

# 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 2005

## FINANCIAL HIGHLIGHTS

	<b>6 months ended 31 December 2005</b>	6 months ended 31 December 2004
■ Profit before tax (before goodwill)	£3.57m	£1.25m
■ Profit before tax	£3.09m	£1.22m
■ Fee income	£36m	£18m
■ Gross value of work performed (GVWP)	£326m	£179m
■ Basic earnings per share	7.48p	3.07p
■ Adjusted earnings per share (before goodwill)	9.34p	3.19p
■ Interim dividend	3.00p	2.75p
■ Net cash	£21.4m	£30.3m
■ Order book	£778m	£574m

## CEO HALF YEAR STATEMENT

The strong improvement in trading witnessed in the second half of the last financial year has continued to gather momentum with profits before tax and goodwill in the first half to 31 December 2005 increasing to £3.6m (2004: £1.2m). Included in these results is a 3-month operating profit contribution before goodwill of £1.2m from the Propensity Group, acquired on 28 September 2005.

This significant profit improvement was achieved on volumes of £326m (2004: £179m), up over 80%, as the Group's substantially increased order book started to flow through to turnover. Operating cash flow remained strong, resulting in gross cash of £31.8m (2004: £30.3m). Net cash, after a £9.2m loan to finance the Propensity acquisition, was £21.4m. The interim dividend is being increased by 9% to 3.0p and will be paid on 11 April 2006 to shareholders on the register on 17 March 2006.

### Strategic Developments

Our three priorities for the last six months have been to:

#### ■ Conclude the acquisition of Propensity Group as part of our strategy for regional growth

The £200m p.a. turnover Propensity Group was acquired for an initial consideration of £12.5m on 28 September 2005. Propensity trades under three brand names:

- **Totty Construction Group** – a regional construction services group focused on the North of England serving the public, residential and commercial sectors.
- **Jackson Construction Group** – a regional construction services group concentrating on the East of England serving the public, social housing and commercial sectors.
- **Dean & Bowes** – a fitting-out and refurbishment service provider specialising in the retail market.

Under the terms of the acquisition there is a potential deferred consideration, based on the achievement of minimum and maximum profit targets to 30 June 2006 which can increase the total consideration to £16.5m. Following the acquisition Philip Brierley, the CEO of Propensity, joined the ISG Board.

#### ■ Take advantage of market conditions to deliver organic growth

To benefit from improving market conditions in late 2004, we expanded the ISG InteriorExterior offering in the Regions to include New Build and Refurbishment services as well as our existing Fit Out service. The new management team brought in to do this is now well established and has started to grow the business in line with our projections. Their most recent significant success is for the £25m redevelopment of Doncaster Racecourse.

Organic growth in London during the first half has focused on the development of a new Fit Out team to tackle projects of £1m - £5m, and this team has had some initial success in taking the InteriorExterior brand into a new market segment. In the longer term it will not only produce growth but also improve our resilience to fluctuations in the large scale Fit Out market where we have been traditionally focused.

## ■ Further develop the potential of our overseas investments

In Europe our partner Alpha has been responsible for day-to-day running of the Paris and Frankfurt offices. This arrangement works well and the businesses have benefited from cross-selling opportunities. Alpha, whose origins are in high end retail fit out, has relationships with most of France's luxury brands businesses and we have started another JV with them in London to serve their clients here. This 51% Alpha / 49% ISG JV opens up a further niche in the London Fit Out market.

We reported in September 2005 that the rationale for our 22% holding in ISG Asia was being reviewed due to the non-aligned objectives of our partner. Whilst some uncertainty remains, we are now hopeful that we will be able to structure a more substantial involvement of ISG in ISG Asia that will work for both parties in the longer term.

## Trading

Our business carries out work for occupiers fitting out space, and for owners who build it or refurbish it. The following is a summary of the fee income we earn from managing those projects, and the gross value of work performed on those projects:

6 months to 31 December	FEE INCOME		GVWP	
	2005 £m	2004 £m	2005 £m	2004 £m
LONDON				
Fit Out	10.2	6.7	111	67
Refurbishment	6.8	4.2	77	39
New Build	5.4	3.9	65	38
REGIONS				
Propensity	8.6	-	44	-
InteriorExterior	3.1	2.3	18	20
OVERSEAS				
Asia	1.0	0.8	8	8
Europe	0.6	0.5	3	7
	<b>35.7</b>	<b>18.4</b>	<b>326</b>	<b>179</b>

Fee income grew strongly over the corresponding period last year, up 94% at £35.7m (2004: £18.4m) on volumes, also up substantially, of £326m (2004: £179m). This substantial increase in group fee income includes a first time contribution to fee income of £8.6m from Propensity Group on volumes of £44m. Excluding Propensity, fee income and volumes still increased by 47% and 57% respectively.

In London a strong performance in all three services, but especially in Fit Out and in Refurbishment, resulted in fee income increasing by over 50%.

In the Regions the new InteriorExterior team based in Manchester increased fee income by 35% as newly won projects started on site. Volumes in Propensity were in line with our expectations at £44m. Profit and fee income derived from these volumes was higher than would normally be expected on an annualised basis due to the seasonal bias to trading in Dean & Bowes in the fourth quarter of the calendar year.

In Europe fee income improved by 20%, despite lower volumes, with profits up 86% at £444k over the same period last year. Fees earned in Asia increased by 25% on level volumes resulting in a modest profit of £32k. This is a welcome improvement after a loss of £81k in the same period last year.

Collectively this much improved trading position resulted in the margin on fee income across the Group increasing from 6.8% to 10.0%.

## Management

With the Group's growth firmly re-established, it is important to put in place the management team which will take ISG to the next level. After 17 years running the business I co-founded in 1989, now is the right time for new leadership. Having relinquished the Chairmanship in 2004, at the end of this financial year I will step down from the Board. The Board is delighted to announce that David Lawther, currently Finance Director, is to become the new CEO. The Board and I have worked closely with David for over five years and we are delighted that he has accepted the role. He knows our sector, our clients and, of course, our people. However, I will not be severing links with the Company entirely as I have been asked to continue in a consultancy role. I will also be maintaining my involvement with ISG in Asia.

## Prospects

The Group's total order book has continued to grow, up from £574m in December 2004 to £778m in December 2005 after including the Propensity order book of £170m. There is a continuing overall strong demand in all our sectors and geographies whether publicly or privately funded.

In London the higher level of take up of offices by occupiers over the last 18 months looks set to continue, with a number of significant projects soon to be awarded. Owners of property have also started to commit to an increasing number of office projects in London.

Regionally, we are likely to benefit from our organic growth plans into new products as well as from a strong market in non-PFI publicly funded projects which is important to the businesses acquired through Propensity.

The outlook for the business is therefore very positive. Volumes in the second half of this year are likely to increase further. Combined with a bias towards higher profitability in the second half, results for the full year are likely to be ahead of current market expectations.

**David King**  
Chief Executive

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

6 months ended 31 December 2005

Unaudited

	Notes	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 £'000	(Audited) 12 months ended 30 June 2005 £'000
Gross value of work performed	2	325,880	179,427	385,372
Less: relating to construction management share of joint ventures' and associates' turnover		(33,479) (4,937)	(12,384) (3,666)	(28,157) (8,237)
<b>TURNOVER</b>				
Continuing operations		243,788	163,377	348,978
Acquired operations		43,676	-	-
<b>Group turnover</b>	2	287,464	163,377	348,978
Cost of sales		(274,431)	(156,972)	(334,742)
Gross profit		13,033	6,405	14,236
Administrative expenses:				
Amortisation of goodwill		(482)	(30)	(60)
Other administrative expenses		(10,226)	(5,867)	(11,494)
		(10,708)	(5,897)	(11,554)
<b>OPERATING PROFIT</b>				
Continuing operations		1,585	508	2,682
Acquired operations		740	-	-
<b>Group operating profit - continuing operations</b>		2,325	508	2,682
Share of operating profit in joint ventures and associates		127	60	184
<b>Total operating profit</b>		2,452	568	2,866
Profit on disposal of subsidiaries		-	-	12
Net interest receivable and similar income		637	650	1,374
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	2	3,089	1,218	4,252
Tax on profit on ordinary activities		(1,151)	(444)	(1,468)
<b>PROFIT FOR THE FINANCIAL PERIOD/YEAR</b>		1,938	774	2,784
<b>Basic earnings per ordinary share</b>	5	7.48p	3.07p	10.99p
<b>Diluted earnings per ordinary share</b>	5	7.41p	3.05p	10.93p
<b>Proposed ordinary dividends per share</b>	4	3.00p	2.75p	9.00p

## CONSOLIDATED BALANCE SHEET

31 December 2005

Unaudited

	Notes	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 Restated * £'000	(Audited) 12 months ended 30 June 2005 Restated * £'000
<b>FIXED ASSETS</b>				
Intangible assets		34,063	931	901
Tangible fixed assets		2,419	661	573
Investment in associates		1,329	1,151	1,251
<b>TOTAL FIXED ASSETS</b>		37,811	2,743	2,725
<b>CURRENT ASSETS</b>				
Stocks		2,137	115	122
Debtors: amounts falling due within one year		115,565	53,341	64,007
Debtors: amounts falling due after more than one year		7,523	6,557	6,098
Cash at bank and in hand		32,751	30,364	34,149
		157,976	90,377	104,376
<b>CREDITORS: amounts falling due within one year</b>		(171,447)	(79,739)	(92,342)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		(13,471)	10,638	12,034
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		24,340	13,381	14,759
<b>CREDITORS: amounts falling due after one year</b>		(7,316)	-	-
<b>TOTAL NET ASSETS</b>		17,024	13,381	14,759
<b>CAPITAL AND RESERVES</b>				
Called up share capital		271	262	262
Share premium account	8	11,480	9,482	9,574
Other reserves	8	436	436	436
Own shares	8	(1,568)	(1,570)	(1,569)
Profit and loss account	8	6,405	4,771	6,056
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	7	17,024	13,381	14,759

\* Comparative figures have been restated (see note 1).

## CONSOLIDATED CASH FLOW STATEMENT

6 months ended 31 December 2005

Unaudited

	Notes	6 months	6 months	(Audited)
		ended	ended	12 months
		31 December	31 December	30 June
		2005	2004	2005
		£'000	£'000	£'000
Net cash inflow/(outflow) from operating activities	9	5,179	(1,797)	455
Dividends from associates		57	66	121
Returns on investments and servicing of finance	10	632	493	1,079
Taxation		(584)	81	(413)
Capital expenditure and financial investment	10	(215)	(153)	(232)
Acquisitions and disposals	10	(15,244)	1,464	3,537
Equity dividends paid		(1,660)	(1,380)	(2,080)
Cash outflow/(inflow) before financing		(11,835)	(1,226)	2,467
Financing:				
Issue of shares (net)		137	203	295
Capital element of payments under hire purchase contracts		(5)	-	-
Bank loans		9,882	-	-
Repayment of long term debt		(485)	-	-
Net cash inflow from financing		9,529	203	295
(Decrease)/increase in cash in the period/year	11	(2,306)	(1,023)	2,762
Reconciliation of net cash flow to movement in net funds (Note 11):				
(Decrease)/increase in cash in the period/year		(2,306)	(1,023)	2,762
Cash inflow from debt financing		(9,388)	-	-
Change in net debt resulting from cash flows		(11,694)	(1,023)	2,762
Loans & hire purchase contracts acquired with subsidiary		(1,012)	-	-
Change in net debt resulting from non-cash changes		(4)	-	72
		(12,710)	(1,023)	2,834
Net cash brought forward		34,149	31,315	31,315
Net cash carried forward		21,439	30,292	34,149

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

6 months ended 31 December 2005

Unaudited

	Notes	6 months	6 months	(Audited)
		ended	ended	12 months
		31 December	31 December	30 June
		2005	2004	2005
		£'000	£'000	£'000
Profit for the financial period/year:				
Group		1,860	756	2,682
Joint ventures and associates		78	18	102
		1,938	774	2,784
Currency translation differences: Subsidiaries		14	35	(8)
Currency translation differences: Joint ventures and associates		57	(12)	6
Total recognised gains and losses relating to the period/year		2,009	797	2,782

## 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 2005 group accounts with the exception of the adoption of Financial Reporting Standard 21 Events After the Balance Sheet Date (FRS21).

The adoption of FRS21 has resulted in the group restating its closing net assets for the prior periods to exclude dividends proposed but not yet declared at the balance sheet date. As a result the closing net assets increased at 31 December 2004 by £695,000 and at 30 June 2005 by £1,660,000. The opening net assets for the six month period ended 31 December 2004 increased by £1,380,000.

### 2. SEGMENTAL INFORMATION

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

	6 months	6 months	(Audited)
	ended	ended	12 months
	31 December	31 December	30 June
	2005	2004	2005
	£'000	£'000	£'000
Gross value of work performed by origin and destination:			
United Kingdom	314,699	164,095	360,230
Europe	2,849	7,001	8,604
Asia	8,332	8,331	16,538
	325,880	179,427	385,372
Turnover by origin and destination:			
United Kingdom	285,724	157,568	342,690
Europe	2,849	7,001	8,604
Asia	3,828	2,474	5,921
	292,401	167,043	357,215
Less: Share of joint ventures' and associates' turnover	(4,937)	(3,666)	(8,237)
	287,464	163,377	348,978
Profit/(loss) on ordinary activities before taxation:			
United Kingdom	2,613	1,060	3,954
Europe	444	239	331
Asia	32	(81)	(33)
	3,089	1,218	4,252
Fee income, which we consider to be a key indicator, is derived as follows:			
Turnover	287,464	163,377	348,978
Trade contractor costs recharged	(252,322)	(145,443)	(309,945)
	35,142	17,934	39,033
Interest receivable	552	497	1,079
Less: Attributable to minority interests	-	(2)	-
Total fee income	35,694	18,429	40,112

## NOTES TO THE ACCOUNTS (CONTINUED)

Unaudited

### 2. SEGMENTAL INFORMATION (CONTINUED)

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

The group has one class of business 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 £33,479,000 (December 2004 - £12,384,000; June 2005 - £28,157,000) 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. RECONCILIATION OF ADJUSTED OPERATING PROFIT AND ADJUSTED PROFIT BEFORE TAXATION

	<b>6 months ended 31 December 2005 £'000</b>	6 months ended 31 December 2004 £'000	(Audited) 12 months ended 30 June 2005 £'000
Total operating profit	2,452	568	2,866
Amortisation of goodwill	482	30	60
Adjusted operating profit	<u>2,934</u>	<u>598</u>	<u>2,926</u>
Profit before taxation	3,089	1,218	4,252
Amortisation of goodwill	482	30	60
Profit on disposal of subsidiaries	-	-	(12)
Adjusted profit before taxation	<u>3,571</u>	<u>1,248</u>	<u>4,300</u>

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

### 4. EQUITY DIVIDENDS PROPOSED

	<b>6 months ended 31 December 2005 £'000</b>	6 months ended 31 December 2004 £'000	(Audited) 12 months ended 30 June 2005 £'000
Proposed ordinary dividends on equity shares	820	695	1,665
Proposed ordinary dividends per share	<u>3.00p</u>	<u>2.75p</u>	<u>9.00p</u>

The proposed interim dividend of 3p per share was approved by the Board on 6 March 2006 and will be paid on 11 April 2006. As required by FRS21, the dividend has not been included as a liability as at 31 December 2005.

## NOTES TO THE ACCOUNTS (CONTINUED)

Unaudited

### 5. EARNINGS PER SHARE

	<b>6 months ended 31 December 2005 £'000</b>	6 months ended 31 December 2004 £'000	(Audited) 12 months ended 30 June 2005 £'000
Profit for the financial period/year	1,938	774	2,784
Basic and diluted earnings attributable to ordinary shareholders	1,938	774	2,784
Amortisation of goodwill	482	30	60
Profit on disposal of subsidiaries	-	-	(12)
Adjusted earnings attributable to ordinary shareholders	<u>2,420</u>	<u>804</u>	<u>2,832</u>
Weighted average number of ordinary shares	25,899	25,236	25,338
Dilutive share options	247	132	124
Diluted weighted average number of ordinary shares	<u>26,146</u>	<u>25,368</u>	<u>25,462</u>
Basic earnings per ordinary share	7.48p	3.07p	10.99p
Diluted earnings per ordinary share	7.41p	3.05p	10.93p
Adjusted basic earnings per ordinary share before goodwill amortisation and profit on disposal of subsidiaries	<u>9.34p</u>	<u>3.19p</u>	<u>11.18p</u>
Adjusted diluted earnings per ordinary share before goodwill amortisation and profit on disposal of subsidiaries	<u>9.26p</u>	<u>3.17p</u>	<u>11.12p</u>

### 6. BORROWINGS

Borrowings are included in the balance sheet as part of creditors due within one year and creditors due after one year.

	<b>31 December 2005 £'000</b>	31 December 2004 £'000	(Audited) 30 June 2005 £'000
Bank overdrafts	908	-	-
Bank loans	10,347	-	-
Obligations under hire purchase contracts	57	-	-
	<u>11,312</u>	<u>-</u>	<u>-</u>
<b>Analysis of repayments</b>			
Bank loans and overdrafts:			
within one year on demand	4,215	-	-
between one and two years	1,940	-	-
between two and five years	5,335	-	-
Obligations under hire purchase contracts			
within one year on demand	57	-	-
Less: Unamortised finance costs of debt	(235)	-	-
	<u>11,312</u>	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS (CONTINUED)

Unaudited

7. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 £'000	(Audited) 12 months ended 30 June 2005 £'000
Profit for the financial period/year	1,938	774	2,784
Equity dividends paid	(1,660)	(1,380)	(2,080)
	278	(606)	704
Foreign exchange profit/(loss)	71	23	(2)
Movement in own shares	1	3	4
Proceeds from share issue	1,915	203	295
Net addition to shareholders' funds	2,265	(377)	1,001
Opening shareholders' funds as previously stated	13,099	12,378	12,378
impact of FRS21 adoption *	1,660	1,380	1,380
Opening shareholders' funds as restated *	14,759	13,758	13,758
Closing shareholders' funds	17,024	13,381	14,759

\* See note 1

8. GROUP RESERVES

	Share premium £'000	Other reserves £'000	Own shares £'000	Profit and loss account £'000
Balance at 30 June 2005 as previously stated	9,574	436	(1,569)	4,396
impact of FRS21 adoption *	-	-	-	1,660
At 1 July 2005 as restated *	9,574	436	(1,569)	6,056
Profit for the period	-	-	-	1,938
Equity dividends paid	-	-	-	(1,660)
Share premium arising on issue of shares	1,906	-	-	-
Movement in own shares	-	-	1	-
Exchange differences	-	-	-	71
Balance at 31 December 2005	11,480	436	(1,568)	6,405

\* See note 1

NOTES TO THE ACCOUNTS (CONTINUED)

Unaudited

9. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 £'000	(Audited) 12 months ended 30 June 2005 £'000
Operating profit	2,325	508	2,682
Depreciation charges	282	184	347
Amortisation of goodwill	482	30	60
(Profit)/loss on sale of tangible fixed assets	(2)	(3)	2
(Increase)/decrease in stocks	(76)	6	(1)
(Increase)/decrease in debtors	(8,581)	4,060	(8,511)
Increase/(decrease) in creditors	10,749	(6,582)	5,876
Net cash inflow/(outflow) from operating activities	5,179	(1,797)	455

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

	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 £'000	(Audited) 12 months ended 30 June 2005 £'000
<b>Returns on investments and servicing of finance:</b>			
Interest received	870	525	1,140
Interest paid	(238)	(32)	(61)
Net cash inflow for returns on investments and servicing of finance	632	493	1,079
<b>Capital expenditure and financial investment:</b>			
Payments to acquire tangible fixed assets	(217)	(173)	(284)
Receipts from sales of tangible fixed assets	2	17	49
Receipts from sales of financial investments	-	3	3
Net cash outflow for capital expenditure and financial investment	(215)	(153)	(232)
<b>Acquisitions and disposals:</b>			
Purchase of subsidiary undertakings	(11,537)	-	(72)
Proceeds from sale of subsidiary undertakings	-	1,409	3,609
Net overdraft acquired with subsidiaries	(3,707)	-	-
Proceeds from sale of joint venture	-	55	-
Net cash (outflow)/inflow for acquisitions and disposals	(15,244)	1,464	3,537

## NOTES TO THE ACCOUNTS (CONTINUED)

Unaudited

### 11. ANALYSIS OF NET FUNDS

	30 June 2005 £'000	Cash flow £'000	Acquisitions excluding cash and overdrafts £'000	Non-cash changes £'000	31 December 2005 £'000
Cash at bank and in hand	34,149	(1,398)	-	-	32,751
Overdraft	-	(908)	-	-	(908)
		(2,306)			
Debt due after one year	-	(7,096)	-	-	(7,096)
Debt due within one year	-	(2,297)	(950)	(4)	(3,251)
Hire purchase contracts	-	5	(62)	-	(57)
	<u>34,149</u>	<u>(11,694)</u>	<u>(1,012)</u>	<u>(4)</u>	<u>21,439</u>

### 12. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 28 September 2005 the group acquired 100% of the issued share capital of Propensity Group Limited. The fair value of the assets and liabilities acquired are detailed below and have been determined on a provisional basis as the group is currently in the process of finalising the balance sheet as at the date of acquisition.

	<b>£'000</b>
Tangible fixed assets	1,911
Stocks	1,939
Other assets and liabilities	(16,338)
Bank overdrafts	(3,707)
Bank loans and hire purchase contracts	(1,012)
	<u>(17,207)</u>
Goodwill	33,644
Total consideration	<u>16,437</u>
Satisfied by:	
Cash	10,680
Shares	1,778
Deferred cash	1,743
Deferred shares	1,379
Directly attributable costs	857
	<u>16,437</u>

### 13. APPROVAL OF INTERIM ACCOUNTS

The Interim Accounts were approved by the Board of Directors on 6 March 2006.

### 14. 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 2005 and the six months to 31 December 2004 is unaudited and has not been reviewed by the group's auditors. The year ended 30 June 2005 comparative figures have been extracted from the audited accounts and restated to comply with FRS21. The accounts for the year ended 30 June 2005, 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.