

# HEYWOOD WILLIAMS



**INTERIM REPORT & ACCOUNTS**  
**2003**

# INTERIM REPORT FROM THE CHAIRMAN

The Group's financial performance during the first half of 2003 has been very disappointing. The combination of delays to the scheduled improvements in our UK operations and poor US market conditions resulted in the first half loss.

There have, however, been significant developments in the leadership and structure of the group, particularly since the period end:

- The resignation of the group chief executive on 31 July 2003, concurrent with the trading update to the stock market and appointment of Hamish Bryce as executive chairman.
- The sale of the Creation Group, completed on 23 July 2003, resulted in the receipt of £34.8 million. The Creation Group is a leading manufacturer of windows, doors and aluminium fabricated parts for the US recreational vehicle and light truck markets. In the first half of 2003, Creation made an operating profit of £1.6 million (H1 2002: £3.3 million, full year 2002: £6.0 million) on sales of £43.6 million (H1 2002: £51.1 million, full year 2002: £97.0 million), down from the levels of the previous year due to tough US market conditions.

The cash from this transaction has been used to reduce general corporate borrowings and further strengthen the group's balance sheet. It also enabled the board to give an undertaking to shareholders that the dividend for 2003 will match that paid in 2002, other than in unforeseen circumstances.

- The disposal of Coldseal, our direct-sell, retail double-glazing business, was announced on 26 August 2003, to a company controlled by the owner of Bryco, a private direct-sell, retail double-glazing business operating in the Home Counties. The consideration received was 19.9% of the shares of the new company, which also includes the trade and assets of Bryco. In the first half of 2003, Coldseal lost £3.3 million (H1 2002: £0.7 million loss, full year 2002: £5.7 million loss) on a turnover of £28.7 million (H1 2002: £31.0 million, full year 2002: £61.0 million) and although management action led to improvements throughout the first half, it remained loss making. This earnings enhancing disposal has further simplified the scope and breadth of the group's UK activities and eliminated a volatile and loss making business.
- At the end of the first half, we received £8.9 million in part settlement of the legacy product rectification claim first announced in August 2002. This amount has been credited to the provision that was taken in 2002 pending reassessment once full settlement is concluded.

## Performance

Group loss before tax, goodwill amortisation and exceptionals was £1.7 million compared to £10.0 million profit in the first half of 2002, on turnover of £278.3 million (H1 2002: £309.8 million). The loss before tax, after exceptionals and goodwill amortisation was £3.4 million (H1 2002: £1.8 million loss).

Earnings per share, before goodwill amortisation and exceptional items was a loss of 1.3p (H1 2002: 8.6p profit).

Net borrowings increased to £43.8 million during the six-month period, an outflow of £8.9 million (H1 2002: £10.2 million). The effect of lower profits was offset by the net inflow from the legacy product rectification issue of £6.4 million and lower capital expenditure. Gearing was 41.1% (H1 2002: 30.5%), but this has been significantly reduced following the sale of Creation in July.

The board has declared a maintained dividend of 5.25p per ordinary share payable on 15 October 2003 to shareholders on the register on 12 September 2003.

## Operational Review

In our continuing operations, the restructuring of the UK business did not progress at the rate expected, particularly in the Plastic Systems Division and, to a less material extent, in our Fabrication activities.

There were cost over-runs in Plastic Systems incurred dealing with supply issues, while demand has yet to recover to the levels anticipated following the supply chain disruption, which commenced in 2002. The situation is slowly improving and every effort is being directed towards accelerating this process.

Mila, our specialist component wholesale division, performed satisfactorily, although its results were held back because of the weakness of Sterling against the Euro.

In the US, the manufactured housing (MH) market remains depressed and well below the level of last year. Pipe volumes and margins have weakened recently as distributor stocks have temporarily run ahead of final demand. We anticipate some recovery in pipe markets later in the year, but the timing of the long awaited MH recovery remains uncertain.

# INTERIM REPORT FROM THE CHAIRMAN (CONTINUED)

## Way Forward

The number one priority is to restore the group's profitability and enhance shareholder value. We have developed a clear plan to achieve this and will not hesitate to take the action necessary to ensure all our businesses perform to the required level.

Looking at our UK operations today, we manufacture rigid and cellular extrusions, door panels, sealed glass units and niche hardware products, all for window, door and conservatory fabricators and, where appropriate, for distribution through building material stockists. We also have specialist wholesaling operations to further meet the supply needs of the same fabricators as well as owning three fabrication businesses. We have a solid foundation from which to build, with leading market shares in plastic extrusions, door panels and hardware.

Our plastic extrusion business recovery programme aims to reverse the decline in profitability it has experienced over the past two years. As a customer focused company we are introducing market leading new products to replace ageing ranges, whilst focussing on cost and operational controls in order to be price competitive. Our development plans in Mila are building on past success, providing industry leading customer service, and continuing to offer excellently designed products at competitive prices. In Mila approximately 25% of our products sold were introduced within the past three years.

Recent initiatives in the UK will be assessed in respect of their impact on 2004 and potential going forward, and appropriate actions will be taken.

A comprehensive human resource action plan is a critical part of our long term objectives. This aims to strengthen our management where necessary, ensuring that we have the right skills in the right place. We will also introduce more effective management control systems. We want a fully motivated and engaged management and workforce channelling their energy in the right direction, to ensure certainty of outcome of the recovery plan.

In the US we have two operations, the largest of which is LaSalle Bristol, a specialist wholesaler which primarily serves the material supply needs of the manufactured housing industry. This business also supplies the recreational vehicle (RV) market which accounts for 25% of its sales. Our priorities include increasing our share of the RV market, by offering higher quality product specifications. We will continue the product upgrade initiatives in MH which have been so instrumental in protecting our profitability in spite of the severe market downturn. At the same time, the focus on cost reduction is relentless.

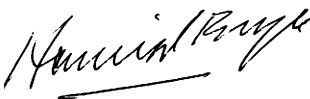
Our other business in the US, Bristolpipe, is a specialist regional manufacturer of a wide range of plastic pipe covering many applications. Our plan is to continue to improve the productivity and effectiveness of our manufacturing facilities and to promote the product to new markets and customers.

## Prospects

Operating profit, before goodwill and exceptionals, from continuing operations was £1.1 million in the first half (excluding Creation and Coldseal). This compares to a profit of £8.6 million in 2002 for the same operations. The deterioration occurred almost entirely in the UK, with Plastic Systems being the largest single element.

Our priority is to deliver the recovery in Plastic Systems and remove inefficiencies within the other UK activities. We plan to take any necessary action in 2003, to enable us to enter 2004 at a much improved run-rate of profitability.

Heywood Williams is becoming a more simplified group. We are confident that this increased focus, combined with speedy action where necessary, will achieve this objective, and enable us to begin to unlock the growth and profit potential inherent in our businesses.



**Hamish Bryce**

Chairman

3 September 2003

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Half year 2003 £m	Half year 2002 £m	Full year 2002 £m
<b>TURNOVER</b>				
Continuing		206.0	227.6	445.6
Discontinued		72.3	82.2	158.0
	1	278.3	309.8	603.6
Costs and overheads excluding goodwill amortisation		(278.9)	(298.6)	(585.3)
<b>OPERATING (LOSS)/PROFIT BEFORE GOODWILL AND EXCEPTIONAL ITEMS</b>				
Continuing		1.1	8.6	18.0
Discontinued		(1.7)	2.6	0.3
	1	(0.6)	11.2	18.3
Goodwill amortisation	Continuing	(1.6)	(1.7)	(3.2)
	Discontinued	(0.1)	(0.1)	(0.3)
Operating exceptional items	Continuing	–	(10.0)	(10.0)
<b>OPERATING (LOSS)/PROFIT</b>				
Continuing		(0.5)	(3.1)	4.8
Discontinued		(1.8)	2.5	–
	1	(2.3)	(0.6)	4.8
Interest		(1.1)	(1.2)	(1.6)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>				
Taxation	4	0.6	(0.1)	(2.2)
<b>(LOSS)/PROFIT AFTER TAXATION ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY</b>				
Dividends	5	(4.1)	(4.1)	(11.7)
<b>DEFICIT FOR THE PERIOD</b>				
		(6.9)	(6.0)	(10.7)
<b>EARNINGS PER ORDINARY SHARE</b>				
Basic and diluted		(3.5)p	(2.4)p	1.3p
Diluted, excluding goodwill amortisation and exceptional items		(1.3)p	8.6p	14.6p
<b>DIVIDENDS PER ORDINARY SHARE</b>	5	5.25p	5.25p	15.0p

# CONSOLIDATED BALANCE SHEET

	Half year 2003 £m	Half year 2002 £m	Full year 2002 £m
<b>FIXED ASSETS</b>			
Intangible assets	54.6	58.0	56.3
Tangible assets	67.4	71.0	70.7
Investments	3.3	3.4	3.4
	<b>125.3</b>	132.4	130.4
<b>CURRENT ASSETS</b>			
Stocks	62.4	62.8	63.4
Debtors	82.7	84.4	70.8
Cash at bank and in hand	9.4	15.1	21.7
	<b>154.5</b>	162.3	155.9
<b>CREDITORS: due within one year</b>			
Borrowings	53.2	50.9	56.6
Other creditors	85.6	91.8	88.8
	<b>138.8</b>	142.7	145.4
<b>NET CURRENT ASSETS</b>	<b>15.7</b>	19.6	10.5
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>141.0</b>	152.0	140.9
<b>CREDITORS: due after one year – borrowings</b>	–	0.1	–
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>34.4</b>	34.2	28.3
	<b>34.4</b>	34.3	28.3
	<b>106.6</b>	117.7	112.6
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19.6	19.6	19.6
Share premium account	7.2	7.2	7.2
Other reserves	8.5	8.4	8.5
Profit and loss account	71.3	82.5	77.3
	<b>106.6</b>	117.7	112.6

# CONSOLIDATED CASH FLOW STATEMENT

	Half year 2003 £m	Half year 2002 £m	Full year 2002 £m
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES (ANALYSED BELOW)</b>	<b>5.6</b>	9.5	19.5
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest paid	(1.1)	(1.2)	(2.9)
Interest received	–	–	1.4
	(1.1)	(1.2)	(1.5)
<b>TAXATION</b>	<b>(1.0)</b>	(1.6)	(4.1)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Purchase of tangible fixed assets	(4.9)	(7.5)	(17.3)
Sale of tangible fixed assets	0.3	0.7	1.5
Investments	0.1	–	(0.2)
	(4.5)	(6.8)	(16.0)
<b>EQUITY DIVIDENDS PAID</b>	<b>(7.6)</b>	(7.6)	(11.7)
<b>CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>	<b>(8.6)</b>	(7.7)	(13.8)
<b>FINANCING</b>			
Issue of ordinary share capital	–	0.1	0.1
Redemption of preference shares	–	(1.8)	(1.8)
Forward exchange hedging contracts	–	(0.7)	6.5
Additional loans	–	14.5	22.9
Repayment of loans	(2.6)	(2.1)	(5.7)
	(2.6)	10.0	22.0
<b>NET (DECREASE)/INCREASE IN CASH</b>	<b>(11.2)</b>	2.3	8.2
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
Net (decrease)/increase in cash	(11.2)	2.3	8.2
Decrease/(increase) in borrowings	2.6	(12.4)	(17.2)
Increase in net debt resulting from cash flows	(8.6)	(10.1)	(9.0)
Exchange fluctuations	(0.3)	(0.1)	(0.2)
Increase in net debt	(8.9)	(10.2)	(9.2)
Opening net debt	(34.9)	(25.7)	(25.7)
<b>CLOSING NET DEBT</b>	<b>(43.8)</b>	(35.9)	(34.9)
<b>ANALYSIS OF CASH INFLOW FROM OPERATING ACTIVITIES</b>			
Operating (loss)/profit before exceptional items	(2.3)	9.4	14.8
Depreciation and goodwill amortisation less profit on fixed asset disposals and other adjustments	8.0	7.9	15.5
	5.7	17.3	30.3
Increase in working capital and provision movements	(0.1)	(7.8)	(10.8)
	5.6	9.5	19.5

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Segmental analysis

	Half year 2003 £m	Half year 2002 £m	Full year 2002 £m
<b>TURNOVER BY GEOGRAPHICAL LOCATION</b>			
UK (including Europe)	96.8	102.5	205.5
US	109.2	125.1	240.1
Continuing operations	206.0	227.6	445.6
Discontinued operations – UK	28.7	31.0	61.0
Discontinued operations – US	43.6	51.2	97.0
	<b>278.3</b>	309.8	603.6

	Half year 2003 £m	Half year 2002 £m	Full year 2002 £m
<b>OPERATING (LOSS)/PROFIT BY GEOGRAPHICAL LOCATION</b>			
UK (including Europe)	(2.9)	4.5	7.7
US	4.0	4.1	10.3
Continuing operations	1.1	8.6	18.0
Discontinued operations – UK	(3.3)	(0.7)	(5.7)
Discontinued operations – US	1.6	3.3	6.0
Operating (loss)/profit before goodwill amortisation and exceptional items	(0.6)	11.2	18.3
UK goodwill amortisation – continuing operations	(1.4)	(1.5)	(2.9)
US goodwill amortisation – continuing operations	(0.2)	(0.2)	(0.3)
UK goodwill amortisation – discontinued operations	(0.1)	(0.1)	(0.3)
UK exceptional items	–	(10.0)	(10.0)
Operating (loss)/profit	<b>(2.3)</b>	(0.6)	4.8

- Discontinued operations comprise the Creation Group (US) and Coldseal (UK) which were disposed of during July 2003 and August 2003 respectively.
- The 2002 operating exceptional item related to the estimated lifetime cost of a legacy product rectification issue of a cosmetic nature, with the cash outflows expected to arise over the next 2 to 3 years. A £3.0m tax credit was recognised in relation to the charge.
- The taxation charge has been calculated at the current estimated tax rate for the year.
- The interim equity dividend of 5.25p per ordinary share will be paid on 15 October 2003 to ordinary shareholders on the register on 12 September 2003.
- 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 2002. The figures for the year ended 31 December 2002 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 1985.
- A copy of the Interim Report will be despatched to shareholders on 8 September 2003 and details will also be available on the Company's website, [www.heywoodwilliams.com](http://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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