





# Chairman's Interim Statement

## Overview of results

Turnover for the period was £32.7m, compared with £39.4m in the same period last year. An operating loss, before goodwill and exceptionals, of £0.8m was sustained (2003 – loss £0.2m).

Overall turnover for the Group is below levels achieved in the comparative period. This was anticipated and there are three key reasons for it, all involving G & A Ltd.

Firstly, we are managing our withdrawal from less profitable and more complex areas of business and product groups.

Secondly, a significant overstocking during Christmas 2003 at a major customer and subsequent low ordering of product in the Spring impinged on the first half year compared with last.

Thirdly, the cessation of normal trading with a key supplier of Gemset product has affected sales of such product in G & A. This matter is currently the subject of litigation and the group is hopeful of a timely and acceptable resolution to the matter.

The profit impact of the shortfall in turnover, year on year, has been partially mitigated by a managed reduction in costs.

The exceptional costs total £1.0m and comprise the following:

- Restructuring of Group manufacturing onto one site in Northern Thailand and the associated closure of sites in Birmingham, UK and Bangkok, Thailand. The main proportion of these costs relates to salaries and redundancy payments. Further costs will be incurred until completion during Summer 2005.
- Legal costs in connection with the dispute between G & A Ltd and the key Gemset product supplier.

The loss before tax was £2.6m (2003 - loss £1.2m), a shortfall of £1.4m, including the exceptional costs above. The basic loss per share is 9.0p (2003 restated - loss 4.3p).

From a balance sheet point of view, I am pleased to report that further progress has been made on Group working capital balances. Total net debt stands at £25.7m, a reduction of £5.7m over the prior half year.

## Dividends

In view of the progress made on both the restructuring exercise and the reduction of debt, the Directors recommend payment of an interim dividend, in line with last half year, at a rate of 1p per share (2003 - 1p).

# Chairman's Interim Statement

## **Review of Activities and Current Trading**

### ***G & A Limited***

Management remains committed to the implementation of the business review improvements announced in March of this year. These include the closure of UK volume manufacturing and its subsequent transfer to Thailand. This technically demanding project is progressing well and when completed in Summer 2005, should deliver the operating cost reductions originally envisaged of around £1m annually. In addition, key director level appointments have been made in G & A in Sales/Product Development and Supply Chain/Quality, which will enable us to both develop profitable growth opportunities and further improve operating efficiency and customer service.

Following a Group structural review, we have decided that certain key functions of the core UK business of G & A and the overseas businesses that work closely with it as key suppliers, will be managed in a more integrated way.

### ***Brown & Newirth Limited (B & N)***

B & N has shown some improvement this half-year. New platinum and diamond product ranges have been well received.

### ***Dynamic Creations Limited (DCL) - (Hong Kong)***

This half-year sees an improvement in sales and profits at DCL. The company is no longer restricted by last year's SARS outbreak and development of business with third party customers has progressed very well.

### ***Essex Pcl - (Thailand)***

The re-organisation of Essex continued at the beginning of the period, with the transfer of production in Bangkok to the Abbeycrest Thailand factory in Lamphun. The concentration of manufacturing in Thailand on one site should help us further improve manufacturing efficiencies.

In this half year, Essex has seen strong growth in sales to third parties, not least as a result of a refocus on effective product development. We anticipate a return to trading profit for the full year for Essex.

### ***Abbeycrest Thailand Limited (ATL)***

ATL continues to deliver excellent performance in the manufacture of gold jewellery products. The core management team is now well-established and service, quality and efficiency targets are consistently achieved. In light of the above, the Group Board has approved an extension of factory capacity at the Lamphun site, to accommodate fully the transfer of manufacturing from other areas.

### ***Abbeycrest North America Inc (ANA)***

The Group's sales office in North America, established from scratch a year ago, is beginning to bear fruit. Several significant opportunities are being pursued and initial orders for products sourced from our Thailand factory, have been placed by major customers for delivery in the second half of this financial year.

# Chairman's Interim Statement

**Prospects:**

Order intake in the lead up to Christmas is important to our business and, compared to last year, certain major customers have delayed their commitment to Christmas orders for as long as possible. In some instances, we are aware that order intake lead times have also been reduced as retailers seek to improve efficiency. As a consequence, it is difficult to forecast accurately the level of pre-Christmas ordering. If the outcome is as we anticipate, then our annual results should be in line with directors' expectations. In any event, we remain resolute in our commitment to the re-shaping of our business and we are confident that the changes already made and those still to be implemented, will provide the basis for growth in profitable sectors from a leaner cost base, during 2005 and beyond.

**Michael Lever**

Chairman

23 November 2004

# Consolidated Profit and Loss Account

For the six months ended 31 August 2004

	Notes	Six months to 31 August 2004 Unaudited £'000	Six months to 31 August 2003 Unaudited Restated £'000	Year to 29 February 2004 Audited Restated £'000
<b>Turnover</b>				
– Existing operations		<b>32,786</b>	39,429	96,991
– Less share of joint venture		<b>(86)</b>	(79)	(202)
– Continuing operations		<b>32,700</b>	39,350	96,789
<b>Operating (loss)/profit</b>				
– Before goodwill amortisation and exceptional items		<b>(793)</b>	(171)	3,616
– Goodwill amortisation		<b>(155)</b>	(156)	(253)
– Exceptional items	2	<b>(1,006)</b>	–	–
– Continuing operations		<b>(1,954)</b>	(327)	3,363
Share of operating loss in joint venture		<b>(14)</b>	(14)	(27)
Net profit on disposal of tangible fixed assets		<b>–</b>	–	78
Interest receivable		<b>330</b>	153	308
Interest payable and similar charges		<b>(991)</b>	(1,006)	(2,114)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(2,629)</b>	(1,194)	1,608
Tax on (loss)/profit on ordinary activities		<b>557</b>	262	(425)
<b>(Loss)/profit on ordinary activities after taxation</b>		<b>(2,072)</b>	(932)	1,183
Minority equity interests		<b>(127)</b>	(116)	(236)
<b>(Loss)/profit for the financial period</b>		<b>(2,199)</b>	(1,048)	947
Dividends paid and proposed on equity shares	4	<b>(254)</b>	(249)	(500)
<b>Retained (loss)/profit for the period</b>	5	<b>(2,453)</b>	(1,297)	447
<b>(Loss)/earnings per share</b> – basic	3	<b>(9.0)p</b>	(4.3)p	3.9p
– diluted		<b>(9.0)p</b>	(4.3)p	3.8p
<b>Dividends per share</b>	4	<b>1p</b>	1p	2p

## Consolidated Statement of Total Recognised Gains and Losses

For the six months ended 31 August 2004

(Loss)/profit for the financial period	<b>(2,199)</b>	(1,048)	947
(Loss)/profit on foreign currency translation	<b>(70)</b>	187	(786)
<b>Total recognised gains and losses relating to the period</b>	<b>(2,269)</b>	(861)	161
Prior year adjustment	<b>249</b>		
<b>Total recognised gains and losses since last annual report</b>	<b>(2,020)</b>		

The accompanying notes are an integral part of this Consolidated Profit and Loss Account and the Consolidated Statement of Total Recognised Gains and Losses

## Consolidated Balance Sheet

At 31 August 2004

	Notes	<b>31 August 2004 Unaudited £'000</b>	31 August 2003 Unaudited Restated £'000	29 February 2004 Audited Restated £'000
<b>Fixed assets</b>				
Goodwill		1,960	2,412	2,244
Negative goodwill		(313)	(395)	(325)
		<b>1,647</b>	2,017	1,919
Tangible fixed assets		<b>7,265</b>	9,897	7,767
		<b>8,912</b>	11,914	9,686
Investment in joint venture:				
Share of gross assets		183	185	190
Share of gross liabilities		(182)	(158)	(175)
		<b>8,913</b>	11,941	9,701
<b>Current assets</b>				
Stocks		31,931	35,219	27,452
Debtors		19,131	20,912	17,827
Cash at bank and in hand		130	210	730
		<b>51,192</b>	56,341	46,009
<b>Creditors</b>				
Amounts falling due within one year		26,752	37,313	24,380
		<b>24,440</b>	19,028	21,629
<b>Net current assets</b>				
<b>Total assets less current liabilities</b>				
		<b>33,353</b>	30,969	31,330
<b>Creditors</b>				
Amounts falling due after more than one year		8,421	4,253	3,685
<b>Provisions for liabilities and charges</b>				
		96	91	96
<b>Net assets</b>				
		<b>24,836</b>	26,625	27,549
<b>Capital and reserves</b>				
Called up share capital		2,538	2,488	2,488
Shares to be issued		50	580	580
Share premium account		5,489	5,186	5,186
Merger reserve		199	199	199
Profit and loss account		15,610	17,362	18,133
<b>Equity shareholders' funds</b>				
Minority equity interests	5	23,886	25,815	26,586
		950	810	963
<b>Total capital employed</b>				
		<b>24,836</b>	26,625	27,549

The accompanying notes are an integral part of this Consolidated Balance Sheet.

# Consolidated Cash Flow Statement

For the six months ended 31 August 2004

	Notes	Six months to 31 August 2004 Unaudited £'000	Six months to 31 August 2003 Unaudited £'000	Year to 29 February 2004 Audited £'000
<b>Net cash (outflow)/inflow from operating activities</b>	6	<b>(5,137)</b>	(5,935)	6,803
Returns on investments and servicing of finance	7	<b>(930)</b>	(773)	(1,814)
Taxation		<b>42</b>	(47)	(482)
Capital expenditure and financial investment	7	<b>(253)</b>	(156)	1,092
Equity dividends paid		<b>(254)</b>	(247)	(498)
<b>Cash (outflow)/inflow before financing</b>		<b>(6,532)</b>	(7,158)	5,101
Financing	7	<b>5,048</b>	(666)	(840)
<b>(Decrease)/increase in cash in the period</b>	8	<b>(1,484)</b>	(7,824)	4,261

The accompanying notes are an integral part of this Consolidated Cash Flow Statement.

# Notes to the Interim Accounts

For the six months ended 31 August 2004

## 1. Basis of interim accounts

The accounting policies used in the interim accounts for the six months ended 31 August 2004 are consistent with those applied in the financial statements for the year ended 29 February 2004, with the exception of the accounting policy in respect of own shares and the reclassification of dividends paid to minority interests.

UITF38 "Accounting for ESOP Trusts", issued in December 2003, has been adopted for the year ending 28 February 2005. The abstract requires any investment in own shares by the company to be recorded as a reduction in shareholder funds. The adoption of UITF38 implemented by prior year adjustment has resulted in a reduction in shareholders funds of £540,000 at 31 August 2004 (29 February 2004: £540,000, 31 August 2003: £540,000).

The adoption of UITF38 has no impact on the consolidated profit and loss account or the consolidated statement of total recognised gains and losses for the six months ended 31 August 2004 and the year ended 29 February 2004.

The prior year adjustment reported in the consolidated statement of total recognised gains and losses is a correction of a previous accounting misclassification of dividends paid to minority interests. The result of this adjustment is to reduce minority interests at 29 February 2004 by £249,000, to increase the profit and loss account reserve at 29 February 2004 by £249,000, and to increase the profit for the financial year ended 29 February 2004 by £98,000 (six months ended 31 August 2003: reduce the loss by £131,000). The adjustment has no impact on reported net assets and all comparative amounts have been restated.

The taxation charge on ordinary activities has been based upon the estimated effective tax rate for the current year.

These interim accounts in respect of the financial period ended 29 February 2004 do not constitute the Company's statutory accounts for that period, but are based upon the Group's full accounts within the meaning of Section 251 of the Companies Act 1985. Full accounts, prior to the restatement noted above, have been reported on without qualification by the auditors and have been filed with the Registrar of Companies.

The interim accounts for the six months ended 31 August 2004 have not been audited, nor have the interim accounts for the equivalent period in 2003. The interim accounts were approved by the Board of Directors on 23 November 2004.

Copies of the announcement will be sent to shareholders and are available to members of the general public from the Company Secretary, Abbeycrest Plc, Peter Rosenberg House, 11/15 Wilmington Grove, Leeds, LS7 2BQ.

## Notes to the Interim Accounts

For the six months ended 31 August 2004

**2. Exceptional items**

Exceptional items reported within the operating loss from continuing operations are as follows:

	<b>Six months to 31 August 2004 Unaudited £'000</b>
Reorganisation costs	<b>789</b>
Legal costs	<b>217</b>
	<b>1,006</b>

The reorganisation costs relate to the restructuring of the group manufacturing business into one purpose built site in Northern Thailand and the associated closure of facilities in Birmingham, UK and Bangkok, Thailand.

The exceptional legal costs have been incurred by G&A Limited, a wholly owned subsidiary undertaking of the company. G&A Limited is currently engaged in litigation with a key supplier in connection with an exclusive supply agreement.

**3. (Loss)/earnings per share**

Basic earnings per share have been calculated using the weighted average number of shares in issue during the period of 24,501,784 (2003: 24,276,241). Diluted earnings per share have been calculated using 24,606,725 (2003: 24,823,495) shares.

**4. Dividends**

An interim dividend of 1p per share will be paid on 8 January 2005 to shareholders on the register at the close of business on 10 December 2004.

**5. Reconciliation of movements in equity shareholders funds**

	<b>31 August 2004 Unaudited £'000</b>	31 August 2003 Unaudited Restated £'000	29 February 2004 Audited Restated £'000
(Loss)/profit for the financial period	<b>(2,199)</b>	(1,048)	947
Other recognised gains and losses relating to the period	<b>(70)</b>	187	(786)
	<b>(2,269)</b>	(861)	161
Dividends paid and proposed on equity shares	<b>(254)</b>	(249)	(500)
Adjustments to shares to be issued	<b>(177)</b>	–	–
Net decrease	<b>(2,700)</b>	(1,110)	(339)
Opening shareholders funds (Originally £26,877,000 at 1 March 2004 before deducting net prior year adjustments of £291,000)	<b>26,586</b>	26,925	26,925
	<b>23,886</b>	25,815	26,586

## Notes to the Interim Accounts

For the six months ended 31 August 2004

**6. Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities**

	Six months to 31 August 2004 £'000	Six months to 31 August 2003 £'000	Year to 29 February 2004 £'000
Operating (loss)/profit	<b>(1,954)</b>	(327)	3,363
Depreciation	<b>675</b>	897	1,719
Amortisation of goodwill	<b>155</b>	156	253
Loss/(profit) on sale of tangible fixed assets	<b>1</b>	55	(12)
(Increase)/decrease in stocks	<b>(4,499)</b>	(2,981)	4,377
Increase in debtors	<b>(1,304)</b>	(2,402)	(674)
Increase/(decrease) in creditors	<b>1,789</b>	(1,333)	(2,223)
Net cash (outflow)/inflow from operating activities	<b>(5,137)</b>	(5,935)	6,803

**7. Analysis of cash flows****Returns on investments and servicing of finance**

Interest received	<b>330</b>	153	308
Interest paid	<b>(1,120)</b>	(795)	(2,024)
Dividend paid to minority interest	<b>(140)</b>	(131)	(98)
Net cash outflow from returns on investments and servicing of finance	<b>(930)</b>	(773)	(1,814)

**Capital expenditure and financial investment**

Purchase of tangible fixed assets	<b>(293)</b>	(700)	(1,203)
Sale of tangible fixed assets	<b>40</b>	544	2,295
Net cash (outflow)/inflow from capital expenditure and financial investment	<b>(253)</b>	(156)	1,092

**Financing**

New secured loan	<b>10,087</b>	–	480
Repayment of secured loan	<b>(5,030)</b>	(650)	(1,300)
Capital element of finance lease rental payments	<b>(9)</b>	(16)	(20)
Net cash inflow/(outflow) from financing	<b>5,048</b>	(666)	(840)

# Notes to the Interim Accounts

For the six months ended 31 August 2004

## 8. Analysis of net debt

	1 March 2004 £'000	Cashflow £'000	31 August 2004 £'000
Cash at bank and in hand	730	(600)	<b>130</b>
Overdrafts	(14,804)	(884)	<b>(15,688)</b>
	(14,074)	(1,484)	<b>(15,558)</b>
Debt due within one year	(3,662)	(4,738)	<b>(8,400)</b>
Debt due after one year	(1,368)	(319)	<b>(1,687)</b>
Finance leases	(38)	9	<b>(29)</b>
	(5,068)	(5,048)	<b>(10,116)</b>
Net debt	(19,142)	(6,532)	<b>(25,674)</b>

## 9. Reconciliation of net cash flow to movement in net debt

	Six months to 31 August 2004 £'000
Decrease in cash in the period	<b>(1,484)</b>
Increase in borrowings	<b>(5,048)</b>
	<b>(6,532)</b>
Net debt at beginning of period	<b>(19,142)</b>
Net debt at end of period	<b>(25,674)</b>







