

Results for the year ended 28 February 2005

Abbeycrest plc, the UK's leading jewellery manufacturing and distribution business, announces results for the year ended 28 February 2005.

CHAIRMAN'S STATEMENT**Results**

For the year ended 28th February 2005, Group turnover reduced by 15.0% to £82.3m. Pre-tax profit before goodwill and exceptional items was £1.3m (2004 - £1.8m). After tax, minority interest and exceptional items the loss attributable to shareholders was £0.6m (2004 - £0.9m profit). Basic loss per share was 2.4p (2004 – 3.9p profit).

The current year's results have been adversely impacted by a legal dispute with a major Chinese supplier, leading to a loss of business. This has been offset by the effect of more appropriate stock valuation accounting at G & A Limited (G & A) and the release of certain specific provisions which are no longer required.

The exceptional items reported relate to the on-going reorganisation of the Group's manufacturing operations (£1.3m) and the legal costs in relation to the dispute with a major Chinese supplier which has now been amicably settled (£0.3m).

Dividends

A continued reduction in borrowings and the imminent completion of the restructuring programme leads the directors to recommend a final dividend of 1.0p per share making a total for the year of 2.0p (2004 – total dividend 2.0p). The dividend will be paid on 14th July to all shareholders on the register at the close of business on Friday 24th June 2005.

Balance Sheet

In a difficult period of declining sales, strict stock control has been maintained and Group stock levels have reduced marginally to £27.0m from £27.5m. Debtor balances were £1.8m lower at £16.0m. Net debt at the year-end was £18.7m, a reduction on the 2004 year-end of £1.6m. In the light of the

capital expenditure in the year of £1.6m, this represents further evidence of the commitment to debt reduction and cash generation.

Business Review

The major restructuring of the Group's activities is now virtually complete. Our gold jewellery manufacturing operations in Birmingham will close finally in June 2005 and the Group will begin to realise the cost savings from operating its manufacturing primarily in a Far East labour cost environment.

As well as the imminent opening of the fully integrated gold plant, a brand new gem factory has been constructed on an adjacent plot to address the growing demand for the products produced by Essex International plc (Essex). This plant was successfully opened in April 2005. More details are provided in the manufacturing review below.

Having state-of-the-art manufacturing plants in the Far East for both gem and gold has enabled the Abbeycrest Group to position itself uniquely in the UK market. The Group now offers a full menu of services to UK retailers from full stock-holding, fulfilment and category management through to direct bulk supply of product to the customer at the factory gate. The UK market is changing markedly with many large customers looking to source directly at least some element of their jewellery requirements from outside the UK; we are now in a position to react positively to any customer requirements of this nature.

Our commitment to debt reduction remains and I am pleased that the Group's borrowings continue to reduce despite a year of significant capital expenditure.

The UK trading environment has been difficult for Abbeycrest with sales during the key Christmas period being generally depressed coupled with a significant reduction in sales levels to one of our major customers. Taking this into account, the level of profit before exceptionals compared with last year demonstrates a better level of cost control than hitherto. B & N continues to be profitable in line with last year.

Manufacturing

As noted above, the Group will shortly be able to manufacture parts and assemble gold jewellery in Abbeycrest Thailand Limited's (ATL) dedicated facility in Northern Thailand. This will include, for the first time, in-house production of the raw material, gold strip. This latter process not only affords further cost savings but also opens up the ability to efficiently manufacture new product categories, such as gold tubing which has great market potential.

The new state-of-the-art gem plant is next door to the gold factory. This has relieved capacity pressures which became evident last year as demand for Essex gem products grew. The opportunity has been taken to merge ATL and Essex with the combined entity going forward under the ATL banner with effect from April 2005. Again, this will simplify operations and enable cost savings to be achieved in areas such as administration and information technology.

The logic of the expansion of Abbeycrest's productive capacity in Thailand is two-fold. Firstly, almost without exception, major UK customers have begun to expect direct import of key products from low labour cost manufacturing areas in an effort to reduce product prices. Without our own manufacturing capacity, this business may well have been lost. Now Abbeycrest can offer a direct import service, uniquely backed up by local sales liaison in the UK. The second advantage is that Dynamic Creations Ltd (DCL), our Hong Kong based business, can also begin to utilise the additional capacity in Thailand. This alleviates a recent problem for DCL, which has been the availability of reliable sub-contracted manufacturing from the Chinese mainland.

Commercial

The vulnerability of the Group due to the reliance of G & A on a small number of large customers has been demonstrated during the last financial year by the impact of a 40% reduction in order intake from a major customer. As reported in November 2004, this was precipitated by a legal dispute with a major Chinese supplier, which effectively prevented this supplier's products being offered for sale. Since Christmas, this dispute has been amicably settled and the products in question are once again being considered by Abbeycrest's customers.

A major drive has been launched this year to attract new major retail customers for the business. This has proved most promising and, amongst other opportunities, G & A will be undertaking a trial of fine jewellery with a major UK retailer in the last quarter of this calendar year. If successful, this could be a major step forward in distribution outlets for the Group. In addition, the Group has targeted the UK's specialist jewellery chains as an opportunity to increase sales. These specialists have historically had the knowledge and contacts to purchase product directly from manufacturers and have therefore been reluctant to trade substantially with G & A. Since Christmas, these retailers have been approached with a view to buying directly from our factories in Thailand, backed by local sales support in the UK. The reaction has been positive and this business segment should prove a significant growth area.

Outside of the UK, Essex (now merged with ATL) has had a promising year with turnover growing by 38% and has recorded a profit before exceptional items for the first time in several years. With the growth of business in North America, the increasing demand in the UK for direct import of product and the facilities and capacity offered by the brand-new factory, the prospects for gem sales are excellent.

ATL has consolidated the excellent performance of the first year of operations with another set of solid financial figures. Turnover and profit were steady at £7.2m and £0.5m respectively. As noted, the project to move parts stamping from the UK and commence raw material manufacture in Thailand is on target for imminent completion.

DCL has had difficulty in finding reliable manufacturing capacity on the Chinese mainland. Despite this, turnover increased by 20% to £11.4m though profits declined from £1.1m to £0.9m due to increased overheads related to the number of sub-contract manufacturers, which it has been necessary to manage throughout the year. The availability of the new factory in Thailand will help alleviate this issue.

Current Trading and Prospects

The Group's major market remains the UK and the difficulties experienced by many retailers since Christmas have been well documented. The Abbeycrest Group is being directly affected by these difficulties and order intake for the first two months of the current financial year is lower than last year. However, the Abbeycrest Group will imminently be at the end of a two-year restructuring exercise. The Group now stands able to begin to reap the benefits of volume manufacturing being performed in a low labour cost environment. In addition, two sets of infrastructure in Thailand will be replaced by one as Essex and ATL are merged.

Overall, despite a more difficult retail environment in the UK, the Directors are confident of the outlook and prospects for the Group for the year ending 28 February 2006 particularly because of the reduced cost base arising from the relocation of the Group's volume manufacturing to Thailand.

Michael Lever

Consolidated Profit and Loss Account

For the year ended 28 February 2005

	Notes	2005 Unaudited £'000	2004 Audited Restated £'000
Turnover (including share of joint ventures)		82,464	96,991
Less share of joint venture		(201)	(202)
Turnover		82,263	96,789
Operating Profit		1,204	3,363
Share of operating loss in joint venture		(47)	(27)
Net profit on disposal of tangible fixed assets		-	78
Interest receivable		918	308
Interest payable and similar charges		(2,571)	(2,114)
Profit before taxation, goodwill amortisation and exceptional items		1,285	1,783
Goodwill amortisation		(213)	(253)
Exceptional items	2	(1,568)	78
(Loss)/profit on ordinary activities before taxation		(496)	1,608
Tax on (loss)/profit on ordinary activities		91	(425)
(Loss)/profit on ordinary activities after taxation		(405)	1,183
Minority equity interests		(187)	(236)
(Loss)/profit for the financial year		(592)	947
Dividends paid and proposed on equity shares	5 4	(507)	(500)
Retained (loss)/profit for the year		(1,099)	447
(Loss)/earnings per share			
- basic	3	(2.4p)	3.9p
- diluted		(2.4p)	3.8p
Adjusted earnings per share			
- basic	3	2.1p	3.6p
- diluted		2.1p	3.5p
Dividends per share		2.0p	2.0p

All of the above results are derived from continuing operations.

Consolidated Statement of Total Recognised Gains And Losses

For the year ended 28 February 2005

	2005 Unaudited	2004 Audited Restated
Notes	£'000	£'000
(Loss)/profit for the financial year	(592)	947
Loss on foreign currency translation	(152)	(786)
Total recognised gains and losses relating to the period	<u>(744)</u>	<u>161</u>
Prior year adjustment	1 249	
Total recognised gains and losses since last annual report	<u>(495)</u>	

Consolidated Balance Sheet

For the year ended 28 February 2005

	2005 Unaudited	2004 Audited Restated
Notes	£'000	£'000
Fixed assets		
Goodwill	1,800	2,244
Negative Goodwill	(236)	(325)
	<u>1,564</u>	<u>1,919</u>
Tangible fixed assets	<u>7,675</u>	<u>7,767</u>
	9,239	9,686
Investment in joint venture:		
Share of gross assets	-	190
Share of gross liabilities	-	(175)
	<u>9,239</u>	<u>9,701</u>
Current assets		
Stocks	27,015	27,452
Debtors	16,019	17,827
Cash at bank and in hand	1,619	730
	<u>44,653</u>	<u>46,009</u>
Creditors		
Amounts falling due within one year	<u>(20,180)</u>	<u>(24,380)</u>
Net current assets	24,473	21,629
Total assets less current liabilities	33,712	31,330
Creditors		
Amounts falling due after more than one year	(7,560)	(3,685)
Provisions for liabilities and charges	<u>(88)</u>	<u>(96)</u>
Net assets	<u>26,064</u>	<u>27,549</u>
Capital and reserves		
Called up equity share capital	2,538	2,488
Shares to be issued	-	580
Share premium account	5,489	5,186
Merger reserve	199	199
Profit and loss account	<u>17,169</u>	<u>18,133</u>
Equity shareholders' funds	25,395	26,586
Minority equity interests	<u>669</u>	<u>963</u>
Total capital employed	<u>26,064</u>	<u>27,549</u>

Consolidated Cash Flow Statement

For the year ended 28 February 2005

	Notes	2005 Unaudited £'000	2004 Audited Restated £'000
Net cash inflow from operating activities	6	6,375	5,654
Returns on investments and servicing of finance	7	(1,976)	(1,814)
Taxation		(480)	(482)
Capital expenditure and financial investment	7	(1,583)	1,092
Acquisitions and disposals	7	(200)	-
Equity dividends paid		(507)	(498)
Cash inflow before financing		1,629	3,952
Financing	7	7,027	(1,313)
Increase in cash in the year	9	<u>8,656</u>	<u>2,639</u>

Notes to the preliminary announcement

For the year ended 28 February 2005

1. Basis of preparation of preliminary announcement

The accounting policies used in this preliminary announcement are consistent with those applied in the financial statements for the financial 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.

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 28 February 2005 or 29 February 2004. The financial information for the year ended 29 February 2004 is derived from the statutory accounts for that year, adjusted for the restatements noted above, which have been delivered to the Registrar of Companies. The auditors reported on these accounts: their report was unqualified and did not contain a statement under s237(2) or (3) Companies Act 1985. The statutory accounts for the year ended 28 February 2005 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's Annual General Meeting.

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 shareholders' funds. The adoption of UITF38 implemented by prior year adjustment has resulted in a reduction in shareholders' funds of £540,000 at 28 February 2005 (29 February 2004: £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 year ended 28 February 2005 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. The adjustment has no impact on reported net assets and all comparative amounts have been restated.

The auditors have not yet reported on the financial statements for the year ended 28 February 2005, nor have any such financial statements been delivered to the Registrar of Companies. The content of this report is, therefore, unaudited.

Copies of the 2005 Report and Accounts are being sent to shareholders during June 2005 and will be available to members of the general public shortly thereafter from the Company Secretary, Abbeycrest Plc, Peter Rosenberg House, 11/15 Wilmington Grove, Leeds, LS7 2BQ.

2. Operating exceptional items

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

	2005 Unaudited £'000
Reorganisation costs	1,128
Restructuring of senior UK management	170
Legal costs	270
	<hr/>
	1,568

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, together with a realignment of the remaining UK senior management structure.

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

Notes to the preliminary announcement

For the year ended 28 February 2005

(continued)

3. (Loss)/earnings per share

(Loss)/earnings per share have been calculated based on the loss for the financial year of £592,000 (2004 - profit of £947,000) using the weighted average number of shares in issue during the period of 24,637,885 (2004 - 24,276,241). The fully diluted number of shares used was 24,637,885 (2004 - 24,873,620).

Adjusted basic and diluted earnings per share have been calculated so as to exclude the exceptional items that have arisen during 2004 and have been provided in order that the effect of these one-off items can be fully appreciated.

Adjusted earnings used in the calculation of adjusted basic and diluted earnings per share reconciles to basic earnings as follows:

	2005 Unaudited £'000	2004 Audited Restated £'000
(Loss)/profit for the financial year as used in the calculation of basic earnings per share	(592)	947
Exceptional items	1,568	(78)
Tax effect thereon at 30%	(470)	-
Adjusted earnings for the year	<u>976</u>	<u>869</u>

4. Dividends

The proposed final dividend of 1p per share will be paid on 14 July 2005 to shareholders on the register on 24 June 2005.

5. Reconciliation of movement in equity shareholders' funds

	2005 Unaudited £'000	2004 Audited Restated £'000
(Loss)/profit for the financial year	(592)	947
Dividends paid and proposed on equity shares	(507)	(500)
	<u>(1,099)</u>	<u>447</u>
Net exchange adjustments	135	(786)
Adjustments to shares to be issued	(227)	-
Net decrease in equity shareholders' funds	<u>(1,191)</u>	<u>(339)</u>
Opening equity shareholders' funds (originally £26,877,000 at 1 March 2004 before deducting net prior year adjustment of £291,000)	26,586	26,925
Closing equity shareholders' funds	<u>25,395</u>	<u>26,586</u>

Notes to the preliminary announcement

For the year ended 28 February 2005

(continued)

6. Reconciliation of operating profit to net cash inflow from operating activities

	2005 Unaudited £'000	2004 Audited Restated £'000
Operating profit	1,204	3,363
Depreciation	1,629	1,719
Amortisation of goodwill	213	253
Profit on sale of tangible fixed assets	(1)	(12)
Decrease in stocks	397	4,377
Decrease/(increase) in debtors	2,020	(674)
Increase/(decrease) in creditors	913	(3,372)
Net cash inflow from operating activities	<u>6,375</u>	<u>5,654</u>

7. Analysis of cash flows

	2005 Unaudited £'000	2004 Audited Restated £'000
Returns on investments and servicing of finance		
Interest received	918	308
Interest paid	(2,700)	(2,024)
Dividend paid to minority interest	(194)	(98)
Net cash outflow from returns on investments and servicing of finance	<u>(1,976)</u>	<u>(1,814)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,591)	(1,203)
Purchase of intangible assets	(35)	-
Sale of tangible fixed assets	43	2,295
Net cash (outflow)/inflow from capital expenditure and financial investment	<u>(1,583)</u>	<u>1,092</u>
Acquisitions		
Deferred consideration paid	(200)	-
	<u>(200)</u>	<u>-</u>
Financing		
New secured loan	10,087	480
Repayment of secured loan	(5,849)	(1,300)
Capital element of finance lease rental payments	(14)	(20)
Leased gold movement	2,803	(473)
Net cash inflow/(outflow) from financing	<u>7,027</u>	<u>(1,313)</u>

Notes to the preliminary announcement

For the year ended 28 February 2005

(continued)

8. Reconciliation of net cash flow to the movement in net debt

	2005 Unaudited £'000	2004 Audited Restated £'000
Increase in cash during the year	8,656	2,639
(Increase)/decrease in borrowings	(7,027)	1,313
	<u>1,629</u>	<u>3,952</u>
Net debt at the beginning of the year	(20,291)	(24,243)
Net debt at the end of the year	<u>(18,662)</u>	<u>(20,291)</u>

9. Analysis of net debt (Unaudited)

	At 1 March 2004 Restated £'000	Cashflow £'000	At 28 February 2005 £'000
Cash at bank and in hand	730	889	1,619
Overdrafts	(14,804)	7,767	(7,037)
	<u>(14,074)</u>	<u>8,656</u>	<u>(5,418)</u>
Debt due after one year	(3,662)	(3,882)	(7,544)
Debt due within one year	(1,368)	(356)	(1,724)
Finance leases	(38)	14	(24)
Leased gold debt	(1,149)	(2,803)	(3,952)
	<u>(6,217)</u>	<u>(7,027)</u>	<u>(13,244)</u>
	<u>(20,291)</u>	<u>1,629</u>	<u>(18,662)</u>

10. Analysis of gearing

	2005 Unaudited £'000	2004 Restated £'000
Bank loans and overdrafts	(7,037)	(14,804)
Leased gold debt	(3,952)	(1,149)
Finance leases	(24)	(38)
Cash	1,619	730
Medium term loan	(9,268)	(5,030)
	<u>(18,662)</u>	<u>(20,291)</u>
Net Assets	<u>26,064</u>	<u>27,549</u>
Gearing	72%	74%