastructure. We believe that we remain the Number One supplier of private label cakes within the UK, which will continue to be our primary market focus.

Consolidation

We have continued to implement our consolidation strategy — creating fewer, larger, more efficient sites, with consequent savings in infrastructure and management costs. Since the closure of the first site as part of this process at Newton House Bakery, we have now completed the closure of the Crossfield Street site in Blackburn and, as is noted above, we have announced the closure of the Hoppers site in Kent. The consolidation process continues to operate in an extremely effective way, due to very comprehensive planning and hard work from all of the teams involved. We have identified the savings that will result from these actions and we are closely monitoring the achievement of the planned savings. The Hoppers closure during the next few months will be our largest to date, but the plans are now well advanced and we have every reason to believe that it will deliver the full benefits that we have identified. We believe there are further opportunities to continue this process in the future.

Poland

Since we acquired Cukernia Mistrza Jana, our business in North West Poland, we have continued to develop our capabilities, both in terms of the production facilities and the infrastructure — including the team, the processes and the controls that they apply. We are very proud of what has been created and our pride has been borne out by the reaction of some of the new customers that we have introduced to the site this year. We are in the process of completing work on an extension to our site and have also recently taken possession of some new space in the adjoining premises. These 2 developments will add a further 15,000 sq ft to our existing 70,000 sq ft and will enable us to continue to expand production to meet the sales opportunities that we have identified.

Investment

During recent years we have invested heavily in both new production facilities and in the redevelopment of our existing facilities. As a result of this investment, we believe that we operate from bakeries that are amongst the most modern and efficient within our industry. We do recognise that capital expenditure has been at a level that we would not wish to sustain with our present capital structure. During the current financial year, expenditure has been at a much lower level than the previous year and we anticipate that this pattern will continue until the end of the financial year. The largest single area of expenditure has been on the new Soreen bakery that we opened in the summer of last year — this facility has doubled our capacity for the Soreen range of products that continue to grow in popularity.

Colleagues

We are also in the process of completing the strengthening of our senior management team following the sudden departure of Paul Griffiths in September. We wish him well in his new endeavours.

On 9 November, we announced the appointment of Chris Thompson as Chief Executive, having spent 2 years in the role of Group Finance Director. Chris joined us in September 2004 with a wealth of experience within the retail and service sectors. He has made a significant contribution to the development of the business since he joined and I am confident that under his leadership, the Group will continue to grow.

I am delighted to be able to announce that we have appointed Brendan Hynes as our new Group Finance Director. Brendan is currently Group Finance Director for Nichols PLC, and as such has extensive experience of working within the FMCG sector and of operating within fully listed and AIM listed companies. He also worked for William Baird PLC as Group Finance Director, and at PricewaterhouseCoopers as a director within their Consumer, Retail and Distribution consultancy, having started his career with Pilkington PLC. Brendan has an MBA from the Manchester Business School and is also a fellow of the Chartered Institute of Management Accountants. Brendan will join the company in March 2007 and will play a vital role in ensuring that the Group derives the full benefits from the move this year to Central Distribution arrangements and the introduction of the new suite of management information systems.

As a result of these Board changes, I have no doubt that we now have a stronger team to take the business forward.

I should also like to pay tribute to the outstanding hard work and commitment that has been in evidence again from the fantastic teams at all of our sites. They continue to demonstrate a degree of enthusiasm and commitment that is of great credit to them. The Board and I would like to express our sincere thanks and appreciation for all of their efforts.

Outlook

The total UK Cake Market continues to grow at 4.7% over last year. (source — TNS Data, 52 weeks to 9 October 2006) and, as mentioned earlier in this statement, we have seen 15% sales growth in the 8 weeks to 30 December, bringing our sales for the first 8 months of the financial year back in line with those for the previous year. The second half has therefore begun well but remains a difficult challenge. Our optimism in relation to that challenge is based on the newly available capacity and increasing demand for Soreen products, the higher underlying sales rate that we are currently enjoying and the improvements that we are starting to see on an almost daily basis from the internal re-engineering projects that we are undertaking. After a difficult 12 months we are beginning to see justification for the considerable optimism that we have for the Group's development over the medium term.

Alwin Thompson
Executive Chairman
9 January 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 4 November 2006	6 months ended 4 November 2006 (unaudited) £'000	6 months ended 5 November 2005 (unaudited) As restated £'000	2006 Before Exceptional items (audited) As restated £'000	2006 Exceptional items (audited) As restated £'000	2006 Total (audited) As restated £'000
Turnover					
Continuing operations	**62,554**	67,150	**130,049**	**—**	**130,049**
Cost of sales	**(39,275)**	(42,593)	**(84,022)**	**(433)**	**(84,455)**
Gross profit/(loss)	**23,279**	24,557	**46,027**	**(433)**	**45,594**
Operating expenses:					
Depreciation and amortisation	**(2,619)**	(1,915)	**(3,955)**	**—**	**(3,955)**
Amortisation of goodwill	**(866)**	(847)	**(1,847)**	**—**	**(1,847)**
Exceptional costs	**(2,689)**	(310)			
Other operating expenses	**(17,550)**	(17,844)	**(32,828)**	**(1,438)**	**(34,266)**
Total operating expenses	**(23,724)**	(20,916)	**(38,630)**	**(1,438)**	**(40,068)**
Operating (loss)/profit — Continuing operations	**(445)**	3,641	**7,397**	**(1,871)**	**5,526**
Profit on sale of fixed assets	**—**	—	**—**	**1,026**	**1,026**
Net interest	**(1,176)**	(1,092)	**(2,320)**	**—**	**(2,320)**
(Loss)/profit on ordinary activities before taxation	**(1,621)**	2,549	**5,077**	**(845)**	**4,232**
Taxation	**372**	(827)	**(1,725)**	**561**	**(1,164)**
(Loss)/profit on ordinary activities after taxation	**(1,249)**	1,722	**3,352**	**(284)**	**3,068**
Dividends	**(580)**	(495)	**(785)**	**—**	**(785)**
Retained (loss)/profit	**(1,829)**	1,227	**2,567**	**(284)**	**2,283**
Basic earnings per share	**(10.8p)**	15.0p			**24.3p**
Diluted earnings per share	**(10.6p)**	14.1p			**23.0p**

The Profit and Loss account figures above have been restated for FRS 20 'Share based payments'.

BALANCE SHEETS

At 4 November 2006	**4 Nov 2006 (unaudited) £'000**	5 Nov 2005 (unaudited) As restated £'000	6 May 2006 (audited) As restated £'000
Fixed assets			
Tangible assets	**35,617**	27,171	31,662
Intangible assets	**36,270**	34,861	36,354
	71,887	62,032	68,016
Current assets			
Stock	**12,037**	12,823	7,864
Debtors	**33,908**	31,198	22,341
Cash at bank and in hand	**2,744**	4,547	9,882
	48,689	48,568	40,087
Creditors: amounts falling due within one year			
Trade and other creditors	**(42,810)**	(48,131)	(47,569)
Net current assets/(liabilities)	**5,879**	437	(7,482)
Total assets less current liabilities	**77,766**	62,469	60,534
Creditors falling due after more than one year	**(41,303)**	(27,122)	(22,285)
Provisions for liabilities and charges	**(2,993)**	(1,714)	(3,001)
Net assets	**33,470**	33,633	35,248
Capital and reserves			
Called up share capital	**232**	230	232
Share premium account	**23,155**	22,937	23,155
Other reserves	**591**	466	540
Profit and loss account	**9,492**	10,000	11,321
	33,470	33,633	35,248

The Balance Sheet has been restated for FRS 20 'Share based payments'.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 4 November 2006	**6 months ended 4 Nov 2006 (unaudited) £'000**	6 months ended 5 Nov 2005 (unaudited) As restated £'000	Year ended 6 May 2006 (audited) As restated £'000
Net cash (outflow)/inflow from operating activities	**(8,706)**	(2,602)	12,290
Returns on investments and servicing of finance			
Net interest	**(1,403)**	(1,033)	(2,320)
Net cash outflow from return on investments and servicing of finance	**(1,403)**	(1,033)	(2,320)
Taxation	**405**	153	(27)
Capital expenditure and financial investment			
Development expenditure	**(1,906)**	(862)	(3,347)
Purchase of fixed assets	**(5,450)**	(7,346)	(9,910)
Sale of fixed assets	**—**	17	2,203
Net cash outflow from capital expenditure and financial investment	**(7,356)**	(8,191)	(11,054)
Net cash outflow from acquisition and disposals			
Purchase of subsidiary undertakings	**—**	—	(799)
Net cash outflow from acquisitions and disposals	**—**	—	(799)
Equity dividends paid	**(580)**	(498)	(785)
Financing			
Issue of share capital	**50**	81	376
Deferred consideration	**(28)**	(50)	—
Net movement on loans	**26,064**	2,129	(540)
Capital element of finance lease payments	**(968)**	(656)	(1,360)
Net cash inflow/(outflow) from financing	**25,118**	1,504	(1,524)
Increase/(decrease) in cash	**7,478**	(10,667)	(4,219)

The Cash Flow Statement figures above have been restated for FRS 20 'Share based payments'.

Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	6 months ended 4 Nov 2006 (unaudited)	6 months ended 5 Nov 2005 (unaudited) As restated	Year ended 6 May 2006 (audited) As restated
Operating (loss)/profit	**(445)**	3,641	5,526
Depreciation and amortisation	**2,619**	1,915	3,955
Amortisation of goodwill	**866**	847	1,847
Loss on sale of fixed assets	**—**	14	22
Increase in stocks	**(4,173)**	(5,985)	(1,026)
(Increase)/decrease in debtors	**(11,325)**	(8,870)	606
Increase in creditors	**3,752**	5,836	1,360
Net cash (outflow)/inflow from operating activities	**(8,706)**	(2,602)	12,290

Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash in the period/year	**7,478**	(10,667)	(4,219)
Cash (inflow)/outflow from movement in debt and lease financing	**(22,491)**	(1,473)	1,900
Change in net debt resulting from cash flows	**(15,013)**	(12,140)	(2,319)
New finance leases	**(2,605)**	(379)	(4,334)
Movement in net debt	**(17,618)**	(12,519)	(6,653)
Opening net debt	**(39,514)**	(32,861)	(32,861)
Closing net debt	**(57,132)**	(45,380)	(39,514)

Analysis of net debt

	At 6 May 2006 £'000	Cash flow £'000	Non-cash movement £'000	**At 4 Nov 2006 £'000**
Cash at bank and in hand	9,882	(7,138)	—	**2,744**
Bank overdraft	(20,180)	14,616	—	**(5,564)**
	(10,298)	7,478	—	**(2,820)**
Loans	(22,592)	(23,459)	—	**(46,051)**
Finance leases	(6,624)	968	(2,605)	**(8,261)**
	(39,514)	(15,013)	(2,605)	**(57,132)**

Non-cash movements relate to assets purchased under finance leases.

NOTES

1. The figures for the year to 6 May 2006 have been extracted from the audited accounts of Inter Link Foods PLC. The accounts for the year ended 6 May 2006 received an unqualified audit report and are filed with the Registrar of Companies.

2. The financial information included in this interim statement for the six months to 4 November 2006 does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 and is not audited. In preparing this interim statement, management have considered the requirements of FRS 20 'Share based payments' which is applicable for accounting periods beginning on or after 1 January 2006. There have been no other changes to the accounting policies as used in the full set of accounts for the year ended 6 May 2006. The financial information relating to the year ended 6 May 2006 has been extracted from the statutory accounts for that year which have been filed with the Registrar of Companies and on which the auditors gave an unqualified opinion.

3. The comparative figures for the six months ended 5 November 2005 and for the year ended 6 May 2006 have been adjusted in respect of the adoption of FRS 20 'Share based payments' of £74,000 and £149,000 respectively. The cumulative prior year adjusment at the close of the year ended 6 May 2006 was £413,000.

4. Taxation has been provided at the estimated effective rate of 30% for the year as a whole (2005: 30%).

5. Earnings per share figures for the period are as follows:

	6 months ended 4 Nov 2006 (unaudited) £'000	6 months ended 5 Nov 2005 (unaudited) As restated £'000	Year ended 6 May 2006 (audited) As restated £'000
Basic earnings per share	**(10.8p)**	15.0p	24.3p
Adjusted earnings per share	**11.9p**	23.3p	40.5p
Diluted earnings per share	**(10.6p)**	14.1p	23.0p
Diluted adjusted earnings per share	**11.6p**	22.0p	38.3p

6. Basic earnings per ordinary share is calculated on the basis of profit for the period after tax, divided by the weighted average of ordinary shares in issue in the period of 11,602,801. The comparatives are calculated by reference to the weighted average of shares in issue which was 11,513,802 for the period to 5 November 2005 and 11,537,351 for the year ended 6 May 2006. The adjusted earnings per share and diluted adjusted earnings per share figures have been adjusted to reflect an assumed tax allowable element of goodwill amortisation costs.

NOTES

7. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is 11,834,558 (5 November 2005: 12,190,785, 6 May 2006: 12,203,515). This has been adjusted for the effect of potentially dilutive share options granted under the company's share option schemes.

8. An adjusted earnings per share, which excludes exceptional costs and goodwill amortisation, is calculated on both basic and diluted bases to allow shareholders a clearer understanding of the trading performance of the company.

9. An interim dividend of 2.6p per share (2005: 2.5p) has been recommended and is payable on 16 March 2007 to members on the register on 16 February 2007.

10. This statement is being sent to the shareholders of the company and will be available at the company's Registered Office at Shadsworth Bakery, Sett End Road, Blackburn, BB1 2PT.

FINANCIAL CALENDAR

Interim dividend 2006 paid	16 March 2007
Preliminary Announcement 2006	10 July 2007
Annual General Meeting	7 September 2007
Final Dividend 2006 paid	14 September 2007

Design and print by Jonesandpalmer www.jonesandpalmer.co.uk

Inter Link
Foods PLC

Blackburn BB1 2PT
t: 01254 55495
f: 01254 663602
www.interlinkfoods.co.uk
www.soreen.co.uk