

CHAIRMAN'S STATEMENT

Board level changes to the management of the Group have been the most significant events of the last 6 months. I am pleased to have been appointed Chairman since joining the Group in May 2011 and was delighted to welcome Stephen McLeod to the Group in June, as Chief Executive Officer. Thanks are due to John Scholes for his tenure and his continued support, and to Paul Cooper, Stephen's predecessor.

Significant changes have already been made to the internal structure of the Group, and its main operating subsidiary, HTEC Limited. The business has been re-organised into a core 'Solutions' business and a Manufacturing business. Divisional comparative information has been restated to reflect this restructuring.

Overall turnover was level at £5,659,000 (2010: £5,650,000). However, within that figure two contract terminations in 2010 have been replaced by new business, mainly within the Contract Electronics Manufacturing area. This change in sales mix contributed to a reduction in gross margin to 34.5% (2010: 39.3%) and reduced gross profit to £1,952,000 (2010: £2,219,000). While an 8% reduction in administrative overheads helped to reduce the impact of this margin drop, operating profit before exceptional items fell to £280,000 (2010: £398,000). Restructuring has led to an exceptional charge of £370,000 being recognised in the period, mainly as a result of management changes and headcount reductions.

In the Solutions business, turnover fell back slightly from £4,953,000 in 2010 to £4,827,000. The revenue impact of the termination of an overseas loyalty systems contract in 2010 has largely been recovered by new client activity. Profit for this business area fell to £592,000 (2010: £640,000). The launch of GemPAY, our new payment and loyalty terminal, has been very well received by existing and potential customers and is an encouraging sign for the rest of 2011. Additional data services have been sold to our existing customers and are in the process of being implemented.

The Manufacturing business saw a 19% growth in sales. However the end of life of a contract in 2010 and the resulting change in business mix has had an adverse impact on profitability. The relatively high fixed costs inherent in this business meant that a gross loss of £32,000 (2010: profit of £78,000) was recorded. The challenge for the manufacturing business is to continue its growth such that increased volume will offer economies of scale advantages and so generate additional divisional profit. Manufacturing continues to provide petrol forecourt products to the Solutions business, and remains an important component of the Group.

The Group has reported an operating profit before exceptional items of £280,000 (2010: £398,000). Exceptional costs have been provided for, leading to an operating loss of £90,000 (2010: profit of £222,000). The Group will start to benefit from a reduced cost base in the second half of this year. With a reasonably strong order book I am confident of an improved performance in the second half of 2011.

An EBITDA of £726,000 (2010: £890,000) is reported for the period which is sufficient to cover interest costs of £145,000 (2010: £146,000), software development expenditure of £286,000 (2010: £162,000) and scheduled debt repayments.

In the 6 months ended 30 June 2011 net debt, comprising debt less cash, increased to £2,227,000, from £1,990,000 million at the year end. Bank debt is now being repaid over a 5 year term. Finance lease creditors increased by £284,000 over the 6 month

period as we renewed some of the development IT infrastructure and expanded our data centre to provide enhanced services to an existing customer. These services will commence in the second half of 2011.

The Board is confident that the recent management changes, a focus on driving client delivery, an improving order book and a significantly reduced cost base will together quickly lead to improved operational performance.

Finally, but certainly not least we want to recognise the commitment, loyalty and professionalism of Universe's team-members. Their dedication to providing first class service to our customers has been conspicuous and is much appreciated.

Robert Goddard
Chairman
29th September 2011

Universe Group plc

**Condensed Statement of Total Comprehensive Income (unaudited)
for the 6 months ended 30th June 2011**

| | Six months ended 30 th June 2011 £'000 | Six months ended 30 th June 2010 £'000 | Year ended 31 st December 2010 £'000 |
|---|--|--|---|
| Continuing operations | | | |
| Revenue | 5,659 | 5,650 | 11,292 |
| Cost of sales | (3,707) | (3,431) | (6,719) |
| Gross profit | 1,952 | 2,219 | 4,573 |
| Administrative expenses excluding exceptional items | (1,672) | (1,821) | (3,765) |
| Exceptional items | (370) | (176) | (230) |
| Administrative expenses | (2,042) | (1,997) | (3,995) |
| Operating (loss)/profit | (90) | 222 | 578 |
| Operating (loss)/profit is analysed as: | | | |
| Operating profit before exceptional items | 280 | 398 | 808 |
| Exceptional items | (370) | (176) | (230) |
| | (90) | 222 | 578 |
| Finance costs | (145) | (146) | (311) |
| (Loss)/profit before taxation | (235) | 76 | 267 |
| Taxation | - | - | 80 |
| (Loss)/profit for the period from continuing activities | (235) | 76 | 347 |
| Discontinued operations | | | |
| Loss from discontinued activities | - | (665) | (1,241) |
| Loss for the period attributable to equity shareholders | (235) | (589) | (894) |
| Other comprehensive expense – translation differences | - | (2) | (6) |
| Total comprehensive expense for the period attributable to equity shareholders | (235) | (591) | (900) |
| Loss per share | pence | pence | pence |
| Basic and diluted (see note 7) | (0.20) | (0.51) | (0.78) |
| Condensed Consolidated Statement of Changes in Equity (unaudited) | | | |
| At start of period | 12,642 | 13,536 | 13,536 |
| Total comprehensive expense for the period | (235) | (591) | (900) |
| Share based payments | 9 | - | 6 |
| At end of period | 12,416 | 12,945 | 12,642 |

Universe Group plc

**Condensed Consolidated Balance Sheet (unaudited)
as at 30th June 2011**

| | 30 th June 2011 £'000 | 30 th June 2010 £'000 | 31 st December 2010 £'000 |
|--------------------------------|--|--|---|
| Fixed assets | | | |
| Goodwill | 12,150 | 12,150 | 12,150 |
| Development costs | 866 | 917 | 760 |
| Property, plant and equipment | 1,968 | 2,796 | 1,909 |
| | <u>14,984</u> | <u>15,863</u> | <u>14,819</u> |
| Current assets | | | |
| Inventories | 1,023 | 1,385 | 1,224 |
| Trade and other receivables | 2,248 | 2,184 | 1,856 |
| Cash and cash equivalents | 317 | 118 | 362 |
| | <u>3,588</u> | <u>3,687</u> | <u>3,442</u> |
| Total assets | <u>18,572</u> | <u>19,550</u> | <u>18,261</u> |
| Current liabilities | | | |
| Trade and other payables | (3,277) | (3,340) | (2,932) |
| Tax liabilities | (335) | (330) | (335) |
| Short term borrowings | (1,137) | (1,461) | (965) |
| | <u>(4,749)</u> | <u>(5,131)</u> | <u>(4,232)</u> |
| Non current liabilities | | | |
| Medium term borrowings | (1,407) | (1,474) | (1,387) |
| Total liabilities | <u>(6,156)</u> | <u>(6,605)</u> | <u>(5,619)</u> |
| Net assets | <u>12,416</u> | <u>12,945</u> | <u>12,642</u> |
| Equity | | | |
| Share capital | 5,735 | 5,735 | 5,735 |
| Equity reserve | - | 110 | - |
| Share premium account | 10,753 | 10,753 | 10,753 |
| Other reserves | 3,503 | 3,503 | 3,503 |
| Translation reserve | (225) | (221) | (225) |
| Profit and loss account | (7,350) | (6,935) | (7,124) |
| Total equity | <u>12,416</u> | <u>12,945</u> | <u>12,642</u> |

Universe Group plc

**Condensed Consolidated Cash Flow Statement (unaudited)
for the six months ended 30th June 2011**

| | Six months ended 30 th June 2011 £'000 | Six months ended 30 th June 2010 £'000 | Year ended 31 st December 2010 £'000 |
|---|--|--|---|
| Net cash flows from operating activities (see note 10) | | | |
| Net cash flows from continuing activities | 443 | 266 | 1,586 |
| Net cash flows from discontinued activities | - | 90 | (199) |
| Interest paid | (145) | (191) | (356) |
| Tax received | 76 | - | 25 |
| Net cash inflow from operating activities | 374 | 165 | 1,056 |
| Cash flows from investing activities | | | |
| Disposal of subsidiary undertakings | - | - | 289 |
| Purchase of property, plant & equipment | (325) | (357) | (587) |
| Purchase of intangible fixed assets | (286) | (162) | (318) |
| Proceeds from sale of property, plant & equipment | - | - | 4 |
| Net cash outflow from investing activities | (611) | (519) | (612) |
| Cash flow from financing activities | | | |
| Repayment of obligations under finance leases | (165) | (214) | (389) |
| Repayment of borrowings | (77) | (719) | (1,192) |
| New loans raised | 434 | 262 | 354 |
| Net cash inflow/(outflow) from financing | 192 | (671) | (1,227) |
| Decrease in cash and cash equivalents | (45) | (1,025) | (783) |
| Cash and cash equivalents at beginning of period | 362 | 1,145 | 1,145 |
| Exchange differences | - | (2) | - |
| Cash and cash equivalents at end of period | 317 | 118 | 362 |

Universe Group plc

Notes to Condensed Consolidated financial statements for six months ended 30th June 2011

- 1 The annual financial statements of the company for the year ended 31st December 2010 were prepared in accordance with International Financial Reporting Standards (IFRSs). The condensed set of financial statements has been prepared using accounting policies consistent with International Financial Reporting Standards. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. While the financial figures included in this interim report have been computed in accordance with IFRSs applicable to interim periods, this interim report does not contain sufficient information to constitute an interim financial report as that term is defined in IAS 34. The IFRSs that will be effective in the financial statements for the year to 31 December 2011 are still subject to change and to the issue of additional interpretation(s) and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the IFRS financial statements are prepared at 31st December 2011.
- 2 The financial information for the year ended 31st December 2010 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.
- 3 Losses from exceptional items in the six months ended 30th June 2010 and 2011 and the year ended 31st December 2010 were in respect of reorganisation costs.
- 4 The directors believe the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading conditions show that the Group should be able to operate within the level of its facilities. After making enquiries the directors have a reasonable expectation that the group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the interim condensed financial statements.
- 5 The half year results were neither audited nor reviewed by the auditors. The interim financial information has been prepared on the basis of accounting policies set out in the Group's statutory accounts for the year ended 31st December 2010.
- 6 Operating profit and EBITDA before exceptional items and discontinued operations

| | Six months ended 30 th June 2011 £'000 | Six months ended 30 th June 2010 £'000 | Year ended 31 st December 2010 £'000 |
|--|--|--|---|
| Revenue | 5,659 | 5,650 | 11,292 |
| Cost of sales | (3,707) | (3,431) | (6,719) |
| Gross profit | 1,952 | 2,219 | 4,573 |
| Administrative expenses excluding exceptional items | (1,672) | (1,821) | (3,765) |
| Exceptional items | (370) | (176) | (230) |
| Operating profit before discontinued operations | (90) | 222 | 578 |
| Add back: | | | |
| Exceptional items | 370 | 176 | 230 |
| Operating profit before exceptional items and discontinued operations | 280 | 398 | 808 |
| Add back: | | | |
| Depreciation | 266 | 236 | 484 |

| | | | |
|--|------------|------------|--------------|
| Amortisation | 180 | 256 | 565 |
| EBITDA before exceptional items and discontinued operations | 726 | 890 | 1,857 |

- 7 Earnings per share is calculated by reference to the results and the weighted average of 114,704,539 shares in issue during the period. The number of shares in issue at 30th June 2011 was 114,704,539.

| | 6 months ended 30 th June 2011 p | 6 months ended 30 th June 2010 p | Year ended 31 st December 2010 p |
|---|--|--|--|
| Basic and Diluted Earnings Per Share (Loss)/earnings per share from continuing activities | (0.20) | 0.07 | 0.30 |
| Loss per share from discontinued activities | - | (0.58) | (1.08) |
| Loss per share attributable to ordinary shareholders | (0.20) | (0.51) | (0.78) |

8 Segment information

6 months ended 30th June 2011

| | Solutions £'000 | CEM £'000 | Total £'000 |
|--|--------------------|--------------|----------------|
| Revenue | 4,827 | 832 | 5,659 |
| Gross profit/(loss) | 1,984 | (32) | 1,952 |
| Operating expenses | (1,392) | (176) | (1,568) |
| Operating profit/(loss) before corporate costs | 592 | (208) | 384 |
| Unallocated corporate costs | | | (104) |
| Operating profit before exceptional items | | | 280 |
| Exceptional items | | | (370) |
| Finance costs | | | (145) |
| Taxation | | | - |
| Loss for the period from continuing activities | | | (235) |

6 months ended 30th June 2010

| | Solutions £'000 | CEM £'000 | Total £'000 |
|--|--------------------|--------------|----------------|
| Revenue | 4,953 | 697 | 5,650 |
| Gross profit | 2,141 | 78 | 2,219 |
| Operating expenses | (1,501) | (181) | (1,682) |
| Operating profit/(loss) before corporate costs | 640 | (103) | 537 |
| Unallocated corporate costs | | | (139) |
| Operating profit before exceptional items | | | 398 |
| Exceptional items | | | (176) |
| Finance costs | | | (146) |
| Taxation | | | - |
| Profit for the period from continuing activities | | | 76 |

Year ended 31st December 2010

| | Solutions £'000 | CEM £'000 | Total £'000 |
|--|--------------------|--------------|----------------|
| Revenue | 10,077 | 1,215 | 11,292 |
| Gross profit | 4,466 | 107 | 4,573 |
| Operating expenses | (3,033) | (365) | (3,398) |
| Operating profit/(loss) before corporate costs | 1,433 | (258) | 1,175 |
| Unallocated corporate costs | | | (367) |
| Operating profit before exceptional items | | | 808 |
| Exceptional items | | | (230) |
| Finance costs | | | (311) |
| Taxation | | | 80 |
| Profit for the period from continuing activities | | | 347 |

9 Discontinued Activities

On 23rd July 2010 the Group sold its interest in JetSet Wash Systems Limited.

The comparative income statements have been restated to reflect the composition of discontinued activities at the latest balance sheet date.

The results of discontinued activities, comprising the Jet Set business unit, included within the Consolidated Statement of Total Comprehensive Income were as follows;

| | Six months ended 30 th June 2011 £'000 | Six months ended 30 th June 2010 £'000 | Year ended 31 st December 2010 £'000 |
|--|--|--|--|
| Revenue | - | 1,020 | 1,173 |
| Cost of sales and administrative expenses | - | (1,174) | (1,606) |
| Loss before exceptional items | - | (154) | (433) |
| Exceptional items – reorganisation costs | - | (4) | - |
| Exceptional items – impairment of goodwill | - | (462) | (462) |
| Finance charges | - | (45) | (45) |
| Loss on disposal | - | - | (207) |
| Loss from discontinued activities | - | (665) | (1,147) |

10 Cash flows from operations

| | Six months ended 30 th June 2011 £'000 | Six months ended 30 th June 2010 £000 | Year ended 31 st December 2010 £000 |
|---|--|---|---|
| Continuing operations | | | |
| Cash flows from operating activities | | | |
| Operating (loss)/profit | (90) | 222 | 578 |
| Depreciation and amortisation | 446 | 492 | 1,049 |
| Share based payments | 9 | - | 6 |
| | <u>365</u> | <u>714</u> | <u>1,633</u> |
| Movement in working capital: | | | |
| Decrease/(increase) in inventories | 201 | (109) | (112) |
| (Increase)/decrease in receivables | (468) | 652 | 616 |
| Increase/(decrease) in payables | 345 | (991) | (551) |
| Net cash flow from operating activities | <u>443</u> | <u>266</u> | <u>1,586</u> |
| Discontinued operations | | | |
| Cash flows from operating activities | | | |
| Operating loss | - | (620) | (1,196) |
| Depreciation and amortisation | - | 126 | 145 |
| Impairment of goodwill | - | 462 | 462 |
| Impairment of other debtors | - | - | 94 |
| Loss on disposal of subsidiary | - | - | 207 |
| | <u>-</u> | <u>(32)</u> | <u>(288)</u> |
| Movement in working capital | | | |
| Increase in inventories | - | (7) | (12) |
| Decrease in debtors | - | 224 | 276 |
| Decrease in creditors | - | (95) | (175) |
| Net cash flow from operating activities | <u>-</u> | <u>90</u> | <u>(199)</u> |

11 Copies of the interim report will be available from the Company's head and registered office: Southampton International Park, George Curl Way, Southampton, SO18 2RX, and on the Company's website, www.universeplc.com.