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Heywood Williams Group PLC Preliminary Results

Heywood Williams Group PLC, the specialist distributor of branded building products, announces its preliminary results for the year ended 31 December 2005.

Financial Highlights

Continuing Operations

- Turnover increased by 6.4% to £262.7 million (2004: £246.9 million)
- Operating profit before exceptionals rose 16.9% from £8.3 million to £9.7 million
- Profit before tax and exceptional items was £9.4 million (2004: £7.5 million), up 25.3%
- Diluted earnings per share before exceptionals increased by 49.4% to 11.5p (2004: 7.7p)
- Net funds of £2.9 million (2004: £4.2 million)
- No final dividend recommended

Discontinued Operations and Exceptional Property Costs

- Loss of £29.1 million primarily relating to the Plastics Systems Division (2004: loss £17.8 million)

Operational Highlights

- Future growth strategy determined, restructuring successfully completed
- Plastic Systems Division rapidly and successfully sold
- One-off boost to LaSalle Bristol from FEMA orders for manufactured housing and recreational vehicles post hurricanes
- Current trading in line with the Board's expectations

Robert Barr, Group Chief Executive, said:

"Heywood Williams delivered an excellent all round performance in 2005, the restructuring of the Group was completed with the successful and rapid sale of the Plastic Systems Division and a strong platform for future growth was established."

Heywood Williams Group PLC Chairman's Statement

Introduction

2005 was a year of excellent progress for Heywood Williams. The future growth strategy was determined and the restructuring of the Group was completed, with the successful and rapid sale of the loss making Plastic Systems Division. In North America, LaSalle Bristol led the market in meeting the increased requirements of our manufactured housing and recreational vehicle (motor-home/caravan) customers following one of the worst hurricane seasons on record.

In 2005, all the principal markets in which the Group operates were dynamic. North American markets grew significantly due to the additional requirements for emergency housing associated with the aftermath of the hurricane season. There was satisfactory growth in Europe, albeit there was a decline in the UK hardware market due to considerably reduced consumer activity.

Details of the performances of the Group's Divisions can be found in the Chief Executive's Report and Review of Operations and in the Finance Director's Review.

Results

Profit before tax and exceptional items from continuing operations was up 25.3% to £9.4 million compared with £7.5 million in 2004 and diluted earnings per share, on the same basis, were up 49.4% to 11.5 pence.

The continuing operations generated £10.3 million of profit after tax (2004: £4.0 million). There was a £29.1 million loss after tax from discontinued activities and related property costs, most of which was non cash, primarily related to the Plastic Systems Division disposal. The resultant overall loss after tax and exceptional items was £18.8 million (2004: loss £13.8 million).

The Board recognises the importance of dividends to shareholders and will seek to re-establish a dividend once the Board is satisfied that the dividend can be prudently covered by the underlying growth in the operating cash flows of the Group. After due deliberation, the Board recommends that no dividend is paid for the year ending 31 December 2005.

Directors & Employees

In my 2004 statement to shareholders I reported that our plans to strengthen the Board had been broadly completed. I am very pleased to report this year that all of these changes have worked extremely well and have resulted in a highly effective team which is well qualified to deliver the Group's long term objectives.

The Board takes its responsibility towards the Group's pension funds very seriously and is committed to the progressive removal of the current IAS 19 pension deficit of £30.1 million. The Directors have now concluded satisfactory discussions with the UK pension fund trustees and have agreed in principle to a funding plan which has the objective of removing the deficit progressively over an eight year period.

The Group made considerable progress during the year and this was only made possible due to the exceptional commitment and dedication of all our people. On behalf of the Board, I would like to take this opportunity to express our appreciation and gratitude to everyone at Heywood Williams for their continued support and contribution to the Group's future development.

Summary

The future direction of Heywood Williams has been determined by the Board as a solutions provider/specialist distributor of branded building products. The restructuring of the Group has been successfully completed and realistic targets for organic and acquisitive growth have been set for its future development. Going forward, the Board remains committed to delivering continued progress in the performance of the Group as a whole.

R F Boyes
Chairman

Heywood Williams Group PLC **Chief Executive's Report and Review of Operations**

2005 Results

Heywood Williams delivered an excellent all round performance in 2005 and created a strong platform for future growth. Key achievements included:

- Profit before tax from continuing operations before exceptionals was up 25.3% to £9.4 million (2004: £7.5 million), on sales up 6.4% to £262.7 million (2004: £246.9 million).
- The future direction and growth goals for the Group were set.
- The restructuring of the Group was completed, with the successful and rapid sale of the loss making Plastic Systems Division.
- In North America, LaSalle Bristol responded quickly and creatively to meet increased demand from manufactured housing and recreational vehicle (motor-home/caravan) customers to build effective shelter for those affected by the hurricanes of late Summer.
- In Europe, the Hardware Division reduced headcount by 15% in response to lower levels of demand in the UK.
- The Group demonstrated that it now has management teams in both North America and in UK/Europe who have the industry experience, capability and drive to decisively handle dynamic markets.

2005 Review

Major Markets

Undoubtedly the most positive markets for the Group in 2005 were the North American manufactured housing and recreational vehicle markets.

Following one of the most destructive hurricane seasons on record, industry sources indicate that the Federal Emergency Management Agency (FEMA) ordered approximately 20,000 manufactured houses and 125,000 recreational vehicles to provide short to medium term temporary shelter for the people displaced. The industry supplied the manufactured homes during the fourth quarter of 2005 together with a significant number of the required recreational vehicles. Currently, industry sources indicate that most of this one off incremental volume has been produced and that markets are rapidly returning to normal levels of growth seen during the first half of 2005.

In the UK, it is estimated that the PVC window, door and conservatory market declined by 15% due to the well documented decline in consumer spending, particularly for bigger ticket items. Consumers delayed decisions in relation to replacing existing windows and doors or in deciding to purchase a conservatory.

The Group's other European markets were generally more buoyant. There was continued strong demand for hardware for new build in Ireland and for both new and refurbishment projects, particularly in the Baltics.

Completing the Restructuring of the Group

During the year, the future direction of the Group was determined. Heywood Williams is now a solutions provider/specialist distributor and is wholly focused on the design, development, marketing and distribution of branded building products.

The future focus for the Group is to continue the organic development of its market leading businesses, LaSalle Bristol in North America and the Hardware Division in the UK and Europe, whilst seeking selective acquisitions that complement the Group's strategic focus.

A rigorous planning process, undertaken by the Board, has endorsed a strategic plan with ambitious and demanding goals to substantially grow the business.

The strategic review also concluded that the Plastic Systems Division was non-core to the future development of the Group. The rapid and successful sale of the loss making Plastic Systems Division (and the associated removal of certain product rectification liabilities and obligations) completes the overall restructuring of Heywood Williams. All of the Group's continuing businesses are profitable with significant shares of the markets they serve.

North America: LaSalle Bristol

In North America, LaSalle Bristol is a leading supplier of building products, especially floor coverings, plumbing products, lighting and air flow systems to the manufactured housing, recreational vehicle and modular housing markets. LaSalle Bristol has industry wide sales penetration and comprehensive distribution facilities across North America. It has an estimated 43% share of the product lines it markets and distributes to the North American manufactured housing market.

- LaSalle Bristol responded quickly, with agility and creativity, to meet the increased requirements of its manufactured housing and recreational vehicle customers, especially in the fourth quarter. The performance of LaSalle Bristol demonstrates the in-depth capability and strength of the management in this business and the flexibility of the business.
- Sales increased by 17.1% to £176.1 million and operating profits increased to £6.6 million. This was due, in part, to selective pre-buying of products ahead of price increases and post-hurricane sales demand. It is estimated that £1.5 million of operating profits are associated with the one-off hurricane impact.
- LaSalle Bristol successfully launched a number of new product lines during the year including sealants, a premium range of stain resistant vinyl flooring and a number of plumbing products. Further new products are planned for 2006.
- Global sourcing continued to increase with more tooling, assemblies and finished products coming from lower cost offshore locations. It is expected that offshore sourcing will more than double over the next five years.

The five year outlook for LaSalle Bristol's core markets is encouraging. Industry commentators expect the manufactured housing market in North America to grow from its current level (excluding the one off 2005 hurricane volume) of about 130,000 units per annum to over 160,000 units per annum by 2010. It is expected that this growth will be driven by the growing recognition by consumers and developers that manufactured housing offers a high quality and price attractive housing solution.

Long term trends in recreational vehicle sales closely correlate to the growth in the "baby boomer" consumer group and increasing disposable income per capita. The recreational vehicle market has grown over the last five years to a recent underlying record level of 370,000 units. Industry analysts predict further growth at an average annual rate in the range 3-4% for the next five years.

The emerging modular housing market is expected to grow from its current annual volume of circa 42,000 units.

LaSalle Bristol is well placed to take full advantage of these future positive trends given its strong market positions allied to its proven track record of innovation and service.

UK/Europe: Hardware Division

The Group's Hardware Division in the UK/Europe supplies hardware and door panels for PVC windows, doors and conservatories. The Hardware Division has strong market leading positions in the UK, Ireland, Denmark and the Baltic States.

- Overall sales in the Division reduced by 10.3% to £86.6 million, due to the decline in the UK hardware market, combined with the loss of the Coldseal volume, which was partially offset by positive sales growth in Europe.
- Sales in other European markets increased by 6% to £33.1 million and now account for 38% of divisional sales.
- Operating profits decreased to £3.1 million due to the mitigated impact of the reduced sales.
- Headcount was reduced in the UK by 15% with important cost reduction projects, including the closure of hardware manufacturing at Daventry being completed as planned.
- The Division continued to successfully drive sourcing of Mila own branded products from low cost locations.

The long term outlook for the markets in which the Hardware Division operates is encouraging. It is anticipated that the UK market will stabilise and remain significant, and that, from a hardware perspective, the potential market saturation of replacement PVC windows and doors will be offset by growth in conservatories and increased replacement of older, first generation PVC windows and doors. The Division has developed attractive ranges of competitive products for each of these segments under the Mila brand. The strength of the Mila brand, combined with its leading market position, puts the Division in a good position to take full advantage of these emerging trends.

The market penetration of conservatories is still low in the UK. A conservatory is seen as a highly desirable home improvement. The emergence of mid-priced conservatories also provides consumers with a very cost effective way of adding another room to their house.

The replacement of older first generation PVC windows and doors is accelerating. Market commentators estimate that replacement of first generation installations now account for over 20% of the market. The trend to replace first generation PVC windows is driven by the availability of much more attractive designs with improved thermal and security characteristics.

The market available to the Division in Scandinavia will increase as the new Garant™ range of hardware for timber and timber/aluminium windows is rolled out across the region. Further growth is also anticipated in the Baltics due to both local demand for improved housing stock and from the Baltics becoming an export centre for PVC windows and doors to the Scandinavian markets.

Future Development of the Group

Heywood Williams has significant strengths, which have been demonstrated through the successful restructuring process over the last two years and these are now being deployed to deliver growth, namely:

- Market leading positions in markets with good, overall prospects.
- Strong financial position coupled with a low level of bank borrowings.
- Proven history of new product development.
- Following recent changes, the Group now has a broad base of capable management throughout the Group, who have the skills and industry experience to both grow the current businesses and successfully tackle further expansion of the Group. The team has significant acquisition and integration experience.
- Recent track record of identifying and implementing cost saving initiatives quickly.

The Group is now focusing on four areas of future development, namely:

1. Grow sales by leveraging our market leading positions in core markets and by continuing our history of the successful introduction of new products.
2. Reduce costs and further improve service by expanding global sourcing and increasing the speed at which new products come to market.
3. Seek opportunities to expand the Group's late stage manufacturing operations which provide customers with products which, by their nature, need to be manufactured or finished close to the customer's facilities. These types of products tend to have the benefit of relatively higher margins and are less prone to import substitution.
4. Use the Group's capability and expertise to grow by making selective, value enhancing acquisitions either to directly expand its existing businesses or to add other branded building product solutions to the Group. A stringent set of acquisition criteria has been established, with the emphasis on growing market shares, focusing on a limited number of markets and seeking sound opportunities with good management.

Outlook

In North America in 2006, it is expected that the manufactured housing market will grow modestly, the recreational vehicle market will continue to benefit from positive baby boomer demographics and the modular housing market will continue to expand.

The UK market for PVC windows, doors and conservatories is expected to remain subdued but stable for the first half of 2006. There is the possibility of a slight recovery, due to increased consumer spending, during the second half.

The other European markets, in which the Group operates, are expected to show reasonable growth.

Heywood Williams is now focused on the design, development, marketing and supply of branded building product solutions, with strong and experienced management teams in place. This provides a good platform from which to grow both organically and through acquisition. Currently, the Group is trading in line with the Board's expectations.

R G Barr
Chief Executive

Heywood Williams Group PLC
Finance Director's Review

Results

Turnover from continuing operations increased by 6.4% to £262.7 million. LaSalle Bristol turnover increased 17.1% to £176.1 million, with Hardware turnover down 10.3% to £86.6 million.

The Group's 2005 profit before tax (before exceptionals) from continuing operations was £9.4 million, 25.3% ahead of a profit of £7.5 million reported for 2004, on a comparable basis. Operating profit from continuing operations (before exceptionals) increased by 16.9%, from £8.3 million to £9.7 million.

Diluted earnings per share (before exceptionals) increased by 49.4% to 11.5 pence for continuing operations, due to higher earnings and a non-recurring low tax charge for 2005.

After the impact of exceptional items and the disposal of the Plastic Systems Division, the loss after taxation was £18.8 million (2004: £13.8 million).

The Group had a positive net cash position of £2.9 million at the year end (£4.2 million at the end of 2004). Shareholders funds reduced from £28.8 million to £8.4 million, principally as a result of the sale of the Plastic Systems Division.

Income Statement

The table below highlights the underlying improvement in profitability and provides a reconciliation to the reported profit before tax for continuing business (before exceptional property costs).

£ million		2005	2004
Continuing operations			
Turnover		262.7	246.9
Operating profit, before exceptional items		9.7	8.3
Interest		(0.3)	(0.8)
Profit before tax and exceptional items		9.4	7.5
Operating exceptional items		-	(2.1)
Non-operating exceptionals		1.0	-
Profit on ordinary activities before tax and exceptional property costs		10.4	5.4
Exceptional property costs		(5.7)	-
Tax		(0.1)	(1.4)
Discontinued		(23.4)	(17.8)
Loss after taxation		(18.8)	(13.8)

Analysed as:

Profit/(loss) after tax			
Continuing before exceptional property costs		10.3	4.0
Discontinued and exceptional property costs		(29.1)	(17.8)

Interest costs reduced by 62.3% during the year as the Group reduced its average debt from £13.8 million in 2004 to £5.2 million in 2005.

The non-operating exceptional is the profit on the sale of all of the remaining surplus Group freehold properties, completed in 2005.

The Group increased profit before tax and exceptional property costs from £5.4 million to £10.4 million in 2005.

An exceptional charge of £5.7 million has been made for surplus leasehold property costs relating to properties previously occupied by the Plastic Systems Division, which have been retained by the Group as part of the disposal agreement and are surplus to the Group's requirements.

The tax charge reduced significantly in the year to £0.1 million and comprised a £2.3 million overseas current tax charge, primarily relating to US profits, and a £2.2 million deferred tax credit. The non-recurring credit was linked to the recognition of a UK deferred tax asset relating to losses and the pensions deficit which are now expected to be realised.

The largest element in the discontinued loss relates to the pre-disposal operating loss and the loss on the sale of the Plastic Systems Division, completed in 2005. The discontinued loss was in line with our expectations.

Considering the continuing operations, excluding the exceptional property cost, profit after tax has increased from £4.0 million to £10.3 million in 2005.

Balance Sheet

£ million	2005	2004
Fixed assets, investments and associates	10.4	40.6
Working capital	33.8	37.4
Net funds	2.9	4.2
Net current and deferred tax	3.3	1.4
Provisions	(11.9)	(26.3)
Pensions liabilities	(30.1)	(28.5)
Shareholders' funds	<u>8.4</u>	<u>28.8</u>

The major change to the balance sheet resulted from the exit of the Plastic Systems Division, which had an overall adverse impact on shareholders' funds of approximately £25 million. Provisions of £11.9 million now relate almost wholly to surplus properties.

The net tax asset includes a UK deferred tax asset of £4.3m, recognised in 2005 following the sale of the Plastic Systems Division, relating to the expected future partial utilisation of UK tax losses and future pensions deficit payment tax benefits.

The increase in the pensions deficit results from lower bond yields, that have been applied to determine the value of the liabilities, which exceeded the benefit of equity investment gains.

In 2006 the Group intends to enter into a scheme of arrangement to generate additional distributable reserves. This technical rearrangement of the balance sheet will enable the Board, when deemed appropriate, to consider the restoration of a dividend.

Cash Flow

£ million	2005	2004
Operating profit/(loss)*		
Continuing operations	9.7	8.3
Discontinued operations	(3.8)	(1.6)
Working capital	(8.9)	(7.6)
Capex less disposals	2.0	(3.9)
Depreciation and amortisation	4.6	7.9
Taxation	(0.4)	(2.9)
Provisions		
Legacy product rectification	(1.9)	10.0
Restructuring	(2.4)	(5.3)
Other	(1.6)	(0.5)
Disposals/other	3.3	21.2
Pension funding excess of service charge	(1.5)	(1.8)
Interest	(0.4)	(1.2)
(Decrease)/increase in net funds	(1.3)	22.6
Opening (borrowings)/funds	4.2	(18.4)
Closing net funds	2.9	4.2

* before exceptionals

Cash management and, particularly, working capital continues to be a major focus for the Group. There was an overall funds outflow of £1.3 million in 2005, resulting in net year end funds of £2.9 million. During 2005 the Group had average net debt of £5.2 million. The Group's main banking facilities have now been extended to December 2007.

Of the £8.9 million increase in working capital, £5.0 million is associated with discontinued businesses. Working capital increased in LaSalle Bristol by £5.9 million. Sales at LaSalle Bristol increased by £25.7 million during 2005, price increases raised working capital by approximately £1.8 million and the high levels of activity in the fourth quarter associated with FEMA orders led the business to maintain rather than reduce stock levels to support high levels of customer demand through this critical and normally lower activity period. Working capital in the remainder of the Group improved by £2.0 million.

Capital expenditure was more than offset by proceeds of the sale of all of the Group's remaining surplus freehold properties for £5.2 million. Capital expenditure is expected to be close to depreciation for 2006. Depreciation and amortisation for continuing businesses was £1.6 million in 2005.

Tax payments were significantly reduced as a result of a one-off tax refund linked to the sale of Bristolpipe in 2004.

The expenditure against provisions relates to the final expenditure on product rectification before the sale of the Plastic Systems Division (£1.9 million), expenditure against restructuring provisions to offset the loss of Coldseal as a major customer in 2004 and the downturn in the UK market (£2.4 million) and expenditure against property and other provisions (£1.6 million). The Group received a net £3.1 million from disposals, the largest element relating to sale of shares in an associated undertaking.

Pensions

Heywood Williams has two defined benefit schemes. The US scheme has an IAS 19 deficit of £3.5 million, which has increased by £1.0 million in the year as a result of changes in bond rates and exchange rates. Contributions in respect of this deficit are in line with practice in the US.

The UK defined benefit scheme has an IAS 19 deficit of £26.6 million, which increased by £0.6 million in 2005. A strong equity performance was more than offset by changes to the discount rate assumption on liabilities, caused by lower bond yields.

The Group has reached an agreement in principle with the UK pension scheme trustees on a funding plan for the next three years with the objective of removing the IAS 19 deficit over the next eight years. A £1 million, one-off contribution was made to the pension scheme in early 2006 from the proceeds of the sale of the Plastic Systems Division, as previously announced. Additional contributions, targeted at eliminating the IAS 19 deficit, will increase from £1.65 million per annum to £2.0 million in 2006 and £3.0 million for 2007 and 2008. Thereafter they will be subject to the outcome of the scheme valuation. In addition the Group will provide a second ranking security to a value of £30 million and a cross guarantee structure involving all Group subsidiaries. The cross guarantee and the funding plan are intrinsic elements of obtaining final clearance for the sale of the Plastic Systems Division. The cross guarantee, together with the second ranking security, will allow the Group to progress with its growth objectives.

Treasury Policy

The Group's policies have not changed with respect to treasury risks.

The Group's principle foreign exchange exposure is the translation of US dollar denominated results and net assets into sterling. The average rate for 2005 was \$1.82 (2004: \$1.82) and therefore there was no significant impact on the income statement.

Almost all tangible assets in the US are hedged by means of forward currency contracts. This hedging resulted in a net gain of £0.6 million in 2005. The Group is now in the process of hedging its Euro denominated net assets owing to their increased significance in relation to the overall Group net assets.

Accounting Policies and Standards

The accounts for 2005 are presented under International Financial Reporting Standards (IFRS). These results represent the first annual financial statements the Group has prepared in accordance with its accounting policies under IFRS and the comparatives for 2004 have been restated from UK GAAP to comply with IFRS. The accounting policies of the Group under IFRS can be found in the 2005 statutory accounts. A description of how the Group's reported performance and financial position are affected by this change, including reconciliations from UK GAAP to IFRS for prior year results, can be found in the 2005 statutory accounts.

There were no other changes in accounting policies or standards that had any significant impact on the Group's accounting policies during the year.

R A Whiting
Finance Director

HEYWOOD WILLIAMS GROUP PLC
CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2005

	Note	2005 Continuing	2005 Discontinued and exceptional property costs	2005 Total	2004
		£m	£m	£m	£m
Continuing operations					
Turnover	2	262.7	-	262.7	246.9
Costs and overheads excluding exceptionals		(253.0)	-	(253.0)	(238.6)
Operating profit before exceptional items	2	9.7	-	9.7	8.3
Operating exceptional items	3	-	(5.7)	(5.7)	(2.1)
Operating profit	2	9.7	(5.7)	4.0	6.2
Non-operating exceptional items	3	1.0	-	1.0	-
Interest payable		(1.0)	-	(1.0)	(2.7)
Interest receivable		0.7	-	0.7	1.9
Profit on continuing activities before taxation		10.4	(5.7)	4.7	5.4
Taxation	4	(0.1)	-	(0.1)	(1.4)
Profit/(loss) for the year from:					
Continuing		10.3	(5.7)	4.6	4.0
Discontinued	5	-	(23.4)	(23.4)	(17.8)
Profit/(loss) for the year attributable to members of the parent company	7	10.3	(29.1)	(18.8)	(13.8)
Earnings per ordinary share - continuing operations for profit attributable to ordinary equity holders of the parent company					
Basic	6			5.9p	5.1p
Basic, excluding exceptional items				11.9p	7.8p
Diluted				5.7p	5.1p
Diluted, excluding exceptional items				11.5p	7.7p
(Loss)/earnings per ordinary share – all operations for (loss)/profit attributable to ordinary equity holders of the parent company					
Basic	6			(24.0p)	(17.6p)
Basic, excluding exceptional items				6.9p	4.2p
Diluted				(23.4p)	(17.5p)
Diluted, excluding goodwill impairment and exceptional items				6.7p	4.2p

HEYWOOD WILLIAMS GROUP PLC
STATEMENT OF RECOGNISED INCOME AND EXPENSE
YEAR ENDED 31 DECEMBER 2005

	2005 £m	2004 £m
Currency translation differences on foreign investments	5.3	(4.8)
Currency translation differences on foreign currency hedges	(4.7)	4.2
Actuarial losses on defined benefit pension plans	(3.9)	(3.2)
Deferred tax on actuarial losses on defined benefit pension plans	1.2	-
Net expense recognised directly in equity	(2.1)	(3.8)
Loss for the period	(18.8)	(13.8)
Total recognised income and expense in the year	(20.9)	(17.6)

HEYWOOD WILLIAMS GROUP PLC
CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005

	Note	2005 £m	2004 £m
Assets			
Non current assets			
Property, plant and equipment		7.6	36.8
Intangible assets		0.1	0.3
Financial assets		0.2	0.3
Interests in associates		2.5	3.2
Deferred income tax asset		7.6	4.1
		18.0	44.7
Current assets			
Inventories		45.7	45.3
Trade and other receivables		27.2	39.6
Held for sale		0.1	-
Income tax receivable		-	0.7
Cash at bank and in hand		8.8	7.6
		81.8	93.2
Total assets		99.8	137.9
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Called up share capital		19.6	19.6
Share premium account		7.2	7.2
Other reserves		8.5	7.9
Retained earnings		(26.8)	(5.8)
Own shares		(0.1)	(0.1)
	7	8.4	28.8
Non current liabilities			
Defined benefit pensions deficit		30.1	28.5
Provisions		10.0	20.1
Deferred income tax liabilities		1.5	1.8
		41.6	50.4
Current liabilities			
Financial liabilities		6.9	3.4
Trade and other payable		38.2	47.5
Provisions		1.9	6.2
Income tax payable		2.8	1.6
		49.8	58.7
Total equity and liabilities		99.8	137.9

HEYWOOD WILLIAMS GROUP PLC
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2005

	2005	2004
	£m	£m
Cash flows from operating activities		
Cash (absorbed)/generated by operations	(5.0)	8.6
Net income tax paid	(0.4)	(2.9)
Net cash (outflow)/inflow from operating activities	(5.4)	5.7
Investing activities		
Interest received	0.6	0.9
Dividends received from associates	0.1	0.4
Purchase of intangible assets	-	(0.1)
Purchase of property, plant and equipment	(3.2)	(3.9)
Sale of property, plant and equipment	5.2	0.1
Other investments	2.2	0.6
Disposal of subsidiary undertakings and businesses	0.9	20.0
Net cash flow from investing activities	5.8	18.0
Financing activities		
Interest paid	(1.0)	(2.1)
Forward exchange contract hedging	(1.0)	1.2
Additional loans	3.0	2.0
Repayment of loans	(0.1)	(36.1)
Net cash flow from financing activities	0.9	(35.0)
Net movement in cash and cash equivalents	1.3	(11.3)

Reconciliation of net movement in cash and cash equivalents to movement in net funds

Net movement in cash and cash equivalents	1.3	(11.3)
Net movement in debt	(2.9)	34.1
Movement in net debt resulting from cash flows	(1.6)	22.8
Exchange fluctuations	0.3	(0.2)
Movement in net debt	(1.3)	22.6
Opening net funds/(debt)	4.2	(18.4)
Closing net funds	2.9	4.2

HEYWOOD WILLIAMS GROUP PLC
NOTES ON THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2005

1 Accounting policies and general information

Heywood Williams Group PLC is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The Group previously prepared its primary financial statements under UK generally accepted accounting principles ("UK GAAP"). From 2005 the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. For the purpose of this document the term IFRS includes International Accounting Standards.

These results represent the first annual financial statements the Group has prepared in accordance with its accounting policies under IFRS and the comparatives for 2004 have been restated from UK GAAP to comply with IFRS. The accounting policies of the Group under IFRS can be found in the 2005 statutory accounts. A description of how the Group's reported performance and financial position are affected by this change, including reconciliations from UK GAAP to IFRS for prior year results, can be found in the 2005 statutory accounts.

From 1 January 2005 the Group applied IAS 32 and IAS 39 in relation to financial instruments. As permitted under IFRS 1, management has elected not to restate comparative information under IAS 32 and IAS 39. No restatement of the opening balance sheet at 1 January 2005 has been recorded as the impact of applying the standard on that date is negligible.

The financial information for the year ended 31 December 2005 and 31 December 2004 is abridged and has been extracted from the 2005 statutory accounts of Heywood Williams Group PLC which were approved by the Board of Directors on 6 March 2006, along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies. The auditors have issued an unqualified opinion on the 2005 statutory accounts. The 2004 statutory accounts, prepared under UK GAAP, have been delivered to the Registrar of Companies. The auditors report on the 2004 statutory accounts was unqualified.

2 Segmental analysis

For management purposes, the Group is currently organised into two continuing operating divisions - LaSalle Bristol and Hardware. These divisions are the basis upon which the Group reports its ongoing primary segment information.

Principal activities are as follows:

LASALLE BRISTOL

LaSalle Bristol is a leading supplier of building products to the manufactured housing, recreational vehicle and modular housing markets in North America.

HARDWARE

The Hardware division is a leading supplier of hardware and door panels primarily for PVC doors, windows and conservatories, in the UK, Ireland, The Netherlands, Denmark, Scandinavia and the Baltic States.

Discontinued operations comprise the Bristolpipe and Fabrication segments, which were disposed of in 2004, the Plastic Systems Division segment and Clayton Glass, Price Engines, Spectus Poland and Spectus Slovakia from the Hardware segment, which were disposed of during 2005.

Segment information on these primary segments is presented below:

	2005	2004
	£m	£m
Continuing operations		
Turnover		
LaSalle Bristol	176.1	150.4
Hardware	86.6	96.5
Continuing external turnover	<u>262.7</u>	<u>246.9</u>
Operating Profit		
LaSalle Bristol	6.6	3.7
Hardware	3.1	4.6
Operating profit before exceptional items	<u>9.7</u>	<u>8.3</u>
Operating exceptional items – Hardware	-	(2.1)
Operating profit	<u>9.7</u>	<u>6.2</u>

In addition an operating charge of £5.7m (2004: £nil) was also incurred relating to properties retained by the Group as part of the Plastic Systems Division disposal agreement.

3 Exceptional items

	2005	2004
	£m	£m
(i) Operating	<u>(5.7)</u>	<u>(2.1)</u>

The net operating exceptional items comprise:

	2005	2004
	£m	£m
Surplus property provisions relating to the Plastic Systems Division	(5.7)	-
Coldseal related write off	-	(0.5)
Restructuring		
Excess release from 2003 charge	-	0.7
Charge for the year	-	(2.3)
	<u>(5.7)</u>	<u>(2.1)</u>

The 2005 charge is in respect of leasehold properties relating to the disposal of the Plastic Systems Division segment which have been retained by the Group as part of the disposal agreement. The provision relates to the estimated discounted net cost to the Group over the remainder of the lease period.

The 2004 Coldseal charge related to the debt and unique stock and tooling asset write-offs following the failure of this major customer.

Cost savings from 2003 restructuring were achieved and these savings were in excess of the cost of additional UK restructuring in respect of the Group's head office function. However, following the failure of Coldseal, cost mitigation plans were implemented which account for the further 2004 restructuring costs, which primarily related to UK headcount reduction and the closure of the Hardware division's manufacturing facility at Daventry.

	2005	2004
	£m	£m
(ii) Non-operating	<u>1.0</u>	-

The 2005 non-operating exceptional item relates to the profit achieved on the sale of the Group's remaining surplus freehold properties.

4 Taxation

	2005 £m	2004 £m
Current taxation		
UK corporation tax at 30% (2004: 30%)	-	-
UK Adjustments in respect of prior periods	(0.2)	0.1
Overseas taxation current year	2.3	2.2
Overseas taxation prior year	0.2	-
Deferred taxation	(2.2)	0.7
	<u>0.1</u>	<u>3.0</u>
Analysed as		
Continuing	0.1	1.4
Discontinued (note 5)	-	1.6
	<u>0.1</u>	<u>3.0</u>

There were no tax credits or charges relating to operating or non-operating exceptional items in the current year. There were no tax credit or charges relating to 2004 operating exceptional items and an overseas tax charge of £0.5m in relation to 2004 non-operating exceptional items on discontinued operations.

5 Discontinued operations

The discontinued operations comprise the Plastic Systems Division, Spectus Poland and Spectus Slovakia (Hardware), Clayton Glass (Hardware), Price Engines (Hardware), the Fabrication segment businesses and Bristolpipe.

As part of the Group's strategy to focus as a specialist distributor of branded building products, the Group has disposed of non-core operations which were also significantly loss-making during 2005. The major disposal was of the Plastic Systems Division (including Spectus Poland and Spectus Slovakia) which was completed on 13 September 2005 and the Clayton Glass and Price Engines disposals occurred during February and December 2005 respectively.

The results of the discontinued operations are set out in the table below:

	2005 £m	2004 £m
Discontinued operations		
Turnover	45.5	116.4
Costs and overheads excluding goodwill and exceptional items	(49.3)	(118.0)
Operating loss excluding goodwill and exceptional items	(3.8)	(1.6)
Goodwill impairment	-	(14.4)
Operating exceptional items	(19.0)	0.7
Operating loss	(22.8)	(15.3)
Income from associates	0.3	0.3
Non-operating exceptional items	(0.5)	(0.8)
Interest – discounting on provisions	(0.4)	(0.4)
Loss on discontinued activities before taxation	(23.4)	(16.2)
Taxation	-	(1.6)
Loss attributable to members of the parent company	<u>(23.4)</u>	<u>(17.8)</u>

The net operating exceptional items comprise:

	2005 £m	2004 £m
Impairment charges	(18.3)	-
Warranty release	1.7	2.4
Pensions curtailment credit	1.0	-
Property dilapidations	(3.4)	-
Restructuring	-	(1.7)
	<u>(19.0)</u>	<u>0.7</u>

The 2005 impairment charges of £18.3 million, which were made at the half year, relate to the Plastic Systems Division and comprise an impairment charge of £11.9 million and a further write down to fair value less cost to sell of the assets held for sale in the Plastic Systems Division disposal group at the half year of £6.4 million, with both write downs being made against tangible fixed assets.

The release from the warranty provision results from reduced future obligations in respect of potential claims which had previously been specifically provided for.

The pensions curtailment credit relates to a reduction in pension liabilities following the exit of the Plastic Systems Division's employees from the Group's UK defined benefit pension plan.

A provision has been made to cover the estimated discounted cost of property dilapidations relating to pre-sale obligations on certain Plastic Systems Division's properties.

The 2004 restructuring charge primarily related to cost reductions at the Plastic Systems Division following the loss of a major customer.

The 2005 non-operating exceptional items relates to losses incurred on the sale of the Plastic Systems Division and several Hardware businesses which totalled £1.8 million less a profit of £1.3 million on the partial sale of the Group's investment in AG Glass and Glazing.

The 2004 non-operating exceptional relates to the disposal of Bristolpipe and the remaining UK fabrication businesses. There was a tax charge associated with this item of £0.5m in respect of Bristolpipe.

6 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculation of the basic and diluted earnings per share is based on the following data:

	2005	2004
	£m	£m
Earnings - continuing operations		
Earnings attributable to members of parent company	4.6	4.0
Adjusted for exceptional items	4.7	2.1
Adjusted earnings	<u>9.3</u>	<u>6.1</u>
Earnings - all operations		
Earnings attributable to members of parent company	(18.8)	(13.8)
Adjusted for exceptional items and goodwill impairment	24.2	17.1
Adjusted earnings	<u>5.4</u>	<u>3.3</u>
Earnings - discontinued operations (note 5)		
Earnings attributable to members of parent company	(23.4)	(17.8)
Adjusted for exceptional items and goodwill impairment	19.5	15.0
Adjusted earnings	<u>(3.9)</u>	<u>(2.8)</u>

	Number '000	Number '000
Number of shares		
Weighted average number of ordinary shares - basic	78,350	78,326
Effect of dilutive potential ordinary shares - share options	148	-
- LTIP	1,942	419
Weighted average number of ordinary shares - diluted	<u>80,440</u>	<u>78,745</u>
Loss per ordinary share - discontinued operations		
Basic	(29.9p)	(22.7p)
Basic, excluding goodwill impairment and exceptional items	(5.0p)	(3.6p)
Diluted	(29.1p)	(22.6p)
Diluted, excluding goodwill impairment and exceptional items	(4.8p)	(3.5p)

In order to provide a comparable measure of the underlying performance of the Group, the adjusted diluted earnings per share figures exclude the effect of exceptional items and goodwill impairment, net of related taxation.

Where share options under the savings related and executive schemes are anti-dilutive in the period they are not included in the calculation of earnings per share. These could be potentially dilutive in the future.

Dilutive potential ordinary shares constitute shares associated with the Group's Save As You Earn Scheme and the Executive Performance Share Plan.

Adjustment for exceptional items and goodwill impairment are analysed as follows:

	2005 £m	2004 £m
Operating exceptional items		
- continuing	(5.7)	(2.1)
- discontinued	(19.0)	0.7
Non-operating exceptional items		
- continuing	1.0	-
- discontinued	(0.5)	(1.3)
Goodwill impairment – discontinued	-	(14.4)
	<u>(24.2)</u>	<u>(17.1)</u>
Analysed as:		
- continuing	(4.7)	(2.1)
- discontinued	(19.5)	(15.0)
	<u>(24.2)</u>	<u>(17.1)</u>

7 Reconciliation of movements in equity

	Share capital	Share premium account	Capital redemption reserve	Foreign exchange	Retained earnings	Own shares	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2004	19.6	7.2	8.5	-	11.1	(0.1)	46.3
Deficit for the financial year	-	-	-	-	(13.8)	-	(13.8)
Exchange fluctuations:							
Foreign investment	-	-	-	(4.8)	-	-	(4.8)
Foreign currency hedges	-	-	-	4.2	-	-	4.2
Employee share options	-	-	-	-	0.1	-	0.1
Pension loss*	-	-	-	-	(3.2)	-	(3.2)
At 1 January 2005	19.6	7.2	8.5	(0.6)	(5.8)	(0.1)	28.8
Deficit for the financial year	-	-	-	-	(18.8)	-	(18.8)
Exchange fluctuations:							
Foreign investment	-	-	-	5.3	-	-	5.3
Foreign currency hedges	-	-	-	(4.7)	-	-	(4.7)
Employee share options	-	-	-	-	0.5	-	0.5
Pension loss*	-	-	-	-	(3.9)	-	(3.9)
Deferred tax on pension loss	-	-	-	-	1.2	-	1.2
At 31 December 2005	19.6	7.2	8.5	-	(26.8)	(0.1)	8.4

* Actuarial loss of defined benefit pension plans.