

focus

Heywood Williams
interim report & accounts 2002

on turnaround

Interim report from the Chairman

The group continued its turnaround during the first half of 2002. In the UK, the focus was on the implementation of our organic strategy of restructuring for cost reduction and delivering our first major growth projects, involving a high degree of change. In the US we concentrated on optimising our performance in improving Recreational Vehicle/automotive and PVC pipe markets, and managing the impact of continuing difficult conditions in manufactured housing.

Group profit before tax, goodwill amortisation and exceptionals improved to £10.0 million, compared to £6.0 million in the first half of 2001, on turnover of £309.8 million, which was flat on the prior half year. As previously announced, an operating exceptional item of £10 million has been charged to provide for the estimated lifetime cost of a legacy product rectification issue, of a cosmetic nature, with the related claims arising over the next 2 to 3 years. The loss before tax, post exceptionals and goodwill amortisation was £1.8 million (2001: £2.8 million profit).

Earnings per share, before goodwill amortisation and exceptional items increased strongly from 4.8p to 8.6p.

Net borrowings increased during the six month period to £35.9 million, a better than anticipated outflow of £10.2 million. This was principally the result of seasonal increases in working capital, £1.9 million of expenditure against the UK restructuring provision and £1.8 million in respect of the redemption of outstanding preference shares. Gearing remained modest at 30.5%. The group retains its fundamentally cash generative characteristics and working capital management capabilities.

The board has declared a maintained dividend of 5.25p per ordinary share payable on 15 October 2002 to shareholders on the register on 13 September 2002.

Operational Review

In the UK, the market was generally firm during the traditionally quieter first half, despite a subdued June, which was impacted by Jubilee holidays and the World Cup. Operating profit improved to £3.8 million (2001: £2.4 million), with sales increasing by 5% on a comparable basis, excluding acquisitions and disposals. Coldseal's sales and profitability improved significantly and Hardware continued to make progress on both measures. Sales in Eastern Europe almost doubled to £1.5 million.

Our UK restructuring project progressed broadly as planned. Good progress has been made in manufacturing and IT, but initial inefficiencies have arisen in the new central PVC profile warehouse which we expect to be fully resolved during the remainder of the year. Start-up costs were also incurred for our entry into the DIY retail channel and the composite door factory.

US markets were mixed, with RV growing by 13.9%, and PVC pipe demand and pricing increasing sharply. However, manufactured housing output declined by 5.3% as the market continued to be affected by repossessions and restricted credit availability.

All our US businesses performed very well in these market conditions. Creation enjoyed double digit sales and profit growth, successfully responding to positive market conditions in both RV and automotive.

Pipe returned strongly to profitability as PVC resin prices increased from the high teens to the low 30's in

Interim report from the Chairman – continued

cents per pound over the period and many operational improvement opportunities in our Georgia plant were successfully realised, leading this unit back to profitability. For the month of June, the division's net margin per pound had reached the average historic level.

Despite conditions in the manufactured housing market, our LaSalle Bristol division increased its profitability, assisted by further product upgrades, increased distribution to the RV industry and the performance of our plumbing components and air-ducting operations.

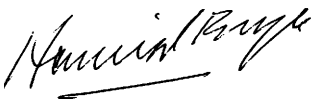
Strategic Development

Sales growth is starting to be achieved in the UK on a number of fronts. New channels into DIY retail, new build and builders' merchants have been established and will deliver sales and profit growth. A culture of innovation is being fostered and embedded with the rate of new product development accelerating. A new conservatory roof is about to move into production, the roll-out of the 'easy-fab' purchasing portal has begun and the 'Centra-Lock' central locking system for the entire house is now close to launch. All these initiatives underpin our determination to fully benefit from our leading market positions. This degree of change has created the momentum for profit growth.

The US operations will continue to manage costs flexibly according to current market conditions whilst addressing manufacturing efficiency opportunities in Pipe and Creation. LaSalle Bristol has fully established its number one position and leads the market in terms of product development and innovation. Creation has accelerated its rate of new product introductions for window and door products. In both the UK and US we are implementing our purchasing strategy to drive further costs from the operations. This is being achieved by a combination of outsourcing certain categories, purchasing on a central group basis, and by strengthening local purchasing management. Also with a cost focus, the UK restructuring plan will be completed by the year-end with full benefits accruing from the beginning of 2003.

Prospects

The UK and US market prospects remain difficult to call for both the general economies and our specific areas of activity. The external environment apart, the group remains on course to deliver the turnaround plan which was presented in 2001, to meet market expectations for the year and to continue to make progress towards realising our strategic goals.



Hamish Bryce

Chairman

3 September 2002

Consolidated profit and loss account

| | Note | Half year 2002 £m | Half year 2001 restated* £m | Full year 2001 restated* £m |
|---|------|-------------------------|--------------------------------------|--------------------------------------|
| Turnover | 1 | 309.8 | 310.1 | 621.2 |
| Costs and overheads excluding goodwill amortisation | | (298.6) | (302.9) | (600.7) |
| Goodwill amortisation | 1 | (1.8) | (1.5) | (3.1) |
| Operating exceptional items | 2 | (10.0) | – | (6.0) |
| Operating (loss)/profit | 1 | (0.6) | 5.7 | 11.4 |
| Exceptional losses less profits on disposal of operations | 3 | – | (1.7) | (5.0) |
| Interest | | (1.2) | (1.2) | (2.4) |
| (Loss)/profit on ordinary activities before taxation | | (1.8) | 2.8 | 4.0 |
| Taxation | 4 | (0.1) | (2.2) | (4.1) |
| (Loss)/profit after taxation attributable to members of the parent company | | (1.9) | 0.6 | (0.1) |
| Dividends | | | | |
| Equity | 5 | (4.1) | (4.1) | (11.7) |
| Non-equity | | – | (0.1) | (0.1) |
| Deficit for the period | | (6.0) | (3.6) | (11.9) |
| Earnings per ordinary share | | | | |
| Basic | | (2.4)p | 0.7p | (0.3)p |
| Diluted | | (2.4)p | 0.7p | (0.3)p |
| Diluted, excluding goodwill amortisation and exceptional items | | 8.6p | 4.8p | 14.6p |
| Dividends per ordinary share | 5 | 5.25p | 5.25p | 15.0p |

* Prior period figures have been restated to reflect the implementation of FRS 19 – Deferred Tax.

Consolidated balance sheet

| | Half year 2002 £m | Half year 2001 restated* £m | Full year 2001 restated* £m |
|---|-----------------------------|--|--|
| Fixed assets | | | |
| Intangible assets | 58.0 | 51.2 | 59.8 |
| Tangible assets | 71.0 | 69.7 | 70.9 |
| Investments | 3.4 | 3.3 | 3.4 |
| | 132.4 | 124.2 | 134.1 |
| Current assets | | | |
| Stocks | 62.8 | 69.0 | 63.0 |
| Debtors | 84.4 | 80.5 | 68.3 |
| Cash at bank and in hand | 15.1 | 21.2 | 12.9 |
| | 162.3 | 170.7 | 144.2 |
| Creditors: due within one year | | | |
| Borrowings | 50.9 | 45.8 | 38.5 |
| Other creditors | 91.8 | 97.7 | 89.9 |
| | 142.7 | 143.5 | 128.4 |
| Net current assets | 19.6 | 27.2 | 15.8 |
| Total assets less current liabilities | 152.0 | 151.4 | 149.9 |
| Creditors: due after one year – borrowings | 0.1 | 0.2 | 0.1 |
| Provisions for liabilities and charges | 34.2 | 18.2 | 25.1 |
| | 34.3 | 18.4 | 25.2 |
| | 117.7 | 133.0 | 124.7 |
| Capital and reserves | | | |
| Called up share capital | 19.6 | 20.1 | 20.1 |
| Share premium account | 7.2 | 7.1 | 7.1 |
| Other reserves | 8.4 | 8.0 | 8.0 |
| Profit and loss account | 82.5 | 97.8 | 89.5 |
| | 117.7 | 133.0 | 124.7 |

* Prior period figures have been restated to reflect the implementation of FRS 19 – Deferred Tax.

Consolidated cash flow statement

| | Half year 2002 £m | Half year 2001 £m | Full year 2001 £m |
|---|-------------------------|-------------------------|-------------------------|
| Net cash inflow from operating activities (analysed below) | 9.5 | 10.2 | 36.9 |
| Returns on investments and servicing of finance | | | |
| Interest paid | (1.2) | (1.3) | (2.5) |
| Interest received | – | 0.1 | 0.2 |
| Preference share dividends paid | – | (0.1) | (0.1) |
| | (1.2) | (1.3) | (2.4) |
| Taxation | (1.6) | (0.2) | (4.2) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | (7.5) | (5.9) | (11.4) |
| Sale of tangible fixed assets | 0.7 | 0.6 | 1.2 |
| Other investments | – | (1.4) | (1.1) |
| | (6.8) | (6.7) | (11.3) |
| Acquisitions and disposals | | | |
| Acquisition of subsidiary undertakings and businesses | – | – | (10.5) |
| Disposals of subsidiary undertakings and businesses | – | 4.7 | 5.1 |
| | – | 4.7 | (5.4) |
| Equity dividends paid | (7.6) | (7.6) | (11.7) |
| Cash (outflow)/inflow before use of liquid resources and financing | (7.7) | (0.9) | 1.9 |
| Financing | | | |
| Issues of ordinary share capital | 0.1 | – | – |
| Redemption of preference shares | (1.8) | – | – |
| Forward exchange hedging contracts | (0.7) | – | (1.9) |
| Additional loans | 14.5 | 7.9 | 12.6 |
| Repayment of loans | (2.1) | – | (13.3) |
| | 10.0 | 7.9 | (2.6) |
| Net increase/(decrease) in cash | 2.3 | 7.0 | (0.7) |
| Reconciliation of net cash flow to movement in net debt | | | |
| Net increase/(decrease) in cash | 2.3 | 7.0 | (0.7) |
| (Increase)/decrease in borrowings and lease financing | (12.4) | (7.9) | 0.7 |
| Increase in net debt resulting from cash flows | (10.1) | (0.9) | – |
| Other non-cash changes | – | – | (3.7) |
| Exchange fluctuations | (0.1) | (2.1) | (0.2) |
| Increase in net debt | (10.2) | (3.0) | (3.9) |
| Opening net debt | (25.7) | (21.8) | (21.8) |
| Closing net debt | (35.9) | (24.8) | (25.7) |
| Analysis of cash inflow from operating activities | | | |
| Operating profit before exceptional items | 9.4 | 5.7 | 17.4 |
| Depreciation and goodwill amortisation less profit on fixed asset disposals and other adjustments | 7.9 | 7.9 | 15.7 |
| | 17.3 | 13.6 | 33.1 |
| (Increase)/decrease in working capital and provision movements | (7.8) | (3.4) | 3.8 |
| | 9.5 | 10.2 | 36.9 |

Notes on the financial statements

1. Segmental analysis

| | Half year 2002 £m | Half year 2001 £m | Full year 2001 £m |
|--|----------------------------------|-------------------------|-------------------------|
| Turnover by geographical location | | | |
| UK (including Europe) | 133.5 | 132.6 | 268.8 |
| US | 176.3 | 177.5 | 352.4 |
| | 309.8 | 310.1 | 621.2 |

| | Half year 2002 £m | Half year 2001 £m | Full year 2001 £m |
|--|----------------------------------|-------------------------|-------------------------|
| Operating profit by geographical location | | | |
| UK (including Europe) | 3.8 | 2.4 | 10.8 |
| US | 7.4 | 4.8 | 9.7 |
| Operating profit before goodwill amortisation and exceptional items | 11.2 | 7.2 | 20.5 |
| UK goodwill amortisation | (1.6) | (1.3) | (2.8) |
| US goodwill amortisation | (0.2) | (0.2) | (0.3) |
| UK exceptional items | (10.0) | – | (6.0) |
| Operating (loss)/profit | (0.6) | 5.7 | 11.4 |

- The 2002 operating exceptional item relates to the estimated lifetime cost of a legacy product rectification issue of a cosmetic nature, with the related claims arising over the next 2 to 3 years. A £3.0m tax credit has been recognised in relation to the charge. The 2001 operating exceptional item related to estimated costs associated with the restructuring plan for the UK operations and a tax credit of £1.7m (restated under FRS19) was recognised in relation to the charge.
- The 2001 non-operating exceptional losses are after reversing goodwill of £3.7m for the half year and £4.3m for the full year, previously written off to reserves. No taxation arose on the half year charge whereas a tax credit of £0.8m was recognised in relation to the full year charge.
- Prior period taxation charges have been restated to reflect the implementation of FRS 19 – Deferred Tax. The effect of the restatement was to increase the deferred tax provision at 1 January 2001 by £11.9m and the tax charge for 2001 was increased by £0.4m for both the half and the full year.
- The interim equity dividend of 5.25p per ordinary share will be paid on 15 October 2002 to ordinary shareholders on the register on 13 September 2002.
- The accounting policies used in the preparation of the interim financial information are the same as those used in the statutory accounts for the year ended 31 December 2001, as amended for FRS 19 - Deferred Tax. The figures for the year ended 31 December 2001, except for where amended for FRS 19 - Deferred Tax, are abridged and have been extracted from the statutory accounts filed with the Registrar of Companies on which the auditors issued an unqualified opinion. The interim financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1986.
- A copy of the Interim Report will be despatched to shareholders on 6 September 2002 and details will also be available on the Company's website, www.heywoodwilliams.com. Copies of the Interim Report will also be available to the public at Waverley, Edgerton Road, Huddersfield, West Yorkshire HD3 3AR, the registered office of the Company.

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