

Regulatory Announcement

Company	Abbeycrest PLC
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Abbeycrest PLC

Preliminary Announcement – Chairman’s Statement – 15 May 2007

Chairman’s Report

Results

For the year ended 28th February 2007, I am pleased to report that the Group recorded an operating profit before net finance costs of £2.4m (2006 - £5.0m loss), a turnaround of £7.4m. Profit before tax and exceptional items was £0.3m (2006 - £3.6m loss) on turnover of £64.6m, which was down by 8% on 2006.

Exceptional items incurred during the year, including re-organisation and re-banking costs, net of profit on disposal of property, amounted to £1.0m (2006 - £3.5m) and resulted in a loss before tax for the year of £0.7m (2006 - £7.1m loss).

The loss attributable to equity shareholders after tax, minority interest and exceptional items was £0.5m (2006 - £7.8m loss). Basic loss per share was 1.9p (2006 - 31.1p loss).

Dividends

In the light of the results for the year, the directors are unable to recommend payment of a dividend.

Balance Sheet

Group borrowings continue to reduce significantly, driven by stringent controls on stockholding and overhead spend. Year end borrowings stand at £14.0m, a reduction of £4.9m (26%) on the previous year-end. Stock levels stand at £18.8m at the year-end, a reduction of £4.6m (20%) on the previous year.

Business Review

In the Chairman’s statement last year, it was stated that management was confident that the restructuring and cost saving measures adopted would return the Group to profitability in 2006/07. It is pleasing to present a set of accounts this time that show a pre-exceptional profit, albeit small, and in particular, a substantial improvement in operating profit before finance costs. It is important to consider the following factors when reviewing the year’s trading performance:-

- The amount of disruption and management time taken up by the re-banking process in the first six months of 2006.
- The continued weak state of the fine jewellery market in the UK. The weight of gold jewellery hallmarked in the UK throughout 2006 averaged more than 10% below the previous year with the Birmingham Assay Office noting that “the performance of gold jewellery continues to be of concern”.
- The Group’s new “asset based” financing arrangements are more costly than normal banking arrangements and this can be seen from the amount of net finance costs for the year of £3.1m (2006 - £2.2m), a significant increase given the substantial reduction in borrowings achieved. This amount includes £0.9m (2006 - £0.5m) of exceptional costs incurred in respect of the re-banking, and it is further estimated that the remaining recurring finance costs are some £0.7m more costly than under a traditional banking arrangement

In the light of this, management considers the Group’s financial performance to have been acceptable for the year under review. The restructuring has been rigorous (overall, overheads have been reduced by about 22%, year-on-year) and has enabled the Group to move forward, despite prevailing market conditions.

G & A Limited (G&A)

The Group's UK distribution operation has suffered from the weak state of the UK jewellery market with sales reduced by 15% year-on-year. Customers are extremely reluctant to carry stock and are looking increasingly to buy direct from overseas manufacturers in order to obtain best pricing. Fortunately the Group is ideally placed to benefit from this trend with its state-of-the-art manufacturing operation in Northern Thailand (referred to later).

As noted in the half year statement, a key metric for G&A is increasing its gross margin. This has been achieved by tighter specification controls and challenging third party suppliers on price wherever possible. The benefits of this started to become evident over the second half of the year and, in fact, despite the decline in turnover, G&A managed to record a broadly similar gross profit to that of the previous year. We expect this process to continue throughout 2007.

Virtually all the overhead savings enjoyed by the Group have been derived from G&A, as well as the majority of the stock reductions.

Abbeycrest Thailand Limited (ATL)

ATL, which comprises the Group's combined Gold and Gem manufacturing operations, had an encouraging year with operating profits before exceptional items growing by 17% to around £0.9m. This was particularly creditable bearing in mind the substantial cost and disruption that was incurred during the transfer of production of DCL products to our own factory.

Major UK retailers have been actively introduced by the Group to the advantages of buying direct from its state-of-the-art manufacturing operations. Capacity in both factories is not a limiting factor and the management see ATL as a major source of future commercial growth. A key potential customer category will be the UK multiple specialist retailers who are significantly under-represented in sales terms with the Group.

Dynamic Creations Limited (DCL)

DCL, the Group's Hong Kong based sales and design business, has had a very successful year. Historically, 75% of DCL product was sold into the UK market via G&A and was manufactured by sub-contractors in China. As planned, most of this production has now been transferred to the Group's own factories at ATL. Under new management, DCL has been very successful in reducing its cost base and developing sales to third parties, to the extent that a pre-tax profit above £0.2m was achieved. This was beyond any expectation for a business which was essentially starting again from scratch. This third party production is still being outsourced to China since this provides useful overflow capacity in high season if required and is also a useful benchmark for Far East manufacturing costs.

Brown & Newirth Limited (B&N)

B & N has had a successful year with sales up 6% and pre-tax profits up 33% on the previous year. In common with other parts of the Group, much work has been performed on margin enhancement, overhead savings and stock reduction which underpin these pleasing figures.

Current Trading and Prospects

Trading conditions continue to be challenging. Whilst somewhat improved in the first quarter of 2007, the weight of gold jewellery hallmarked in the UK is still marginally down year-on-year.

The performance of the UK market in general and G & A in particular, has been the main factor depressing the Group's financial performance in recent years. Management is now fully focussed on further improving the trading result of G & A, our largest business. We are continuing to reduce debt by further work on stock-holding levels and by delivering enhanced operating efficiencies.

Commercially the major opportunity available to the Group is the development of sales from our Thailand-based manufacturing operation direct to retailers. Both UK and international retailers are now working with our commercial team in relation to this and we will update shareholders on progress in due course.

Michael Lever
Chairman
15 May 2007

Consolidated Income Statement

For the year ended 28 February 2007

		Year To 28 February 2007 £'000	Year To 28 February 2006 £'000
	Notes		
Revenue		64,615	70,210
Operating costs		62,177	75,177
Operating profit/(loss)		2,438	(4,967)
Finance income		198	1,013
Finance costs		(3,292)	(3,173)
Profit/(loss) before taxation and exceptional items		310	(3,619)
Exceptional items – operating costs	2	(100)	(3,044)
Exceptional items – finance costs	2	(866)	(464)
Loss before taxation		(656)	(7,127)
Tax on loss		167	(255)
Loss after taxation		(489)	(7,382)
Discontinued operations			
Loss for the year from discontinued operations		-	(315)
Loss for the year		(489)	(7,697)
Profit attributable to minority interests		-	78
Loss attributable to equity shareholders		(489)	(7,775)
		(489)	(7,697)
Loss per share – basic and diluted	3	(1.9p)	(31.1)p
Loss per share from continuing operations – basic and diluted	3	(1.9p)	(29.8)p

Consolidated Balance Sheet

As at 28 February 2007

	28 February 2007 £'000	28 February 2006 £'000
Assets		
Non-current assets		
Goodwill	1,866	1,866
Intangible assets	143	266
Property, plant and equipment	4,856	7,725
Deferred tax assets	471	227
	7,336	10,084
Current assets		
Inventories	18,763	23,391
Trade and other receivables	13,208	12,619
Derivative financial instruments	-	15
Cash and cash equivalents	380	1,175
	32,351	37,200
Liabilities		
Current liabilities		
Financial liabilities		
- Borrowings	(12,075)	(19,491)
Trade and other payables	(6,986)	(7,914)
Corporation tax	(47)	(124)
Derivative financial instruments	(4)	(25)
	(19,112)	(27,554)
Net current assets	13,239	9,646
Non-current liabilities		
Financial liabilities		
- Borrowings	(2,261)	(524)
Deferred tax liabilities	(10)	-
	(2,271)	(524)
Net assets	18,304	19,206
Shareholders' equity		
Share capital	2,662	2,538
Share premium account	5,619	5,489
Merger reserve	199	199
Cumulative translation reserve	430	343
Hedging reserve	(4)	61
Retained earnings	9,398	9,887
Total shareholders' equity	18,304	18,517
Minority interest in equity	-	689
Total equity	18,304	19,206

Consolidated statement of recognised income and expense

For the year ended 28 February 2007

	Year To 28 February 2007 £'000	Year To 28 February 2006 £'000
Movement on fair value of cash flow hedges	65	-
Exchange movement	87	601
Total income and expense recognised in equity	152	601
Loss for the year	(489)	(7,697)
Total recognised expense relating to the year	(337)	(7,096)
Attributable to:		
Equity holders of the parent company	(337)	(7,018)
Minority interests	-	(78)
	(337)	(7,096)

Consolidated Cash Flow Statement

	Year To 28 February 2007 £'000	Year To 28 February 2006 £'000
Cash flow from operating activities		
Loss after tax	(489)	(7,382)
Tax charge	(167)	255
Depreciation and amortisation	1,008	1,472
(Profit)/loss on sale of tangible fixed assets	(556)	287
Finance costs	1,993	2,567
Finance income	(198)	(1,013)
	1,591	(3,814)
Decrease in inventories	4,644	3,805
(Increase)/decrease in receivables	(574)	2,740
(Decrease)/increase in payables	(1,318)	726
Finance costs paid	(1,993)	(2,583)
Taxation (paid)/received	(144)	85
Net cash inflow from operating activities	2,206	959
Cash flow from investing activities		
Purchase of property, plant and equipment	(684)	(2,123)
Proceeds from sale of property, plant and machinery	3,273	352
Finance income received	198	1,013
Purchase of shares	(313)	-
Purchase of intangible fixed assets	39	61
Net cash generated from/(used in) investing activities	2,513	(697)
Cash flow from financing activities		
Proceeds of borrowings	17,440	-
Repayment of borrowings	(15,634)	(1,732)
Leased gold facility movement	(1,068)	1,938
Capital element of finance lease rental payments	(54)	(30)
Interest paid	(1,993)	(2,583)
Dividends paid to shareholders	-	(257)
Dividends paid to minority interests	-	(58)
Net cash generated from/(used in) financing activities	684	(139)
Net increase in cash	5,403	123
Cash and cash equivalents at beginning of year	(5,295)	(5,418)
Cash and cash equivalents at end of year	108	(5,295)
Cash and cash equivalents comprise:		
Cash and cash equivalents in the balance sheet	380	1,175
Bank overdrafts	(272)	(6,470)
	108	(5,295)

Notes to the preliminary announcement

1. Basis of preparation

The results incorporated in the preliminary announcement have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the EU and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 28th February 2006 and 2007. Statutory accounts for 2006 have been delivered to the Registrar of Companies. The statutory accounts for 2007 will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on the 2006 and 2007 accounts; their reports were unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain a statement under S237(2) or (3) of the Companies Act 1985.

2. Exceptional items

	2007	2006
	£'000	£'000
Exceptional items – operating costs		
Re-organisation costs	526	653
Dynamic Creations Limited legal costs	209	122
Negative goodwill recognised in the income statement	(340)	-
G & A Limited restructuring	239	745
Profit on sale of Leeds headquarters	(534)	-
Aborted transaction costs	-	477
Disposal of DRT Limited	-	375
Stock reduction programme	-	672
	100	3,044
Exceptional items – finance costs		
Re-banking costs	866	464
Total exceptional items	966	3,508

The reorganisation costs relate to the restructuring of the Group's Far East manufacturing activities into one purpose built site in Northern Thailand, including the associated down-sizing of Dynamic Creations Limited (DCL) in Hong Kong.

DCL legal costs are in respect of a dispute between the minority interest holder in DCL and Abbeycrest plc which has now been settled, and a dispute with a supplier connected to the minority interest which is still on-going.

The negative goodwill recognised in the income statement arose on the purchase of shares in DCL.

The G & A Limited restructuring costs relate mainly to redundancy and associated costs resulting from significant head-count reduction and streamlining or closure of certain departments.

The Leeds headquarters were sold as part of the re-banking process, resulting in a profit on disposal.

The re-banking costs in both 2006 and 2007 relate to facility fees, monitoring fees and associated legal costs of the re-banking that was enforced upon the Group and completed in June 2006.

3. Loss per share

Basic loss per share has been calculated using the weighted average number of shares in issue during the year of 25,310,216 (2006 - 24,776,241). Diluted earnings per share have been calculated using 25,310,216 (2006 - 24,776,241 shares).

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