28 November 2006

KINGSTON COMMUNICATIONS (HULL) PLC (KCOM.L) ANNOUNCES UNAUDITED INTERIM RESULTS TO 30 SEPTEMBER 2006

"Sales momentum has been strong, we have seen continued growth across the business and we expect this trend to continue in the second half. As a result of the satisfactory financial performance in terms of profits and cash flow, the Board has decided to increase the interim dividend by 66.7 per cent to 0.65 pence per share."

Michael Abrahams, Chairman

Kingston Communications (HULL) PLC (KCOM.L) ("Kingston" or the "Group") today announces its unaudited interim results for the half year ended 30 September 2006.

Summary – continuing operations

	Six months ended 30 Sept 06 (£ million)	**Six months ended 30 Sept 05 (£ million)**	**Change over prior year (%)**
Results before exceptional items			
Revenue	241.9	223.9	8.0
EBITDA	33.7	35.9	(6.1)
Group profit	16.2	9.5	70.5
Adjusted Group profit [1]	19.1	13.2	44.7
EBITDA less capital expenditure	19.8	11.6	70.7
Reported results			
Profit before tax	10.3	3.1	332.3
Basic earnings per share (pence)	2.17	0.71	305.7
Adjusted basic earnings per share (pence)[2]	2.76	1.49	85.2
Dividend per share (pence)	0.65	0.39	66.7

[1] Adjusted Group profit from operations excludes amortisation of intangible assets arising on acquisitions of £2.9 million (2005: £3.7 million)
[2] Adjusted basic earnings per share excludes discontinued operations, exceptional items, amortisation of intangible assets relating to acquisitions and taxation

Highlights

- Revenue up 8.0 per cent to £241.9 million (2005: £223.9 million) reflecting strong organic growth
- EBITDA before exceptional items reduced to £33.7 million (2005: £35.9 million), more than compensated for by a decline in capital expenditure to £13.9 million (2005: £24.3 million) as the Affiniti business model becomes less capital intensive.
- EBITDA less capital expenditure grew to £19.8 million (2005: £11.6 million), an increase of 70.7 per cent
- Adjusted Group profit of £19.1 million, an increase of 44.7 per cent (2005: £13.2 million)
- Group profit before tax of £10.3 million (2005: £3.1 million)
- Adjusted basic earnings per share of 2.76 pence (2005: 1.49 pence), with basic earnings per share of 2.17p per share (2005: 0.71p per share)
- Interim dividend of 0.65 pence per share (2005: 0.39 pence per share), an increase of 66.7 per cent

Chairman, Michael Abrahams said, "This has been a good half year. Sales momentum has been strong, we have seen continued growth across the business and we expect this trend to continue in the second half. We continue to trade in line with expectations.

“As a result of the satisfactory financial performance in terms of profits and cash flow, the Board has decided to increase the interim dividend by 66.7 per cent to 0.65 pence per share.”

Chief Executive, Malcolm Fallen said, "During the first half we have continued to anticipate our customers’ changing needs and responded positively to the changes in our industry. We have strengthened our managed service capabilities by adding the applications integration skills of Smart 421 to our portfolio, providing a complementary fit with Affiniti’s network integration skills. Broadband growth has been strong with our focus on service quality a key to ensuring our proposition delivers value to our customers. We enter the second half with confidence in our ability to deliver on our strategic objectives.”

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Business and Operating review

During the first half of the year, we have continued to execute our key strategic goals:

- to grow our capabilities to meet our customers’ changing needs in key vertical markets, through the delivery of integrated solutions;
- to reduce our dependency on basic voice services whilst increasing the level of direct recurring service revenues;
- to achieve sustainable, profitable growth and delivering returns to shareholders.

The Group remains focused on three distinct markets:

- integrated and managed solutions for medium and large enterprises (Affiniti and Smart421)
- internet and telecommunications services aimed primarily at small and medium enterprises (‘SME’) (Kingston Communications); and
- the provision of information to end users through a range of channels including web-based, paper-based and person-to-person (Information Services).

The acquisition of Smart421, a business applications integrator and managed service provider, reflects our belief that our larger enterprise customers’ needs will evolve as the ongoing convergence of the IT and telecommunications industries continues. We believe the combination of Affiniti’s network integration skills and the application integration skills of Smart421, together with their respective expertise in managed service delivery, will provide a source of long term competitive advantage.

Across all our lines of business we remain committed to our mission to build and maintain a reputation for the quality of the end-to-end customer experience we deliver. The recent results from TopComm, an industry wide survey which scores companies on their service provision, provide evidence that we continue to be recognised for the quality of service we deliver.

Financial Overview

Group revenue for the half year has increased 8.0 per cent year on year to £241.9 million (2005: £223.9 million) and Group EBITDA, before exceptional items, reduced by 6.1 per cent to £33.7 million (2005: £35.9 million). This decline in EBITDA reflects the anticipated change within the Affiniti revenue mix and has been accompanied by a more than compensating reduction in capital intensity such that Group EBITDA less capital expenditure grew 70.7 per cent to £19.8 million (2005: £11.6 million).

Profit before tax grew to £10.3 million from £3.1 million in the prior year, resulting in an increase in basic earnings per share to 2.17 pence per share (2005: 0.71 pence).

The Group reported an increase in adjusted profit from operations to £19.1 million (2005: £13.2 million) reflecting a reduction in depreciation as a result of lower capital intensity and the impact of the 2006 network impairment, together with lower financing expense. Adjusted basic earnings per share of the Group are 2.76p (2005: 1.49p)

Business review

Affiniti

Results before exceptional items	2006 (£ million)	2005 (£ million)	Change over prior year (%)
Revenue	176.8	161.3	9.6
EBITDA	11.8	16.3	(27.6)
Capital expenditure	8.4	14.6	(42.5)
EBITDA less capital expenditure	3.4	1.7	100.0

Revenues increased 9.6 per cent to £176.8 million (2005: £161.3 million). Direct revenues increased by 13.2 per cent to £146.9 million (2005: £129.8 million) whilst indirect revenues have decreased by 5.0 per cent to £29.9 million (2005: £31.5 million). These trends reflect both the impact of our strategic repositioning of the business towards the delivery of integrated converged communications services as well as the continuing reduction in traditional network services, predominantly driven through substitution by both mobile and broadband delivered services.

The strong organic growth within direct revenues reflects encouraging performance across the breadth of our converged service portfolio which supports our customers ability to connect, communicate, contact and store in a secure environment. The first half has also been underpinned by a number of large enterprise network upgrade projects, which has resulted in the proportion of direct revenues generated from the sale of networking products and software increasing to 30.6 per cent (2005: 25.4 per cent).

We have seen some important new customer wins in the half year including Provident Financial, Surrey Police and University Hospital Birmingham as well as a number of contract renewals.

As anticipated, we have seen continued pressure on traditional network services within our indirect channel. This is particularly evident in the ISP and premium rate markets. Our focus on delivery of solutions into the interactive media market has however produced significant growth in the first half which has largely negated the decline on legacy revenues resulting in overall indirect revenues declining 5.0 per cent to £29.9 million (2005: £31.5 million).

As a consequence of these continuing trends, EBITDA, before exceptional items, reduced to £11.8 million (2005: £16.3 million), delivering a margin of 6.7 per cent (2005: 10.1 per cent). Consistent with this change in mix, capital expenditure reduced to £8.4 million (2005: £14.6 million), representing a capital expenditure to sales ratio of 4.8 per cent (2005: 9.1 per cent). EBITDA less capital expenditure doubled to £3.4 million (2005: £1.7 million). The reduction in EBITDA margin and capital expenditure to sales ratio reflects a combination of the change in revenue mix and a change in the way Affiniti supports its managed service customers and the level of spares held to meet agreed service levels.

The effect of implementing new support arrangements across customers using Cisco technology has increased operating costs but reduced capital expenditure on spares holdings.

Smart 421

Acquired on 29 September 2006, Smart 421 made no profit and loss contribution to the first half results. The acquisition will bring skills that will both complement and extend our managed service offering to our corporate customers. Smart421 specialises in the integration of business applications together with the continuing delivery of an applications managed service. In terms of skills, the business provides accredited capability in a range of applications including Microsoft and IBM.

As communicated on 29 September and based on current performance, the acquisition will be immediately earnings accretive.

Kingston Communications (including broadband)

Results before exceptional items	2006 (£ million)	2005 (£ million)	Change over prior year (%)
Revenue	56.3	53.8	4.6
EBITDA	21.9	20.2	8.4
Capital expenditure	5.4	9.4	(42.6)
EBITDA less capital expenditure	16.5	10.8	52.8

Kingston Communications, our regional business and internet services business, has delivered another strong performance. Revenue increased 4.6 per cent to £56.3 million (2005: £53.8 million) as we continue to benefit from growth in broadband and the rebalancing of our consumer revenues towards a greater level of subscription income following the successful launch of our inclusive calling packages last year.

At the half year, broadband connections stood at 140,851, an increase of 45.0 per cent year on year. With more than 45.0 per cent of our broadband revenues now coming from the business market, our focus nationally continues to be on growing our share of revenues from this segment, avoiding the highly competitive consumer market. At the same time we have begun taking wholesale unbundled local loop services from a third party to help reduce our dependency on BT Wholesale as well as reduce costs. Locally in East Yorkshire, where 66.0 per cent of our broadband revenues are from consumers, we have seen strong interest in our recently launched 8Mb internet service.

This growth in broadband, coupled with our move last year to bundled call packages, means that 70.0 per cent of revenues are now subscription based services compared to 62.0 per cent in the prior year.

Over the first half EBITDA increased 8.4 per cent to £21.9 million (2005: £20.2 million) resulting in improved EBITDA margins of 38.9 per cent (2005: 37.5 per cent). At the same time we have seen capital expenditure levels decline to below 10.0 per cent of sales. Prior year capital expenditure was impacted by our geographic expansion into North Lincolnshire and a major IT systems investment. The combination of this and the growth in EBITDA means that the level of EBITDA less capital expenditure has increased to £16.5 million (2005: £10.8 million).

Information Services

Results before exceptional items	2006 (£ million)	2005 (£ million)	Change over prior year (%)
Revenue	9.5	9.3	2.2
EBITDA	3.8	3.6	5.6

Our information services business has had a successful first half. A combination of a good sales campaign for Hull Colour Pages, coupled with our ability to continue to take increased share of the outsourced directory enquiries market, has helped increase revenues in this business by 2.2 per cent to £9.5 million (2005: £9.3 million). At the same time, EBITDA has increased 5.6 per cent to £3.8 million (2005: £3.6 million).

Group Earnings

Group EBITDA after exceptional items was £32.7 million (2005: £35.1 million). Exceptional items of £1.0 million (2005: £0.8 million) have arisen primarily from an increase in certain onerous property lease provisions.

Group profit from continuing operations was £15.2 million (2005: £8.7 million), an increase of 74.7 per cent. This improvement reflects the combination of Group trading performance together with a reduction in the depreciation of tangible fixed assets to £11.0 million (2005: £20.0 million). The decline in depreciation partly reflects the changing capital intensity of the business model and partly the impairment of our network infrastructure undertaken during the year ended 31 March 2006. Group net finance costs were £4.9 million (2005: £5.6 million) reflecting lower average debt levels compared to the previous year.

In September, the Group disposed of its remaining French operation, Kingston Communications Data SA, and as a result a loss on discontinued operations of £0.7 million has been recorded.

Group Financing and Investment

Whilst the Group reported a significant improvement of £8.2 million in the level of EBITDA less capital expenditure, there has been an increase in the level of working capital within the Group reflecting a number of factors but principally the result of the strong growth within Affiniti.

Net debt increased at the end of the first half, primarily due to the acquisition of Smart421 in September for a net cash consideration of £20.1 million.

Dividend

As a result of the satisfactory financial performance in terms of profits and cash flow during the first half, the Company will be paying an interim dividend of 0.65 pence per share (2005: 0.39 pence), representing an increase of 66.7 per cent. This will be payable on 1 February 2007 to shareholders registered at the close of business on 22 December 2006.

Whilst we are committed to investment in the business, we are equally committed to maximising returns to shareholders from our profits and cash flow. In considering the level of dividends, the Board takes account of the outlook for earnings growth, operating cash flow generation and the Group’s investment requirements.

We anticipate that future dividend increases will be in line with earnings.

Outlook

Current trading performance is in line with expectations and we enter the second half with confidence in our ability to deliver on our strategic objectives.

ENDS

Consolidated Interim Income Statement

	Note	**Unaudited Six months ended 30-Sep 2006 £'000**	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Continuing Operations				
Revenue	1	**241,870**	223,864	453,891
Group EBITDA	1	**32,701**	35,129	71,060
Group profit/(loss) from operations	1	**15,225**	8,706	(70,052)
Finance costs		**(4,991)**	(5,730)	(10,986)
Finance income		**52**	163	220
Profit/(loss) before taxation	2	**10,286**	3,139	(80,818)
Taxation	4	**867**	517	12,394
Profit/(loss) for the period from continuing operations		**11,153**	3,656	(68,424)
Discontinued Operations				
Loss for the period from discontinued operations	7	**(670)**	(1,658)	(2,808)
Profit/(loss) for the period attributable to equity holders of the Company		**10,483**	1,998	(71,232)
Earnings/(loss) per share from continuing operations				
Basic	5	**2.17p**	0.71p	(13.32)p
Diluted	5	**2.17p**	0.71p	(13.32)p
Adjusted basic	5	**2.76p**	1.49p	3.40p
Adjusted diluted	5	**2.75p**	1.48p	3.40p
Earnings/(loss) per share from total operations				
Basic	5	**2.04p**	0.39p	(13.87)p
Diluted	5	**2.04p**	0.39p	(13.87)p

Consolidated Interim Statement of Recognised Income and Expense

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Exchange differences on translation of foreign operations	**-**	1	1
Cash flow hedges	**520**	(784)	(241)
Actuarial (losses)/gains on retirement benefit obligation	**(6,547)**	-	11,782
Tax on items taken directly to equity	**801**	-	(3,999)
Net (expense)/income recognised directly in equity	**(5,226)**	(783)	7,543
Profit/(loss) for the period	**10,483**	1,998	(71,232)
Total recognised income and expense for the period	**5,257**	1,215	(63,689)

Consolidated Interim Balance Sheet

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Non-current assets			
Goodwill	**179,838**	158,290	159,551
Other intangible assets	**36,072**	39,483	39,450
Property, plant and equipment	**127,846**	221,151	127,857
Investments	**857**	1,087	840
Deferred tax assets	**20,413**	11,046	18,952
	365,026	431,057	346,650
Current assets			
Inventories	**15,901**	18,956	13,228
Trade and other receivables	**85,771**	76,896	99,636
Cash and cash equivalents	**19,223**	16,662	12,084
	120,895	112,514	124,948
Total assets	**485,921**	543,571	471,598
Current liabilities			
Trade and other payables	**(126,211)**	(132,937)	(149,322)
Net current liabilities	**(5,316)**	(20,423)	(24,374)
Non-current liabilities			
Bank loans	**(169,867)**	(144,241)	(139,535)
Retirement benefit obligation	**(19,339)**	(29,557)	(16,670)
Long term provisions and other payables	**(4,601)**	(5,902)	(1,541)
Total liabilities	**(320,018)**	(312,637)	(307,068)
Net assets	**165,903**	**230,934**	**164,530**
Equity			
Share capital	**51,480**	51,454	51,480
Share premium account	**352,360**	352,231	352,360
Hedging and translation reserve	**490**	(573)	(30)
Retained earnings	**(238,427)**	(172,178)	(239,280)
Total equity	**165,903**	**230,934**	**164,530**

Consolidated Interim Cash Flow Statement

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Net cash flow from operating activities			
Profit/(loss) from operations	**15,189**	7,956	(71,691)
Adjustments for:			
Depreciation and amortisation	**17,476**	26,686	51,990
Impairment	**-**	-	89,521
(Increase)/decrease in working capital	**(12,166)**	8,098	(1,487)
Employee share schemes	**128**	403	754
Income taxes (paid)/refunded	**(76)**	246	(399)
Net cash inflow from operations	**20,551**	43,389	68,688
Cash flows from investing activities			
Purchase of businesses	**(20,110)**	(2,971)	(4,024)
Sale of businesses	**-**	30,336	30,201
Purchase of property, plant and equipment	**(11,593)**	(23,875)	(38,202)
Proceeds from sale of property, plant & equipment	**22**	4	1,108
Purchase of intangible assets	**(3,062)**	(2,547)	(7,896)
Purchase of investments	**-**	-	(14)
Net cash (used in)/from investing activities	**(34,743)**	947	(18,827)
Cash flows from financing activities			
Dividends paid	**(4,012)**	(2,778)	(4,784)
Issue costs of long term loans	**(86)**	(115)	(18)
Interest paid	**(4,574)**	(5,865)	(8,673)
Interest received	**118**	487	219
Capital element of finance lease repayments	**(115)**	(150)	(279)
Repayment of bank loans	**-**	(47,444)	(52,431)
New loans	**30,000**	-	-
Proceeds from new share issue	**-**	2	-
Net cash from/(used in) financing activities	**21,331**	(55,863)	(65,966)
Increase/(decrease) in cash and cash equivalents	**7,139**	(11,527)	(16,105)
Cash and cash equivalents at the beginning of the period	**12,084**	28,189	28,189
Cash and cash equivalents at the end of the period	**19,223**	16,662	12,084

1. Segmental Analysis

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Revenue			
Affiniti	**176,761**	161,322	331,983
Kingston Communications	**56,345**	53,820	109,280
Information Services	**9,486**	9,271	13,240
Other including eliminations	**(722)**	(549)	(612)
Total – continuing activities	**241,870**	223,864	453,891
Discontinued activities	**75**	9,944	9,944
	241,945	233,808	463,835
Group EBITDA			
Affiniti	**11,829**	16,328	34,435
Kingston Communications	**21,904**	20,156	42,838
Information Services	**3,840**	3,625	3,494
Other	**(3,878)**	(4,222)	(7,527)
Total – continuing activities before exceptional items	**33,695**	35,887	73,240
Exceptional items:			
Affiniti	**(618)**	(758)	(1,200)
Kingston Communications	**-**	-	(577)
Information Services	**(64)**	-	-
Other	**(312)**	-	(403)
	(994)	(758)	(2,180)
Total – continuing activities	**32,701**	35,129	71,060
Discontinued activities	**(36)**	(487)	(1,499)
	32,665	34,642	69,561
Depreciation			
Affiniti	**5,407**	13,352	25,646
Kingston Communications	**5,142**	6,321	13,673
Information Services	**182**	241	446
Other	**304**	112	341
Total – continuing activities	**11,035**	20,026	40,106
Exceptional items:			
Affiniti	**-**	-	79,134
Kingston Communications	**-**	-	9,403
	-	-	88,537
Total – continuing activities	**11,035**	20,026	128,643
Discontinued activities	**-**	263	401
	11,035	20,289	129,044

1. Segmental Analysis (continued)

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Amortisation			
Affiniti	**5,337**	5,466	9,722
Kingston Communications	**1,069**	931	1,763
Information Services	**35**	-	-
Total before exceptional items	**6,441**	6,397	11,485
Exceptional items:	**-**	-	
Affiniti	-	-	984
	-	-	984
	6,441	6,397	12,469
Profit/(loss) from operations			
Affiniti	**1,085**	(2,490)	(933)
Kingston Communications	**15,693**	12,904	27,402
Information Services	**3,623**	3,384	3,048
Segment result – continuing activities before exceptional items	**20,401**	13,798	29,517
Exceptional items: Affiniti	**(618)**	(758)	(81,318)
Kingston Communications	**-**	-	(9,980)
Information Services	**(64)**	-	-
Other	**(312)**	-	(403)
	(994)	(758)	(91,701)
Segment result – continuing activities	**19,407**	13,040	(62,184)
Head office and other unallocated costs	**(4,182)**	(4,334)	(7,868)
Profit/(loss) from continuing operations	**15,225**	8,706	(70,052)
Segment result – discontinued activities	**(670)**	(1,891)	(3,041)
	14,555	6,815	(73,093)
Assets			
Affiniti	**288,709**	269,357	296,075
Smart421	**22,045**	-	-
Kingston Communications	**124,948**	125,720	128,195
Information Services	**4,346**	2,837	6,114
Other	**5,380**	116,862	9,339
Unallocated assets	**40,493**	28,795	31,875
	485,921	543,571	471,598
Liabilities			
Affiniti	**71,988**	94,550	98,660
Smart421	**1,712**	-	-
Kingston Communications	**3,899**	33,807	37,037
Information Services	**994**	1,133	4,733
Other	**30,540**	37,753	26,723
Unallocated liabilities	**210,885**	145,394	139,915
	320,018	312,637	307,068

1. Segmental Analysis (continued)

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Capital expenditure on property, plant and equipment and intangible assets			
Affiniti	**8,387**	14,652	28,200
Kingston Communications	**5,383**	9,435	17,439
Information Services	**28**	56	845
Other	**70**	201	329
Total – continuing activities	**13,868**	24,344	46,813
Discontinued operations	**-**	277	277
	13,868	24,621	47,090

The split of total revenue between external customers and inter-segment revenue is as follows:

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Revenue from external customers			
Affiniti	**176,518**	161,322	331,619
Kingston Communications	**55,061**	52,070	106,254
Information Services	**8,236**	8,379	11,545
Other	**2,055**	2,166	4,473
Discontinued operations	**75**	9,871	9,944
Total	**241,945**	233,808	463,835
Inter-segment revenue			
Affiniti	**243**	-	364
Kingston Communications	**1,284**	1,750	3,026
Information Services	**1,250**	892	1,695
Other including eliminations	**(2,777)**	(2,715)	(5,085)
Discontinued operations	**-**	73	-
Total	**-**	-	-
	241,945	233,808	463,835

None of the revenue, operating profit or net operating assets arising outside the United Kingdom are material to the Group. The geographical analysis of revenue by destination is given below.

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Geographical analysis of revenue			
United Kingdom	**239,447**	223,056	448,846
Continental Europe	**2,382**	10,253	12,384
Other	**116**	499	2,605
	241,945	233,808	463,835

2. Profit/(loss) before taxation

The profit/(loss) before taxation from continuing operations is stated after charging/(crediting):

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Depreciation	**11,035**	20,026	40,106
Impairment of property, plant & equipment	**-**	-	88,537
Impairment of intangible assets	**-**	-	984
	-	-	91,701
Amortisation of intangible assets			
- Intangible assets arising on acquisitions	**2,891**	3,742	6,599
- Software and development costs	**3,549**	2,655	4,886
	6,440	6,397	11,485
Exceptional items (note 3)	**994**	758	91,701
Release of prior year network operating accruals	**-**	(981)	(3,201)

3. Exceptional items

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Group EBITDA from continuing operations before exceptional items	**33,695**	35,887	73,240
Exceptional items:			
Restructuring costs	**(232)**	(363)	(1,090)
Onerous lease provision	**(762)**	(395)	(720)
Loss on disposal of business	**-**	-	(108)
Amounts written off investments	**-**	-	(262)
	(994)	(758)	(2,180)
Group EBITDA from continuing operations	**32,701**	35,129	71,060

3. Exceptional items (continued)

	Unaudited	Unaudited	Audited
	Six months ended	Six months ended	Year ended
	30-Sep	30-Sep	31-Mar
	2006	2005	2006
	£'000	£'000	£'000
Group profit from continuing operations before exceptional items	**16,219**	9,464	21,649
Exceptional items:			
Restructuring costs	**(232)**	(363)	(1,090)
Onerous lease provision	**(762)**	(395)	(720)
Loss on disposal of business	**-**	-	(108)
Amounts written off investments	**-**	-	(262)
Impairment of property, plant & equipment	**-**	-	(88,537)
Impairment of intangible assets	**-**	-	(984)
	(994)	(758)	(91,701)
Group profit/(loss) from continuing operations	**15,225**	8,706	(70,052)

Exceptional items are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Restructuring costs arise as a result of organisational changes following the integration of acquisitions. Onerous lease provisions arise as a result of continued rationalisation of the Group's property portfolio.

4. Taxation

The taxation (credit)/ charge on continuing activities is set out below:

	Unaudited	Unaudited	Audited
	Six months ended	Six months ended	Year ended
	30-Sep	30-Sep	31-Mar
	2006	2005	2006
	£'000	£'000	£'000
Corporation tax	**-**	605	633
Deferred tax	**(867)**	(1,122)	(13,027)
Group total	**(867)**	(517)	(12,394)

There is an unprovided deferred tax asset in respect of accelerated capital allowances, which has decreased from £43.0 million at 31 March 2006 to approximately £30 million at 30 September 2006.

5. Earnings/(loss) per share

	Unaudited Six months ended 30-Sep 2006	Unaudited Six months ended 30-Sep 2005	Audited Year ended 31-Mar 2006
Weighted average number of shares	**No.**	No.	No.
For basic earnings/(loss) per share	**513,917,990**	513,658,176	513,659,129
Share options in issue	**751,874**	1,054,830	838,079
For diluted earnings/(loss) per share	**514,669,864**	514,713,006	514,497,208
Earnings/(loss)	**£'000**	£'000	£'000
Profit/(loss) for the period attributable to equity holders of the Company	**10,483**	1,998	(71,232)
Adjustment to exclude loss for the period from discontinued operations	**670**	1,658	2,808
Profit/(loss) for the period from continuing operations	**11,153**	3,656	(68,424)
Adjustments:			
Exceptional items	**994**	758	91,701
Amortisation of intangible assets arising on acquisitions	**2,891**	3,742	6,599
Taxation	**(867)**	(517)	(12,394)
Adjusted profit for the period from continuing operations	**14,171**	7,639	17,482
Earnings/(loss) per share from contiuing operations	**pence**	pence	pence
Basic	**2.17**	0.71	(13.32)
Diluted	**2.17**	0.71	(13.32)
Adjusted basic	**2.76**	1.49	3.40
Adjusted diluted	**2.75**	1.48	3.40
Earnings/(loss) per share from discontinued operations			
Basic	**(0.13)**	(0.32)	(0.55)
Diluted	**(0.13)**	(0.32)	(0.55)
Total earnings/(loss) per share from continuing and discontinued operations			
Basic	**2.04**	0.39	(13.87)
Diluted	**2.04**	0.39	(13.87)

6. Dividends

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 March 2005 of 0.54 pence per share	**-**	2,778	2,778
Interim dividend for the year ended 31 March 2006 of 0.39 pence per share	-	-	2,006
Final dividend for the year ended 31 March 2006 of 0.78 pence per share	**4,012**	-	-
Total	**4,012**	2,778	4,784

The proposed interim dividend for the six months ended 30 September 2006 is 0.65 pence per share. In accordance with IAS 10 "Events after the balance sheet date", dividends declared after the balance sheet date are not recognised as a liability in this set of interim financial information.

7. Acquisitions and disposals

Acquisitions
On 29 September 2006, the Group acquired the entire share capital of Smart421 Technology Group Limited for net consideration of £20.0 million. Net assets of Smart421 Technology Group Limited at the date of acquisition were £1.5 million and have been consolidated in this set of interim financial information. Work on the valuation of intangible assets acquired is currently ongoing and for the purposes of this set of interim financial information, the amount by which the consideration exceeds the net assets acquired, £18.5 million, has all been provisionally classified as goodwill.

Disposals
On 29 September 2006, the Group disposed of its remaining French business, Kingston Communications Data SA ("KC Data").

KC Data made a loss in the period of £36,000 and the loss on disposal was £634,000. This disposal qualifies for treatment as a discontinued operation since it is the termination of operations in a geographical area. Accordingly the combined loss for the period and loss on disposal of £670,000 has been disclosed in the line 'discontinued items' on the face of the income statement in the interim report.

The prior year figures also include results of Arche, the French operations acquired with Omnetica, which the Group disposed of for cash consideration of £30,336,000 on 31 May 2005.

The results of discontinued operations, which have been included in the consolidated interim income statement, were as follows:

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Revenue	**75**	9,944	9,944
Expenses excluding depreciation and finance costs	**(111)**	(10,431)	(11,443)
EBITDA	**(36)**	(487)	(1,499)
Depreciation	**-**	(263)	(401)
Loss on sale of discontinued operations	**(634)**	(1,141)	(1,141)
Loss from operations	**(670)**	(1,891)	(3,041)
Finance costs	**-**	(43)	(43)
Loss before tax	**(670)**	(1,934)	(3,084)
Attributable tax	**-**	276	276
Net loss attributable to discontinued operations	**(670)**	(1,658)	(2,808)

The effect of discontinued operations on segment result is shown in note 1.

8. Reconciliation of profit from operations

	Unaudited Six months ended 30-Sep 2006 £'000	Unaudited Six months ended 30-Sep 2005 £'000	Audited Year ended 31-Mar 2006 £'000
Group profit from continuing operations	**15,225**	8,706	(70,052)
Loss from discontinued operations	**(36)**	(750)	(1,900)
Loss on write down of fixed asset investments	**-**	-	261
	15,189	7,956	(71,691)

9. Consolidated Interim Statement of Changes in Shareholders' Equity

	Share Capital	**Share Premium Account £'000**	**Hedging and Translation Reserve £'000**	**Retained Earnings £'000**	**Total £'000**
At 1 April 2005	51,454	352,229	210	(171,801)	232,092
Employee share schemes	-	-	-	403	403
Shares issued in period	-	2	-	-	2
Total income and expense recognised directly in equity	-	-	(783)	-	(783)
Profit for the period	-	-	-	1,998	1,998
Dividends	-	-	-	(2,778)	(2,778)
At 30 September 2005	51,454	352,231	(573)	(172,178)	230,934
Employee share schemes	-	-	-	351	351
Shares issued in period	26	129	-	-	155
Total income and expense recognised directly in equity	-	-	543	7,783	8,326
Loss for the period	-	-	-	(73,230)	(73,230)
Dividends	-	-	-	(2,006)	(2,006)
At 31 March 2006	51,480	352,360	(30)	(239,280)	164,530
Employee share schemes	-	-	-	128	128
Total income and expense recognised directly in equity	-	-	520	(5,746)	(5,226)
Profit for the period	-	-	-	10,483	10,483
Dividends	-	-	-	(4,012)	(4,012)
At 30 September 2006	**51,480**	**352,360**	**490**	**(238,427)**	**165,903**

10. Contingent Liabilities

During the period to 30 September 2006 contingent liabilities existed in respect of guarantees given by the Parent Company on behalf of subsidiary undertakings, together with contingencies arising in the normal course of business in respect of the Group's banking facilities. None of these guarantees are considered material in the context of the net assets of the Group.

11. Basis of preparation and Publication of interim results

The financial information comprises the consolidated balance sheets at 30 September 2006, 30 September 2005 and 31 March 2006 and the consolidated statements of income, recognised income and expense and cash flows for the periods then ended and related notes of Kingston Communications (Hull) PLC, (hereinafter referred to as "the financial information"). The financial information has been prepared in accordance with the listing rules of the Financial Services Authority. In preparing this information management have used the accounting policies set out in the group's 2006 financial statements. The group has chosen not to adopt IAS 34 Interim Financial Reporting in preparing the interim report 2006.

This financial information does not constitute a set of statutory accounts under s.240 of the UK Companies Act 1985 and is unaudited. The comparative figures for the financial year ended 31 March 2006 are an extract from the group's 2006 financial statements which have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the UK Companies Act 1985.

This document (the interim report 2006) will be published on the company's website in addition to the normal paper version. The maintenance and integrity of the Kingston Communications (Hull) PLC website is the responsibility of the directors and the work carried out by the auditors does not involve consideration of these matters. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.