

# isg

Interior Services Group plc 76-78 Charlotte Street, London W1T 4QW  
Tel: +44 (0)20 7247 1717 Fax: +44 (0)20 7499 8719  
Email: [company.secretary@isgplc.com](mailto:company.secretary@isgplc.com) [www.isgplc.com](http://www.isgplc.com)

Designed and produced by [SmallBackRoom.com](http://SmallBackRoom.com)

INTERIOR SERVICES GROUP PLC  
INTERIM ACCOUNTS  
31 DECEMBER 2004

## FINANCIAL HIGHLIGHTS

	2004	2003
■ Profit before tax	£1.2m	£3.4m
■ Profit before tax, goodwill and exceptionals	£1.2m	£3.8m
■ Fee income *	£18.4m	£21.3m
■ Gross value of work performed (GVWP) *	£179m	£239m
■ Turnover *	£163m	£192m
■ Earnings per share	3.07p	8.37p
■ Adjusted earnings per share - before goodwill and exceptional costs	3.19p	9.83p
■ Interim dividend maintained	2.75p	2.75p
■ Net cash	£30.3m	£33m
■ Order book *	£574m	£316m

\* ongoing operations

## CEO HALF YEAR STATEMENT

Profits before tax, goodwill and exceptionals for the first half to 31 December 2004 were £1.2m (2003 £3.8m) on a reduced gross value of work performed of £179m (2003 £239m). This level of trading and profitability is in line with our year end statement in September 2004 and our trading update on 1 December 2004.

In our year end statement we highlighted that volumes of work performed in this first half would be similar to those in the previous second half. In our 1 December 2004 statement we noted that some startup project delays had occurred and that volumes, and therefore profits, would be impacted in the first half. As a result of these delays, first half volumes were down slightly at £179m compared to the previous year's second half of £184m.

Overall profitability levels were in line with our expectations given the effect of these delays and given the different mix of New build / Refurbishment and Fit out work carried out in the period. New build and Refurbishment work has on average an 18 month period between project start and completion whereas Fit out typically has only a 9 month period. This impacts on our profit recognition, and as a greater proportion of the workload was in New build and Refurbishment projects in their early stages, profitability had been reduced.

Despite the reduced turnover levels, net cash has remained strong at £30.3m (2003 £33m). As a result, the dividend is being maintained at 2.75p and will be paid on 26 April 2005 to shareholders on the register on 29 March 2005.

### Strategic Developments

The priorities for this last six months have been to:

- Position ourselves for organic growth as a national construction services business;
- Consider our options to be involved in the PFI schools market;
- Improve the contribution from our overseas businesses; and
- Identify possible acquisition targets.

With work in London representing 85% of our UK workload, there is growth potential for the Group in the Regions. To develop there, we are expanding our service offering to include New build and Refurbishment as well as Fit out. Under new leadership the regional business will operate initially in a Manchester/Leeds/Birmingham triangle out of our existing offices in Manchester. We closed our office in Reading in January.

With the recent improvement in occupier take up figures in London, and the expected resultant demand for new buildings, we have been investing in our winning teams and maintaining key skills and people to be ready for the upswing.

We have not been bidding for any PFI projects in this period. We continue to research ways into this market, especially for schools, but the priority will be to ensure that investment levels and risks to the business are minimised.

In Europe, we have concluded the transfer of our German business into a JV with our Paris based partner. We now have a 36% interest in the Frankfurt based business, in addition to the 20% already held in the French business.

In Asia we have been working closely with our partner to expand that business and return it to profitability on the back of an improving market there. We have a 22% interest in ISG Asia and we are reviewing this level of stake given the longer term potential for this market.

We have also been identifying and considering acquisition targets to expand our UK Regional business. Good quality companies at affordable prices that operate in the areas we seek are rare, but we believe the right acquisition could produce a step change both in our Regional business and in the Group's overall scale.

## Trading

Our business carries out work for occupiers, fitting out space, and for owners who refurbish or build it. The following is a summary of fee income and gross value of work performed (GVWP) on a divisional basis:

6 months to December	FEE INCOME		GVWP	
	2004	2003*	2004	2003*
	£m	£m	£m	£m
Fit out (London & Regions)	9.0	11.1	87	115
New build	3.9	5.7	38	66
Refurbishment	4.2	3.4	39	45
Asia	0.8	0.5	8	10
Europe	0.5	0.6**	7	3
	<u>18.4</u>	<u>21.3</u>	<u>179</u>	<u>239</u>

\* ongoing operations

\*\* restated

Whilst the market and outlook for our services has improved during the period, actual trading conditions in the period continued to be difficult.

With overall volumes down 25% period on period at £179m (2003 £239m) fee income derived from it was £18.4m (2003 £21.3m).

In Fit out, competitive pressure and a continuing dearth of larger projects resulted in an overall drop in fee income of 19% compared to the same period last year. The Regions were particularly weak (down 43%) with London Fit out fee income levelling out after a 3 year decline. The extent of the competitive pressure and weak marketplace in Fit out is evidenced by the closure in the last 6 months of 3 medium sized competitors with an annual combined turnover of circa £150m.

However, we are delighted to have been selected for the largest available Fit out project in London for 12 months - 750,000 ft<sup>2</sup> for Allen & Overy - and believe this reinforces our leading position in the large scale Fit out marketplace.

In our New build business, which started the year with an in-year order book 20% ahead of 2003, we had an unusually large proportion of projects in preconstruction activity and yet to start on site. As a result fee income dropped 32% on volumes temporarily down over 40%, and we expect a commensurate improvement as construction activity commences.

In Refurbishment we generated an increase in fee income of 24%. There is a growing market for Refurbishment and the quality of our offering means we are well positioned to take advantage of this demand from owners.

Combined fee income in Asia and Europe was up 18% on volumes up 15%. Europe contributed £0.2m profit before tax (2003 £0.3m) with Asia reducing its period losses to £0.1m (£0.2m in the previous 6 months).

## Prospects

Our total order book continues to grow, from £407m in June 2004 to £500m in September 2004 and at 31 December it was £574m.

This increased order book will start to flow into increased volumes shortly, with our in year order book for the year commencing 1 July 2005 already over £300m compared to just over £100m at the same time a year ago. The timing and level of recovery in profitability that flows from this increased volume is dependent on the mix of work, and may be affected by further delays in project starts.

With the improvement in the Fit out market now underway, we can expect to see an increasing percentage of our workload to be in higher margin Fit out work. The take up of space in 2004 in London is back up to its previous long term run rates, although much of this is for prelet space where the buildings have yet to be built and which will not come to the Fit out market until 05/06.

It is clear that we are now in a recovery phase within an improving medium to long term outlook for our business. However, in the short term, the precise timing and extent of that recovery remains variable.

**David King**  
Chief Executive

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

6 months ended 31 December 2004

Unaudited

		6 months ended 31 December 2004	6 months ended 31 December 2003	(Audited) 12 months ended 30 June 2004
	Notes	£'000	£'000	£'000
Gross value of work performed	2	179,427	254,099	445,779
Less: relating to construction management share of joint ventures' and associates' turnover		(12,384) (3,666)	(44,282) (4,737)	(76,913) (7,507)
<b>TURNOVER</b>				
Group turnover - continuing operations	2, 3	163,377	205,080	361,359
Cost of sales	3	(156,972)	(194,577)	(343,696)
Gross profit	3	6,405	10,503	17,663
Administrative expenses:				
Amortisation of goodwill		(30)	(365)	(630)
Exceptional disposal costs		-	-	(460)
Other administrative expenses		(5,867)	(7,302)	(13,567)
	3	(5,897)	(7,667)	(14,657)
<b>OPERATING PROFIT</b>				
Group operating profit - continuing operations	3	508	2,836	3,006
Share of operating profit in joint ventures and associates		60	110	95
<b>Total operating profit</b>		<b>568</b>	<b>2,946</b>	<b>3,101</b>
Loss on disposal of subsidiaries		-	-	(1,829)
Net interest receivable and similar income		650	498	1,030
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	2	<b>1,218</b>	<b>3,444</b>	<b>2,302</b>
Tax on profit on ordinary activities		(444)	(1,344)	(1,835)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>774</b>	<b>2,100</b>	<b>467</b>
Equity minority interests		-	(10)	-
<b>PROFIT FOR THE FINANCIAL PERIOD/YEAR</b>		<b>774</b>	<b>2,090</b>	<b>467</b>
Equity dividends paid and proposed	5	(695)	(690)	(2,070)
<b>RETAINED PROFIT/(LOSS) FOR THE FINANCIAL PERIOD/YEAR</b>		<b>79</b>	<b>1,400</b>	<b>(1,603)</b>
Basic earnings per ordinary share	6	3.07p	8.37p	1.86p
Diluted earnings per ordinary share	6	3.05p	8.30p	1.84p
Adjusted earnings per ordinary share before goodwill amortisation/impairment, exceptional administrative costs and loss on disposal of subsidiaries	6	3.19p	9.83p	13.48p
Dividend per ordinary share	5	2.75p	2.75p	8.25p

## CONSOLIDATED BALANCE SHEET

31 December 2004

Unaudited

		6 months ended 31 December 2004	6 months ended 31 December 2003	(Audited) 12 months ended 30 June 2004
	Notes	£'000	£'000	£'000
<b>FIXED ASSETS</b>				
Intangible assets		931	8,092	961
Tangible fixed assets		661	1,101	686
Investment in joint ventures:				
Share of gross assets		-	118	-
Share of gross liabilities		-	(144)	-
Investment in associates		1,151	1,313	1,208
Other fixed asset investments		-	1,558	-
<b>Total investments</b>		<b>1,151</b>	<b>2,845</b>	<b>1,208</b>
<b>TOTAL FIXED ASSETS</b>		<b>2,743</b>	<b>12,038</b>	<b>2,855</b>
<b>CURRENT ASSETS</b>				
Stocks		115	202	121
Debtors: amounts falling due within one year		53,341	55,448	59,636
Debtors: amounts falling due after more than one year		6,557	4,765	5,622
Cash at bank and in hand		30,364	33,868	31,387
		90,377	94,283	96,766
<b>CREDITORS: amounts falling due within one year</b>		<b>(80,434)</b>	<b>(90,913)</b>	<b>(87,243)</b>
<b>NET CURRENT ASSETS</b>		<b>9,943</b>	<b>3,370</b>	<b>9,523</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>12,686</b>	<b>15,408</b>	<b>12,378</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		<b>-</b>	<b>(199)</b>	<b>-</b>
<b>EQUITY MINORITY INTERESTS</b>		<b>-</b>	<b>(10)</b>	<b>-</b>
<b>TOTAL NET ASSETS</b>		<b>12,686</b>	<b>15,199</b>	<b>12,378</b>
<b>CAPITAL AND RESERVES</b>				
Called up share capital		262	259	260
Share premium account	8	9,482	9,241	9,281
Other reserves	8	436	1,607	436
Own shares	8	(1,570)	(1,763)	(1,573)
Profit and loss account	8	4,076	5,855	3,974
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	7	<b>12,686</b>	<b>15,199</b>	<b>12,378</b>

## CONSOLIDATED CASH FLOW STATEMENT

6 months ended 31 December 2004

Unaudited

	Notes	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Net cash flow from operating activities	9	(1,797)	1,347	(810)
Dividends from associates		66	-	-
Returns on investments and servicing of finance	10	493	497	1,022
Taxation		81	(946)	(1,549)
Capital expenditure and financial investment	10	(153)	(79)	(325)
Acquisitions and disposals	10	1,464	(285)	979
Equity dividends paid		(1,380)	(1,203)	(1,900)
Cash outflow before financing		(1,226)	(669)	(2,583)
Financing:				
Issue of shares (net)		203	55	96
Capital element of payments under hire purchase contracts		-	(15)	-
Repayment of long term debt		-	(4,313)	(4,313)
Net cash outflow from financing		203	(4,273)	(4,217)
Decrease in cash in the period/year	11	(1,023)	(4,942)	(6,800)
Reconciliation of net cash flow to movement in net funds (Note 11):				
Decrease in cash in the period/year		(1,023)	(4,942)	(6,800)
Cash outflow from debt financing		-	4,328	4,337
Change in net debt resulting from cash flows		(1,023)	(614)	(2,463)
Change in net debt resulting from non-cash changes		-	224	349
Net cash brought forward		31,315	33,429	33,429
Net cash carried forward		30,292	33,039	31,315

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

6 months ended 31 December 2004

Unaudited

	Notes	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Profit for the financial period/year:				
Group		756	2,015	445
Joint ventures and associates		18	75	22
Unrealised gain arising on investments		774	2,090	467
Currency translation differences: Subsidiaries		-	436	436
Currency translation differences: Subsidiaries		35	3	(24)
Currency translation differences: Joint ventures and associates		(12)	(106)	(128)
Total recognised gains and losses relating to the period/year		797	2,423	751

## NOTES TO THE ACCOUNTS

Unaudited

### 1. ACCOUNTING POLICIES

The Interim Accounts, which are unaudited, have been prepared on the basis of the accounting policies set out in the 2004 group accounts.

### 2. SEGMENTAL INFORMATION

Gross value of work performed, turnover and profit/(loss) before taxation may be analysed as follows:

	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Gross value of work performed by origin and destination:			
United Kingdom	164,095	241,182	427,999
Europe	7,001	2,535	3,912
Asia	8,331	10,382	13,868
	<b>179,427</b>	<b>254,099</b>	<b>445,779</b>
Turnover by origin and destination:			
United Kingdom	157,568	203,439	359,099
Europe	7,001	2,535	3,912
Asia	2,474	3,843	5,855
	<b>167,043</b>	<b>209,817</b>	<b>368,866</b>
Less: Share of joint ventures' and associates' turnover	(3,666)	(4,737)	(7,507)
	<b>163,377</b>	<b>205,080</b>	<b>361,359</b>
Profit/(loss) on ordinary activities before taxation:			
United Kingdom	1,060	3,200	2,169
Europe	239	270	322
Asia	(81)	(26)	(189)
	<b>1,218</b>	<b>3,444</b>	<b>2,302</b>
Fee income, which we consider to be a key indicator, is derived as follows:			
Turnover	163,377	205,080	361,359
Trade contractor costs recharged	(145,443)	(179,179)	(313,571)
	<b>17,934</b>	<b>25,901</b>	<b>47,788</b>
Interest receivable	497	498	1,114
Less: Attributable to minority interests	(2)	(15)	-
Total fee income	<b>18,429</b>	<b>26,384</b>	<b>48,902</b>

The majority of net assets are held in the United Kingdom.

The group has one area of activity which is to provide construction services to its customers in the UK and internationally.

In accordance with industry practice, gross value of work performed includes £12,384,000 (December 2003 - £44,282,000; June 2004 - £76,913,000) in respect of the construction costs of projects on which the company acts as construction manager. These construction costs are billed directly to the client and are not invoiced via the group.

### 3. ANALYSIS OF ONGOING OPERATIONS

On 30 April 2004, the group disposed of its interest in the ordinary share capital of ISG Occupancy Limited and all of its subsidiaries. The results of those companies up to the date of disposal and the comparatives for the 6 months ended 31 December 2003 are shown under disposed operations.

	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
<b>Turnover:</b>			
ongoing operations	163,377	191,649	339,033
disposed operations	-	13,431	22,326
	<u>163,377</u>	<u>205,080</u>	<u>361,359</u>
<b>Cost of sales:</b>			
ongoing operations	156,972	182,649	323,820
disposed operations	-	11,928	19,876
	<u>156,972</u>	<u>194,577</u>	<u>343,696</u>
<b>Gross profit:</b>			
ongoing operations	6,405	9,000	15,213
disposed operations	-	1,503	2,450
	<u>6,405</u>	<u>10,503</u>	<u>17,663</u>
<b>Administrative expenses (see below):</b>			
ongoing operations	5,897	5,913	11,445
disposed operations	-	1,754	3,212
	<u>5,897</u>	<u>7,667</u>	<u>14,657</u>
<b>Operating profit/(loss):</b>			
ongoing operations	508	3,087	3,768
disposed operations	-	(251)	(762)
	<u>508</u>	<u>2,836</u>	<u>3,006</u>
Included within Administrative expenses are the following amounts:			
<b>Goodwill amortisation:</b>			
ongoing operations	30	60	121
disposed operations	-	305	509
	<u>30</u>	<u>365</u>	<u>630</u>

### 4. RECONCILIATION OF ADJUSTED OPERATING PROFIT AND ADJUSTED PROFIT BEFORE TAXATION

	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Total operating profit	568	2,946	3,101
Amortisation of goodwill	30	365	630
Exceptional costs	-	-	460
Adjusted operating profit	<u>598</u>	<u>3,311</u>	<u>4,191</u>
Profit before taxation	1,218	3,444	2,302
Amortisation of goodwill	30	365	630
Exceptional costs	-	-	460
Loss on disposal of subsidiaries	-	-	1,829
Adjusted profit before taxation	<u>1,248</u>	<u>3,809</u>	<u>5,221</u>

We use adjusted operating profit and adjusted profit before taxation as measures to facilitate comparisons between periods.

### 5. EQUITY DIVIDENDS PAID AND PROPOSED

	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Ordinary dividends on equity shares	<u>695</u>	<u>690</u>	<u>2,070</u>
Ordinary dividends per share	<u>2.75p</u>	<u>2.75p</u>	<u>8.25p</u>

The interim dividend of 2.75p per share will be paid on 26 April 2005.

## 6. EARNINGS PER SHARE

	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Profit for the financial period/year	774	2,090	467
Basic and diluted earnings attributable to ordinary shareholders	774	2,090	467
Amortisation of goodwill	30	365	630
Post-tax exceptional costs	-	-	460
Loss on disposal of subsidiaries	-	-	1,829
Adjusted earnings attributable to ordinary shareholders	804	2,455	3,386
	Number £'000	Number £'000	Number £'000
Weighted average number of ordinary shares	25,236	24,962	25,124
Dilutive share options	132	223	216
Diluted weighted average number of ordinary shares	25,368	25,185	25,340

## 7. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Profit for the financial period/year	774	2,090	467
Equity dividends	(695)	(690)	(2,070)
Foreign exchange loss	79	1,400	(1,603)
Unrealised gain arising on investments	23	(103)	(152)
Movement in own shares	-	436	436
Proceeds from share issue	3	94	284
	203	126	167
Net addition to/(deduction from) shareholders' funds	308	1,953	(868)
Opening shareholders' funds	12,378	13,246	13,246
Closing shareholders' funds	12,686	15,199	12,378

## 8. GROUP RESERVES

	Share premium £'000	Other reserves £'000	Own shares £'000	Profit and loss account £'000
Balance at 1 July 2004	9,281	436	(1,573)	3,974
Profit for the period	-	-	-	774
Equity dividends	-	-	-	(695)
Share premium arising on issue of shares	201	-	-	-
Movement in own shares	-	-	3	-
Exchange differences	-	-	-	23
Balance at 31 December 2004	9,482	436	(1,570)	4,076

## 9. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Operating profit	508	2,836	3,006
Depreciation charges	184	464	691
Amortisation of goodwill	30	365	630
(Profit)/loss on sale of tangible fixed assets	(3)	2	42
Decrease in stocks	6	27	57
Decrease/(increase) in debtors	4,060	7,863	(1,886)
Decrease in creditors	(6,582)	(10,210)	(3,350)
Net cash (outflow)/inflow from operating activities	(1,797)	1,347	(810)

## 10. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	6 months ended 31 December 2004 £'000	6 months ended 31 December 2003 £'000	(Audited) 12 months ended 30 June 2004 £'000
Returns on investments and servicing of finance:			
Interest received	525	591	1,149
Interest paid	(32)	(94)	(127)
Net cash inflow for returns on investments and servicing of finance	493	497	1,022
Capital expenditure and financial investment:			
Payments to acquire tangible fixed assets	(173)	(207)	(569)
Receipts from sales of tangible fixed assets	17	34	130
Receipts from sales of financial investments	3	94	114
Net cash outflow for capital expenditure and financial investment	(153)	(79)	(325)
Acquisitions and disposals:			
Purchase of subsidiary undertakings	-	(285)	(410)
Proceeds from sale of subsidiary undertakings	1,409	-	1,561
Net overdraft disposed of on sale of subsidiary undertakings	-	-	(172)
Proceeds from sale of joint venture	55	-	-
Net cash inflow/(outflow) for acquisitions and disposals	1,464	(285)	979

## 11. ANALYSIS OF NET FUNDS

	30 June 2004 £'000	Cash flow £'000	31 December 2004 £'000
Cash at bank and in hand	31,387	(1,023)	30,364
Overdraft	-	-	-
		(1,023)	
Debt due within one year	(72)	-	(72)
	<u>31,315</u>	<u>(1,023)</u>	<u>30,292</u>

## 12. APPROVAL OF INTERIM ACCOUNTS

The Interim Accounts were approved by the Board of Directors on 14 March 2005.

## 13. STATUS OF FINANCIAL INFORMATION IN THIS ANNOUNCEMENT

The financial information contained in this report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The financial information for the six months to 31 December 2004 and the six months to 31 December 2003 is unaudited and has not been reviewed by the group's auditors. The year ended 30 June 2004 comparative figures have been extracted from the audited accounts. The accounts for the year ended 30 June 2004, on which the auditors issued an unqualified audit report and which did not contain a statement under either section 237 (2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.