

| 11 May 2009

Interim Announcement
Six months ended 31 March 2009

DIPLOMAPLC

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I Overview of Results

Overview of Results

	Six months ended 31 March		
	2009	2008	
Revenue	£88.0m	£85.3m	<i>+3%</i>
Operating profit	£12.3m	£13.1m	<i>-6%</i>
Operating margin	14.0%	15.4%	
Adjusted profit before tax	£12.4m	£13.1m	<i>-5%</i>
Free cash flow	£7.1m	£5.4m	<i>+31%</i>
Adjusted earnings per share	7.2p	7.6p	<i>-5%</i>
Dividend per share	2.5p	2.5p	

Overview of Results

- Revenues increased by **3%** and adjusted PBT down **5%**.
- Weaker trading environment across all sectors, but businesses continue to demonstrate their resilience:
 - focus on essential products and services, funded by operating budgets;
 - supplied to specialised market sectors which value customer service.
- Underlying revenue and operating profits decreased by **11%** and ca. **12%** respectively, after adjusting for currency effects, acquisitions and one-off items.
- Cost reduction programmes implemented across businesses; total headcount and monthly salary cost reduced by **7%** and **4%** respectively.
- Strong free cashflow of **£7.1m**, up **31%** over prior year; net cash funds of **£5.5m** at end period.
- Interim dividend maintained at **2.5p** per share.

II Review of Operations

Life Sciences – Overview

Suppliers of consumables, instrumentation and related services to clinical, research and environmental applications

Six months ended 31 March	2009	2008	
Revenue	£32.1m	£31.4m	+2%
Operating profit	£5.0m	£5.1m	-2%
Operating margin	15.6%	16.2%	

Adjusting for acquisition of Meditech and currency translation benefits, sector revenues decreased by 5%

Life Sciences – Half Year Highlights

- Canadian Healthcare businesses grew revenues by 5% in Canadian dollars:
 - Overall funding remains steady, increased focus on cost effective use of funds;
 - Steady growth in consumable sales, particularly smoke evacuation;
 - Bolt-on acquisition of Meditech established Somagen as a leading supplier to growing IVF market.
- European businesses experienced a 9% reduction in revenues:
 - Consumable products and services held up well;
 - Reduced equipment sales as customers defer capital expenditure;
 - Cost reduction programmes have reduced headcount by 8%.

Seals – Overview

Suppliers of hydraulic seals, gaskets, cylinders and attachment kits for heavy mobile and industrial machinery

Six months ended 31 March	2009	2008	
Revenue	£23.7m	£20.0m	+19%
Operating profit	£2.5m	£2.7m	-7%
Operating margin	10.5%	13.5%	

Adjusting for acquisition of RTD Seals and currency translation benefits, sector revenues decreased by 18%

Seals – Half Year Highlights

- Resilient performance from core Hercules seals business in the US & Canada.
- Major impact of downturn experienced by HKX & Bulldog:
 - Significant fall in demand for products;
 - Exacerbated by de-stocking in distributor/dealer customers.
- European Seals businesses broadly flat in total revenues, but with some currency translation benefits.
- Strong focus on cost reduction and working capital management:
 - HFPG headcount and operating expenses reduced by 14%.
- Investment maintained in:
 - Warehouse automation/carousel system in Clearwater;
 - Hercules Europe.

RTD Seals Acquisition

- RTD Seals acquired in January 2009, based in Minneapolis and Chicago.
- Core business will give a platform for building HFPG's OEM business.
- Newer O-ring and custom parts businesses will offer good growth opportunities, drawing on HFPG's sales and marketing resources.
- Positive contribution to operating profits, despite being impacted by downturn in industrial OEM business.
- RTD Seals will be well positioned to gain early benefit from market recovery.

Controls – Overview

Suppliers of specialised wiring, connectors, fasteners and control devices for a range of technically demanding applications

Six months ended 31 March	2009	2008	
Revenue	£32.2m	£33.9m	-5%
Operating profit	£4.8m	£5.3m	-9%
Operating margin	14.9%	15.6%	

Adjusting for currency translation benefits, underlying revenues reduced by 11%

Controls – Half Year Highlights

- UK Controls businesses saw revenues reduced by 7%:
 - Military Aerospace and Defence markets benefited from ongoing upgrade, refurbishment and maintenance programmes;
 - Motorsport sales held back by testing restrictions and budget cut-backs;
 - Commercial and Industrial segment more exposed to downturn in UK industrial markets;
 - Calibration services business has performed well.
- German Controls businesses saw revenues reduced by 18% in local currency terms:
 - Market downturn came later to Germany than US and UK;
 - Background business maintained with Defence and Aerospace customers;
 - Weaker activity on major projects and export led business.

III Financial Highlights

Profit Before Tax

	Six months ended 31 March		
	2009 £m	2008 £m	
Revenue	88.0	85.3	+3%
Operating profit	12.3	13.1	-6%
<i>Operating margin</i>	<i>14.0%</i>	<i>15.4%</i>	
Net finance income	0.1	-	
Adjusted profit before tax	12.4	13.1	-5%
FV remeasurement of put options	(1.3)	(0.3)	
Amortisation of acquisition intangibles	(1.4)	(1.3)	
IFRS profit before tax	9.7	11.5	-16%

Underlying Results

	Revenue	Operating Profit
	£m	£m
As reported	88.0	12.3
Forex - translation	(8.8)	(1.3)
- transaction	-	0.8
	<hr/> 79.2	<hr/> 11.8
Acquisition - RT Dygert	(2.3)	(0.3)
- Meditech	(0.4)	(0.1)
- Hitek	(0.4)	(0.1)
	<hr/> 76.1	<hr/> 11.3
One-off items, net	-	0.2
	<hr/> 76.1	<hr/> 11.5
	<hr/> <hr/> 76.1	<hr/> <hr/> 11.5
Movement in underlying results	-11%	-12%

As reported – HY 2008	£85.3m	£13.1m
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Profit After Tax

	Six months ended 31 March		
	2009	2008	
	£m	£m	
Adjusted profit before tax	12.4	13.1	
IFRS taxation	(3.5)	(3.8)	
Adjustments	(0.2)	(0.3)	
Adjusted tax	(3.7)	(4.1)	
<i>Effective adjusted tax rate</i>	<i>29.8%</i>	<i>31.3%</i>	
Earnings per share			
Adjusted	7.2p	7.6p	-5%
Basic	5.0p	6.4p	-22%

Free Cash Flow

	Six months ended 31 March	
	2009	2008
	£m	£m
Operating profit	12.3	13.1
Depreciation	1.3	1.2
Working capital	(0.1)	(3.8)
Pension and share schemes, net	0.2	0.2
Operating cash flow	13.7	10.7
Interest, net	0.1	-
Taxation	(5.7)	(4.0)
Capital expenditure	(1.0)	(0.9)
Purchase of own shares	-	(0.4)
Free cash flow	7.1	5.4

Net Cash Funds

	Six months ended 31 March	
	2009	2008
	£m	£m
Free cash flow	7.1	5.4
Acquisition cash paid	(11.2)	(6.0)
Deferred consideration	(1.1)	-
Dividends	(6.3)	(4.9)
	<u>(11.5)</u>	<u>(5.5)</u>
Cash funds brought forward	15.7	12.4
Exchange adjustments	1.3	0.3
Net cash funds	<u>5.5</u>	<u>7.2</u>
Comprising:		
Cash funds	10.4	9.6
Borrowings	(4.9)	(2.4)

Shareholders' Funds

	31 Mar 2009	30 Sept 2008
	£m	£m
Goodwill	63.7	51.6
Acquisition intangible assets	18.7	18.6
Tangible assets	13.9	12.8
	96.3	83.0
Net working capital	40.0	28.6
Trading capital employed	136.3	111.6
Retirement benefit obligations	(1.6)	(1.7)
Deferred tax, net	(3.5)	(3.3)
Future purchases of minorities	(12.5)	(11.2)
Deferred consideration	(0.6)	(1.1)
Net cash funds	5.5	15.7
	123.6	110.0
less: minority interests	(2.2)	(1.9)
Total shareholders' equity	121.4	108.1

IV Outlook and Prospects

Outlook and Prospects

- In current difficult trading environment, continued focus on:
 - Sustaining operating margins;
 - Generating strong cash flow;
 - Maintaining market position through customer service.
- Resilient characteristics of businesses, combined with tight management of operating costs and working capital will ensure performance continues to be optimised at current activity levels.
- As markets move into recovery, businesses will emerge stronger and well placed to benefit from the improving demand.