Flying Brands Limited

Annual report and financial statements for the 52 weeks ended 30th December 2011

Registered number: 2044

Definitions

The Company	Flying Brands Limited
The Group	Flying Brands Limited and its subsidiaries and associates
GD	Gardening Direct
GBS	Garden Bird Supplies
GCO	Garden Centre Online
FF	Flying Flowers
FD	Flowers Direct
DA	Drake Algar
L2	Listen 2
The Bank	Barclays Bank PLC and its subsidiaries
GLD	Growing and live-despatch business based in Jersey
WCC	West Coast Capital Trading Limited
Retreat Farm	Freehold property based in Jersey and remaining at the year end
Palatine	Palatine Private Equity Fund LP

Contents

Summary information

About us

The Group was a multi-brand multi-channel home shopping specialist, comprising of three divisions; Garden, Gifts and Entertainment. During 2011 the Group re-focused its activities and dramatically altered its operating strategy to streamline its operating efficiency with the proposed disposal of the Gifts division. This was the first step in a larger divestment strategy for the retail brands owned by the Group. The Group continued the divestment programme with the disposal of the Entertainment division and two brands from the Garden division, GCO and GBS. The final part of the Garden division, GD is being marketed for sale.

The primary focus of the Group going forward is its GLD business based in Jersey. This business is not engaged in retail activity. The Group operates now in a business to business environment, supplying live plants and shrubs to retail businesses.

Financial Highlights

- **Elimination of bank debt**
- **Disposal of surplus freehold property for £3.3m**
- **Developed strategy to eliminate loss making brands**
- **Loss from continuing operations £3.4m (2010: £3.7m)**

Main products and services

The focus of the Group's activities has been concentrated into its GLD business based at its site in Jersey. Utilising over 25 years of experience in growing, the Group's horticultural experts have streamlined production and are in the process of maximising profitability and reducing waste in production.

Brands

The Group had previously maintained a selection of retail brands targeted towards the home shopping retail market however in recent years the Group has seen its customer base diminish and as a result the Group has opted to sell many of these brands.

Chairman's statement

In our half yearly report we announced that the first half of 2011 had been a very difficult one for Flying Brands as a result of poor trading performance across all our brands and the consequent need to renegotiate our banking arrangements. These difficulties continued into the second half of the year and it became apparent that the downturn in trading meant that the Company could no longer service its then level of borrowings and that this meant in turn that it could not finance its ambitions for the gifts and gardening businesses. In addition, we recognised that the working capital position of the Company had become uncomfortably stretched and that we needed to cut significantly the cash outflows from the business. Our working capital difficulties were further exacerbated as a number of significant trade creditors reduced substantially the amount of credit they were prepared to allow the Company.

We therefore embarked on a strategy to cut our bank borrowing, reduce our level of trade creditors and exit those businesses that we felt we could no longer adequately support. This resulted in a number of actions.

First, we renegotiated the terms of our investment in Dealtastic so that we had no future funding commitments.

Second, we sold our glasshouse premises at Meadow Springs for £1.225m and part of our premises at Retreat Farm for £2.1m. The proceeds of these sales were used mainly to repay bank borrowing of £2.85m and £0.25m of the £1.25m still owed to the vendors of Flowers Direct.

Third, we reviewed our plans for the Gifts division and concluded that the Company no longer had the financial resources to implement its strategy of investing in new areas of corporate and third party business to compensate for declining sales in its traditional "boxed flowers" business. Accordingly we agreed to sell our Gifts division to Interflora® British Unit for a gross consideration of £2.4m.

Fourth, we agreed to sell our Garden Bird Supplies, Garden Centre Online and Listen2 businesses for a gross consideration of £0.8m. Garden Bird Supplies has suffered from a significant increase in competition in its sector coupled with steep rises in the price of the commodities making up its products and will in future require a considerable investment in marketing to restore it to its previous levels of profits. We took the view that this business should therefore be sold along with Garden Centre Online and Listen2.

After completion of these disposals, the business of the Company will comprise the freehold property at Retreat Farm, the Growing and Live Dispatch business ("GLD") based at Retreat Farm and the Gardening Direct retail business. The Board is currently in discussions with a number of prospective purchasers of the retail business. It is not our current intention to sell either Retreat Farm or GLD.

We have also embarked on a restructuring programme to reduce central overheads to a level more appropriate to our slimmed down business and we expect to have reduced overheads very significantly by the end of the first half of 2012.

We expect to be in a position to update shareholders on the progress of the discussions for the sale of Gardening Direct before the end of June 2012 and it is our intention at that time to update shareholders on the future of the Company as a whole.

Tim Trotter
Chairman
27th April 2012

Business review

To the members of Flying Brands Limited

Cautionary statement

This business review has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

The business review contains certain forward looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

This business review has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Flying Brands Limited and its subsidiary undertakings when viewed as a whole.

The Group's restructuring

During the course of this financial year the Directors have reviewed the Group's operations. They established that after heavy trading losses were incurred in its Gifts division, the Group was not in a position to make the investment necessary to bring this division back into profitability. In light of this, the decision was made to sell this division. As outlined in note 33 to financial statements, this was concluded on 21st February 2012 with a disposal to Interflora®.

Following the Interflora® transaction, the Directors determined that the retail business of the Group was of insufficient size to make it financially viable. In view of this the Directors concluded that the most appropriate way to enhance shareholder value was to embark upon a disposal strategy for all the Group's retail brands.

As outlined in note 33, the Group agreed to sell GBS, GCO and L2 to a subsidiary of the MBL Group PLC on 30th March 2012. This disposal leaves only the GD brand remaining. The Directors are negotiating with a number of interested parties and believe that a disposal of GD can be achieved by 28th December 2012.

The Group's future business model

Following the completion of all of the disposals outlined in the section above, the Group will retain the GLD business based at the freehold Retreat Farm site in Jersey, and will focus on supplying live product to retailers engaged in the sale of bedding out plant and shrubs. The financial impact of the disposal on the performance in 2011 is detailed in note 32.

Review of the Group's progress

During the year, the Group saw a material downturn in the level of its sales activity across all brands. This coupled with the failed investment in Dealtastic lead to its divestment of surplus land assets to repay its bank borrowings. The lack of available cash to invest in marketing of the Group's brands compounded the problem in sales leading to the Group incurring substantial operating losses. At this point, the Directors concluded that the Group must embark on a disposal strategy to realise shareholder value from its brands and reduce the operating model to a point where it could eventually breakeven. To this end the Directors have negotiated two disposals – that of the Gifts division and that of GBS/GCO/L2 and are negotiating a third disposal – that of GD. Following the completion of this final disposal the Group will be left with the GLD business and the freehold property at Retreat Farm, from which it trades.

Objectives:

- The Directors aim to stabilise the remaining business.
- The Group aims to return to profitability and positive cash flow.
- The Directors aim to seek alternative opportunities in which to invest the Group's capital.

The primary elements of the Board's strategy to achieving the objectives are as follows:

- Complete the agreed disposals as speedily and cost effectively as possible;
- review the activities of the GLD operation to optimise production/ trading performance;
- locate alternative investments sympathetic to the historical focus of the Group.

Results for the 2011 financial year

A summary of the key financial results is set out in the table below and discussed in the summary across the page. For explanation of abbreviations see definitions on the inside front cover.

Reportable segment (loss)/profit is (loss)/profit before interest, tax and impairment of goodwill and intangible assets and other one-off charges. This is reconciled to the consolidated income statement in note 4.1 (a).

	Revenue		Gross profit		Reportable segment (loss)/profit	
	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000
Garden:						
Continuing:						
GLD	5,052	6,043	1,041	1,612		
Discontinued:						
GD	4,244	5,335	713	1,069		
GBS	2,805	3,871	612	1,156		
GCO	1,510	419	44	57		
Total Garden division	13,611	15,668	2,410	3,894	(723)	1,342
Gifts:						
Discontinued:						
FF	6,038	7,747	1,109	1,062		
FD	3,467	2,179	663	401		
DA and concessions	527	234	184	140		
Total Gifts division	10,032	10,160	1,956	1,603	(1,438)	(808)
Entertainment:						
Discontinued:						
L2	1,333	1,731	270	428	(35)	100
Other:						
Discontinued:						
Greetings Direct	190	478	150	351	147	371
Dealtastic	859	-	(262)	-	(745)	-
Benham	-	1,665	-	551	-	84
Group total	26,025	29,702	4,524	6,827	(2,794)	1,089

Business review…(continued)

Summary by division

Gardening

GD – Suffered from a loss in turnover during 2011 due to a shrinking database of customers and a shortage of available cash to invest in marketing.

GLD – The reduction in GD turnover had a consequent negative impact on the revenue of the GLD business thus reducing its production efficiency and gross profit.

GBS – Similar to GD, the underlying customer base has declined owing to the lack of available cash to invest in marketing. Added to this, the year of 2011 did not experience any especially cold periods. These periods of cold weather have historically had a positive impact on sales. Typically cold weather reduces the ability of birds to locate food in their natural environment and increases their dependency on food provided by humans. In turn, this increases demand for GBS product.

GCO – This brand saw an increase in sales activity (though the 2010 comparative only covered 4 months) but this was at the expense of overall gross profit.

Gifts –

DA
FF
FD – The performance of this division at a gross profit level has improved when compared to 2010 although the 2010 performance was subdued due to the delivery problems caused by the snow pre-Christmas 2010. However, the increase in the operating cost base resulted in an overall deterioration in contribution to the Group.

Entertainment

L2 – The falloff in turnover and commensurate reduction in gross profit is attributable primarily to the reduction in the customer database.

Other

Greetings Direct – During the year the Group realised the remainder of its inventory relating to this business. The decision to discontinue the operations was taken during 2009.

Dealtastic – This revenue relates to sales made by Dealtastic during the period prior to its ultimate disposal and whilst it was a subsidiary of the Group. The gross loss from trading was a contributory factor to the decision of the Board to dispose of the trade and assets of this investment during 2011.

Interest

The net interest cost for the Group for the year was £0.1m (2010: £0.1m).

Loss before tax

Group loss before tax (excluding losses arising from discontinued activities) for the year was £3.2m (2010: £3.7m), this loss includes a profit on disposal of property (net of costs) of £0.7m.

Taxation

Taxation was £0.1m for the year, £0.1m higher than the year before. This higher charge reflects adjustments to previous years' tax estimates.

Earnings per share

Basic and diluted loss per share for the year was 32.6p (2010: 1.4p).

Dividend and dividend policy

The Directors will not be proposing a final dividend with respect to the financial year ended 30th December 2011 (2010: £0.2m). During the course of this financial year no interim dividend was paid (2010: £0.4m) but a final dividend with respect to the financial year ended 31st December 2010 was paid of £0.2m (2010: £nil).

Financial position

The Group's balance sheet as at 30th December 2011 can be summarised as set out in the table below:

	Assets £'000	Liabilities £'000	Net assets £'000
Property, plant and equipment	3,551	-	3,551
Goodwill and intangible assets	-	-	-
Other non-current assets and liabilities	-	-	-
Current assets and liabilities (including held for sale)	4,449	(5,247)	(798)
Deferred tax	155	-	155
Total before net debt	8,155	(5,247)	2,908
Net debt	-	-	-
Total as at 30th December 2011	8,155	(5,247)	2,908
Total as at 31st December 2010	19,085	(9,172)	9,913

Financial position…(continued)

The main movements in net assets during the year were as follows:

(i) Losses incurred in the Gifts division and the other divisions (reduction in net assets of £2.8m);

(ii) the disposal of the freehold properties in Jersey (reduction in property, plant and equipment of £2.4m);

(iii) the impairments against goodwill and intangible assets (reduction in net assets of £5.5m);

(iv) repayment of bank debt (reduction in liabilities of £2.9m); and

(v) revaluation of Retreat Farm (increase in net assets of £1.5m).

Capital structure

The Group has no net bank debt (2010: £0.6m). During the year, the Group's facilities with the Bank were repaid in full. At the present time, the Group retains clearing facilities with its bank along with an overdraft facility of £0.25m.

Research and development and capital expenditure

During the year, the Group invested £0.2m in capital expenditure (2010: £0.4m). All items of capital expenditure were incidental to the operations of the Group and none of the expenditure was of a strategic nature. The Group made no investment in research and development during the year (2010: £nil).

Cash flow

Net cash outflow for 2011 was £1.7m (2010: £2.0m). This outflow reflects the heavy trading losses incurred in the Gifts division, the disappointing returns from Dealtastic (see notes 30 and 31 for further information on this investment) along with the repayment of bank borrowings. An agreement was signed on 27th April 2012 with the bank for an overdraft facility of £0.25m.

Interest paid resulted in a net outflow of £0.1m which was unchanged from 2010. Net proceeds from disposals of property, plant and equipment were £3.3m (2010: £0.8m).

Liquidity and investments

The Group's net debt position has changed over the year with asset disposals being used to clear secured debt, redeem a small proportion of the loan notes arising from the acquisition of FD and fund operating working capital requirements. These requirements arose primarily due to the Group incurring trading losses that caused several loan covenants to be breached all of which were subsequently waived by the Bank.

Post balance sheet events

After the year end the following events occurred:

(i) The Group entered into a contract to sell its Gifts division to Interflora®. The details of this transaction were contained in a circular sent to the shareholders on 11th April 2012. The disposal generated gross proceeds of £2.4m.

(ii) The Group entered into a contract to sell GBS, GCO and L2 on 30th March 2012. The details of this transaction were contained in a circular sent to the shareholders on 11th April 2012. The transaction generated gross disposal proceeds of £0.8m.

(iii) The Group entered into a revised loan agreement with Palatine on 5th April 2012 to defer payment of the £1.0m owing to it (see note 17) until 31st December 2012, at the latest. Details of this transaction were contained in an announcement to shareholders on 5th April 2012.

(iv) The Group entered into an overdraft facility with the Bank for a total sum of £0.25m. This facility, like all overdraft facilities, is repayable on demand by the Bank.

Business review… (continued)

Principal risks and uncertainties

The principal risks are those risks that the Board believes the Group faces at the date of this report. They include certain risks relating to the GD business that is the subject of on-going sales discussions.

Risks to the continuing Group post disposal of GD – Operational

Issue	Risk	Mitigation
Dependence upon suppliers	The Group purchases products from third parties, generally on a non-exclusive basis. The Group is reliant on a small number of these third party suppliers that provide materials and services which are key to the Group's activities. Although none of these suppliers provide a unique product or service, the termination of any of these supplies, or the failure of the suppliers to supply or deliver their products or services, could delay or restrict the Group's ability to ship its products while the Group seeks to identify and implement suitable alternatives offered by other sources. This may require significant unplanned investments on the part of the Group. In addition, suitable alternatives are limited in number and therefore similar products and services may not be available on commercially reasonable terms, or may be unobtainable.	The GLD business sources its raw materials from a comparatively small number of suppliers. However, it retains strong relationships with these suppliers and monitors their financial strength on a regular basis to ensure any change in their status is identified as early as possible. The business retains relationships with other suppliers although it may not have placed business with those suppliers. This ensures alternatives exist for supply and best terms possible are obtained.
System failures and breaches of security	The successful operation of the Group's business depends upon maintaining the integrity of its computer; communication and information technology systems in order to promote its services take orders and fulfil dispatches. However, these systems and operations are vulnerable to damage, breakdown or interruption from events which are beyond the Group's control, such as fire, flood and other natural disasters; power loss or telecommunications or data network failures; improper or negligent operation of the Group's system by employees, or unauthorised physical or electronic access; and interruptions to internet system integrity generally as a result of attacks by computer hackers or viruses or other types of security breaches. Any such damage or interruption could cause significant disruption to the operations of the Group. This could be harmful to the Group's business, financial condition and reputation and could deter current or potential customers from using its services. There can be no guarantee that the Group's security measures in relation to its computer, communication and information systems will protect it from all potential breaches of security, and any such breach of security could have an adverse effect on the Group's business, results of operations and/or financial condition.	The Group maintains adequate IT security and disaster recovery procedures commensurate with its size and complexity. These are maintained and tested at regular intervals.
Seasonality	The Group's business is seasonal in nature, being largely determined by the seasons in the gardening market. This may result in peaks and troughs in the Group's trading and cash performance throughout the year.	The Group has a very flexible cost base that can increase during seasonal peaks in activity and reduce when sales and activity are low.
Adverse weather conditions	The Group is dependent on its facility at Retreat Farm in Jersey to grow the majority of its garden stock. If the facility were destroyed or severely damaged as a result of adverse weather then replacement products could not be easily or inexpensively sourced. Adverse weather conditions may also detrimentally affect the Group's trading performance by impeding its ability to successfully deliver products to customers.	The Group maintains insurance to cover damage to production facilities or crop loss. However, the nature of production on an island creates an inherent risk that logistic connections to the UK mainland may be lost temporarily. As and when this occurs, the management changes its product despatch profile so that despatch occurs once connections have been restored.
	During times of drought, customers for the Group's products may decide not to purchase due to the increased water demand the nurturing of young plants requires. This could result in depressed sales levels or unsold stock.	The Group monitors demand carefully and assesses whether it is in line with that forecast and the proposed "grow plan". In the event that demand is below levels anticipated, operating costs are reduced along with the quantity of plants to be grown.
Crop failure	The Group grows the majority of its plants at its property at Retreat Farm. An outbreak of plant disease at the Retreat Farm property, or a failure in the watering or heating systems, could damage or destroy the Group's crop. Any such damage or destruction would have a negative effect on the Group's business, results of operations and financial condition.	The Group maintains insurance cover to mitigate crop loss or disease in crops.
Concentration risk	Immediately following the disposal of the GD business, this will become the principal customer of GLD. This creates a concentration risk.	The Board has set in motion a plan for the GLD business to become a non-exclusive supplier to many customers engaged in activities similar to those of GD.

Principal risks and uncertainties…(continued)

While the Group retains the GD business, the Board believes there are the following additional risks to those stated in the table below:

Risks to the continuing Group post disposal of GD – Market

Issue	Risk	Mitigation
Changes in consumer preferences	There are a number of trends in consumer preferences which may impact on both the Group and its industry as a whole. These include increased consumer demand for cheaper alternatives to more profitable premium products. These trends may reduce demand for certain of the Group's products. Providing or developing modified or alternative products may increase the Group's costs and either or both of these factors may adversely affect the Group's results.	The GLD business management review its product portfolio every season and during each season to respond to changes in consumer preferences. Given that the cycle for growing many products is comparatively short, changes to product selection can be made during a season to respond to changes in consumer preference.
Low value consignment relief	Following the failure of the legal action brought by the states of Jersey and Guernsey against the UK government, LVCR was removed from 1st April 2012. The removal of this tax relief could have a negative impact on demand as prices to the end consumer may have to increase by 20%. In turn, this price increase has resulted in many products facing competition from UK-mainland based garden centres. On completion of the disposal of the Group's GD operation, the GLD business will be exposed to this risk through its trading arrangements with GD.	The Board is confident that the GLD product and service offering will remain competitive for supply into the UK market particularly given its "niche" offering of growing and live despatch.
Stagnant or recessionary economy	The Group's operating and financial performance has been influenced by the impact of prevailing economic conditions on consumer spending in the UK garden, gifts and entertainment product markets. Consumer confidence is an important influence on spending on leisure goods, which is largely discretionary. Unemployment levels, interest rates, consumer debt levels, availability of credit, costs of food, fuel and energy, taxation and many other factors influence consumer confidence and customer spending decisions. To the extent that the current economic environment does not improve or any improvement takes place over an extended period of time, the Group's business, financial condition and results of operations may be further materially adversely affected in the near term.	The operating cost base of the GLD business is sufficiently flexible to permit scaling of the level of production at minimal cost. Thus if a reduction in business activity occurs, a consequent reduction in operating cost will be obtained to minimise the financial impact of the reduction in activity.

Additional risks to the Group prior to the disposal of GD – Market

Issue	Risk	Mitigation
Market consolidation	The market in which GD operates has a relatively small number of participants and the Directors believe that the market is likely to be subject to consolidation over the next few years. Any consolidation that does not include GD could leave it isolated and subject to price reductions forced on it by larger competitors who have the benefit of greater economies of scale.	It is the Board's strategy to divest the Group of GD by 28th December 2012.
Competition	The Group has experienced and expects to experience, intense competition from a number of companies in the GD market space. The Group's competitors, particularly larger multi-channel retailers, may announce or develop new products, services or enhancements that better meet the needs of customers or changing industry standards. Further, new competitors, or alliances among competitors, could emerge given that there are low barriers to entry. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have an adverse effect on the GD business, financial condition and results of operations. Many of the GD competitors and potential competitors have significantly greater financial, technical or marketing resources and have a larger base of products, longer operating histories or greater name recognition. GD's relatively smaller size may therefore be considered negatively by prospective customers. In addition, the GD competitors may be able to respond more quickly than the Group to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products and to the development of new products.	The Board's strategy is to divest the Group of the GD business, leaving only the GLD business.

Business review…(continued)

Principal risks and uncertainties…(continued)

The Group is subject to the following material uncertainties:

(i) Currently the Group has modest banking facilities upon which it can call. In the event of a significant issue arising for which the Group is required to access substantial liquid funds in excess of its overdraft facility, it may not be possible to obtain additional funds as and when required.

(ii) As previously communicated in a circular sent to shareholders on 11th April 2012, the Board stated that without further asset disposals or access to additional banking facilities, the Group may not be able to operate beyond October 2012. To be able to continue operating beyond that date, the Group must either complete the disposal of the GD business or locate alternate sources of finance.

(iii) The Group entered into an agreement with Palatine to defer repayment of its £1m loan until the earlier of the disposal of GD or 31st December 2012. In the event that a disposal of GD is not achieved, it may not be possible for the Group to repay this loan.

(iv) The Board is negotiating with various interested parties who may purchase the business and assets of GD. In the absence of alterative finance, a successful completion of this disposal is required to continue trading and repay the loan to Palatine. In the event this does not happen, then the Board will be forced to seek alternative sources of finance.

Key performance indicators

The Board monitors the performance of the Group and implementation of strategy by reviewing monthly management accounts, managers' reports and KPIs. Throughout the year in question the Board monitored the following KPIs:

Number of active customers		**2011**	2010
		Count	Count
Continuing activities:			
	GLD	**2**	2
Discontinued activities:			
	Garden (excluding GLD)	**248,000**	343,000
	Gifts	**244,000**	286,000
	Entertainment	**1**	25,000

Revenue – online and post & telephone		**2011**	2010
		£'m	£'m
Continuing activities			
	GLD		
	-online	**1.4**	1.6
	-post/telephone	**3.7**	4.4
Discontinued activities:			
	Garden (excluding GLD)		
	-online	**3.6**	3.0
	-post/telephone	**5.0**	6.7
	Gifts		
	-online	**6.1**	4.9
	-post/telephone	**3.9**	5.3
	Entertainment		
	-online	**0.1**	0.2
	-post/telephone	**1.2**	1.5

Future development

The external economic climate has forced a number of changes on the Group during the year. It has seen a downturn in activity levels in all its brands but particularly in its Gifts division. The Group's borrowings were at such a level that a divestment policy had to be adopted by the Board to fund on-going trading losses and repay loans. This has created a scenario where the remainder of the retail brands within the Group are of insufficient scale to make their continued operation viable.

In view of this, the Board has adopted a divestment plan that ultimately will see the Group consist of a growing and live-despatch business based in Jersey. At the point at which the disposal of GD completes, the Directors will reassess the strategic direction of the Group and communicate this to shareholders in the appropriate manner.

Significant relationships

The Group has a share option scheme in place to reward and to incentivise the most senior employees. During the year no share options have been exercised and it is doubtful that any of these options will be exercised in the foreseeable future.

Going concern basis

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this review. The financial position of the Group, its cash flows and liquidity position are described in this business review. In addition, notes 2 and 27 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

As highlighted in note 27 to the financial statements, the Group meets its day to day working capital requirements though its on-going cash flows along with an overdraft facility. The current economic conditions have resulted in declining revenue and profits, and the Directors have subsequently sought to realise value through a series of disposals.

The Directors have prepared detailed working capital projections for the Group to support the decision to prepare the financial statements on the going concern basis. The working capital projections include assumptions such as sales demand, the disposal of further assets and the identification and securing of alternative sources of finance where required. However, by their nature, the assumptions are not confirmed and the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. As such there is a material uncertainty in relation to going concern, particularly as to the following:

i) Over the level of demand for the Group's products;

ii) The ability of the Group to complete the disposal of the GD business for an adequate consideration before October 2012; and

iii) The ability of the Directors to secure alternative sources of finance in the event that a disposal of GD and the repayment of the Palatine loan cannot be achieved.

Notwithstanding the above, the Board remains confident that a sale of the GD business can be completed in the time available.

The Group's forecasts and projections, taking account of the uncertainties described above and reasonably possible changes in trading performance, show that the Group has a reasonable expectation of maintaining sufficient working capital to enable the Group to meet its liabilities as they fall due for the foreseeable future, being a period of not less than 12 months from the date of approval of this report.

Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' and corporate governance report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the 52 weeks ended 30th December 2011.

Principal activities

The principal activities in the 52 weeks ended 30th December 2011 comprised home shopping retailing and the growing of plants and shrubs and live despatch to customers.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in note 19 to the financial statements.

Business review

The information that fulfils the requirements of the business review can be found on pages 4 to 13, and these pages are incorporated into this report by reference.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 27 to the financial statements.

Details of significant events since the balance sheet date are contained in note 33 to the financial statements.

Incorporation

The Company is incorporated in Jersey, Channel Islands.

Future prospects

A commentary on the Group's future prospects and a description of principal risks and uncertainties are set out in the Chairman's statement and business review.

Flying Brands Holdings (UK) PLC

During 1996 the Group created a twinned share structure to enable UK based shareholders to receive a UK dividend and thereby avoid being double taxed on the Jersey dividend.

Consequently all shareholders hold in addition to their shares in Flying Brands Limited an equivalent number of shares in Flying Brands Holdings (UK) PLC.

Although the results for the 52 weeks ended 30th December 2011 of Flying Brands Holdings (UK) PLC are included in the consolidated financial statements of Flying Brands Limited, in accordance with UK Company Law a separate set of financial statements for Flying Brands Holdings (UK) PLC will be sent to shareholders.

Results and dividends

The Group loss before taxation was £3.25m (2010: loss £3.67m). No interim dividend was paid in 2011 (2010: 1.6 pence per ordinary share). The Directors do not propose a final dividend for the financial year ended 30th December 2011 (2010: 0.8 pence per ordinary share).

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group financial statements for each financial year. Under UK listing rules they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU. The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the state of affairs of the Group and the profit or loss for that period.

In preparing each of the Group's financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK and Jersey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors of the Company during the period were as listed below:

Mr T H S Trotter	— Non-Executive Chairman
Mr P R Davidson	— Non-Executive Director
Mr J P Henwood	— Non-Executive Director
Mr F G Voisin	— Non-Executive Director
Mr S S Cook	— Chief Executive Officer
Mr S J Dootson	— Group Finance Director (appointed 2nd November 2011)
Mr A M Gee	— Group Finance Director (resigned 2nd November 2011)

Mr J P Henwood and Mr P R Davidson retire by rotation and being eligible offer themselves for re-election. The service contracts of all Directors are noted in the Remuneration Committee report on pages 26 to 29. Mr S J Dootson who was appointed to the Board on 2nd November 2011 retires at the annual general meeting (AGM) and, being eligible, offers himself for re-election.

Biographical details of the Directors are given on page 25.

Although an overseas Company, the Directors have sought to ensure that the financial statements of the Company and the Group comply with the disclosure requirements of Jersey Company Law and the listing requirements of the UK Listing Authority.

Directors' and corporate governance report…(continued)

Directors' interests

The interests of the Directors in the shares of the Company at 30th December 2011, together with their interests at 31st December 2010 are shown in the Remuneration Committee report.

Share capital

Details of the share capital of the Company and the movements during the period are set out in note 21 to the financial statements.

The Ordinary shares carry equal rights to dividends, voting and return of capital on the winding up of the Company. There are no restrictions on the transfer of securities in the Company other than following service of a notice under provisions in the articles equivalent to section 793 of the UK Companies Act 2006 and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any arrangements between holders of its shares which may result in restrictions on the transfer of securities or on voting rights. Participants in employee share schemes have no voting or other rights in respect of the shares subject to those awards until the allocations are exercised, at which time the shares rank pari passu in all respects with shares already in issue. No such schemes have any rights with regard to control of the Company.

The Directors' interests in share options and awards are set out within the Remuneration Committee report on pages 26 to 29. Apart from service contracts none of the Directors had a material interest in any contract of significance to which the Company or any of its subsidiaries was a party during the financial period.

The Company has set up an Employee share option trust for the settlement of awards that may vest in future periods. The trustees of this trust exercise the voting rights and these shares do not attract dividends.

Share repurchasing and issuing

At the AGM of the Company held on 21st April 2011, the shareholders gave the Company permission, until the earlier of the AGM to be held on 13th June 2012 or 31st July 2012 to re-purchase up to 4,181,060 Ordinary shares of the Company. Also at the AGM on 21st April 2011 the shareholders gave the Company permission until the earlier of the AGM to be held on 13th June 2012 or 31st July 2012 to allot up to 4,181,060 Ordinary shares of 1p each in the Company.

The Directors intend only to exercise those authorities where, after considering market conditions prevailing at the time, they believe the effect of such exercise would be to increase earnings per share and be in the interest of shareholders generally.

During the 52 weeks to 30th December 2011, the Company did not purchase any ordinary shares, nor did it issue any ordinary shares.

The Board will be seeking the approval of the shareholders to have the authority to purchase and allot Ordinary shares at the forthcoming AGM. The Company held 452,323 Ordinary shares of 1p each (2010: 452,323) in an ESOP trust. For further information see note 22 to the financial statements.

Charitable and political donations

The Company did not make any political or charitable donation during the financial period (2010 : £nil).

Policy on payment of suppliers

It is Group policy, in respect of all of its suppliers, to settle the terms of payment when agreeing each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by those terms. In general, the Group pays creditors at the end of the month following date of invoice. The average number of creditor days in relation to trade creditors outstanding at the period end was 55 days (31st December 2010: 45 days).

Substantial shareholdings

As at 20th April 2012, other than the Directors' holdings, the Company has been advised of the following interests in 3% or more of its issued share capital:

West Coast Capital Trading Limited	(26.9%)
River and Mercantile Asset Management	(9.5%)
Gartmore Investment Management	(7.1%)
Artemis Investment Management	(4.0%)
P I Fraser	(3.9%)

Significant agreements/takeovers directive

There are a number of agreements that take effect, alter or terminate upon a change of control of the Group such as commercial contracts and employee share option/award schemes. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole.

Memorandum and Articles of Association

The Company's Articles of Association (the Articles) give the Board the power to appoint Directors, but require Directors to retire and submit themselves for election at the first AGM following their appointment.

The Board of Directors may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Memorandum of Association and the Articles. The Articles, for instance, contain specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are also included in the Articles and such authorities are renewed by shareholders each year at the AGM.

Memorandum

The Company's capacity

There is no doctrine of ultra vires in Jersey law and accordingly the memorandum confirms that the capacity of the Company is not limited by anything in its memorandum and articles or by any act of its members.

Par value company

The memorandum states that the Company is a par value company under Jersey law.

Liability of members limited

The memorandum confirms that the liability of each member in respect of their holding of a share is limited to the amount (if any) unpaid on it.

Directors' and corporate governance report…(continued)

Articles

Issue of shares
Subject to the provisions of Jersey law and the pre-emption rights described below, the Directors are generally authorised to allot or otherwise dispose of shares in the Company as they think fit (including the grant of options over and warrants in respect of, shares). The Company may issue redeemable shares and may pay commissions either in cash or by the allotment of shares or the grant of options or warrants.

The Company shall not allot any shares unless they are first offered to members (on the same or more favourable terms as the proposed allotment) in proportion to their existing shareholdings. Such an offer must state a period of not less than 21 days during which it may be accepted. These pre-emption rights shall not apply where shares are paid otherwise than in cash or if they are allotted or issued pursuant to an employee share scheme. Notwithstanding these pre-emption rights, the Directors may be given by special resolution (passed by a majority of not less than two-thirds of the members who vote at a general meeting) the power to allot shares either generally or specifically so that the pre-emption provisions do not apply, or apply with such modifications as the Directors may determine.

Un-certificated shares
The articles allow full advantage to be taken of Jersey legislation permitting shares to be held in un-certificated form.

Disclosure of interests in shares
Provisions in the articles that mirror section 212 of the UK Companies Act 1985 have been replaced by the incorporation by reference into the articles of section 793 of the UK Companies Act 2006. The latter section has equivalent provisions to the former allowing a company to issue a notice requiring a person it knows, or has reasonable cause to believe, has an interest in its shares (or to have had an interest in the previous three years) to confirm or deny the fact. If the interest is confirmed, the notice may require disclosure of certain information about the interest, including information about any other person with an interest in the shares.

If any person is in default for a period of 14 days in supplying information required by such a notice, the Company may serve a restriction notice on the member concerned to the effect that the member shall not be entitled to be present or to vote at any general meeting of the Company. Where the shares subject to these restrictions represent at least 0.25% in nominal value of the issued shares of the same class, the payment of dividends may also be withheld in respect of those shares and a transfer of the shares may not be recognised or registered (save for certain permitted transfers or in certain permitted circumstances).

The articles also require that the Company and its members comply with the UK Listing Authority's Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules) as if the Company were a UK company.

Electronic communications
Notices may be served by the Company on a member by means of electronic communication to an address notified by the member to the Company for that purpose, in accordance with Jersey law. Proxies may be appointed by electronic communication as permitted by Jersey law.

Directors' fees
The limit on the aggregate fees payable to Directors each year is set at £300,000, to allow for the appointment and remuneration of a sufficient number of non-executive directors. The limit does not apply to the remuneration payable to executive directors.

Directors' service contracts
The maximum length a service contract may be granted to a director without the approval of members in general meeting is two years.

Age limit for Directors
There no requirements for a director to retire based upon age.

Employees

The Company's policy is to provide equal opportunities to all present and potential employees, including, where practical, those who are disabled.

The Group places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and on significant factors affecting the performance of the Group. This is achieved through formal and informal meetings and employees are informed twice yearly of the Group's financial performance as well as being informed of the financial and economic reasons behind the Group's performance.

The Group believes in respecting individuals and their rights in the workplace. With this in mind, specific policies are in place covering harassment and bullying, whistle blowing, equal opportunities and data protection.

Secretary

The Secretary of the Company is Mr S J Dootson ACA who was Secretary at 30th December 2011. Mr A M Gee FCA was Secretary until his resignation on 2nd November 2011. Mr Dootson was appointed as Secretary on 2nd November 2011.

Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

KPMG Channel Islands Limited resigned as auditor on 2nd February 2012. The Company appointed Deloitte LLP as auditor on 8th March 2012.

A resolution to reappoint Deloitte LLP as auditor of the Company will be proposed at the AGM.

Corporate governance

The Board is committed to ensuring the highest standards of corporate governance, and complies with, subject to a small number of exceptions listed below, the supporting principles and provisions set out in the Combined Code on Corporate Governance of the Financial and Reporting Council (the Code) which was updated in June 2008 and which came into effect for financial years beginning after 29th June 2009.

The Company has regularly updated its corporate governance policies and procedures to reflect the changes made to corporate governance guidelines in the last few years. The following describes the ways in which the Company complies with the detailed provisions of the Code. It includes full disclosure of the limited number of areas in which the Company is non-compliant and explanations why this is so.

The two areas of non-compliance with the Code are;

- the absence of an internal audit function; and
- the Chairman of the Audit Committee does not have any relevant accounting experience.

Annual general meeting

The Directors consider that all the resolutions to be put to the AGM to be held on 13th June 2012 are in the best interests of the Company and its shareholders as a whole. The Board will be voting in favour of them and unanimously recommends that shareholders do also.

Directors' and corporate governance report…(continued)

Board of Directors

The Board met seven times in 2011 and currently comprises two Executive Directors and four Non-Executive Directors. Two of the Non-Executives are independent.

Non-Executive Directors

Name	Position	Years of service as Non-Executive Director	Meetings attended: Board	Audit Committee	Remuneration Committee
Mr T H S Trotter	Non-Independent Non-Executive Chairman Member of Audit Committee Chairman of Nominations Committee Member of Remuneration Committee	11	7	3	1
Mr P R Davidson	Non-Independent Non-Executive Director Member of Remuneration Committee Member of Nominations Committee Chairman of Audit Committee	5	7	3	1
Mr J P Henwood	Senior Independent Non-Executive Director Chairman of Remuneration Committee Member of Audit Committee Member of Nominations Committee	5	7	3	1
Mr F G Voisin	Independent Non-Executive Director Member of Nominations Committee Member of Audit Committee Member of Remuneration Committee	5	7	3	1

The Non-Executive Directors meet once a year to review the performance of the Executive Directors. A review of effectiveness of the Board has been carried out by the Senior Independent Non-Executive.

The terms of appointment of the Non-Executive Directors are described in the Remuneration Committee report, and are made available for inspection at the AGM, along with the service contracts for the Executive Directors. None of the Non-Executive Directors has a fixed term of office in his letter of appointment. The Company has agreed a policy that Non-Executive Directors will not exceed six years in their role from the date of the Board restructuring in March 2002 other than in exceptional circumstances. It was agreed by the Board that Mr T H S Trotter's maximum period as a Non-Executive Director can be extended to ten years since he was appointed as Chairman in 2007. Mr Trotter has now served his ten year term but the Board has agreed to extend his term as Chairman for an unrestricted period.

The letter of appointment of the Chairman provides that he spends up to 30 and no less than 25 days per year in the performance of his duties.

Re-election

The articles of association require each director to retire and submit himself for re-election every three years, but also that at least one third of the Directors must be submitted for re-election every year.

On an annual basis, the Chairman considers the performance of the Board and discusses with the Company Secretary the re-election process. Given the performance of the Company the Chairman has confirmed that the Directors being submitted for election in 2012 (as set out on page 64) continue to be highly effective, qualified and committed to their respective roles.

Insurance cover

The Company maintains insurance with a limit of £5m to cover its Directors and officers against the cost of defending themselves against civil legal proceedings taken against them. To the extent permitted by law the Company also indemnifies its Directors and officers. Neither protection applies in the event of fraud or dishonesty.

Board objectives and operation

The key objectives of the Board are as follows:

- The agreement of strategy.
- The agreement of the detailed set of objectives and policies that facilitate the achievement of strategy.
- Monitoring the performance of executive management in the delivery of objectives and strategy.
- Monitoring and safeguarding the financial position of the Company and Group to ensure that objectives and strategy can be delivered.
- Approval of major capital expenditure and other expenditure that is not part of the defined objectives or strategic plan.
- Approving corporate transactions - this includes any potential acquisition or disposal.
- Delegating clear levels of authority to the Executive management team. This is represented by the defined system of internal controls which is reviewed by the Audit Committee.
- Providing the appropriate framework of support and remuneration structures to encourage and enable Executive management to deliver the objectives and strategies of the Company.
- Monitoring the risks being entered into by the Company and ensuring that all of these are properly evaluated.
- Approval of all external announcements.

A schedule is maintained of matters reserved to the Board for decision.

The Board met seven times in 2011, the Executive Directors attended every meeting during the year and the Non-Executive Directors' attendance is summarised on page 20.

For each Board meeting, each Board member receives a pack of information, including financial reports, project updates and a formal agenda together with any relevant documentation.

Nominations Committee

The committee consists of the Chairman, the Chief Executive and the other Non-Executive Directors. The committee meets as required to fulfil its duties of reviewing the Board structure and composition and identifying and nominating candidates to fill Board vacancies as they arise. Three meetings were held during the year and these were fully attended.

During the year, the Directors appointed a new Finance Director in place of Mr A M Gee. The recruitment process consisted of a review of known contacts of the Directors followed by an interview process. This consisted of an initial interview with the Chairman followed by an extended interview with the CEO. At the conclusion of this, the Nominations Committee resolved to accept the recommendations of the Chairman and CEO to appoint Mr Dootson.

Formal terms of reference for the Nominations Committee have been documented and are made available for review at the AGM.

No formal induction process exists for new Directors, but the Chairman ensures that each individual is given a tailored introduction to the Company and fully understands the requirements of the role.

Directors' and corporate governance report…(continued)

Appraisal of Executive Directors

The Chief Executive normally carries out an annual formal appraisal of the performance of the other Executive Director which takes into account the objectives set in the previous year and the individual's performance in the fulfilment of these objectives. A formal annual appraisal of the Chief Executive is carried out by the Chairman. All the appraisals of the Executive Directors are provided to the Remuneration Committee.

Appraisal of Non-Executive Directors

The performance of the Chairman is normally reviewed formally on an annual basis by the Senior Non-Executive Director with input from all the other Directors.

The Chairman reviews the performance of all of the Non-Executive Directors (excluding that of the Senior Non-Executive Director) on an annual basis. The performance of the Senior Non-Executive Director is reviewed by the entire Board.

Remuneration Committee

The report of the Remuneration Committee is included in this annual report. Formal terms of reference for the Remuneration Committee have been documented and are made available for review at the AGM.

Audit Committee

Formal terms of reference for the committee have been documented and are made available for review at the AGM and are available for viewing on the Company's website.

The terms of reference of the Audit Committee include the following requirements:

- To monitor the integrity of financial statements and of any formal announcements relating to the Company's financial performance.
- To review the Company's internal controls and risk management systems.
- To make recommendations to the Board in relation to internal control matters that require improvement or modification.
- To make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve remuneration.
- To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.
- To establish and monitor whistle blowing procedures.

No internal audit function exists due to the size of the Group. This is reviewed annually by the Audit Committee which reflects on any increased risk or regulatory changes in the period under review in making their recommendation to the Board.

The Chairman of the Audit Committee does not have any direct, recent or relevant accountancy experience but the Board considers that he has sufficient business experience to enable him to perform the duties contained in his role.

The Company engages its auditor for some non-audit services, including project work where opinions are required by the Group's auditor. The Audit Committee is satisfied that the provision of these services does not compromise the independence of the auditor. The extent of these fees is documented in note 7 to the financial statements.

Audit Committee…(continued)

The auditor provides a limited number of services additional to its obligation to perform a statutory audit of the Group's companies. These other services extend solely to those required of a listed entity's statutory auditor. The nature and size of the relationship with the auditor is such that it is immaterial to the overall business of the auditor and as such is considered not to impact on its independence in anyway. The Audit Committee considers independence from a number of perspectives, not only the materiality of fee income to the audit firm in question. It is only after considering all these aspects (along with a report on independence from the external auditor) does it conclude and make recommendations to the Board.

None of the members of the Audit Committee have a formal accounting qualification though all have operated at the highest levels of businesses. The Board is content that the overall level of qualification within the Audit Committee is sufficient to enable it to discharge satisfactorily its obligations.

The Audit Committee meets regularly. In addition to the Non- Executive Directors, the Chief Executive, the external auditor and the Finance Director were invited to attend part of the meetings where relevant.

Internal controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The system of internal control is formally documented and is designed to ensure effective and efficient operations and compliance with relevant laws and regulations. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

The Finance Director carries out a six month formal review of the Company's system of internal controls and risk management systems. This review is formally circulated to the Audit Committee and discussed as an agenda item. The Audit Committee raises any particular concerns relating to internal controls and risk management systems and on occasion requires independent review of particular issues for its committee meetings. On advice from the Audit Committee, the Board does not consider any additional independent verification of the system of internal control to be required, on the basis of the size of the Company and the non-complex nature of both its management systems and financial structure.

The Group operates certain controls specifically relating to the production of consolidated financial information, covering operational procedures, validation and review.

The above procedures reflect the Group's commitment to ensuring it has policies in place that ensure high standards of integrity and transparency throughout its operations. Further, when these procedures detect unauthorised practises, the Group is committed to correction of such events. The Group is committed to analysing its internal controls to make them more robust and further limit the risk of such incidents. The Board believes such action properly reflects the Company's commitment to financial discipline and integrity at all levels. The Board has reviewed the effectiveness of internal control systems in operation during the financial period in accordance with the guidelines set out in the Turnbull report, through the processes set out above and no weaknesses or failings were identified.

Dialogue with major shareholders

The Company places considerable importance on communications with shareholders. Regular meetings take place with major shareholders with the Company delegating authority to the Chairman, Chief Executive and Finance Director to present the strategy and financial results of the Company. Major shareholders are made aware that the Senior Non-Executive Director (Mr J P Henwood) is also available should they wish to communicate directly with him but none has yet taken advantage of this provision.

Annual general meeting

At its AGM the Company complies with the provisions of the Code relating to the disclosure of proxy votes, the separation of resolutions and attendance of Directors, particularly committee chairpersons. The timing of the despatch of the formal notice of the AGM also complies with the Code.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

(i) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(ii) the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Mr S J Dootson
Director and Secretary

27th April 2012

Flying Brands Limited,
La Rue Des Varvots,
Retreat Farm,
St Lawrence, Jersey.
Channel Islands. JE3 1GX

Directors

Tim Trotter*†

Non-Executive Chairman (Non-Independent) from 17th April 2007. Aged 53, appointed to the Board in December 2000. He has over 30 years' experience in working with listed and private companies. He is Chairman of Glenfern, Non-Executive Chairman of Seven Publishing Group, Delta Display Holdings and of Smithfield Consultants Limited.

Stephen Cook

Appointed Chief Executive on 18th February 2009, previously was a Non-Executive Director (Non-Independent). Aged 51, he joined the Company and was appointed to the Board on 17th January 2008.

Stuart Dootson

Group Finance Director and Company Secretary. Aged 45, he was appointed to the Board on 2nd November 2011. He is a chartered accountant, having qualified in 1991 with one of the "big eight" audit firms. He remained in public practice for eleven years before moving into commerce in 1999. Since moving out of public practice he has held board level positions across a number of industries and companies including publicly listed groups.

Paul Davidson*†

Non-Executive Director (Non-Independent). Aged 46, joined the Company and appointed to the Board on 29th November 2006 and appointed Chairman of the Audit Committee on 18th February 2009. He is a partner at West Coast Capital.

John Henwood MBE*†

Senior Non-Executive Director (Independent). Aged 66, he joined the Company and was appointed to the Board on 17th April 2007. A Jersey resident, John is chairman of G4S in Jersey and holds independent directorships with Kleinwort Benson, Bailiwick Investments and LFH International. He is a Trustee of the Durrell Wildlife Conservation Trust.

Gerald Voisin*†

Non-Executive Director (Independent). Aged 48, he joined the Company and was appointed to the Board on 6th September 2007. He is a resident of Jersey, a former member of the States of Jersey and proprietor of Voisins Department Store Ltd.

* Members of the Audit Committee during the period.

† Members of the Remuneration Committee during the period.

Remuneration Committee report

The Remuneration Committee presents its report for the 52 weeks ended 30th December 2011.

Membership of the Remuneration Committee

At 30th December 2011, the Remuneration Committee is comprised of Mr J P Henwood (Chairman), Mr P R Davidson, Mr T H S Trotter and Mr F G Voisin.

The committee makes its decisions following consultation with the Chief Executive. Subject to what appears below, no other third parties have provided advice that materially assisted the Remuneration Committee during the period.

The remuneration of the Non-Executive Directors with the exception of the Chairman is determined by the Board. The remuneration of the Chairman is determined by the Remuneration Committee.

Compliance

The Company has complied materially with The United Kingdom Directors' Remuneration Report Regulations 2002 (the Regulations). In accordance with the Regulations, a resolution to approve this report will be proposed at the AGM of the Company. The vote will have advisory status, will be in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

Remuneration policy for Executive Directors

The Remuneration Committee seeks to provide the remuneration packages necessary to attract, retain and motivate Executive Directors of the quality required to manage the business of the Group and seeks to avoid paying more than is necessary for this purpose. In establishing the level of remuneration of each director the committee has regard to packages offered by similar companies.

Consistent with this policy, the benefit packages awarded to Executive Directors comprise a mix of performance and non-performance elements. During 2011 0% of the Executive Directors' pay was based on the Group achieving financial targets.

The main components of the remuneration packages for Executive Directors are:

a) Contracts

The Chief Executive, Mr S S Cook has a six month rolling service contract and a contractual termination payment that is apportioned to the value of his annual salary together with benefits and accrued bonus. Mr S J Dootson has a one week notice period.

The contracts with Mr S S Cook and Mr S J Dootson were entered into on 18th February 2009 and 2nd November 2011 respectively.

b) Bonuses

The variable cash bonus scheme that will cause bonus payments to be made by reference to two measurable targets: profit before interest and tax and corporate targets, is to be determined by the Remuneration Committee each year. The Remuneration Committee takes the view that these targets will be challenging, but achievable and are designed to drive business enhancement. Financial bonuses are not payable for the period ended 30th December 2011.

c) Pensions

Neither Mr S S Cook nor Mr S J Dootson received any pension contributions during the period.

d) Long-Term Incentive Plan

Following a review of share incentive arrangements for senior executives undertaken by Halliwell Consulting, the Remuneration Committee obtained shareholder approval at the AGM on 17th April 2007 for the establishment of a new long- term incentive plan (LTIP) to be confined initially to awards for the most senior executives.

The new plan permits the granting of nil or nominal cost share options and contingent share awards.

The move to replace market value share options with awards based on the participants receiving the full value of award shares is in line with the current trend both in the retail sector and more widely amongst listed companies. LTIP awards generally have a better cost-benefit ratio than market value options, requiring fewer shares to provide the same level of benefit to executives as market value options.

LTIP awards will vest in accordance with the attainment of measurable targets to be determined by the Remuneration Committee pursuant to the LTIP plan. The initial awards were subject to EPS objectives. The Remuneration Committee takes the view that these targets, like those for the new bonus plan, are challenging, but achievable and are designed to drive business enhancement and will be reviewed annually at the allocation of new awards. The targets and potential awards for the 2007 allocation as shown in the table below.

EPS growth over 3 years	% of grant that would be payable
200%	100
180%	70
160%	50
140%	30
<140%	Nil

The Remuneration Committee changed the objectives for awards issued in the 52 weeks ended 1st January 2010 and subsequent periods. The awards issued in that period are based on Total Shareholder Return (TSR) over the three years commencing from the award date. TSR is expressed as a percentage calculated by adding together (first) the unit share price at the date of calculation less 60 pence and (second) the value of all dividends declared between the award date and the vesting date and then dividing by 60 pence The target and potential awards for the allocations are shown in the table below.

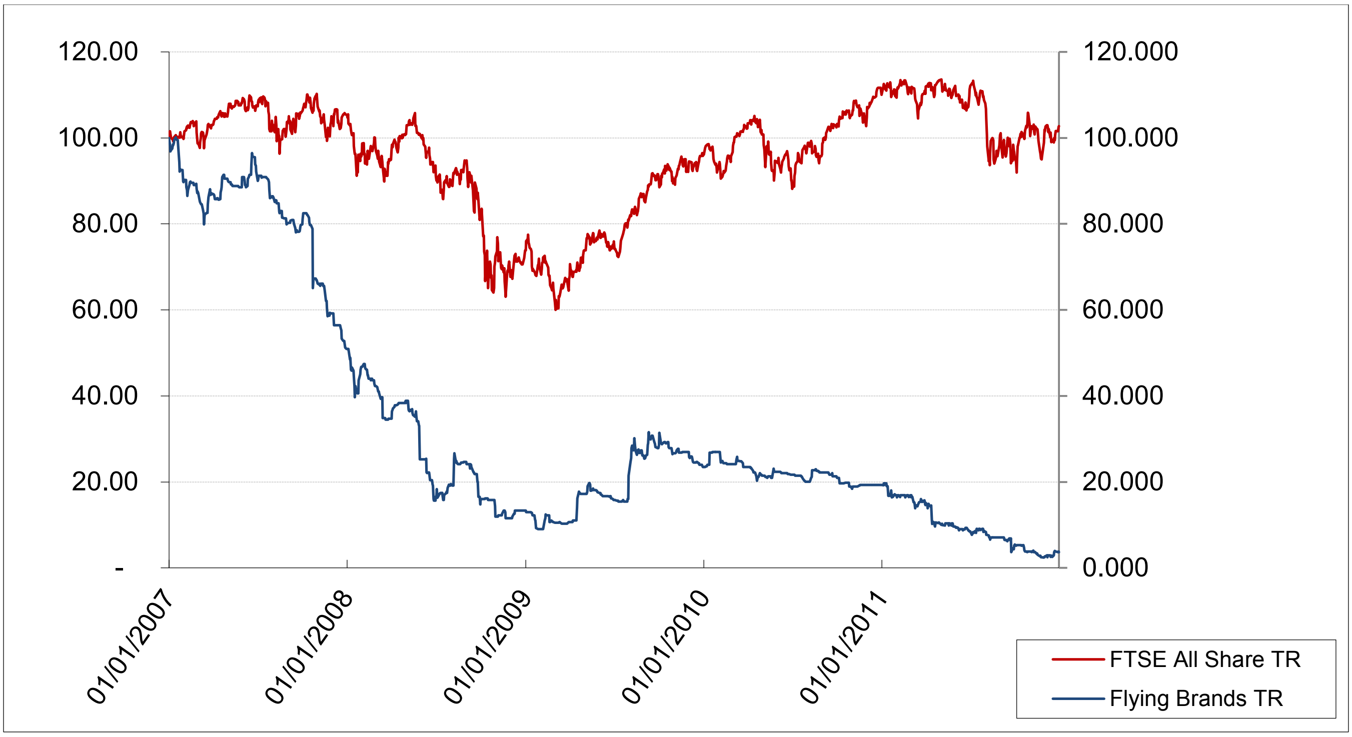
TSR% over 3 years	% of grant that would be payable
125%	100
100%	75
75%	50
50%	25
<50%	Nil

Remuneration Committee report…(continued)

Performance graph

As required by the Regulations the graph below shows the performance of Flying Brands Limited, measured by total shareholder return (total share price growth plus dividends paid), against a "broad equity market index" over the past five years.

We have chosen the All Share Index because this is a recognised broad equity market index of which Flying Brands Limited is a member.



Non-Executive Directors

The Non-Executive Directors' terms of engagement are set out in a letter of appointment. The Chairman has a six month rolling term of office. The other Non-Executive Directors appointed after 1st March 2006 have a three month rolling term of office unless they are not re-elected at the AGM. Non- Executive Directors appointed prior to 1st March 2006 have a six month rolling term of office. None of the Non-Executive Directors' appointments have a fixed term.

Directors' interests (held directly or indirectly) in the Company's shares

	Number at 30.12.11
S S Cook	**3,195,000**
S J Dootson	-
T H S Trotter	**13,000**
P R Davidson	-
J P Henwood	**40,000**
F G Voisin	**15,000**
A M Gee (resigned 2nd November 2011)	**20,000**

Mr P R Davidson is a partner in West Coast Capital Trading Limited (WCC). This Company owns 26.9% of the Company's issued share capital. There has been no change in the interests set out above between 30th December 2011 and 27th April 2012.

Audited information

Directors' emoluments

	52 weeks ended 30.12.11						52 weeks ended 31.12.10
	Salary and fees £'000	Compensation for loss of office £'000	Share based payments £'000	Pension £'000	Benefits £'000	Total £'000	Total £'000
S S Cook	219	-	(13)	24	24	254	275
A M Gee*	125	20	(2)	13	3	159	147
T H S Trotter	50	-	-	-	-	50	50
J P Henwood	21	-	-	-	-	21	21
P R Davidson	20	-	-	-	-	20	20
F G Voisin	21	-	-	-	-	21	21
S J Dootson*	25	-	-	-	-	25	-
	481	20	(15)	37	27	550	534

** Employed by the Group as a Director for part of the period.*

Mr T H S Trotter's services are invoiced by Trotter and Company Limited.

Mr P R Davidson's services are invoiced by WCC.

Mr J P Henwood's services are invoiced by Byerley Limited.

Directors' Long-Term Incentive Plan share awards (LTIPs)

	Date of Grant	Number at 01.01.11	Lapsed in period	Exercised in period	Number at 30.12.11
S S Cook	24.04.09	358,333	-	-	358,333
A M Gee	24.04.09	65,333	65,333	-	-
		423,666	65,333	-	358,333

All share awards were granted at nil cost to the Directors. 183,311 share awards have lapsed during the financial period ended 30th December 2011 and none of the terms and conditions of the share awards was varied during the period.

The market price of the shares on 30th December 2011 was £0.10 and on 20th April 2012 was £0.08. The range of market prices during the 52 weeks to 30th December 2011 was between £0.07 and £0.54. The options and awards referred to above have been granted under the UK Executive Share Option Schemes.

Apart from the share option and award schemes described above, the Group is not party to any arrangements whereby Directors or their families may acquire interests in the Company or any other Group Company.

J P Henwood
Chairman of the Remuneration Committee

27th April 2012

Independent auditor's report to the members of Flying Brands Limited

We have audited the Group financial statements (the "financial statements") of Flying Brands Limited for the 52 weeks ended 30th December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 30th December 2011 and of the Group's loss for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.1 to the financial statements concerning the Company's ability to continue as a going concern. The Company incurred a loss for the period of £9.1m during the 52 weeks ended 30 December 2011 and, at that date, the Company had net current liabilities of £0.8m. These conditions, along with the other matters explained in note 1.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the parent Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Other matters

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the Company.

We have reviewed the Directors' statement, set out on page 13, in relation to going concern as if the Company had been incorporated in the UK and have nothing to report to you in that respect.

David Halstead

for and on behalf of Deloitte LLP

Chartered Accountants and Recognized Auditor

Cambridge, UK

Consolidated income statement

52 weeks ended 30th December 2011

	Notes	**52 weeks ended 30.12.11**	52 weeks ended 31.12.10
		£'000	£'000
Revenue	1.17	**5,052**	6,043
Cost of sales		**(4,011)**	(4,431)
Gross profit		**1,041**	1,612
Profit on sale of properties		**673**	-
Operating expenses	5	**(4,817)**	(4,999)
Operating loss	7	**(3,103)**	(3,387)
Net finance expense	6	**(143)**	(130)
Loss from associate	14	**–**	(149)
Loss before tax		**(3,246)**	(3,666)
Taxation	9	**(139)**	(52)
Loss from continuing operations		**(3,385)**	(3,718)
(Loss)/profit from discontinued operations	32	**(5,679)**	3,324
Loss for the period		**(9,064)**	(394)
Loss attributable to non – controlling interest		**(39)**	–
Loss attributable to the Group		**(9,025)**	(394)

Loss per share expressed in pence per share				
From continuing operations:				
	Basic	11	**(12.23)**	(13.50)
	Diluted	11	**(12.23)**	(13.24)
From continuing and discontinued operations:				
	Basic	11	**(32.61)**	(1.43)
	Diluted	11	**(32.61)**	(1.40)

Consolidated statement of comprehensive income

52 weeks ended 30th December 2011

`	**52 weeks ended 30.12.11**	52 weeks ended 31.12.10
	£'000	£'000
Loss for the period	**(9,064)**	(394)
Other comprehensive income:		
Revaluation of Jersey property	**2,344**	–
Foreign currency translation differences on foreign operations	**–**	44
Total comprehensive loss for the period	**(6,720)**	(350)
Total comprehensive loss attributed to non-controlling interest	**(39)**	-
Total comprehensive loss attributable to the Group	**(6,681)**	(350)

Consolidated balance sheet

As at 30th December 2011

	Notes	Assets held for resale 30.12.11 £'000	Group 30.12.11 £'000	**Total 30.12.11 £'000**	Group 31.12.10 £'000
Assets					
Non – current assets					
Goodwill	12	–	–	**–**	5,410
Intangible assets	12	–	–	**–**	3,307
Property, plant and equipment	13	–	3,551	**3,551**	4,467
Investment in associate	14	–	–	**–**	1
Deferred tax	20	–	155	**155**	261
Total non – current assets		–	3,706	**3,706**	13,446
Current assets					
Goodwill	12	1,242	–	**1,242**	–
Intangible assets	12	1,339	–	**1,339**	–
Property, plant and equipment	13	193	–	**193**	–
Inventory	15	366	250	**616**	704
Current income tax receivable		–	–	**–**	233
Trade and other receivables	16	–	489	**489**	1,561
Receivable from associate		–	–	**–**	850
Cash		–	570	**570**	2,291
Total current assets		3,140	1,309	**4,449**	5,639
Current liabilities					
Bank loan and overdrafts	18	–	–	**–**	(2,850)
Current income tax payable		–	(30)	**(30)**	–
Trade and other payables	17	–	(4,775)	**(4,775)**	(5,739)
Deferred revenue	26	–	(442)	**(442)**	(583)
Total current liabilities		–	(5,247)	**(5,247)**	(9,172)
Net current (liabilities)/assets		3,140	(3,938)	**(798)**	(3,533)
Net assets/(liabilities)		3,140	(232)	**2,908**	9,913
Share capital	21			**282**	282
Share premium				**18,059**	18,059
Capital reserve	22			**(17)**	(17)
Capital redemption reserve				**22**	22
Treasury shares	22			**(840)**	(840)
Non – controlling interest				**(39)**	–
Revaluation reserve	22			**1,484**	–
Retained earnings				**(16,043)**	(7,593)
Total equity attributable to equity holders of the parent				**2,908**	9,913

The financial statements on pages 32 to 63 were approved by the Board of Directors on 27th April 2012 and signed on its behalf by:

S S Cook
Director

S J Dootson
Director

Consolidated statement of changes in equity

52 weeks ended 30th December 2011

	Notes	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Capital reserve £'000	Capital redemption reserve £'000	Foreign exchange reserve £'000	Treasury shares £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1st January 2010		**280**	**17,916**	**–**	**(17)**	**22**	**(44)**	**(840)**	**(6,756)**	**–**	**10,561**
Loss for the period		–	–	–	–	–	–	–	(394)	–	(394)
Foreign currency translation differences on foreign operations		–	–	–	–	–	44	–	–	–	44
Total comprehensive income/(loss)		**–**	**–**	**–**	**–**	**–**	**44**	**–**	**(394)**	**–**	**(350)**
Transactions with owners recorded directly in equity				–							
Employee share incentives	25	–	–	–	–	–	–	–	(8)	–	(8)
Deferred tax on employee share incentives	20	–	–	–	–	–	–	–	8	–	8
Dividends	10	–	–	–	–	–	–	–	(443)	–	(443)
Shares issued		2	143	–	–	–	–	–	–	–	145
Total transactions with owners		**2**	**143**	**–**	**–**	**–**	**–**	**–**	**(443)**	**–**	**(298)**
Balance at 31st December 2010		**282**	**18,059**	**–**	**(17)**	**22**	**–**	**(840)**	**(7,593)**	**–**	**9,913**
Loss for the period		–	–	–	–	–	–	–	(9,025)	(39)	(9,064)
Revaluation of Jersey property		–	–	2,344	–	–	–	–	–	–	2,344
Disposal of Jersey property		–	–	(860)	–	–	–	–	860	–	–
Total comprehensive income/(loss)		**–**	**–**	**1,484**	**–**	**–**	**–**	**–**	**(8,165)**	**(39)**	**(6,720)**
Transactions with owners recorded directly in equity											
Employee share incentives	25	–	–	–	–	–	–	–	(41)	–	(41)
Deferred tax on employee share incentives	20	–	–	–	–	–	–	–	(22)	–	(22)
Dividends	10	–	–	–	–	–	–	–	(222)	–	(222)
Total transactions with owners		–	–	–	–	–	–	–	**(285)**	–	**(285)**
Balance at 30th December 2011		**282**	**18,059**	**1,484**	**(17)**	**22**	**–**	**(840)**	**(16,043)**	**(39)**	**2,908**

Consolidated cash flow statement

52 weeks ended 30th December 2011

	Notes	**52 weeks ended 30.12.11 £'000**	52 weeks ended 31.12.10 £'000
Loss for the period		**(9,064)**	(394)
Adjustment for:			
Profit on sale of trade and assets of subsidiary		**(13)**	(230)
Profit on sale of property, plant and equipment		**(947)**	(2)
Taxation		**139**	(104)
Loan forgiveness	31	**(532)**	–
Loss from associate		**–**	149
Impairment of goodwill	7	**5,574**	92
Impairment of intangible assets	7	**1,391**	–
Depreciation	7	**830**	741
Amortisation	7	**635**	387
Decrease in inventories		**144**	1,081
Decrease in receivables		**330**	442
Decrease in payables		**(810)**	(897)
Net finance expenditure	6	**143**	130
Share based payments		**(41)**	(8)
Cash (used in)/generated from operations		**(2,221)**	1,387
Interest received		**22**	9
Interest paid		**(150)**	(123)
Tax refunded/(paid)		**213**	(120)
Net cash (absorbed in)/ generated from operating activities		**(2,136)**	1,153
Cash flows from investing activities:			
Purchase of property, plant and equipment	13	**(166)**	(352)
Purchases of intangible asset – software	12	**(58)**	(741)
Proceeds from disposal of property, plant and equipment		**3,312**	752
Disposal of trade and assets of a subsidiary		**50**	–
Acquisition of investment in associate		**–**	(150)
Acquisition of subsidiaries (net of cash)	30	**99**	(2,066)
Loans to associates		**–**	(850)
Deferred consideration received on disposal of subsidiary		**750**	–
Deferred consideration paid on acquisition of subsidiary		**(500)**	–
Net cash from/(used in) investing activities		**3,487**	(3,407)
Share capital		**–**	145
New loans raised		**–**	1,618
Repayment of borrowings		**(2,850)**	(1,100)
Dividend	10	**(222)**	(443)
Net cash (used in)/from financing activities		**(3,072)**	220
Net decrease in cash and cash equivalents		**(1,721)**	(2,034)
Cash and cash equivalents at 1st January 2011/ 2nd January 2010		**2,291**	4,325
Cash and cash equivalents at 30th December 2011/31st December 2010		**570**	2,291

Notes to the financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all financial periods presented, unless otherwise stated.

1.1 Basis of preparation and going concern basis

Flying Brands Limited (the Company) is a limited liability company incorporated and domiciled in Jersey. The Consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the Group). The accounting policies of the Company are the same as for the Group except where separately disclosed.

These consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (adopted IFRS).

The financial statements have been prepared on a historic cost basis other that for the revaluation of certain properties.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this review. The financial position of the Group, its cash flows and liquidity position are described in this business review. In addition, notes 2 and 27 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

As highlighted in note 27 to the financial statements, the Group meets its day to day working capital requirements though its on-going cash flows along with an overdraft facility. The current economic conditions have resulted in declining revenue and profits, and the Directors have subsequently sought to realise value through a series of disposals.

The Directors have prepared detailed working capital projections for the Group to support the decision to prepare the financial statements on the going concern basis. The working capital projections include assumptions such as sales demand, the disposal of further assets and the identification and securing of alternative sources of finance where required. However, by their nature, the assumptions are not confirmed and the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. As such there is a material uncertainty in relation to going concern, particularly as to the following:

i) Over the level of demand for the Group's products;

ii) The ability of the Group to complete the disposal of the GD business for an adequate consideration before October 2012; and

iii) The ability of the Directors to secure alternative sources of finance in the event that a disposal of GD and the repayment of the Palatine loan cannot be achieved.

Notwithstanding the above, the Board remains confident that a sale of the GD business can be completed in the time available.

The Group's forecasts and projections, taking account of the uncertainties described above and reasonably possible changes in trading performance, show that the Group has a reasonable expectation of maintaining sufficient working capital to enable the Group to meet its liabilities as they fall due for the foreseeable future, being a period of not less than 12 months from the date of approval of this report.

Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities. A summary of the more important Group accounting policies follow, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the period.

The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or action, actual results ultimately may differ from those estimates.

1.2 Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. The results of the subsidiary undertakings acquired or disposed of during the period are included in the Consolidated Income Statement from the date that control commences until the date control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.3 Segment reporting

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

1 Summary of significant accounting policies…(continued)

1.4 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

1.5 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquirer. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

1.6 Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group entity transacts with an associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Notes to the financial statements…(continued)

1 Summary of significant accounting policies…(continued)

1.7 Property, plant and equipment

All property, plant and equipment is shown at cost less subsequent depreciation and impairment other than properties which are stated at their revalued amounts being fair value at the date of revaluation, less subsequent depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation on assets is calculated using a straight-line method to allocate the cost to each asset less its residual value over its estimated useful life, as follows:

	%
Land and buildings	0-4
Plant and equipment	10-21
Computer hardware, included in plant and equipment	20-33.33
Motor vehicles, including tractors	15-25

Freehold land is not depreciated.

From 2nd July 2011 the Group changed its accounting policy for property, plant and equipment, adopting the revaluation model for land and buildings. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, and is based on up-to-date values. In addition management has revised the useful economic lives of the buildings to 25 years from the date of revaluation, as this is the best estimate for the remaining lives. The policy has been applied prospectively from 2nd July 2011 because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior years. The effect on the current year is to increase the carrying amount of property on 2nd July 2011 by £2,344,000; create a revaluation surplus on 2nd July 2011 of £2,344,000; decrease depreciation expense by £38,000: and reduce profit on disposal of property by £874,000. Since the revalued properties are is located in Jersey, there was no effect on either deferred tax provision or tax expense. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each Balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the consolidated income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs including repairs and maintenance are charged to the Consolidated Income Statement during the financial period in which they are incurred.

1.8 Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised, but is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purposes of impairment testing.

(b) Intangibles – trademarks

Trademarks obtained on the acquisition of subsidiaries are shown at fair value. They have a definite useful life and are carried at fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the trademarks over their estimated useful lives.

(c) Intangibles – customer lists

Customer lists obtained on the acquisition of subsidiaries are shown at fair value. They have a definite useful life and are carried at fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated using the reducing balance method based on the estimated annual attrition rate percentages.

(d) Software

Computer software and associated development costs that generate economic benefits beyond one year are capitalised as an intangible asset and amortised on a straight line basis between three and five years depending on the estimated useful economic life.

(e) Flowers Direct relay network

The Group acquired the rights to manage a substantial linked (relay) network of florist shops when it acquired Flowers Direct. This network enables the Group to deliver florist and same day delivered bouquets and represents a substantial amount of the turnover of the Flowers Direct business. This has therefore been recognised as an intangible asset. The value of this asset will be amortised based on the anticipated decline in the number of florists annually on a reducing balance method.

1 Summary of significant accounting policies…(continued)

1.9 Impairment

(a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any evidence that it is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individual significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the consolidated income statement.

(b) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. An impairment loss in respect of goodwill is not reversed irrespective of whether that loss is recovered subsequently. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

1.10 Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1.11 Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

1.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes transport and handling costs. Net realisable value is the price at which inventory can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving or defective inventories.

1.13 Trade receivables

Trade receivables are recognised initially at amortised cost, which is the fair value of consideration receivable and is adjusted for provision or impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the monies due. The amount of the provision is recognised in the consolidated income statement immediately.

1.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Notes to the financial statements…(continued)

1 Summary of significant accounting policies…(continued)

1.15 Bank borrowings

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

1.16 Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)
When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Share-based payments
The Group provides share-based payment arrangements to certain employees. These are equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value is expensed on a straight line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

The fair values of the share-based payment arrangements are measured as follows:

- Long Term Incentive Plan (EPS based) – using the Monte Carlo model;
- Long Term Incentive Plan (Total Shareholder Return basis) – using a pricing model adjusted to reflect Total Shareholder Return market-based performance conditions;

See note 25 for a further description of the share-based payment plans.

1.17 Revenue recognition

Revenue represents the invoiced value of goods supplied and is stated net of VAT and any trade discounts. Revenue is recognised at the date of despatch of goods to customers. Provision is made for refunds in the period the goods are despatched. Provision is made for expected returns or bad debts of continuity products. Credit card commission and the cost of overseas bouquets are treated as cost of sales. Commission income is recognised on completion of transmission of orders between network florists. Interest income is recognised using an accrual based method.

1.18 Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are taken to the consolidated income statement on a straight-line basis over the lease term.

Leases in which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an equal amount to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

1.20 Taxation

Income tax payable is provided on taxable profits using tax rates enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related balance sheet tax asset is realised or the deferred liability is settled. Deferred income tax assets are recognised to the extent that it is possible that future taxable profit will be available against which temporary differences can be utilised. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

1 Summary of significant accounting policies…(continued)

1.21 Pensions

The Group makes contributions to some employees' and Directors' personal pension defined contribution schemes. These payments are accounted for on an accruals basis.

1.22 Financial instruments

(a) Financial guarantee contracts
Where Group companies enter into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a formal contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(b) Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

1.23 Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy, and the Group has created a valid expectation in those affected that it will carry out that plan.

1.24 Adoption of new and revised IFRS

The following new and revised Standards and Interpretations have been adopted in the current period. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IFRS 1 (amended)	First time adoption of International Financial Reporting Standards
IAS 24 (amended)	Related Party Disclosures
IAS 32 (amended)	Classification of Rights Issues
IFRIC 14 (amended)	Prepayments of a minimum funding requirement
IFRIC 19	Extinguishing financial liabilities with equity instruments
Improvements to IFRSs (May 2010)	

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not yet been applied in these financial statements were in issue but not yet effective (and in some cases, had not yet been adopted by the EU):

IFRS 1 (amended)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 (amended)	Disclosures – Transfers of Financial Assets
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures

The directors anticipate that the adoption of the Standards and Interpretations listed above in future periods will have no material impact on the financial statements of the Group.

Notes to the financial statements…(continued)

2 Financial risk and credit management

The Group has exposure to the following risks from its use of financial instruments:

- **(a)** Credit risk
- **(b)** Liquidity risk
- **(c)** Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced by the type of customer the Group contracts with. The Group is exposed to a high number of low value receivables from retail customers. The Group assesses the risk of these customers by applying historical trends to the likely event of these customers defaulting. Impairment to the value of this receivable is applied in line with the historical trends identified and any changes in risk to the portfolio of the debt.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. During the latter part of 2011, the Group repaid all its bank borrowings leaving it without committed banking facilities. The strategy of the Directors (outlined earlier) is designed to address the risk that the Group has insufficient liquid resources to satisfy its requirements.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the Euro and US Dollar. The risks in the period to 30th December 2011 were minimal. The Group currently does not hedge any of its currency exposure due to the minimal impact of these currencies and will not need to do so in the foreseeable future following the decision to close all its overseas operations.

Interest rate risk

The Group has no floating rate loans. Thus the Group has no exposure to interest rate risk.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board also monitors the level of dividends to ordinary shareholders.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's share option programme. Buy and sell decisions are made on a specific transaction basis by the Board of Directors; the Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(a) Estimated impairment of goodwill and intangible assets
The Group tests annually, whether goodwill and intangible assets have suffered any impairment this is in accordance with the accounting policy stated in note 1.9. The valuation of cash generating units has been based on recoverable amounts. It is possible that the recoverable amounts estimated for the intangible software assets may be inaccurate as the period over which the Group will benefit from these assets may be shorter than estimated. In this event an impairment will be required.

(b) Discontinued operations
The Directors have assumed for the purposes of presenting the financial information contained in this report, that the business and assets relating to the Gardening Direct brand will be sold in the 12 months ending 28th December 2012. In the event that the Directors conclude that such a disposal cannot be completed by that date, they will revisit this conclusion. Until completion of a sale, the business will continue to be operated as a going concern.

(c) Deferred tax assets
The Directors have included within the consolidated balance sheet a deferred asset of £155,000. Given the Group's strategy of divestment of assets to enhance shareholder value, it is probable that a number of capital gains will be crystallised on disposal during the foreseeable future. The Group is carrying a significant value of capital losses forward which will be used to relieve any capital gains on disposal. As such the Directors have concluded that the likely value of the deferred tax asset is fairly stated at £155,000.

(d) Going concern basis of preparation
The Directors decision to prepare these accounts on a going concern basis is based on assumptions which are discussed in note 1.1 and in the business review on page 13.

(e) Change in accounting policy re valuation of properties
The Directors have assessed that the adoption of a policy of revaluation of the Group's property assets better reflects the financial position of the Group. The valuation was made on the basis of market value and details of the valuation are disclosed in note 13. Such a valuation necessarily involves estimation and the carrying value of the assets under this policy may change significantly based on market conditions in the next financial period.

Notes to the financial statements…(continued)

4 Segmental analysis

The Directors have taken the decision to market for sale all the brands owned by the Group. This includes the reportable divisions of Garden, Gifts and Entertainment. Once this disposal programme is complete, the one remaining trading asset in the Group will be a growing and live despatch business based in Jersey.

The three reportable segments, as described below, are the Group's strategic business units. Subject to the disposal programme these business units offer different products and services and are managed separately because they require different business strategies.

For each strategic business unit the Group's Board continues to review high level internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Garden	–	home shopping retailer selling gardening products including bedding plants, garden hardware and wild bird food.
Gifts	–	home shopping retailer selling floral bouquets and pot plants delivered as gifts.
Entertainment	–	home shopping retailer selling audio books, memorabilia, music and DVDs.

The Group reported on Greetings Direct and Dealtastic separately as these had been abandoned or discontinued during the period.

The accounting policies of the reportable segments are the same as described in note 1. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before interest and tax, as included in the internal management reports that are reviewed by the Group's Board.

Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors. Inter-segment pricing is determined on an arm's length basis.

4.1 Segmentation by primary divisions

(a) Segment results

52 weeks ending 30th December 2011

	Garden	Gifts	Entertainment	Greetings Direct	Dealtastic	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	13,611	10,032	1,333	190	859	26,025
Reportable segment profit/(loss)	(723)	(1,438)	(35)	147	(745)	(2,794)
Redundancy and reorganisation						(61)
One-off acquisition costs						(46)
Impairment of goodwill						(5,574)
Impairment of intangible assets						(1,391)
Profit on sale of trade and assets						13
Profit on sale of property						673
Banking arrangement fee						(134)
Third party loan write back						532
Interest payable						(165)
Interest receivable						22
						(8,925)
Taxation						(139)
Loss for the period						(9,064)
Loss from continuing operations						(3,385)
Loss from discontinued						(5,679)
Depreciation	(487)	(292)	(51)	–	–	(830)
Amortisation of intangible assets	(195)	(426)	(14)	–	–	(635)

4 Segmental analysis…(continued)

Included within discontinued activity of the Garden division is the plant growing business in Jersey. This activity is being retained by the Group but no income is shown as it sells all its production intra-group and then this is on-sold to third party customers. As such, the revenue from the growing operation has been removed by way of consolidation adjustment historically.

52 weeks ended 31st December 2010	Garden	Gifts	Entertainment	Greetings Direct	Benham	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	15,668	10,160	1,731	478	1,665	29,702
Reportable segment profit/(loss) before interest and tax	1,342	(808)	100	371	84	1,089
Redundancy and reorganisation						(168)
One-off acquisition costs						(247)
Impairment of goodwill						(92)
Loss from associate						(149)
Profit from sale of trade and assets						107
Fair value stock write down						(903)
Interest payable						(144)
Interest receivable						9
						(498)
Taxation						104
Loss for the period						(394)
Loss from continuing operations						(3,718)
Profit from discontinued operations						3,324
Depreciation	(458)	(187)	(73)	–	(23)	(741)
Amortisation of intangible assets	(134)	(247)	(5)	–	(1)	(387)

52 weeks ended 30th December 2011	Garden	Gifts	Entertainment	Greetings Direct	Dealtastic	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reportable segment assets	4,099	2,506	500	–	–	7,105
Other assets						1,050
Consolidated total assets						8,155
Reportable segment liabilities	(304)	(1,086)	(7)	(45)	–	(1,442)
Other liabilities						(3,805)
Consolidated total liabilities						(5,247)
Capital expenditure on property, plant and equipment	127	38	1	–	–	166
Expenditure on software (intangibles)	26	29	3	–	–	58

52 weeks ended 31st December 2010	Garden	Gifts	Entertainment	Greetings Direct	Benham	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reportable segment assets	7,676	5,516	989	18	–	14,199
Other assets						4,886
Consolidated total assets						19,085
Reportable segment liabilities	(363)	(4,448)	(10)	(83)	–	(4,904)
Other liabilities						(4,268)
Consolidated total liabilities						(9,172)
Capital expenditure on property, plant and equipment	203	131	18	–	–	352
Expenditure on software (intangibles)	319	370	52	–	–	741

Notes to the financial statements…(continued)

4 Segmental analysis…(continued)

4.2 Segmentation by geographical area

Revenue by customer geographical area	**52 weeks ended 30.12.11 £'000**	52 weeks ended 31.12.10 £'000
Jersey, Channel Islands	**65**	69
United Kingdom	**25,756**	29,107
Australasia	**110**	110
Europe	**44**	169
Rest of World	**50**	247
	26,025	29,702

Non – current assets* by geographical area		
Jersey, Channel Islands	**3,405**	11,411
United Kingdom	**146**	1,774
	3,551	13,185

* *Not including deferred tax asset of £155,000 (31st December 2010: £261,000).*

There is no external customer who accounts for more than 10% of revenue for the Group inclusive of revenue from discontinued operations. For continuing operations all revenue is derived from intercompany transactions.

5 Operating expenses

	52 weeks ended 30.12.11 £'000	52 weeks ended 31.12.10 £'000
Administrative expenses	**4,817**	4,999

Selling and distribution costs have been reclassified to discontinued operations as they relate solely to brands where a sale has been concluded or the directors believe that a sale will be concluded by the 28th December 2012.

6 Net finance expense

	52 weeks ended 30.12.11 £'000	52 weeks ended 31.12.10 £'000
Interest receivable	**22**	9
Interest payable on bank and other loans	**(165)**	(139)
Net finance expense	**(143)**	(130)

7 Operating loss

	Notes	Continuing	Discontinued	**52 weeks ended 30.12.11 £'000**	Continuing	Discontinued	52 weeks ended 31.12.10 £'000
The following items have been included in arriving at operating loss							
Depreciation charge: Property, plant and equipment		712	118	**830**	723	18	741
Amortisation of intangible assets		–	635	**635**	–	387	387
Impairment of intangible assets		–	1,391	**1,391**	–	–	–
Profit on sale of plant and equipment		(10)	–	**(10)**	(2)	–	(2)
Hire of land and buildings under operating lease		164	94	**258**	177	96	273
Cost of inventories recognised as an expense		1,740	8,051	**9,791**	1,844	7,863	9,707
Redundancy and restructuring costs		61	–	**61**	168	–	168
Legal costs associated with acquisitions		46	–	**46**	183	–	183
Professional costs associated with disposal of property		274	–	**274**	–	–	–
Profit on disposal of property (note 13)		(947)	–	**(947)**	–	–	–
Staff costs (see note 8)		2,661	2,878	**5,539**	2,828	2,715	5,543
Impairment of goodwill (see note 12)		–	5,574	**5,574**	–	92	92
Reorganisation cost associated with acquisitions		–	–	**–**	64	–	64
Auditors remuneration has been included in arriving at operating loss as follows:							
Fees payable to the Company's current auditor and their associates for the audit of the Company's annual financial statements		60	–	**60**	–	–	–
Fees payable to the Company's current auditor and their associates for the audit of the Company's subsidiaries		80	–	**80**	–	–	–
Fees payable to the Company's previous auditor and their associates for the audit of the Company's subsidiaries.		-	–	**–**	86	–	86
Total audit fees payable to the Group's auditors		140	–	**140**	86	–	86
Fees payable to the Company's previous auditor and their associates for other services to the Group							
Taxation compliance service		16	–	**16**	16	–	16
Audit related assurance services		10	–	**10**	10	–	10
Corporate finance services		75	–	**75**	–	–	–
Other taxation advisory services		22	–	**22**	–	–	–
Total		123	–	**123**	26	–	26

Notes to the financial statements…(continued)

8 Employee information

The average monthly number of employees (including Executive Directors) was:

	52 weeks ended 30.12.11	52 weeks ended 31.12.10
	count	count
Sales	**87**	82
Production	**49**	44
Administration	**71**	77
	207	203

	£'000	£'000
Staff costs (for the above employees)		
Wages and salaries	**5,094**	5,052
Share based payments (credit)	**(41)**	(8)
Social security costs	**412**	394
Pension contributions to employees' defined contribution schemes	**74**	105
	5,539	5,543

9 Taxation

	52 weeks ended 30.12.11 £'000	52 weeks ended 31.12.10 £'000
Current tax		
Jersey income tax	12	15
UK corporation tax	–	66
Under provision in previous periods	43	87
Total current tax	55	168
Deferred tax		
Charge/ (credit) to the income statement (see note 20)	84	(116)
Total tax on profit	139	52

9 Taxation…(continued)

In March 2011, the UK Government announced a reduction in the standard rate of UK corporation tax to 26% effective 1st April 2011. This rate reduction was substantively enacted in March 2011. The rate applied to UK current tax provisions is an effective rate of 26.5%.

In March 2012, the UK Government announced the main rate of UK corporation tax would reduce to 24% with effect from 1st April 2012, with subsequent 1% reductions annually to 22% by April 2014. These changes were substantively enacted on 26th March 2012.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

The tax assessed for the period is different from the standard rate of income tax, as

	52 weeks ended 30.12.11 £'000	52 weeks ended 31.12.10 £'000
Loss before tax	(3,246)	(3,666)
Loss before tax multiplied by the standard rate of Jersey income tax of 0%	–	–
Adjustments to tax in respect of prior periods	43	(98)
Adjustments in respect of foreign tax rates	84	135
Other	12	15
Tax charge for period	139	52

10 Dividends

	52 weeks ended 30.12.11 £'000	52 weeks ended 31.12.10 £'000
Dividends on equity shares		
Interim dividend of nil (2010: 1.6p) per Ordinary share	**–**	443
Final dividend for 2010 proposed in March 2011 agreed at AGM in April 2011 at 0.8p (2010: nil)	**222**	–
	222	443

The Directors are not proposing a final dividend in respect of the financial period ended 30th December 2011.

Notes to the financial statements…(continued)

11 Earnings per share

Basic

Basic earnings per share is calculated by dividing the (loss)/profit attributable to the equity holders of the Company by the weighted average number of Ordinary shares in issue during the period, excluding Ordinary shares purchased by the Company and held as treasury shares (note 22).

Basic	52 weeks ended 30.12.11			52 weeks ended 31.12.10		
	Continuing operations	Discontinued operations	Continuing and discontinued operations	Continuing operations	Discontinued operations	Continuing and discontinued operations
(Loss)/profit attributable to equity holders of the Company (£'000)	(3,385)	(5,640)	**(9,025)**	(3,718)	3,324	(394)
Weighted average number of shares in issue, less weighted average number of treasury shares ('000)	27,671	27,671	**27,671**	27,546	27,546	27,546
Basic (loss)/earnings per share (pence)	(12.23)	(20.38)	**(32.61)**	(13.50)	12.07	(1.43)

Diluted

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

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

For the purposes of calculating diluted earnings per share the LTIP share awards have been assumed to be non-dilutive as the terms of the LTIP are not likely to be satisfied in the foreseeable future.

	52 weeks ended 30.12.11			52 weeks ended 31.12.10		
Diluted	Continuing operations	Discontinued operations	Continuing and discontinued operations	Continuing operations	Discontinued operations	Continuing and discontinued operations
(Loss)/profit attributable to equity holders of the Company (£'000)	(3,385)	(5,640)	**(9,025)**	(3,718)	3,324	(394)
Weighted average number of shares in issue ('000)	27,671	27,671	**27,671**	27,546	27,546	27,546
Adjustment for options ('000)	–	–	**–**	544	544	544
Weighted average number of ordinary shares for diluted earnings per share ('000)	27,671	27,671	**27,671**	28,090	28,090	28,090
Basic earnings per share (pence)	(12.23)	(20.38)	**(32.61)**	(13.24)	11.84	(1.40)

12 Goodwill and intangible assets

	Florist network £'000	Software £'000	Trade marks £'000	Customer lists £'000	**Total intangibles £'000**	Goodwill £'000
The Group						
Cost						
At 1st January 2010	-	368	431	1,472	**2,271**	15,463
Additions	-	741	-	-	**741**	-
Acquisitions	1,618	439	-	100	**2,157**	1,620
Disposals	-	-	-	(45)	**(45)**	-
At 31st December 2010	1,618	1,548	431	1,527	**5,124**	17,083
Additions	-	58	-	-	**58**	-
Acquisitions	-	-	-	-	**-**	1,406
At 30th December 2011	1,618	1,606	431	1,527	**5,182**	18,489
Amortisation and impairment						
At 1st January 2010	-	-	238	1,237	**1,475**	11,581
Amortisation charge for the period	94	132	56	105	**387**	-
Impairment charge for the period	-	-	-	-	**-**	92
Disposals	-	-	-	(45)	**(45)**	-
At 31st December 2010	94	132	294	1,297	**1,817**	11,673
Amortisation charge for the period	152	345	56	82	**635**	-
Impairment charge for the period	987	255	31	118	**1,391**	5,574
At 30th December 2011	1,233	732	381	1,497	**3,843**	17,247
Carrying amount						
At 30th December 2011	385	874	50	30	**1,339**	1,242
At 31st December 2010	1,524	1,416	137	230	**3,307**	5,410
At 1st January 2010	-	368	193	235	**796**	3,882
Carrying amount at 30th December 2011 comprises:						
Non-current assets	-	-	-	-	**-**	-
Assets held for resale	385	874	50	30	**1,339**	1,242

Software

Operational software is the asset used in the Group to operate, inter alia, the Gardening Direct brand and forms £1,166,000 of the cost and the whole of the carrying amount of the software category. It has been reclassified as an asset held for disposal as the Directors expect it to form part of the disposal of that brand owing to its key operational functionality in the continuing trading of that business.

With the exception of the operational software, all intangible assets formed part of the disposals to Interflora® and MBL Group as outlined in note 33. As such they have been written down to their recoverable amounts.

Goodwill

As outlined in note 33, since the balance sheet date, the Group has entered into two disposal arrangements to sell the business and asset of the Gifts Division to Interflora® and GBS, GCO and L2 to a subsidiary of MBL Group. In view of these disposals, the Directors have written down the value of goodwill associated with these cash generating units, which relate to the different divisions of the business, to their recoverable amounts. The recoverable amounts are calculated as fair value less costs of disposal and are based on the sale agreements. This is summarised as follows:

	GBS £'000	Gifts £'000	GCO £'000	Dealtastic £'000	Entertainment £'000	Group £'000
Carrying value at 31st December 2010	3,382	1,417	203	–	408	5,410
Additions	–	–	–	1,406	–	1,406
Impairment	(3,082)	(625)	(143)	(1,406)	(318)	(5,574)
Carrying value at 30th December 2011	300	792	60	–	90	1,242

Notes to the financial statements…(continued)

13 Property, plant and equipment

	Land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
The Group				
Cost or valuation				
At 1st January 2010	6,736	9,557	167	16,460
Additions	–	352	–	352
Acquisition of subsidiary	–	73	–	73
Disposal of business	–	(450)	(3)	(453)
Disposals	–	–	(13)	(13)
At 31st December 2010	6,736	9,532	151	16,419
Additions	–	166	–	166
Disposals	(2,413)	(1,920)	(48)	(4,381)
Elimination on revaluation	(3,367)	–	–	(3,367)
Revaluation	2,344	–	–	2,344
At 30th December 2011	3,300	7,778	103	11,181
Comprising:				
At cost	3,679	7,778	103	11,560
At valuation 2011	(379)	–	–	(379)
	3,300	7,778	103	11,181
Accumulated depreciation and impairment				
At 1st January 2010	2,953	8,556	113	11,622
Charge for the period	283	437	21	741
Disposal of business	–	(395)	(3)	(398)
Disposals	–	–	(13)	(13)
At 31st December 2010	3,236	8,598	118	11,952
Charge for the period	232	588	10	830
Disposals	(46)	(1,901)	(31)	(1,978)
Elimination on revaluation	(3,367)	–	–	(3,367)
At 30th December 2011	55	7,285	97	7,437
Carrying amount				
At 30th December 2011	3,245	493	6	3,744
At 31st December 2010	3,500	934	33	4,467
At 1st January 2010	3,783	1,001	54	4,838
Carrying amount at 30th December 2011 comprises:				
Non – current assets	3,245	300	6	3,551
Assets held for resale	–	193	–	193
At 30th December 2011	3,245	493	6	3,744

Land and buildings were revalued at 28th June 2011 by CB Richard Ellis Limited, independent valuers not connected with the Group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar properties.

At 30th December 2011, had the land and buildings other than investment property of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £1,737,000 (31st December 2010: £3,500,000).

The revaluation surplus is disclosed in note 22. The revaluation surplus arises in a subsidiary and cannot be distributed to the parent due to legal restrictions in the country of incorporation.

On 6th December 2011 the Group sold a glasshouse, office and staff accommodation for £3,325,000. The property had a net book value of £2,378,000 and a profit on disposal of £947,000 was generated (see note 7). Had the property been carried at historical cost less accumulated depreciation and accumulated impairment losses, the net book value would have been £1,503,000 and a profit on disposal of £1,822,000 would have been generated.

At 30th December 2011, the Group has entered into contractual commitments for the acquisition of property, plant and equipment amounting to £28,000 (31st December 2010: £43,000).

14 Associate

	30.12.11 £000	31.12.10 £000
Amounts relating to associate		
Total assets	–	211
Total liabilities	–	(2,198)
Net assets	–	(1,987)
Group's share of net assets of associate	–	(497)
Total revenue	–	559
Loss	–	(595)
Group's share of loss of associate	–	(149)

The associate at 31st December 2010 was the Dealtastic Group as described in note 31.

15 Inventories

	30.12.11 £'000	31.12.10 £'000
Raw materials	**151**	573
Goods for resale	**349**	57
Growing stock	**116**	74
	616	704

16 Trade and other receivables

	30.12.11 £'000	31.12.10 £'000
Amounts falling due within one year:		
Other receivables	**4**	243
Trade receivables	**164**	312
Deferred consideration receivable on disposal of Benham	**-**	750
Prepayments	**321**	256
	489	1,561

Trade receivables
The majority of the trade receivables' balance relates to balances held with florist and corporate customers of the Gifts division. None of the balances are large on an individual basis and where possible collection is made by direct debit. The Group monitors on a monthly basis the receivable balance and makes impairment provisions when debt reaches a certain age. There are no significant known risks at 30th December 2011.

The ageing of trade receivables at the reporting date was:

	Gross 30.12.11 £'000	Impairment 30.12.11 £'000	Gross 31.12.10 £'000	Impairment 31.12.10 £'000
Not past due	114	-	292	-
Past due 0-30 days	33		4	-
More than 30 days past due	112	(95)	46	(30)
Total	259	(95)	342	(30)

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	£'000	£'000
Balance at 31st December 2010/1st January 2010	30	25
Impairment loss charged	65	5
Balance at 30th December 2011/ 31st December 2010	95	30

Notes to the financial statements…(continued)

17 Trade and other payables

	30.12.11 £'000	31.12.10 £'000
Trade payables and accruals	**3,775**	4,268
Loan note payable on acquisition of Flowers Direct	**1,000**	1,471
	4,775	5,739

The loan note is payable to Palatine LLP and relates to deferred consideration due following the acquisition of Flowers Direct in 2010. The original agreement was for this debt to be repaid by 30th August 2011. Since then a number of interim deferrals in repayment have been agreed resulting in a final agreement being reached with Palatine and this is covered in note 33.

18 Bank loans and overdraft

	30.12.11 £'000	31.12.10 £'000
Bank loans	**–**	2,850

All loans and overdrafts were UK £-Sterling denominated.

On 7th July 2010 the Group rearranged its loan finance facilities with Barclays Wealth, a subsidiary of Barclays Bank PLC, arranging a £3,000,000 facility repayable over 3 years in 12 quarterly instalments, two instalments of £150,000 followed by ten of £270,000. The facility (secured against the Group's assets and in particular the freehold properties in Jersey) was used to repay the outstanding balances of the existing loans, of £1,381,000 and provide additional funds of £1,618,000 to fund the acquisition of the trade and assets of Flowers Direct. This loan carried a floating interest rate of 2.25% above LIBOR.

As a result of the poor trading performance of the Group in the period to 31st December 2010 the Group breached the net debt covenant test associated with the new loan facility. The Group approached Barclays Wealth with a proposal to repay £600,000 of the loan in March 2011 reducing the repayment on the 10 remaining payments to £210,000. As a result Barclays Wealth waived the breach of covenant.

Due to the trading performance of the Group, it breached its banking covenants when tested in April and July 2011. The Group obtained a waiver from Barclays Wealth for the breach of covenant on 28th July 2011. The Group also had its debt service covenant for the second half of 2011 and financial year 2012 reset with the net debt service covenant and net interest covenant being replaced with an absolute EBITDA and cash test.

The new covenant tests had been breached in the quarter ended 30th September 2011 when tested in October 2011. On 2nd November 2011 Barclays Wealth agreed to waive the breach of covenant.

On 8th July 2011, the Group arranged with Barclays Wealth an overdraft facility of £800,000. This remained in place until 31st December 2011. The interest rate on the overdraft was set at 4% above LIBOR and was secured against the Group's freehold property in Jersey. An arrangement fee of £104,000 was paid.

On 28th October 2011 Barclays Wealth agreed to increase the overdraft facility to £1,475,000 until the proceeds of the sale of the properties (see note 13) had been received. A further arrangement fee of £30,000 was paid.

On 6th December 2011 the Group repaid in full the amounts outstanding on the loan agreement with Barclays Wealth totalling £1,470,000.
At the balance sheet date, the Group had no committed overdraft facilities.

19 Subsidiaries

	Proportion	Operating Status	Place of incorporation
Benham Collectors Club	100%	Ceased Trading Sep10	Jersey
Flying Flowers International	100%	Non-trading	Jersey
Flying Brands Holdings (UK) PLC	100%	Non-trading	UK
FF UK Ltd	100%	Non-trading	UK
Flying Flowers Properties	100%	Non-trading	Jersey
Garden Bird Supplies	100%	Trading	UK
Flying Flowers (Jersey) Ltd	100%	Trading	Jersey
Garden Centre Online Ltd	100%	Trading	UK
Arrossisca Ltd	100%	Trading	UK
Dealtastic Holdings Ltd	80%	Non-trading	Jersey
The Bellbourne Group	100%	Dormant	UK
Fresh Flower Supplies	100%	Dormant	UK
Bellbourne Properties	100%	Dormant	UK
Flying Flowers (UK)	100%	Dormant	UK
Collect Direct	100%	Dormant	UK
Benham Covers Ltd	100%	Ceased Trading Sep10	UK
Victory Cards	100%	Dormant	UK
Benham (A Buckingham)	100%	Dormant	UK
DPA Direct Ltd	100%	Trading	UK
Gardening Direct	100%	Dormant	UK
Flying Brands Ltd	100%	Dormant	UK
New Growth	100%	Dormant	UK
Greetings Direct Pty Ltd	100%	Dormant	Australia
Greetings Direct Ltd	100%	Dormant	UK
Greetings Direct International Ltd	100%	Dormant	Malta
Greetings Direct LLC	100%	Liquidated Feb10	USA
Greetings Direct (NZ) Ltd	100%	Liquidated Jul10	New Zealand
Greetings Made Easy Ltd	100%	Dormant	UK
Cards4Free Ltd	100%	Dormant	UK
Cards for all Occasions Ltd	100%	Dormant	UK
Easy Greetings Ltd	100%	Dormant	UK
Dealtastic Ltd	80%	Ceased Trading Jul11	Jersey
Promomachine Ltd	80%	Ceased Trading Jul11	Jersey
Promomachine UK Ltd	80%	Ceased Trading Jul11	UK
Vitabits Ltd	40%	Ceased Trading Jul11	Jersey

20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of between 0% and 26% (31st December 2010: 0-28%) depended on the locality of the future charges/credits.

	30.12.11 £'000	31.12.10 £'000
Deferred tax asset		
At 31st December 2011 / 1st January 2010	**261**	153
(Charged)/ credited to the Income Statement (see note 9)	**(84)**	116
Charged to discontinued operations	**-**	(16)
(Charged)/ credited to reserves in respect of LTIP awards	**(22)**	8
At 30th December 2011/31st December2010	**155**	261

The deferred tax asset is in respect of timing differences relating to capital allowances. There are no deferred tax liabilities.

The Directors have not recognised any deferred tax asset in respect of further unutilised UK tax losses of £2,160,000 (31st December 2010: £590,000), capital losses of £1,134,000 (31st December 2010: £1,134,000) and connected party capital losses of £8,226,000 (31st December 2010: £8,226,000). At this stage insufficient certainty exists as to the generation of future profits to utilise these losses within the foreseeable future.

21 Called-up share capital

	30.12.11 £'000	31.12.10 £'000
Authorised 35,000,000 Ordinary shares of 1p each	**350**	350
Allotted, called up and fully paid 28,073,735 (31st December 2010: 28,073,735) Ordinary shares	**281**	281
"A" Shares in Flying Brands Holdings (UK) PLC 28,073,735 (31st December 2010: 28,073,735) Ordinary shares	**1**	1
	282	282

22 Reserves

Capital reserve

The capital reserve of the Group comprises a premium of £104,000 which was written off in 1988 on the purchase of the minority interest in the subsidiary company, Retreat Farm (1988) Limited, (now Retreat Farm Limited and formerly Flying Flowers (Jersey) Limited), and the assignment of a loan in 1982 of £87,000.

Revaluation reserve

On the 30th June 2011 the property at Retreat Farm was revalued and a revaluation reserve was created.

	£'000
Balance at 31st December 2010	–
Revaluation increase on land and buildings	2,344
Disposal of Jersey property	(860)
Balance at 30th December 2011	1,484

This property is situated in Jersey and owned by a Jersey company. As such, on an ultimate disposal no capital gains will be payable as this tax does not exist in Jersey.

Treasury shares

	30.12.11 £'000	31.12.10 £'000
Investment at cost – own shares 452,323 Ordinary shares (31st December 2010: 452,323) of 1p each in Flying Brands Limited	**840**	840

These shares are held in an ESOP trust and are all under option to employees and form part of the options/awards described in the Remuneration Committee report and note 25 to the financial statements. All dividends are waived whilst the shares are held in the ESOP trust. The shares are netted off against shareholders' equity. These shares continue to have voting rights whilst held in trust.

23 Operating lease commitments

Financial commitments

At 30th December 2011 the Group had total commitments under non-cancellable operating leases as follows:

	As at 30.12.11			As at 31.12.10		
	Land and buildings £'000	Motor Vehicles £'000	Total £'000	Land and buildings £'000	Motor Vehicles £'000	Total £'000
Within 1 year	165	51	216	232	-	232
More than 1 year and not later than 5 years	-	56	56	109	-	109
	165	107	272	341	-	341

24 Contingent liabilities

All Jersey and UK based Group companies have given unlimited guarantees to Barclays Bank PLC or its subsidiaries where appropriate (the "Bank") in respect of facilities provided to the Group. However as discussed in note 18, the Group has no direct obligation to the Bank though there are a number of contingent liabilities (for example BACS facilities) in existence. The Directors have taken the view that the probability of crystallisation in the foreseeable future is remote.

The Company provided a guarantee in respect of a property leased by Benham Covers Limited. The use of this property has passed to the purchasers of the trade and assets of that business. However, the landlord of the property refused to consent to a change of guarantor. The guarantee expired in September 2011 and therefore the Directors consider the probability of economic outflow to be remote.

A subsidiary of the Company (DPA Direct Limited) has provided a guarantee, supported by a bank bond from Barclays Bank PLC, to The National Newspapers' Safe Home Ordering Protection Scheme Limited. During the course of this financial year the guarantee extended to £0.5m. Since the year end the guarantee has been reduced to £0.1m.

25 Share based payments

Total shareholder return basis

During the period ended 30th December 2011 the Group made no awards under the Group's Long Term Incentive Plan. The awards previously issued are shown in the table below. The performance criteria associated with the exercise of these awards are based on a total shareholder return methodology. The awards will only vest if the performance criteria are met. To date 211,166 of the April 2009 awards, all the awards issued in November 2009 and 153,333 of the awards issued in September 2010 have lapsed. The vesting conditions are disclosed in the Remuneration Committee report.

The principal assumptions used in arriving at the valuation are summarised below:

	Award April 2009	Award August 2009	Award September 2010
Grant date	24/04/09	26/08/09	30/09/10
Share price at grant	£0.49	£0.77	£0.59
Exercise price	Nil	Nil	Nil
Number of employees	5	1	2
Shares under option	704,510	175,000	273,333
Vesting period (years)	3	3	3
Expected volatility	49.56%	54.01%	55.55%
Option life (years)	3	3	3
Expected life	3	3	3
Risk free rate	2.29%	2.09%	1.06%
Expected dividends expressed as a dividend yield	8%	nil	6.77%
Fair value per option	£0.26	£0.64	£0.36
Valuation model	Monte Carlo Simulation	Monte Carlo Simulation	Monte Carlo Simulation

The expected volatility is based on historical volatility over a term commensurate with the expected life of each option, calculated separately for each grant. The expected life is the average expected period to exercise. The risk-free rate of return is the implied yield of zero-coupon government bonds with a remaining term equal to the expected life. A credit of £41,000 (31st December 2010: credit of £8,000) relating to employee share-based payment plans has been taken in the Consolidated Income Statement in the period.

26 Deferred revenue

	30.12.11 £'000	31.12.10 £'000
Arising from customer prepayments	**442**	583

The deferred revenue arises as a result of payments received from customers for goods before the associated order is despatched. The revenue will be recognised when the goods are despatched.

27 Financial instruments

Note 2 to the financial statements details the Group's policy for the holding and issuing of financial instruments. IFRS requires numerical disclosures in respect of financial assets and liabilities and these are set out below.

Fair value of financial assets and liabilities

	Valuation, methodology and hierarchy	**Book value 30.12.11 £'000**	**Fair value 30.12.11 £'000**	Book value 31.12.10 £'000	Fair value 31.12.10 £'000
Financial assets					
Cash and cash equivalents	(a)	**570**	**570**	2,291	2,291
Loans and receivables, net of impairment	(a)	**168**	**168**	1,305	1,305
		738	**738**	3,596	3,596
Financial liabilities					
Floating rate bank loan	(b)	**-**	**-**	(2,850)	(2,850)
Trade and other payables	(a)	**(4,775)**	**(4,775)**	(5,739)	(5,739)
Total at amortised cost		**(4,775)**	**(4,775)**	(8,589)	(8,589)

Valuation, methodology and hierarchy

(a) The carrying amounts of trade and other receivables, trade and other payables which are stated at book value, all have the same fair value due to their short-term nature.

(b) As at 31st December 2010 the same calculation was performed on the floating rate bank loan and there was no material difference between the book and the fair value of this liability.

Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform their obligations according to the terms of the contract or instrument. The Group is exposed to counterparty credit risk when dealing with its customers and certain financing activities.

The immediate credit exposure of financial instruments is represented by those financial instruments that have a net positive fair value by counterparty at 30 December 2011. The Group considers its maximum exposure to be:

	30.12.11 £'000	31.12.10 £'000
Financial assets		
Cash and cash equivalents	**570**	2,291
Loans and receivables, net of impairment	**168**	1,305
	738	3,596

All cash balances and short-term deposits are held with an investment grade bank who is our principal banker (Barclays Bank PLC). Although the Group has seen no direct evidence of changes to the credit risk of its counterparties, the current focus on financial liquidity in all markets has introduced increased financial volatility. The Group continues to monitor the changes to its counterparties' credit risk.

Liquidity risk

Liquidity risk is the risk the Group will encounter difficulty in meeting its obligations associated with financial liabilities as they fall due. The Finance Director is responsible for monitoring and managing liquidity and ensures that the Group has sufficient liquid resources to meet unforeseen and abnormal requirements. The current forecast suggests that the Group has sufficient liquid resources.

Available liquid resources and cash requirements are monitored by the use of detailed cash flow and profit forecasts these are reviewed at least quarterly, or more often as required.

Notes to the financial statements…(continued)

27 Financial instruments…(continued)

The following are the contractual maturities of financial liabilities:

30th December 2011	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6 to 12 months £'000	1 to 2 years £'000	2 to 5 years £'000
Non – derivative financial liabilities						
Trade and other payables	4,775	4,775	4,775	–	–	–
	4,775	4,775	4,775	–	–	–

31st December 2010	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6 to 12 months £'000	1 to 2 years £'000	2 to 5 years £'000
Non – derivative financial liabilities						
Secured bank loans	2,850	2,850	2,850	–	–	–
Trade and other payables	5,739	5,739	4,268	1,471	–	–
	8,589	8,589	7,118	1,471	–	–

Included within trade and other payables is £1,000,000 due to Palatine and to be paid on 3rd January and 31st January 2012. An agreement was reached with Palatine to delay this payment which is detailed in note 33.

Cash flow management
The Group produces an annual budget which it updates quarterly with actual results and forecasts for future periods for profit and loss, balance sheet and cash flows. The Group uses these forecasts to report against and monitor its cash position. If the Group becomes aware of a situation in which it would exceed its current available liquid resources it would apply mitigating actions involving reduction of its cost base. The Group would also employ working capital management techniques to manage the cash flow in periods of peak usage. During the 12 months under review where this situation has occurred, the Group has negotiated extended payment terms with its suppliers and utilised other working capital management techniques.

The Group has a seasonal cash flow and has less excess cash in the second half of the year. The Group is expecting to complete the disposal of the Gardening Direct brand before 28th December 2012. On this basis, it will have sufficient liquid resources to meet its forecasted needs including the repayment to Palatine.

Currency risk
The Group currently has minimal exposure to foreign currency and thus does not engage in any hedging activity. The Group liquidated its overseas subsidiaries during 2010 and therefore has no exposure to foreign exchange gains or losses.

Interest rate risk

	30.12.11	31.12.10
	£'000	£'000
Variable rate instruments		
Financial liabilities	**–**	(2,850)
Cash	**570**	2,291

The impact on profit and equity of a 100 basis points increase in the interest rates would be nil as the Group has no variable rate instruments (31st December 2010: decrease both by £5,000).

28 Pension arrangements

For many employees the Group makes contributions to personal defined contribution schemes based on a fixed percentage of those employees' basic remuneration (see note 8). There are no defined benefit pension arrangements in place for any employees employed by the Group during the 12 months under review.

29 Related party

Mr T H S Trotter is Chairman of Smithfield Consultants Limited, who was paid £20,432 (52 weeks ended 31st December 2010: £21,334) during the period for financial public relations consultancy services of which £5,100 was outstanding at the balance sheet date (31st December 2010: £nil)

Key management is defined as the Board. For further information see the Remuneration Committee report.

The Group started using in 2008 a new Web platform for its internet transactions from eCommera, a venture in which West Coast Capital has a material financial interest. The cost of this service in the 52 weeks ended 30th December 2011 was £194,000 (52 weeks ended 31st December 2010: £349,000) of which £9,900 was outstanding at the balance sheet date (31st December 2010: £nil).

30 Acquisition of the majority shareholding in Dealtastic Holdings Limited

On 26th October 2010, the Group acquired a 50% holding in Dealtastic Holdings Limited. Dealtastic Holdings Limited owns 50% of the shares in a group of trading companies Dealtastic, Promomachine and Promomachine UK Limited (the Dealtastic Group). These companies were internet start – up businesses retailing discounted goods and were purchased in order to improve the Group's internet presence. The Group's 50% shareholding in the Dealtastic Group was acquired for £150,000.

The Group also invested £850,000 in the form of a loan to fund start – up costs and initial promotional activity. The Group's share of the loss in the period ended 31st December 2010 was £149,000.

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

The consideration payable for the additional 30% was contingent on the Dealtastic Group's performance in the 12 months to 31st December 2011. The maximum consideration was £1,100,000 if profits of £760,000 were achieved. The consideration was to be paid in Flying Brands Limited Ordinary shares at a price of £0.75 per share. The contingent consideration payable to the vendor of Dealtastic was fair valued and agreed to be £nil. Subsequent to this, the Group agreed to dispose of the trade and assets of Dealtastic on 26th July 2011 (see note 31).

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

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

This goodwill represented the anticipated future profits of the acquisition and was later impaired, see note 12.

30 Acquisition of the majority shareholding in Dealtastic Holdings Limited…(continued)

The net liabilities acquired are shown below:

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

The stepped acquisition method has been used and therefore as a result a loss on the write off of the investment in associate of £1,000 has been recognised in the consolidated income statement.

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

31 Disposal of the trade and assets of Dealtastic

The Directors decided that Dealtastic could no longer be funded from the Group's available cash flow. On 26th July 2011 the Group sold the trade and assets (including the remaining inventory and website) of the Dealtastic business to Click Marketing Specialists Limited for a cash consideration of £50,000 along with a 25% stake holding in the successor venture. As part of a deferred consideration agreement, the Group will be paid 100% of the first £200,000 and 50% of the next £300,000 of profit before tax generated by the successor venture.

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

Results of operations from the discontinued operations of Dealtastic

	52 weeks ended 30.12.11 £'000
Revenue	859
Expenses	(1,604)
Impairment of goodwill	(1,406)
Loan forgiveness	532
Results from operating activities	(1,619)
Income tax	-
Results from operating activities, net of tax	(1,619)
Gain on sale of discontinued operation	13
Net loss attributable to discontinued operations of Dealtastic	(1,606)

	52 weeks ended 30.12.11 £'000
Net cash flow used in operating activities	(777)
Net cash from disposal proceeds	50
Net cash flow for the year	(727)

31 Disposal of the trade and assets of Dealtastic…(continued)

Cash flow from discontinued operations of Dealtastic
Effect of disposal on the financial position of the Group was as follows:

	£'000
Goodwill	(532)
Stock	(37)
Accruals and other payables	532
Net assets	(37)
Consideration	50
Profit on disposal of discontinued operations	13

32 Results of all discontinued operations

During the course of the financial year under review, it became apparent to the Directors that the size and scale of the Group was such that it was unable to compete effectively in the markets in which it had chosen to specialise. This issue, coupled with a down turn in activity levels across all the Group's brands, has led the Board to adopt a divestment strategy that has resulted in the disposal of some of its retail activities. The remaining retail activities will be sold within the next 12 months. Further information relating to agreements entered into after the year end can be found in note 33.

The results of operations in these discontinued brands, including the operations of Dealtastic are as follows:

	52 weeks ended 30.12.11 £'000	52 weeks ended 31.12.10 £'000
Revenue	**20,973**	23,659
Expenses	**(21,623)**	(20,506)
Impairment of goodwill	**(5,574)**	(92)
Loan forgiveness	**532**	-
Results from operating activities	**(5,692)**	3,061
Income tax	**-**	156
Results from operating activities, net of tax	**(5,692)**	3,217
Gain on sale of discontinued operation	**13**	230
Disposal costs	**-**	(123)
Net (loss)/profit attributable to discontinued operations	**(5,679)**	3,324

33 Post balance sheet events

After the year end the following events occurred:

(i) The Group entered into a contract to sell its Gifts division to Interflora®. The details of this transaction were contained in a circular sent to the shareholders on 11th April 2012. The disposal generated gross proceeds of £2.4m.

(ii) The Group entered into a contract to sell GBS, GCO and L2 on 30th March 2012. The details of this transaction were contained in a circular sent to the shareholders on 11th April 2012. The transaction generated gross disposal proceeds of £0.8m.

(iii) The Group entered into a revised loan agreement with Palatine on 5th April 2012 to defer payment of the £1.0m owing to it (see note 17) until 31st December 2012, at the latest. Details of this transaction were contained in an announcement to shareholders on 5th April 2012.

(iv) The Group entered into an overdraft facility with the Bank for a total sum of £250,000. This facility, like all overdraft facilities, is repayable on demand by the Bank.

Notice of annual general meeting

Notice is hereby given that the annual general meeting of Flying Brands Limited will be held at Jersey Bowl, Airport Road, St. Peter, Jersey, Channel Islands, JE3 7BP on 13th June 2012 at 10.00am for the following purposes:

Ordinary Business

Resolution 1 — To receive and adopt the consolidated financial statements for the 52 weeks ended 30th December 2011 and the reports from the Directors and auditor thereon.

Resolution 2 — To approve the Remuneration Committee Report for the 52 weeks ended 30th December 2011.

Resolution 3 — To re-appoint Mr J P Henwood who retires in accordance with the Articles of Association and offers himself for re-election as a Director of the Company.

Resolution 4 — To re-appoint Mr Paul Davidson who retires in accordance with the Articles of Association and offers himself for re-election as a Director of the Company.

Resolution 5 — To appoint Mr S J Dootson as a Director of the Company.

Resolution 6 — To re-appoint Deloitte LLP, as auditor of the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider the following business and, if thought fit, to pass the following Resolutions as Special Resolutions.

Resolution 7 — That the Company be generally and unconditionally authorised pursuant to Article 57(2) of the Companies (Jersey) Law 1991 to make one or more market purchases of its own shares, such purchases to be of Ordinary shares of 1p each and in the capital of the Company (Ordinary shares) on the London Stock Exchange, provided that:

- The maximum number of Ordinary shares hereby authorised to be purchased shall be 4,211,060 Ordinary shares, being approximately 15% of the issued share capital of the Company; and
- the minimum price which may be paid for any such Ordinary shares shall be 1p per Ordinary share (exclusive of expenses);
- the maximum price which may be paid for such Ordinary shares shall be an amount equal to 5% above the average middle market quotations for a Unit (comprising one Ordinary share and one "A" Ordinary share of Flying Brands Holdings (UK) PLC) as derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the day on which any such Ordinary shares are purchased or contracted to be purchased;
- unless otherwise varied renewed or revoked the authority hereby conferred shall expire at the earlier of 31 July 2013 and the conclusion of the annual general meeting of the Company to be held in 2013; and
- prior to expiry of the authority hereby conferred the Company may enter into a contract or contracts for the purchase of Ordinary shares which may be executed in whole or part after such expiry and may purchase Ordinary shares pursuant to such contract or contracts as if the authority hereby conferred had not so expired.

Resolution 8 — The Directors be and they are hereby generally and unconditionally authorised in accordance with Article 4.16 of the Company's Articles of Association, to allot without rights of pre-emption up to 4,211,060 Ordinary shares of 1p each as they in their absolute discretion see fit in any number of tranches, such authority unless otherwise varied, renewed or revoked to expire at the earlier of 31st July 2013 or at the conclusion of the annual general meeting of the Company in 2013, except that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require Ordinary shares to be allotted after the expiry of such power and the Directors of the Company may allot Ordinary shares in pursuance of such an offer or agreement as if such power had not expired.

By Order of the Board

SJ Dootson Secretary

1 Subject to note 2 below any member of Ordinary shares, or their duly appointed representatives, are entitled to attend, speak and on a poll vote at the annual general meeting. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and on a poll vote on their behalf at the meeting. A shareholder can appoint the Chairman of the meeting or anyone else to be his/her proxy at the meeting. A proxy need not be a shareholder. More than one proxy can be appointed in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different Ordinary share or shares held by that shareholder. To appoint more than one proxy, the Proxy Form should be photocopied and completed for each proxy holder. The proxy holder's name should be written on the Proxy Form together with the number of shares in relation to which the proxy is authorised to act. All Proxy Forms must be signed and, to be effective, must be lodged with the Company's Registrar, Capita Registrars, The Registry, (PXS), 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to arrive not later than 48 hours before the time of the meeting, or in the case of an adjournment 48 hours before the adjourned time. The return of a completed Proxy Form or any other such instrument will not prevent a shareholder attending the annual general meeting and voting in person if he/she wishes to do so.

2 Only shareholders whose names appear on the register of members of the Company as at 48 hours before the time of the meeting shall be entitled to attend the annual general meeting either in person or by proxy and the number of Ordinary shares then registered in their respective names shall determine the number of votes such persons are entitled to cast on a poll at the annual general meeting.

3 As at 20th April 2012, being the latest practicable date prior to the publication of this document, the Company's issued share capital consists of 28,073,735 Ordinary shares, carrying one vote each. Therefore the total voting rights in the Company as at 20th April 2012 are 28,073,735.

4 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members at 6:00pm on the day which is two days before the day of the meeting or, if the meeting is adjourned, shareholders entered on the Company's register of members at 6:00pm on the day two days before the date of any adjournment shall be entitled to attend and vote at the meeting.

5 Copies of the Directors' service agreements and a summary of their interests and transactions in shares of the Company are available during normal business hours at the registered office, Retreat Farm, La Rue des Varvots, St Lawerence, Jersey, JE3 1GX. and at the meeting for the period of 15 minutes prior to commencement and at its conclusion.

Registered details

Registered Office

Retreat Farm, La Rue des Varvots, St Lawerence,
Jersey JE3 1GX

Company number

2044

Advisors

Registrar

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

Banker

Barclays Bank PLC,
PO Box 8, 39-41 Broad Street,
St Helier, Jersey JE4 8PU

Stockbrokers

Singer Capital Markets Limited,
One Hanover Street,
London W1S 1YZ

Auditor

Deloitte LLP
City House
126-130 Hills Road
Cambridge CB2 1RY
United Kingdom

Legal Advisor

Ogier
PO Box 404, Whitely Chambers, Don Street
St Helier, Jersey JE4 9WG

Legal Advisor

Addleshaw Goddard LLP
Milton Gate
60 Chiswell Street
London
EC1Y 4AG
United Kingdom