

ESSENDEN

INTERIM STATEMENT 2011

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Directors, secretary and advisors

Directors:

Rory Macnamara	(Chairman)
Nick Basing	(Chief Executive Officer)
Richard Darwin	(Finance Director)
Christopher Mills	(Non-Executive Director)
Nicholas Oppenheim	(Non-Executive Director)
Kailayapillai Ranjan	(Non-Executive Director)

Company Secretary:

Richard Darwin

Registered Office:

3rd Floor, 2-4 St George's Road, Wimbledon, London SW19 4DP Tel: 020 8879 3932

Nominated Advisor:

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Solicitors:

Herbert Smith LLP, Exchange House, Primrose Street, London, EC2A 2HS.

Stockbroker:

Oriel Securities Ltd, 125, Wood Street, London, EC2V 7AN.

Public Relations:

College Hill, The Registry, Royal Mint Court, London, EC3N 4QN.

Auditors:

PricewaterhouseCoopers LLP, 1, Embankment Place, London, WC2N 6RH.

Registrars:

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham Road, Beckenham, Kent, BR3 4TU.

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Company number:

06838368

Country of registration:

England and Wales

CHIEF EXECUTIVE'S STATEMENT

During the last six months further critical steps have been taken towards the turnaround of Essenden's business. Management have implemented many initiatives delivering operational change, streamlined costs further and accelerated the trial of new revenue generating ideas, whilst facing difficult economic conditions affecting consumer spend.

An extensive strategic review of the site portfolio was undertaken during the period, which resulted in the launch of the CVA proposal for Tenpin Ltd ("Tenpin"). The agreement to the CVA proposal by Tenpin's creditors is a significant step towards creating a stronger business which the Board believes should have a viable and sustainable future. The 28 day period post the creditors meeting has now concluded without challenge and as a result the CVA proposal has been formally implemented.

The need to implement this aggressive turnaround plan was highlighted by the 8.8% decline in like for like sales for the 26 week period to 3rd July 2011, which was compounded by a combination of a late and very warm Easter and the continuing challenging economic situation. The business has been able to mitigate some of the impact of this sales decline through cost saving measures implemented in 2010 and 2011. Operational and overhead savings are estimated to have reduced the cost base by over £5m. For the first half of the year EBITDA was down to £1.3m (2010: £2.3m). Net Debt increased to £3.5m from the year end position of £3.1m. Pre-tax profit fell from £1.21m in the six months to 3rd July 2011 to £120,000.

The Board also acted to enhance the Company's cash position, by pursuing the disposal of five ex-Riley's freehold sites which were non-operating assets of the Group. To date, four of the five sites have been disposed with net proceeds of £1.5m received. Negotiations on the disposal of the remaining site at Lewisham are ongoing. The proceeds of these sales will reduce the Company's borrowings. The future cash position of the Company was also protected by our success in negotiating an exit from a further site commitment at Halifax where a termination agreement was signed.

Additionally, there has been further significant progress in cutting costs. Costs associated with our support office were reduced in March of this year in order to bring it in line with the management of a smaller portfolio. At the same time we have introduced further efficiencies in the areas of supply contracts, cleaning and security.

Across our business we have implemented significant operational change. The new site management structure that we introduced at the end of 2010 is working efficiently. This has served to bring our colleagues closer to the customer and has resulted in a significant improvement in customer service, as measured by the Net Promoter Score. This is very encouraging progress.

In August 2011 we launched a significantly enhanced version of our website that enables customers to book online in an efficient and speedy manner. We are leading the industry in terms of our channel management as we are the only company to have a dedicated call centre and the Directors believe that the website is now truly market-leading.

We are now concentrating our efforts on driving footfall, increasing value to our customers and improving the quality of the bowling proposition. We have recently launched a trial of a number of lanes at one of our sites where customers can bowl without using bowling shoes and can use different balls. We intend to extend this trial in a limited way in the coming months as customer response has been positive to date. We are continuing to work towards introducing other ideas and innovations to upgrade our business.

The outlook for current trading continues to be unpredictable with sales at the start of the second half of the year marginally ahead of the first half trend, reinforcing the necessity of undertaking the CVA. Following a successful completion of the CVA, we will have addressed the cost base and remodelled the site portfolio. Our focus is now being concentrated on stabilising the like for like sales performance. All these actions are being taken in a difficult trading environment where disposable incomes and consumer confidence are being squeezed in an unprecedented way. However, the steps we have taken over the past 18 months, anchored by the CVA, provide a platform for the Company to take the actions necessary to further strengthen the business. I am grateful for the support of all our stakeholders during this difficult period.

Nick Basing
CEO

Consolidated Income Statement

for the 26 week period ended 3rd July 2011

	Notes	Unaudited 26 weeks to 3rd July 2011 £000	Unaudited 26 weeks to 27th June 2010 £000	53 weeks to 2nd January 2011 £000
Continuing operations:				
Revenue		25,281	28,993	56,572
Cost of sales		(10,555)	(11,618)	(22,714)
Gross profit		14,726	17,375	33,858
Administrative expenses:				
Profit on disposal		404	-	(146)
Revaluation of investment properties		420	-	(221)
Impairment		(89)	-	(1,917)
Other administrative expenses		(14,299)	(15,128)	(30,089)
Operating profit/(loss)		1,162	2,247	1,485
Interest payable and similar charges		(1,042)	(1,037)	(2,064)
Interest receivable		-	-	672
Profit/(loss) before taxation		120	1,210	93
Taxation		(412)	(340)	(349)
(Loss)/ profit for the period		(292)	870	(256)

Earnings per share

Basic earnings per share	5	(1.4)p	4.1p	(1.2)p
Diluted earnings per share	5	(1.4)p	4.1p	(1.2)p

Consolidated Statement of Comprehensive Income

For the 26 week period ended 3rd July 2011

	Notes	Unaudited 26 weeks to 3rd July 2011 £000	Unaudited 26 weeks to 27th June 2010 £000	53 weeks to 2nd January 2011 £000
(Loss)/profit for the financial period		(292)	870	(256)

Consolidated balance sheet

at 3rd July 2011

	Unaudited 3rd July 2011 £000	Unaudited 27th June 2010 £000	2nd January 2011 £000
Assets			
Non-current assets			
Goodwill	14,989	15,661	14,989
Intangible assets	172	502	261
Investment property	729	1,576	1,355
Property, plant and equipment	25,887	27,897	26,644
Deferred tax asset	5,527	5,948	5,939
	47,304	51,584	49,188
Current assets			
Inventories	1,066	1,580	1,148
Trade and other receivables	4,834	3,944	4,492
Cash and cash equivalents	594	2,248	1,170
	6,494	7,772	6,810
Liabilities			
Current liabilities			
Financial liabilities	(4,071)	(683)	(4,181)
Trade and other payables	(4,494)	(4,860)	(5,549)
Provisions	(844)	(686)	(1,787)
	(9,409)	(6,229)	(11,517)
Net current (liabilities) / assets	(2,915)	1,543	(4,707)
Non-current liabilities			
Financial liabilities	(20,604)	(24,608)	(20,248)
Other non-current liabilities	(577)	(1,025)	(973)
Provisions	(9,923)	(12,814)	(9,683)
	(31,104)	(38,447)	(30,904)
Net assets	13,285	14,680	13,577
Equity			
Share capital	214	214	214
Other reserves	81,118	81,095	81,118
Retained deficit	(68,047)	(66,629)	(67,755)
Total equity	13,285	14,680	13,577

Consolidated cash flow statement

for the 26 week period ended 3rd July 2011

	Notes	Unaudited 26 weeks to 3rd July 2011 £000	Unaudited 26 weeks to 27th June 2010 £000	53 weeks to 2nd January 2011 £000
Cash flows from operating activities				
Cash (used in)/generated from operations	6	(3)	1,938	3,153
Interest paid		(271)	(277)	(637)
Net cash (used in)/from operating activities		(274)	1,661	2,516
Cash flows from investing activities				
Proceeds from sale of investment properties		670	-	(6)
Purchase of property, plant and equipment		(717)	(531)	(1,849)
Purchase of software		(26)	(36)	(36)
Net cash from/(used in) investing activities		(73)	(567)	(1,891)
Cash flows from financing activities				
Finance lease principal payments		(43)	(43)	(95)
Repayment of borrowings		(186)	(371)	(928)
Net cash used in financing activities		(229)	(414)	(1,023)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts				
Cash, cash equivalents and bank overdrafts – beginning of period		1,170	1,568	1,568
Cash, cash equivalents and bank overdrafts – end of period		594	2,248	1,170

Consolidated statement of changes in equity

for the 26 week period ended 3rd July 2011

	Share capital £000	Other reserves £000	Retained earnings £000	Total equity £000
Unaudited 26 weeks to 3rd July 2011				
Balance at 2nd January 2011	214	81,118	(67,755)	13,577
Total comprehensive loss for the period	-	-	(292)	(292)
Balance at 3rd July 2011	214	81,118	(68,047)	13,285
Unaudited 26 weeks to 27th June 2010				
Balance at 27th December 2009	214	81,095	(67,499)	13,810
Total comprehensive profit for the period	-	-	870	870
Balance at 27th June 2010	214	81,095	(66,629)	14,680
53 weeks to 2nd January 2011				
Balance at 27th December 2009	214	81,095	(67,499)	13,810
Share scheme reserve	-	23	-	23
Total comprehensive loss for the period	-	-	(256)	(256)
Balance at 2nd January 2011	214	81,118	(67,755)	13,577

NOTES:

1 General information

Essenden PLC ("Essenden" or the "company") is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office is 3rd Floor, 2-4 St. Georges Road, Wimbledon, London, SW19 4DP. The condensed consolidated interim financial statements of the Group for the 26 week period ended 3rd July 2011 comprise the company and its subsidiaries (together referred to as the "Group"). The principal activity of the Group comprises the operation of tenpin bowling centres.

The financial information for the 26 week period ended 3rd July 2011 is unaudited and has not been reviewed by the company's auditors. It does not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements of Essenden for the 53 week period to 2nd January 2011, which have been prepared in accordance with IFRSs as adopted by the European Union. The financial information of the Group for the 53 week period to 2nd January 2011 has been extracted from the financial statements for that period which were approved by the board of directors on 31st March 2011 and have been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 434 of the Companies Act 2006.

The accounting policies applied by Essenden in this report are consistent with those of the financial statements of the Group for the 53 week period to 2nd January 2011, as described in those financial statements.

This report was approved by the directors on 29th September 2011.

2 Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union, and incorporate the consolidated results of Essenden and all its subsidiaries for the 26 week period ended 3rd July 2011. The comparative financial information is for the Essenden Group for the 26 week period ended 27th June 2010.

3 Going concern

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over the level of demand for the Group's products. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities, meet future debt repayments and will continue to comply with its banking covenants for at least the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

4 Accounting estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 2nd January 2011.

5 Earnings per share

Basic earnings per share for each period is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. Earnings per share is based on the capital structure of Essenden.

Details of the earnings and weighted average number of ordinary shares used in each calculation are set out below.

	Unaudited 26 weeks to 3rd July 2011 £000	Unaudited 26 weeks to 27th June 2010 £000	53 weeks to 2nd January 2011 £000
Earnings attributable to ordinary shareholders	(292)	870	(256)
Weighted average number of ordinary shares:	Number of shares		
For basic earnings per share	21,424,740	21,424,740	21,424,740
For diluted earnings per share	21,424,740	21,424,740	21,424,740
Basic earnings per share	(1.4)p	4.1p	(1.2)p
Diluted earnings per share	(1.4)p	4.1p	(1.2)p

6 Cash flows from operating activities

Reconciliation of profit/(loss) for the period to cash (used in)/generated from operations:

	Unaudited 26 weeks to 3rd July 2011 £000	Unaudited 26 weeks to 27th June 2010 £000	53 weeks to 2 nd January 2011 £000
(Loss)/profit for the period	(292)	870	(256)
<i>Adjustments for:</i>			
Tax	412	340	349
Interest expense and finance charges	1,042	1,037	1,392
Impairment of property, plant and equipment	89	-	1,216
Impairment of goodwill	-	-	672
Impairment of intangible assets	-	-	30
Depreciation and amortisation of intangible assets	115	219	422
Depreciation	1,098	1,488	2,665
Revaluation of investment properties	(420)	-	221
(Profit)/loss on disposal	(404)	-	146
<i>Changes in working capital:</i>			
Decrease in inventories	82	156	588
(Increase)/decrease in trade and other receivables	549	1,712	1,254
Decrease in payables	(1,571)	(1,728)	(1,120)
Decrease in provisions	(703)	(2,156)	(4,426)
Cash (used in)/generated from operations	(3)	1,938	3,153

7 Events after the reporting period

(a) CVA Proposal - On 4 August 2011, Tenpin Limited submitted a proposal to its creditors to enter into a Company Voluntary Arrangement "CVA" as part of the directors' proposals to improve its financial stability and cash flow.

The CVA proposed the compromise of the claims of the landlords of 5 bowling sites with all of these planned to continue to operate until February 2012 after which they will be closed. These compromised landlords will be able to share a fund of £972k. Tenpin Ltd also offered an indemnity to continue to pay the rates until the earlier of lease expiry, lease surrender, alternative rateable occupation or March 2016. Alternatively the landlords of the compromised leases can forgo the indemnity by accepting a payment equivalent to 6 months rates on 29th February 2012.

The Group also negotiated a waiver with the Bank that prevented the CVA being an event of default under the Banking facilities. It also agreed that in the event of a successful CVA that certain covenant definitions would be altered.

The "CVA" was approved by the requisite 75% majority of creditors and the requisite 50% of members at the CVA creditors meeting held on 30th August 2011. The 28 day period post the creditors meeting has now concluded without challenge and as a result the CVA proposal has been formally implemented.

The Directors have considered the impact of the CVA at the Interim Balance Sheet date on these Interim Accounts made up to 3rd July 2011. Whilst the CVA proposal was being worked on at that date they consider that there was sufficient uncertainty at the Interim Balance Sheet date both as to the scope and the likely implementation of a CVA, that it was appropriate at that time not to reassess the onerous lease provisions associated with the sites who were subsequently compromised in the CVA. The CVA has been successfully implemented and therefore at the year end Balance Sheet date the Directors will reassess the appropriate level of onerous lease provisions which are likely to lead to material write-backs.

(b) Property sales – There were 2 further completions of sale of freehold properties at Grays and Reading as detailed further under property matters.

(c) Termination Agreements – Further to the CVA, Tenpin also entered into a Termination Agreement for a new site commitment at Halifax.

Operating review

Overview

Essenden is the holding company for the tenpin bowling operations of Tenpin Limited. Tenpin is a bowling operator in the UK with an approximate 20% share of the UK market.

Results of operations

The table below demonstrates the group's performance for the 26 week period to 3rd July 2011, compared with the 26 week period to 27th June 2010.

	Total	
	2011	2010
	£000	£000
Continuing operations:		
Revenue	25,281	28,993
Cost of sales	(10,555)	(11,618)
Operating costs	(6,329)	(7,536)
Rent	(5,137)	(5,387)
Contribution	3,260	4,452
Overheads	(1,958)	(2,176)
EBITDA	1,302	2,276
Depreciation and amortisation of intangible assets	(115)	(219)
Depreciation of property, plant & equipment	(1,098)	(1,360)
Operating profit before one-off items	89	697
Profit on disposal of investment properties	404	
Revaluation of investment properties	420	-
One-off costs	(551)	(295)
Operating (Loss)/profit before impairments and provisions	362	402
Property, plant & equipment impairment	(89)	(128)
Onerous lease provision released	889	1,973
Operating profit	1,162	2,247
Net interest excluding loan note interest and notional interest on provisions	(444)	(352)
Essenden loan note interest	(400)	(429)
Notional interest - onerous lease provisions	(198)	(256)
(Loss)/profit before tax	120	1,210
Taxation	(412)	(340)
(Loss)/profit after tax from continuing operations	(292)	870

Foot notes:

- (i) EBITDA represents earnings before interest, tax, depreciation, impairment, non recurring items and net movement on provisions.

Group Performance

Turnover: Turnover for the half year period decreased by £3.7m (13%) from £29.0m in H1 2010 to £25.3m in H1 2011 and was in decline by 8.8% on a like for like basis. 38 centres traded during this interim period. Preston closed at the end of February and the lease was surrendered in April 2011.

Contribution: Contribution decreased by £1.2m (27%) from £4.4m in H1 2010 to £3.2m in H1 2011, and contribution margin decreased by 2.5% points from 15.4% to 12.9%. The reduction in contribution has been partially offset by savings generated in the staff and operating costs lines, while the contribution efficiency has been impacted on by the fixed nature of certain costs such as rent and salaried labour.

EBITDA: EBITDA decreased by £1m (43%) from £2.3m in H1 2010 to £1.3m in H1 2011, with EBITDA margin down 2.6% points to 5.2%. There was a restructuring exercise completed at the support centre during the interim period to reduce the overhead base of the Group and improve profit conversion.

Operating profit: Operating profit decreased by £1.0m (48%) from £2.2m in H1 2010 to £1.2m in H1 2011. £1.0m of this decrease is because last years amounts included the release of the onerous lease provision for St Helens after the lease was surrendered offset by profit on disposal and revaluation of investment properties of £0.8m for 2011. A further £551k was also incurred during the interim period in one off costs in relation to the support centre restructure and costs involved in the preparation of the "CVA" proposal.

Property matters:

Tenpin Ltd

No new bowls were opened or acquired in the half year while the Preston site closure was finalised.

Subsequent to the interim period Tenpin Ltd entered into a "CVA" on 4 August 2011 which was accepted by the requisite 75% majority of creditors and 50% of members on 30 August 2011. The Implementation Date of the CVA is 29 September 2011. This resulted in 5 sites being compromised and it is planned to operate them as normal before being closed in February 2012.

Georgica Ltd

The Luton property held under Georgica Limited was surrendered during the interim period and the onerous lease provision of £225k released back into the income statement.

Georgica Holdings Ltd & Georgica (Lewisham) Ltd

During the interim period the 5 development properties were marketed and negotiations entered into for the sale of each property. As at the end of the interim period, Peterborough and Sheffield had been sold for £670k and unconditional contracts entered into for Grays, which completed on 15th July for £190k and for Reading which completed on 6th September for £701k. The Lewisham sale is still under negotiation.

Risk factors:

Summarised below are the principal risks and uncertainties which have been identified by management as facing the Group. There has not been a significant change in the risks and uncertainties facing the Group as reported in the annual financial statements. A more detailed assessment of principal risks and uncertainties is set out in the Operating review of the annual financial statements of Essenden for the 53 week period to 2nd January 2011.

Risks relating to operations:

- Tenpin's bowling business is based exclusively in the UK and so is exposed to UK economic conditions and consumer confidence. As a leisure activity, bowling may be affected by the general level of consumer spending on leisure activities and may also be affected by changing consumer preferences.
- The business is subject to seasonal demand variations. Warm weather adversely impacts revenues as does unusual weather conditions such as heavy snow, icy conditions or high winds that discourage people from venturing out. School holidays are beneficial for the bowling business, which is also affected by the timing of bank holidays.

Following the sale or sale and lease back of all of Tenpin's freehold and long leasehold properties, there is a relatively high rental charge and so a relatively high fixed cost element to the business which means that financial performance is relatively sensitive to changes in turnover.

Risks relating to financing:

The continued availability of the Group's senior debt finance is dependent on continued covenant compliance which is impacted on by operational performance and profit conversion.

Availability of Interim Report

A copy of these interim results will be available from the Company's registered office during normal business hours on any weekday at 3rd Floor, 2-4 St. Georges Road, Wimbledon, London, SW19 4DP and can also be downloaded from the Company's website at www.essenden.com.