

### **Results**

For the year ended 28<sup>th</sup> February 2006 Group turnover reduced by 15.0% to £70.2m. Loss before taxation on continuing operations was £7.1m (2005 - £0.1m). Loss before taxation and exceptional items was £3.6m (2005 - £1.5m profit). After tax, minority interest and exceptional items the loss attributable to equity shareholders was £7.8m (2005 - £0.3m). Basic loss per share was 31.1p (2005 – 1.2p)

### **Dividends**

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

### **Balance Sheet**

In difficult circumstances, control over working capital has been excellent. Whilst the gold price has increased by 40% from year-end to year-end, the level of stock held by the Group has reduced by £3.6m (13.4%). More noteworthy is the fact that Net Debt has increased only slightly year on year by around £180,000 despite the trading losses suffered and the exceptional costs noted in more detail below.

### **Overview**

The year under review has been an extraordinarily challenging one for the Group. The difficulties experienced were as follows:-

#### **1. Re-banking**

A re-banking process was forced on the Group at short notice and to an extremely demanding timetable. This process has taken up a substantial element of senior management time since December.

Included in exceptional items for the year are the following expenses:-

• Additional bank fees and charges	£210,000
• Accountants monitoring fees imposed by the bank and other due diligence and legal charges	£254,000

It is important to note that these are the fees charged in 2005/06. There are further bank related charges which amount to around £700,000 which will appear in the 2006/07 accounts as exceptional items covering charges levied since 1<sup>st</sup> March. Also in the 2006/07 accounts will be arrangement fees of around £400,000 relating to the new facilities.

As part of the refinancing the company has completed the disposal of the Group's Leeds headquarters and UK distribution centre for a gross consideration of £3.3m (£3.1m net of bond and costs) payable in cash. The net book value of the property is £2.5m.

#### **2. Gold price**

The price of gold has seen an unprecedented rise over the last twelve months. The increase in price of the Group's main raw material by 40% since last year has meant that pressure on borrowings has been constant. Excellent stock control has been exercised to counteract this trend.

#### **3. Market conditions**

The fine jewellery market in the UK has suffered a major downturn, with the weight of gold product hall-marked in the UK declining by 26% in 2005 year-on-year. It is clear the sector has suffered disproportionately in the overall retailing downturn and this has clearly adversely affected the Group's performance.

## **Restructuring**

The restructuring of the Group was accelerated and broadened during the year to take account of the worsening trading environment. Much of this has already been referenced in previous statements but a summary is:-

- Final closure of the Birmingham site and commissioning of gold strip rolling plant in Thailand.
- Disposal of the operations of DRT Ltd.
- Disposal of the operations of the joint venture, IMS Ltd.
- Closure of 18ct manufacturing at G & A Ltd.
- Investment in sales software and web-site to replace 50% of salesforce for the UK independent sector.
- Downsizing of the UK workforce across all departments and at all levels to save overhead.
- Merging of Essex pcl into Abbeycrest Thailand Ltd to take advantage of synergies.

The only aspect of the restructuring remaining is the final move of the majority of DCL production from China to our own factory in Thailand. This was held up by a legal dispute with the minority interest shareholder of DCL. The dispute has now been resolved satisfactorily and this transfer can now be completed.

## **Outlook**

The restructuring process has been painful and has resulted in exceptional costs of around £1.9m in the year 2005/06. However, the result is a reduction in recurring costs going forward of well over £3m p.a. as well as the eradication of the losses sustained in the DRT and IMS operations. In short, assuming no significant deterioration in current market conditions, management is confident that the restructuring and cost savings programme will return the Group to profitability in 2006/07.

In addition, subsequent to the re-banking and as a consequence of control over the Group's working capital, the Group's borrowings to date have reduced by approximately £6m year on year. Management is confident that this level of improvement will be sustained for the remainder of the financial year.

The re-banking has resulted in secured, committed facilities from Burdale Financial and HSBC. These facilities are appropriate for the Group's seasonal requirements. Management is delighted that the re-banking process has been completed successfully.

## **Review of subsidiary operations**

### Far East Manufacturing

#### *Abbeycrest Thailand Limited*

As noted in the half-year statement, gold strip production has successfully commenced in Thailand as well as the merging of gemset manufacturing, previously carried out under the auspices of Essex pcl, with the activities of Abbeycrest Thailand Limited. We now operate a gold division and gem division from one site. This has enabled us to commence the eradication of duplicate expenditure.

In the gold division of ATL, profits for the year have risen by around 20% to £0.5m. In a period disrupted by the introduction of untried processes this is a creditable performance.

In the gem division of ATL volumes have continued to grow, with turnover increasing by around 20% year-on-year. Despite a significant element of disruption, due to the accelerated move of DCL production from Chinese sub-contractors, the ATL gem division has recorded a second year of pre-exceptional profits following several years of losses.

### *Dynamic Creations Limited*

DCL continued to contribute profitably, although sales volumes were affected by the lower demand from G&A.

### G&A

As already reported, the cost-saving program implemented during 2005 has been fully delivered. A key fact to be noted in the 2005/06 accounts is the decline in gross margin that has been experienced. This was touched on in the interim statement but is worthy of further analysis. The factors behind the decline can be classified as:-

- The gold price increase has left the absolute margin unchanged but reduced the percentage margin. This is the biggest single influence on the margin decline in the year.
- As the gold price has increased, the company has increased the normal rate of stock cleansing. The fact that the company's banker reduced the facilities available to the business to much lower levels also increased the imperative for raising cash through stock "melts".
- During the year, a significant amount of sales sourced from third parties were moved to a direct import basis on nominal margins.
- The last months of running the Birmingham operation were very inefficient which had a deleterious effect on margin in the first half of the year.

### Brown & Newirth

B&N has not been immune to the overall downturn in the market with both sales and margin suffering such that cash gross margin was some 11% lower than the previous year. In addition, the aborted sale of the business has resulted in both professional and other fees of around £500,000, charged as an exceptional cost, together with additional revenue cost of around £190,000 which represents incentivisation plans for the management. I am pleased to say that trading for B&N in the 2006 wedding season has been very pleasing, representing an uplift on the previous year.

### **Staff**

During the past year, our people have completed the final stages of a fundamental restructure of the Group. We have also incurred the added complication of delivering the rebanking process as reported above. Our management and staff have risen magnificently to these challenges and have truly delivered a business operation in far better shape going forwards. They deserve our thanks and great respect for their achievements in this period.

### **Current Trading**

As noted above, whilst there has been no particular improvement in market conditions during the first months of 2006, the cost saving measures introduced during 2005/06 have put the Group in a good position to cope with these challenging trading conditions and, indeed, management will continue to seek savings wherever these are available. The levels of trade experienced in the first quarter of the current financial year are in line with the expectations set by management.

I would like to take this opportunity to thank our customers and suppliers for their unanimous support during a difficult period, it has been much appreciated. The management look forward to being able to devote their energy to growing the new, leaner business.

Michael N. Lever  
Chairman  
Date: 28.06.06

# Unaudited Consolidated Income Statement

For the year ended 28 February 2006

	Notes	Year To 28 February 2006 £'000	Year To 28 February 2005 £'000
<b>Continuing Operations</b>			
<b>Revenue</b>		70,210	82,597
<b>Operating (loss)/profit</b>		(5,573)	1,541
Interest receivable		1,013	918
Interest payable and similar charges		(2,567)	(2,571)
(Loss)/profit before taxation and exceptional items		(3,619)	1,456
Exceptional items	2	(3,508)	(1,568)
<b>Loss from continuing operations</b>		(7,127)	(112)
Taxation (charge)/credit		(255)	35
<b>Loss for the year from continuing operations</b>		(7,382)	(77)
<b>Discontinued operations</b>			
Loss for the year from discontinued operations		(315)	(47)
<b>Loss for the financial year</b>		(7,697)	(124)
Profit attributable to minority interests		78	187
Loss attributable to equity shareholders		(7,775)	(311)
		(7,697)	(124)
<b>Loss per share</b>			
- basic	3	(31.1)p	(1.2)p
- diluted	3	(31.1)p	(1.2)p

Unaudited Consolidated Balance Sheet  
As at 28 February 2006

	<b>28 February 2006 £'000</b>	28 February 2005 £'000
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	1,866	1,866
Intangible assets	266	616
Property, plant and equipment	7,725	7,059
Deferred tax assets	227	426
	<b>10,084</b>	<b>9,967</b>
<b>Current assets</b>		
Inventories	23,391	27,015
Trade and other receivables	12,619	15,593
Derivative financial instruments	15	-
Cash and cash equivalents	1,175	1,619
	<b>37,200</b>	<b>44,227</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Financial liabilities		
- Borrowings	(13,601)	(8,769)
Trade and other payables	(13,928)	(11,157)
Derivative financial instruments	(25)	-
	<b>(27,554)</b>	<b>(19,926)</b>
<b>Net current assets</b>	<b>9,646</b>	<b>24,301</b>
<b>Non-current liabilities</b>		
Financial liabilities		
- Borrowings	(524)	(7,560)
Provisions	-	(30)
	<b>(524)</b>	<b>(7,590)</b>
<b>Net assets</b>	<b>19,206</b>	<b>26,678</b>
<b>Shareholders' equity</b>		
Share capital	2,538	2,538
Share premium account	5,489	5,489
Equity reserves	199	199
Cumulative translation reserves	343	(258)
Hedging reserves	(10)	-
Retained earnings	9,958	18,041
<b>Total shareholders' equity</b>	<b>18,517</b>	<b>26,009</b>
<b>Minority interest in equity</b>	<b>689</b>	<b>669</b>
<b>Total equity</b>	<b>19,206</b>	<b>26,678</b>

Unaudited Consolidated statement of changes in shareholders' equity  
 For the year ended 28 February 2006

	Year To 28 February 2006 £'000	Year To 28 February 2005 £'000
Total equity at beginning of period	26,678	27,985
Adoption of IAS32 and IAS39	(190)	-
Total equity at beginning of period – restated	26,488	27,985
Total recognised expenses attributable to equity holders of the parent	(7,096)	(382)
Movement on hedging reserve	129	-
Issue of share capital	-	(227)
Ordinary dividends on equity shares	(257)	(504)
Minority interests	(58)	(194)
Total equity at end of period	19,206	26,678

## Unaudited Consolidated Cash Flow Statement

		Year To 28 February 2006 £'000	Year To 28 February 2005 £'000
<b>Cash flow from operating activities</b>			
Cash generated from operations	6	3,457	6,428
Interest paid		(2,583)	(2,700)
Interest received		1,013	918
Taxation received/(paid)		85	(533)
<b>Net cash from operating activities</b>		<b>1,972</b>	<b>4,113</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(2,123)	(1,591)
Proceeds from sale of property, plant and equipment		413	43
Purchase of intangible assets		-	(35)
Deferred consideration paid		-	(200)
<b>Net cash used from investing activities</b>		<b>(1,710)</b>	<b>(1,783)</b>
<b>Cash flow from financing activities</b>			
Net proceeds from issue of new bank loans		-	10,087
Repayment of borrowings		(1,732)	(5,849)
Finance lease principal payment		(30)	(14)
Leased gold movement	4	1,938	2,803
Dividends paid to shareholders		(257)	(507)
Dividends paid to minority interests		(58)	(194)
<b>Net cash (used in)/generated from financing activities</b>		<b>(139)</b>	<b>6,326</b>
<b>Net increase in cash and cash equivalent</b>	4	<b>123</b>	<b>8,656</b>
Cash and bank overdrafts at beginning of period		(5,418)	(14,074)
<b>Cash and bank overdrafts at end of period</b>		<b>(5,295)</b>	<b>(5,418)</b>
<b>Cash and bank overdrafts comprise:</b>			
Cash and cash equivalents		1,175	1,619
Bank overdrafts		(6,470)	(7,037)
		<b>(5,295)</b>	<b>(5,418)</b>

## Notes on the unaudited preliminary announcement

### 1. Basis of preparation

The unaudited financial statements to 28 February 2006 are the first to be prepared on the basis of International Financial Reporting Standards as adopted in the EU (IFRS). Where appropriate, the Group has amended accounting policies to comply with those Standards and interpretations that had been issued by the IASB at the time of preparing these statements.

These accounting policies are set out in full in the Group's Interim Statement as at 31 August 2005 and have been applied consistently for the years presented, except for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption under IFRS1 to only apply IAS32 and IAS39 from 1 March 2005.

The comparative figures for the financial year ended 28 February 2005 are not the Group's statutory accounts for the financial year. Those accounts, which were prepared under UK GAAP in accordance with the Companies Act 1985, 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 Companies Act 1985.

The impact of IFRS was shown in detail in the interim statement.

### 2. Exceptional items

	Year To 28 February 2006 £'000	Year To 28 February 2005 £'000
Group manufacturing re-organisation	653	1,128
Legal costs	-	270
Aborted transaction costs	477	-
G & A Ltd restructuring	745	170
Dynamic Creations Ltd legal costs	122	-
Disposal of DRT Ltd	375	-
Re-banking costs to February 2006	464	-
Stock reduction programme	672	-
	3,508	1,568

The Group manufacturing re-organisation costs relate to the restructuring of all manufacturing operations into one purpose built site in Northern Thailand and the associated closure of factories in Birmingham, UK and Bangkok, Thailand.

The aborted transaction costs relate to legal fees and other associated costs incurred by Abbeycrest plc in relation to the proposed management buy-out of B & N Ltd.

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

Dynamic Creations Ltd (DCL) legal costs are in respect of a dispute between the minority interest holder in DCL and Abbeycrest plc. This dispute has been settled subsequent to the year-end by the acquisition of the minority interest's shareholding in DCL by Abbeycrest plc. The consideration paid was significantly less than the net asset value of the minority interest.

The disposal of DRT Ltd resulted in a loss on assets and certain redundancy costs.

The re-banking costs relate to facility fees and monitoring costs imposed on the company by its bankers during the year.

The stock reduction programme was initiated post year-end as a one-off exercise to generate additional cash for the Group's needs going forwards. The resulting provision against stock in the year end balance sheet and subject to provision is treated as an exceptional cost for 2005/06.

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

Basic loss per share has been calculated using the weighted average number of shares in issue during the period of 24,776,241 (2005: 24,776,241). Diluted earnings per share have been calculated using 24,776,241 (2005: 24,776,241 shares).

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

	Year To 28 February 2006 £'000	Year To 28 February 2005 £'000
Increase in cash and bank overdrafts	123	8,656
Increase in leased gold	(1,938)	(2,803)
Decrease/(increase) in debt	1,637	(4,224)
Change in net debt resulting from cash flows in year	(178)	1,629
Net debt at beginning of the period	(18,662)	(20,291)
Net debt at end of the period	(18,840)	(18,662)

#### 5. Analysis of net debt

	28 February 2006 £'000	28 February 2005 £'000
Cash and cash equivalents (excluding bank overdrafts)	1,175	1,619
Bank overdrafts	(6,470)	(7,037)
Leased gold debt	(5,890)	(3,952)
Bank loans	(7,536)	(9,268)
Obligations under finance leases	(119)	(24)
	(18,840)	(18,662)

At the year end £7.1m of bank loans were payable on demand.

#### 6. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities

##### Cash generated from operations

	Year To 28 February 2006 £'000	Year To 28 February 2005 £'000
Operating (loss)/profit	(5,888)	1,541
Depreciation	1,472	1,629
Loss/(profit) on sale of property, plant and equipment	287	(1)
Sale of joint venture	-	(2)
Decrease in inventories	3,805	377
Decrease in receivables	3,055	1,992
Increase in payables	788	892
Adoption of IAS39	(62)	-
Cash generated from operations	3,457	6,428

End.