# Interim Report and Accounts 2013

The Stanley Gibbons Group plc


Est 1856
STANLEY GIBBONS

# Directors and Advisers

**Directors**
D M Bralsford MSc, FCA, FCT, *Non-Executive Chairman*
M R M Hall B.Acc, CA, *Chief Executive*
D P J Duff BAAF, FCA, AMCT, *Chief Operating Officer & Finance Director*
J Byfield, *Corporate Development Director*
General Sir Michael Wilkes KCB, CBE, *Non-Executive Director*
M P Magee, CA, *Non-Executive Director*
S Perree, *Non-Executive Director*

**Company Secretary**
R K Purkis

**Registered Office**
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St Helier, Jersey, JE2 4WQ
Tel: 01534 766711

**Company Registration**
Registered in Jersey
Number 13177

**Nominated Adviser and Broker**
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**Auditors**
Nexia Smith & Williamson
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**Legal Advisers**
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Mourant Ozannes
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**Bankers**
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**Registrars**
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**Website**
Further financial, corporate and shareholder information is available in the investor relations section of the Group's website:
*www.stanleygibbons.com*

# Chairman's Statement

## Introduction

The Group delivered a strong trading performance for the first half of the year, showing a 17% increase in turnover and a 9% increase in trading profits. In line with plan, we have increased our investment in the development of our websites towards building a global online collectibles trading community. This investment, which is expected to deliver substantial returns in future accounting periods, means that reported profit before tax was lower than the prior period.

The Balance Sheet of the Group at 30 June 2013 shows considerable strength with cash balances of £7.7m, representing an increase of £1m in net cash in the first six months despite the considerable investment in our online development strategy during this period. In addition, the Group holds inventories of rare collectibles stated at a historic cost of £21.5m (31 December 2012: £20.7m). Our inventory levels provide the base from which to enable the delivery of continued growth in core trading activities in the second half of the year.

## Financials

Turnover for the half year to 30 June 2013 was £17.2m, up 17% on the prior period.

Trading profits were £2.3m for the half year (2012: £2.1m), up 9%. The net investment in our online developments expensed to the profit and loss account in the period of £0.56m (2012: £0.13m), was financed by the fundraising of £6m in November last year and hence does not have any impact on the underlying trading performance of the Group.

Profit before tax, after charging internet development costs, but before exceptional charges and actuarial accounting adjustments, was £1.8m (2012: £2m) reflecting the increased investment in the development of our online strategy in the period.

Adjusted earnings per share, excluding exceptional costs and actuarial accounting adjustments, were 5.58 pence (2012: 7.23 pence). Basic earnings per share were 3.59 pence (2012: 6.07 pence).

## Dividend

Your Board is pleased to declare an increase in the interim dividend, in line with the growth in underlying earnings, of 9% to 3.00p (2012: 2.75p) per share. The interim dividend is payable on 30 September 2013 to holders of Ordinary Shares on the Register at the close of business on the record date of 16 August 2013.

The Company paid a final dividend of 3.75p per share in respect of the year ended 31 December 2012, on 20 May 2013 with a cash outflow of £1.1m.

## Key Operational Highlights and Outlook

### *Online*

Total online sales for the first half of the year were £1.2m, representing 7% of total revenue. A significant reorganisation of our e-commerce team was completed in the first half resulting in the creation of a dedicated e-commerce and online marketing team working from our new offices in Jersey, Channel Islands.

The work to integrate our existing online services with the bidStart platform to create a global online collectibles trading platform is progressing in line with plan. We have made substantial progress in achieving our primary objective for the first half of the year in building the team and expertise required to deliver on our technical software development projects and online marketing plans.

We are currently replacing most of our existing IT support systems in the business to create a fully integrated solution required to enable us to deliver an exceptional customer service online.

### *Overseas development*

Our office in Hong Kong contributed sales of £1.1m (2012: £1.3m) and profits of £0.2m (2012: £0.3m) in the first half. Trading in the prior period however included one exceptional sale and overall the Hong Kong office continues to deliver a positive contribution in line with our expectations.

We opened a new office in Singapore at the end of April this year enhancing our presence in the emerging collectibles market in the Far East. The Singapore office did not generate any revenues in the first half as it takes time to build new client relationships. Sales in the month of July were very encouraging with the new office trading profitably only 3 months after opening.

After extensive market research and testing in Brazil, we have decided not to proceed at this time with opening an office in Rio de Janeiro. We have, however, made some useful contacts in this region and built an increased awareness of the Stanley Gibbons brand and services as a result of our efforts, which we expect will deliver future benefits. The associated costs of £0.1m have been expensed in the current accounting period.

We proceed cautiously in developing opportunities within the US stamp market and generated our first sales of US rare stamps in the period contributing new revenue of £0.2m. The US market remains a large and important geographical region and we will continue with our efforts to develop expertise and finding suitable trading partners to work with in the US.

### *Auctions*

Our auction business delivered an improved performance with revenues up by 13% as we continue to make solid progress in developing the Stanley Gibbons auction services to their full potential.

Our focus remains on developing partnerships internationally to increase acquisitions of high profile collections at the same time as delivering the best possible realisations for those clients choosing Stanley Gibbons as their preferred partner.

We expect our auction brand and services to continue to obtain increased recognition as prospective clients become increasingly aware of the value that Stanley Gibbons can bring to their collection in light of our international reach and database of high net worth clients, which have grown considerably as a result of the promotion of our investment services in recent years.

### *Other collectibles*

Sales of rare coins and military medals in the period were slightly down at £0.6m (2012: £0.8m). The market for rare coins, in particular, is a key one for us because, although

# Chairman's Statement

we currently only trade at modest levels, overall it is a large collectibles market. Our ability to develop into the rare coin market is restricted by the need to possess specialist expertise and, as such, we will look to add expertise over time to develop our offering further.

The Benham Group contributed sales of £1.2m (2012: £1.6m) in the first half. Sales in the prior period benefited from commemorative collectibles related to the Queen's Diamond Jubilee and the London 2012 Olympics. Despite lower sales, profit contribution was at a similar level to the prior period as a result of improved gross margins and tight control over costs. Commemorative products celebrating the birth of the "Royal Baby" will assist performance in the second half of the year.

### *Investment services*

The demand for premium quality rare collectibles remains strong with new client recruitment predominantly coming from the results of our international marketing and PR campaigns, together with networking through appropriate philatelic and alternative investment events. Rare collectibles are increasingly being seen as legitimate additions to traditional asset classes for those looking to diversify their wealth.

We secured another seven-figure, highly prestigious and internationally recognised collection of early Great Britain postal history in the first half, which will assist in supporting the demand we are currently experiencing from both our investment clients and the rising number of high net worth collectors, particularly from new emerging overseas markets.

## Board

I am delighted to welcome Simon Perree to the Board as an independent non-executive director, who joined us at the AGM on 1 May 2013. Simon co-founded Play.com in 1998 and this business subsequently became the largest private online retailer in the UK with over 7 million customers and a catalogue of over 8 million products. After selling Play.com in 2011, Simon invested in several online businesses and he brings to the Board a wealth of experience to support our online strategy. Following this appointment, the Board is now composed of a majority of non-executive directors in line with best practice

*Martin Bralsford*
Chairman
7 August 2013

# Operating Review

| | 6 months to 30 June 2013 Sales £000 | 6 months to 30 June 2013 Profit £000 | 6 months to 30 June 2012 Sales £000 | 6 months to 30 June 2012 (restated) Profit £000 | Year ended 31 December 2012 Sales £000 | Year ended 31 December 2012 Profit £000 |
|---|---|---|---|---|---|---|
| Philatelic trading and retail operations | **13,211** | **3,108** | 10,302 | 2,552 | 26,341 | 7,099 |
| Publishing and philatelic accessories | **1,506** | **353** | 1,416 | 305 | 3,148 | 782 |
| Dealing in other collectibles | **2,401** | **354** | 2,967 | 464 | 6,032 | 1,116 |
| Corporate overheads | **–** | **(1,492)** | – | (1,184) | – | (2,615) |
| Net finance income/(charges) | **–** | **5** | – | (11) | – | (38) |
| **Trading sales and profits** | **17,118** | **2,328** | 14,685 | 2,126 | 35,521 | 6,344 |
| Internet development | **124** | **(559)** | 27 | (134) | 78 | (302) |
| **Adjusted sales and profit before tax** | **17,242** | **1,769** | 14,712 | 1,992 | 35,599 | 6,042 |
| Actuarial accounting adjustments | **–** | **(205)** | – | (183) | – | (368) |
| Finance charges related to pensions | **–** | **(27)** | – | (27) | – | (53) |
| Exceptional operating costs | **–** | **(410)** | – | (110) | – | (349) |
| **Group total sales and profit before tax** | **17,242** | **1,127** | 14,712 | 1,672 | 35,599 | 5,272 |

## Overview

Group turnover for the six months ended 30 June 2013 was £2.5m (17%) higher than the same period last year. Underlying trading profits were £2.3m, excluding investment on internet development, actuarial accounting adjustments and exceptional costs, and were up 9% on the same period last year.

Profit before tax for the six months ended 30 June 2013 was £1.1m (2012: £1.7m). The reduction in statutory profits reflects the increased net investment in online developments of £0.4m, which was in line with plan, together with an increase of £0.3m in exceptional charges incurred in the period.

Adjusted earnings per share were 5.58p (2012: 7.23p), lower by 23%. Basic earnings per share were 3.59p (2012: 6.07p).

The gross margin percentage for the six months ended 30 June 2013 was 42.7% compared to 44.5% in the same period last year. The gross margin in the prior period benefited from a write back made against the provision for investment products sold in previous accounting periods with guaranteed minimum returns that remained outstanding of £0.2m. Excluding the impact of the movement on the contract provision in both accounting periods, the gross margin was consistent at 43%.

Overheads were £1.1m (23%) higher than the prior period. The most significant increases in overheads included:

- Increased expenditure in development of online opportunities (£0.5m)
- Costs incurred in development of new overseas offices (£0.1m)
- Increased marketing and PR costs in support of revenue growth achieved (£0.1m)
- Costs of enlarged senior management team to support future expansion plans and higher performance related bonuses paid in the period (£0.3m)

## Philatelic Trading and Retail Operations

Philatelic trading and retail sales were £2.9m (28%) higher than the same period last year with profit contribution up by £0.6m (22%). Philatelic trading performance in each accounting period is generally most influenced by the value of sales made to key high net worth clients. The largest client in the six months ended 30 June 2013 accounted for sales of £2.8m (2012: £2m).

Sales and profit growth in philatelic trading, together with the recruitment of new high net worth clients, came predominantly from our expansion into overseas markets supported by our shift in marketing and sales focus into those more lucrative markets. Sales derived from outside of the United Kingdom in the six months ended 30 June 2013 represented 61% of total sales compared to 47% in the prior period.

Demand for Chinese rare stamps remains strong, although sales in the first half of this year were restricted by a lack of available supply of material of the right quality. Sales of Chinese rare stamps in the six months ended 30 June 2013 were £0.9m (2012: £1.4m). A recent study undertaken reported that the values of a sample of 200 rare, 'investment grade' Chinese stamps increased in value by 36% in the year passed and have shown a compound annual growth rate of 11.6% between 1989 and 2012.

# Operating Review

Sales in the current period included £0.2m of rare US stamps representing our first entry into this market. We continue to develop our product offering internationally whilst never straying from our core buying principles, which is to focus on collectibles, which:

1. Are of sufficient rarity
2. In "premium grade" condition
3. With clear recorded provenance and authenticity
4. In liquid areas of the market (i.e. where there are a healthy number of potentially interested collectors)
5. At the right price, seeking to incorporate a significant margin of safety in the price paid against market value

This buying model protects both our shareholders in terms of the potential risks of holding inventory and our investment clients in ensuring that they acquire only the right quality of collectibles at a fair price.

## Publishing and Philatelic Accessories

Publishing and philatelic accessory sales were £0.1m (6%) higher than the prior period with profit contribution up by 16%. Sales growth achieved in our printed publications, albums and accessories included increased sales made from our website and improvements to the product range.

As a lower growth area of the Group, we continue to concentrate on improving gross margins, reducing inventory levels and exercising tight controls over costs. We thus ensure that our return on capital improves in this area of the business, whilst we see the key growth opportunities in the future coming from the monetising of our catalogue information online.

## Dealing in Other Collectibles

Sales of other collectibles were £0.6m (19%) lower than the prior period with profit contribution down by £0.1m (24%). Dealing in other collectibles can be further analysed in the table below.

Autographs, historical documents, memorabilia and record sales were unchanged from the prior period at £0.6m, with profit contribution remaining immaterial. This part of our business is currently undergoing a period of change and future anticipated growth is dependent on the technical developments scheduled for completion by the end of this year to deliver a professional online auction service where we see the most significant growth potential.

Sales of rare coins and military medals were down 21% at £0.6m with a profit contribution of £0.1m. The lower sales reflect reduced buying activity in this area rather than demand, which remains strong, as we focus on other growth opportunities. The market for rare coins, however, is an important strategic area of growth for the Group in the future and is dependent on developing the necessary internal specialist expertise, which in itself is a scarce commodity.

Benham first day covers and other collectibles sales were down £0.4m (25%) although profit contribution was only 5% lower compared to the prior period. Sales in the prior period included £0.4m of London 2012 Olympics commemorative products to our trade distributor in China. Prior period sales also benefited from commemorative products in respect of the Queen's Diamond Jubilee.

Despite lower sales levels, profit contribution from the Benham Group remained consistent, benefiting from improved gross margins and reduced overheads. Opportunities exist in the second half to develop increased sales from commemorative products around the birth of the "Royal Baby".

## Corporate Overheads

Corporate overheads were £0.3m (26%) higher than the same period last year. The higher corporate overheads reflect higher performance related bonuses paid to the executive and senior management team, together with the investment in growing the necessary support teams in the Group Marketing department and Finance function to support the successful implementation of our growth strategy.

| | **6 months to 30 June 2013 Sales £000** | **6 months to 30 June 2013 Profit £000** | 6 months to 30 June 2012 Sales £000 | 6 months to 30 June 2012 Profit £000 | Year ended 31 December 2012 Sales £000 | Year ended 31 December 2012 Profit £000 |
|---|---|---|---|---|---|---|
| Dealing in autographs, historical documents, memorabilia and records | **594** | **22** | 593 | 65 | 1,615 | 150 |
| Dealing in rare coins and military medals | **633** | **91** | 799 | 146 | 1,045 | 239 |
| Benham first day covers and other collectibles | **1,174** | **241** | 1,575 | 253 | 3,372 | 727 |
| Total sales and profit contribution | **2,401** | **354** | 2,967 | 464 | 6,032 | 1,116 |

# Operating Review

### Internet Development

Sales reported within this division relate to online commissions from third parties through our new website following the acquisition of bidStart and online subscription revenues. Online e-commerce sales, managed by the new dedicated team in our offices in Jersey, CI, are reported within the respective trading departments. Total revenues derived from online activities can be summarised as follows:

| | 6 months to 30 June 2013 Sales £000 | 6 months to 30 June 2012 Sales £000 | % change inc/(dec) |
|---|---|---|---|
| E-commerce - trading of own products | **594** | 634 | (6%) |
| Sales of rare collectibles to investment clients | **488** | 375 | 30% |
| Online commissions and subscription revenue | **124** | 27 | 359% |
| **Total online revenues** | **1,206** | 1,036 | 16% |

Sales of our own products through www.stanleygibbons.com and www.frasersautographs.com were slightly down on the same period last year. This reflects the short term impact of the significant restructuring of our e-commerce team, which took place in the first half, resulting in the development of a new dedicated e-commerce centre in our offices in Jersey. It is expected that the benefits of the restructuring will become evident later in the year.

We recruited new investment clients, sourced directly from the investment section of our website, generating revenue of £0.5m in the first half of the year. Our e-commerce team are currently working on a substantial re-build of this part of the website, scheduled for re-launch later this year with the aim of increasing new high net worth client recruitment from this source through a more professional presentation online of our investment services.

Online commissions and subscription revenue predominantly relate to third party commissions received through our recently acquired online collectibles trading platform, www.bidStart.com. The work to integrate our existing online services with the bidStart platform creating a global online collectibles trading platform, together with completion of the technical developments to improve online services, will provide opportunities to substantially grow revenues from this source during the course of next year.

Overheads of £0.7m (2012: £0.2m) were expensed in the period with the increase relating predominantly to the salary costs of our enlarged development team in Raleigh, US and e-commerce and online marketing team in Jersey, CI.

### Actuarial Accounting Adjustments

Actuarial accounting adjustments relate to accounting charges in respect of our defined benefit pension scheme and IFRS share option charges totalling £0.2m (2012: £0.2m).

### Exceptional Operating Costs

Exceptional operating costs incurred in the period of £0.4m (2012: £0.1m) included £0.2m in respect of restructuring and redundancy costs and £0.2m in respect of legal costs incurred in connection with the Company's defined benefit pension scheme as detailed in note 8.

### Cashflow

Cash generated from operating activities of £2.2m (2012: cash used of £1.0m) is after an increase in the investment in our inventories of rare collectibles of £0.8m (2012: £3.9m). The increase in the level of inventories held at the end of the half year relates principally to the purchase of an exceptional collection of early Great Britain postal history, which will support anticipated demand and sales in the second half of the year.

The increase in cash during the period of £1.0m (2012: decrease of £5.0m) is after dividends paid in the period of £1.1m (2012: £0.9m).

### Strategic Focus and Opportunities

Our primary focus for the second half is to deliver on the key aspect of the Group's online strategy, where we see exceptional growth opportunities for the Group based on the size of the market and the obvious need for the emergence of a market leader to consolidate the online collectibles market.

The objective for the remainder of the year is therefore in delivering the technical developments required to develop the global online collectibles trading platform, together with the introduction of other exceptional online services for the collecting community. During 2014, focus will move towards the roll out of our online services through the implementation of an international marketing and PR programme, during which time we would expect to begin to see more significant returns from our investment.

Our immediate opportunity to deliver short term growth from core trading operations will be to convert into sales the investment made in recent years to build an exceptional stockholding of rare collectibles. Demand for premium quality rare collectibles remains strong supported by the rising number of high net worth collectors, particularly from emerging overseas markets. Furthermore, we expect to see continued interest from investors seeking diversification with rare collectibles representing an attractive option as a tangible asset and a track record of delivering long term stable growth.

We intend to continue to focus on the international development of our brand, which has delivered positive returns to date and has the added benefit of ensuring that our profitability is not dependent on any one geographical region. In the short term, we aim to ensure that our new office in Singapore delivers returns similar to that already achieved from our office in Hong Kong. At the same time, we continue to investigate and promote our services in other overseas markets, the performance of which will dictate whether we would benefit from the opening of new international offices where opportunities exist.

*Michael Hall*
Chief Executive
7 August 2013

# Condensed statement of comprehensive income

| | Notes | **6 months to 30 June 2013 (unaudited) £'000** | 6 months to 30 June 2012 (restated) (unaudited) £'000 | Year ended 31 December 2012 (audited) £'000 |
|---|---|---|---|---|
| **Revenue** | 3 | **17,242** | 14,712 | 35,599 |
| Cost of sales | | **(9,875)** | (8,161) | (20,031) |
| **Gross Profit** | | **7,367** | 6,551 | 15,568 |
| Administrative expenses before defined benefit pension service costs and exceptional operating costs | | **(2,094)** | (1,611) | (3,072) |
| Defined benefit pension service cost | | **(130)** | (130) | (260) |
| Exceptional operating costs | | **(410)** | (110) | (349) |
| Total administrative expenses | | **(2,634)** | (1,851) | (3,681) |
| Selling and distribution expenses | | **(3,584)** | (2,990) | (6,524) |
| **Operating Profit** | | **1,149** | 1,710 | 5,363 |
| Finance income | | **8** | 1 | 3 |
| Finance costs | | **(30)** | (39) | (94) |
| **Profit before tax** | | **1,127** | 1,672 | 5,272 |
| Taxation | 4 | **(97)** | (138) | (389) |
| **Profit for the period** | | **1,030** | 1,534 | 4,883 |
| **Other comprehensive income:** | | | | |
| *Items that will not be classified subsequently to profit or loss* | | | | |
| Actuarial losses recognised in the pension scheme | | **–** | – | (237) |
| Tax on actuarial losses recognised in the pension scheme | | **–** | – | 21 |
| **Other comprehensive income for the period, net of tax** | | **–** | – | (216) |
| **Total comprehensive income for the period** | | **1,030** | 1,534 | 4,667 |
| **Basic earnings per Ordinary Share** | 5 | **3.59p** | 6.07p | 18.94p |
| **Diluted earnings per Ordinary Share** | 5 | **3.52p** | 5.95p | 18.55p |

All profit and total comprehensive income is attributable to the owners of the parent; there are no non-controlling interests.

# Condensed statement of financial position

| | 30 June 2013 (unaudited) £'000 | 30 June 2012 (restated) (unaudited) £'000 | 31 December 2012 (audited) £'000 |
|---|---|---|---|
| **Non–current assets** | | | |
| Intangible assets | **1,622** | 1,117 | 1,723 |
| Property, plant and equipment | **2,256** | 2,074 | 2,145 |
| Deferred tax asset | **735** | 732 | 735 |
| Trade and other receivables | **262** | 862 | 229 |
| | **4,875** | 4,785 | 4,832 |
| **Current assets** | | | |
| Inventories | **21,489** | 24,463 | 20,728 |
| Trade and other receivables | **8,005** | 8,298 | 11,668 |
| Cash and cash equivalents | **7,742** | – | 6,766 |
| | **37,236** | 32,761 | 39,162 |
| **Total assets** | **42,111** | 37,546 | 43,994 |
| **Current liabilities** | | | |
| Trade and other payables | **5,906** | 6,867 | 8,179 |
| Bank overdraft | **–** | 1,808 | – |
| Borrowings | **63** | 250 | 188 |
| Current tax payable | **135** | 287 | 169 |
| | **6,104** | 9,212 | 8,536 |
| **Non–current liabilities** | | | |
| Trade and other payables | **–** | 1,628 | – |
| Retirement benefit obligations | **3,242** | 2,843 | 3,161 |
| Borrowings | **–** | 63 | – |
| Deferred tax liabilities | **225** | 200 | 233 |
| Provisions | **402** | 456 | 360 |
| | **3,869** | 5,190 | 3,754 |
| **Total liabilities** | **9,973** | 14,402 | 12,290 |
| **Net assets** | **32,138** | 23,144 | 31,704 |
| **Equity** | | | |
| Called up share capital | **287** | 253 | 284 |
| Share premium account | **11,541** | 5,307 | 11,137 |
| Shares to be issued | **209** | – | 209 |
| Share compensation reserve | **535** | 406 | 460 |
| Capital redemption reserve | **38** | 38 | 38 |
| Revaluation reserve | **254** | 254 | 254 |
| Retained earnings | **19,274** | 16,886 | 19,322 |
| **Equity shareholders' funds** | **32,138** | 23,144 | 31,704 |

# Condensed statement of changes in equity

| | Called up share capital £'000 | Share premium account £'000 | Shares to be issued £'000 | Share compen-sation reserve £'000 | Re-valuation reserve £'000 | Capital redemp-tion reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 284 | 11,137 | 209 | 460 | 254 | 38 | 19,322 | 31,704 |
| Profit and total comprehensive income for the period | – | – | – | – | – | – | 1,030 | 1,030 |
| Dividends | – | – | – | – | – | – | (1,078) | (1,078) |
| Share options exercised | 3 | 404 | – | – | – | – | – | 407 |
| Cost of share options | – | – | – | 75 | – | – | – | 75 |
| **At 30 June 2013** | **287** | **11,541** | **209** | **535** | **254** | **38** | **19,274** | **32,138** |
| At 1 January 2012 (restated) | 253 | 5,285 | – | 352 | 254 | 38 | 16,236 | 22,418 |
| Profit and total comprehensive income for the period | – | – | – | – | – | – | 1,534 | 1,534 |
| Dividends | – | – | – | – | – | – | (884) | (884) |
| Share options exercised | – | 22 | – | – | – | – | – | 22 |
| Cost of share options | – | – | – | 54 | – | – | – | 54 |
| **At 30 June 2012 (restated)** | **253** | **5,307** | **–** | **406** | **254** | **38** | **16,886** | **23,144** |
| At 1 January 2012 (restated) | 253 | 5,285 | – | 352 | 254 | 38 | 16,236 | 22,418 |
| Profit for the year | – | – | – | – | – | – | 4,883 | 4,883 |
| Actuarial loss on pension scheme net of deferred tax | – | – | – | – | – | – | (216) | (216) |
| **Total comprehensive income for the year** | – | – | – | – | – | – | 4,667 | 4,667 |
| Dividends | – | – | – | – | – | – | (1,581) | (1,581) |
| Cost of share options | – | – | – | 108 | – | – | – | 108 |
| Share options exercised | – | 78 | – | – | – | – | – | 78 |
| Deferred consideration | – | – | 209 | – | – | – | – | 209 |
| Net proceeds from issue of ordinary share capital | 31 | 5,774 | – | – | – | – | – | 5,805 |
| **At 31 December 2012** | **284** | **11,137** | **209** | **460** | **254** | **38** | **19,322** | **31,704** |

# Condensed statement of cash flows

| | *Notes* | **6 months to 30 June 2013 (unaudited) £'000** | 6 months to 30 June 2012 (unaudited) £'000 | Year ended 31 December 2012 (audited) £'000 |
|---|---|---|---|---|
| **Cash generated from /(used in) operations** | 6 | **2,209** | (3,556) | 1,007 |
| Interest paid | | **(3)** | (12) | (41) |
| Taxes paid | | **(140)** | (234) | (552) |
| **Net cash generated from /(used in) operating activities** | | **2,066** | (3,802) | 414 |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | | **(253)** | (176) | (368) |
| Purchase of intangible assets | | **(49)** | (74) | (138) |
| Acquisition of business assets | | **-** | - | (382) |
| Interest received | | **8** | 1 | 3 |
| **Net cash used in investing activities** | | **(294)** | (249) | (885) |
| **Financing activities** | | | | |
| Dividends paid to company shareholders | *7* | **(1,078)** | (884) | (1,581) |
| Repayment of borrowings | | **(125)** | (125) | (250) |
| Net proceeds from issue of ordinary share capital | | **407** | 22 | 5,838 |
| **Net cash (used in)/generated from financing activities** | | **(796)** | (987) | 4,007 |
| **Net increase/(decrease) in cash and cash equivalents** | | **976** | (5,038) | 3,536 |
| Cash and cash equivalents at start of period | | **6,766** | 3,230 | 3,230 |
| **Cash and cash equivalents at end of period** | | **7,742** | (1,808) | 6,766 |

# Notes to the condensed financial statements

## 1 Basis of preparation

The interim financial information in this report has been prepared using accounting policies consistent with IFRS as adopted by the European Union. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Directors expect to be adopted by the European Union and applicable as at 31 December 2013.

## 2 Significant accounting policies

The accounting policies applied by the Group in this interim report are the same as those applied by the Group in the consolidated financial statements for the year ended 31 December 2012, with the exception of taxes on income in the interim periods which are accrued using the tax rate that would be applicable to expected total annual earnings.

## 3 Segmental analysis

As outlined in the Operating Review the company has four main business segments, operations being split between Philatelic trading, Publishing and philatelic accessories, Other collectibles and Internet development. This is based upon the Group's internal organisation and management structure and is the primary way in which the Board of Directors is provided with financial information.

| Segmental income statement | Philatelic trading £'000 | Publishing and philatelic accessories £'000 | Other collectibles £'000 | Internet development £'000 | Unallocated £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **6 months to 30 June 2013** | | | | | | |
| Revenue | 13,211 | 1,506 | 2,401 | 124 | – | 17,242 |
| Operating costs | (10,103) | (1,153) | (2,047) | (683) | (1,697) | (15,683) |
| Exceptional costs | – | – | – | – | (410) | (410) |
| Net finance costs | – | – | – | – | (22) | (22) |
| Profit/(loss) before tax | 3,108 | 353 | 354 | (559) | (2,129) | 1,127 |
| Tax | – | – | – | – | (97) | (97) |
| **Profit/(loss) for the period** | **3,108** | **353** | **354** | **(559)** | **(2,226)** | **1,030** |
| **6 months to 30 June 2012 (restated)** | | | | | | |
| Revenue | 10,302 | 1,416 | 2,967 | 27 | – | 14,712 |
| Operating costs | (7,750) | (1,111) | (2,503) | (161) | (1,367) | (12,892) |
| Exceptional costs | – | – | – | – | (110) | (110) |
| Net finance costs | – | – | – | – | (38) | (38) |
| Profit/(loss) before tax | 2,552 | 305 | 464 | (134) | (1,515) | 1,672 |
| Tax | – | – | – | – | (138) | (138) |
| **Profit/(loss) for the period** | **2,552** | **305** | **464** | **(134)** | **(1,653)** | **1,534** |
| **Year ended 31 December 2012** | | | | | | |
| Revenue | 26,341 | 3,148 | 6,032 | 78 | – | 35,599 |
| Operating costs | (19,242) | (2,366) | (4,916) | (380) | (2,983) | (29,887) |
| Exceptional costs | – | – | – | – | (349) | (349) |
| Net finance costs | – | – | – | – | (91) | (91) |
| Profit/(loss) before tax | 7,099 | 782 | 1,116 | (302) | (3,423) | 5,272 |
| Tax | – | – | – | – | (389) | (389) |
| **Profit/(loss) for the year** | **7,099** | **782** | **1,116** | **(302)** | **(3,812)** | **4,883** |

# Notes to the condensed financial statements

## 3 Segmental analysis *(continued)*

**Geographical information**

**Analysis of revenue by origin and destination**

| | **Period ended 30 June 2013 Sales by destination £'000** | **Period ended 30 June 2013 Sales by origin £'000** | Period ended 30 June 2012 Sales by destination £'000 | Period ended 30 June 2012 Sales by origin £'000 | Year ended 31 December 2012 Sales by destination £'000 | Year ended 31 December 2012 Sales by origin £'000 |
|---|---|---|---|---|---|---|
| Channel Islands | **3,625** | **9,778** | 797 | 6,187 | 2,213 | 18,655 |
| United Kingdom | **6,667** | **6,391** | 7,784 | 7,232 | 17,734 | 13,795 |
| Hong Kong | **939** | **1,073** | 240 | 1,293 | 1,986 | 3,149 |
| Europe | **906** | **–** | 799 | – | 2,028 | – |
| Singapore | **2,603** | **–** | 1,093 | – | 2,058 | – |
| Rest of Asia | **899** | **–** | 595 | – | 4,913 | – |
| North America | **788** | **–** | 768 | – | 1,159 | – |
| Rest of the World | **815** | **–** | 2,636 | – | 3,508 | – |
| | **17,242** | **17,242** | 14,712 | 14,712 | 35,599 | 35,599 |

Destination is defined as the location of the customer. Origin is defined as the country of domicile of the Group company making the sale. All of the sales relate to external customers.

Channel Islands sales in the period ended 30 June 2013 include £2,782,000 to one individual customer and Singapore sales include £2,546,000 to one individual customer. Rest of the World sales in the period ended 30 June 2012 include £1,987,000 to one individual customer.

## 4 Taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised on a full provision basis in respect of all temporary differences which have originated, but not reversed at the balance sheet date.

## 5 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the weighted average number of shares in issue during the period. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

| | **6 months to 30 June 2013 (unaudited)** | 6 months to 30 June 2012 (unaudited) (restated) | Year ended 31 December 2012 (audited) |
|---|---|---|---|
| Weighted average number of ordinary shares in issue (No.) | **28,712,342** | 25,269,514 | 25,788,461 |
| Dilutive potential ordinary shares: Employee share options (No.) | **557,189** | 524,525 | 539,804 |
| Profit after tax (£) | **1,029,600** | 1,533,500 | 4,883,600 |
| Pension service costs & finance charge (net of tax) | **157,000** | 157,000 | 236,300 |
| Cost of share options (net of tax) | **75,000** | 54,000 | 108,000 |
| Exceptional operating costs (net of tax) | **340,000** | 82,000 | 300,200 |
| Adjusted profit after tax (£) | **1,601,600** | 1,826,500 | 5,528,100 |
| Basic earnings per share - pence per share (p) | **3.59p** | 6.07p | 18.94p |
| Diluted earnings per share – pence per share (p) | **3.52p** | 5.95p | 18.55p |
| Adjusted earnings per share – pence per share (p) | **5.58p** | 7.23p | 21.44p |
| Adjusted diluted earnings per share – pence per share (p) | **5.47p** | 7.08p | 21.00p |

304,702 shares were issued on 14 January 2013 following the exercise of Directors and employees share options. A further 5,135 and 10,931 shares were issued following the exercise of former employee share options on 11 February and 28 March 2013.

# Notes to the condensed financial statements

## 6 Cash generated from/ (used in) operations

| | **6 months to 30 June 2013 (unaudited) £'000** | 6 months to 30 June 2012 (unaudited) £'000 | Year ended 31 December 2012 (audited) £'000 |
|---|---|---|---|
| Operating profit | **1,149** | 1,710 | 5,363 |
| Depreciation | **142** | 134 | 255 |
| Amortisation | **150** | 90 | 184 |
| Increase / (decrease) in provisions | **97** | (174) | (216) |
| Cost of share options | **75** | 54 | 108 |
| Increase in inventories | **(761)** | (7,662) | (3,927) |
| Decrease/ (increase) in trade and other receivables | **3,630** | 438 | (2,299) |
| (Decrease) / increase in trade and other payables | **(2,273)** | 1,854 | 1,539 |
| **Cash generated from/(used in) operations** | **2,209** | (3,556) | 1,007 |

## 7 Dividends

| | **6 months to 30 June 2013 (unaudited) £'000** | 6 months to 30 June 2012 (unaudited) £'000 | Year ended 31 December 2012 (audited) £'000 |
|---|---|---|---|
| Amounts recognised as distribution to equity holders in period: | | | |
| Dividend paid | **1,078** | 884 | 1,581 |
| Dividend paid per share | **3.75p** | 3.50p | 6.25p |
| Dividend proposed but not paid | **862** | 695 | 1,066 |
| Dividend proposed per share | **3.00p** | 2.75p | 3.75p |

## 8 Prior year adjustment

During 2012 the Company instigated a process to redraft and consolidate the Trust Deed and Rules which govern the Stanley Gibbons Holdings PLC Pension and Assurance Scheme. This exercise carried out by the Legal and Documentation Services Practice of the Scheme's actuaries, Aon Hewitt and reviewed by solicitors Jones Day, highlighted five administration issues which required resolution.

The Company has appointed solicitors Lawrence Graham to investigate the five issues. They have sought advice from Counsel who has provided an opinion which concluded that there were serious issues with two of the areas identified, (namely equalisation of normal retiring dates and the reduction in the accrual rate) and in their view the Company and the Trustees had good prospects of success in claims for negligence against the Scheme's advisers for the cost of additional Scheme liabilities.

The Company and the Trustees and their respective advisers are still investigating the circumstances and details of the five areas and are currently carrying out an analysis of the benefit structure under the Scheme and how members may have been affected.

Despite the fact that the investigation and analysis is still not completed the Company has taken a prudent view of potential liabilities. The impact of this is that there is an increase in the pension deficit (net of deferred tax) at 1 January 2012 of £1,411,000 and a reduction in profit before tax in the period ended 30 June 2012 of £115,000, reducing basic earnings per share by 0.54p.

# Notes to the condensed financial statements

In terms of the legitimacy of the changes that has given rise to this additional potential liability, the Company is pursuing a legal action for recovery against the professional advisers involved.

The impact of the change in assumptions at 30 June 2012 on the statement of comprehensive income was as follows:

| | Comprehensive income £'000 |
|---|---|
| Increase in service charges – administration expenses | (70) |
| Adjustment to interest cost and return on assets | (45) |
| Loss before tax adjustment | (115) |
| Current year tax adjustment – deferred tax pensions | – |

### 9 Further copies of this statement

Copies of this statement are being sent to shareholders and can be viewed on the Company's website at www.stanleygibbons.com. Further copies are available on request from: The Company Secretary, The Stanley Gibbons Group plc, 2nd Floor, Minden House, Minden Place, Jersey JE2 4WQ.

# Interim Report and Accounts 2013

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